

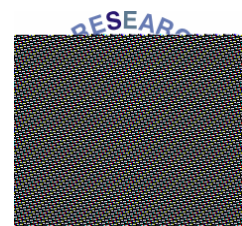


**USAID** | **MACEDONIA**  
FROM THE AMERICAN PEOPLE

**Assessment of the  
Enabling Environment for Business  
in the Republic of Macedonia**

**- Final Draft -**

**Skopje, 25.05.2005**



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List of priority interventions  
Sub-activities

### **I. Public Private Partnership**

1. Creating Integrated Economic Strategies and Policies
2. Capacity Building and Training of Human Resources included in the design of Integrated Economic Strategies
3. Support in Creating PPP in Export Promotion
4. Further Development of the Concept for E-Customs

### **II. Public Capital Investment and Decentralization**

1. Planning and Management of Public Capital Investments
2. Fiscal Decentralisation
3. Issuance of bonds on local level

### **III. Reconstructing of the Work Force and Labor Market Development**

1. Active Policies on Labor Market

### **IV. Trade in Goods / Trade of Services**

1. Facilitation of the Trade Flow of Goods
2. New Mechanisms for Export-Promotion
3. Support in Implementation of Web Based Interactive Software Tool - Trade Map tool for SMEs
4. Active Participation and Implementation of the Results of the Doha Development Agenda
5. Support for Implementation of Statistics Manual (Evidence and Measurement of International Trade in Services Flow)

## **V. Pension Reform**

1. Support of Development and Functioning of the Second Pillar of the Pension Fund
2. Creation and Support to the Third Pillar of Pension Fund

## **VI. Corporate Governance**

1. Good Governance and Corporate Social Responsibility

## **VII. Non-Banking Financial Institutions**

1. Enlarging Financial Structure with Non-Banking Formal and Informal Financial Institutions
2. Trainings in the financial sector

## Executive Summary

According to the basic priorities of the overall target market needs in the Republic of Macedonia, defined as:

- 1) Unemployment and poverty,
- 2) Trade balance deficit,
- 3) Small economic growth and
- 4) Administrative barriers and corruption,

recommended follow-on work for the next period of 5 years is summarized in 7 Pillars:

### 1. **Public Private Partnership (PPP) in creation of integrated economic strategies**

The coordinative role for preparation, coordination and supervising the integrated economic strategies could undertake the NECC (National Council for Entrepreneurship and Competitiveness) in which the main stakeholders are: representatives of the Government, Academia, NGOs, Business Associations and others.

With appropriate TA (Technical Assistance) the NECC could establish Public-Private partnership between stakeholders in coordination of preparation of the integrated economic strategies for Republic Macedonia.

The NECC could extend its mandate and acquire the power and legitimacy to coordinate activities on preparation integrated economic strategies.

In the same time, having members from many relevant ministries, the NECC can coordinate the work on preparation integrated economic strategies and play positive role in resolving differences in opinion (and conflicts) between various stakeholders.

It is necessary to empower NECC (National Entrepreneurship and Competitiveness Council) as institution to coordinate planning of integrated economic strategies.

The NECC should have mandate to coordinate activities in preparation of integrated economic strategies and to provide support for preparation and coordination of the industrial, monetary, fiscal and trade strategies **integrated** in one document named: Integrated economic strategy for Republic Macedonia 2007-2012.

The prepared economic strategies should be coordinated with economic, social councils and jointly discussed on various expert levels.

The strategies for prosperity and sustainable economic growth should have **strong development component** and be focused on building competitiveness, support for export-oriented private sector, attract targeted FDIs, favor innovations, create conditions for knowledge-based economy including respect and enforcement of IPR (Intellectual Property Rights) .

## 2. Public capital investment and decentralization

Fiscal reform is under way in the RM aiming at synchronizing with fiscal systems of developed countries, and primarily with the EU. Public spending in the country relative to the GDP is relatively lower than that of EU member countries (data available for 15 EU members). More issues relative to the public spending relate to its structure where more items are present that unnecessarily put burden on the overall fiscal load of the economy. Efforts for fiscal reform are connected with capital investment in the frame of the public spending, fiscal reforms of the local self-government units and redefinition of tax obligations for companies and employed citizens.

Public capital investments have been low for a longer period of time. Such policy leads to worsened quality of a large number of services of public interest. These conditions present negative effects upon quality of living of the population and working abilities of the inhabitants. Capital investments in public spending are low not because of lack of funds for this purpose but primarily because of inadequate management that does not contribute to quality investment programs and their accomplishment.

With the new legal frame regarding decentralization the new local government has more authority regarding economic and social issues of municipalities. A large part of the fiscal authorities are transferred to local level. It implies that local self-government units are in position to manage problems in future more easily. Technical support is needed for more efficient implementation of the process of decentralization. A large number of municipalities do not have staff capacities and knowledge to fully carry out new duties that are transferred to them from central level. Implementation of the decentralization and development of municipalities will considerably depend on capabilities of professional teams in municipalities for successful implementation of their responsibilities.

## 3. Restructuring of the labor market

Besides normalization of political and security conditions following the inter-ethnic conflict, recovering of the national economy still goes very hard. Processes are accompanied by high unemployment rate, social insecurity and poverty that are generators of gray economy, corruption, loss of traditional values and ethic criteria, as well as general society cohesion.

The rate of work force participation in the total work capable population in the RM is around 65%<sup>1</sup>. The relatively low participation rate<sup>2</sup> reflects the low number of employed citizens relative to the available work force.

<sup>1</sup> In 2004: 529.829 employed : 841.614 total work capable population.

<sup>2</sup> Around 8% lower than the average rate in Central European countries

Main desired aims to achieve by giving suitable technical assistance and support in the process of restructuring of the work force and the labor market in the Republic of Macedonia will have positive impact on the following fields:

- Reduction of the unemployment rate;
- Reduction of poverty;
- Improving economic growth.

Such conditions could be really alleviated, and simultaneously adequate long-term development strategy can be traced, if the following specific aims are attained as a result of a complex project:

- Development of the labor market in the RM (active policies, social dialogue);
- Support during search of jobs (information, mediation and counseling);
- Organization of training programs (qualification, re-qualification);
- Creation of conditions and support for opening new jobs (labor intensive investments, entrepreneurship, self-employment).

#### 4. Facilitating trade of goods and services

There is strong need to speed-up the flow of goods, standardize cross-border procedures, decrease waiting on the border line and coordinate the work of the state authorities and inspections on the border. This will result in full compliance with WTO recommendations for simple, standardized procedures and be positive signal for similar improvements in the cross-border activities for all countries in the Balkans.

This simplification and standard procedures may reduce the corruption practice on the borders as well.

Introduction of the Single Window Facility request parallel changes in the Custom Law and several other Laws: control of food safety, quality control, other cross-border inspections etc. This activity requires certain preparatory and coordination between several Ministries, their high commitment and involvement of the ministers of GoM, The Parliament vote in favor of all these changes. Also, the secondary legislation should be changed, but without going into Parliamentary procedure.

The Government should establish joint inter-ministerial working group for introduction the concept of “**single window**” facility.

Other activities under this pillar are:

- Further development of the concept of e-customs;

- Implementation of the results of Doha development agenda. Dissemination of the results especially for import-export of agricultural products. Appropriate changes in legislation;
- Implement measurement of Trade in services by implementing the procedures for identification of trade services. New software based on Statistic manual for services should be installed at the NBM and appropriate training for procedures and software running must be supported.
- Facilitate International trade of SMEs by implementing TradeMap as Web based interactive tool. TradeMark covers important information as trends in international trade, market shares of goods being exported-imported for over 180 countries, based on UNCTAD data.

## **5. Pension System**

Significant reform regards the Pension System in the Republic of Macedonia. Within the completion of the Pension System reforms, there are two important activities for the next 3-5 years: (1) Support of the development and functioning of the Second Pillar of the Pension Fund and (2) Design and support to the Third Pillar. Starting with January 2006, the functioning of the Second Pillar is expected. Beside the technical support in the past, there still will be a need of support for staff education, coordination, management and supervision of the functioning of the Second Pillar. Parallel to the functioning of the Second Pillar, that is mandatory (for those who have been employed after January 2003), a Third Pillar should be designed and developed. In order to design a Third Pillar suitable for the Republic of Macedonia, a comparative analysis of similar models in countries of the region (financial, technical, counseling) should start, adoption of the legislative frame, and formation of a Regulatory Body for management and supervision of the functioning of the Third Pillar. At the same time a public education campaign is needed. The support of above-mentioned activities would contribute to the reforms regarding enlargement of investment opportunities and increasing the level of financial security of the market.

## **6. Corporate governance**

Good corporate governance, together with the principles of developed business ethics and corporate culture in the business environment of a country are the foundations of a competitive economy that is sustainable and can develop on the global market.

Such an environment creates conditions of confidence, suitable desired active investment environment, efficient and competitive corporations, developed and efficient financial markets, stable economic growth and a level of employment of the active population and general economic and social cohesion in the society.



Conditions in the RM are almost contrary to the previously described ones, so that we assess that a general project with the previously described general and particular objectives has a strategic significance for the needs of the target market.

Basic project aims would be introduction of certain principles and practices in corporate activities, but also of other participants on the market in the Republic of Macedonia, as follows:

- Support to introducing principles of good governance and corporate social responsibility;
- Incite and support of institutional public-private dialogue;
- Developing and support of professional and business associations;
- Adopting a codex for corporate governance and its implementation;
- Popularization of the principles of corporate culture, business ethics and consumers protection in the business environment;
- Making efforts for legal regulation, further popularization and support to use of alternative dispute resolution (ADR).

## **7. Non-Banking Financial institutions**

Improvement of competition on the financial market will lead to lower interest rates on the financial market, lower disparity between active and passive interest rates and much more granted loans and credits. There is a need for enlarging the financial structure in the Republic of Macedonia, by improving the Non-banking Financial Institutions. At the same time, this activity fulfills the lack of financial institutions and instruments that will respond to the needs of micro, small and medium-sized enterprises, which is substantial for the better investment environment and economic growth. Enforcement of the legal frame will enable operation of local and foreign non-banking financial institutions and promotion and support of professional associations of NBFIs, as well as cooperation with similar institutions abroad.

In spite of the efforts in the financial sector, especially in the field of capital markets, accounting and auditing and banking, still remains the need for support in improving of the Non-banking Financial Sector and support of further reforms in the Pension System.

