

MUNICIPALITY OF VELES

IN COOPERATION WITH

GOVERNMENT OF THE REPUBLIC OF MACEDONIA

WORLD BANK

PRIVATIZATION AGENCY OF

THE REPUBLIC OF MACEDONIA

STUDY OF ECONOMIC DEVELOPMENT OF VELES MUNICIPALITY



Investor: Privatization Agency of the Republic of Macedonia
World Bank

Government of the Republic of Macedonia

Contractor: Agency for Technological Development and
Environmental Protection

Subject: Elaboration of the Study of Economic
Development of Veles Municipality

Contract: Contract no. 0307-05 from 26.01.2001

Geographic location:



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PREFACE

The elaboration of the *Study of Local Economic Development of Veles Municipality* was implemented within the frames of the *Project for Social Support* agreed between the Government of the Republic of Macedonia and the World Bank. The study was worked out by the Agency for Technological Development and Environmental Protection- ATREZ from Skopje by establishing contract obligation with the Privatization Agency of the Republic of Macedonia and Veles municipality.

As a document of strategic importance for the future economic and social development of the municipality, the basic aim of the Study was, on the base of detailed analysis of the actual conditions, to give recommendations for implementation of sustainable economic growth of the local economy in direction of creating conditions for solving the problem of unemployment and other social problems of the population. The proposed strategy for local development encompasses the basic development trends and priorities, as well as the mode and dynamics of their implementation. The strategy creation was based on objective assessment of the present conditions, as well as on the available comparative advantages and limitations in the municipality and wider. The development factors, such as capital, available workforce and technological progress, were also taken into account. In the same time, a sector approach was used for determination of the development priorities and directions.

While analysing the conditions and creating the development strategy quantitative relations and indicators related to the GDP growth, rates of employment and unemployment, investment rates and other were also used. In the strategy special accent was put to adjustment of the economic development and maintenance of the environmental quality. Regarding the used research methodology, besides the analytic, comparative and evolutionary method, the latest achievements in the methodological approach in creation of local economic and social development were also used. The study also contains projection of certain aggregate dimensions (GDP, employment, economy structure, etc.) for the period until year 2020 and determines the institutional promoters of the local economic development, as well as the Plan for Integral Development of Veles municipality.

In accordance with the purchaser's demands, the material in this study is presented according to the established order and in chapters, as it was stated in the tender documentation. Therefore, a part of the material worked out in the fields of environmental protection and social policy, the results from the survey carried out to gain the citizen's opinion about the economic, social and ecological status of the municipality, the law regulations on the local government in the Republic of Macedonia etc., were excluded from the final version of this study. Apart from the contracted obligations, at the end of the study has been given a long-term development projection and a Plan for Integral Development of Veles municipality. For a more precise elaboration of certain conclusions and research results, an appropriate documentation has been also enclosed.

In this occasion, the Project Manager, in the name of the entire consultant team of ATREZ, wishes to express special gratitude to the mayor of Veles municipality Mr. Ace Kocovski and to the members of local consultant team for their engagement, support and contribution to successful ending of the Project. Sincere thankfulness for the help and comprehension during the elaboration of the study is also expressed to the representatives of the Privatization Agency of the Republic of Macedonia, the manager of the *Project for Social Support*, Mr. Vladimir Sarach, and to the responsible person for this project, Mrs. Natasha Stojanovska.

Skopje, July 2001

Antonie Efremov

Project Manager



INTRODUCTION

A) Origin of the Report

The elaboration of the *Study of Local Economic Development of Veles Municipality*, which was financially supported by the World Bank, has been worked out by the Agency for Technological Development and Environmental Protection- ATREZ from Skopje. On account of more successful fulfillment of the contracted obligations, the expert team of ATREZ has engaged several external co-operators, consultants from the Faculty of Economy and several other development and research organizations from Skopje. An integral part of the consultant team was the local consultant team composed of 8 experts from different sectors- industry, tourism, small economy and environmental protection.

During the preparation of the study variety of relevant documentation such as the Physical Plan of Veles Municipality, expert literature and data from the State Bureau of Statistics and other state and local institutions was used.

The study was elaborated by using of standard methods for research through analysis and synthesis of the available statistical and other data and information, as well as on the base of questionnaire conversations with the managerial teams of the enterprises, responsible persons of the local self-government bodies and experts with knowledge about the condition and the development possibilities of particular economic activities in the municipality.

During preparation of the study the expert team has faced a serious problem related to the impossibility of gathering basic data about certain economic subjects from the local industrial sector and the lack of needful statistical data arisen from the latest territorial division of the municipalities in the Republic of Macedonia in 1996.

B) Basis of the Project

The elaboration of the Study of Local Economic Development of Veles Municipality represents a part of the engagement of the Privatization Agency of the Republic of Macedonia, directed to resolving of problems in the sphere of economic and social development of the municipalities in Republic of Macedonia and for improving the technical, technological and economic condition of the economic subject that are ownership restructured.

Within the frames of the study researches all elements and activities related to creation and implementation of the economic and social development, as well as regarding the environmental protection in Veles Municipality, were taken into consideration.

In the period before Republic of Macedonia has achieved its independence, the problems related to increase of employment and improvement of the social condition in Veles municipality were solved by intensive industrialization and forced employment of the workforce in the economic capacities. Later on, the transitional processes that had been carried out contributed to reduction of the over employment, however in direction of parallel fast increasing of the unemployment.

The problems in the social sphere, excluding those resulted from the unemployment, are caused by the large number of users of the Pension Fund, as well as by the low economic development and labor productivity, which in total conduce to low standard of living and fragile consumer power of the population.

Resolving of the unemployment problem is of fundamental national importance. It demands adequate assumptions related to the available human and natural resources, infrastructure and other, which on the other hand means identification and registration of all natural, material, social and demographic development factors of Veles municipality.

The process of attaining economic development is tightly connected to the stability of the internal political system, the international position of the country, the development of democracy and market economy, implementation of the criteria of sustainable development, as well as by local self-government strengthening, which is expected by expanding the local government's authorities through implementation of the forthcoming amendments of the Law for local self-government and Law for financing the units of local self-government.

On the other hand, the modern market economy demands an active state participation in the processes of implementation of macroeconomic and social policy, privatization and restructuring of the enterprises, regulation of the economic relations in the process of establishing freedom on the market, entrepreneurship strengthening, annulling of the monopolies and gray economy, as well as in the environmental protection and preservation of the population's health.

C) Project Goals

The basic goal of this project is to establish potential opportunities and conditions, which should determine the economic and social development by putting an accent to overcoming the unemployment, as the most crucial social problem in Veles municipality.

In the frameworks of the physical and regional planning, the so-far researches carried out for the region of Veles were in direction of establishment of the natural, demographic, economic, social and infrastructure development factors. These researches should also continue in the frameworks of this project in direction of establishment of the comparative advantages and limitation factors of the local development. Particular attention should be paid to utilization of the existing economic capacities in the industrial, agrarian and particularly in the tertiary sector, through implementing ownership, organizational and management restructuring, technological revitalization, increase of the level of finalization and expansion of the production assortment of the enterprises.

An important goal of this project is to establish opportunities for development of the existing economy in the new economic and political encirclement, so that increase of the employment and improvement of the social condition could be achieved. In addition, particular attention should be paid to the forms, institutions and instruments for support and stimulation of the small economy development, which by all knowledge should represent the strongest generator of new employments.

Another important goal of the study is to recognize the opportunities and forms for prequalification and training of the unemployed persons with aim of their productive employment in the existing capacities, as well as in new production and service enterprises of the modern entrepreneurship.

For achieving of a long-term health protection, improvement of the life quality and the environmental conditions for the rest of the living world, separate strategies for protection of the air, waters and soil should be also elaborated. In the frameworks of this study, a strategy for sustainable solid waste management should be particularly elaborated.

The realization of the previously mentioned goals has to be in accordance with the Plan for Integral Development of Veles Municipality, which is displaced at the end of this study.

STUDY OF LOCAL ECONOMIC DEVELOPMENT OF VELES MUNICIPALITY

PART I

**BASIC CHARACTERISTICS AND ANALYSIS OF THE EXISTING
ECONOMIC CONDITION OF VELES MUNICIPALITY**

1. MAIN CHARACTERISTICS OF VELES MUNICIPALITY

The Veles municipality is located in the central part of the Republic of Macedonia. Up to 1996, the municipality covered an area of 1.552 km² or in other words, 6% of the state territory. With the new territorial division of the Republic of Macedonia, the newly formed municipalities Bogomila, Gradsko, Chashka and Izvor were separated from Veles municipality and today it covers an area of 553 km² or 2,1% of the state territory. Besides the municipal centre Veles, the municipality consists of 34 rural settlements.

1.1 Population and Settlements in Veles Municipality

According to the data from the last census in 1994 and in accordance with the new territorial division, the total population in Veles municipality has noted a decrease and amounts to 56.727 inhabitants. Out of them, 46.800 or 82,5% is a town population and 9.927 or 17,5% is population of the rural settlements. The population density in the municipality is 103 citizens on 1 km² or by 35% higher than the average density in the Republic of Macedonia. Compared to the state average, the town population of Veles municipality is higher by 23,8%. In 1998, the natural growth of population in Veles municipality was 0,4 and was away lower than the average in Republic of Macedonia, which was 6,2.

At municipal level, the average number of members per household amounts to 3,4. The average number of members per household in the rural area amounts to 3,3 members.

According to the population structure it is concluded that the participation of workforce and young population is higher in the rural areas compared to the town. The average participation of the young population on a municipal level of 28,6% indicates favourable opportunities, in terms of human resources, for future economic development.

The table bellow contains the population count in Veles municipality according to the censuses performed during the last four decades (1961-1994).

Table 1: Population count in Veles municipality

| Territorial Unit | 1961 | 1971 | 1981 | 1991 | 1994 | Index | | | |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | | | | | 94/ 61 | 94/ 71 | 94/ 81 | 94/ 91 |
| Municipality | 57.877 | 60.753 | 64.799 | 65.758 | 65.523 | 113,1 | 107,8 | 101,2 | 99,6 |
| Veles | 27.154 | 36.525 | 43.193 | 47.326 | 46.800 | 172,3 | 128,1 | 108,3 | 98,9 |
| Villages | 30.723 | 24.228 | 21.606 | 18.432 | 18.723 | 60,9 | 77,3 | 86,6 | 101,6 |

Source: State Bureau of Statistics

Comment: The population redistribution for the period 1961-1994 points to an intensive growth of the population in the municipal center on the account of decrease or stagnation of the rural population. During the same period, the total population increased by 32,4%. This attributes mainly to the increase of the urban population. The decrease of the rural population came because of migratory movements, especially strong after 1971.

Compared to 1981, the population of Veles municipality in 1994 increased by 4,9% or recorded an average annual growth rate of 0,4%. The increase in population in 1994 amounted to 0,5%, and in 1981, 1,4%. In addition, the municipal participation in the total population of Republic of Macedonia decreased from 3,4% to 3,3%, and the population increase decreased to 2,7%.

The migration process from the rural settlements to the town is a characteristic of Veles municipality. During the period 1981-1994 the town population increased at an average annual rate of 0,8%, and the rural population decreased at a rate of 1%, which contributed to an increase in the town population participation from 64 to 71,1%, in relation to the total population of the municipality in its former composition.

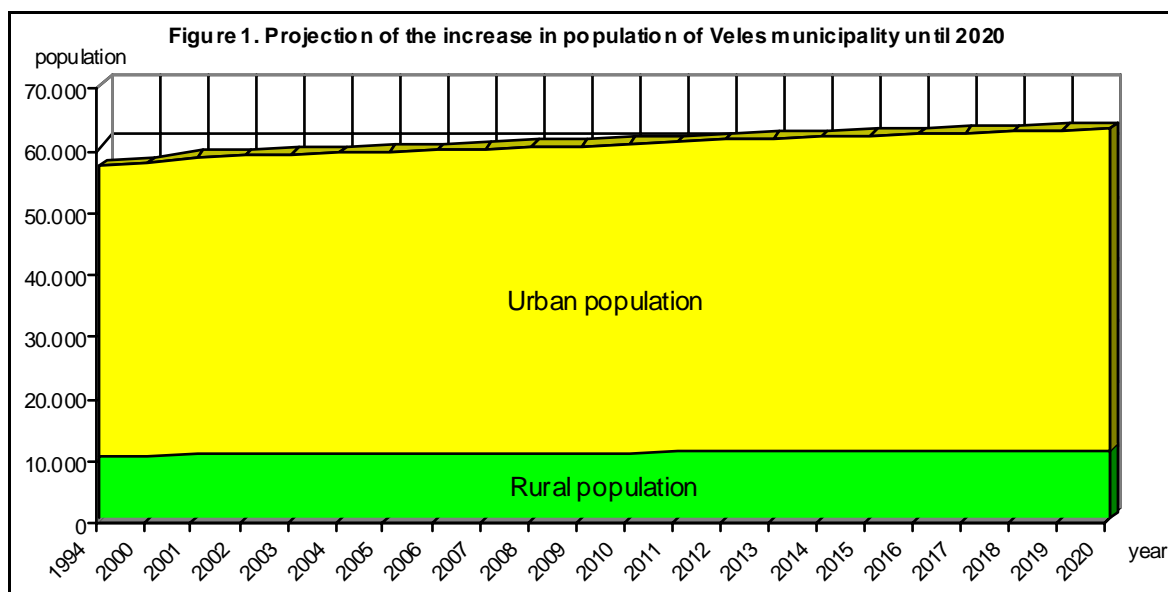
Substantial increase in the migratory movements outside the country is also being noted. This conclusion is confirmed by the number of local population living abroad, which in 1981 amounted to 1,8%, and in 1994, to 4%.

The average number of family members in 1994 decreased in relation to 1981. In the town it decreased from 3,7 to 3,2, and in the rural settlements from 4,4 to 3,7 members. According to the latest statistical data, the average number of family members in Veles municipality amounts to 3,4 members¹.

Regarding the population structure in the town, the children at preschool age participate by 12,8%, the children up to 14 years by 26,8%, and the young population up to 27 years by 50,6%, which is by 2,6% less than the average at state level.

The workforce participates by 63,7% in the total population of the municipality.

The figure below presents the projection of the increase in population for the period until year 2020.



Source: Veles Regional Unit of the State Bureau of Statistics

According to the planned projections and compared to the condition in 1994, the town population in 2010 will note an increase of 6,6% and in 2020, 10,9% respectively. The increase in rural population will note an equal percentage, and the population in the municipality in 2020 will amount to 62.931 inhabitants.

1.2 Natural Characteristics of the Municipality

1.2.1 Climate Conditions

The openness of Veles municipality to north and the frequent breaches of cold, continental air in the winter part of the year cause an occurrence of low air temperatures and a continental climate with an average annual temperature from 12 to 15°C.

The dominant winds in the municipality blow from north and north-west with a frequency of 168, i.e. 152 promiles, and an average annual velocity of 2,7 i.e. 2 meters per second. The strongest wind blows from north-west direction with an intensity of 9 bophors.

¹ 56.751 inhabitants in 16.819 families

The average annual rainfall is 477 mm. The rainfalls are most present in November with an average amount of 61,4 mm, and least present in August with an average amount of 24,7 mm. The snowblanket lasts on average for 12 days per year. The annual average relative humidity is 70%, being the highest in the winter period with an average of 86%, and the lowest in the summer period with an average of 55%.

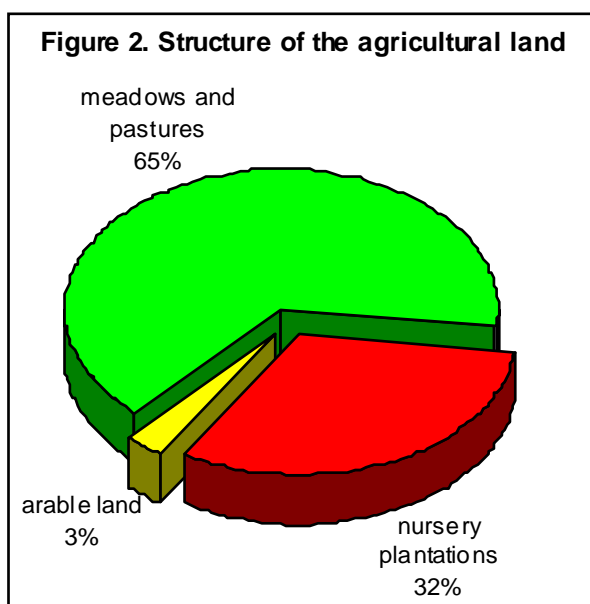
The average annual lasting of the sun glare is 2.148 hours. The fog is not a frequent occurrence in the region of town Veles. On average there are 13 foggy days in the year, in a range from 3 to 25 days.

1.2.2 Agricultural Land

The agricultural land amounts to 1.071 km², or 69% of the total municipal area in its former composition. In addition, 370 km² or 34,5% of the agricultural land are treated as arable, which presents a share of 5,6% in the total agricultural arable land in the country. From the ecological point of view, the agricultural land has a favourable structure due to the high share of meadows and pastures (figure 2).

During the last years the arable land has been decreased, which is a negative trend from the aspect of providing a more favourable economic and social status of the local population.

Bearers of the agricultural and cattle-breeding production in the municipality are AK "Lozar" and the registered 4.673 individual agricultural producers.



1.2.3 Mineral Resources

The geology composition and the metal-genetic characteristics of terrain point to a conclusion that Veles municipality does not possess any substantial deposits of metallic mineral resources convenient for economical exploitation. Regarding the non-metallic mineral resources, the condition is more favourable, so that the discovered reserves present a solid base for development of suitable (existing and future) processing capacities. The talc is most dominant among these mineral resources, with its reserves estimated on more than 3 million tons. So far, the talc exploitation is performed on the deposit near the village Izvor, with a capacity of 12.000 tons per year.

The municipality possesses and deposits of brick clays in the area of Goma Brca and Chaska, as well as deposits of roofing shists in the locality of Kmino, in reserves similar as of the talc.

The limestones are exploited in the locality of Prevalec, where the reserves are estimated on 2.000.000 m³, with a possibility for discovering substantial reserves in direction of Vrshnik. Barium ores are discovered at the source of river Babuna where, in accordance with the so far investigations, there is a possibility for discovering reserves appropriate for economical exploitation.

The quartz is discovered in the locality of Oreshje and along the riverbeds of Babuna and Topolka. Its total reserves are estimated on 60 million tons. Occurrence of quartzite is discovered in the locality of Chichevo in the form of graphite and philitic shists. The ore reserves are estimated on 5 million tons. The quartzite sand is discovered in the pliocene sediments north from Veles. The locality of Venule possesses resources for the cement industry in the form of clay marl (34 million tons) and marble (34 million tons).

Regarding the decorative stones, relevant is the marble in the vicinity of Nezilovo, the granite rocks characterized by beautiful colors and excellent physical and mechanical properties, as well as the gneisses, which might be used for obtaining blocks for tile production. Energy resources, i.e. occurrences of coal are discovered in the Tertiary basin of Chashka.

1.2.4 Soil Properties

The heterogeneous orographic properties, the expressive vertical zonality, the pedo-genetic processes and the climate features, condition occurrence of heterogenous soil composition in Veles municipality. The soil space distribution is characterized by 4 pedographic regions, which include flat terrains (river terraces), region of mountain terrains (alluvial cones), uneven-hilly region and mountain region. The first three regions belong to the ravines, and the fourth to the mountain areas.

The flat terrains are covered by alluvion, meadow and clay soils. They are located in the basins of Topolka and Vardar and cover an area of 21,8%. The slope terrains are a series of cone alluviums where dominant are various types of diluvial soils. They are located in the basins of Vardar and Babuna by a share of 43,2%.

As a result of the heterogeneous composition and the lengthy pedo-genesis, the uneven-hilly regions are characterized by various types of soils (resinous soils, cinnamon soils, eroded brown soils). These are located in the basin of Otovnica, and partly in the middle waterflow of the rivers Babuna and Topolka. Their share is 17,3%.

In the mountain region the most dominant are the rank soils, and then follow the brown soils, which lay on limestone and dolomites. They are present by 17,3% and are mainly located in the upper parts of the basins of Babuna and Topolka.

The productive soil properties depend on several factors such as the physical and chemical composition, the relief and the grade of erosion, the hydrographic conditions, the climate, etc. The first-grade soil is not very present in the municipality, just in the lower flow of the river Topolka and Vardar. The second-grade soil is present in the basin of Otovica, while the third-grade soil is present in the basin of Otovica and in the middle flows of Babuna and Topolka.

1.2.5 Hidrography

The rivers Babuna, Topolka and Otavica, which belong to the basin of river Vardar, are the main water currents in Veles municipality.

The annual average flow of Babuna is 4,65 m³/s, of Topolka 2,41 m³/s and of Otavica 1,31 m³/s. The flow of the rest, smaller, local water currents flowing into the left side of Vardar is 1,31 m³/s, and into the right side 0,3 m³/s. The annual average flow of Vardar, at the measuring point near the town of Veles, is 83,1 m³/s.

The geology composition, the poor vegetation covering layer and the improper land utilization cause occurrence of erosion processes in huge part of the municipality. The annual production of erosive alluvium totals 688.000 m³. The erosion processes cause a great loss of fertile soil, soil impoverishing and occurrence of bare, dry and uninhabited regions.

The ground waters in Veles municipality are present in the lowest parts along the river flows. Untill now, investigations of the level, generosity and the working mechanism of these waters have not been undertaken. Due to the absence of young vulcanism, Veles municipality is poor in springs of mineral water.

1.2.6 Woods

The woods and the woodland occupy about 53.000 ha of the total area of the municipality, out of which 38.500 ha are woods. In the wood structure the high-trunk woods participate by 20%, and the low-trunk woods by 80%. The available wood mass of 3.200.000 m³ is equally distributed in the low-trunk and high-trunk woods, and the annual growth increase is about 73.500 m³. The approved annual woodcutting is 24,900 m³ of wood mass. The wood mass cut down in the period 1992-1996 amounted to 36.500-43.000 m³ per year, and the substitute for the woodcutting was about 150 ha.

The loss of the wood fund presents a serious problem. It results from the unfavourable climate and meteorological conditions, the air pollution, the acid rains, the woods' diseases and the frequent occurrences of fires.

As one of the main reasons for forest devastation is the air pollution by sulphur dioxide, which mainly comes from the local industry. It causes occurrences of acid rains, which penetrate into the tree through its leaves and root system, at the same time causing trunk baring, wood drying and decrease of the resistance to phyto-patological and entomology polluters.

The detrimental influence of the entomology insects and phyto-patological fungus additionally strengthens the unfavourable climate changes, which are directly connected to the polluted environment. The decrease in the wood fund is also a result of the illegal woodcutting. However, the worst enemy of the woods are fires, which in a short period of time could devastate large forest complexes raised by decades.

2. ANALYSIS OF THE ECONOMIC CONDITIONS IN THE MUNICIPALITY OF VELES

Introduction

The existing economic situation in the Veles municipality has been determined by a detailed field research. The aim of the research was to identify the measures for stopping the existing trend of decrease of the production and the GDP, as well as to initiate economic growth and development along with a reduction of unemployment in the municipality.

Parallel to this, within the framework of the field research, we have also examined the potential at a disposal to the municipality, factors of development that are important for a long-term sustainable development (capital, work force, technological environment) as well as basic quantitative relations and indicators of the economic growth (GDP, export and import, investments, employment).

During the field research, a special emphasis has been given to the issues related to the identification of possibilities for revitalization of existing capacities, utilization of the natural resources, change in the production structure, etc.

Based on the analyzed conditions, it has been determined that the future development of the economy in the municipality should be realized through a revitalization and modernization of the existing industrial and other capacities by means of property transformation and technological restructuring as well as by faster creation of new small and medium production businesses based on modern entrepreneurship. Thus, appropriate recommendations of measures and activities have also been made. They should provide improvement of the production in the existing capacities and introduction of new production that will be in conjunction with the foreign markets. It is necessary that these measures and activities be supplemented by continuous market research in the next period, which will enable a creation of special strategies for foreign market penetration of every major economic subject.

Measures that need to be carried out to determine the health of the people and to protect all the environmental media were also identified.

2.1 General Movements of the Existing Economic Development of the Municipality

The development of the Veles municipality is being carried out within the framework of the general economic conditions that exist on Macedonian level and wider, as well as within conditions generated by the characteristics and specifics of the local area.

Due to multiple specific issues, the social and economic conditions and the achieved development of the municipality were observed in two separate periods—until 1995 and after 1995.

For the period until 1995, we have GDP data according to the old territorial subdivision. After the founding of the new municipalities with the new territorial subdivision of 1996, Veles municipality has been subdivided into five separate municipalities, for which, like in the other Macedonian municipalities, there is no further separate statistical follow-up of several important segments.

2.1.1 The Place of the Economy of Veles Municipality in the Macedonian Economy

Veles municipality achieved a significant economic growth until 1985, which was above the national average. The municipality participated with 4.5% in the GDP, with 5% in the active means, with 4% in the employment, etc. These results were mainly achieved by an intensive investment activity for industrial development. With the achieved development level, the municipality ranks among the more developed municipalities in Macedonia at that time. However, after 1985 the possibilities of utilization of foreign capital and additional accumulation became narrower, the economic conditions became harsher, thus resulting in a rapid decrease of the GDP.

The importance of the economy of Veles municipality for the national economy can be observed through a participation in percentage in the achieved GDP level for the last two decades, as shown in the table that follows.

Table 2: Participation of economic sectors of the municipality in the Macedonian GDP of the respective sectors (%)

| Territorial community | 1980 | 1985 | 1990 | 1995 |
|------------------------------|-------|-------|-------|-------|
| Republic of Macedonia | 100.0 | 100.0 | 100.0 | 100.0 |
| Total economy | 4.1 | 4.5 | 4.1 | 3.2 |
| Industry and mining | 5.6 | 6.0 | 5.3 | 4.1 |
| Agriculture and fishing | 4.4 | 4.5 | 4.7 | 4.0 |
| Forestry | 2.3 | 2.2 | 3.2 | 4.6 |
| Water supply | 3.1 | 2.1 | 3.0 | 2.8 |
| Construction | 2.2 | 1.4 | 1.5 | 0.2 |
| Transportation and links | 4.4 | 4.2 | 3.3 | 4.3 |
| Trade | 2.6 | 2.6 | 2.1 | 1.9 |
| Hospitality and tourism | 2.4 | 4.5 | 4.6 | 3.8 |
| Crafts and personal services | 3.9 | 5.2 | 2.7 | 2.6 |

Source: Calculated according to the data taken from the Yearbook of the National Institute of Statistics, Documentation of the Ministry of Development

Comment: The participation of the municipality Veles in the GDP of Republic of Macedonia until 1990 is at an approximately constant level of 4.1%. Due to the specific economic structure, limited own sources of investment and other problems present in the economy, the problems in the economy of Veles municipality are more emphasized in comparison to the problems on national level, which leads to a 21.9% decrease in participation in 1995 compared to 1990.

However, despite the more dynamic decrease of the GDP than the national one, Veles municipality, by many indicators, had an above average level of development. This can be observed from the data in table 3.

Table 3: Some indicators of development of Veles municipality (indices): RM=100

| Indicator | 1985 | 1990 | 1995 | 2000 |
|--|-------|-------|-------|-------|
| Total GDP per capita of the economy | 133.1 | 121.9 | 94.2 | 112.0 |
| Active fixed assets per capita | 154.2 | 104.0 | 104.0 | 110.0 |
| Achieved investments per capita | 118.0 | 120.0 | 117.5 | 105.0 |
| Employees in the social sector per 100 inhabitants | 118.3 | 120.0 | 120.0 | 115.0 |
| Unemployment per 100 inhabitants | 150.7 | 142.5 | 140.0 | 135.0 |

Source: Documentation of the Ministry of Development

Comment: The municipality, by every indicator, is more developed than the average of the Republic of Macedonia. The unemployment indicator is very specific. Despite other positive movements of the other indicators, it shows a presence of an extremely serious social problem.

The conduction of reforms, unfavorable economic conditions and external surrounding had an impact on the emergence of highly negative real rate of changes in the GDP for the period just before and after the independence of Republic of Macedonia. The example of these changes is displayed in table 4.

Table 4: GDP dynamics—real change rates

| Territorial community | 1981-1985 | 1986-1990 | 1991-1995 | 1996-1999 |
|-----------------------|-----------|-----------|-----------|-----------|
| Republic of Macedonia | 0.6 | - 1.2 | - 8.6 | 2.7 |
| Veles municipality | 6.0 | -2.6 | -15.0 | 2.8 |

Source: Calculated according to the data taken from the Yearbooks of the National Institute of Statistics

Comment: The overview shows that the GDP in Veles municipality grew at a much higher rate until 1985, whereas after that decreased also by a much higher rate than the analogous movements on national level.

The rapid decrease of the industrial production in Veles municipality has the greatest influence on these negative movements of the achieved GDP. The index overview displayed in the table that follows shows that the decrease of the GDP in Veles municipality is even more emphasized when compared to the national level.

Table 5: GDP index movement overview

| Territorial community | 1985/1980 | 1990/1985 | 1995/1990 | 2000/1995 |
|-----------------------|-----------|-----------|-----------|-----------|
| Republic of Macedonia | 102.8 | 94.3 | 63.85 | 114.9 |
| Veles municipality | 133.2 | 85.4 | 49.9 | 120.0 |

Source: Documentation of the Ministry of Development

Comment: The data from the overview point out a significantly larger GDP decrease in Veles municipality, which for the period 1985-1990 was by 8.9 and for the period 1990-1995 by 13.95 index points higher than the national decrease.

The calculated decrease by a more intensive rate is due to a more unfavorable economic structure, lack of working capital and harsher economic problems. As a consequence of such industrial movements, the participation of this economic sector of the municipality in the total industry on Macedonian level decreased from 4.5% in 1985 and 1990 to 3.2% in 1995.

The participation of the municipality in the total products and services level of Macedonia achieved in the industry, agriculture, construction and trade is also reduced. Parallel to this, there has been a significant change in the share of certain economic branches in achieving the municipal GDP level.

As a result of a decreased production, the participation of the industry of Veles municipality in the industry on national level in this period decreased by 2 per cent and similar tendencies are present in other economic activities. GDP in 1995 totaled 1,490 USD, which was 13% more than the country's average. These co-relations are also present in the level of employment, investments and other parameters.

The period after 1995 brought somewhat livelier economic activities. However, they still remain at a lower level, even in the event of a more favorable economic growth compared to Republic of Macedonia. This condition can be established by data listed in table 6.

Table 6: Some indicators of the development level of Veles municipality

| Comparative parameter | | Republic of Macedonia | Veles municipality |
|--|------------------------------|-----------------------|--------------------|
| Number of employed | Employed per 100 inhabitants | 16 | 22 |
| | Indices | 100.0 | 137.5 |
| Average monthly salary per employee in 1999. | In Denars | 8,073.00 | 8,854.00 |
| | Indices | 100.0 | 109.7 |
| Investments in basic funds per capita in 1998. | In Denars | 9,900.00 | 10,395.00 |
| | Indices | 100.0 | 105.0 |

Source: National Institute of Statistics and Clearing House

Comment: The municipal development degree, according to the indicators: number of employed, average monthly salary and investments in basic funds is above the country's average. This should however be taken with care, since the economic and social state in the country is still very unfavorable.

2.1.2 Structure of the Local Economy by Sectors and Branches

The economic structure of Veles municipality is characterized by presence of the economic subjects in all activities. The diversified structure of the economy is formed before the independence of the Republic of Macedonia, especially in the period between 1981-1985.

Industry takes dominant part in the local economy, which is presented by many industrial branches. In 1995, the industry took part with 46.6% in total GDP in the municipality. It characterizes Veles as urban industrial agglomerate. In the Republic of Macedonia the participation of industry in the national economy in 1995 was for 10% lower than the one achieved in Veles municipality. The great importance of industry to the overall flows of the economic activity in this municipality stems from here.

The overview points out that the economic structure of the municipality is characterized by outdated fixed assets in which the significant part is worn out by the outdated technical and technological solutions for the production processes. Due to this, the production achieved in Veles municipality as a whole is insufficiently competitive which is supported by the fact of insufficient export orientation. Additional weakness of the economy is great dependence on the import of raw materials and energy, which creates high trade deficit in the export exchange as a limiting development factor.

The observations show that the existing capacities in Veles municipality are used below 50%. This indicator leads to the opportunity for more dynamic increase of the production on the existing production potentials. However, it is necessary to perform a process of revitalization of the fixed assets and restructure of the production according to the standards of the domestic and foreign market. To achieve this goal, it is very important to strengthen the management structures in the enterprises and to replace the daily operating logic, conditioned by the existing situation and problems, with a long-term development overview.

The existing economic structure of Veles municipality can accomplish more dynamic development on the grounds of faster transition from extensive to intensive social and economic development, according to the needs and criteria of the market economy. The performed researches show that to re-achieve developmental growth of industry it is necessary to accomplish production restructuring of all economic subjects in the municipality, in direction of finalization and more acute export orientation.

After the industry, more significant role in the local economy has agriculture, trade, traffic and construction, where the agricultural resources offer opportunities for increasing production. According to certain indicators the potentials for agricultural production consist of agricultural land which participates with 34.5% of the area of Veles municipality, while the vast pastures which participate with 24.5% of the area are a basis for cattle-breeding development. These potentials are used insufficiently. Because of that, the participation of agriculture in GDP of the municipality is maintained on a low level (17.3% in 1995).

The outdatedness of the fixed assets and technological processes which is partly a result of the slow process of enterprise restructuring is considered a disadvantage in the primary and secondary sector of the economy of Veles municipality.

Despite these limitation factors, the existing economy with its versatile structure can represent significant factor for the future development of the municipality. A more dynamic increase of the GDP and employment and the productive engagement of the workforce can be achieved if: economic capacities are modernized and revitalized; production is restructured according to the needs and standards of the partners; a transition from extensive to intensive social and economic development is carried out; organization skills of the managers and work-teams are improved and strengthened. Room for production increase should be searched especially in the increase of the degree of use of the existing capacities.

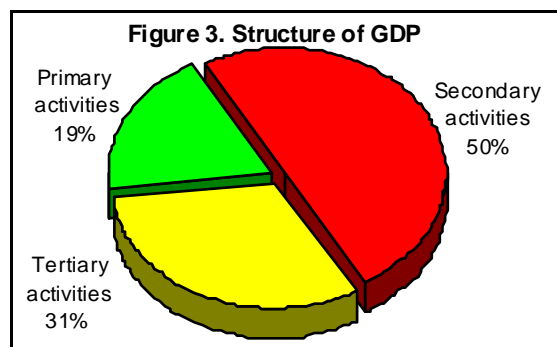
The tertiary sector has relatively high participation in the structure of forming GDP of the municipality and owns comparative advantages for accomplishing further intensive development. This sector participated in the structure of GDP of Veles municipality with 31.3% in 1995, whereas on the Macedonian level with 2.5%. The conclusion for the developmental growth and the presence of the tertiary activities in the structure of GDP of the municipality economy can be confirmed with the data listed in table 7 and figure 3.

Table 7: Basic structure of GDP in Veles municipality² (%)

| Economic activity | 1985 | 1990 | 1995 |
|----------------------|------|------|------|
| Primary activities | 14.0 | 16.5 | 19.0 |
| Secondary activities | 63.4 | 58.9 | 49.7 |
| Tertiary activities | 22.5 | 24.6 | 31.3 |

Source: Statistical Yearbooks of the National Institute of Statistics

Comment: The overview confirms that the secondary sector, i.e. industry, is the most important sector of the local economy. Data for the achievements of this sector worry, because in the last years there is constant decrease at the expense of the increase in the primary and especially in the tertiary sector.



Source: Yearbook of the National Institute of Statistics

Comment: The above mentioned data point to the fact that the secondary sector, more precisely, the industry remains the strongest economy sector in the municipality. Ranked by importance, the secondary sector is followed by the tertiary and in the end the primary, i.e. agriculture, forestry and water supply.

To increase the participation of the tertiary sector, i.e. trade, catering and small economy, it is necessary to revitalize the existing capacities and restructure the services according to the needs and demands of the foreign and domestic partners. In the tertiary sector there are significant potentials which can contribute to the increase of the services and employment.

The comparative overview of the GDP structure by economy branches in Veles municipality and in Republic of Macedonia is given in table 8.

Table 8: GDP structure by economy branches in Veles municipality and in Republic of Macedonia (%)

| Economic activity | 1985 | | 1995 | | 2000 | |
|--------------------------|------|-------|------|-------|------|-------|
| | RM | Veles | RM | Veles | RM | Veles |
| Industry and mining | 45.5 | 61.1 | 36.0 | 46.2 | 40.0 | 50.0 |
| Agriculture and fishing | 13.7 | 13.6 | 13.7 | 17.3 | 14.0 | 16.0 |
| Forestry | 0.7 | 0.3 | 0.8 | 1.1 | 0.8 | 1.2 |
| Water supply | 0.3 | 0.1 | 0.6 | 0.6 | / | / |
| Construction | 7.3 | 2.3 | 0.8 | 3.5 | 1.2 | 4.0 |
| Transportation and links | 5.5 | 5.1 | 7.3 | 9.9 | 7.5 | 4.5 |
| Trade | 20.3 | 11.9 | 23.0 | 13.7 | 24.0 | 13.0 |
| Catering and tourism | 1.5 | 1.5 | 1.9 | 2.3 | 2.2 | 2.5 |
| Craft | 2.1 | 2.4 | 2.0 | 1.6 | 2.4 | 1.7 |
| Other | 3.1 | 1.6 | 6.8 | 3.8 | 7.2 | 7.1 |

² Primary activities include farming and fishing, forestry and water supply; the secondary activities include industry, mining and construction; the tertiary sector includes transportation, communication, trade, catering, tourism, crafts, etc.

Source: Statistical yearbook of SRM for 1987 of the National Institute of Statistics, Statistical yearbook of RM for 1997 of the National Institute of Statistics

Comment: Industry participation in the structure of GDP in Veles municipality is for 10-15% higher than in the structure of the Republic of Macedonia. It is also obvious that the participation of transportation and links, trade and crafts in the municipality is lower than in Macedonia, although with all the comparative advantages that the municipality has should be higher.

In the structure of industrial production dominant place has the production of non-ferrous metals and mineral fertilizers, followed by industry of nonmetals, food industry, metal processing and textile and leather industry. Large part of the production relies on import of the raw materials and materials for reproduction.

The existing structure of Veles municipality is characterized by a dominant presence of outdated fixed assets. The average outdatedness is estimated at about 25 years and a large part of those assets is written off in the accounting. The research also showed that the production in the municipality is performed by outdated technological processes in over 80% of the cases.

According to the data released by the Clearing House, one can conclude that for the period 1996-2000 there is a slight increase both of the number of employees and the total revenue. According to the same source, the participation of Veles municipality in the total employment figure of the Republic of Macedonia in 1999 is 3.5% and in the total revenue—2.9%. On the other hand, the data also indicate that the economy of Veles has relatively high losses totaling 1,095,000,000 Denars thus participating in the total losses in Macedonia with 8.3%.

According to the figures of the economy of Veles, an average monthly salary per employee of 8,854 Denars was achieved in 1999. This represents a 6.8% higher figure than the average salary in the industry of the Republic of Macedonia.

The economic activity in the municipality is mostly realized in the municipal center, whereas in the other settlements in the wider region of the municipality there is a very small number of economic subjects.

The changes of the system are expected to intensify the process of restructuring of the subjects in accordance with the market conditions and the increase in the competitiveness of the products and services. The orientation towards production will contribute to the intensifying of the already initiated processes, greater valorization of the resources that the municipality disposes of as well as to a more prominent participation of the service sector in the economic structure. Hence, the determination for increase and improvement of the cooperation with foreign partners is especially important for the development of the economy in the Veles municipality. This stems from the fact that is the way to bring positive initiatives for a better utilization of the existing economic capacities and for extension of the economic structure with new products with higher finalization stages.

A more emphasized development of the tertiary sector in the municipality is deemed necessary because of the opportunities it offers. SME's should have a more prominent place in the development. They can pose an important factor and impulse for a more dynamic GDP development and productive engagement of the workforce in the municipality.

It is however concluded that in order to have a more dynamic growth of the economy, the revitalization and expansion of the major industrial complexes' capacity should contribute the most, especially of those from the metallurgy, chemical, non-metal, agricultural industry and metal processing. These opportunities should be explored in a more complex way—with concrete programs as well as by undertaking appropriate measures and activities for their implementation.

2.1.3 Economic Subjects, Property Structure and Privatization

The new system solutions simplify the procedure of registering companies thus creating opportunities for a larger emphasis of the initiative of carrying out economic activities. Based on this, during the period between 1991-1995 the number of registered companies in Veles municipality increased from 87 to 1,305. Although, more than a half of these companies are in the trade sector. The number of registered companies in other sectors increased as well, especially in industry and agriculture. An overview of business subjects by sector is given in table 9.

Table 9: Business subjects in Veles municipality

| Economic and other activity | 1990 | 1996 | 1997 | 2000 |
|------------------------------|------|-------|-------|-------|
| Total | 87 | 1,305 | 1,303 | 2,354 |
| Industry | 18 | 170 | 167 | 221 |
| Agriculture and forestry | 8 | 45 | 40 | 46 |
| Construction | 2 | 47 | 44 | 56 |
| Transportation and links | 2 | 102 | 101 | 151 |
| Trade | 52 | 802 | 772 | 1,243 |
| Crafts and personal services | 1 | 40 | 40 | 66 |
| Other activities | 4 | 99 | 139 | 571 |

Source: Statement of the Institute of Statistics of the Republic of Macedonia, number 22 of 13 February 1997, on the status on 31 January 1997 and Statement of the National Institute of Statistics of the Republic of Macedonia of 14 November 2000 on the status on 31 October 2000.

Comment: The presented figures clearly show a very positive trend of increase in the number of companies in sectors that create new values in the last three years of the observed period (industry and crafts) as well as in the trade and other services.

During the period between 1997-2000 the number of business subjects in the municipality increased from 1,303 to 2,354 and in the newly founded municipalities this figure increased from 47 to 192 (see table 10).

Table 10: Business subjects in newly founded municipalities in Veles region (in %)

| Territorial community | 1997 | | 2000 | |
|---------------------------|--------|-------|--------|-------|
| | Number | Share | Number | Share |
| Old municipality of Veles | 1 350 | 100,0 | 2 546 | 100,0 |
| New municipality of Veles | 1 303 | 96.5 | 2 354 | 92.5 |
| Bogomila | 3 | 0.2 | 32 | 1.2 |
| Gradsko | 32 | 2.4 | 82 | 3.2 |
| Izvor | 2 | 0.1 | 23 | 0.9 |
| Caska | 10 | 0.8 | 55 | 2.2 |

Source: Statement of the Institute of Statistics of the Republic of Macedonia, number 22 of 13 February 1997, on the status on 31 January 1997 and Statement of the National Institute of Statistics of the Republic of Macedonia of 14 November 2000 on the status on 31 October 2000.

Comment: The analysis of the data presented here shows that in 2000, out of all economic subjects on the territory of former Veles municipality, 92.5% are registered in the new Veles municipality whereas 7.5% in the other new municipalities.

The observations point out that in Veles municipality, among the newly founded economic subject, micro and small businesses prevail. They are the most appropriate form of utilization of resources and dynamizing the economic growth. Unfortunately, due to various reasons many of them are not active and those that are—do not contribute to a more significant growth of the economic activity in the municipality.

Subject researches have determined that the medium and large enterprises, among which enterprises from metallurgy, chemical industry, textile and leather industry agricultural processing, farming and construction prevail, are the pillars of the development in the municipality. Their further development is conditioned by restructuring of the production and services according to the needs of the foreign markets as well as by improvement of the product quality.

The major economic subjects in Veles municipality are not yet fully privatized. The established degree of privatization is mainly above 50%.

2.1.4 Influence of the Existing Economic Structure on Employment

With the decrease of economic activity, the number of employed in the economic sectors was reduced from 17,130 in 1990 to 11,581 in 1996. The largest reduction of the workforce was registered in the industry. Compared to the reduction of the work force on national level, one notices that in Veles municipality it is accomplished by a slower rate, above all as a result of the slower process of property restructuring of the economic subjects.

