Ministry of Economy of the Republic of Macedonia

Programme for Stimulating Investment in the Republic of Macedonia (2007 – 2010)

"This publication was produced for review by the United States Agency for International Development. It was prepared by the Ministry of Economy of the Republic of Macedonia"

June 2007

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Acknowledgements

The Programme for Stimulating Investments in the Republic of Macedonia has been prepared with the assistance of the EAR Project "Technical Assistance to the Ministry of Economy for Improvement of the Investment Climate." The programme was prepared by an international consultant with significant assistance from the Investment Policy Unit within the Ministry of Economy. We are grateful for the feedback received from various governmental Ministries, Agencies, Bureaus, etc. as well as donors such as UNDP, GTZ and USAID, which is incorporated into the Programme. We are also grateful to USAID for printing the Programme. Comments on various aspects of the Programme have also been made by TDI experts within the EAR Project, for which we are grateful. The overall Programme has been based on the OECD's Investment Reform Index (2006) framework. Finally, the Programme for Stimulating Investments in the Republic of Macedonia has undergone a thorough consultation process, which resulted in revisions and improvements, prior to receiving Government approval.

Abbreviations

ADI	Agency for Development and Investment
AIRM	Accreditation Institute of the Republic of Macedonia
APPRM	Agency for Entrepreneurship Promotion in the Republic of Macedonia
ASYCUDA	Automated System for Customs Data
BIT	Bilateral Investment Treaties
BEEPS	Business Environment and Enterprise Performance Survey
BDE	Bureau for Development of Education
BMRM	Bureau for Metrology of the Republic of Macedonia
B2B	Business to business
B2C	Business to customer
CEFTA	Central European Free Trade Agreement
CIP	Competitiveness and Innovation Programme
CIT	Corporate Income Tax
CE	Council of Europe
CEFTA	Central European Free Trade Agreement
CENELEC	European Committee for Electro-technical Standardization
CEN	European Committee for Standardization
CG	Corporate Governance
CSA	Civil Servants Agency
CSR	Corporate Social Responsibility
DEN	Denars
DTA	Double Taxation Agreement
DFEZ	Directorate for Free Economic Zones
DPMEA	Deputy Prime Minister for Economic Affairs
EA	European Cooperation for Accreditation
EAR	European Agency for Reconstruction
EARM	Employment Agency of the Republic of Macedonia
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EFTA	Economic Free Trade Agreement
ETSI	European Telecommunication Standard Institute
ESC	Economic & Social Council
FDI	Foreign Direct Investment
FEZ	Free Economic Zones
FIAS	Foreign Investors Advisory Service
FIC	Foreign Investors' Council
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GoM	Government of Macedonia
G2B	Government to Business
HACCP	Hazard Analysis and Critical Control Points
IAF	International Accreditation Federation
ICI	International Council of Investors
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards

ILAC	International Laboratory Accreditation Cooperation
IM	Invest Macedonia
IPA	Investment Promotion Agency / Instrument for Pre-Accession Assistance
IPR	Intellectual Property Rights
IRI	Investment Reform Index
ISO	International Organization of Standardization
JSC	Joint Stock Company
LED	Local Economic Development
R&D	Research and Development
RIA	Regulatory Impact Assessment
MSC	Macedonian Securities Commission
MoA	Ministry of Agriculture, Forestry & Water supply
MoE	Ministry of Economy
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of Interior
MoJ	Ministry of Justice
MoLSP	Ministry of Labour and Social Policy
MoLSG	Ministry of Local Self-governance
MoTC	Ministry of Transport and Communication
MFN	Most favoured nation
MNC	Multinational Companies
MNE	Multinational Enterprise
NBRM	National Bank of the Republic of Macedonia
NECC	National Entrepreneurship and Competitiveness Council
NGO	Non-governmental Organization
OECD	Organization for Economic Cooperation and Development
PISA	Programme for International Student Assessment
PIT	Personal Income Tax
PRO	Public Revenue Office
PSI	Programme for Stimulating Investment
SAA	Stabilization and Association Agreement
SBPIP	State Bureau for Protection of Industrial Property
SEE	South Eastern Europe
SEAF	Small Enterprise Assistance Fund
SIRM	Standardization Institute of the Republic of Macedonia
SME	Small and Medium-size Enterprise
SMI	State Market Inspectorate
SEPRR	Sector for Economic Policies & Regulatory Reforms within General Secretariat
TDI	TDI Group
TIDZ	Technical Industrial Development Zone
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VET	Vocational Educational Training
WB	World Bank
WTO	World Trade Organization

FOREWORD

The new Programme for Stimulating Investment in the Republic of Macedonia was prepared shortly after the election of a new Government. The fortunate timing enabled the incoming Government to influence the nature and content of the Programme for Stimulating Investment, since the main goal is to develop policies and undertake reforms that lead to more dynamic economic development in the country. Indeed, the economic part of the Government's Work Programme for the period 2006-2010 is built on three pillars (2006, p.2):

1. Increase domestic and foreign direct investment.
2. Increase the competitiveness of Macedonian companies.
3. Improve capacity of public institutions to implement reforms.

The Government's economic programme places enterprise development and attraction of investment at the forefront of generating employment and economic growth. Consequently, the economic programme and Programme for Stimulating Investment are intertwined and, in preparing the Programme for Stimulating Investment, the close attention has been paid to incorporating the Government's priorities.

The Government's economic programme is only one of the reasons for preparing this new Programme for Stimulating Investment. The fact that in November 2005 the Republic of Macedonia gained Candidate Country status for accession to the European Union (EU) has significant implications for the economic prospects of the country. The necessity to harmonize Macedonian legislation and regulations with those of the EU is a key concern. Moreover, new developments in the EU, such as the Instrument for Pre-Accession Assistance (IPA) and the Competitiveness and Innovation Framework Programme (CIP) are presenting new challenges which the Macedonian economy must respond to if it is to achieve higher levels of productivity and competition.

The revised Programme for Stimulating Investment during the period 2007-2010 is designed to tackle the new agenda for economic development, since both domestic and foreign investment are crucial to future competitiveness. These are significant challenges for Macedonia but there is no reason why we should not face up to them. The Government is committed to making the investment climate more stable, predictable and simple, thus stimulating greater levels of investment and, in the process, tackling the high levels of unemployment in the country.

The Programme for Stimulating Investment presented here is the result of detailed research and analysis, combined with a process of consultation with all the relevant investment stakeholders. The Government is committed to providing the political backing required, as well as the human and financial resources to ensure that the contents of this programme are implemented by 2010. As accession to the EU approaches, time is running out to ensure that our economy and our firms become more competitive. This Programme for Stimulating Investment will make significant strides towards ensuring that Macedonia thrives in the global economy.

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Minister without Portfolio responsible for attracting foreign investments

1. INTRODUCTION

1.1 INVESTMENT: A NEW PHASE OF DEVELOPMENT

The previous Programme for Stimulating Investment in the Republic of Macedonia (2003-2006) produced by the Ministry of Economy (MoE) demonstrated that attracting domestic and foreign investment was a priority for the Government of the Republic of Macedonia (MoE, 2003). The Programme was based on Foreign Investors Advisory Service research and recommendations (FIAS, 2003) and set the framework for investment promotion in the country based on a series of policy reforms focusing on:

- Company legislation.
- Labour legislation (work permits and visas).
- Access to land.
- Construction permits.
- Customs administration.

In addition to the above, other measures focused on issues such as: reduction of bribery and corruption, improving administration, court system, financial system, corporate governance, tax administration, inspectorate service, etc. Several years on, the changes that occurred in the political and economic environment generated the need to revise and up-date the Programme for Stimulating Investment, in particular:

- Many of the priorities and actions originally envisaged have now been implemented, such as the creation of the overall institutional structure for investment.
- Candidate Country status has been obtained, requiring an even greater reorientation towards the accession requirements of the EU (the *acquis communautaire*).
- Compatibility with the OECD / Investment Compact's Investment Reform Index since this is the key tool for benchmarking progress in the region and the country if committed to implementing its investment best practice principles.

The above agenda calls for a reorientation of the focus of the Programme for Stimulating Investment into the following components:

1. Investment policy.
2. Investment promotion and facilitation.
3. Tax policy.
4. Anti-corruption and business integrity.
5. Competition policy.
6. Trade policy.
7. Regulatory reform.
8. Human capital.
9. Corporate governance.
10. SME policy.

The set of issues highlighted above is crucial in helping stimulate investment in the country, thereby contributing directly to raising the competitiveness of firms. The resulting increased level of profitability is expected to lead to growth and employment generation, thus impacting on the Government's key socio-economic objective of reducing the current high levels of unemployment. Finally, Macedonia's progress in improving its investment climate will be directly measured and benchmarked against the above issues in 2008. Consequently, it is important for the Programme for Stimulating Investment to focus its effort on the above set of issues.

The new Programme for Stimulating Investment will be implemented with state budget funds, a signal of the Government's commitment to support this sector. At the same time, international support from bilateral and multilateral donors is sought to complement this initiative. During the implementation period of the Programme (2007-2010), Annual Action Plans will be prepared outlining objectives, prioritised measures (projects), institutional responsibilities and timelines for implementation. On the basis of these Action Plans, Annual Financial Plans will be adopted which will outline the financial resources that are earmarked for the implementation of measures as well as the sources of finance. A number of measures will be implemented by Investment Promotion Agency (Invest Macedonia), as well as other relevant players including the Ministry of Economy (MoE), Deputy Prime Minister's Office, Ministers without Portfolio, other ministries, as well as consultative partners such as the investors' councils and business associations.

1.2 Investment Trends

Direct investment aims to establish a lasting interest in an enterprise in an economy other than that of the investor. This implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. The economic benefits of attracting foreign direct investment (FDI) are well worth striving for two main reasons:

- Firstly, countries such as Macedonia, where domestic savings are too low to finance economic expansion, can utilise FDI as a source of external finance.
- Secondly, the presence of foreign corporations tends to be associated with positive "externalities" which countries may benefit from, such as transfers of know-how and technology to assist the development and restructuring of enterprises. Other externalities include assisting the process of international trade integration, boosting business competitiveness and assisting human capital formation in the host country.

The potential benefits are well known (technology transfer, skills development, greater employment, tax revenue, exports, capital investment, etc.). However, the evidence is that while these benefits are real, they are neither automatic nor evenly spread across countries and regions within / between countries. Without a healthy business-enabling environment that encourages domestic and foreign investment, improvement in skills and a competitive corporate climate, these benefits may not be realised. Above all, policies that generate a stable macroeconomic and regulatory environment are of critical importance in attracting FDI and transforming it into growth and employment.

The FDI trends are not flattering in Macedonia. From a comparative aspect, the latest South Eastern European Investment Guide (2006, p.6) shows that gross FDI in the South Eastern European (SEE) region "has reached a historical high level of over EUR 14bln last year and is about to hit a new record of some EUR 20 bln in 2005 … the countries in Southeast Europe have become one of the world best performers in terms of FDI inflows per capita." However, Macedonia has performed poorly compared with the others. The total FDI inflows during the period 1991-2006 were 1.264 billion EUR.

Table 1.1 shows that even from a national perspective, the performance has been uneven. In the early years of independence, the FDI inflow was very small. Once the privatisation process started, however, the inflow increased markedly, reaching a peak of ca. 12.8% of GDP in 2001. The majority of FDI found its way into the following sectors: telecommunications, manufacturing, cement production, crude oil processing, food and beverages, banking and insurance. Significant investments include: MATAV Telekom / Deutsche Telekom (Hungary), EVN (Austria), National Bank of Greece (Greece), Balkanbrew Holding Ltd (Greece) and Hellenic Petroleum (Greece). The 10 largest investors have been: Austria, Hungary, Greece, Holland, Cyprus, Switzerland, Germany, Slovenia, Italy and Great Britain.

Table 1.1: FDI Inflow in the Republic of Macedonia (1996-2006)

parameter	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Value in USD Ml	11.2	30.7	128.0	32.8	176.0	441.0	78.0	96.0	156.0	97.0	350.0
Share of GDP	0.3	0.8	3.6	0.9	4.9	12.8	2.1	2.1	2.9	1.7	5.6

Source: National Bank of the Republic of Macedonia (NBRM)

In 2005, an FDI inflow worth 1.7% of GDP was recorded. This was very disappointing when competing regional economies experienced significant injections of FDI, however, the trend recovered in 2006 mainly due to the sale of the Electric Power Company (ESM Distribution) to EVN for USD 225 ml.

The privatisation process in Macedonia is almost complete. In the current phase, the following public companies will be privatised: Macedonian Railways (parts for cargo and passenger transport), Macedonian Radio Television (parts not linked with the core activity), parts of Macedonian forests, public enterprise for managing housing and office space and the state will offer its shares in Macedonian Telecom for sale. After completing this phase, the privatisation-led injections of investment will be insignificant, which means the necessity to boost foreign direct as well as domestic investment will have become urgent.

1.3 Foreign Investment Regime

1.3.1 Legal Framework

As all other countries interested in attracting FDI, Macedonia has established four key principles, namely: national treatment, protection of ownership rights of domestic and foreign investors, stable legal environment and transparent functioning of institutions. The latter two principles involve a process, rather than a one-time event and this Programme for Stimulating Investment seeks to further underpin those principles.

The Law on Trading Companies (2004) allows Macedonians and foreigners to establish various types of companies without restrictions:

- Sole proprietorship.
- General partnership.
- Limited partnership.
- Limited liability company.
- Joint-stock company.
- Limited partnership by shares.

The Law on One-Stop Shop System (Official Gazette of RM no. 84/2005), has resulted in a significant streamlining of the process of establishing and registering enterprises, which now takes less than 3 days. With the establishment of the Bureau for technical assistance within the Central register, total costs for registration will be less than EUR 100.

No limitations exist on the amount of domestic or foreign investment in Macedonian companies or the repatriation of post-tax profits and dividends. Non-residents may acquire ownership of real property for business purposes. Moreover, Macedonia has concluded Agreements on Promotion and Protection of Investment with 30 countries, 26 of which have been ratified. Macedonia became a member of the World Trade Organisation (WTO) in 2003 and has concluded 10 free trade agreements (7 bilateral in nature and 3 multilateral in nature, namely the Economic Free Trade Agreement (EFTA), Central European Free Trade Agreement (CEFTA 2006) and Stabilisation and Association Agreement (SAA) with the EU.

1.3.2 Taxation

The key taxes and rates are as follows in Macedonia:

- Corporate Income Tax (CIT): 12% to be reduced to 10% in 2008.
- Personal Income Tax (PIT): from 12% to be reduced to 10% in 2008.
- Payroll contributions: 21.2% pension and disability contributions, 9.2% health insurance and 1.6% employment insurance.
- Withholding tax: from 12% to be reduced to 10% in 2008.
- Property tax: 0.10 to 0.20 % of market value of land and buildings, 2 to 4 % on sale of property and property rights (decided by municipalities) and 2 to 5 % on inheritance / gifts.
- Value Added Tax (VAT): 18% (5% privileged rate).
- Excise duty: varies from 5% to 62%.
- Customs duty: average of 8%.

1.3.3 Technological and Industrial Development Zones

The previous Law on Free Economic Zones (1999) defined Free Economic Zones (FEZs) as part of the customs area of Macedonia. One FEZ was created, namely “Nickel Valley” in Kavadarci (155 ha). The Government of Macedonia (GoM) has finalised the new Law on Technological and Industrial Development Zones (TIDZs), with a new set of benefits and incentives. The Law has already been passed by Parliament and seeks to stimulate investment in production, Information Technology (IT), Research and Development (R&D), new technology in environmental protection, etc. The key expected benefits are set out below.

Table: 1.2 Key TIDZ Incentives

Tax incentives	Custom incentives	Other incentives
No VAT and excise duties. No profit tax for 10 years. PIT of 50% for 5 years.	No customs duties for capital equipment and raw materials. No obligation for IT companies to submit guarantees as security on export or import duties.	No municipal fees for preparation of construction land. Establishment of a “Green Channel” to facilitate customs clearance. Incentives for training of future employees. Land leased to investors for 50 + 25 years (negotiable). Subsidies for construction of facility up to 100%, but not more than EUR 500,000 in denar counter-value, for companies from the current list of Fortune Global 500 and Business Week Global 1200 (this provision shall apply from January 1st, 2008).

Source: Law on Technological and Industrial Development Zone, 2007

The “Technological and Industrial Development Zone (TIDZ) - Skopje” (130 ha), 10 km east of Skopje, has already been established and Stip (200 ha) will follow shortly.

1.4 Sectors with investment potential

1.4.1 Agriculture and food processing

The GoM views the modern development of agribusiness and food processing, traditionally one of the strongest sectors of Macedonia’s economy, as a strategic priority and is ready to commit substantial support for trade and investment in the sector. Macedonia’s EU accession process will involve substantial technical assistance and investment support funds dedicated to the sector. The sector's competitive advantages include a unique combination of Continental and Sub-Mediterranean climates, environmentally friendly production practices, sound food processing technologies, qualified labour available throughout the rural areas, good access to regional markets and a reputation for quality food products. All of this makes Macedonia an attractive area for foreign investment. Assessments of Macedonia's potential for further development of the sector indicate that the greatest investment opportunities are in fruits and vegetables (production, storage, distribution and processing industries), together with wine production and sheep and goat cheese production.

1.4.2 Manufacturing: automotive components

Macedonia is already manufacturing and exporting a range of automotive components mainly for the aftermarket in Europe, Russia, Turkey and Africa. Products exported include seat belts, clutches, gears, springs, multi-layer printed circuit boards, pneumatic and brake systems. The country is particularly suitable as a location for the manufacture of high value to weight labour intensive products such as safety systems (seat belts, airbags), electronics (controllers, sensors) and precision plastic products. The most recent investor in the sector in Macedonia is Johnson Controls which has started construction of a $40m automotive electronics plant at TIRZ – Skopje, close to Skopje Airport and will employ 500 people. Also, the pre-agreement for investment is signed with a British company for automotive components, Johnson Matthey.

1.4.3 Manufacturing: healthcare / medical devices

Macedonia has a well-established pharmaceutical industry supplying products to over 30 countries in the region and beyond. These products are primarily finished generic products. The country has a strong educational bias towards the medical and healthcare professions with a surplus of qualified medical doctors and pharmacists emerging from the education system every year. The salary levels of medical staff are substantially below those of comparable staff in the EU, to the extent that medical tourism has been attracted and is growing. The regulatory environment in Macedonia has undergone change recently and is supportive of new healthcare / medical devices investment.

1.4.4 Knowledge economy

Macedonia has a good supply of well-educated people at amongst the lowest cost in the region. Some 500 IT graduates are now produced annually rising to 885 by 2008. A software engineer with 1 to 2 years experience receives EUR 400 - 500 per month. English is widely spoken and the country has a plentiful supply of staff that can speak the languages of the region (Bulgarian, Croatian, Serbian, Slovenian, Albanian and Greek). The telecommunications system is first class and is regarded as the best in the region. A number of international companies such as Seavus (Sweden), Netcetera (Switzerland), and M Soft (France) are successfully developing software products in Macedonia for the export market and others are providing 24 hour, 7 days a week telephone customer support for major multi-national IT companies. There is also the possibility of establishing Call Centres in Macedonia.

1.4.5 Tourism

The Republic of Macedonia is a veritable treasury of culture and art and with numerous historical monuments. Visitors to Macedonia have often referred to the country as the "Pearl of the Balkans." This cultural heritage combined with a moderate climate and beautiful landscape, makes Macedonia an attractive destination for foreign investors in the tourism sector. In Macedonia, there are three natural lakes and one of them – Lake Ohrid is protected by UNESCO. There are 38 thermal wells that offer possibilities for further development of the existing eight spa resorts. The high mountains are suitable for hunting, fishing and winter sports. The unpolluted air, earth and water are a great precondition for Eco-tourism that is on the top of the list of offers of the world's most popular tour operators. Macedonia has over 1,000 churches, monasteries, and more than 4,200 archaeological sites (Kokino, Stobi, and Heraklea). This makes the country one of potential leaders in cultural tourism in Europe.

1.4.6 Textiles / leather

Macedonia has a long tradition in textiles and leather. The textile industry is export-oriented (second largest export industry) and participates with 30% in total export of the country. The textile industry employs 26% of total number of people in the industry and participates with 26% of the share of GDP. Readymade men's shirts and women's blouses, wool yarn, wool fabric and knitted fabric are the main products. There are capacities for leather and fur, leather shoes and fancy goods production. The country offers the potential for new foreign direct investment, but also has an opportunity for outsourcing, strategic alliances and joint ventures with many local well-established companies.

1.4.7 Metallurgy

This sector constitutes 2.2% of GDP and represents 6.1% of industrial production. In 2006, the production of basic metals (mainly iron and steel), represented the largest export sector (over 31% of exports) and created a positive trade balance worth USD 296 million. This sector is exclusively export-oriented and is largely in foreign ownership. The sector employs approximately 14,000 employees and, in addition, over 160 small and medium-sized enterprises (SMEs) form part of the supply chain, employing a further 60,000 people. The main products include rolled sheet steel, aluminium bars, rods and profiles, ferrous alloys, seamed tubing and ferrous-nickel products, lead, zinc, copper, gold and silver.

1.4.8 Other sectors with potential

- Chemicals.
- Mineral Resources.
- Real estate development.
- Construction.
- Wood furniture.
- Regional warehousing and distribution.

1.5 Policy Conclusions

In the era of globalization, FDI is regarded as an essential factor in economic development. FDI can generate employment, enhance exports and contribute to long-term economic development. More recently, the "spillovers" of FDI have come to be considered a powerful motive for encouraging foreign investment, as it brings knowledge, managerial skills, marketing strategies, and distribution and production networks that benefit the host economy. For most countries, therefore, creating a better climate for FDI has become a central part of economic development.

Turning FDI into an instrument of economic development takes more than making a country an attractive market site for investment. Creating a better environment for FDI requires a holistic approach to the implementation of industrial policies (property rights legislation, reduction of red tape, elimination of corruption, judicial reform) and macroeconomic measures (liberalization, deregulation, availability of infrastructure and skilled labour force). The importance of policy coordination cannot be overstated. This is necessary to ensure that impacts are not diluted or even cancelled out by conflicting effects flowing from uncoordinated polices. For Macedonia, coordination has to take place both within and among different branches of the national government, as well as within and between different municipalities. Moreover, in order to make FDI an instrument of economic growth, long-term economic development goals have to be set in the light of national priorities.

2.0 INVESTMENT PROMOTION INSTITUTIONS

2.1 Context

Whilst actual investment decisions are made by individuals, rather than being the result of Government actions, the conditions that enable and/or constrain investment are affected by the wider social, economic and institutional context, over which the state has a major influence. Creating an appropriate institutional basis for domestic and foreign investment policy is thus an important precondition that needs to be fulfilled before sustained investment promotion can be embedded. This refers primarily to the national level (central government), but also to the regional (SEE region) and local level (local authorities, business / Local Economic Development centres) – all have a potential role to play both in promoting and facilitating investment. In the Republic of Macedonia, many institutions that underpin an efficient investment climate are relatively new and require further development. This section of the Programme sets out the key national, regional and local players, the role they perform as well as the priorities for the next four years to ensure that domestic and foreign investment is harnessed in an effective manner.

2.2 Investment Institutions

In comparison with the previous Programme for Stimulating Investment (2003-2006), when only the Ministry of Economy's FDI Department existed, the institutional environment to support FDI has become much more sophisticated in Macedonia. The section to follow discusses the key players active in the field of investment, bearing in mind the fact that the institutional structures are still relatively new and some degree of reform and streamlining will be required before the situation settles.

2.2.1 Government of Macedonia

The GoM's goal is to develop policies and implement reforms leading to more dynamic economic development. Indeed, the economic part of the Government's Work Programme for the period 2006 - 2010 is built upon three pillars (2006, p.2):
Increase domestic and foreign direct investment.
Increase the competitiveness of Macedonian companies.
Improve capacity of public institutions to implement reforms.

