FOREIGN INVESTORS COUNCIL
within Economic Chamber of Macedonia

THE WHITE BOOK 2014

by

THE FOREIGN INVESTORS COUNCIL IN MACEDONIA

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Foreword

by the President of the Foreign Investors Council,
Juan Pedro Jimenez Navarro

At my election in the end of 2013 as President of the Foreign Investors Council, I assumed as part of the existing board the ambitious goal to publish the first edition of a structured document with shared views of the business climate in Macedonia.

Now after a year of open debates in different business areas, such as human resources, property regulations, tax structure & financial issues, administration and legal procedures, and sectorial overview of the foreign direct investments, we deliver the first edition of the White Book.

The White Book is a collection of overviews of goals achieved so far and recommendations aimed at removing unnecessary barriers, all with the view to encourage a more dynamic investment of foreign capital.

The spirit of this document is one promoting an inclusive approach of the policy makers and other stakeholders by developing our communication and sharing the feedback of how different policies are affecting the end users i.e. the foreign companies, and what improvements can be undertaken in order to contribute to building a successful environment for the benefit of Republic of Macedonia.

Along the way of completing this book, we have developed fruitful relationships with a number of embassies, the EU offices in Macedonia, and other foreign institutions and associations, which has certainly enriched our debates.

In recent years, Macedonia has frequently been ranked amongst the world's top reforming countries according to various foreign institutions and surveys. The country has made significant achievements in development, but more efforts across a range of areas are still needed to generate economic growth that will create additional jobs in the country and improve living standards for all.

The FIC continues to expand, gathering more than 110 foreign companies from different background and size, contributing significantly in the national GDP and in the overall employment in the country. The main goal of the association is to influence the improvement of business climate by making concrete reform proposals and building a business portal for communication with the authorities in Macedonia.

The FIC is also focusing on promoting solid business ethics and high corporate governance principles within the organization and towards local companies, the Government, and other external stakeholders. Through the support and the active engagement of its membership, the FIC has proven to be a strict advocate of the business community interests and at the same time a reliable partner to the Government and other relevant stakeholders.

Finally, I would like to thank everyone who has worked on this book, especially our members.

Juan Pedro Jimenez Navarro

ABOUT THE FOREIGN INVESTORS COUNCIL IN MACEDONIA

The Foreign Investors Council (FIC) within the Economic Chamber of Macedonia was established on 27 February 2006 with a Decision on the Establishment of a Foreign Investors Council adopted by the President of the Economic Chamber of Macedonia.

The FIC's activities are based on dialogue with the Macedonian Government to support improvement in the business environment and investment climate in Macedonia. FIC members identify issues that affect business operations in the country. Working with the appropriate government institutions, the FIC seeks to solve problems through changes in legislation or administrative procedures.

The FIC's member-companies believe that dialogue between policy-makers and the foreign investment community is crucial to improving the climate for investment while stimulating the development of the Macedonian economy.

The FIC currently consists of over 110 foreign companies, bringing together the largest companies from various countries and sectors that have made significant investments in Macedonia, with the highest share in the export structure, in overall employment and in national GDP growth.

Objectives

The Foreign Investors Council has set the following objectives to help develop a more investor-friendly climate in Macedonia and create a more favourable business environment:

- To improve the general climate in the Republic of Macedonia with regard to investments and business.
- To represent, advocate and promote the common views of Council members in order to express mutual interests and encourage foreign investments.
- To improve communication and cooperation and sustain permanent dialogue between the FIC and the authorities of the Republic of Macedonia.
- To cooperate with Macedonian authorities in order to resolve any difficulties and obstacles that may emerge in relations with foreign investors and economic relations with other countries.
- To promote international business community interests in the country.
- To inform FIC members and other stakeholders about important news and events regarding investments in Macedonia.
- To establish communication with other foreign investors' associations in order to exchange common practices and to improve the economy in the country and the region.

The White Book

This first edition of the White Book is the most important written product/document of the FIC and will contribute to establishing the FIC as a legitimate representative of foreign investors in Macedonia and the main partner and interlocutor with representatives of authority and decision-makers in the country.

The main goal of this document is to offer constructive proposals for improving the business environment in Macedonia.

This White Book is the result of the valuable and voluntary contribution of time, resources and efforts made by the FIC's Members, officers, task forces and staff.

The White Book presents a transparent form of communication, a proclamation of the private sector, setting forth concrete proposals for improving the business climate. This publication offers a set of priorities for economic policy, as identified by foreign investors, and additionally offers suggestions to ease doing business in specific business areas.

The White Book is a collection of overviews of the goals achieved so far and recommendations for the removal of unnecessary barriers, all with a view to achieving more dynamic investment of foreign capital. The experience gained by the Foreign Investors Council will serve as a basis for further and enhanced cooperation based on mutual understanding and the harmonization of local practice with international standards of business ethics and operation.

Key Priorities and Recommendations of the FIC Members:

> The predictability of the regulatory framework and political and macro-economic stability are elements of key importance for any foreign investor. Therefore it is essential to establish a stable, predictable, and competitive environment.

> Frequent and rapid changes of laws lead to an unstable climate that affects current and future foreign and domestic investors. We urge the need to boost public-private dialogue by strengthening cooperation between the business community and governmental institutions as a key factor for creating a better business environment through open dialogue amongst the Authorities and relevant stakeholders.

> It is vital to continue reducing overall administrative procedures and legal burdens and to continue the fight against corruption and efforts to strengthen and uphold the rule of law.

> It is important to accelerate the reforms of the public administration in order to improve the implementation of regulations.

> It is necessary to redefine the educational system in Macedonia in order to provide a high-quality specialized workforce with adequate knowledge and skills needed on the labour market by both foreign and domestic companies.

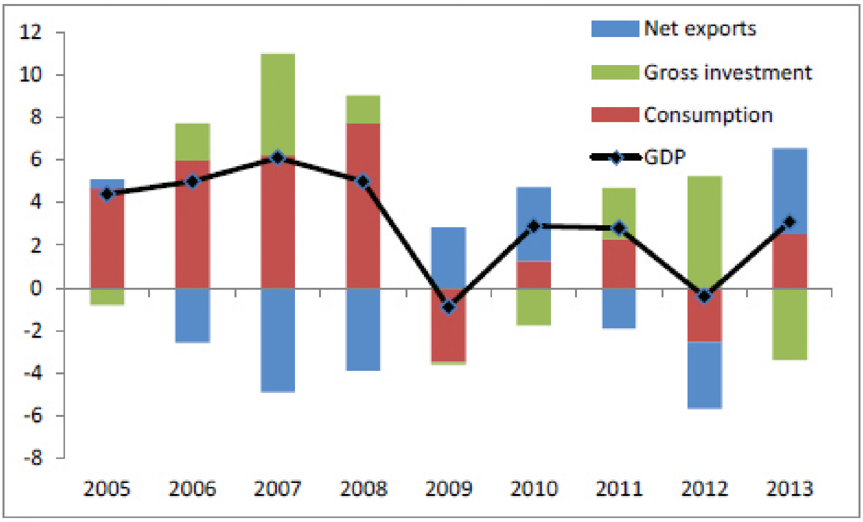
Chapter I: THE MACROECONOMIC ENVIRONMENT

The global environment in 2013 was still affected by the global downturn. However, what distinguished 2013 compared to previous years of the crisis was the recovery of the Eurozone and the announcement of gradual progress made by the Macedonian economy.

After declining by 0.4% in 2012, real GDP grew by 3.1% in 2013, well above the regional average of 2.2 per cent growth.

According to the spring economic forecast of the European Commission, the solid growth of export volumes, mainly on account of foreign facilities in the country, together with declining imports, provided the basis for the economic recovery in 2013. Real GDP expanded by 3.1%, despite an unexpectedly large decline of 11.5% in investment spending. Household consumption, fuelled by increased pensions and other entitlement spending, grew by 4.2%, even though its growth decelerated somewhat in the second half of the year. On the production side, the biggest contribution to GDP growth came from the construction sector, which increased output by 33% year-on-year, compared to 4.8% in 2012, largely outperforming the manufacturing sector.

Demand Composition (in % points)[3]



Source: Macedonia, State Statistics Office.

The profile of growth is expected to change again over the forecast horizon, with a renewed pick-up in investment, and with household consumption taking the lead. Both public and foreign direct investment is projected to increase, given the Government's ambitious programme to attract foreign investors which has led to a confirmed pipeline of new projects, complemented by a gradual strengthening in credit to the corporate sector. Household consumption growth is also likely to remain resilient, in line with projected increases in disposable income, based on expectations for a positive employment trend, higher social transfers, and roughly stable remittances.

With new foreign investors planning to take up production, the related increase in imports is expected to lead to a renewed widening of the trade balance over the forecast horizon. The EC forecasts that net exports will negatively impact on growth in both years.

The general government budget deficit in 2013 amounted to 4.1% of GDP. This was slightly higher than the target, which had been revised upward in the autumn from 3.6% to 3.9%. In line with its medium-term fiscal strategy, the Government is embarking on an expenditure-based fiscal consolidation as of 2014.

In 2013, Macedonia's GDP in Purchasing Power Parity was approximately USD 22.57 billion. GDP per capita, in purchasing power-adjusted dollar terms, was an estimated USD 10,800.

Inflation in Macedonia, as measured by the change in the consumer price index, was 2.78% in 2013, compared to 3.32% in 2012.

Although the unemployment rate has declined, it still remains very high, at 29.0%, compared to 31.0% in 2012. Persistently high unemployment rates and chronic unemployment are especially prevalent among vulnerable groups such as youth, women, and the low-skilled.

Macedonia's central government and public sector debt as a percentage of GDP remained moderate in 2013, at 35.8% of GDP and 43.2%, respectively.

The country has made significant achievements in development, but more efforts across a range of areas are still needed to generate economic growth that will create additional jobs in the country and improve living standards for all.

The Foreign Investors Council encourages the country to shift from a model of internal demand-driven growth to one fuelled by exports, leading to greater integration in European and global markets. With recovery underway, now is the time to focus on creating an investment climate conducive to export-led growth and enhancing connectedness.

Economic recovery and prosperity in the next year should be the country`s highest priority, given that the Eurozone, to which the Macedonian economy is highly connected, is recovering from crisis. Focus should therefore be on GDP growth, reducing the public deficit and unemployment, maintaining inflation within the projected band, and ensuring a stable MKD-Euro exchange rate and low interest rates.

Economic Developments

During early 2014, as growth broadened to all sectors, the economy further strengthened and GDP growth in the first quarter reached 3.9 percent.

In the medium term, Macedonia's growth is expected to accelerate, driven by a recovery in domestic demand, exports, and growth-friendly public investments. Under the baseline projections, real GDP growth is expected to reach 3.1 percent in 2014 and to accelerate to 3.5 percent in 2015 and 2016. Domestic private demand is expected to recover on the back of recent increases in public wages and pensions and a continued decline in unemployment. Externally financed public investment in key transport corridors will accelerate, and export growth will be driven by a rebound in external demand, as the Eurozone recovery continues and new FDI related exports come on line. Private consumption growth is expected to be more moderate, at around 3%.

Contrary to 2013 when growth was driven exclusively by net exports, between 2014 and 2016 domestic demand will become the sole engine of growth. Trade volumes are expected to pick up significantly, reflecting both, stronger imports and better export prospects. While strong import growth, resulting from the pickup in public investment and start of operations in new foreign facilities, would lead to a renewed deterioration of the merchandise balance in 2014, the start of export activity of new foreign investors and their gradually declining import needs would help narrow the trade deficit as of 2015. Overall, net exports would remain a drag on growth over the entire programme period. Key risks to this medium-term outlook are a deterioration of the Eurozone economic outlook and an increase in oil prices.

Exports

Export growth accelerated in 2013 because Macedonia has diversified its exports in recent years both in terms of products and destinations. Export growth reached 6.6 percent in 2013, largely driven by an increase in foreign direct investment (FDI) related exports. Most FDI-related exports are connected to the automobile industry and include goods such as catalytic converters and electronic dashboard components. Tobacco products, fresh vegetables, and furniture have also contributed significantly to export growth. By contrast, Macedonia's traditional export goods, such as iron, steel, and clothing, have declined in importance. In 2008, only six products contributed to roughly 70 percent of total exports. By 2013, this number had increased to 12. Emerging markets such as China and Turkey have gained in importance. Exports to Germany have more than doubled in terms of GDP over the past six years, rising from 14.2 percent in 2008 to 29.4 percent in 2012. Exports to Germany further increased to 35.9 percent in 2013, driven by FDI-related exports. In parallel, export shares to Greece increased in 2013 for the first time since 2008, and exports to Bulgaria continued increasing for a second year. On the other hand, exports to Kosovo and Serbia continued to decline for the third and fourth year respectively. Exports to Italy also declined.

According to the State Statistical Office, the export value of goods in the Republic of Macedonia in the period January - October 2014 was USD 4,142,761 thousand, and the import value was USD 6,087,648 thousand. Import coverage by export was 68.1 percent. The trade deficit in the period January - October 2014 was USD 1,944,887 thousand.

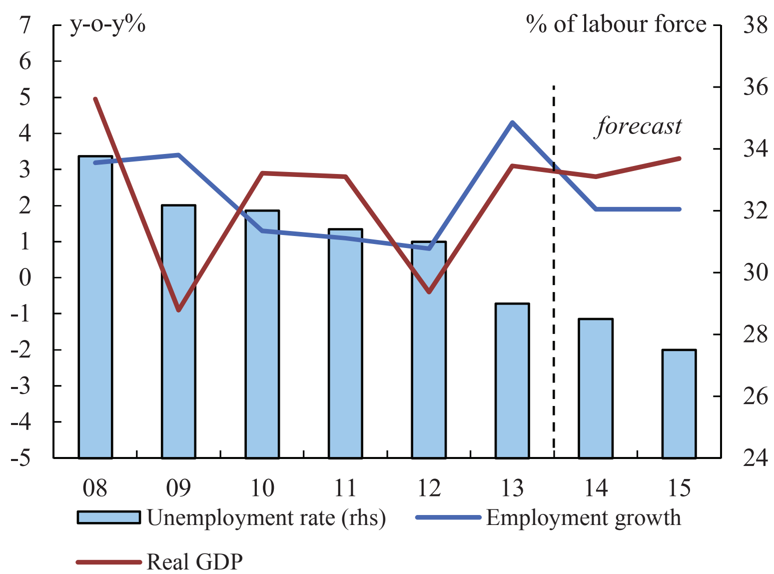
In the period January - October 2014, the most important export partners were the EU-28 countries (76.8%) and the Western Balkan countries (13.9%), while the most important import partners were the EU-28 countries (64.0%) and miscellaneous – countries not specified extra (11.7%).

Employment

Employment rose markedly in 2013, by 4.3% compared to the previous year, supported by a strong build-up in the public sector and significant gains in construction and manufacturing. Further employment gains are expected, mainly on account of investment-led expansion and increased spending on labour market measures. Provided that structural reforms to improve the business environment are carried out (such as the facilitation of licensing procedures), employment creation could be further incentivised. The unemployment rate remained high, though on average it dropped by 2 percentage points to 29% in 2013 compared to the previous year.

In the second quarter of 2014, the employment rate was 41.1%, while the unemployment rate was 28.2%.

Republic of Macedonia - Labour market



Source: 2014 Progress report/Economic criteria: European Union

Current account financing will thus depend increasingly on FDI inflows and on government external borrowing. The latter is expected to increase given the sizeable financing needs of public infrastructure investments. Fiscal consolidation strategy remains unclear. The general government budget deficit in 2013 amounted to 4.1% of GDP. This was slightly higher than the target, which had been revised in the autumn from 3.6% to 3.9%. In line with its medium-term fiscal strategy, the Government is embarking on an expenditure-based fiscal consolidation as of 2014. The 2014 target for the general government deficit is set at 3.5%, and at 3.2% for 2015. However, the source of budgetary savings to support the consolidation is unclear.