The improvement of the competition on the financial market will lead to lower interest rates on the financial market, lower disparity between active and passive interest rates and much more granted loans and credits. There is a need for enlarging the financial structure in the Republic of Macedonia, by improving the Non-banking Financial Institutions. At the same time, this activity fulfills the lack of financial institutions and instruments that will respond to the needs of micro, small and medium-sized enterprises, which is especially substantial for the better

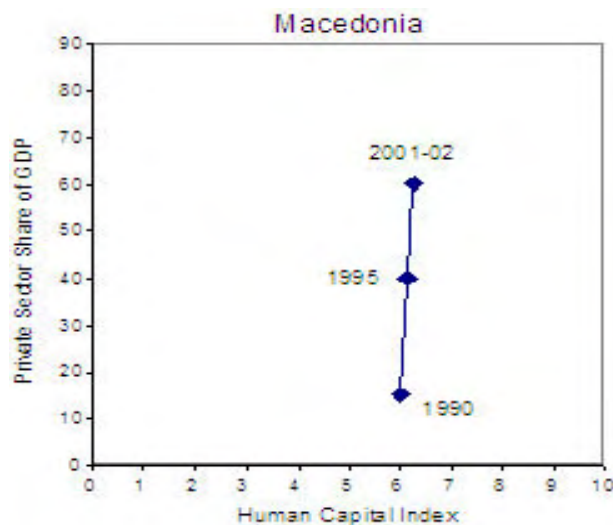
investment environment and economic growth. The enforcement of the legal frame will enable operation of local and foreign non-banking financial institutions and promotion and support of professional associations of NBF1, as well as cooperation with similar institutions abroad.

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## Introduction

In past years<sup>3</sup> in economic and ownership structuring of the Macedonian economy, in frames of the changes of the socio political and economic system, enormous changes have been made in economic field, which beside the clear devotions for efficient and competitive economies, have initiated a range of negative effects on employment, social insecurity and low economic growth and development.

### *Economic Structure and Human Development in Macedonia, 1991-2002*



The Human Capital Index (HCI) is based on an average rating of four variables, scored on a 1 to 10 scale: per capita income; secondary school enrollment; health, as measured by life expectancy and under-5 mortality; and public policy, as measured by public expenditure on health and education a % of GDP. World Bank, *World Development Indicators 2003* (2003); and UNICEF, *Social Monitor 2003* (2003). Private sector share of GDP is from EBRD, *Transition Report Update* (May 2003).

For that reason the Macroeconomic policy of the Government of Republic Macedonia for 2005 year, for primary macroeconomic aims have set:

- a) Increasing the medium term rate of economic development, primarily through accelerating the structural reforms;
- b) Decreasing the rate of unemployment and

<sup>3</sup> After 1991.

- c) Improving the business environment and creation of conditions for faster integration to EU<sup>4</sup>.

In 2004, the Republic of Macedonia achieved good results in terms of monetary stability and fiscal consolidation. However, economic growth is still unsatisfactory, official unemployment is growing, the trade and current account deficits still large, while foreign firms are reluctant to invest in the country.

Very important event for the future development of the Macedonian economy is the application of the Republic of Macedonia for EU membership, formally submitted on March 22, 2004 in Dublin.

Macedonia is committed to pursuing membership in European and global economic structures.

Macedonia was officially admitted to the World Trade Organization (WTO) on 4 April, 2003, becoming its 146<sup>th</sup> member. Following the WTO principle to eliminate quantitative restrictions on trade, an extensive liberalization of trade regimes has been implemented.

With the process of harmonization of the WTO sectorial agreements on the level of highest tariff rate and the bilateral and multilateral negotiation with the WTO members, the average tariff rate after the transitional period (till 2012) of WTO accession will be about 8%.

The globalization and liberalization of the trade flows, present serious shock for Macedonian economy in general, primarily because of the possibility to be provided competitiveness of the Macedonian goods and services.

With the adoption of the Trade Law by the Parliament on 12 March 2004<sup>5</sup> and the others market ambient laws during 2004 and first three months of 2005, the Republic of Macedonia has harmonized the trade regime in accordance with the WTO rules. Article 31 of the Trade Law determines free foreign trade in accordance with the law and international agreements ratified by the Republic of Macedonia.

The Law on Customs Tariff<sup>6</sup> provides complete coordination with the Harmonized System of the World Customs Organization and the Combined Nomenclature of the European Union.

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<sup>4</sup> The Macedonian Government is expecting to start negotiations with the EU for candidate country at the end of 2005.

<sup>5</sup> Official Gazette of RM No. 16/2004.

<sup>6</sup> Official Gazette of RM No. 86/2004.

Over 80% of the trade exchange of Macedonia is being realized under preferential conditions from the concluded bilateral and multilateral Free Trade Agreements.

The basic macroeconomic parameters are:

For year 2004 coverage of the import with export was around 60%.

Macedonia's foreign trade balance has been in deficit since 1994, reaching \$936.7 million in 2003. Total 2003 trade was \$3.66 billion<sup>7</sup>, or 79.5% of GDP-- imports plus exports of goods and services.

Import and export statistics (USD billion)

Indicators	2000	2001	2002	2003	2004
Exports	1.32	1.16	1.11	1.36	1.67
Imports	2.01	1.68	1.88	2.21	2.90

Source: State Statistical Office, Ministry of finance

In order to increase the Macedonian export it is of high importance to acquire qualitative and cheap production, which will enable position in world markets.

The competitiveness of Macedonian goods and services should be the primary goal of the enterprises, and the government should create conditions for its implementation.

Regional and International matching and collaboration of enterprises as a prerequisite for internationalization of the economy and integration in world economies flows. In that manner Government have to support all initiatives for partnerships, business collaborations and other kinds of linkages with neighbor economies and wider.

To use comparative advantages in given regions and places, including building capacities that are interlinked with the existing ones, and to build industry zones (clusters), by which are developed particular industries and it is given a possibility to generalize the production.

In Republic of Macedonia, with years, the thesis is analyzed that only the primary banking system meaning the commercial banks are the only source for financing of the national economy, avoiding the need of liberalization of the financial market for non-banking entities and the instruments for financing entrepreneurship.

<sup>7</sup> Existing differences in figures depend on sources.

Macedonian market is small, successful macro-economic stabilization and the prospects of a regionally integrated trade area have the potential to attract foreign investors. Moreover, appropriate FDI legislation has been passed and Agency for Foreign Investment Promotion has been created.

However, progress has been insufficient on the 'basic' elements of a friendly business environment, entailing streamlined business procedures, flexible labor markets, implementation of good governance standards and effective contract enforcement. Efforts in these areas require a strong commitment, since, together with the fight against corruption, they are necessary pre-conditions for unlocking the much-needed flows of FDI.

Considerable progress is still needed to establish an attractive framework conducive to investment and sustainable growth, driven by private sector development. There are several areas where the scope for improvement is still large.

Given the still rather low level of GDP per capita, a crucial aspect of any growth strategy for the Republic of Macedonia is the capacity to attract Foreign Direct Investment (FDI).

At the macroeconomic level, FDI mostly impacts on domestic investment, employment and the balance of payments.

Steps taken should focus on improving conditions for straitening *Foreign Investment Promotion Agency* (FIPA), a one-stop shop concept which should provide information on procedures and opportunities to foreign investors; *FDI incentives* (tax holidays/subsidies), which however raises the issue of distortion of competition,

In accordance with the previous the basic priorities in the overall target market needs can be defined as following:

1. Unemployment and poverty;
2. Trade balance deficit;
3. Small economic growth and
4. Administrative barriers and corruption.

## I. Pillar: PUBLIC PRIVATE PARTNERSHIP (PPP) IN CREATION OF INTEGRATED ECONOMIC STRATEGIES

### BACKGROUND

In the past there were many measures for improvement of the business environment in R. Macedonia. Most of them were not implemented because there was not sufficient coordination and consensus between the institutions charged for creation of the economic policies. The experience of other more successful countries has shown that in creating integrated economic policies there should be only one institution in charge for preparation, coordination and design of integrated economic strategies.

In Republic Macedonia there is no strong, single institution empowered by the Government or the Parliament to coordinate preparation of the integrated economic strategies.

On the opposite, the practice shows that the economic strategies are created in several institutions within different Ministries, Government bodies, etc, with parallel activities and without minimum coordination between them.

For example: MoF (Ministry of Finance) takes care of fiscal policy, creation and follow-up of the budget and many other activities.

The NBRM (National Bank of Republic Macedonia) has responsibilities about the monetary policy, stability of national valute: denar (MKD), as well as many activities in supervision of the banking system.

Both institutions perform extremely important functions, but their activities and measures have very restricted development components.. In the eyes of the private sector they are perceived that they conduct conservative economic policy based on fiscal and monetary discipline, which is very important for the macroeconomic stability, but has no visible impact on improvement of position of enterprises. With the new macroeconomic policy and measures for economic development that the government of Macedonia has accepted and new Custom law which perceives reduction of import taxes on raw materials and semi-products for export oriented companies, it is expected that there will be improvement in the business environment but that is yet to be seen.

The private sector complains that MoF is not willing to consider new measures and incentives for the export oriented enterprises.

In such cases MoF has typical answer that they have no right to change the obligations undertaken from the negotiation with the IMF or WB and are not ready to discuss any measure that can undermine the macroeconomic stability. The private sector perceive it as a lack of good will for productive dialogue.

The MoE (Ministry of Economy), however, is more willing to create better environment for enterprises, (including SMEs) and to assess more support and incentives for start-ups. MoE favor measures for more non-financial support for export-oriented firms.

MoE is ready to discuss with private sector reduction of some import taxes for raw materials, willing to provide some benefits for exporters, they are ready to open dialogues with the private sector for more flexible fiscal policy, etc.

The impression is that MoE at least, see the development component in economic strategies.

Ministry of Social welfare is occupied with labor policies, new employment, job creation by opening more new businesses. The new Labor Law – draft version which is expected to be effective by the end of this year is in the process of discussion and it is harmonized with European Labor law.

The Chambers of commerce (the older one and the Union of Chambers), as well as the Business Associations in most cases were ignored and their opinions have no strong impact in preparation of new economic strategies and policies.

In all, Macedonia has no integrated economic strategies prepared, coordinated and supervised by highly reputable institution (think-tank, Institute for strategic economic research, Economic Council, etc).

It is worth to mention that in the GoM from the beginning of 2005 there is a **Body for economic strategies and policies** with the Vice Prime Minister on the head. In it the members are domestic and foreign experts including highly reputable Theodor Weigel, (ex-minister of finance of Germany) and a group of other advisors.

Many experts agree that It is the right step forward in attempts to prepare, coordinate and design more efficient economic policies of the GoM. The bad news is that it is not (and can not be an independent body, at arms-length from the Government. It is not difficult to predict that with eventual change of this Government (the general elections are in September 2006), the process would start from the beginning.

The concepts and opinions are pretty dissonant within present GoM. For the public are evident large differences in strategic thinking between MoE and MoF. The public opinion wonder if such big differences exist among members of the Cabinet, than it will be much more difficult to coordinate the formulation of the integrated economic strategies between position and opposition.

Therefore, the importance of one independent institution for preparation, coordination and supervising the integrated economic strategies and policies is very high. Such role could undertake the NECC (National Council for Entrepreneurship and Competitiveness) in which the representatives of Government, academia, NGOs, Business Associations and others are represented.