The economic programme places enterprise development and attraction of investment at the heart of the GoM's activities. This has resulted in a number of developments at the governmental level targeting investment such as the involvement of the Prime Minister, Deputy Prime Minister and two Ministers without portfolio. The GoM has allocated EUR 3 million for FDI promotion in 2007 as illustrated in Box 1.

Box 1: Government Funds for Investment and Export Promotion (2007)

The total budget of the Government's Programme for Investment and export promotion is EUR 3.3 million. After accounting for salaries and other costs, EUR 2.2 million is available for investment and export promotion. Within the Ministry of Economy, an additional EUR 615,000 is available for Investment / Export Promotion.

Source: Legislation Secretariat (2007); Official Gazette (139/2006)

Ministers without Portfolio (FDI Ministers)

As foreseen in the Government Programme, two Ministers without portfolio are at the vanguard of attracting FDI. They are tasked with making contact in a proactive manner with potential investors. Using their respective cabinets (4 permanent staff each), they target a number of sectors in the first instance:

- Automotive components.

- Agriculture and food processing.
- Information and Communication Technology.
- Pharmaceuticals and health devices.
- Tourism and globally traded services.

Each FDI Minister has been allocated a set of initial priority countries in 2007:
- Europe: such as Austria, Belgium, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Switzerland, United Kingdom, etc.
- Middle East: such as Qatar, Kuwait, etc.
- Other: such as United States of America, Japan, China, South Korea, etc.

The FDI ministers identify potential investors, visit them (they are expected to travel 2 weeks out of every month, with a target of 300 companies to be visited within six months) and persuade them to invest in Macedonia. Once potential investors show an interest in investing in Macedonia, the FDI Ministers are expected to pass them on to Invest Macedonia (see below) for support and aftercare. The appointment of two Ministers without Portfolio as FDI ambassadors is intended to be a transitory arrangement.

Team Macedonia
To underline the message that Macedonia is serious about attracting investment, an aggressive campaign for promoting investment opportunities in Macedonia is undertaken by a team, led by the Prime Minister, and consisting of the Deputy Prime Minister for Economic Affairs, two FDI Ministers, Minister of Finance, Minister of Economy, Minister of Transport and Communications and the Director of Invest Macedonia. Many "roadshows" are foreseen, i.e. visits to several European countries, where investment climate and opportunities will be presented to businessmen and investors from targeted companies.

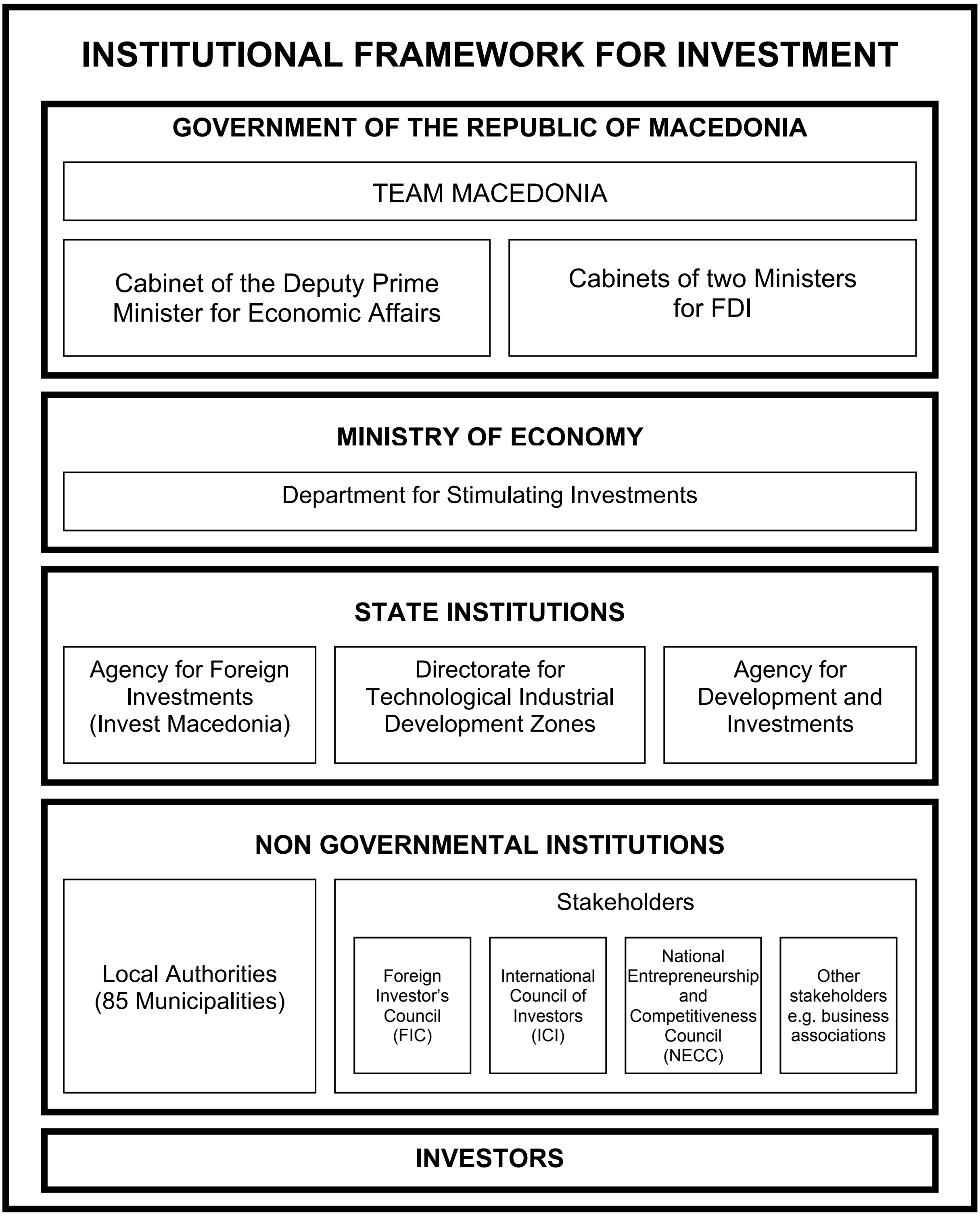
Moreover, a small team consisting of the Prime Minister, Deputy Prime Minister for Economic Affairs, two FDI Ministers without Portfolio, Minister of Economy, Minister of Finance, Minister of Transport and Communications, Director of Invest Macedonia, Director of the Directorate for Industrial and Technological Development Zones and Director of the State Authority for Geodesic Works, meet every two weeks to review investment progress and ensure that this issue remains at the forefront of the GoM's agenda.

2.2.2 Ministry of Economy

Department for Stimulating Investments and Export Promotion
The Unit for Investment Policy (FDI Unit) within the Department for Stimulating Investment and Export Promotion at the Ministry of Economy (MoE) is responsible for the execution of ministry activities related to the policy aspects of FDI. The FDI Unit has a manager and a deputy, supported by three staff focusing on FDI and a further four staff dedicated to export promotion. Its budget for 2006 was spent primarily on wages, funding for Invest Macedonia, export promotion etc., leaving little scope for other activities. The resources of the FDI Unit have been increased in 2007, however, after deducting committed activities, little more than Euro 30,000 is available. This means that the FDI Unit has little scope to initiate proactive investment activities.

The FDI Unit is responsible for producing and overseeing the implementation of the Action Plan for the realisation of the "Programme for Stimulating Investment in Macedonia" (PSI). The previous PSI created in 2003 has five priorities for action:
- Company Registration.
- Labour Legislation (work permits and visas).
- Access to Land.
- Construction Permits.
- Customs Administration.

Figure 2.1 Institutional Framework for Investment



The previous PSI also had a further 13 areas of importance such as: reduction of corruption, bribery and the informal economy, increased transparency and consistency of public administration, improved corporate governance, improved inspectorate service, improved competition and regulation, protection of intellectual property rights, etc.

The FDI Unit is not in a position to implement the PSI on its own as it involves a significant volume of work which necessitates coordination and cooperation of other ministries, agencies, etc. Based on the biennial progress reports produced by the FDI Unit, 49 of the activities in the PSI 2003-2007 had been completed by December 2006, 16 were in the process of being completed and 4 had not been realised. Some of the activities that were not realised (5% of the total measures) have been incorporated into the new Programme for Stimulating Investment.

Directorate of Technological and Industrial Development Zones
The Directorate for Technological and Industrial Development Zones (DTIDZ) was created by the Law on Free Economic Zones with the basic purpose of establishing, developing and keeping track of the activities relating to the Technological and Industrial Development Zones (TIDZs). The Directorate is focusing on the "Johnson Controls" project in TIDZ -Skopje and the implementation of the new Law on Technological and Industrial Development Zones that superseded the Free Economic Zones. The DTIDZ currently has 14 staff, but the number is expected to increase in 2007. There is scope for streamlining the investment institutional architecture by merging the Directorate with the Agency for Foreign Investments of the Republic of Macedonia (Invest Macedonia).

2.2.3 Invest Macedonia

One of the main achievements of the Programme for Stimulating Investment (PSI) was the creation of a Law on the Creation of the Agency for Foreign Investments of the Republic of Macedonia (Invest Macedonia) in June 2004, followed by the initiation of activities in January 2005. Invest Macedonia's activities are:

- FDI promotion and attraction according to best practices.
- Professional services to investors in the pre-investment, investment and re-investment phases.
- Image building of the country as an investment destination.
- Promotion of Macedonian regions and stimulation of foreign investors to use products and services of Macedonian companies.
- Identification of the sectors offering best prospects and their promotion.
- Development and implementation of innovative and proactive events on targeted markets.
- Analysis of the investment climate and proposals for legislative changes (policy advocacy).
- Stimulation and assistance to greenfield investments and technology parks.

Invest Macedonia has had a chequered history thus far. The most notable features are that it had very limited funding (EUR 100,000 p.a. in 2006) in order to perform its role effectively. Moreover, it had very limited staff capability, namely a staff complement of 6 (Director, experts, lawyer and administrative support). To perform the demanding and high profile role now anticipated of it in relation to FDI and domestic investment, this Programme for Stimulating Investment foresees significant additional annual funding (about EUR 500,000 p.a.) via the Government of RM, as well as a much strengthened staff complement in 2007.

Invest Macedonia is the main port of call for potential investors. After the two FDI Ministers make contact with potential investors, interested firms are directed to Invest Macedonia, which will take over with all aspects of investor servicing.

2.2.4 Agency for Development and Investment
The Agency for Development and Investment (ADI) was created in 1999 to manage a USD 20 million loan from the Taiwanese Government, which was primarily targeted at SME development. The ADI has 25 staff and is funded directly from the state budget (DEN 92,6 million in 2006). The funds have been allocated to 105 firms, however, ADI it experiencing major difficulties in ensuring that the loans are repaid by the borrowers - 70-80 are under court procedures to recover the outstanding debts. ADI is currently working on a strategy for future

development focusing primarily on property development. To avoid overlapping of responsibilities and to achieve greater efficiency, there is a need to merge the ADI with the Agency for Foreign Investments of the Republic of Macedonia (Invest Macedonia).

2.2.5 Local authorities

Another important set of institutions is local government. The 85 Macedonian municipalities are important for several reasons. Firstly, under the decentralisation process, they have acquired explicit new responsibilities in relation to Local Economic Development (LED), one aspect of which relates to attraction of foreign and domestic investment. In this respect, many have established a LED office to promote economic development. These LED offices are increasingly active in identifying potential locations for investment (land and companies), as well as facilitating the process of purchasing land and/or obtaining permits for construction activity. An EAR project (TA to the MoE for Improvement of the Investment Climate) is currently implementing a process of awareness-raising in relation to investment issues in selected municipalities. Based on cooperation with United National Development Program (UNDP) and other donors, a database of investment opportunities as well as local contacts (LED offices, mayors, companies, etc.) is being developed and is accessible through Invest Macedonia.

2.2.6 Key Stakeholders and Consultation

Foreign Investor's Council (FIC)

The Foreign Investor's Council (FIC) was created in 2005 as an initiative of the largest holding company in the country, Macedonian Telecom (AD Makedonski Telekomunikacii). FIC is affiliated with the Economic Chamber of Macedonia and its mission is to:

- Help attract foreign investors.
- Transfer knowledge and experience.
- Promote the country vis-à-vis the EU.
- Create a better legislative and regulatory environment.

As part of its activities, during 2006, the FIC, primarily with the support of Macedonian Telecom, has created an Action Plan for improving the business and investment environment.

International Council of Investors (ICI)

The International Council of Investors (ICI) was created in 2002 and consists of some of the most prominent investors in the country. In all, ICI has 22 members which are mostly Greek and has the following aims:

- Cooperate with the private sector, municipalities and international organizations to promote the private sector in general, and foster cooperation among those involved in the process of improvement of the investment climate in the country.
- Serve as an intermediary among the companies and decision-makers in the country, providing advisory and networking activities for its members.
- Organise events where members can exchange experience, views and expand their network.
- Positively support the investment climate in the country.

ICI recently published a document "Economy and Business Environment in Macedonia: Proposals for improvement of the business climate", otherwise known as the White Paper (2006). This document analyzes the current investment situation and proposes general recommendations to improve the investment climate.

National Entrepreneurship and Competitiveness Council

The National Entrepreneurship and Competitiveness Council (NECC) was created in 2004 to improve dialogue between the private, civil and public sectors thus contributing to the economic prosperity of the Republic of Macedonia. NECC aims to:

- Identify and eliminate the obstacles to the development of the private sector.
- Advocate for the implementation of policy changes crucial for economic growth.
- Promote awareness of the importance of entrepreneurship and competitiveness.
- Develop strategies for the promotion of competitiveness, productivity and entrepreneurship.
- Analyze the economic policy of Macedonia in relation to the global economy.
- Help build a "culture of competitiveness" in the private and public sectors encompassing competition, innovation and sustainable development.

The NECC has prepared the National Competitiveness Report 2005 (NECC, 2005), which presents a set of recommendations for action to enhance the levels of competitiveness of Macedonian enterprises, a key aspect of improving the investment climate.

FDI Coordination Forum

In 2006 the FDI Department initiated the FDI Coordination Forum, which consists of the key FDI public sector institutions, namely: MoE, Invest Macedonia, Cabinets of FDI Ministers, Agency for Development and Investment, Directorate for TIDZ, Chamber of Commerce as well as the Foreign Investors' Council (FIC) and the International Council of Investors (ICI). Two meetings have already been held and the MoE is committed to the creation of a regular, consultative capacity building on the activities on the FDI Coordination Body. Coordination of FDI policy making has become critically important due to the various institutions now involved in investment issues. During the course of 2007 the GoM will create a structured mechanism for coordinating policy and a further mechanism for consultation with stakeholders on FDI-related matters.

2.3 Policy Conclusions

Macedonia has made significant progress since the Programme for Stimulating Investment was created in 2003. The institutional environment has been greatly enhanced: whereas in the past the FDI Unit was the sole body responsible for FDI, in the meantime Invest Macedonia was established, two FDI Ministers have been appointed and the Deputy PM's Office has become involved in investment matters. 75% of the PSI activities have been implemented; 20% partially and the rest (5%) have been carried forward into the present Programme where relevant. The salience of FDI to the Government has been dramatically increased since 2006 and for the first time the annual budgets for investment policy making and promotion have been greatly enhanced to Euro 500,000 for Invest Macedonia and a further Euro 3 million for investment promotion. Finally, with the creation of the new Programme, the country is committed to greatly improve the investment climate in the country over the next four years. What is now required is effective policy coordination, implementation and consultation with stakeholders.

3.0 IMPROVING THE INVESTMENT CLIMATE

3.1 Context

The framework for stimulating domestic and foreign investment is broadly in place in Macedonia. Nevertheless, the evidence of the impact on attracting investment, especially FDI, is quite clear: apart from the process of privatisation, which is almost exhausted, the country has failed to attract significant investment on a per capita basis compared with competing economies in the region, let alone the 10 EU new member countries. This, combined with the arrival of a new government, the prospect of EU accession and the need to raise the competitiveness level of local enterprises call for a renewed effort to improve the investment climate, embodied in this Programme for Stimulating Investment for the period 2007-2010.

The Programme of the Government of the Republic of Macedonia (2006 – 2010) states that its basic goal is to increase the standards of living of the population and notes the priorities for generating more dynamic economic development as being the need to:

- Increase attractiveness of the country for foreign and domestic investors.
- Increase competitiveness of Macedonian companies.
- Improve ability of public institutions to implement reforms, increase transparency and fight corruption.

Domestic and FDI are explicitly prioritised by the Government Programme, which highlights the following activities:

- Register companies from 3 days to 1 day, with a minimum number of procedures.
- Increase activities through the one-stop-shop system.
- Stabilise legislation.
- Prevent state interference in private business.
- Reduce corruption and bureaucracy.
- Efficient and competitive financial system.
- Simple and transparent tax system.
- Reduce number of company inspections.
- Create a functional property register.
- Timely payment and higher security of debts.
- Improve infrastructure (e.g. telecommunications, transport, Internet, etc.).

Furthermore, the attraction of investment is emphasised through various initiatives:

- More efficient promotion of investment opportunities through the PM's office.
- Two ministers without portfolio focusing on FDI issues.
- Strengthened Investment Promotion Agency with international offices.
- Focus on investments in IT and outsourcing.
- Attraction of greenfield investments, etc.

Other linked reforms include:

- Reform of the tax system (e.g. lower CIT and PIT)
- Improvement of repayment of VAT credits.
- Improvement of customs service.
- Protection of ownership rights.
- Protection of creditors.
- Protection of contracts, etc.

As previously discussed, a new set of challenges confront Macedonia, requiring both an update in the Programme as a change in focus. Key reasons for this include the fact that there is a Government with a new agenda and programme prioritising FDI, the fact that Macedonia is now an EU Candidate Country, the necessity to negotiate the relevant parts of the *acquis communautaire* and, importantly, the necessity to take on board the requirements of the OECD / Investment Compact's Investment Reform Index (IRI) since this is the key tool for the benchmarking progress on domestic and foreign investment that the GoM is committed to implementing in its principles.

The Programme, therefore, is based on the 10 components of the IRI:
1. Investment policy.
2. Investment promotion and facilitation.
3. Tax policy.
4. Anti-corruption and business integrity.
5. Competition policy.
6. Trade policy.
7. Regulatory reform.
8. Human capital.
9. Corporate governance.
10. SME policy (subject of a separate programme).

It should be noted that the Programme presented below is extensively based on the information contained in the OECD's Investment Reform Index (2006). Consequently, the OECD report (2006) will not be referenced except in specific situations where table, figures and other information are used. The information and analysis contained in the IRI 2006 has been extensively revised, updated and customised to the needs and priorities of Macedonia.

3.2 INVESTMENT POLICY

Global FDI flows amounted to about EUR 1 trillion in 2006, with half of it going to emerging markets. Therefore, FDI is a key driver of the international economic system and can be a catalyst for the development of countries such as Macedonia. Government policy has a dual role in capturing the potential investment flow: firstly attracting FDI and secondly ensuring that it is transformed into growth and employment while simultaneously respecting regulatory standards. An effective investment policy involves government regulations and laws that govern private investment, including transparency and property protection. Therefore, to create a sound investment framework that is favourable to investment, the GoM will ensure that the key investment policy principles are in place, that they are non-discriminatory (based on national treatment and most-favoured-nation treatment - MFN) and that they protect property and contractual rights (such as land as well as intellectual property rights (IPR), contract enforcement, compensation for expropriation etc.) These issues are discussed below, followed by the measures which will be implemented through this programme. The four year action plan (matrix) is presented in Annex 1.

3.2.1 Non-discrimination

1. *National treatment*
National treatment is basically a commitment on the part of the GoM to accord foreign investors and foreign-controlled enterprises treatment no less favourable than that given to domestic enterprises. Measures which qualify as exceptions from national treatment can include restrictions during the enterprise pre-establishment and post-establishment phases. Macedonia has made important progress in creating liberal regimes which are favourable to foreign investment and implementation of the national treatment principle is respected, though some exceptions to national treatment still exist:

- Sectoral limitations such as the defence sector were removed in 2002 and the only protected sectors are national heritage and narcotics. This is no longer an impediment to foreign investment.
- Reciprocity conditions apply in very specific cases, such as acquisition of real estate assets and land in Bilateral Investment Treaties (BITs).

Foreign investors are not impeded in any other way. Indeed, the only other cases where national treatment is actually violated relates to preferential treatment to companies with foreign ownership, namely:

- Tax holidays (reduced tax payments depending on the amount of foreign capital invested) and customs exemptions (import of new qualifying fixed assets) granted to companies partially or fully owned by foreign investors.

The above are minor issues that will be explored during the period of the Programme to ensure that they do not impede investment. The only other issue concerning national treatment of foreign investment relates to administrative barriers to investment such as licensing and approval procedures and permits, though visas and work permits also remain a hindrance. These impediments affect both domestic and foreign investors alike, but clearly have a greater impact on foreign investors due to asymmetries in information, language and culture. The GoM is working to further streamline the registration, licensing, approval and special registration procedures for investment, consistent with international best practices in this field. The detailed measures are set out in the SME Programme 2007-2010 (MoE, 2006).

Measure(s):

- Eliminate all remaining violations to national treatment by 2010.

2. Most–favoured-nation treatment
Most favoured nation treatment is enshrined in international investment agreements, thus ensuring that an investor or investment from one country is treated by Macedonia no less favourably with respect to a given subject matter than an investor or investment from a third country. International investment agreements generally include provisions for investment promotion, protection and treatment, free transfer of funds, measures concerned with paying prompt and adequate compensation for expropriation and losses, dispute settlement, entry into force and termination. Macedonia has agreed to 6 BITs (Bilateral Investment Treaties), signed 30 and ratified 27 including most EU countries as well as Bosnia and Herzegovina, China, Croatia, Democratic People's Republic of Korea, Malaysia, Russia, Switzerland and Turkey. It is important to further extend the network of bilateral investment treaties, especially to Moldova (thus completing the intra-regional network of BITs in the SEE region) plus important trading partners as Spain, United Kingdom, USA, Serbia, Montenegro, Greece, etc.

Measure(s):
- Ratification of the BITs by Egypt, Islamic Republic of Iran, Kuwait and the Republic of Belarus) that have been signed but not ratified by 2007.
- Revise the 1999 format for BITs to ensure approximation with the SAA / accession by 2007.
- Sign and ratify the agreed BITs with Greece, UK and Northern Ireland, Uzbekistan, Denmark and Lithuania by 2008.
- Complete the SEE intra-regional network of BITs by signing the agreement with Serbia, Montenegro and Moldova by 2007.
- Extend the network of BITs with key trading partners such as USA, Japan, Canada, Australia, New Zealand, Mexico, Ireland, Norway, Portugal, the Slovak Republic, Luxemburg, Iceland, Malta, Cyprus, Latvia, and Estonia by 2010.

3. Investor-state dispute settlement
Instruments to resolve disputes are a key component of international investment agreements, whereby governments commit to provide investors with the possibility to settle investment disputes through international arbitration, carried out through *ad hoc* or institutional instruments which guarantee the impartiality of the process and protect investors. Macedonia has already signed and ratified institutional instruments such as the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (1958) and the Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID) (1965). In 2006 the Law for International Trade Arbitration was ratified, ensuring that all foreign arbitration decisions are directly enforced by the arbitration court.

Measure(s):
- Review impact of enforcement of International Trade Arbitration on legislation by the end of 2008.

3.2.2 Property protection

Macedonia intends to create a sound system for protecting property and investment and has four main elements, as discussed below.