Main features of country forecast – Republic of Macedonia

	2012		Annual percentage change						
Bn MKD	Curr. pric.	% GDP	94-09	2010	2011	2012	2013	2014	2015
GDP	458.6	100.0	2.2	2.9	2.8	-0.4	3.1	3.0	3.2
Private Consumption	342.8	74.7	-	2.1	2.9	-3.0	4.2	3.0	2.7
Public Consumption	84.8	18.5		-2.0	0.6	-1.4	-3.6	3.1	2.3
Gross fixed capital formation	105.4	23.0	-	-2.7	12.4	20.0	-11.5	10.6	9.0
Off which:equipment	-	-	-	-	-	-	-	-	-
Export (goods and services)	245.9	53.6	-	23.6	10.5	0.0	4.5	6.8	7.6
Import (goods and services)	349.8	76.3	-	9.5	10.4	4.2	-2.1	7.4	6.8
GNI (GDP deflator)	448.2	97.7	-	2.0	2.6	0.3	2.2	2.8	3.0
Contribution to GDP growth	Domestic demand		-	0.7	4.6	1.6	-0.1	4.8	4.1
	Inventories		-	-0.6	0.0	1.1	-0.7	0.0	0.0
	Net exports		-	3.4	-1.9	-3.1	4.0	-1.7	-0.9
Employment			-	1.3	1.1	0.8	4.3	1.9	1.9
Unemployment rate			-	32.0	31.4	30.0	29.0	28.5	27.5
Compensation of employees/head			-	6.0	-2.1	2.8	2.4	4.3	3.2
Unit labour costs whole economy			-	-	-	-	-	-	-
Real unit labour cost			-	-	-	-	-	-	-
Saving rate of households			-	-	-	-	-	-	-
GDP deflator			10.5	2.7	3.1	0.1	0.3	0.3	0.3
Consumer price index			8.3	1.6	3.9	3.3.	2.8	2.5	2.3
Terms of trade goods			-	-1.4	5.7	1.0	0.5	0.3	0.2
Trade balance				-20.8	-22.5	-23.9	-19.7	-20.3	-20.5
Current account balance			-	-2.0	-2.5	-3.0	-1.9	-3.7	-3.8
Net lending (+) or borrowing (-) vis-à-vis ROW ©			-	-	-	-	-	-	-
General government balance ©			-	-6.8	-3.1	-3.9	-4.1	-4.2	-3.9
Cyclically-adjusted budget balance ©			-	-	-	-	-	-	-
Structural budget balance ©			-	-	-	-	-	-	-
General government gross debt ©			-	25.8	28.4	34.0	36.0	38.7	40.8

Macedonia and the South East Europe Region

The World Bank's South East Europe Regular Economic Report (SEE RER) indicates that challenges remain and require action in the financial and fiscal sectors. To help stimulate economic activity, these countries need to control high and still rising non-performing loans, resume credit growth to viable corporate borrowers, pursue decisive consolidation efforts to restore fiscal balance, and reduce public debt. To sustain growth in the region, the countries need to further strengthen their domestic macroeconomic fundamentals and pursue policies that boost productivity and resilience to external turmoil.

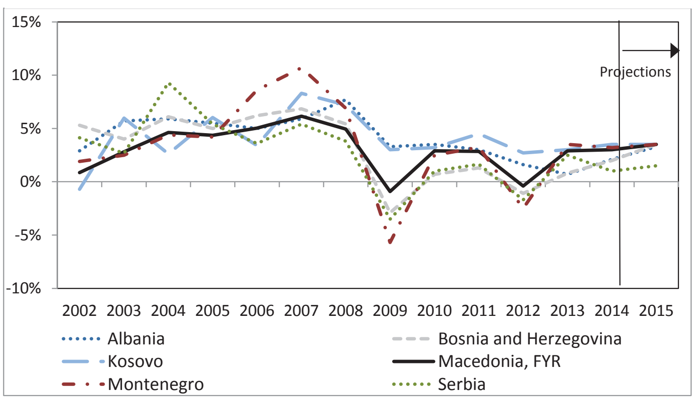
In addition, the recent economic recovery is an opportunity to re-launch long-overdue structural reforms. Priorities for growth and jobs creation include macroeconomic and fiscal stabilization, improved competitiveness and connectivity, enhanced skills and labour productivity, and strengthened governance and anti-corruption measures.

South East Europe Real GDP Growth in percent

	2012	2013	2014	2015
Albania	1.3	0.4	2.1	3.3
Bosnia and Hercegovina	-1.1	1.8	2.0	3.5
Kosovo	2.7	3.0	3.5	3.5
Macedonia	-0.4	3.1	3.0	3.5
Montenegro	-2.5	3.5	3.2	3.5
Serbia	-1.7	2.5	1.0	1.5
SEE 6*	- 0.7	2.2	1.9	2.6

In recent years, Macedonia has frequently been ranked amongst the world's top reforming countries according to the World Bank's Doing Business Survey. Accession to the European Union nonetheless continues to be an anchor for reform in nearly every area of government. The authorities are harmonizing national legislation with the EU's acquis communautaire and have made specific achievements in procurement, transport policy, customs union, taxation, and statistics.

Growth performance
Cross-Country Comparasion of real GDP



Source: Author's calculations, based on World Bank *World Development Indicators WDI*

THE FOREIGN INVESTORS COUNCIL OF MACEDONIA RECOMMENDS:

The Government's general future objectives in the economic area should be to support the growth of domestic consumption and industrial output and to create a favourable environment for foreign and domestic investment.

To achieve this, the Government should focus primarily on the following measures, some of which it is already implementing

- *To ensure the predictability of the regulatory framework and political and macro-economic stability as elements of key importance for any foreign investor.*
- *To establish a stable, predictable and competitive environment.*
- *To fight against corruption and uphold the rule of law to foster a much better business environment that is more conducive to new investments*
- *To carry out further public sector reform, including the introduction of private sector investment in public services and infrastructure sectors.*
- *To continue pursuing trade liberalisation policies.*
- *To implement measures aimed at enabling easier access to financing.*

Chapter II. LEGAL SYSTEM

According to the European Union's 2014 Progress Report, the legal system in the country has been strengthened in some aspects, notably the clearance rates of courts at all levels has improved, with no significant backlogs remaining. The overall duration of court cases remains a concern. Real estate property registration has been completed and the land register now covers 100% of the territory.

The institutional and administrative capacities of some regulatory and supervisory bodies are still insufficient, i.e. the State Appeals Commission for Public Procurement and the State Audit Office. The legal system for a functioning market economy is largely in place; however, there remain weaknesses related to lengthy procedures, contract enforcement and corruption.

The FIC members emphasize that significant and intensive efforts should be undertaken by the state to reduce the inefficiency and slowness of administration, to ensure the enforcement of legislation, to reduce lengthy commercial disputes and court cases and to address the inadequate implementation of legislation by some municipalities and other bodies.

Chapter III. INVESTMENT AND THE BUSINESS ENVIRONMENT

The World Economic Forum's Global Competitiveness Report 2014–2015 (GCR) ranks Macedonia 63rd among 144 countries. Macedonia has climbed 10 places from last year's 73th place and 17 from its 80th place in 2012–2013. According to the World Economic Forum, Macedonia made progress compared to the previous year in all three groups of indicators: basic requirements (up from 70 to 64); efficiency enhancers (up from 76 to 69); and innovation and sophistication factors (up from 94 to 76).

This report gives an overview of where the country stands relative to its regional peers in South-East Europe (SEE) and globally, drawing on a range of macroeconomic data and survey-based evidence, with a special focus on progress made year-on-year.

Global Competitiveness Index

	Rank	Score
GCI 2014-2015	**63**	**4.3**
GCI 2013-2014 (out of 148)…	73	4.1
GCI 2012–2013 (out of 144)	80	4.0
GCI 2011-2012 (out of142)	79	4.1
Basic Requirements (40.0%)	**64**	**4.6**
Institutions	45	4.3
Infrastructure	82	3.7
Macroeconomic environment	55	4.9
Health and primary education	78	5.6
Efficiency enhancers (50.0%)	**69**	**4.1**
Higher education and training	71	4.3
Goods market efficiency	38	4.6
Labor market efficiency	71	4.2
Financial market development	41	4.5
Technological readiness	62	4.0
Market size	108	2.9
Innovation and sophistication factors (10.0%)	**76**	**3.5**
Business sophistication	89	3.8
Innovation	68	3.3

According to the same research by the World Economic Forum, Macedonia is ranked 91st in the "macroeconomic environment" indicator and 84th in the "infrastructure" indicator.

In 2014–2015, the main problematic factors related to doing business were "access to finance", with 16.9 points, followed by "poor work ethic in national labour force" (11.9 points), an inadequately educated workforce (10.9), and an inefficient government bureaucracy (9.6 points).

Corruption Perception Index 2014 by Transparency International

The 2014 Corruption Perception Index by Transparency International shows that corruption is a problem for all economies, and this requires the leading financial centres in Europe and the USA to cooperate with emerging economies in order to prevent the corrupt to get away and go unpunished.

The 2014 report ranks Macedonia 45th out of 174 countries and shares this place with Oman and Turkey. In 2013, Macedonia was ranked 67th and in 2012 it was ranked 69th.

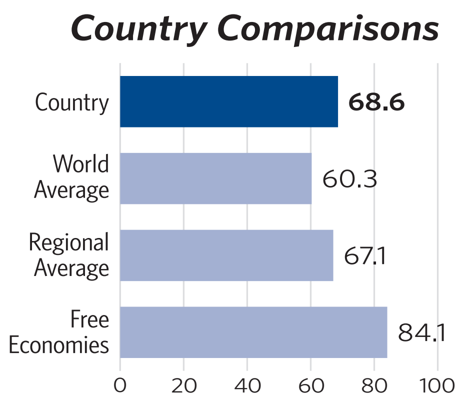
Macedonia ranks better than Bulgaria, Greece, Italy, Romania, Montenegro, Serbia, Bosnia and Hercegovina, Albania, Kosovo, and many other countries.

South East Europe: Real GDP growth, in percent	
Access to financing	17.4
Inadequate supply of infrastructure	15.2
Inadequately educated workforce	11.9
Poor work ethic in national labor force6	11.6
Inefficient government bureaucracy	10.6
Corruption	8.7
Insufficient capacity to innovate	5.7
Tax rates	3.6
Policy instability	3.3
Pour public health	3.2
Tax regulations	3.1
Restrictive labor regulations	1.8
Crime and theft	1.7
Government instability/coups	1.4
Inflation	0.4
Foreign currency regulations	0.4

2014 Index of Economic Freedom, Heritage Foundation

Macedonia's economic freedom score is 68.6, making its economy the 43rd freest in the 2014 Index. Its overall score has increased by 0.4 points from last year, reflecting improvements in trade freedom, business freedom, and control of public spending.

Macedonia ranks 20th out of 43 countries in Europe, and its overall scores are above global and regional averages.



Systemic weaknesses persist, however, in the protection of property rights and inadequate enforcement of anti-corruption measures. The judicial system is weak, undermined by lingering corruption, and is vulnerable to political influence.

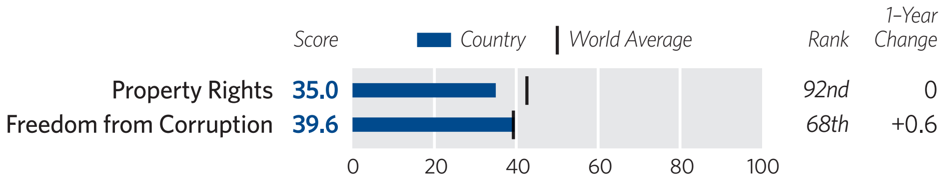
Most FIC members emphasized that the application of the law remains a challenge, especially with regard to administrative procedures necessary for obtaining various licences, permits, approvals and registrations.

THE TEN ECONOMIC FREEDOMS
by Freedom Heritage Foundation

RULE OF LAW	GOVERNMENT SIZE	REGULATORY EFFICIENCY	OPEN MARKETS
Property Rights 92nd Freedom from Corruption 68th	Fiscal Freedom 26th Government Spending 85th	Business Freedom 30th Labor Freedom 33rd Monetary Freedom 8th	Trade Freedom 43rd Investment Freedom 80th Financial Freedom 41th

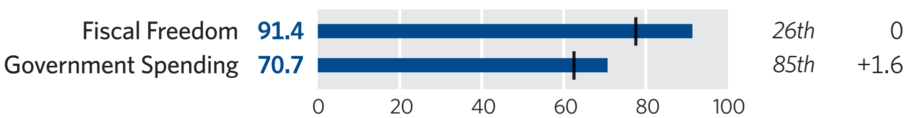
Source: 2014 Index of Economic Freedom, Heritage Foundation

RULE OF LAW



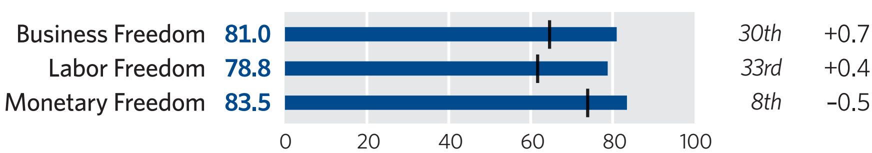
Corruption is a serious problem, particularly in public procurement. The enforcement of anti-corruption legislation is weak. The Government has not implemented a new strategy for judicial reform. In a 2012 report, the European Commission noted that little progress had been made on judicial independence, impartiality, and competence. Uncertainties in registering real property and obtaining land titles continue to undermine economic freedom.

GOVERNMENT SIZE



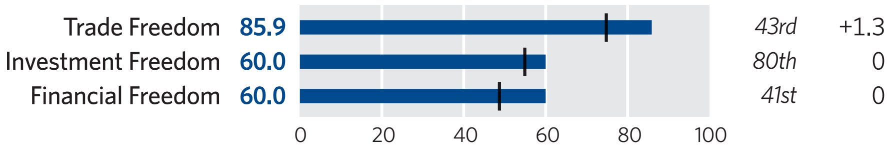
Personal income and corporate tax rates are a flat 10 percent. Other taxes include value-added tax (VAT) and property transfer tax. Overall, tax revenue constitutes 25.6 percent of gross domestic income. Public expenditures are around 31 percent of GDP. Government debt is about 33 percent of gross domestic income. There has been popular opposition to recent increases in government spending.

REGULATORY EFFICIENCY



The procedures for launching a business have been streamlined and licensing requirements have been reduced; however, licensing can cost over five times the level of average annual income. Labour codes lack flexibility, discouraging dynamic job creation. The Government has tried to maintain fiscal discipline to bolster its case for eventual membership in the eurozone, but in 2013 it increased spending on agricultural subsidies, social transfers, and pensions.

OPEN MARKETS



Macedonia's average tariff rate is 2 percent. There are few non-tariff trade barriers and the Government does not discriminate against foreign investors. The financial sector has strengthened in recent years, with the Government's role limited primarily to regulatory enforcement.

Bank competition has increased, and the foreign presence in the financial system accounts for more than 70 percent of total bank assets.

Doing Business 2015 by the World Bank

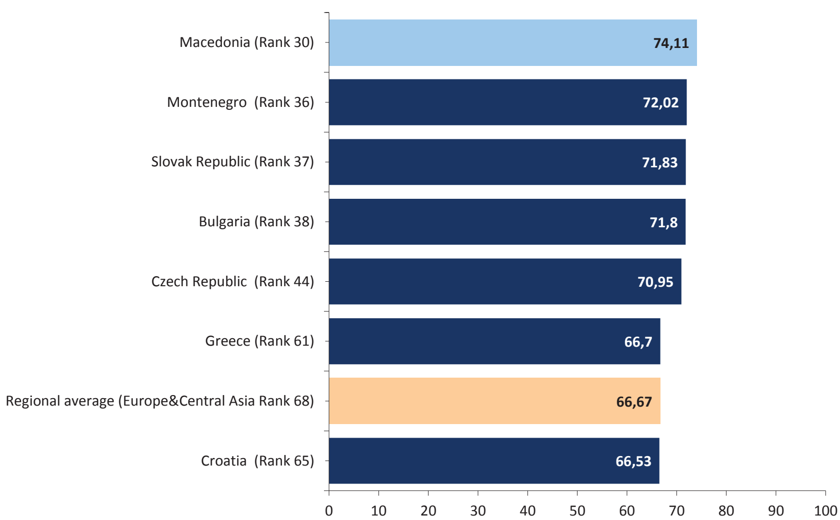
Macedonia remains among top performers globally on the ease of doing business, improving its ranking from the 31st place last year (recalculated using the new methodology) to the 30th place in this year's report. The country has also moved closer to the best global practice, a more important measure of progress than the ranking as it does not depend on the relative performance of other countries.

The country's best ranking-3rd place - is in the "starting a business" indicator.

Progress of 31 places was recorded in the area of paying taxes. The report explains that, this success is due to the mandatory VAT payment via the e-tax system and the increased usage of the electronic system.

The new "distance to frontier" measure shows how well each economy is doing in relation to the global best practice, highest performance observed on each of the indicators across all economies measured in Doing Business.

How Macedonia and comparator economies rank on the ease of doing business



Source: Doing Business 2015

Macedonia's score is 74.1 percent, which is a 1.4 percentage points' improvement from 2014. Macedonia made starting a business easier by making online registration free of charge. Minority investor protections were strengthened by requiring prior review of related-party transactions by an external auditor. In addition, resolving insolvency is now easier thanks to the establishment of a framework for electronic auctions of debtors' assets, streamlining and tightening the time frames for insolvency proceedings and the appeals process, and a framework for out-of-court restructurings.

Macedonia is the best-ranked country in the region in the Doing Business report, under which Montenegro is ranked in 36th place out of 189 countries. Bulgaria is in 38th place, Turkey in 55th, Croatia 65th, Kosovo 75th, Serbia 91st, Bosnia and Herzegovina 107th.

