



USAID | **MACEDONIA**
FROM THE AMERICAN PEOPLE

MACEDONIA BUSINESS ENVIRONMENT

ASSESSMENT

Final Report

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LIST OF ACRONYMS

BEA	Business Environment Activity
DG	Democracy Growth
DI	Direct Investments
DPM	Deputy Prime Minister
EG	Economic Growth
EGAT	Economic Growth Assessment Team
EU	European Union
ESA	Employment Service Agency
EXIM	Export Import
FDI	Foreign Direct Investments
G2B	Government-To-Business
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GOM	Government of Macedonia
HICD	Human and Institutional Capacity Development
IMEG	Inter-ministerial Expert Group for Industrial Policy
IMF	International Monetary Fund
IPO	Initial Public Offering
IPR	Intellectual Property Rights
LED	Local Economic Development
MAP	Macedonian Association of Processors
MDW	Make Decentralization Work Project
MLGA	Municipal and Local Government Activity project
MOAFWE	Ministry of Agriculture, Forestry and Water Economy
MOIS	Ministry of Information Society
MOLSP	Ministry of Labor and Social Policy
MOTC	Ministry of Transport and Communication
MOU	Memorandum of Understanding
MSE	Macedonian Stock Exchange
NBRM	National Bank of the Republic of Macedonia
NECC	National Entrepreneurship Competitiveness Council
PPB	Public Procurement Bureau
PPD	Public Private Dialogue
PPP	Public-Private Partnerships
RECA	Real Estate Cadastre Agency
RIA	Regulatory Impact Assessment
SEC	Securities Exchange Commission
SW	Single Window
TIDZ	Technological and Investment Development Zones
USAID	United States Agency for International Development
WB	World Bank
WEF	World Economic Forum
ZELS	Zaednica na Edinicite na Lokalna Samouprava (Association of Units of Local Self Government)

Executive Summary

Purpose

USAID Macedonia engaged the services of expatriate and local consultants in order to assess the most significant binding constraints in Macedonia's business enabling environment. Along with those of other such assessments, the findings of this report will be taken into consideration by USAID Macedonia in the formulation of its 2010 – 2015 Mission Strategic Plan.

Assessment Methodology

The assessment was completed during September through November 2009 with an Assessment Team consisting of three independent consultants:

- A. Peter W. Amato, PhD. - Expatriate Team Leader, Independent Consultant
- B. Verica Hadzi Vasileva - Markovska, Local Independent Consultant
- C. Darko Janevski, Local Independent Consultant

In addition the team had extensive involvement by Cullen Hughes, Private Enterprise Officer, USAID, Macedonia, and the assistance of Wade Channell, USAID Washington, Office of Economic Growth, Bureau for Economic Growth Agriculture and Trade.

In order to get a more comprehensive and inclusive grasp of the constraints in the business environment, USAID's Business Environment Assessment Team began by conducting a comprehensive literature review of existing resource documents that address various aspects of the business environment.¹ Next the team conducted interviews with a broad range of stakeholders, including: Macedonian Government Officials; representatives from local and foreign business associations; key private business companies and consultants; officials from the U.S. Embassy and USAID/Macedonia; as well as with professionals working under several USAID funded projects. In addition, the team interviewed representatives of other international organizations and bilateral donors involved in business and/or economic development in Macedonia.²

Background

Although the general commercial legal and regulatory framework of a modern market-based system is in place, many binding constraints remain that continue to inhibit both foreign and domestic investment, as well as the day-to-day operation of domestic businesses generally. Justifiably some studies, like the recently released World Bank Doing Business Report 2010,

¹ See Appendix A: List of Major Literature and Documents Reviewed.

² See Appendix B. Meetings Held

credit Macedonia for recent progress to improve several laws and regulations that have been binding constraints in the past. However, there appears to be universal consensus among the literature reviewed and those interviewed for this assessment that the institutional capacity to fully implement the long list of newly printed regulations and laws is severely lacking.

The USAID BizCLIR Report³ lists and elaborates on eight major business environment issues, not in any order of magnitude as follows: starting a business; employing workers; registering property; getting credit; protecting investors; trading across borders; enforcing contracts; and closing a business. The Report recognizes a clear improvement in all the indicators since 2000. The World Bank Doing Business in Macedonia⁴ places the country's overall ranking 32 among the 183 countries observed. The categories with the highest scores, include: Starting a Business (rank 6th), protecting investors (rank 20th), and paying taxes (rank 26th). The lowest ranking categories were Dealing with Construction Permits (rank 137th) and Closing a Business (rank 115th).

The World Economic Forum (WEF) Global Competitiveness Index⁵ (GCI) placed Macedonia in the second of the WEF's three development stages - the "Efficiency Driven Stage", which positions Macedonia with countries such as Algeria, Argentina, Ukraine, Philippines and Gambia. Macedonia is ranked 84 out of the 133 countries in the GCI 2009/2010, an improvement from 89 among 134 countries a year ago. The GCI index is composed of 3 sub-indices ranking Macedonia as follows: basic requirements (rank 73rd), efficiency enhancers (rank 85th) and innovation factors (rank 93rd). The businesses surveyed for the WEF Report pointed to the lack of access to finance as the most problematic factor for doing business, followed by the inefficient government bureaucracy, policy instability, a poor work ethic in the national labor force, corruption, the inadequately educated workforce, inadequate supply of infrastructure in the group of fifteen such factors.

According to the recent European Commission Progress Report,⁶ the business environment is a key Accession Partnership priority and some measures have been taken to improve it. The Commission also noted that the legal system for a functioning market economy in Macedonia is largely in place and that good progress continues with the registration of property rights and the backlog of unresolved property disputes. However, the Commission also observed that legal procedures are still slow and the quality of court decisions is "sometimes" assessed as low. The Commission has pointed out that this continues to have a negative impact on legal certainty and on the proper functioning of market mechanisms, which severely impacts the business environment and adversely affects the country's attractiveness to foreign investment.

During the past 15 years, USAID support to improving the business environment has primarily assisted the Government of Macedonia (GOM) in the development and implementation of numerous laws and regulations in a variety of sectors such as finance, labor and insurance. The current Business Environment Activity (BEA) and e-Gov projects have recently assisted GOM

³ "BizCLIR: Macedonia's Agenda for Action", USAID, March 2009

⁴ "Doing Business 2010, Macedonia FYR, 2009" The International Bank for Reconstruction and Development, 2009

⁵ "The Global Competitiveness Report 2009-2010", World Economic Forum, Geneva, 2009

⁶ "The Former Yugoslav Republic of Macedonia 2009 Progress Report", Commission of the European Communities, Brussels, 10.14.2009

with laws on public procurement, bankruptcy and Non-Bank Finance. Most laws are now either in or close to compliance with the European Union (EU). But the GOM finds that building the human and institutional capacity to implement the new laws, regulations and procedures continues to be a challenge. The issues range from a basic lack of communication mechanisms between government ministries to a lack of competency on the part of those in charge of implementing laws and regulations. The causes include a lack of knowledge, political will, as well as poor and inadequate management practices, implementation skills, and even a lack of interest in getting important implementation efforts executed in a timely and cost efficient way.

Main findings

Based upon the literature review and interviews, the strategy documents of GOM, and USAID's existing and past work in the sector, the Assessment Team developed a conceptual framework with five major component constraints (See Figure 1). Based upon the assessment of the major issues constraining business development in the country, the framework further prioritizes those issues most critical for achieving an improved business environment, giving USAID's comparative advantages and limited resources (See Figure 2). Figure 3 below depicts the selection process for the priority issues by comparing potential impact against resource requirements.

For each component five questions are raised and answered: a) Nature of the Problem; b) Players and Social Dynamics Involved; c) Significance of Issues for Macedonia's Business Environment; d) the Potential Means to Address the Problems and Impact Assessment and e) Potential Risks.

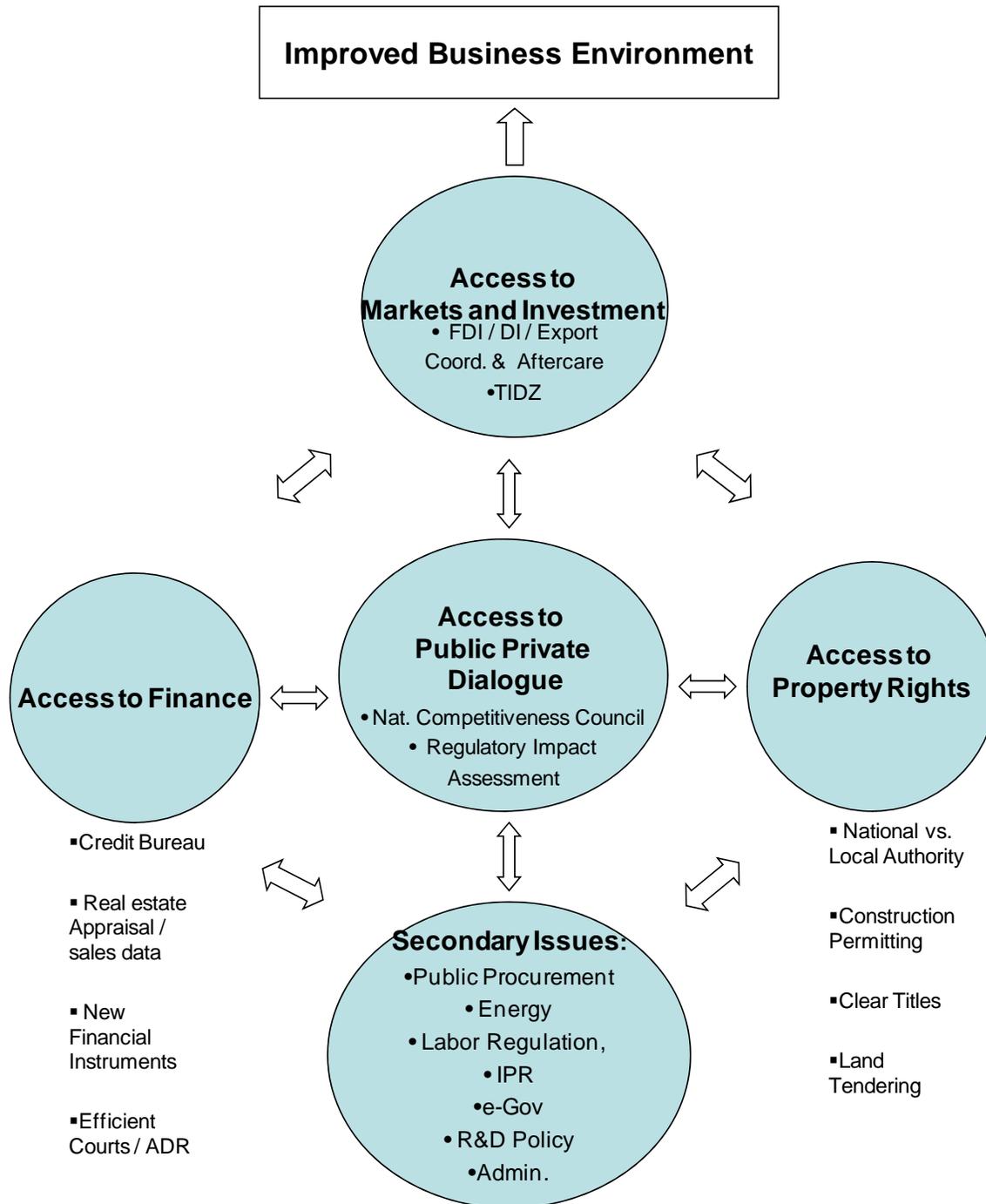
Within the circle of constraints that need priority attention at the top of the component list is **Access to Markets and Investment** - FDI / Domestic Investment (DI) / Export Coordination & Aftercare. There is no clear system for FDI / DI / export facilitation. The major concern is that there are many authorities that exist for FDI / DI investment with no strong horizontal communication among the different entities involved. Greenfield and brown-field investments have been dealt with by different institutions than those FDIs deriving from privatization or other means. As a result, problems, even minor ones, are channeled directly to the top level of Government, to the DPM and even to the Prime Minister. On the other hand, domestic investors do not receive the same attention as foreigners and for both, foreign and domestic investors, adequate aftercare is lacking.

The World Bank notes that rising competition as a result of globalization is the most significant driver for change in the world today.⁷ The facilitation of the reforms required to facilitate and respond to these changes requires proper communication and transparent government implementation structures. The GOM's primary response to these challenges is the Industrial Policy of the Republic of Macedonia 2009-2020. This Policy proposes an implementation structure that would institutionalize dialogue between the various state institutions and through them to and within the private sector accomplished by a revived National Entrepreneurship

⁷ "Lessons for Reformers: How to Launch, Implement and Sustain Regulatory Reform", FIAS, The World Bank, 2009

Competitiveness Council (NECC). If instituted properly, NECC would enhance the ability of GOM to effectively respond to the needs of the private sector, especially of new and existing investors.

