

MINISTRY OF ECONOMY
- Department of Industry and Structural Reforms -

INFORMATION

**on the situation with the industrial development
of the Republic of Macedonia
(14th Session of the UN Commission on
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INTRODUCTION

The present economic structure of the Republic of Macedonia was established before the eighties, when with the help of foreign mid-term and long-term credits and loans the largest industrial capacities were built in the mining industry, the energy sector, the chemical industry, the agriculture, as well as most of the infrastructure.

This extensive model of industrialization started to get transformed with the economic reforms that the Republic of Macedonia initiated after the country became independent in the nineties. For various reasons these processes were relatively slow, but they nevertheless radically changed the structure of the economy.

As a result of these processes the participation of the industry in the GDP decreased, while that of the services increased, with a tendency for further growth of this sector.

The process of privatization, as one of the most important processes in the national strategy for economic development of the country, is almost completed, with over 95% of the companies or 1.688 companies with the overall estimated value 2,251 billion Euro, and only 88 companies yet to be privatized. This process was realized with the financial assistance from international institutions and foreign governments. In the near future several public enterprises will be privatized, as well as companies with state owned capital in the field of metallurgical, shoe making, textile and chemical industry.

Macedonia managed to maintain the macroeconomic stability as an important precondition for sustainable economic development, with high level of stability of the prices, low (one-digit) inflation, stable course of the national currency and stable economic conditions, which encourage the investors.

Because of the determination of the country to have an active industrial policy and to pursue faster technological development and modernization of the production capacities, the Republic of Macedonia is making concerted efforts to attract foreign investments, create favourable climate for investments and protection of the investments. Priority in the economic development of the country is given to the new technologies, pharmacy, environmentally friendly food products, encouragement and diffusion of the innovations and on the information technologies.

1. BASIC CHARACTERISTICS OF THE INDUSTRY

The industry has a very important place in the economy of the Republic of Macedonia and it accounts for 20% of the Gross Domestic Product, or as during the last several years:

a) Contribution to the Gross Domestic Product (GDP) - in percent

2000	2001	2002	2003
22.5	21.8	19.7	20.7

According to the national classification of the branches, the industry consists of:

1. **V** - Mining and quarrying
2. **G** - Processing industry
3. **D** - Electricity, gas and water supply industries

The participation of the production industry and the other branches in the GDP:

b) Breakdown between manufacturing industry and services in relation to GDP

Table: Breakdown between manufacturing industry and services in relation to GDP in percent				
NCA (National Classification of Activities)	2000	2001	2002	2003
A. Agriculture, hunting and forestry	10.0	9.8	10.0	11.7
B. Fishing	0.0	0.0	0.0	0.0
C. Mining and quarrying	0.8	0.6	0.4	0.4
D. Manufacturing	17.3	16.9	15.5	15.6
E. Electricity, gas and water supply	4.4	4.3	3.7	4.6
F. Construction	5.7	5.0	4.9	5.3
G. Trade	10.7	11.2	11.2	11.5
H. Hotels and restaurants	1.5	1.5	1.7	1.8
I. Traffic, storage and communications	9.0	9.3	8.4	8.3
J. Financial services	3.1	3.2	3.0	2.4
K. Real estate, renting and business activities	3.2	3.6	3.3	3.3
L. Public administration and defence; compulsory social security	6.1	6.2	6.6	6.7
M. Education	3.5	3.4	3.6	3.7
N. Health care and social work	3.8	3.7	3.8	3.9
O. Other services in the field of utilities, cultural, general and personal services	2.2	2.4	2.3	2.2
Imputed rents	4.4	4.5	4.4	5.4
Minus: Imputed banking services	2.2	2.0	1.7	1.5
Value added	83.5	83.5	81.4	85.6
Taxes minus subsidies	16.5	16.5	18.6	14.4
Gross Domestic Product	100.0	100.0	100.0	100.0

Source: State Statistical Office

Other economic sectors having an important role in the formation of GDP are the: trade, agriculture and transport and communications.

c) Contribution to the GDP, according to size (1) of enterprises from the public and private sector

Table: Structure of the contribution to GDP according to size of enterprise in percent				
	2000	2001	2002	2003
Small	35.4	37.0	37.2	41.4
Medium	11.2	12.2	7.5	14.9
Large	34.6	31.6	34.0	25.2
Imputed rents	4.4	4.5	4.4	5.4
Minus: Imputed banking services	2.2	2.0	1.7	1.5
Taxes minus subsidies	16.5	16.5	18.6	14.4
Gross Domestic Product	100.0	100.0	100.0	100.0

Source: State Statistical Office

Table: Contribution to GDP of the public and private sector In percent								
NCA	2000		2001		2002		2003	
	Public	Private	Public	Private	Public	Private	Public	Private
A. Agriculture, hunting and forestry	0.6	9.5	0.3	9.5	0.3	9.8	0.3	11.4
B. Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Mining and quarrying	0.0	0.8	0.0	0.6	0.0	0.4	0.0	0.4
D. Processing industry	0.1	17.2	0.1	16.8	0.1	15.5	0.1	15.6
E. Energy, gas and water supply	4.3	0.1	4.1	0.2	3.6	0.2	4.5	0.2
F. Construction	0.3	5.3	0.3	4.7	0.5	4.4	0.3	5.0
G. Retail and wholesale business: repair of vehicles, motorcycles and personal and household commodities	0.1	10.7	0.1	11.1	0.1	11.2	0.1	11.5
H. Hotels and restaurants	0.0	1.5	0.0	1.5	0.0	1.7	0.0	1.8
I. Transport, storage and	5.8	3.1	1.5	7.8	1.1	7.3	1.1	7.2

communications								
J. Financial services	0.3	2.8	0.3	2.9	0.2	2.8	0.1	2.3
K. Real estate, renting and business activities	0.6	2.5	0.5	3.0	0.5	2.8	0.5	2.8
L. Public administration and defence; compulsory social security	6.1	0.0	6.2	0.0	6.6	0.0	6.7	0.0
M. Education	3.4	0.1	3.3	0.1	3.4	0.1	3.6	0.1
N. Health care and social work	3.5	0.3	3.4	0.4	3.5	0.3	3.6	0.3
O. Other services in the field of utilities, cultural, general and personal services	0.9	1.3	0.8	1.5	0.9	1.4	0.9	1.3
Overall A to O	26.0	55.2	20.9	60.0	20.9	57.8	21.7	60.0
Imputed rents	4.4		4.5		4.4		5.4	
Minus: Imputed banking services	2.2		2.0		1.7		1.5	
Other net taxes on production	0.0		0.0		0.0		0.0	
Value added	83.5		83.5		81.4		85.6	
VAT	13.2		13.9		15.9		11.9	
Customs	3.3		2.6		2.7		2.5	
Minus Subsidies on products	0.0		0.0		0.0		0.0	
Taxes minus subsidies	16.5		16.5		18.6		14.4	
GDP	100.0		100.0		100.0		100.0	

Largest contribution in the formation of the GDP have the small enterprises whose number continues to grow, from 35.4% in 2000 to 41.4% in 2003.

The contribution of the large enterprises, which also are very important in the formation of the GDP the percentage, has diminished from 34.6% in 2000 to 25.2% in 2003. Strong influence in this case had the mining capacities which ceased working and for which tenders were published, as well as for some other enterprises with state capital which were closed.

According to the table that shows the contribution of the public and private sector in the GDP in %, we can conclude that the public sector is dominant only in the supply with electricity, gas and water, while the other two sectors are almost completely privatized.

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Table: Structure of the contribution to the GDP of the public and private sector in percent								
NCA	2000		2001		2002		2003	
	Public	Private	Public	Private	Public	Private	Public	Private
A. Agriculture, hunting and forestry	0.6	9.5	0.3	9.5	0.3	9.8	0.3	11.4
B. Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Mining and quarrying	0.0	0.8	0.0	0.6	0.0	0.4	0.0	0.4
D. Processing industry	0.1	17.2	0.1	16.8	0.1	15.5	0.1	15.6
E. Energy, gas and water supply	4.3	0.1	4.1	0.2	3.6	0.2	4.5	0.2
F. Construction	0.3	5.3	0.3	4.7	0.5	4.4	0.3	5.0
G. Retail and wholesale business: repair of vehicles, motorcycles and personal and household commodities	0.1	10.7	0.1	11.1	0.1	11.2	0.1	11.5
H. Hotels and restaurants	0.0	1.5	0.0	1.5	0.0	1.7	0.0	1.8
I. Transport, storage and communications	5.8	3.1	1.5	7.8	1.1	7.3	1.1	7.2
J. Financial services	0.3	2.8	0.3	2.9	0.2	2.8	0.1	2.3
K. Real estate, renting and business activities	0.6	2.5	0.5	3.0	0.5	2.8	0.5	2.8
L. Public administration and defence; compulsory social security	6.1	0.0	6.2	0.0	6.6	0.0	6.7	0.0
M. Education	3.4	0.1	3.3	0.1	3.4	0.1	3.6	0.1
N. Health care and social work	3.5	0.3	3.4	0.4	3.5	0.3	3.6	0.3
O. Other services in the field of utilities, cultural, general and personal services	0.9	1.3	0.8	1.5	0.9	1.4	0.9	1.3
Overall A to O	26.0	55.2	20.9	60.0	20.9	57.8	21.7	60.0
Imputed rents	4.4		4.5		4.4		5.4	
Minus: Imputed banking services	2.2		2.0		1.7		1.5	
Other net taxes on production	0.0		0.0		0.0		0.0	
Added value	83.5		83.5		81.4		85.6	
VAT	13.2		13.9		15.9		11.9	
Customs	3.3		2.6		2.7		2.5	
Minus Subsidies on products	0.0		0.0		0.0		0.0	
Taxes minus subsidies	16.5		16.5		18.6		14.4	
GDP	100.0		100.0		100.0		100.0	

Source: State Statistical Office

In 2002 the **total number of enterprises** in the industrial sectors was 5,021, while in 2003 this number is 9,252, which represents an increase of 12.5%. The overall **number of employees** in the industry in 2003 was 132,614, and this number has a tendency of decreasing. In 2004 the number of employees was 126,201, which is a decrease of around 9%.