Business Reforms in Macedonia Doing Business 2015/2014	
Dealing with Construction Permits: DB 2014	Macedonia made dealing with construction permits easier by reducing the time required to register a new building and by authorizing municipalities to register buildings on behalf of owners.
Starting a Business: DB 2015	Macedonia made starting a business easier by making online registration free of charge
Registering Property: DB 2014	Macedonia made property registration faster and less costly by digitizing the real estate cadastre and eliminating the requirement for an encumbrance certificate.
Getting Credit: DB 2014	Macedonia strengthened its secured transactions system by providing more flexibility in the description of assets in a collateral agreement and in the types of debts and obligations that can be secured.
Protecting Investors: DB 2015	Macedonia strengthened minority investor protection by requiring prior review of related –party transactions by an external auditor.
Paying Taxes: DB 2014	Macedonia made paying taxes easier for companies by encouraging the use of electronic filing and payment systems for corporate income and value added taxes.
Getting Electricity: DB 2014	Macedonia made getting electricity easier by reducing the time required to obtain a new connection and by setting fixed connection fees per kilowatt (kW) for connections requiring a capacity below 400 kW.
Resolving insolvency DB 2015	Macedonia made resolving insolvency easier by establishing a framework of electronic auctions of debtors` assets , streamlining and tightening a time frames for insolvency proceedings and the appeals process and establishing a framework for out-of-court restructurings.

According to the regular bi-annual report of the World Bank (WB) for South Eastern Europe, Macedonia had the second highest growth rate in 2013 compared to the countries of Southeast Europe, and strong growth is expected this year.

However, this requires long-term strengthening of structural reforms, improved relations between exporters and the domestic economy, and improvement of the business environment.

Economic growth has been driven by exports. Therefore, weakening demand in the EU due to the recovery of economies would be a risk.

The World Bank estimates that the budget deficit in the country reached 61 percent at the beginning of the year and expects the Government to keep the level of the projected 3.5 percent of gross domestic product (GDP).

In terms of unemployment, the World Bank proposes improving the business climate to boost labour demand, which will allow companies to open up more jobs. The World Bank also recommends investments in real education that will enable young people to be trained in the skills needed by businesses. The report noted the problem of high youth unemployment.

Solutions are to be sought in undertaking structural reforms, improving the business climate in order to boost demand, and offering incentives for firms to increase labour demand and hire workers. In the future, it will also be vital to invest in the appropriate kind of education aimed at providing youth with the skills that are needed by companies.

Business Reforms in Macedonia - Doing Business 2015

Starting a Business:

Macedonia made starting a business easier by making online registration free of charge

Protecting Investors:

Macedonia strengthened minority investor protection by requiring prior review of related –party transactions by an external auditor.

Resolving insolvency

Macedonia made resolving insolvency easier by establishing a framework of electronic auctions of debtors` assets, streamlining and tightening a time frames for insolvency proceedings and the appeals process and establishing a framework for out-of-court restructurings.

Foreign Policy

Macedonia ranks 29 on the investment destination list according to the latest Business Profitability Index of the US journal Foreign Policy.

Macedonia went up five places compared to last year. Countries are ranked according to eight factors: economic growth, financial stability, physical security, corruption, expropriation by government, exploitation by local partners, capital controls and exchange rates.

Macedonia and Bulgaria are seen as the leading investment destinations in the region, whereas Greece is seen as one of the worst.

Chapter IV: FOREIGN DIRECT INVESTMENT OUTLOOK

FDI Statistics

In 2013 there was a positive trend in the inflow of foreign direct investment (FDI). According to a report of the National Bank of Macedonia for 2013, net FDI inflows amounted to 251.5 million euro, or 281.5% more than in 2012.

The Macedonian economy has been boosted in the recent period mostly by Austrian, British, German and Turkish investments. The UK invested EUR 44.6 million in Macedonia, Austria EUR 36.5 million, Germany EUR 27.2 million and Turkey 13.9 million.

The statistical data of the National Bank of Macedonia show that FDI inflows amounted to EUR 200.6 million in Q3 of 2014.

Flow of foreign direct investment by countries per year

	2014	2013	2012	2011	2010	2009	2008	2007	2006
	Mil.euro		Mil. US$				Mil. euro	Mil. US$	Mil. euro
Total	**200.60**	**251.48**	**89.77**	**463.27**	**210.98**	**197.09**	**399.89**	**699.09**	**344.78**
Top investment countries									
Great Britain	40.37	44.63	-0.56	-84.99	41.27	-59.49	38.02	54.95	12.1
Austria	0.40	36.54	50.94	64.42	-10.65	39.14	95.69	14.48	130.9
Germany	26.18	27.07	14.87	14.86	15.58	4.18	4.01	12.65	0.56
Greece	3.20	10.40	3.52	20.56	20.11	-76.88	6.72	61.16	40.67
Netherlands	7.58	10.17	11.14	193.56	-1.05	84.01	2.33	37.11	14.67
Turkey	30.28	13.87	29.9	107.93	20.41	6.47	-1.50	2.75	3.89
United States	1.14	0.82	14.57	3.80	-3.01	2.37	9.64	2.19	6.17
Belgium	0.86	11.92	18.36	1.05	0.09	0.09	0.13	0.38	0.09
Hungary	9.33	1.86	-1.76	-0.73	-51.83	-32.96	-8.70	99.94	0.80
Slovenia	12.55	7.71	-19.25	15.60	28.23	184.87	79.23	85.56	10.5
Switzerland	124.44	5.80	-25.67	-9.09	-59.16	6.46	24.78	42.38	21.26
Bulgaria	0.46	1.26	6.84	4.67	41.01	14.45	38.94	34.96	11.70
Croatia	6.47	8.78	7.08	11.29	0.06	7.10	17.92	32.73	-/-
Russian Federation	0.31	1.85	0.21	9.39	4.94	-0.36	-0.13	0.26	-/-

Source: National Bank of Macedonia

Foreign investments are mostly made in the manufacturing sector, characterized by labour-intensive and low added value investments, predominantly in the automotive industry, metal sector, electricity and construction.

FOREIGN DIRECT INVESTMENT IN 2013 BY ACTIVITY	IN MILION EURO
AGRICULTURE, FORESTRY AND FISHING	6.78
MINING AND QUARRYING	-32.10
MANUFACTURING	103.09
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	15.76
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	1.13
CONSTRUCTION	18.54
TOTAL SERVICES	54.18
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	20.60
TRANSPORTATION AND STORAGE	6.26
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	9.45
FINANCIAL AND INSURANCE ACTIVITIES	3.89
REAL ESTATE ACTIVITIES	11.20
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	-2.70
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	-1.87
EDUCATION	-0.81
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	-0.05
ARTS, ENTERTAINMENT AND RECREATION	7.62
UNALLOCATED ECONOMIC ACTIVITY	0.22
TOTAL	167.59
UNDISTRIBUTED-REINVESTED EARNINGS AND PART OF OTHER CAPITAL	83.90
TOTAL	**251.48**

Foreign Direct Investment (FDI) was negligible prior to 1998, registering less than EUR 10 million in 1995, for example. Since then, FDI has been steadily growing. It reached a peak of about EUR 400 million in 2001.

This growth is largely attributable to acquisitions by foreign investors of major companies and banks during the privatisation process. The largest acquisition was that of the national telecom operator by Magyar Telekom (Deutsche Telekom group).

A sharp fall in FDI occurred as a result of the crisis in 2001. Foreign investment registered less than EUR 100 million in both 2002 and 2003. However, following various efforts aimed at achieving economic and political stabilization, FDI has been on an upward trend since 2004. The years 2006, 2007 and 2008 saw a significant new wave of investment, mainly arising from privatisations in the energy sector, and certain green-field investments in Macedonia's free economic zones. The worldwide economic crisis resulted in a significant decrease in investment flow in 2009. During 2010 there were signs of restoration of the previous investor interest. However, the actual FDI level experienced just a slight increase compared to the previous year. In 2011, the FDI level increased significantly compared to the previous two years. The FDI levels in 2010 and 2011 were EUR 160 million and EUR 337 million respectively. Several new green-field investments have been agreed, mainly in the free economic zones, which started being realised in 2012. In 2012 the level of FDI decreased to EUR 105 million.

Between 2006 and 2013, net FDI on average amounted to 4.4 percent of GDP, still significantly below the regional average of 6.4 percent of GDP over the same period.

Investment Policy

The Constitution stipulates that a foreign person in Macedonia may acquire property rights under conditions established by law. Furthermore, the Constitution guarantees a foreign investor the right to the free transfer of invested capital and profits. A foreign person may establish the same types of companies as a national of Macedonia. A foreign investor may also be an individual business person / sole proprietor.

There is no single law regulating foreign investment. Rather, the legal framework applicable to foreign investors is made up of various laws, including: the Companies Law, Securities Law, Profit Tax Law, Personal Income Tax Law, Law on Value Added Tax, Foreign Trade Law, Law on Takeovers, Law on Foreign Exchange, Law on Investment Funds, Banking Law, Law on Supervision of Insurance, Audit Law, etc.

Paying Taxes 2015: Macedonia among countries with lowest tax rates in the world

Macedonia is among the countries with the lowest tax rates in the world according to the Paying Taxes 2015 report. With a 7.4% rate, Macedonia ranks 7th out of 189 countries. Regarding the number of payments, Macedonia is 6th compared to the region of Eastern Europe and Central Asia.

The time needed to pay taxes in Macedonia is 119 hours and is the shortest compared to the East European region and Central Asia. According to the report, the reduction is due to the mandatory VAT payment via the e-tax system and the increased usage of the electronic system. Paying Taxes 2015 is the only study that evaluates and compares tax regimes of 189 countries worldwide, ranking them according to the relative ease of tax payments.

Tax incentives to investors

The Republic of Macedonia has a flat tax rate of 10% for corporate and personal income tax purposes.

The Law on Technological Industrial Development Zones provides for special tax treatment of any investor who invests in the designated zones. Generally, these incentives include:

- *A 10-year tax holiday from profit tax for entities performing their business activities in the zones;*

- *Certain exemptions from VAT for trade conducted within the zone and for imports in the zones;*
- *A tax holiday from personal income tax on salaries for all workers employed at entities carrying out business activities in the zones for a period of 10 years from the month in which the first salary is paid.*

Besides tax incentives, this law also provides for certain customs exemptions, including exemption from fees for the preparation of construction sites, free connection to water, sewerage, heating, gas and power supply networks.

Profit Tax

Corporate entities, including subsidiaries of foreign companies incorporated under Macedonian law, are considered Macedonian tax residents.

Upon registration in Macedonia, these legal entities are subject to tax on their profits realized from carrying out business activity in Macedonia, as well as abroad. The tax rate is flat and set at 10% of the tax base.

Non-resident companies are subject to tax on profits derived from carrying out business activities in Macedonia, if these are carried out through a permanent establishment of the foreign legal entity.

The tax year for profit tax purposes is the calendar year.

As of 1 January 2014, the Profit Tax Law was adopted, the most important aspect of which is a change in the concept of taxation in Macedonia. The new law restores the principle that 10% corporate income tax would be payable on the profit realised for the current year, as determined according to the accounting standards, adjusted for the amount of non-deductible expenses incurred during the fiscal year.

In accordance with this new model of taxation, tax is calculated and payable with a tax rate of 10% on two components:

(i) on profits realized for the current year; and

(ii) on non-deductible expenses and understated revenues, i.e. the tax base represents the expenses considered not recognized for tax purposes as well as understated revenues, less allowable tax credits (the tax is due at year-end and is payable irrespective of the financial results of the taxpayer, i.e. regardless of whether the taxpayer is profitable or loss making).

The Law introduces the possibility of decreasing the tax base for the year by the amount of profit reinvested for development purposes of the local taxpayer. The amounts from the reinvested profit which would be recognised for the purposes of the above tax relief include investments in certain tangible and intangible assets, except for some explicitly listed types of assets intended for administrative purposes.

The loss realised in the income statement for the year, adjusted for the amount of non-deductible expenses, can be carried forward against future profits for a period of maximum three years as of the year when the loss has been realised.

As noted above in the Section on Incentive measures and privileges, a ten-year tax holiday from profit tax is granted to entities performing their business activities in technological industrial development zones.

Investment Protection and Trade Agreements

Up to 30 bilateral Investment Protection Agreements have been signed, 13 of which are with members of the Organization for Economic Cooperation and Development (OECD). Among those who have signed such agreements are: Austria; Albania; Belgium; Belarus; Bosnia and Herzegovina; Bulgaria; China; Croatia; the Czech Republic; Egypt; Finland; France; Germany; Hungary; Iran; Italy; India; Korea; Malaysia; The Netherlands; Poland; Romania; The Russian Federation; Serbia; Montenegro; Spain; Sweden; Switzerland; Taiwan; Slovakia; Slovenia; Turkey; and Ukraine.

I. In compliance with Article 21 of the Law on Income Tax, the tax payment applies exclusively to the following incomes, regardless of whether they are paid in Macedonia or abroad:

Incomes from performed management, consulting, financial and research and development services, if the income is paid by a resident or through a permanent establishment in Macedonia.

In a period when the Government of the Republic of Macedonia is promoting measures for the use of international expert assistance by domestic companies, any limitation on the right of companies to secure top consulting services by foreign experts whose costs are covered by the companies themselves represents a restrictive measure to the development and upgrade of skills and expertise of the employees and limits the economic potential and competitiveness of companies.

II. According to the IAS published in the Accounting Rulebook Official Gazette of RM No. 159/2009 and 164/2010, impairment of receivables is treated in conditions of non-collectivity. If all receivable amounts are not collected, the accounting value of receivables should be decreased (impaired) by using a value correction account and recognized in the P & L as expense. VAT is paid for all receivables, while CIT is paid on the impairment cost (based on impaired receivables), resulting in double tax calculation of CIT on VAT.

This initiative of the members of the Foreign Investors Council recommends that VAT be excluded from the CIT base in order to avoid double tax calculation, with the result that CIT to be calculated on uncollected revenue not receivable.

III. Corporate income tax (CIT) credit based on Executor's statement
Claiming of uncollected receivables is carried out via:
- Notary (regular bills)
- Court (invoicing for irregular consumption/stealing)
Current CIT law elaborates only a court decision.

In case the enforcement agent has no possibility of collecting the outstanding amount (independently if it is claimed via notaries or courts), the statement of the enforcement agent for un-collectability is NOT a basis for CIT credit, even if the uncollected receivable was impaired and CIT has been paid before. In case customers do not pay their debts, the loss is only covered by the supplying company. In any case, the company has to cover the costs needed to perform the invoiced services. The Government should support businesses by not requesting additional CIT.

If enforcement agents prove that nothing can be taken from the "customer", writing off CIT credit should be allowed.

IV. No incorporation of impairments for budget customers in the CIT calculation

In view of the current economic and liquidity situation, all companies are faced with the challenge of receivables collection and maintaining sustainable liquidity.

Even though the Budget customers/Municipalities are sometimes in delay with payments, they have high credibility because the Republic of Macedonia is their guarantor.

Although payments are sometimes delayed and therefore receivables must be impaired (and CIT paid), the Budget customers/Municipalities always pay their bills. Actually, PRO gains higher CIT payments in case Budget Customers don't pay the contract.

V. In case of a customer complaint against a notary claim, the case has to be treated via court procedure. It would be helpful for the Macedonian legal system, as well as for companies, if as a first step the notary can reach mutual agreement between company and debtor without involving the courts. If the decision shows a reduced invoiced amount, the performed reversal of the delta should be accepted by PRO without a court decision.

Claiming of uncollected receivables is carried out via:
–Notary (regular bills)
–Court (invoicing for irregular consumption/stealing)

Elaboration:

Current CIT law elaborates only court decision, in case of the non-validity of invoiced amounts; notary decisions are not at the same level as a Court decision. Courts' efficiency might be improved by having courts focus on more important issues, thus enabling companies to settle disputes with customers faster.

Changing the actual system: the first complaint of customers shall be dealt with by the notary; if the first attempt is not successful, the courts must be involved.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

According to the members of the Foreign Investors Council, the Rulebook on calculation and payment of income tax and avoidance of double exemption or double taxation, the type of services which fall under the category of management, consulting, financial services and research and development services should be clearly defined.

Taxation with regard to management, consulting, financial and research and development services is a discrimination against providers of this type of service as defined in the Law on Profit Tax. According to Article 16 of the OECD Model Tax Convention on Income and on Capital 2010, the taxation of managerial services encompasses solely compensation from directorial services (i.e. members of the Steering Board), but no fee from the company's management.

The recommendation of the Foreign Investors Council to the Finance Ministry and the Public Revenue Office of the Republic of Macedonia is to submit amendments to Article 29-b of the Law on Income Tax for further regulation of the type of management, consulting, financial and research and development services for which income tax is payable, as well as a clear definition of which incomes fall under management and consulting services and recognition of management and consulting services as tax objectives.