4. Property
Land ownership plays an important role in determining the quality of the business environment and influences Macedonia's attractiveness to foreign investors. This is one of the most important aspects that investors take into account when they decide whether to make new investments or expand existing ones. There is no discrimination concerning foreign ownership of land in the case of Macedonia. However, two other issues related to land ownership currently affect both domestic and foreign investors and will be prioritised during the period of the Programme: the outdated land registers and titles which currently produce uncertainty

about the acquisition of land need to be clarified and modernised, and the restitution of nationalised property from the state to its original owners will be completed (8% left), since this severely hampers the establishment of property titles. It has taken 15 years for Macedonia to complete 50% of the process of streamlining the cadastre due to a failure to understand the importance of property as the basis for the new market economy. The GoM expects the remaining 50% of the process to be completed by mid-2008, which is a significant challenge for the State Authority for Geodesic Works.

Measure(s):

- Modernise the land register / cadastre by 2008.
- Amend the Law for the Cadastre and Registration Rights, to streamline the process of cadastre reform, by 2007.
- Establish an inter-ministerial Committee for Land Policy to expedite the registration process by 2007.
- Prepare a register of available land and building for investors and transfer to MoE / Invest Macedonia by 2008.
- Prepare the basis for establishing a self-funding Authority for Geodesic Works by 2009.
- Accelerate land ownership registration to a maximum of 10 days and the use of IT / Internet by 2009.
- Complete the process of restitution of nationalised property from the state to its original owners by 2010.
- Complete digitisation by 2008 and preparation of the electronic cadastre by 2010.
- Complete the cartographic and topographic base of the country by 2010.

5. Protection and promotion of intellectual property rights (IPR)

The GoM recognises that enforcement of the IPR system encourages investment in research and development (R&D), innovation and technology transfer through mechanisms such as an appropriate legal and institutional framework, in line with international standards. Macedonia has established a legal framework for IPR protection (IPR Law, 2004), as well as the requisite institutions, namely the State Bureau for Protection of Industrial Property, as well as the Department for Protection of Copyright and the Inspection Department at the Ministry of Culture and Education. As in the case of other countries of the SEE region, Macedonia will continue developing its IPR environment in order to meet international standards and improve enforcement. In the case of Industrial Property, enforcement is the responsibility of the Customs Office, Courts, Public Prosecutor, Ministry of Economy (State Market Inspectorate) and the Inspection Department within the Ministry of Culture. In order to improve coordination and enforcement, the State Bureau for Protection of Industrial Property will implement a database (that will include the Ministry of Culture in the first phase) of violation of property rights and network connections to accelerate decision making and enforcement. The staff capacity has also been enhanced in SBPIP. In 2006, the Customs Office took 52 actions ex officio in relation to trademarks and 89 applications of the rights holders, however, enforcement still needs to be enhanced through better cooperation with the court system. The Inspection Department in the Ministry of Culture consists of 4 staff members which is some 6 short of the necessary staff complement. It currently has 3 inspectors, which is expected to increase in 2007. The Department for Protection of Copyright was created in 2006 and consists of 4 staff members. This number is planned to increase to 8 by 2008. This will lead to better enforcement of IPR laws but real progress will be made when there is integration between this inspectorate and the State Market Inspectorate. Until the amendments of the appropriate legislation are adopted, the establishment of the Coordination Body for Intellectual Property (that will combine copyright and industrial property) will create measures and activities for more efficient and coordinated realization of the intellectual property rights by responsible institutions. The IPR laws are largely harmonized with the EU requirements except for the Enforcement Directive. The situation will be improved in 2007, when amendments will be made to the Criminal Code. Enforcement is hindered by the lack of firms with representation offices in Macedonia, as well as lack of enforcement capacity by adequately trained judges within the responsible units in the courts. This will be improved through the Training Academy for Judges and the creation of Administrative Courts. A database for IPR (for copyright and industrial property) and network connections would accelerate decision making and enforcement, as would adequate equipment and capacity building for the Department for Protection of Copyright.

Measure(s):

- Strengthen the capacity of the Bureau for Protection of Industrial Property / Department for Protection of Copyright (staff, equipment, databases, etc.).
- Establish a coordination body for Intellectual property (combine copyright and industrial protection).
- Establish an electronic database of registered rights.
- Strengthen capacity of the Customs Office (Unit of Non-Tariff Measures) as well as provision of equipment for branches of the Customs Office and Unit of Non-Tariff Measures.
- Strengthen enforcement (copyright and industrial property) through a special capacity building programme for judges by 2008.
- Introduce specially trained judges for IPR/Copyright, involved within the scope of relevant units of competent courts, by 2009.
- Strengthen enforcement through more deterrent sanctions and higher fines to punish piracy and counterfeiting, stronger border controls, and training of inspectors, prosecutors, judges, police officers and customs officials.
- Increase number of copyright inspectors and transfer relevant competencies to the State Market Inspectorate (according to the future amendments of the legislation), by 2008.
- Undertake regular awareness raising campaigns on IPR issues.
- Harmonize copyright legislation with EU Directives by 2008.
- Implement a database of violation of industrial property and copyrights and network connections between relevant bodies.

6. Free transfer of funds related to investment

The free transfer of funds related to investment is a key prerequisite for the development of an open investment regime. This principle, normally embedded in the investment legislation, guarantees transfers of profits, dividends, interest and other funds derived from foreign investment, and the repatriation of capital in case of disinvestment. Macedonia guarantees free transfer of funds through investment-related legislation which largely complies with international standards. There are no significant limitations on the free transfer of profits after payment of local tax obligations. Article 28 of the Corporate Income Tax Law (2006) introduced the withholding tax for non-resident entities, covering such issues as interest, royalties, etc. This is set at 15/10% but is leading to confusion for investors and acting as a barrier to investment since the sudden introduction of this tax created a perception of increased risk of investing in Macedonia.

Measure(s):

- Revise Article 38 of the Law on Corporate Income Tax, relating to the withholding tax, by 2008.

7. Compensation for expropriation

As part of property rights protection, the GoM recognises the importance of ensuring timely, effective and adequate compensation for expropriation of property in cases of public interest. Macedonia guarantees protection against expropriation and nationalisation in various pieces of legislation. Expropriation is possible only in defined circumstances, namely where it is in the public interest. Where expropriation takes place in pursuance of a public interest, fair and adequate compensation is guaranteed in Macedonia. Compensation is normally based on the market value of the real estate and includes interest at national bank rates from the date of expropriation. Payment of compensation without delay is guaranteed under the law. In addition, expropriation is subject to judicial review. Macedonia provides for dispute settlement instruments (e.g. domestic and international) in cases of unfair compensation through judicial review and arbitration under bilateral investment treaties.

Measure(s):
- Securing criteria for proper compensation for expropriation of property in cases of public interest.

3.3 INVESTMENT PROMOTION AND FACILITATION

The key determinants of investment inflows are the quality of the business environment, infrastructure and the existence of opportunities. However, targeted information has to be available in Macedonia to investors and targeting of specific investors or sectors is important in the face of intense global competition. This means that Macedonia must carefully package its offers to investors in order to gain a competitive edge. Well developed information and support services will help reduce investors' uncertainty and perception of risk. Moreover, since the SEE region suffers from a perception of risk, pro-active and coordinated investment promotion at the regional level will help improve the image of the country to foreign investors. Therefore, it is essential for Macedonia to develop a pro-active investment promotion and facilitation strategy consistent with competitiveness, innovation and export strategies, as well as an Investment Promotion Agency (IPA) capable of implementing the strategy, including incentive-based programmes and facilitation of linkages between foreign investment and local businesses. This is the aim of the second component of the Programme discussed below.

3.3.1 Investment Promotion / Facilitation Strategy

1. Investment promotion / facilitation strategy
Macedonia is aware of the need to create a strategy setting out the strategic vision (competitive advantages, including sector and geographic focus, customer type and measures to improve the business environment), as well as a specification of how it will develop the right skills, remove barriers, linkage programmes and marketing campaigns, etc. Although various documents have been prepared with the support of the EAR such as the Programme for Stimulating Investment, the priority is the production of the FDI strategy / marketing plan, which is being prepared and will be finalised in 2007. The proposed marketing strategy (Box 2) and the Programme for Stimulating Investment (2007-2010) together constitute Macedonia's investment policy reform and promotion strategy.

Box 2: Marketing Strategy Being Developed for Macedonia

MACEDONIA: LOCATION ANALYSIS
1.1 Background
1.2 National Development Goals Related to FDI Promotion
1.3 FDI Trends
1.4 Business Climate
1.5 Benchmarking Macedonia
MACEDONIA: THE FDI STRATEGY
2.1 Strategy mission, objective goals
- 2.1.1 Immediate action
- 2.1.2 Short term activities
- 2.1.3 Long term strategy

2.2 Promotion focus (short term, long term)
- 2.2.1 Market-seeking investors
- 2.2.2 Efficiency-seeking investors
- 2.2.3 Resources-seeking investors

2.3 Promotion techniques (short term, long term)
- 2.3.1 Image building
- 2.3.2 Investment generation
- 2.3.3 Investor services
- 2.3.4 Policy advocacy

MACEDONIA: THE PLACE TO INVEST
3.1 Marketing message
- 3.1.1 Marketing the country (worldwide, regional)
- 3.1.2 Marketing priority sectors
- 3.1.3 Marketing other sectors

3.2 Industrial sectors potential (short term, long term)
- 3.2.1 Knowledge based sector
- 3.2.2 Automotive Components sector
- 3.2.3 Healthcare and medical sector

3.2.4 Agro – based sector and agriculture
3.2.5 Other industry potentials.
MACEDONIA: THE WAY TO SUCCESS
4.1 Institutional framework and human resources capacity for implementing the proposed strategy.
4.1.1 Decision making
4.1.2 Policy advocacy
4.1.3 Implementation
4.1.4 FDI Awareness
4.2 Action plans
4.2.1 Promotional campaign and materials
4.2.2 Communication options and Webpage
4.2.3 Business leads
4.2.4 Start-up and aftercare
4.2.5 Data bases
4.3 Functions, job descriptions
4.2.1 Governmental Bodies
4.2.2 The Agency (Invest Macedonia)
4.2.2.1 Investment Generation Department
4.2.2.1 Investor Servicing Department
4.2.2.1 Policy Advocacy Department
4.2.2.1 Image Building Department
4.2.3 Non – governmental bodies
4.4 Financial support and training programs
4.2.1 Funding in-country operations
4.2.2 Funding overseas operations
4.2.3 Funding sustainability

Measure(s):

- Prepare the new Programme for Stimulating Investment (2007 – 2010) and obtain approval from Government.
- Prepare the Macedonian Marketing Strategy and obtain approval from Government.
- Monitor and evaluate both documents on a regular basis.
- Prepare an up-dated integrated document (marketing and programme) by 2010.

3.3.2 Investment Promotion Agency (IPA)

2. Investment Promotion Agency
In 2005 the GoM established the Agency for Foreign Investment of the Republic of Macedonia (Invest Macedonia). This is a non-political body with a Board of Directors appointed by the GoM to oversee the development and implementation of FDI issues, including the Marketing strategy when it becomes available in 2007.

As can be seen in the Box 3, Invest Macedonia is a relatively new institution in need of support. The government is committed to increasing its resource base to 20 staff members (from 5) and dramatically increase the annual budget (currently EUR 100,000) to EUR 500,000 in order to ensure that there is a minimum operational basis to implement its remit. Moreover, additional governmental resources are expected to amount to EUR 3 million in 2007. This amounts to a good platform for support in future, but it is not sufficient.

Attracting foreign investment has become a new means of achieving economic growth and poverty reduction for many countries. It is a futile endeavour, however, to attract FDI in the absence of the necessary conditions for economic development. The creation of a competitive market site requires efforts in many areas, but for FDI to be an instrument of economic growth it must be approached via holistic policies framed within a national economic development plan based on long-term development goals. Effective industrial and macroeconomic policies and a technically sophisticated promotional framework in order to secure FDI that can feed into national economic development are needed.

Box 3: Invest Macedonia Structure

The Law for Establishing an Agency for Foreign Investment was passed in June 2004 and the Agency (Invest Macedonia) started operating in January 2005. According to the law, it has legal status and is independent in its work. It is funded in part by the state budget, as well donations and other sources. Its first Management Board comprises the Ministry of Economy, Ministry of Finance and Agency for Entrepreneurship Promotion (APPRM), as well as representatives from the private sector.

The current Management Board has 7 members including the following academic and private sector institutions: Macedonian Academy of Science (Chairman), Economic Faculty, Small Enterprise Assistance Fund (SEAF), Zlatna Kniga / Commercialna Banka, M Vision, Kumanovo public company and Foreign Medical Equipment company.

In December 2006, Invest Macedonia consisted of a director, four staff and a budget of Euro 100,000. This will increase to 20 staff and a budget of Euro 500,000 in 2007. The resources are used to fulfil its remit, namely:

- Develop and implement best practice strategies for investment promotion and attracting FDI.
- Develop the skills for effective creation and implementation of the strategy for investment promotion and for fulfilling foreign investors' expectations, differentiating Macedonia from other countries by offering professional services during pre-investment, investment and post-investment.
- Implement a strategy for identification of the sectors offering the best perspectives future investment and determining the strategy for investment promotion.
- Provide a palette of services for investors.
- Define and support the key marketing messages for improving the image of Macedonia as an attractive location for investing and generating investment opportunities.
- Present the specific sectors and opportunities that Macedonia offers to investors.
- Develop and implement innovative and proactive promotional events on target markets.
- Build effective public - private partnership to promote Macedonia, develop a database of target companies and monitoring systems to help identify investments.
- Utilize fully the Internet as a marketing and research instrument.
- Promote Macedonian regions and stimulate investors to use Macedonian products and services.
- Analyze and propose modifications of laws and regulations to improve the investment climate.
- Research and encourage initiatives to increase greenfield investment and technological parks, thus increasing Macedonia's competitiveness as an investment location.
- To perform other activities according to the law and the Statute.

Source: Law for Establishing an Agency for Foreign Investment (2004)

Much of the relatively little FDI received by Macedonia in recent years has represented the acquisition of existing companies, usually as part of the Government's privatization programme. With the privatization process now almost completed, greenfield investment must be the next target, in order to create new plants, increase productive capacity and expand economic value. Such investments are usually seen as having a stronger direct impact on national development. Privatization after all merely represents a change of ownership of the asset from the government to the private sector. It does not of itself guarantee new added value economic activity. By contrast, greenfield FDI investment represents an incremental value added economic activity that was not there before and thus is of much higher value to the economy.

At the same time, the necessity for institutional strengthening has been recognised and is in the process of being implemented through an EAR-funded project (TA to the MoE for Improvement of the Investment Climate). This project is advising on policy development, such as the preparation of this Programme for Stimulating Investment, assisting with the development of Invest Macedonia, as well as creating the future investment marketing strategy for Macedonia. A detailed agenda for strengthening Invest Macedonia has already been developed and will be implemented during the period of the Programme.

Measure(s):

- Increase staff capability to 20 people by 2008, and 30 by 2010.
- Increase budget to Euro 500,000 by 2007 and Euro 1 million, by 2010.
- Strengthen the quality of Invest Macedonia staff, through a structured capacity building programme, by 2010
- Revise the Law for Establishing an Agency for Foreign Investment in line with international best practices by 2007.

- Evaluate image building activities and develop targeted efforts focused on the priority sectors (as part of Marketing Strategy) including sector-specific product offerings by 2007.
- Work with the 8 regional units established by the Law on Equal Economic Development by 2007.
- Strengthen the procedures and services of Invest Macedonia consistent with best practices.
- Develop a network of international offices (including training of embassy commercial staff) with contact information of all business people of Macedonian origin by 2008.
- Integrate the Directorate for Technological and Industrial Development Zones and the Agency for Development and Investment into Invest Macedonia by 2008.

3. Incentive-based programmes

Macedonia's tax incentives are discussed in detail in the Tax section of this Programme. Regarding non-fiscal incentives, although there are no such incentives available, in practice government awards such incentives on a case-by-case basis, typically a combination of grants, subsidies, land and infrastructure. The GoM recognises that non-fiscal incentives must be transparent, based on clear policy objectives and be assessed in terms of economic benefits versus costs, as well as state aid rules and national treatment agreements. The experience of recent new EU member countries such as Poland and Bulgaria has demonstrated that complicated and inconsistent incentive structures can be costly in the medium term, especially if they are inconsistent with the requirements of the EU *acquis communautaire,* state aid provisions or international obligations.

Measure(s):

- Review and revise the nature of non-fiscal incentives, focusing on principles such as clarity, simplicity and speed according to transparent, predetermined criteria by Invest Macedonia.
- Ensure that all non-fiscal incentives comply with the requirements of the *acquis*, such as state aid rules and national treatment agreements.
- Avoid subsidies in all future investment negotiations as they are incomplete, difficult to quantify and opaque to outsiders.
- Ensure that where grants are awarded, there will be total and % limits, focused on product and process improvements, employment, training and management development.
- Introduce clawback clauses as a standard part of the grant agreements to ensure payback if multinational companies (MNCs) fail to deliver on promises (e.g. relating to employment).
- Introduce grants for leasing or buying land and/or buildings to support regionalization.
- Assign powers to negotiate grants to a single Agency, such as Invest Macedonia, with specific limits on approval for management, board and government.
- Introduce the possibility of leasing on a long term basis (99 years).
- Streamline application, negotiation, legal-agreement and payment procedures.
- Subject each project to a cost-benefit and environmental impact analysis.

4. Programmes to support linkages between FDI and local businesses

It is essential for the linkages between FDI and local businesses to be strengthened, thus reaping spill-over effects such as transfers of technology and know-how, and contributing to the development of SMEs and their competitiveness. Through the SME Programme (2007-2010), the GoM intends to continue to develop SME linkages and cluster development programmes. The following clusters already exist: lamb and cheese, tourism, information technology, wine, apparel and wood industry. Further clusters are planned: fruit and vegetable processing, automotive industry and construction. If there is an interest for new business activities from companies, new clusters will be established. A USAID-funded project will support the development of the clusters and networks. These clusters will be connected at the regional and local levels.

The availability of land and buildings to rent or buy is of crucial importance to attracting investment and quick availability can be of decisive importance. Macedonia has abolished the Free Economic Zones and created the Technological and Industrial Development Zones. It is also exploring the possibility of creating Science and Technological Industrial Parks to provide an optimized soft and hard environment to transform R&D achievements into real productivity, attract and congregate talented people, technologies and capital by providing a whole set of service system and preferential policies and speed up industrialization of high and new technology. Importance is attached to linkages between high-tech development and market demand at home and abroad. During the period of the Programme, both the policies (specialising for example on software, biology and biochemistry or optoelectronics, etc.) and feasibility studies will be carried out on the potential to create technological parks (e.g. in Bitola, Skopje, Vardar Silicone Valley, etc.), however, their development is constrained by a lack of funds as well as the incompatibility of certain laws.

Measure(s):

- Harmonization of Laws regarding technology (Law on Science and Research Activity, Law on Technological Culture and Law on Technological Development) by 2008.
- Harmonization of Laws regarding Export Support and Law on Technological and Industrial Development Zones by 2008.
- Develop a strategy and action plan for technology transfer to Macedonian companies from overseas by 2008.
- Develop a strategy for TIDZ - Skopje and other priority locations in association with the Directorate of Technological and Industrial Development Zones.
- Develop a register of available land and buildings, with zoning in place, to allow for quick start-ups by industry.
- Develop a strategy for pre-built factories on designated industrial parks.
- Develop a public-private-partnership approach to developing Technological and Industrial Development Zones, industrial parks, technology parks and pre-built factories.
- Implement “one stop shop” service in the TIDZs, especially to issues relating to planning, land ownership/leases, licenses, incentives.
- Integrate domestic industrial/technology parks into EU technology support network.

5. Investor’s Forum

Matching the business potential of Macedonian companies with foreign investment is a priority. The Investors’ Forum will be a two-day business session between Macedonian companies, local authorities and foreign investors. Investment proposals will be explored through bilateral meetings between the interested domestic and foreign investors, and the local authorities promoting investment projects. The Investor’s Forum activities will include preparing information materials on the selected projects; invitations to foreign and domestic participants; advertising the Investors’ Forum in the international business press; conducting the Forum in Skopje; assisting foreign and domestic investors in making agreements on business cooperation in the light of visits by potential foreign investors; assistance in preparing pre-investment studies; assistance in identifying potential financial institutions; and assistance in negotiations with potential business partners. The preparation of the Investor’s Forum is a process, rather than a one-off event, hence the reason why this will be carried out on an annual basis.

Measure(s):

- Annual Investor’s Forum from 2008 onwards.

6. Greenfield Investments

The GoM is committed to attracting FDI in greenfield projects. This is being stimulated through a process involving 20-50 blue-chip consultancy firms selected through a transparent tendering procedure. Each firm will target 250 potential investors, establish direct contacts with senior executives and present them with Macedonian investment opportunities. The firms will be paid a fee related to success in attracting investors, size, duration and number of employees involved in the investment. The GoM is aware of the fact that there may be a need to review the nature of the fee, since it is currently entirely success based. Consideration will be given to the possibility of a fee on a retainer basis, with added success fees for serious enquiries and completed site visits. The review will also consider the merits of this scheme versus developing a truly professional Investment Promotion Agency with its own overseas offices and staff looking for FDI.

Measure(s):

- Prepare and implement transparent tendering procedures, by 2007.
- Assess response to the tendering exercise, by 2007 to ensure that these efforts are consistent and coordinated with those of the IPA and Ministers Without Portfolio.
- Coordinate activities of the 20-50 consultancy firms, by 2008.
- Implement 20 successful greenfield investments, by 2010.

7. Transparency of investment policy

Both consultation with investors and the monitoring and evaluation of investment policy will be strengthened in Macedonia during the period of the Programme. To better tailor investment policy measures, determine the orientation of strategic investment promotion and ensure a transparent investment environment, it is important to have well-established, regular and effective consultations between public authorities and private sector organisations. As previously discussed, two consultative bodies already exist: the Foreign Investor's Council and the International Council of Investors. Future investment policy initiatives will involve the use of structured consultation channels with key actors from the public and private sectors through consultative bodies, including the business associations.

This Programme includes a regular mechanism for monitoring and evaluating the investment policy environment and including such mechanisms in the investment promotion strategy. Moreover, information on investment policy laws, regulations, investment opportunities, priority sectors, etc. will be accessible to all, regularly updated and available in other languages (e.g. English).

Measure(s)

- Implement regular and structured dialogue and consultation with stakeholders such as the FIC, ICI, NECC and business associations on a quarterly basis by 2007.
- Implement a regular mechanism for monitoring and evaluating the investment policy environment focusing on this Programme and the Marketing Strategy by 2008.
- Post information on investment policy laws, regulations, investment opportunities, priority sectors, etc. on the website to be accessible to all, regularly updated and available in other languages (e.g. English) by 2007.

8. Investment Policy Coordination Mechanism

Numerous public bodies are now involved in the area of domestic and foreign investment (see section 2.0 above), namely the Prime Minister's Office, Deputy Prime Minister's Office, two Ministers Without Portfolio, Ministry of Economy, Invest Macedonia, etc. It is absolutely essential for Macedonia to establish a regular investment policy coordination mechanism consisting of governmental institutions. This will improve communication and coordination with the investment-related stakeholders. This will be done on a monthly basis and will need to be chaired by a body able to sustain reform momentum and overcome inertia, guided by the Programme for Stimulating Investment as the framework for the reform agenda.

Measure(s):

- Establish a regular Investment Policy Coordination Forum consisting of all relevant public sector bodies involved in policy making and implementation. Policy coordination will be carried out on a monthly basis by 2007.
- Ensure that there is a powerful Chairperson and that the members of the Investment Policy Coordination Forum are decision makers able to make decisions and ensure that they are implemented by 2007.
- Remove all consultative bodies from the policy coordination body (such as FIC, Chamber of Commerce, ADI, ICI, etc.) and involve in a separate Investment Consultation Forum to meet on a quarterly basis (see above) by 2007.