The overall number of enterprises in the manufacturing and services sectors

Table: Overall number of enterprises				
NCA	2000	2001	2002	2003
A. Agriculture, hunting and forestry	940	1,001	841	874
B. Fishing	22	26	20	23

C. Mining and quarrying	66	71	78	76
D. Processing industry	7,876	7,795	8,866	9,091
E. Energy, gas and water supply	79	86	81	85
F. Construction	2,317	2,418	2,559	2,787
G. Trade	21,958	21,330	21,431	22,719
H. Hotels and restaurants	2,272	2,243	2,245	2,382
I. Transport, storage and communications	6,470	8,089	7,054	7,187
J. Financial services	86	87	94	104
K. Real estate, renting and business activities	2,189	2,599	2,847	2,965
L. Public administration and defence; compulsory social security	721	677	637	628
M. Education	808	818	834	840
N. Health care and social work	1,063	1,171	1,249	1,275
O. Other services in the field of utilities, cultural, general and personal services	6,360	6,952	5,307	5,165
Overall	53,227	55,363	54,143	56,201
Source: State Statistical Office				

b) Number of enterprises according to size as category

Table: Number of enterprises according to size				
	2000	2001	2002	2003
Small	52,222	54,320	52,979	55,267
Medium	533	532	354	475
Large	472	511	810	459
Overall	53,227	55,363	54,143	56,201
Source: State Statistical Office				

a) Overall number of employees in the industry and the overall number in the manufacturing and services sectors

Table: Overall number of employees				
NCA	2000	2001	2002	2003
A. Agriculture, hunting and forestry	57,070	54,673	58,232	48,183
B. Fishing	395	312	260	248
C. Mining and quarrying	6,794	5,797	4,965	2,231
D. Processing industry	138,868	133,706	126,201	115,278
E. Energy, gas and water supply	14,929	15,316	15,849	15,105
F. Construction	32,648	30,415	31,642	34,238
G. Trade	62,368	65,224	66,527	67,872
H. Hotels and restaurants	14,665	14,261	14,064	13,776
I. Transport, storage and communications	34,368	35,250	32,088	31,300
J. Financial services	5,403	5,744	6,596	6,354
K. Real estate, renting and business activities	11,896	12,362	12,676	12,857
L. Public administration and defence; compulsory social protection	33,492	32,722	34,747	37,378
M. Education	34,013	32,035	32,418	32,738
N. Health care and social work	28,445	27,742	28,113	28,261
O. Other services in the field of utilities, cultural, general and personal services	15,485	16,497	15,565	15,741
Overall	490,839	482,596	479,943	461,560
Source: State Statistical Office				

b) Number of employees according to the size of the enterprise

Table: number of employees according to the size of the enterprise				
NCA	2000	2001	2002	2003
Small	243,348	251,817	263,197	269,583
Medium	85,195	85,184	49,193	83,917
Large	162,296	145,595	167,553	108,060
Overall	490,839	482,596	479,943	461,560
Source: State Statistical Office				

Major industrial sectors

The industry in the Republic of Macedonia is characterized by high concentration in several sectors. According to the data for 2002, the situation is as follows:

Eight biggest industrial sectors (one third of the total number) create 15.13% of the total GDP and employ 18.88% of the total number of employees in the Macedonian economy. The same industrial sectors are principal exporters that create more than 80% of the export of the industry.

The **food industry** is the biggest industrial sector with contribution of 3.83% of the total GDP. This sector employs 3.67% of the labour force in the entire economy and creates almost 16% of the export of industrial goods. Thus, a conclusion can be drawn that the food industry is mostly oriented towards the domestic market. Exactly due to this reason, the food industry is one of the most dynamic industrial sectors in recent years. Nevertheless, with the trade liberalization and the accession of the country to the WTO (World Trade Organization), as well with the signing of numerous bilateral free trade agreements, the food industry is faced with a growing competition on the domestic market, which imposes a need for its restructuring and improvement of the competitiveness. The investments, depending on the year, vary between 5% and 10% of the total investments in the economy.

The **production of electricity** is the second largest industrial sector with participation of 3.81% in the total GDP. Due to the capital-intensive character of this sector, it employs only 1.98% of the labour force in the entire economy. At the same time, it is the largest investor absorbing 13.54% of the total investments in the economy. As a result of the lack of electricity for domestic needs, this sector is exclusively oriented towards the domestic market.

Although the **textile industry** has a relatively lower participation in the total GDP (1.98), it employs 7.38% of the labour force in the entire economy and creates 30% of the total industrial export. The textile industry is mostly export oriented and is the second biggest export industry in the country. Due to the labour intensive character of this industry the investments are relatively small and amount to 1.63% of the total investments in the economy.

The **production of basic metals**, although it contributes 1.09% of the total GDP of the industry, represents the largest export sector with a participation of 30% in the total industrial export. This sector is exclusively export oriented and is almost entirely in foreign ownership.

Other important sectors for the Macedonian industrial production are: the metallurgy, the processing of metals and the production of machines for the electrical industry.

Protection of the environment from pollution caused by the technological processes in the industrial capacities in the Republic of Macedonia is secured with several laws and regulations.

Primarily these are: the *Law on Ambient Air Quality*, the *Law on Spatial and Physical Planning*, and the *Law on Waters*.

The special regulation "*Rules on maximum allowed concentrations and quantities of harmful substances that can be released in the air from the sources of pollution*" regulates the standards concerning the emission of

waste gasses from certain industrial facilities regarding dust, organic matter in the form of solid particles, emission of organic substances and emission of cancerous substances.

This regulation determines the standards for emission of combustion facilities for thermal energy for heating and for industrial processes, depending on their capacity (1-50 MW; 50-300 MW and over 300 MW), and the standards concerning the emission of harmful substances from other technological processes:

- cement factories;
- furnace of bauxite, dolomite, gypsum, heat, magnesite, quartz, chamotte (firebrick);
- furnace of clay ceramic products;
- plants for transformation of mineral raw materials primarily basalt, diabase and processing of dross;
- glassworks;
- plants for production or melting of mixtures of bitumen or tar with mineral substances, asphalt bases;
- production of nitric acid;
- production of sulphuric acid;
- chlorine production;
- production of chemical fertilizers;
- production of substances for protection of plants;
- refineries for mineral oils;
- plants for grinding and drying of carbon;
- car polishing;
- printing houses;
- plants and facilities for impregnation of glass and mineral fibres;
- plants for production of wood, fibre and linked plates (including and plywood sheets);
- plants for wood processing;
- plants for agglomeration of iron ore;
- plants for production of crude non-ferrous metals;
- plants for production of iron alloys (ferroalloys) with electric thermic or other procedure;
- plants for production of steel in converters, electrical furnaces, plants for melting in vacuum, steel melting and crude alloy;
- plants for melting ferroalloys (by electro-thermal melting processes and others);
- aluminium production
- plants for aluminium melting
- plants for melting and processing non-ferrous metals and their compounds except aluminium;
- plants for metal rolling, furnaces for heating and thermal processing;
- foundries of non-ferrous metals;
- plants for hot coating with zinc;
- plants for surface processing of metals with nitric acid;
- plants for production of lead batteries;

These Rules will be revised in accordance with the new EU directives.

According to the Law of Physical and Urban Planning, a special regulation defines the standards and norms for environment protection in design of structures, as well as the preparation of reports for evaluation of impacts upon the environment (The Rulebook on standards and normatives for physical arrangement - **Official Gazette of the Republic of Macedonia No. 2/2002, 50/2003**). This regulation classifies industrial facilities into 5 categories, depending on technological processes applied, or on their expected impact upon the environment:

Class I:

- Crude oil refineries;
- production of chemicals and warehouses for chemical products,
- production of pesticides and pharmaceutical products,
- production of lead batteries,
- production of artificial mineral fibres,
- production of asbestos and products that contain asbestos,
- production and storage of gunpowder padding, explosive ammunition,
- disposal sites for depositing and installations for incinerating, recycling and chemical treatment of industrial, dangerous and communal waste,
- disposal sites for nuclear waste
- iron and steel mills, blacksmith shops, rolling mills, foundries;
- production and processing of ferroalloys;
- mines and exploitation of metals and non-metals;
- thermal power plants;
- production of cement, plaster, etc.;
- production of glass and glass wool;
- leather and leather clothing factories;
- farms for breeding of poultry, pigs, cows, cattle, sheep, goat;
- slaughter houses;
- pounds;
- waste water purifying plants above 5000 ecological units per inhabitants;

Class II:

- factories for cleaning, grease removal and bleach of wool and fibres;
- production of vegetable and animal fat and oil;
- production of fiberplate, plywood sheet and plywood;
- production of wood mass and paper;
- production and procession of cellulose;
- waste waters purifying plants from 2001 to 5000 ecological units per inhabitant;

Class III:

- packing and preservation of animal products;
- production of alcoholic beverages, wine, beer and malt;
- production of industrial starch;
- production of asphalt concrete;

- waste water purifying plants up to 2000 units per inhabitant;

Class IV:

- production of dairy products;
- packing and preservation of vegetable products;
- production of non-alcoholic beverages;
- production of sugar, pastry and syrup;
- processing of tobacco and production of cigarettes;
- production of bricks, ceramics products, porcelain and majolica;
- cemeteries and crematories;

Class V:

- oil and gas pipelines;
- storage of scrap iron;
- production of knitted fabrics, carpets, yarn, cotton fabrics, flax, and wool;
- mills;
- bakeries;

The Rulebook determines a sanitary protection zone - minimal distance between objects and dwelling settlements - for every class of objects, for objects from the Class I being over 1200m, for Class II 801 – 1200m, for Class III 501 – 800m, for Class IV 201 – 500m, and for Class V 50 – 200 metres.

Apart from that, evaluation of impacts during the preparation of technical documentation is conducted for every project of these classes.

The existing Law on Waters (Official Gazette of the Republic of Macedonia No. 4/98), provides the basis for enactment of norms for emission of hazardous substances in the surface waters from various industrial sources. However, these standards have not been adopted until today. Control of pollution is conducted via special waste water emission permits issued by the Ministry of Agriculture, Forestry and Water Economy, performed on the basis of case-by-case evaluation of the facilities.

The new legal acts: Draft Law on Environment Protection, the Law on Air Quality (Official Gazette of the Republic of Macedonia No. 67/2004); the Draft Law on Waters, the Law on Waste Management (Official Gazette of the Republic of Macedonia No. 68/2004) and the Law on Nature Protection (Official Gazette of the Republic of Macedonia No. 67/2004), provide the basis for revision of the aforementioned Rules in context of the contemporary European standards encompassed by Best Available Technologies (BAT) for reduction, prevention and elimination of pollution (Directive 96/61/EC on integrated pollution prevention and control - IPPC), and revision of the facilities for which evaluation of their impact on the environment is performed according to the EU Directive 85/337/EEC on assessment of the environmental effects of certain private and public projects, as well as on the strategic assessment of the effects.

The new Law on Waters, which is undergoing the Parliamentary enactment procedure, provides the basis for adoption of standards that will be prepared according to European Union Directives. This Law approximates the

EU Framework Directive 2000/60/EEC concerning water policy and other relevant Directives in this field encompassed by the EU Regulatory Framework.