Chapter V: INFRASTRUCTURE

Various surveys among foreign and domestic investors in Macedonia show that the top 5 factors that are assessed for starting a business and investments in the country relate to the infrastructure.

As a landlocked country, Macedonia is particularly dependent on a well-developed transport network for its economic and social development. Key elements of this network are also part of the Trans-European transport network (Corridor 10, which goes from Austria to Turkey, and Corridor 8, which connects Albania to Black Sea ports in Bulgaria).

The road transport network has a critical role in the development of the economy, as it carries the bulk of the country's exports/goods: 93 percent of freight was carried on roads in the first two quarters of 2013.

Despite ongoing investments in roads, more remains to be done. For while Macedonia's road network is considered mostly adequate in coverage—with 3,772 kilometres of regional roads and 9,240 kilometres of local roads—the condition of this network compares unfavourably with networks in most neighbouring countries and falls well below the standards of EU countries.

A technical assessment undertaken in 2007 classified the condition of the regional and local roads as having "significant defects and weakened structural resistance requiring resurfacing or re-gravelling", though not needing the surface demolished or the road base rebuilt. This unsatisfactory condition of the roads is principally the result of inadequate attention to the management and financing of the network over the last 15 years.

While the country's busiest route, pan-European Corridor 10, is almost complete, much remains to be done on the East-West link that would more efficiently connect Albania and Bulgaria, Corridor 8.

A government priority should thus be to upgrade and rehabilitate the road infrastructure so as to improve future growth prospects.

The FIC welcomes the start of construction projects to build new highways and expand the existing rail network, as well as the construction of a new railway link with Bulgaria. These improvements to the infrastructure will make Macedonia a more attractive location for investments and help increase the inflow of foreign investment in coming years.

The construction of an important 'East-West Road' is currently under development. This road will start from Istanbul and go through Bulgaria and Macedonia to Albania. Together with the adjoining railway line, the road will enable better and faster transit between Europe and Asia Minor.

The Government has announced major infrastructure projects for the construction of new roads along the two Pan-European Transport Corridors VIII and X. Three border crossings are available when traveling from Bulgaria: Deve Bair, on the Sofia-Skopje route, between Kyustendil and Kriva Palanka, 13 km from the latter; Obel, on the Blagoevgrad-Shtip route, 10 km from Delchevo; and Novo Selo, on the Petrich-Strumica-Shtip route in the valley of the River Strumica, 32 km from Strumica.

The railway network extends over 900 km. The principal North-South rail connection from Belgrade to the port of Thessalonica (Aegean Sea) passes through Skopje. Both network and rolling stock are in need of investment. The rail system is still state-owned, although in 2007 the railway company was split into two separate entities (infrastructure and rolling stock) as a preparatory step for privatisation.

At the end of 2012, the Government announced a public tender for construction of the railway Corridor VIII, which will allow access for railway traffic to the ports in Durres and Valona.

Macedonia has two international airports, in Skopje and Ohrid. In March 2010 the Turkish airport operator TAV took both airports under a concession for a 20-year period with objectives to upgrade the existing facilities. In 2011 the upgrade was completed with new landing strips and a new airport building. Under the operation of TAV, the number of passengers has increased to about 800,000 during 2011 and 910,000 during 2012.

It is necessary to increase the capacity of the border crossing point

Road Network in Macedonia

Road category	Length (km)
Highways	236
National Roads	911
Regional Roads	3.772
Local Roads	9.240
Total length of roads	14.159

Source: World Bank

“Bogorodica” (where bottlenecks affect the export of perishable agricultural goods at peak seasonal periods). Its optimal functioning requires the Ministry of Transport and Communications of the Republic of Macedonia to prioritize the implementation of functional transport strategy so that it can expand the border crossing point’s capacity and allow for smooth frequency of trucks. In order to improve the transport of goods along the Skopje - Veles railroad, to boost its efficiency and capacity and thus improve prospects for future development, double-line tracks should be placed along the total railroad section.

The Foreign Investors Council strongly recommends that work continue at a rapid pace on the construction projects for Pan-European Transport Corridors VIII and X, as well as the construction of a new railway link with Bulgaria.

We further strongly urge that work remains to be done at the same time on modernizing Route 9 Motorway and Route 6 Motorway from the Macedonian border to Pristina, which will make the ports of Durres and Bar a great alternative to the Thessaloniki port.

The gasification process should remain a strategic priority for the state and efforts and activities should continue, regardless of any challenges that occur in this area, to build the National Gas Transportation primary system, the secondary gas distribution system for the Skopje region, as well as efforts to find solutions to ensure long-term Gas Transportation and energy stability.

The Customs Administration of Macedonia should prioritise the reaching of mutual agreements with neighbouring customs administrations to joint clearance procedures.

Chapter VI: LABOUR MARKET

Macedonia has suffered from high rates of unemployment ever since the 1980s. At the time of independence, the unemployment rate was close to 24%. The restructuring of the economy has led to an overall decline in demand for labour, while overall low growth and a lack of major investments have resulted in failure to create a sufficient number of job opportunities.

Additionally, the labour law has not permitted sufficient flexibility in the labour market. Recent labour market reforms, including a new Labour Relations Law in 2005 (and its amendments in 2008, 2010, 2011, 2012, 2013 and 2014) have injected some labour market reforms of benefit to employers and employees.

According to data from the State Statistical Office, in the first quarter of 2014 the labour force in the Republic of Macedonia numbered 958,392 persons, of whom 686,277 were employed while 272,115 were unemployed. The activity rate in this period was 57.3 and the employment rate was 41.0%, while the unemployment rate was 28.4%.

According to data from the State Statistical Office, in the second quarter of 2014, the labour force in the Republic of Macedonia numbered 957,790 persons, of which 687,465 were employed, while 270,325 were unemployed. The activity rate in this period was 57.3% and the employment rate was 41.1%, while the unemployment rate was 28.2%.

Labour force and activity rates

	Total working age popu-lation	Labour force			Activity rate	Employ-ment rate	Unem-ployment rate
		Total	Employed	Unem-ployed			
2012	1 669 965	943 055	650 554	292 502	56.5	39.0	31.0
2013	1 672 460	956 057	678 838	277 219	57.2	40.6	29.0
2014	1 671 725	957 790	687 465	270 325	57.3	41.1	28.2

According to the EU 2014 Progress Report, persistently high unemployment indicates serious difficulties in the functioning of the labour market. The quality of public finance planning and management has deteriorated further. Productive investment remains below needs. The enforcement of contracts remains difficult, negatively impacting the business environment.

However, the general qualification of the workforce remains low, and matching the skills of graduates with the needs of employers remains a challenge. Public investment has remained at 5% of GDP, concentrated on transport and utilities. FDI has recently shifted towards more traditional manufacturing sectors. The capital stock remains modest and public spending is not focused on knowledge-based society and growth-enhancing activities.

Unemployment has remained persistently high, in particular long-term and youth unemployment. Structural challenges in the labour market remain to be tackled.

Monetary policy has remained consistent and adequate.

The labour law has not permitted sufficient flexibility in the labour market. Recent labour market reforms, including a new Labour Relations Law in 2005 (and its amendments in 2008, 2010 and 2011) have injected some labour market reform of benefit to employers.

These trends in the labour market are also confirmed by the latest report of the World Bank, which highlights the fact that Macedonian companies have difficulty finding people with the right skills in the labour market, remarking a high level of inflexibility in the legislative framework that in practice remains an obstacle to the development of the labour market.

In terms of unemployment, the World Bank proposes that the business climate be improved in order to boost demand for labour, enabling companies to open up more jobs. Investments are needed in higher education to enable young people to be trained both in terms of types of profiles and needed skills.

The country's education system has not successfully managed to adjust to the fast-changing labour demand; education and training systems do not react promptly and adequately to changes in the labour market.

The FIC recommends future investment in the right kind of education aimed at providing young people with the professional skills that are needed by companies. The solution lies in structural reforms to improve the business climate to boost demand and to offer incentives for firms to increase labour demand and hire workers. Greater flexibility of the labour market and the cancellation of unnecessary bureaucracy would ease the recruitment process and would have positive effects in reducing the high rate of unemployment in the long term.

The Law on Labour Relations

The main source of employment law is the Law on Labour Relations. In connection to this law, certain rights and obligations of employers and employees are then elaborated in more detail in collective bargaining agreements, including branch-level collective agreements and collective agreements at the level of the employer. Collective agreements not only elaborate what has been ascertained with law, but also have the possibility to grant superior rights to employees than those granted by law.

Employment law protects all employees. While the Law on Labour Relations applies to all employees, a set of specific rules are given for those employed in the public administration through a lex specialis, i.e., the Law on State Employees.

Also, in accordance with certain articles of the Law on Labour Relations, certain issues can be agreed differently for managers of a company. The reasoning behind the differences in ascertaining the rights and obligations between the managers and their employees is due to the specific work they conduct for the company. However, this does not mean that employment law does not protect managers. The issues that can be ascertained differently for this group of employees are listed in the Law on Labour Relations.

In accordance with this provision, in managerial agreements the following rights, obligations and responsibilities arising from the employment relation can be ascertained in a different manner from the Law on Labour Relations:

- conditions and limitations of the working relation to an ascertained period of time;
- working hours;
- days of rest and annual vacation;
- payment for work; and
- termination of the validity of the employment agreement.

According to the 2014 Progress Report from the European Commission, there has been limited progress with regard to labour law. Cooperation has not improved amongst the relevant institutions charged with the enforcement of employment law.

Rulebooks have been adopted on risks related to electromagnetic fields and on establishing a price list for services related to health and safety at work. The implementation of the strategy and associated action plans for occupational health needs to be speeded up. Coordination between the relevant authorities also needs to be improved. The National Council for Occupational Health and Safety remains inefficient, meeting irregularly and without follow-ups. There have been no improvements in the capacity for carrying out inspections concerning health and safety at work.

Another issue faced by the members of the Foreign Investor Council is the lack of information exchange among the Agency for Employment (AVRM), the Health Insurance Fund and the Pension and Disability Insurance Fund (PIOM). These bodies should exchange data related to social insurance and length of service. The PIOM records and the AVRM records regarding length of service are not consistent and it takes employees (and companies) time to correct this by providing documentation.

According to the Law on Labour Relations, a termination of employment contract is possible when an employee turns 64 years of age and has had at least 15 years of service; however, the employer is obliged to extend the contract of the employee to a maximum of 67 years of age for men and 65 years of age for women if he or she submits a written statement for continuation of the employment contract for the following year no later than 31st August in the current year.

This provision needs to be more clearly defined, as a worker is considered to have lost his/her work capability on the same day an effective decision is adopted.

Article 63, paragraph 1, stipulates the deadline for the return of documents to the employee. Adjustment of deadlines to the deadline for unregistering should be counted from the end date of the labour contract.

Procedures taken prior to notice due to a fault on the part of the employee should be better regulated. This is because "fault" is an erroneously chosen term, since the reason for fault is a breach of contractual relations, thus in cases of more severe violation there is no logical sense in warning the employee.

Article 75 paragraph 3 should be amended and the period for handing out notice to employees should be changed from 8 working days to 8 days for the procedure of unregistering the employee.

The form of the decision on notice, i.e. the decision to impose a monetary penalty where the content of the articles regulates decisions on notice or decisions on imposing monetary penalty adopted on personal grounds rather than an employee error or mistake, should be amended and the new paragraph should read: "In case of cancellation of the employment contract, the Employer is obliged to indicate the legal protection to the employee and to familiarize him/her with his/her rights on insurance in case of unemployment in accordance with the Law."

The Foreign Investors Council sees the need to modify or delete the provision imposing the obligation regarding annual leave whereby the employer is obliged to issue a decision to the employee on the right to use annual leave. This represents an administrative burden. The employer should issue a general decision on the right of all employees, especially in cases where they all have the same entitlements. This should be further regulated with an internal act left to the choice to the employer. Furthermore, in regard to annual vacation the provision should be modified so as to allow annual vacation to be used in several parts; however, one part must last a minimum of 12 working days. The total number of holiday days could remain the same, but employers should decide how to split them based on their production/ sales/business needs. We consider that the minimum of 12 days should be changed to 10 days.

Regarding the retirement provision of the Labour Law, it should be noted that employees in production facilities, and especially in heavy industries, typically have difficulties working until the age of 64, or for 40 years. The Labour Law thus provides the possibility for the early retirement of special employees (elderly or ill employees with 40 years of service or 5 years left till retirement). This is being proposed in such a way that:

a) The Employer will terminate the employment contract of the employee and will have the obligation to pay him on a monthly basis the amount of his pension (incl. tax) until the date of his regular retirement.
b) The Employer may terminate the employment contract when the employee completes 40 years of service.
c) At the same time, the Employer will be obliged to employ a new person to fill the job position.

The FIC considers that the newest changes in the Law on Labour Relations practically reinforces the provision obliging the employer to pay taxes, i.e. health insurance and pension and disability insurance, for freelancers hired under a temporary contract of services and who are paid an amount higher than the minimum wage. This provision, we believe, will only place a burden on companies and, in addition, the employees will not receive better or higher health insurance and pensions. This provision is thus not in the best interests of either contracting party.

The FIC recommends that the Law on Labour Relations be made more flexible to provide an opportunity for the contracting parties to arrange their relations without a reduction in workers' rights. It is crucial that the state authorities have better cooperation between them and to work on ways to make it easier to access them.

We strongly recommend that contracts with authors and specific work not be subject to paying taxes for health insurance and pension and disability insurance since employees would not gain greater rights by this provision.

The level of bureaucracy should be reduced and the Government should adopt more sophisticated solutions in the working of the Agency for Employment (AVRM), the Health Insurance Fund and the Pension and Disability Insurance Fund (PIOM).

Awareness of the need for tripartite social dialogue should grow simultaneously with the significance of bipartite social development.

Chapter VII: COMPETITIVENESS

Macedonia seeks to improve shared prosperity by moving to a higher growth economy based on advanced manufacturing capabilities and more competitive, export-oriented enterprises. Under the Government's growth agenda, exports have grown rapidly and in 2012 accounted for 53.4 percent of GDP. Further improvement, however, depends on structural changes, given that: (a) exports are still too concentrated in commodities (metals and minerals) where value added is low and prices are volatile; (b) medium and large firms do not invest sufficiently in quality or innovation; and (c) most exporting firms are small (with fewer than 10 employees) and have difficulty competing in export markets because of inefficiencies and high costs related to customs, logistics, and trade infrastructure. Further, (d) the agribusiness sector, which employed 20 percent of the workforce in 2012, is constrained by several factors, including the large share of state-owned land, which needs to be better managed to unleash its productive and export potential.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

The FIC urges the Government of the Republic of Macedonia to continue with measures for improving the business climate and increasing the competitiveness of the Macedonian economy. Measures should be aimed at reducing bureaucracy, cutting expenses and shortening procedures for obtaining administrative documents by enabling permits and licenses to be applied for and obtained electronically, and by further reducing companies' expenses. Measures for improving the competitiveness of the Macedonian economy should be achieved by linking companies with universities and innovators through the implementation of research and development projects. The improvement of existing technologies and the introduction of new technologies will help decrease the technological gap that Macedonia has in comparison with EU member states.

Chapter VIII: VISA REQUIREMENTS AND PROCEDURES

The legal status of foreign nationals in Macedonia is governed by the Law on Employment and Work of Foreigners, the Law on Foreign Persons and the Law on Ownership and Other Property Rights.

Foreign nationals who wish to stay in Macedonia must obtain a visa unless they are subject to visa-waiver agreements.

The Macedonian Ministry of Foreign Affairs issues all types of visas at its consulates around the world. Certified work permit and temporary residence permit applications are also accepted at the country's consulates, though they are technically processed by the Employment Services Agency and the Ministry of Interior respectively. Much of the process of hiring a foreigner must be led by company representatives present in Macedonia. This means, among other things, that the employee cannot apply for a visa or temporary residence permit in their home country without first receiving an original copy of their certified work permit application.

Residence Permits

Residence permits are issued to foreign nationals entering Macedonia who intend to stay in the country for three months or longer.

There are three types of residence permits:
A. Residence up to three months
B. Temporary residence permits; and
C. Permanent residence permits.

The most common grounds for issuance of temporary residence permits are:
- *Employment, working and performing professional services*
- *Education or study*

Work permits

In relation to employment, foreign nationals and Macedonian citizens have equal rights in the workplace. While working in Macedonia, foreign employees are guaranteed the same labour rights as Macedonian citizens.

Work permits are free of charge and Macedonia's Employment Services Agency is required to issue them within 45 days of application. Traditional work permits are generally issued first for 6 months (with the possibility to be extended up to 1 year), and thereafter on an annual basis.