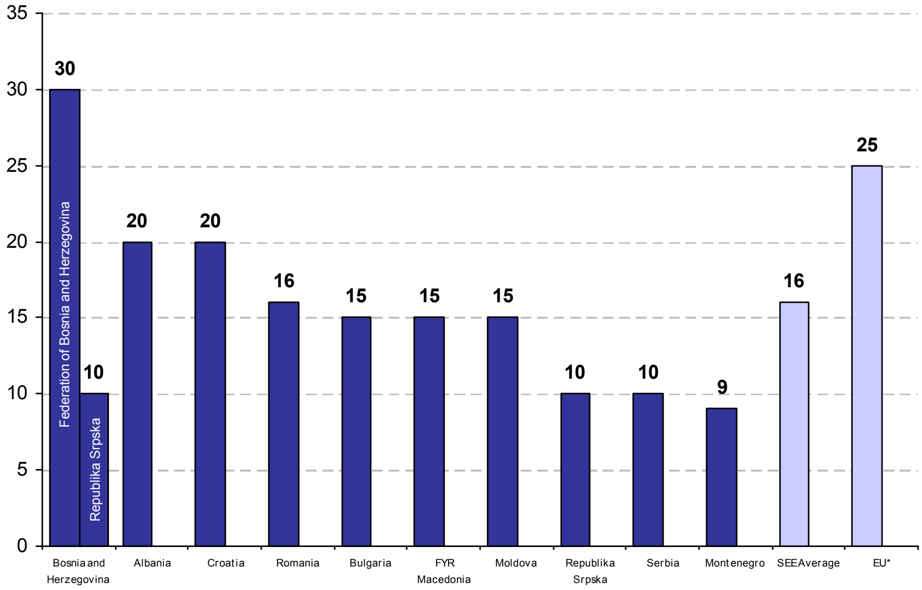
3.4 TAX POLICY

The GoM faces two competing objectives in taxation. Taxation is required to finance essential public goods and services. At the same time, the GoM is also interested in encouraging economic growth, especially through investment, so it must ensure that the tax burden does not have a negative impact on the investment decisions of both foreign and domestic companies. Firms face the same dilemma. They are recipients of public services and goods such as a sound education system, security and a stable macroeconomic environment yet, at the same time, they are interested in maximising after-tax profitability in order to effectively compete in an increasingly global economy. Taxation is becoming more important to firms, a change largely attributed to reductions in other barriers to FDI. As these obstacles are overcome, greater attention is placed on minimising the burden of taxation. Globalisation means that firms increasingly produce for the international market instead of just the domestic one. Combined with the boom in free trade areas and customs unions, firms increasingly look to supply many different markets from a single location. The combination of these two factors has increased the mobility of firms. Firms, especially those geared towards export, seek locations which minimise their tax burden. The GoM is planning to make this an increasing focus of its attention, consistent with international best practices in this field.

3.4.1 Tax Policy and Legislation

1. Corporate Income Tax (CIT)
The majority of managers of multinational companies (MNCs) consider the headline CIT rate as an important factor in determining where to invest, with the consequence that the CIT rate and level of FDI inflow are linked. As can be seen in Figure 3.1, the SEE region had some of the lowest statutory CIT rates in 2006. The GoM plans to have one of the lowest CIT rates in the world. The CIT rate was 15% in 2006, and has already been reduced to 12% in 2007 and will come down to 10% in 2008, ensuring that Macedonia is highly competitive in this respect.

Figure 3.1: CIT Rates (% in 2006)



Source: OECD 2006

Analyses of the fiscal and non-fiscal incentives in Macedonia (various EAR funded reports prepared by TDI Group – see references) reveal that the previous system was too complex for potential investors. Consideration will be given to further streamlining and simplifying the CIT system.

Measure(s):

- Reduce CIT rate to 10% in 2008.
- Review impact of the withholding tax and consider replacing with a more targeted tax instrument by 2010.

2. Tax incentive schemes

The GoM believes that tax incentives such as partial tax relief and tax holidays are a key instrument to stimulate investment. Although the effectiveness of such tax incentives continues to be debated, the consensus is that they are advantageous as long as the GoM complies with the EU Code of Conduct on Business Taxation in relation to the existing and future tax incentives, thus ensuring that fiscal incentives have a clear revenue and overall development goals, defined implementation instructions and do not discriminate between foreign and domestic investors. Following a reform in late 2006, the fiscal incentives are set out in Box 4.

Box 4: Tax Changes (2006/2007)

Tax incentives abolished end 2006:

- Relief based on accelerated depreciation.
- Relief based on investments in environmental protection.
- Exemptions for start-up businesses.
- Exceptions for companies listed on the stock exchange.
- Relief based on investment in qualifying fixed assets (replaced with relief based on reinvested profit).
- Exceptions based on business activities in Technological & Industrial Development Zones (TIDZs).

Tax incentives valid from January 2007:

- Relief based on reinvested profit.
- Exemptions based on location within TIDZs.
- Exemptions based on share of foreign invested capital, valid until 2009.
- Exemptions based on the purchase of equipment for registering cash payments.

Source: Official Gazette, MoF

Macedonia has committed to the EU Code of Conduct on Business Taxation, which requires all member states to eliminate tax incentives which could create harmful tax competition within the EU. Consequently the following actions are planned:

- Maintain 0% tax rate for the new Technological and Industrial Development Zones (TIDZs) but prepare to negotiate a transitional elimination as part of the process of negotiation for accession to the EU by 2010.

3. Double taxation treaty network

It has been well documented that international firms prefer to locate in countries which have implemented tax treaties with their home countries so as to avoid the risk of being taxed twice. Therefore, it is important to develop a comprehensive tax treaty network. Macedonia has ratified 28 double taxation treaties (DTAs). One is in the process of being ratified (Germany) and three have been adopted by the GoM but not yet been signed by the counterpart governments (Austria, Belgium and Bosnia and Herzegovina). Although Macedonia already has a comprehensive tax treaty network with most of the largest investment partners, there is a need to extend it further. Key priorities include ratifying the DTAs with Austria and Germany. Moreover there is a need to extend the network to key EU and other countries.

Measure(s):

- Ratify the DTAs with Germany, by 2007.
- Sign the DTAs with Austria, Belgium and Bosnia and Herzegovina, in 2008.
- Extend the network of DTAs with major potential investor countries, such as the USA, Canada, by 2009.

- Extend the network of DTAs with EU countries with whom Macedonia has no DTA, such as: Greece, Portugal, Luxembourg, Cyprus, Malta, Ireland, Estonia and Lithuania, by 2010.

4. Transfer pricing

Transfer pricing is the common term for attributing profits to the different entities that make up a corporate group. Since such entities are often based in different countries and are all involved in producing the final product, how the resulting profit is shared determines each entity's taxable income. A lack of clear transfer pricing regulations results in two problems: MNCs might seek to allocate all of their profit to the entity within their corporate group with the lowest corporate tax burden, thus depriving Macedonia or other countries in which the other entities are located of their fair share of the tax revenue; and the tax administrations in two or more countries might claim significant portions of the taxable profit of a corporate group as taxable within their jurisdictions, thus exposing them to double taxation. Transfer pricing is especially relevant in Macedonia's efforts to attract FDI in export processing operations, since this typically results in a high volume of inter-company trade. To avoid the problems listed above, and to maintain the process of accession and harmonization with the *acquis communautaire*, Macedonia will ensure that its transfer pricing rules are in line with international best practices.

Measure(s)

- Implement transfer pricing legislation based on the arm's length principle (transactions between two related entities should be conducted as if the two entities were independent and prices charged should reflect market prices for the goods sold) by 2010.
- Define implementation regulations stating the methods allowed in determining transfer pricing and their order (see OECD Guidelines on Transfer Pricing) by 2008.
- Specify clear and compulsory documentation required to justify pricing valuations by 2010.
- Create agents within the tax administration specialised in handling transfer pricing examinations to enforce transfer pricing legislation and regulations by 2010.

5. Depreciation allowances

Depreciation allowances enable businesses to deduct normal wear and tear on their equipment from taxable income and are particularly important for large, capital-intensive companies. Where depreciation regimes are overly complex and/or methods and rates for calculating depreciation are restrictive, this can increase companies' effective tax rates significantly. A review of the Macedonian regime indicated that although the system allowed for both accelerated depreciation and the declining balance method of depreciation, there are too many asset categories (13) and that the depreciation rates did not accurately reflect the productive lives of the underlying assets. The GoM took the decision to abolish accelerated depreciation allowances from the beginning of 2007. However, bearing in mind the fact that these are not an incentive (depending on whether accelerated depreciation is allowed or not), but a normal business expense in profit and loss accounting, the GoM will review the possibility of creating a new system of depreciation allowances, consistent with international best practices.

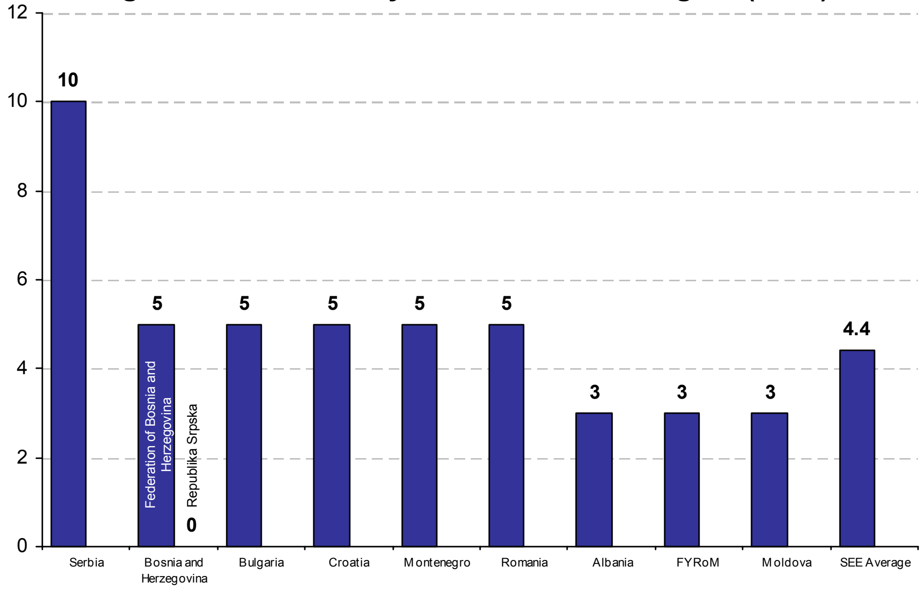
Measure(s):

- Review the current depreciation regime, by 2009.
- Evaluation of advantages from creating a new depreciation regime, according to the best international practices, by 2010.

6. Loss carry forward

An important aspect of any country's tax regimes is the provision for loss relief since firms making large scale new investments (especially in the capital-intensive manufacturing sector) are typically not profitable during their first few years of operation. It is, therefore, of critical importance to allow such firms to carry losses forward by implementing loss relief measures in line with the international norms. However, investment in Macedonia may be currently hindered by the fact that, unlike competitors, it currently only allows this for three years, compared with the best practice norm of five to seven years (see Figure 3.2).

Figure 3.2: Loss Carry Forward in SEE Region (2006)



Source: OECD 2006

Measure(s):

- Undertake a feasibility study / cost benefit analysis of allowing firms to carry losses forward to 5, 6 and 7 years by 2009.
- Revise the period of loss carry forward according to be recommendations of the report by 2010.

3.4.2 Tax Administration

7. Revenue agency
It is important to develop a semi-autonomous revenue agency responsible for all direct tax collection activities, including social security charges. Macedonia has established such an organisation, namely the Public Revenue Office, with 1,160 staff located in 6 regional offices and 1 large taxpayer office. Macedonia has also established a strategy for improving tax collection through voluntary tax payment in accordance with legislative provisions. The agency will need to be well staffed, have appropriate resources, and training of tax administration officials will need to be provided on a regular rather than *ad hoc* basis, as indicated by EC progress reports.

Measure(s):

- Increase budget of the Public Revenue Office, consistent with its role by 2008.
- Increase the number of tax inspectors (+90) by 2009.
- Develop programme of capacity building for staff, especially for audit, SMEs and the newly established large taxpayers' office by 2009.

8 Tax inspection authority
The Public Revenue Office has responsibility for tax inspections. One of the biggest complaints by companies investing in Macedonia is that there is excessive interference and discretionary behaviour by tax inspectors. To limit such behaviour and encourage maximum productivity, the tax administration will consolidate all tax inspection functions and will be

governed by an audit strategy based on risk analysis, as required by the Law on the Tax Administration Procedure (2006). Moreover, audit actions per taxpayer will be limited to one per year except in exceptional circumstances. Currently the average is two inspections per year (according to the Business Environment and Enterprise Performance Survey - BEEPS 2005) and foreign investors are subject to a higher number of tax inspections.

Measure(s):

- Develop a transparent audit strategy based on risk analysis rather than random selection by 2007.
- Limit audit actions per taxpayer (regardless of whether domestic or foreign) to one per year except in exceptional circumstances by 2008.

9. Right to appeal

The GoM is aware of the fact that complex or unclear tax regulations allows for discretionary interventions by tax officials and encourages disputes between taxpayers and the administration. Consequently, the right to appeal is of special importance to both domestic and foreign investors and firms should have access to an efficient and rapid tax appeals system, with low barriers for entering an appeal and administered by well-trained civil servants. New procedures have been introduced by the Law on Tax Administration Procedure (2006) which significantly improves the situation, once the new regulations are effectively implemented. Taxpayers have the right to appeal to the relevant regional office in the first instance. They have the right to appeal to the Ministry of Finance and, if still dissatisfied, have the right to appeal to the Administration Court, as a first instance court, and the right to submit extraordinary legal remedies against the decisions of the Administration Court to the Supreme Court of the Republic of Macedonia. Macedonia requires taxpayers to pay a disputed tax before appealing unless companies disputing the tax provide justification that paying the tax would entail serious financial harm and provide a guarantee that they are able to pay the outstanding debt.

Measure(s)

- Review the appeals procedure to ensure that it is quick, simple and transparent by 2009.

10. VAT reimbursement

Firms paying VAT are sometimes eligible for a refund, especially firms producing for export. Since the refund often represents a large portion of the working capital available, delayed reimbursements can strain company cash-flow resulting in financial difficulties or even pushing firms into bankruptcy. According to the law, if the amount of the tax credit in a given tax period (month, quarter and year) is higher than the tax assessed for the goods and services traded, the difference is to be reimbursed. If the taxpayer does not claim reimbursement, the reimbursable amount is considered as a tax advance for the following tax period. The VAT surplus has to be reimbursed within 30 days otherwise an interest rate of 0.05% for each day of delay is added to the reimbursable amount. Exporters are treated in the same manner as other enterprises. At least 90% of the VAT reimbursement is realised within 30 days. About 7% of cases concern “risk” taxpayers where the need for external control may cause delay. While it is expected that the introduction of e-tax services will lead to quicker VAT refunds, there is still a need to ensure proper enforcement of the refund procedures.

Measure(s):

- Undertake a review of the causes of delays or failure to refund VAT that will focus on small businesses (e.g. according to the number of employees, total turnover less than DEN 1.3 mill.), with an aim to increase efficiency in this area.

3.4.3 Compliance Costs

11. Filing taxes
The time and complexity involved in filing taxes are a tax on firms. On average it takes 96 hours and 54 payments for firms to comply with current requirements (WB Costs of Doing Business 2007) so the GoM recognises the need to reduce complexity. The time required to comply with the tax requirements and the number of tax payments will be minimised, including through the introduction of a more sophisticated online tax filing system covering a wider range of business taxpayers than some large taxpayers.

E-Business means "doing business by electronic means" and covers e-commerce (buying and selling on-line) B2B (Business To Business or activities realized between companies, for example suppliers and traders), B2C (Business To Customer or relations between end customers and companies) and G2B (Government To Business or activities realized between government and businesses such as tax declaration, social security services). Macedonia's performance in G2B on-line services will be improved.

Measure(s):
- Review and minimise tax requirements and the number of tax payments by 2008.
- Introduce on-line submission of social contributions, CIT, VAT, etc. declarations by medium sized enterprises by 2008.
- Introduce on-line submission of social contributions, CIT, VAT, etc. declarations by small enterprises by 2009.

12. Stability of the taxation framework
A stable regulatory environment is important to investors, especially in relation to taxation. Frequent changes in primary and secondary tax legislation represent a compliance cost for enterprises, which are required to relearn implementation procedures each time there is a change. This will be combined with appropriate compliance and consultation procedures, including training for the tax administration and taxpayers.

Measure(s):
- Introduce awareness raising measures to publicise changes to the tax framework by 2008.
- Introduce comprehensive training programmes for both the tax administration (central and local offices) as well as taxpayers (firms) by 2009.

3.4.4 Transparency

13. Public/private consultations
To avoid bias and uneven access by the most powerful interests, the GoM will ensure that consultations with the private sector on tax issues are routine and structured. Although the consultative process has improved (e.g. Chambers of Commerce and other stakeholders are allowed to comment on and debate pending legislation related to taxation) the level of consultation is still insufficient.

Measure(s):
- Introduce a mechanism for regular and structured consultation with the domestic and foreign business community by 2008.

14. Monitoring and evaluation
The GoM recognises the need to continually monitor and evaluate the tax regimes and provide feedback loops to improve policy based on these evaluations. This involves undertaking tax expenditure accounting (to determine the revenue lost due to tax incentives) and introduction of "sunset" clauses (expiry of incentives after a pre-determined period), which

should be formally included in all tax incentive legislation. Moreover, effective tax rates should be systematically calculated, published and considered in future tax policy elaboration, linked to the consultation mechanism previously discussed. Although some of this has been carried out in the past, this has neither been systematic nor published for general access.

Measure(s):

- Introduce tax expenditure accounting as a standard practice by 2008.
- Introduction of “sunset” clauses in tax legislation as a standard practice by 2008.
- Calculate effective tax rates systematically for future tax policy elaboration by 2008.

15. Communication and information access

Effective public dissemination of information and procedural requirements for taxation policy are essential to ensure full compliance by taxpayers. All relevant information must be accessible online in Macedonian and English, as this is not always the case.

Measure(s):

- Ensure that all relevant information is accessible online by 2008.
- Ensure that all materials are available in Macedonian and English by 2008.
- Publish regular up-dates and information bulleting for taxpayers by 2008.

3.5 ANTI-CORRUPTION AND BUSINESS INTEGRITY

Corruption is a major constraint on doing business in emerging countries - research confirms that high levels of corruption negatively affect capital inflows, investment rates and economic growth. According to the 2005 BEEPS survey, some 50% of firms surveyed in SEE countries highlighted it as a problem in doing business, compared with 32% of firms in new EU member countries. This is also an issue that the GoM wishes to tackle in order to spur investment. The GoM will have three basic operational principles: honesty, transparency and responsibility.

3.5.1 Anti-corruption Strategy

1. National Anti-corruption programme and action plan

Corruption is a complex phenomenon and there is no single recipe for an effective anti-corruption strategy. The GoM recognises that to fight corruption it needs to understand its nature and define appropriate reforms involving public institutions, legislation, public sector management and civil society. In achieving this, it is important to develop a Government Responsibility Act covering general government behaviour and the fight against organised crime and corruption, combined with a comprehensive anti-corruption strategy and action plan. The State Commission for the Prevention of Corruption elaborated a National anti-corruption programme and an Action plan in 2003. The National anti-corruption programme contains recommendations for necessary measures and activities which have to be undertaken in order to establish an effective system for prevention and repression of corruption. An integral part of this National programme is the Action plan for implementation, where short, medium and long-term goals are anticipated. The Annex of the National programme and Action plan was enacted in 2005, with anti-corruption measures and activities in the units of local self-government. The State Commission for the Prevention of Corruption is preparing a new updated version of the Programme for the following 3 year period, based on indicators for evaluation of efficiency in its implementation. The new programme will be more sophisticated and based on the pillars of the national integrity system - political system, Assembly and political parties, judiciary system, public administration and local government, institutions in charge of law enforcement and supervision, economic and financial system, non-governmental sector and media. In contrast to the previous programme, indicators for implementation and monitoring of the new programme are going to be developed. At least one implementation progress report is submitted to the institutions per annum assessing the extent to which the programme has been realised. The GoM is committed to an effective fight against organized crime and corruption, to enhance the mechanisms of confiscation of property and administrate with the goods disposed in court procedures. With respect to this, the Government Action plan is being prepared, complementary with the National programme. This Action plan, at the same time, will emphasize the strong commitment of the Government for undertaking certain anti-corruption measures and activities of its scope.

Measure(s):

- Draft and ratify a Government Responsibility Act by 2008.
- Prepare a new National anti – corruption programme and action plan by 2007.
- Adopt a governmental anti – corruption action plan which will be complementary with the National anti – corruption programme, after adoption of the National programme.
- Submit periodic (4 to 6 months) progress reports to institutions by 2008.
- Strengthen the financial and legal independence of the State Commission for the Prevention of Corruption (by increasing the staff from 12 to 27 by 2009) and improving the office premises) by 2008.
- Adopt a Law for establishing the Agency against organized crime and corruption, enhance the mechanisms for confiscation of property and administrate with the goods disposed in court procedures.

3.5.2 Legal framework and international conventions

2. Ratification of Relevant International Conventions
The anti-corruption strategy and action plan needs to be supported by an appropriate legal framework, including adoption of key international conventions. Macedonia has already signed the main international conventions on corruption. The key Council of Europe (CoE) conventions (civil law, criminal law and laundering, search and seizure) and the United Nations Convention against Corruption have been signed, ratified and included in the legislation.

3. Criminalisation of Corruption
Macedonia has strengthened its legislation by amending the criminal codes to align them with international standards, adopting laws that criminalise active and passive bribery, money laundering and trading in influence. Amendments are being made to ensure full criminal liability for corporations, as required by the Council of Europe and UN conventions.

Measure(s):
- Review the provisions related to criminal liability for legal persons (i.e. corporations) as per the requirements of the Council of Europe and UN conventions by 2007.
- Streamline and implement procedures for investigation and prosecution of organised crime and corruption by 2008.
- Increase the staff complement of the Public Prosecutor’s Unit Against Organised Crime and Corruption by 2008.

3.5.3 Good governance and public administration

Corruption in public administration is often the result of poor governance practices, hence the reason why the GoM will prioritise this issue in the future.

4. Conflict of Interest Policy for Civil Servants
The public administration is required to perform its duties according to legal guidelines predictably, impartially and according with the public interest. Conflicts of interest must be managed so that public employees do not make decisions based on private interests or abuse their power and position. Macedonia currently addresses conflict of interest in various regulations and legislation. However, a Conflict of Interest Law is being prepared by the Ministry of Justice, consistent with the OECD Guidelines for Managing Conflict of Interest in the Public Sector (OECD, 2003) and will be implemented in order to avoid this problem.

Measure(s):
- Adopt and implement the Conflict of Interest Law, consistent with the OECD Guidelines for Managing Conflict of Interest in the Public Sector by 2008.
- Increase the capacity of the State Commission for the Prevention of Corruption to enforce the new law by increasing the staff devoted to this issue by 2008.
- Ensure coordination between the State Commission for the Prevention of Corruption and Public Prosecutor’s office for enforcement purposes.

5. Public Procurement
Macedonia’s public procurement system aims to deliver efficiency and ‘value for money’ in the use of public funds whilst adhering to public procurement legislation. Such a system also aims to avoid the possibility for public officials to abuse their authority or accept bribes. Macedonia has already implemented the Public Procurement Law (2004). However, in the context of EU accession, it is important to ensure that the legislation is fully aligned with the EC Directives and the fundamental principles of the European Treaty.

Measure(s):

- Review the Public Procurement Law (2004), ensuring that it avoids the possibility for public officials to abuse their authority and inhibit rent seeking behaviour by 2007.
- Align the Public Procurement Law with the EC Directives and principles of the European Treaty (transparency, equal treatment, free competition, mutual recognition and proportionality) by 2007.
- Define By-Laws regulating specific public procurements for defining the procedure for assessment of quality by 2008.