The Ministry of Environment and Physical Planning is preparing an Ordinance in the form of a Proposal for prohibition of production and sale of powder detergents that contain phosphates on the territory of the Republic of Macedonia. According to the Action plan, the Ordinance is planned to be implemented as of September 2005.

In this context, the Draft Law on Environment introduces issuing of integrated environmental licences for prevention and control of pollution and licences for coordination of the operational plans.

Namely, activities of new and of the existing installations may be performed only after receiving an A integrated environmental licence (to be issued by Ministry of Environment and Physical Planning) and B integrated environmental permit (to be issued by the units of local self-government). The new installations may apply for integrated permits immediately if they have already been harmonized with new the standards for environmental protection, whereas the existing installations should submit a request for harmonization, followed by an operational plan as conditions to continue with the operation.

The operational plan is a document which contains measures, phased solutions and deadlines for fulfilment of the conditions for acquiring the integrated environmental permit. Activities should be realized within the given period (agreed between the Ministry and the operator of the installation by way of negotiations), and at the end the installation should acquire an A integrated environmental permit.

The agreement will be obligatory for the operator and its violation would presume certain sanctions. During three years, which is envisaged for applying is divided in six-month periods, the industry, also divided in six sectors, would have to apply, beginning with 01.01.2006 up to 30.12.2008, which is the final deadline.

The first six-month period is reserved for the sector - Production and processing of metals.

In this context, several legal acts pertaining to certain industrial sectors are in the final stage of preparation, and they will be enacted after the adoption of the Draft Law on Environment:

1. Decree on determining the installations that would receive the integrated environmental licence with a deadline for submission of the operational plans, which includes the following installations:

- Installations for which the A integrated environmental permit is issued
- Installations for which the B integrated environmental permit is issued

2. Rulebook on regulating the procedure for acquiring the A integrated environmental permit with operational plan

3. Decree on determining the projects for which assessment is made on the impact on the environment, which determines the projects that require obligatory assessment on the effects and the projects which require the making of assessment.

2. Public sector, enterprises which are still in state ownership

- Policies for restructuring and improvement of the operation

Activities in the function of public interest that are considered as an economic activity of public interest in the Republic of Macedonia are: energy, railroad transport and public transport of passengers, maintenance of the road network, air traffic, the system of TV and radio communications, the oil and gas pipelines, the management of the forests, water, pastures and other forms of natural wealth, and the planning and regulation of the land, the public utilities, the veterinary, sports, as well as several other economic activities determined with the Law on Public Enterprises (Official Gazette of the Republic of Macedonia No. 38/96, 9/97, 19/02 and 40/03).

Founders of public companies on behalf of the Republic of Macedonia are the Assembly, the Government and the units of local self-government.

Plans for restructuring are prepared for the energy sector - (privatization of ESM), transformation of the public enterprise "Makedonski Železnici" (Macedonian Railways), and reforms in the field of air traffic: Part of the existing Office for Commercial Air Traffic will be transformed in a joint stock company for air traffic control that will be in state ownership. The plan is to establish an enterprise for air traffic services that would operate in accordance with ICAO and EUROCONTROL.

Modernization of the infrastructure in the aforementioned sectors:

A. Air traffic - In accordance with the already prepared Feasibility Study on Modernization of Skopje Airport (financed in the framework of the regional CARDS Programme for 2001), it is planned to expand and reconstruct the airport, as well as improve the management. According to the plan, the existing area of the terminal should be increased from the existing 5,000 m² to more than 11,500 m², the number of desks will be doubled, new facility for categorization of the luggage will be installed, the waiting rooms for arrivals and departures will be reconstructed, the existing area for customs and passport control will be expanded, as well as the parking space. 21.23 million Euros are needed for realization of these activities. With regard to the management, the model for leasing the airport was accepted.

B. The road network - With the loan from the European Bank for Reconstruction and Development, a Study on the development of a mid-term and long-term strategy on the road network is in the stage of preparation. The Study is based on the strategic commitment of the Republic of Macedonia for completion of the two Pan-European transport corridors passing through the territory of the country. In accordance with the Recommendations of the European Commission High-Level Group, the adjustment of the so-called Guidelines for the Trans-European Network (including the list of priority projects) will be made in accordance with the evolution of the relations between the Republic of Macedonia and EU.

As part of the Public Investment Programme, the Government of the Republic of Macedonia, plans to reconstruct the main roads: (1) E75, the section Demir Kapija - Udovo; (2) M5 Bitola - Medzitlija, which is part of the European Corridor H; (3) Tabanovce - Kumanovo, also part of European Corridor H; (4) Udovo - Smokvica; (5) construction of roads with two lanes in

each direction for the sections of Corridor VIII whose construction has yet to begin; as well as (6) the Skopje ring road, Stage I and II.

C. Border crossings - In the interest of the development of the road infrastructure and connection with the neighbouring countries and the EU, the Programme for Public Investments includes modernization of (1) the border crossing point at Cafasan with the Republic of Albania - development of infrastructure, (2) the border crossing point at Star Dojran towards the Republic of Greece - improvement of the functioning of the border crossing and construction of customs control terminal for vehicles, (3) the border crossing point at Novo Selo towards the Republic of Bulgaria - improvement of the working conditions, (4) the border crossing point at Blace towards SCG (on the part with Kosovo) - improvement of the energy distribution, (5) the border crossing point at Medzitlija towards the Republic of Greece - development of the infrastructure.

D. Broadcasting - On 14 December 2004, the public enterprise "JP Makedonska radiodifuzija" (Macedonian Broadcasting) put into operation the first digital terrestrial TV transmitter (DVB-T). The process of digitalization continued in 2005 (according to the plan, 3 - 5 new digital transmitters). In cooperation with the French corporation Teles and Deutsche Welle, a digital AM radio transmitter was put in experimental operation.

Protected sectors

The continuity and the safety in the operation of economic activity of public interest, as a necessary condition for the life and work of the citizens, the work of the legal entities and the other state organs, is the primary reason and justification for approving exclusive rights.

The fact that the public enterprises are the sole responsible entities for performing certain activity of public interest on the territory of the whole country, or on the territory of a unit of local self-government, gives them an exclusive right in performing certain activities. Because of the necessity for full harmonization of the national legislation with that of the EU in this field (obligation deriving from the SAA), the new Law on Public Enterprises is in the stage of preparation.

The issue and scope of exclusive or special rights is regulated with the relevant laws that specify the manner and conditions for the performing of these activities. The duration of these rights is usually not limited to a specific time period. The only exclusion regarding the ownership status and the deadline for having certain exclusive rights is the joint stock company "AD Makedonski Telekomunikacii" (Macedonian Telecommunications), where the dominant owner is a foreign company. This company was awarded exclusive rights in the fixed telephony based on the special agreement, which ended on 31 December 2004.

These special laws, which regulate certain sectors (activities), by rule, also determine the entities that are awarded exclusive rights in the performing of these activities.

The **Law on Telecommunications** (Official Gazette of the Republic of Macedonia No. 33/96, 17/98, 22/98, 28/00, 4/02 and 37/04) regulates the conditions and the manner in which activities are performed in the field of telecommunications, construction, maintenance and use of the telecommunications networks and means, the competition in the field of

telecommunications, the supply of universal services, the awarding of concessions and providing of telecommunications services by means of concessions, the management, use and control of the radio frequency spectre, the production, export, sale, use and maintenance of radio stations, equipment for the terminals, and other issues concerning telecommunication.

The public telecommunication services and the use of the radio frequency spectre are activities of public interest for the Republic of Macedonia.

The Ministry of Transport and Communications and the Telecommunication Directorate are the responsible bodies concerning the regulation of the activities in the filed of telecommunications stipulated by this Law.

The **Law on Public Utilities** (Official Gazette of the Republic of Macedonia No. 45/97, 23/99, 45/02 and 16/04) regulates the basic conditions and the manner of performing communal activities, defining, financing of communal activities, and other rights concerning the communal activities. The performing of the communal activities is of public interest.

Communal activity can be performed by establishing a public enterprise in the field of utilities, by giving a concession for performing certain communal activity in a manner determined by the law, and by issuing a licence for performing certain commercial activities of public interest.

According to the **Law on Forests** (Official Gazette of the Republic of Macedonia No. 47/97, 7/00 and 89/04), the Government of the Republic of Macedonia establishes a public enterprise for management of the forests in state ownership for economic purposes. This Law regulates the planting, use and protection of the forests as an activity of public interest. The Assembly of the Republic of Macedonia adopts a general plan for management of the forests in state and private ownership for the period of 20 years, regardless of the purpose of their use.

The Law on Establishing the Public Enterprise of the Macedonian Radio and Television (Official Gazette of the Republic of Macedonia No. 6/98, 98/00 and 78/04) regulates the foundation, activity and reorganization of the public enterprise "Macedonian Radio and Television". The public enterprise is performing activity of public interest under conditions and in a manner determined with the Law on Broadcasting, the Law on Telecommunications, the Law on Public Enterprises, and other relevant laws. Among other activities, the public enterprise MRTV is responsible for:

- Production and broadcasting of TV programmes within the framework of the guaranteed freedoms and rights of the human being and the citizens with contents of informative, educational, cultural, scientific, sports, musical, entertainment and other character in Macedonian language and in the languages of the nationalities living in the Republic of Macedonia.
- Production and broadcasting of special programmes with the purpose of informing about and protecting the cultural and historical traditions, and maintaining and promoting the links with the immigration and the citizens of the Republic of Macedonia living in the neighbouring countries, Europe and on the other continents.

According to the Law on Broadcasting, the control of the work of the public enterprise is responsibility of the Broadcasting Council.

The **Law on Energy** (Official Gazette of the Republic of Macedonia No. 47/97, 40/99, 98/00, 94/02 and 38/03) regulates the conditions and the manner of performing activities in the field of energy, protection of the energy facilities, plants and equipment, protection of the environment and nature from harmful influence caused by the work of the energy facilities, plants and equipment, as well as the supervision in this field..

According to this Law, activities in the field of energy are:

- Production, transmission and distribution of electricity;
- Production and processing of coal;
- Production, processing and transport of oil and oil derivatives;
- Production, transport and distribution of natural gas;
- Production, transport and distribution of thermal and geothermal energy;
- Production of other kinds of energy.

The activities of production, transmission and distribution of electricity, international transport of crude oil using pipelines, production, transport and distribution of natural gas and production, transport and distribution of thermal and geothermal energy other than energy used for personal purposes, are activities of public interest.