The choice of any particular work permit is dependent upon the nature and duration of the work to be undertaken in Macedonia. The permit is issued by the Employment Agency of Macedonia and the procedure is conducted through the Macedonian Embassy in the resident/domicile country of the foreign applicant. Although under the latest regulatory changes the procedure for issuance of work permits could be conducted through the Macedonian Employment Agency as well, such an option is still not available in practice until relevant by-laws are adopted which would further regulate that procedure.

The FIC members welcome the positive changes to the Law on Employment and Work of Foreigners aimed at reducing the documentation that needs to be submitted to the Employment Agency, as well as the simplified procedures that have already been adopted regulating employers' obligations towards an employee in a dismissal process.

Recent changes made to the Law on Employment and Work of Foreigners, in July 2012, have enabled foreign nationals to obtain a work permit in the Employment Agency without the need to obtain an opinion from the Ministry of Internal Affairs.

The FIC urges state authorities to proceed with measures to liberalize the procedure for issuing work permits to foreign nationals working in Macedonia, as this will greatly ease the procedure and have positive effects on the ground.

Law on Employment and the Work of Foreigners

As regards access to the labour market for foreigners, there are still issues that need to be solved so that the free movement of workers can be easily achieved without excessive bureaucracy.

Foreign citizens are still not permitted to occupy public service posts. Preparations have begun for participation in the European Employment Services cooperation network. The time allowed for the Employment Agency to issue its opinion on a foreign worker's request for a work permit has been reduced from 45 to five days.

According to the Law on Employment and the Work of Foreigners, a work permit procedure is required when a person intends to work. The definition of work is subjective and open to interpretation. Generally it is interpreted as physical work of some form.

This is a problematic issue because any business will always have some people who travel on short visits to provide some form of service, such as annual equipment servicing, emergency repairs or the conduct of technology transfers from the parent company or its subsidiaries, and the employer is practically unable to obtain a work permit for workers hired to do temporary physical work.

Also, the processing time for a work permit is approximately two months. This is an issue because any business requires that people are seconded and transferred in a short time to their new posts in order to ensure the continuity of the work process and to avoid a standstill due to lack of qualified personnel.

Another bureaucratic barrier is the provision stipulating that the form for a temporary living address has to be a Lease agreement verified at the notary. This represents a restrictive barrier for foreigners who might find alternative accommodation, such as living with relatives, friends or similar.

In many countries, matters related to cohabiting couples are regulated by law, as is the case in Macedonia. This is why we see it as an issue that the current law does not accept partners living together as a sufficient reason to issue an accompanying resident permit, i.e. this is a possibility only if the partners are married.

There is a limitation on how long foreigners can stay in the country with a work permit as transferred employees (3 years in a 5-year period) before they should be moved to a local contract. This is not a practical requirement, since foreign companies establishing businesses in Macedonia may need some managers critical for running the business to spend more than 3 years in the country being employed in companies of their origin, not locally.

Nor does the localization requirement make sense, since these employees are contracted to an overseas pension scheme where they come from and are unlikely to draw on local pensions. They do pay local income tax by tax return.

Also, people travelling on temporary work requirements legally need a work permit for performing even a single day's work. There will be an inflow of people to support technology transfers and people supporting maintenance of equipment.

According to the 2014 Progress Report from the European Commission for Macedonia, some progress has been made in the area of freedom of movement for workers. Overall, preparations are still at an early stage.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *Requirements for work permits should be reviewed and people visiting for a short period to support business, for example on technology transfer or servicing equipment, should not require a work permit. The law and procedures should be amended to allow a time period where a work permit is not required. This period can be defined in accordance with generally accepted international norms for work permits. The important point to note is that there is a limit on services that can be offered locally while service engineers are not based in Macedonia due to the size of the market and these will be required from abroad to provide support.*
- *The temporary foreign support staff to a local business should be allowed to travel to Macedonia on a Business Visa and perform work of support nature which may include servicing for equipment, technology, staff and so on.*
- *The steps in the process for issuing work permits should be reviewed so that the liaising between the Ministry of Foreign Affairs, the Ministry of Interior and the Employment Agency is speeded up by introducing certain improved deadlines.*
- *The work permit process should accept clearances from specialized vetting agencies that issue police clearance much faster but are nongovernment institutions.*
- *Separately define which documents are mandatory on submission of the application and which document can be submitted after the work permit process has commenced. The suggestion is that the police clearance documents be submitted at a later stage of the procedure as each applicant should undergo a police clearance by the Ministry of interior of Macedonia.*
- *The authorities should be flexible in case the foreigner is planning to be accommodated locally (as a guest with friends or relatives, living with their partner, etc.) – It can be regulated with a statement of address verified by a notary public, and*
- *In case there are unsolved property issues (property list in procedure) a pre-lease agreement should be accepted*
- *Authorities should approve and issue an accompanying resident permit with the submission of a notarized statement of common law marriage verifying that the partners are living together.*
- *A possible solution would be to implement a 183-day rule for work permit requirement, meaning that if a person works for 183 days consecutively then they need to have a work permit. The law needs to be clear.*

Chapter IX: REAL ESTATE AND PROPERTY

The main legislative acts governing real estate and real estate transactions in Macedonia are the Constitution of the Republic of Macedonia, the Law on Ownership and Other Property Rights, the Construction Law, the Law on Construction Land, the Law on Privatization and Lease of Construction Land on State Property, the Law on Real Estate Cadastre and the Law on Obligations.

In accordance with the Constitution of Macedonia, the investor's right to property is guaranteed.

According to the Law on Ownership and Other Property Rights and the Law on Foreigners, residents of the EU and OECD member countries can acquire ownership of apartments, buildings and business premises under the same conditions as Macedonian citizens, in which case they will be granted a one-year resident permit which can be further extended under the law. Non-EU and non-OECD residents can acquire ownership of buildings, apartments and office premises under the terms of reciprocity. However, the application of reciprocity rights is determined by the Minister of Justice.

According to the latest amendments to the Law on Ownership and Other Real Rights (November 2009 and March 2010), residents of the EU and OECD member countries can directly acquire a right of ownership or a long-term lease of construction land under the same conditions as Macedonian citizens. Non-EU and non-OECD residents should be entitled to the same right under the terms of reciprocity.

Foreign residents cannot directly acquire ownership of agricultural land. However, they can conclude a long-term lease contract under the terms of reciprocity if the consent of the Minister of Justice and prior opinion of the Minister of Agriculture and the Minister of Finance is obtained. The bylaws that should provide further details have not yet been adopted, which may to some extent inhibit the direct acquisition of land by foreigners.

Indirect ownership (including lease) of construction and agricultural land, as well as residential and business premises, through a locally-registered business, is commonly used by foreigners as a safeguard against legal problems.

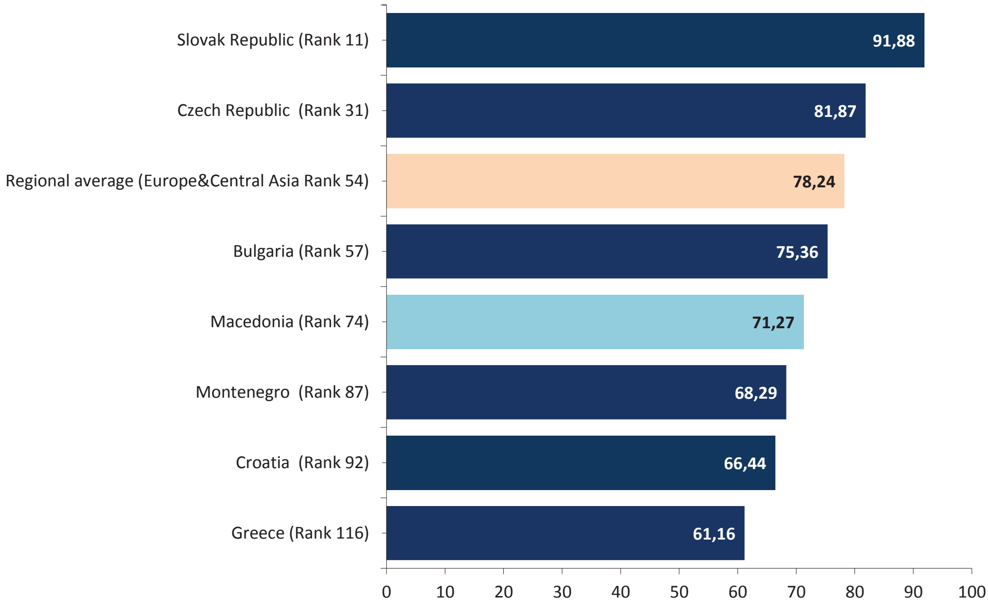
Ownership of real estate can be obtained through a purchase or gift contract; on the basis of a non-monetary contribution to a company; or on another basis stipulated by law, such as inheritance.

Ownership of property requires the preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it unless the use of that property affects the general welfare of the public. If the property is expropriated or restricted, rightful compensation of its market value is guaranteed.

Registering property

Globally, Macedonia stands at 74 in the ranking of 189 economies on the ease of registering property. The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Macedonia to transfer property.

How Macedonia and comparator economies rank on the ease of registering company



Source: Doing Business

According to data collected by Doing Business 2015, registering property in Macedonia requires 7.0 procedures, takes 31.0 days and costs 3.3% of the property value.

Registering Property - Doing Business

How has Macedonia made registering property easier—or not?
(By Doing Business report year)

DB2014	Macedonia made property registration faster and less costly by digitizing the real estate cadastre and eliminating the requirement for an encumbrance certificate.
DB2012	Macedonia made registering property easier by reducing notary fees and enforcing time limits.
DB2010	Macedonia eased the process of property registration with new time limits at the Real Estate Cadastre, decreasing the average time to register a title deed by 8 days, while a non-encumbrance certificate can now be obtained from the Real Estate Registry instead of through the court.
DB2009	The new Law on Cadastre reduced the time needed to register property by increasing the staff in the Cadastre office. As a result of this increased processing capacity, the time to obtain a copy from the cadastre sheet and the time to obtain the new title deed was reduced, bringing the total time to register a property from 98 to 66 days.

Macedonia has a efficient and effective real estate cadastre and registration system, contributing to the development of efficient land and real estate markets. With the help of the World Bank, the Government has made great strides in reforming the real estate cadastre and property registration system. The Agency for Real Estate Cadastre has transformed itself from a technical organization focused on surveying to a service organization focused on customers. The Real Estate Cadastre has been established on 99.8 percent of the country's territory, and the increased efficiency and confidence in the registration system has led to an increase in the use of property as a financial asset.

The members of the Foreign Investors Council welcome the latest reforms and projects undertaken, such as the digitization of the Real Estate Cadastre, whose benefits range from cost- and time-reductions in procedures for obtaining a title of deeds, obtaining construction permits electronically, and the creation of an underground cadastre, to the real estate cadastre's coverage reaching 99.8% of the territory of the country. FIC members conclude that the implemented reforms have created a more efficient cadastre and faster and cheaper procedures.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- The FIC members urge the Government to focus on further enhancing the registration and cadastre services by upgrading the national datasets in terms of accuracy, completeness, and accessibility.
- The members of the Foreign Investors Council urge that the reforms in the Agency for Real Estate Cadastre should continue in light of the cadastre's further modernization, as well as a form of support for the development of the Republic of Macedonia's real estate market and the promotion of a favourable investment climate, and assistance in overall harmonization with EU and NATO standards;
- Discrepancies have been detected between the cadastre plans (field surveys) and the detailed urban plans created and issued by municipalities. Efforts should be made to harmonize the cadastre with the Law on Construction in order to prevent different interpretations and inconsistent application of some legal regulations by relevant public bodies and bodies of local self-government;
- Pursuant to the latest legal provisions prescribed by the Agency for Electronic Communications (AEK), the plan is to have the total on-land telecommunications infrastructure moved underground by 2020. All telecommunication operators should submit reports on the current condition of their networks by the end of the year. In cities with over 15,000 inhabitants, the telecommunications network should be exclusively underground (using cables) at a distance of at least 100 meters from residential buildings comprising residential units and commercial facilities.
- The members of the Foreign Investors Council understand that the new regulations apply to both the existing on-land telecommunications network and the telecommunications installations that are to be placed in the future by different operators and companies, i.e. these companies/operators will be required to place their network equipment underground.
- The Foreign Investors Council suggests that the legal decisions should not apply to the on-land telecommunications infrastructure that has already been installed; otherwise, operators will face a number of on-field difficulties due to the complexity of moving a telecommunications network underground in urban areas. Moreover, rather high costs would be incurred that had not been planned at the time the operators launched their business activities in Macedonia.

Construction Permits

Obtaining construction permits

The main precondition an investor must meet prior to commencing construction works is to obtain a construction permit.

Chronologically, the process starts when the investor submits an application to the municipality where the construction should be executed. The law prescribes in detail the necessary documents and the conditions that should be fulfilled in order to obtain the respective permit.

Construction permits for constructions of local importance are issued by the mayor of a municipality, and for constructions of general importance to the country, permits are issued by a state authorized institution.

The Execution of Construction Works and the Use of Structures

The next development stage is the execution of construction works. The investor is obliged to carry out construction works and complete a building within a period of 6 to 10 years from the date the construction permit became effective, depending on the type of the construction work (i.e. building category).

During construction work, a number of standard-form acts and protocols must be compiled. The acts and protocols serve as evidence for the items that are recorded in them and these concern the commencement, execution and completion of the construction work. The participants in the development process who sign these acts and protocols are jointly responsible for the authenticity of the facts recorded in them.

Generally, the completion of construction works is certified by the issuance of a permit for use, or based on a technical review report prepared by a supervisor engineer if the constructed facility falls in a specific category of structures. The permit for use is issued by the authorized body that issued the permit for construction. In addition, the ownership of the structure should be recorded in the Agency for Real Estate Cadastre of the Republic of Macedonia.

Obtaining a Property List (Title Deed) on the Property

As from January 2013, the Agency no longer issues data from encumbrance certificates, nor does it exclude any mortgages registered in the certificates. All undisputable data from the Registration Books has been transferred to the corresponding property sheets. This novelty has simplified the procedure for the transfer of property, since it is no longer required for the seller to obtain a Certificate from the Registration Book in order to confirm whether or not there is an encumbrance over the property. A Title Deed obtained either from the Agency or the authorized subjects (which have concluded agreements with the Agency) is sufficient for the conclusion of the sale and purchase agreement.

The seller should obtain a Title Deed from the Department of Cadastre and registration of real estate before formally starting the transaction.

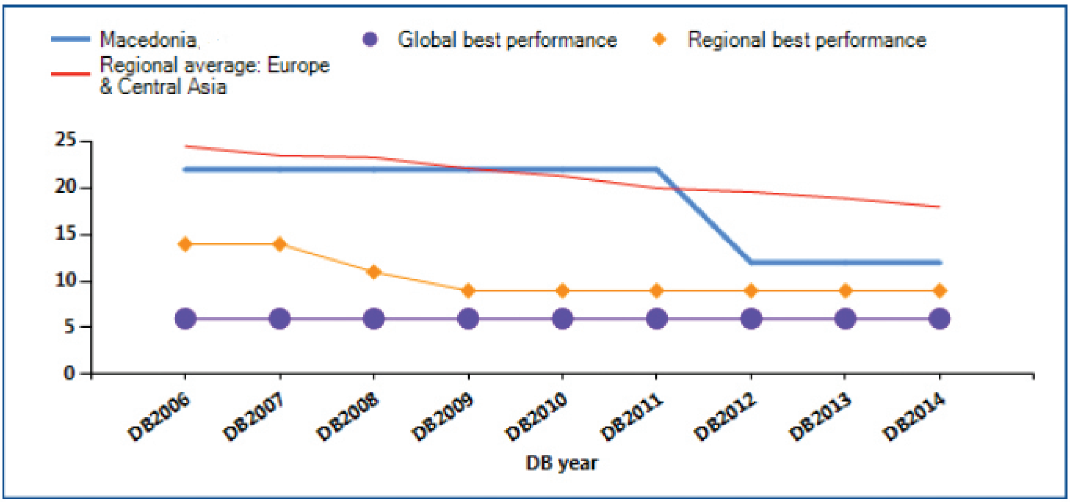
According to the World Bank's Doing Business report, the Real Estate Cadastre has made remarkable progress in decreasing the average time to register a title deed and other property and legal issues, showing that reforms in the Agency have produced tangible results.

How has Macedonia made dealing with construction permits easier - or not? *(By Doing Business report year)*

DB year	Reform
DB2014	Macedonia made dealing with construction permits easier by reducing the time required to register a new building and by authorizing the municipality to register the building on behalf of the owner.
DB2012	Macedonia made dealing with construction permits easier by transferring oversight processes to the private sector and streamlining procedures.
DB2012	Macedonia made obtaining construction permits faster by reducing the time to issue land ownership certificate.

Has dealing with construction permits become easier over time?