With appropriate TA (Technical Assistance) and increased capacity and competencies the NECC could establish Public-Private partnership between stakeholders in preparation of integrated economic strategies .

With good will of Government and other stakes the NEC could extend its mandate and acquire the power and legitimacy to coordinate activities on preparing integrated economic strategies. The NECC (and other think-tanks or groups included in it, should implement the principles of knowledge-based



economic development, competitiveness, innovations, clustering, active participation in International trade.

At the same time, having members from many relevant ministries, the NECC can coordinate the work on preparation integrated economic strategies and play positive role in resolving differences in opinion (and conflicts) between various members.

## 1. ACTIVITY NAME: CREATING INTEGRATED ECONOMIC STRATEGIES AND POLICIES

### 1.1. OBJECTIVE:

Support in development and preparation of integrated economic policies.

### 1.2. STATEMENT OF THE PROBLEM:

As stated above R. Macedonia has no integrated economic strategies that are prepared, coordinated and supervised by one strong, reputable institution like: NECC, think-tanks, Institutes for strategic economic research, Economic Council, etc. There is a lack of coordination in preparation of macroeconomic strategies among different ministries, institutions etc.

### 1.3. PARTNERS:

- NECC
- GoM
- MoE
- MoF
- business associations and Chambers concerned for creating better business environment.

### 1.4. STEPS TO BE UNDERTAKEN :

- Empower NECC (National Council for Entrepreneurship and Competitiveness) as institution to coordinate planning of integrated economic strategies.
  - The NECC as “institution” for building competitiveness of Macedonian economy, by decision of GoM (or Parliament) and with political consensus between position and opposition, should have mandate to coordinate activities in preparation of integrated economic strategies.
- To provide support for preparation and coordination of the industrial, monetary, fiscal and trade strategies **integrated** in one document named: Integrated economic strategy for Republic Macedonia 2007-2012.
- The prepared economic strategies should be coordinated with economic, social councils and jointly discussed on various expert levels.
- Finally agreed integrated economic strategies and recommended policies should have the status of national economic priorities for all stakeholders. The strategies for prosperity and sustainable economic growth should have **strong development component** and be focused on building competitiveness, support for export-oriented private sector, to attract targeted FDIs, favor innovations, create conditions for knowledge-based economy including respect and enforcement of IPR (Intellectual Property Rights) and have priority for new jobs creation, especially for young, well-educated and skilled labor force.

- Final step in creation of Integrated economic strategies should be public presentation between business community, local authorities, LED (Local Economic Development) experts and in the wider public .
- It should be clear that all sectors, all industries and the whole business community would be pleased and enthusiastic with the proposed strategies. But, from the public debate it is likely that small modification and improvements could be made.
- Integrated economic strategies supported by Declaration of the Parliament, enforced with the Statement of GoM that it shall be basis for the Action Plan of implementation .
- Preparation and Adoption of the Action Plan by GoM based on the Integrated economic strategies.

### 1.5. RESULTS

Confirmed role of the NECC as main coordinator in preparation of the integrated economic strategies

- More transparent, better prepared and better coordinated integrated economic strategies and policies.
- Economic strategies with strong development component focused on improved the competitiveness of Macedonian economy
- support for innovative firms
- creating conditions for knowledge based economy and protection-enforcement of IPR (Intellectual Property Rights)
- encouragement and support for export oriented firms
- better structure of the new FDIs (export-oriented)
- more new jobs for young, educated and skilled labor force.

### 1.6. IMPACT TARGET GROUPS:

NECC as a beneficiary

- Business Association including Chambers of commerce),
- GoM bodies,
- other institutions: economic think-tanks, economic councils,

### 1.7. TIME TABLE:

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
create integrated economic strategies and recommend appropriate policies	X	X	X	X	X
Support NECC as a National coordinator in preparation of integrated economic policies	X	X	X	X	X

## **2. ACTIVITY NAME: CAPACITY BUILDING AND TRAINING OF THE HUMAN RESOURCES INCLUDED IN DESIGN OF THE INTEGRATED ECONOMIC STRATEGIES**

### *2.1. OBJECTIVE*

Improve capacity of the creators of integrated economic policies by introduction appropriate training and contemporary ICT tools in analyzing scenarios.

### *2.2. STATEMENT OF THE PROBLEM*

In many countries the designers of the Integrated economic policies use the most advanced modeling of economic strategies, by use of well developed ICT tools. In the past some Macedonian institutions have received TA (Technical Assistance) for implementing such tools. Usually the hardware and software were installed, the staff selected and trained, but the economic modeling rested as before i.e. by implying political dictate over the economic policy designers? With USAID support, this time the practice should be changed: Hardware-software should be installed at the institution responsible for integrated economic planning, as NECC for example.

### *2.3. PARTNERS*

Members and institutions present in NECC, (GoM, MoE, MoF and other institutions) responsible for creating better economic strategies.

### *2.4. STEPS TO BE UNDERTAKEN*

The HR (Human Resources): academia, experts, decision-makers, and the personnel participating in the creation of the integrated economic strategies should be additionally trained to use the ICT solutions and appropriate software for analyzing various economic options, scenarios, strategies etc.

- It is necessary to take advantage of the existing software (like GAMS, etc) and use computerized models for analyzing scenarios and introducing different economic policies for strategic planning, and to take into account various inputs of trade policies, fiscal, monetary and other measures on creation integrated economic policies.
- Training of HR that participate in the creation of integrated economic policies.
- Installation of the software in NECC as a host institution.
- Training on implementation for use computerized economic models.

### *2.5. RESULTS*

Improved understanding of the impact of proposed strategies, policies and measures.

- Better strategic planning.
- Shorter time for analysis of various economic scenarios.
- Better economic results and faster economic growth

**2.6. IMPACTS/TARGET GROUPS:**

- Experts for Strategic economic planning from all stakeholders participating in integrated economic policies

**2.7. TIME TABLE:**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
HR Training for integrated economic strategies	X	X			
ICT models -implementation	X	X			
Training for use of IST software	X	X			

**2.8. INDICATORS (CRITERIA) OF SUCCESS:**

RESULTS:	INDICATORS:	2007	2008	2009	2010
More efficient process in analyzing "what-if " scenarios	Better coordinated changes in Economic Policy	survey	survey	survey	survey
Faster decision-making.	Improved macroeconomic decision policies	survey	survey	survey	survey

### **3. ACTIVITY NAME: SUPURT IN CREATING PUBLIC PRIVATE PARTNERSHIP(PPP) IN EXPORT PROMOTION**

#### *3.1. OBJECTIVE*

Introduce mechanisms for creating Public-Private Partnership (PPP) in export promotion. Export policies in Macedonia must build on active PPP dialogue between all participants in export process. USAID could support this dialogue by active support of the future Export Council (or similar bodies, trade committees, etc) with purpose to advice in creating export oriented strategies.

#### *3.1. STATEMENT OF THE PROBLEM:*

The importance of creating PPP for export promotion has been considered as imperative for Macedonian export .

Instead of Statement of the problem, we would like in short to present the opinions of the private sector expressed on the First Export-promotion conference (April 2005, sponsored by USAID) .

Clearly, the main exporters from Macedonia requested from the GoM support in these issues:

- Efficient financial instruments for export-promotion.
- To provide mechanisms for implementation of medium and long-term loans as a decisive support for export-oriented companies-organizations.
- To organize HR training for building export-oriented strategies based on competitiveness.
- To increase the capacities of HR in the Export-promotion Agency.
- To imply VAT on imported raw materials at the end of the export process
- To reduce import taxes imposed on raw materials and semi-products on the entry side of the exporters value chain.
- Certificates of origin should not be excused for administrative obstacles on customs during the import of raw material and goods dedicated for the production process in the exporters.
- Active role of GoM in Doha negotiation and timely information about possible impacts on the domestic agricultural market.
- Exporters should be encouraged and supported in implementing International standards (HACCP, ISO, CE mark, etc).
- Institutions for certification (should be strengthened and equipped for providing efficient standardization processes

#### *3.3. PARTNERS*

MoE (Export promotion department)

MoF,

- Macedonian Bank for Development Promotion (MBDP) Skopje ,
- Agency for Export promotion (or similar Governmental body)

- Chambers of commerce (The Economic Chamber and Union of the Chambers of commerce)
- Business Associations
- Other stakeholders in export promotion.

#### 3.4. STEPS TO BE UNDERTAKEN:

- To establish efficient working group based on Public-Private Partnership in which all stakeholders must be in position to participate in formulation of the measures for better export promotion.
- To produce **Action Plan** based on export-promotion needs (as stated in the First Annual Conference on Export Promotion). The Action plan should be in compliance with the market mechanisms and with WTO practice.
- To exclude requests which are not realistic and not acceptable in International trade and do not comply with WTO principles and policies. USAID can provide TA (Technical Assistance) and support for facilitation of the working group including: benchmark, capacity building, inclusion of previous activities in export promotion, etc.
- The outcome should be Action Plan approved by the GoM and approved by the Parliament.
- Make inventory of legislation (primary and secondary) to be improved or changed. Eliminate discrepancies and misleading actions.
- Get compliance with the objectives and goals for improved exports.

#### 3.5. RESULTS:

- Increased exports
- Efficient Trade committees (if they are to be established in 2005)
- Better economic position of the Export-oriented firms (result of more funds for export activities, improved cash-flow in export cycle, etc).
- Decrease – reduction of negative trade balance of Republic Macedonia
- Facilitation on export activities based on sound market-based mechanisms

#### 3.6 IMPACT/TARGET GROUPS:

- Export-oriented companies-organizations organized in the ALL Chambers of commerce, Business Associations, Branch Clusters etc.

#### 3.7 TIME TABLE:

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
establish efficient working group based on PPP	X	X	X	X	X
produce <b>Action plan</b> based on export-promotion needs	X	X	X	X	X

**3.8. INDICATORS (CRITERIA) OF SUCCESS:**

RESULTS:	INDICATORS	2007	2008	2009	2010
Increase export of goods	1. Increased export of goods	20%	15%	15%	15%
Reduction of deficit in trade balance	2. Decrease trade deficit	survey	survey	survey	survey



#### 4. ACTIVITY NAME: FURTHER DEVELOPMENT OF THE CONCEPT FOR E-CUSTOMS

In the Republic of Macedonia several IT based solutions for improvement of the operational efficiency of the Customs Office were undertaken with objectives to increase the flow of goods, improve control for illegal traffic of alcohol, cigarettes and similar goods, better follow-up of the traffic through the main transport corridors, etc.