In order to perform these activities public enterprises can be formed, i.e. relevant permits can be issued to other entities.

The Regulatory Committee on Energy of the Republic of Macedonia was established in order to provide uninterrupted and safe supply of energy to the consumers in the Republic of Macedonia, to secure protection of the environment and nature, to introduce and protect a market of energy based on competitiveness, and on the principles of objectivity, transparency and non-discrimination.

In order to perform the operations in the field of water supply, the Government of the Republic of Macedonia has established a public enterprise in the field of water management. The **Law on Waters** (Official Gazette of the Republic of Macedonia No. 4/98, 18/99, 19/00 and 51/03) regulates the manner of water resources use and exploitation, protection against harmful effects of water, protection of water against exhaustive water extraction and pollution, water resources management, sources for and manner of financing water management activities, concessions, transboundary water resources, and other issues of relevance with regard to the provision of a unique water regime in the Republic of Macedonia.

According to this Law, the water management activities of public interest are: construction, maintenance and use of water supply facilities and plants; irrigation and draining of land; establishing of protected zones; protection from harmful effects of the water; protection of the waterbeds and banks of the rivers and lakes; protection from floods; protection from erosion and management of freshets; extraction of sand, gravel and stone for protection and improvement of the water regime; securing water reserves for establishing a water regime in a certain basin or part of a basin; and preparation of project documentation and studies for improvement of the water regime.

The **Law on Macedonian Railways** (Official Gazette of the Republic of Macedonia No. 9/98) regulates the railway transport, construction,

reconstruction, overhaul, maintenance and protection of the railways infrastructure and financing. These activities of public interest are performed by the public enterprise Macedonian railways. The railways infrastructure can also be used by other legal entities under the conditions and in a manner stipulated by this Law and by international agreements.

The **Law on Postal Services** (Official Gazette of the Republic of Macedonia No. 55/02) regulates the conditions and the manner of performing postal services in the internal and international postal communication, securing access for every user to universal postal services on the territory of the Republic of Macedonia, the introduction of competition in the field of postal services, the relations between the users and providers of postal services, the publishing of stamps and postal effects, as well as other issues related with the postal services. According to Article 9 of this Law, within the framework of the universal postal service, only the principal postal operator (the public enterprise "Macedonian Post Office") performs the reserved postal services such as reception, assortment, transport and delivery of postal packages, including direct post, as well as in the internal and international postal communication, under the condition that the packages weigh under 350 grams.

The performing of postal services and the publishing of stamps and postal effects are activities of public interest. The inspection and control of the implementation of the provisions of this Law, the regulations adopted based on this Law, the fulfilment of the agreements for concession, as well as of the permits issued in accordance with this Law are performed by the National Inspectorate for Transport, through the inspectors for postal communications.

The existing national monopolies - more characteristic existing national monopolies are: the public enterprises the Macedonian Railways (JP Makedonski zeleznici), Electric Power Company of Macedonia (ESM-Elektrostopanstvo na Makedonija), Macedonian Forests (JP Makedonski sumi), the public enterprise for maintenance of the roads - Makedonija pat, and the Public Enterprise for Airport Services Macedonia.

Reform projects - the new Law on Public Enterprises is in the stage of preparation, as well as the transformation/reconstruction of the existing monopolies, such as AD ESM (Elektrostopanstvo Joint Stock Company) and the Macedonian Railways. The main goal of these processes is separation of the competitive parts of these enterprises from the so-called natural monopoly, which will contribute to increasing the efficiency in the realization of their activities.

As a result of the intensified reforms, in 2004 was initiated the process of institutional restructuring of the water supply sector, which represented a generator of continuous losses caused by years of bad management. Because of this, 8 water management enterprises were liquidated in three regions (Tikves, Bregalnica and Polog), and new water management enterprises were established with transformed role, with the aim of intensifying primarily the responsibility of the farmers organized in water communities in the process of management and maintenance of the irrigation systems. The activities in this field will continue in 2005, covering the whole territory of Republic of Macedonia, which will mean that the rest of the more than twenty water management enterprises will be included in these reforms and will be fully restructured. The reforms in this field will be supported with

the Project for rehabilitation and restructuring of the irrigation systems, financed with a loan from the World Bank and grants from the Government of the Kingdom of Netherlands.

Similar processes are anticipated for the local enterprises (amendments to the legislation is in progress), where those activities are competitive by nature will be separated (communal hygiene, transportation, management with the open markets etc.), and they will be subject to competition and participation of the private sector.

3. DEVELOPMENT PROJECTS AND PROGRAMMES

The industrial development of the country was based on the comparative advantages of the Republic of Macedonia, primarily in the field of production of food, production of basic metals, ferrous and nonferrous metallurgy, pharmaceutical industry, textile, and the development of services.

The **Strategy for Development of the Food Industry** in the Republic of Macedonia, that includes its revitalization and development, was prepared with the assistance from the Japanese Government. As a result of this, successful companies for production and conservation of vegetables and fruit, production of milk and dairy products, processing of meat and production of high quality wine with geographical origin were established. Besides this, action plans with clearly defined goals, programmes for training managers and work plans for every institution were prepared, which will facilitate the implementation of the Strategy.

In accordance with Article 23 of the Stabilization and Association Agreement between the European Union and the Republic of Macedonia signed in April 2001, i.e. Article 10 of the Interim Agreement on Trade and Trade Related Matters between the European Union and the Republic of Macedonia, and based on the provisions from Protocol 2 on iron and steel products, the **National Programme for Reconstruction of the Steel Industry** was prepared, which should aid the development of this specific and important sector for our exports. The Programme is in the process of being presented and adopted before the European Commission, which financed its preparation. The existing capacities in this field are in the ownership of foreign investors and they operate well and are export oriented.

The **Project for technological development foundations and policies in the Republic of Macedonia** is in the preparation stage, with assistance from the Government of the Federal Republic of Germany, which will define the main directions of the industrial development in the future, especially the development of high technology and services. Four technological centres were established, which operate in the framework of the universities in the Republic of Macedonia, and new technologies were introduced in over 50 small and medium-sized enterprises, while there are plans for establishment of a technological fund in near future.

With assistance from Switzerland, the **Strategy on development of the textile industry** is in a stage of preparation. It is especially important for the country because of the large number of employees in this industry, and because of the big possibilities of this industry on the European and American markets. The Strategy should improve the conditions in this branch, foster the development of the basic sector and enable more successful exports in conditions of increased competition on the world markets.

The **Programme for Harmonization of the National Legislation with the Legislation of the European Union** is in progress, through training programmes, the so-called “twinning programmes” for technical assistance by consultants from the Republic of Slovenia.

The **Project for Development of the Human Resources** - including imported and local know-how, having in mind the existing higher education capital in the labour force and its future development with new types of knowledge: such as access to new know-how and information in the field of scientific knowledge, as well as skills and performance capabilities.

The national program for increasing competitiveness (**Macedonia's Competitiveness Activity - MCA**), supported by USAID, established five clusters for the most attractive sectors in the Republic of Macedonia: production of wine, cheese, lamb, the tourism and information technology (IT).

1. POLICIES FOR EXPORT PROMOTION

The economic reforms contributed for the complete opening of the Republic of Macedonia towards the international community and its incorporation in the global market. This was accompanied by the processes of liberalization and establishing of free trade zone with all the countries in the region, the European Union and the WTO countries, as very important steps for the Macedonian economy and its presence on the complementary world market.

The export of commodities is a strategic commitment of the country, because of the existing large industrial capacities built in the past, the potentials of the country, and the traditional markets the Republic of Macedonia has in the region and the world.

A) Market share according to the size of the enterprises

Table: Market share according to the size of the enterprises in 2000

	Gross value of the production in thousands of MKD		Gross value of the production in thousands of MKD		Number of employees and self-employees		Number of enterprises	
	in thousands of MKD	in %	in thousands of MKD	in %		in %		in %
The entire economy	421,185,488	100.0	192,030,152	100.0	490,839	100.0	53,227	100.0
Small	169,513,108	40.2	83,790,414	43.6	243,348	49.6	52,222	98.1
Medium	62,773,388	14.9	26,433,311	13.8	85,195	17.4	533	1.0
Large	188,898,992	44.8	81,806,426	42.6	162,296	33.1	472	0.9
Source: State Statistical Office								

Table: Market share according to the size of the enterprises in 2001

	Gross value of the production in thousands of MKD		Gross value of the production in thousands of MKD		Number of employees and self-employees		Number of enterprises	
	in thousands of MKD	in %	in thousands of MKD	in %		In %		in %
The entire economy	417,268,088	100.0	189,332,173	100.0	482,596	100.0	55,363	100.0
Small	170,206,509	40.8	86,582,616	45.7	251,817	52.2	54,320	98.1
Medium	66,382,309	15.9	28,614,940	15.1	85,184	17.7	532	1.0
Large	180,679,271	43.3	74,134,619	39.2	145,595	30.2	511	0.9

Source: State Statistical Office

Table: Market share according to the size of the enterprises in 2002								
	Gross value of the production in thousands of MKD		Gross value of the production in thousands of MKD		Number of employees and self-employees		Number of enterprises	
	in thousands of MKD	in %	in thousands of MKD	in %		in %		in %
The entire economy	415,632,069	100%	191,960,373	100%	479,943	100%	54,143	100%
Small	184,083,588	44%	90,766,976	47%	263,197	55%	52,979	98%
Medium	38,532,801	9%	18,182,282	9%	49,193	10%	354	1%
Large	193,015,680	46%	83,011,115	43%	167,553	35%	810	1%
Source: State Statistical Office								

Table: Market share according to the size of the enterprises in 2003								
	Gross value of the production in thousands of MKD		Gross value of the production in thousands of MKD		Number of employees and self-employees		Number of enterprises	
	in thousands of MKD	in %	in thousands of MKD	in %	in thousand MKD	in %	in thousand MKD	in %
The entire economy	433,986,342	100.0	207,003,202	100.0	461,560	100.0	56,201	100.0
Small	208,933,832	48.1	105,028,835	50.7	269,583	58.4	55,267	98.3
Medium	78,037,286	18.0	38,006,253	18.4	83,917	18.2	475	0.8
Large	147,015,226	33.9	63,968,114	30.9	108,060	23.4	459	0.8
Source: State Statistical Office								

