

FORMER YUGOSLAV REPUBLIC OF MACEDONIA





Summary

The Monitoring Instrument sets out the programme of the government as it endeavours to get the process of reform back on track after the dislocation caused by the Kosovo crisis. The main elements of the programme include initiatives in the following fields: investment promotion, SME support and enterprise development, privatisation, fiscal reform, bankruptcy and other commercial legislation, and reform of the financial sector.

Refining legislation to encourage greater FDI. Investment promotion initiatives include legislation improving access to land and its use as collateral for foreign investors, as well as upgrading of the institutions responsible for FDI promotion. In addition, steps are being taken to free up land currently held by the government that can be leased to potential investors. Obtaining additional risk guarantees for foreign investors, e.g., through MIGA, is also a priority.

Building a clear and coherent SME policy with supporting institutions. Important measures in the field of SME promotion include elaboration and adoption of an SME strategy and a specific law on SMEs, development of the institutional structure for service delivery through the establishment of regional centres, plus measures to facilitate lending to SMEs by commercial banks. In addition, significant improvements are being made in the commercial legislation, including the introduction of a bankruptcy law, and the government is committed to addressing the administrative and regulatory burdens affecting small enterprises.

Accelerating privatisation and addressing strategic sectors. In the field of privatisation, the government is keen to speed up the process of privatisation through bundling of stocks and more flexible mechanisms for transfer of claims and shares. The preparation of major public utilities for pre-privatisation is also high on the agenda. In the short term, the major event will be a partial privatisation of the Macedonian telecoms company.

Assessing outcomes from fiscal reform. Significant amendments have been made to the tax system over the past two years in order to simplify and modernise the system and create greater incentives for formal economic activity. The government is now evaluating the overall impact of the changes. Priority is currently being given to enhancing the effectiveness of revenue collecting agencies and to improving public awareness of the new tax regime, particularly as regards the newly introduced VAT tax. With respect to public expenditure, a treasury function is being developed within the Ministry of Finance which is intended to control overspending across the public administration and monitor the build up of arrears.

Strengthening regulation of the banking sector. The key initiatives in the financial sector include efforts by the National Bank of Macedonia to enhance its supervisory/regulatory role on the basis of legislation introduced last year, and the introduction of a deposit insurance fund in line with EU norms. The Government is also pursuing a financial system infrastructure development programme which is intended, among other things, to reform the payments bureau (ZPP), to develop collateral registration systems, and to set up a securities/share register.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES					
To clarify the framework for access to real estate by foreign investors	Clarification of ownership status to enable investment in real estate	Law on construction land is in parliamentary procedure Law on ownership relations was adopted on February 20, 2001	Confusion over title to real estate expropriated by the state hinders investment in real estate and commercial property Implementation after 6 months of adoption, in the meantime the additional/ accompanying documents to be adopted	Ministry of Transport and Communication and Ministry of Justice	
	Abrogation of certain restrictions on sale of land, mortgaging or leasing to foreign investors in cases of expropriation	Law on construction land is in parliamentary procedure Law on ownership relations was adopted on Feb 20, 2001	The new laws will be complemented by amendments and addenda to the Law on Transfer of Land and Buildings from 1975 and Law on Ownership Relations from 1980) Implementation after 6 months of adoption; in the meantime the additional/ accompanying documents to be adopted	Ministry of Transport and Communication and Ministry of Justice	
	Introduction of building permits combined with fixed term commercial concessions for investor-operators	Articles introducing this new instrument are included in the Law on Construction			Ministry of Construction and Urban Planning

To facilitate access to land and release of state-owned land for investment projects	Provision of improved information for investors on land use	Transfer of cadastral registers has taken place, but computerisation is ongoing	The long-term aim is to have an integrated computerised cadastral register/land use system for use by potential investors	National Land Bureau, Ministry of Agriculture, Ministry of Justice	
	Preparation of a Government strategy for lease of land owned by the state for use by investors	Realised		Ministry of Transport and Communication and the Ministry of Agriculture	
	Establishment of Free Zones	A Law on Free Zones has been passed and a Directorate within the Ministry of Economy has been set up		Ministry of Economy	
To strengthen institutions in the field of investment promotion	Establishment of a single institution (one stop shop) aimed at providing all the necessary services for prompt and efficient registration of foreign companies	Trade and Investment Promotion Department was set up within the Ministry of Economy, making efforts to work as one stop shop (latest changes in the organisational structure of public administration)		Ministry of Economy	
To improve risk environment for foreign investors	Intensification of negotiations with MIGA for increased non-commercial risk guarantee coverage		The use of MIGA in offsetting risk will also be promoted in negotiations with potential investors	Ministry of Finance	It works on the investors claim
	Enactment of the Arbitration Law to tighten the dispute resolution system	Not realised	In addition to introduction of new legislation, substantial training of judges and lawyers in arbitration is anticipated	Ministry of Justice, Ministry of Economy, Bar Association	