Procedures (number)



Source: Doing Business Report

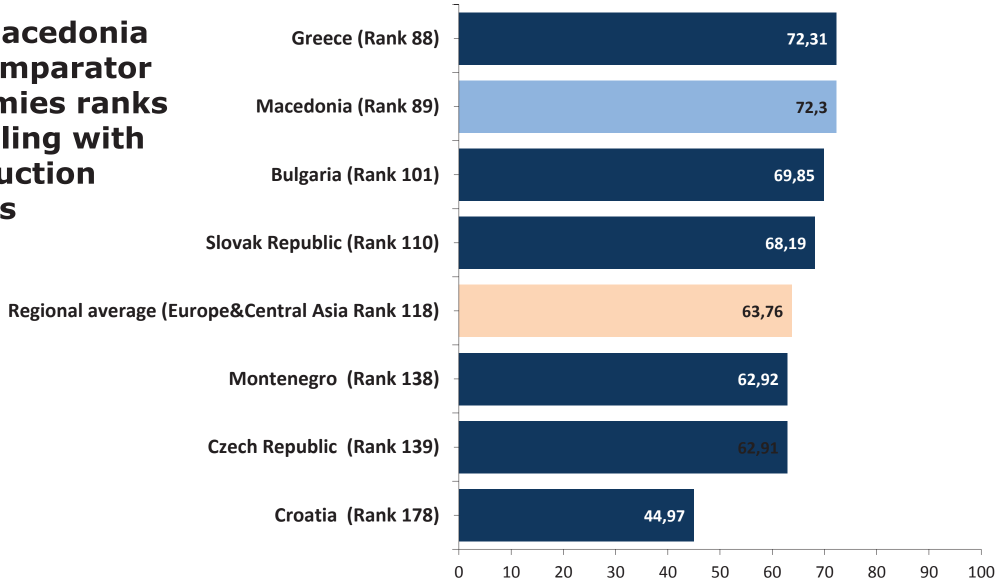
Dealing with Construction Permits

What does it take to comply with the formalities to build a warehouse in Macedonia?

According to data presented in the Doing Business 2015 Report, dealing with construction permits in Macedonia requires 11 procedures, takes 89.0 days and costs 8,2% of warehouse values.

Globally, Macedonia, stands at 89 in the ranking of 189 economies on the ease of dealing with construction permit's. The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Macedonia to legally build a warehouse.

How Macedonia and comparator economies ranks on dealing with construction permits



Execution of Construction Works

The investor is obliged to carry out construction works and complete a building within a period of 6 to 10 years from the date the construction work permit became effective, depending on the type of the construction work (i.e. building category).

During construction work, a number of standard-form acts and protocols must be compiled. These acts and protocols serve as evidence for the items that are recorded in them and they concern the commencement, execution and completion of the construction work. The participants in the development process who sign these acts and protocols are jointly responsible for the authenticity of the facts recorded in them.

Generally, the completion of construction works is certified by the issuance of a permit for use, or based on a technical review report prepared by a supervisor engineer if the constructed object falls within a specific category of construction. The permit for use is issued by an authorized body that has issued the permit for construction. In addition, the ownership of the structure should be recorded in the Real Estate Cadastre Agency of the Republic of Macedonia.

The FIC members consider that most of the issues related to the issuance of construction permits and real estate development are related to the local administrations, i.e. there are unequal conditions for issuing construction permits in different municipalities.

Summary of procedures for dealing with construction permits in Macedonia and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	Request and obtain proof of land ownership and an extract from a cadastre plan from the Real Estate Cadastre	1 day	MKD 175
2	Request and obtain the extract of detailed urban plan from the municipal Office of Urban Planning	5 days	MKD 1,050
3	* Obtain the hydro-technical conditions	7 days	no charge
4	Hire a private cadastre office and obtain an Account of Numerical Data study	1 day	MKD 6,000
5	Pay municipal tax, obtain proof of payment, and obtain relevant approvals	15 days	MKD 682,815
6	Hire a third-party supervisor for the construction work	1 day	MKD 164,903
7	Request and obtain approval for construction (building permit) from the municipality	45 days	MKD 1,500
8	* Obtain a directive from the construction company, issued by the State Committee for Urban, Communal, and Housing Works	14 days	no charge
9	* Request and obtain water and sewage installation	15 days	MKD 43,219
10	Receive on-site technical inspection of finished building and the final report by a supervisory body and submit the final inspection report to the municipality	4 days	no charge
11	Submit the final report to the municipality	15 days	MKD 400

* Takes place simultaneously with another procedure.
Note: Online procedures account for 0.5 days in the total time calculation.
Source: Doing Business database.

Still relevant is the objection that cadastre plans are not harmonized with detailed spatial plans (DUP).

The FIC members welcome the introduction of the e-information system for building permits by the Association of the Units of Local Self-Government of the Republic of Macedonia. This information system should provide for the electronic handling of all stages of procedures, starting with electronic filing and signing of paperwork required from investors, electronic preparation and adoption of laws in the process, electronic notification and provision of necessary information and documentation from other involved entities and electronic distribution of documents in the proceedings.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- Administrative procedures should be further reduced and simplified, lower administrative costs for companies should be introduced, and construction permits should be issued in a shorter period of time;
- The detected problems and irregularities related to the issuing of construction permits and the overall development of the real estate sector are in the hands of the local authorities. In respect of issuing construction permits, the existence of unequal conditions for obtaining construction permits and different interpretations of some legal procedures has been noticed in municipalities. The time limits for issuing construction permits stipulated in legal regulations are not always observed, and variations in the prescribed construction fees exist among municipalities. According to the Law on Property Taxes (Official Gazette of the Republic of Macedonia no. 61 of 13 September 2004), each municipality lays down the tax rates, and the municipal administration is authorized to lay down and collect property taxes on the territory it governs. On average, a municipality-led procedure for issuing construction permits (building permit) lasts a month and a half. Pursuant to the amendments introduced in September 2012, municipalities have been given new authorizations when it comes to registering facilities on behalf of the owner, a procedure that lasts two weeks on average. The Foreign Investors Council recommends that local authorities observe the legally prescribed deadlines for issuing construction permits and for other procedures, and that the schedules of rates defining the costs of all construction-related administrative procedures for natural and legal persons are harmonized across the municipalities of the Republic of Macedonia;
- **Electronic system for construction permits application** The E-Construction Permit system was launched by the Association of the Units of Local Self-Government (ZELS) in the end of 2013. This means that besides for construction permits, municipalities are going to provide electronic services for procedures for approval of a concept plan, modifications in the course of ongoing construction works, change of investor, the issuing of permits to start preparatory works, reconstruction, adaptation and conversion of buildings etc. This system also enables its users to monitor the progress of a procedure for issuing permits and documents, to forward relevant documents to competent institutions and sectors and at the same time be certain that all legal conditions are being met. The website of the E-Construction Permit system should be available in English in order to facilitate foreign investors' access to the services provided through it.

Chapter X: FREQUENT CHANGES OF LAWS

According to the 2014 Progress Report of the European Commission, business is still burdened by frequent new legislation without sufficient public consultation.

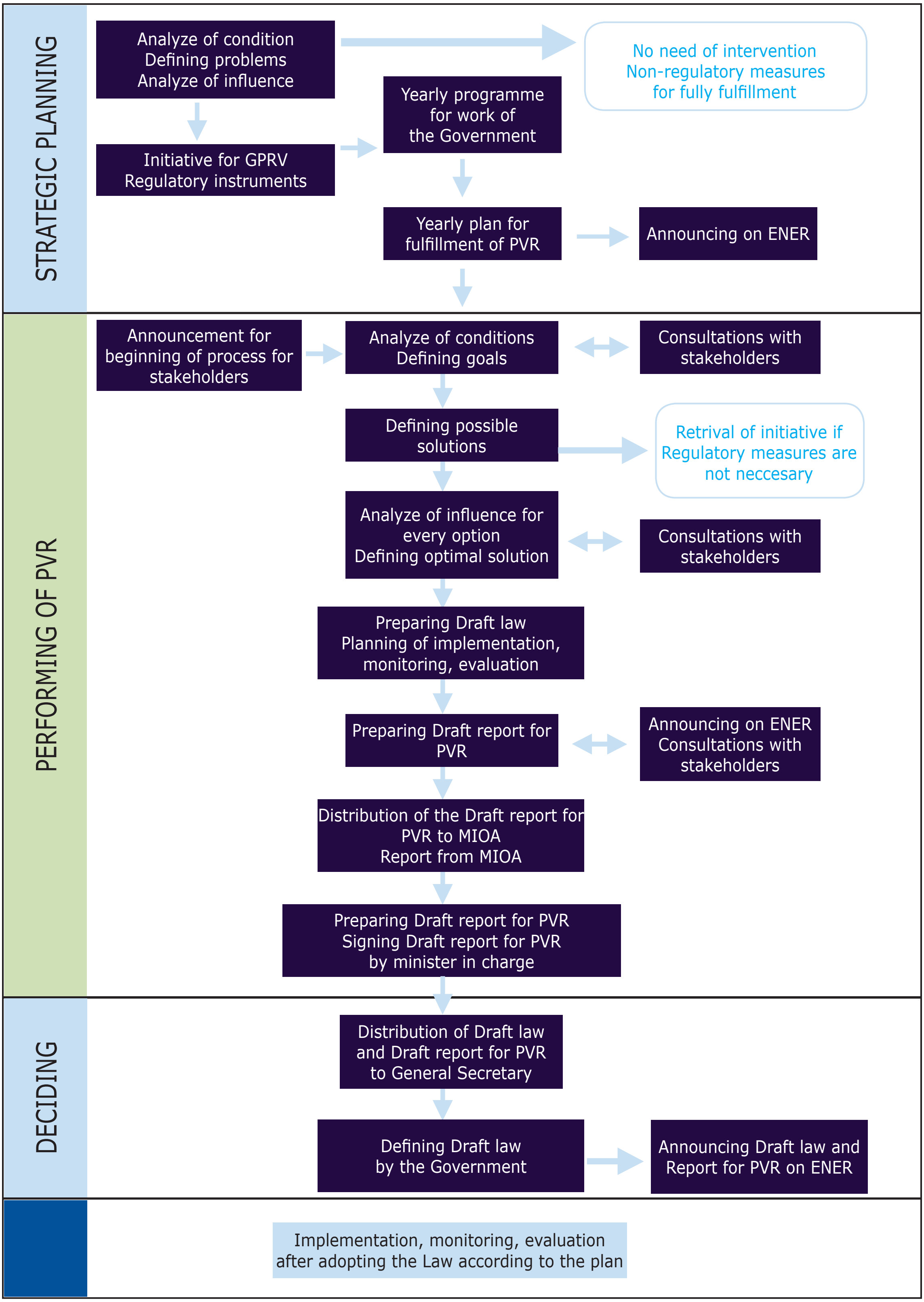
Only 44.5% of draft laws were published on the national electronic register in 2013, as opposed to 61.3% in 2012. Overall, the legal system for a functioning market economy is largely in place, but inefficiencies arise in practice from lengthy procedures hampering the enforcement of laws. Frequent changes of laws create legal insecurity from businesses' point of view.

Another minor problem is the lack of information about ongoing discussions on laws at government sessions. This information that should be provided through the Single National Electronic Registry of Regulations (ENER). In fact, such information is made available only after the law is published on the Assembly's official website. The untimely and irregular data upload on the ENER makes it impossible to obtain an overview of the complete discussion process for a given law. This means it is difficult to deduce when the consultation process is completed. This is especially so because the ENER data is not regularly updated.

If information on the ENER is regularly updated and draft agendas and the minutes of meetings held by the Government are made publicly available information, then it would be expected to have comments on the draft-laws. If a minimum discussion period is provided for each proposed law, interested parties will be given enough room to act while the regulation is still a draft law. While comments on draft laws are a rare occurrence, responses to comments are even rarer: ministries' response rate to comments posted on ENER was a mere 22%.

A specific example of frequent changes of law is the law on trade companies, which was changed 4 times in 2013 and 3 times in 2014.

The FIC recommends that changes in law should be in accordance with the Programme of the Government for the specific year and that companies should not be burdened with too many frequent changes of laws and bylaws. This issue is crucial for the stability of companies because so many changes in a single law throughout the year make it possible for the company to fail to fulfil an obligation that is stipulated in a specific law.



Presentation is taken from "Methodology for assessing the impact of regulation (RIA)" (Official Gazette, no. 107/13).

Chapter XI: INCLUSION OF STAKEHOLDERS IN THE PROCESS OF DRAFTING LEGISLATION

The process of drafting legislation is the most important process for achieving a good draft of a law in which all of stakeholders are included. The Foreign Investors Council considers that the inclusion of stakeholders is currently at a low level because foreign companies are not included in many working groups or public debates on drafting legislation. According to the "Methodology for assessing the impact of regulation (RIA)" (Official Gazette of RM, No. 107/13), the process and deadlines for assessing the impact of regulation are not fully implemented in many cases.

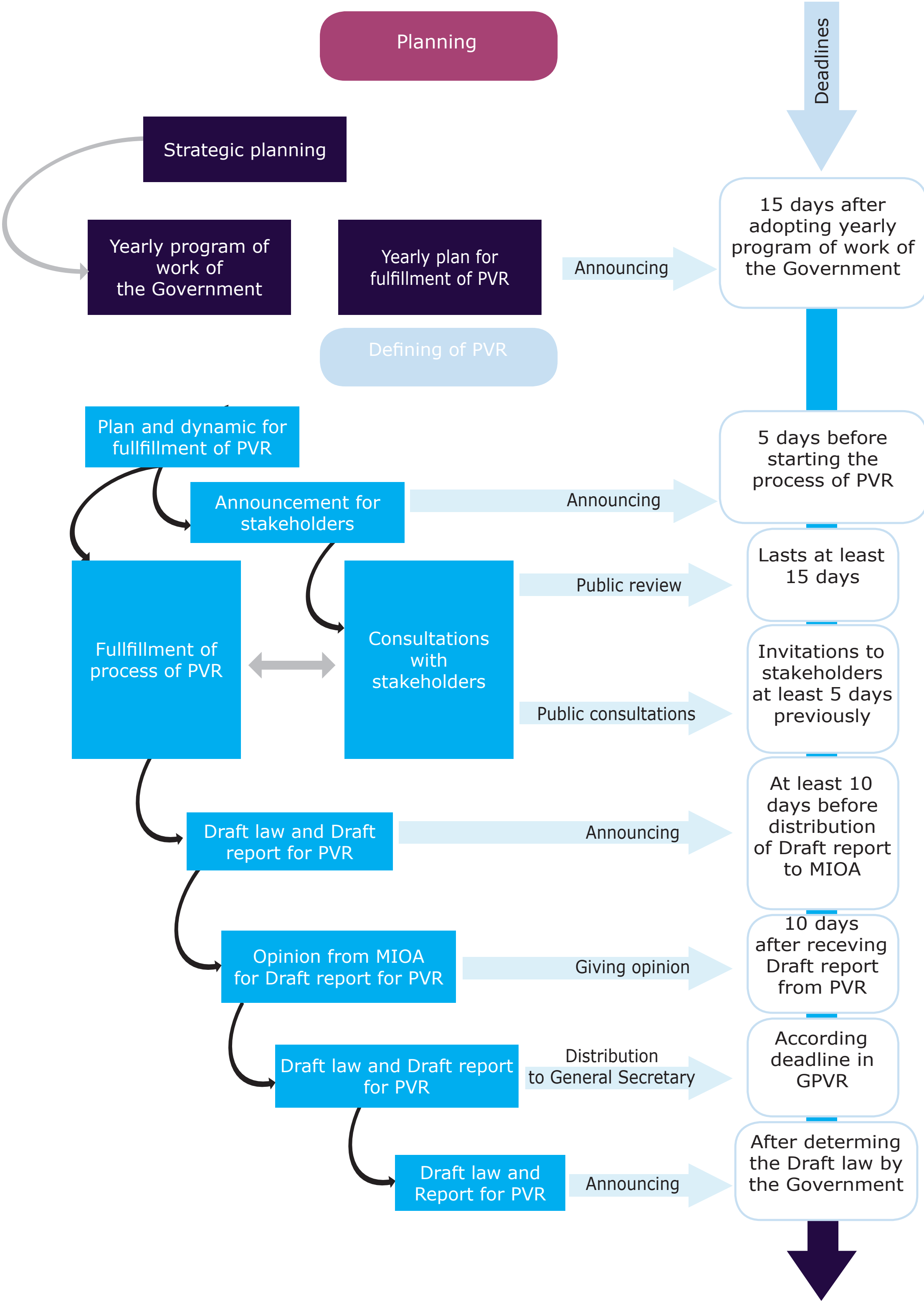
The main issue is the failure to publish a working programme for the specific year on time. This hinders the involvement of interested parties in the legislation making process and reduces the predictability for doing business.