B) Share of the overall export according to the size of the enterprises

Table: Exporters according to the size of the enterprises				
2000	Number of enterprises	in thousands of \$ US	in thousands of €	Share
Large	164	653,891	710,318	49.4
Medium	382	214,579	233,537	16.3
Small	2,988	389,283	421,973	29.4
Not allocated	382	64,865	70,617	4.9
Overall	3,916	1,322,617	1,436,445	100.0
2001	Number of enterprises	in thousands of \$ US	in thousands of €	Share
Large	97	477,973	534,233	41.3
Medium	219	228,237	254,627	19.7
Small	1,920	327,970	366,692	28.4
Not allocated	286	123,327	137,749	10.7
Overall	2,522	1,157,507	1,293,302	100.0
2002	Number of enterprises	in thousands of \$ US	in thousands of €	Share
Large	180	542,153	573,292	48.7
Medium	124	89,650	94,298	8.0
Small	1,851	426,722	448,597	38.1
Not allocated	252	57,001	62,162	5.3
Overall	2,407	1,115,527	1,178,350	100.0

2003	Number of enterprises	in thousands of \$ US	in thousands of €	Share
Large	93	580,661	511,853	42.5
Medium	195	177,567	156,546	13.0
Small	1,886	542,486	479,259	39.8
Not allocated	312	62,538	56,155	4.7
Overall	2,486	1,363,252	1,203,813	100.0
Source: State Statistical Office				

Realized import and export in the Republic of Macedonia *according to the level of processing:*

-in 000 \$ US

	Export 2002	Import 2003	Export 2002	Import 2003
OVERALL:	1115527	1366989	1995156	2306353
Unprocessed products	117268	140096	201625	310765
Processed products	322513	455015	447211	462964
Highly processed products	673029	770943	1342318	1529950
Not allocated	2717	934	4001	2674

The analysis of the data shows that dependency on export of raw materials (reproduction material) and that the imports are twice the size of the exports concerning unprocessed products, as well as insufficient domestic production of highly processed products. The coverage of export with import is around 65%, while the balance of exchange in a longer period of time is negative.

The foreign trade turnover of the Republic of Macedonia in 2004 was 4.418 million \$ US, which is 20.6% more than in 2003.

System of trade

The Republic of Macedonia does not apply quantitative limitations of export and import or other non-tariff measures, such as licenses, contingents or quotas, which have the same effect and by which trade may be prohibited or limited in one way or another.

Licences applied by the Republic of Macedonia are introduced in order to monitor and control export and import of goods classified as sensitive according to international conventions. The Government of the Republic of Macedonia has adopted a Decision for classification of goods in forms of export and import (Official Gazette of the Republic of Macedonia No. 58/2004), where the goods that are imported or exported on the basis of license are listed.

Export incentives

According to the Law on Establishing the Macedonian Bank for Development Support (Official Gazette of the Republic of Macedonia No. 24/98 and 6/00), the main task of the Bank is financing investments of small and medium enterprises, support and promotion of export and implementation of foreign loans and donations. Export promotion is realized through granting short-term export loans (pre shipment and post shipment credits) and preparation of export production, as well as insurance of export against short-term commercial risks.

The Bank also cooperates with the Berne Union and provides information to its members on the solvency and credit rating of Macedonian enterprises and banks. The Programme for the use of funds generated from compensations paid by business entities upon import and export of products, goods and services in the amount of 0.1% (Official Gazette of the Republic of Macedonia No. 36/2003, 31/04) regulates the conditions for use of these funds aimed at improvement of the competitiveness of exports and for promotion of the foreign trade of goods and services.

According to the Law on Ratification of the Protocol for Accession of the Republic of Macedonia to the World Trade Organization (Official Gazette of the Republic of Macedonia No. 7/03) and the Law on Trade (Official Gazette of the Republic of Macedonia No. 16/04) this Programme will be implemented by 31 December 2005. The funds are distributed by the Ministry of Economy, while the funds for improvement of the competitiveness of agricultural products are distributed by the Ministry of Agriculture, Forestry and Water Economy.

The funds for compensation can be used for the following purposes:

1. Partial compensation of costs of business entities for consulting services for introduction of quality system.
2. Partial compensation of costs of business entities for certification of quality systems or products.
3. Partial compensation of costs of business entities for producing promotion materials for foreign markets.
4. Partial compensation of costs of business entities for implementing accreditation procedure.
5. Co-financing of costs of business entities for participation at international fairs and exhibitions, which is organized by the Ministry of Economy, on initiative of domestic business entities and their business associations.
6. Co-financing of costs of business entities for participation on business forums.
7. Organizing of business forums, workshops for education, information, promotion and training in the Republic of Macedonia by the Ministry of Economy.
8. Organizing of promotion campaigns by the Ministry of Economy on domestic and foreign market.
9. Publishing of promotion materials by the Ministry of Economy.
10. International targeted markets research by the Ministry of Economy, sectoral studies etc.
11. Creation and development of interactive web page by the Ministry of Economy.
12. Advertising in printed and electronic media in the Republic of Macedonia and abroad on all bases foreseen in the Programme for use of funds from compensation, paid by business entities upon import and export of products, goods and services.
13. Partial compensation of costs for project activities aimed at brand recognition of products and services on foreign markets.
14. Partial compensation of project costs for providing working conditions and conditions for additional equipping of national laboratories and independent laboratories for control of quality of products, according to technical and other regulations of the European Union.

15. Compensation of costs for current activities of trade representatives of the Republic of Macedonia in Moscow, Berlin, Belgrade and Rome.

Other incentives

The Law on Free Economic Zones (Official Gazette of the Republic of Macedonia No. 56/1999, 41/2000, 6/2002) regulates the customs and tax incentives within the Free Economic Zones. FEZ users can import goods from abroad or from the territory of the Republic of Macedonia in the zone without tariffs and other duties (such as VAT or excise), and can export goods to the rest of the territory of Republic of Macedonia in accordance with regulations for export and import of goods.

The operation in the Free Economic Zone provides additional incentives, such as tax exemptions for a period of ten years for the profit tax, beginning with the starting date of operation in the zone, as well as possibility for reduction of the tax base in case of investments in fixed assets after the expiry of the tax exemptions, and property tax exemption for the period of ten years. There are also possibilities for exemption of contribution taxes and other fees for the use of construction land and connection to the water, hot water, gas and electrical supply systems, as well as deductions related to electrical energy use are envisaged too.

5. FAVOURABLE ENVIRONMENT FOR INVESTMENTS AND INVESTMENT PROTECTION

The process of modernization and transformation of the industrial production is intensified, which enables the creation of modern facilities. However, this process is not intensive enough.

In the Republic of Macedonia there are no restrictions for entrance of foreign capital, except in the military industry, the trade and trafficking of weapons and drugs, and in the preservation of the industrial landmarks and cultural wealth.

It should be mentioned that foreign investors are already present in the industrial sectors with internal resources and infrastructure, which confirms their profitability and attractiveness. Despite the creation of favourable environment for investments, the foreign investments in the country are not on a satisfactory level, and without them there can be no growth and development of the country's economy. Exceptionally extensive efforts are made in this direction in order to improve the situation.

In the function of improving the business climate, intensive activities are being undertaken in order to facilitate the creation of a one-desk system for registration of companies in the Republic of Macedonia, which should start to function in September 2005, and which should eliminate all the administrative barriers for investment.

Within the framework of the activities for stimulating foreign investments, as the basis for faster economic development of the country, are the reforms of the judiciary, the re-examination and reduction of the discretionary rights of the Ministers, and the intensification of the fight against corruption and crime.

The Constitution guarantees protection of foreign investments, and these are given national treatment. Since 1994 the Republic of Macedonia is

a member of MIGA (the WTO insurance agency), and has agreements on mutual protection of investments with 29 countries.

The overall investments and investing in the production sector in the Republic of Macedonia are presented in the following table.

B) Overall investments and investing in the production and services sectors

Table: Investments according to sectors				
In millions of MKD				
NCA	2000	2001	2002	2003
A. and B. Agriculture, hunting, forestry and fishing	447	342	442	587
C. Mining and quarrying	120	314	307	115
D. Manufacturing	4,483	5,049	6,645	6,427
E. Electricity, gas and water	3,562	2,657	3,256	4,179
F. Construction	4,987	1,952	2,141	2,278
G. to P. Services	12,665	13,932	15,438	12,881
Overall	26,264	24,246	28,229	26,466
Source: State Statistical Office				

Table: Direct foreign investments in manufacturing and services							
In millions of \$ US							
	1997	1998	1999	2000	2001	2002	2003
A. and B. Agriculture, hunting, forestry and fishing	0	0.06	0.01	0	2.31	0.42	1.59
C. Mining and quarrying	0.29	0.04	0.35	9.62	2.17	0.29	0.03
D. Manufacturing	21.35	100.18	22.66	32.78	35.07	24.51	12.14
E. Electricity, gas and water	0	0	0	0	0	0	0.84
F. Construction	0.01	0.2	0.27	18.9	12.32	4.01	0.07
G. to P. Services	3.43	26.02	7.85	110.81	362.77	37.76	45.7
Not allocated	5.01	1.23	1.56	2.41	26.89	10.83	34.19
Overall	30.09	127.73	32.7	174.52	441.53	77.82	94.56
Source: National Bank of the Republic of Macedonia							

The data concerning foreign direct investments in the industrial sector indicate that they are practically nonexistent in the field of supply of electricity, gas and water (public sector), and that they are most dominant in the manufacturing.

C) Origin of investments from the EU and countries that are not members of the EU

Table: Investments from the EU and from non EU member countries							
In millions of \$ US							
	1997	1998	1999	2000	2001	2002	2003
EU	18.77	99.81	23.5	161.94	408.44	58.75	52.38
USA	0.07	0.79	0.83	3.28	15.13	4.25	2.25
Switzerland	6.64	4.5	3.95	1.3	8.69	2.6	13.61
EBRD	0	0	0	0	0	0	8.5
Other	4.61	22.63	4.42	8	9.27	12.22	17.82
Overall	30.09	127.73	32.7	174.52	441.53	77.82	94.56
Source: National Bank of the Republic of Macedonia							

Regulations for foreign investments - regulations on tax benefits

Attracting foreign direct investments is one of the main priorities of the Government of the Republic of Macedonia. For that purpose, the Government

is undertaking significant steps to create a favourable environment, and more simple and transparent regime for conducting business activities.

Foreign investors have national treatment and can establish all kinds of trade companies envisaged with the Law on Companies. In general, there are no restrictions on foreign capital investments in the various sectors of the Macedonian economy, except for the following sectors:

- the military industry,
- trade and trafficking of weapons,
- trade and selling of narcotics,
- protection of historical monuments and cultural wealth (regulated with Article 55 of the Constitution of RM).