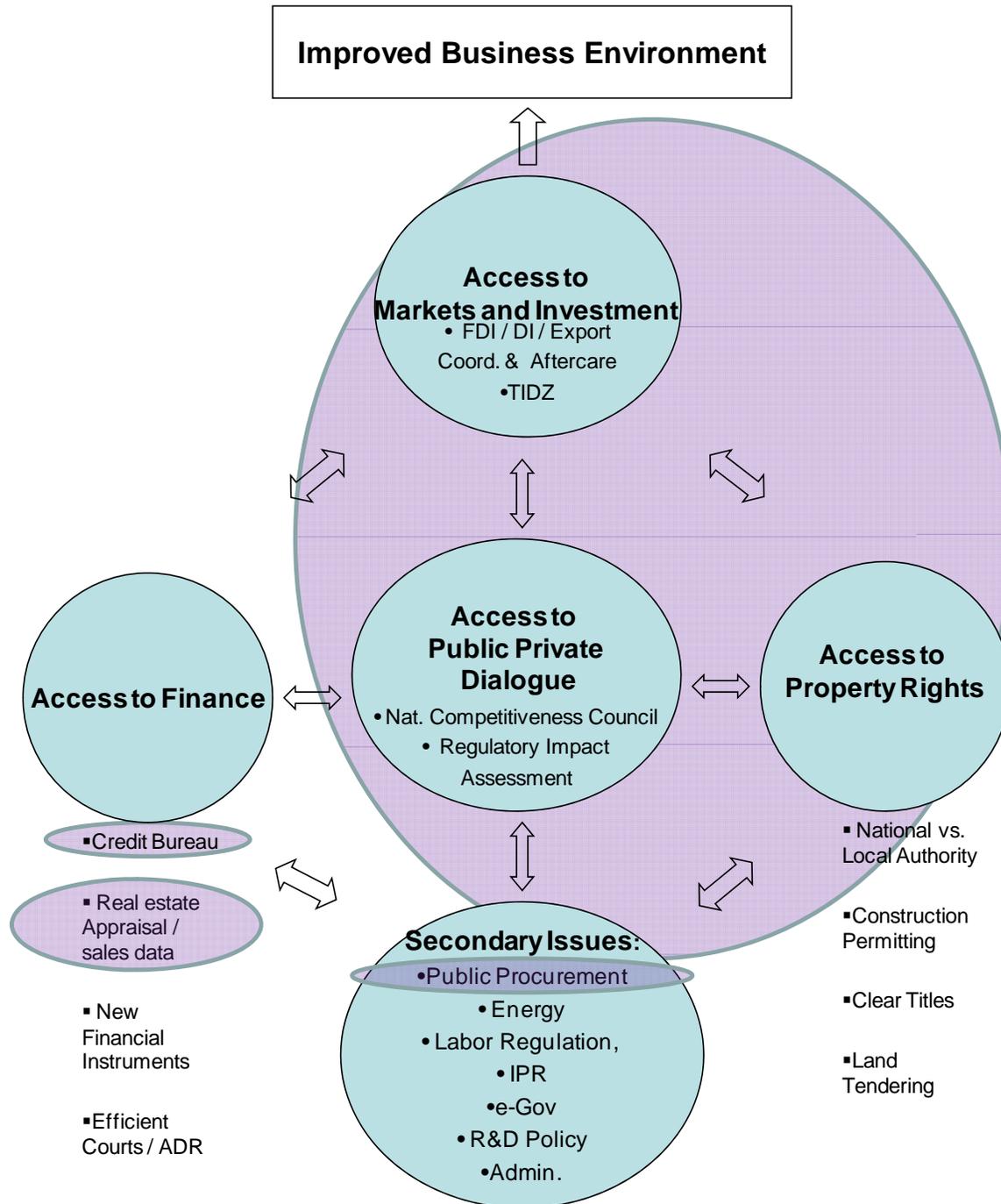
Figure 1: Conceptual Framework (Inventory of the most significant binding constraints identified in Macedonia’s business environment)



Access to Property Rights is considered one of the most critical aspects of a country's sound business environment. It is important to investors, especially to those in the manufacturing, extraction and agricultural sectors. Many potential investors in Macedonia face the challenge of buying or leasing land. Identifying the proper institutions and then understanding the gauntlet of cumbersome steps required to obtain proper land-use rights and construction permits is time consuming and frustrating for investors. Donors and private sector interviewees report that the status quo too often results in no investment. For several years, the World Bank has ranked Macedonia close to the bottom of its world list with respect to the ease of obtaining construction permits. This circumstance is having a detrimental effect on successfully attracting new investors and the expansion of existing businesses. The municipalities, the Ministry of Transport and Communication (MOTC) and the Ministry of Agriculture, Forestry and Water Economy (MOAFWE) are key policy institutions in the land sector. MOTC and the municipalities are currently involved in many of the land procedures, including issuing urban plan modifications and construction permits. The USAID Municipal and Local Government Activity project (MLGA) is working with ZELS, MOTC and other institutions to develop a Strategy to transfer ownership/management of land from the central to the municipal level. A willingness among government officials to reform the land management area with procedures that are simplified and construction permits that are easy to obtain by investors through a single window is urgently needed. In addition more attention on strengthening the human and institutional capacities at the central and municipal level is required. An effective simplification and re-arranging of the processes needs to be accompanied by developing and using electronic systems that would support a single window system (i.e. eGov services described in the most recent draft of GOM's e-Government Strategy).

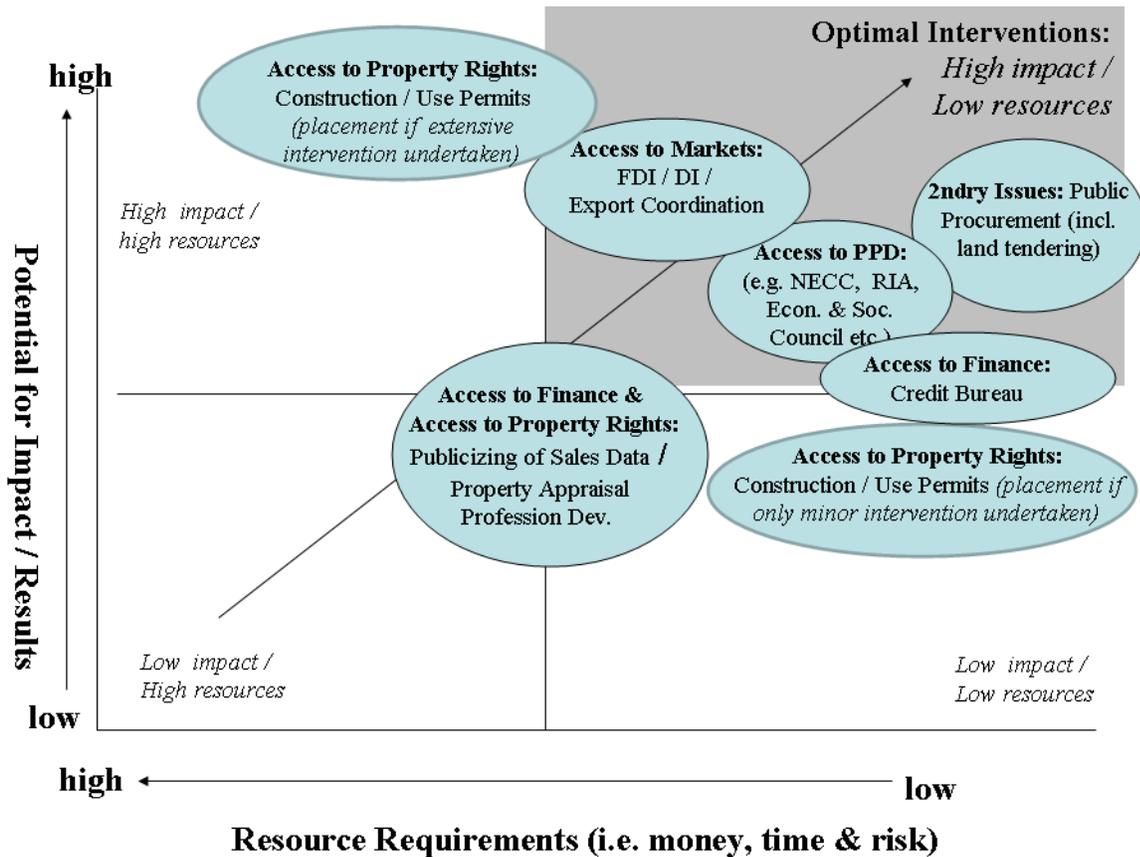
Also within the top priority list is **Access to Institutional Public Private Dialogue (PPD)**. This component is regarded as the focal point or nexus of this Assessment Team's Conceptual Framework. The Framework suggests that proper creation, implementation and adherence to laws and regulations require active lines of communication between all actors in the system, including government officials, the private sector and other stakeholders in the public at large. A well functioning PPD is vital, not only for economic growth and prosperity, but also for the democratic process to function properly. Policies, laws and regulations need constant feedback between those making and enforcing such laws and regulations, and the public and private sector who need to follow newly promulgated regulations. The GOM recently committed to the implementation of the Industrial Policy 2009-2020. This policy proposes an institutional arrangement for the implementation of the Industrial Policy through a new Inter-Ministerial Committee with a crucial coordination role. USAID has worked with this component in the past with mixed results. A firm pledge on the part of the GOM to provide the resources and follow through is needed before USAID commits further assistance to this initiative.

Figure 2: Prioritized Binding Constraints in Macedonia's Business Environment (Figure 2 depicts the inventory of business environment issues identified in this assessment. The most important of those are identified with the purple circle.)



Access to Finance has also been recognized as important component of the business environment, which needs improvement. Within this component two areas stand out as needing immediate attention: a) The development of a Credit Bureau and b) developing reliable real estate appraisal sales data. Businesses need adequate and easy access to finance for growth and development. Creditors cannot adequately ascertain the creditworthiness of borrowers because the private credit bureau is still not operational. Creditors cannot adequately secure loans with appropriate collateral because there are problems in providing proper titles and low capacity of the valuation profession to conduct proper valuation of real estate. There is a lack of public information on the real estate market and no electronic communication channels are available.

Figure 3: Business Environment Project Activity Analysis Diagram (Figure 3 depicts the proposed activities and positions them according to their level of potential impact vs. a combined evaluation of their estimated resource requirements and risks to undertake the activity. Those in the top right quadrant are optimal activities because they have the potential for the largest impact at the lowest estimated cost and risk.)



There is a shallowness of the credit market with little variety of instruments and a very limited risk appetite on the part of the investment community to support domestic businesses. Unfortunately, this translates into over dependence on Government for support. These problems

are combined with the lack of the needed skills of the business community to prepare proper financial applications and the reluctance to employ reasonable corporate governance, accounting, business planning and financial management standards to ensure transparent, accurate, and reliable financial reports and projections. The tight credit policy of the National Bank of Macedonia imposes high capital adequacy requirements to banks thus preventing them to adequately and timely respond to market needs. Nevertheless, the IMF has assessed the NBRM as doing an adequate job in preserving the financial stability of the Macedonian financial system.

In sum, to fully address the access to finance component many issues need to be dealt with: the capacity of the Credit Bureau needs enhancement; a well regulated valuation profession is needed; market data registries or databases need to be developed and made operational; the capacity of the courts in dealing with the commercial matters needs to be increased; and domestic businesses need to enhance their skills to better present their business ideas and needs to the financial community.

The Assessment Team also addressed a number of secondary issues relating to access to Energy, access to Labor Regulation, access to Innovation and R&D Policy and within this, access to Intellectual Property Rights (IPR) protection. These are developed within the body of this report.

Proposed Project Options

Each of the proposed areas of intervention will require further research and investigation, particularly in the case of construction permitting, before the Mission will be in position to determine the true scope of a new project. However, in any case, it is recommended that the new USAID business environment project should follow the basic principles of the 2008 USAID Economic Growth Strategy, keeping in mind that the ultimate goal of business environment reform is increasing firm competitiveness. A new program should seek large and systemic impacts whenever possible. Where systemic reform is not achieved, catalytic impact is essential. Finally, the Strategy emphasizes that political context matters. Therefore, the new USAID Macedonia project should remain flexible, which plays to USAID's strength as an international development agency.

Past USAID interventions to improve Macedonia's business environment had to invest substantial resources in policy formulation. However, with most of the commercial legal framework in place now, it is appropriate for the new USAID business environment intervention to focus primarily on enhancing the human and institutional capacity to fully implement the new legal framework that has been built over the last 15 years.

Finally, USAID resources are limited, making substantial, broad, system-wide changes infeasible. Accordingly, USAID's limited resources should be strategically targeted to create demonstration effects within the priority areas depicted in Figure 3. The new project will require close collaboration with GOM and will have more emphasis on training and organizational and process development than past business environment efforts. Such capacity building programs with close host-government collaboration require flexibility.

Based on the issues listed and their order of priority, the Assessment Team presents an “all-in’ baseline project that, if funds were available, would be capable of addressing each of the primary issues discussed herein under four project components or pillars.

Full Business Environment Activity:

1. Access to Property Rights – Land Use and Construction Permits
2. Access to Markets and Investments - FDI / DI / Export Coordinating and Aftercare
3. Access to Institutional Public Private Dialogue
4. Access to Finance (Credit Bureau, Appraisers Profession / Real Estate Data Base Information made available to the public)

Nevertheless, the team understands that the Mission has limited funds and is not in position to address each of the components to the degree necessary to achieve targeted demonstration effects, let alone broad, system-wide change.

The Team notes that there are two discrete project themes within the list of components that could be carved out of the Full Business Environment Activity Project described above: **Theme A - “Government Capacity Development for the Implementation of the Industrial Policy”** and **Theme B - “Property Rights Development.”** The Mission could opt to implement one of these two themes at lower cost. (See recommendations section for more details on the full Business Environment Project and each thematic project.)

However, given that the process of developing human and institutional capacity for the purpose of enhancing the implementation of new laws, policies and regulations is highly dependent on political context, the Team recommends that the new project be designed with sufficient flexibility to meet the basic concepts as set forth and discussed in the project principles. Therefore the Mission should consider allowing the new project to address either of the above Themes, or some combination thereof. The interventions selected would need to be based and justified upon a bidder’s full understanding at the time of their bid proposal as to which selected interventions—consistent with USAID’s project budget constraints—would be most capable of achieving systematic or catalytic change within the selected priority areas that would lead to sustainable improvements. (e.g. a model municipality for construction permitting, a functioning and institutionalized PPD mechanism, a functioning certification system for public procurement professionals, a self-sustaining and certifying property appraisal association, a self-sustaining and widely used private credit bureau etc.) Understandably, many factors—over the life of the proposed five-year project effort—could substantially affect the success of the initially agreed upon project interventions to meet their stated goals. Such factors would include: the political

will of the key GOM officials, the emergence of relevant GOM initiatives, changes in the role and position of key government ministers, the anticipated return-on-investment estimated for proposed project activities, and the evolution and success of current and future GOM and other donor programs (e.g. the EC's potential support for the implementation of select aspects of the Industrial Policy, the World Bank's success in expanding the cadastre, the manner in which state land is transferred to the municipalities etc.) Consequently, the new project's implementation phase needs to remain sufficiently flexible to respond to possible future changes to the political/developmental landscape and to seek out "windows of opportunity" as may be appropriate within budget, personnel and time constraints. Please see the Proposed New Business Environment Project Themes section at the end of the report for a more detailed description of the proposed project approach.