6. Customs

Corruption may result from customs officers' discretion with respect to acceptance of invoices, classification of goods, inspections, etc. Complex, slow and inefficient customs administrations lacking clear rules and procedures combined with high customs duties create an environment favouring corruption. The situation in Macedonia is improving. The customs administration has been streamlined and there is increased use of automation, which reduces discretion on the part of customs officers and speeds up customs procedures (the Automated System for Customs Data – ASYCUDA – system handles manifests and customs declarations, accounting procedures, and transit and suspense procedures). A Code of Behaviour for customs officers has been adopted, with the consequence that perceived corruption levels in the customs administration have declined in recent years according to EBRD/World Bank surveys (2005). Nevertheless, there is room for improvement: import/export requirements remain burdensome, total import/export times remain high and numerous documents are required, all generating opportunities for corruption.

Measure(s):

- Streamline import/export documents and procedures through the regulatory guillotine by 2007.
- Reduce the total import/export times by 2007.
- Ensure cooperation with the business community by promoting the procedure for issuing Compulsory tariff information, prior to the customs procedure, which will prevent disputes concerning division of goods within the Customs tariff, and equal division will be provided by 2007.
- Automate customs procedures through the use of scanning equipment for trucks and containers by 2009.
- Integrate customs clearing operations through computerisation by 2009.

7. Tax Administration

Various tax policy reforms have already reduced opportunities for corruption in the tax administration and the introduction of the flat rate tax (12% in 2007 and 10% in 2008) will further reduce the possibility for corruption from this source. Furthermore, a Code of Conduct for tax officials has been adopted. However, there are still many tax inspection functions which need to be consolidated and the frequency of tax inspections will be reduced to an average one per enterprise per annum, especially in relation to foreign investors who are subject to excessive tax inspections. Problems which create opportunities for corruption such as delayed VAT reimbursements will be streamlined and on-line payment of taxes will be further stimulated as per SME Programme (2007-2010).

Measure(s):

- Consolidate inspections by 2008.
- Reduce frequency of tax inspections to one per enterprise per annum by 2008.
- Streamline VAT repayments by 2008.
- Enhance the number of on-line transactions to reduce contact with inspectors by 2009.

3.5.4 Transparency

8. Public/private Consultation

Mechanisms for public/private consultation on the anti-corruption policy are still in the early stages of development in Macedonia. The private sector has been consulted on an *ad hoc* basis in the preparation of the original anti-corruption strategy and action plan. However, there is a need to develop a more sophisticated consultation process for the revised and up-dated anti-corruption strategy and action plan and to develop regular public/private consultation in the field of anti-corruption policy.

Measure(s):

- Establish a regular mechanism for public/private consultation on anti-corruption policy, including NGOs, local authorities and the business community by 2008.
- Work with business associations, ministries and local authorities to develop Codes of Conduct and Ethics for the benefit of enterprises and public administration.

9. Monitoring and Evaluation

The effective implementation of the anti-corruption policy requires regular monitoring and evaluation by the government. In Macedonia, the State Commission for the Prevention of Corruption is responsible for conducting the anti-corruption policy and undertakes monitoring of implementation in the form of at least one report per annum. In future, the progress will be reported periodically (4 to 6 months). The reports will be published and the findings will be used to update the anti-corruption programme and action plan.

Measure(s):

- Prepare periodic Progress Reports and present to the institutions by 2007-08.
- Undertake annual evaluation of the progress in implementing the anti-corruption strategy and action plan by 2007.
- Establish a Special Commission in Parliament to oversee the activities and regular reports prepared by the State Commission for the Prevention of Corruption and related bodies, and strengthen role of the Public Prosecutor by 2008.

10. Communication and Information

Although some awareness raising activities have been carried out (e.g. leaflets with anti-corruption messages were distributed to the wider public), there is a need to implement a large scale, regular and adequately funded public awareness campaign on the issue of corruption.

Measure(s):

- Establish and publish a Civil Journal as a means of improving public services and fighting bureaucracy and corruption by 2008.
- Publish all Progress Reports and Annual Evaluations of the progress in implementing the anti-corruption strategy and action plan on-line by 2008.
- Plan and initiate regular scale public awareness campaigns on the issue of corruption in Macedonian society and the GoM's activities to counteract this. These should be both generic and specific (e.g. education, procurement, health, etc.) in nature by 2008.
- Introduce anti-corruption programmes in the educational system with respect to raising public awareness about corruption by 2008.
- Implement the Electronic Government programme allowing easy access to all necessary information, documents, application forms, etc. relating to government operations by 2008.

3.6 COMPETITION POLICY

The Republic of Macedonia has inherited a relatively high degree of market concentration, state ownership and a relatively weak legal framework for protection of competition. The aim of the competition policy is to create a stable and transparent economic environment for investors and ensure that the interaction between economic operators is efficient and maximises the welfare of the consumers. Thus, the GoM recognises that competition policy should aim to avoid anti-competitive practices of firms or national authorities (restrictive agreements and concerted practices), prevent firms from improperly exploiting their market power over weaker companies (abuse of dominant position) and prevent state authorities from distorting competition (state aid). Various initiatives are planned under the Programme to strengthen the protection of the competition policy in the country.

3.6.1 Policy and legislation

1. Strategy for protection of competition policy
Progress is being made in the creation of a strategy for protection of competition policy. Macedonia has integrated basic competition policy principles within the Government's Macroeconomic Programme, and the programmes of the Commission for the Protection of Competition of Macedonia and of the Ministry of Economy respectively. There is now a need to set out a clear strategy for protection of the coherent competition policy.

Measure(s):
- Create a clear and coherent competition policy strategy by 2008.
- Ensure that resources (staff and funds) are available to implement the strategy by 2008.

2. *Competition Protection Law and secondary legislation*
An assessment of the competition legal framework (Competition Protection Law and Secondary legislation, 8 bylaws, were adopted by the Government in order to achieve harmonization with EU principles.) suggests that the Republic of Macedonia has made significant strides in developing the competition legal framework. The competition legislation follows EC standard language and principles, covers all the basic subjects (restrictive agreements, abuse of dominance and merger control, etc.) and is almost entirely harmonized with EU requirements. As of March 3, 2007, a new Law for amending the Law on protection of competition is in force (Official Gazette no. 22/07). According to this Law, the Commission for protection of competition is a responsible sanctioning institution that carries out violation procedures and announces violation sanctions, penalty, temporary prohibition for performing business activities of legal entities, and prohibition for performing professional activities or duties of persons. This is in line with the New Law on misdemeanours (Official Gazette no. 62/06).

Measure(s):
- Ensure the monitoring of the effectiveness of the new powers that have been provided by the new legislation through year 2008.
- Ensure full harmonization with EU requirements by adopting regulations relating to block exemptions for certain agreements and concerted practices in the air transport sector by 2009.

3.6.2 Institutional framework

3. Independent authority for protection of competition
An independent protection competition authority was created in 2005, namely the Commission for the Protection of Competition, which is the main body responsible for the implementation of competition policy protection and law. The Commission is relatively well resourced (18 staff)

and integrates basic competition policy principles within the Government's Macroeconomic Programme, and the programmes of the Commission and of the MoE. Consideration should be given to introduce mechanisms that will make the Commission for Protection of Competition financially independent, with proper funding outside the state budget, as are the cases in Greece, Italy and other EU countries. The current twinning project is contributing to the capacity building process of key staff at the Commission, a role that will continue to be performed by the BERIS WB project and technical assistance provided by GTZ. In 2006, the Commission worked on 3 *ex officio* cases, 2 upon the request of the interested party and seven notifications of concentration. However, in addition to developing a formalised protection competition strategy, it is a priority to strengthen the Commission's administrative capacity, especially in relation to the number of case handlers (currently 8). A Service centre should be established, for collecting consumer complaints, as well as introducing regular statistical evidence for cases in the Commission.

Measure(s):
- Strengthen the Commission's capacity through budget reinforcement designed to increase the case handlers from 8 to 18 by 2010.
- Introduce mechanisms for financial independence of the Commission for Protection of Competition by 2010.
- Develop the skills and capacity of the technical staff at the Commission by 2010.

4. State aid control programme
EC competition law does not permit aid granted by a government or by government resources if it distorts competition by favouring some firms or products and if it has an effect on trade between Member States. State aid control seeks to prevent or correct restrictions on competition that are created by the government through granting public aid to firms. Macedonia has passed a State Aid Law (2004), Law on changes and amendments of State Aid Law ("Official Gazette of RM" no. 70/2006), and bylaws covering such issues as regional aid, notification, and rescue and restructuring of firms in distress. These activities are performed by the State Aid Control Department (4 staff). During 2006, in addition to presenting an opinion on the new Technological and Industrial Development Zones (TIDZs), the department was involved in two cases of non-lawful application of state aid (electricity and land). The State Aid Control Department plans to harmonize fully with the requirements of the *acquis* during the period of the Programme.

Measure(s):
- Establish a full inventory of state aid and effective monitoring and reporting, in particular monitoring sensitive sectors and special economic zones by 2007.
- Establish a comprehensive inventory and ensure stringent *ex-ante* notification of aid measures by 2007.
- Adopt rules for horizontal aid measures and harmonise industrial policies with state aid rules by 2007.
- Strengthen the State Aid Control Department by increasing staff, from 5 to 8, by 2009.
- Fine-tune state aid control policies to conform fully with EU practice by 2010.
- Establish sound implementation of state aid provisions, demonstrated by the record of enforcement by 2010.

3.6.3 Enforcement

5. Competition Protection Law enforcement
Macedonia's record of competition law enforcement will be improved as a result of adequate staffing / budget and the new sanctioning powers. Effective and efficient enforcement of competition law is the most important component of a well-designed competition policy - the enforcement capacity (including *ex officio* investigations and dawn raid techniques) and the closed cases in the competition area, as measured by the scope and effectiveness of

sanctions and remedies imposed in case of abuse of dominance, cartels and merger control are being strengthened. Cartels will be uncovered and leniency programmes introduced, including protection for whistleblowers.

Measure(s):
- Strengthen the sanctioning power / enforcement capacity of the Commission by 2008 focusing on *ex officio* investigations, dawn raid techniques and monitoring the scope and effectiveness of sanctions and remedies imposed.
- Introduce protection to whistleblowers by 2010.

3.6.4 Policy advocacy

6. Consultation
Competition policy advocacy, which includes mandatory mechanisms of consultation on legislative and regulatory procedures and public awareness campaigns, is as important as law enforcement in creating a competition culture and promoting competition principles among government bodies, private sector groups and the general public. Policy advocacy will be developed in Macedonia, as well as a pro-active approach to issuing opinions on draft legislation (in 2006, 7 opinions on draft Laws were conducted) combined with stronger public awareness campaigns.

Measure(s):
- Introduce mechanisms for regular (e.g. quarterly) consultation on legislative and regulatory procedures in relation to competition issues covering state bodies and stakeholders by 2008.
- Introduce measures/activities for involving Consumer protection association, as it plays a fundamental role in identifying market behaviours and practices that hamper the welfare of citizens, by 2008.
- Launch regular public awareness campaigns as part of the process of creating a competition culture and promoting competition principles by 2008.

10. Awareness and information
The GoM recognises that effective public dissemination of information and competition decisions with full reasoning through written and electronic media (in Macedonian and English) creates the conditions for a competition culture, a better basis for competition policy advocacy and a better understanding of competition policy's role in promoting an open business environment. Although information is provided on the competition legal framework in Macedonian and annual reports are published, the information is not regularly updated and is not available in English, hampering the visibility and impact of the competition authorities' activities. Better access to information will be ensured through publication of the legal framework, annual reports and decisions in written format and on the competition authorities' websites both in English and the local language.

Measure(s):
- Disseminate information and competition decisions with full reasoning through written and electronic media (in Macedonian and English) by 2007.
- Introduce training for judges and relevant government officials on competition policy issues by 2008.
- Publish the legal framework, annual reports, and decisions in written format and on the competition authority's website (in Macedonian and English) by 2007.
- Regularly update the website to enhance the visibility and impact of the competition authority' activities by 2008.

3.7 TRADE POLICY

Trade helps generate national growth and prosperity, provides Macedonian enterprises with access to world markets and know-how and provides local consumers with a wider choice of goods at competitive prices. There is also a positive relationship between trade and investment, in that a liberal trade regime stimulates investment since it enables specialisation and larger-scale production which are particularly important in smaller countries such as Macedonia. Trade can also interact with FDI to increase the competitiveness of domestic enterprises' exports through knowledge and technology transfer. Despite the advantages highlighted above combined with liberal access to the EU market, Macedonia's export performance could be enhanced in comparison with competitor countries. This situation needs to be improved, hence the focus of the GoM's efforts in relation to this aspect of the Programme.

3.7.1 Trade agreements and liberalisation

1. Multilateral and regional bilateral trade agreements
Macedonia has already achieved a high level of external integration into the world's system of trade agreements. It is a member of the World Trade Organisation (WTO), has signed the EC Association Agreement (Stabilisation and Association Agreement), has preferential access to the EU market and leads the regional trade liberalisation process. Macedonia has signed 11 free trade agreements (FTAs) - 8 on a bilateral basis and 3 on a multilateral basis (EFTA, SAA and CEFTA). The Republic of Macedonia has also signed a new free trade agreement with the SEE countries (CEFTA 2006). Six of the current agreements will be absorbed by CEFTA 2006, leaving two bilateral agreements with Turkey and Ukraine. The inclusion of Macedonia in the Pan-Euro-Med Cummulation (IS THIS IS A WORD?) of origin of goods would encourage investment (especially Turkey) since producers would be allowed to use third country materials, obtain Macedonian origin and export them to EU countries.

Measure(s):
- Intensify the process of negotiations with the EU in order for Macedonia to be included within the system of Pan-Euro-Med Cummulation of origin.
- Sign agreements for facilitating trade with Mediterranean countries

3.7.2 Non - tariff barriers

The key obstruction to Macedonia to reap the full potential of free trade is the existence of high non-tariff barriers, including domestic product regulations and standards. Yet, failure to adopt EU standards at the enterprise level translates itself into a risk of being marginalised in the global supply chain. Although local companies can apply for certification abroad, this option is largely available to large or foreign-owned companies. Moreover, complex and slow customs procedures for imports and exports penalise companies working with international partners. This reduces the value of one of the main competitive factors of Macedonia, namely its proximity to the EU market. Therefore, a number of measures are proposed in this Programme.

2. Membership of European and International Standards Organisations
Macedonia firms are expected, within a relatively short period of time, to progress from the largely obsolete mandatory standards developed under the socialist command economy, to a new sets of voluntary EU and international standards such as European Committee for Standardization (CEN), the European Committee for Electro-technical Standardization (CENELEC), and, at the global level, the International Organization of Standardization (ISO). Macedonia is only a member of ISO and an affiliate of CEN and CENELEC. This needs to change to full membership of all key bodies where it makes sense to do so. In terms of

membership in the European Telecommunications Standards Institute (ETCI), the Institute of Standardization of Macedonia has concluded a cooperation agreement with this institute as a national body which will adopt the European standards as national ones.

Measure(s):
- Become a full member of the European Committee for Standardization (CEN) by 2009.
- Become a full member of the European Committee for Electro-technical Standardization (CENELEC) by 2009.

3. Transposition of European and International Standards
If firms are to become more competitive and successful in exporting, EU/International standards must be transposed into domestic legislation and regulations. Macedonia is at the beginning of the process now that it has received EU Candidate Country status. Nevertheless, progress is evident. Whereas only 20 European standards (EN) have been transposed, by 2006, this had risen to ca. 1,800 due to the streamlining of the process, such as the introduction of endorsement procedures. Nevertheless, the challenge remains daunting – there are about 11,800 EN and a further 15,600 ISO standards. A work programme for the adoption of EN standards, including a database of harmonised standards, needs to be prepared involving a degree of prioritisation (since Macedonian firms are not active in all sectors of activity), stakeholder involvement, etc. leading to a significant acceleration of the process.

Measure(s):
- Prioritisation of sectors for transposition of European / International standards by 2007 with an accent on the high tech sector.
- Awareness raising campaign on the importance of phasing out our obsolete national standards and introducing international standards by 2008.
- Establishment of a Stakeholder Coordination and Consultation mechanism by 2008.
- Introduction of customised software and databases to facilitate transposition, adoption and application of standards, by 2007.
- Preparation of a large scale Government / EU-funded project to transpose all the EN and ISO standards by 2010.
- Establish a CE Testing Centre to facilitate exports by 2009.

4. Quality Infrastructure Institutes
All the key standards and accreditation bodies have been created in Macedonia, namely the Standardisation Institute, the Accreditation Institute and the Bureau of Metrology. These bodies are relatively new, having been created in 2003, however, they are in the process of being strengthened in terms of financial resources, staff, equipment and know-how. These public bodies provide services in the sphere of metrology, standardization and accreditation. In addition to state funds, they are generally supported by donor projects and funding such as the EAR and WB projects. For example, the Accreditation Institute is being strengthened in 2007 (staff being increased from 4 to 9, establishment of an accreditation training centre, know-how and IT support, etc.) and the Standardisation Institute has also seen an increase in resources (6 to 14 staff members in 2006). The Bureau of Metrology is part of the MoE and consists of units dealing with legal issues, laboratories and car emissions. There is a need to increase the staff complement (from 25 to 53) in order to allow the laboratories to provide the full range of services. The challenges facing Macedonia are such that all three organisations require additional support during the period of the Programme.

Measure(s):
- Additional state budgetary support to ensure that the Standardisation Institute, the Accreditation Institute and the Bureau of Metrology are able to fulfil their statutory obligations by 2008.

- Ensure that the Bureau of Metrology becomes a semi-autonomous institution, as per the requirements of the 2004 Law on Metrology by 2009.
- Implementation of national, multi-annual awareness raising and promotion campaigns to ensure that domestic enterprises understand the importance of standardisation, accreditation and metrology in terms of their businesses by 2008.
- Further support and capacity building of standardisation, accreditation and metrology staff in the state institutions, as well as private sector companies by 2009.
- Achieve full membership in EURAMET, participation in the EURAMET technical committees' projects, and include the Bureau of Metrology within the network of the International Bureau for measures and weights.

5. Sanitary and phytosanitary standards / Market Inspectorate

Agricultural products and foodstuffs represent an important part of Macedonia's GDP and exports, therefore, rapid adoption of European or international standards in agriculture would greatly enhance export opportunities and allow for integration into the food processing industry's global production chains. However, the adoption of EU/international standards in the sanitary and veterinary areas require an increased pace. Macedonia has begun the process of aligning its food safety, veterinary and phytosanitary legislation with EU standards, and has introduced framework laws in these areas. The phytosanitary area will shortly be fully harmonised with the relevant EU Directives (plants – 2000/29 EU and pesticides – 91/414 EU) with the adoption of the Law of Pesticides which is currently before Parliament. Implementing legislation, however, is still in preparation. The veterinary and phytosanitary services lack sufficient institutional and infrastructure capacity. Nonetheless, a new state phytosanitary laboratory was established. In accordance with the international Convention for plant protection, a reform process has started for establishing an integrated phytosanitary body in line with IPPC standards, which will cover a Phytosanitary Laboratory and a Seed and Seedlings Directorate.

The Food Directorate was established in 2005 and performs its duties in the scope of the Ministry of Health. The total number of employees is 86 staff (65 of them are state inspectors, operating from 5 regional offices). Under the competence of the Food directorate, there are about 15,000 food establishments in Macedonia (industrial, manufacture, catering, trade and water supply establishments). The imported food is controlled at 13 border inspection posts. There is a need for a significant increase of the number of state food inspectors, in order to attain the EU average of about 1 inspector per 9,000 inhabitants. In the scope of the Food directorate, there is a Department for development, with units for food risk analysis and risk assessment. The Food directorate is a contact point for the EU RASFF for the Republic of Macedonia.

The Directorate for Veterinary Protection is part of the Ministry of Agriculture and has a team complement of 120, 90 of which are inspectors. It is about to be upgraded by 30 new staff members, though it is estimated that about 185 staff members will be required to fulfil its remit. A package of 6 laws needs to be implemented to comply with the requirements of various EU Directives as well as the creation of about 50 Rule Books. Although the levels of expertise are high, further support is required, especially in the area of HACCP standards. The country may well benefit from an integration of the phytosanitary, food safety and veterinary services. The State Market Inspectorate is also an important player. It is regulated by the Law on the State Market Inspectorate (2007) which was developed with EAR assistance and is harmonized with the requirements of the *acquis communautaire*. The State Market Inspectorate will become a semi-autonomous institution. Its 230 staff are distributed throughout the country in 10 units, the majority of which (150) are inspectors. The State Market Inspectorate is the largest of the 20 inspectorates in the country. For the purpose of reducing the compliance cost / burden, better coordination and a merger of the inspectorates will be carried out whenever appropriate.

Measure(s):

- Effectively implement legislation in the food safety, veterinary and phytosanitary areas by strengthening the institutional capacities of the relevant bodies.
- Harmonize with EU/international standards in the food safety area through an amendment of the Law on Food Safety (EU Regulations 178, 852 and 882).
- Increase the number of Food Safety Book of Rules from 18 to 46 by 2010.
- Strengthen the capacity of the Food Safety Directorate by increasing the number of employees (from 86 to 141 by 2010). In addition to more resources, capacity building is required for the inspectors in such areas as ISO / HACCP standards.
- Strengthen the capacity of the Phytosanitary Directorate (Ministry of Agriculture) through increases in staff (from 33 to 97 by 2010). In addition to more resources, capacity building is required for the inspectors.
- Strengthen the capacity of the Phytosanitary Directorate (new employees, training, etc.).
- Establish an integrated phytosanitary body in line with IPPC standards (Phytosanitary Laboratory and Seed and Seedlings Directorate) by 2010.
- Strengthen the capacity of the State Market Inspectorate by increasing the number of staff (from 230 to 290) by 2009.
- Ensure that 4 laws are adopted (Veterinary Health, Animal Welfare, Veterinary public health and Animal By-products) by 2007.
- Restructure the Veterinary Directorate into public health, animal health and border inspections by 2008.
- Ensure full harmonisation with the EU Directives by adopting 2 laws on Feedstuff and Veterinary Medicine in 2008.
- Ensure that 50 Rule Books are prepared to supplement the package of laws by 2010.
- Undertake a feasibility study on the integration of the phytosanitary, food safety and veterinary services and implement recommendations by 2010.

6. Accreditation and conformity assessment

Encouraging firms to adopt standards and obtain certification requires an effective conformity assessment system involving testing and calibration laboratories, inspection and certification bodies. As previously discussed, the GoM will build up the institutional framework. Moreover, it is crucial to ensure that the country is part of the international accreditation and conformity frameworks. Therefore, Macedonia will seek to become a full member of international accreditation organisations such as the European Cooperation for Accreditation (EA), the International Laboratory Accreditation Cooperation (ILAC) and the International Accreditation Federation. Secondly, testing and calibration laboratories and inspection and certification bodies lack adequate technical, management and financial resources, hampering the conformity assessment process and forcing local companies to rely on foreign laboratories. This will be strengthened in future. Firms also need to be encouraged to allocate adequate technical skills and resources towards this issue.

Measure(s):

- Become a full member of the European Cooperation for Accreditation (EA) by 2008.
- Become a full member of the International Laboratory Accreditation Cooperation (ILAC) by 2009.
- Become a full member of the International Accreditation Federation (IAF).
- Provide testing and calibration laboratories and inspection and certification bodies with adequate technical and human resources by 2009.