##### 4.1 OBJECTIVE:

Contribute to the Introduction of the concept of the **Integrated Border Management**, by further development of the concept of E-customs. There is strong need to speed-up the flow of goods, standardize procedures, decrease waiting on the border line and coordinate the work of the state authorities and inspections on the border. USAID may support the activities of the joint inter-ministerial working group for appropriate benchmarking, ICT based solutions, joint data-base, appropriate training. The outcome should be E-customs and introduction of “**single window**” facility on the border.

##### 4.2. STATEMENT OF THE PROBLEM:

It is necessary to boost all activities that are consistent with introduction of the Integrated Border Management. The concept of E-customs is a very important milestone in this process. The people from Customs office are very receptive for the full realization of E-customs.

##### 4.3. PARTNERS

- Strong coordination with other donors like: EC Brussels and EAR (European Agency for Reconstruction) and other donor supported projects for implementation of the concept of E-customs.

##### 4.4. STEPS TO BE UNDERTAKEN:

- **Introduction of the Single Window Facility request changes in the Custom Law and several other Laws for control of food safety, quality control, which require strong preparatory and coordination between several Ministries, high commitment and full involvement of the ministers of GoM, commitment of the Parliament to vote in favor of all these changes. Also, the secondary must be changed, but it is not necessary to go in Parliamentary procedure.**
- Implementation of contemporary IT based solutions in the Custom office.
- Additional improvement in existing software in the Custom office and/or new software.
- Appropriate training of the staff.
- Better Horizontally coordinated activities between Customs, MoF , Ministry of interior (Police) and various Inspection units at the border.

**4.5. RESULTS:**

- Implementation of the Single Window Facility based on EU benchmarks.
- Increased flow of goods based on better coordination between cross-border units
- Transparent and ICT (Information and Communication technology) based solutions.
- Implemented concept of E-customs will reduce corruption practices on the border.
- Step closer to Integrated Border Management as an important pre-condition for EU accession.
- Same data-base for several ministries. Improved coordination for cross-border units of: Customs, MoF, Public Revenue Office, Police, Inspections
- Better safety and health control of the food and agricultural products
- Better trained HR (Human Resources) in export-import activities (spedition, transporters, cross-border logistics, etc)
- Compliance with WTO recommendations

**4.6. IMPACTS/TARGET GROUPS:**

*Experts that will be involved to create Single Window Facility and coordinate work of these stakeholders :*

- Custom office,
- Ministry of interior (Police),
- MoF (Ministry of Finance, Tax revenue office),
- Ministry of Health,
- Ministry of Agriculture.

Note. Eventually, include partner-institutions from the SEE region, with aim to organize **Regional Training Center for Custom Officers (RTCCO)** in Ohrid.

**4.8. INDICATORS (CRITERIA) OF SUCCESS**

RESULTS:	INDICATORS	2007	2008	2009	2010
Trade of goods flow	1 Increased trade flow	15%	15%	15%	15%
Better Cross-border management	2. Cross-border flow. Coordination audit	survey	survey	survey	survey

## II. Pillar: PUBLIC CAPITAL INVESTMENT AND DECENTRALIZATION

### **BACKGROUND**

Fiscal reform is under way in the RM aiming at synchronizing with fiscal systems of developed countries, and primarily with the EU. Public spending in the country relative to the GDP is relatively lower than that of EU member countries (data available for 15 EU members). More issues relative to the public spending relate to its structure where more items are present that unnecessarily put burden on the overall fiscal load of the economy. Efforts for fiscal reform are connected with capital investment in the frame of the public spending, fiscal reforms of the local self-government units and redefinition of tax obligations for companies and employed citizens.

## **1. ACTIVITY NAME: PLANNING AND MANAGEMENT OF PUBLIC CAPITAL INVESTMENTS**

### *1.1. OBJECTIVE*

Technical support of the Ministry of Finance relative to planning and management of public investments

### *1.2. STATEMENT OF THE PROBLEM*

Public capital investments have been low for a longer period of time. Such policy leads to worsened quality of a large number of services of public interest. These conditions present negative effects upon quality of living of the population and working abilities of the inhabitants. Capital investments in public spending are low not because of lack of funds for this purpose but primarily because of inadequate management that does not contribute to quality investment programs and their accomplishment. Although training has been carried out in the Ministry of Finance, in the frames of the PHARE program, there are still considerable funds that are not being invested in the private sector.

### *1.3. PARTNERS*

- Ministry of Finance
- Ministry of Labor and Social Policy
- Ministry of Health
- Ministry of Education
- Ministry of Transport and Communication
- Ministry of Ecology
- Ministry of Local Self-Government

### *1.4. STEPS TO BE UNDERTAKEN*

- Training staff for management in planning and realization of public investment projects in the Ministry of Finance, Ministry of Labor and Social Policy, Ministry of Health, Ministry of Education, Ministry of Transport and Communication, Ministry of Ecology, Ministry of Local Self-Government and Self-Government Units.
- Evaluation and control.

### *1.5. RESULTS*

- Better use of financial potentials in the frame of the budget
- Raising investments in the public sector
- Improving public sector products and services
- Increasing overall investment activities and development of the country
- Raising of the health and education level of the population
- Improvement of the traffic and communication connections, ecology improvement etc.

**1.6. IMPACT / TARGET GROUPS**

- Investments in the public sector and total investments
- Faster development of the country
- Users of public products, services and offices

**1.7. TIME TABLE**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Training staff for management in planning and Realization of public investment projects in the Ministry of Finance, Ministry of Labor and Social Policy, Ministry of Health, Ministry of Education, Ministry of Transport and Communication, Ministry of Ecology, Ministry of Local Sell-government and Self-government units (24 months).	X	X			
Evaluation and control (6 months).		X			

**1.8. INDICATORS (CRITERIA) OF SUCCESS**

RESULTS	INDICATOR	2006	2007	2008	2009	2010
Better use of financial potentials in the budget for investment	Budgets at Central and local level	10%	10%			
Raising investments in the public sector	Budgets at Central and Local level	10%	10%			
Improving public sector products and services and offices		Survey	Survey			
Increasing overall investment activities and development of the country	State statistics Bureau	1%	1%			
Improving of the health and education level of the population	State statistics Bureau	Survey	Survey			
Improvement of the traffic and communication connections, ecology improvement etc.	State statistics Bureau	Survey	Survey			

## **2. ACTIVITY NAME: FISCAL DECENTRALISATION**

### *2.1. OBJECTIVE*

Technical support for improving capacities of 13 municipalities in the process of fiscal decentralization.

### *2.2. STATEMENT OF THE PROBLEM*

With the new legal frame regarding decentralization the new local government has more authority regarding economic and social issues of municipalities. A large part of the fiscal authorities are transferred to local level. It implies that local self-government units are in position to manage problems in future easier. The technical support is needed for more efficient implementation of the process of decentralization. A large number of municipalities do not have staff capacities and knowledge to fully carry out new duties that are transferred to them from central level. Implementation of the decentralization and development of municipalities will considerably depend on capabilities of professional teams in municipalities for successful implementation of their responsibilities.

### *2.3. PARTNERS*

- Ministry of Finance
- Ministry of Local Self-government
- Local self-government units
- Think-tanks, consulting companies and training centers

### *2.4. STEPS TO BE UNDERTAKEN*

- Organization and execution of seminars, training and training programs in the frame of fiscal responsibilities for authorization of municipalities according the changes of law and transfer of part of responsibilities from the central government to the municipalities
- Evaluation and assessment

### *2.5. RESULTS*

- Technical support for strengthening skills among municipalities staff for responsibilities to be transferred
- Bigger municipality budgets
- Higher rate of investments in municipalities
- Faster economical development of municipalities

### *2.6. IMPACT / TARGET GROUPS*

- Municipalities
- Central government
- Budget and tax in municipalities
- Investors in municipalities
- Economic development and employment in municipalities and in the country as a whole

**2.7. TIME TABLE**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Organization and application of seminars, education and training programs in the fiscal area for municipality responsibilities according the legal changes for transfer part of authorities from the central government to municipalities (36 months)	X	X	X		
Evaluation and assessment (12 months)			X		

**2.8. INDICATORS (CRITERIA) OF SUCCESS**

RESULTS	INDICATOR	2006	2007	2008	2009	2010
Technical support for strengthening professionalism and skills of municipality staff in view of carrying out transferred responsibilities	Local self-government staff	Survey	Survey	Survey		
Higher collection of taxes in municipalities	Municipal budgets	10%	10%	10%		
Bigger municipality budgets	Municipal budgets	10%	10%	10%		
Higher rate of investments in municipalities	State statistics Bureau	10%	10%	10%		
Faster economical development of municipalities	State statistics Bureau	Survey	Survey	Survey		

### 3. ACTIVITY NAME: ISSUANCE OF BONDS ON LOCAL LEVEL

#### 3.1. OBJECTIVE

The objective of the implementation of this activity is to extend the possibilities for investing and financing the local government units (LGU) via introduction of a new instrument on the capital market. This will lead to increase of the efficiency in allocating the capital on local level and improving the local economic development.

#### 3.2. STATEMENT OF THE PROBLEM

The decentralization process enables for most of the authorities of the central government to be devolved to local level. Therefore, what is of special significance in the next period is that the local government will have to pay attention to the local economic development. Local economic development depends on many factors (level of present development of municipalities, the potentials they possess, the management and its education, etc.). However, we have to stress that the sources of financing the development, which the municipality will have available, are of special importance.

Despite the fiscal authorities (collection of taxes, fees, contributions, and other fiscal collections) to be transferred to local level, which are one of the possible sources of financing, the problem of shortage of financial instrument, as debt securities on local government units level, will arise. Developed market economies take the bonds at local level (as non-risk securities) to be a very important instrument on the securities market, which absorb the free cash from the population and the other interested investors, and are intended for the local economic development. Introduction of this type of non-risk securities on local level will contribute to development and enlargement of the secondary capital market. Such approach will enable gradual reduction of some problems:

*Low level of local economic development:* Low level of local economic development is due mainly to the fact that, in general, the central government run the economic development policy in the Republic of Macedonia. As a result, most of the funds intended for development were not allocated toward targeted places for intervention. The decentralization process enables for the problems of local economic development to be brought closer to the local government, which is aware of them the most. At the same time, local government is much closer to the citizens and by cooperating with them it needs to work to gradually resolve the economic problems at the local level.

Modest (poor) structure of securities on the market: We are witnessing a very modest (poor) offer of securities on the capital market (shares and government bonds), in general. Thus, the choice to invest is minimum securities for the purpose of functioning of the capital market. By introducing bonds on local level as debt securities, the structure of the offer for investment in securities on the capital market in the Republic of Macedonia is improved.



Insufficient level of development of the local infrastructure: Development of infrastructure in the local government units is at an insufficient level. The reason for such situation can be located in both the small focus on this problem in the past and the allocated funds spent in a non-earmarked manner. One should take into account that the well-structured infrastructure is an important factor for the economic development. Raising the level of the local development is a long-term and complex process.