MACEDONIA BUSINESS ENVIRONMENT ASSESSMENT

Overview

Macedonia's business environment is under close scrutiny along several fronts. The European Commission's Progress Report states that the country's business environment is a key Accession Partnership priority. It notes that although its legal system for a functioning market economy is largely in place, its legal procedures are slow, and the quality of court decisions needs to be improved. The Commission points out that this has a negative impact on legal certainty—on the proper functioning of market mechanisms—and severely impacts the business environment, thus adversely affecting the country's attractiveness to foreign investment. Similar sentiments are echoed under several other business environment assessments. The World Bank's Doing Business Report 2010, credits Macedonia for recent progress to improve several laws and regulations that were binding constraints. It places the country's overall ranking 32 among the 183 countries observed. The categories with the highest scores include: Starting a Business (rank 6th), protecting investors (rank 20th), and paying taxes (rank 26th). The lowest ranking categories were Dealing with Construction Permits (rank 137th) and Closing a Business (rank 115th). The World Economic Forum (WEF) Global Competitiveness Index (GCI) placed Macedonia in the second of the WEF's three development stages—"The Efficiency Driven Stage"—together with countries such as Algeria, Argentina, Ukraine, Philippines and Gambia. And USAID's BizCLIR Report lists and elaborates on eight major business environment issues: starting a business; employing workers; registering property; getting credit; protecting investors; trading across borders; enforcing contracts; and closing a business. On the whole, the Report indicates improvement in all the indicators since the last assessment in 2000. Nevertheless, issues do remain and need to be addressed.

USAID has, over the past 15 years, supported Macedonia along several fronts to improve its business environment. Most notably it has assisted the Government of Macedonia (GOM) in the development and implementation of numerous laws and regulations in a variety of sectors such as finance, labor and insurance. The current Business Environment Activity (BEA) and e-Gov projects with a focus on improving the laws of public procurement, bankruptcy and Non-Bank

Finance—are most noteworthy—assuring that they are now either in or close to compliance with the European Union (EU). But the GOM concurs with USAID’s assessment that building the human and institutional capacity to implement the new laws, regulations and procedures continues to be a challenge. These issues range from a basic lack of communication mechanisms between government ministries to a lack of competency on the part of those in charge of implementing laws and regulations. The causes include deficient knowledge, as well as poor and inadequate management practices, implementation skills, and even a lack of interest in getting important implementation efforts executed in a timely and cost efficient way.

In consideration of its past work in the sector and the appreciation that more needs to be done—to attract and keep investors both international and domestic and to meet GOM’s economic development goals and objectives—USAID Macedonia engaged the services of one expatriate and two local consultants, supported by direct participation of a USAID Private Sector Officer and USAID/EGAT participation, to assess the most significant binding constraints in Macedonia’s business enabling environment. Over a period of two months the Assessment Team conducted a comprehensive literature review of existing resource documents that address various aspects of the business environment. It also conducted a series of over 50 interviews with a broad range of stakeholders, including: Macedonian Government Officials; representatives from local and foreign business associations; key private business companies and consultants; officials from the U.S. Embassy and USAID/Macedonia; as well as with professionals working under several USAID funded projects. In addition, the team interviewed representatives of other international organizations and bilateral donors involved in business and/or economic development in Macedonia.

Based upon the above listed comprehensive approach to understand the issues facing Macedonia’s current business environment, the collective efforts to address them including USAID’s appreciable work in the sector and its competitive advantage to address “windows of opportunity”, the Assessment Team developed a conceptual framework of major component constraints. The framework was further prioritized into components needing “priority” attention as follows: **a) Access to Markets and Investment—FDI / DI / Export Coordination & Aftercare; b) Access to Property Rights; c) Access to Institutional Public Private Dialogue (PPD); and d) Access to Finance.** And for each component four questions are raised and answered: a) Nature of the Problem; b) Players and Social Dynamics Involved; c) Significance of Issues for Macedonia’s Business Environment; d) the Potential Means to Address the Problems and Impact Assessment; and e) Potential Risks. A complete listing of these follows under Priority Components followed by a listing of Secondary Components.

PRIORITY COMPONENTS:

Access to Market and Investments FDI/ DI / Export Coordination and Aftercare

a. Nature of the Issue

There is no clear system for FDI / DI / trade facilitation. Many addresses exist including the offices of the Prime Minister and Deputy Prime Minister for Economic Affairs, the FDI Minister without Portfolio, the Minister of Economy, MacInvest Agency, Directorate for Industrial and Technological Development Zones and state authorities and agencies, including municipalities. Two government entities specifically deal with foreign direct investment: the Minister without Portfolio, in charge for attracting foreign investment; and the director of MacInvest Agency, the primary government institution supporting foreign investment. These institutions work independently and, unfortunately are not linked to each other on their web sites. The Minister is “the most senior Government official driving and executing a broad range of policies to secure business and investment opportunities in Macedonia for some of the largest companies in the world”⁸. The Minister conducts direct campaigns and events for attracting companies to invest in Macedonia. Invest Macedonia’s mission is “to win new investment projects for Macedonia and to support the expansion of the existing base of overseas companies in the country”⁹. Nevertheless, the basic roles and responsibilities of these institutions have many overlapping responsibilities with no one clear line of responsibility causing confusion for investors.

MacInvest is carrying out a variety of tasks related to foreign investors in Macedonia. BizClir reports that MacInvest and other institutional efforts to assist foreign investors in dealing with investment challenges are too often handled on an ad hoc basis. In addition, MacInvest claims its main focus is TIDZ investments¹⁰ – for green-field investments and for brown-field investment elsewhere, not for large FDIs deriving from privatization of the existing businesses and assets that are to be assisted through the respective ministries and the DPM’s office. Added to this unclear FDI / DI investment system is the lack of a strong horizontal communication among the many actors and potential actors involved. This results in a very disorderly system with many issues, even minor ones, being channeled directly to the DPM, and often even to the Prime Minister. And importantly, local businesses complain that even within this poorly organized trade facilitation system, their interests are given low priority with no dedicated agency to promote and coordinate their business needs. The need for a more articulated trade promotion system has been recognized and it is expected that trade promotion will be added to

⁸ <http://www.msi.gov.mk/>

⁹ <http://www.investinmacedonia.com/>

¹⁰ TIDZs are areas designated for highly productive and technologically advanced clean manufacturing of goods to be exported from Macedonia. Operations in these zones are endowed with special investment incentives (10-year profit tax exemption and to a 50% reduction of personal income tax for a period of five years, exemption from payment of value added tax and customs duties for goods, raw materials, equipment and machines, 99 years’ lease of the land and other infrastructure and administrative benefits).

the MacInvest portfolio. It is argued that no additional technical assistance is needed for the FDI related operations of MacInvest, but rather assistance for taking on this new trade promotion responsibility. However, to better address this issue, MacInvest plans to improve its "after care" by providing a three-person "After-Care Unit" staffed with two operational and one legal expert. It also plans to "embed" an additional employee in the TIDZ, once additional companies have set up operations there.

Municipalities also have certain institutional authority to ease FDI / DI issues. According to the Law on Local self-Government, every municipality should establish Local Economic Development Units which to date have not been given much importance. Municipalities need to develop achievable economic development strategies and action plans. On the one hand municipalities seldom provide clear, accurate and timely information to the business community, and on the other the business community fails to provide municipalities with sufficient information about their needs, costs of doing business, plans and projections. ZELS also fails in this regard by not providing the training and assistance needed to promote the mutual interest of municipalities and the private investment sector.

b. Actors and Social Dynamics

The Macedonian Government is expected to ask the donor community to align its assistance around its 2009- 2020 Industrial Policy.¹¹ This policy is not a stand-alone strategy. It requires integration of all relevant policies that relate to enhancing the competitiveness of industry generally. And based upon these needs, the Inter-ministerial working group for industrial policy development was established to develop dialogue and build consensus on key industrial policy issues and requirements. Some of the major policy development areas included under this strategy are: SME and entrepreneurship development; technology development and innovation; investment promotion; human resource development; regional development; finance, environment; trade; and state aid.

Implementation of the Industrial Policy will be supervised by the Competitiveness Committee of Ministers composed of: the deputy prime minister for economic affairs; and the ministers of economy finance, education and science, agriculture, forestry and water economy, local self-government, environment and physical planning, labor and social policy. And other relevant ministers may be added to the Committee as needed. The Committee will be a decision-making body that will approve all relevant competitiveness programs and will have authority over future industrial policy decisions.

The Competitiveness Committee will be assisted by the Inter-Ministerial Expert Group for Industrial Policy (IMEG). The IMEG will act as an expert body of Competitiveness Committee with the following tasks:

- Professional and technical support to the Committee.

¹¹ Government of the Republic of Macedonia: "Industrial Policy of the Republic of Macedonia 2009-2020", June 2009.

- Coordination of programs for policy implementation and development of all relevant inputs for Committee decisions.
- Development of public-private dialogue for policy implementation and renewal (with individual companies and representative organizations, i.e. National Entrepreneurship and Competitiveness Council).
- Institution building and awareness raising activities for industrial policy implementation.
- Other tasks defined by the Committee.

The Deputy Prime Minister for Economic Affairs and team appear committed to making the new institutional structure operational. MacInvest believes technical assistance is needed in the trade promotion area—an area new to them. The institutions involved in FDI / DI / trade facilitation sector are: the Deputy Prime Minister for Economic Affairs; the FDI Minister without Portfolio; the Minister of Economy; MacInvest Agency; Directorate for Industrial and Technological Development Zones; and other state authorities and agencies, including municipalities and ZELS.

The British Embassy implements a project to assist the work of MacInvest. This project focuses on capacity building of its employees, and importantly in assisting it in its economic promotion activities. It also helps the Agency develop its aftercare department and services. Many of these activities are demand-driven and provide project flexibility. The British assistance is scheduled to end April 2010 with no likelihood of any extension. The USAID Competitiveness project also currently assists MacInvest in its endeavors and will likely continue some form of continued help under its assistance umbrella including the trade promotion activity.

c. Significance of Issues for Macedonia’s Business Environment

Globalization or competitiveness is considered to be the first driver for change¹² and FDI is a primary means for Macedonia to access global capital and markets. Thus it is imperative that FDI be considered a system supported under clear and well-organized principles with open communication channels and transparent implementation structures. Currently, the system suffers from a lack of these necessary ingredients. Too many institutions are involved with poorly defined FDI/DI / trade facilitation responsibilities and inadequate communication links among and between concerned parties. This results in excessive delays in implementation with at times duplication of efforts, and an excessive and unnecessary burden at the upper levels of Government, particularly at the Prime Ministerial and Deputy Prime Ministerial levels of government.

Another issue is the current circumstance, in which business and investment promotion is overly emphasized and “the product”—an improved business environment—is often not fully up to the levels promoted. This often leaves unrealistic expectations with prospective investors. Efforts to attract FDI should first focus on improvement of the business climate and then increase visibility to the outside world through business promotion activities.

¹² Lessons for Reformers: “How to Launch, Implement and Sustain Regulatory Reform”, FIAS, The World Bank, 2009.

If the business environment of a country is neither attractive, nor well prepared, the attractiveness of the investment climate should first be given priority status followed by making business opportunities more visible for investors, not the other way around. Namely, if investors come into a highly promoted FDI country and do not experience the promoted benefits, they are likely not to invest, and by word of mouth a negative investment attitude often spreads to the larger investment community even after genuine changes to the business environment may have taken place.

d. Potential means to address the challenges and impact assessment

One of the principal keys to the promotion of the Government's 2009-2020 Industrial Policy for Macedonia is the sponsorship of an effective and efficient open and transparent system for FDI and DI export coordination and aftercare. The GOM needs to recognize this vital relationship and provide the necessary infrastructure and resources for the development, implementation and continued operation of a competent FDI and DI export coordination and aftercare system with strong horizontal communication links among all the involved entities. Clearly defined roles and non-overlapping authority is needed among all concerned parties. Importantly, in a newly created system domestic investors need to receive the same attention as foreign ones. And for all, foreign and domestic investors, aftercare needs continued attention. Such improvements will have a high impact on addressing fundamental problems facing the FDI and DI community of investors and substantially aid Macedonia's economic growth and job creation. Within this structure, institutional dialogue, Government—to—Government communication needs to be assisted through the Inter-ministerial Committee and its Expert Group. Institutional dialogue should be promoted with the private sector through revitalized National Entrepreneurship Competitiveness Council. And implementing institutions need assistance to better understand the problems of the business community and ways to increase their problem resolution capacity. MacInvest, as one of the implementing institutions, is considered a potential partner recipient of the assistance.

The effects of assistance to this area might be summarized as follows:

- Government coordination among and between all levels of government, based on clearly defined roles and non-overlapping authority improved.
- Implementation of the Industrial Policy of Republic of Macedonia 2009-2020 initiated.
- Institutional dialogue, Government—to—Government communication eased through the Inter-ministerial Committee and its Expert Group – embedded consultants or consultants assigned for the matter within the new project.
- Various institutions within the implementation structure assisted in understanding the problems of the business community as they arise and their resolution capacity increased.
- LED capacities increased. A number of specific LED assistance projects conducted as pilot or demonstration projects.

The DPM should be the prime partner for this component.

e. Potential Risks

This intervention is based on the assumption that the GOM has interest to support the Industrial Policy and its accompanying institutional dialogue. If this interest is not supported by the DPM there is the risk of limited or non-support by other needed government entities for its implementation.

FDI / DI / Export Coordination and Aftercare

Level of Priority: High

Potential for Impact: High

Resources Requirement: Medium / High

Potential Risk: Medium

Access to Property Rights

a. Nature of the Problem

Background. Access to Property Rights is crucial for investment, especially to those in the production sector who need access to land for new construction or expansion to existing facilities. Unfortunately, many investors interested in starting a business in Macedonia face the often cumbersome and frustrating issue of buying or leasing land. Such potential investors must address the many steps of getting land rights and then the frustrating delays in obtaining construction permits. This time-consuming and often extremely exasperating experience—often resulting in no clear end-results—discourages many potential investors to end their request at some earlier stage in the process.

For several years, the World Bank ranked Macedonia close to the bottom of its world list with respect to the easiness in obtaining construction permits. This is not only detrimental to attracting new investors, but also discourages those already investing in the country to add or expand to their holdings. The only exceptions to the access to property rights concerns are the lands within the technological and industrial development zones (TIDZs). In these areas there is clear land title and management responsibility for the foreign investors. But many foreign investors, and especially the domestic ones, do not meet the necessary criteria to obtain land in a TIDZ. They often must seek to obtain land elsewhere, thus encountering all the above-mentioned difficulties of obtaining clear titles and construction permits.