7. Administrative barriers to trade

Administrative barriers which hamper trade include a high number of licenses and documents required in order to import and export. The customs administration is improving and facilitating transparency and effectiveness but there are still long waiting periods for export and import. What is needed is: simplify procedures by avoiding compulsory collection of custom duties in the internal custom terminals (in Bogorodica and Tabanovce); removing systematic controls by the inspectorates in the internal customs control; make collection of customs duties obligatory in the internal custom terminals; coordinate all inspectorates at the border, using electronic declarations, etc. All these issues need to be improved. In this regard, there is a need to revise the Laws on Food Safety and Trade and Product Safety in accordance with the EU Regulation. Furthermore, in order for investors to comply with the most recent customs requirements and avoid unnecessary problems and longer waiting times at customs, the accessibility of customs laws and regulations is an important information tool. Information on customs laws and regulations such as tariffs, goods classification and customs procedures are generally accessible and available on the website, but primarily in Macedonian.

Measure(s):
- Enable customs clearance infrastructure at the border and terminals (in Bogorodica by 2008 and Tabanovce by 2009)
- Transfer the Phytosanitary Directorate and Veterinary Directorate from internal custom terminals to the border.
- Comply with the EU Regulation 339/1993 and remove the systematic controls of the inspectorates (State Market Inspectorate and Food Safety Directorate), from the internal custom terminals to the internal market.
- Integrate the veterinary and phytosanitary inspections with those of the Customs Office at the borders and establish a one-stop-shop system.
- Introduce electronic customs declarations.
- Complete full integration of the TARIC system.
- Ensure that information on customs laws and regulations are on the website; update regularly (weekly); make available in Macedonian and English.

8. Export promotion

The GoM has created a programme for improving the competitiveness of Macedonian products and services in foreign markets for 2007, which is designed to improve the competitiveness of Macedonian products and services in external markets. The programme focuses on issues such as: co-financing of firms to develop and obtain international standards (e.g. ISO, HACCP, etc.), export promotion support (e.g. leaflets, brochures, web sites and similar promotion materials, etc.) and support for participation in international events (e.g. trade fairs, conferences, etc.). Currently, Macedonia’s export promotion activities are carried out by a range of actors, including the Unit for Export Promotion at the Ministry of Economy and various business associations in Macedonia. A review will assess the effectiveness of such an approach, including the possibility of creating an export promotion agency or transferring the export promotion function to the Agency for Entrepreneurship Promotion (APPRM). A WTO Information and Training Centre was been established (World Trade Net) which provides support to increase the exports and competitiveness of Macedonian companies.

Measure(s):
- Assist local export oriented-enterprises to obtain internationally recognised quality standards such as ISO by 2007.
- Create an export promotion strategy and programme, building on the Government’s initiatives such as the “Red Sun” by 2008.
- Review will assess the effectiveness of Macedonia’s current export promotion activities by 2008.
- Transfer export promotion to most appropriate institution, e.g. APPRM, a separate agency, etc.

3.8 BUSINESS REGULATORY REFORM

Experience shows that where countries have high-quality regulations, they also tend to have high economic growth and, as a consequence, the quality of the regulatory environment is considered to be one of the most important determinants of FDI by MNCs. The GoM is committed to the adoption of a quality-oriented approach to regulatory reforms for improving the quality of existing and new regulations which affect the business sector in order to lower regulatory burdens, reduce costs, boost efficiency, enhance competition and stimulate innovation. The GoM is dedicated to delivering a high quality regulatory environment, consistent with the requirements of the *acquis communautaire*. The Government Programme highlights a series of measures targeting this issue. In July 2005, the Sector for Economic Policies and Regulatory Reforms within the General Secretariat was established as a key step in the creation of a regulatory management system. Its mandate is to implement regulatory reforms in a systematic manner by improving the quality of the stock and flow of regulations affecting business activity. The Sector for Economic Policies and Regulatory Reforms is adequately staffed, budgeted and operational.

The Government has established its priority for the "regulatory guillotine," to be followed by the introduction of a regulatory impact assessment (RIA) system as part of the rule making process for new laws and regulations. Also regular dialogue with the business community has been established and will be strengthened during the period of implementation of the Programme.

With the assistance of the FIAS and the World Bank (and resources available under the Business Environment Reform and Institutional Strengthening – BERIS) project, the government has developed and is implementing a regulatory policy. The regulatory policy established the legal and institutional framework for the regulatory reform to systematically improve the quality of regulations, especially business related ones. The ongoing work will assist in: (a) building a regulatory management system at line-ministry and central government levels; (b) developing the capacity to improve the quality of existing regulations, through the RIA and complementary methods such as the guillotine; and (c) establishing comprehensive and central database of regulations.

3.8.1 Regulatory Guillotine

1. Regulatory guillotine

The GoM made a decision to introduce the "regulatory guillotine" in November 2006. The decision describes the aim of the guillotine, the nature of the process and institutions involved. The guillotine applies to all "formalities and administrative hurdles" affecting legal entities and individuals, including businesses. Three institutions are concerned with the implementation of the "regulatory guillotine." The political support for the guillotine process is provided by the Coordination Committee which includes all Government Ministers and is chaired by the Deputy Prime Minister for Economic Affairs. On an operational level, the Commission for Regulatory Reform is established, represented by the Sector for Economic Policies and Regulatory Reforms in the General Secretariat of the Government, within the Cabinet of Deputy Prime Minister for Economic Affairs. Working Groups have been established within ministries and state administration authorities, which are preparing an inventory of the stock of regulations and their justifications. The Committee for Regulatory Reforms reviews the justifications and recommendations provided by each Working Group and submits proposals for simplifying regulations to the Coordination Committee. In parallel, the Chambers of commerce, the National Council for Entrepreneurship and the Competitiveness and the International Council of Investors are involved in the guillotine process and submit comments on existing legislation and regulations that are considered to be burdensome to business activity or impose unnecessary costs. The guillotine process will be finalized in 2007 and a "Unique National Electronic Registry of Regulations" would be established subsequently to facilitate public access to information on formalities and forms, including certificates, permits, statements and other forms.

Measure(s):

- Apply the regulatory guillotine process to ca. 2,000 laws, bylaws and regulations covering such issues as registrations, licensing, permits, inspections, etc by 2007.
- Complete the Unique National Register of necessary and unnecessary regulations by 2007.

3.8.2 Regulatory Impact Assessment (RIA)

2. Regulatory Impact Assessment

A Regulatory Impact Assessment (RIA) is an obligatory analysis undertaken to determine the necessity to adopt a regulation in terms of its expected influence on entrepreneurial activity, as well as the compliance of the regulation with the regulating policy goals and principles. RIA is considered to be a measure for ensuring that the legislation which is about to be adopted is justified in terms of costs that it imposes and its policy objectives, thus ensuring that the proposed new legislation is both effective and efficient. The RIA also involves consultation with those affected by the legislation, whether they are inside or outside the public administration.

The GoM will introduce RIA through legislative means since there is a strong political will and support for conducting this process. Preparation of the RIA law will be the responsibility of the Ministry of Economy to ensure high legal standards and strengthen the free market and entrepreneurship, improve the business climate and provide additional incentives for the economic development in Macedonia.

Consultations are held with the business community and civil society on the content of the draft act prior to submission to Parliament for adoption, thus ensuring transparency and accountability. The BERIS World Bank project will provide extensive capacity building to support the implementation of the RIA across the government. In addition, training will be provided for the officials in the line ministries who will be responsible for preparing the required analyses for each new draft regulation prior to submission of the drafts to the Governmental procedure. This is expected to lead to greater effectiveness and efficiency of future legislation. The Sector for Economic Policies and Regulatory Reform will coordinate and oversee the implementation of the RIA. The Sector is adequately financed and equipped. At the moment, it has 6 employees, and this number is expected to increase to at least double.

Measure(s):

- Adoption of the RIA legislation and establishment of the RIA system by June 2007.
- Establishment of RIA Departments / appointment of 2-3 government officials within every Ministry responsible for RIA by the end 2007.
- A mandatory RIA for all future legislation, from 2008 onwards.
- Include the Commission for Protection of Competition in the review of all future legislation, to avoid any distortion in market competition by 2008.

3.8.3 Transparency through public-private consultations

3. Transparency

Effective public-private consultations are a key part of the policy making process. Public opinions can help influence policy developments to result in better public services. Improving regulatory transparency is a key element of sound regulatory policy since it can address many causes of regulatory failure, such as regulatory capture and bias towards concentrated benefits; inadequate information in the public sector; rigidity; market uncertainty; inability to understand policy risk; and lack of accountability. Improving regulatory transparency can also encourage the development of better policy options and reduce arbitrariness and corruption. This is the reason why the GoM has already involved business associations in the regulatory guillotine process and requires all future major legislation to include consultation with business associations. The Sector for Economic Policies and Regulatory Reform and the government officials in the line ministries responsible for implementing the RIA process will conduct regular consultations with the business community to discuss new draft regulatory acts.

Measure(s):

- Ensure that public-private consultations are a routine part of the decision-making process by 2007.Ensure that it is carefully structured to avoid bias and uneven access by more powerful interests, such as very large businesses by 2007.
- Implement regular dialogue with the business community through formalized cooperation, which will be precisely determined and transparent by 2007.

3.9 HUMAN CAPITAL

People are Macedonia's most important asset - they drive economic growth, innovation and investment. It is not surprising, therefore, that the quality and flexibility of the labour force is the driver of investment decisions by both domestic and foreign investors. The former Yugoslav countries have a tradition of excellence in education, particularly in science and mathematics, however, the task of simultaneously aligning labour policies with the needs of the market economy, addressing the costs of economic transition and reforming education policy have been severe. These challenges have major budgetary implications. In 2005, in Macedonia, the average public expenditure on education as a percentage of GDP was 3.8% compared with an average of 5.4% for OECD countries. At the same time, the unemployment rate is very high (36% in 2006). The GoM recognises the need to make the most of its human capital, focusing on two interrelated issues, namely: the quality of the labour supply and ensuring that it meets market demand (i.e. the education policy); whether the market has good access to labour supply, bearing in mind the interests of investors as well as employees (i.e. labour market policy).

3.9.1 Education Strategy

1. Creation of an education strategy

The basic point for developing a good quality of education and ensuring its relevance to the workforce starts with a good education strategy, in line with the country's national economic growth plan. The strategy should prioritise and co-ordinate government action, mobilise resources, provide their equal distribution, spend on non-salary inputs (like books and teacher training), and respond to the demands of the private sector and of civil society. In particular, it should address any issues related to skill gaps between the labour force supply and market demand. Macedonia adopted a comprehensive Strategy for 2001-2010, the key recommendations of which are: greater private investment in education, better linkages with the labour market, and more options in curricula and syllabi with involvement from business entities, local communities, parents, students, teachers, and in-service teacher training. A further National Programme for the Development of Education in Macedonia for 2005-2015 has also been adopted, however, implementation has so far been partial.

Measure(s):

- Implement the National Programme for the Development of Education (2005-2015) fully.
- Increase the educational budget to the EU/OECD average of 5% of GDP by 2010.
- Increase private sector investment in education (e.g. primary education) by 2010.

3.9.2 Quality of Education

2. Quality of Education

Access to basic quality education is a human right and a condition for development and growth. According to the OECD's Programme for International Student Assessment (PISA) scores in 2003, results in science, mathematics and reading on 15 year olds in all SEE countries are significantly below the OECD average, particularly in Macedonia and Albania. Moreover, UNDP data on Literacy and Enrolment (2005) in Macedonia indicates a high adult literacy rate (96.1%), but low levels of enrolment in primary, secondary and tertiary schools (70%) compared with the OECD average (89%). The enrolment of students in primary education for the year 2006/2007 is 98%, while enrolment in secondary education is 68.27% out of total number of children, i.e. 82% of pupils who finish primary education enrol in secondary education. Additional measures are necessary for solving the problems of abandoning primary or secondary education. The Bureau of Education works together with the Ministry of Education and Science to raise educational standards in the country and is tasked with modernising the curriculum, developing assessment standards, etc. It is currently understaffed and requires capacity development to perform its statutory responsibilities effectively.

Measure(s):
- Ensure that attending primary and secondary school is mandatory, and introduce appropriate measures for parents whose children fail to attend school, by changing the Law on Education by 2007.
- Introduce incentives to encourage participation and promotion of the value of education by 2008
- Raise the compulsory education from the current 8 to 9 years by 2010.
- Implement the Every Child Goes to School Programme by 2008.
- Increase staff levels and capacity of the Bureau of Education to perform its role by 2009.
- Raise standards through the introduction of national standardised tests by 2008.
- Introduce mechanisms for quality assurance, such as are already part of the Programme for development of education in Macedonia.
- Transfer the Accreditation Unit from the Ministry of Education and Science to the Bureau of Education by 2008.
- Modernise the primary and secondary school curriculum and introduce programs of teacher training by 2010.

3.9.3 Higher Education

3. Higher Education
Significant changes are required at the higher education level, starting with a major new law on Higher Education, which is expected to be approved by Parliament in 2007. This new law will set the framework for ensuring that Macedonia develops an accreditation system which is compatible with that of the Bologna Process. Furthermore, the standards of the equipment, laboratories and staff (e.g. IT skills) will to be greatly improved. Furthermore, the Law for establishing State University “Goce Delcev” in Stip, and the Law for establishing a Faculty for administration and management in IT within the University “St. Kliment Ohridski” in Bitola, were enacted.

Measure(s):
- Adopt a new Law on Higher Education by 2007.
- Ensure full compatibility with the Bologna Process by 2010.
- Operation and strengthening of the newly established university in Stip and the new Faculty for administration and management in IT in Bitola by 2010.

3.9.4 Vocational Education Training

4. Vocational Education and Training
Vocational Education and Training (VET) is targeted at specific professions and VET programmes are defined according to market need and help increase practical training while reducing skill gaps. Although Macedonia has established a VET policy, implementation is slow. Various EU programmes have been implemented in order to improve VET and a new Law on VAT was passed in 2006. Educational plans and programs for vocational education are realised in 3 or 4-year period, and expertise capability and specialised education are realised in 2 year period. The reformed 4-year programs are realised in 14 vocations and 42 profiles. The 3 year education is not reformed at large, except in 3 vocations and 4 education profiles. There is a necessity for improving the 2 and 3-year educational programs, as well as the opportunity for horizontal and vertical deployment of students. The strengthening of social dialog will contribute to the improvement of practice in vocational education. There are 72 schools offering VET programmes for 60,000 students and two-thirds of these schools are undergoing a reform of their curricula and training programmes. However, the practical

component of the VET curricula needs to be strengthened and VET schools' graduates face difficulty finding work placement.

Measure(s):
- Establish the Council for vocational education and training.
- Implement the new VET law by 2008.
- Improve the content of the VET curricula by 2008.
- Develop better links between VET institutions and employers by 2009.

3.9.5 Adult Learning

5. Adult learning
Adult learning refers to educational programmes directed to adults ensuring education, specialization, training and learning of adults, and it covers formal and informal learning. The integral part of the National Programme for the Development of Education in Macedonia for 2005-2015 is also the Programme for Adult Education, in the context of lifelong learning. The Programme recommends a Council for Adult Education, educational development of a system for the recognition of preceding education and the creation of a campaign for life long learning. Only one adult education unit is currently operating as part of the Faculty of philosophy focusing on general education rather than having a specialisation.

Measure(s):
- Finalise and adopt the Law for Adult Education by 2007.
- Establish a Council for Adult Education by 2008.
- Implement the recommendations of the Programme for Adult Education by 2008.
- Implement the Education All Around the World Programme of continuous learning by 2009.

3.9.6 Labour Market

6. National Employment Strategy
The Macedonian labour market is currently characterised by extremely low employment and extremely high unemployment: unemployment is almost four times higher than the EU average, hence the reason why it has become the country's number one economic priority. As a consequence, the GoM has prepared and adopted the National Employment Strategy 2006-2010 as well as the associated National Action Plan for Employment 2006-2008. The key strategy is in line with the revised EU Lisbon Strategy and sets a number of targets for the year 2010: such as to increase the general employment rate from 37,9% (2005) to 48% (2010), increase women's employment from 30,1% to 38% and increase the employment rate for elderly workers (55 to 64) from 26,2% to 33%. The strategy recognises that to achieve the targets, it will be necessary to achieve higher levels of economic growth (6-8% p.a.), competitiveness, etc. including an increase in domestic and foreign investment. Such investment is expected to generate employment opportunities in the industry, agriculture and food processing, construction and tourism sectors. There is also an urgent need to ensure that the educational qualifications and skills being produced match the labour market needs.

Measure(s):
- Implement the National Employment Strategy 2006-2010 as well as the associated National Action Plan for Employment 2006-2008.
- Harmonize the pension and disability insurance system with EU legislation by 2010.
- Achieve the targets set out in the strategy by 2010.
- Conduct a feasibility study on reduction of social contribution costs according to the National Employment Strategy by 2010.
- Establish a Consultation Body coordinated by the Ministry of Education and Science in order to synchronize labour market needs and educational qualifications and skills; and

improve communication/cooperation between MoE, MoES, MoLSP and Employment Agency regarding labour market needs by 2007.

3.9.7 Civil Servant Training

7. Civil Servant Training
Training for civil servants is essential to maintaining integrity and ensuring that the GoM delivers on its promises with the highest possible level of professionalism. Without competent civil servants it is impossible to keep abreast of the EU integration process. It is widely acknowledged that the competence of civil servants in the SEE region needs to be upgraded, such as skills in project management, communication, public outreach, international/European law, etc. Most countries also emphasise training of judges, in particular those in courts dealing with contracts and business law, and applying newly adopted regulations and anti-corruption issues. The Civil Servants' Agency has adopted a strategy, however, implementation is slow because of limited staff dealing with vocational education (8) and resources (overall budget of DEN 29 million). For example, during 2004-2006, 13 training programmes were carried out by the Agency. The Strategy is implemented through biannual Operational Training Plans focusing on generic training (e.g. language, leadership, staff appraisal, team building etc.) targeting ca. 240 institutions. Changes are being proposed which call for a revision of the strategy, as well as consideration of whether it is sustainable to maintain a two-tier system involving civil servants and public administrators.

Measure(s):

- Review the Civil Servants' Agency training and capacity building strategy, as well as staff complement and organisation by 2008.
- Provide additional state funding to raise competence in relation to general professionalism and effective staff appraisal by 2008.
- Feasibility study on the merger of civil servants and public officials into one category as in the case of EU countries by 2009.

3.9.8 Transparency

8. Public/private consultations
Improving regulatory transparency is a key element of sound education, training and labour market policy since it can address many causes of policy failures. Improving tripartite dialogue can encourage the development of better policy options and reduce arbitrariness.

Measure(s):

- To ensure that the consultation process will be realised on the basis of the establishment of an independent formal consultation body and becomes a routine part of the decision-making process, carefully structured to avoid bias and uneven access by 2008.
- To ensure that consultation process is built on the activities of existing initiatives and organisations such as the tripartite social dialogue, the economic and social council, as well as education/training/labour market specific forums for discussion and feedback by 2008.

3.10 CORPORATE GOVERNANCE

Corporate Governance (CG) is the basis by which companies are directed and controlled. CG involves the set of relationships between a firm's management, its board, its shareholders and other stakeholders. CG provides the means for setting the firm's objectives and the way of attaining those objectives, and monitoring performance. Good CG provides incentives to pursue objectives that are in the interest of the firm and shareholders, and encourages them to use resources effectively.

CG is regarded by the GoM as essential for establishing an attractive investment climate characterised by competitive companies and efficient financial markets, hence the reason for incorporating it into the Programme for Stimulating Investment. Efficient financial markets are essential for growth, and there is a relationship between CG arrangements and growth. Some fundamental aspects of good CG also play a key role in improving performance by facilitating corporate access to capital markets, improving investor confidence and contributing to corporate competitiveness (OECD, 2003), as illustrated in the Box below.

Box 5: OECD White Book of CG Good Practice (2003)

1. Shareholder rights and treatment
- Independent and secure registration of shares
- Free transferability of shares in JSCs
- Participation of shareholders in general shareholders' meeting
- Effective and secure voting procedures
- Investor relations department
- Payment of dividends
- Procedures for major transactions
- Fair and transparent evaluations for share issues
- Forbid insider trading

2. Role of stakeholders
- Clarification of shareholders' rights
- Effective communication with employees and other stakeholders
- Mechanisms of redress for employees (3rd party mediation and arbitration)
- Bankruptcy procedures and secured claims

3. Transparency and disclosure
- International Financial Reporting Standards (IFRS)
- Disclosure of significant events
- Disclosure of information on a firm's business, activities and situation
- Clarification of different organs' responsibilities
- Monitoring of companies' compliance with disclosure requirements
- Regulation of accounting and auditing function
- Independence of auditors
- Training of auditors, accountants and regulators
- Transparency of information dissemination

4. Responsibilities of the board
- Responsibilities of the board
- Clarification in company by-laws of the board's function and responsibilities
- Clarification of collective and personal liabilities of board members
- Independent board members
- Power to access information
- Remuneration of board members
- Guidelines for board members and their duties
- Training for board members

5. Implementation and enforcement
- Judicial system and commercial disputes
- Security regulators much be independent, have resources and be accountable
- Redress mechanisms for shareholders

Research shows that a large majority of investors are ready to pay premiums for companies displaying high corporate governance standards. An IFC survey of Macedonia (2006) showed that most Joint Stock Companies (77%) are acquainted with the OECD's principles for corporate governance. The Republic of Macedonia benefits from a sound legal and regulatory framework. The OECD good practice principles are incorporated in the Trade Companies Law, though experience shows that they are not respected in practice. The shortcomings in the implementation and application of those principles include the low capacity of the relevant institutions; shareholders' lack of knowledge of their rights; the mix between labour rights and shareholders rights, etc. Efforts in the field of corporate governance will emphasise education and training for managers and shareholders in the first instance, followed by judges, media and potential shareholders.

3.10.1 Regulatory Authority and Judiciary

1. Enforcement of laws and regulations

Following recent reforms, the laws are now in line with international standards regarding key CG issues. However, there is a gap between the letter of the law and actual practice. The most significant improvements will come from effective implementation and enforcement of existing laws, including strengthening the judicial system in the area of CG.

Measure(s):
- Strengthen the capacity and authority of the regulatory institutions (Macedonian Securities Commission), by ensuring that it has resources, capacity, and authority to perform its functions (monitor, investigate and sanction wrongdoing), by 2008.
- Strengthen the judicial system through training of judges in commercial areas including delivery of targeted corporate governance trainings for the judiciary.
- Disclose all cases and court decisions in the area of CG to raise awareness in the business sector and reinforce public commitment to the rule of law by 2008.
- Develop alternative redress mechanisms (arbitration, mediation, etc.).

3.10.2 Public – Private Dialogue and Partnership

2. Strengthen Dialogue, Partnership and Good Practice

There is currently a lack of regular and effective communication among the public, private and NGO sector in the area of CG. Such dialogue adds to transparency and legitimacy when undertaken through different forums.

Measure(s):
- Strengthen the CG Council by ensuring that it is representative, develops quality services for members, including a lobbying function, and ensure future sustainability by 2008.
- Strengthen the Associations for protection of shareholders` rights to promote and protect the rights of minority shareholders as guaranteed by the Company Law and other national legislation by 2008.
- Develop tools and measures enhancing a good CG culture such as the new CG Code in force since January 2007.
- Develop training programmes for key players in the CG field by 2008.

3.10.3 Transparency, disclosure and shareholder rights

Transparency or "management in sunshine" should be the main objective in creating an appropriate CG environment.