### 3.3. PARTNERS

- Ministry of Finance
- MSE
- SC
- FSVC
- NGOs in local self-government units for economic development
- Local government

### 3.4. STEPS TO BE UNDERTAKEN

- Support in the process of preparing by-law regulations for introduction of securities at local level
- Support of NGOs in the process of public education/ campaign
- Education of the local government
- In-house training
- Implementation

### 3.5. RESULTS

- Appearance of initial auctions of bonds at local level.
- Raising the size of investments on local level
- Increasing financial report transparency of local self-government units.

### 3.6. IMPACT/TARGET GROUPS

- Capital market
- Investments
- Local economic development
- Employment

### 3.7. TIME TABLE

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Support in the process of preparing by-law regulations	X	X			
Support of NGOs in the process of public education/campaign	X	X			
Education of the local government	X	X			
In-house training	X	X			
Implementation			X	X	X

**3.8 INDICATORS (CRITERIA) OF SUCCESS**

RESULTS	Indicator	2006	2007	2008	2009	2010
Appearance of initial auctions of bonds at local level.	Possible total number of auctions at the end of the 5th year around 30			10	10	10
Raising the size of investments on local level	Raising the size of investments in LSG units at the end of the fifth year in comparison to the year 2005 (State statistics Bureau and Bulletins of NBRM)					30-40%
Increasing financial report transparency of local self-government units.	Full transparency of financial statements of LSGU to the public (accessible financial statements of LSGU for potential investors).					

### III. Pillar: RECONSTRUCTING OF THE WORK FORCE AND LABOR MARKET DEVELOPMENT

#### BACKGROUND

Besides normalization of political and security conditions following the inter-ethnic conflict, recovering of the national economy still goes very hard. Processes are accompanied by high unemployment rate, social insecurity and poverty that are generators of gray economy, corruption, loss of traditional values and ethic criteria, as well as general society cohesion.

Conditions have additionally been complicated by the lack of real economic and social dialogue, and the inability to achieve consensus by political parties for any strategic issue<sup>8</sup> (any offered reform or measure rousing cheap marketing reactions for daily political purposes, that have characterized more or less the two governing political options since the independence).

The rate of work force participation in the total work capable population in the RM is around 65%<sup>9</sup>. The relatively low participation rate<sup>10</sup> reflects the low number of employed citizens relative to the available work force.

The labor force survey conducted in 2003, gave a total number of 545,108 employed citizens<sup>11</sup>, which is 3% less than in 2002. The employment rate of male citizens (41.3%) is considerably higher than that of female citizens (27.7%). In 2004 the number of employed citizens was 529.829.

The rate of unemployment in 2003 rose to 36.7%<sup>12</sup>, and such trends were also the characteristic of the year 2004<sup>13</sup>, which renders the RM among the countries with highest unemployment rate in Europe.

From the other hand, “fortunately” the gray labor market in the RM is considerably developed, both in the field of “employment” and the field of unregistered ‘entrepreneurial self-employment<sup>14</sup>. The size of this market is very difficult to assess, but we will quote the research that was published in 2002, titled as ‘Size and development of the gray economy in 22 countries in transition and 21 OECD countries’<sup>15</sup>.

<sup>8</sup> It seems except for the issue of EU and NATO membership.

<sup>9</sup> In 2004: 529.829 employed : 841.614 total work capable population.

<sup>10</sup> Around 8% lower than the average rate in Central European countries

<sup>11</sup> From which 52.4% in the private sector.

<sup>12</sup> Relative to 31.9% in 2002.

<sup>13</sup> 311.786 unemployed : 841.614 total work capable population = 0,37%

<sup>14</sup> Buying of goods (at markets in Sofia, Istanbul, Tirana, South Serbia etc.) their smuggling through borders and sale at green-markets and other frequently visited places in cities.

<sup>15</sup> Schneider F. (2002) IZA Document for review no. 512.

According this document, during the period of 2001-2002 gray economy realized 45.1% of the GDP and 35.1% of the work force was engaged in the field of gray economy in the period 1998-1999.

As it can be seen, this problem is rather complex and multidimensional so that a developed strategic plan is needed in view of its alleviation, including all relevant players on politic, economic and social stage.

## 1. ACTIVITY NAME: ACTIVE POLICIES ON LABOR MARKET

### 1.1. OBJECTIVE

Main desired aims to achieve by giving suitable technical assistance and support in the process of restructuring of the work force and the labor market in the Republic of Macedonia will have positive impact on the following fields:

- Reduction of the unemployment rate;
- Reduction of poverty;
- Improving economic growth.

### 1.2. STATEMENT OF THE PROBLEM

As we have previously elaborated, inefficiency labor policy is one of the hardest multidimensional complex problems of Macedonian society. Its consequences can be felt in the field of economic growth, modest GDP, tension with social funds, rather huge gray economy, public ethic, criminal cases, tax evasion, nepotism, corruption and similar negative and criminal implications.

Such conditions could be really alleviated, and simultaneously adequate long-term development strategy can be traced, if the following specific aims are attained as a result of a complex project:

- Development of the labor market in the RM (active policies, social dialogue);
- Support during search of jobs (information, mediation and counseling);
- Organization of training programs (qualification, re-qualification);
- Creation of conditions and support for opening new jobs (labor intensive investments, entrepreneurship, self-employment).

### 1.3. PARTNERS

- Economic-social council<sup>16</sup>;
- Ministry of Labor and Social Policy;
- Ministry of Economy,
- Ministry of Education and Science;
- Agency for Employment of the Republic of Macedonia and private employment agencies;
- Trade unions;
- Economic chambers, branch NGOs;
- NGOs dealing in the field of the unemployed citizens and those who have been made redundant.

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<sup>16</sup> That would have to be redefined and institutionalized yet.

#### 1.4. STEPS TO BE UNDERTAKEN

**Starting precondition:** To adopt the new Law on working relations and accompanying regulations by the end of the year 2005 and have them answer the needs of the desired environment.

- Institutionalizing and redefining of the Economic and Social Council (as a permanent organization with considerable authorities and importance in the process of creation development strategy of the RM);
- Creation of a strategic plan for employment for the next 5 years, including strategy for legalization of part of the grey economy.
- Redefining the Agency for employment into a real factor on the labor market (especially in the field of education of adults and mediation by articulated temporary employment abroad);
- Improving labor market flexibility;
- Promoting active measures at the labor market;
- Improving qualifications of the work force (new qualifications, additional qualifications according the need for development of certain economic sectors);
- Support in creating a suitable framework for domestic and foreign investment;
- Creation of separate packages for support of labor intensive investment;
- Support of adaptability and competitiveness of the economic factors (especially big enterprises);

#### 1.5. RESULTS

- Faster economic growth, based on engagement of the free labor force;
- Creation of articulated and flexible 'real' work-force market;
- Reduction of the unemployment and improvement of the social environment;
- Long-term improvement of work-force performances;
- Development of models for institutionalized dialogue between the Public and the Private sector regarding strategic questions of development;
- Reduction of corruption and improvement of the overall relations and society cohesion;
- Reduction of the outflow of quality individuals with high education, through offer of suitable opportunities in the country and overcoming the feeling of hopelessness especially among youngsters.

#### 1.6. IMPACT / TARGET GROUPS

- The state and local self-government units (through reducing of the unemployment and faster economic growth);
- The unemployed citizens and other socially sensitive and marginalized groups<sup>17</sup>;
- Youngsters (generations that are arriving at the labor market):

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<sup>17</sup> That would need development of special packages in the frame of the strategy.

**1.7. TIME TABLE**

Activity:	2006	2007	2008	2009	2010
Redefining of the economic and social council	X				
Adopting of a strategic plan	X				
Redefining of the Agency for employment	X				
Improving labor market flexibility	X	X	X	X	
Implementing active measures on the labor market		X	X	X	
Improving work-force qualifications	X <sup>18</sup>	X	X	X	X
Creation of a suitable frame for domestic and foreign investment		X	X		
Packages for support of labor-intensive investment			X	X	
Support of adaptability and competitiveness of economic participants		X	X	X	X
Developing awareness for entrepreneurship	X	X	X		
Packages for support of micro businesses and self-employment		X	X	X	X
Packages for development of agriculture and cattle breeding	X	X	X	X	X
Developing cooperatives, professional associations and similar forms	X	X	X		
Developing of start-up packages for SMEs.	X	X	X	X	X

Assessment on clasping of work: 280 consultant/months.

Domain of expertise's: 5.

Assessment of local participation: 40%.

**1.8. INDICATORS (CRITERIA) OF SUCCESS**

Indicator:	Total: (per five years) <sup>19</sup>	2007	2008	2009	2010
Reduction of the unemployment rate	8%	15%	25%	30%	30%
Reduction of poverty	7%	10%	20%	35%	35%
Higher economic growth	3%	10%	30%	30%	30%

**Frequency of measurement:** Once per year, during the first two months of the current for the previous year.

<sup>18</sup> Institutors, programs, teams, educational material.

<sup>19</sup> Relative to the starting year 2004.

#### IV. Pillar: TRADE IN GOODS/TRADE OF SERVICES

##### **BACKGROUND:**

This pillar is strongly related to the previous pillar of E-customs and both could be merged into a single common pillar. **Introduction of Single Window facility (based on IT solutions) automatically will increase the cross-border flow of goods** and will have positive effect on reduction of the corruption in cross-border operations.

In the case of Republic Macedonia this is very relevant case since the country is very high on the List of Transparency International (Organization that follow the corruption and bribe in the World) and will lower corruption in cross border operations.

Based on WTO recommendations there is strong need to speed-up the flow of goods, standardize cross-border procedures, decrease waiting on the border line and coordinate the work of the Customs, Police and inspection units, with the parallel request to maintain Food, Healthy, Sanitary and Veterinary control in order to protect the citizens.

There are some predictions that introduction of the Single Window Facility will be strongly resisted and opposed from **all authorities** and cross-border units, however in Macedonia there is a strong need for proper evidence and measurement of international trade in services, as a growing component in the export-import activities.

Macedonian institutions from the Financial and banking sector and many experts should be familiar with the **Manual on Statistics of International Trade in Services** as a joint result of UN, EC, IMF, OECD, UNCTAD, WTO and other International organizations. There is growing demand from Governments, businesses, analysts and consultants to have more relevant, comparable statistics on Trade in services as an important component in the Balance of Trade for one country. This is also prerequisite in the EU accession process to have clear and measurable evidence of data for trade in services.



## 1. ACTIVITY NAME: FACILITATION OF THE TRADE FLOW OF GOODS

### 1.1. OBJECTIVE:

To increase trade flow of goods in compliance with WTO recommendations. The introduction of single window facility can simplify the export-import procedures, will decrease the length of time in crossing border, improve the coordination between authorities and improve the flow of goods. This will result in full compliance with WTO recommendations and be a positive signal for similar improvements in the cross-border activities for all countries in the Balkans.