MOTC is a key policy institution in the land sector. MOTC is currently involved in many, if not all, aspects of land issues, such as management of the state owned land, approval of urban plans and urbanization permits, drafting of laws and policies. A willingness among government officials to reform the land management area and to simplify the construction permits procedures needs to be promoted. In addition, human and institutional capacity at the central and municipal level is weak and needs to be addressed. In addition, there is a lack of usage of modern IT solutions that, if properly developed and implemented (i.e. eGov services), could substantially help investors in simplifying access to property rights.

Registration of Property. In the past few years significant progress has been made in the area of property registration confirmed by various stakeholders (state institutions, donor community, private sector representatives). It is estimated that a little over 90% of the construction and agriculture land in the entire territory of the Republic of Macedonia is now covered in the Real Estate Cadastre (RECA) This data base, contained electronically, is continuously updated and available on-line. The World Bank loan for the implementation of the “Real Estate Cadastre and Registration Project” made both the Agency and the registration system more efficient. Other major achievements of this project are: improved processes and procedures through re-engineering and introduction of IT (reduced time for registering property transactions from a few weeks to a couple of days); improved institutional capacity and human resources; increased security of property rights; and performance of property markets. Other projects were recently implemented and completed with financial support from bilateral donors (e.g. Sweden, Netherlands), all aiming to improve different aspects of the RECA work. The World Bank will most likely continue its activities in the real estate cadastre by providing another long-term loan.

Though largely improved, there are still problems and ambiguities related to land ownership and registration. The ongoing conversion from land cadastre to real estate cadastre (conversion of possession rights to ownership rights) does not necessarily equate to clear land titles, especially in rural areas. What is registered at the Real Estate Cadastre may be subject to administrative or court dispute procedures to determine ownership signifying that denationalization continues to be an ongoing process. In particular, the transformation (from state to private) of the developed construction land continues to face many regulatory problems. Thus, the issues of building titles vs. land titles remain. Ownership on one title does not necessarily convey ownership on the other title. And many individuals interviewed by the Assessment Team complain that the shorter deadlines now possible for registering property rights are often not implemented by the RECA. The backlog of unsolved property disputes has been significantly reduced over the past few years, but not fully eliminated.

Ownership/management of the state land. In terms of land management responsibilities, state land is managed at the central level by the MOTC for construction land and by the MAFWE for agriculture land. This centralized control creates a dependency by municipal authorities upon the central Government for land decisions often at the detriment to investors seeking quick and efficient actions. Municipalities wishing to attract investors by giving, selling or leasing construction land, frequently find their development goals caught up in the burdensome and politically influenced approval procedures of respective ministries. In addition, once the land title has been resolved, problems may remain with the urbanization (purpose/usage) of the land, approvals for which are carried out at the central level by MOTC. Attempts at changing these difficult procedures have been undertaken by the MOTC, who together with ZELS, USAID MLGA Project and other institutions are in a process of developing a Strategy, which will set the actions necessary to transfer the ownership and/or management of the state undeveloped land from central to the municipal level.

Construction permits. Investors face a particularly burdensome and excessively complicated procedure in obtaining construction permits. As indicated in the latest World Bank “Doing Business Report”, the entire process (from getting the permits to titling the property in the

Cadastre) includes 21 procedures taking up to 146 days to complete and its costs are exceptionally high. Compared to the previous year, Macedonia has made limited progress but remains ahead of some other countries in the region. This progress was largely due to the decrease in the number of days necessary to complete the procedures and the reduced costs. But Macedonia still lags behind many countries worldwide in the number of procedures required, days necessary to complete, and costs involved. Although the required number of procedures and days to complete them are generally in line with comparable economies, the costs in Macedonia remain much higher. In addition, there is no single window that will enable the process to be expedited and simplified. Moreover, there is a lack of clear and publicly available information on the processes involved, and a lack of professionals to turn to for advice. Collection of all necessary documents that are issued by various state institutions is the sole responsibility of the applicant. There is limited or no information exchange between and among concerned parties and institutions. Added to these woes are the weak capacities of the municipal administration to handle the requests and issue the licenses in a fast and efficient manner. Municipalities have been given the responsibility to issue construction permits, but their capacity (lack of staff in terms of quantity and quality, insufficient usage of ICT tools) to handle the process is weak, causing excessive procedural delays. An earlier USAID funded Make Decentralization Work (MDW) project developed a software application that was handed over as donation to 25 municipalities. This software enables a user a limited one-stop-shop information system for construction permits not offering user interaction. And civil servants at both central and local levels are reportedly not service oriented or understand the real estate market. They fail to see or treat state land as an asset with income potential. The entire construction permitting process involves several institutions: including municipal authorities, the State Inspectorate for Construction and Urban Works (a body under MOTC) and other organizational units in larger municipalities, with mandates to carry out inspections and to control if the construction work is in compliance with the rules and regulations) and RECA.

An additional concern of the private sector, noted by the Assessment Team, concerns utility fees. These tend to be very subjective from one user to another and from one fee category to another often within the same locality. Municipal administration and municipal public enterprises are also very slow in the process of planning and procuring the service required to develop the necessary infrastructure. The investors who operate in the capital city face additional problems in having no clear division of responsibilities and competencies in this area between the City of Skopje and the municipalities within the city. Lastly, laws and regulations related to construction have been frequently changed even during the process of constructing a building, which creates legal uncertainty and confusion.

b. Actors and Social Dynamics

MOTC is the key policy institution for land issues and construction permits. But centralization of land management authority is not combined with either capacity or incentives for better management. The MOTC has authority over state land in the municipalities, but the incentive for municipal development—the driver for better management—is at the municipal level. Decisions about who may lease or use what parcels, as well as simple decisions related to consolidation of agricultural plots, are mired in political decisions without proper regard to economic and social consequences. MOTC is respected as a good USAID counterpart to implement reforms in several areas of its responsibility, such as in implementation of electronic

systems for allocation of cargo transport licenses and public housing. However to date, it appears to lack a sense of urgency with regard to land issues and has rejected many reform proposals. However, the latest actions on the part of MOTC— agreeing to transfer the ownership and/or management of the state land to the municipal level and working towards the simplification of the process for issuance of construction permits—are positive signs that need encouragement and personnel training support by donors. Other relevant institutions involved in the access to property rights are: State Inspectorate for Construction and Urban Works, RECA, Authority for Assets within the Ministry of Finance, ZELS (representative body of the municipalities), and property valuers.

A Working Group established to develop a Strategy on Construction Land Ownership/Management Transfer consists of representatives of MOTC, MoLSG, ZELS, RECA and the USAID funded MLGA Project. The Strategy addresses only the undeveloped construction land owned by the state. Its aim is to set up the actions needed to transfer the ownership and/or management from state to municipal level (overall process to lease and sell the land to be completely carried out by the municipal authorities). The latest position of the Working Group, driven by the advice provided by legal experts and other state institutions, is that the transfer of ownership would be a more difficult option to implement. Therefore, most likely, the undeveloped construction land will remain state owned, but the complete management responsibility will be transferred to the municipal authorities. The transfer would cover the entire undeveloped construction land, which is categorized in the 3rd, 4th and 5th category in accordance with relevant national laws and international standards. The construction land that will not be transferred to the municipalities will continue to be state owned and managed (buildings and land of national importance or land already leased by GOM on short or long-term basis or land not of interest to the municipalities). Adoption of this Strategy is scheduled to occur soon after the completion of this Assessment Report. According to the Strategy the necessary legal framework is to be completed by March 31, 2010. The legal drafting process is to encompass major changes in at least three laws and minor changes in numerous other laws. However, major issues related to making precise specifications and land registration might not be fully addressed by the law. According to the Working Group members this process will be long and complex. MLGA would most likely support the legal drafting process that may still require further support to municipal authorities for proper implementation.

c. Significance of Issues for Macedonia's Business Environment

As previously mentioned, obtaining land is often of critical importance to investors both foreign and domestic, especially for those who plan to run a production line industry. Many foreign investors interested in starting a business in Macedonia face the issue of buying or leasing land. Running through all these steps of getting land and construction permits is time-consuming, frustrating and often ends with no clear results. Land issues always stand high in all relevant business environment reports, and are seriously taken into consideration among potential investors. For several years, the World Bank WB ranked Macedonia close to the bottom of its list with respect to ease in obtaining construction permits. This provides a poor signal for potential investors and has a negative impact on the country's economic development.

d. Potential means to address the Challenges and Impact Assessment

Fortunately, Government attention is starting to focus on the many issues involved in the current inefficient, overly complex, and excessively time consuming state of access to property rights and the concomitant issues in land use and construction permits. The World Bank has been working with the Real Estate Cadastre in developing nation-wide land titling; but this procedure and the systems developed—with a simplified and shortened procedure for registration of property—are yet to be fully market tested. Close inter-ministerial cooperation with MOTC, with the RECA, and with municipalities to work on the agreed reforms is needed. If the World Bank plans further support to the RECA, USAID assistance to this institution would most likely not be necessary leaving it to focus its resources on the management of the state owned land and on the issuance of construction permits.

USAID may wish to consider placing an expert within MOTC to provide necessary expertise and ensure efficiency and speed in the implementation process. Proper implementation of the soon-to-be adopted Strategy for the Transfer of Construction Land Management is also needed. Support, particularly staff training at the municipal level, will be needed to assure that this strategy and the process is fully understood and efficiently carried out. And the creation of a “Single Window” system for land management and construction permits needs to be considered. Ideally, this should be an electronic system built upon the existing software application developed by previous USAID efforts, but it should provide more functionalities and options (interaction between the users). Developing and implementing a Single Window system will require a major commitment on the part of the Government. Several aspects will need to be addressed and reformed: a) legal changes (several laws and bylaws need to be amended or replaced) to reduce the number of procedures required and to shorten the days to complete them; b) new organizational set-up will be required, followed by transfer/merging of responsibilities; c) staff training and possibly staff reduction will be necessary together with staff specialization; and d) introduction of e-Gov services and platforms, training and public awareness campaign will have to be launched.

Good and efficient access to property rights will have a significant influence on improving the business environment in Macedonia and this Assessment Team believes its have substantial potential for positive impact. But an intervention in this area would likely be challenging and costly both on the part of Government and for the donor community working in this area. USAID’s success in addressing the issues involved in improving the business environment is directly relating to how well the property rights issues are addressed and quickly resolved. Therefore it is incumbent upon USAID in its new business environment project to work closely with the GOM to provide the necessary material and people support to accomplish the many tasks involved if it chooses to work in this area. It may well call upon a MOU to assure that any USAID commitment to this component is fully complimented by full support at all levels of government.

Given the tasks involved, and the limited resources that USAID can bring to the table, consideration should be given—particularly for those involved in developing municipal responsibilities and training in property management and land use classifications—towards

developing one or more pilot demonstration projects at the municipal level. Initially working with a few selected pilot municipalities and demonstrating that reforms can successfully be implemented will give powerful signals to other municipalities to undergo their own demonstrations, before going nation-wide. In the long run—under increasingly important decentralization efforts with greater municipal responsibilities and revenue raising opportunities—competition among municipalities for success in getting and increasing both foreign and domestic private investment partners will increase. These are the “windows of opportunity” that USAID needs to seek and encourage.

The introduction of an e-Gov application in this area is of utmost importance. All three aspects (property registration, management of the state land, construction permits) should be covered. However, the property registration aspect has been already modernized and will be further supported by the World Bank project. This will most possibly include development of an e-Gov application for submission and issuance of property documents. For the other two aspects, the possible eGov application could cover all processes and procedures (submitting and processing the requests, issuance of permits, e-auctions for sell or lease of the land etc.). The system(s) will mainly be used by municipal authorities, with possible limited use by central authorities.

e. Potential Risks

The willingness on the part of many municipalities to accept and implement reforms appears real but their capacity to enforce them is limited given lack of sufficiently well informed staff. And the support given to municipalities by the central authorities to take the necessary aggressive steps at reform may not be forthcoming.

Clear Land Property Rights and Transparent Land Transactions

Level of Priority: High

Potential for Impact: High

Resources Requirement: High

Potential Risk: Medium

Access to Institutional Public Private Dialogue

a. Nature of the Problem

Access to Institutional Public Private Dialogue (PPD) is considered a high priority within the goal of enhancing the Macedonian business environment. This component is considered the connecting tissue for both the Access to Markets and Investments and Access to Property Rights. One of the principal difficulties identified within the Assessment Team’s Work Flow Conceptual Framework is the lack of effective and efficient communication within and among ministries and concerned agencies and the private sector and the public at large. This shortcoming manifests itself in overlapping and confused authorities and responsibilities, excessive process delays, and lack of clarity, and transparency in the system that both frustrates existing investors and discourages new investors both foreign and domestic. The result is severe investment underperformance of Macedonia’s economy by not turning the potential jobs and business opportunities into realities.

Moving from laws and regulations to implementation needs active lines of communication among and between all actors in the system, government officials, concerned agencies, the private sector and the public at large. A well functioning PPD is vital not only for economic growth and prosperity but for the democratic process to properly function. Policies, laws and regulations need constant feedback between those making and enforcing such laws and regulations, and the public and private sector needs to work within such regulations. The GOM has committed itself to the implementation of the Industrial Policy 2009-2020. This policy provides for an institutional setup for the Industrial Policy implementation with the Inter-Ministerial Committee having a crucial coordination role in the process. In addition to this, the Industrial Policy recommends involvement of the private sector in the discussion through the National Entrepreneurship and Competitiveness Council (NECC). NECC has been established with the assistance of the previous competitiveness project. It was operational for several years, but it did not manage to increase its capacity to conduct and maintain a well-articulated dialogue with government.

Unfortunately, the GOM demonstrated limited commitment to pursue the dialogue and assist both private and public capacity building. Initial observation suggests that most attempts in the past at developing an effective PPD have failed due to a combination of lack of political will and lack of private-sector organization to take advantage of any dialogue opportunities. Eventually, the NECC collapsed at the expense of maintaining an effective public private dialogue. Currently there are only three institutionalized mechanisms for PPD: the annual Export Conference initiated by USAID BEA and recently institutionalized by MoE; the Economic and Social Council within the Government; and the Corporate Social Responsibility Council. However, the institutional dialogue should not necessarily be linked solely to the NECC. USAID has worked with the NECC in the past with mixed results. While waiting for an invigorated NECC to be established and operational, the existing PPD vehicles should be used, including the open channels for discussion between the Government and Chamber of Economy, Associations of Chambers, Chamber of North-Western Macedonia, AmCham, and thru individual chamber clusters. Most importantly, a firm pledge on the part of the GOM to provide the resources and follow through on support to NECC is needed before USAID commits further assistance to this sector.