Table 11: Employment in the economy of Veles municipality

| Territorial community | Number of employed and share | | | Indices | |
|---|------------------------------|---------|---------|---------|--------|
| | 1985 | 1990 | 1996 | 90/ 85 | 96/ 90 |
| Republic of Macedonia | 408,125 | 417,485 | 255,659 | 102.3 | 61.5 |
| Veles municipality | 17,035 | 17,138 | 11,581 | 101.6 | 66.9 |
| Participation of the municipality in RM (%) | 4.2 | 4.1 | 4.5 | | |

Source: Statistical Yearbooks of the National Institute of Statistics

Comment: The presented data lead to a conclusion that the employment situation is slightly better in the municipality than the one on national level.

The problem of job losses, analyzed by sector, can be observed from the data in the table that follows.

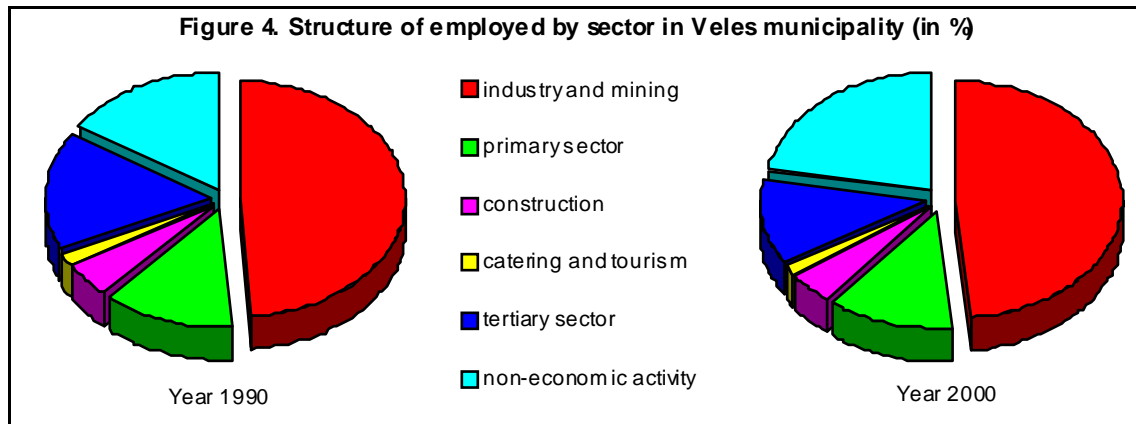
Table 12: Employment by sector of economy in Veles municipality

| Sector | 1980 | 1985 | 1990 | 1996 | 2000 |
|--|--------|--------|--------|--------|--------|
| Total in economy | 14,694 | 17,046 | 17,138 | 11,581 | 11,840 |
| Industry | 8,114 | 10,412 | 9,927 | 7,273 | 7,400 |
| Farming | 2,421 | 2,468 | 2,449 | 1,697 | 1,700 |
| Forestry | 76 | 92 | 146 | 131 | 140 |
| Water supply | 30 | 43 | 22 | 6 | 10 |
| Construction | 1,587 | 1,296 | 963 | 616 | 650 |
| Transportation and links | 880 | 951 | 1,015 | 787 | 800 |
| Trade | 1,064 | 1,119 | 1,275 | 442 | 500 |
| Hospitality and tourism | 106 | 183 | 314 | 178 | 180 |
| Crafts and personal services | 10 | 8 | 404 | 1 | 3 |
| Housing and communal activity | 195 | 206 | 182 | 221 | 227 |
| Financial, technical and business services | 211 | 268 | 441 | 229 | 230 |
| Total non-economy | 2,169 | 2,599 | 3,192 | 3,252 | 3,360 |
| Education, science and culture | 902 | 1,056 | 1,000 | 1,057 | 1,100 |
| Health and social care | 744 | 970 | 1,625 | 1,852 | 1,900 |
| Social and political communities | 523 | 562 | 567 | 343 | 360 |

Source: Yearbooks of the National Institute of Statistics, National Institute of Statistics

Comment: The number of employed in the economy decreased from 20,330 persons in 1990 to 14,833 in 1996. In absolute values, the largest reduction was registered in the industry, farming and trade. A very unfavorable trend is also registered in the construction and crafts sector.

Concerning the distribution of employed by economic branches in Veles municipality it has been concluded that there are no significant changes in the last decade, which can be observed by the graph on figure 4.



It has been estimated that the exiting business subjects in Veles municipality can create a room for a greater productive engagement of the workforce by revitalization and restructuring of the production according to the demands and criteria of the domestic and foreign markets. However these opportunities are limited because a large number of economic subjects still have significant number of redundant workforce.

Apart from this, the revitalization and modernization of the capacities is expected to improve the technological processes thus causing a limitation of the possibilities of greater engagement of the workforce. The economy can therefore achieve a higher employment rate and to contribute to the decrease of the number of people looking for a job only in the event of adopting a manufacture of new products, expansion of capacities and servicing foreign partners.

Along with this, in order to increase employment, one has to expand the economic structure with new business subjects, both in the SME and large manufacturing enterprises sector. Possibilities of greater engagement of the workforce exist in the so-called family business in the agriculture and small economy, primarily in rural areas.

According to the latest data accessible from the Clearing House of the Republic of Macedonia, 475 economic subjects from Veles municipality that submitted their annual final accounts had 10,176 which is 3.5% of the total number of employed in the Republic of Macedonia.

2.1.5 Social and Economic Conditions and Achieved Development after 1995

The overviews point out that after 1995 more favorable conditions for development of the Republic of Macedonia were created. After the established stability of prices and the exchange rate of the Denar, developmental performances of the Macedonian economy were founded by rounding up the reforms in terms of introducing market economy, restructuring of the economy and promotion of economic cooperation with foreign partners in conditions of improving the outer surrounding. The economy of the Republic of Macedonia achieved an average real GDP growth of 3% for the period 1995-2000, which is within the range achieved by advanced transitional economies in Central Europe.³

³ Transition countries for the period 1997-2000 achieved average GDP growth of 3.5% (Source: Economic Commission for Europe, Economic Survey of Europe, 2000 No.1, United Nations, New York and Geneva, 2000)

The total revenue of the economy of Veles in the year 1999 was 12,377,000,000 Denars. This is a 27.4% increase over the year 1995, with a higher intensity than the national average.

The economy of Veles in 1999 declared a total profit of 423,000,000 Denars that represents 2.6% of the profit achieved on national level. Business assets of the economy of Veles municipality participate with 2.7% and working capital with 2.2% in the total business assets and working capital of Republic of Macedonia respectively.

Positive development trends are forecast to continue more intensively during 2001. However, the latest developments in the northwestern part of the country had a negative impact on the growth forecast by the macroeconomic policy for the year 2001.

In the forming of GDP of the economy of Veles, the industry prevails with more than 50%. There is a general evaluation is that the industrial production is followed by a slower privatization and production restructuring and insufficient use of the capacities, which together negatively influences profitability.

In the agricultural and forestry sector there are several active economic subject. The largest among them is the only agricultural complex "Lozar" with more than 8,000 hectares agricultural land, 12 hectares of hothouses, 950 hectares of vines and 7,600 hectares farmland, swine farm with a capacity of 30,000 hogs for fattening, winery, slaughter house, freezer and a dairy.

There is also a huge construction activity in the municipality. There are also many companies in the transportation, catering and trade sector.

The companies in Veles municipality calculate but do not set aside funds for amortization. They do not even dispose of their own funds for investing thus basing the production on short-term projections (there is absence of long-term development orientation). The changes of the production in the direction of restructuring and export orientation of the economic capacities are possible through a thorough realization of the privatization process and secession balances of certain enterprises, penetration of direct foreign investments and improvement of the cooperation with foreign partners.

The existing capacities in the municipality, although with outdated fixed assets and technology, can further represent a basis for a more intensive economic development and a more productive engagement of the workforce if prior to this they restructure their production towards export, increase its competitiveness and some of them resolve serious environmental problems.

2.1.6 Capital and Investments as Factors of Development

Up to 1990, Veles municipality achieved a relatively intensive investment activity in all economic sectors, above all in the industry and agriculture. In 1990, this municipality participated within the total investments of Macedonia with 3,8%, in the industry sector with 3,7% and with 1,1% in the agriculture. This relatively high degree of investment activity contributed to an above average development of the municipality and its inclusion in the municipalities with a good development. The scope and growth of the investments in basic funds was achieved by using additional accumulation from the country and from abroad.

In regard with the conditions and problems of production financing, an overview of the period of the eighties from the last century has been done, for in that period an intensive investment activity was realized, which in basic formed the present economy structure of the municipality. Knowledges point to the fact that Veles municipality in 1985 accomplished an intensive economic activity, which was above the average of Republic of Macedonia. The investment participation amounted to 3% in relation to the level of Republic of Macedonia. The investment participation in GDP amounted to 30%, by which Veles municipality joined the municipalities with most intensive economic activity.

This scope of investments was made possible by using credits from domestic banks, Federation Fund and foreign credits, whereas the investment from own resources was at minimal level. It is assessed that in 1980, in the structure of investments realized in Veles municipality, dominant were the foreign and domestic credits by participation of 60%, the Federation Fund participated by 20%, while the local economic enterprises participated by 10%. Such an investment structure points to a conclusion that the local enterprises relied too much on additional accumulation outside the municipality.

By restriction of conditions for usage of additional accumulation, and due to the worsened conditions for financing from own resources, in the period from 1991 to 1995 the investments decreased and entered the zone of disinvestments.

Due to the insufficient scope of investment means, outdated fixed assets and technologies characterize the economy of Veles municipality.

After 1995, a revival of investments is observed, mainly in the domain of projects in industry, traffic and water supply infrastructure. Such a structure is judged not to contribute to the intensified process of revitalization of the existing capacities and restructuring of the production, especially of the local industry, which could be seen from data stated in figure 13.

Figure13: Structure of investments in Velesmunicipality

| Economic activity | 1990 | 1996 | 2000 |
|----------------------------|-------|-------|-------|
| Entire economy | 100,0 | 100,0 | 100,0 |
| Industry and mining | 10,0 | 27,8 | 29,0 |
| Agriculture and fishery | 0,4 | 1,1 | 1,0 |
| Forestry | 1,1 | / | / |
| Water economy | / | 24,4 | 22,0 |
| Traffic and communications | 74,8 | 35,4 | 35,0 |
| Trade | 0,6 | 5,4 | 6,0 |
| Other | 13,0 | 6,0 | 7,0 |

Source: Documentation of the State Bureau of Statistics (separate publications for investments in the basic fund).

Comment: Data presented point a dominant investment in traffic, industry and water supply. The investments in primary and tertiary sector (without traffic and communications) are practically insignificant.

Nowadays, the local industry is unable to use domestic credits because of their relatively high interest rates and other banker's conditions. The use of foreign loans is also limited because of an insufficient collaboration with foreign partners and limited abilities for regular repayment. Due to the slow privatisation and export restructuring, the opportunity for direct foreign investments, concessions and other non-credit offers is narrow.

The sources of finance in the municipality do include, with a major place, the existence of mid-term and long-term foreign credits and loans. This can be concluded from the fact that all the equipment used in 1998 was from import.

Besides the limited assets for providing investment, there is also the problem of lack of profitable investment projects. It comes because of absence of long-term development visions in case of presence of the survival logic of the economic subjects.

The insufficient linkage of the economic subjects from Veles municipality with bigger business subjects from the country and from abroad has influenced a lot the unfavourable conditions in production financing. The above mentioned is being emphasized due to the knowledge that the existing economy of Veles municipality could accomplish a more intensive economic activity only in conditions of improved co-operation with such enterprises. In addition, efforts for utilization of the local comparative advantages resulting from the closeness of Petrovec Airport, good traffic connection with a modern highway and electrified railroad line, should be certainly made.

Initiatives for restarting certain capacities circulate in the municipality, especially in the domain of loan production. Contrary to this, there is a lack of initiatives for a greater valorisation of municipality's resources, through production with a higher processing degree, export orientation, competitive on the foreign markets.

2.2 Social Condition and Social Institutions in Veles Municipality

The processes of transition and adjustment of the economic subjects to the market conditions in Veles municipality are followed by intensified poverty, unemployment and social disintegration. The threats to human well-being have a deep impact to the parameters of the local social development. In addition, a lot of people, especially women and children have become sensitive to stress and deprivation.

The poverty, unemployment and social disintegration have resulted in isolation, marginalization and violence, in conditions of parallel increase in the gap between the rich and poor. The challenge that has been set in front of the entire community is how it should manage these processes and threats, so that the negative consequences upon the population are alleviated.

2.2.1 Unemployment in Veles Municipality

According to the data from the Employment Bureau in Veles, 15.260 unemployed persons were recorded in December 2000. This represents 42,3% of the total workforce or 35,3% of the total active population in the municipality. Since the Employment Bureau keeps no records for individual farmers, and there is additional number of unregistered unemployed, the social condition of the population in the municipality is even harder.

The number of the unemployed in the period 1996-2000 is listed in the table that follows.

Table 14: Number of registered unemployed persons in Veles municipality

| Year | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------|--------|--------|--------|--------|--------|
| Unemployed | 13.799 | 14.966 | 13.746 | 14.312 | 15.260 |

Source: Employment Bureau of Republic of Macedonia, Employment Bureau Veles, December 2000

Comment: From the table one may conclude that there is an increase in the registered number of unemployed beginning from 1996, with a note that in the said period, the number of the registered unemployed increased by 10,6%.

Among the registered 15.260 unemployed, 7.157 are men and 8.103 are women where 415 had high education, 4.043 high school and higher education, 4.585 are highly qualified, qualified and semi-qualified workers and 6.217 are non-qualified workers. Among the registered unemployed, 2.668 persons are without primary education.

According to age differentiation, 6.811 persons were under 30 years old, 4.090 between 30 and 40, 2.810 persons were between 40 and 50 years old and 1.549 were older than 50. Among the unemployed, 236 people were registered for the first time. According to their place of residence, 11.071 people are from the town and 4.189 within 15 km distance range.

According to the criteria and standards of the Government's decision passed in accordance with the Program for protection of the socially endangered population, in the period 1992-2000 the average annual number of families regularly receiving public welfare was 2700⁴. Most of the beneficiaries are unemployed persons (more than 2000 on average), and the rest of them belong to the category of employed, bankruptcy workers, retired persons etc. This fact points that Veles belongs to the municipalities having a large number of economically unsecured families.

⁴ The datum regards the old territorial division of Veles municipality

Poverty reveals the other side of the social misery. Many families became disorganized and lost their basic functions. The number of divorces increases by the day. Many young people avoid marriage because they lack basic living conditions. The birth rate is dropping; young people leave the municipality and go to live abroad and the number of older people, who are at the margins of the society, increases. On the other hand, the number of cases of juvenile delinquency, drug and alcohol addiction and prostitution is on the increase. These occurrences serve as an indicator of unfavorable social movements that point out something is not functioning.

The citizens of the municipality do not have significant influence on the state system of measures of the social policy. However, the measures and forms of protection should be created in the place where the problems occur, for they are specific for each region.

2.2.2 Social Security

For achieving a more successful social security, actions are needed for creating of constant economic growth and sustainable development, reduction of the poverty, decrease of the productive employment and increase of the unemployment. Improvement of the positive relations between the local community and the economic and social policy is of fundamental importance for achieving a long-term success. The social security demands fulfilment of all human rights and privileges, access to better education, health protection and other basic public services, as well as development of harmonic relationships within the local community.

The non-violence and solidarity, as well as the citizens' ability to participate in the social, cultural, economic and political life, is a prerequisite for providing the necessary social security. It also demands a healthy economic environment, as well as cherishing the cult of respecting the freedom, rights and responsibilities of all citizens.

Strengthening of the local organizations and non-profit non-government organizations for acting in the fields of education, public health, social integration, human rights and improvement of the quality of living, will simultaneously enable them for participation in the process of creation and implementation of the policy for providing citizens' social security.

In addition, the role of the local community in co-operation with the organizations should be directed to: environmental protection; support and inclusion of family organizations in the activities of the local community; carrying out a policy for expansion of the possibilities for employment and improvement of productivity; establishment of educational priorities and effective investment in the education and training systems; promotion of the public awareness about the necessity of participation of handicapped people in the labor market; encouraging of social and economic policy that will provide satisfaction of the needs of the socially endangered families and care for the children, old and fatigue people.

2.2.3 Social Institutions

The social services in Veles municipality are carried out by the *Social Works Center*, which at the same time plays the role of a *Guardianship Body*. Through it the citizens accomplish their rights in the field of social protection: receive a public welfare, a nursing welfare, expert help in managing the family relations, care of children without parents and similar. This institution monitors, analyses and prevents social occurrences in the municipality, carries out social activities at local level and takes care of all risky and vulnerable groups of citizens. The annual average number of families receiving a public welfare from this center is 2.700.

The Red Cross, as a humanitarian organization, plays a significant role in the care of individuals or group of citizens. It carries out activities for gathering help for the socially endangered population and notes, follows and points to certain unfavorable conditions, and in co-operation with the *Social Works Center* it participates in appropriate social activities. Particular important is its role in carrying out local activities for blood donation. These two social institutions are often included in projects of various non-government, humanitarian organization in the town.

In Veles there is a *Center for support of the non-government organizations*, which provides space and technical conditions for their activities. In the past period the non-government organizations have realized several activities, whose primary goal was improvement of the quality of living. Through them, the citizens of Veles have stated their discontent about the excessive pollution of the environment by heavy metals and hazardous gases and have spoken publicly about the consequences upon the human health, especially of children. These organizations have also helped persons who are victims of family violence, and have carried out a project for making literate the illiterates in the municipality.

2.2.4 Educational institutions

The educational scheme satisfies the needs of the population in Veles municipality. In the town there are 7 primary schools (one with whole-day stay), 4 high schools and one school for education of children with light mental deficiency. Bigger rural settlements in the municipality, such as Chashka, Bogomila, Gradsko, Izvor, Melnica, Buzalkovo, Ivankovci, Gomo Orizari and Gorno Jabolchishte have primary schools, and the smaller settlements only four grades of primary school. In addition, educational institutions cover the whole municipal territory. In Chashka and Bogomila there are boarding schools for the pupils from other villages, and in the town there is a boarding schools for high-school students. In the town there is a Worker's University for education, trade learning and foreign languages, as well as elementary music school.

The educational system in the town was adapted to the needs of the local economy, whereby staff for the big local industrial capacities was educated. However, the present economic structure of the municipality has been changed, so that there are a lot of redundant workers, decreased scope of production or structural changes in the production. Those data point to an indispensable reform of the municipal educational system.

The schools in the town and in other settlements, with certain exceptions, are not equipped with modern equipment, but they satisfy the basic criteria for carrying out the educational process.

In Veles there is a primary school for children with light and moderate mental deficiency. In its frameworks there are several rooms for boarding accommodation of pupils from the municipality and other municipalities from Central Macedonia.

2.2.5 Informational Institutions

On the territory of Veles municipality there is a local radio station "Veles" and a large number of local private radio stations. In contrast to the radio stations, the local private TV stations were short-lived, so that today there is only one TV station, which for a longer period of time informs the citizens on all activities in the municipality and wider. The magazine "Vardarski glas" is also published in the town.

2.2.7 Health Maintenance

The health maintenance in the municipality is carried out by the Medical Center, which consists of several outpatient departments in the town and the rural settlements, and a hospital with almost all specialist services. In the town there is a huge number of private general and specialist practitioners and pharmacies, which cover the urban population's needs for health maintenance.

The Veles Institute of Public Health, as a public health institution, performs every-day measurements of some elements that pollute the air (sulphur dioxide and solid particles in the air, air sediments etc.). The institute is still technically insufficiently equipped to make precise evaluation of the consequences upon the health of people living in the most polluted regions of the town and the close surrounding.

2.3 Infrastructure as an Important Development Factor

2.3.1 Traffic Infrastructure

Veles municipality is located in the central part of Macedonia. It presents an important crossroads where the most important traffic and railroad communications linking Europe with Near East and North Africa meet. Therefore, the traffic infrastructure is assessed as a factor of vital importance for the long-term development of the municipality.

In the municipality the road traffic is represented by main, regional and local roads. The town of Veles and the municipality in whole are connected with the state and international road network through the main roads of international and national importance Tabanovce-Skopje-Veles-Gevgelija and Delchevo-Shtip-Veles-Gradsko-Prilep-Bitola-Medzitlija (alternatively Bitola-Struga-Kafasan). The local road network (in length of 65,5 km) includes almost all rural settlements, but still does not provide a safe traffic in all regions of the municipality.

The railroad traffic belongs to the railway system of Republic of Macedonia. Several railroads go through the municipality: major railroad Tabanovce-Skopje-Veles-Gevgelija, and the railroad tracks Veles-Prilep-Bitola and Veles-Shtip-Kochani.

2.3.2 Energy Infrastructure

In Veles municipality electricity is main source of energy. On the municipal territory there is no plant for power production so that the needs are satisfied through the national electric power system of Macedonia.

The main power distributive network consists of long-distance power lines and transformer of 35 and 10 KV linked to the long-distance power line Skopje -Veles-Kavadarci. For conversion of 110 KV down to lower voltages the main transformer station TS 110/35/10 KV in Veles is used.

The local distribution system with an available distribution network of 423 km provides a high-quality power supply. All the rural settlements in the municipality are electrified. The annual consumption of electricity in the municipality is 128.200 MWh, while the specific annual consumption per capita is approximately 980 kWh.

Telecommunication links of the municipality with the other regions in Macedonia and foreign countries are good. Veles disposes of a modern post office, which performs all postal, telephone and other links. The present telephone network includes 19 settlements (55% of the inhabited places) and the town of Veles with a density of 25,5 connections per 100 inhabitants. Lately, there has been an increase in the number of mobile phones subscribers and Internet users.

2.3.3 Water Supply and Water Resources

Up to the beginning of the last decade the water supply of Veles was exclusively based on usage of wells installed on the right side of the river Vardar, upstream the town. The basic system is dimensioned on a capacity of 420 l/s, out of which 300 l/s by seizing of surface waters and 120 l/s ground waters.

Nowadays, the town, with an exception in the summer period, is supplied with drinking water from the hydro-system under construction "Lisiche", through a direct temporary water-seizure at the river Topolka. For the time being, the main pipeline from the water-seizure to the new cleaning station, as well as the first stage of the cleaning station with an installed capacity of 300 l/s, have been exploited.

The town water supply distributive network with length of 80,5 km is outdated and causes huge losses of water, which, together with the watering and cleaning water, amounts to approximately 29%. The local industry is supplied with water from the town's water supply system.

The water quality is controlled from physical-chemical and bacteriological pollution. The applied preventive treatment with chlorine often provokes occurrence of too high presence of residual chlorine ions, as well as unpleasant taste and unnatural colouring of the water due to the reaction of chlorine with the present manganese ions.

The water supply systems in the rural areas are not satisfactory. There are cases of periodical bacteriological pollution registered at some of the water supply sources, which is a great risk for the people's health.

For resolving the water supply problems, the hydro-system "Lisiche" is in phase of construction. It is a complex system intended for: (a) water supply of the town and eight rural settlements; (b) irrigation of 4.100 ha arable land; (c) revitalization of Lake Mladost and indirectly through the lake additional irrigation of 1.800 ha vine and other nursery plantations; (d) providing minimal biological flow of the river Topolka during the summer period. The capacity of "Lisiche" accumulation amounts to 23.000.000 m³ at annual average flow of Topolka and Vranovska Reka of approximately 45.000.000 m³ of water.

2.3.4 Communal Infrastructure

In the town the drainage of the communal waste waters from the households and other consumers is done together with the atmospheric waters through the existing sewerage network. The industrial wastewaters are directly released in the river Vardar without prior cleaning.

In preparation phase of realization is the project for reconstruction and completion of the town sewerage system, as well as construction of the cleaning station for the communal wastewaters.

The rural settlements, except Bashino Selo, Dolno Karaslari and partially the settlement Prevalec, do not dispose of sewerage systems. Construction of sewerage systems and autonomous cleaning stations for the communal wastewaters are planned for some of them.

Collection of the communal solid and other type of waste in the town is done collectively and individually. The solid waste landfill is located near the town and does not satisfy the sanitary-technical conditions of exploitation.

In the rural areas there is no collective waste collection, so that near the rural settlements there are several wild dumps that seriously degrade the environmental quality and endanger the health of the local population.

2.3.5 Urban Space Arrangement

According to the complexity of natural and created values, for many things Veles is a specific town. Therefore, it needs a specific approach in the landscape planning and space arrangement.

Of all the space planning and urbanism documentation for Veles municipality, only the Physical Plan of Veles municipality and the General Urban Plan of Veles have been elaborated⁵. According to the space planning documentation, the town of Veles is an important component of the urban system of Republic of Macedonia and a traffic center of regional importance. Within the framework of this documentation the main purpose of the space and its organization has been established.

The General Urban Plan of Veles elaborates the influence of the near encirclement on the town's development (infrastructure systems, potential area for spreading the town's functions etc.), but the issues related to the overall quality of living and the condition of the regions in Veles Valley are not separately analysed. The clash that appears between the planned levels municipality-town, with regard to the elaboration of the relevant space-planned elements and determinations for the way of utilization and arrangement of the space, is very obvious, above all in the quality of environmental

⁵ Physical Plan of Veles municipality, Skopje, Institute of physical planning- Ohrid, 1982; General Urban Plan of Veles, Changes and supplements, Skopje, Institute of Urbanism of the Republic of Macedonia - Skopje, 1982.

conditions. This fact is very important for providing quality of living and space arrangement in the town and its vicinity, for the Valley of Veles is a geographic entirety with several important man-made values in conditions when in this area there is a big interest for development of infrastructure systems for expansion of the town settlements and location of new economic capacities.

It should be emphasized that the area quality of the town and its encirclement is substantially violated, for a relatively big area (over 22% of the town area) is engaged for the industry and tertiary services. In addition, this area is not recognized as an organized zone, arranged as an entirety and embed into the general landscape.

44% of the total area of Veles is engaged for housing, mostly for individual objects with an average density of 170 inhabitants per hectare. In addition, a high percentage of substandard housing fund, illegal construction and lack of free space in the resident areas is also noted.

The greenery covers very small areas in conditions of substantial shortage of terrains for physical and mental recreation, which are particularly important for urban areas with polluted environment.

The advantages resulting from the presence of the river Vardar are not properly used, for the riverbanks are not landscaped and arranged, and at some points they are completely neglected.

Veles is famous of its old town, wherein important historical, cultural and architectural values are located. This entirety is also insufficiently landscaped and arranged. The evaluation is similar and for the Memorial Charnel House, which is not properly connected to the rest of the urban structures.

On the base of the above mentioned it could be concluded that the solutions offered by the General Urban Plan of Veles for arrangement of the areas, utilization and purpose of the physical space and improvement of the quality of living, are not sufficiently and adequately elaborated. Therefore, it is assessed that its supplementation is indispensable, especially in the part of functional organization of the space, as an important element for defining the basic assumptions for the future local development. For this purpose, analysis of the space distribution of the settlements, traffic connection and the built traffic and other infrastructure, as well as the natural limitations that impact the space planning and arrangement is necessary to be done.

With regard to the limitation factors, particular attention should be paid to elaboration of solutions that reduce or eliminate the problems related to the inadequate basic town traffic infrastructure (not adapted to the terrain structure), the barriers formed by the industrial zones on the northwest and southeast side of the town, etc.

STUDY OF LOCAL ECONOMIC DEVELOPMENT OF VELES MUNICIPALITY

PART II

**DETAILED ANALYSIS OF THE CONDITIONS AND POSSIBILITIES FOR
FUTURE ECONOMIC DEVELOPMENT OF VELES MUNICIPALITY**

INTRODUCTION

In the early period of the realization of this study, all activities were directed towards field research of the local economy conditions and social status of the population in the municipality. This research was planned to provide beginning point of information, which will later be used for establishing comparative advantages and to detect limitation factors related to the available natural resources, human resources, manufacturing and infrastructure objects and systems, with purpose of successful constructing and conducting strategy of the future economic and social development of the municipality.

The starting point was to see the opportunities, which offer exit from the poverty of the socially most neglected part of the population. The later success of the project can be judged by the practical implementation of the recommendations given in the study. All acknowledgements point to the fact that the achievements of the social and economic goals in the development will mainly depend on the participation of the local government in the dynamic process of implementation of the strategy and the development plan.

Research Methodology

In accomplishing strategic planning, as a process for identifying goals and opportunities, as well as the means to accomplish them, special accent in field researches was put on the opportunities for:

- encouraging new businesses and development of entrepreneurship and cooperation in the small economy with giving priority to the comparative advantages of the municipality, which enable economic relating of all subjects on its territory;
- encouraging the entrepreneurs by strengthening the local opportunities for new employments, as an important step for great success on economic and social plan;
- renewing and encouraging the development of the existing industry through retaining the activities of the existing companies and improving their production and market efficiency;
- improvement of the local infrastructure; and
- institutional development of the local government and local development institutions, as carriers of the economic development in the municipality.

The successful conduct of the goals set, and their faster achievement, in the first month of the realization of the study, a process was started for involving the local public, by determining the relevant participants, economic subjects, associations, non-government organizations, groups and individuals that could be interested in the project. Depending on the role, these target groups were directly contacted by the researchers and local consultants, when by means of anonymous survey and appropriate questionnaires they received opinions and suggestions in writing on essential issues about the economic status of the economy, social condition of the population as well as the quality of life and the environmental condition in the municipality.

With purpose the people involved to be informed about the project and its possible influence on their lives, as well as the need of perceiving the current situation on the spot, meetings were held with representatives of economic subjects, associations and non-government organizations, while making the study. Also, production enterprises and local communities were visited.

The meetings held are thought to be especially useful in terms for citizens to express their concerns related to the local social, economic and ecological problems, to present advantages and weaknesses of the economic organizations and institutions of crucial importance, and suggesting alternative for solving problems where necessary.

Before and in the phase of preparing the strategy of local economic development, by the studywriters, local consultants and local government, all opinions were taken into consideration. Also, some ideas and suggestions by the interested target groups were built into *The Plan for Integral Development of Veles Municipality*.

Field Research Results

One can conclude from the visits and discussions led in the industrial capacities that long local tradition and available educated workforce are comparative advantage of this economic activity, while key limitation factors for industry development were evaluated: (a) unfinished process of ownership transformation, (b) over-employment, (c) outdated technology and equipment, (d) limited absorbing opportunities of the home market, (e) non-existence of the working capital, (f) inadequate banking conditions for production crediting, and (g) slow judicial system which solves the cases in long terms.

The representatives from the small economy sector pointed out that greatest problems in operation of the companies are the result of the unstable political and security situation in the region and unsuitable business climate and ambience. The problems of the entrepreneurs in Veles are due to rigid banking system in terms of support of the entrepreneurship, lack of instruments for financial support and institutions for help and support of small economy and its affirmation, high tax and contribution burden, lack of training educational institutions, administrative and bureaucratic barriers in the registration and management process of the small economy, etc.

As part of the field research, several rural areas were visited, where as main problems were pointed: unresolved collection and disposal of the communal waste, non-existence of sewerage systems, problems with irrigation of the cultivated areas, non-existence of dental practice, irregular presence of a GP doctor, etc.

Although with huge difficulties and delay, as a successful segment of field researches, one has judged the performed survey to the target structures of the local community, representatives of the more important economic subjects in the municipality, communities from the rural areas, NGO's, expert and other associations.

A

DEVELOPMENT OF INDUSTRY

Introduction

The industry still presents leading economic activity in Veles municipality. It is characterized by an involved horizontal structure, which consists of 15 more significant enterprises distributed in nine different economic branches. The industry, although by its character insufficiently propulsive and accumulative, and in most cases uncomplementary to the other economic activities in the municipality, still in the past continuously provided a higher level of economic development compared to the industry of Republic of Macedonia.

In the existing industry prevails metallurgy with a participation in the GDP of municipal economy constantly higher than 50%. However, the agrarian complex, ceramic and porcelain industry, industry of building materials, textile and leather industry, as well as tobacco industry, have significant influence on the economic and social condition of the municipality.

The existing development of the industry provided employment for 9.927 workers in 1990, or 48,8% of the employed workforce in the municipality. In the group of positive results of industrial development, we may include the growth of the active fixed assets, which is closely connected to the growth of technical equipment and building of a relatively good infrastructure in the town. From the point of territory, the industrial enterprises are located mainly in the municipal center. This means that territorial imbalance is a characteristic of Veles industry.

The favourable development tendency up to nineties of the last century, in the last decade resulted in great decrease in the industrial production, so that a large number of local enterprises have been working with a loss for a longer period of time. The unfavorable present situation in industry influences different domains of human living, especially the unemployment, social infrastructure and quality of life of the population. Because of the decreased economic activity in the last decade, the percentage of households living on a poverty line has increased.

As limitation factors for overcoming the problems that these enterprises face in their work nowadays and for attaining revival of the industrial development are assessed: unsolved ownership restructuring and organizational and managerial transformation in most of the enterprises, lack of working capital, limited home market, high taxes etc. Other limitation factors are: high degree of insolvency of the Macedonian industry, insufficient financial and institutional support of the companies, lack of strategic investors with export oriented programs, absence of horizontal and vertical connection of the companies in the municipality, non-existence of modern labour-intensive branches, etc.

Due to the impossibility for achieving satisfactory environmental protection from the detrimental influence of the industry, the urban and physical solutions for location of the municipal industry are also assessed as a limitation development factor. The group of limitation factors of industrial development on macro level is supplemented by the loss of the former Yugoslav market, according to which the development of most local enterprises was created, the small interest in foreign capital inflow due to the unfavorable political condition in the region of Former Yugoslavia, as well as the underdeveloped local net of institutions and agencies for support and help of the local industrial development.

A.1 Basic Characteristics of the Previous Development

A.1.1 Characteristics of the Previous Industrial Development

The previous industrial development had a significant contribution to the economic development of Veles municipality. It was manifested through increase in the employment, constant growth of the national product, improvement of the standard of living, fast development of the services, significant expansion of the communal and social infrastructure, etc.

Until the beginning of the seventies bearers of the local economic development were the labor-intensive industrial capacities in textile, non-metal, tobacco, metalworking, leather and food-processing industry. Up to the beginning of the nineties, new capacities were built in the food-processing, textile, non-metal and chemical industry, as well as in metallurgy. At the same time, the existing production capacities and their production assortments were expanded.

Building of the Zinc and Lead Smelter "Zletovo" in the first half of the seventies of the last century caused significant changes in the industrial structure, which transformed itself from labor-intensive into basic and capital-intensive industry. In such a way, metallurgy became the main driving force of the local economic growth, with constant participation in the GDP of industry higher than 50%.

The development growth of Industry of Veles could be seen from the data taken from the *Physical Plan of Veles Municipality*, presented in table 15.

Tabela 15: Basic funds, national product and employment in the industry of Veles municipality (projected values for 1985 and the following years) - (amount in millions of denars; growth rate in %)

| Year | Basic Funds | | National product | | Employment | |
|------|-------------|-------------|------------------|-------------|------------------|-------------|
| | Amount | Growth rate | Amount | Growth rate | No. of employees | Growth rate |
| 1976 | 2.201 | - | 739 | - | 6.720 | - |
| 1980 | 2.325 | 1,4 | 937 | 6,1 | 7.780 | 3,7 |
| 1985 | 4.210 | 7,5 | 1.805 | 10,4 | 11.690 | 6,3 |
| 1990 | 8.376 | 10,0 | 3.406 | 11,6 | 18.320 | 7,4 |
| 1995 | 9.516 | 8,0 | 4.145 | 9,5 | 19.650 | 5,8 |

Source: Physical Plan of Veles Municipality, 1982

Comment: The growth of basic funds points to a huge expansion of the industrial material base. The data analysis points to the preferred model of capital-intensive development of the local industry and its absorption power to accept the biggest part of the local working-capable population. Projected values in the table were not realized, which is to be expected, for the changes in the political and economic sphere that happened after 1990 were not presumed.

The analysis of data available points to the conclusion that the available workforce and local mineral resources had the greatest influence in the process of forming the industrial enterprises in Veles municipality. Contrary to this, the domestic capital and technology, as well as other development factors, had a very small or no influence in the process of forming the existing industrial enterprises. The fact that significant part of the enterprises was formed in the labor-intensive industrial branches, the low level of self-financing and the low technological level in some of the enterprises can confirm the above-mentioned conclusion.

The changes in the seventies and in the first half of the eighties of the last century, although significantly improved the capability of local industry to present a basic collector of working-capable population, did not substantially improved its accumulative and reproduction ability, which was further on inadequate to the size of invested means. This conclusion can be confirmed by the data given in the following table.

Table 16: Participation of industry in the economy of Veles

| Comparative indicator | 1966 | 1976 | 1980 |
|-----------------------|------|------|------|
| Basic funds | 42,5 | 66,1 | 60,9 |
| National product | 49,1 | 49,5 | 46,8 |
| Employees | 46,3 | 50,9 | 48,1 |

Source: State Bureau of Statistics

Comment: Data presented point that the intensive investment in the industrial development was not accompanied by an adequate participation of industry in the increase of national product and employment in the local economy.

The above conclusion is confirmed and by comparison of analogous indicators of the municipality and wider community for the decade when the biggest industrial growth of Veles municipality has been recorded. In this case, the share of local industry in the national industry in 1980, compared to 1966 increased in basic funds from 4,3 to 5,6% in conditions of parallel decrease of the national product from 5,9 to 5,7% and of employment from 5,8 to 5,2%.

The fast industrial growth in most of the industrial branches was based on purchase of raw materials from other regions from the country and abroad, except in the tobacco and wine industry, and partially in non-metal and building materials industry. In addition, the industry of Veles municipality achieved its optimal development in 1990, when the industrial enterprises employed 9.927 persons, or 58% of the total number of employed in the municipality. In such conditions the industrial workers provided salaries for the biggest part of the local population. These favourable trends disappeared in the past 10-years transitional period, when a lot of social, economic and ecological occurrences appeared as a result of the loss of markets in Former Yugoslavia and Eastern Europe.

The problems are particularly expressive due to series of weaknesses of the local industry. As the most unfavorable feature, apart from the limited domestic market, which dictates export orientation at any price on lon system of by classic export, is the outstanding import dependence for purchase of raw materials, semi-finished products, equipment and technologies. This is particularly present in metallurgy, chemical, textile and leather industry.

It is concluded that some of the capacities in the existing industrial branches do not operate, and those who do, record an insufficient level of utilization of the installed capacities lower than 50%. In addition, the fixed assets are highly depreciated, outdated technologies prevail and there is a redundant workforce in most of the economic capacities.

The mutual market and production disconnection of the local capacities, and their disconnection with relative enterprises in Skopje, which is the biggest production and consumer center in Republic of Macedonia, is another weakness of the local industry.

The non-existence of industrial zone, which conditioned dispersion of the industrial capacities in several regions of the town, is also a weakness. From aspect of territorial distribution, only few of the existing capacities are located in the rural areas. This means that the municipality is characterized by unbalanced territorial distribution of the industrial capacities, which is an unfavorable solution from aspect of satisfactory environmental protection.

The present unfavorable results are present in different domains of the human living, especially in the social infrastructure and improvement of the quality of living. The number of employed persons in year 2000 amounted to 7.400 and compared to year 1990 decreased by 25%. The industrial workers in year 2000 participated in the total number of employed in the municipality 48,6%, which is 10% less than their participation one decade ago. The condition is even more unfavorable for the biggest part of the redundant workforce belongs to the local industry.

According to the surveys and interviews with the management of the larger industrial enterprises in the municipality, large number of problems were being pointed out, that these enterprises face in their work nowadays. Out of them, as more significant are: unsolved ownership restructuring, outdated technique and technology, unfair competition (especially in textile, non-metal and food-processing industry), lack of working capital, lack of strategic investors with export oriented programs, high transport costs of raw materials, semi-finished products and products, lack of modern labor-intensive branches and heavy environmental pollution.

All above-mentioned problems are a serious obstacle for improving the economic condition of the local industry. Therefore, while planning the future industrial development, all possible solutions and suggestions for reduction or overcoming of the previously mentioned problems have to be considered.

Underdeveloped local net of institutions and agencies to support and help the functioning of the industrial enterprises is typical for the Veles municipality. They need such help, especially the small, new-formed industrial enterprises that sell their products in foreign markets. Today, local government has small or insignificant impact on the industrial development of the municipality. It is a result of the small influence the local government has in our society system, as well as its weak financial independence. Improvements in this sphere are expected by the forthcoming changes of the Law on local government and the new Law on financing of the local government units.

A.1.2 Industrial Development Factors

Available Workforce

According to the performed field research of the conditions of the existing industrial enterprises as well as usage of the documentation of the local government, statistics etc., it can be concluded that the previous development of Veles municipality was primary based on the factor of the available workforce. As a result of the orientation for using this available factor, the number of employed grew, education and qualification structure of the employees has been improved etc.

Local Natural Resources

The previous development of local industry was based on usage of local natural resources. On the basis of those resources the existing enterprises for production of ceramic tiles, porcelain and other non-metal products, production of cooking oil, production of silk textures, tobacco processing, production of food products etc., were formed.

In addition, the level of usage of local natural resources is not satisfactory due to decrease of the local primary production of some cultures (cotton, silkworm, sunflower etc.). Therefore, the trend of usage of import raw materials, mainly on the basis of lon system, has become a practice, especially in local textile, leather and chemical industry and in metallurgy.

Capital

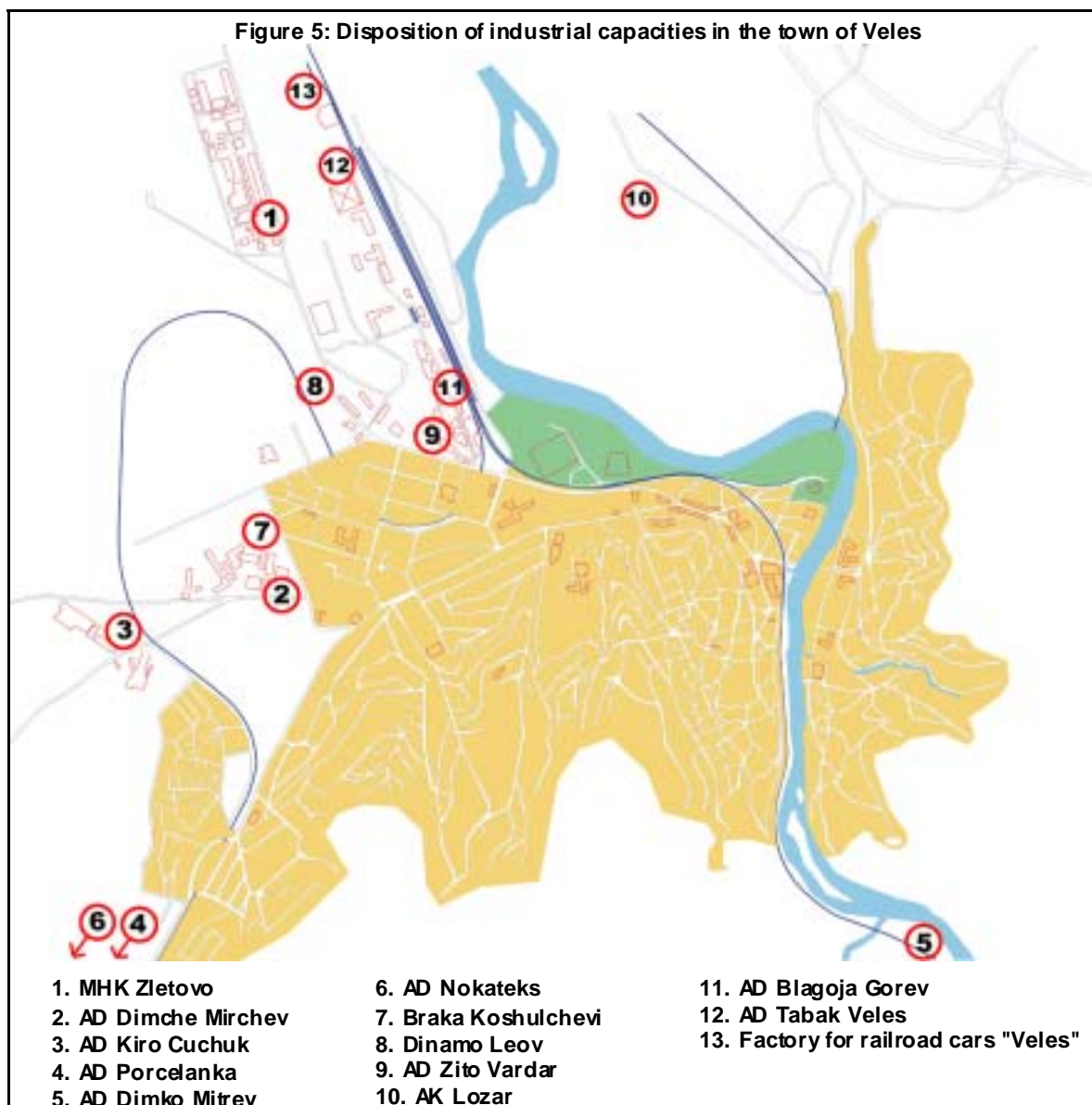
The capital as a production factor in Veles municipality emerges in the role of a missing factor. Because of that, larger number of industrial enterprises relies their development on using other financial means, either on loans from the state or abroad or on the basis of lon system. For the limitation of this factor, testifies the acknowledgement that a large number of the existing companies face the problems of debts, insolvency, lack of finance for technological modernization and other. It means that the percentage of self-financing in the local industrial development is very low.