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
2. SME SUPPORT POLICIES					
To introduce an overall SME policy	Elaboration of an SME strategy and establishment of necessary institutional, legal and financial supports	A strategy document has been prepared and first steps have been taken to implement key recommendations	The strategy involves co-ordination by the Ministry of Economy and the National Enterprise Promotion Agency (NEPA) of a network of 34 regional SME development centres. Support for the strategy will be provided largely by the PHARE programme	Ministry of Economy, National Enterprise Promotion Agency	
To reduce administrative barriers to enterprise start up	Evaluation of the scope for reducing the bureaucratic steps involved in starting a business	An inter-ministerial Committee (KOPOFO) was established to guide preparation of a proposal for reform in this area	At present over twenty different state agencies can be involved in approving a company registration	Ministry of Justice (in co-operation with other related ministries and institutions)	
To improve the legal framework for SME financing	Amendment of existing legislation relating to collateral and bankruptcy in order to encourage lending to, and investment by SMEs		A key step in the near future will be testing of the new legislation in the courts	Ministry of Finance, Ministry of Justice	
	Introduction of a Law on mortgages with the same objective	To be adopted as a package of laws (including two above mentioned)	As above	Ministry of Finance, Ministry of Justice	

To improve access to and uptake of credits for SMEs	Preparation of an information campaign to publicise existing credit lines offered through commercial banks	Successful realisation through printed and electronic media	Ministry of Finance, Ministry of Economy and National Enterprise Promotion Agency (NEPA)
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3. PRIVATISATION

To accelerate the pace of privatisation	Amendments to existing legislation on transformation of enterprises with social capital to enhance the role of the Privatisation Agency is defining the price of share offerings	The necessary legal amendments have now been made; implementation is now underway	Ministry of Finance, Privatisation Agency	
	Amendments to the existing Bankruptcy Law to enable trustees to sell claims to potential investors	The necessary legal amendments have now been made; implementation is now underway	Ministry of Justice	
	Improvement of the financial reporting standards for enterprises earmarked for privatisation		Ministry of Finance, Privatisation Agency	June 2001
	New Law on auditing			
	Bundling of stocks in state-owned enterprises to facilitate more rapid sale	Implemented with the amendments of the Privatisation Law from 1999, and maintain through Privatisation agency	Ministry of Finance, Privatisation Agency	
To target public utilities for privatisation	Identification of key sectors and initiation of pre-privatisation restructuring	Amendments to key legislation undertaken	Ministry of Finance, Privatisation Agency	

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4. CORPORATE GOVERNANCE					
To improve the system of inter-company payments	Transformation of the state-controlled payments bureau and establishment of bank clearing house	A Feasibility Study for the reorganisation of payments has been completed and practical implementation is underway		Ministry of Finance and State Controlled Payment Bureau	(Clearing House)
To introduce and implement effective bankruptcy and other creditor protection measures	Clearing of backlog in insolvency and unsettled liability cases		This will involve an emphasis on training for judges, lawyers and bankruptcy trustees		
	Creation of a legal framework to protect the interests of creditors through stronger secured collateral laws	The enactment of a new Law on mortgages is intended to give additional protections			
5. FISCAL POLICY AND TAXES					
To bring the tax system into line with EU norms	Amendment of the existing laws on personal income tax and profit tax	The amendments have been made and their fiscal impact is being evaluated		Ministry of Finance	
	Introduction and implementation of VAT	The new tax has now been introduced and its effectiveness is being evaluated		Ministry of Finance	
	Modernisation of the tax administration system		This initiative is mainly based on computerisation of the existing collection system and more conscientious record keeping	Ministry of Finance	

6. ACCOUNTANCY REGIME AND PRACTICES

To bring the accountancy system into line with EU norms	Proscription of a standard balance sheet format for companies	Completed	Ministry of Finance	Ongoing implementation
	Strengthening of the functions of the Commission on Accounting Standards		Ministry of Finance	
	Transferral of existing accountancy regulations relating to traders to the new Law on Trading Companies		Ministry of Finance	

7. FINANCIAL SECTOR REFORM

To strengthen the independence and role of the central bank	Amendment of the existing legislation governing the functions of the National Bank of Macedonia	The greatest part is realised with the new Law on banks, July 2000 New Law for Central Bank has to be prepared	The National Bank, Ministry of Finance	
To open banks and savings institutions to foreign participation	Reduce restrictions on capital participation by single investors and foreign investors	July 2000, the new Law on banks increases the limit for ownership participation from 20 to 33%. Starting from January, 2003 it will be unlimited	Ministry of Finance	
To promote Credit Unions and other local savings institutions	Amendments and addenda to the Law on banks and saving houses and passing the Law on non-banking financial institutions		Ministry of Finance	September 2001
To reduce unofficial transactions between legal entities and reduce cash payments	Enactment of a law on Prevention of money laundering		Ministry of Finance	May 2001

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To develop a secure and transparent securities market	Adoption of the Law on the Securities Market		At present, there are very few listed companies		
	Enactment of a Law on Investment Funds	Approved in February, 2000		Ministry of Finance	
	Amendments in the law on issuing and trading securities (removal of paragraph 3 art. 117)				
	Enactment of a mergers and acquisitions law			Ministry of Finance	June 2001
	Enactment of a new Law for foreign exchange transactions			Ministry of Finance and Central Bank	