A specific area of PPD is the Regulatory Impact Assessment Process. The process of creating laws and regulations in Macedonia was seldom based upon true cost and benefit analysis as to the impact of such laws on concerned parties or businesses. This has too frequently resulted in an environment in which laws may be poorly written—not accepted by the stakeholders—leading to a lack of implementation. While Regulatory Impact Assessment has been made mandatory since the beginning of 2009, the capacities of various government ministries and agencies are rarely sufficient to conduct a comprehensive and well thought out RIA process. Support for a twinning effort is needed that would work with the Cabinet of the Deputy Prime Minister, Ministry of Economy, other line ministries, National Entrepreneurship and Competitiveness Council, and ZELS. A concerted effort at implementing RIAs would provide several benefits. For government it would help in shaping laws that would have the greatest good, namely maintaining a proper perspective between wished end results and possible impact on concerned parties and/or businesses. For concerned parties and/or businesses it would provide clarity on the

laws/regulations intent and a rationale towards implementing such laws and regulations. And importantly, it would help institutionalize a workable PPD mechanism through which government is able to dialogue with the private sector based upon goals and objectives set in the clarity of a cost/benefit framework.

An important catalyst to the PPD is the media. The media are a significant ingredient of the business environment in Macedonia. Unfortunately the media is largely seen as biased either to certain political options or to their founders. There are few business-oriented media: the weekly Kapital, the daily Biznis, and the internet portal Total. Media are of particular significance to investors because they increase the public awareness on the importance of good investor treatment and relations and provide a means of exposing and discouraging inappropriate treatment of investors. Raising capacities of journalists on business matters, organizing public debates and similar events is a further resource for improving the business environment.

b. Actors and Social Dynamics

In the absence of effective PPD, the current approach for business associations and large businesses is to present their case directly to the highest attainable level of government. Usually unless the private sector can access the ministerial level or above, they will not receive their desired attention. On the other hand, the Government prefers talking to the chambers; particularly if it wishes to obtain approvals on decisions which it may have already taken—an ex post discussion—which of course is too late for any meaningful businesses proactive involvement. This process is non-transparent and dependent on party affiliation and relationships. The issue is that most micro, small and medium enterprises are left without a fair and open advocacy mechanism. Nominally, a multiplicity of actors are involved in the PPD sector including the Cabinet of the Deputy Prime Minister; Ministry of Economy; other line ministries as need arises; National Entrepreneurship and Competitiveness Council; Export Conference; the Economic and Social Council supported by the MOLSP; and the Corporate Social Responsibility Council. To this mix must be added the various chambers of commerce both foreign and domestic representing the private sector and its concerns, as well as the clusters already established and those that will be established.

c. Significance of Issues for Macedonia's Business Environment

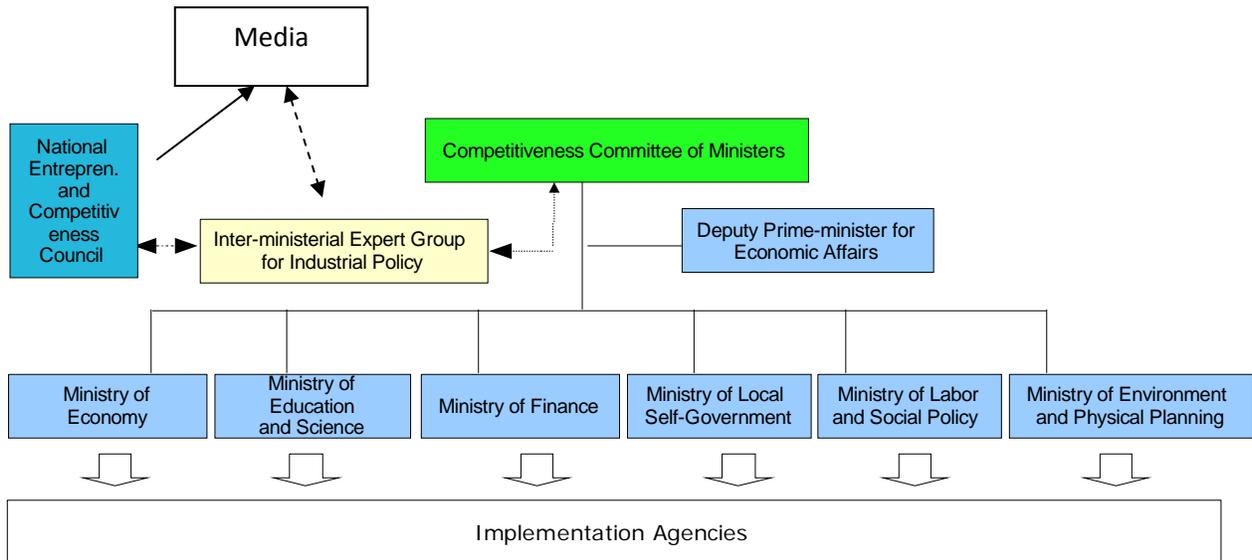
Demand-driven reform needs to be brought forward via institutionalized dialogue between businesses and government officials. Currently, the lines of communication are poor or non-existent. The policy setting process is only in one direction from the top down without any bottom up response from businesses, their associations, and other concerned parties. This leads to poor formulation of policies and little consensus building for efficient and effective policy implementation. Without a robust, open and transparent dialogue, reforms are either misdirected or unimplemented, and political influence often overtakes sound and constructive investment decisions and opportunities. This is also true for the process of enactment of new regulation. Costs and benefits of planned business laws or regulations to all concerned parties need to be carefully developed and analyzed to arrive at an optimum mix that will both benefit governmental goals and needs and still promote a suitable and attractive business climate for the

investor. Such an approach would have the best chance for acceptance on the part of the business community and lead to timely and efficient implementation

d. Potential means to address the Challenges and Impact Assessment

As previously mentioned, the GOM has apparently committed itself to the implementation of the Industrial Policy 2009-2020. This approach provides for an institutional setup for Policy implementation with the Inter-Ministerial Committee having a crucial coordination role in the process. This suggests that the capacity of the parties involved should be enhanced by greater competence of government officials to understand private sector issues and work towards meeting their needs. Namely the potential exists but the follow through on the part of government to make the hard decisions necessary— providing the necessary resources, training, system transparency, and appropriate communication links, and to institutionalize a PPD system—is still to be determined.

Figure 4: Implementation Structure for the GOM Industrial Policy 2009 - 2020



In order to make the RIA tool properly implemented and to give the desired results, further support in the form of specialized trainings, study tours and coaching for the legal drafters is necessary.

A web portal for legislative preparation as part of the RIA tool has recently been promoted and introduced. However, the impact of this application is limited since it only allows comments and proposals by the interested parties to draft laws. What is needed is a broad based web portal allowing interaction between the business community and concerned government institutions on the full range of their mutual interests (drafting policies and strategies, proposing and undertaking measures, joint events, dissemination of information) This eGov application would enable effective channels of communication and cooperation between all concerned parties and provide an important link for further support by PPD councils.

PPD is a high impact area. USAID may well consider as part of the MOU process to address the need for GOM commitment to develop and support an effective and transparent PPD system. Given continual challenges in this sector, USAID's support to its two top priority components, **Access to FDI/DI/Export Facilitation**, and **Access to Property Rights** need strong and transparent PPD involvements. If a national effort proves difficult to develop and implement, then a more limited initiative directed at these two components should be advocated by USAID under its new project activity. Adequate representation of private sector concerns with effective lines of communication to appropriate governmental officials for these two sectors is critical if GOM wishes to provide business the opportunities and incentives to invest in Macedonia and meet its Industrial Policy goals of economic development and job creation. Any effort to be successful largely depends upon willing parties ready to commit the time and resources involved working under the following set of common goals and assumptions:

- The capacity of government officials to understand private sector issues would be strengthened and more effective and efficient business laws and regulations would be developed.
- Business Associations capacity for PPD / advocacy would be strengthened.
- Improved implementation of laws and regulations would be realized.
- Media capacity to further promote dialogue would be increased through trainings and organized debates.
- PPD will be the venue through which high priority issues will be more timely and effectively addressed.

e. Potential Risks

As under the FDI / DI / trade facilitation intervention, GOM support is critical to keep the dialogue between and among all concerned parties alive and effective. Risks lie on the need to achieve and maintain positive personal relationships and full commitments on all parties. And these relationships and commitments need to be supported by adequate and well-trained technical staff.

PP Dialogue

Level of Priority: Medium-to-High

Potential for Impact: Medium-to-High

Resources Requirement: Medium-to-High

Potential Risk: Medium – to- High

Access to Finance

a. Nature of the Problem

Access to Finance is an important component of the business environment. Within this component two areas stand out as critical enabling elements of the business environment needing attention: a) The development of a credit bureau, and b) developing reliable real estate appraisal profession. The development of an efficient credit bureau is critical to address a major impediment to access to finance. Creditors cannot adequately ascertain the creditworthiness of borrowers without an operational credit bureau. There is already a public credit bureau but it is only designed to serve the national bank oversight purposes. The private credit bureau, recently established by the banks, remains inoperable facing certain legal constraints. The Bureau can only collect information from a narrow range of members defined in the law, which leaves out important sources of information. A major impediment lies with the Agency for Data Protection. A private credit bureau needs to collect bank and other private sector credit information (i.e. utilities, credit card etc) in order to assure that banks can compete for credit worthy customers based on good quality information. This would reduce risk and collateral requirements and interest rates. Once information has been improved and competition increased, product innovation and diversification should follow. The private credit bureau is less than one year old; it lacks a business plan and trained management to sustain its operations. Credit agency software has been developed, but assistance is likely to be needed to harmonize the software with that of users. In addition to banks, the Credit Bureau plans to involve public utility companies and Municipalities.

Developing reliable real estate appraisal professionals is also a priority area under the access to finance component. The valuation profession is technically very weak; it lacks continuous professional education, adherence to standards and proper regulatory organization. There are numerous examples of consequences from deficiencies of proper valuation especially in the cases of execution of debt claims, or bankruptcy cases. Property is valued unreasonably high—sometimes several times above fair value, and its sale is excessively prolonged, at times a year or longer—leaving the concerned party with mounting asset losses and eventual very low debt recovery. Public information on the real estate market is lacking with little or no electronic communication channels available. Historic information on transactions, appraisals, market data, prices achieved, and general market data either do not exist or are extremely difficult to access or find. Valuation of assets needs to be professionally developed to include intellectual property rights and other intangible assets as additional forms of collateral. Several other access to finance issues, although essential, are of secondary importance given USAID's limited resources and/or given the assistance by other donors. There is a shallowness of the credit market with little variety of instruments available to the credit borrowers. Few trade financing mechanisms based on accounts receivable, inventory collateral, or similar exist; export credit insurance, which can reduce the cost of export credit, is underutilized; and factoring, invoice discounting, insurance of export receivables and similar activities are insufficient.

The finance area lacks venture capital funds, business angels, and private equity funds. And importantly, there is a dearth of corporate bonds. Corporate bonds should be developed since they can serve as a convenient and vital form of acquiring business finance. Knowledge is

needed as to how to develop this market. Added to this lack of corporate bonds is the complete absence of Municipal bonds—an important means of municipal financing. The process in developing municipal bonds is lengthy and requires knowledge and guidance and to date only the City of Skopje has commissioned a credit rating assessment—a first step in developing municipal bond issuance.

The business community also lacks skills to prepare proper financial applications and often reluctant to employ corporate governance, accounting, business planning and financial management standards to ensure transparent, accurate, and reliable financial reports and projections. This translates into a mentality of over-dependence on the Government for support.

Affordable credit for commercial needs faces multiple challenges:

- Litigation is far too slow for contracts that must be enforced through courts.
- For commercial matters, some of the problems lie in the lack of specialization of courts due to excessive rotation of judges from the commercial departments of courts.
- Debt enforcement agents are particularly deficient in rural areas and in smaller Macedonian towns where it is difficult to get timely court decisions. Expedited enforcement procedures through self-executing contracts are available under the law and would help to avoid slow court processes, but there is little awareness among legal practitioners and businesses (other than banks) that this option even exists.
- The alternative dispute resolution mechanisms, the arbitration and mediation are legally possible, they have had limited promotion in the country for several years, but no noticeable demand for their services has developed. Arbitration, used in international disputes, has been unsuccessful in catching on. Few mediation cases have been conducted to date. Although companies do not have trust in the court system, they still stipulate court action in the case of disputes, due to the an erroneous belief that arbitration is a sort of private justice. In pursuing mediation the parties often have misguided interests, aims and expectations when choosing to settle their dispute through a mediator.
- Training programs for judges and prosecutors has been launched, but due to the permanent changes/appointment of new judges, further support is needed. Training programs should be conducted in cooperation with and at the Judicial Academy with emphasis on commercial law issues such as, but not limited to: corporate governance, bankruptcy, finance, IPR and public procurement.
- Credit policy of the National Bank of Macedonia is perceived by some to be tight and imposing high capital adequacy requirements to banks preventing them from being sufficiently flexible to respond to market needs. Nevertheless, the NBRM has been assessed by IMF and by other institutions as doing a proper job in preserving the stability of the financial system of the Republic of Macedonia, which is its ultimate objective. Government fiscal policy also has been inconsistent, as government attempts to fund budget through short term borrowing have at times drawn liquidity out of the banking sector.