Economic and Municipal Infrastructure

The existing road, sewerage, water supply and power network has supported previous industrial development of Veles municipality. The above conclusion includes the municipal center, but does not include the biggest part of rural settlements, which are characterized by insufficiently built economic and municipal infrastructure.

Town Planning and Area Opportunities for Industry Development

In accordance with the existing town-planning documentation, establishment of an organized industrial zone has not been planned yet. The existing industrial capacities are located in the northwest and southeast part of the town. Such a dispersion of the industrial capacities has a negative influence on the town-planning and environmental protection. The main industrial capacities are located as shown on figure 5.



Other Developmental Factors

The orientation toward market economy, persistence in adjusting the taxes to the systems of the countries with developed market economy, rise and development of the private sector, central and local government support to the industrial development, have had positive influence on the industry development in the municipality. This has positive impact on the origin and function of the newly formed private enterprises.

Limiting Factors of the Industry Development

Except the positive factors affection, there are several factors that limit the industrial development in the municipality, such as: the loss of the former Yugoslav market by which many enterprises were dimensioned; little interest of the foreign investors due to the current political situation in former Yugoslavia and wider on the Balkans; unfinished processes of ownership; organizational and management transformation; and the outstanding over employment in bigger industrial capacities.

Other limitation factors of the local industrial development are the expressive lack of working capital; low level of utilization of the installed capacities; insufficient efficiency in usage of raw materials, materials and energents; significant increase in the prices of energents in the last few years; underdeveloped local network of institutions and support agencies for local industrial development and creation of favourable business climate; huge environmental pollution etc.

A.2 Opportunities and Recommendations for Further Industrial Development

The further development of industry of Republic of Macedonia will be carried out in direction of (a) production increase through further qualitative and structural changes, (b) faster development of technology intensive areas, (c) production expansion of certain deficit raw materials, (d) production based on local comparative advantages, (e) production increase in food industry, (f) further modernization of the existing and construction of new capacities etc.

Having in mind the previous development determinations, the production structure and the level of finalization of products in the municipality, the further industrial development in this area should be directed toward implementation of the following goals: (1) further implementation of property, organizational and management restructuring of the industry; (2) introduction of a modern technique and technology with an active participation in the modern flows of industrialization; (3) further modernization, expansion and restructuring of production based on usage of own material and immaterial factors; (4) connection of the industrial enterprises to larger enterprises in the country and abroad; (5) more balanced industrial development of the municipality; (6) establishing of small and medium enterprises and construction of new objects that will enable substitution of imported products, raw materials and semi-finished products, expansion of the assortment of products and increased employment; (7) larger export production and production restructuring through introducing more profitable assortments, as a base for achieving stable and continuous development; (8) establishment of local institutions for support of the industrial development.

The opportunities for introducing some new industrial branches, such as pharmaceutical industry, glassware industry and primary processing of non-ferrous metals, have to be considered as priorities of the further local industrial development.

The further development of industry of Veles municipality will be influenced by numerous economic and non-economic factors. It will mainly depend on stopping of the unfavourable military and political impact on the economy of the country and starting of a new investment and development cycle.

In conditions of a long-standing economic stagnation of the country and domination of the non-economic over the economic elements, the idea of revitalization and development of industry of Veles is not a lofty one. On the other hand, deeply in the human nature is to search for better tomorrow. Therefore, acquaintance of the opportunities and directions for accomplishing further industrial development of Veles municipality has been made. It relies on the analysis of the so far development and present situation in the industry, as well as on the experience acquired in the developed industrial countries. The accomplishment of the envisaged long-term model of industrial development (2000- 2020) is predicted at a rate of GDP growth of 6,5% and a rate of employment growth of 3,0%.

The assessed opportunities and recommendations for the further industrial development are related to the following issues: (a) ownership, organizational and management restructuring; (b) technological revitalization; (c) substitution of imported raw materials and semi-finished products; (d) connection of the industrial enterprises to larger enterprises; (e) establishing new small and medium enterprises; (f) balanced industrial development of the municipality; (g) increase of industrial export.

Out of them, the most significant are the opportunities for carrying out technological revitalization and increase of the industrial export, as well as carrying out ownership, organizational and management restructuring of the industrial capacities. Therefore, these issues were particularly elaborated.

A.2.1 Ownership, Organizational and Management Restructuring

One of the main conditions for revitalizing the existing larger industrial capacities in the municipality is finishing the ownership, organizational and management restructuring. With regard to the ownership transformation, today there is a big variety: some of the enterprises are completely private, others are in a process of restructuring and the rest of them have not started the process of restructuring yet. In front of the second and third group there are serious efforts in terms of finding a dominant owner and a strategic investor.

Each of the existing enterprises is in specific position with regard to the ownership restructuring. To intensify the already started processes, engagement of managerial teams within the enterprises and of appropriate bodies and institutions at local government and state level is indispensable. Some of the industrial enterprises should prepare separate analysis of their condition and perspectives for further development, which should also consider the process of ownership restructuring.

Apart from the ownership restructuring, serious efforts should be put in realizing the processes of organizational and management restructuring. It should be done in direction of modernizing the work organization, expansion of the knowledge in the area of management, stock exchange, entrepreneurship and other. However, those steps have to be done after establishing a dominant owner of the enterprise.

A.2.2. Technological Revitalization and Modernization of Production Programs

The successful operation of industrial capacities in market economy conditions depends on competitive ability of the company, which is mainly a result of the competitiveness of its products on the market. It is evident that according to these terms, the competitiveness of the industrial products from Veles municipality is unsatisfactory. The principal reasons for this condition are the lack of market orientation, insufficient technological level and the low productivity.

The overcoming of these problems can be achieved by a technological revitalization.⁶ The modernization of the production programs according to market demands is closely related to the technological revitalization. In this context, one should reexamine the existing production programs and correct them in terms of improvement of the quality and expansion of the product range. The existing large industrial enterprises in Veles, after completing the process of property transformation and acknowledge a dominant owner, should proceed to technological revitalization, i.e. modernization.

The criteria according to which it will be determined whether an industrial capacity should undergo technological revitalization are the following: (1) critical mass, i.e. size of the industrial capacity; (2) existing economic efficiency; (3) competitive ability; (4) export orientation; (5) degree of outdatedness of the equipment and technology; (6) extent of employment and labor productivity; (7) need of labor humanization; (9) impact of the capacity on the economic development of the town, municipality and wider.

Adapting the production capacity to the local economic and social conditions should carry out the technological revitalization. The question remains whether only technological revitalization, and how much can it in the present conditions contribute to the improvement of the economic conditions for a certain enterprise and elevate its technological level, or a complete change of the basic technology is needed.

In the event of more dynamic changes of the market, technology and social factors, *the product* remains the most efficient instrument by which an economic subject adjusts to changes and provides for its own development.

⁶ Production technologies are ranked as modern usable and outdated. Their function is performed on technological lines (they encompass a number of linked machines) by which, within a production process, a transformation of input materials into product is performed.

In order for the products to have such a role in the development, the processes of modernization of the existing and introduction of new technologies should run in the same time, along with the implementation of the modern marketing concept. It is only this way that an economic subject can create its own production and technology program, rational in accordance with market demands so that it will be able to endure the competition on the market and create a basis for development.

By a technological revitalization one provides a more efficient use of raw materials and energy, better use of installed capacity, achieves a higher level of protection of the labor and living environment, better organization of the process of management, etc.⁷ Hence, conducting a revitalization (modernization) of the existing technologies should encompass:

1. Continuous and long-term planned and based work towards *improving products and production programs* with an aim of increasing their competitiveness on the market through achieving a lower consumption of materials and energy, lower engagement of the workforce, higher quality and sustainability of the product and greater product flexibility.
2. *Improvement of the production flow* with an aim to increase the total effects in the phases of (a) building autonomous type production structures with a minimum complexity degree thus shortening the time of the production cycle; (b) use of group activities on all operational levels of the system with an aim of preparation and finalization task time; (c) automatization of the process of preparation, projection, control and regulation in order to increase the effectiveness of the indirect labor;
3. *Improvement of the organizational structures of the work systems* in order to establish foundations of optimal management of the production process in real time through the use of principles of—(a) optimization and increase of the degree definiteness of the relations of the elements of a structure; (b) building of a functional work structure; (c) implementation of an appropriate information system and application of a higher degree IT technology; (d) optimization of the process of decision making and managing the work systems; (e) improvement of the system of labor stimulation and release of potential of the participants in the labor process and (f) provision of the projected working conditions;
4. *Improvement of the management approach* with an aim of achieving greater efficiency of the work system, better financial effects and maintaining the working parameters of the system within the projected limits through—(a) implementation of a modular management system; (b) objectivization of the agents (factors), processes and links; (c) introduction of databases of good quality; (d) minimizing the timeframe of the operation plan; (e) creation of conditions for 100% plan realization; (f) control over physical expenses; (g) real-time management systems development; (h) avoiding side effects and increase in the degree of indetermination (entropy) of the system.

In order to realize a process of revitalization of the existing technology, it is recommended that one carries out a complex system of measures which includes:

- carrying out a research in the domain of industrial engineering, improvement of the technological, work organization and management processes thus increasing the degree of competitiveness of the products on the market;
- constant education of specialists in the field of improvement of products and production processes;
- provision of a strict control of the investments from a technical and technological, economic and financial aspect;
- enabling the business structures to successfully analyze the production processes and creation of revitalization procedures, etc.;

⁷ D. Zelenovic, Possibilities of revitalization of traditional existing technologies, Institute of Industrial Systems, Novi Sad 1987

A.2.3 Substitution of Imported Raw Materials and Semi-finished products

As mentioned above, a characteristic of the municipal industry is the high degree of usage of imported raw materials and semi-finished products by the local enterprises. It is certain that raw materials and semi-finished products will be imported in the future, for neither the municipality nor the Republic of Macedonia as a whole, possesses sufficient amounts or does not possess at all some of the necessary raw materials used by the local industrial capacities (zinc concentrates, phosphates, kaolin, cotton, silk etc).

Therefore, in the future period it is recommended that all opportunities for overcoming this problem are perceived. It should be done in direction of greater support of production of mineral raw materials (lead concentrates), support of primary agricultural production (cotton, silk, flax and hemp), substitution of some imported raw materials and energents through changes in the structure of the existing product assortments, introduction of new technologies in the metallurgy (the new technologies for lead production correspond to the domestic base of raw materials and use coal instead of the expensive and imported coke)⁸, production of some imported semi-manufactured products necessary for the local metal-working and electric industry (wire, profiles, pipes and tight bands from non-ferrous metals and steel) etc. The newly formed private enterprises, and those to come, should particularly pay attention to the above-mentioned recommendations, all in function of improvement of the balance of payments of our country toward foreign countries and opening of new work places.

At the same time, strengthening of the local development and research activity, as well as better cooperation and trust in the national scientific and research institutions and centers is indispensable. This recommendation especially regards the need for establishing better cooperation between the local industry and the research center in the Department of Inorganic Technology at the Faculty of Technology and Metallurgy from Skopje, with basic aim of promotion and expansion of the production of porcelain, technological revitalization of the local production in the capacities of inorganic technologies, as well as perceiving of the possibilities for building of glassware capacities necessary for the local and national agrarian sector.

A.2.4 Connection of the Industrial Enterprises to Larger Enterprises

Due to the fact that in most cases the basic industry of Veles municipality uses raw materials from other regions of the country and abroad, the perspective of the larger number of industrial enterprises should be sought in different forms of connection with larger enterprises in the country or abroad.

The cooperation can be in some phases of the work, or through implementing the local company into appropriate external production systems. Without this, it is going to be difficult to pace with the contemporary scientific and technological progress and adjust the production to the demands of the foreign market.

A.2.5 Establishing New Small and Medium Enterprises

The analysis of natural and labor resources, as well as the analysis of the existing structure of industry, point to the conclusion that way should be given to small and medium enterprises. In support of the conclusion is the big interest of foreign institutions and organizations in giving financial aid to small and medium enterprises, with purpose to soften the unemployment problem. The existing problems large enterprises face supports this conclusion. By forming new small and medium enterprises, among the other it is expected that the problem of unemployment will be solved or lessen at great extent.

⁸ The local metallurgy, more exactly Republic of Macedonia, does not have capacities for processing of 44.400 tons lead concentrates in condition of parallel deficit (import) of 67.000 tons/year zinc concentrates (source: Strategy of economic development of Republic of Macedonia until year 2020, MANU 1997)

A.2.6 Balanced Industrial Development of the Municipality

The material development and overall social progress prescribe the need for mobilization of all production means and their rational branch and physical disposition, with an aim of rationalizing the total development costs. The level of rationalization depends on the measures for adjustment of the economic with social and physical development, with a final goal of establishing dynamic development balance of the whole municipal area. Therefore, identification, valorization and establishment of all relevant components, factors and conditions for carrying out proper development concept is indispensable. In addition, it should be carried out in a way that provides mutual interdependence and linkage of the economic and non-economic systems, infrastructure systems, systems of urban living, as well as systems of environmental prevention and protection.

A.3 Opportunities for Revitalization of the Existing Economic Subjects and Improvement of the Utilization Level of the Installed Capacities

According to available data, in the industry of Veles municipality nine industrial branches are represented-non-ferrous metallurgy, chemical industry, ceramics and china industry, textile industry, leather industry, metal processing and electrical industry (durable consumer goods), tobacco industry, construction and food industry.

A.3.1 Metallurgy and Chemical Industry

The production capacities of local metallurgy and chemical industry operate within the Metallurgy and Chemical Complex "Zletovo". According to the total revenue and number of employees, this complex has the largest importance for the local industry. The complex produces zinc, lead, silver, cadmium; alloys of non-ferrous metals, chemical products based on zinc and lead, sulfuric and phosphoric acid, mono ammonium phosphate and mineral fertilizers. The complex has 1,577 employees. The process of privatization of the complex is not finished.

The installed capacity of the metallurgy complex has been dimensioned for an annual output of 105,000 tons of raw zinc and raw lead. The raw metals are then treated in refining sections whose capacities fully match those of the sections involved in the previous production phases. Within the refineries, there are several departments for production of alloys and chemical products based on non-ferrous metals. The installed capacity of the chemical complex is 50,000 tons of phosphoric acid per year, which can be finalized into 150,000 tons of fertilizers. During the production of fertilizers, the metallurgy complex has the capacity to provide the necessary 145,000 tons of sulfuric acid as a necessary technological input in the chemical complex.

The level of exploitation of the installed capacity is 80-85% whereas the average level for the last three decades was 73%. The exploitation level of the installed capacity in the chemical sector is unfavorable and is under 70%. Unsatisfactory exploitation level of the installed capacities is registered in the non-ferrous metal alloys production whereas the production of zinc based chemical products (zinc oxide, zinc dust and zinc sulfate) was practically non-existent in the last decade.

The strengths of the complex are its complex and easily marketable product range for the foreign markets (mainly products sold on commodity exchanges) and educated workforce at its disposal. The weaknesses are its high import dependency for raw materials and energy, highly amortized equipment in the chemical complex, unfinished privatization, non-existence of working capital and high operating losses in the last few years.

The conditions in the local metallurgy are especially difficult because of (1) inappropriate installed capacities for the domestic base of mineral raw materials (2) ecological insecurity of basic technology and (3) unfavorable location of the smelting plant, which is practically located in the town.

Solutions for overcoming these problems exist, and they were worked out in the period between 1996-97 in a corresponding technological and ecological study.⁹ These solutions approve implementation of new technological solutions and revitalization of the existing capacities.

The main condition for revitalization of metallurgy is to finish the processes of ownership restructuring and to find serious foreign partner. The revitalization should: (1) rationalize the melting charge, (2) build a section for extraction of metals from the slag, (3) modernize the control system and running the technological process, (4) organize the working process by rationalizing production flows, increased effectiveness of the organization structures in the working systems and optimizing the management of the existing smelting complex. Simultaneously, with the revitalization lead capacities should be broadened.

The new smelting capacities will use new technology for melting lead concentrates on the location of the existing chemical plant in Zgropolci Village. Here should be transferred ecologically most polluting processing machines used for treatment of some by-products in the existing Veles Smelting plant, as well as to build a plant for pre-treatment (de-sulfating) of zinc concentrates. In order to fulfill this development project, previous research has been made related to raw material basis, the choice of most appropriate technology and optimal production capacity, the way of technological connection and ecological balance with the existing smelting plant, as well as other relevant factors for preparing basic engineering for building the capacity.¹⁰

The construction of the new smelting capacity is predicted to be based on an installation of a processing unit for direct autogenic melting of 46,000 tons lead concentrates a year by KIVCET technology¹¹. It is planned that the new smelting capacity will produce at least twice as much lead and silver from domestic raw materials than Veles Smelting plant, as well as producing metals that have not been produced before. The new capacity will process highly toxic by-products from Veles Smelting Plant-deposit of the hydro-metallurgical extraction of cadmium dust; gases from agglomerate roasting of collective lead and zinc concentrates (6,700 tons/year) and by-products from the secondary production of battery litter (2,300 tons/year).

The technology chosen is well known by its ability to process poly-metallic copper concentrates, because of which it is developed. By building an identical in construction processing unit for autogenous melting, processing of total production of selective copper concentrate from "Bucim" mine (45,000 tons/year) will be possible, and in more distant future, the processing of polymetallic copper-lead-zinc concentrates from the "Plavica" deposit. This will be processed together with 3,000-3,500 tons/year copper matte that is a by-product of lead and zinc production.

By implementing this development project necessary conditions will be created for (1) achieving acceptable environment protection of the town of Veles from air and metal pollution, (2) complete valorization of the domestic potential of lead and copper, (3) optimal use of the existing production capacities, (4) triple increase of the existing lead production by domestic raw materials, (5) expanding the basic assortment of gold and copper products in ingots, (6) double increase of the total revenue of the plant (in 2000 approximately 75,000,000 USD), (7) achieving net foreign income of 83,000,000 USD and (8) providing existence for 4,000 families in Veles municipality and Probistip, Makedonska Kamenica, Kriva Palanka, Radovis where the mines for lead, zinc and copper are located.

⁹ Ecological study of technological solutions for pollution protection of Veles from "Zletovo" Smelter, Ministry for urbanism, construction and environment protection, Skopje 1997

¹⁰ The choice of the most appropriate technology was done in 1987-1990, when the necessary investment documentation was prepared on the grounds of offers from the companies Lurgi (Germany), Boliden (Sweden) and Samim-Snamprongetti (Italy) for delivering equipment and engineering the smelting capacity (for the chosen KIVCET technology offers were obtained for all 3 realized capacities in the world).

¹¹ The KIVCET technology is in use since 1986. It is the best technology in lead metallurgy in the world because of its ability for optimal protection of the environment.

Necessary investments for implementation of this project are 76,000,000 USD. The assumptions are that the realization of this project, as well as the existence of metallurgy and chemical industry in Veles municipality, are impossible without foreign support. There are interested foreign companies and their long-term presence in our country depends on their gaining concessions for exploiting Macedonian mineral resources of lead, zinc and copper. More detailed financial and other indicators for accomplishing the revitalization of the existing capacities and introducing new technologies in the integral metallurgy complex in Veles are stated in the Suggested project for revitalizing and expanding the extractive complex of the non-ferrous metallurgy of the Republic of Macedonia, with its center in Veles, as follows.

Suggested project for revitalization and expanding the extractive complex of non-ferrous metallurgy of the Republic of Macedonia

Project description and results of the financial analysis

The suggested project for revitalization and expanding the extractive complex of non-ferrous metallurgy of the Republic of Macedonia is worked out in the frames of a study project of MANU—"Revitalization and new technologies in non-ferrous metallurgy in SR Macedonia" in 1989. The project realization subjects were "Zletovo" mines for lead and zinc, "Sasa" and "Toronica", the copper mine "Bucim" and Smelting Plant "Zletovo" from Veles.

The project includes technological revitalization of the mines and the existing smelting plant in Veles, as well as introduction of new production of lead and copper on location of the complex "Henija" of MHK "Zletovo" in Zgropolci Village, 12 km south of Veles.

The new metallurgy complex will use new, highly effective and ecologically safe technology. The complex should include two furnaces for autogenous melting of lead and copper concentrates, roasting capacity (de-sulfating) of zinc concentrates, power plant for production of 40,000,000 kWh a year from secondary energy resources (gases from furnaces for autogenous melting and fluo-bed reactor), as well as section for producing sulfuric acid, which will be used continuously for producing mineral fertilizers.

The integrated mining and metallurgy complex located in Veles, will produce per annum: 50,000 tons refined lead; 10,000 tons alloys for SC "Zletovo" batteries; 52,000 tons refined zinc; 13,000 tons zinc in alloys and chemical compounds; 330 tons cadmium; 50 tons refined silver; 30 tons indium; 10,000 tons blister copper and 1,000 kg gold.

The financial analysis is updated in May 2000 related to the data of LME (London Metal Exchange): 1,105 USD/ton of zinc; 440 USD/ton of lead; 1,755 USD/ton of copper; 190 USD/kg of indium; 160 USD/kg of silver; 9,200 USD/kg of gold.

The above-mentioned financial analysis, the effects of the valorization of the production of lead and copper in the domestic capacities of battery and cable industry in Probistip and Negotino, are not taken into account.

| Investments | USD | USD |
|--|--------------------|--------------------|
| Equipment | 60.000.000 | |
| Installation of equipment | 12.000.000 | |
| Other expenses | 4.000.000 | |
| Total investments | 76.000.000 | 76.000.000 |
| Projection of income and expenses in the first year | | |
| Income | | 149.000.000 |
| Expenses for import of raw materials | 25.720.000 | |
| Expenses for reproduction materials | 64.370.000 | |
| Expenses for transportation of raw materials and products | 1.630.000 | |
| Expenses for credits and working capital | 18.590.000 | |
| Salaries for 4.000 employees | 36.300.000 | |
| Total expenses | 146.610.000 | 146.610.000 |
| Net profit | | 2.390.000 |
| Foreign currency effects | | |
| Income from foreign market placement | | 149.000.000 |
| Expenses for purchasing zinc | 25.720.000 | |
| Expenses for purchasing energizers and metallurgy reproduction materials | 18.610.000 | |
| Expenses for mining reproduction materials | 3.550.000 | |
| Expenses for credits and working capital in the metallurgy | 11.600.000 | |
| Expenses for credits and working capital in mining | 6.700.000 | |
| Total expenses | 66.180.000 | 66.180.000 |
| Total foreign currency income | | 82.820.000 |

A.3.2 Non-metal and Construction Materials Industry

The local non-metal and construction materials industry is represented with the production capacities of "Porcelanka", "Kiro Kucuk" and "Dimce Mircev".

"Porcelanka" is second largest industrial capacity in Veles. The factory consists of few production sections for producing porcelain, of which the most significant are the sections for producing china, floor and wall ceramics tiles. The process of privatization is not finished, and a model of transforming the accounts receivable into permanent investment is used. The existing structure is 63.3% state capital, 15% share capital of the employees, 13% foreign capital etc. Currently, the factory employs 679 employees, while 1,005 workers are made redundant. There is a possibility for additional employment of 270 workers. The use of the installed capacities in the year 2000 is approximately 10%. The products are placed 10% on the local market, 50% on the national and 40% on the foreign market. The enterprise has decades long industrial experience, as well as the knowledge and creativity of the technical staff, while as a weakness can be stated, the dynamics of the development, the absence of the dominant owner, loses, uncontrolled import of china, tiles and the Grey economy, over-employment, expensive energizers, dependence of the import raw materials for china production etc.

For competitive market presence it is necessary to make more significant revitalization of the process technique, in a way that has been done in the section for wall ceramics tiles. To accomplish this goal in the porcelain section 7.9 million DM should be invested, to provide a furnace fast roasting glazed porcelain, presses for flat surface products, machines for glazing and polishing, as well as other modern machines; whereas in the section for ceramics tiles 3.96 million DM to install new mills, presses, dryer, sorting and packing machine for final products. It is thought that without new computerized equipment is impossible to create conditions for quality and viable production, which will be competitive on the foreign market. The revitalization should include innovations in the production programs, which should show the creativity of the technical staff. The applying of the revitalization process is possible only in conditions of having foreign support i.e. strategic partner.

"Kiro Kucuk" produces hollow blocks, lime, crushed stone and other construction materials. The installed capacities are used 15% for production of rafters, to 95% for brick production. There are 407 employees. Another 120 employments are planned, through the program of additional training. By the model of privatization, the workers will own the factory. Products are placed 1% on the local, 96% on the national and 3% on the foreign market (SR Yugoslavia, i.e. Kosovo). The financial situation in the factory is good. This economy subject plans to conduct technological revitalization by widening its production assortment by introducing the production of roofing tile (necessary investments of 2.000.000 DM) and building a plant for treatment of wastewater in RE "Prevalec".

"Dimce Mircev" produces talk, diatomic soil, quartz slate, slate tiles and finer fractions of talk. The production is based in the raw materials from the local sources. In the past, the products used to be placed in the markets of SFRY (Serbia, Slovenia, Croatia) and Bulgaria, while nowadays it is placed in the domestic market (the greatest buyer is OHIS from Skopje and MHK "Zletovo" from Veles). The use of installed capacities is insufficient: in ground products to 3 mm the use is 60%, and in ground products over 3mm it is below 10%. The reason for insufficient use is the loss of the markets of former Yugoslavia.

The company employs 67 workers. Privatization is made by selling an ideal part of the enterprise, which is 100% private. The enterprise has no obligations to the creditors. SC "Dimce Mircev" should not perform revitalization.

A.3.3 Textile Industry

The local textile industry consists of “Nokatex”, “Vetex”, “Stobi”, “Moda Mesko”, as well as some smaller companies of the small economy.

“Nokatex” deals with yarn, cloth, embroidery and apparel. The use of the installed capacities for the year 2000 was 40%. The factory employs 360 workers. The privatization transforms the accounts receivable into permanent deposit. The products are placed 5% in the national and 95% in the foreign market (Germany, England, Italy, Yugoslavia and Greece).

The advantage of the factory possesses in all phases of a textile capacity, as well as owning free objects and energetic infrastructure (which can be used as a core for a technologically developed industrial zone) and highly trained workforce. The disadvantage is the need for complete change of the outdated and amortized machine park, low level of use of the production capacities, high consumption of energy of the production unit, big reserves of final products and work of the loan system.

The main conditions for revitalization of the existing capacities is to finish the process of owners restructuring. The revitalization should be conducted with complete change of the outdated machines in conditions of modern production organization through rationalization of the production flows, increase the efficiency of the organization structures of the work systems and optimizing the management procedures. The revitalization is conditioned with purchase of modern computerized machines in the amount of 12.000.000 DM.

It is necessary to introduce modern information and marketing system and services, and simultaneously to train the management structures for successful conduct of revitalization and to strengthen the sectors for development and design with appropriate staff for promoting new technologies and modernizing the production assortment. In such conditions, it will be possible to double the number of employees.

The conduct of the revitalization process is difficult to carry out without foreign support, i.e. strategic partner. It is recommended the partner to be sought in the countries of the European Union, which have highly developed textile industry, especially production and processing of silk (France, Spain, Italy).

A.3.4 Leather Industry

"Dimko Mitrev" represents the leather industry. This company produces fur products, car covers, etc. the use of the installed capacities is about 95%. The company employs 442 workers. The privatization model is 100% workers' shareholding. The company has a foreign partner, which already owns 28.2% share capital. There is no problem in product placement. The average product placement is 5% in the local, 14% on the national and 81% in the foreign market (Germany, Sweden, Russia, Holland and Romania).

The advantage of the factory is the industrial tradition and available work experience, whereas, the disadvantage is the dependence of the import raw and reproduction materials, outdated machine park, lack of working capital (solvency) and compound conditions in the leather industry and economy (high customs duties, interests, VAT etc.). Without solving the last problem, the opportunities for whatever activities related to conduct of technological revitalization and other development goals are unrealistic. To promote the existing production it is necessary to provide greater foreign support from a country with a tradition in this industry.

A.3.5 Metal Processing and Electric Industry

In the metal processing and electric industry the most important companies are the Plant for Rail Vehicles “Veles”, “Braka Kosulcevi” and “Dinamo Leov”.

Plant for Rail Vehicles "Veles" operates related to Macedonian Railway. It is a synonym for Veles industry because it is the oldest industrial capacity that operates successfully since 1916 until today. The plant produces and maintains travelers and freight trains. The number of employees is 320, and the fact that the company has no redundancy workers and all obligations related to the salary and contributions are fulfilled. The company performs 90% of the needs of the Macedonian Railways and 10% for other partners from the Republic of Macedonia. There is possible break through in the markets of the neighboring countries and Turkey.

The company has educated and qualified workforce, constant work, absence of competition and superb location (main railroad in the country and proximity of the neighboring countries). The disadvantages are: the spare parts for repairing rail vehicles are difficult to provide (for vehicles old a couple of decades) and the complex political and security situation in the Balkans. The technological lines for sanding and painting need revitalization.

The Plant „Braka Kosulcevi“ produces metal furniture, closets for electric equipment, archive closets, freight trailers etc. The use of the installed capacities is approximately 35%. The production process engages 230 workers, which sometimes includes part-time workers. Raw materials are purchased from Ukraine, and the products are placed in SR Yugoslavia, Austria, Greece and Germany.

The plant is currently transformed. The basic problem is the lack of working capital and difficult credit conditions. The company sees its development in the cooperation with the small economy, as well as export increase of its products. There is a plan for widening the section for nails and wires. The conduct of revitalization of the available technologies should promote products and production programs, rationalization of production flows and optimizing management procedures.

The company “Dinamo Leov” is the leader in the local small economy. Main products of the company are electric boilers, heaters, which are placed in the markets of Yugoslavia, Greece and Bosnia and Herzegovina. The company is 100% private and employs 137 workers. A development problem is difficult availability of credits.

A.3.6 Food Industry

A typical representative of the local food industry is “Blagoj Gorev”. The company produces refined cooking oil, fatty acid, confectionery, juices, vinegar and other products. The use of the installed capacities is 70% in production of cooking oil, 75% in margarine production and 100% in confectionery.

The company employs 450 workers. The privatization model is workers’ ownership. The privatization process is 75% finished. The products are placed mainly in the domestic market. From the contacts with a representative of the development sectors, there is no need for conduct of technological revitalization.

“Lozar” is leading agricultural producer and a core of the agricultural industrial complex in Veles municipality. The complex employs 1,117 workers and achieves gross produce from 30 to 35 million DM a year. The complex is privatized on workers' purchase. AC “Lozar” has broad assortment of products in agriculture, cattle-breeding and fruit-growing. The use of the production capacities is high and is between 80-100%. The products are placed mainly in Slovenia, Croatia, Germany, Austria and Greece.

As a main problem that needs solving in the capacity is the need for increasing the section of bottled wine in the wine production (now only 5%), forcing the finalization in cattle-breeding (slaughtering and primary meat processing) and increasing the production of pork, negotiating better conditions for financing primary production, providing export premiums and strengthening the promotion of market products.

The technological revitalization in the capacity should be in direction of promoting the products and production programs, (2) improving the production process, (3) rationalizing the production flows, (4) increased efficiency in organization structures of the working systems and (5) optimizing management procedures.

“Zito Vardar” produces flour, bread, bakery, fodder and other. The company is 62% private and employs 378 workers. The greatest working problems are high dependence of import raw and reproduction materials and bad solvency. The company is ready to support 20-30 individual swine farms (to 250 hogs). In the near future it is not necessary to conduct the process of revitalization in this company.

A.3.7. Tobacco Industry

The representative of the tobacco industry is “Tabak Veles”. The company buys and processes tobacco and is 100% private in a model of workers’ shareholding. The use of the installed capacities is over 85%. The company employs 95 full-time and approximately that number of part time workers. The company co-operates with 2,000 tobacco producers from the municipality through giving 20% financing in advance, seed material, grown nursery plants etc.

The products are placed mainly in the foreign market (95%) in co-operation with Phillip Morris, British Tobacco, Diamond and other well-known companies, in the markets of the USA, Ukraine, Japan, Italy, Egypt, and the states of the former Yugoslavia.

From the aspect of the opportunities for further development, the advantage is highly educated management-operating staff, own brand of small leafed oriental-type of tobacco “Xebel”, and wide tobacco production base in the municipality. Limiting development factor are the machines for processing tobacco (before fermenting), which need revitalization i.e. reconstruction. To realize this development goal 2.5 million DM of investments are needed.

A.4. Export Strategy with Instructions For Advancing the Foreign Markets with the Existing Production Programs

Increase of export represents significant element for accomplishing further development of the industry in Veles municipality, because Veles industry has assortment of products that are easily valorized in the foreign markets.

The assumptions for intensifying the export of the local industry are based on the influence of the market impulses. However, it should be stressed that the choice of markets and product assortments is neither duty of the Macedonian Government nor the local government. The answer to this question is given by the marketing services of the companies, based on the detailed research of the needs, tastes and purchasing power of the markets in advance.

In domain of the Government and local government in a sense of export support and advance on to certain foreign markets, is (a) creating favorable environment (institutional surroundings) for development and prosperous work of the export oriented local companies, (b) creating corresponding system for export support and encouragement (state economic-systematic instruments for providing macro economic conditions which correspond with the contemporary rules of the world market), (v) signing appropriate agreements, as well as (g) "fraternizing" Veles with towns of certain countries with similar structure of industrial capacities.

With aim to overcome the problems present in advance to the foreign markets and to achieve planned development goals, it is necessary to have *export strategy*. Building of the strategy is a task of the companies that should have a vision for long-term development. The absence of export strategy, on the other hand, means lack of clear orientation in production priorities and development. That is why, the company management, in the following period, will pass *ad hoc* solutions, which in the long run will not create conditions for retaining the existing and advancing the new markets.

The practical realization for strengthening export performances of the local industrial capacities is necessary to direct the investments in development of the export oriented production, technical reconstruction and technological modernization of the existing production capacities with development perspective and maintaining the quality norms in accordance with the market needs of developed countries. One should bear in mind, that this is very complicated and difficult action that is difficult to perform with the financial and staff potentials which the local level currently possesses. That is why, it is necessary to strengthen export competence of the industrial production and to connect them with similar companies and enterprises in developed western countries.

It means that the necessary structural changes, technological modernization, standard and development of new products with higher degree of finalization can be obtained more successfully and in shorter period, if local industrial companies connect themselves with corresponding foreign companies through different forms of co-operation (mutual investments, foreign investments, concessions for using certain production capacities, production and commercial franchising, mutual advance in the foreign markets, transferring know-how etc.).

Basic condition of export increase of the local industry is productive activation of the existing production capacities and production increase. The initial expansion factor for export is the elevation of the degree of use of existing capacities and their reconstruction and modernization. Before activating the industrial capacities, more detailed insight into reasons for low degree of use is necessary. In the same time, re-evaluation of the structure of the production assortment is needed through defining competition performances in the foreign markets.

Bearing in mind the different technological, financial and personnel condition in some of the production capacities, the dynamics for production increase and the potential export effects cannot be seen without specific analysis in each company. Thus, reactivation of the existing capacities with the available equipment and with the existing technological procedures cannot contribute to realization of the export expansion, unless strategic partner is provided. Strategic partners are necessary in the capacities for producing ceramics and china, food industry (beverage production), metal-processing, chemical industry and metallurgy.

Besides the necessary structural changes and technological modernization, standardization of export products is needed, as well as maintaining quality standards in accordance with market demands of developed countries, development of new products with high degree of finalization, organized staff training in developed countries etc.

It is obvious that basic condition for survival and prosperity of the local industry is export orientation, in the long run one should realize that positive results can be expected only if owners behave as an active and efficient partner in foreign trade exchange. This means that the codex of behavior of the developed foreign partners should be accepted and that local companies should change their behavior and struggle for top quality products, although price may be higher. This is so, because in the western economies, times are passed when the price of the products was decisive for their selling (high standards and greater purchase power of the population in these countries led to higher demand of high quality products with a trademark or a label).

At the same time, conditions for advancing on the foreign markets should be improved, especially in the countries members of the EU and other developed European countries, by overcoming the existing barriers created by certain countries (quotas, customs and other taxes, non-customs limitations etc.).

In order to support and encourage export, it is necessary to organize corresponding promotion activity by the industrial capacities and the local government. It should be created and done by experts and based on the advantages of certain companies, as well as realistic opportunities to realize these advantages.

While creating export strategies and the advance on the foreign markets, the local industrial companies should respect the following “*nine imperative export tasks*”.

1. **To inform.** The local exporters should constantly inform themselves for foreign markets and the import regulations in different countries. *The Municipal Development Center* will have a task to follow and gather information from specialized publications in countries all over the world, to record them in “data bank”, which will be constantly updated.
2. **To adapt.** If an industrial branch in Veles should regress, *The Municipal Development Center* will analyze the reasons for decreasing product structure in certain industrial capacities. Then, the Center will have to work on the model for restructuring the branch on the basis of the world experiences.
3. **Export experts must not “sleep”.** The export experts must improve their knowledge, follow publications and regularly visit seminars and export “clubs”. The amateurism and “sleeping” on the gained references and awards turns out badly for the industrial producer.
4. **Introduction.** All potentially export oriented companies should provide *The Municipal Development Center* with data for their production and import intentions. They should send photos of their managers, accordingly with the practice in the western developed economies. This provides personalization of business contacts. Instead of wasting money on individual propaganda, the same should be invested in a local “phone book”, i.e. register of the local companies, which is more acceptable for the potential importers.
5. **Specializing quality.** The price is not first criteria decisive for purchase, but the quality product and service. This orientation should be followed, being next to the ‘technological top’. The product is also sold by the quality service, on time delivery, professional management behavior and sticking to the guarantees given.
6. **To use export credits.** The local companies usually are not familiar enough with the opportunities of the local consultants in supplying help for crediting export. The help of *The Municipal Development Center* will be precious in this field.
7. **To risk, but be cautious of the „heavy consequences“.** One should know whom he/she co-operates with, cover with risk insurance, but not be on the safe side in this difficult period, in order not to lose old business relations.
8. **To travel.** One should not be lazy. One should travel, not implore other companies, but travel in the less competitive areas.
9. **Not to think ‘a priori’.** It is wrong to think that export is done only by the big companies. Each company should search for own ‘export channel’, initiate success and overcome crisis. One should not take the advice that everything should change.

Placement Opportunities of Industrial Products in the Foreign Markets

The product placement of Veles industrial capacities should follow national export strategy. According to intensity, strength and potential of the economic relations and co-operation, the countries trading partners of the Republic of Macedonia are grouped as: (1) former Yugoslav republics, (2) neighboring countries, (3) EU countries, (4) central and East-European countries and (5) other (USA, Canada, China and South-East Asian countries)¹².

(1) Former Yugoslav Republics. The Former Yugoslav Republics are important trade partners of our country. Significant opportunities for total export increase exist on the basis of signed agreements for free trade. The precise analysis of these opportunities is complex and limited, because of the influence of large number of economical and politics factors.

¹² Export Strategy of the Republic of Macedonia, MANU, Skopje, 1999

From these countries the most important partner is **SR Yugoslavia**. The structure of Yugoslav import has suffered changes in the last years, which is in favor of primary products, with increase of food and agricultural produce. Also, SR Yugoslavia imports these produce increasingly from the Central and East European countries.

Second in significance partner from the former Yugoslav market is **Slovenia**. The Slovenian market is traditionally oriented towards Macedonian vines, as well as food and agricultural produce. It should be mentioned that Slovenia uses numerous import barriers, which are not in the signed bilateral Agreement, because of which Macedonian export in this country decreases. It should be mentioned that the bilateral Agreement for free trade offers the Macedonian companies less favorable conditions than those offered by the companies from the CEFTA member countries.

Compared with the previous two countries, **Croatia** takes smaller part in the total exchange. Bearing in mind the potential of the Croatian market and economy, as well as traditional economic and other forms of co-operation, the chances are for greater presence in this market, using the conveniences of the already signed free trade Agreement.

(2) Neighboring countries. Republic of Greece. After abolishing the embargo, it has become the most important trade partner from the group of the neighboring countries. The export structure of the Republic of Macedonia into Republic of Greece contains the following products: tobacco, mineral fertilizers, yam, zinc, ferric alloys, pipes, profiles and flat-surfaced rolled steel products, parts and equipment for using machines, lead and other products¹³. The higher forms of co-operation are still not present, despite the fact that Greece is given a task to provide help for the R. of Macedonia for approaching the standards of the EU. In the last couple of years, there were several investments in the Macedonian economy, especially in the textile and tobacco industry, food industry and non-metal industry.

In the import structure of the **Bulgarian market**, the Macedonian industry has limited export offer. This is seen by the fact that in 1998 Bulgaria imported oil, natural gas, agricultural equipment, cotton, textile, components for footwear industry, pharmaceutical material and raw materials for fertilizers.

In 1997, the most important products from the import structure of **Albania** was food and beverages, tobacco, machines and equipment, textile, construction materials, chemical products, energetic materials, wood products, leather and footwear.

Macedonia mainly exports in **Turkey** ferric silicates, refined lead and copper, copper alloys, copper wire, parts for rail vehicles, engines on alternating current, synthetic fibers, cables from synthetic filament, raw beef and sheep skin, yarn, synthetic cloth, marble, travertine in blocks, footwear etc.

(3) EU Countries - The fact that our export trade is oriented towards four countries speaks enough. In the first place is **Germany**, followed by **Italy**, **Greece** and **Austria**. The greatest part of the EU market income is provided by export of textile and chemical products, tobacco, metallurgy products, footwear and leather products. The participation of Austria is modest, but its companies have made the largest capital in the form of direct investments, above all, in the sphere of non-metal production.

A more appropriate regulation of the relationship with the EU by the Stabilization and Association Agreement could largely contribute to the increased export of our products on these markets. This could serve as an advantage to the ready textile products, assembly of vehicles and buses, shoes and other leather products, electrotechnical equipment, telecommunications equipment, electric motors, lamb meat, metal products, fruit, vegetables, furniture, food, wine, construction, automobile parts, tobacco, cigarettes, etc.

¹³ The product order is given by the accomplished export turnover of the Republic of Macedonia to Greece.

(4) Countries of Central and Eastern Europe (CEE) Macedonian exporters should not neglect the markets of **Russia** and **Ukraine**, countries that we had exceptional trade relations and cooperation with, when Macedonia was a part of former Yugoslavia. Having the market and economic potential of these countries in mind, Macedonian business people should maintain the once established contacts and cooperation and to try to develop them as much as possible.

The engagement of the country's institutions is especially important for the recapturing of these markets by linking the export of our agricultural and industrial products (food, beverages, tobacco, apparel, footwear, chemical products, etc.) and services in the domain of construction with an exchange for products of restricted industry, energy (oil and gas), raw materials and semi-fabricates for primary steel processing, metal processing, textile, leather, chemical and wood industry, and many other processing sectors.

As far as other CEE countries are concerned, one should stress that food products, beverages, tobacco, cigarettes and chemical products, as well as footwear and leather products as main Macedonian export products and the economy of Veles, are not on the lists of major import products of these countries. Hence, the competitive struggle for these markets is out of question, especially because of the fact that Republic of Macedonia is not yet a member of the WTO, thus being unable to sign bilateral free trade agreements with these countries.

(5) Countries from other continents From the global direction of the export point of view, a special consideration should be given to the research of the opportunities for a greater trade exchange and economic cooperation with economies from other continents, especially with countries of North America and Asia.