The next problem in the process of legislation drafting is the slow updating of the draft-legislation status on the website of the Single National Electronic Registry of Regulations (ENER). ENER lists a large number of draft-acts under the status "open" for public debate, despite the fact that they are really "closed", i.e. they have already been sent to Parliament or in some cases have already been enacted. This means that parties that are interested in the law cannot know in what phase of the regulation-making process the act is currently at, and some of them waste time preparing amendments even though they cannot be taken into consideration if the status of the act is "closed" for future comments. However, many forums have been organized for the Estimation of Regulation Influence and we expect these forums to have some positive impact.

Problems also arise when some ministries publish their intention to draft certain legislation on the same day that they publish the Estimation of Regulation Influence report. This does not leave time for regulation to be properly examined and influenced by the interested parties. Ministries typically do not respect the time that should be left for the Estimation of Regulation Influence to be conducted.

The FIC recommends that each stakeholder be included in the process of drafting legislation, regardless of whether is a law or bylaw. It is crucial for economic stability to have a safe and secure legal system that reflects the interests of all stakeholders. The yearly working programme of the Government should be published at the beginning of the year and should represent the real programme that the Government will work on in that year.

We strongly recommend the full inclusion of stakeholders in the process of drafting of bylaws which are at the same level with obligations for the companies, and full cooperation with the authorities on this issue.



Presentation taken from the "Methodology for assessing the impact of regulation (RIA)" (Official Gazette No. 107/13).

Chapter XII: PUBLIC ADMINISTRATION PROCEDURES AND EFFICIENCY

The Government has made substantial progress over the past few years in the process of administrative capacity-building. Foreign investors are noticing much fewer administrative barriers than before because of the new rulebooks developed in each body and the new electronic system implemented in many state institutions.

However, there are still some barriers that need to be solved. For example, over a quarter of the complaints filed with the Ombudsman's Office in 2013 (70 out of 261) related to property rights, relating both to the actions of the administrative bodies and the Administrative Court. Breaches of property rights were confirmed in 109 cases in 2013. 7% of the fees charged by the Cadastre Office are not in line with the legally applicable rates and greater transparency is needed as regards the charging of administrative taxes.

Another issue is with the Employment Agency of Republic of Macedonia, when an employee leaves a company due to the expiry of a fixed-term contract. The Employment Agency requests that the employer issue a decision for termination of the employment contract due to its expiry so the employee can claim their rights arising from unemployment.

Another barrier with public administration is observed in the Ministry of Interior in the process for issuing a National ID card for foreigners. This process is governed by the Ministry of Interior and dictates that all foreigners must obtain a national ID card as proof of their identity. This process last approximately 2 weeks and is restrictive in the sense that the Ministry of Interior offers only two days per week for taking ID photographs, which can be difficult to manage for seconded staff as their time is of value.

The Agency for Employment of the Republic of Macedonia asks for a list of detailed data on the foreigner from the Pension and Disability Insurance Fund as a proof that the foreigner is insured. There is no need for the Agency for Employment of the Republic of Macedonia to have data on salaries.

The FIC recommends that the Employment Agency request the employer to issue a decision for termination of employment contract due to its expiry so the employee can claim his right from unemployment is not necessary because the reason for termination of the employment contract is stipulated in the deregistration form M2.

The process for issuing a National ID should be reviewed by the Ministry of Interior to allow faster processing time. A freer schedule should be offered for taking ID photographs to allow more opportunities for foreigners to complete this step.

Chapter XIII: LAW ON TRADE COMPANIES

There is no single law regulating foreign investment. Rather, the legal framework applicable to foreign investors is made up of various laws, including: the Law on trade companies, Securities Law, Profit Tax Law, Personal Income Tax Law, Law on Value Added Tax, Foreign Trade Law, Law on Takeovers, Law on Foreign Exchange, Law on Investment Funds, Banking Law, Law on Supervision of Insurance, Audit Law, etc.

The current Law on Trade Companies has been in effect since 2004. In 2006, the Central Register was established as the body authorized to perform all company registrations and the institution to maintain the Trade Register of all companies. This is the primary law regulating business activity in Macedonia. It defines the types of companies, procedures and regulations for their establishment and operations. As all foreign investors are granted the same rights and privileges as Macedonian nationals, they are entitled to establish and operate all types of self-owned private companies or joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions other than what is customarily required by law.

Under this law, companies are formed as separate legal entities that operate independently and are distinct from their founders, shareholders and managers. Depending on the type, companies have their own rights, liabilities, names and registered offices.

The Central Register operates under the principle of a "One-Stop Shop system", which basically means that the investor is served in one place for most of the procedures required to register its business in Macedonia.

According to the Law on the One-Stop Shop system, all types of companies can be registered after 4 hours of submitting an application (in practice, it might take 1–2 business days). The Central Registry, an institution authorized to register companies within the Trade Register, provides a unique company ID number, a tax number from the Public Revenue Office and a bank account at the same time as registration. Following the second phase of the One-Stop Shop system, all legal entities will own a personal electronic certificate allowing them to communicate with all governmental institutions, providing for home or office use without actually going to the counters.

The issues that remain from this law are few, but they still need to be resolved.

Article 232, paragraph 1, from the Law on Trade Companies provides that members (shareholders) shall decide upon the appointment of an administrator (Управител), but does not specify what the elective majority for an administrator should be.

Considering that Article 219 paragraph 2 provides that the decisions of the members (shareholders) shall be reached by majority vote (simple majority), it is clear that the decision for the appointment of an administrator should be reached by simple majority; however, this is not the case in practice. Namely, Article 171 paragraph 1 point 7 from the Law provides an obligation for the Members of the Company to state the name and surname and PIN of the administrator, and their passport number, etc., in the Company's agreement, that is the act of incorporation of the Company. This means that with each change of administrator the act of incorporation of the company (the company's agreement) also has to be changed.

Article 252 of the Law provides that a company's agreement shall be amended only with a decision of the members, adopted with at least a three-quarters majority of the total number of votes of members in the company. This means that, in practice, the decision on appointing the administrator should be adopted with only at least a three-fourths majority of the total number of votes of members in the company, although by the law the administrator should be changed by simple majority.

Please note that in joint stock companies this is not an issue because of the fact that the name and surname, PIN of the administrator, etc., need not be stated in the statute of the company.

The FIC recommends that in Article 171, paragraph 1 point 7 of the Law On Trade Companies should be deleted. The data which should be stated in the company agreement according to article 171 paragraph 1 point 7 will be stated in the decision on the appointment of the administrator and will be inscribed in the Register of Companies in the same way as in joint stock companies.

Chapter XIV: LAW ON FINANCIAL DISCIPLINE

The Law on Financial Discipline deals with late payments for private and state-owned companies in Macedonia. According to the law, which entered into force on May 1 2014, companies are obliged to settle their debts within 60 days.

The initial deadline to settle debts is 60 days, but if companies come to an agreement this deadline can be extended to 120 days. Afterwards, if firms fail to meet their obligations, they will face fines ranging from EUR 1,000 to EUR 10,000. The same rules apply to private firms as well as to state-owned enterprises and bodies that have unsettled debts and owe money to private companies.

The Law is expected to boost companies' liquidity and Macedonia's economy in general. However, there are some inconsistencies in this law that need to be solved for it to be applied in practice. Outstanding arrears from the delayed payment of VAT refunds and obligations for public contracts still exist.

The Law imposes an obligation on legal entities for acting contrary to the freedom of entrepreneurship and the provisions of this law are contrary to the basic principles of the Law on Obligations.

The Law defines mandatory maximum timelines by which economic operators must fulfil their monetary obligations, whereas contracts that define shorter and longer payment terms either lose their force or are annulled. Payment terms longer than 60 days will no longer be allowed, regardless of the industry, size of transaction and other important considerations such as the production process, etc.

The sanctions imposed by the Law are extremely high, as fines do not correspond in any way to the debt amount. Also, the Law requires the payment of a penalty for being late as well as payment of penalty interest.

When it comes to the application of the Law, companies from the public sector are in a more favourable position. According to the 2014 Progress Report for the Republic of Macedonia, the extended scope of the law to the public sector could possibly alleviate the problems of government payment arrears to the private sector. However, the law contains a number of derogations and delayed entry into force for government entities, thus impeding its effectiveness. Overall, fiscal discipline needs to be improved, and there is significant scope for enhancing fiscal transparency. The government's fiscal consolidation plans need to be underpinned by concrete measures.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *The implementation of the law should be monitored by stakeholders and cooperation is needed if there are any problems with implementation.*
- *Longer payment terms are an important and common way for companies to do business in tough economic circumstances, so the short payment terms need to be extended.*
- *The misdemeanour penalties from the Law which regulates contractual relations should be removed and replaced by fines that correspond rationally to the size of the debt in question.*
- *There should be equal treatment of government and private sector entities before 2016.*

Chapter XV: LAW ON PROMISSORY NOTE

The Law on Promissory Note adopted in 2012 allows efficient protection of creditors from the risk of non-payment and swift payment of arrears, as well as reducing debts among domestic entities. Under the law, the promissory note was introduced as a payment instrument. At the time of this law's adoption, it was pointed out that one of the direst issues in the creditor-debtor relationship between businesses in Macedonia was the untimely payment of liabilities. This, it was concluded, is the main cause of the ongoing erosion of companies' liquidity. In accordance with the amendments to the law due to become effective in 2015, all private entities concluding contracts in amounts higher than EUR 5,000 will need to issue a promissory note. This will also entail higher costs for companies, since up to now they were free to decide whether to issue promissory notes and by issuing the promissory note for amounts higher than EUR 5,000 they will be obliged to pay a sum of 3,000 MKD for the solemnization of the note.

Companies failing to issue a promissory note risk being fined EUR 3,000 – EUR 5,000, as well as a EUR 1,000 fine for the responsible person. Misdemeanour charges might also be initiated against them. The Law on Promissory Note is not applicable for the state.

The provisions of this Law are contrary to the Constitution of the Republic of Macedonia. This Law limits the freedom on entering into contracts prescribed in the Law on Obligations, which is one of the basic principles of the law on obligation relations. (Article 3 – The participants in the turnover are free to regulate their obligation relations in accordance with the Constitution, the laws and good practices.)

The same Article of the Constitution prescribes that the freedom of the market and entrepreneurship may be restricted by law only due to reasons related to the defence of the Republic, the preservation of nature, the environment and the health of the people. In this specific case, the freedom of market and entrepreneurship is limited due to completely different reasons, but nevertheless the limitations cannot be considered to stem from the commitment to preserve nature, the environment, or people's health.

According to the FIC members, the indebtedness note should be an opportunity, i.e., its issuance should be a right for the contracting parties and not an obligation. It is contrary to the determined principles of freedom on entering into contracts to impose the issuing of an indebtedness note under fear of misdemeanour sanctions. Thus, penalties are imposed for the contracting parties both when the Indebtedness note is issued and when it is not issued, and this may lead to a situation in which the contracting parties are afraid to enter into any contractual relation.

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Chapter XVI: LAW ON OUT-OF-COURT SETTLEMENT

In order to further strengthen market exit procedures, legislation was amended to introduce shorter deadlines for bankruptcy procedures and to allow out-of-court settlement in case of insolvency according to the Law on Out-of-Court settlement which entered into force on 31.01.2014. The positive impact of this law arises from the possibility for economic operators to continue working and avoid bankruptcy (which in most cases results in the shutting down of the debtor's company) and for mature obligations to be paid with ongoing/current income. Also, this law can provide better opportunities for creditor's collection in comparison to cases of bankruptcy. The collection in bankruptcy is in very few cases over 30% (minimum determined by this law).

However, several months since the adoption of the law there are still no specific guidelines from the competent institutions regarding how and when its application shall be effective. Nevertheless, this is a completely new process which requires additional time and sources and thus companies should prepare internally.

Analysing the law, it is clear that it is a question of pre-bankruptcy procedure. Even the initial text delivered to the Economic Chamber of Macedonia had the title 'Pre-bankruptcy acquittal' (the present title of the law is a little confusing). By deleting the term "pre-bankruptcy", the impression is made that the competent institutions with the preparation of this law avoid the connection of this procedure with bankruptcy, which connection is an obvious fact. Nevertheless, the regulation used as the basis for writing this law also uses the term pre-bankruptcy (Croatian law – Law on Financial Work and Pre-Bankruptcy Settlement).

The provision regarding what is insolvency is very general, which could lead to malpractice of the opportunities provided by this law (Article 4).

There is no opportunity foreseen for editing the proposal for opening a procedure for out-of-court settlement. The option for out-of-court settlement is still a novelty and there is not much practical experience in its application. Therefore, it might be wise to allow debtors to submit an incomplete proposal for opening a procedure of out-of-court settlement and give them an 8-day period to edit or complete it.

The term of 2 years is very short and does not allow for the submission of a new proposal on out-of-court settlement following fulfilment of the obligations from a previously concluded out-of-court settlement. With the aim of better protection from possible malpractice, it is better that the term be increased.

The rights of the creditor in case of disputed receivables are not clearly defined.

In cases when the debtor reports that it is insolvent and the procedure on out-of-court settlement stops pursuant to Article 48 from the law, it is realistic that the debtor should go into bankruptcy and, in order to prevent additional costs to the creditors, the best solution is for the commissioner/settlement council to submit a request for the instigation of a bankruptcy procedure.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *The organization of a public event through which the affected parties as well as the public shall be informed about the practical implementation of the law.*
- *Due to the clear connection of both procedures (out-of-court settlement and bankruptcy), the proposal is that the provisions regulated in this law be inserted as a separate Chapter in the Bankruptcy law.*
- *Insolvency in terms of this law exists when the economic operator is overdue in the fulfilment of one or several monetary obligations by more than 60 days (Law on Financial Discipline) Article 33 should be amended by adding a new paragraph which reads: In case the Settlement council requests editing the proposal for opening the procedure on opening an out-of-court settlement, the term from paragraph 1 of this Article starts to run after the expiration of the term for editing.*
- *Article 34 paragraph 2: The settlement council shall reject the proposal for out-of-court settlement if the five-year term for fulfilment of the obligations from a previously concluded out-of-court settlement has not passed.*
- *Article 45 should be amended by adding a new paragraph which shall read as follows: The creditor may file a lawsuit for disputed receivables to the competent court following the conclusion of the out-of-court settlement.*
- *A new paragraph should be added in Article 49, which shall read as follows: If the procedure on out-of-court settlement is ceased and there are serious indicators that the debtor will go into bankruptcy due to insolvency/illiquidity, the commissioner/settlement council shall submit a charge for the instigation of a bankruptcy procedure over the debtor within 8 days of the adoption of the decision on ceasing the procedure on out-of-court settlement.*

Chapter XVII: JUDICIARY

The main reforms in this area have already been largely completed, but improvements are needed to ensure the correct implementation of European standards relating to the independence and quality of justice. According to the 2014 Progress Report for the Republic of Macedonia, the country has already completed the majority of reforms and has established the necessary legal and administrative structures in this area. However, there is a risk of backsliding in some areas, including the judiciary and the fight against corruption. Further efforts are needed to safeguard the independence of judges, to improve the quality of justice and to facilitate access to justice.

One of the problems facing foreign investors in this area is the vague and insufficient transparency of court decisions. Most courts in Macedonia post verdicts on their websites; however, these verdicts are not categorized in terms of type of procedure, wherefore it is quite difficult to obtain the necessary information.

With regard to bankruptcy procedures, bankrupt organizations are poorly managed by bankruptcy managers as they fail to take sufficient action in the course of procedures.

Further, by-laws are still not treated the same way as laws and in certain cases the by-laws that are the basic documents for companies are not taken into consideration as relevant in their entirety in court procedures or when reaching a court decision, though they have been prepared by companies as experts in the subject-matter of the dispute.

We hope that the Rulebook on Sentencing that entered into force in January 2014 does set a level playing field for all parties involved in a court procedure, as this is one of the key problems facing companies.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *More extensive and in-depth representation of the basic regulations of by-laws, particularly the so-called disputable issues (issues which are always a subject of misunderstanding in courts) in the basic laws that treat the appropriate area.*
- *A system should be established for the classification of court decisions, where the decisions will be listed according to the year of completion, the type of procedure and their posting on the websites as such.*
- *Observation of the EU recommendations for advancing the judiciary with the aim of ensuring a stable legal system as a prerequisite for foreign investors.*

Chapter XVIII: PUBLIC PROCUREMENTS

As concerns general principles, the 2014–18 strategy for public procurement systems has been adopted. The Law on Public Procurement has been amended on a number of occasions.

Legislation on the awarding of public contracts requiring tender documents to be published in electronic form and free of charge has increased the transparency of the public procurement process.

A new oversight body, the Public Procurement Council, has become operational. However, this Council very often brings different conclusions about the same issue, thus making the system unstable. The Law on Public Procurement stipulates that, in general, the 'lowest price' criterion must be used when awarding contracts. The most economically advantageous tender can only be chosen with the approval of the Public Procurement Council. This system is not in line with the acquis.

The obligation for contracting authorities to obtain consent from the

Public Procurement Council prior to publishing a contract notice creates an unnecessary administrative burden.