It is not only the access to finance that is facing challenges. The access to debt is also burdened with problems. Many companies lack professional corporate governance and internal management systems; some companies are reluctant to be adequately transparent and to disclose

needed information. Because of the inadequate supply, the capital market is shallow with some recent signs of change. Few IPOs have been placed on the market. Similarly to the bonds market, this may be due to the limited understanding and knowledge of potential issuers. The state and municipalities can help in providing more opportunities to the market by launching public-private partnerships (PPP) opportunities to provide infrastructure and other public-benefit investment.

b. Actors and Social Dynamics:

The principal actors in this sector are: the Credit Bureau, business associations, Institute of Auditors, Institute of Valuators, NECC, SEC, Macedonian Stock Exchange. While there is an unending demand for additional finance from business, there is little awareness of commercial investment and lending requirements. As a result, businesses lack creditworthy management and financial accounting systems, which means that few investors are interested. With few investors interested, there appears to be little reason for undertaking improved corporate governance, creating a vicious cycle from perceptions that there is no “carrot” available for those who reform. Likewise, tax audits can create a “stick” to drive better accounting and financial management, but these are still nascent. Added to this is a lack of overall understanding of how to improve financial management and corporate governance. Public awareness of benefits and opportunities of improved management is needed to break the cycle, coupled with viable opportunities for finance for those who make the necessary changes.

c. Significance of Issues for Macedonia’s Business Environment

Businesses need adequate and easy affordable access to finance for growth and development. Lack of affordable capital limits the ability of business to respond to new market opportunities or to survive difficult periods. Capital markets need to function effectively in order to provide financial intermediation for investment.

d. Potential means to address the Challenges and Impact Assessment

In order to adequately address the many challenges facing access to finance, several laws, policies, and regulations need to be improved. Of particular concern is credit bureau assistance and assistance to the development of the valuation profession. The private credit bureau law and the data protection law need to be harmonized with more open European data protection standards and practices to improve the quality and quantity of information. Capacity of the Credit Bureau staff together with the staff of the Data Protection Agency needs to be enhanced. Pledge law needs to include a wider array of pledgeable assets and a simpler, less costly internet-based registration system. Public information on real estate market transactions should be registered in a publicly available database and made available electronically. These enhancements would have significant and positive effects on access to finance. They need to be carefully considered as part of USAID’s strategy for further support towards enhancing Macedonia’s business environment. In particular, attention should be given towards human and institutional capacity strengthening. A technically able, well-organized and regulated valuation profession is needed with open and accessible market data registries (databases) established. Moreover, pilot project assistance is also recommended to include trainings, conferences, and

visits both domestically and foreign to municipalities and other agencies and institutions that would provide best practice examples on issuing corporate bonds, municipal bonds, IPOs, and PPPs . It would also be useful to invite representatives of associations, i.e. business angels associations, to discuss their modus operandi with local businesses, and organize special workshops on lending using other (movable) forms of collateral.

e. Potential Risks

No major potential risk for the intervention is foreseen.

Access to Finance

Level of Priority: Low-to-Medium

Potential for Impact: Medium

Resources Requirement: Low-to-Medium

Potential Risk: Low

Secondary Issues

Access to Fair and Transparent Public Procurement

An important subset both to attract FDI and facilitate partnerships is Public Procurement. This sector has a high percentage of terminated and unsuccessful procedures, lengthy procurement systems, poorly written tender documentation and technical specifications that at times can be discriminatory. Within the recent past, a number of these public procurements issues have been raised. Notwithstanding, some progress has been made in increased transparency and collection/availability of data. A major shortcoming in the sector is the lack of procurement specialists (trained procurement officers), and at times new and inexperienced officers replace trained officers. On the plus side, the Public Procurement Bureau is delivering more frequent trainings and is in process of establishing a Procurement Training Center, with the final long-term objective of having trained and certified procurement officer in each contracting authority.

There also is a lack of central purchasing bodies and joint contract award procedures. Macedonia has a system of decentralized procurements, i.e. each state and public body is responsible for its own procurement. The only exception is the Service for General and Common Affairs that may do procurement for the Government and certain ministries on an ad hoc basis. The Law provides for joint contract award procedures (e.g. several municipalities carrying out a joint procedure for commodity procurement). But the lack of central purchasing bodies and joint contract award procedures often leads to inefficient and expensive procurements.

The GOM places public procurement high on its agenda and supports ongoing efforts for further improvement. For many companies supplying public institutions is important and good business since a significant percentage of the state budget is spent on public procurements. For some companies it may be their only revenue source. Taxpayers also want to know how their state

budget monies are spent. These stakeholders want increased transparency, efficiency and accountability in the procurement process to eliminate or significantly reduce any corruption in the system.

Currently three ongoing USAID funded projects, BEA, e-Gov, and HICD are supporting the work of the Public Procurement Bureau. PPB is working on developing a PP Strategy for the upcoming years. In order to ensure that the past efforts of USAID have been adequately followed, the new USAID activities in this area should build upon this Strategy by supporting some of the proposed activities and by monitoring its implementation. In particular, support for and increase to the number of training programs for the public procurement officers should be a priority. The ongoing program and the soon to be opened Procurement Training Center should be further supported. Activities aimed at improving the functionalities and increase usage of the eProcurement system should also be addressed. A major effort has been made by USAID's e-Gov Project to introduce and properly implement e-procurements. While GOM has made e-procurements mandatory, this obligation requires further training and possible adjustments of the electronic system and its legal framework. In order to decrease the number of terminated procedures standardized template forms need to be developed for tender documentation and technical specification. Rules and/or guides as to how to best select and define contract award criteria are also needed.

Assistance to public procurement, particularly through an automation of the processes should lead to greater transparency and acceptance of the public tender process by all concerned parties.

Access to Labor

Macedonia has one of the highest unemployment rates in Europe with an “official” rate of 34%. This is exceptionally high. It also does not fully reflect information on “previously unemployed persons” many of whom may have emigrated from the country and thus are not reflected in current statistics of the unemployed. Yet within this dire official statistic is the realization that the “unofficial” percentage of unemployed persons is most likely far lower. Macedonia has a huge “gray labor” market, which the Government has long tolerated and not taken sufficient measures to reduce. If registered, many persons employed in the gray labor market would undeniably be living below the poverty line. On the one hand, employers seldom see economic benefits in having all of their employees registered, particularly those in very low paying jobs. And such low paid employees find it more financially advantageous to stay officially unemployed. If registered, they would be subject to pay taxes and contribute around 18% of their gross salary for health insurance. In an unregistered state they also have the possibility of gaining state sponsored and paid health benefits.

Under the USAID funded BEA and e-Gov projects, the registration of employees has been simplified and modernized—confirmed in the latest WB “Doing Business Report”. Those employers who register all their employees have welcomed these registration procedures. Internships and seasonal and part-time work are stipulated as belonging under the Labor Law, but since they do not confer the same economic benefits as full-time work, they seldom are registered. Students and other persons seeking part-time or other type of employment status—especially in the sectors of tourism, catering, and agriculture—must pay the same percentage of the income tax and contributions as do full time workers. In this regard, more

flexible part-time employment laws are needed. Regulatory Impact Assessments using strict cost-benefit analysis would help determine the loss of revenues both to government and to concerned individuals that current laws relating to part-time and student employment are costing. The general consensus argues for more worker friendly laws and regulations, which would go far in benefiting all concerned parties.

The Ministry of Labor and Social Policy (MOLSP) plays the key role in the creation of labor policy and its related legal issues. MOLSP has a good working relationship with foreign donors, but is not sufficiently open to the proposals of the employers' associations and unions. The main counterparts to work with on issues related to implementation and capacity building are ESA and the Labor Inspectorate. Implementation responsibility lies within the Employment Service Agency (ESA). The current USAID funded BEA Project supported the development of "Vision 2011" (Strategy for reforming the ESA). The Strategy recommends ESA change its approach from a basically passive approach, providing subsidies, and initiate a more active approach, promotion of entrepreneurship, labor market research and training. This recent change in focus from passive to active policies with higher spending needs to be continued and enlarged upon.

The existence of the skill gap, i.e. mismatch between the work force demand and the skills and qualifications of the (potential) workers on the labor market, has been identified as a problem years ago. Yet there are insufficient measures undertaken to reduce or eliminate this gap.

Further support should be given to the Labor Inspectorate and to the Government's Economic and Social Council to support the necessary public-private dialogue component. This key PPD body consists of representatives of relevant state institutions, employer's associations and unions. Unfortunately the Council has not had significant positive results to date, and more attention is needed towards making it a more effective instrument for PPD.

Adequate attention to the above listed labor issues would necessitate building the capacities of the relevant institutions and civil servants. Human and capacity building activities on central and municipal levels is required. And public-private dialogue on labor and social issues should involve all stakeholders.

Access to Labor

Level of Priority: Low-to-Medium

Potential for Impact: Low-to-Medium

Resources Requirements: Low-to-Medium

Potential Risk: Low

Access to Energy

Macedonia is a net importer of electricity with prices that are kept artificially low for households. The system suffers from high technical and commercial losses with a low payment discipline. In addition, there exists substantial price electricity and gas costs discrimination between various classifications of consumers. For example, ten large industrial users in Macedonia buy electricity directly from importers, paying a much higher price than households. Because of the improper market pricing signals, energy is used inefficiently and the renewable energy sources are

underutilized. As required by the EU Natural Gas Directive adequate infrastructure to support gas distribution has not been completed and natural gas supply has not been unbundled from natural gas transmission.

In order to address the many challenges in the energy sector electricity tariffs need to correspond more closely to actual cost of supply and distribution costs. The price of keeping electricity price low is equal to quasi subsidies accounting for 5% of GDP. These quasi subsidies through lower prices subsidize many, not just the poor. They are expensive, non-transparent and provide wrong market incentives. The trade deficit resulted from electricity energy accounts to 5% of the country's overall trade deficit. Under the EU Energy Community Treaty, to which Macedonia is a signatory, the electricity market for households is to be normalized by 2015. Energy efficiency needs to be stimulated and the capacity of the Energy Agency and Energy Department at the MoE needs to be strengthened. In addition, the independence and capacity of the Energy Regulatory Commission needs to be enhanced with improvements made to the regulatory environment including building codes, inspection services, and certifications. And various renewable energy potentials, particularly those dealing with building technologies and retrofitting need to be pursued.

Access to energy is important as a medium and long-term business environment issue, but energy has been dealt with separately by the EG office.

Access to Energy

Level of Priority: Low

Potential for Impact: Low

Resources Requirements: Low

Potential Risk: Moderate

Access to Intellectual Property Rights

Infringement of intellectual property rights, especially piracy and counterfeiting, is a problem that Macedonia needs to address. Many investors—particularly those from the IT industry, broadcasters, TV and movie producers and publishers—complain that their intellectual investments marketed in the country are often subject to intellectual property rights infringements. Enforcement of intellectual property rights is essential to developing technology and research and for development industries. It also is critical for attracting foreign investors and protecting consumers. Political will to enforce IPR legislation is weak. Without a viable regime, investors lose money or even avoid investment, limiting growth of the economy.

Macedonia has a legal framework for the intellectual property assessed to be in compliance with all the international standards. Furthermore, the registration procedures, and to some extent the protection of the industrial property rights (patents, trade marks), are adequate according to international standards. But the issues arise in the application of such protection standards throughout all industries and activities. Weak capacities of the implementing institutions to enforce the law and cope with the infringements appear to be the major problem. The State Market Inspectorate and judiciary (courts and public prosecutors) have taken up a number of

intellectual property rights cases. But the reality is that there are far too many cases in which no action has been taken. Often this is due to insufficient personnel capacities and/or lack of knowledge on the part of the implementing and enforcing institutions involved. Against this background, the Customs Administration, and to some extent the Coordinative Body for Protection of the Intellectual Property, have struggled—with some success—to fight against intellectual property rights infringements. The Coordinative Body for Intellectual Property that was established in 2007 plays the role as major counterpart and needs support. The current USAID funded BEA Project has supported the drafting of the National Strategy and Action Plan on Intellectual Property for the period 2010-2013. This would include continuing training programs for the State Market Inspectorate, Coordinative Body for Protection of the Intellectual Property, courts, and public prosecutors.

Access to IPR

Level of Priority: Low

Potential for Impact: Low

Resources Requirements: Low

Potential Risk: Low

Access to Efficient Courts

The Courts remain significant for the commercial dispute resolution in Macedonia. BizClir reports that there is a distinct difference between courts within Skopje and those outside its jurisdiction. The outside courts are considered better performers. The rotation of judges, due to governing party changes make courts within Skopje more subject to political influence. Such high rotation conditions also limit the benefits of judicial specialization. And excessive court time delays further discourage businesses from using the court system for dispute resolution. The Academy of Judges and Prosecutors is established and active, and needs support for specialized training in commercial law.

Having well trained, capable, efficient and responsible court administration is critical for the functioning of an effective and prosperous business environment. This is especially true for small countries like Macedonia, constantly vulnerable to governmental and personnel changes at all levels of responsibilities. These issues argue for sharply increasing the ratio of career civil servants to political appointees, an area in which. USAID's assistance in building public administration capacities would be very worthwhile.

Access to Efficient Courts

Level of Priority: Medium

Potential for Impact: Medium

Resources Requirements: Low to Medium

Importance of e-GOV Applications for Business Environment Reform

The use of e-Gov applications is an extremely effective means to enhance the efficiency and quality by which policy and regulatory business environment procedures and contacts can be explained and made available to investors. Such e-Gov applications can have a profoundly positive impact on the business community. Therefore, any opportunity to implement e-Gov applications for government services to businesses is encouraged.

The e-Gov Project funded by USAID will continue devoting its efforts in implementing and expanding support to its G2B (Government-To-Business) applications in the upcoming period of 16 months through January 2011. Within the G2B applications the e-Procurement is its most complex electronic system effort. This system requires further long-term support, i.e. software adaptations of the system, trainings and capacity building activities, and possibly selected legal changes. The upgrade of other applications such as EXIM and Online Registration of Employments will be supported by the e-Gov Project in 2010. It is expected that these components will become fully-fledged systems managed by the responsible Government institutions. The remaining G2B applications, e-Tax Services and Electronic System for Allocation of Cargo Transport Licenses, have been recently handed-over to the responsible institutions which are committed to work on their upgrades and maintenance.

The focus of the eGov Project in the remaining period will be on developing the capacity of the Government institutions, especially the recently established Ministry of Information Society, to initiate, develop and implement e-Gov systems. This Ministry is in process of developing an e-Gov Strategy that will identify the areas where new Government electronic services will be introduced in the upcoming 3 years. The Strategy is in its final drafting stage and should be adopted before the end of this year.