Measure(s)
- Implement the provisions dealing with transparent working of firms (development of CG manuals, codes and standards to provide guidelines on best practices to companies,)

- Standardise reporting and compliance assessment using IAS/IFRS as the base.
- Build the capacity and develop the audit profession.
- Build the capacity and develop the appraisers' profession.
- Distinguish clearly between "public" and "private" companies and ensure that the different disclosure requirements apply.
- Improve access to information by shareholders (e.g. company compliance with legal requirements; provision of annual reports, financial reports as well as non-financial reports to shareholders; easy access to the shareholders` book, rather than at the Central Depositary of Securities).
- Improve protection of shareholders' rights (better information about managers' interests in particular business deals, announce managers' share purchase transactions, information provision to investors, etc.)
- Implement an awareness raising campaign (education, PR campaign etc.) on the exercise and protection of shareholders` rights.
- Implementation of the adopted Code of Corporate Management highlighting corporate management norms and regulations.
- Revise Law on Securities, by applying standards relating to the EU Directive on Transparency, and revoke all action transferability restrictions.
- Revise Company Law, in direction of harmonization with EU directives

3.10.4 Corporate Social Responsibility

4. Improve Corporate Social Responsibility (CSR)
Corporate Social Responsibility (CSR) urges private companies to re-define their boundaries of responsibility vis-à-vis society and come-up with a new "social contract." CSR has become a significant issue in the EU (Green Paper, 2001) as it contributes to the competitiveness goals of the revised Lisbon agenda, as well as to the European Social Agenda and better governance. However, comprehension and awareness of CSR in Macedonia is still at the early stage. Recent research on CSR (UNDP, 2006) reveals that only about 30% of the business respondents know what CSR means and that the majority of businesses perceive it as an external issue, rather than something to be incorporated in the strategic decisions and mission of their company. Nevertheless, the survey does show recognition among businesses that CSR engagement is not just about altruism.

Measure(s)
- Develop a CSR Committee / Working Group within the Economic and Social Council to promote CSR in Macedonia by 2008.
- Provide a comprehensive analysis of CSR activities in the country, identifying the key drivers motivating companies to become involved in CSR activities, as well as baseline indicators for CSR monitoring by 2008.
- Implement regular awareness raising campaigns about CSR among companies and stakeholders in Macedonia by 2008.
- Establish CSR Training Centres by 2009.
- Raise capacity of national/local stakeholders to enable them to contribute efficiently to CSR promotion and implementation by 2007.
- Establishment of a National CSR Agenda in the country as a result of multi-stakeholder dialogue by 2008.

3.11 SME POLICY

The Ministry of Economy's SME Department has recently created a new SME Strategy and Programme for development of entrepreneurship, competitiveness and innovation of SMEs 2007-2010. A reorientation was required to ensure Macedonian:

- Compatibility with the requirements of the *acquis communautaire* (*acquis*), especially those relating to SMEs.
- Progress in implementing the revised European Charter for Small Enterprises, which is effectively a "soft" *acquis* requirement.
- Compatibility with the Competitiveness and Innovation Programme 2007–2013, with its new focus on issues such as entrepreneurship, innovation, and Information and Communications Technology (ICT).

The requirements arising from the renewed Lisbon agenda requires the SME Programme to focus on the following main components:

1. Institutional architecture.
2. Business environment.
3. Finance and taxation.
4. Innovation and competitiveness.

The four sets of issues above are crucial in raising the competitiveness of SMEs in the country. At the same time, the increased level of profitability is expected to lead to growth and employment generation, thus impacting on the Government's key socio-economic objective of reducing the current high levels of unemployment.

The SME Programme (2007-2010) has been approved by the GoM. It is not reproduced here but is readily available from the MoE and can be accessed on the relevant website (www.economy.gov.mk).

4.0 IMPLEMENTATION

4.1 Background

The Programme for Stimulating Investment 2007–2010 amounts to an extremely challenging agenda for the FDI institutions of the Republic of Macedonia to implement. Despite its considerable importance, this of itself does not guarantee that the Programme will be implemented effectively. Previous experience with priorities such as the FDI and SME programmes has been mixed, both in the Republic of Macedonia and elsewhere in the SEE region. Although significant effort is typically expended on the creation of such programmes, their impact has been limited by numerous factors such as:

- Lack of adequate background *research*.
- Lack of adequate *time* to implement the programme.
- Lack of political *commitment* to underpin implementation.
- Lack of adequate *resources* from the state budget.
- Lack of *consultation* with stakeholders.
- Lack of capacity to *coordinate* implementation with stakeholders.
- Lack of capacity to *monitor* progress.
- Lack of *evaluation* to assess impact.

The GoM is committed to ensuring that these shortcomings are avoided in the Programme 2007-2010. The stakes are high and the clock is ticking in terms of preparation for EU accession. The increasing level of European and global competition for mobile FDI means that Macedonia must improve the investment climate. Therefore, the preparation of the new Programme has been based on international best practices, learning from past experience, background research, detailed consultation with stakeholders, as well as a focus on implementation (commitment, resources, coordination, monitoring and evaluation).

4.2 Research

In preparing the Programme, the MoE's FDI Unit commissioned research on key aspects of the Programme through the European Agency for Reconstruction (EAR) funded Investment Promotion Project, while other important sources of information were also taken into account, not least the OECD's Investment Reform Index 2006. The latter has been used as the basis for the programme, since the GoM is committed to implementing its recommendations and will be benchmarked by the OECD in 2008. Key stakeholders were also interviewed as part of the research exercise. This served as the basis for determining the measures to be incorporated. The initial measures were combined with the priorities of the Government's work programme, as well as the imperatives of harmonizing with the *acquis communautaire*, especially as far as these are related to investment. Consequently, this Programme is based on the documented needs of the domestic and foreign investors as well as international best practices.

4.3 Consultation

The Programme is not just a "paper" exercise. The background research led to a series of draft measures. These draft measures (recommendations) have been disseminated for consultation. Moreover, it has been discussed with the FDI stakeholders via one-to-one meetings with governmental organisations, as well as other stakeholders. The feedback obtained was incorporated into the Programme. Eight workshops were held to obtain feedback from stakeholders, including business associations. Finally, the draft Programme was circulated to all relevant Ministries and Agencies since they all have a role and responsibility for implementing the Programme.

4.4 Timetable

The timing and timetable are critical to the success of such programmes. The new Programme comes at the beginning of the Government's political mandate. The priorities contained in the Government's Work Programme are reflected in the Programme. Consequently, the success or otherwise of the Programme will be attributable to the new Government's activities during its term of office. The overall timetable (2007-2010) coincides with the Government's mandate so the Programme will be clearly attributed to the success or failure of the GoM. It cannot be seen simply as a “box ticking” exercise by the public administration.

4.5 Commitment

All too often, partly because of the issue of timing and timetable, Programmes become “toothless,” in that the Government does not feel that it is a programme, which corresponds to its priorities and its election manifesto. This is not the case since the measures of the Programme are determined by the needs of the domestic and foreign investors, the objectives of the Government (Pillars 1-3 of the Work Programme 2006 – 2010), as well as the requirements for accession to the EU, which the Government is committed to facilitating. The GoM will ensure that the Programme is fully implemented.

4.6 Resources

The test of the Government's commitment to the implementation of the Programme is the amount of state funding available to implement its measures. A significant gap between the resource requirements for implementing a Programme and the state budget available for the purpose would imply that the Programme is little more than a “wish list” of activities that would be useful to implement but, in fact, cannot be put into operation due to a lack of resources. The 2006 state budget allocated to support the FDI sector amounted to € 100,000. This was insufficient to implement the preceding programme, led alone to meet the implementation requirements of the new Programme that reflects the needs of accession to the EU and the need to strengthen investment flows, thus impacting on the ability of Macedonia to fend off competition for mobile investment. To meet its commitment, the GoM has already significantly increased the budget for Invest Macedonia to € 500,000 and has made available a further € 3 million for investment promotion. Strenuous efforts will also be made to coordinate with donors/EU to ensure that significant additional project funding is obtained to implement the Programme.

Moreover, part of the inability to implement programmes is typically because of the lack of sufficient staff to oversee and coordinate implementation. Invest Macedonia will receive additional staff, resulting in an increase from 6 to 20 in 2007. The new staff members will be recruited on the basis of appropriate skill and experience. The FDI Unit also has responsibilities relating to the Programme. Senior management will monitor progress and assess performance on a regular basis.

4.7 Coordination

A key weakness of other programmes is the failure to recognise and act upon the fact that investment is not the sole responsibility of any one institution – stimulation of domestic and foreign investment is not a “stand-alone” exercise. No ministry can hope, on its own, to secure implementation of all the issues included in the Programme. The Programme coordinator, the Ministry of Economy, will work closely with Invest Macedonia, the FDI Ministers and other stakeholders, such as FIC and the Chambers of Commerce. Moreover, it is important to establish a mechanism to ensure that the other Ministries and Agencies that have agreed to implement the measures contained in the Programme deliver on their commitments. This will be secured through:

- Monthly investment policy coordination meetings with relevant public bodies.
- Quarterly investment policy consultations with relevant stakeholders.

The coordination will be supported at the highest level, by the Deputy Prime Minister for Economic Affairs.

4.8 Monitoring

Another typical weakness that will be avoided is the "faith" approach, namely the assumption that once a Programme is developed, the various responsible parties will implement the agreed measures of their own accord. Contrary to this, the effective implementation of the Programme calls for a dedicated capacity to coordinate the meetings for Programme implementation. This means that:

- A senior person will be allocated full-time responsibility to ensure that the implementation of the Programme progresses.
- Staff will be allocated responsibility specifically related to various aspects of the Programme.
- A monitoring mechanism will be established, including indicators of progress. Moreover, the stakeholders will be involved in monitoring progress via Quarterly meetings.
- Monthly progress reports will be submitted to the Government, including identification of delays and blockages for action by Ministers. Where necessary, the Minister/Deputy Prime Minister for Economic Affairs/Prime Minister will intervene to ensure that other stakeholders (e.g. other Ministries) implement their commitments on time.

4.9 Evaluation

Finally, the lack of evaluation of programmes leads to a "blind" approach to policy making. Without a mid-term evaluation, it is often hard to assess progress and implement corrective measures to ensure that the Programme is delivered effectively. Moreover, if the evaluation is undertaken by the organisation that is charged with ensuring implementation, there is a possibility that the issues will not be assessed fully. Therefore, two evaluations will be carried out by independent consultants:

- Mid-term evaluation (2008) to assess progress in implementation of the Programme and to propose recommendations/changes.
- Final evaluation (2009) to assess overall progress with implementation and impact of the Programme. The recommendations of the final evaluation will be used to prepare the new Programme for the Period 2010 –2013.

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Annex 1: PROGRAMME MATRIX

A1: Investment Policy

A1.1 Non-discrimination

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	Exceptions to national treatment e.g. preferential treatment to foreign owned, complex procedures, etc.	Ensure equal treatment to foreign and domestic investors Accelerate FDI transactions	• Eliminate all remaining violations to national treatment. • Streamline the registration, licensing, approval and special registration procedures for investment, consistent with international best practices.	MoF MoF, DPMEA, Relevant ministries	2010 2008
2	Most–favoured-nation treatment needs to be extended	Improve international cooperation	• Ratification of BITs by Egypt, Islamic Republic of Iran, Kuwait and the Republic of Belarus. • Revise format for BITs for approximation with SAA/accession. • Sign and ratify the agreed BITs with Greece, UK and Northern Ireland, Uzbekistan, Denmark and Lithuania. • Complete the SEE intra-regional network of BITs by signing the agreement with Serbia, Montenegro and Moldova. • Extend the network of BITs with key trading partners such as Moldova, Serbia (automatic validity), Montenegro, USA, Japan, Canada, Australia, New Zealand, Mexico, Ireland, Norway, Portugal, the Slovak Republic, Luxemburg, Iceland, Malta, Cyprus, Latvia and Estonia.	MoF MoF MoF MoF MoF	2007 2007 2008 2007 2010
3	Investor-state dispute settlement mechanisms need to be improved	Develop higher level of confidence in institutions and investment/trade relations	• Review impact of new legislation on enforcement of International Trade Arbitration.	MoE, Courts	2008

A 1.2 Property protection

4	Outdated land registers and titles Completion of restitution of nationalized property	Raise the quality of business environment and influence attractiveness of Macedonia to foreign investors	• Modernize the land register/ cadastre. • Amend the Law for the cadastre and Registration Rights to streamline the land register/cadastre process. • Establish an inter-ministerial Committee for Land policy to expedite the registration process. • Prepare a register of available land and building for investors and transfer to MoE/Invest Macedonia. • Prepare the basis for establishing a self-funding Authority for Geodesic Works. • Accelerate land ownership registration to a maximum of 10 days and the use of IT / Internet. • Complete the process of restitution of nationalized property from the state to its original owners. • Complete digitization and preparation of the electronic cadastre. • Complete the cartographic and topographic base of the country.	Cadastre, DPMEA Cadastre, MoJ, MoF, MoTC, MoJ Cadastre, MoTC Cadastre Cadastre, MoF, MoJ, Cadastre, MoJ, Cadastre Cadastre	2008 2007 2007 2008 2009 2009 2010 2010 2010
5	Protection and promotion of intellectual property rights (IP) Enforcement capacity by adequately trained judges and appropriate courts Lack of firms with representation offices in Macedonia	Capacity building of Intellectual property institutions Improve IP legislation Implement improved legislation Encourage investment in research and development, innovation and technology transfer.	• Strengthen the capacity of the State Bureau for Protection of Industrial and Intellectual Property / Department for Protection of Copyright. • Establish a coordination body for Intellectual property (combine copyright and industrial protection). • Establish electronic database for registered rights. • Strengthen the capacity of the Customs Administration (Unit for non-tariff measures), and provide the necessary equipment. • Strengthen the realization / application (IPC/copy right) through a special program for training of judges. • Introduce specially trained judges for IPR/Copyright involved within the scope of relevant units of competent courts. • Strengthen enforcement through sanctions and fines to punish piracy and counterfeiting, stronger border controls, etc. • Increase number of copyright inspectors and transfer relevant competencies to the State Market Inspectorate (according to the future amendments of the legislation). • Undertake regular awareness raising campaigns on IPR issues.	SBPIP, MoC SMI, SBPIP, MoC, rel.minis. SBPIP, MoC, Customs MoJ, SBPIP, MoC,Academy MoJ, SBPIP, MoC, Academy SMI MoC, SBPIP SMI MoC, SBPIP	2008 2007 2008 2008 2008 2009 2009 2007-2008 2008

			• Harmonize copyright legislation with EU Directives. • Implement a database of violation of industrial property and copyrights and network connections between relevant bodies.	SMI MoC, SBPIP, MoC	 2009 2008
6	Free transfer of funds related to investment	Develop an open investment regime, amend CIT	• Revise Article 38 of the Corporate Income Tax relating to the withholding tax.	MoF	2008
7	Compensation for expropriation	Fair compensation in cases of public interest	• Secure criteria for proper compensation for expropriation of property in cases of public interest.	MoF	2008

A2: Investment Promotion and Facilitation

A2.1 Investment Promotion / Facilitation Strategy

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	Inadequate Investment promotion / facilitation strategy	To obtain a clear strategic vision and improve the image of Macedonia for foreign investors	• Prepare Programme for Stimulating Investment (2007–2010) and obtain approval from the Government. • Prepare the Macedonian Marketing Strategy and obtain approval from the Government. • Monitor and evaluate both documents on a regular basis. • Prepare a new, combined document. • Identify comparative advantages of Macedonia. • Conduct a Study for measuring the competitiveness indicators in industry sectors. • Conduct Industrial policy strategy as exclusive document containing measures, activities and coordination of policies for industry development. • Identify sectors and geographical focus. • Enhance educational/business linkages. • Improve skills required to compete in priority sectors.	MoE, DPMEA IM, DPMEA IM,MoE,DPMEA IM,MoE,DPMEA IM,MoE,DPMEA MoE MoE IM, DPMEA IM,MoE,DPMEA IM,MoE,DPMEA DTIDZ	2007 2007 2007-10 2007 2007 2007 2008 2007 2008 2008

A2.2 Investment Promotion Agency (IPA)

2	Investment Promotion Agency not yet fully operational	To implement investment promotion strategy To improve capacity To improve investment facilitation	• Increase Invest Macedonia's staff capability to 30. • Increase budget to Euro 500,000 by 2007 and Euro 1 million. • Strengthen the quality of IM staff. • Strengthen the procedures and services of IM. • Revise the Law for Establishing the Agency for Foreign Investment in line with international best practices. • Evaluate image building activities and develop targeted efforts focused on the priority sectors (as part of the Marketing Strategy) including sector-specific product offerings by 2007. • Work with the 8 regional units established by the Law on Equal Economic Development. • Develop a network of international offices (including training of embassy commercial staff) with contact information of all	IM IM, MoE, MoF IM IM IM,MoE,DPMEA IM, DPMEA IM,MoLSG,MoE IM	2008-10 2008-10 2010 2007-10 2007 2007 2007 2008

			business people of Macedonian origin. • Coordinate the integration of activities of the DTIDZ and Agency of Development and Investment into Invest Macedonia.	IM, ADI, DTIDZ DPMEA	2007-10
3	Underdeveloped incentive-based programmes	To facilitate linkages between foreign investment and local businesses To determine relevance and economic benefits of incentives against budgetary costs	• Review and revise the nature of non-fiscal incentives, focusing on principles such as clarity, simplicity and speed according to transparent, predetermined criteria by Invest Macedonia. • Ensure all non-fiscal incentives comply with the acquis, e.g. state aid rules national treatment agreements. • Avoid subsidies in all future negotiations, i.e. grant them according to the Law on state aid. • Ensure that grants awarded include total and % limits. • Introduce claw back clauses and grant agreements. • Introduce grants for leasing or buying land and/or buildings. • Introduce the possibility of leasing on a 99 year basis. • Assign powers to negotiate grants to a single Agency (IM). • Streamline application, negotiation, legal-agreement and payment procedures. • Subject projects to cost-benefit/environmental impact analysis.	MoF, IM, MoE, DTIDZ,DPMEA	2008-2010
4	Undeveloped programmes to support linkages between FDI and local businesses, and poor implementation	To transfer technology and know-how, develop and increase competitiveness of SMEs	• Harmonize Laws regarding technology. • Harmonize Laws regarding Export Support and TIDZs. • Develop strategy and action plan for technology transfer. • Develop a strategy for TIDZ - Skopje and other priority locations in association with the Directorate of TIDZs. • Develop a quick-start register of available land & buildings. • Develop strategy for lease pricing of pre-built factories on industrial parks. • Develop PPP approach to developing TIDZs, industrial parks, technology parks and pre-built factories. • Implement "one stop shop" in existing TIDZ. • Integrate domestic IT parks into EU technology network. • Develop strategy to allow Macedonian companies to become suppliers of foreign owned companies.	MoES,Universities DTIDZ, IM MoES, MoE, DPMEA, Universities MoE, DTIDZ, DPMEA Cadastre DTIDZ, MoF, MoES,IM,DPMEA, DTIDZ, MoE IM, MoES, Universities DTIDZ MoES, DTIDZ APPRM, MoE, DPMEA	2008 2008 2008 2008 2008 2009 2008 2010 2010 2010
5	Lack of support to enterprises in	To promote cooperation	• Provision of Technical Assistance from UNDP/UNIDO to organize the Investor's Forum.	MoE,IM,DPMEA	2007

	identifying foreign business partners and negotiating investments	between companies in Macedonia and foreign partners To encourage inflow of FDI	• Upgrade capabilities in project preparation and evaluation. • Establish an assistance network for entrepreneurs through co-operation with municipalities, business and sectoral associations. • Prepare an investment project portfolio and review of sectoral opportunities, according to international standards. • Active promotion of the investment project in targeted countries. • Implement an Investor's Forum on an annual basis.	MoE, IM MoE MoE, IM MoE, IM, FDI Ministers MoE, IM	2007 2007 2007-2008 2008 2008-10
6	Lack of greenfield Investment	To encourage technology transfer and exchange of know-how	• Prepare and implement transparent tendering procedures. • Assess response to the tendering exercise, to ensure that these efforts are consistent and coordinated with those of the IPA and Ministers Without Portfolio. • Coordinate activities of the 20-50 consultancy firms. • Implement 20 successful greenfield investments	IM, DPMEA, FDI Ministers,	2007 2007 2008-10 2007-10
7	Insufficient transparency of investment policy and investment promotion	To implement policy measures To ensure transparency in the investment environment	• Implement regular dialogue with stakeholders e.g. FIC, ICI, NECC, SME forum, etc. on a quarterly basis. • Implement M&E of the investment environment based on the Programme for Stimulating Investment. • Post all relevant information on investment policy laws, regulations, investment opportunities, etc. on the website, up-date regularly and available also in English.	MoE, IM, DPMEA MoE, IM, DPMEA MoE, IM	2008-10
8	Insufficient coordination between governmental FDI institutions	To coordinate FDI policy and promotion on a regular basis	• Establish Investment Policy Coordination Forum with all relevant public sector bodies in policy making and implementation. • Include powerful Chairperson and decision makers. • Eliminate all consultative bodies from FDI Coordination Body (FIC, ICI, Chambers of Commerce, ADI, etc.) and involve them in a separate Investment Consultation Forum, with meetings every 3 months.	MoE, IM, ADI, DTIDZ, FDI Min DPMEA MoE	2007 2007 2007

A3: Tax Policy

A.3.1 Tax Policy and Legislation

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	Complex Corporate Income Tax (CIT)	To simplify the CIT system To stimulate	• Reduce CIT rate to 10%. • Review impact of the withholding tax and consider replacing with a more targeted tax instrument.	MoF MoF	2008 2010

	procedures	investment			
2	Non compliant TIDZ incentives	To harmonize incentives with EU	• Negotiate transitional elimination of TIDZ incentives with EU.	MoE, DTIDZ, MoF, DPMEA	2010
3	Lack of comprehensive Double Taxation Agreement (DTA) treaty network	To extend DTA treaty network To avoid double taxation To attract FDI	• Ratify the DTA with Germany. • Sign the DTAs with Austria, Belgium and Bosnia and Herzegovina. • Extend the network of DTAs with major potential investor countries, such as USA, Canada. • Extend the network of DTAs with EU countries, such as: Greece, Portugal, Luxembourg, Cyprus, Malta, Ireland, Estonia and Lithuania.	MoF MoF MoF MoF	2007 2008 2009 2010
4	Lack of clear transfer pricing regulations	To improve legislation Attract FDI in export processing operations	• Implement transfer pricing legislation (arm's length principle). • Implement regulations (OECD Transfer Pricing Guidelines). • Specify clear documentation required to justify pricing valuations. • Create transfer pricing agents within the tax administration.	MoF, PRO	2010 2008 2010 2010
5	Lack of simple depreciation regime	To review the depreciation regime system	• Review the current depreciation regime. • Evaluation of advantages from creating a new depreciation regime, according to the best international practices.	MoF MoF	2009 2010
6	Inflexible and uncompetitive loss-carry-forward provisions	To revise the loss carry forward according to international norms	• Undertake a feasibility study / cost benefit analysis of allowing firms to carry losses forward to 5, 6 and 7 years. • Revise the period of loss carry forward according to the recommendations of the report.	MoF MoF	2009 2010

A3.2 Tax Administration

7	Weak capacity of Public Revenue Office (PRO)	To enhance the PRO	• Increase PRO budget, consistent with its role. • Increase the number of tax inspectors (+90) by 2009. • Develop programme of capacity building (e.g. inspectors, audit, SMEs and large taxpayer's office).	PRO, MoF	2008 2008-10 2008-10
8	Excessive interference and discretionary behaviour of tax inspectors	To establish audit strategy To stipulate the principle of one audit control per year	• Develop a transparent audit strategy based on risk analysis rather than random selection. • Limit audit actions per taxpayer one per year except under exceptional circumstances.	PRO PRO, MoF	2007 2008

9	Poor appeal procedures	To improve appeals procedure	• Review the appeals procedures to ensure that it is quick, simple and transparent.	MoF,PRO,MoJ	2009
10	Delayed VAT reimbursement	To increase the efficiency of VAT reimbursement	• Review causes of delays or failure to refund focusing on small businesses (turnover of less than DEN 1.3 million) and make recommendations for reform.	PRO, MoF	2008