The Republic of Macedonia adopted Article VIII of the IMF Articles of Agreements, according to which the country commits itself to free transfer of the foreign investors profit on the basis of the invested capital. According to the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia No. 34/2001, 49/2001, 103/2001, 54/2002, 32/2003 and 51/2003), direct investments of non-residents in the Republic of Macedonia are completely free. Especially important for the foreign investors is the fact that security of their investments is provided, where the transfer of the profit, financial assets acquired by alienation and sale of the ownership part in the direct investment, as well as the transfer of the assets of a company that has filed for bankruptcy completely free, provided that the direct investment is registered in accordance with the law and the non-residents have regulated all the legal obligations regarding taxes and contributions in the Republic of Macedonia.

According to the Banking Law (Official Gazette of the Republic of Macedonia No. 63/2000, 103/2000, 37/2002, 51/2003 and 85/2003), complete liberalization of foreign capital investment and equal treatment of domestic and foreign investors is provided. As of January 2003 each domestic or foreign shareholder can acquire 100% of shares in a bank, which is complete harmonization with the European Union Directives.

According to the Law on Insurance Supervision (Official Gazette of the Republic of Macedonia No. 27/2002, 84/2002, 98/2002 and 33/2004), the participation of each domestic or foreign shareholder in the capital of an insurance company can be at most 25% of the amount of shares of the parent company with the right of management. In case when another insurance company or bank establishes insurance company, the participation in the capital of that company is not limited. Starting from 1 January 2008, an individual shareholder, domestic or foreign, can acquire 100% of the shares in an insurance company, which will enable complete harmonization with European Directives.

According to the Law on Leasing (Official Gazette of the Republic of Macedonia No. 4/2002 and 49/2003) financial leasing companies can establish subsidiaries in the Republic of Macedonia, in accordance with Company Law.

Participation of foreign capital is also not limited for brokers established in the Republic of Macedonia.

According to Article 10 of the Law on Radio Broadcasting (Official Gazette of the Republic of Macedonia No. 20/97), foreign physical or legal

entities can be co-founders of broadcasting companies with up to 25% of the total capital, whereas the share of several foreign physical and legal entities as co-founders in a broadcasting company can amount up to 49% of the total capital.

In the group of investment tax incentives is also the tax relief during transfer of the part of the profit made by a foreign legal entity, where for the amount that is transferred there is no profit tax.

According to the Constitution, the foreign investors are guaranteed national treatment and complete right to repatriation of capital. The Republic of Macedonia has signed bilateral agreements for encouragement and mutual protection of investments with 29 countries.

The Republic of Macedonia is a member of the Multilateral Investment Guarantee Agency (MIGA - affiliation of the World Bank), since 1993.

A) Tax incentives and tax exemptions on investments.

According to the Profit Tax Law (Official Gazette of the Republic of Macedonia No. 80/1993, 51/2003), the legal entities - tax payers, have the following tax incentives and tax exemptions:

1. In accordance with Article 33 of the Law, the computed tax of the taxpayer who has *assets invested by foreign entities* shall be reduced in proportion to the participation of the foreign capital, on condition that the foreign capital makes at least 20% of the overall invested joint fixed capital.

The term assets invested by foreign entities refers also to the buyout of shares by the foreign person.

The tax exemption refers also to taxpayers founded by foreign capital alone.

The tax exemption refers only for a period of the first three years since the year profit was made, on condition that the taxpayer who has used the exemption operates for at least three years after the last year he was entitled to tax exemption.

If the taxpayer ceases its operation before the expiry of the period of six years, he loses the right to tax exemption of the bases of this provision and is obliged to pay the tax which is revalued by applying the rate of increase of the retail prices in accordance with the data issued by the State Statistical Office.

2. According to Article 31, the tax base of the taxpayer is reduced for the amount of the investments in immovables and movables up to 100,000 Euro in denar equivalent in the current year, except for investments in vehicles, furniture, carpets, works of art from the fine and applied art, and other ornaments for equipping administrative premises.

If the taxpayer fails to use the tax exemption by the end of the current year, it is entitled to carry it forward to the next period, until it is fully utilized.

The tax base of the taxpayer is reduced up to 30%, for the amount of the investments in real estate and movable property exceeding 100.000 Euro in denar equivalent in the current year, except for investments in vehicles, furniture, carpets, works of art from the fine and applied art, and other ornaments for equipping administrative premises, but not more than the unused amount of the investment.

In order to realize the tax exemption right, the taxpayer is obliged not to alienate the estate within the period of three years, commencing from the year in which the investment is incurred.

3. According to Article 30, *the taxpayer is also entitled to tax exemption on the basis of accelerated depreciation of fixed assets* in cases of technological renovation or procurement of environment and nature protection goods, but up to an amount of 25 percent above the depreciation calculated according to one of the methods for depreciation calculation.

4. According to Article 32, the tax base of a **taxpayer investing in economically underdeveloped municipalities**, as well as in specific regions (mountainous regions, border regions and compactly underdeveloped regions) is reduced by the amount of the invested funds, but at most up to 50% of the tax base.

5. According to Article 32-a, taxpayer *beneficiary of a free economic zone* is exempt from profit tax payment for a period of ten years, from the commencement of the performance of the activity in the free economic zone, on conditions and in a procedure determined with the Law on Free Economic Zones.

6. According to Article 35, the tax base of the taxpayer is reduced for the amount of the *funds invested in environment and nature protection*.

7. According to Article 36, **business start-ups** that generate profit in first year of their operation, are entitled to reduction of the calculated tax by 50%.

Taxpayer which has undergone statutory changes (merger, acquisition, division, ownership transformation, etc.) shall not be deemed as a new entity.

If the taxpayer ceases business operations before the expiry of three years from the day of exemption entitlement, he shall be obliged to pay the outstanding tax in the amount revalued with the retail price according to the data from the State Statistical Office.

The taxpayer utilizes the right to tax exemption upon an approval by the Public Revenue Office, after submitting of written application.

8. According to Article 36-a, the calculated profit tax is reduced by 50% in the first three years for taxpayers listed on the official markets of the Macedonian Stock Exchange.

The taxpayer realizes the right to tax exemption by submitting a written application (based on appropriate documentation) to the Public Revenue Office.

In case the taxpayer is excluded from an official market of the Stock Exchange, the loses the right to tax exemption and is obliged to pay the respective tax in the amount revalued by applying the retail price index according to the data from the State Statistical Office.

9. According to Article 36-b, for taxpayers obliged to introduce and use approved system of equipment for registering cash payments pursuant to Law on Registering Cash Payments, the calculated tax shall be reduced by the amount paid for procurement of up to ten fiscal devices, by the amount of their value.

Taxpayers may use the right to tax exemption from the date of introducing in use of the approved system of equipment for registering cash payments, through reducing the monthly tax prepayments, starting from the next month until the end of the year, proportional to the funds invested.

In case a taxpayer fails to use the right to tax exemption by the end of the current year, he has a right to carry it forward in the next period.

The taxpayer effectuates the right to tax exemption with approval from the Public Revenue Office, after submitting written application.

10. According to Article 23-a, *losses from business, financial and non-business transactions* may be carried forward on the expense of the profit in the next calculation periods, up to three years at the most, calculated from the year in which they occurred.

The right set forth in paragraph 1 of this Article (23-a) may not be used in case of taxpayers statutory change such as merger, acquisition, division, ownership transformation etc.

Taxpayer bearing a loss realizes the right set forth in paragraph 1 of this Article upon approval by the Public Revenue Office, after submitting written application.

11. According to Article 26, *capital gains* from sale of securities, equipment and real estate are included in the tax base in the amount of 70%. Taxation of capital gains from sale of securities will be implemented starting from 1 January 2006.

12. According to Article 24, *dividends* from another company's capital participation are excluded from taxation, provided they are taxed from the taxpayer who performs the payment in accordance with the general rate of the Profit Tax Law.

13. Regarding the *transfer* of part of the *profit* generated by foreign legal entity, profit tax shall not be paid on the amount transferred.

5. HARMONIZATION OF THE LEGISLATION WITH THE LEGISLATION OF THE EUROPEAN UNION

The Republic of Macedonia has started the process of harmonization of its legislation with that of the European Union even before submitting its application for EU membership.

The National Program for Approximation of the Legislation for 2004 has been adopted (NPAL), and it includes the Action Plan for approximation of the technical standardization and technical regulations with the EU legislation. The NPAL also incorporates the technical provisions adopted by the Ministries responsible for the harmonization of the legislation, which are correlated with the industrial sectors and within the scope of the industrial policy.

6. Cooperation, information, research and technology

The national policy in the filed of research and technological development incorporates the priorities, priority sectors, goals, target groups, instruments, as well as monitoring of the work done and its evaluation.

According to Article 47 of the Constitution of the Republic of Macedonia, the state has an obligation to encourage and support the scientific and research work and the technological development. The Ministry of Education and Science, in accordance with Article 23 of the Law on Organization and Operation of the State Administration (Official Gazette of the Republic of Macedonia No. 58/00) is responsible for the organization, financing, development and promotion of science, technological development,

technical culture, information technology and systems, as well as for the international cooperation with regard to these issues.

According to Article 3 of the **Law on Scientific and Research Activity** (Official Gazette of the Republic of Macedonia No. 13/96 and 29/02), the basic principles for performing scientific work and research are inviolability and the protection of the human personality and dignity, and they are based on the following principles: freedom of scientific work, autonomy and application of the results, diversity of scientific mind and methods, international cooperation.

Article 7 of the **Law on Scientific and Research Activity** (Official Gazette of the Republic of Macedonia No. 13/96 and 29/02), defines the public interest of scientific research in the field of the national and cultural identity of the Macedonian nation and the other nationalities living in the Republic of Macedonia. Also, research is defined as a general prerequisite for the overall development of the country. This Law also defines research in the function of raising the scientific level and transfer of the global knowledge, as well as in the field of defence and security. The promotion of the **human resources** and the research infrastructure are also of public interest.

The **Law on Encouragement and Support of Technological Development** (Official Gazette of the Republic of Macedonia No. 9/00) stimulates and supports this kind of development in the country, as well as the programming of these activities and their financing. This Law defines technological development as:

- Development of domestic technologies;
- Progress of the country established on an independent economic basis;
- Modernization of the existing production capacities;
- Establishment of innovation and technological centres;
- Establishment of the necessary technological infrastructure, transfer of knowledge through continuous development of skills.

In accordance with the structure of the economy and the institutional infrastructure in the field of science, the Ministry of Education and Science has determined the **priorities** in the field of scientific and technological development in the Republic of Macedonia. These are:

- Sustainable development;
- Biotechnology;
- Production of high quality food;
- Energy;
- New materials;
- Protection of the environment;
- Information and communication technology;
- Health care; and
- Geological sciences and engineering.