Given the unique benefits of e-Gov applications, it is recommended that any future project continue this methodology and continues the momentum of current initiatives. Such continued involvement could take the following form:

- Continuation of the support of the e-Procurement system. Government capacity to handle the many complexities involved under public procurement is insufficient.
- Continuation of the capacity building of civil servants, especially the employees of MIS, on e-Gov issues (trainings, coaching, developing manuals).
- Support the introduction of e-Government services under the draft e-Gov Strategy primarily targeted to the business community with priority given to the introduction or upgrade of electronic services and systems in the areas that the new project will be focused on (e.g. access to land, especially construction permits procedures). Other areas where “off-line” progress has been made, but further improvement are needed include electronic submission and issuance of environmental licenses.

Some Additional Considerations

In order to more fully understand the business environment and how it may affect various population groupings, the Assessment Team met with a number of representatives of the ethnic Albania community. Albanians are the largest ethnic minority in Macedonia estimated at the last 2002 census at 25% of the population of Macedonia. Ethnic Albanians inhabit mainly the north-western part of the country with the largest Albanian communities in the areas of Tetovo (60% of the total population), Gostivar (56%), Debar (58%), Struga (56%), Kičevo (31%), Kumanovo (25%). Skopje, the capital, registered a 20% census ethnic Albanian minority. Interviews were conducted with the director of Western Union a representative of Albanian business, with the Mayor of Struga, and with the President of the Chamber of Commerce of Northwestern Macedonia.

Contrary to expectations, the representatives interviewed held largely similar views on the major issues facing business interests in the country. It became apparent that both communities—ethnic Macedonians and ethnic Albanians—share similar views on the business environment as follows:

- Legal and institutional framework has largely been established, but implementation is lacking.
- Regulations governing most aspects of developing and conducting business in Macedonia is overly complicated, and burdened by state and/or municipal authorities.
- The government is too centralized and should provide more roles for local government.
- Macedonian society is highly politicized and fragmented. On the one hand, it would be difficult for an Albanian businessperson to start a business in Eastern Macedonia, but on the other hand, it may be just as hard, or very uncommon, that a person from Eastern Macedonia (a non-ethnic Macedonian) to start a business in Western Macedonia. This same area bias and exclusion also exists in the political sphere.
- A dominant State also encourages graft and corruption. Construction permits seem to be a major concern. They reported that cases exist in which persons who initially received a construction permit find that it is later revoked.
- Much money is spent on business promotion while the business environment itself has not been enhanced to meet the expectations raised by the advertising campaigns.

The ethnic Albanian population is recognized as often being more entrepreneurial and pragmatic than ethnic Macedonians. Concerning the appropriate role of the State—besides providing security, basic education and health—the ethnic Albanians interviewed indicated that the State should provide ready-made and infrastructure-rich facilities to enable people with ideas to start working immediately without losing the time and energy now necessitated on finding location, getting permits and developing land. The ethnic Albanians interviewed believed that well-supplied industrial zones, with proper urban zoning and adequately furnished premises would

attract investors of all groups and sizes, both domestic and foreign. In this manner, the Government, both central and especially local, would facilitate the now difficult and time-consuming job for the investors, sources of corruption would be decreased, and the investors would be able to focus on their core business.

Those interviewed also believed that the Cadastre should provide information on the status of all land in the country to enable potential investors to know who to contact for assistance on problems such as unprepared infrastructure, unprepared urban zoning, and perhaps non-existing traffic plans.

Another interesting pattern is evolving, especially after the Ohrid Agreement. The greater difficulty that many ethnic Albanians have experienced in gaining access to property and supporting business institutions appears to have helped them gain entrepreneurial know-how. Yet many young ethnic Albanian graduates now also appear to prefer to work for the State even in the most entrepreneurial profession – IT, than do the young ethnic Macedonian graduates.

Other ideas expressed include the following:

- NECC does not take into account sufficient input of the Chambers of Commerce. The chambers should be sitting on the NECC's Board.
- Projects such as the USAID SME Fund project was successful and should continue in some form.
- Exposure tours for the operation of business angels should be encouraged to also include exposure of Macedonian entrepreneurs to business angels in other countries in the region.

Proposed New Business Environment Project Options

Project Principles

Any USAID intervention should follow the basic principles of the 2008 USAID Economic Growth Strategy, including:

- **Economic growth begins with competitive firms.** The purpose of business environment reform is to enhance the Competitiveness of firms.
- **Political context matters.** The greatest obstacles to growth often stem from politics. Close attention to the politics of economic change is important for results.
- **Donor flexibility matters and plays to USAID's strength.** Unanticipated changes in the political environment and key actors may present "windows of opportunity" that USAID's activities are generally well positioned to respond to.
- **Programs should seek large and systemic impacts whenever possible.** Generally, programs that are comprehensive in their scope and reach that dealing with systems often have a synergetic affect with greater impact than those more narrow and specific.
- **Where systemic reform is not achieved, catalytic impact is essential.** If larger comprehensive efforts are not available then search for those efforts that will have the best demonstration effect.

Illustrative Project Interventions for each of the Priority Areas

Based on the analysis of the issues and proposed interventions described in figure 3, the Assessment Team believes the following is the order of priority for a new USAID business environment project:

1. Construction/ Use Permits (*however, more research is required to verify the feasibility of addressing this issue*)
2. FDI / DI / Export Facilitation
3. Public Private Dialogue
4. Access to Finance

The following are illustrative activities for each of the priority areas that could be implemented in a new business environment project:

1. Access to Property Rights – Land Use / Construction Permits

Illustrative activities:

- Significant investment would be:
 - Assistance to the MoTC on legal / regulatory reforms on the existing permitting procedures.
 - Assistance to the municipalities through ZELS to provide e-applications for construction permitting procedures with associated training.
- Limited investment would be an "Ease of Investment" ranking of municipalities and/or exposure tours.

Expected Results:

- The ability of the private sector to physically invest and expand operations in selected municipalities is improved because the capacity of GOM and selected municipalities is increased.
- GOM is more able to fulfill the promises made by MakInvest to foreign investors that do not qualify for TIDZ.
- Support the technical training aspects of the Human and Institutional Capacity Development (HICD) Program at the Ministry of Transportation related to land management.

2. Access to Markets and Investment - FDI / DI / Export and Aftercare

- a. Expert Group to the Inter-ministerial Competitiveness Committee of Ministers (to the six ministries, under the guidance of DPM, involved in the Industrial Policy of the Republic of Macedonia 2009-2020 for enhancing competitiveness of Macedonia).
- b. Public Procurement (Continuation of support to the Training Center at the Public Procurement Bureau).

Illustrative activities:

- Providing an advisor to the Expert Group who advises the Competitiveness Committee of Ministers for establishing procedures, facilitating initial meetings and establishing sustainability
- Assisting the Expert Group with facilitating meetings and dialogue between different members of the Competitiveness Committee of Ministers.
- Assisting the Expert Group with facilitating the private public dialogue with NECC.
- Continuation of training support to the Training Center at the Public Procurement Bureau for Government procurement professionals.
- Providing guidance and support for the development of standardized tender documents and templates and use of best practices.

- Support the technical training aspects of the Human and Institutional Capacity Development (HICD) program at MakInvest with the objective to enable them to fulfill their new responsibility for export promotion.

Expected Results:

- Collaboration between the primary ministries that deal with private sector needs is enhanced and the capacity of GOM generally to respond to private sector advocacy efforts is increased.
- The use of the USAID-supported e-procurement system continues to grow.
- Government procurement specialists are able to conduct transparent and efficient procurements.

3. Access to Public Private Dialogue, including the following potential PPD mechanisms:

- a. NECC
- b. Economic and Social Council
- c. Export Conference
- d. RIA

Illustrative activities:

- Facilitating Private Public Dialogue meetings through one or all of the mechanisms above.
- Supporting NECC's policy papers and policy dialogue capacity enhancement.
- Training media to recognize the importance of PPD and accurately report on matters to be dealt with these mechanisms.
- Supporting private sector associations to productively advocate for reforms.
- Provide training and guidance for successfully completing RIA.
- Support the technical training aspects of the Human and Institutional Capacity Development (HICD) program at the Ministry of Economy and/or the inter Ministerial Group.

Expected Results:

- A sustainable mechanism for public private dialogue is established.
- Laws of higher quality and sustainability are drafted and implemented.

The quality and quantity of business news is increased and the media are more capable of participating in and amplifying public private dialogue.

4. Access to Finance, including a) and b) components:

- a. Appraisers Profession / Real Estate Data Base Information made available to public.

Illustrative activities:

- Facilitate the establishment of providing on-line information of property sales data to the public.
- Assistance with the establishment of the appraisers association for providing certification to appraisers, continuous education and quality assurance for adherence to International Valuation Standards.

Expected Results:

- The property and land sales information is available to the public via the internet, enabling the real estate industry to provide accurate valuation appraisals.
- The appraisers profession is organized and capable of conducting good quality assets appraisals.
- Banks to have more information about the actual value of collateral and are thus able to reduce collateral requirement on loans.

b) Credit Bureau

Illustrative activities:

- Business planning, advocacy assistance for modification of personal data privacy regulation, software solutions, membership marketing, exposure tours and training.

Expected Results:

- A self-sustainable private credit bureau is established.
- Access to finance is increased for quality borrowers due to the availability of quality, timely and comprehensive personal and corporate credit history (beyond bank loans).
- Interest rates and collateral requirements in loans to quality borrowers is reduced due to increased competition among banks for those borrowers in the financial sector.

Project Options

The following is a baseline project that, if adequately funded, could include the four components to address each of the primary issues described above:

Full Business Environment Activity that could address all the primary issues identified in this Assessment:

- 1. Access to Property Rights – Land Use and Construction Permits**
- 2. Access to Markets and Investments - FDI / DI / Export Coordinating and Aftercare**
- 3. Access to Institutional Public Private Dialogue**

4. Access to Finance (Appraisers Profession / Real Estate Data Base Information made available to public and Credit Bureau)

Requirements:

Notional Budget: \$6 - \$10 million / five years (Range determined by the degree of intervention and the decision of whether or not to use a local vs. expat Chief of Party).

Primary Government Partners: Ministries of Transport, Deputy Prime Minister, Ministry of Economy, and pilot Municipalities.

Non-Government Sector Partners: ZELS, Private Credit Bureau and real estate professionals.

Staff: Chief of Party, Deputy Chief of Party, and at least one professional staff for each of the components.

The following are the primary cost drivers that would determine the variations of the full project presented above:

- 1) The degree of intervention on Access to Property Rights – Use and Construction Permits (i.e. full legal and regulatory reform and the extent of the coverage, implementation and training provided for piloting of an e-application for construction permitting).
- 2) Whether or not the project has an expat or a local chief of party, and if expat, for what duration of tenure in the project.
- 3) Whether or not all, any, or none of the components of Access to Finance are included (Appraisers Profession / Real Estate Data Base Information made available to public and Credit Bureau).

The team understands that the Mission has limited funds for a new business environment project and is not in position to address all the components to the degree necessary. Therefore, the Team notes two discrete themes within the list of primary issues “**Government Capacity Development for the Implementation of the Industrial Policy**” and “**Private Property Rights Development**” are possible themes, either one of which the Mission could opt to select. The Government Capacity Development for the Implementation of the Industrial Policy Project would be focused on advisory, training, and facilitation. The second theme - Private Property Rights Development Project- would be a hybrid model combining the roles played by BEA as the policy component and e-Gov as the facilitator of the GOM’s implementation of new policies as occurred with the collaborated on the creation of the EXIM and e-Procurement programs.

Theme A) \$5.5 – 7.5 Million / Five Year “Government Capacity Development for Implementation of the Industrial Policy”

Addresses the following primary issues:

1. Access to Property Rights – Land Use / Construction Permits (*lower emphasis through a limited investment in activities such as an "Ease of Investment" ranking of municipalities, public awareness and/or exposure tours*).
2. **Access to Markets and Investments - FDI / DI / Export Coordinating and Aftercare** (*Full support provided*).
3. **Access to Institutional Public Private Dialogue** (*Full support provided*).
4. Access to Finance -Appraisers Profession / Real Estate Data Base Information made available to public and Credit Bureau (*not addressed*)

The primary components of theme B—Access to Markets and Investments and Access to Institutional Public Private Dialogue—are interrelated and complementary because the public private dialogue mechanisms in Macedonian and the Expert Group of the Inter-ministerial committee will have to collaborate closely as initiatives like the NECC facilitate PPD, while the Expert Group processes the requests from the private sector for the ministers. This theme would build upon current and past USAID interventions with BEA and the Competitiveness Project in PPD, NECC and RIA.

In addition, successful implementation could increase the pressure for reform of other business environment issues not directly addressed in the project. For example, activities that highlight the damage caused by the lack of efficient use and construction-permitting processes could be addressed more effectively by the government through the inter-ministerial committee and/or through one of the public private dialogue mechanisms.

The overall objectives of this project would be:

1. Enhance the capacity of the government to respond to the needs of domestic and international investors by increasing knowledge, inter-ministerial communication and the capacity of the ministries responsible for implementing the Industrial Policy.
2. Establish sustainable public private dialogue mechanisms.
3. Enhance the ability of the media to understand and communicate public-private dialogue issues.
4. The use of the USAID-supported e-procurement system continues to grow, government procurement specialists are able to conduct transparent and efficient procurements and GOM achieves its goals of the percentage of public procurements completed through the e-procurement system.

The project would be based on the apparent political will and interest to implement the new Industrial Policy. It would be heavily dependent on the continued interest of the current Deputy Prime Minister and others in the development of public private dialogue and increasing the GOM's ability to facilitate investment at all levels.

Theme B) \$5.5 – 7.5 Million / Five Year - “Private Property Rights Development”

The second potential project theme would address the following primary issues:

1. **Access to Property Rights – Land Use / Construction Permits** (*Full support provided*).
2. Access to Markets and Investments - FDI / DI / Export Coordinating and Aftercare (*only e-procurement addressed*).
3. Access to Institutional Public Private Dialogue (*not addressed*).
4. **Access to Finance (Appraisers Profession / Real Estate Data Base Information made available to public** (*Full support provided*) and Credit Bureau (*not addressed*).