### 1.2. STATEMENT OF THE PROBLEM:

There is strong need to speed-up the flow of goods, standardize procedures, decrease waiting on the border line and coordinate the work of the state authorities and inspections on the border. There is no use of customs and police to work round-the-clock, if other inspections: food, phito-pathology, sanitary, work shorter. It is necessary to eliminate bottle-necks on the border and improve the procedures between all cross-border units of the relevant ministries: Police, MoF, MoE, Ministry of Health, MAFWE (Ministry of Agriculture, Forestry and Water Economy) etc.

USAID may support the activities of the joint inter-ministerial working group for appropriate benchmarking, ICT based solutions, joint data-base, appropriate training. The outcome should be “**single window**” facility.

### 1.3 PARTNERS

- All relevant ministries: Police, MoF, MoE, Ministry of Health, MAFWE (Ministry of Agriculture)
- other stakeholders that participate in a cross-border operations.

### 1.4. STEPS TO BE UNDERTAKEN

- As described in a previous pillar (4.4). Strong coordination and commitment of several Ministries. High official (Prime minister or one of the Vice president of GoM must be personally involved, in order to overpower the strong resistance from the various involved authorities.
- Design and simplify the new procedures by establishing “single window” facility at the borders with aim to improve the coordination among all state authorities and inspections on the border.
- The "single window facility" will decrease the time lenth on the border, make more simply and more smooth the flow of goods in crossing the border.
- Training of HR that will prepare-negotiate-coordinate the Single Window Facility.

**1.5. RESULTS:**

- more simply and more smooth flow of goods in crossing the border.
- reduced corruption on the border
- increased flow of goods
- improvement in cross-border cooperations

**1.6. IMPACT/TARGET GROUPS:**

- Better coordination among all state authorities and inspections on the border.
- Full compliance with WTO policies and recommendations.

**1.7. TIME TABLE:**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
establishing "single window" facility at the borders	X	X	X		

**1.8. INDICATORS (CRITERIA) OF SUCCESS:**

RESULTS:	Indicator:	2007	2008	2009	2010
Trade of goods	Increased trade flows	15%	15%	15%	15%
shorter time for cross border procedures	Decreased time length on the borders	survey	survey	survey	survey

## 2. ACTIVITY NAME: NEW MECHANISMS FOR EXPORT- PROMOTION

### GF (Guarantee Fund) and Export financing

#### 2.1. OBJECTIVE

To establish Export Guarantee Fund for facilitation of the export. The Guarantee fund could be established within the framework of activities of Macedonian Bank for Development Promotion (MBDP) Skopje and preserve it from any political influence, as much as possible.

#### 2.2. STATEMENT:

The Export Guarantee Fund must be independent, at arms length from the Government and MoF (Ministry of Finance). The Export Guarantee Fund, should be managed by independent Board with members from public, private sector, banks, etc.

#### 2.3. PARTNERS:

- MoF (Ministry of Finance)
- Macedonian Bank for Development Promotion (MBDP) Skopje
- Agency for export promotion.

#### 2.4. STEPS TO BE UNDERTAKEN

- To facilitate the process of establishment of Export Guarantee Fund. TA (Technical Assistance) to the Working group to finish the Final Text of the law.
- Economic consulting and Legal advisory for new Contracts and Agreements between MBDP and other Commercial Banks.
- To organize appropriate training on Risk management procedures based on best International practice.
- Workshops and training how to preserve the assets of the GF (Guarantee Fund) and maximizing of credit activities.
- Introduction of new products (guarantees, factoring, etc).
- New procedures in the MBDP and Risk management .
- New contractual agreements with domestic and foreign banks, etc.
- Software based solutions in MBDP and appropriate training

#### 2.5. RESULTS:

- New procedures for export promotion.
- New export promotion mechanisms in general.
- New contractual agreements with domestic and foreign banks willing to support export oriented companies-organizations.
- Increased capacity of the export-promotion stakeholders.

**2.6. IMPACT /TARGET GROUPS:**

- MBDP
- Commercial Banks
- Experts and consultants

**2.7. TIME TABLE:**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
To facilitate the process of establishment of Export Guarantee Fund.	X	X	X		
export Introduction of new products promotion	X	X	X	X	

**2.8. INDICATORS(CRITERIA) OF SUCCESS:**

RESULTS:	INDICATORS	2007	2008	2009	2010
Increased exports	Based on the Statistic Office data	10%	5%	5%	5%

### **3. ACTIVITY NAME: SUPPORT IN IMPLEMENTATION OF WEB BASED INTERACTIVE SOFTWARE TOOL- TRADEMAP TOOL FOR SMEs**

#### *3.1. OBJECTIVE:*

Introduce TradeMap tool for export-oriented SMEs

#### *3.2. STATEMENT OF THE PROBLEM*

TradeMap is software for SMEs which are having lack of resources for expensive market research where to export their products-services TradeMark is web-based interactive tool that covers important information (trends in international trade, market shares, quantities being exported-imported by UN countries) for over 180 countries, based on UNCTAD data.

#### *3.3. PARTNERS.*

- Business Associations
- Chambers of commerce as representatives of the SME sector
- MCA-2000 -Management Consulting Association Macedonia
- MASIT
- EICC MK
- Regional Centers for Support of SMEs
- Incubators

#### *3.4. STEPS TO BE UNDERTAKEN:*

- To provide hardware and software including licenses to exploit this tool.
- It is necessary to provide appropriate logistics for implementation of this Web-based interactive tool. Appropriate training is necessary for those SMEs (selected based on the objective criteria) to use TradeMap. The services will have cost which will cover cost operation of running the tool.
- To make and translate a Manual on Harmonized system (HS) as an entry for searching database.

#### *3.5. RESULTS.*

- Group of around 100 pre-selected SMEs trained and provided with passwords, ready to use effectively TradeMap web site.

#### *3.6. IMPACTS/ TARGET GROUPS:* SMEs will get more possibilities for:

- International trade, inclusion in direct trade worldwide,
- Get advantage of reliable and timely information about their trading partners.

**3.7. TIME TABLE**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
provide hardware and software including licenses to exploit this tool	X	X	X		
Training for SMEs	X	X	X	X	

**3.8. INDICATORS (CRITERIA) OF SUCCESS:**

RESULTS:	Indicator:	2007	2008	2009	2010
Increased Internationalization of targeted SMEs	New registered contracts of SMEs with international partners	100%	30%	30%	30%

#### **4. ACTIVITY NAME: ACTIVE PARTICIPATION AND IMPLEMENTATION OF THE RESULTS OF THE DOHA DEVELOPMENT AGENDA**

##### *4.1. OBJECTIVE:*

R. Macedonia should have more active participation in WTO negotiations rounds.

##### *4.2. STATEMENT OF THE PROBLEM:*

Support is needed for enhancing the capacity of the negotiation team of experts. In the later phase, the support is necessary to implement the results and commitments of WTO .Trade extension is still hampered by barriers, which must be brought down. The best way to reduce these barriers and to ensure more equitable trading rules is to take pro-active role in the WTO trade negotiations. More training will be needed for implementers of the results taken from the WTO accession .

##### *4.3. PARTNERS:*

- MoFA (Ministry of Foreign Affairs) ,
- MoE,
- MoF,
- Business Associations,
- Chambers of commerce

##### *4.4. STEPS TO BE UNDERTAKEN:*

- All activities must lead to Action Plan for compliance with WTO Agenda Round. Action Plan must contain all necessary legal changes for the implementation of obligations undertaken by the negotiations in WTO agreements.
- Support in implementation of the results from WTO negotiations and approximation evaluations.

##### *4.5. RESULTS:*

- More information and support will be given to export oriented companies.
- The trade growth has been associated with an improved expansion in production. (trade continues to play a growing role in economic activity it is increasingly important for development and poverty alleviation

##### *4.6. IMPACT/TARGET GROUPS:*

- The results and implications of Doha processes and further WTO negotiations should be disseminated among all stakeholders in foreign trade, in direct communications, public forums and campaigns,
- The public awareness campaign is needed as well.

**4.7. TIME TABLE:**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Action plan for compliance with WTO Doha Development Agenda Round (if finished by end 2005)	X	X			
Support in implementation	X	X	X	X	

**4.8. INDICATORS (CRITERIA) OF SUCCESS:**

RESULTS:	Indicator:	2007	2008	2009	2010
Building more competitive market					



## **5. ACTIVITY NAME: SUPPORT FOR IMPLEMENTATION OF STATISTIC MANUAL (EVIDENCE AND MEASUREMENT OF INTERNATIONAL TRADE IN SERVICES FLOW)**

### *5.1. OBJECTIVE.*

In Macedonia there is a strong need for proper evidence and measurement of international trade in services, as a growing component in the export-import activities.

### *5.2. STATEMENT*

The aim of the manual is to provide a coherent conceptual framework within which countries can structure the statistics they collect and disseminate on international services. It will give more relevant, detailed and internationally comparable statistics on services trade. In Macedonia this is very important because of the EU accession and it will give data comparable with EU countries. The Statistics in trade services are extensively explained in the Statistical Manual as a joint effort of WTO, UNCTAD, WB, USAID. There is no follow up of the trade in services in Macedonian institutions.

### *5.3. PARTNER*

- NBRM (National Bank of Republic Macedonia)
- SSO ( State Statistical Office)

### *5.4. STEPS TO BE UNDERTAKEN*

- The procedures of identification of trade services should start in the National Bank of Macedonia. New software based on Statistic manual for services should be installed at the NBRM and SSO with appropriate training for procedures and software running which must be supported.

### *5.5. RESULTS*

- Fully articulated statistical framework for services should help to support information of internationalization of both production and sales as well as monitoring performance of service industries.
- Better evidence of trade in services.

### *5.6. IMPACT / TARGET GROUPS*

- Governments and international organizations can benefit from these statistical information on international negotiations on trade in services.
- It can aid businesses and other that need to assess development in international services markets.
- New opportunities will be created by developing strategies based on actual, up to date data.

**5.7. TIME TABLE**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Training in internationally comparable statistics on services trade	X	X	X		

**5.8. INDICATORS (CRITERIA) OF SUCCESS:**

RESULTS:	Indicator:	2007	2008	2009	2010
Registration in NBRM in service Ex/Im statistics	Registered trade in service evidence	100 %	60%	60%	60%

**Implications.** This action will improve the evidence of trade in services. Full implementation would represent a considerable increase in the detail of information available on trade in services.

Pillar indicator: Full and reliable evidence for the Trade in services based on EU, International and WTO accepted methodology.

## V. Pillar: PENSION SYSTEM

### **BACKGROUND**

Until 2003 the pension fund in the RM had a modest structure, and it was composed of one compulsory pillar of pension and disability fund. All participants were insured in it and it was a system that functioned based on a generation solidarity. With a considerable technical, financial and consultant support from the USAID, in the period from 2003 to 2005, substantial reforms were initiated in the pension system of the RM. Namely, the system of contribution collection for the First pillar of the pension fund was restructured, the process of creation of a Second pillar of the pension insurance was initiated and creation of numerous mechanisms (institutions, structure decisions) in view of support of such reforms.