The countries of Africa, Latin America and Asia have an insignificant participation in the trade exchange of our country. The basic reasons for a weak interest to exchange goods and services with these countries is their big geographical distance that makes transportation more difficult, increases the price of the exchanged goods and contains a high degree of risk. In this respect, it is necessary to act towards specialization and development of the export organization and provision of a bigger presence of Macedonian products on the markets of USA and Canada as well as looking for opportunities for access to the markets of East and Southeast Asia (Japan, China and India). There should not be any bigger obstacles, apart from the distance, because the market potential of these countries is huge.

Export Capabilities of the Industry of Veles

The export capabilities of the industry of Veles should be envisaged by applying a selective approach towards certain exportable products in accordance with the specific problems that limit the growth of production and export and in direction of concrete identifying and solving existing export problems.

In order to increase the production and export of a larger part of the local industrial capacities from the textile, leather, ceramics and food industry, relatively low investments are needed for the necessary technical reconstruction and technological modernization. A far more difficult problem is the lack of necessary working capital. Those funds should be provided from separate sources, i.e. suitable credit lines for working capital.

There are no problems in the export of products of the metallurgy and chemical industry sector. In these industry sectors, apart from the lack of working capital, there is no investment capital for technological modernization, expansion of the product range, increase of the production of lead (at another location) and resolving very serious existing environmental problems.

(a) Non-metals and non-metal products

The utilization of the export capabilities in this sector, for whose development there are very favorable local natural conditions, should restructure and change the export structure base and strengthen the competitiveness for foreign markets penetration.

The most important task still is the technological modernization and elevation of the finalization level. This can be achieved by a direct productive and business links with well-known foreign partners and inclusion in the modern technology and marketing trends.

(b) Textile and leather industry

Basic problems in this sector are the lack of working capital loans; cost burden for import of components for export oriented production and lower purchasing power of the traditional foreign markets.

Limitation factor for development of local textile and leather industry is product placement. The problems come out from the insufficient custom protection, illegal import and lower purchase power in the domestic market. Also, the lost markets in east European countries and former Yugoslav republics, weak competition and financial problems from abolishing the custom free import of components in LON businesses while realizing the export.

Fast production increase and significant export growth is possible, if credits for working capital are provided, technical and technological revitalization, especially in the section of yarn and cloth. This is possible if in the mid-term plan (2005-2010) conditions are created for providing local natural raw materials for producing silk, cotton, linen and hemp products.

(c) Metallurgy and Inorganic Chemistry

The future advance of the local non-ferrous metallurgy in the foreign markets will be conditioned by rational supply of the necessary raw materials and energetic import inputs, especially of the energizers (coke, liquid and gas fuels). Then, serious problems will be present because of the technological regression related to the foreign competition, lack of working capital and inability for direct advance in the traditional foreign markets.

(d) Metal-processing Industry

The production in the existing local metal-processing industry does not exist. The same can be restored in the existing capacities, unless corresponding credits for technological modernization of the capacities, credits for preparation production for export and crediting the purchase in the foreign markets. Besides the necessary investments for technological modernization, serious problem are conditions for import raw materials, absence of favorable credits for working capital etc.

To revitalize and increase production and export in this industrial branch, as alternative solution emerge finding foreign strategic partner.

(e) Food Industry

From the local agricultural industrial complex, the most significant export product is the wine. The export of vine and other beverages is far below the potentials of the local capacities, with inappropriate degree of finalization, assortment and insufficient profit.

Special problem represents small part of bottled vine and other alcoholic drinks, as well as insufficient level of standardization and quality maintenance in the long term. This problem should be solved by connection with respected foreign partners and staff training abroad. Bearing in mind the specifics of the products (market protection), the export can be increased through links with a well-known partner in each country.

(f) Tobacco Industry

Fermented tobacco export from the local producers is not a problem and is found on an optimal level. The perspectives for future export will depend only on timely and successful realization of the signed arrangements with foreign partners.

Display of placement opportunities of products of the most prominent industrial capacities from Veles on certain foreign markets is given in table 17. From the display, one can see that the following companies have greatest opportunities for access to foreign markets: "Zletovo", "Lozar", "Nokateks", "Dimko Mitrev" and "Porcelanka". But these are only opportunities whose realization depends mainly on the engagement of the management teams of the said industrial enterprises.

Table 17: Overview of potential markets for industrial products from Veles municipality

| Company | Primary products | Existing markets | Yugoslavia | Slovenia | Greece | Bulgaria | Albania | Turkey | EU | Russia | Ukraine | CEE (other) | USA, Canada, Asia |
|-----------------------------------|--|---|------------|----------|--------|----------|---------|--------|----|--------|---------|-------------|-------------------|
| | | | | | | | | | | | | | |
| MCC "Zletovo" | Zinc, lead, silver, mono ammonium phosphate, mineral fertilizers, | Metals on foreign markets, mineral fertilizers in Macedonia | + | + | + | + | + | + | + | + | + | + | + |
| SC "Porcelanka" | Porcelain, floor and wall tiles | Former YU, EU, Near East | + | + | + | + | + | + | + | + | + | + | + |
| SC "Kiro Cucuk" | Bricks, blocks, crushed stone | Yugoslavia, (Kosovo) | + | - | - | + | + | - | - | - | - | - | - |
| SC "Dimce Mircev" | Ground talcum, shale and calcite, lime, micro talcum | Yugoslavia, Slovenia Croatia, Bulgaria | + | + | + | + | + | - | - | - | - | - | - |
| SC "Nokateks" | Yarn, cloth, embroidered cloth, ready-made clothes | Germany, England, Italy, Yugoslavia, Greece | + | - | + | + | - | - | + | - | - | - | + |
| SC "Dimko Mitrev" | Fur products (ready-made, auto seat covers, etc.) | Germany, Sweden, Russia, Holland, Romania | + | - | + | - | + | - | + | + | + | + | + |
| "Braka Kosulcevi-Brako" | Metal furniture, cupboards for electric equipment, archive boxes, cargo trailers | Domestic market, Yugoslavia | + | - | + | + | + | - | - | + | - | - | - |
| Dinamo Leov | Boilers | Yugoslavia, Greece, Bosnia Herzegovina | + | - | + | + | + | - | - | + | - | - | - |
| SC "Zito Vardar" | Flour, bread, pastry, fodder | Domestic market | + | - | + | + | + | - | - | - | - | - | - |
| AC "Lozar" | Agriculture, wine, cattle-breeding | Slovenia, Croatia, Germany, Austria Greece | + | + | + | + | + | - | + | + | + | + | + |
| SC "Blagoj Gjorev" | Refined oil, fatty acid, confectionery, juices, vinegar | Domestic market | + | - | - | - | + | - | + | + | - | - | - |
| Railroad vehicles factory "Veles" | Reconditioning of passenger and cargo railroad cars | Domestic market | + | - | + | + | + | + | - | - | - | - | - |
| SC "Tabak Veles" | Fermented tobacco | SAD, Ukraine, Italy, Japan, former YU | + | + | + | - | + | - | + | + | + | + | + |

Source: A. Efremov and associates, Market overview of the export of industrial products, ATREZ Agency - Skopje, August 2001.

Note: The "minus" (-) sign denotes that certain products are not wanted on the respective market or than the producers from Veles have no ground for access to the respective market because of high transportation costs and other expenses.

B

**DEVELOPMENT OF THE SMALL
ECONOMY AND THE HANDICRAFTS**

Introduction

The small economy plays an increasingly important role in the economic structure of the municipality and becomes one of the developmental factors of high priority. With its economic characteristics, it is an impulse of the general social and economic development as well as a generator of new employment. Small economy facilitates employment in comparison with much larger and inflexible enterprises. This gives it an important social function.

According to the experiences of the developed countries, SME's are the leading movers of the economy on either local or national level. A dynamic development and huge flexibility that enables them a faster change characterize these enterprises and adjustment to the market needs.

The support and help to the small economy has been realized according to annual macroeconomic programs and the National Strategy for Economic Development of Republic of Macedonia as well as through several programs and projects for financial support of domestic and foreign foundations and banks.

With the support of the small economy, one creates possibilities for the development of the entrepreneurship and creativity, which represent a synonym for modern changes, that lead to economic competition and its maintaining on the markets.

Because of this, Veles municipality should place a strong emphasis on the local development by promoting SME's, that apart from covering the local needs for necessary raw materials and products, should be able to produce more which can be sold in other regions of the country and abroad.

In addition, as a prerequisite for the small economy development and human and environmental protection in Veles municipality, it is indispensable to resolve the problem of further environmental pollution by the MHK "Zletovo".

B.1 Promotion of the Small Economy and Handicrafts

B.1.1 Current Situation in the Small Economy and Handicrafts in Veles Municipality

According to the data from the Ministry of Economy, in Veles municipality exist 475 economic subjects or 1,5% of the total number of active enterprises in the Republic of Macedonia. They employ 3,5% of the total number of employees in the Macedonian economy. According to the State Bureau of Statistics, at the end of the year 2000, the number of unemployed persons in the municipality was 15.260, which presents an increase of 20% compared to the situation in 1995. Out of that number, 44,6% goes for young people at the age under 30. These data point to the need of support to the existing enterprises and foundation of new small and medium enterprises, at the same time paying respect to the comparative advantages offered by the region and the municipality.

In Veles municipality there are several successful small enterprises in all economic sectors. In the food industry - dairy sector, besides the dairies AK "Lozar" and ZK "Vardar" - Gradsko, successful in the business are dairy "Milko" from village Nogaevci, dairy "Maja" from village Bashino Selo and dairy "Palma" from Veles. In the bakery sector, besides AD "Zito-Vardar", there are several small private capacities such as AD "Veles-prom" "Fortuna" bakery, "Vel-klas" bakery, "Kojnik" bakery, "Milo" bakery and the bakery working within the UTP "Internacional". The private enterprise "Medalho" whose primary activity is production and trade with bee products is also successful in the business.

In the textile industry there are several successful private small capacities ("Stobi", "Moda-Meshko", "TI-FI") operating mostly on loan system. Some of them already have plans for investing in modernization and expansion of the business thus creating opportunities for new employment.

In the construction business successful are: "Biprom" - an enterprise for trade in construction materials and production of furniture, "Deni Komerc" DOOEL - an enterprise for trade in construction materials and production of final wood products and the construction enterprise "Delta Prom". However, the most successful among the production capacities in the small economy of Veles municipality is "Dinamo Leov" - an enterprise for production of boilers and various heaters.

In the commercial trade as particularly successful are "Tediko" with its chain of supermarkets and wholesale trade and "Marija komerc" - an enterprise for textile retail and wholesale trade.

Veles is a town of rich handicrafts tradition. Today some of the handicrafts are facing an ascent, while others have already become deserted¹⁴. In the past the most present were the potter's, the blacksmith's, the tinsmith's and other handicrafts, while today an ascent are recording the baker's, the beautician's, the barber's and the pastry's handicraft, as well as the restaurant management, the retail trade and the taxi transportation.

According to the data from the Regional Handicraft Association, in Veles municipality there are: 41 barber-hairdresser, 20 bakers, 10 service shops for electrical equipment, 18 tailors, 44 transporters, 5 carpenters, 7 photographers, 4 goldsmiths, 8 house painters, 1 typographer, 3 mechanics for radio and TV equipment, 5 tyre-repair specialists, 9 bricklayers, 7 butchers, 7 auto mechanics, 2 auto electricians, 6 watch-repair specialists, 2 stonecutters, 2 specialists for precise mechanics, 5 tinsmiths, one furrier, one rope maker, one blacksmith, one handicraft doing chemical cleaning, 2 potters and one leather craftsman.

B.1.2 Directions and Forms for Small Economy and Handicrafts Development

The small economy development, as a particularly important segment in the economy structure of Veles municipality, should be carried out in several directions. The leading role should be played by the new small enterprises and craftsmen in the activities having local tradition, at the same time creating diversity of production in the ceramics, textile, leather and metal processing industry, in metallurgy, agrarian sector and in the specific production and service trades. In addition, various organizational forms should be implemented, such as: (a) family businesses, (b) subcontracting, (c) stock companies, companies with limited liability, merchant- individual, etc., and (d) joint ventures with foreign partners and foreign direct investments, licences, franchising and equipment leasing.

The small economy development should be particularly encouraged by the existing local economic capacities, especially in the process of their restructuring, in a way that will diversify the existing production and will engage the redundant workforce in new capacities. This implies to the need of founding internal funds for supporting self-employment of the dismissed workers, in separate sections or in the frames of a suitable business incubator.

Development of the production and serviceable trades should be directed toward satisfying the local consumer's needs, as well as the needs of the local industry.

Particularly should be included some up-to-date activities in the tertiary sector, such as software development, consulting services, schools for management and foreign languages, marketing promotions, etc.

In addition, forms for help and support to the new and start-up entrepreneurs through providing financial means, information, consulting, training and promotion should be also developed. They include: (a) development of the existing institutions in the town of Veles, (b) usage of the national institutions, (c) development of new financial institutions such as venture capital fund, small loans fund as an additional capital to the Foundation for SME's Development (Regional Center of NEPA), savings-credit union and a center for cleaner production.

¹⁴ For the town of Veles, the Ministry of Economy has listed the following traditional handicrafts: potter's, tailor's, cooper's, gram's, leather craftsman's, blacksmith's, goldsmith's and silversmith's, pack-saddler's, clock repair's, tinsmith's and shoemaker's trade. At a special list, as deficit traditional trades are stated the potter's, the pack-saddler's, the cooper's, the leather craftsman's, the blacksmith's and the shoemaker's trade.

Before starting a new business through founding micro, small or medium enterprises, the entrepreneurs should observe the following rules:

- to start a business of continuous nature, of tradition and prosperous at the market,
- to make previous consultations with experts and other businessmen engaged in similar businesses and offers,
- to study as much as possible electronic and published materials with regard to the relevant subject,
- to make comparison with similar businesses and offers in function of choosing the best and the most profitable business,
- to elaborate a business plan with projection for at least 5 years followed by complete financial analysis,
- to make market analysis and analysis of certain products and services demand,
- to effectuate necessary training and education for the employees, etc.

B.1.3 Possibilities for Development of the Small Economy

The industrialization policy after the WWII resulted in building industrial capacities that are not based on the competitive advantages of the municipality. Although in the last decade they were a generator of unemployment and social insecurity of the population, in the near future they can and should present a development core for the small economy, at the same time supported by various financial and non-financial institutions.

In this context it is very important to develop and promote the subcontracting, as well as the development of complementary enterprises, the so-called clusters, mutually connected in a way that provides reproduction entirety and finalization of the production process, at the same time providing a more competitive production¹⁵. Within these complementary activities and industries, various centers for quality and marketing could be also established, by which the production will become more competitive at the domestic market and wider.

In most cases, the developed industries in the world develop subcontracting relations with the small economy. The small enterprises work for the big enterprises, mainly producing parts for their production or performing operations that are more profitable for the small economy.

The existing industries in Veles, through renting out their secondary activities or by selling their process equipment, will stimulate the small economy development. Well-known is the model of "umbrella strategy", when under protection of the big enterprise, by subcontracting or by renting out or selling its secondary activities (production sections and similar), it achieves more productive and competitive production while cooperating with the small economy¹⁶.

¹⁵ A proved example of organized small economy in a group of related enterprises and industries, mutually connected, compatible and geographically closely located, is the model of Emilia Romagna (Italy) and its ceramics industry. The American theoretician Michael E. Parter has described this industrial cluster of the ceramics industry as an example of national competitiveness and as a "diamond" of the national advantage.

Namely, in 1950 the Italian ceramics industry was hardly dependant on import resources and machines. Even the kaolin (white clay) had to be imported from Great Britain, and the machines were imported from Germany. By time, the adroit Italian entrepreneurs and producers of ceramics products made an effort to replace the import machines by domestic ones, to adjust the local resources to their needs and to modify and use the red clay as kaolin. In such a way in 1970 the Italian enterprises became top producers of ceramic products.

At the same time a lot of competitive enterprises along with specialized institutions for support to the development of the ceramics industry were created. In such a way, this cluster, a group of enterprises that means union, not isolation, became a generator of new, related enterprises and created new, specialized enterprises. In 1976, the University of Bologna founded the Centro ceramico di Bologna aimed at research and production analysis, which afterwards has become a part of the EPBET system for support to the small economy, with 8 specialized agencies and centers. Today Emilia Romagna is one of the ten the most developed regions in the EU.

¹⁶ Such kind of system has been developed in the enterprise Sima Pogacevic-Simpo from Vranje, Yugoslavia.

The field research carried out in Veles proved that there are big enterprises such as "Lozar" and "Zito-Vardar" in the agrarian complex, MHK "Zletovo" in the metallurgy and chemical industry, "Braka Koshulchevi" in the metal-processing industry, "Dimko Mitrev" in the leather industry, "Porcelanka" in the ceramics industry and others, interested in development of subcontracting with the small economy.

"Lozar" as a big and significant combine in the agrarian sector of Republic of Macedonia, has a necessity and possibility for rounding off the production of wine, meat and meat products through expanding the cooperation with subcontractors from the villages Gorno Orizari, Rashtani, Mamutchevo, Ivankovci, Bashino Selo and other rural settlements in the municipality. "Zito Vardar", who is ready to cooperate with 20 to 30 subcontractors for pig breeding in farms for 200 to 250 pigs, also supports the subcontracting in the rural settlements of the municipality.

Subcontracting in the local food industry could be also established through opening small enterprises for (a) production of meat products yet not present at the Macedonian market, (b) production of dairy products, (c) production of fruit, vegetables, mushrooms and other produces, (d) production of glass bottles with a modern design and of high quality, (e) production of appropriate wrapping material for wine, meat products, diaries, fruit, vegetables and mushrooms, and (f) refrigerator, transportation and other services.

In Veles municipality there are several textile capacities mostly working on loan system. Some of them have already prepared plans for investment in their modernization and expansion, thus creating possibilities for increase in the local employment. Their expansion should be also accomplished by help of various financial forms, one of them being a partnership with the SEAF-Macedonia Investment Fund.

The silk production, which was traditional for this region and has been neglected in the past several decades, could be a strong stimulus to the local small economy. The present world tendencies that gravitate toward usage of natural textures and materials, present a second chance for the sericulture in Veles and a development opportunity for AD "Nokateks".

Veles is known as a town with traditional experience in the leather industry. "Dimko Mitrev", an enterprise for production of leather and fur products, could also support the subcontracting with the local small economy in the field of leather waste material processing, in form of various decorative things, souvenirs and other attractive products.

The traditional experience in the textile and leather industry should continue and by opening new capacities in the small economy, particularly by starting small businesses in the sphere of creating conditions for provision of local raw materials.

The factory "Porcelanka" should become a core for development of additional activities, i.e. a core for development of a cluster or a group of relative enterprises, including a new production assortment, production of appropriate wrapping material, packing of the product and other similar activities. The large number of dismissed workers from this factory, using their qualifications, knowledge and talents, by their self-employment efforts and financial support from various programs, funds, banks and internal funds of the private enterprises, can enrich the present assortment of ceramics products by becoming subcontractors to "Porcelanka". In such a way Veles can become a regional center of the ceramics industry in the Republic of Macedonia.

The factory for railroad cars "Veles" has been operating in the town for long years. It belongs to "Macedonian Railroads" and is still in state ownership. Its privatisation will contribute to creating opportunities for subcontracting development and appearance to the domestic and the foreign market. At the same time, the factory management should also consider higher stages of production of parts for the railroad cars and other metal-processing products. In this context the small economy will play the role of an important subcontractor and partner.

The small economy in Veles, besides subcontracting with the big enterprises, should be also developed and promoted in the fields of financial and consulting services, computer maintaining, real estate agencies, transportation of people and goods, marketing agencies, agencies for environmental protection, agencies for design and technical consulting, enterprises for modern packing, etc.

In Veles there are favourable conditions for development and promotion of the transit tourism and catering, especially at the Lake Mladost, where the small economy, using its inventiveness, could make Veles an attractive place for the domestic and foreign visitors. Here it could be built a recreation center that includes bowling alley, tennis playgrounds and other sport objects, as well as shops for souvenirs, handicraft products, beverage and other Macedonian products attractive for the domestic and foreign visitors.

Opportunities for tourism and catering development and promotion will be created and by building the already planned quay at the river Vardar. The quay will present a place for rest and recreation, for organizing cultural manifestations, for building a shopping center with shops for souvenirs, filigree and handicraft products, etc. It would be very attractive if a franchising contract for opening a Mc Donald's Restaurant is also provided.

The rural settlements in the municipality should be developed in direction of using the available local resources for agricultural development, especially of those for cattle-breeding, bee-keeping, viniculture, horticulture, mushroom growing and higher processing stages of these produces. For example, in Bashino Selo, in the vicinity of Veles, there is an interest and possibility for flower growing, as well as building of a plant for fruit and vegetable drying.

Apart from these activities, the small economy in the rural settlements could be developed in the activities deficient for these settlements, such as medical and mechanical services, maintenance of home apparatus, catering, etc.

Still, the development of Veles municipality and its economy, including its small economy, will depend on the future environmental pollution by MHK "Zletovo". Unless appropriate protective measures for the population and the environment are not undertaken, the healthy food production, the agriculture and the tourism could not develop properly, which means endangering of the human resources development and the local economic development as a whole.

B.1.4 Possibilities for Handicraft Development

Veles is a town with rich handicraft tradition. The huge number of registered craftsmen points to the conclusion that the handicraft development should be supported, mainly by approving building locations, allotting business space and micro loans, providing tax alleviations, etc.

Unfortunately, due to the modern trends of living and development of new technologies, most of the handicrafts that were an everyday event in the old Veles, today are slowly dying out. From these reasons, today the potter's, the packsaddle maker's, the leather craftsman's and the blacksmith's trade are on the threshold of becoming deserted, and some other have already died out.

Veles is known as a traditional potter town. The natural resources located on the municipal territory, the geographic position of Veles in the central part of Republic of Macedonia and the possibility for transit tourism development, as well as the long tradition in manufacturing pottery products, present a potential for revival of this deserted trade.

In addition, for economic valorisation of the pottery, except the usage of potter products as souvenirs, the possibility for using the pottery for packing various food products, beverages, yoghurt, etc., as well as the pottery promotion for its usage in the restaurants and hotels in the country and abroad, should be also considered.

Pottery development creates opportunities for engagement of artists, who will decorate, draw and make the potter products more attractive for the buyers. By state and local government support, these products should become a trademark of Veles and of Macedonian culture and tradition, and

certificates for original manufacture should be issued to their manufacturers. The potter products will be sold in specialized pottery shops across the country, at the border crossings, transit points, and by applying appropriate marketing promotion and abroad.

Support to the pottery is offered and by the management structure of "Kiro Chuchuk" factory, who expresses its readiness for cooperation with craftsmen who will finish off their clay souvenirs and household objects.

Veles is also known as a town with leather and fur tradition. However, the unfair competition, the grey economy and the uncontrolled import disparage the value of these products, reduce their prices and make them illiquid. Therefore, apart from the support at local level that will mainly include protection and promotion of these trades, support at national level, which will make these products more competitive at the domestic and foreign market, is also necessary.

The handicraft products such as various knitted, tailored and embroidered cloths, milieus and tapestries, protected by a trademark of "Macedonian tradition", should not be forgotten. By proper marketing and promotion and adequately presented to the foreign representatives and visitors, they could be an indicator of the Macedonian identity and cultural living.

The disposal of these unique handicraft products could be increased by using marketing services and by support of the Economic Chamber of the Republic of Macedonia, the local government, and the craftsmen's association and tourist agencies.

In this context, it is possible opening of protective workshop where persons with light physical handicap will manufacture souvenirs with details from Veles and its history, handicraft products and products such as decorative buckles, buttons, etc. The workshop foundation could be helped and supported by the local government, various humanitarian organizations and donors. The products, which will be intended for representation and will have favourable prices, should be bought up by enterprises throughout the country.

The local government could help and support the handicraft development, especially in the field of revival and promotion of the old trades. Its engagement should include:

- Wide promotional activity of the traditional handicraft products within the frames of all cultural, national, festival, scientific and tourist manifestations held throughout the whole year,
- International promotion carried out by particular structures of the local government, creation of web pages and international promotion through Internet,
- Advertisement of the handicraft products and activities, as a feature of the town of Veles and the Macedonian culture, through institutions who have its advertising materials, web pages and branches abroad,
- Establishment of ateliers located in churches, museums, archaeological excavation sites or transit points where the visitors could watch the handicraft's manufacture and buy them¹⁷,
- Organization of representative rooms in cultural, historical, religious, tourist and other objects, national restaurants and specialized shops where these products will be sold,
- Revival and investment in the old trades through informal education in schools with a master and three to four students (the start-up investments will be set aside by the local government and other financial sources such as donors and unions through providing workspace, working material and tools, which later on will be compensated by the product's sale),
- Providing location for the craftsmen at traffic and transit points,
- Providing support at national level for protection and promotion of these products as a part of the Macedonian tradition.

¹⁷ For support and promotion of such types of ateliers it is necessary to place them in the local and national tourist offer. They should be also supported by aggressive promotional activity (the financial resources for investment will be provided by the local government, the state or through donations)

On the other hand, the electronic and published media should emphasise the successful craftsmen as good examples of entrepreneurship. In such a way, they will affirm the small economy as a long-term solution for accomplishing successful local economic and social development.

The craftsmen's association, as a part of the Union of craftsmen's associations at the Economic Chamber of the Republic of Macedonia (it will soon raise into Craftsmen's Chamber with its regional craftsmen's chambers) should play an active role in the support, development and promotion of the handicraft through organizing visits to fairs, exhibitions and other manifestations in Veles and wider.

B.2 Comparative Advantages of the Small Private Enterprises

Small economy includes micro, small and medium enterprises in all sectors and branches and small craftsmen. All of them have strengths and weaknesses that reflect differently upon various businesses. Type of enterprise to be chosen depends on the needs of the business.

Micro enterprises, also known as family or home businesses are an excellent option for many people, especially because of the low start-up investment¹⁸. As a driving forces for starting such a business, there are the need of improvement of the quality of life and other interests, economic need in conditions when public and private sector are in restructuring phase and many people are in search of new more creative ways to make money, and advance in technological related to the advantages of computers and information technology, making the home or the micro enterprise a practical, efficient and accessible business place.

The SME's usually have between 5 and 50 employees¹⁹. They are the primary movers of the regional economy. Their primary aim is the provision of raw materials, products and services for the local and national market. Export oriented SME's are not rare. They are characterized by easy adjustment to market needs, basing their product, placement, turnover and organization type upon it.

The advantages of the small economy subjects are:

- easy, cheap and fast registration, direct management by the owner/manager, flexible acceptance of new partners and provision of several sources of start-up capital,
- new employment and economic activity with lower finance requirements than larger subjects,
- lower fixed and variable costs because of the fact that one or few people perform several business functions, such as managers, planners and organizers of production
- more productive, economic and competitive production based on the existing infrastructure,
- flexible adjustment to supply and demand changes of goods and services through small series production,
- easier handling of business risk, because of lower capital investment,
- more balanced development in the municipality through the primary use of domestic raw materials and satisfying the local market needs,
- ability to support the substitution of imported products and services due to flexibility, mobility, vitality, adjustability, production methods diversity, technical and technological innovations, etc.

Because of its characteristics, small economy is very competitive on the market and influences the increase in competitiveness of the larger companies. It usually employs expert staff, suitable for narrow specialization in certain production and service areas. Hence, they become co-operators or subcontractors of the large enterprises partaking in the production they are not interested in.

¹⁸ Micro enterprises have from 1 to 5 employees

¹⁹ Small enterprises have between 5 and 50, and the medium ones between 50 and 250 employees.

The vitality of the SME's is coupled by flexibility to adjust even in hardest economic conditions, compared to larger companies. Simpler management structure brings higher effects when compared to the larger companies. The manager/owner is faster and more efficient in deciding about the goals and tasks.

There are many economic characteristics of the SME's with positive influence on the process of competitiveness on the market, economic efficiency improvement, welfare increase and amortization of the instability of the national economy.

B.3 Measures and Forms of Support of the Small Economy

The development of the small economy is determined by the characteristics of the economic system and the measures of the economic policy, especially those concerning the support. For this purpose, it is necessary to pass system laws in the areas of tax, customs, monetary and credit policy sphere on time. Hence, the existence of a national development program poses a basic measure and instrument of strengthening an unhindered development of the private economic sector.

In such frame, the small economy would have a chance to become "large economy", i.e. to make the economy more efficient and to contribute to the development of competitive ability of the enterprises. This is actually the first level of strategic support of the small economy, a creation of a favorable ambiance and surrounding for the development of the entrepreneurship.

The second level of support is on institutional level. It is being accomplished by founding and developing institutional infrastructure for giving various types of aid to the small economy through providing information, consulting, educational courses, seminars, financial aid, etc. Appropriate state and local bodies and organs are responsible for implementation of these solutions, along with other organizations, associations, banks, agencies and other forms of support.

In regard to the institutional support, the Regional Center - Foundation for SME's Development has been working in Veles for more than two years. It is a part of the net of institutions for promotion of SME's within the National Entrepreneur Promotion Agency (NEPA). The Center provides services for the entrepreneurs in Veles and wider in the region, and helps the potential entrepreneurs to prepare business plans of high quality for getting credits from the NEPA micro credit line financed by the EU and some banks in Republic of Macedonia.

The Regional Center should improve its position and role in the development of the entrepreneur's spirit in the municipality and in the small economy development, by active participation in the education and business informing of the potential and start-up entrepreneurs, as a condition for conquering distant markets with goods and services of a high quality.

Furthermore, the Regional Center for SME's Development should be developed and by help and support from other sources, so that apart from its role in the small economy promotion and support, it can become a management training center for the big enterprises facing the process of privatization, helping them to overcome the economic restructuring. That means that the Foundation should become a micro-financing center of the municipality and wider, at the same time being a key place for small economy technical support (training, informing, management consulting, etc.).

Particularly important for the small economy support is the opening of a business incubator. The business incubator in Veles is in initial phase of founding by the World Bank and Privatization Agency of the Republic of Macedonia. It is a place for support of small, new enterprises, providing for them cheaper business space and opportunities for financial loans and technical support. The business incubator should encourage the potential entrepreneurs to become a part of it, at the same time being a good example for similar organizing within the big enterprises that have a need for resolving the problem with the redundant workforce.

For improving the opportunities and expansion of its activities, the municipality should be actively engaged in animation of the population about the opportunities offered by the incubator. The business incubator, on the other hand, will intensify its involvement in the current processes in the municipality and will expand its capital by intensifying the services not only to the enterprises deriving from him, but also to other subjects in the municipality.

Small economy will be also organized through forms of co-operation and partnership in the frames of the future technological development industrial zone. The establishment of this zone will provide support to the integral economic development, and by that, development of the small economy in the municipality.

The zone will provide placement of new small industrial and handicraft enterprises, in function of providing much cheaper production due to the relatively low prices of construction, usage of the existing physical and traffic infrastructure, as well as other conveniences. Within the zone it is possible to develop a group of complementary enterprises, the so-called clusters, developed upon the local comparative advantages. The industrial zone might be specialized (intended for one kind of industry, for example production of porcelain and ceramics) or diversified (intended for different industries, handicrafts, etc.).

The Worker's University in Veles as an educative institution could have a primary role in the adult's education, in the permanent education of young entrepreneurs, in raising the awareness of the small economy importance, etc. The Worker's University should enlarge its scope of services for adults, so that, apart from the present courses, it should introduce new courses in the field of business economy, management, marketing, international accountancy, qualification of the unemployed non-qualified persons and their engagement in the small economy, etc.

Following the world's experience, but also the experience in the Republic of Macedonia²⁰, Management and Training Centers have to be established in the big enterprises in the municipality. They should contribute to improvement of the knowledge and skills of the employers, persons out of the enterprise organizing the center, and especially of young people. Such centers could be established in MHK "Zletovo", "Lozar" and other enterprises, which so far were the main bearers of the municipal economic development.

The Employment Bureau in Veles with its working club should also present a place for support of the potential entrepreneurs, a Labor Stock Market, and a place for training, informing and encouraging the economic activities.

The Association of Non-government Organizations in Veles could also play an active role in encouraging the young people, women and the handicapped persons to join the small economy through various foreign programs and projects, such as The Open-Society Institute - Macedonia, The Macedonian Development Foundation and others.

The Regional Unit of the Ministry of Economy in Veles should take on the role of a business center for the small economy, providing business information, consulting services, promotion activities for the export-oriented enterprises, etc.

The Regional Unit of the Ministry of Agriculture, Forestry and Water-supply should support the individual farmers by financial means from the Agricultural Fund, planned for establishment during 2001.

In regard with the institutional support of the small economy, the role of the local government is indisputable. Its support should be adjusted to the Plan for Integral Development of Veles municipality, and could be accomplished through providing financial means from the state budget, donations, credits under favourable conditions, initiation of the process for establishing a local Venture Capital Fund, providing better access to financial sources for small businesses, providing

²⁰ Training and Management Center in AD Pivara- Skopje

conditions for continual up-grading of the knowledge and skills of the local workforce, especially of the managerial staff in the small economy, establishment of partnerships between the local government and the private sector, promotion of the small local businesses through carrying out appropriate tender policy, foundation of a center for support of the small businesses in the rural areas, etc.

One of the ways to support the small economy at local level is foundation of a Municipal Development Center. Its activities are predetermined for improvement of the local business climate, building up co-operation between the small and the main local enterprises, further development of the already established traditional economic relations with enterprises from the country and abroad, and promotion of the municipality as a favourable place for doing business. In this regard, one of the main projects of the Municipal Development Center is the preparation of a database of projects seeking investors²¹.

A third level of support is represented by the economic subjects seeking modern methods of leadership and management in a direction of strengthening entrepreneurial initiatives.

Based on previous research, it is estimated that a more dynamic and unhindered development of the small economy in the municipality is possible if the measures of all support levels are integrated. It is however important to be very careful not to repeat the mistakes from the past, such as the building of economic capacities often without any comparative advantage on a local level.

B.4 Introducing New Forms and Instruments for Financing in the Small Economy

Providing financial resources is one of the most important factors of development and promotion of a small economy of a good quality and quantity. The other means of support (tax deductions and reductions, customs reductions, education, consulting, information) also play an important role.

Financing of the small economy has its specific characteristics that, due to existence of certain risks in the initial stage of operation, impose the need of various bank and other guarantees. The mechanisms and institutions involved are very versatile and efficient.

The awareness and knowledge of small economy and its accelerating and multiplying effect on the overall economic development is a basic characteristic of the financial support. For this purpose, the state institution should, through instruments of economic policy, provide special intentional resources aimed at establishing special funds, guaranteeing institutions, associations and banks within a framework of a wider financial system. In this respect, a financial discipline, business culture and morale must have a place and importance in the society and in the system of social values.

Today it is evident that the commercial banks do not pay much attention to the support and development of the SME's and they are not interested in financing this economic sector. As basic reasons for this one can mention the low capital value, significant amount of credit risk, high specific costs per credit and problems related to payment.

Thus, the problems for start-up businesses begin here. For them, taking a loan from a commercial bank can be very problematic due to strict conditions for awarding one, high interest rates, high percentage of down payment, short repayment terms, need of guarantees, unreal mortgages, etc.

²¹ The database should contain the name of the project, description of the economic sector, location, type of project (new, modernization of existing, expansion), description of the project, description of the products concerned, market description, description of the raw materials, description of the infrastructure, number and description of qualified workforce, list of necessary operating licenses, project investment (fixed costs, equipment cost, vehicles cost, and working capital), description of planned expenses, sales forecast, pretax profit forecast, ROI, short information on the investor and other information (business plan, feasibility study, market research, technical study and financial analysis).

SME's are discriminated by the banks in comparison to the larger enterprises even in the developed countries where they in most cases pay a higher nominal interest rates by 1 to 2%²². Besides, the banks do not want to give loans to smaller enterprises. They have no confidence in the new companies, fear whether the loan would be paid back and are unable to check the good standing of the SME's in the event when their tradition of operating in this environment is insufficient.

B.4.1 New Forms of Small Economy Financing

A financial mechanism of support for the SME's should consist of (a) selective credits of small industry that manufactures for large-scale economy, (b) selective credits for projects of highly profitable export oriented products, (d) consortium financing of SME's, (e) selective financing of new and deficient products manufacture, (f) organizing intentional savings of the SME's in specialized banks in exchange for financing of highly profitable projects, (g) financing of family factories by the large enterprises, and (h) determining an adequate quota in the National Bank intended for stimulating loans to the commercial banks.

In order to strengthen the position of the SME's and to prepare them to obtain a loan in the commercial banks under favorable conditions, we need a special consistent program of awarding financial support within the framework of the national strategy and policy of development of small economy. The institutions and forms of financial support of the small economy, especially the start-ups, in this case should be determined by the economic development rate, developed institutional SME support infrastructure and the ambiance of the entrepreneurship development.

The basic forms of financial support are: funds for small economy development, specialized small economy banks, specialized credit, loan and guarantee issuing institutions for the account of small entrepreneurs, venture capital funds, franchising and leasing systems.

These financial institutions are usually financed from the budget, donations, cheap international resources, international help and programs, foreign capital, social help funds, irretrievable funds, share capital, specialized leasing companies, etc.

The financial institutions for small economy support usually award (a) micro credits for start-ups, (b) credits intended to finance various programs in small economy, in amounts larger than micro credits and loans, but still under 100,000 Euros, (c) credit guarantees for small entrepreneurs, (d) investment funds used to provide own capital of the small economic subjects, and (e) venture capital funds.

Financing of small economy by means of buying shares of the enterprises and from venture capital funds broadens the wide range of instruments and mechanisms of support for the entrepreneurship. This type of financing is non-taxable in many countries²³. Unfortunately, in the Republic of Macedonia there are no initiatives in this respect to date.

²² According to EIM Small Business Research and Consulting: "The State of Small Business in the Netherlands 1993", December 1993, pg. 55, also "Small Business Advisor, The Entrepreneur Magazine", John Wiley and Sons, New York, 1995, pg. 27.

²³ Economic policies of the developed countries including EU member states develop special systems of financial support of newly formed small enterprises, such as a network of venture capital funds and loan guarantee funds. Financing by the large enterprises by means of opening new firms, which employ the redundant work force, is also present. In this context, the companies invest even their own venture capital. There are also programs where unemployed persons invest their unemployment benefit into new enterprises. The venture capital funds and/or companies are of huge importance to the development of small economy, especially where a huge risk in the support of entrepreneurship and new technologies exists. Due to high manufacturing costs and the use of high technology in the small sector, these funds (mostly private enterprises and development banks) participate in the financing through buying shares in order to be able to partake in the management of the enterprises.

Venture capital is invested in all the phases of small economy development. The most important is the first, so-called seed capital for start-up businesses and expansion of existing businesses. The risk is big in all phases, but it is biggest in the first phase. Therefore, programs exist for initial economic activities and support and development of new technologies in small economy.

The most wanted are the small loans, for start-ups and strengthening existing businesses. However, the complex procedure and unfavorable conditions cause very low usage of the credit lines aimed at the development of the small economy in Macedonia and in Veles municipality as well²⁴.

B.4.2 Instruments for Small Economy Financing

Provision of funds is one of the essential factors for development and promotion of small economy and the economy as a whole. Further growth of any economic segment is impossible without new investments, aimed at either reconstruction or implementation of new technologies and activities. The low accumulation rate of companies means there is lack of funds for new investments. This implies that credits become increasingly used instruments by companies for realization of new investments.

On the other hand, low domestic savings makes domestic capital insufficient and expensive, thus increasing the need for using foreign credit lines. One shouldn't disregard other forms of support such as tax benefits and exemptions, customs alleviations, education, consultations, information etc.

There are many sources funding the development of small economy. Some of them are presented in detail below.

NEPA

NEPA with its regional centers in Veles, Kumanovo, Bitola, Strumica and Skopje and the ESA agencies in Ohrid, Tetovo and Gostivar offers micro credits amounting to EURO 5.1 million and MKD 55 million. The funds are approved through commercial banks to the maximum of MKD 1.8 million with 11.9% interest rate, and own down payment totalling a third of the amount of the credit approved, with a payback term from 3 to 5 years. They are earmarked for starting businesses or companies registered from 1990 on, with 20 employees the most and at least 51% private ownership. The sectors eligible for funding are (a) processing of agricultural products and food production as secondary production, (b) computers, telecommunications and electronics, (c) packaging, (d) non-ferrous industry, (e) tourism and tourist services, (f) handicraft, (g) production services and (h) medical services.

The credit applicant should be a client of NEPA or some of the authorized regional centers for development of small and medium enterprises. At the regional center, clients receive a ready-made business plan sample, as well as instructions and expert assistance for its preparation. The condition for applying for credit to the banks is having a recommendation for business plan from NEPA or its authorized regional centers issued to the client. The client's down payment should at least amount to minimum 20% of the total amount of funds required. Credits are only approved for purchase of equipment and machines.

Rado banka and Tutunska banka

Rado Banka and Tutunska Banka from Skopje offer funds from the Macedonian Development Foundation in the amount of EURO 4,170,273 through mediators for (a) investments in equipment, farming raw materials or cattle up to EURO 10,000 per individual farmer with 7.25% interest rate, one-year grace period and duration of loan up to 4 years, (b) basic and working capital funds to small enterprises with 20 employees the most in the farming business up to EURO 50,000 with 8 to 12% annual interest rate, 20% down payment, five year payback term and one year grace period, and (c) basic and working capital funds for micro enterprises according to the criteria of "Opportunities".

²⁴ For a faster and undisturbed development of the small economy, one should change the existing attitude of lending under unsuitable commercial conditions (24% annual interest rate, 200% mortgage, mortgage on real estate in town in exchange for agricultural loans, etc.).

Invest Banka

As of February 1997, Invest Banka - Skopje started offering funds from the International Fund for Agricultural Development (IFAD), in the total of DEM 16.2 million for development of the rural parts of East and Southeast Macedonia, (a) for individual farmers – up to USD 10,000 with payback term up to 6 years, grace period from 3 months to 3 years and annual interest rate of 6%, (b) for individual farmers – up to USD 30,000 under the same terms; and for (c) small and medium enterprises – up to USD 75,000 under the same terms and mortgage on assets in the city with a ratio 2:1 (200%).

Macedonian Development Support Bank

The Macedonian Development Support Bank, as a promotional bank in the Republic of Macedonia, approves credit lines through the following 11 commercial banks - Stopanska Banka A.D. - Skopje, Balkanska Banka A.D. - Skopje, Komercijalna Banka A.D. - Skopje, Invest Banka A.D. - Skopje, Tutunska Banka A.D. - Skopje, IK Banka A.D. - Skopje, Makedonska Banka A.D. - Skopje, Stopanska Banka A.D. - Bitola, Export-Import Banka A.D. - Skopje, Tetovska Banka A.D. - Skopje and Rado Banka A.D. - Skopje.

The credit lines intended for small and medium enterprises and support to export oriented production under the commercial credit line from Italy amounting to DEM 25 million and the KFW Bank from Germany totalling DEM 30 million are approved in the range between DEM 100,000 to 800,000 with 15% down payment.

The credit line for financing basic and working capital funds (working capital up to 30% of the amount of credit) in the small and medium-sized enterprises, and for new employment is approved with payback term of 5 years, including up to one-year grace period and annual interest rate of 11%. The credit line for export-orientation production is approved with payback term up to 15 months and annual interest rate of 11%.

The commodity credit line from Italy is approved for purchase of equipment of Italian origin with payback term of 5 years, grace period up to 1 year and interest rate of 8% a year.

The credit line from KFW Germany is approved with payback term of 5 years the most, including a year of grace period and 11% interest rate at the annual level, and 30% of the credit can be intended for working capital.

International Bank for Reconstruction and Development

The International Bank for Reconstruction and Development (IBRD) provides credit lines for purchase of equipment, construction works, basic ballance and turnover capital. The target group of this credit line is the private sector. Conditions and criteria of the credit line are: amount of credit from DEM 150,000 to – 2.25 million, annual interest rate of 13%, payback term from 1 to 10 years and a grace period of at least a year. The provision of the credit comes with a mortgage on assets in ratio 2:1.

The banks authorised for realization of funds are: Stopanska Banka A.D. Bitola, Makedonska Banka A.D. Skopje, Radobanka A.D. Skopje, Tutunska Banka A.D. Skopje, Invest Banka A.D. Skopje, Komercijalna Banka A.D. Skopje, Ohridska Banka A.D. Ohrid.