Supplements to works contracts are very frequent, as the Law on Public Procurement does not make technical dialogue a mandatory requirement prior to awarding contracts. Tender requirements do not facilitate wide participation on the part of small and medium-sized enterprises.

The solution of lowest price instead of the economically most favourable offer raises the question of the good quality of the specific public procurement. There are some industries where the lowest price means poor quality, as in the insurance industry.

Based on the results of the regular monitoring of the Civic Communications Centre on the public procurement procedures carried out by institutions at local level in the period October 2013 until March 2014, after the lowest price was introduced as the single criterion for awarding public procurements and the electronic auction became mandatory for all tenders, there have been numerous instances of tenders where reached prices were so low that they bring the quality of the realization of agreement into question.

Furthermore, transparency remains one of the key issues regarding public procurements in the country. Some state institutions fail to post the data on the concluded public procurement agreements, or do so in a belated fashion, while others refuse to submit data in response to requests for free access to public information.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *Reinstatement of the previous decision in the Law on Public Procurements; instead of the lowest price, the term 'economically most viable bid' should be used.*
- *The Public Procurements Council needs to be transparent in its operations and a decision already adopted by the Council should not be subject to amendments.*
- *Regular posting of all concluded public procurement agreements as well as free access to public information.*
- *Regular consultation with stakeholders in the public procurements procedures with the aim to promote the regulations in line with the EU Directive.*

<u>Chapter XIX: SECTORAL OUTLOOKS</u>

Chapter Banking and Financial Sector

The banking sector in Macedonia is broadly stable. All foreign-owned banks in Macedonia operate as stand-alone subsidiaries under domestic regulation and supervision, and with their own balance sheets. Moreover, the Central Bank maintains a prudent supervisory policy, including semi-annual stress tests.

According to the World Bank Group Country Programme Snapshot 2014, credit growth recovered at the end of 2013 and early 2014, but nonperforming loans (NPLs) remain at a rather high level. Credit growth plummeted between mid-2012 and September 2013, when it reached a historic low of 0.4 percent (year-on-year). This steep decline was largely driven by a halt in credit to the corporate sector. Corporate credit growth started to recover in 2014 and reached 5.9 percent in June 2014 (year-on-year), as economic growth remained strong and banks started relaxing credit policy. Household credit growth reached 11.8 percent in June 2014 (year-on-year), as banks extended more real estate loans. NPLs stood at 11.6 percent as of end-June 2014, with corporate NPLs at 15.8 percent. Deposits growth accelerated to 8.3 percent (year-on-year) in June 2014 from 6.1 percent as of end-2013. The loan-to-deposit ratio remained around 90 percent in June 2014, leaving the banks with room to further increase lending activities.

Monetary policy has remained accommodative. In response to weak credit growth, the National Bank of the Republic of Macedonia (NBRM) lowered the interest rate on Central Bank bills twice by one-quarter percentage point in 2013. It also reduced the reserve requirement ratio for banks' liabilities in domestic currency from 10 to 8 percent and increased the reserve requirement ratio for liabilities in foreign currency from 13 to 15 percent in July 2013. In October 2013, the NBRM reduced provisioning requirements for banks. Credit activity increased in 2013 and early 2014.

Overall, the financial system remains stable and supervisory capacities have been further strengthened. However, access to finance continues to be difficult, and the non-banking segments of the market need to be further developed with a view to widening funding opportunities for the private sector. Measures should continue to be taken to repair the bank lending channel, including by fostering the clean-up of non-performing loan portfolios.

The banks' considerations in Macedonia are aimed at promoting the FATCA regime. Namely, current Macedonian legislation does not allow for implementation of the third model, while with regard to Model 1 and Model 2 there is no feedback for the start of alignment.

Obstacles that might arise from these models include the banking sector stopping work with clients classified under the FATCA regime, clients from the USA or accounts from the USA. Also, the banking sector will need to cease realizing transactions with the USA or to charge 30% commission on the value of each transaction as a penalty for non-alignment with the FATCA regime. This refers to Model 1 of the regime.

Additionally, regarding Model 2, each separate bank, within the framework of the belonging group, will need to conclude an agreement with the US Tax Authority for introducing strengthened due diligence and request the submittal of a notary-verified statement on revealing banking secrets for the purposes of the FATCA regime implementation as well as a notary-verified order for taxation in line with the FATCA regime. The stated model is applicable if Article 112 of the Law on Banks is properly amended.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *Maintaining the policy of a stable banking sector for maintaining liquidity.*
- *Amendments to the Law on Banks, Articles 111 and 112 (banking secret), the Law on Protection of Personal Data and the Law on Payment Operations, with the purpose of harmonizing domestic regulations so as to allow application of the US Department of Treasury requests.*

Tobacco Industry

The tobacco industry in Macedonia is constantly oscillating, especially with regard to the purchase of raw tobacco leaves. According to the data of the Ministry of Agriculture, Forestry and Water Economy, some 42,367 contracts were concluded in the 2013/2014 production year, which is around 45% more than in 2012 (29,090) and 27% more than in 2011 (33,234).

Considering the average price of around 152.6 MKD per kilo (around 18% lower than last year's price), the purchase of the entire annual production of raw tobacco from the 2013/14 harvest (data with 17.04.2014 inclusive 30,997 kg. x 152.6 MKD/kg) will require around 4,730,142,200 MKD or EUR 77.2 million. The value of subsidies is 1,859,820,000.00 MKD.

For the first time, early tobacco purchase by several enterprises was carried out in the 2011/12 production year. It continued in the following two years, but the expectations for full purchase of the planned quantities were not fulfilled.

This year's purchase of raw tobacco leaf commenced only by certain purchasing firms and ahead of the legally anticipated term. In the regular purchase of tobacco there was timely certification of tobacco samples, all preparations were carried out at purchase points, and representatives of tobacco producers' associations were appointed.

1.Raw tobacco leaf, unfermented	Quantity (tons)	-Value (in millions of denars)	-Average price den/kg
1998	20 880	2 725	130.5
2002	21 401	2 636	123.2
2004	19 839	2 718	137
2005	23 196	2 910	125.4
2009	23 196	4 453	192
2010	26 158	3 583	137
2011	21 024	3 511	167
2012	27 993	5 039	180
2013	30 997	4 730	152

Dynamic of Tobacco Purchase

According to the assessments of field experts (representatives of tobacco producers, tobacco enterprises, purchasers, etc.), the tobacco quality of the 2013 harvest is at an average level with the exception of certain regions where the tobacco quality was somewhat weaker.

Producers of tobacco and tobacco products see as open issues the Law on Tobacco and the proposed decisions for its amendment and supplementation. Namely, there needs to be a clear distinction between the processing of oriental tobacco types and the processing of Virginia/burley types, since they are very different processes. This should help avoid potential confusion.

There is also a need to further specify the definition of polluter, both chemical and biological. We define chemical polluters as protective products, while biological polluters are non-tobacco materials.

A proposal has been made to replace the term 'fermented' with the term 'processed', as well as to replace the term 'unfermented' with the term 'unprocessed'. There is an impression that all terms will be used in the remaining provisions of the Law and that the fermented tobacco could either be processed or unprocessed.

Additionally, the various analysis parameters have not been defined.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *Establishing cooperation in the process of amendments to regulations, particularly when amendments are introduced that might lead to market changes.*
- *Further regulating all definitions in the Tobacco Law, including the definition on fermented tobacco in point 17 of Article 3, as well as aligning the use of the terms 'fermented', unfermented', 'processed' and 'unprocessed'.*
- *Making a clear distinction between the processing of oriental tobacco types and the processing of Virginia/burley, since they are greatly different processes. This should help avoid potential confusion.*
- *Keeping the current law as it is remains appropriate and meets the free market rules. Any obligation for the purchasers to accept the opinion from the highest association of tobacco producers would seriously threaten the business and would imply a breach of the antitrust rules. The existing law protects the integrity of the varieties and the power of Macedonian oriental tobacco. The proposed amendments would encourage mixing of varieties, leading to the potential creation of hybrids and long-term loss of the product identity.*

Insurance Industry

At the end of 2013 there were 15 insurance companies actively operating on the market, of which 11 companies deal with non-life insurance, while four deal with life insurance. In the course of 2013, the number of insurance brokerage companies rose by seven, reaching the number of total 27 companies. The results are improving year-on-year and they are a stimulus for inciting the potential of the insurance sector. The gross written premium for 2013 is set at 7.195 billion MKD, which represents a growth of 2.6 % compared to 2012 when it was set at 7.01 billion MKD. In terms of non-life insurance, marginal growth of 0.8% can be noticed: i.e., in 2012 the gross written premium was 6.41 billion MKD, while in 2013 it was 6.466 billion. There is significant growth regarding life insurance, where in 2012 the gross written premium was in the value of 598.1 million MKD and its value in 2013 was 729.4 million, which represents growth by 22 %. Further, the number of concluded policies went up by 4% in comparison with the previous year, amounting to 1,065,816 policies.

In the area of regulations, several provisions from the Law on Insurance Supervision which regulate the obligation for founders of insurance companies to submit a certificate from line institutions that fees are regularly paid as a condition for acquiring a working permit were annulled via a decision of the Constitutional Court.

Moreover, amendments and supplementations to the Law were made in the area of passing expert exams from this field and the manner of taking the exams. In the course of 2014, insurance companies were facing bigger problems in the process of realizing public procurements in Macedonia, which primarily arise from the latest amendments to the Law on Public Procurements.

Namely, the law itself defines that the lowest prices is the single criterion in the evaluation of companies, instead of the thitherto practice of the economically most viable offer. Thus the insurance market is placed in a position to establish exceptionally low prices that tarnish the quality of insurance and open up room for creating unfair competition. The primary and basic goal of the procurement of insurance services is compensation for damages arising from potential future events which cannot be foreseen at the moment of concluding the contract. The compensation fee can neither be anticipated nor measured quantitatively or qualitatively, since it is a matter of a future event.

RECCOMENDATIONS FROM THE FOREIGN INVESTORS COUNCIL:

- *Reinstatement of the previous legal decision in the Law on Public Procurements with the term 'economically most viable bid' for the insurance activity with the aim to provide quality insurance in line with the conditions of insurance companies.*
- *The model of tender documentation for insurance should be one of the basic documents in the preparation of tender documentation.*
- *Inclusion of the insurance sector in the process of amendments and supplementations to the laws relating to the insurance market in order for a legal framework to be created that will be functional in the market, as is the Law on Voluntary Health Insurance.*

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The Foreign Investors Council would like to thank all of its members who contributed to the making of the 2014 White Book.

List of members of the Foreign Investors Council

No.	Company name	Activity / sector
1.	**Alpha bank**	Banking
2.	**ABC-konsalting**	Environmental planning, management, human resources development, economical and technical analysis, monitoring and construction
3.	**Alliance One Macedonia**	Tobacco
4.	**Arcelormittal**	Steel product manufacturer
5.	**AF-CONSULT**	Consulting on energy, investments in infrastructure and projects for industry
6.	**Quehenberger**	Transport and logistics
7.	**Levidia**	Agriculture
8.	**Bucim**	sole copper mine
9.	**Berkshire International Investments**	Investments in real estate
10.	**Biomedica Dijagnostika**	Medical equipment
11.	**Dojran steel**	Production of steel
12.	**Diwi Macedonia**	Technical assistance and multidisciplinary engineering services
13.	**Eurolink osiguruvanje**	Insurance company
14.	**EVN Macedonia**	Energy sector
15.	**Eurostandard banka**	Banking
16.	**Ernest & Young**	Assurance, tax, transactions and advisory services
17.	**FENI Industry**	ferro-nickel production
18.	**FAKOM**	metal working industry
19.	**FULAKIS**	wood constructions
20.	**GEING Krebs und Kiefer International**	solutions in geotechnics, hydrotechnics, mining, environmental and road and railways engineering
21.	**GSC INTERNATIONAL**	Advocasy
22.	**Ilirika investments**	Brokerage
23.	**Insig Makedonija**	Insurance
24.	**Kapital banka**	Banking
25.	**KB – First Open Mandatory Pension Fund**	Pension Fund
26.	**Knauf Radika**	Construction

No.	Company name	Activity / sector
27.	**KONIGTON**	Textile
28.	**Comfy angel**	Textile
29.	**Duropak Komuna**	Packaging and printing services
30.	**Krka-Farma**	Farmaceutical Industry
31.	**Kraskomerc**	Confectionery
32.	**NLB Lizing**	Financial services
33.	**LTH Learnica**	Automotive components
34.	**LARIN MRAMOR COMPANY**	Construction / Marble production
35.	**Land Development**	Construction & Real Estate
36.	**Makedonski telekom**	Telecomunications
37.	**Makstil**	Steel industry
38.	**T-Mobile**	Mobile operator
39.	**IMB Mlekara Bitola**	Dairy products
40.	**Moda**	Textile
41.	**Mo-teks**	Textile
42.	**Ohridska banka**	Banking
43.	**Okiteks**	Textile
44.	**Palteks**	Textile
45.	**Pera Construction**	Construction
46.	**Pivara Skopje**	Beverages
47.	**Prokredit banka**	Banking
48.	**Insurance Macedonia AD Skopje- Vienna Insurance Group**	Insurance
49.	**Ramstor**	Shopping mall
50.	**Rodon LTD**	Textile
51.	**Sasa Makedonska Kamenica**	Mining industry
52.	**SAVA Osiguruvanje**	Insurance
53.	**Silika Vardar Dolomit**	Mining
54.	**Jugohrom Feroalloys**	producer of ferroalloys
55.	**Skopski leguri**	ferroalloy manufacturer
56.	**Sokotab-Bitola**	Tobacco industry
57.	**Sparkasse banka**	Banking
58.	**Stopanska banka AD Skopje**	Banking
59.	**Strumica tabak**	Tobacco
60.	**Swisslion**	Confectionery
61.	**TAV Macedonia**	Airport

No.	Company name	Activity / sector
62.	**Triglav osiguruvanje**	Insurance
63.	**Teal**	aluminium alloys and aluminium profiles
64.	**Tehnicki gasovi**	production and trading with technical and medical gases
65.	**Tondah Makedonija**	Construction
66.	**Imperial Tobaco TKS**	Tobacco
67.	**Univerzalna Investiciona Banka**	Banking
68.	**Kroacia Osiguruvanje na zivot**	Life Insurance
69.	**Kroacia Osiguruvanje**	Non-life Insurance
70.	**Veropulos**	Trade
71.	**TAB MAK**	starter batteries
72.	**Wiass Broker**	Insurance Broker
73.	**Zito luks**	food industry
74.	**AD Fruktal-mak**	Beverages
75.	**NLB Nov penziski fond**	Pension fund
76.	**FHL Mermeren kombinat**	Marble
77.	**F-ka za kabli Negotino**	Production of cables
78.	**VAPTEK-MZT**	Production of braking systems of all types of rail vehicles
79.	**NLB Tutunska banka**	Banking
80.	**OKTA**	Oil
81.	**Cementarnica USJE**	Construction
82.	**HALK bank**	Banking
83.	**CaSys**	independent card processor that offers services of e-payments to banks and non-financial institutions
84.	**Eko-start reciklaza**	Recycling
85.	**Johnson Matthey-Catalysts – Emission Control Technologies**	Manufacture of catalysts
86.	**Soravia Management**	Real estate / Construction
87.	**HTL Macedonia**	Rental and leasing of other machinery, equipment and tangible goods
88.	**Forton MKA**	advisory company focused on commercial real estate
89.	**Makedonija turist, Hotels and restorants**	Hotels and restorants
90.	**CEE investment**	Investment
91.	**Centar za reciklaza**	Steel and metal scrap recycling company

No.	Company name	Activity / sector
92.	**Eye Clinic Europa**	Hospital
93.	**Winner insurance**	Insurance
94.	**Turmak AD Skopje- Cevahir Holding**	Construction
95.	**Novo Nordisk Farma**	Pharmaceutical
96.	**IMM Eksploration**	Mining of other non-ferrous metal ores
97.	**Havep Impeks**	professional, industrial and protective clothing
98.	**Albsig insurance**	Insurance
99.	**Vitek Makedonija-Teknohoze**	Manufacture of other rubber products
100.	**Euroins osiguurvanje**	Insurance
101.	**Kromberg & Shubert**	Production of electrical and electronic equipment for motor vehicles
102.	**Makitel**	Production of various types of transformers
103.	**Makoten (Kazino-hotel Flamingo)**	Gambling and betting
104.	**Mil Mil Adriatika**	Re-export
105.	**Sardich MC**	Removing the other ores of nonferrous metals
106.	**Telelink MK**	Information services
107.	**Uniqa insurance**	Insurance
108.	**Deponija Drisla**	Handling and disposal of hazardous waste
109.	**Philip Morris- Tutunski kombinat Prilep**	Tobacco industry
110.	**Japan Tobacco International**	Tobacco industry
111.	**Van Hool**	Production of motor vehicles

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