A Council for implementation of the pension system reform and a Pension working group have already been established, and they are actively managing the implementation of the overall pension reform: gradual development is completely supported (suitable staff equipment, making of a budget, organizational structure, working plan, legal frame) of MAPAS; a transparent and objective tender for pension societies was successfully completed. Further, considerable support has been directed towards provision of financially viable pension system (at least 10 models and projection, assessment of the possible number of contributors, contributions and incomes for the Second pillar); by September 2005 the process of licensing of agents for this kind of insurance will be completed, the legal frame will be redefined, which leads to the conclusion that significant progress has been made towards creation of the Second pillar of the pension insurance. In the coming period, beside start of functioning of the Second Pillar of the pension insurance, pension reform in the RM should be completed.

## **1. ACTIVITY NAME: SUPPORT OF DEVELOPMENT AND FUNCTIONING OF THE SECOND PILLAR OF THE PENSION FUND**

### *1.1. OBJECTIVE*

The objective is a start of functioning of a new, Second pillar of pension insurance that will contribute to improvement of financial security of contributors in the Republic of Macedonia.

### *1.2. STATEMENT OF THE PROBLEM*

The meager structure of pension insurance in the RM was inherited from the previous system, where only one Pension Fund used to exist. The process of transformation toward market economy imposed a large number of reforms that are being implemented very slowly in the RM.

During the last 15 years we have had a pension system with a low degree of financial security of its participants that used to function based on pay as you go system. The main problem was that participants did not have any other choice of insurance, and the inherited pension fund was often in position not to pay pensions on time (because of the low employment rate in the RM and large number of so called 'black' employment, without paying contributions) to pensioners who had regularly been paying their contributions during their work. Therefore, reforms regarding enlargement of options for contributors and raising the level of security was indispensable.

### *1.3. PARTNERS*

- MAPAS
- NBRM
- Nova Ljubljanska Banka a.d. Ljubljana and Tutunska Banka a.d. Skopje
- Prva Pokojniska Druzba a.d. Ljubljana and Komercijalna Banka a.d. Skopje
- Consulting firms and training centers
- Ministry of Labor and Social Policy
- Ministry of Finance

### *1.4. STEPS TO BE UNDERTAKEN*

- Technical support for the Law on pension payment and the Law on non-mandatory pension insurance.
- Engagement of a local consultant for public relations
- Support of the coordinator of the Work Group for implementation of the pension system reform, that also manages the work of the Council for Implementation of the pension system reform
- Support in the implementation and supervision process of the Second Pillar of pension insurance functioning (foreign consultant on daily basic)
- Education and training of MAPAS staff
- Establishing business and technical collaboration
- Enabling coordination among all donors of technical assistance

**1.5. RESULTS**

- Increasing financial report transparency of pension funds and associations that manage pension funds
- Law on payment of pensions and Law on non- mandatory pension insurance
- Inclusion of a suitable number of contributors to the Second pillar
- Increased amount of funds in the pension funds
- Efficient supervision of the Second pillar
- Enlargement of the financial market
- Increasing number of transactions on the financial market

**1.6. IMPACT/TARGET GROUPS**

- Investments
- Financial market
- Employment
- Economic development

**1.7. TIME TABLE**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Technical support in the process of adopting legal regulations	X				
Support in engagement of a local consultant for public relations	X				
Support regarding the continuation of the coordinator's work	X	X	X	X	X
Support in the process of implementation and the process of supervision	X	X			
Education and training of MAPAS staff	X	X	X	X	X
Establishing business and technical collaboration	X	X	X	X	X
Enabling coordination among all donors of technical assistance	X	X	X	X	X

**1.8. INDICATORS (CRITERIA) OF SUCCESS**

RESULTS	Indicators	2006	2007	2008	2009	2010
Increasing financial report transparency	Increased transparency of financial report (accessible financial statements of pension funds and associations that manage pension funds for public).	Survey	Survey	Survey	Survey	Survey
Adopted Law on payment of pensions and Law on non-mandatory pension insurance	Legal regulation is adopted	Survey	Survey	Survey	Survey	Survey
Inclusion of a suitable number of contributors to the Second pillar	Assessed number of contributors according MAPAS	Around 60.000				Around 120.000
Increased amount of funds in the pension funds	Assessed amount of funds in pension funds	17.000.000€				100.000.000€
Efficient supervision of the Second pillar	Small number of complaints and detected errors during supervision	5-10%	5-10%	5-10%	5-10%	5-10%
Enlargement of the financial market	At least for one security					
Increasing number of transactions on the financial market	Increased number of transactions in relation to the previous year (needed survey and analysis)	Survey	Survey	Survey	Survey	Survey

## **2. ACTIVITY NAME: CREATION AND SUPPORT TO THE THIRD PILLAR OF PENSION FUND**

### *2.1. OBJECTIVE*

The objective of this activity is completion of the pension system reforms.

### *2.2. STATEMENT OF THE PROBLEM*

In the initial phase of function of the Second Pillar in the Pension System of the RM – that will enlarge financial security of the contributors, the issue of complete reformed package still remains. Parallel to the functioning of the Second Pillar of which is mandatory (for those who got employed after January 2003), a Third Pillar of the pension fund have to be designed and developed. With it, RM will have a modern Pension System, where beside the other two pillars a private non-mandatory Pension Fund, will operate.

### *2.3. PARTNERS*

- MAPAS
- NBRM
- Associations that manage pension funds
- Ministry of Labor and Social Policy
- Ministry of Finance
- New Regulatory Body
- Other consulting firms and training centers

### *2.4. STEPS TO BE UNDERTAKEN*

- Support in comparative analysis of similar models of voluntary non-mandatory pension funds in countries of the region (financial, technical, counseling).
- Support in modeling, designing of the Third Pillar of the pension fund, suitable for the RM, as a basis for development of legislative (counseling and technical).
- Support in defining and adoption the legislation for the operation of the Third Pillar.
- Support in development of a Regulatory Body for the Third Pillar.
- Education for staff
- Public campaign
- Implementation and supervision

### *2.5. RESULTS*

- Model of a Third pillar of the pension insurance suitable for RM.
- Adopting a Law for payment of contributions from the Second Pillar of the pension insurance (annuities, programmed withdrawals) and a Law for voluntary pension insurance – Third pillar.
- Suitable number of contributors to the Third pillar.
- Increasing number of transactions on the financial market.

## 2.6. IMPACT/TARGET GROUPS

- Investments
- Financial market
- Employment
- Economic development

## 2.7. TIME TABLE

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Comparative analysis of models pertaining to non-mandatory pension insurance of the countries in the region	X				
Design of the Third pillar of the pension insurance, suitable for the RM	X				
Defining and adopting legislative measures for functioning of the Third pillar	X	X			
Support in development of a Regulatory Body for the Third Pillar.		X	X	X	X
Education		X			
Public campaign		X			
Start of the implementation and supervision			X	X	X

## 2.8. INDICATORS (CRITERIA) OF SUCCESS

RESULTS	Indicators	2006	2007	2008	2009	2010
Model of the Third pension pillar	Designed private non-mandatory pension fund					
Adoption of a Law for payment of contributions to the Third pillar of pension fund and a Law for non-mandatory pension insurance – Third pillar	Adopted legal regulations					
Suitable number of contributors to the Third pillar	A survey is needed to assess the number of contributors			Survey	Survey	Survey
Increasing number of transactions on the financial market	Larger number of transactions			Survey	Survey	Survey



## VI. Pillar: CORPORATE GOVERNANCE

### **BACKGROUND**

Good corporate governance, together with the principles of developed business ethics and corporate culture in the business environment of a country are the foundations of a competitive economy that is sustainable and can develop on the global market.

Such an environment creates conditions of confidence, suitable desired active investment environment, efficient and competitive corporations, developed and efficient financial markets, stable economic growth and a level of employment of the active population and general economic and social cohesion in the society.

Conditions in the RM are almost contrary to the previously described ones, so that we assess that a general project with the previously described general and particular objectives has a strategic significance for the needs of the target market.

Also, three very important processes are under way in the Republic of Macedonia that will considerably influence the conditions of the market in the following period. Namely, the processes of liberalization, deregulation and decentralization are being implemented.

These processes are characterized by the creation of an environment in view of open market, reduction of state authority in the regulation of relations on the market and transfer of part of authorities especially in the regulation of relations of retail at local self-government units.

All three processes naturally lead towards the need of business connection of the business players that would considerably have to replace state regulations that are being reduced and decentralized by self-regulation in the way of introduction of good business practices, professional ethic codex and standards, customs, practice and other rules for behavior on the market.

## **1. ACTIVITY NAME: GOOD GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY**

### *1.1. OBJECTIVE*

Basic project aims would be introduction of certain principles and practices in corporate activities, but also of other participants on the market in the Republic of Macedonia, as follows:

- Support to introducing principles of good governance and corporate social responsibility;
- Incite and support of institutional public-private dialogue;
- Developing and support of professional and business associations;
- Adopting a codex for corporate governance and its implementation;
- Popularization of the principles of corporate culture, business ethics and consumers protection in the business environment;
- Making efforts for legal regulation, further popularization and support to use of alternative dispute resolution (ADR).

### *1.2. STATEMENT OF THE PROBLEM*

We would divide the needs of the target market in the focused field into several areas that would be partially or completely covered by the recommended project activities, as follows:

- Introduction of a public-private dialogue about the most important development concepts and other issues of strategic importance:

The public-private dialogue is one of the generally accepted concepts and tools for common responsibility and coordination among the three underpinning sectors of every developed and democratic state: The public, business and the non-governmental sector.

This concept has neither been institutionalized nor developed in practice at all, despite the fact that currently there is an national economic and social council (NESC). This organization is composed by Government representatives, the Economic chamber of the Republic of Macedonia<sup>20</sup> (and/or National Associations of Chambers of Economy) and the Trade Unions<sup>21</sup>. Members of this organization joined sometimes and the only concrete result of its work was the adoption of general collective agreements about ten years ago.

We think that in the frames of this project, relative to comparative practices, areas should be identified where this concept would be applied, responsibilities of

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<sup>20</sup> As a representative of the employers.

<sup>21</sup> As a representative of the employees.

the organizations should be defined and implemented in the economic, social and political sphere. It is also very important to identify the real stakeholder representatives that would be involved in their work.

- Introduction of principles of good governance, business ethics and corporate culture by business participants:

Implementation of these principles is expected to accomplish very favorable and desired impact on the market for a longer period.