Local Development Financing Sources

Analysis show that the Municipality of Veles, with better degree of organization and mobility can provide funds for investing in primary funds. These funds, although modest, will have to provide use of additional country's accumulation, and foreign capital as well. According to the analysis, even during maximum efforts for increasing its own investment funds, Veles municipality, without the use of additional accumulation from the country and foreign capital will not be able to realize large-scale investments in the primary funds, which could create conditions for the municipal development.

Local sources of financing capital for development of the Municipality of Veles are the depreciation and funds for expanded reproduction of the existing enterprises, funds of private businessmen and funds of the population. The investment financing funds from enterprises will be realized with respect to the existing regulations for allocation for depreciation, as well as with present private initiatives for realization of production with higher finalization stages in the industry and agriculture, as well as for performing services in the tertiary sector. With the realization of these initiatives it is believed that local sources could be engaged for investment funding in the municipality. For this purpose, investors are to be encouraged, they should be given appropriate locations, the utility and other fees maintained at a tolerant level, conditions should be created for use of banking credits, etc.

Studies also show that another significant local source of finance development can be the savings operations of the population. Some indicators note that there are substantial treasured funds in the homes of the population in Denars and foreign currency. These funds can be effectuated substantially towards support to the investment initiatives in the municipality by increasing the trust in the country's financial systems and the banking institutions.

Data show that part of the population from the Municipality of Veles are immigrant workers in the Western European and other countries. There are initiatives for return of workers and their starting businesses in the places of birth. By creating more favorable conditions for return of these persons and their active engagement in certain production capacities, a significant source will be provided for increased investments in the Municipality of Veles.

It is expected that local financing sources will be created and by reinforcing the revenues of local self-management. With the forthcoming decentralization of the government, parts of the revenues of the state will be redirected towards the local self-management budgets. These funds should, above all, be used for providing infrastructure conditions for work of the municipality and direct support to the investment projects of its interest

The local development financing could be realized by: (a) the Foundation for SME's Development - Regional Center in the frameworks of the NEPA's net of institutions for promotion of SME's, (b) Venture Capital Fund for investments and partnership, formed as an investment fund from private resources, privatization resources, local budget and donations from various programs for support of the small economy, (c) savings-credit union for financing projects for private initiative development of the local population (those who save can use the resources).

SEAF/Macedonia

SEAF/Macedonia is a joint investment fund which promotes the development of SME's in Macedonia. SEAF is a commercial company, subsidiary of SEAF (Small Enterprise Assistance Fund), Washington USA. This is a purely investment, and not crediting institution. It takes over only the minority shares (25% to 49%) and is an active partner while being the co-owner of the company. As an investment fund, SEAF invests exclusively on commercial basis and then, after three to seven years, sells its shares primarily to partners or third entity that they had jointly used. This transaction can be realized through public selling of shares on the securities market, expecting some return.

SEAF usually invests in companies which have shown devotion to their investment ideas and its justification in the to-date work. The fund is interested to invest in newly-formed companies as well, with little or a lot of historical data on the work, if entrepreneurs have the necessary adequate experience and devotion towards investments and if there is enough capital inflowing in the company, in order to compensate for the bigger risk resulting from the fact that the company is just starting up. SEAF/Macedonia was funded by the US Agency for International Development (USAID), EBRD, IFC and DEG. The total fund capital is approximately USD 13 million. The average size of the investment ranges between USD 200,000 and 800,000, taking over 25% to 49% of ownership. Target groups for joint investments are: (a) entrepreneurs with integrity and experience, determined for fast growth, shareholding partnership and a transparent modern management, (b) private owned SME's, (c) companies in the attractive commercial sector such as

the: information-communication technology, non-ferrous industry or servicing industry, agriculture, excluding the financial services, lottery games, tobacco industry, production of alcoholic beverages, and illegal activities hazardous to the human environment, and (d) owners - entrepreneurs wishing and able to invest funds proportional to the size of their ownership.

Humanitarian Organization "Opportunities"

The humanitarian organization "Opportunities" of USAID seated in Chicago, USA has, its offices in Skopje, Kumanovo, Kochani, Kichevo and Strumica. It provides many kinds of small loans, group loans for small enterprises and legal entities (farmers, craftsmen) from many sources, offered in form of loans for: (a) basic funds up to DEM 35,000 with payback term of 2 to 3 years, up to 6 months grace period, 2 to 3% one-term compensation and interest rate of 18 to 22% a year, (b) short-term credits for permanent working capital funds in the amount of DEM 25,000 with payment due in one year the latest, 18% annual interest rate, grace period from 1 to 6 months and one-term compensation of 2 to 3%, (c) credits for agriculture amounting to DEM 25,000 with payback term of 2 to 3 years and grace period up to 6 months, annual interest rate of 16 to 22% and one-term compensation of 2 to 3%, (d) short-term credits for current funds up to DEM 25,000 with payback term of 6 months and interest rate of 20.4 to 24% at annual level, (e) group credits for women entrepreneurs who comprise a group of 3 to 5 members who mutually guarantee the return of credit in the maximal amount of DEM 3,000 etc.

Open society institute - Macedonia

The Open Society Institute-Macedonia supports the development of agriculture in Macedonia with the approved USD 500,000 through the Export Credit Bank – Skopje up to EURO 10,000, with annual 8% interest rate, 6-month grace period and payment term of 1 year for revolving funds and 3 years for basic funds for and administrative compensation of 1,5% from the amount of the approved credit (in case of mortgage of 130% of the credit value). Also, the institution "Opportunities" offers for group loans for production, services, retail trade and agriculture for 3 to 5 members that mutually guarantee the return of credit with interest rate of 14% a year, one month grace period for each cycle and 2% of the approved loan as one-term compensation).

ACDI/VOKA

As part of the realization of the project Macedonian Agriculture Association Support (MAAS), ACDI/VOCA works with the associations as a partner in providing the necessary support and assistance, i.e. services to their members. Support is carried out with the help of expert consultants from the USA and the Republic of Macedonia, through a training program, workshops, seminars, etc. The associations will actively take part in the creation of activities and their manner of implementation. They are equal partners in the determining of their needs, selection of the expert assistance beneficiaries and organizing of training programs and seminars.

In the initial stage of the project, 25 to 30 active agricultural associations will be selected as potential direct beneficiaries of the expert assistance and partners in this development program. The leadership and member of those associations will take part in training programs for the membership needs. The MAAS project contains another very important support mechanism for the functional development of the associations, and that is the program "Initial grants for profit realization for associations". These grants will provide selected associations with initial funds for economically sustained services that will lead to profits and bring about revolving fund owned by the association. These funds are, above all, intended for activities that will bring the associations profits, such as, for instance, joint purchase of raw materials at a lower cost for members, provision of production equipment and marketing services to their products. The grant program enables awarding grants up to USD 5.000 per agricultural association.

Land O'Lakes

Land O' Lakes belongs to the MAMA project (Macedonian Agribusiness Marketing Activity), primarily earmarked towards promotion of product brand in the field of food industry. The project does not approve any micro credits, but through its Business Development Sector it helps clients get funding from sources such as: Opportunity International/Možnosti, The Open Society Fund, IFAD and the World Bank. The project activities include training in the field of management and business. The project cooperates with the association of private meat and milk product producers.

B.5 Recommendations for Small Economy Development

The economic restructuring in Veles municipality will continue by carrying out the process of privatization of the existing enterprises and by opening new private enterprises.

The opportunities for further development of private initiative in the municipal economy result from the local comparative advantages. The natural and human resources, the main national railroad and traffic communications passing through the municipality, the existing industrial infrastructure, the river Vardar, the closeness to "Petrovec Airport" and the geographic location in the central part of the Republic of Macedonia, present a solid base for achievement of a more dynamic economic development, including the small economy development.

As priorities for small economy development in Veles municipality are established: (1) development of capacities close to the production of large enterprises, (2) development of strategic partnership with foreign partners (franchising, joint investments, licensees, patents, leasing system), (3) satisfying the local consumer demands as well as the needs of larger production capacities through development of small businesses in all economic branches, (4) development of family businesses with respect to the local and family tradition, (5) maintenance and development of the existing economic capacities through introduction of new technologies and new management methods, (6) maintenance and development of the existing economic capacities through development of close and compatible activities in form of "clusters" of enterprises (agricultural, tourism), (7) nourishment of all forms of associations in the small economy, and (8) development of institutions which support the small economy in the field of information, permanent education, business consultancy, export promotion, as well as small economy promotion through an affirmative approach in the mediums.

In accordance with the available production factors, the small economy in Veles municipality has to be organized in different ways and forms, depending on the opportunities, needs and inventiveness of the local bodies and relevant institutions. In accordance with their authorizations, and according to their inventiveness and creativity, the municipal bodies should provide continuous development and support to small economy. One of the ways for accomplishing support at local level is foundation of a Municipal Development Center.

The small economy should be also organized through various forms of co-operation and partnership in frameworks of (1) technological development zone, (2) business incubators and (3) subcontracting relations with bigger enterprises from the municipality and other regions.

The establishment of the technological development zone will provide support of the integral economic development, and by that, development of the small economy in the municipality. The zone will provide placement of new small industrial and handicraft enterprises, in function of providing much cheaper production due to the relatively lower prices of construction, usage of the existing physical and traffic infrastructure, as well as other conveniences.

Entrepreneurship development in the municipality should be helped out and by establishing and strengthening institutions for support to small economy through providing favorable business climate. Significant role in the support will have the newly formed business incubator. For improvement of its possibilities and for expansion of its activities, the municipality should be actively engaged in animation of the population about the opportunities offered by the incubator.

The business incubator, on the other hand, should intensify its involvement in the current processes in the municipality and invest in supplementary working equipment, as well as to provide a web page for promotion of the enterprises deriving from him.

For achieving a more dynamic, more balanced and more harmonized development of Veles municipality, and in function of rounding off the reproduction processes in bigger enterprises, development of the local industry, establishment of strategic partnerships with domestic and foreign business subjects and development of family businesses, establishment of subcontracting relations at several levels and fields is indispensable.

The existing industries in Veles, through leasing their secondary activities or by selling their process equipment, will stimulate the small economy development. This so-called “umbrella strategy” will enable subcontracting between the small economy and the big enterprises in a way that the bigger enterprises will achieve more productive and competitive production while cooperating with the small economy. In certain cases, these enterprises will establish centers for management and training of its own employees, so that they can be prepared for establishment of their own businesses, in case they are announced as redundant.

In Veles municipality there are good prerequisites for subcontracting with the big enterprises, especially in the food processing, ceramics, textile, leather and metal-processing industry. In the agrarian complex the subcontracting relations should be particularly developed in the wine production, cattle breeding and beekeeping. The horticulture and organized mushroom growing are of good development perspectives, too.

Veles, as a town with tradition in the ceramics, textile and leather industry, should certainly continue to implement its experience in new small private capacities. The large number of dismissed workers, using their qualifications, knowledge and talents, by their self-employment efforts and support from various programs, funds and banks, could start their own businesses, particularly in the field of provision and production of raw materials for the local economy, finalization of the production programs and enrichment of the present assortments, production of appropriate wrapping material and offering good and prompt transportation and other services. The present world tendencies that gravitate toward usage of natural textures and materials should be considered seriously, thus presenting a second chance for the sericulture in Veles.

The rural settlements in the municipality should be developed in direction of using the available local resources for agricultural development, especially of those for cattle-breeding, bee-keeping, viniculture, horticulture, mushroom growing and higher processing stages of these produces. For example, in Bashino Selo, in the vicinity of Veles, there is an interest and possibility for flower growing. Apart from these activities, the small economy in the rural settlements could be developed in the activities deficient for these settlements, such as medical and mechanical services, maintenance of home apparatus, catering etc.

Veles, as a town with rich handicraft tradition and fame, should continue to support the handicraft development through approving building locations, allotting business space and micro loans, providing tax alleviations, etc. Particularly attention should be paid to revival of the old trades, which should once more become a trademark of the Veles region, and contribute to improvement of the economic condition in the municipality.

The trade and services, especially the transit tourism and catering, are great opportunities for small economy development of Veles municipality. The natural resources, cultural heritage and the communication links are factors that enable much faster development of the local small economy. Significant improvement of the present condition is expected by completion and outfitting of the tourist complex at the Lake Mladost, which will simultaneously satisfy the recreation needs of the citizens of Veles municipality.

The small economy has to be also developed in the fields of financial and consulting services, computer maintaining, real estate agencies, transportation of people and goods, marketing agencies, agencies for environmental protection, agencies for design and technical consulting, enterprises for modern packaging, etc.

Such an approach will intensify the interest for starting micro and small business, at the same time being a start point for achieving the main strategic goal, implementation of a local economic development of Veles municipality.

B.6 The Market as a Development Factor of the Small Economy

Related to the development of the problems of creating new businesses in the area of the small economy, all relevant factors are being analyzed, that are necessary for successful existence of the new economic subjects on the domestic and foreign markets. The conclusion of the analysis says that an independent breach of the markets outside the municipality, except in extraordinary cases (disposal of boilers and other heating elements, export of cut flowers, lon system in the textile production etc.), is a very complex and problematic process, unless it is linked to the disposal of goods of akin, big enterprises in the municipality and wider.

Therefore, the existing and the future businessmen from the production sector of Veles municipality should follow the recommendations for appearance at the possible markets for disposal of local industrial goods, stated in table 17, chapter A.4 of this study.

Taking into account the above knowledge and conclusions, the creation of new businesses in the small economy and production crafts should be primarily based on the opportunities of the local market, i.e. to satisfy the needs of the local industry and the population of Veles municipality with corresponding raw materials, goods and services.

With respect to the favourable conditions for flower export and the specific local conditions related to the early gardening, the favourable climate and the need of further usage of the high-grade soil located north of the town of Veles, which is highly contaminated by heavy metals, a concept of mass flower production under plastic houses as a family business is being elaborated. It is considered that this small economy sector could have constant growth in the following period, foreign market competitiveness and big influence on the overall social and economic situation in the municipality, especially in conditions of usage of alternative thermal sources, such as the waste energy from the local smelting complex or the burning energy of the waste bio-mass produced during agricultural activities (vine sticks, fruit trees' branches, grain straw etc.)

The draft project for introducing the flower production as a family business and several other draft projects assessed during the research process as projects of greater importance for the integral development of Veles municipality, are stated in the text bellow. Some of them were mutually initiated by the local entrepreneurs and consultant team, which prepared the study. It should be also stressed that for successful realization of each of the bellow presented projects, elaboration of business plans, and for some of them separate feasibility studies, is indispensable. For protection of business interests, the presentation of some development projects is given in limited edition.

B.6.1 Production Enterprises

| Project 1. Family business for production of cut flowers | | | | |
|--|--|------------------|------------------|------------------|
| Description of activities | | | | |
| Building of 50 family objects (plastic houses) for growing of cut flowers, each one with an active surface of 2.000 m ² . Each object consists of individual systems for floor heating and drop-by-drop irrigation. The financial calculations are made for growing gerbera, calla, alstroemeria and gladiolus. Each flower is participating in the total production by: 30% gerbera; 30% calla; 20% alstroemeria; 20% gladiolus. | | | | |
| Necessary investment finances | | | DEM | |
| Construction works, purchase and equipment mounting for 400 plastic houses, each one with a surface of 240 m ² . | | | 3.500.000 | |
| Employees | | | | |
| 150 employees, out of which 50 to 100 persons are members of the families - bearers of the family businesses. | | | | |
| Revenue and costs | | I year | II year | III year |
| Revenue | | 3.960.000 | 3.960.000 | 3.960.000 |
| Seeding material costs | | 476.000 | 476.000 | 476.000 |
| Costs for protective measures, fertilizers and additives | | 285.000 | 285.000 | 285.000 |
| Heating costs | | 775.000 | 775.000 | 775.000 |
| Salaries for 150 employees | | 630.000 | 630.000 | 630.000 |
| Salary fees | | 470.000 | 470.000 | 470.000 |
| Administrative and commercial services costs | | 70.000 | 70.000 | 70.000 |
| Research and development | | 12.000 | 12.000 | 12.000 |
| Total operational costs | | 2.718.000 | 2.718.000 | 2.718.000 |
| Profit before taxation | | 1.242.000 | 1.242.000 | 1.242.000 |
| Credit payback term (10 years; 7,5% interest) | | 612.000 | 586.000 | 560.000 |
| Taxes | | | | |
| Net profit (without taxes) | | 630.000 | 656.000 | 682.000 |
| Net profit for the bearer of the business | | 12.600 | 13.120 | 13.640 |

Note: The net profit is much higher when growing just one type of flower. For example, when growing only gerberas, the annual revenue amounts DEM 5.340.000. However, such an accomplishment requests for providing a safe disposal of goods at the foreign market.

| Project 2. Plant for production of "ekopan" panels for thermal and sound isolation | DEM |
|---|---|
| <p>Description of activities and expected effects</p> <p>The leather and fur industry of Republic of Macedonia is located in Skopje, Kumanovo, Veles, Bitola i Delchevo. Its production of leather and fur waste materials is 6 tons per day or 1.200 tons per year. From ecological point of view, this kind of waste material presents a burden to the landfills it is disposed at. However, the leather and fur waste material could be recycled in a product known under its commercial name "ekopan" panel. The product is used for thermal isolation and sound protection and is applied in the construction business (facade and interior walls, floors and roofs, facade sanation without demolition of the base) and in lumber industry (production of doors and other elements).</p> <p>The plant capacity is 200.000 m² "ekopan" panels while working in two shifts. The products are intended for the domestic market, i.e. for substitution of similar import products.</p> <p>The project's realization will provide increase in the employment, substitution of imported isolation elements, improvement of the annual national balance of payments of approximately DEM 600.000, achievement of significant ecological benefits coming from the usage of industrial waste materials detrimental to the eco-systems, saving of irretrievable energy resources, sound protection etc.</p> | |
| <p>Necessary qualifications and documents</p> <p>One engineer with expert knowledge of production technology. Certificate for product's quality, work permit.</p> | |
| <p>Employees</p> <p>9 employees out of whom 1 engineer and 8 workers.</p> | |
| <p>Fixed expenses (investments)</p> <p>Workshop with a surface of 150 m² and a wall height of 4 meters (already built and adapted) and infrastructure (water, electricity, compressed air and petroleum). Process equipment including chopper for waste leather, mixer for homogenisation and dosage, semiautomatic transportation system, press, reloading machine for the pressed panels, drying tunnel with a system for cart dragging, compressor, control case with transfer installation, measuring and regulation equipment.</p> | 195.000 |
| <p>Variable costs</p> <p>Telephone, fax, advertisement in the local newspapers and media, attests etc.</p> | 2.500 |
| <p>Necessary working capital</p> | 14.500 |
| <p>Total startup costs</p> | 212.000 |
| <p>Revenue before taxation</p> <p>1 year (production and disposal of 50.000 m² "ekopan" panels) 2 year (production and disposal of 100.000 m² "ekopan" panels) 3 year (production and disposal of 150.000 m² "ekopan" panels) 4 year (production and disposal of 200.000 m² "ekopan" panels)</p> | 23.000 145.000 266.000 388.000 |

| Project 3. Enterprise for production of furniture and interiors made of "media pan" panels | DEM |
|--|----------------|
| Description of activities and expected effects The furniture and interior elements production from "media pan" panels will be realized by expanding the production assortment of an existing plant for production of furniture from polished plywood sheet. The annual plant capacity is building of 500 m ³ "media pan" panels into various furniture and interior elements. The whole production is intended for disposal at the domestic market. | |
| Necessary qualifications and documents Specialized training for a part of the workers. There is no need of particular certificates. | |
| Employees 13 employees (3 college graduates, 10 highly-qualified and qualified workers). | |
| Fixed expenses Adaption and enlargement of the existing workshop. 15.000 "Media pan" processing machine, computer, software and other equipment. 60.000 Transportation means. 10.000 | 85.000 |
| Variable costs Phone, fax, advertisement. | 2.500 |
| Necessary working capital | 46.000 |
| Total startup costs | 133.500 |
| Revenues 1 year 210.000 2 year 300.000 3 year 300.000 | |

| Project 4. Plant for printing textile | DEM |
|---|---------------|
| Description of activities The company would work as a cooperate of the textile companies from the region, with primary activity of printing and finalizing of textile products in small series, as well as printing and private labeling of different products (labeling apparel, putting logo of a company for advertising purposes etc.). | |
| Necessary qualifications and documents Necessary computer knowledge and basic knowledge in textile industry. | |
| Employees 2 employees. | |
| Fixed expenses Machine for digital printing of textile. 12.000 Computer, scanner, phone, fax and offices. | |
| Variable costs (for the first year) Telephone, advertisement in the local newspapers and media. | 1.000 |
| Necessary working capital | 2.000 |
| Total startup costs | 15.000 |
| Revenue 1 year 10.000 2 year 20.000 3 year 25.000 | |

| Project 5. Objects for mushroom growing | DEM |
|--|----------------------------|
| Description of activities Growing mushrooms has been estimated as an economy activity of great importance in the plan of productive engagement of the unemployed able to work population. For supplying production of 10-15 tons of oyster mushroom per quarter, raw materials are needed for producing compost. | |
| Necessary qualifications and documents No previous qualifications are needed. | |
| Employees 2-4 employees as a family business, for managing production of 10-15 tons of mushrooms per quarter. | |
| Fixed costs for production of 10-15 tons mushrooms Substrate raw materials (36 tons), water (72 tons), mycelium, AGAT-25K, preparation of substrate by waste of lucerne, straw and sawdust, seeding with mycelium. | 12.000 |
| Variable costs (for the first quarter) Seeding, other expenses. | 1.000 |
| Necessary working capital | 0 |
| Total startup costs | 13.000 |
| Revenue 1 quarter (10 tons mushrooms) 2 quarter (12.5 tons mushrooms) 3 quarter (15 tons mushrooms) | 30.000 37.000 45.000 |

B.6.2 Consulting Enterprises Related to Production Activities

| Project 6. Consulting bureau for environmental protection projects | DEM |
|---|--|
| Description of activities Primary activity is giving consultant services and making projects for environment protection, such as: treatment of waste water, solid waste and toxic materials, making ecological plans and elaborates, development of ecological tourism (recreational and untraditional), collecting and recycling of waste materials, organic food production, selling of organic products. | |
| Necessary qualifications and documents Necessary experience in corresponding area (biology, agriculture, chemical engineering, etc.) | |
| Employees Up to 5 employees. | |
| Fixed costs Computer, scanner, modem, printer, phone line, fax. | 5.000 |
| Variable costs (for the first year) Telephone, advertisement in local electronic and printed media | 1.500 |
| Necessary working capital | 0 - 5.000 |
| Total start-up costs | 6.500 |
| Revenue 1 year 2 year 3 year | 10.000 - 100.000 20.000 - 200.000 20.000 - 200.000 |

| Project 7. Consulting bureau for production of silk, flax and hemp | DEM |
|--|---------------|
| <p>Description of activities</p> <p>The consulting bureau for restoration and promotion of natural silk (silk threads and their processing), flax and hemp should elaborate the technology of silk thread production and to engage and prepare the local farmers for the production start. In co-operation with the local government, the bureau should elaborate a plan for providing mulberry trees seedlings and their planting (along the local roads, on unused land, along the local streams) and to supervise the process of planting. This is a prerequisite for a more massive production starting after the third year of planting. Apart from these activities, the bureau will analyse the possibility for accepting the beginning quantity of raw silk and its further processing up to the highest possible level, as well as the disposal of products.</p> <p>The consulting bureau will be also engaged in restoration of the flax and hemp growing and their processing. In co-operation with the Ministry of Agriculture, Forestry and Water-supply, local bodies and the users interested in hemp and flax fibres, the bureau should prepare an elaborate on growing of flax and hemp, their processing, choice of machines for planting and collecting, disposal of goods etc. The bureau will also do advisory work for the farmers who will start primary production of these cultures, will provide purchase of the produced fibres and will take care of the silk, flax and hemp products' promotion.</p> | |
| <p>Necessary qualifications and documents</p> <p>Knowledge of technology of raising silkworms and raw silk processing into silk thread, as well as knowledge of flax and hemp growing and their finalization into textile production.</p> <p>No need of certificates and work permits.</p> | |
| <p>Employees</p> <p>4 employees out of whom 1 graduated textile engineer as a manager of the bureau, 2 graduate agronomists and 1 administrative worker.</p> | |
| <p>Financing</p> <p>Taking into account the bureau's activity is related to revival of a very important activity for the Republic of Macedonia, its operational expenses in the first three years will be covered by the state budget and foreign donations. Later on, the bureau will work on commercial base through realization of projects related to production and processing of silk, flax and hemp.</p> | |
| <p>Fixed costs</p> <p>Office equipment, rent and administrative expenses, basic equipment (computer, software etc.) and salaries for 1 year.</p> | 52.500 |
| <p>Necessary working capital</p> | 0 |
| <p>Total start-up costs</p> | 52.500 |

| Project 8. Consultation bureau for engineering and automatization of processes | | DEM |
|---|--|--------------|
| Description of activities The consultant company will provide services of running, regulation and automatization of processes, measuring and control, optimization of process systems and other services related to process control. Primary activity of the company is providing professional and quality services in defined time periods and installment of top-quality equipment in these fields. For lower investment capital, in the first year the company will work in own business offices (home conditions). | | |
| Necessary qualifications and documents Graduated electrical engineer with at least 5 years work experience in the corresponding area. | | |
| Employees 2 employees. | | |
| Fixed costs Computer, scanner, modem, printer, phone line, fax. | | 7.500 |
| Variable costs (for the first year) Telephone, advertisement in local electronic and printed media | | 1.500 |
| Necessary working capital | | 0 - 5.000 |
| Total start-up costs | | 9.000 |
| Revenue | | |
| 1 year | | 35.000 |
| 2 year | | 50.000 |
| 3 year | | 65.000 |

| Project 9. Company for computer equipment maintenance | | DEM |
|--|--|--------------|
| Description of activities Maintaining PC's and remote appliances. All repairs are mainly done on the spot. The work consists of software installation and modification, cleaning keyboards, mice and printers and their changing of toners. Possible increase of income by selling other supplies of need. | | |
| Necessary qualifications and documents Good knowledge of hardware and software and the accompanying units. No certificates or permits are needed. | | |
| Employees 2 employees. | | |
| Fixed costs Computer, telephone line, fax and office. | | 3.000 |
| Variable costs (for the first year) Telephone, advertisement in local electronic and printed media. | | 1.000 |
| Necessary working capital | | 0 |
| Total start-up costs | | 4,000 |
| Revenue | | |
| 1 year | | 6.000 |
| 2 year | | 12.000 |
| 3 year | | 18.000 |

B.6.3 Other Consultant and Service Companies

| Project 10. Marketing agency | DEM |
|---|--------------|
| Description of activities Making brochures and marketing materials (electronic processing), mediating in providing electronic and printed marketing area, marketing advice, making marketing plans. | |
| Necessary qualifications and documents Necessary knowledge in marketing and economy. No certificates or permits are needed. | |
| Employees 2 employees. | |
| Fixed costs Computer, scanner, modem, phone line, fax and workroom. | 3.600 |
| Variable costs (for the first year) Phone, advertisement in local electronic and printed media. | 1.000 |
| Necessary working capital | 0 |
| Total start-up costs | 4.600 |
| Revenue | |
| 1 year (revenue may vary) | 10.000 |
| 2 year (revenue may vary) | 20.000 |
| 3 year (revenue may vary) | 30.000 |

| Project 11. Travel agency | DEM |
|--|---------------|
| Description of activities The travel agency with its activities should cover the municipality and wider region. Beside its own services (accommodation, tour organizing), significant part of the income comes from other activities by which it gets fixed percentage (up to 10% by selling plane tickets, up to 20% for their selling on the internet). The agency should strive to provide services and capacities in the region and to promote ecological and country tourism. | |
| Necessary qualifications and documents Necessary knowledge in tourism, marketing and economy. | |
| Employees 2 employees | |
| Fixed costs Computer, application software, modem, phone line, fax and workroom, office equipment, printed materials. | 15.000 |
| Variable costs (for the first year) Phone, insurance, advertisement in local electronic and printed media, other unpredicted costs. | 5.000 |
| Necessary working capital | 40.000 |
| Total start-up costs | 60.000 |
| Revenue | |
| 1 year (revenue may vary) | 80.000 |
| 2 year (revenue may vary) | 100.000 |
| 3 year (revenue may vary) | 120.000 |

| Project 12. Passenger center and truck terminal | | | | |
|---|----------------|----------------|----------------|------------------|
| Description of activities | | | | |
| The project would include: a shop, gas station, restaurant, motel, car and truck service and parking. The object will serve the transitory traffic, as well as the needs of the local population. | | | | |
| Necessary finances | | | DEM | DEM |
| Shop and restaurant equipment | | | 200.000 | |
| Motel equipment | | | 100.000 | |
| Unpredicted costs | | | 50.000 | |
| Total start-up costs | | | | 350.000 |
| Variable expenses | | | | |
| Working capital (cash) | | | 250.000 | |
| Products available | | | 100.000 | |
| Other short term and unforeseen costs | | | 50.000 | |
| Total variable costs | | | | 400.000 |
| Long term expenses | | | | |
| Infrastructure of the whole object | | | 50.000 | |
| Land | | | 100.000 | |
| Land decoration | | | 100.000 | |
| Road infrastructure | | | 150.000 | |
| Building | | | 250.000 | |
| Service center | | | 150.000 | |
| Gas station | | | 450.000 | |
| Total long term costs | | | | 1.250.000 |
| Total investment * | | | | 2.000.000 |
| Projection of revenue and expenses | | | | |
| | 2002 | 2003 | 2004 | 2005 |
| Revenue from service | 3.500.000 | 4.200.000 | 4.951.800 | 5.684.666 |
| Expenses | 2.413.793 | 2.896.552 | 3.415.034 | 3.920.460 |
| Other expenses | 0 | 0 | 0 | 0 |
| Total expenses | 2.413.793 | 2.896.552 | 3.415.034 | 3.920.460 |
| Gross profit | 1.086.207 | 1.303.448 | 1.536.766 | 1.764.207 |
| Growth in percents | | - 20.00 | 17.90 | 14.80 |
| Operational costs | | | | |
| Advertisement/promotion | 20.000 | 25.000 | 30.000 | 30.000 |
| Various unforeseen costs | 10.000 | 10.000 | 10.000 | 10.000 |
| Salaries for 36 employees | 266.400 | 266.400 | 266.400 | 266.400 |
| Amortization | 50.000 | 50.000 | 50.000 | 50.000 |
| Equipment hire | 20.000 | 20.000 | 20.000 | 20.000 |
| Fixed assets | 25.000 | 25.000 | 25.000 | 25.000 |
| Insurance | 100.000 | 100.000 | 100.000 | 100.000 |
| Administrative services | 5.000 | 5.000 | 5.000 | 5.000 |
| Development and investment | 0 | 50.000 | 100.000 | 100.000 |
| Operational expenses | 496.400 | 551.400 | 606.400 | 606.400 |
| Pre-tax profit | 589.807 | 752.048 | 930.366 | 1.157.807 |
| Short-term credit repayment | 158.300 | 148.900 | 138.000 | 0 |
| Long-term credit repayment | 289.280 | 278.650 | 263.030 | 247.400 |
| Taxes | | | | |
| Net profit | 142.227 | 324.498 | 529.336 | 910.407 |

* 350.000 DM startup investment with own capital, 400.000 DM short-term bank credit (repayment term 3 years) for covering current costs and 1.250.000 DM long-term credit (repayment time 6 years) as means for covering long-term costs.

C

**OPPORTUNITIES FOR PROMOTION
OF TOURISM AND CATERING**

Introduction

Tourism is a social and economic phenomenon of a specific geographic area, which depends on many different factors. Most often, the fundament of its development is based on natural and human attractions in a specific range. Its developmental dynamics also depends on the tourist-geographic position of a certain destination. In fact, the tourist-geographic position can be even dominant, while natural and human resources can only be additional segment of tourist development.

That is the case of transit tourism. It can be developed in conditions when there is no particular tourist attractive base, but the tourism-geographic position of the destination provides transit of important traffic routes. Transit tourism includes particular tourist clientele, traveling through a specific area while moving to some other final destination. These visitors have different reasons for transitory stay - shorter or longer refreshment, overnight repose and breakfast or visit to local tourist attractions. To fulfill their needs and requirements, among other things, specialized service capacities and information desks near the main traffic routes have to be built.

Development of transit tourism provides activation of some geographic areas that do not possess any tourist value. Nevertheless, the staying period of transit tourists will be as much longer as the attributes of the surrounding are more attractive for the visitors. In the same time, this is closely related to the quality of tourist offer. As a result of some specific tourist values of a distinct geographic area, the transit tourism can acquire excursive attributes, realizing sometimes much longer stay of transit tourists. Therefore, it is very important to outfit the entire area with infrastructure and superstructure systems and all necessary accessories, which will significantly raise the level of service quality.

It is very important that tourist valorization of all attractions in the specific transit destination is also done. Only on that base a proper level of service in the frameworks of the tourist offer can be achieved. Value of the attractions must be good enough to keep the attention of transit tourists. In function of attracting tourist clientele, intensive tourist promotion has to be also carried out, using several specific promotional instruments and mediums.

Veles municipality is a very original representative of those geographic areas that can provide stronger development of transit tourism. Transitivity of this destination is the main tourism developing backbone. It is important to say that this region also possesses many interesting natural and human attractions. Proper valuation of these facts will be in function of establishing serviceable developing trends, having in mind the great happening in the near future - Olympic Games in Athens, 2004. This is a factor that will additionally raise the transitivity of the region. Therefore, Veles and its surrounding must be prepared for this forthcoming tremendous challenge.

In this context, whole regulation of Lake Mladost on Otavicka River must be a priority. It should provide satisfaction of the recreational needs of the population from the surrounding region. It comes from the fact that any other possibility for such activities in the region is at very low level. From the ecological point of view, Veles is one of the most polluted towns in the Republic of Macedonia. Therefore, regulation of lake littoral area will open new opportunities for partial resolving of the problems in this sphere.

This project should point out the opportunities for valorization of all tourist attractions in Veles region. Therefore, it is indispensable to perceive the present situation and to offer solutions for faster and stronger tourism development in this region. In addition, a crucial issue is to foresee the developmental effects, which will be carried out through the proposed undertakings in this sphere.

C.1. Comparative Advantages and Developmental Limits of Transit Tourism

Veles region is a geographic complex with specific attributes. First of all, the most important domestic and international traffic routes in Republic of Macedonia are transiting through this area. Its tourist-geographical position is dominant and represents a strong basis for transit development. Besides, this area possesses very interesting natural and human attractions, as an additional value for development of tourism.

One of the greatest natural attractions in Veles region, which needs special attention, is the Lake Mladost. The tourist-geographical position of this vacation complex - just near the main north-south international route E-75, is one of the greatest comparative advantages of the region, emphasizing its strong international transitivity.

Lake Mladost is also situated near the routes that lead to Sv. Nikole and Katlanovo. These routes have important traffic role in regional and local proportions, providing in the same time conjunction of different tourist attractions (particularly Katlanovo Spa).

All these routes are giving a very clear conclusion that the vacation complex at the Lake Mladost possesses exclusive opportunities for development of transit tourist activities. Moreover, this lake, as a singular geographic system, can provide recreational tourist activities for the residents of Veles region and its surrounding.

Notwithstanding all these comparative advantages for transit tourism development, there are also some developmental limits. For example, unfavorable condition of accommodation facilities in quantity and quality, very slow process of privatization of these facilities, insufficient size and structure of food and beverage facilities, purely bad situation in the field of tourist information and advertising, absence of managerial approach, prodigious deficiency of educated staff. In other words, absolutely undefined tourist identity and absence of tourist image of the destination.

C.2 Analysis of Tourist Development in Veles Region

The acquired knowledge about the attributes and the so far tourism development is a reliable base for establishing the future developmental trends in this sphere. Owing to the results of the previous tourist achievements, one can make valid statements for the necessary changes of the present situation. Developmental trends will include old re-evaluated and new attractive elements of tourism in this specific geographic range.

The main goal of the follow-up of the present condition in tourism in Veles municipality is to stimulate the removal of all negative factors that impact tourism development, which slow it down, or even, obstruct it permanently. The analysis of tourism development in this region embraces standard indicators of tourism. These indicators reflect tourist attendance, stay and tourist consumption. Considerable indicators of tourism development are also figures on accommodation capacities, especially level of tourist construction and quality of services. The level of inclusion of the natural and human tourist attractions in this offer significantly determines the developmental component of tourism activity in this region.

Analysis of all previously mentioned developmental indicators would enable perceiving of opportunities for the future tourism development trends. In our opinion, a 10 years' period of analysis is good enough to give valid results.

C.2.1. Attributes of Tourist Attendance

Tourist attendance is one of the most important indicators of tourist development. On the basis of the size of visit one can determine the level of future activities in the field of a new tourist offer, which has to be in function of attracting as much as possible tourists in the region of Veles.

The dynamics of number of visitors demonstrates development trends in the tourist currency. Analysis of the dynamic of these indicators will enable comparative research in the period of 10 previous years. Thereby, we will determine the exact years in that period when there was some progress, stagnation or remission of tourist attendance.

Very important issue is the relation between domestic and foreign tourist attendance, having in mind that development of transit tourism recognizes, first of all, foreign tourist attendance. Therefore, it is important to make a proper analysis on structure of attendance, where figures and numbers will create the backbone for defining the future developmental trends.

This analysis is based on certain data, obtained from the State Bureau of Statistics of Republic of Macedonia. Tables in the text contain size, dynamics and structure of tourist attendance in Veles region for the period from year 1990 to 1999.

Data from table 18 present the share of foreign and domestic attendance in the total attendance of Veles municipality

Table 18: Size, dynamics and structure of tourist attendance in Veles municipality

| Year | Domestic | Index | Foreign | Index | Total | Index |
|------|----------|-------|---------|-------|--------|-------|
| 1990 | 7.064 | 100 | 26.740 | 100 | 33.804 | 100 |
| 1991 | 12.605 | 178 | 11.017 | 41 | 23.622 | 70 |
| 1992 | 9.875 | 111 | 3.870 | 14 | 13.745 | 41 |
| 1993 | 10.392 | 147 | 3.897 | 14 | 14.289 | 42 |
| 1994 | 11.181 | 158 | 5.166 | 19 | 16.347 | 48 |
| 1995 | 9.279 | 131 | 2.998 | 11 | 12.277 | 36 |
| 1996 | 8.466 | 120 | 2.353 | 9 | 10.819 | 32 |
| 1997 | 8.496 | 120 | 2.488 | 9 | 10.984 | 32 |
| 1998 | 6.497 | 92 | 2.386 | 9 | 8.883 | 26 |
| 1999 | 5.511 | 78 | 1.707 | 6 | 7.218 | 21 |

Source: Yearbook of Statistics of Republic of Macedonia, 2000

Comment: According to declared data, in the period of 1991 - 1999, Veles region had suffered rapid decreasing of size of tourist attendance, comparing with 1990 as basic year. This remission is permanent. The most unfavorable results are registered in the last 5 years, and the lowest level of tourist attendance is realized in 1999. Regarding the structure of the attendance, number of foreign visitors is much more decreasing than number of domestic tourist attendance. This remission is immanent through out entire analyzed period, with biggest degradation in 1999.

Analysis of domestic tourist attendance demonstrates significant instability. Increase in the number of domestic visitors, compared to the basic 1990, with many alterations, is immanent during the period 1991 - 1997. In 1998 and 1999 the number of domestic visitors is decreasing, with decreasing index 78 in 1999. The main reason for this inauspicious trend in attendance of domestic tourists in Veles region is the major economic instability in Republic of Macedonia. However, realization of tourist spending in Veles in the period 1998 - 1999 is approximately at the same national level, without significant digression from all other tourist destinations in Republic of Macedonia.

This declension is still smaller than general tourist attendance declination, no meter how important is the recorded indicative instability of domestic tourist attendance. The biggest gap in tourist attendance is made by the absence of foreign visitors during the analyzed period, having in mind that precisely foreigners have the biggest importance for transit tourism development in Veles region.

Our analysis signifies that foreign tourist attendance is under permanent declension. In 1995 number of foreign visitors has an index 11, comparing with 1990 as basic year. Regretfully, in the last analyzed year, the number of foreign tourist that had visited Veles region is just 1.797, or symbolic index 6, comparing with basic 1990.

The main reason for such unfavorable trends in Veles region tourist traffic seems to be external factors, when Republic of Macedonia was confronted with several economic blockades and sanctions with strong negative impact on transitivity of this region. But, we cannot connect all reasons for this cardinal downfall of number of foreign visitors with political instability. In our opinion, strong reasons for this miserable situation can be also found in very incompetent organization of tourism at regional and local level.

Finally, our analysis refers to the main conclusion that it is more than necessary to intercede in tourism general development on national level, and particularly in the sphere of transit tourism in Veles region, which must reinstate and refresh the frightful present situation of foreign attendance in Veles and its surrounding.

C.2.2. Tourist Stay in Veles Region

The most significant indicator of development of tourism is tourist stay. Realized results in this field express the level of development, as much as the necessity of undertaking some activities for keeping and improving the interest of tourists. This indicator of tourist traffic is often in correlation with tourist attendance, having in mind that overtaking of many activities in the domain of tourist valuation of attractions and improvement of service can be also factor that will enable tourists to extend their stay in this environment.

Therefore, it is very important to recognize size, dynamics and structure of tourist stay in Veles region, over which we will be able to make certain conclusions for drastic improvement of present situation. Analysis of tourist stay, as much as realized sojourn, can be backbone for appropriating average stay, which is also very significant developing indicator.

Table 19: Size, dynamics and structure of number of nights in Veles region

| Year | Domestic | Index | Foreign | Index | Total | Index |
|------|----------|-------|---------|-------|--------|-------|
| 1990 | 15.356 | 100 | 30.409 | 100 | 45.765 | 100 |
| 1991 | 21.685 | 141 | 13.132 | 43 | 34.817 | 76 |
| 1992 | 16.062 | 105 | 4.336 | 14 | 20.398 | 45 |
| 1993 | 15.978 | 104 | 4.822 | 16 | 20.800 | 45 |
| 1994 | 20.397 | 133 | 6.804 | 22 | 27.201 | 59 |
| 1995 | 16.855 | 110 | 3.957 | 13 | 20.812 | 45 |
| 1996 | 26.929 | 175 | 3.000 | 10 | 29.929 | 65 |
| 1997 | 15.502 | 101 | 3.132 | 10 | 18.634 | 41 |
| 1998 | 11.848 | 77 | 3.949 | 13 | 15.797 | 35 |
| 1999 | 10.691 | 70 | 3.208 | 11 | 13.899 | 30 |

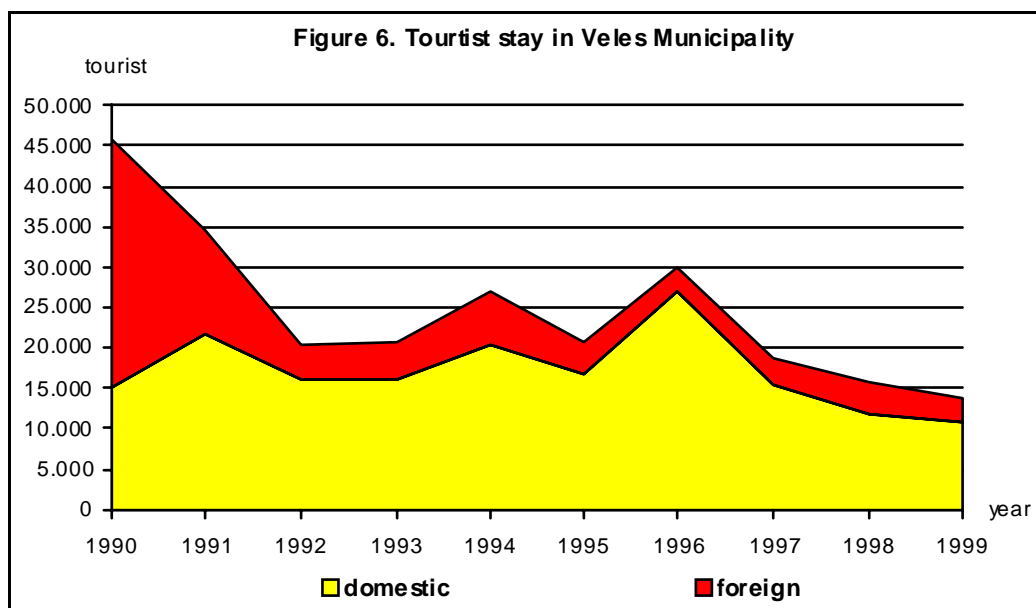
Source: Yearbook of Statistics of Republic of Macedonia, 2000

Comment: From the presented data we can record that total realized nights in 10 year analyzed period are significantly reduced. Neither in one of analyzed years realized nights have reached the level of basic year 1990. In the last 3 years we have recorded the minimum in tourist stay in Veles region.