A3.3 Compliance Costs

11	Complex procedures for filing taxes	To reduce the complexity of filling taxes To introduce on-line payment of taxes	• Minimize tax requirements and the number of tax payments. • Introduce on-line submission of social contributions, CIT, VAT, etc. declarations by medium sized enterprises by 2008. • Introduce on-line submission of social contributions, CIT, VAT, etc. declarations by small enterprises by 2009.	MoF MoTC,MoLSG MoTC,MoLSG	2008 2008 2009
12	Instability in the taxation framework Frequent changes in tax legislation	To ensure stable taxation framework To improve compliance	• Introduce awareness raising measures to publicize tax changes. • Introduce training programmes for both the tax administration (central and local offices) as well as taxpayers (firms).	MoF, PRO MoF, PRO	2008 2009

A3.4 Transparency

13	Insufficient public/private consultations	Improve consultation and dialogue process	• Introduce a mechanism for regular and structured consultation with the domestic and foreign business community.	MoF, PRO, business associations	2008
14	Monitoring and evaluation is neither systematic nor transparent	Introduce new tax standard practices Continually monitor and evaluate tax regime and its effect	• Introduce tax expenditure accounting as a standard practice. • Introduce "sunset" clauses in tax legislation as standard practice. • Calculate effective tax rates systematically for future tax policy elaboration.	MoF MoF MoF	2008 2008 2008
15	Poor information to taxpayers	To deliver up-to-date / transparent information	• Ensure that all relevant information is accessible online. • Ensure all materials are available in Macedonian and English. • Publish regular up-dates and information bulleting for taxpayers.	MoF MoF, PRO MoF, PRO	2008 2008 2008

A4: Anti-corruption and Business Integrity

A4.1 Anti-corruption Strategy

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	Inadequately equipped State Commission for Prevention of Corruption	Fight against organized crime & corruption Reduce Corruption, Bribery & Informal economy Repression of corruption in public administration	• Draft and ratify a Government Responsibility Law. • Prepare new anti-corruption programme and action plan. Prepare governmental anti-corruption action plan. Periodic progress reports for institutions. • Strengthen the financial / legal independence of the State Commission (increase staff from 12 to 27 by 2009 and improve office premises by 2008). • Adopt a Law for establishing the Agency against organized crime and corruption, enhance the mechanisms for confiscation of property and administrate with the goods disposed in court procedures.	MoJu, ACCom ACCom ACCom ACCom ACCom MoJu	2008 2007 2008 2008-10 2008-9 2008

A4.2 Legal framework and international conventions

2	UN Convention against Corruption is not ratified	Ratification of International Conventions	• Ratify the United Nations Convention against Corruption **completed**	MoFA	2007
3	Lack of harmonization of legislation on Criminalization of Corruption with int. standards	Establish full criminal liability for corporations Adopt amendments to Criminalization of Corruption Law	• Review the provisions related to criminal liability for legal persons as per the requirements of the Council of Europe and UN conventions. • Streamline and implement procedures for investigation and prosecution of organized crime and corruption. • Increase the staff complement of the Public Prosecutor's Unit Against Organised Crime and Corruption.	MoJu P Prosecutor MoJu P Prosecutor,	2007 2008 2008

A4.3 Good governance and public administration

4	Conflict of interest in various regulations & legislation	Improve Conflict of Interest Policy for Civil Servants.	• Adopt and implement Conflict of Interest Law consistent with the OECD Guidelines for Managing Conflict of Interest in the Public Sector. • Approve and implement the Conflict of Interest Law.	MoJu, ACComm MoJu, ACComm	2007 2008 2008

			• Increase the capacity of the State Commission for the Prevention of Corruption to enforce the new law (more staff).	ACComm	
5	Public procurement system not aligned with EC directives & EU principles	Ensure full harmonization of public procurement system with EU legislation	• Review the Public Procurement Law (2004) to avoid scope for abuse by public officials and inhibit rent seeking behaviour. • Align the Public Procurement Law with the EC Directives and principles of the European Treaty (transparency, equal treatment, free competition, mutual recognition and proportionality). • Define By-Laws regulating specific public procurements for defining the procedure for assessment of quality.	MoF, Bureau for Public Procurement PP Bureau, municipalities, business community	2007 2007 2008
6	Perception of corruption in Customs Administration	Prevent corruption in customs administration Improve customs procedures	• Streamline import/export requirements and procedures through the regulatory guillotine. • Reduce the total import/export times. • Ensure cooperation with business community regarding controversial tariff items by promoting the procedure for issuing Compulsory tariff information. • Automate customs procedures (scanning trucks and containers). • Integrate customs clearing operations through computerisation.	Customs, MoF, MoE, DPM Office Customs, Business community	2007 2007 2007 2009 2009
7	Perception of corruption in Tax Administration	Reduce corruption, admin. barriers & improve business environment	• Consolidate inspections. • Reduce frequency of tax inspections to one per enterprise p.a. • Streamline VAT repayments. • Allow on-line transactions to reduce contact with inspectors.	MoF, PRO	2008 2008 2008 2009

A4.4 Transparency

8	Lack of transparency in anti-corruption policy	Consultation mechanisms on Anticorruption policy, strategy etc	• Enable the State Commission for the Prevention of Corruption to establish a mechanism for public/private consultation on anti-corruption policy, including NGOs / civil society and business community.	AC Commission, business community, NGOs	2008
9	Lack of effective implementation of anti-corruption policy	Regular M&E of Anti-Corr policy, Strategy & plan Supervise the activities of anti-corruption Commission	• Periodical Progress Reports and presentation to institutions. • Undertake annual evaluation of the progress in implementing the anti-corruption programme and action plan. • Establish a Special Commission in Parliament to oversee the activities and regular reports of the State anti-corruption commission, strengthen role of the Public Prosecutor, etc.	ACCommission ACCommission ACCommission Public Prosecution	2007-08 2007 2008
10	Lack of awareness on Anti-corruption	Transparent communication &	• Publish a Civil Journal as a means of improving public services. • Publish all Progress Reports and Annual Evaluations on-line.	ACCommission ACCommission	2008 2008

	policy, strategy & action plan	information Provide awareness raising activities	• Regular public awareness campaigns on the issue of corruption. • Electronic Government programme for access to information. • Introduce anti-corruption programmes in educational system in respect of raising public awareness about corruption.	ACCommission MoJu, MoF, MEDS Mof E&S	2008 2008 2008

A5: Competition policy

A5.1 Policy and legislation

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	Lack of competition policy strategy	To strengthen Competition policy Create transparency for investors	• Create a clear and coherent competition policy strategy. • Ensure that resources (staff and funds) are available to implement the strategy.	Commission for the Protection of Competition	2008 2008-09
2	Incomplete implementation of Competition law and secondary legislation	To implement Competition law and secondary legislation Complete market liberalization	• Ensure the monitoring of the effectiveness of the new powers that have been provided by the new legislation by year 2008. • Ensure full harmonization with EU requirements by adopting regulation relating to block exemption to certain agreements and concerted practices in the air transport sector by 2009.	CPC, CPC	2008 2009

A5.2 Institutional framework

3	Lack of sufficient CPC capacity	Strengthen the Commission's capacity to perform remit	• Increase CPC budget to increase the case handlers from 8 to 18. • Develop skills and capacity of the technical staff at CPC.	CPC CPC	2007-10 2007-10
4	Partial implementation of State Aid Law	Complete the harmonization with EU practices Prevent curtailments of competition	• Increase staff of State Aid Control Department from 5 to 8. • Fine-tune state aid control policies to conform with EU practices. • Establish sound implementation of state aid provisions, demonstrated by the record of enforcement. • Establish an inventory of state aid and implement effective M&E. • Establish an inventory and ex-ante notification of aid measures. • Adopt rules for horizontal aid measures and harmonize industrial policies with state aid rules.	CPC CPC CPC CPC CPC CPC	2009 2010 2010 2007 2007 2007

A5.3 Enforcement

5	Lack of effective enforcement of Competition law	Effective enforcement of Law Elimination of abuse of dominance	• Strengthen the sanctioning power / enforcement capacity of the PCP focusing on ex officio investigations, dawn raid techniques. • Introduce protection for whistleblowers.	CPC, MoE Min. of Justice	2008 2008

A5.4 Policy advocacy

6	Lack of awareness in competition policy	Ensure regular public-private dialogue	• Introduce regular consultation mechanism on legislative and regulations, etc. covering state bodies and stakeholders. • Introduce measures/activities for involving Consumer protection association. • Launch regular public awareness campaigns to create a competition culture and promote competition principles.	CPC, relevant Ministries, business associations, DPMEA CPC CPC	2008 2008 2008
7	Lack of awareness and information on competition policy	Creation of competitiveness culture	• Disseminate full information and competition decisions. • Introduce training of judges and relevant government officials on competition policy issues. • Publish the legal framework, annual reports and decisions. • Regularly update website to enhance visibility and impact.	CPC CPC CPC CPC	2008 2008 2008 2008

A6: Trade policy

A6.1 Trade agreements and liberalisation

1	Inability to use Pan –Euro –Med Cummulation Weak trade with Meda countries	Allow use of third country materials to obtain Macedonian origin and export EU countries Increase trade in this market	• Intensify negotiations with EU in order for Macedonia to be included within system of Pan-Euro-Med Cummulation of origin. • Sign agreements to facilitate trade with Mediterranean countries.	MoF, Customs, MoE, MFA, Customs	on-going on-going

A 6.2 Non-tariff barriers

2	Lack of competitiveness of Macedonian products which are not in line with international standards	Fulfilment of the conditions for obtaining full Membership in EU standards bodies	• Become a full member of European Committee for Standardization (CEN). • Become a full member of the European Committee for Electro-technical Standardization (CENELEC).	SIRM SIRM	2009 2009
3	Lack of implementation of EU/ International standards by companies	Transpose EU and Int. standards Assist firms to certify/implement standards	• Select sectors for transposition of EU/International standards with accent on the high tech sector. • Awareness raising campaign on international standards. • Establishment of stakeholder consultation mechanism. • Customized software and databases to facilitate transposition. • Preparation of project to transpose all the EN and ISO standards. • Establish CE Testing Centre to facilitate exports.	SIRM, MoE, business associations, relevant state institutions, DPMEA	2007 2008 2008 2007 2008-10 2009 2009
4	Lack of knowledge of role of Quality Infrastructure Institutions (Standardization Institute, Accreditation I., Bureau of metrology)	Institutional strengthening of Quality Infrastructure Institutions; Harmonization with EU practice in the area of industrial and science	• State budgetary support to ensure for the Standardization Institute, the Accreditation Institute and the Bureau of Metrology. • Ensure that the Bureau of Metrology becomes an semi-autonomous institution, as per the 2004 Metrology Law • National awareness raising and promotion campaigns for enterprises (standardization, accreditation and metrology issues). • Support and capacity building of standardization, accreditation and metrology staff in the state institutions, as well as private sector companies	MoF,SIRM,BMRM, AIRM MoE, BMRM MoF,SIRM,BMRM, AIRM, business associations SIRM,BMRM,AIRM, business associations	2008 2009 2009 2007-09

	Lack of support to Quality Infrastructure Bodies	metrology; Awareness raising of domestic enterprises	• Achieve full membership in EURAMET, participation in the EURAMET technical committees' projects, include the Bureau of Metrology within the network of the International Bureau for measures and weights.	BMRM	2007-09
5	Lack of effective implementation of sanitary, veterinary and phytosanitary standards Lack of capacities in the Food, Plant Protection and Veterinary Directorates Incomplete harmonization with EU directives Lack of implementation of legislation	Institutional strengthening of 3 institutions and inspections Improve the legislation and harmonization with the EU directives Increase efficiency of these 3 institutions	• Implement legislation in the food safety, veterinary and phytosanitary areas by strengthening the institutional capacities. • Harmonize with EU/international standards in food safety. • Increase the number of Food Safety Book of Rules from 18 to 46. • Increase number of employees, especially inspectors (+5); capacity building ISO / HACCP. • Increase staff in Phytosanitary Directorate (33 to 97). • Strengthen the capacity of the Phytosanitary Directorate (new employees, training). • Establish integrated phytosanitary system in line with IPPC standards which will cover Phytosanitary laboratory and Seed and Seedlings Directorate • Strengthen the capacity of the State Market Inspectorate by increasing the number of staff (from 230 to 290 by 2009). • Adopt Veterinary Health, Animal Welfare, Veterinary Public Health and Animal By-products Laws. • Veterinary Reforms - public health, animal health and border control. • Ensure full harmonization with the EU Directives (laws on Feedstuff and Veterinary Medicine). • 50 Rules Books are prepared to supplement the package of laws. • Feasibility study on integration of the phytosanitary, food safety and veterinary services	FD,DVP, PD FD FD FD PD PD PD, SSD SMI DVP DVP DVP DVP FD, PD, DVP, MoH, MoA	2010 2007 2008-10 2008-10 2008-10 2007 2008 2008 2008-10 2009-10 2008 2010 2010
6	Lack of accreditation and conformity assessment Lack of awareness for the need for standards	Approximate EU standards & improve implementation Strengthen technical skills of staff & resources in companies	• Become a full member of the European Cooperation for Accreditation (EA). • Become a full member of the International Laboratory Accreditation Cooperation (ILAC). • Become a full member of the International Accreditation Federation (IAF). • Provide testing and calibration laboratories and inspection and certification bodies with adequate technical/human resources.	AIRM	2008 2009 2009 2009
7	Administrative barriers to trade	Simplifying customs procedures	• Enable customs clearance infrastructure at the border and terminals (in Bogorodica by 2008 and Tabanovce by 2009).	MoF,MoI,Customs	2008-09

		More efficient work of inspection services Improve transparency of customs procedures	• Transfer the Phytosanitary Directorate and Veterinary Directorate from internal custom terminals to the border. • Comply with the EU Regulation 339/1993 and remove the systematic controls of the inspectorates (State Market Inspectorate and Food Safety Directorate) from the internal custom terminals to the internal market. • Integrate the veterinary and phytosanitary inspections with those of the Customs Office at the borders and establish a one-stop-shop system. • Introduce electronic customs declarations. • Complete full integration of the TARIC system. • Ensure that information on customs laws and regulations are on the website; update regularly (weekly); make available in Macedonian and English.	PD, DVP, MoF, Customs FD, SMI, MoF, Customs PD, DVP, MoF, Customs Customs Customs Customs, MoF	2008-09 2010 2009 2008-10 2010 2007
8	Insufficient export by Macedonian enterprises Lack of support for export promotion	Increase export & competitiveness of Macedonian companies in foreign markets	• Assist export oriented-enterprises to gain internationally recognized quality standards such as ISO. • Create an export promotion strategy and programme. • Review effectiveness of current export promotion activities. • Transfer export promotion to most appropriate institution, e.g. APPRM, separate agency, etc.	MoE, APPRM, DPMEA, business associations	2007 2008 2008 2009

A7: Business Regulatory Reform

A7.1 Regulatory Guillotine

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	Low level of implementation of regulatory reform Numerous formalities & hurdles	Reduce admin. barriers Improve regulatory environment Develop high-quality regulations	• Apply the regulatory guillotine process to ca. 2,000 laws, bylaws and regulations covering such issues as registrations, licensing, permits, inspections, etc. • Complete the regulatory guillotine process. • Complete the Unique National Register of necessary / unnecessary regulations.	DPMEA, all relevant ministries	2007 2007 2007

A7.2 Regulatory Impact Assessment (RIA)

2	Lack of Regulatory Impact Assessment (RIA) System	Ensure high legal standards Improve business climate & provide incentives	• Adoption of the RIA Law and establishment of the RIA system. • Establish RIA Departments / appoint 2-3 government officials within every Ministry responsible for RIA. • Mandatory RIA for all future legislation.	DPMEA, all relevant ministries, business associations	2007 2007 2008 - onwards

A7.3 Transparency through public-private consultations

3	Lack of regulatory reform transparency	Improve regulatory transparency Regular consultations with business reps.	• Ensure that the public-private consultations are a routine part of the decision-making process. • Ensure that it is carefully structured to avoid bias and uneven access by more powerful interests. • Implement regular dialogue with business community through formalized cooperation, which will be precisely determined and transparent.	DPMEA, all relevant ministries, business community	2007 2007 2007

A8: Human Capital

A8.1 Education Strategy

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	Incomplete realization of Education Strategy & Programme	Develop education strategy Flexible access to labour supply	• Implement National Programme for Development of Education. • Increase educational budget to EU/OECD average 5% of GDP. • Increase private sector investment in education.	MoES, BDE, MoLSP, EARM	2010 2008-10 2008-10

A8.2 Quality of Education

2	Low levels of school attendance Poor quality of Education	Improve the quality of education at all levels Increase enrolment in primary, secondary and tertiary education	• Mandatory attendance of primary and secondary schools, appropriate measures for parents whose children fail to attend school. • Introduce incentives to encourage participation and promotion of the value of education. • Raise compulsory education from the current 8 to 9 years. • Implement the Every Child Goes to School Programme. • Increase staff levels and capacity of the Bureau of Education to perform its role. • Raise standards by introducing national standardized tests. • Introduce mechanisms for quality assurance, such as are already part of the Programme for development of education in Macedonia. • Transfer the Accreditation Unit from MoES to BDE. • Modernize the primary and secondary school curriculum and introduce programs of teacher training.	MoES, BDE MoES, BDE MoES, BDE MoES, BDE BDE BDE MoES, BDE MoES, BDE MoES, BDE	2007 2010 2010 2008 2009 2008 2010 2008 2010

A8.3 Higher Education

3	Higher education system in need of reform	Modernize higher education (Bologna declaration)	• Adopt new Law on Higher Education. • Ensure full compatibility with the Bologna Process. • Operation and strengthening of the newly established State University in Stip (Official Gazette of RM no.40, 30.03.2007) and the new Faculty for Administration and Management for IT, in	MoES	2007 2010 2007-10

			Bitola . (Official Gazette of RM no. 51, 24.04.2007)		

A8.4 Vocational Education Training

4	Lack of linkage between VET programmes and labour market needs	Accelerate reform of VET policy VET curricula to meet labour market needs	• Establish a Council for VET. • Implement the new VET law. • Improve the content of the VET curricula. • Develop better links between VET institutions and employers.	MoES MoES, BDE MoES, BDE MoES, MoLSP, EARM	2007 2008 2008 2009

A8.5 Adult Learning

5	Lack of Law for Adult Education Implementation of Programme for Adult Education	To improve & develop Adult learning system To introduce lifelong learning policy	• Finalize and adopt the Law for Adult Education. • Establish a Council for Adult Education. • Implement the Programme for Adult Education. • Implement the Education All around the World Programme.	MoES SIRM, AIRM, Macedonian Network of Trainers	2007 2008 2008 2009

A8.6 Labour Market

6	Incomplete implementation of National Employment Strategy& National Action Plan for Employment	Reduce unemployment rate Harmonize labour legislative with acquis Reduce social contributions	• Implement the National Employment Strategy 2006-2010 and the National Action Plan for Employment 2006-2008. • Achieve the targets set out in the strategy. • Harmonize the pension and disability insurance system with EU. • Conduct a feasibility study to reduce the social contribution costs. • MoES to establish a Consultation Body to synchronize labour market needs and educational qualifications and skills; improve communication between MoE, MoES, MoLSP, Employment Agency on labour market needs.	MoES, EARM MoES MoLSP, MoF MoES MoLSP, EARM, business community, e.g. NECC	2007-10 2010 2009 2010 2007

A8.7 Civil Servant Training

7	Lack of competency of Civil Servants	Strengthen Civil Servants Agency Improve the professionalism of civil servants	• Review the Civil Servants Agency training and capacity building strategy, as well as staff complement and organization. • Provide additional state funding to raise competence in relation to general professionalism and effective staff appraisal. • Feasibility study on the merger of civil servants and public officials into one category as in the case of EU countries.	CSA	2007 2008 2008

A8.8 Transparency

8	Low level of public/private consultation and dialogue	Improve public-private consultations and strengthen social dialogue at national and local levels	• Establish an independent consultation body based on a routine part of the decision-making process. • Build on the activities of existing initiatives and organizations such as the tripartite social dialogue, the Economic and Social Council as well as education/training/labour market specific forums for regular discussion and feedback.	MoES, Business associations Tripartite Council MoES, MoLSP, MoE	2008 2008

A9: Corporate Governance

A9.1 Regulatory Authority and Judiciary

	Barrier(s)	Objective	Measures	Responsibility	Deadline
1	There is a gap between law and actual practice	Effective enforcement of laws Raise judges' professionalism Raise awareness of CG among business	• Strengthen the capacity and authority of the regulatory institutions (Macedonian Securities Commission), by ensuring that it has resources, capacity, and authority to perform its functions (monitoring, investigation and sanction wrongdoing). • Strengthen the judicial system (training of judges in commercial areas, delivery of the focused corporate governance trainings for the judiciary). • Disclose all cases and court decisions in the area of CG. • Develop alternative remedies and redress mechanisms (arbitration, mediation, etc.).	MoLSP, MoF, MoE,MSC, MoJ MoJ, Academy for training of judges MoJ,MoF,MoE CG Council, Legislation Secretariat MoJ,MoE,APPRM, Business and legal associations	2008 2008 2008 2009

A9.2 Public – Private Dialogue and Partnership

2	Lack of Public-Private Dialogue and Good Practice	Increase of practical appliance of CG Strengthen CG institutions Improve transparency of legislation Increase awareness	• Strengthen the CG Council. • Strengthen the Associations for protection of shareholders` rights to protect the rights of minority shareholders. • Develop tools and measures enhancing a good CG culture. • Apply a transparent process for enactment of laws and regulations. • Developing training programmes for the key players in the CG field.	CG Council, NGOs CG Council, Business assoc. econom. & legal assoc., NGOs Internat. Institut. NGOs Econom. & legal Assoc., MoE, MoF; CG Council, Int. institutions; DPMEA	2008 2008 2007 2008 2008

A9.3 Transparency, disclosure and shareholder rights

3	Lack of Transparency and good governance	Improve the CG environment Increase the transparency of firms. Increase awareness & protection of shareholders' rights Improve transparency of legislation and conform with EU norms	• Implement provisions on transparent working of companies (development of CG manuals, codes and standards to provide guidelines on best practices to companies,) • Standardize reporting & compliance assessment using IAS/IFRS. • Build capacity and develop the audit profession. • Build capacity and develop the appraisers' profession. • Distinguish "public" / "private" firms in disclosure requirements. • Improve access to information by shareholders. • Improve protection of shareholders' rights. • Implement awareness raising campaign on shareholders` rights. • Implementation of the adopted Code of Corporate Management (norms & regulations). • Revise Law on Securities (applying EU Transparency Directive). • Revise Company Law, in direction of harmonization with EU directives.	CG Council, private sector, NGOs MSC MoE, MoF, Chambers, NGOs, MoE, lawyers' associations, CG Council, Business community, MoF, MoE, MSC MoF, MSC MoE	2007-2010 2007-2010 2007-2010 2007-2010 2007-2010 2007-2010 2007-2010 2007-2010 2007-2010 2007-2010 2007-2010 2008

A9.4 Corporate Social Responsibility

4	Low level of CSR activities Insufficient involvement of companies in CSR activities	Improve CSR in Macedonia Promotion of CSR activities Improve the multi-stakeholder dialogue	• Develop a CSR Coordination Body in the Economic and Social Council. • Analysis of CSR activities in the country, baseline CSR indicators. • Implement regular awareness raising campaigns about CSR. • Establish a CSR Training Centre. • Raise capacity of national/local stakeholders to contribute to CSR. • National CSR Agenda as a result of multi-stakeholder dialogue.	ESC Donors (USAID, UNDP, IFC), Business assoc, NGOs, lawyers' associations, Media, Universities, Governmental institutions	2008 2008 2008 2008 2007 2008

A10: SME Policy

See separate SME Programme (2007-2010) managed by the Ministry of Economy: www.economy.gov.mk