Imperatives of the policy of the Republic of Macedonia in the field of science and research for the future period are:

- Increasing the use and transfer of knowledge for the economic, social, technological and environmental development of the Republic of Macedonia;
- Encouragement and promotion of international cooperation and transfer of knowledge and technology from abroad;
- Introduction of monitoring and evaluation system for the scientific and technological quality of the results;
- Increasing the investments in science and research;
- Increasing the use of international funds, technical assistance, etc;
- Installation of internationally recognized measures for evaluation and assessment of the economic value of the results of research as criteria for defining future policies;
- Support for the enterprises in the *establishment of units for effective transfer and use of new technologies*;
- Reducing the technological gap with the aim of reaching the level of development of the more developed countries;
- Creation of conditions for raising the quality of knowledge and innovations;
- Creating a *system of technological information* as part of the information system in accordance with the criteria of relevant databases, services and networks;
- Rehabilitation and development of the domestic industry and enterprises, *especially support for the small and medium-sized enterprises*, in order to secure better production and to make them competitive around the world;
- Setting up of a system of priorities, which would be supported with economic policy measures?

The Ministry of Education and Sciences has the following **financial instruments** for support of the scientific activity and research:

- Financing of national research and technological development projects;
- Scholarships for post-graduate and doctoral studies in the country and abroad;
- Support of research for participation at international events;
- Support for organization of scientific events;
- Contribution to publishing scientific publications; and
- Development of research and technological development infrastructure.

Because of the unfavourable situation in the industry, the funds for research and technological development activities are mainly secured from the Budget of the Republic of Macedonia. Therefore, it is necessary to include more actively the **business sector**, which would have an interest in investing in its own economic development through innovation, development of new products and new technological lines.

With regard to the process of revision and evaluation of the scientific and research activities, it should be pointed out that the existing system has to be further developed. Namely, the choice of projects is made through the institution public announcement with additional anonymous review. After the

completion of the projects, public promotion of the results of the project is organized before the relevant scientific community. The main goal of this system is elimination of state control of the process of professional evaluation of the scientific and research activities.

The **legal framework** in the field of scientific and research activities and technological development is defined with the following laws and by-laws:

The Law on Scientific and Research Activities (Official Gazette of the Republic of Macedonia No. 13/96 and 29/02), which regulates the system, principles, public interest, forms of organization and management of scientific and research activities, the manner of encouragement and support of the development of the scientific and research activities, the scientific and research personnel and other issues from this field.

The Law on the Macedonian Academy of Science and Arts (Official Gazette of the Republic of Macedonia No. 13/96), according to which the Academy is the highest independent institution in the field of science and arts in the Republic of Macedonia, and at the same time it is a public institution of special interest for the country.

The Law on Encouragement and Support of the Technological Development (Official Gazette of the Republic of Macedonia No. 98/00), which regulates the stimulation and support of the technological development in the Republic of Macedonia, the programming of activities in this field and the financing of activities such as: development of domestic economic basis, modernization of the existing production capacities, establishment of innovation and technological centres, construction of the necessary technological infrastructure, and transfer of knowledge through continuous development of the skills.

The Law on Encouragement and Support of Technological Culture (Official Gazette of the Republic of Macedonia No. 53/00), which regulates the acquiring of technical, technological and information technology knowledge and skills, inventive creativity, spreading of scientific and technical developments, encouragement of creative and scientific work, technical instruction and education, especially for the young population.

The new law on scientific and research activity and technological development is in the stage of preparation, and it will regulate the principles, goals, public interest and the manner of execution of the policies on scientific and research activities and the encouragement and support of technological development financed from the state budget and other sources (international programs and funds, the units of local self-government, and the economy), and which is aimed at achieving the goals of the social and economic development of the Republic of Macedonia.

This law will also regulate the manner of organization and management of the scientific and research activities and technological development, the conditions for performing of these activities, as well as the education and specialized studies of the scientific and research community, giving the scientific and research activity and technological development priorities in the development of the country.

This law envisages the foundation of an **Ethics Committee**, preparation of an ethics code and ethics departments in the institutions. The task of the Committee would be to monitor and evaluate the use of ethics principles and values in the scientific and research activities and technological

development, in the business relations and the relations with the public, as well as in the use of modern technology and protection of the environment.

The legislation in the field of **industrial and intellectual property** is based on the following laws: the Law on Intellectual Property (Official Gazette of the Republic of Macedonia No. 47/02, 42/03 and 9/04), the Law on Copyright and Related Rights (Official Gazette of the Republic of Macedonia No. 47/96, 3/98, 98/02 and 4/05). This Law regulates the relations in the realization and protection of **copyright to intellectual property**, as creativity of any character, including the field of science. The works of scientific creativity as copyrighted material enjoy the same regime of realization and protection as all the other kinds of creative work.

For the import of donated equipment for scientific and research purposes **the Ministry of Education and Science** issues receipts to the higher education institutions and public scientific institutions, based on which they can claim return of paid customs duties and VAT.

* * *

The adoption of the new **law on scientific and research activities and technological development** will establish a national committee on science and technological development headed by the Prime Minister of the Government of the Republic of Macedonia. The main goals of this Council will be to determine the priorities according to areas, to establish interministerial coordination with regard to the scientific and research activities and to monitor the implementation of the policy on science and technological development.

The technological development in the Republic of Macedonia, according to the Law on Encouragement and Support of the Technological Development, is realized through:

- Research and development organizations in the framework of private companies;
- Public scientific organizations (scientific institutions);
- Innovation and technological centres;
- Associations of citizens whose activity is based on innovations and technical development; and
- Other legal and physical entities that perform activities in the function of technological development.

In the realization of technological projects financed by the Ministry of Education and Science for the period 1995 to 2003, 77 private companies were successfully included. In this way they indirectly influenced the policy on technological development in the Republic of Macedonia. The plan is that representatives of the most successful companies in the transfer of technology will be members of the National Committee on science and technology.

The Macedonian institutional infrastructure for research and technological development is consisted of:

- The Macedonian Academy of Science and Arts;
- The Universities;
- The research centres;
- The regional scientific associations.

In the Republic of Macedonia there are 3 national and 1 private university. Within the framework of the universities operate 37 faculties, 2 vocational schools and 1 interdisciplinary study.

Certain research and development departments are *part of the private companies in the industrial sector*, and according to the registry of the Ministry of Education and Science, there are 30 such departments in the country.

The six regional scientific associations are part of the *non-governmental sector*, that also participates in the formation of the institutional network in the field of science.

Several institutions in the Republic of Macedonia are identified as future centres with excellent performances:

- The Research Centre for Genetic Engineering and Biotechnology, Macedonian Academy of Science and Arts;
- The Institute of Earthquake Engineering and Engineering Seismology - Skopje;
- The Institute of Chemistry, Faculty of Natural Sciences and Mathematics - Skopje; and
- The Clinic of Nephrology, Medical Faculty - Skopje.

The national policy in the field of research and technological development provides the basis for promotion and development of research, and transfer of new and clean technologies, for the time being supported mainly from government programs and funds, and from foreign donations.

The cooperation between the industrial sector and the development and research community takes place mainly through the technological centres at the universities and the scientific and research organizations. These institutions are connected with a network and provide access to the best practices and achievements that can be used on request of the industrial sector.

The private sector shows special interest and demand for knowledge and information, because of its orientation to innovation from domestic research and its diffusion.

7. Regional development and facilitation of the regional cooperation

The Republic of Macedonia has adopted a law on regional cooperation that in a complex manner regulates this issue on the whole territory of the country.

Nevertheless, in force in the Republic of Macedonia is the **Law on Stimulation of the Development of the Economically Underdeveloped Regions** (Official Gazette of the Republic of Macedonia No. 2/94, 39/99), which explicitly regulates the issue of development of these regions which cover 64% of the territory of the country.

With the aim of securing regulation of the issue of regional development generally on the whole territory of the country and the establishment of mechanisms for implementation of the policy of regional development, the Government of the Republic of Macedonia, at its 28th session held on 1 November 2004, adopted the Conclusion to initiate the activities for establishment of the legal and institutional framework for harmonized regional development, and adopted the Information on the legal and institutional framework for harmonized regional development with a Draft

Action Plan on the activities which should be undertaken in the future period. In accordance with this Information, a draft law on regional development is to be prepared in the fourth quarter of 2005. At the moment, the activities for the establishment of the legal and institutional framework are defined.

Besides the Law on Stimulation of the Development of the Economically Underdeveloped Regions (Official Gazette of the Republic of Macedonia No. 2/94, 39/99), which explicitly regulates the development of the underdeveloped regions, there are several other laws that are relevant for the regional development in a direct way.

a) Legislation that specifies the composition and the organization of the units of local self-government:

- The Constitution of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 52/91)
- The Law on Organization and Operation of the State Administration (Official Gazette of the Republic of Macedonia No. 58/00)
- The Law on Local Self-Government (Official Gazette of the Republic of Macedonia No. 5/2002)
- The Law on Territorial Organization of the Local Self-Government in the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 55/04)
- The Law on the City of Skopje (Official Gazette of the Republic of Macedonia No. 55/04)

b) Laws that regulate the financing of the units of local self-government and the state assistance:

- Law on Financing of the Units of Local Self-Government in the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 61/2004)
- Law on Property Taxes (Official Gazette of the Republic of Macedonia No. 61/04)
- The Law on Value Added Tax (Official Gazette of the Republic of Macedonia No. 44/99, 19/04 “)
- The Law on Budgets (Official Gazette of the Republic of Macedonia No. 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 61/02, 24/03 and 85/03)
- The Law on State Assistance (Official Gazette of the Republic of Macedonia No. 24/03)
- The Decision on the Criteria, Amount, Conditions and the Manner of Use of the Funds for Stimulation of the Development of the Economically Underdeveloped Regions (Official Gazette of the Republic of Macedonia No. 67/99)
- The Law on Utility Fees (Official Gazette of the Republic of Macedonia No. 61/2004)
- The Law on Modifications and Amendments to the Law on Administrative Fees (Official Gazette of the Republic of Macedonia No. 61/2004)

c) Legislation that regulates the spatial planning on national and local level and specifies the economically underdeveloped regions:

- The Law on Spatial and Urban Planning (Official Gazette of the Republic of Macedonia No. 4/96, 8/96, 5/97, 28/97, 18/99, 76/99, 53/01, 45/02)
- Spatial Plan of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 39/04)
- Decision for Determining the Economically Underdeveloped Regions in the Republic of Macedonia for the Period 2003 - 2007 (Official Gazette of the Republic of Macedonia No. 28/03 and 2/04)

It was already mentioned that in the Republic of Macedonia there is no law that regulates the issue of regional development in a unique and complex manner. However, the Law on Stimulation of the Development of the Economically Underdeveloped Regions (Official Gazette of the Republic of Macedonia No. 2/94, 39/99) is in force, and it explicitly and individually regulates the issues on development of 64% of the overall territory of the country, 68% of the overall number of settlements and 22% of the population in the Republic of Macedonia. Because of this, we believe that there is a need for more detailed elaboration of the policy of regional development implemented in accordance with this Law and the related decisions of the Government of the Republic of Macedonia.