The stay of domestic tourists in Veles region is similar to their attendance, including specific instability in the number of realized nights. Excluding the last two years, when we have recorded significant downfall of the stay, in all other analyzed years the number of nights is above the level fulfilled in basic year, 1990. This remission of realized nights in Veles region in the last two years has to be recognized as a clear signal that some changes in the sphere of tourism development are more than necessary.

Yet, the most unfavorable trends are registered in the sphere of foreign tourists stay. In fact, this is the most important indicator, based on data analysis, given in table 19. On this plan, we can see how rapid is reduction of number of nights in whole 10 years' period. Realized nights of foreign tourists in 1991, in comparison with 1990, have suffered decrement if 17.277 registered nights less than in 1990, in 1992 this reduction was 8.796 nights less than in 1991, and next few years the level of registered nights of foreign tourists was between 3.000 and 6.800, which is far away from the achieved level in the basic year - 30.409 registered nights in 1990.

Relations in tourist stay in Veles region can be perceived from the presented graphic review in the figure 6.



Comment: From this graphic display we can see that the line of registered nights of foreign tourists suffers distinctive declension. Its stabilization, unfortunately on symbolic level, can be recorded in the last 5 analyzed years.

Average tourist stay is also quite low and during the entire analyzed 10 years' period is just 2 days for domestic tourists, and 1,5 day for foreigners. In general, basic attribute of transit tourism is relatively short stay of all tourists. But, represented data refer on urgent creation positive atmosphere for increasing the stay and realization of many more nights in Veles region.

According to represented nights of foreign tourists in this area, we can determine the approximate level of tourist income. Thereat, we can use the global level reference between tourist traffic and realized income in particular period.

C.2.3. Attributes of Accommodation Facilities

Accommodation facilities are fundamental development categories in the sphere of tourism. According to their basic attributes we can destine the achieved developing level and evaluate the need for future intervention and further improvement.

Secondary data in our analysis demonstrate that the whole number of beds in Veles and its surrounding in 1991 was 582, and in 1999 was 603. In other words, long time period of evident stagnation. For the purposes of our project, we have done some primary researches in all accommodation facilities in Veles region, through direct contacts with their managers. According to the acquired information, the numbers of accommodation units (rooms and beds) are specified in next table.

Table 20: Number of rooms and beds in accommodation facilities in Veles region in 2001

| Facility | Number of rooms | Apartments | Number of beds |
|---------------------|-----------------|------------|----------------|
| Hotel International | 75 | 4 | 150 |
| Hotel Macedonia | 38 | 1 | 90 |
| Motel Mladost | 10 | - | 40 |
| Vila Zora | 45 | - | 106 |
| Motel Vranovci | 47 | - | 157 |

Comment: From the presented data we can notice that the total number of beds in these capacities is just 543, situated in 215 rooms and 5 apartments.

The number of these accommodating units approves that there is an evident stagnation in constructing of new accommodation facilities. The size of these capacities has become even smaller, as a result of closing down the auto-camp "Stobi".

In the domain of accommodation facilities in Veles region, besides registered weak dynamic in size and structure, we have found several heavy problems with very strong negative impact - underdone privatization, cheerless quality of service, absence of tourist promotion, bad location of almost all facilities, etc.

Privatization of hotels and restaurants has started in 2001. So, during the last 10 years' period in the sphere of tourism there was a very strong ownership vacuum, producing heavy problems with negative consequences.

Today privatization has been finished successfully in some accommodation facilities - Hotel International, motels Macedonia, Mladost and Stobi. Ownership must be defined in the near future in Vila Zora and Motel Vranovci. We have to stress the problematic ownership in Vila Zora. By documents, this is a protecting trade company owned by associations of retired and invalid persons, but working as a hotel in commercial style. There also must be a privatization in the Motel Vranovci in Gorno Vranovci, which is a part of the same management structure of Vila Zora. Only in that way we can expect much higher results in the domain of recruitment of these capacities.

The quality of service is very much related with the process of activities defining and with the process of privatization. Undefined functional system and ownership of tourism accommodation facilities seem to be a basis for very powerless level of investment in this field. Therefore, in the last 10 years' period there was a lack of assortment and modernization of available accommodating units. In this context, there was not any activity in improvement of the accommodation elements or any improvement of the service quality.

Very important issue in the domain of providing the quality of service is implementation the process of accommodating facilities' categorization. This process in Veles region has not been accomplished yet. Therefore, we cannot speak about modern arrangement of accommodation facilities by travel agencies' business principles, and absence of categorization reflects the deplorable situation with no service quality endorsement. This problem also results in absence of image of successful performance, a very important element in business relations. Without categorization, without quality and image, tourists cannot make a proper choice of certain accommodation facilities in Veles region, according to their wishes and needs.

Absence of differentiated types of accommodation capacities and absence of their categorization has very strong negative impact on promotional plan. Relevant business enterprises are not in the position to accentuate their quality level. However, we have to emphasize our regard that we have not found any commercial tourist promotion of available accommodation facilities in Veles region. This is just one of the undetermined problems in the sphere of tourist development. While searching for promotion material, we have found just some old prospects, dated from the period before the independence of Republic of Macedonia, which should be retired immediately. Besides this, we have not found any formal tourist information activity in Veles region. We have even realized that there is no any printed tariff list of services. It is simply impossible to obtain considerable results with this information and promotion approach.

Development of transit tourism needs using the accommodation facilities located near the traffic communications. Analyzing all previous mentioned capacities in Veles and its surrounding, just two of those facilities have very good traffic location (motels Macedonia and Mladost).

The motel Stobi is out of function, and hotel International and Vila Zora are located inside the Veles city limit. Owing to their locations, visitors need to enter the urban environment, driving far away from their basic transit route. This seems to be improbable, unless we do nation-wide efforts in the sphere of certain information and promotional activities.

In general, our analysis refers to conclusion that current emplacement of accommodation facilities in Veles region is unfavorable.

C.2.4. Restaurants in Veles Region

Development of tourism in Veles region can be pondered and through analyzing the attributes of restaurants business. The offer of food and beverage has to enable to transit visitors long and plentiful sojourn, even without staying overnight.

Trends in the restaurants business in Veles and its surrounding are demonstrated in the table 21.

Table 21: Size, dynamics and structure of restaurants in Veles municipality

| Year | Classic Restaurants | | Public Restaurants | | Coffee bars | | Snack bars | | Pizza Restaurants | | Grill Restaurants | |
|------|---------------------|------|--------------------|------|-------------|------|------------|------|-------------------|------|-------------------|------|
| | No. | Ind. | No. | Ind. | No. | Ind. | No. | Ind. | No. | Ind. | No. | Ind. |
| 1990 | 35 | 100 | 9 | 100 | 3 | 100 | 19 | 100 | 3 | 1 | 29 | 100 |
| 1991 | 12 | 34 | 9 | 100 | 6 | 200 | 19 | 100 | 6 | 4 | 38 | 131 |
| 1992 | 17 | 49 | 8 | 89 | 1 | 33 | 19 | 100 | 1 | 5 | 23 | 79 |
| 1993 | 7 | 20 | 9 | 100 | 1 | 33 | 25 | 132 | 1 | 3 | 16 | 55 |
| 1994 | 4 | 11 | 9 | 100 | 2 | 66 | 14 | 74 | 2 | 3 | 13 | 44 |
| 1995 | 4 | 11 | 5 | 56 | 3 | 100 | 19 | 100 | 3 | 1 | 20 | 69 |
| 1996 | 4 | 11 | 5 | 56 | 3 | 100 | 36 | 189 | 3 | 0 | 10 | 34 |
| 1997 | 15 | 43 | 4 | 44 | 2 | 66 | 6 | 32 | 2 | 1 | 10 | 34 |
| 1998 | 16 | 46 | 6 | 67 | 3 | 100 | 6 | 32 | 3 | 2 | 7 | 24 |
| 1999 | 7 | 20 | 5 | 56 | 6 | 200 | 22 | 116 | 6 | 2 | 1 | 3 |

Source: Directorate of Public Revenue

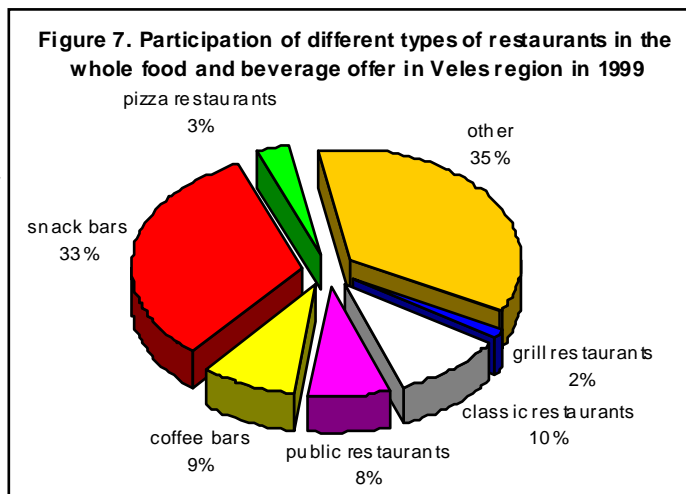
Comment: From the data in the table 25 we can see how unstable is the number of restaurant units during the analyzed 10 years. Classic restaurants in this period suffer distinctive decreasing, from 35 in 1990 to just 7 in 1999. Public restaurants do not have any influence on tourism development and should be observed only as an eventual commercial readjusting. Number of coffee bars is also unstable. There were 3 coffee bars in 1990, and 6 in 1999 in Veles. During the 10 years' period distinctive instability can be also recorded in the number of snack bars - 19 in 1990, 36 in 1996 6 in 1997 and 22 in 1999. Number of pizza restaurants is symbolic, changing in several years from the last decade among 1 and 5. In 1999 there were just 2 pizza restaurants in Veles city limit. Significant disproportion is found in the number of grill restaurants - 29 in 1990, and just single one in 1999.

Having in mind that pizza restaurants can be used as a fast food service, and grill restaurants are true fast food representatives, they can play important role in development of transit tourism. Dynamic processes in this activity, among other attractions, include a strong need for fast food and beverage service, according to requirement of transit tourists.

General restaurants' business approach seems to be truly undefined. It is very interesting that in Veles we have found much more unclassified capacities than those in the table, which can not be classified in the table, because their category, specialization and rank are anyhow undefined. In our opinion, these restaurant capacities have to be closely destined and entirely classified.

Structure of facilities for food and beverage is given in the figure 7.

We can see from the schedule that fast food restaurants have minimum share. And another important thing - in Veles we have not found any specialized restaurant with authentic culinary dishes. Having in mind the size and structure of all previous mentioned restaurants and considering the fact that their location is inside the Veles city limit, we have to conclude that these capacities have not any signification in transit tourism development. In fact, from the transit tourists' point of view, only 3 restaurants have attractive location - motel Macedonia restaurant, motel Mladost restaurant, and Lozar complex.



C.2.5. Information and Promotional Activities

Analyzing the accommodation facilities' situation, we have concluded that there is not any kind of commercial tourist promotion in what so ever. Practically, we have not noticed any kind of tourist association on local or regional level, which would give some contribution in organizing of tourist promotion in Veles region. Shortly, without tourist promotion institutionally leadership, tourism development is simply not possible.

In Veles region we did not see any kind of tourist information activity. Neither on transit accessing zones on the main traffic route north and south of the city. In this context, even light, poster of board signalization is missing, and transit passengers are not in the position to be informed about attractions in the environment and their tourist values. In other words, these attractions are simply not available for transit tourists that travel on E-75 just near the Veles region.

Beside this situation, it is more than obvious that Veles region does not have any short or long term future programs, instruments or financial resources for information and promotional activities on local or regional level.

C.2.6 Staff Attributes

Educated staff is one of the basic preconditions for successful development of tourism. Because tourism deals with dominant interpersonal relations, and belongs to terciar sector, substitution of human labor in the entire working process is nearly impossible.

Analysis of situation with the staff in available tourist and hospitality enterprises shows very low and unsatisfactory level of competence. In accommodation capacities owned by UTP International - firm with the biggest number of beds in Veles region, there are only 4 employed persons with university degrees, but only two of them are graduated managers of tourism and hospitality. Just for information, the whole number of employed staff in UTP International is 30. Protecting trade company Vila Zora owns the capacity Vila Zora and motel Vranovci. It has 50 employees, but only 2 with university and 46 secondary school degrees. Lozar complex of restaurants with 900 seats near the Lake Mladost has 44 employees without university degrees, and only 4 persons with rudimentary level of tourist education.

These figures are very illustrative and they express the main negative attribute of staff in Veles region. Reasons for such situation can to be found in previous undefined ownership and strong disinterest for doing business in tourism branch.

C.3 Identification of the Developmental Problems and Resolving Directions

Through our analysis of present conditions and tourism development in Veles region we have identified many problems. They reference to the fact that it is more than necessary some activities to be done very quickly, and to overcome the present adverse and unfavorable trends in the sphere of tourism. In this context, we are going to specify our apprehensions, attitudes and recommendations.

We have concluded that tourist traffic in the last decade had suffered rapid declension. Visit and stay these days are on the ultimately lowest level, especially visit and stay of foreign tourists and transit passengers, which are basic components of transit tourism. This identification of problems in tourist traffic is necessary to emphasize the emergency of rapid changing, which can be done only by infrastructure and superstructure readjusting. Therefore, we recommend:

- In the domain of infrastructure readjusting and resolving the problems, local community has to give a strong priority to those programs that are connected with the development of transit tourism;
- Affirmation of concessions, that will result with maximum utilization of natural and human tourist attractions;
- Having in mind that the development of transit tourism is not just an issue of local community, but it has very strong national importance. Therefore, the state must be involved with extensive help for projects that are necessary for realization of certain developing trends.

Unfavorable situation can be recorded in the domain of accommodation facilities, in both quantitative and qualitative senses. Number of accommodating units is far away from satisfaction of any criterion, as much as their location and quality of service. We recommend:

- Defining the accommodation facilities according to present tourism and hospitality standards and precise appropriation of their accommodation type (hotels, motels, or some other type);
- Affirmation of privatization process, which will enable improvement of the service quality and business competition;
- Improvement of service quality and categorization of available accommodation facilities, attempting to procure higher level of accommodation category;
- Allocation of new accommodation capacities in regional planing must be concentrated on the geographic area around main traffic routes, by giving the concessions for appropriate and attractive constructing sections to interested private enterprises.

Having in mind that available food and beverage facilities with their size and structure are far away from satisfying the necessary minimum, it is more than obvious that Veles and its surrounding needs a great deal of improvement. First of all, new restaurants have to be built just near the main traffic routes or near the natural and human attractions, taking a great part of those tourist complexes. Restaurants' management has to accentuate the fast food system of giving food and beverages to visitors - take and go, grill drive, etc. The offer of our restaurants, among other international dishes, must be enriched with native food and drink elements. Except of satisfying the tourists' needs to try something specific for this region, an offer of native food or drinks has very good promotional effects.

Problems in the field of tourist promotion are some of the greatest troublemakers, with biggest negative impact on tourist development. Without resolving the shortage in information and promotion sphere, it is not possible to improve any tourist activity. Therefore, we recommend:

- Arrangement of graphic instruments, like prospects, boards, pamphlets, tourist guides, maps, post-cards, price-lists, catalogues, labels, menus, wine lists, calendars, invitation cards;
- Utilization of different advertisement forms through the mass media;
- Permanent advertising activities by using TV, radio, computer technology and Internet, with short documentary movies, music programs, pictures and 3D presentations;
- Reorganization of hotels and motels interiors, putting tables with tourist promoting epitomes and active participation on tourist fairs and expositions;
- Production of souvenirs with native values, specific for this region;
- Active public relations, especially by organizing professional lectures, management courses, press conferences and incentive arrangements.

Thereby, when talking about all-year-long and intensive promotion activities, we have to distinct commercial, special and general tourism advertisement. Commercial advertisement is a product of tourist enterprises, working on purely commercial principles, with their own responsibility, decisions and resources. Special tourist advertisement belongs to some tourists' associations, also working on commercial principles - travel agencies, transportation, and trade firms. General tourist advertisement belongs to local, regional and national community. Local authorities, members of national tourist association and competent state agencies, should accept its content and form. Therefore, general advertising approach needs certain coordination and cooperation on many levels. According to this, it is very important to realize that development of tourism in Veles region is not just a local problem. It should not be observed as segregate problem away from the general tourism development in Republic of Macedonia.

Both local and national communities, according to the previously arranged program for tourist promotion, should provide necessary finances for successful general advertising activities and materials. Along local and national communities, every program of tourism development should include the activation of nongovernment associations. This program should be made by commission of experts, equally delegated by both local community and Ministry of economics. The financial program must be accepted by the local community council and than it goes to an amenable national institution for further arrangement, financing and realization. Provided financial resources, their partition and spending should be in competence of local community. This program for tourist promotion and advertisement should be carried out every year. Every term must be appreciated at least six months before next year, having in mind that transit tourism has not seasonable attributes.

Size, character and forms of promotion in the program depend on previous provided financial resources for this purpose. Owing to the fact that it is not possible to find out the exact amount of necessary finances for tourism promotion, we can use some worldwide experiences. For example, in Greece this amount is appropriated on the level of 5%,^a and in Israel 4,3% of realized tourism income. According to the World Tourist Organization data, 46 members of WTO are abstracting amount of \$ 4 per tourist for tourism advertising. Also, their tourist business enterprises spend 10% of their total profit.

Now let us do a little approximation. Having in mind that the number of tourists in Veles region in the last 10 years was 20.000 per year, necessary resources for tourist promotion every year should be around \$ 80.000. Owing to the fact that tourist promotion has accelerating capabilities, this primary amount can be transmuted to the final amount of \$ 100.000 in the first financing year. This amount can be transmuted according to realized results and expecting changes at the field and international tourist market.

Tourist promotion program should content prospects, boards, pamphlets, tourist maps, post-cards, mass media advertizing forms, films, web sites, etc.

Tourism development directly depends on resolving the problems in the domain of tourism information activities. Therefore, we recommend:

- Initiative of local community to establish tourist information bureau, with central role in realization of information and advertising activities and distribution of promoting materials;
- Allocation of several information desks in the central city area, right on the main traffic route (at the beginning and at the end of the Veles region in both ways on the route E-75, on specific detachment points) and toward tourist complexes;
- Distribution of information and promotional material to information desks on all Macedonian border pathways and custom houses, especially Tabanovce on Macedonian - Yugoslavian border and Bogorodica on Macedonian - Greek border;
- Signalization and labeling of all tourist attractions and capacities in Veles region.

Staff structure in transit tourism has specific attributes. For example, because 99% of visitors in transit tourism are foreigners, acquirement of foreign languages is one of the crucial educational components of this staff. Also, dynamic of all working processes during the transit tourism service requests certain specialty and competency, not only for providing the better quality of services, but also because transit tourism can play the very strong promotional roll on all levels.

In the last period we have found a trail of positive manners, owing to the latest developed ownership relations in some facilities.

Also, employment of new and high-educated persons has to be incorporated in tourism organization structures in Veles region. There must be an educated management in local tourist office of Ministry of economics, in local community, information desks, travel agencies, tourist bureaus and other nongovernment associations. We recommend:

- Employment in tourism sector always must be done by respecting the specialty, workmanship and competence of all applicants, based on certain tourism and hospitality education, knowledge of foreign languages, and information technology skills;
- Proper regulation of employment in tourist administration and local community, by using an open competition;
- Knowledge of foreign languages should be advantage during the employment of persons on information and promotion desks and offices;
- Rising the vocational level of whole staff by using further education for higher degree, permanent educational processes, following specialized courses, participating on scientific conferences, discussions and lectures, using the Internet, special books and other literature.

We think that only by following these rules there might be some improvement in the domain of educated staff in tourism and hospitality in Veles region. To accentuate how important is this issue, we have made an approximate projection of future employment in Veles region, taking 2004 as a critical period, when this region can play very important transit role before, during and after the Olympic games in Athens.

C.4 Locational Assignment of the New Tourist Offer

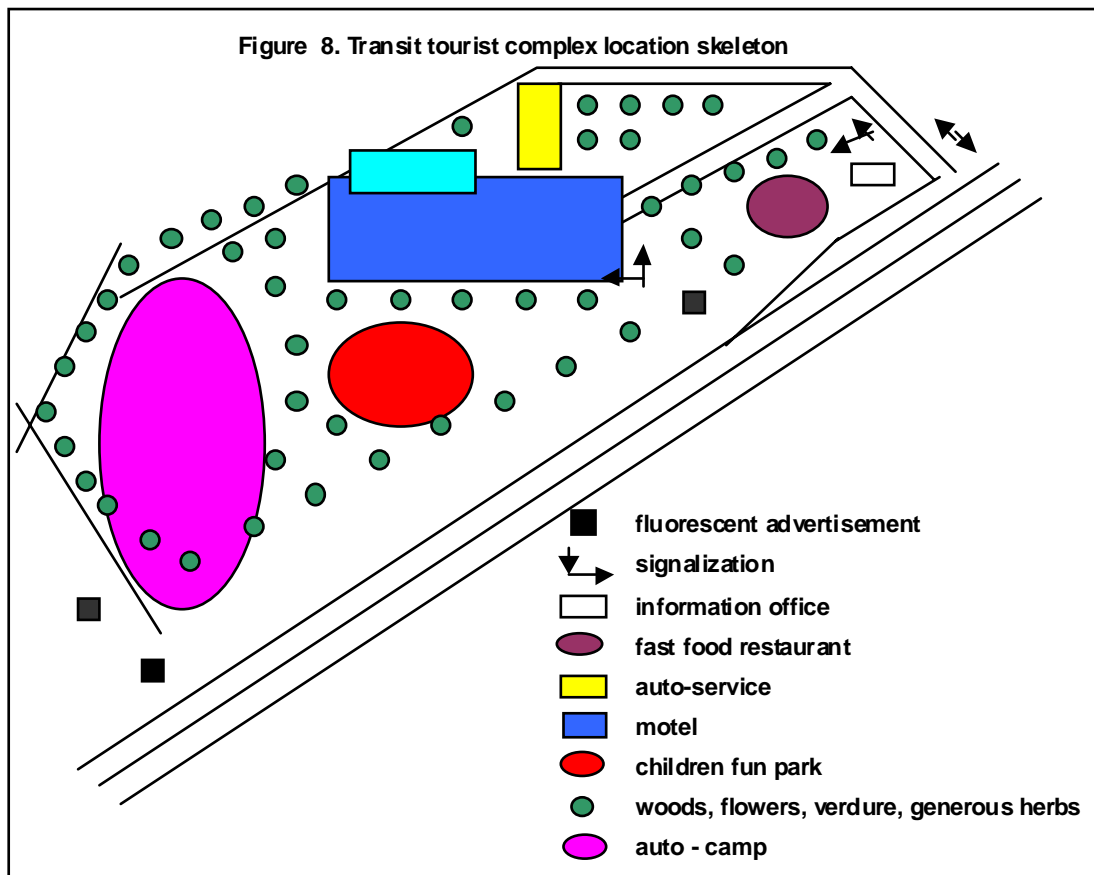
Improvement of quality of services will depend on concrete allocation defined tourist offer. There must be an appropriated geographic area for allocating all new specific transit tourist capacities. Assortment of constructing sectors and all consisting elements of this tourist complex should be in compliance with all urban solutions given by general urban, traffic and infrastructure plans of Veles region.

This tourist complex should be properly advertised with boards and signalization, starting right from the national borders, across whole route E - 75, until the exact detachment point. The entrance should be marked with big, colorful and fluorescent board, and all elements inside the complex should be labeled. Close to the entrance there must be a location for information bureau. Fast food restaurant should be located near by, on the spot where visitors can be even drive-served. Dominant place in the complex should be reserved for the motel, with proper parking place on the front and 24 hours' auto-service on the back. Except beds, food and drinks, these facilities are usually attractive because of their nightclubs and casinos.

Equipment for children's entertainment and fun should be located near the motel, and additional movable tract behind it. Auto-camp should be properly dislocated from the entire motel area.

This transit tourism services complex contents infrastructure and superstructure objects. Construction of infrastructure is first step forward for giving the concessions around these locations. The concessions' giver should manage the users of concessions to build previous defined elements with specific assignment.

Figure 8 shows the hypotetic location of such tourist complex.



C.5 Tourist Attractive Fund as a Disperse Opportunity for Promotion of Transit Tourism

Development of transit tourism is based on the level of communication of entire geographic area where it has been developing. Owing to its dynamics, transit tourism is also very important as a distributive channel of promotional elements of entire tourist offer in Republic of Macedonia.

In general, surface of Republic of Macedonia is pretty narrow, and all transit tourists, traveling on the route E-75, can visit even the uttermost Macedonian attractions in just one day. However, Veles region tourist attractive fund is located just around this paramount route, and this accessibility of its values is the biggest argument for our requirement to create certain transit tourist offer of this region. Therefore, it is very important to make a complete inventarization and revaluation of all tourist attractions in the surrounding ambient.

Tourist attractive fund is located in the Veles borough limit and neighboring communities. They all gravitate to the route E - 75, which is the main transport artery in Republic of Macedonia and basic expanse predisposition for development of transit tourism.

There are very distinct mountains, glens, cavems and archeology emplacements in this selected area. On the Jakupica and Babuna mountains, we can find 2 differentiated tourist zones - Babuna-Solunska Glava and Breza-Gorno Jabolciste, and 3 local centers - Orlov Dol, Ceples and Gorno Jabolciste.

From the point Gomo Begovo to Gorno Jabolciste there are several sections for winter sport activities. They belong to the group of the most appropriate terrains in Republic of Macedonia for winter sport development. The point Gorno Begovo it self, is marvelous horizon point. Here we can find many places very suitable for walking, mountaineering or even high climbing. This is also suitable highland for development of herbal tourism, especially for picking mushrooms, forest products, flowers, sheets, peels and roots.

These mountains are also very rich with wild animals. Except for different tourism hunting activities, it is possible to organize bird-watching and photo shooting tours.

On the north of Solunska Glava, on 1.500 - 2.000 m. altitude, there is a local center Rucica and reserved area of specific pine called *Pinus mugo Turr.* It is the only one reservation of this pine in Macedonia and the southeast emplacement in the whole Balkan Peninsula. Except for nice strolls, this area is very useful for excursions' activities with educative and scientific importance.

Caverns Makaroc I and II in the river Babuna valley (300 m. altitude and 110 m. higher than the river bases), are attractive with their remains dated from the early paleolit. These caves belong to the group of very important cavern forms in Republic of Macedonia and can be included in the development of speleologic tourism. Thereat, 5 artifacts of these caverns can be seen in National Museum of Macedonia in Skopje. So, Makaroc I and II can be used for excursions with educative and scientific importance.

Excursive, educative and scientific importance has a local center Karaslari, 3 km. southeast of Veles. This center is known by its fossil remains of horses, gazelles, giraffes and pigs. According to those remains, Karaslari is one of such famous emplacements in the world.

Paleontology center Kale Banjicko, found near the village Banjica, is well known of its fauna fossil remains - brachiopods, mussels, ammonites, etc. This local center can be also utilized for excursive, educative and scientific tourist activities.

Gorno Vranovci is racially suitable for tourism hunting, sport and fun activities. But, it is necessary to build sport centers, jogging round paths, covered swimming pool and children fun park.

Through Veles flows river Vardar. The Vardar quay, properly constructed and regulated, can be exclusive walking zone. Moreover, Vardar and rivers of its basin are home of many different types of fish, as a basis for development of fishing tourist activities. But, first precondition for such development is providing the right and rigid water protection against pollution, because present water quality in river sections around Skopje and Veles is unacceptable - fourth category. In the water has been found a presence of heavy metals, pestilent and toxin particles, making the Vardar River inappropriate for tourist purposes.

River Topolka is suitable for fishing activities. In the same context, we have to mention river Vranovska Reka, right tributary of Topolka. Attractive local center is Klisura, in the Vranovska Reka valley, which can be also used for educative activities.

River Babuna is also suitable for fishing activities. On its tributary Izvorcica there is a local center Jasenovo with sanitarium, which can be comprehended in health and recreate activities. This region possesses pheasant cottage, which can be in function of more intensive development of hunting tourism.

Beside this natural tourist attractive fund, entire Veles region is full of human tourist resources. Veles, town with rich and storming history, exists from the peon period. In Roman Empire it is known as Vila Zora. In our history books there are several statements with existing date of this settlement - 167 BC. It is general presuppose that name Vila Zora or Dolni Grad comes from this period.

Much older local archeological centers are found around Veles. In Chaska - neolit emplacement Mramor, in Dolno Orizari - iron emplacements Dabica and Svilara, or holy antic place Klepa in Dvoriste. However, by its value and importance, dominant attraction in Veles region is archeological center Stobi. It is already recovered and edited and it can be easily included in the Veles region tourist offer.

Important tourist values can be found in the churches in Veles, dated from the mediaeval period. St. Nikola and monastery church St. Dimitrija from XIV century, and also St. Gjorgji and St. Pantelejmon. Ottoman culture is represented by two mosques - Crna and Bela Dzamija and Saat kula - tower clock.

Specific urban architecture and cultural-historical objects, dated from near history can be seen at the Gymnasium building - such oldest educational institution in Republic of Macedonia, the iron bridge, the Racin house, the Glavinov house, National museum, artistic saloon and memorial center. Cinema, library and theater are cultural institutions in Veles.

Tourist development in Veles and its surrounding should be also based on manifestations - Racin meetings, art festival, folklore festival, youth festival, bicycle race, athletic meeting, etc.

Veles region is recognized through its ethnographic values. Visitors will be successfully animated in the restaurants with pita pastmajlija, lozova sarma, elbasan tava, kukurek and shirden.

As souvenirs, among pottery, there should be ceramic teracotas, tinker plates and leather hand-made products included.

This inventarization of all tourist values in Veles region enables their further revaluation in certain selective types of tourism development. Revaluation of tourist attractions on all local centers in Veles region is given in table 22.

Table 22: Summary of tourist local centers, their values and development of selective types of tourism

| Local center and tourist value | Selective tourism | Activities | Necessary intervention |
|---|--|--|---|
| Orlov Dol | Mountain tourism Hunting tourism | Strolling, climbing, alpinism, scoping, hunting | Comprehension in tourist offer, tourist promotion |
| Gomo Begovo Gomo Jabolciste | Mountain tourism Hunting tourism | Ski, climbing, alpinism, scoping, hunting | Comprehension in tourist offer, tourist promotion |
| Breza Buzalino | Mountain tourism Hunting tourism Herbal tourism | Strolling, climbing, hunting, picking mushrooms | Comprehension in tourist offer, tourist promotion |
| Pesti - Makaroc | Excursive tourism Speleologic tourism Cultural tourism | Scoping the Pesti canyon, cavern visits, education | Approach editing |
| Karaslari | Excursive tourism Cultural tourism | Education | Promotion, signalization, editing |
| Kale Banjicko | Excursive tourism Cultural tourism | Education | Promotion, signalization, editing |
| Gomo Vranovci | Hunting tourism Cultural tourism | Education, fun, sport | Promotion, editing |
| Vardar quay | Cultural tourism Fishing tourism | Strolling, fun, fishing | Editing, water protection |
| River Topola Klisura | Fishing tourism Excursion tourism | Education, scoping the canyon | Comprehension in tourist offer, tourist promotion |
| River Babuna Izvorica Jasenovo | Fishing tourism Hunting tourism Health tourism | Hunting, fishing, strolling, recreation | Comprehension in tourist offer, tourist promotion |
| Dolni grad, Vila Zora, Mramor, Caska, Dabica, Svilara, Dolno Orizani, Klepavo dvoriste, Stobi, St. Nikola, St. Dimitrija, St. Djordji, St. Pantelejmon, Crna dzamija, Bela dzamija, Saat kula, Stara gimnazija, Racin house, Glavinov house, National museum, Memorial center, library... | Cultural tourism | Education, cultural activities | Comprehension in tourist offer, tourist promotion |
| Manifestations | Manifestation tourism | Cultural activities, sport, economic activities | Promotion |
| Ethnographic values | Cultural tourism | Cultural activities, Gastronomy, selling souvenirs | Comprehension in tourist offer |

C.6 Attractive Basis for Development of Tourist Complex "Lake Mladost"

Among all other tourist elements, the most important attractive values in Veles region have the Lake Mladost and its environment. Tourist-geographic location of this tourist complex seems to be value by its own, because it is situated just near the main route E - 75, but also on the route to Stip, leading to the Macedonian - Bulgarian border pathway near Delcevo. Therefore, we can say that Lake Mladost tourist complex is included in international transit routes.

Lake Mladost is also situated near the routes that lead to Sv. Nikole and Katlanovo. These routes have important traffic role in regional and local proportions, providing in the same time conjunction of different tourist attractions (particularly Katlanovo Spa).

All these routes are giving very clear conclusion that the vacation complex on the Lake Mladost possesses exclusive opportunities for development of transit tourist activities. Moreover, Lake Mladost, as a singular geographic system, can provide recreate tourist activities to residents of Veles region and its surrounding. Except for attributes of the lake, this conclusion is based upon some environmental influences:

- Heavy pollution of Vardar is a very strong factor for interdicting all tourist recreate forms in this river;
- Air pollution and other living conditions in Veles region are accentuating the need for permanent refreshment and recreation activities;
- Extremely high temperatures in Veles during the summer are also reason for increased needs of different recreate activities.²⁵

Climate conditions in Veles region are basic factor for distinctive swimming and other recreate needs of the residents. In general, air temperature is a length frame for swimming season. Minimum value of monthly average air temperature, suitable for swimming and sun lying is 18°C. In Veles region more than 5 months air temperature is higher than this minimum level, and 3 months over 22°C. Favorable values are also recorded in the domain of air moisture measurement. Its average annual relative value is 69% - almost ideal for tourist stay and active recreation in this geographic area.

The influence of other climatic elements is also positive. Overcastting is relatively low, with values 5,5 tenths on annual level. Also, there is very pleasant south wind during the summer, blowing over the Vardar valley from south.

Lake Mladost is artificial meliorating accumulation. It is located in relatively tight depression with specific lengthen stretch. It is 2 km. long, and 0,5 km wide. Total littoral length is 4,5 km., from which we can abstract 3 different strands:

1. From the dam until the northeast lake point;
2. From the point 200 m. away from the dam, 300 further to the river Otavica; and
3. From the point 300 m. away from Otavica and 1.000 m. further.

Motel Mladost and Lozar complex are located in the **first fragment**. This section is in the stage of regulation. Its settlement and equipment should embrace: sizing the cascade strand, penetrated with sand as a sunlying platform, cleaning the littoral for swimming activities, construction of assembled port for renting and accepting the boats,²⁶ auto-service, green surface and flowers, sun bunks, parasols, sitting sets, etc.

²⁵ Absolutely maximum air temperature with values higher than 40°C can be registered every six years, and values higher than 35°C every single year. Absolutely maximum temperature of 40°C is present during the summer, and above 35°C from may till october. Absolutely highest air temperature recorded in this region is 43,5°C. Average annual number of tropic days is 68 (Source: Lazarevski, A.: *The Climate in Macedonia*, Skopje, 1993, page 120).

²⁶ In this context we have to emphasize absolute prohibition for using the boats with inner combustion motors.

Forecast of settlement and equipment for strand 1

| Settlement of strand 1 | | Price (DEM) | |
|---|----------|----------------------|---------------|
| Strand size | Land | 2.400 m ² | |
| | Littoral | 650 m ² | |
| Parking place, stoned, margins, benches | | 900 m ² | 4.500 |
| Beach platform, sand | | 1.250 m ² | 8.750 |
| Sport, recreate and fun surface | | 250 m ² | 5.000 |
| Cleaning the littoral, putting the concrete | | 650 m ² | 10.500 |
| Assembled port | | | 5.400 |
| Sun bunks | | 25 | 250 |
| Parasols | | 30 | 300 |
| Sitting sets | | 20 | 200 |
| TOTAL | | | 34.900 |

Second fragment is relatively tight, and its coastal water can be easily obscured. Therefore, it is necessary entire section to be amplified. Our suggestion is to clean out the whole littoral, to arrange specific areas for parking, sport and fun, for bars and restaurants, wc, baths, grills, etc., to construct the platform from the coast few meters on the water for banding the boats, cascade strand with sand, green surface and flowers, sun bunks, parasols, sitting sets, etc.

Forecast of settlement and equipment for strand 2

| Settlement of strand 2 | | Cena (DEM) | |
|---|--|----------------------|---------------|
| Whole size | | 2.900 m ² | |
| Platform construction | | 600 m ² | 40.000 |
| Parking place, stoned, margins, benches | | 900 m ² | 4.500 |
| Beach sand areas | | 600 m ² | 4.200 |
| Cleaning the littoral | | 650 m ² | 3.000 |
| Recreate and fun surface | | 250 m ² | 5.000 |
| Bars, restaurants, wc, baths, grills | | 100 m ² | 2.700 |
| Water toboggan | | 1 | 14.000 |
| Sun bunks | | 30 | 300 |
| Parasols | | 30 | 300 |
| Sitting sets | | 20 | 200 |
| TOTAL | | | 76.200 |

Third fragment's main attribute is its relatively adscended shore. Strand area is separated on two segments with small valley. This morphologic differentiation seems to be natural basis for recreation activities in the area. Northeast beach section should be settled and equipped for fishing activities, owing to the fact that Mladost Lake is reach with several types of fish. Perhaps construction of few assembled parapet bridges will be best solution for such activities without destroying the burly littoral hydroflora. Southeast beach section should be settled for swimming activities and sunlying. According to adscend shore, this strand should be also edited with cascades. It needs a boat bridge, too. Entire fragment is very suitable for jogging runway, which might be long more than 2 km.

Forecast of settlement and equipment for strand 3

| Settlement of strand 3 | | Cena (DEM) | |
|--------------------------------------|--|----------------------|---------------|
| Whole size | | 6.080 m ² | |
| Green surface and flowers | | 1.000 m ² | 5.000 |
| Beach sand areas | | 3.000 m ² | 21.000 |
| Jogging runway | | 2.000 m ² | 20.000 |
| Bars, restaurants, wc, baths, grills | | 80 m ² | 16.000 |
| Boat bridge | | 2 | 9.800 |
| Sun bunks | | 50 | 500 |
| Parasols | | 60 | 600 |
| Sitting sets | | 40 | 400 |
| TOTAL | | | 73.300 |

C.7 Concession Conditions

As we have mentioned before, concession relations are necessary for successful development of tourism in Veles region. To determine the conditions for concession, local community must first of all adjust all legal and property background. Then, local authorities need to ratify which resources can be included in the process of concession. In the same time, it is very important to affirm the concession conditions and to clarify all these issues:

- Concessionaire's obligation is to pay certain financial compensation, according to determine surface - object of concession (article 7 of concession law);
- Concessionaire has to settle and regulate the area on local centers and activities, according to the elements foreseen with this project;
- Space settlement and regulation will be done by previous charted plans and projects, accepted by proficient commission;
- All settlement expenditure will be paid by concessionaire;
- Investments in everlasting settlement of strands will be renounced from the whole amount of concession, and its tariff will be also relieved for all settlement realized investments;
- Advantage in taking concessions will have specimen with objects functionally located on the strand;
- Concessionaire has to respect legal standards for environment protection (for example, Resolution for distinctive landscape of Mladost Lake);
- Local authorities commission can interrupt and adjourn the concession, if concessionaire does not respect conditions given by this study;
- Commission will not accept construction of everlasting superstructure elements or objects that are not accepted within particular urban plan of Veles region;
- To have the legal right for giving the concessions, local community has to request transfer of concession rights from national to regional level (otherwise, this right still stays in competence of Republic of Macedonia).

C.8 Recommendation of Transit Tourism Development

The geographical position of Veles municipality in the central part of the country, its closeness to the most important domestic and international traffic route E-75 in the Republic of Macedonia, as well as the natural and human attractions of Veles region, present main comparative advantages of the region for development of transit tourism.

Taking into consideration that transit tourism includes particular tourist clientele, which is traveling through a specific area while moving to some other final destination, indispensable for the transit tourism development is infrastructure and superstructure readjusting of the transit tourist area, tourist valorization and outfitting of the attractions in the region and usage of suitable promotion activities and informative-promotional materials.

In this context, the recommendations that follow should accelerate the development of transit tourism.

Increase of the tourist traffic, i.e. increase of the attendance and stay, especially of foreign tourists and transit passengers that are basic components of the transit tourism, can be done by infrastructure and superstructure readjusting. Therefore, we recommend:

- In the domain of infrastructure readjusting and resolving the problems, local government has to give a strong priority to those programs that are connected with the development of transit tourism;
- Affirmation of concessions, that will result with maximum utilization of natural and human tourist attractions;
- The state must be involved with extensive help for projects that are necessary for realization of transit tourism.

Improvement of conditions in the field of accommodation facilities in terms of their number, location and service quality is suggested to be realized by (1) defining the accommodation facilities according to present tourism and hospitality standards, (2) affirmation of privatization process, (3) improvement of service quality and categorization of available accommodation facilities, and (4) location of new accommodation capacities in the geographic area near the main traffic routes.

Improvement of the scope and structure of food and beverages objects is proposed through location of new capacities near the main traffic routes or near the natural and human attractions. Therefore, restaurants' management has to accentuate the fast food system of giving food and beverages to visitors - take and go, grill drive, etc. The offer must be enriched with native food and drink elements to fulfill requirement of transit tourists needs.

Tourist promotion has biggest impact on tourist development. Therefore, for improvement of the states in this sphere of activities, we recommend:

- Arrangement of graphic instruments;
- Utilization of different advertisement forms through the mass media;
- Permanent advertising activities by using TV, radio, computer technology and Internet, with short documentary movies, music programs, pictures and 3D presentations;
- Reorganization of hotels and motels interiors, putting tables with tourist promoting epitomes and active participation on tourist fairs and expositions;
- Production of souvenirs with native values, specific for region of Veles;
- Active public relations, especially by organizing professional lectures, management courses, press conferences and incentive arrangements.

The promotion activities that are in charge of the local government must be established in such a way to comprise wider local and national interests. Therefore, the content of the promotion activities has to be accepted by the local government bodies, national tourist association and competent state bodies in the domain of tourism and catering, while the financial means should be provided by the local government and state.

Tourism development is in direct relation with the condition of tourism information activities. Therefore, we recommend:

- Establishment of tourist information bureau, with a central role in realization of information and advertising activities;
- Location of several information desks in the central city area, near the main traffic routes and toward tourist complexes;
- Distribution of information and promotional materials to information desks in all Macedonian border crossings and custom houses;
- Signalization and labeling of all tourist attractions and capacities in Veles region.

Staff structure presents one of the main attributes of transit tourism development. Education and competence are very important for quality of services and promotion at all levels. Therefore, employment of new and highly educated persons has to be incorporated in tourism organization structures in Veles region. Employment in local tourist office of Ministry of economics, in local community, information desks, travel agencies, tourist bureaus and other non-governmental associations always must be done by respecting the skills, workmanship and competence, based on certain tourism and hospitality education, knowledge of foreign languages, and information technology skills.

Improvement of the quality of services will also depend on a concrete defined location of the tourist offer. The choice of location should be in compliance with all urban solutions given by general urban, traffic and infrastructure plans of Veles region. The tourist offer should include all necessary content elements. Location of these elements should fulfill their optimal function.

C.9 Expected Effects

In our opinion, realization of this project will give distinctive and respectable results in many spheres.

The main substratum for tourism development in Veles region is its very considerable transitivity. Special attention is given to 2004 Olympic Games in Athens, Greece. We should expect in less than 3 years more than 10.000.000 sportists, fans and admirers to transit across the Veles region. For example, if each of them, while traveling across Macedonia, especially across Veles region, spend at least \$1 - very properly and respectable tourist income of \$US 10.000.000, then we can really appreciate the transit tourism development.

Veles region settlement and its tourism valorization should provide very positive influence on the tourist stay, especially modernization of available accommodation facilities, their amplification in size and structure, as much as improvement of promotion and information activities. According to the present number of tourists and their average spending, we expect double amplification of visitors and average annual income of \$US 480.000.