This project would be based on the continued momentum for e-government solutions as a result of the anticipated adoption of the draft e-Government Strategy. It assumes that the current interest in the Industrial Policy and its aspects of PPD and investment facilitation may not be sustainable due to the risk of changes in political will and/or key ministers. The primary components of this theme—Land Use / Construction Permits and Appraisers Profession / Real Estate Data Base Information made available to public—are interrelated and complementary under the issue of property rights. This Option builds upon the success of the e-Gov Project approach and the e-Gov Strategy. It would follow the model set by the current and past USAID projects in the collaboration between BEA and e-Gov on the development and implementation of EXIM and public procurement. In this proposed project theme, the new project would assume the roles of both BEA and e-Gov by facilitating the necessary legal reform and development of the e-application and the training required for construction permitting. It supports the draft E-Government Strategy goals of increasing the use of e-government solutions generally and specifically the priority to address the well-know problems of construction and land-use permitting, which received the lowest score in the World Bank Doing Business Report.

The overall objectives of this project would be:

1. Increase the ability of the private sector to physically invest and expand operations in selected municipalities because the capacity of GOM and selected municipalities would be more efficient and competent in the area of use and construction permitting.
2. Enhance the capacity of GOM for implementation of the e-Gov Strategy in the select areas of construction permitting, and e-procurement
3. Enhance the ability of the media to better understand and communicate issues relating to property and land use and the construction permitting process.
4. Establish a system to make property and land sales information available to the public via the internet.
5. Support the certification of property appraisers in order to enabling the real estate industry to provide accurate valuation appraisals.

6. Enable banks to have more information about the actual value of collateral so that they may reduce collateral requirement on some loans.

There would be several notable challenges due to the complexity of this project theme. For example, the project partners are anticipated to be institutionally weak and political will to reform is uncertain (i.e. MOTC, ZELS and potential pilot municipalities.) The nature of the issues and their solutions are very technical and would require continual research and analysis with significant assistance from outside advisors. In addition, it would require close collaboration with the USAID MLGA project and its successor as well as the World Bank's Cadastre Project.

Recommendation:

Each of the proposed areas of intervention will require further research and investigation, particularly in the case of construction permitting, before the Mission will be in position to determine the scope of a new project. However, in any case, the Team recommends that the new project be designed with sufficient flexibility to meet the basic concepts as set forth and discussed in the project principles. Therefore the Mission could consider allowing the new project to address either of the above Themes, or some combination thereof. The interventions selected would need to be based and justified upon a bidder's full understanding at the time of their bid proposal as to which selected interventions—consistent with USAID's project budget constraints—would be most capable of achieving systematic or catalytic change within the selected priority areas that would lead to sustainable improvements. (e.g. a model municipality for construction permitting, a functioning and institutionalized PPD mechanism, a functioning certification system for public procurement professionals, a self-sustaining and certifying property appraisal association, a self-sustaining and widely used private credit bureau etc.) Understandably, many factors—over the life of the proposed five-year project effort—could substantially affect the success of the initially agreed upon project interventions to meet their stated goals. Such factors would include: the political will of the key GOM officials, the emergence of relevant GOM initiatives, changes in the role and position of key government ministers, the anticipated return-on-investment estimated for proposed project activities, and the evolution and success of current and future GOM and other donor programs (e.g. the EC's potential support for the implementation of select aspects of the Industrial Policy, the World Bank's success in expanding the cadastre, the manner in which state land is transferred to the municipalities etc.) Consequently, the new project's implementation phase needs to remain sufficiently flexible to respond to possible future changes to the political/developmental landscape and to seek out "windows of opportunity" as may be appropriate within budget, personnel and time constraints.

APPENDICES

APPENDIX 1: Literature Reviewed

1. Agribusiness Sector Review, August 2009 – (brief review);
2. Allen, Jay; Harmer, Ronald: “Insolvency office holders in south-eastern Europe”, EBRD, 2007
3. CEA: Aleksandar Kostadinov, MSc: “Labour market policies in Macedonia (Comparative study)”, Center for Economic Analyses-CEA, Skopje, 2009
4. Commission of the European Communities: “The Former Yugoslav Republic of Macedonia 2008 Progress Report”, Commission of the European Communities, Brussels, 2008
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6. EBRD: “Transition Report 2008, EBRD, 2008
7. Economist Intelligence Unit: “Country Report: Macedonia”, Economist Intelligence Unit, August, 2009,
8. FIAS: “Lessons for Reformers: How to Launch, Implement and Sustain Regulatory Reform”, FIAS, The World bank, 2009
9. FIAS: “Attracting Investment to South East Europe. Survey of FDI Trends and Investor Perceptions”, FIAS, 2007
10. Government of the Republic of Macedonia: “Industrial Policy of the Republic of Macedonia 2009-2020”, June 2009;
11. Government of the Republic of Macedonia: “Guidelines on Policy Creation, 2007
12. Government of the Republic of Macedonia: “Guidelines on Regulatory Impact Assessment”, 2009
13. Government of the Republic of Macedonia: “Programme for Stimulating Investments in the Republic of Macedonia 2009-2011”, 2009
14. IMF: Staff Report selected issues, IMF Country Report No. 09/61IMF, February 2009; February 2009
15. McLaughlin, Calm: “Ireland New Zealand Institutional Change “, Centre for Business Research, University of Cambridge, Paper presented at the 21st AIRAANZ Conference, University of Auckland, February 2007 ;
16. Ministry of Economy of the Republic of Macedonia: “Programme for Stimulating Investments in the Republic of Macedonia 2007-2010”, 2007
17. Public- Private Dialogue in Developing Countries, opportunities and risks by Nikolas Rinaud;
18. PPD Handbook www.publicprivatedialogue.org ;
19. Public Private Partnerships in Vocational Education and Training: International Examples and Models, Josh Hawley, Consultant to World Bank and Ohio State University USA;

20. Overview of GOM strategies and Donor activity;
21. Spido graphs –Macedonia;
22. USAID: EPI Centar International “AgBiz Program Evaluation and Agribusiness Sector Assessment Review”, USAID, July 2009
23. USAID: “BizCLIR: Macedonia’s Agenda for Action”, USAID, March 2009
24. USAID: CLIR REPORT: “From Law to Practice: Macedonia’s Implementation Challenge”, USAID, December 2005
25. USAID: “Decentralization Project. More Effective and Accountable Local Government, 2004-2007”, USAID, 2004
26. USAID: “Final report of the brainstorming sessions at the workshop: “Challenges to the Private Sector’s Growth and Strengthening of the Macedonian Economy’s Competitiveness”, USAID, June, 2009
27. USAID: “Macedonia Workforce Development Assessment Report: Taking Steps to a 21st Century Workforce”, USAID, March 2009
28. US Embassy: Jordan Damcevski (presentation), “Overview of the Macedonian Economy”, 2009
29. World Bank: “Doing Business 2010, Macedonia FYR, 2009”, The International Bank for Reconstruction and Development, 2009
30. World Economic Forum: “The Global Competitiveness Report 2009-2010”, World Economic Forum, Geneva, 2009

APPENDIX 2: Meetings Held

I. MACEDONIAN GOVERNMENT OFFICIALS (and Regulatory Agencies)

1. **Cabinet of Vladimir Pesevski, Government of the Republic of Macedonia, Deputy-President in charge for economics affairs**, Romela Popovic Trajkova (Head of Department for economic policy and regulatory reform), Perica Vrboski (Economics advisor for regulatory reform) and Marija Pantic (Associate for economics policy),
2. **Mile Janakievski - Minister of Transport and Communications**,
3. **Ministry of Labor and Social Policy**, Stojan Trajanov (State Advisor on Labour Issues),
4. **Ministry of Economy**, Metodij Hadzi Vaskov (Deputy-Minister of Economy), scheduled to be held
5. **Ministry of Economy**, Tome Velkovski (Head of Bankruptcy Department), Jasmina Majstorovska (Advisor of Industrial Policy Department) and Maja Kjurcieveva (Assistant to the Head of Foreign Investments Department)
6. **Energy Regulatory Commission of the Republic of Macedonia**, Vladko Gavrilov (Vice-President/Commissioner),
7. **Securities and Exchange Commission**, Lujza Tomovska (Head of Department for approvals and permits), Mate Stojanovski, Secretary of the SEC, Vasko Pejkov, Advisor,
8. **Agency for Foreign Investments of the Republic of Macedonia - Invest in Macedonia**, Viktor Mizo (Director),
9. **Macedonian Bank for Development Promotion**, Dragan Martinovski (CEO),
10. **Judges and Prosecutors Academy**, Aneta Arnaudova (Director),
11. **Commission for Protection of Competition**, Jovan Todorov (Head of Unit State Aid) and Rozana Vankovska (Secretary),
12. **Credit Bureau**, Slavica Bogoevska (Director),
13. **Real Estate Cadastre Agency of the Republic of Macedonia**, Lidija Krstevska (Head of Sector on International cooperation, European Integration, Project and Trainings), Tatjana Cenova Mitrevska (Professional councils to the Director on Legal -

Cadastre Affairs), and Stefanija Jovanova (Sector on International cooperation, European Integration, Project and Trainings),

II. ASSOCIATIONS

14. **American Chamber of Commerce in Macedonia-** Am Cham Macedonia, Sonja McGurk (Executive Director) and Am Cham Board, Dr Klaus Mueller - Macedonian Telecom (Chief Director), Ilijanco Gagovski, Microsoft-executive Director, Valentin Pepeljugovski, Attorney at Law, Stefan Plavjanski – Hewlett - Packard International Trade (Territory Sales Manager for Macedonia & Kosovo, Bozidar Jankovski, Diners Club International- Executive Director, Jovan Madzovski, Center for Entrepreneurship and Executive Development (Country Manager) and Valerijan Monevski- Attorney at Law- Monevski Law firm, Thursday,
15. **European Business Association**, Gunther Ofner (President), Dimitar Ristovski (CEO),
16. **Macedonian Chambers of Commerce**, Mitko Aleksov (CEO) and Frosina Jovanovska (Services Chamber of Macedonia)
17. **Chamber of Commerce of North-Western Macedonia**, Blerim Zllatku, Executive Director
18. **Association of the Units of Local Self Government of the Republic of Macedonia (ZELS)**, Dusica Perisic (CEO)
19. **Chamber of the Licensed Bankruptcy Trustees**, Aco Petrov (President),
20. **MAP-Sasho Ristovski (President)**,

III. PRIVATE COMPANIES and CONSULTANTS:

21. **Tutunska banka**, Nadica Ceneva (Head of Legal Department) and Donka Markovska (Head of Sector),
22. **Komercijalna banka AD Skopje**, Maja Stefkova Sterieva (Chief Finance Officer),
23. **Macedonian Stock Exchange**, Ivan Steriev (CEO),
24. **Saving House FULM**, Eleonora Zgonjanin- Petrovic (CEO),
25. **Western Union- Financial Union Skopje**, Ylli Marku (Managing Director),
26. **BisOil Co**, Imer Selmani, partner. Also Member of Parliament and President of Demokratia e Re, Political Party
27. **Company for Civil Engineering CUBUS**, Zlatko Todorovski (CEO)

- 28. **Miroslav Trajanovski, Lawyer,**
- 29. **Dejan Kostovski,** (Legal consultant, previous bankruptcy judge),
- 30. **Goce Adamceski,** (Private consultant, working with LUKOIL and MacInvest),
- 31. **Ivica Slavkovic,** (Real estate agent),

IV. FACULTIES/PROFESSORS

- 32. **Faculty of Law “Justinian Prima” Skopje,** Jadranka Dabovik Anastasovska, PhD (Professor), Goran Koevski, PhD (Professor), Vanco Uzunov, PhD (Professor) and Neda Zdraveva (Teaching Assistant)

V. US EMBASSY, USAID and USAID funded projects

- 33. **US Embassy,** Darren Hultman (Deputy Political and Economic Section Shief), Jordan Damcevski (Senior Economic Analyst), Arben Gega (Commercial Specialist and Rozita Mrenoski- Economic Assistant),
- 34. **USAID Economic Growth Office, Michail T. Fritz (Mission Director),** Tim Hammann (Director EGO), Meri Cuculovska (Project Management Specialist), Marga Likovska Atanasovska (Project Management Specialist), Tatjana Markovska (CTOs), Cullen Hughes (PEO),
- 35. **USAID Competitiveness Project,** Nimish Jhaveri (Chief of Party), Jasmina Varnalieva (Deputy CoP), Brett Johnson (Global Practice and Market strategy advisor) and Mirjana Makedonska (Investment Support and Market Linkeges Manager),
- 36. **E-Gov Project,** Gordana Tosheva (Chief of Party),
- 37. **USAID World Learning HCID Project,** Tanja Georgievska (Project Specialist) and Valbana Marina Maxut (CoP)
- 38. **USAID`s Macedonia Local Government Activity,** David R. Goode (CoP) and Rozalija Karcinska-Vasilevska (Local Economic Development Team Leader), Liljana Ristovska (Local Expert),
- 39. **USAID`s Ag Biz Program,** Jim Maxwell (CoP) & Team Ag Biz,
- 40. **USAID Judicial Reform Implementation Project,** Sam Juncker (CoP) and Nena Ivanovska (Deputy CoP),
- 41. **Booz Allen Hamilton,** William E. Seas III (Director), David Cowels (CoP), Mark D. Belcher (Principal), Laura C. Jones (Senior consultant), Maury Wray Bridges (Associate),

42. **USAID Business Environment Activity (BEA)**, Aleksandar Sahov (CoP), Samir Latif (person in charge for the activities in Corporate Governance, Legal and Regulatory Reform and CLIR assessment, specifically responsible for Legal and Regulatory Framework), Dimitar Dimitrovski (Senior Legal Advisor), Kiril Minovski (Responsible person for labor market and pension reform issues) and Jordanka Cerepnalkovska Trajkovska (Responsible person for Public Capital Investment and Non-Bank Financial Institutions),

VI. INTERNATIONAL ORGANIZATIONS and BILATERAL DONORS

43. **Delegation of the European Commission**, Magdalena Sarlamanov and Elisabeta Georgieva - Office of the EU Special Representative (Task Managers)
44. **World Bank Group-Office Skopje**, Markus Repnik-Country Manager and Gordana Popovic-Friedman (Business Environment Specialist),
45. **International Finance Corporation**, Kiril Nejkov (Task Leader, Corporate Governance),
46. **EBRD Office in Skopje**, Elena Urumova (Director),
47. **GTZ**, Boban Ilic (Agriculture Development Project Expert).

VII. MUNICIPALITIES

48. **Municipality Centar**, Dejan Antic (Head of LED unit)
49. **Municipality of Struga**: Ramiz Merko, Mayor
50. **Municipality of Struga**: Vladislav Zupan, Head of LED Unit