Because of the existing differences in the level of development, the Republic of Macedonia, in its efforts to secure more equal and sustainable development of certain parts of the country, has a policy of encouragement of the development of the economically underdeveloped regions based on the principles of market economy. Within the framework of this policy special emphasises is given to the support of the development through creation of conditions for improvement of the quality of life and for implementation of economic activities, primarily through development of the rural centres, assistance in the establishment of economic and non-economic infrastructure, development of agriculture, especially in the field of stock-breeding, as well as development of small businesses in the industry and services sector.

The Law on Encouragement of the Development of the Economically Underdeveloped Regions stipulates that the measures for encouragement of the development of the economically underdeveloped regions are to be implemented through the Agency for Economically Underdeveloped Regions, a body within the Ministry of Local Self-government with a capacity of legal entity. With a special decision, the Government of the Republic of Macedonia determines the economically underdeveloped regions in the Republic of Macedonia for a four-year period. For the period 2003-2007, 1092 settlements are determined: 500 settlements in the regions of hills and mountains - 157 settlements in the border regions, 319 settlements in distinctly underdeveloped regions, and 116 settlements are indicated as rural centres. The number of settlements in the economically underdeveloped regions represents 68% of the overall number of settlements in the Republic of Macedonia (1700). The economically underdeveloped regions have a population of 427,382 inhabitants: 109,726 inhabitants in the regions of hills and mountains, 61,049 inhabitants in the regions near the borders, 99,260 in distinctly underdeveloped regions, and 197,337 inhabitants in the rural centres, or 22% of the overall number of inhabitants in the Republic of Macedonia. The economically underdeveloped regions cover an area of

16,425.0 km², which represents 64% of the overall territory of Macedonia. Although with the measures from the policy of encouragement of the development of the economically underdeveloped regions efforts are made to stop or reduce the migratory processes, the migratory movement from the villages into town is especially emphasised in these regions. In these regions we find almost completely deserted areas with practically no population (Mariovo, Azot, the regions of Kozjak and Kopacka), and a large number of settlements with very few inhabitants, predominantly older people.

In order to encourage the development of the economically underdeveloped regions, the Law on Encouragement of the Development of the Economically Underdeveloped Regions specifies that each year 1% of the Gross Domestic Product will be allocated for these regions from the Budget of the Republic of Macedonia.

Apart from this source of financing, in order to stimulate the development of the economically underdeveloped regions, the Law stipulates possibilities for using funds from other sources coming from: dividend on the shares and stakes bought from funds deriving from finances for stimulating the development of the economically underdeveloped regions in the ownership of the Republic of Macedonia; selling of shares or stocks; part of the revenue of the country deriving from concessions; as well as from other sources.

The various programs for environmental development are especially important for the regional development and cooperation, as a way of improving the economic and social situation in the regions. At the moment this cooperation takes place through the eco-centre in Budapest and other activities incorporated in programs and projects supported by the EU.

In addition, we should point out the Project for Regional Cooperation that supports large-scale projects, that with the support of the EU and the participation of 25 municipalities from the southern part of our country, prepared a study on regional connection with Greece and Albania, based on the possibilities, resources and the interest for cooperation in the region.

8. Other regional policies

a) The policies for promotion of the research and development in order to increase the **productivity in the key industrial sectors** is ongoing within the framework of the Program for Technological Development and the National Program on improving the competitiveness - Macedonia's Competitiveness Activity - MCA, supported by USAID, that was initiated in 2003.

The productivity and competitiveness on the Macedonian economy is under a strong influence of external shocks. The inflexibility of the legislation in the field of the labour market also has an influence on the slow adjustment of the enterprises to the changes on the market. The reduced demand on the market immediately results in diminished labour productivity and increased labour costs per single product, which has a strong influence on the competitiveness and profitability of the Macedonian companies. This was especially emphasized in 2001.

However, in the last 6 years (1997-2002) a slow improvement of the competitiveness can be identified. However, best results show the so-called "nontradables" sectors, i.e. the market services. The manufacturing industry,

which is the largest exporter, has insignificantly improved its competitiveness, mainly as a result of the closing or selling of the largest insolvent enterprises in the last six years.

Labour productivity

Real annual variation in denars
(basic prices in 1997)

	1997	1998	1999	2000	2001
A. Agriculture, gaming and forestry	373	-2.6	12.2	-8.1	-7.2
B. Fishing	104	43.8	38.9	13.0	96.7
C. Mining and Quarrying	266	0.8	8.0	22.1	14.4
D. Processing industry	264	-6.1	1.0	14.3	-0.8
E. Electricity, gas and water supply	570	5.0	-3.4	3.7	-7.8
F. Construction	264	18.2	13.8	3.8	-8.1
G. Trade	347	-3.5	4.5	3.9	-5.2
H. Hotels and restaurants	225	-2.8	23.6	-15.6	-1.8
I. Traffic, storage and communications	365	21.8	14.7	4.4	-10.6
J. Financial services	1,199	12.2	-5.6	-4.7	-9.2
K. Activities concerning real estate, leasing and economic and business activities	518	-10.5	11.2	11.8	4.2
L. Public administration and defence; compulsory social protection	363	0.0	4.0	0.0	1.0
M. Education	231	0.0	0.0	0.0	1.0
N. Health care and social work	278	0.0	2.0	0.0	1.0
O. Other services in the field of utilities, cultural, general and personal services	359	-10.2	-1.6	-3.8	-0.2

Added value per employee

In millions of denars

NCA sectors	Description	1997	1998	1999	2000	2001	2002	2003
A	Agriculture, gaming and forestry	0.37	0.36	0.41	0.37	0.35	0.32	0.40
B	Fishing	0.10	0.15	0.21	0.23	0.46	0.60	0.64
C	Mining and Quarrying	0.27	0.27	0.29	0.35	0.40	0.41	0.93
D	Processing industry	0.26	0.25	0.25	0.29	0.28	0.30	0.35
E	Electricity, gas and water supply	0.57	0.60	0.58	0.60	0.55	0.51	0.59
F	Construction	0.26	0.31	0.36	0.37	0.33	0.33	0.34
G	Trade	0.35	0.34	0.35	0.36	0.35	0.36	0.36
H	Hotels and restaurants	0.23	0.22	0.27	0.23	0.22	0.26	0.28
I	Traffic, storage and communications	0.36	0.44	0.51	0.53	0.48	0.51	0.52
J	Financial services	1.20	1.35	1.27	1.21	1.10	0.92	0.89
K	Activities concerning real estate, leasing and economic and business activities	0.52	0.46	0.52	0.58	0.60	0.56	0.55
L	Public administration and defence; compulsory social protection	0.36	0.36	0.38	0.38	0.38	0.38	0.38
M	Education	0.23	0.23	0.23	0.23	0.23	0.23	0.23
N	Health care and social work	0.28	0.28	0.28	0.28	0.29	0.29	0.29
O+P	Other services in the field of utilities, cultural, general and personal services + Extra-territorial organizations and bodies	0.36	0.32	0.32	0.31	0.30	0.31	0.29
	Overall	0.33	0.33	0.34	0.36	0.35	0.35	0.38

Source: State Statistical Office

Productivity costs

Annual change in %

Activity	1997	1998	1999	2000	2001
A. Agriculture, hunting and forestry	0.21	0.20	0.20	0.19	0.17
B. Fishing	1.33	1.21	2.03	5.14	2.25
C. Mining and quarrying	0.75	1.03	0.98	0.88	1.10
D. Processing industry	0.82	0.90	0.87	0.78	0.77
E. Energy, gas and water supply	0.48	0.48	0.51	0.47	0.49

F. Construction	0.65	0.55	0.66	0.61	0.59
G. Retail and wholesale business: repair of vehicles, motorcycles and personal and household goods	0.46	0.47	0.48	0.44	0.43
H. Hotels and restaurants	0.72	0.75	0.67	0.73	0.74
I. Transport, storage and communications	0.64	0.51	0.44	0.41	0.43
J. Financial services	0.35	0.34	0.35	0.38	0.41
K. Real estate, renting and business activities	0.51	0.58	0.59	0.53	0.54
L. Public administration and defence; compulsory social protection	0.82	0.82	0.84	0.81	0.77
M. Education	0.93	0.93	0.93	0.91	0.90
N. Health and social work	0.84	0.84	0.84	0.81	0.79
O. Other community, cultural, general and personal service activities	0.58	0.67	0.72	0.73	0.64

Costs per production unit

Annual change in %

Activity	1998	1999	2000	2001	2002
A. Agriculture, hunting and forestry	-6.9	3.1	-7.6	-6.7	-24.2
B. Fishing	-9.1	67.9	152.8	-56.3	-55.6
C. Mining and quarrying	36.4	-4.9	-9.7	24.2	13.2
D. Processing industry	10.5	-3.6	-10.5	-1.5	0.6
E. Energy, gas and water supply	0.3	6.4	-6.9	4.1	21.0
F. Construction	-14.9	20.4	-8.2	-3.2	3.3
G. Retail and wholesale business: repair of vehicles, motorcycles and personal and household goods	2.9	2.9	-9.3	-1.4	-6.5
H. Hotels and restaurants	4.3	-9.8	8.6	1.6	-18.2
I. Transport, storage and communications	-20.6	-12.7	-6.4	4.8	-0.6
J. Financial services	-3.2	1.2	8.0	9.5	15.6
K. Real estate, renting and business activities	13.8	1.8	-10.3	1.8	-2.8
L. Public administration and defence; compulsory social protection	-0.1	2.1	-3.3	-4.6	-0.4
M. Education	-0.2	-0.2	-1.8	-0.6	0.3
N. Health and social work	0.1	-0.8	-3.7	-1.8	1.0
O. Other communal, cultural, general and personal service activities	14.9	6.8	1.5	-11.3	5.2
Source: Ministry of Economy					

b) There are no programs for facilitation of contacts and exchange of information between the domestic industrial enterprises and overseas distributors, consumers and partners.

The contacts are established through the business community of the Macedonian Diaspora in overseas countries and through the embassies of the Republic of Macedonia and the economic advisers who are working actively on establishing business contacts.

According to the previous practise, the business meetings are organized by the institutions of the government responsible for the immigration, and by the chambers of commerce.