Of particular importance in this field is the adoption of a codex for corporate governance based on OECD principals and its implementation, and definition of popularization of corporate culture principles and business ethics in the business environment. In the frame of these activities modern concepts of pro-client orientations, protection of consumers (customers) and corporate social responsibility as well as protection of small shareholders' rights will be popularized;

- Regulation and introduction of alternative dispute resolution (ADR):

It is a notorious fact that the generally acknowledged court system inefficiency is the result of the very large number of cases that are submitted to be processed by regular courts.

One of the methods for improvement of the conditions with courts is the institutionalization of the clearance and settlement in the process of solving economy and customers disputes.

Comparative practices show widespread application of these alternative concepts of dispute resolution in many developed countries.

In order to implement these mechanisms significantly their legislative regulation is needed, popularization as an efficient and inexpensive alternative to regular courts, as well as education of suitable specific experts (mediators, arbiters etc.) and creation of suitable needed regulations (manuals/journals, rules and procedures etc).

- Implementing of the new concept of winding-up of corporations

The new Law on Bankruptcy, that is expected to be adopted by the end of 2005, is expected to redefine the current concept of dominant role of the Bankruptcy judge in the process of carrying out bankruptcy procedures in favor of creditors and the bankruptcy trustee.

In the framework of this process, in the field of implementation, the need of suitable education is imposed for bankruptcy judges, as well as bankruptcy trustees towards understanding of the reform of the bankruptcy regulations.

### 1.3. PARTNERS

- Ministry of Economy;
- Ministry of Justice;
- Ministry of Local Self-Government;
- Universities and other scientific and educational institutions;
- Economic chambers and other business associations;
- Trade unions and selected NGOs.

### 1.4. STEPS TO BE UNDERTAKEN

- Introduction of domains, support of institutionalization and introduction of public-private dialogue;
- Development of support for professional and business associations;
- Adopting a codex for corporate governance and its implementation;
- Popularizations of principles of corporate culture and business ethics in the business environment;
- Popularization of the concepts for pro-client orientation, customer protection and corporate social responsibility;
- Protection of small shareholders rights and their education;
- Activities of lobbying and later technical support in the process of implementation of the principles of busyness ethics, corporate culture and good governance in the curricula of the Faculties for Law and Economy.
- Making efforts to complete the legal regulation and later implementation and popularization of alternative dispute resolution (ADR);
- Technical support in the education of mediators and arbiters;
- Support in the process of implementations and education of specific target groups relative to the new Bankruptcy Law;
- Activities relative to the implementation of IFRS<sup>22</sup> (International Financial Reporting Standards);
- Further support of the capacity growth and activities of the Corporate Governance Council.

### 1.5. RESULTS

- Improvement of the investment and business environment;
- Development of models of institutional dialogue between the private and the public sectors;
- Improvement of efficiency and corporation competitiveness, and with it the overall economic parameters;
- Contribution to better efficiency of the judicial system by introducing alternative dispute resolution (ADR).

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<sup>22</sup> Obligation by the new Company Law

**1.6. IMPACT / TARGET GROUPS**

- The state and local self-government units;
- Judiciary;
- Entrepreneurs;
- Professional and business associations;
- The economy;
- Consumers;
- Small shareholders, customers and other specific target groups,
- Associations of mediators and arbiters (which will be developed);
- Universities.

**1.7. TIME TABLE**

Activity:	2006	2007	2008	2009	2010
Introducing public-private dialogue	X	X			
Support of professional and business associations	X	X	X	X	
Introducing a corporate governance code	X	X			
Popularization of corporate culture and business ethics	X	X	X	X	X
Popularization of concepts for pro-client orientation, customer protection	X	X	X	X	
Popularization of the concept for corporate social responsibility	X	X	X	X	X
Protection of small shareholders rights and education	X	X	X		
Curricula of Faculties for Law and Economy	X	X	X		
Introduction of alternative dispute resolution	X	X	X	X	X
Education of mediators and arbiters		X	X	X	
Education for implementers of the Bankruptcy Law	X	X			
Implementation of IFRS	X	X	X	X	
Support of the Corporate Governance Council	X	X	X	X	X

Assessment on clasping of work: 240 consultant/months.

Domain of expertise's: 4.

Assessment of local participation: 60%.

1.8. INDICATORS (CRITERIA) OF SUCCESS

Indicator:	Total: (per five years)	2007	2008	2009	2010
Enabling environment for business	Increased investments 200%	30%	50%	60%	60%
Institutionalization and implementation of the public-private dialogue	Formed models 4	1	2	1	-
Introducing alternative dispute resolution	Reduction of economic disputes by courts <sup>23</sup>	-10%	-15%	-15%	-20%

**Frequency of measurement:** Once per year, during the first two months of the current for the previous year.

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<sup>23</sup> Basic year 2005.

## VII. Pilar: NON-BANKING FINANCIAL INSTITUTIONS

### **BACKGROUND**

Non-banking financial institutions are not developed in the Republic of Macedonia. Raise of competitiveness imposes development of the whole financial structure including other financial intermediaries at the financial market. The number of formal and informal financial institutions that in position to answer the needs and demands of clients and those in need of credits is small. Such offer is especially present in financing small and micro businesses and relative to the so-called small savers.

SMEs, particularly small and micro enterprises hardly access needed sources for finance of investments. Often small and micro enterprises cannot answer bank conditions regarding interest rates, repayment schedules and credit mortgage. Conditions for obtaining loans for star-ups are also hard to accomplish.

Relative to that, suitable laws and procedures and policy of register, control, licensing of financial institutions have to be developed that will deal in this field of the financial market. It imposes the need of a legal frame for establishment of formal and informal financial institutions that would deal in financing of micro and small businesses. There is a need for strengthening the capacities of professional and self-regulating organizations in the financial sector through associations of accountants, auditors, brokers etc.

## **1. ACTIVITY NAME: ENLARGING FINANCIAL STRUCTURE WITH NON-BANKING FORMAL AND INFORMAL FINANCIAL INSTITUTIONS**

### *1.1. OBJECTIVE*

Legal frame for non-banking formal and informal financial institutions that are not deposit institutions and will not be under control of the central bank.

### *1.2. STATEMENT OF THE PROBLEM*

Financial institutions and financial instruments are relatively insufficiently developed. Banks present almost the sole offer of financial means at the financial market in the RM. There are not investment companies, companies for leasing and similar financial institutions. In order to achieve radical changes of the financial market higher number of participants and financial instruments are needed. The lack of financial institutions and instruments that will respond to the needs of micro, small and medium-sized enterprises is especially substantial. This part of the economy is significantly excluded from the banking market because it cannot respond to strict demands by banks in view of credits and loans. The issue of further structure development of the financial sector is complex and has long-term nature.

### *1.3. PARTNERS*

- Government of the RM
- MoF
- MoE
- NBRM
- Professional associations in the financial sector

### *1.4. STEPS TO BE UNDERTAKEN*

- Adoption of a legal frame that will enable creation and activity of non-banking domestic and foreign financial institutions (formal and informal)
- Implementation and promotion of the new legal frame
- Education for the opportunities offered by the new solutions
- Support of start-ups
- Adoption of a legal frame for compulsory membership of professional independent associations
- Support of the creation of professional associations of non-banking financial institutions
- Connection with similar institutions abroad

### *1.5. RESULTS*

- Increased competitiveness on the financial market
- Bigger offer of products and services on the financial market
- Better access to loans and credits for small, micro and agricultural businesses
- Reduction of credit and money prices
- Increasing investments, economic development and employment



**1.6. IMPACT / TARGET GROUPS**

- Financial market
- Investment and investors
- Small, micro and agricultural businesses
- Economic development and employment

**1.7. TIME TABLE**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Adopting a legal frame that will enable creation and functioning of domestic and foreign non-banking (formal and informal) financial institutions (18 months)	X	X			
Implementation and promotion of the new legal frame (24 months)		X	X		
Education for the opportunities offered by the new solutions (6 months)		X			
Support of start-ups (12 months)		X	X		
Adoption of a legal frame for compulsory membership of professional independent associations (12 months)		X	X		
Support of the creation of professional (formal and informal) associations of non-banking financial institutions (3 months)			X		
Connection with similar institutions abroad (3 months)			X		

**1.8. INDICATORS (CRITERIA) OF SUCCESS**

RESULTS	INDICATOR	2006	2007	2008		
Increased competitiveness on the financial market		Survey	Survey	Survey		
Bigger offer of products and services on the financial market	Balance sheets of banking institutions and NBRM Bulletins	2%	3%	3%		
Increased loans and credits for small, micro and agricultural businesses	State Statistics Bureau	5%	5%	5%		
Reduction of credit and money prices	Bulletins of the NBRM	2%	3%	3%		
Increasing investments, economic development and employment	State Statistics Bureau	1%	1%	1%		

## **2. ACTIVITY NAME: TRAININGS IN THE FINANCIAL SECTOR**

### *2.1. OBJECTIVE*

Improved performances in the financial sector.

### *2.2. STATEMENT OF THE PROBLEM*

There is need for more for more trainings in the financial sector in order to strengthen performances of the capital market, banks and monopolistic directorate.

### *2.3. PARTNERS*

- Ministry of Finance
- Ministry of Economy
- Monopoly directorate
- NBRM
- Banks and saving houses
- MSE
- Broker houses
- Economic Chamber banking association
- Training centers

### *2.4. STEPS TO BE UNDERTAKEN*

- Trainings designed for improvement of capital market capacities (Certificated Financial Analyst-CFA and Investment Analyst-IA)
- Trainings designed for improvement of Monopoly Directorate
- Trainings designed for improvement of banks and savings houses
- Evaluation and control

### *2.5. RESULTS*

- Improvement of staff structure of the capital market
- Strengthened capacities of the Monopoly directorate in detection and solving instances of hampering competitiveness in the banking and overall financial sector
- Increased performances and competitiveness of banks and savings houses

### *2.6. IMPACT / TARGET GROUPS*

- MSE
- Monopoly directorate
- NBRM
- Financial market
- Investments and investors

**2.7. TIME TABLE**

STEPS TO BE UNDERTAKEN	2006	2007	2008	2009	2010
Trainings designed for improvement of capital market capacities (Certificated Financial Analyst and Investment Analyst). Two trainings per year.	X	X	X		
Trainings designed for improvement of Monopoly Directorate. One training per year.	X	X			
Trainings designed for improvement of banks and savings houses. Three trainings per year.	X	X	X		
Evaluation and control (6 months).			X		

**2.8. INDICATORS (CRITERIA) OF SUCCESS**

RESULTS	INDICATORS	2006	2007	2008	2009	2010
Improvement of staff structure of the capital market	Increased number of CFAs and IAs	10%	10%	10%		
Strengthened capacities of the Monopoly directorate in detection and solving instances of hampering competitiveness in the banking and overall financial sector	Increased competitiveness in the financial sector	Survey	Survey	Survey		
Increased performances and competitiveness of banks and savings houses	Bulletins of NBRM	2%	2%	2%		