Concessionaire will also acquire positive financial effects, based on their inventive investment in attractive ranges, and local community will obtain positive effects by giving those concessions and improving the entire economic and social development in the region.

Tourism development will manage certain protection of all attractive and authentic values in this area and will enable recreation with preventive, curative and rehabilitation attributes, raising at the same time the level of environment humanization.

Realization of the planning development activities will also have positive effects in the domain of unemployment. We expect at least 90 new jobs (principally new tourism and hospitality educated managers on all levels) - 20 persons in accommodation facilities, 4 local tourist administrators, 10 persons on information desks, 6 persons for renting the boats, 10 persons in fast food restaurants, doctor, nurse, 2 swimming instructors and strand rescuers, 12 cleaning persons, 16 bartenders, 8 vendors, etc.

D

**PROMOTION OF THE
ENVIRONMENTAL PROTECTION**

Introduction

In the Republic of Macedonia, parallel to the economic restructuring process and implementation of market economy, policies are established at national level in many areas, one of them being the environmental protection policy. The process of closer integration with the EU countries demands for synchronization of the technical standards and regulations, as well as synchronization of the policy for environmental protection. This prompts the economy in the country to adapt its development in accordance with the ecological standards ISO 9000 and ISO 14000, necessary for providing disposal of goods at the foreign markets.

The National Environmental Action Plan (NEAP) was drafted in 1996 and the National strategy on economic development for the period till 2020 was promoted in 1997. The strategy includes issues related to the economic and social development, as well as problems regarding the environmental protection. The strategic determination in this domain is to direct the environmental protection policy towards creating conditions and economic opportunities for implementation of cleaner, more economic, more rational and more efficient production technologies in function of implementation of the preventive principle, which includes prevention or reduction of the pollution, on the account of gradual abandoning of the reclamation principle for environmental protection.

In compliance with the above strategic determinations, the economy of Veles municipality should start the process of replacement of obsolete technologies and equipment with clean technologies, which will minimize the future pollution of the ecosystems through favoring production that absorbs minimal quantities of materials and energy per production unit.

It should be stressed that as a result of the pollution of all environmental mediums by heavy metals and "acid aero sediments", the town of Veles nowadays presents "hot ecological spot" not only in the Republic of Macedonia, but also in the region of Southeast Europe.

From this reason, this chapter elaborates in more details the relation between the environment and economic development, aiming at better recognition of opportunities for providing ecologically safe regional economic activities.

D.1 Environmental Condition in the Municipality of Veles

The environmental condition in the municipality of Veles is described in detail within the Local Environmental Action Plan (LEAP). It was prepared in 1998, as one of the first 4 documents of this kind in the Republic of Macedonia. Its elaboration was realized in accordance with the messages from the Local Agenda 21, established at the Conference for sustainable development and environment in Rio de Janeiro, in 1992.

The LEAP defines the main ecological problems in the municipality, the social, economic and other driving forces that cause them, the level of quality degradation of all environmental mediums, as well as the priority strategies for resolving the ecological problems.

The field research of environmental conditions, done for the needs of this project, included all aspects relevant for accomplishing economic development, acceptable health protection and protection of the ecosystems in the municipality of Veles. In addition, special accent was put to (1) economic activities necessary for providing local economic development, (2) social factors important for health protection, strengthening of public awareness, citizen participation in the decision-making process of local importance and protection of the natural and cultural heritage, and (3) ecological conditions and strategies for providing health and clean environment.

D.2 Pollution of the Ecosystems by Solid Waste

Regarding the environmental protection, the authors of this study have had the obligation to elaborate and present only the problems of solid waste management.

The researches point to increase in generation of communal waste in the period from 1980 to 1995 under annual rate of 3%. It is a consequence of the increase in number of municipal population and a result of the changes in the way of living in the past two decades. In addition, the increased participation of plastic wrapping material particularly burdens the existing system for waste management.

The communal waste is disposed at the town sanitary epidemiology irregular landfill. The rural settlements in the municipality do not have organized system for collection and disposal of the communal waste. The waste disposing at the town landfill and wild dumps in the rural settlements results in dissolving of toxins in rainwaters and water flows, which pollute the ground waters and soil in the municipality.

In the municipality there are two big landfills of technogenic solid waste, where the waste is disposed at uncovered site. Particular hazardous for the town ecosystems is the slag landfill from the local smelting complex, for the slag contains significant concentrations of several hazardous heavy metals. By piezometric investigations of the groundwaters beneath this landfill it is recorded presence of significantly higher concentrations of lead and cadmium than the permitted ones. The problem is particularly actual for there is a real danger for pollution by heavy metals of the waters from the wells used for population water-supply. There is similar danger and influence from the fosphorus-gypsum landfill of the local industry for artificial fertilizers. Particular danger for the ecosystem is the landfill effluent, which inputs high quantities of fosphorous, nitrogen, fluorine, uranium and other hazardous elements into the river Vardar.

D.3 The Existing System for Communal Waste Treatment

The communal waste that is collected from the households and public areas in Veles is disposed at the town sanitary and epidemiology irregular landfill located in the area "Bunar Dere", near the main road Veles - Shtip, about 6 km northeast from the town. Here it is also disposed inert waste from the local industry in quantities approximately 33% of the total waste being disposed.

In the municipality, except in the town, organized waste collection is also practiced in the near settlements Prevalec and Bashino Selo. The solid waste removal is done collectively and individually. The communal waste is collected into plastic bags and containers with capacity from 5 to 7 m³. The total number of containers is 56, out of which 40 for the households and 16 for the enterprises. The town and the two settlements are divided in areas wherefrom the waste is removed by certain schedule. The waste removal is done at least twice a week from each area. The daily removal of the waste from certain areas depends on waste composition and its generation intensity. The waste removal service covers 100% of the town including 13.900 households and 310 legal subjects. The average daily amount of waste disposed at the town landfill is 55 tons or about 17.000 tons per year (approximately 35.500 m³). Organized waste collection for the village of Orizari is also planned in the near future.

The mechanization used for waste removal consists of 12 special vehicles, out of which one vehicle with pressure plate and volume of 16 m³, two vehicles with volume of 8 m³, two vehicles with volume of 4 m³, three vehicles for lifting containers with volume from 5 to 7 m³ and four tractors with sidecars with capacity of 2 tones. The average age of the vehicles is 15 years. Four bulldozers TG 110 are used for laying the waste on the landfill. At the landfill there is a daily evidence of the quantity of disposed waste.

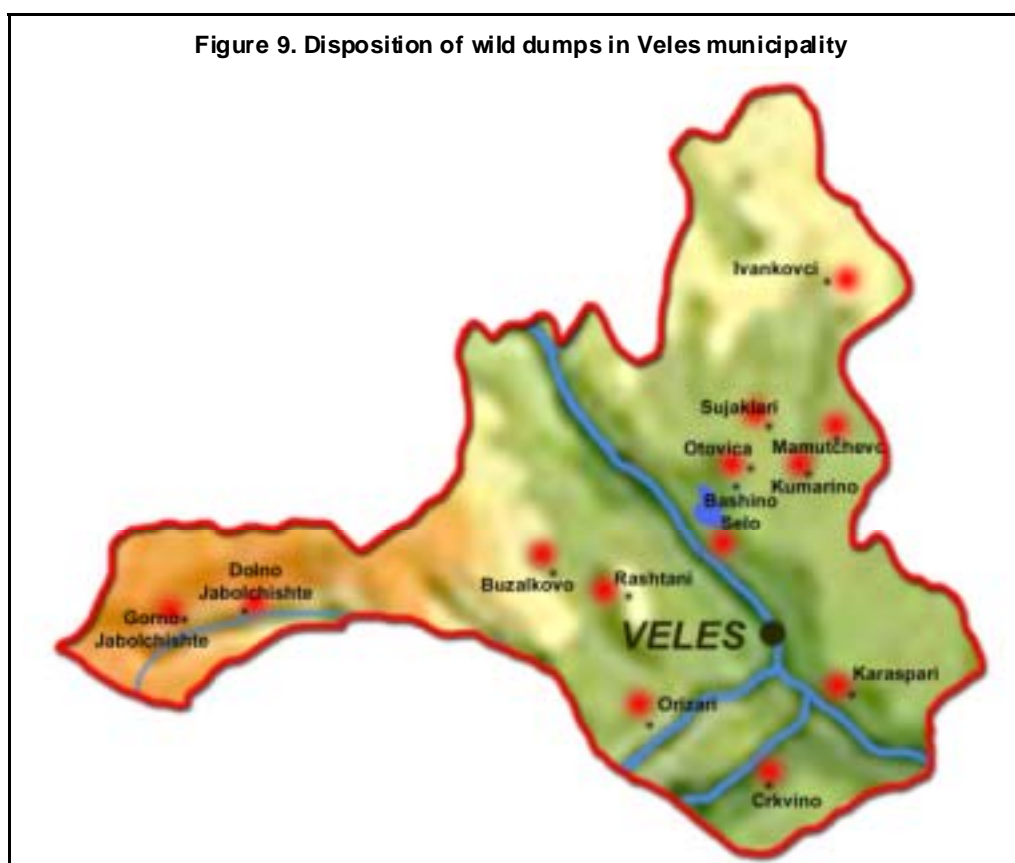
In the last several years the communal services are burdened by huge difficulties resulting from several factors. Most dominant is stagnation of prices for communal services, which are unchanged from 01.04.1995. The month rate for collection, transport and disposal of communal waste is 1,27

denars per m² of useful housing area. The level of payment is concerning and has a tendency of decreasing. The payment level of the services in 2000 was approximately 60%.

In spite of the organized collection, in the town and its closer surrounding there are 16 wild dumps of communal waste and 10 wild dumps of construction waste. There are wild dumps in all rural settlements in the municipality for there is no organized collection and removal of the communal waste. The waste is simply thrown out in the local brooks and rivers, and lately along the local roads. The existing wild dumps seriously degrade the environmental quality and endanger the health of population living in the near settlements. In accordance with the data acquired from the local government and according to the field research, there are 14 larger wild dumps in Veles municipality. They are described in table 23 and on figure 9.

Table 23: Estimated quantities of communal waste at the wild dumps in Veles municipality

| Inhabited place | Number of inhabitants in 1994 | Disposed waste at wild dumps in 2000 (m ³) |
|---------------------|-------------------------------|--|
| Bashino Selo | 775 | 1.000 |
| Buzalkovo | 1.273 | 1.500 |
| Gorno Orizari | 2.023 | 3.000 |
| Gorno Jabolchishte | 1.538 | 2.000 |
| Dolno Jabolchishte | 496 | 500 |
| Dolno Karaslari | 436 | 500 |
| Ivankovci | 874 | 1.500 |
| Kumarino | 79 | 100 |
| Mamutchevo | 351 | 500 |
| Settlement Prevalec | 2.192 | 2.000 |
| Otovica | 248 | 500 |
| Rashtani | 301 | 500 |
| Sujuklari | 170 | 200 |
| Crkvino | 341 | 500 |



D.4 Concept for Resolving of Waste Problems

The main goal of the preventive sustainable managing of solid waste is reduction of its harmful influence on the environment.

The conditions will be significantly improved if strategic measures are implemented in the management policy related to the communal waste aimed at minimizing the quantity of waste to be disposed. This goal can be attained with the implementation of a new concept of sustainable management of the solid waste that covers selective collection, primary separation and recycling through intentional use of the derived useful fractions of the waste.

The implementation of this concept will be achieved through introduction of urban planning (minimizing and integral waste management), the urban management (selective collection, separation and recycling), introduction of economic instruments (pollution fees and taxes) and standards (introducing new products and ways of packing and disposing), public informing campaigns ("ECO" labels), etc.

The target priorities in the solid waste management in the Veles region are graphically presented on the priority pyramid illustrated on figure 10.

The graph shows that the top priority in sustainable waste management is avoiding its generation, while the lowest priority is physical waste disposal at official sanitary landfills.

The implementation of the preventive strategy of sustainable waste management at present is the most economical form of environmental protection from its potential hazards. By determining the market price of disposing, a balance can be achieved between the expenditures for disposal and other solid waste treatment procedures. In such a way, the market price system will be in a position to dictate the solid waste management conditions, through stimulation of the goals of waste prevention and recycling, at the expense of direct dumping.

This concept will be elaborated in detail in a separate feasibility study, which, among the rest will analyze the existing system for collection, transport and handling of the inert and dangerous solid waste. The study will also determine the sources, quantity and average morphological composition of the solid waste, will identify the influence of the "wild" dumpsites in the region, will consider the most striking problems with the organization of related utility services, their efficiency and financial condition, will elaborate an alternative system of selective collection and separation of solid waste for recycling useful waste fractions. It will also elaborate the technical and technological concept for construction of a joint sanitary regional landfill for the central part of Macedonia.

Parallel to this, within the frameworks of the concept for sustainable waste management, recycling yards will be established in the city of Veles with around 500 m² surface area, where citizens will be able to dispose of voluminous, as well as other types of useful selected waste (waste paper, lead batteries, waste cables and transmitters, etc.). At the existing landfill should be also envisaged construction of a processing line for mechanical and manual separation of the useful waste fractions.

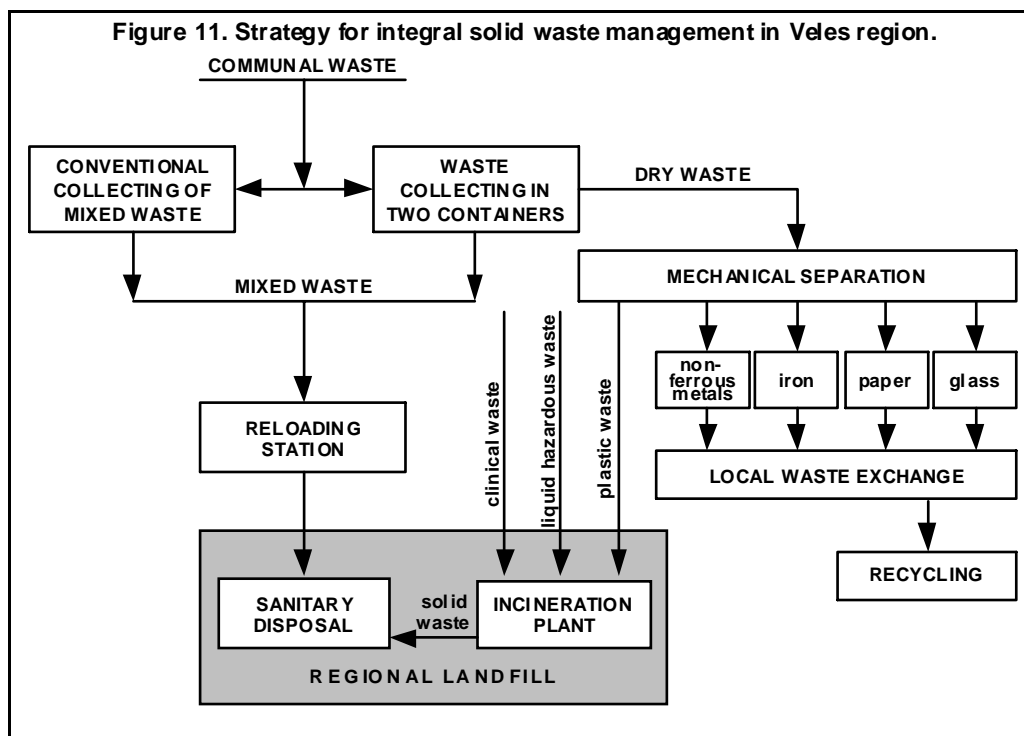
Figure 10. Priority pyramid in solid waste management



In order to have successful realization of the offered concept, venture of the private sector in such kind of business should be stimulated. The private initiative will function on purely market base. The role of local self-management in such a case will be to provide concessions for collection of waste from the population, the servicing and the industry, and giving solid guarantees at local level for carrying out necessary investments.

The realization of these goals, with the support of competent state authorities and local government is expected to lead to more favorable health conditions for the population, as well as integral protection, ecological stability and preservation of quality of the Veles region.

A graphic image of the proposed concept of integral sustainable solid waste management is presented in figure 11.



D.5 Concept for Technical Revitalization of the Existing Municipal Solid Waste Landfill

The town landfill of communal waste covers an area of 8 ha. Its function began in 1976 when the Executive Council of Veles municipality established it. The landfill is run by the Communal Enterprise "Derven". In the past two decades approximately 900.000 m³ of solid waste has been disposed at the landfill. The structure of the waste being disposed is not known.

At the landfill there is no daily stamping down and covering of the waste, thereof it does not satisfy the sanitary and technical conditions for exploitation. The landfill is fenced in by 65% and there is absence of other needful sanitary and technical protective measures, thereof it belongs to the category of "temporary landfills".

The terrain geological composition consists of lake plastic sediments, which are of poor water-permeability and do not allow formation of significant ground waters (proved by investigation drilling up to 300 m). This geological feature points to the fact that the landfill location might be assessed as safe.

The hazardous influence of the communal waste upon the ecosystem starts at its collection and transport, for the traffic connection to the landfill requests use of the main traffic road in the town where there is mass presence of people and transport of food products.

As a consequence of the applied sanitary unsafe disposal procedure, the landfill causes significant ecological problems, which are mainly result from the creation of polluted leachate. The irregular disposal, especially the disposal of clinic waste and that from the slaughtering industry, could presents serious danger for transmission of contagious diseases. At such a case transmitters can be insects, rodents, birds and other animals that have acces and contact with the waste.

The characteristic, practically constant burning of the landfill creates additional air pollution that degrades the quality of the already polluted air in the region of Veles. At the same time opportunities for dissolving hazardous matters from the burnt waste in the atmospheric rinsing waters and their transfer into the final recipient, River Vardar, are created. The features of the landfill terrain practically help out this hazardous impact for almost all the atmospheric dregs constantly rinse the body of disposed material.

The air pollution in the landfill vicinity is also created by wind blowing and spreading waste particles, as well as by the gases created in the reactions going on in the landfill body. Still, the most hazardous product of the waste disposing is the leachate (filtrated waters from the landfill body), which has particularly hazardous influence on the oxygen regime of the ground and surface waters and the organisms living in them. During the process of waste decomposition, the landfill gas is also generated, whose most hazardous component is the methane.

The existing town landfill does not satisfy the criteria of modern sanitary landfills for several other reasons. At the landfill there are certain deviations connected to the insufficiently prepared terrain for waste disposal, disuse of the so-called daily sections for disposing and covering the waste by inert material, absence of system for leachate and landfill gas evacuation, etc. Due to the improper landfilling concept, the waste disposal is done at unsuitably large area in conditions of constant burning of the landfill body, which particularly burdens the conditions for usage of landfill mechanization.

For reclamation of the existing landfill and its adjustment to a modern way of exploitation in the period till constructing regional sanitary solid waste landfill for the central part of Macedonia, a fisibility study accompanied with project documentation should be elaborated. The study should work out technical solutions for division of the landfill body into independant hydraulic entiereties, implementation of temporary sanation measures for protection of the ecosystem in the part of landfill body where the waste has been disposed (covering the landfill body with PVC foil, reclamation of slopes, periodical drainage and recycling of the polluted ground water over the landfill body, etc.), construction of inert access roads to the sections for waste disposal, modernization of the landfill mechanization and improvement of the conditions for its maintenance, construction of system for supplying technological water aimed for washing vecihles and fire protection, etc.

By technical revitalization of the existing landfill and its transformation into sanitary technical landfill it is predicted decrease in the pollution by preventing the leachate penetration into the waters and ground, annulling the possibilities for appearance of diseases of undefined origin, reduction of the health risk, attaining indirect positive ecological effects resulting from the improved quality of living, etc.

The necessary investment costs for this ecological project, including the landfill operation costs are presented in table 24.

Table 24: Costs for technical completion and operation of the town landfill for solid communal waste

| Investment costs | DEM | | |
|---|------------------|----------------|-----------------|
| Gathering basic data for the waste amount and its composition | 15.000 | | |
| Geological and hydro geological investigations | 40.000 | | |
| Elaboration of project documentation | 55.000 | | |
| Elaboration of a study for assessment of the influence upon the ecosystems | 35.000 | | |
| Total costs for preparation activities | 145.000 | | |
| Terrain planning and access roads | 110.000 | | |
| Brim cannels | 10.000 | | |
| Protective fence from knitted steel wire (height 2 m) | 4.000 | | |
| Geo-synthetic landfill lining and leachate drainage system | 572.000 | | |
| Protective layer for the slopes of the body of disposed waste | 167.000 | | |
| Leachate collection system | 223.000 | | |
| Leachate transport system | 17.000 | | |
| Leachate treatment (cleaning) facility | 140.000 | | |
| Landfill gas extraction pipes | 12.000 | | |
| Supplying system for technological water | 43.000 | | |
| Total site construction costs | 1.298.000 | | |
| Compactor | 145.000 | | |
| Bulldozer | 65.000 | | |
| Dumper vehicle | 65.000 | | |
| Total costs for mechanization procurement | 275.000 | | |
| Weighbridge | 62.000 | | |
| All-terrain vehicle | 25.000 | | |
| Vehicle maintaining facility | 25.000 | | |
| Administrative building | 30.000 | | |
| Laboratory | 65.000 | | |
| Total costs for accessory objects and equipment | 207.000 | | |
| Total investments | 1.925.000 | | |
| Annual operating costs | I year | II year | III year |
| Fuel and electricity | 30.000 | 30.000 | 30.000 |
| Different administration expenses | 60.000 | 60.000 | 60.000 |
| Wages and salaries (25 employees) | 180.000 | 180.000 | 180.000 |
| Landfill mechanization spare parts | 27.000 | 27.000 | 27.000 |
| Credits and working capital | 332.000 | 318.000 | 304.000 |
| Total site operating costs | 629.000 | 615.000 | 601.000 |
| Minimal landfilling price for 1 ton of waste in conditions of full utilization of the landfill capacity | 35 DEM | 34 DEM | 33,5 DEM |

The above-proposed project for transformation of the existing town landfill into sanitary landfill will enable ecologically safe solid waste disposal from the whole territory of the former municipality of Veles. The landfill should be exploited until the new regional landfill for the municipalities from the central part of Macedonia is opened and will have limited operational time of maximum 10 years.

The preliminary dimensioning of the landfill takes into account the least favorable variant, which includes implementation of the current way of waste management without the phases of selective collection, separation and recycling of separate waste fractions. The landfill capacity should make possible acceptance of 18.000 tons solid communal waste per year.

The data presented in table 24 point out that even in conditions of full utilization of the landfill capacity, the landfilling price for 1 ton of waste would be two times higher than the landfilling price in the sanitary landfill "Drisla" in Skopje. This conclusion favors the choice for construction of regional, not town or municipal landfills for communal waste.

After closing the town landfill it should be re-cultivated. The re-cultivation will mark the final arranging of the landfill. This will be carried out by applying a final layer of soil and humus in a way that will prevent retention of atmospheric residue on the surface of the dumpsite, or its penetration into the body of the disposed waste, during which there will be creation of additional quantities of harmful leachate. The re-cultivation will be carried out by planting of grassy and shrubby plants in conditions that will not damage the natural ambiance of the wider locality. By realizing this, the overall complex of the landfill will be rehabilitated, and the landscape of the surrounding will be upgraded.

D.6 Opportunities for Solid Waste Recycling and Processing

The achievements from organizing the proposed system of preventive waste protection can positively influence the economic and social sphere through reduction of the waste quantity, which can be dumped up to 50%, followed by valorization of part of the waste and increase of employment in the municipality by opening of new workplaces. Parallel to this, significant effects can be scored in the ecological field, by annulling the possibilities for harmful influence of the waste on the ecosystems and peoples' health.

A significant place in the concept of sustainable waste management belongs to the determination for forming of regional waste stock market, whose goal could be establishing a waste market, enabling constant control of the waste tendencies, reducing the available waste dumping quantities, reducing the use of irrecoverable natural resources, increasing the waste value and stimulating the reuse of waste materials with the purpose of reducing the people's health risks by reducing the quantities of final waste.

The proposed concept will reduce the use of unrenovable natural resources through recycling of certain fractions of the solid waste, indirectly will provide smaller emission of pollutant substances and saving of unrenovable energy sources while producing certain products from the separated waste fractions compared to the production from primary resources, will create conditions for saving of significant financial resources, etc.

The effects from recycling of certain communal waste fractions are presented in table 25.

In accordance with the above conclusions, and taking into account the knowledge that every recycling cycle of plastics provokes 30 % degradation of the physical and mechanical properties of plastic products, it is concluded that the separated plastic fraction should be send to a plant for thermal elimination which will be followed by energy production from waste gases (see figure 11).

It is also assessed that in the municipality of Veles there is no economic base for recycling (valorisation in new recycling plants) of the other fractions that will be separated from the communal waste, not just because of the insufficient quantities, but also for the existence of other appropriate large industrial capacities in Skopje and Veles (Paper factory "Komuna", "Makstil", Glass Wool Plant in the former "Glassworks", MHK "Zletovo" and others). Separated useful fractions, as well as the waste that will be collected in the so-called "recycling yards" should be valorised through the local Waste Stock Market.

Only for the solid waste from the local leather and fur industry, it is envisaged valorisation in a new appropriate plant, described in more details in the proposal project no.2, placed in Chapter B.6 of this study.

Table 25: Ecological and energy effects from recycling of certain communal waste fractions (energy in GJ, other in grams per ton of product)

| Product | Pollution/ energy | From secondary resources | From primary resources |
|---|----------------------------------|--------------------------|------------------------|
| Paper | Energy consumption | 14,4 | 22,7 |
| | Solid particles | 357 | 4.346 |
| | Carbon monoxid | 383 | 3.165 |
| | Sulfuric oxides | 6.054 | 10.868 |
| | Chemical consumption of oxygen | 3 | 25.423 |
| | Biological consumption of oxygen | 1 | 2.921 |
| | Solid waste | 71.000 | 150.000 |
| Plastics (Polyethylene of high density) | Energy consumption | 7,6 | 33,3 |
| | Solid particles | 158 | 2.000 |
| | Carbon dioxide | 353.325 | 600 |
| | Sulfuric oxides | 2.002 | 600 |
| | Total hydrocarbons | 1.690 | 21.000 |
| | Chemical consumption of oxygen | 4.620 | 200 |
| | Biological consumption of oxygen | 2.365 | 100 |
| | Chlorides | 98 | 800 |
| Solid waste | 216.000 | 32.000 | |
| Aluminium | Energy consumption | 15,6 | 171,2 |
| | Solid particles | 1.222 | 37.388 |
| | Carbon monoxid | 474 | 17.713 |
| | Sulfuric oxides | 7.090 | 75.793 |
| | Total hydrocarbons | 4.753 | 39.870 |
| | Chemical consumption of oxygen | 3 | 19.020 |
| | Biological consumption of oxygen | 1 | 799 |
| | Solid waste | 237.000 | 876.000 |

Source: Expert analysis of Agency ATREZ- Skopje, 1999

Comment: The data point to evident reduction of energy consumption in the production process from recycling resources compared to production from primary resources (the best effects are attained at aluminium where the consumption is smaller 11 times) and multiplex smaller values for all parameters used for assessment of air and water pollution in the process of paper and aluminium production from secondary resources. The last statement does not concern most of the parameters in the process of plastics production from secondary resources.

D.7 Construction of Regional Solid Waste Landfill

In compliance with the National Environmental Action Plan of the Republic of Macedonia (NEAP), construction of 5 to 7 regional solid waste landfills is envisaged. Among these landfills, construction of a sanitary landfill is also planned for the region covering the municipalities of the central part of the Republic of Macedonia, with an indicated possible location in the region of Krivolak.

The authors of the case study on economic development believe this regional landfill must be designated for as many municipalities as possible in order to create prerequisites for as economical as possible exploitation of the landfill. There are realistic estimates that, apart from Veles municipality, 16 more municipalities will be orientated towards this landfill, with a population totaling 242.500 (according to the 1994 census). Taking into account the generation norm of 245 kg/a year per inhabitant and the level of waste collection (65 to 90% depending on the natural features of the municipality and population habits and standard of living), the quantity of municipal waste that can be disposed at this regional sanitary landfill could amount to 52.000 tons of communal waste a year.

The final decision for accepting a project for construction of regional landfill will follow a joint agreement among the involved municipalities and a more detailed elaboration of all the relevant technical, technological as well as financial parameters within the frameworks of a separate feasibility study.

D.8 Economic Development and Environmental Protection

Just like in the other countries, the macro economy of the Republic of Macedonia is based on the model of economic growth that stimulates the process of making profit (Growth Economics Model). This model is considered successful if the gross domestic product is higher compared to previous year.

Successful model of economic growth could not be accomplished unless there is parallel increase in the consumption or proportional increase in the export.

The economic sector is comprised of the production sector and the final consumer sector. While carrying out activities in these two sectors, the economy and environment we live in act like two different systems that are in secular mutual relation²⁷ in a closed system of inputs and outputs of substances and energy. The residuals, or more exactly the solid, fluid and gas waste that is generated during the economic activities, mostly present matters that pollute the environment. Before their emission in the environment some of them are additionally recycled or converted into other type of residual, for their economic valorization or pollution neutralization.

Having in mind that the economic processes are of continual flow, the problems that occur result from the unbalanced exchange of energy and materials. The negative influences of the economic sector upon the environment is perceived through the deterioration of its quality and exhaustion of the irrecoverable natural resources as a result of intensified production, increased raw material and fuel consumption and larger residual generation (solid waste, industrial waters, gasses and dust).

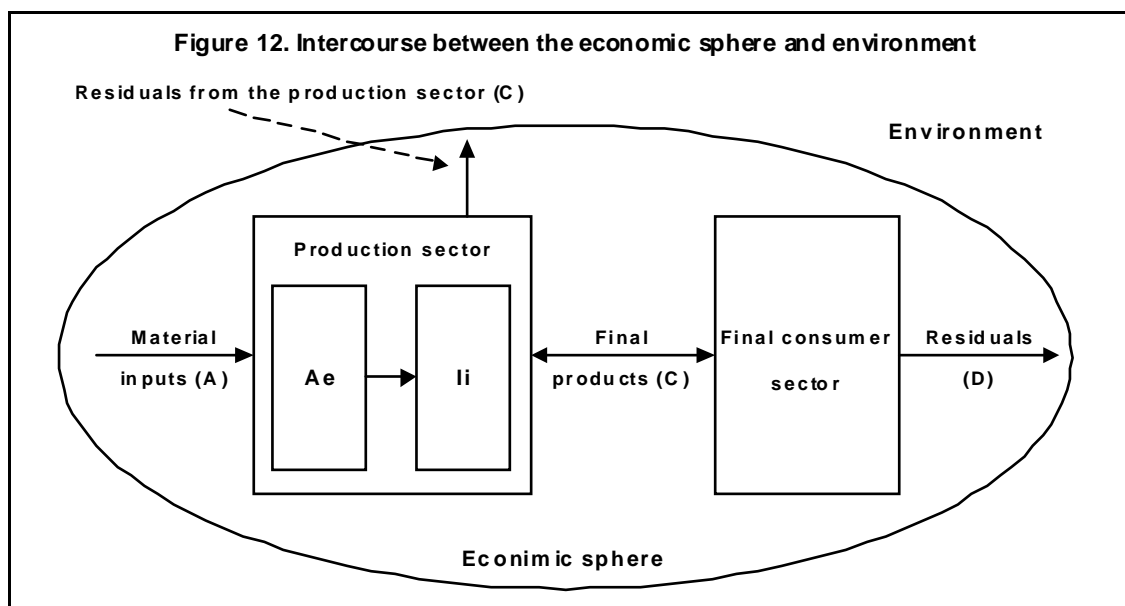
The ability of the environment to absorb residues from the economic sphere is not unlimited. Overstepping this capacity marks the onset of environmental degradation and jeopardizes the health of people and the rest of the living world²⁸.

Figure 12 presents the graphical review of the intercourse between the economic sphere and environment.

The process of reduction of the negative economic external effects upon the environment demands establishment of harmonic relationship between the economic sphere and the environment in conditions of respect of the real price of the economic growth and the pollution market expenditures (the development price must include all expenditures for environmental protection and promotion and preservation of the population's health). In this segment, we have to bear in mind the space and time limitations to the growth of the economic field taking into consideration the respect to the environmental possibilities. In this case, the issue is the indispensability of space and time balancing of the activities in the economic field in order to create conditions for the nature to retrieve autonomously part of its absorption capacity for absorbing the detrimental residuals.

²⁷ The environment we live in is the space where humans and all natural and bio resources exist. It is comprised of the lithosphere, hydrosphere, and the atmosphere, i.e. the phytosphere (world of plants), zoosphere (the animal world) and the microsphere (microorganisms - decomposers). The environment, from the energy point of view, is an open system, while from the material point of view it is closed. The ecosystem, as part of the environment, is an entity in space and time with all the existing organisms, physical conditions of the climate and land and their interaction. The structure of the ecosystem is comprised of the biotope (over which one eco-system exists) and the biocenosis (the environment). Integrated ecosystems form bioms, while integrated bioms form biocycles.

²⁸ The environmental degradation is manifested through air and water pollution, contamination of the soil and occurrence of global environmental problems such as the acid rains, destruction of forests and biodiversity, weather changes (global warming) and stratospheric ozone depletion. These degradation processes cause serious and in some conditions ecologically detrimental and irretrievable processes, result from the intensive exhaustion of mineral resources, lack of drinking water and loss of fertile ground.



Based on the information presented above, we can conclude that for the municipality of Veles it is essential not to plan only the economic development, but also the sustainable development. In addition, the economic development and environmental protection are not competitors any longer, but are complementary activities. In such a case the problem related to the criteria for assessment of the development sustainability will also arise. Therefore, the growth limit should be carefully established in function of the people's limited knowledge of the environment. This conclusion is primarily based on existence of inevitable time gap between the emission of certain pollutant and the appearance of its resultant negative effect (example: Carcinogenic influence of the cadmium can be proved by biological monitoring two to three decades since the start of human exposure).

For these reasons, the economic development must correspond to such a concept of social and economic development that, in the long run will not cause any major damage to the environment and nature. Therefore, the establishing of adequate relation between the economic development and the protection and promotion of the environmental quality is an important pre-requisite when selecting and defining the economic development strategy of the municipality. The revival of the ecological profile of the development strategy will be possible by implementing the environmental protection policy proposed in the *Local Environmental Action Plan (LEAP)*, adopted by the Council of Veles municipality in November 1999.

The monitoring systems for environmental quality control have limited performances for they do not detect the exact pollution source and the total quantity of emitted hazardous matters, and do not present the real distribution of toxins in function of time and space. Therefore, to estimate the environmental pollution level, the core of pollution problems and the impact intensity of the hazardous processes within the material production, the use of *Material Balance Method* is indispensable, while the monitoring systems can only serve as indicators that something has been happening in the ecosystems.

The method of material balance gives a realistic perspective of relations between the natural environment and the economic field. The model starts from an anthropocentric version of environmental treatment as a life support system, resulting into the following economic functions: source of reserves, receptor of residues from the economy and a source of esthetic values for people (the natural environment transits through the economic field, i.e. through its value allocator, the market, and vice versa – all market goods belong to the environment).

Based on the information presented above, it could be concluded that the usage of *Material Balance Method* accompanied by consistent implementation of biological monitoring should present the highest priority in the process of implementation of measures for environmental protection of the town of Veles.

D.9 Sustainable Development Concept

The ecological problems are complex by nature, with great interaction effect on the atmosphere and biosphere and largely depending on the economic and social conditions in the municipality and the wider region. The chain of ecological dependency thereby always starts from the irrational use of natural resources, and through degradation of the environmental media ends with a lack of quality food and drinking water and the deterioration of the general health, economical and social status of the population.

Healthy population and developed economy cannot be attained in a polluted environment, and therefore when creating the future social and economic development we should consider the adjusting of lifestyle and applied technologies with the natural systems that maintain the living world. These goals could be carried out only through implementation of the concept of sustainable development.

The concept assumes development that corresponds to the needs of today, without diminishing the capacity for meeting the adequate needs of the future generations. In such a way we establish the relations of long-term coordination of the economic and environmental processes, i.e. we adjust the economic growth with the demands of the natural habitat. In addition, the concept of sustainable development inclines toward such utilization dynamics of the existing restorable natural resources and absorption ability of the environment, which disables appearance of irreversible processes in their independent regeneration.

Sustainable development entails a commitment for present generations to treat the environment in a way that will not lead future generations to a more unfavorable position. This, in fact, is a *Principle of intergeneration justice*²⁹ in the sharing of welfare and avoidance of long-term effects of the pollution caused by the previous generations. Such an approach poses the question of the final limit whereon the glance in the future should stop, or more exactly who is the last generation that will live under the imperative of better standard of living. It is a general judgment that the glance should be pointed toward the future so that the imperative of better standard of living is everlasting for the future generations.

In such a way the future generation will have better access to the best available technologies and new resources for managing the problems of environmental pollution. In this case, certain rules of behavior should be established for the present generations that require compensation for all irreversible damage caused in the current or previous period as a result of some recognized activities. Due to this, the principle of prevention of damage from emerging, instead of compensating it after it is made, is the leading principle of today (*principle of preventive protection*) in the establishing of the desired environmental protection.

The sustainable development proclaims minimizing the use of natural resources in conditions of meeting people's needs at the highest possible level. In such a way the sustainable development is carried out as a continual process of changes in the natural resources exploitation, the investment choice and the orientation for technological progress. In addition, the concept of sustainable development prescribes a need for long-term adjustment of size and dynamics of the production and consumption processes with the environment, aiming to meet the needs for the future generations. In such a way the relations of long-term coordination of the economic and environmental processes are established, i.e. the economic growth adjusts with the demands of the natural habitat. In this case the role of technological development is prominent for the practical realization of the sustainable development concept.

²⁹ The rules of behavior for the present generations require compensation for all irreversible damages caused in the current or previous period as a result of some recognized activities. In such a way the intergeneration justice acquires maximal importance, which assumes the responsibility of each generation to bequeath an environment good enough for the future generations. It includes preservation of the natural resources, as well as promotion of technologies and innovations in the field of recycling residuals from the economic activities.

While implementing the concept of sustainable development the environmental quality management requests for rational usage of autonomously recoverable functions of the environment³⁰ under rates that are smaller or equal to the natural rates of regeneration, as well as smaller dynamics of creating residuals compared to the recovery dynamics of the environmental absorption capacity.

The modern and successful approach to the creation and implementation of environmental protection policy and the planning of sustainable development is impossible without qualitative, exhaustive and updated information on the pollution sources, the situation in the natural environment, the available technical and technological solutions and the economic and financial relations in the investment stages and those of realization of production within the frames of the local economic subjects.

In regard to the economic aspects of implementing the sustainable development in Veles municipality, there is a necessity for pointing the appropriate activities toward greater support to revitalization and technological promotion of the existing industrial capacities, achieving a more dynamic development of the processing industry and tertiary services, introducing changes in the legislative in terms of facilitating the export of modern technologies and ecological equipment, implementing various incentive measures and other.

For a successful realization of these activities indispensable is a coordinated performance of the competent institutions, integration of sectional policies and strategies, engagement of highly qualified staff, strengthening of public awareness and citizen's involvement in the process of creation and implementation of appropriate social, economic and environmental policy through participating in non-government organizations and associations within the local self-government.

³⁰ The environment is a basic source of natural and biological resources and an absorber of residuals (waste materials and waste heat)

E

**POSSIBLE BEARERS OF THE SUPPORT TO
THE PROPOSED DEVELOPMENT CONCEPTS**

Introduction

The main bearers of support to the economic development in the municipality of Veles will be the local self-management, through the Municipal Development Center, in cooperation with the competent regional units of the ministries in responsible for development, other local development institutions, national development agencies of the Republic of Macedonia and other competent state and local authorities and institutions, banks and beneficiaries of foreign credit lines and donations, international development institutions and humanitarian organizations, local businessmen and project authors.

The development of entrepreneurship in this municipality will especially be followed-up by forming and reinforcing of specialized aid institutions aimed at supporting and helping the small economy with the goal of creating an adequate business ambiance in the municipality.

It is very probable that the changes and new provisions inserted in the Law on Local Self-Management, currently in stage of adoption, will enable the local government, among the rest, gain a more reinforced position for implementing the local economic and social development.

E.1 Local Development Institutions

E.1.1 Local Self-management as the Main Development Actor

In order to acquire image of a municipality with a healthy and united community, the local government should have its own development vision for eradication of poverty, improvement of quality of life and establishing cohesion in the society in order to reduce crime and other deviant phenomena. The establishing and promotion of a vision for social and economic growth will be realized through the strategy and plan for integral development of the municipality.

The vision for a sustained economic development should basically provide (1) promotion of new workplace investments, (2) support to development of propulsive economic sectors, (3) increasing private ownership through stimulated development of small economy, (4) support to the public sector investments and infrastructure systems, (5) implementation of special programs for fighting poverty, (6) respect to the social position of the lowest classes of society, (7) increased efficiency of the local administration concerning the quality, pace and responsibility in performing the necessary services for citizens, and (8) support to the feelings of every citizen of belonging to the community through his/her active involvement in the preparations, adoption and implementation of strategies, plans and decisions of vital importance for the municipal day-to-day life.

Indispensable for the success of these processes will be the civic participation in determining the development goals, because without their support, the vision will not be able to become a public document, acceptable and supported by all.

Plan for Integral Development

With the plan for integral development, the municipality will have a powerful instrument for reviving the local priorities both in the field of economic growth, investments and creation of workplaces, and in the field of education and training, poverty reduction and improvement of the level of services. If the plan on integral development proves to be realistic, as a document it will be a significant indicator and certain signal for attracting investors and shareholders from the municipality and other regions in the country and abroad.

Municipal Financing

The municipality should perform its activities in an efficient, economical and business manner in order to optimise the use of its resources when meeting the needs of the community. It should lead the financial operations in an accountable and transparent way, and prepare financial plans in compliance with the plan on integral development, respecting thereby all its competence, obligations and goals.

In the course of future planning, medium-term financial basis should be provided in order to cover expenses and revenues of the municipality for the period of few years. Many issues should be covered in this process, connected to the municipal revenue, as well as expenses for capital projects, salaries for the administration, subventions for the poor etc.

In the process of local budget planning, citizens should be stimulated to participate in determining the priorities, its preparation and adoption, which will create the optimal transparency of the municipal work. Linking the budget with the integral development plan will also prove the determination for spending of the limited municipal funds mainly for realization of local priorities in the field of economic development and fighting poverty.

Planning of the Land Use

In the following period, the municipality should promote the integral development through better use of the existing infrastructure, implement a more diverse and ecologically sustainable use of land, discourage the process of urban spreading and stimulate development of the land market.

In so doing, the local authorities should identify the land according to its potential and contamination by heavy metals, anticipate the goals of its use and prepare it for use within the frameworks of the program for reconstruction and development of the existing enterprises and for promotion of new small businesses in the function of realization the economic development and opening new workplaces in the municipality.

Infrastructure Investments

In the forthcoming period, the municipality should consistently develop plans for investing in the utility and other infrastructure. This will help attain an optimal consolidated municipal infrastructure, which will require maximum mobilization and unification of the local shareholders and a more significant involvement of private sector funds.

Investment in the infrastructure has significant implications on the economic growth, the distribution of revenue and reduction of poverty. Good infrastructure will, at any case, contribute to reduction of electricity costs and cost of other fuels, rationalization of costs of transport of products to the market, etc.

Support to Labor Market

The insufficient training is an obstacle limiting the growth and preventing the poor from enjoying equally the profits of the economic development. In the following period, the municipality can give a significant contribution for overcoming this problem through provision of adequate free training for the socially jeopardized unemployed workforce. The realization of this goal needs a continued process of forming and reinforcing of adequate centers for training and re-qualification of unemployed.

Apart from the training, these centers are to support other initiatives for strengthening the role of labor market and its benefits.

Partnerships

The municipality often demands a great many of services in its environment. This comparative advantage enables it ensure a selective stimulation of local companies, thus increasing the power of the local economy. The municipality has a leading role in the implementation of initiatives for support to local development through establishing of partnerships and mobilizing and organizing of the community, companies, workforce and the citizens in their environment.

Approaches to partnerships should be set-up, starting from constant coalitions, to signed contracts for realization of given development projects, whereby the key of success of these partnerships will be in the clarity of their purpose and the estimate of the profits and benefits for each of the involved participants in the partnership.

Promotion of Civic Participation

The municipality should play a key role in the promotion, coordination and support to the involvement of a wide range of participants in the creation and implementation of the local economic development. The inclusion of citizens in the establishing of local development vision through the integral development plan will help involve each individual wishing to invest energy, devotion and funds in the implementation of the development programs. Moreover, specialized local organizations, non-government organizations, small business companies, trade associations and local professional associations should have a significant role in this process.

E.1.2 Municipal Development Center

Although the development of local self-management is mainly connected to the urban planning and utilities management, the contribution that it can give through various development activities in the field of economy, is very significant.

For this purpose, it is planned that the local self-management should form a ***Municipal Development Center***. The Center will employ 5 people, 1 of which will be the Executive Manager with rich experience in industry and knowledge of economy. The staff should be specially trained to implement the local economic development, during which a study visit to the existing centers and offices of such a type in the country and abroad is recommended³¹.

The Center will offer services from the field of economic development and civic education and will represent focal point in the implementation of local economic development aiding the growth of local business community, which will require realization of the following tasks and activities:

- constant cooperation with the regional units of the ministries of economy, agriculture and transportation and communications and tracking of information inflowing in these ministries,
- constant monitoring of the credit lines in the state and seeking funding from government, non-government and private organizations, as well attracting new investment funds for the already existing and new businesses,
- creating of database for all companies in the municipality containing information on them, their offer in form of products, services or opportunities, their needs for raw materials and their mutual bonding within the frameworks of the municipality and more general,
- creating of database for investor-seeking projects³²,
- ensuring support to local private businesses through offering services ranging from consultations and legal assistance,
- following the work of various humanitarian and NGOs with a mission to help the economy and their linking with the companies in town,
- providing of business-oriented information from the country and abroad and their distribution in the municipality,
- organizing visits of foreign delegations, organizations and representatives of foreign embassies to the municipality and their familiarization with the potentials of the municipality,

³¹ The experience in some Central and Eastern European countries in the creation of the local economic growth through centers and offices for municipal development note positive results and achievements in their work. Such examples are present in Zlatograd-Bulgaria, Ternopil-Ukraine, Panevezis-Lithuania and in some municipalities of the Czech Republic.

³² The database should contain the project name, description of the sector in which the project belongs, location of the facility, project type, (new project, modernization of the existing project, expanding the already existing capacities), description of the project and products treated in the process, description of the market, the necessary raw materials, the infrastructure, number and description of the necessary qualified workforce, description of the necessary work permits, project investment (fixed costs soets for equipment and vehicles and work capoitai), description of the planned expenses, sales, profits before tax, return of investment, short data on the investor and other information.

- enabling contacts and organizing visits to external companies willing to invest,
- organizing meetings of businessmen from the municipality with businessmen from the neighbouring municipalities and those abroad with the goal of seeking interests for cooperation,
- elaboration of ideas for opening new workplaces,
- attracting new compatible industries in the region, and
- promoting the municipality as a place with a favorable business climate.

In order to improve public relations, build trust between the local leadership and local business community and attract new businesses, the center will hold regular visits to the local enterprises in order to learn their problems and interests, organize presentation of the local enterprises and their products, hold regular meetings with local businessmen, involve local media in the promotion and realization of the local economic development.

The founding capital of the center will come from the local budget, state funds, foreign donations, and local enterprises with investments of shareholders' capital, while the day-to-day financing will be provided from the servicing and work on separate projects.

E.1.3 Regional Units of the Government Ministries of the Republic of Macedonia

The regional unit of the Ministry of Economy can play a significant role in the economic development. By gathering and disseminating information on the potentials and obstacles in the development of certain economic fields, presenting of statistical data, presenting of possible crediting sources in the public, etc, the regional unit can give a significant contribution in the economic development. This regional unit can become a center for fast, efficient and qualitative support to entrepreneurs in the direction of a higher-scale founding of small business companies. A similar role can be played by the regional unit of the Ministry of Agriculture, Forestry, and Water Supply, in cooperation with the Agency for Development and Stimulation of Agriculture.

E.1.4 Technological Development Center

As part of the process for infrastructure reinforcement for stimulating investments and support to the development of the economic facilities at the local level, establishing of a separate institution is anticipated, known under the name of **Technological Development Center**. It going to be a specialized development and engineering institution for transfer of technologies and knowledge and will function within the local technological and development industrial zone.

Such an institution of the local economy is indispensable, bearing in mind that a successful start of new enterprises and maintaining the production activities in the existing facilities is a very hard and complex process due to the competitive surrounding comprised by the industrially developed countries. The envisioned achievements from setting up such an institutions are: (a) provision of a modern form of technological progress of production processes in the existing and new industrial facilities through uniting the systematic knowledge and engineering infrastructure, (b) achieving a more dynamic development of economic branches which create new values and are export-oriented, (c) a more accelerated opening of new companies through development of small businesses in the technically advanced entrepreneurship, (d) reduction of the high unemployment rate, (e) a more coordinated and successful cooperation with foreign development and research institutions and financial centers and foundations in the realization of investment projects, and (f) ensuring ecologically clean production and meeting the criteria of sustainable development.

The engaging of this institution starts with the defining of industrial revitalization concept, or idea on investment building and ends with the offering of technical assistance during the implementation of innovated technological and technical solutions and introducing the production process in new industrial facilities.

The setting up of the Technological Development Center will be realized on the basis of the previous detailed evaluation of all relevant elements on the part of the local authorities, through joint funds from the municipal budget, funds from local companies, local private capital and foreign shareholders' capital and donations. The Center will function as a stock company with covering of operational expenses with funds acquired from commercial market ventures, when performing projects and services, within the frameworks of the local technological and development industrial zone, and outside of it.

E.1.5 Technological Development Industrial Zone

The Technological Development Industrial Zone will be formed in accordance with the legislation of the Republic of Macedonia. The Zone will employ the existing and new production facilities. The Technological Development Industrial Zone is anticipated to provide support to the municipal integral economic development, controlled locating of the industrial facilities and a more rational use of the land and space, a faster revitalization of the existing technologies and introduction of new technologies, increase of export-oriented production, economic and social benefits and reduction of unemployment, better environmental protection, better valorization of foreign investments and credits, and facilitated promotion of domestic products and technologies before foreign partners.

The beneficiaries of the Technological and Development Industrial Zone will be production companies, agencies and small and medium sized companies owned by citizens of the Republic of Macedonia or other countries. The beneficiaries will be entitled to a safe and protected facilities, accessible roads, and internal traffic infrastructure, outlet to the system for treatment of industrial waters, connection with the national telecommunication network, etc. Those using the Technological Development Industrial Zone enjoy benefits resulting from granting of concessions for exploitation and processing of domestic mineral and energy raw materials in a special regime, exempt from tax treatment of re-export of goods in compliance with a special procedure, exemption from export taxes in raw materials, materials and other input components and spare parts used for producing export-oriented products, etc.

The Technological Development Industrial Zone will have a Development Fund of its own and product and technology promotion of the zone. The Fund will be formed from taxes that will be calculated depending on the value of products and services that will be realized within the frameworks of the zone.

E.1.6 Business Incubator

What is especially significant is the need for reinforcing the existing Business incubator, as the place where new enterprises will be set up and developed, located on the existing commercial premises with a possibility for financial borrowings and expert assistance in the initial period of business work of the new companies.

The work at the Business Incubator will encourage venture of potential entrepreneurs, and will also be a good example of similar organizations within large enterprises which have the need for resolving the problems of over employment, redundancies and dismissed workers.

E.1.7 Employment Bureau

The Veles Employment Bureau, branch office of the Employment Bureau of the Republic of Macedonia can be the support place to the potential entrepreneurs, as a kind of labor market, and information, encouragement and training institution for starting businesses. This Bureau should be included in the World Bank Program for recruiting individuals to work also in the projects of the US Prisma Program, which provides opportunities for training and re-qualification of the unemployed.

These projects envision opening of working clubs, as modern form of labor market, and plan other adequate information giving modalities, training and re-qualification, in order to prepare the unemployed for independent businesses or work in the private sector in the modern business environment.

E.1.8 Non-government Institutions and Associations

In spite of the other aid institutions for small economy development, the local non-government institutions and associations³³ can also have a strong impact on raising people's awareness about their own working efforts and uplifting of the educational level of the population in the field of entrepreneurship, commercial economy and environmental protection.

E.2 National Development Agencies and State Institutions

E.2.1 Development Agency for Economically Underdeveloped Regions

The Development Agency for Economically Underdeveloped Regions offers favorable conditions that refer to an array of benefits for running businesses and for new employments in these regions. The fact that much of the mountainous and hilly landscape in the region under analysis belongs to the economically underdeveloped regions, provides the possibility for using the favorable terms offered in that region by the Development Agency in question.

The Agency approves funds for subsidizing part of the interest upon using credits from the country and abroad, for realization of investments for construction of new, and for reconstruction, modernization, expanding and optimizing of the already existing facilities into small and medium-sized production capacities in the field of industry, agriculture, manufacturing handicraft and mechanization services. The Agency approves premiums for newly opened production vacancies for small industrial facilities, realized in specific areas, and the participation of Agency funds is differentiated depending on the number of newly opened workplaces in the production. The Agency can contribute with one term non-refundable funds in the training of staff for concrete projects coordinated with the goals and conditions determined in the Agency act.

E.2.2 Privatization Agency of the Republic of Macedonia

The Privatization Agency of the Republic of Macedonia, through its **Project for Social Aid** offers several subproject of small and medium sized enterprises. Most significant of these projects are the *Project for training and re-qualification* and *Fund for credit guaranteeing*.

The Project for training and re-qualification is aimed at providing re-qualification or training for the unemployed, by which their professional knowledge and skills will increase their employment possibilities. The program duration is maximum 6 months, and potential priority group of program beneficiaries are laid off workers from companies or workers seeking work for the first time, or who are registered as unemployed for longer than a year. The companies providing training for new workers for their own needs will receive half the funds as refund for their training and re-qualification.

The main objective of the **Fund for credit guaranteeing** as a project is support to SME's in the overcoming of problems with the collaterals when borrowing funds from financial organizations. This means assistance for formation and development of the SME's, facilitating the access to financing, and assistance for creation of new workplaces. The services beneficiaries of such a fund can be workers dismissed from companies as a priority group, workers seeking job for the first time, or those registered as unemployed for more than a year.

³³ There are 63 non-government associations in the municipality of Veles. From the entrepreneurship spirit development point of view, special importance can be attributed to the Project 'Protective Workshop for the Disabled Persons' for making souvenirs and handicraft which will enable employment of 20 people with disabilities.



F

**PROJECTION OF THE FUTURE
DEVELOPMENT OF VELES MUNICIPALITY**

Introduction

According to the projections of the State Bureau of Statistics, in 2020 the population of Veles municipality will amount 62.931 persons or it will increase by 10,9% compared to the condition in 1994 year (last census). Out of them, 51.919 will live in the town and 11.013 in the rural areas. In other words, the urban population will participate by 82,5% and the rural population by 17,5% in the total population of municipality in 2020.

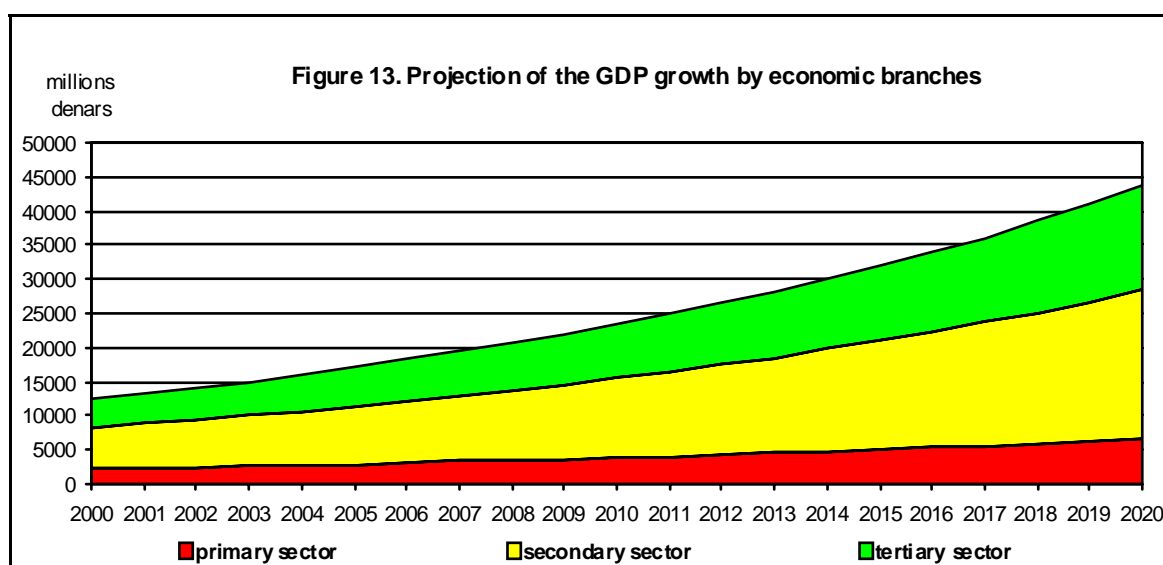
According to the available local resources and installed capacities, and in accordance with the future forecast of the development in separate economy sectors, projections for realisation of GDP and employment growth for the period till 2020 year have been also elaborated. For elaboration of these projections as a base was taken the condition regarding the realised GDP and the total number of employed in 1998 year.

F.1 Projection for GDP Realisation

In accordance with the elaborated projection for the period till 2020, it is predicted that the GDP in Veles municipality will increase by three times and will amount to around 43 billion denars. The projection is based on realizing an average GDP growth rate of 6,5 %. At the same, it is predicted that the GDP in the primary sector will increase under average rate of 5,7%, in secondary sector under rate of 6,5% and in the tertiary sector under rate of 6,8%.

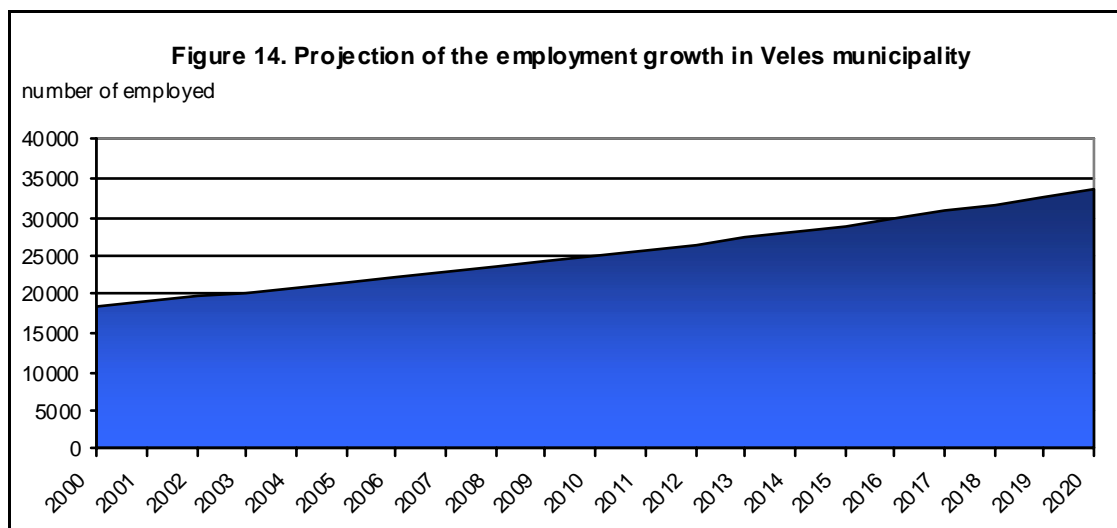
According to the projection, the primary sector participation in the total GDP of the municipality will decrease from the existing 17,2 to 15%, the secondary sector participation will retain its participation of 50%, and in tertiary sector, due to the expected dynamic development of small economy, the participation will increase from the existing 32,8 to 35%.

The projection of the GDP trend in Veles municipality is given on the following graphic review.



F.2 Projection of the Employment Growth

Parallel to the GDP projection, projection of the employment growth has been also elaborated. According to it, the employment growth will increase at average rate of 3%, so that the number of employed in Veles municipality in year 2020 will amount to 33.520 persons (see figure 14).



The projected development vision still could not provide full employment, even on a long-term due to the fact that in 2020 almost 16,4% of the working capable population in the municipality will remain unemployed. The problem could be solved if the meanwhile development trend enables achievement of average GDP growth rate higher than the predicted 6,5%



G

**PLAN FOR INTEGRAL DEVELOPMENT
OF VELES MUNICIPALITY**

| Objective | Direction | Type of Measure | | Bearers | Period of Realization | Necessary Funds (DEM) |
|---|---|---|---|-------------|-----------------------|-----------------------|
| | | Institutional/ Investment Measures | Projects, Programs, Services | | | |
| INSTITUTIONAL STRENGTHENING OF LOCAL GOVERNMENT | | | | | | |
| Enabling the local government for strategic development planning | Promotion of a new vision of achieving local social and economic development | Establishing new vision of achieving local economic development through promotion of investments in new jobs with a support of the development of a propulsive industry in the strongest economic sectors and in the small economy. Achieving an integral development of the municipality based on integration of sector development programs and a strategy of local economic and social development with defined infrastructure priorities. | Preparation of a Plan for Integral Development with clear objectives and strategies of development of the local community, starting from economic growth, investments and creation of jobs, ending with education, reduction of poverty and improvement of the level of services to the citizens. | LG, MDC, CI | 2001 | Realized |
| Institutional strengthening of the implementation of the integral development strategy and plan | Continuous update of knowledge and skills of the employees in the administration and expert services of the local government's departments | Education of the employees in the local government in the domain of creation and support of businesses and innovations, enforcing sector development, revitalization of the community, expansion of infrastructure and creation of social, economic and ecological policy. | Education programs | LG, MDC, CI | 2002 – 2003 | 15,000 |
| Support of the development of economic subjects in the municipality | Implementing initiatives for support of economic development through establishing partnerships and mobilization and organization of the community, firms, workforce and citizens of the municipality. | Support of priority development of small profitable companies that provide stable economic development and have small influence on the environment. Satisfying the needs of the companies for modern business within the frames of a separate technological and development industrial zone. Support of a development of rural enterprises through providing information, credit and training. | Consulting services | LG, MDC, CI | Continuous | MDC budget |
| Creation and implementation of social development and population policy | Encouraging measures for improving of the social status and achievement of reproduction and revitalization of the population in Veles Municipality | (a) Priority use of human resources as factor of development in order to increase the economic activity of the workforce; (b) Improvement of the structure and allocation of the population on the territory of Veles municipality; (v) Education and re-qualification of the unemployed workforce; (g) Implementation of programs for poverty reduction; (d) Implementation of measures for improvement of the social status of the population to enable birthrate growth and life extension by improving the quality of life and health protection. | Program for improving the quality and efficiency of the educational process in order to acquire knowledge of creative work, successful completion of economic activities and suitable regulation of the relationships in the family and the community of Veles municipality. | LG, MDC, CI | 2002 | 45,000 |

| Objective | Direction | Type of Measure | | Bearers | Period of Realization | Necessary Funds (DEM) |
|--|--|---|---|------------------|----------------------------|-----------------------|
| | | Institutional/ Investment Measures | Projects, Programs, Services | | | |
| Development of local government | Improvement of economic and social status of the population | Support of development of propulsive economic sectors | Promotion program and implementation of policies and projects of the Integral Municipal Development Plan. | LG, MDC, CI | 2002 | 40,000 |
| | | Building institutions, entrepreneurship, skills, trust, partnership and flow of information | | | | |
| | Participation in realization of national development programs | Promotion of investments | Promotion program and implementation of policies and projects of the Integral Municipal Development Plan. | LG, CI | October 2001 April 2002 | 60,000 |
| | | Maximum cooperation with state institutions and national agencies and active participation in ZELS | | | | |
| Development of local institutions for support and encouraging of the local development | Increase of local government's efficiency | Attraction of production, subjects and governmental financial institutions | Program for founding and operation of the Municipal Development Center | LG, CI | 2005 | Undetermined |
| | | Implementation of a modern governing model, efficient operation, good economic strategy and a spatial plan of good quality | | | | |
| | Founding of a Municipal Development Center for development support and favorable business climate creation | Provision of spatial and material conditions as well as finances for the start of operation of the Municipal Development Center | Program for establishing the Center | P.S, LG, MEe, CI | | |
| | Founding of a Center of Technological Development for strengthening the technological progress in the municipality | Provision of spatial and material conditions as well as finances for the start of operation of the Technological Development Center | | | | |

| Objective | Direction | Type of Measure | | Bearing | Period of Realization | Necessary Funds (DEM) |
|---|--|---|--|---|-----------------------|-----------------------|
| | | Institutional/ Investment Measures | Projects, Programs, Services | | | |
| INDUSTRY | Institutional support | Finding strategic partners | Development program | LG, MDC, CI, local industrial enterprises | Continuous | Undetermined |
| | | Elaboration of long-term development projects | | | | |
| | | Provision of credit lines with low interest rates | | | | |
| | Education of the management workforce | | | | | |
| Improvement and increase of industrial production | Revitalization and modernization of existing capacities | Reconstruction and modernization of process technology, implementation of new technological solutions and technologies as well as manufacture of products with a higher degree of finalization. | Research, projects, specialization, training | LG, MDC, CI, local industrial enterprises | Continuous | Undetermined |
| | Establishing strategic partnerships | Production restructuring of the leading local industrial capacities for integrated production within the frames of production programs of foreign business partners. | Research, projects, specialization, training | LG, local industrial enterprises | Continuous | Undetermined |
| | Building of an Industrial Zone | Elaboration of an Urban Plan for the new Technological Development Zone | Project documentation | LG, MDC, CI | 2004 | 110.000 |
| TRANSIT TOURISM | | | | | | |
| Improvement of the condition in transit tourism | Infrastructure and superstructure outfitting of the tourist area | Inclusion of the state in transit tourism development projects (particularly in those of national importance) | Development program and a plan | LG | 2001-2004 | Undetermined |
| | | Priority resolving of the problems in the sphere of transit tourism | Programa i plan za razvoj | LS | 2001-2004 | |
| | Improvement of the condition in the sphere of accommodation facilities | Defining of the accommodation facilities according to present tourism and hospitality standards and precise appropriation of their accommodation type | Development program and a plan | LG, MEc, MTC | 2002 | 15.000 |
| | | Choice of locations for new accommodation capacities | Elaboration of an annual promotion program | LG, MF, MEc | 2002 | 200.000 |
| | Improvement of the condition in the sphere of tourist promotion, information and advertising | Local government participation in the general tourist promotion of the municipality | Project documentation | LG | 2002 | 15.000 |
| | | Location of information points in the center of the town and near the main traffic communications | Project documentation | LG | 2002 | |
| | | Signalization and marking of the tourist localities and objects | Project documentation | LG | 2002 | |
| | Valorization of the tourist attractiveness in Veles region | Completion, outfitting and inclusion of the tourist attractiveness fund in the tourist offer of Veles municipality | Development program and a plan | LG, PS | 2001-2004 | 50.000 |
| | | | Project documentation and performance | LG, PS | 2001-2004 | 1.000.000 |
| | | Restoration of Lake Mladost | Project documentation | PS, LG | 2002 | 200.000 |

| Objective | Direction | Type of Measure | | Period of Realization | Bearers | Necessary Funds (DEM) |
|---|--|--|---|--------------------------|----------------------------|-----------------------|
| | | Institutional/ Investment Measures | Projects, Programs, Services | | | |
| DEVELOPMENT OF SMALL ECONOMY | | | | | | |
| Local institutional support | Support of craftsmanshup | Support of sm all businesses by the large enterprises | Program for support | Continuous | MDC, PS, CI | 0 |
| | | Promotion of the traditional craftsman products within the frames of various manifestations and by Internet and electronic and published mediums | Development program | January 2002 - July 2002 | LG, LD- MEc, MDC, NGO | 20.000 |
| Support of development of SME's | Small businesses in rural areas | Organizing presentation rooms in cultural, tourist, caterer and other objects where traditional craftsman products could be bought | Program for support of rural businesses | 2002 | MDC, LD- MF, LD- MEc, NEPA | 30.000 |
| | | Education of staff in the domain of traditional crafts within informal schools (a craftsman and several students) | Consulting services | Continuous | LD of MF and MEc, BI, NEPA | Undetermined |
| Expansion of material production of the small economy | Mentor support of small and startup businesses | Founding of craftsman studios where traditional craftsman products from this region will be manufactured | Education | Continuous | LD of MEc and MAFW, NEPA, | Undetermined |
| | | Providing locations for the craftsmen at traffic and transit points | Projects and realization | 2003 | PS, MDC, CI | 15.000 |
| Utilization of hydro-energy | Training of entrepreneurs about modern business skills | Providing business space, micro loans and tax benefits | Projects and realization | 2003 | PS, MDC, CI | 195.000 |
| | | Providing quick approval of building locations, business space, micro loans and tax benefits | Projects and realization | 2002 | PS, MDC, CI | 85.000 |
| Development of service activities of the tertiary sector | Stimulation of the process for creating new small and medium enterprises | Organizing information systems and services, training and consulting agencies and offices for support of entrepreneurship | Projects and realization | 2002-2005 | PS, MDC, CI | 3.500.000 |
| | | Building a plant for textile printing | Business plan, projects, construction of 20 objects | 2003-2005 | PS, MDC, CI | 600.000 |
| Production of electrical energy | Building a plant for manufacturing isolation ecoman panels | Building of 400 ecological plastic houses for flower | Projects and realization | 2004 | MDC, MEc, CI | 340.000 |
| | | Creation of mushroom growing capacities | Project documentation and realization | 2002 | PS, BI | 9.000 |
| Strengthening of the consulting services in the areas of engineering in industry and agriculture, marketing, IT, catering, tourism and environmental protection | Production of electrical energy | Installation turbines in the hydro system "Lisiche" | Business plan and founding | 2002 | PS, CI | 4.000 |
| | | Creation of consulting bureau for process automatization | Business plan and founding | 2002 | PS, CI | 5.000 |
| Development of service activities of the tertiary sector | Creation of environmental protection bureau | Creation of consulting bureau for process automatization | Business plan and founding | 2002 | PS, CI | 4.600 |
| | | Creation of IT support company | Business plan and founding | 2002 | PS, CI | 60.000 |
| Arranging of the river Vardar quay in the central townarea and building of a business center for the SME's | Creation of marketing agency | Creation of tourist agency | Business plan and founding | 2004 - 2006 | PS, CI | 2.000.000 |
| | | Building a passenger center and transport terminal | Business plan and founding | 2002 | MAFW, PS | 52.500 |
| Arranging of the river Vardar quay in the central townarea and building of a business center for the SME's | Creation of consulting bureau for silk, flax and hemp | Arranging of the river Vardar quay in the central townarea and building of a business center for the SME's | Elaboration of urtunity project | 2003 | LG, MDC, CI | 40.000 |

| Objective | Direction | Institutional/ Investment Measures | Type of Measure | Projects, Programs, Services | Bearers | Period of Realization | Necessary Funds (DEM) |
|--|--|---|--|---|---------------------------|-----------------------|-----------------------|
| ENVIRONMENTAL PROTECTION | | | | | | | |
| Reduction of harmful influence of the solid waste | Minimizing the waste | Introduction of a selective communal waste collection | Recycling useful waste fractions | Projects and programs for education of the population | LG, MDC, CI, PE "Derwent" | 2002 | 60.000 |
| | | | | | | | |
| Environmental protection | Modernization of the town landfill | Elaboration of a technical solution for sanitary landfilling of the communal waste | Rehabilitation of degraded areas | Feasibility study and projects realization | LG, MDC, CI | 2003 | 1.925.000 |
| | | | | | | | |
| Environmental protection | Long-term solution of an ecologically safe waste disposal | Building a regional communal solid waste landfill | Implementation of local environmental protection policy | Feasibility study, projects and realization | LG, CI | 2004-2005 | 6.500.000 |
| | | | | | | | |
| Reduction of the water, air and soil pollution | Adjustment of the economic subjects to the ecological standards ISO9000 and ISO14000 | Education of the management and the experts from the economic subjects about the introduction of preventive protection and cleaner production | Air protection | Project realization | MDC, CI | Continuous | 5.000 |
| | | | | | | | |
| Reduction of the water, air and soil pollution | Water protection | Construction of autonomous effluent plant in the polluting industries | Building a net of monitoring stations along the river Vardar | Project and building | LG, MAWF | 2002-2005 | Undetermined |
| | | | | | | | |
| Reduction of the water, air and soil pollution | Water protection | Regular control of the rural water supply systems and education of the population about the dangers of using polluted water | Investigation of the soil contamination by heavy metals in the region of Veles | Technical documentation | LG, MAWF, MEn | 2002 | 1.000.000 |
| | | | | | | | |
| Reduction of the harmful influence on the health of the population | Protection and soil decontamination | Assessment of the influence of heavy metals upon the vegetation production and choice of suitable raising cultures | Outfitting of the Health Protection Institute of Veles | Realization of the program from the Ecological study of technical and technological solutions for protection of Veles from MHIK "Zletovo" | LG, MDC, CI | 2002 | 210.000 |
| | | | | | | | |
| Reduction of the harmful influence on the health of the population | Monitoring system for pollution by heavy metals | Assessment of the influence of heavy metals upon the vegetation production and choice of suitable raising cultures | Outfitting of the Health Protection Institute of Veles | Elaboration of a study | LG, MDC, CI | 2002 | 160.000 |
| | | | | | | | |
| Strengthening of the public awareness | Informations and public participation of citizens | Implementation of a regional information system about the health state of the population and the quality of the ecosystems | Informing about environmental condition and citizens participation in the process of resolving the ecological problems | Research | LG, MH, MCV | 2002-2003 | 25.000 |
| | | | | | | | |
| Strengthening of the public awareness | Informations and public participation of citizens | Implementation of a regional information system about the health state of the population and the quality of the ecosystems | Informing about environmental condition and citizens participation in the process of resolving the ecological problems | Carrying activities | LG, NGO, MEn | Continuous | 5.000 |
| | | | | | | | |

| Objective | Direction | Type of Measure | | Bearers | Period of Realization | Necessary Funds (DEM) | | |
|--|--|---|---|--------------------------|-----------------------|-----------------------|--------------|--------------|
| | | Insitutional / Investment Measures | Projects, Programs, Services | | | | | |
| Improvement of the social status of the population | Protection and support to disorganized and dysfunctional families | Advisory work for support to families with problems | Forming family and marriage advisory groups | NGO, SWC | Continuous | 12.000 | | |
| | | Material securing of poor families | Project for fund founding | LG | 2002 | Undetermined | | |
| | Protection and support to self-supporting parents | Protection of socially endangered people, children and women against family violence | Protection project | | SWC, LG, NGO | 2003 | 17.000 | |
| | | Support to child raising and education | Investigation of the needs and forms of protection | | SWC, LG | 2003 | 2.000 | |
| | Protection and support to the handicapped | Accomplishing the right for social help | Implementation of the program | | SWC, LG | Continuous | 0 | |
| | | Inclusion in groups for support and self-help | Programs for support and help | | NGO | Continuous | 15.000 | |
| | Creating better living conditions for the old, fatigued and handicapped people | Resolving the housing problem | Building social apartments | | LG | Continuous | Undetermined | |
| | | Transformation of the special school for children with light mental retardation and their acceptance in regular schools | Education and rehabilitation | | MEd, LG | 2005 | Undetermined | |
| | Improvement of the educational and cultural level of the population | Healthy generation | Investigation of the opportunities for opening up workplaces for the handicapped within the economic activities | Program realization | LG | 2003 | 4.000 | |
| | | | Daily centers for taking care of old and handicapped people | Project realization | LG, HO, SWC | 2005 | 120.000 | |
| | | Help and support to addicts | Domestic services | Volunteer services | | LG, NGO | 2002 | 0 |
| | | | Removal of the architectural barriers | Projects and realization | | LG, PS | 2004 | Undetermined |
| | | Fight against crime | Provision of apartments for old and handicapped people | Building of apartments | | LG | Continuous | Undetermined |
| | | | Non-institutional protection | Project realization | | LG, SWC | Continuous | Undetermined |
| | | Education of children and youth | Project for promotion of the Center for human reproduction at the MCV | Family planning | | MH, LG | 2002 | 6.000 |
| | | | Opening up a daily hospital at the MCV | Responsible parents | | MCV, SWC | 2001 | 2.000 |
| | | Building children playgrounds and sport terrains | Clubs of treated alcoholics and drug addicts | Project realization | | LG, MH, MCV | 2002 | 50.000 |
| Program for rehabilitation and re-socialization | | | Opening up clubs | | SWC, LG, HO | 2002 | 3.000 | |
| Education of children and youth | Opening up a daily center for problem kids and delinquents | Implementation of he program | | SWC, LG | Continuous | 6.000 | | |
| | Supervision, re-socialization and working engagement of the suspended sentenced people | Program realization | | SWC, LG | 2004 | 40.000 | | |
| Education of children and youth | Opening up centers for learning trades in Gradsko, Chashka, Bogomola and Upper Jabokhishte | Supervising program and working engagement | | SWC, LG | Continuous | Undetermined | | |
| | Building children playgrounds and sport terrains | Program and project realization | | LG, HO | 2002 | Undetermined | | |
| | | | Designing and realization | LG, MEd, HO | 2004 | 200.000 | | |

| Objective | | Direction | | Type of Measure | | Projects, Programs, Services | | Bearers | | Period of Realization | | Necessary Funds (DEM) | | | | | | | | | | | |
|--|--|---|--|--|--|---|--|------------------------------|--|-----------------------|--|-----------------------|--|--|--|-----------------------|--|--|--|-----------------------|--|--|--|
| Institutional / Investment Measures | | | | Type of Measure | | | | Projects, Programs, Services | | | | Bearers | | | | Period of Realization | | | | Necessary Funds (DEM) | | | |
| WATER SUPPLY AND COMMUNAL WASTE WATERS | | | | | | | | | | | | | | | | | | | | | | | |
| Resolving the water-supply problems and cleaning of the communal wastewaters | | Provision of the town with drinking water | | Completion of the "Lische" dam and its objects | | Project documentation and realization | | MTC, HMS "Lische" | | 2002 | | 11.150.000 | | | | | | | | | | | |
| | | Substitution of the drinking water with ground waters for irrigating greenery and street cleaning | | Elaboration of feasibility study for building of wells | | Investigations and elaboration of feasibility study | | LG, PE "Derven" | | 2003 | | 111.000 | | | | | | | | | | | |
| | | Protection of the river Vardar | | Construction of collecting system and cleaning station for Veles | | Project documentation and realization | | LG, PE "Derven" | | 2002-2005 | | 17.500.000 | | | | | | | | | | | |
| | | Resolving the water-supply problems and drainage of the communal wastewaters | | Construction of water supply, sewerage system, collecting systems and autonomous cleaning stations | | Project documentation and realization in 6 settlements and 8 town regions | | LG, PE "Derven" | | 2002-2005 | | 14.800.000 | | | | | | | | | | | |
| TRAFFIC | | | | | | | | | | | | | | | | | | | | | | | |
| Improvement of the traffic security and resolving the traffic problems | | Completion, modernization, adjustment and enlargement of the existing traffic roads, pavements and pedestrian bridges | | Construction of pedestrian bridges over the river Vardar and the railroad track and construction of supporting columns as supporting parts of some streets | | Project elaboration and realization | | LG, MTC | | 2002-2006 | | 3.400.000 | | | | | | | | | | | |
| Improvement of the traffic participants and pedestrian security | | Improvement of the traffic regulation in the town | | Placing traffic lights and introducing one-way streets | | Traffic study Project on traffic signalization | | LG, MTC | | 2003 | | 123.000 | | | | | | | | | | | |
| Connection of the rural settlements and tourist localities | | Improvement of the traffic communication | | Construction of roads and accesses to the highway | | Project documentation and realization | | LG, MTC | | 2002-2004 | | 4.660.000 | | | | | | | | | | | |

Abbreviations used:

| | | | | | |
|-----|--|-------|--|-----|------------------------------|
| LG | Local government | MED | Ministry of Education | NGO | Non-government Organizations |
| LD | Local department | MAWF | Ministry of Agriculture, Water Supply and Forestry | HO | Humanitarian Organizations |
| MF | Ministry of Finance | MEH | Ministry of Environment | CI | Consulting Institutions |
| MEC | Ministry of Economy | ADEUR | Agency for Development of Economically Undeveloped Regions | MDC | Municipal Development Center |
| MH | Ministry of Health | AASD | Agency for Agriculture Support and Development | SWC | Social Work Center |
| MTC | Ministry of Transport and Communications | PS | Private Sector | MCV | Medical Center of Veles |
| MC | Ministry of Culture | | | WU | Workers' University |

CONCLUSION

According to the results and the knowledge acquired during the realisation of the study, it can be concluded that today the economy of Veles municipality faces general development stagnation. It is of a weak accumulative capability, operates in the zone of disinvestments and without working assets, with significant amortization of equipment and frequently in condition when many of the enterprises, which so far were the main bearers the employment, went to bankruptcy or are put into receivership.

Besides the strong support in the past several years, yet there are no significant results in the small economy development. The condition regarding the transit tourism is also unfavourable, mainly as a result of the political changes and the safety situation in the region.

Besides the economic and social problems, the population of Veles municipality faces the problem of living in a very polluted environment. The measures that have been already undertaken did not result in a satisfactory protection, so that the absorption power of all local environmental mediums is at extremely low level.

a) Comparative Advantages and Limitation Factors of Development

The analysis of conditions and opportunities for carrying out the future development of Veles municipality shows that this region has significant natural and human resources, as well as manmade values for accomplishing a more dynamic development of almost all economy branches, and especially of agriculture and cattle-breeding, which were not a subject of this study.

The potentials of the existing processing capacities of the local metallurgical, chemical, ceramics, textile, leather, food, tobacco and construction materials industry, as well as the potentials of the traffic and other infrastructure, are assessed as particular comparative advantage for accomplishing of economic and social development in the municipality.

Limitation factors of development of Veles municipality are the present low level of economic development, the low demand of the already small domestic market, the insufficient accumulation of capital and the incomplete process of ownership transformation. As limitation factors also could be count the technological lagging of the economy, the high dependence on import equipment and raw materials and the high budget consumption. At the same time, the heavy problems in the social sphere caused by the enormously high unemployment, as well as by the Balkan political instability, do not contribute toward faster development of the economy of Veles municipality.

b) Development Strategy of Veles Municipality

Based on priority usage of the existing local development factors, the socio-economic development of the municipality will be in direction of optimising the quantity levels of the indicators of economic growth, including the GDP growth, the exchange volume of products and services with foreign countries, the extent of investments and the employment intensity.

In addition, the municipal development should be carried out in conditions of unemployment reduction, active involvement of the population in the processes of sustainable management of the natural resources, citizens participation in the decisions making process, development and implementation of local policies which provide perpetual improvement of life quality, strengthening of the local self-government and the civil society, as well as preventive protection of human health and maintaining of clean and healthy environment.

The development goals will be realised through revitalization and modernization of the existing industrial and other capacities in a way of carrying out of technology restructuring and ownership transformation, as well as by opening of new modern small and medium sized production enterprises as soon as possible.

According to the projection for 2020, the primary sector participation in the total GDP of the municipality will note a decrease of 2%, the secondary sector participation will retain at 50%, while the tertiary sector participation, due to the expected dynamic development of small economy, will increase by 2% compared to the situation in 2000. The number of employed will reach the level of 33.520 persons.

Development Strategy of Industry

In accordance with the field research results regarding the present condition of the local economy, and in direction of preventing the present decreasing trend of industrial production and national product, the local economic growth and development, as well as the increase of the employment rate, will be carried out through: (1) size optimisation of the existing enterprises and optimisation of the number of employees, (2) strengthening of the organisational and management functions within the economy subjects, (3) establishing of more flexible economy structure and production organisation, (4) more rational use of the existing capacities and available material and energy natural resources, (5) changing of the production structure in direction of achieving higher phase of transformation and better conditions for access to the international market, (6) promotion of the applied technologies and improvement of the production quality, as well as through (7) strengthening of the marketing activities in order to reach more organised and more aggressive performance at the international market.

While carrying out the development activities, priority should be given to the process of revitalization and technology modernization of those industrial capacities that will provide better employment opportunities. Here belong the industrial capacities from the agro-industry, metal-processing and electric industry, textile and leather industry, as well as the non-metal and construction materials industry. The development support to the metallurgical and chemical industry is conditioned by resolving the problems related to the environmental pollution.

Due to the unfavourable location of the industrial capacities in the town area of Veles and for alleviating the problems of environmental pollution, as well as for creating an ambient for more efficient usage of the local technical, social, infrastructure and educational comparative advantages and investment stimulation, it is proposed establishment of Technological Development Industrial Zone.

Development Strategy of Small Economy

In accordance with the field research results, it is concluded that there is a need for maximal support to the development of SME's and family businesses. Due to its capability of easy and fast adjustment to the market changes, the development support to the SME's should be carried out in all economic sectors. Regarding the service sector of small economy, the main accent should be put to the entrepreneurship development of the catering industry, transit tourism and the handicraft, through which the advantages based on the available local natural and human resources and created values will be properly valorised.

The small economy development should be especially directed towards the rural areas, so that it will encourage the population return to healthy living areas. In this context, special attention should be paid to the initiative and support of the healthy food production through opening of small farms and capacities for meat packing, dairy products and mushroom growing.

Development Strategy of Transit Tourism

The results of analysis of the current situation in tourism in Veles region point to very unfavorable trends in the domain of tourist attendance, stay and spending, especially of foreign tourists, as well as unfavourable situation in the sphere of accommodation facilities, quality of restaurant services and valuation of all tourism attractiveness in this region.

To stimulate the development of tourism in Veles municipality, especially the development of transit tourism as a basic tourism component in this region, several development activities are being proposed. They include: (a) infrastructure and superstructure outfitting of entire transit tourist area, (b) tourist valuation and outfitting of ambient natural attractions, especially Lake Mladost, and (c) improving the situation of tourist promotion, information and advertizing.

Because development of tourism is not just a problem of local community, but also an issue of national importance, there must be a proper engagement of the state, to give strong stimulus and help for all projects that comprise such trends of development. In the same time, it is necessary to promote the process of concession, that will result in maximum engagement of private initiative and also re-affirmation of all natural and human tourist attractions.

c) Development Strategy of Environmental Protection

Accomplishing of a more dynamic economic and social development is not possible in polluted environment. Maintaining of healthy population, achieving of environmental protection (water, air, land and forests), biodiversity promotion and life quality improvement can be only attained if there is consistent implementation of the adopted ecological policy, programs and measures of the Local Environmental Action Plan (LEAP).

A special task of this plan is paying respect to the ecological goals that have been set, and by whose implementation on a medium-term it is anticipated reduction of the lead and sulfuric dioxide emissions by 50% and of cadmium by 70%, in relation to the emissions calculated according to the Material Balance Model for 1995.

The accomplishment of the ecological goals should be realized by (a) introducing ecological criteria and ecological cost in implementation of the local economic development, (b) sustainable development of the natural resources in conditions of preventive environmental protection and cleaner production, (c) implementation of integral agricultural production, (d) implementation of integral protection of the rivers Vardar, Babuna, Topolka and Otovica, and (e) implementation of a modern system for sustainable management of the solid waste.

Strengthening of the public awareness in direction of implementing ecologically more acceptable way of living and acting, citizen participation in the decision-making process and implementation of the local economic, social and ecological policies, as well as enlargement of the local government's authorities in accomplishing more efficient environmental protection are factors for creating the conditions necessary for successful achieving of the strategic goals for environmental protection and health care of the population.

d) Bearers of the Support to the Development

Within the study frameworks, several organisational forms are proposed as bearers of the local economic and social development. As a support to SME's development of the industrial complex, agrarian sector and service activities, it is proposed establishing of development centres that will be a base and bearers of all activities in implementing projects from the *Plan for Integral Development of Veles municipality*.

For accomplishing the development goals, parallel strengthening of the local government bodies in direction of more successful implementation of the local economic development, is also necessary. A new approach for implementation of local economic development was specially elaborated and proposed for realisation in the frameworks of this study.

Strengthening of the fiscal system and creation of an ambient for using the civil savings, supplemented by providing financial means from state and international institutions for development support, will present a real base for implementation of the revitalization process and modernization of the existing capacities, as well as a base for opening new industrial and other infrastructure systems in the municipality, which should result by poverty decreasing and life quality improvement.

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