



## Doing Business In Macedonia: A Country

### Commercial Guide for U.S. Companies

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# Chapter 1: Doing Business In Macedonia

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## Market Overview

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Macedonia, a small, centrally-located Balkan country, is undertaking substantial reforms in its economic, legal and political systems, making it ripe for increased levels of foreign investment. With international companies already present in-country, the market is steadily shifting to adopt international business practices. The internationally mediated Framework Agreement (FWA), which ended the 2001 ethnic Albanian insurgency, is in the final stages of implementation; and Macedonia's political and security situation has stabilized. A major challenge for 2005 is to implement the political, financial, and economic decentralization provisions of the Framework Agreement, which will make municipal leaders more politically and fiscally accountable to their constituents.

Five years of continuous economic expansion in Macedonia were interrupted in 2001 when ethnic conflict broke out. Since then, the economy has struggled with high unemployment, falling commodity prices, the after-effects of September 11, and the slowing global economy. Positive prospects for the economy in early 2004 were dashed after Macedonian President was killed in a plane crash, and the government wrestled with ensuing presidential elections, politically bruising negotiations over FWA implementation, two major government reshuffles, and an anti-FWA referendum that ultimately failed to gain enough support to pass. The political situation has since stabilized, and local elections are scheduled for March 2005. Implementation of FWA-mandated decentralization is scheduled to begin in July 2005.

Industries offering particular promise for international investors include energy, transportation, computers and information technology, agriculture, wine, construction, and tourism. Distribution and sales channels are already in place, although not to the degree or sophistication of countries in the West. Small shops dominate the retail industry, and outlets range from open-air markets to shopping malls in the capital, Skopje. Two large specialty stores opened in 2003, one for home electronics and one carrying home repair products and appliances. A second large shopping mall, "Ramstore," built by a Turkish investor, is scheduled to open in the summer of 2005. International companies doing business in Macedonia range from McDonalds and Benetton to Cisco and IBM. Macedonia has its share of entrepreneurs as well, including a world-class printed circuit board manufacturer and several companies using state-of-the-art technology in low-tech industries such as poultry and animal feeds.

Former state-owned enterprises are almost completely privatized. The government is beginning to privatize the energy monopoly. The telecommunications market should be liberalized by mid-2005, and international telecom companies are already starting to

position themselves to compete. To lure foreign companies, Macedonia has instituted tax and investment incentives; founded a Competitiveness Council consisting of business, government, and labor representatives; and opened the independent Agency for Attracting Foreign Investment. These developments, along with the international community's push for military, democratic, economic and humanitarian reforms, have bolstered the country's business prospects. The U.S. has supported Macedonia's transition to a democratic, secure, market-oriented society with substantial technical and financial assistance.

Several initiatives are particularly important to economic development. In April 2003 Macedonia joined the World Trade Organization. USAID's WTO project is helping Macedonia develop a trading strategy to take advantage of this and other trade agreements, while encouraging its domestic industries to become more competitive. Another USAID project provides short-term purchase order financing to help established companies fill large orders. A USAID project with perhaps the greatest near-term effect is the four-year Macedonian Competitiveness Activity, which is helping Macedonians develop export-focused business clusters to become globally competitive.

As the global economy slowly begins to turn up, there is growing confidence that Macedonia's reform efforts over the last several years and its commitment to economic development will improve the domestic economy and attract new foreign investment. However, much work remains to be done to demonstrate a strong government commitment to rule of law and zero tolerance of corruption. In addition, foreign investors should be watching closely to see whether the government can maintain the political stability it has managed to preserve over the past year.

## Market Challenges

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U.S. exporters have difficulty competing with their European counterparts in selling most consumer goods in the Macedonian market. Not only are U.S. transportation costs higher, but the small market that Macedonia represents denies U.S. suppliers economies of scale. Historically, the most successful U.S. products have been frozen poultry, computer hardware and software, and specialized technology. Unless a U.S. supplier can afford the additional cost of bank guarantees such as letters of credit, it faces the prospects of not being paid for its shipment.

## Market Opportunities

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**Food and Beverages** -- The food and beverage industry is one of Macedonia's most promising sectors, based on previous performance and potential. The industry nearly doubled between 1989 and 1995 relative to the rest of the economy. Macedonia's fertile soil and suitable climate contribute to the strength of the country's food production. Future investment opportunities lie in marketing specialty foods, as well as adding more value to those already being offered. Shifting from the export of wine in bulk to the export of bottled wine will introduce more value-added enterprise to this sector. In addition, the large state-owned agricultural consortia are in the process of concluding their privatization, which will present further opportunities.

**Construction --** The construction industry is recognized for its skilled personnel and use of modern technology, especially in the area of civil engineering and hydro-construction. For this reason, Macedonia has been a major supplier of construction labor, with small- and large-scale projects in Central Europe, the Middle East and Russia. Macedonia has maintained access to the Russian market, even after the collapse of the Soviet Union.

**Tourism --** The country's geographical location, seasonal climate, and historic and religious sites provide favorable conditions for the development of the tourism industry. Macedonia has 90 hotels, 10 campgrounds, 2 tourist settlements and an additional 27,000 private beds. The total number of beds in all facilities exceeds 80,000. Currently, the most popular tourist destinations include Lake Ohrid, Lake Prespa, Bistra Mountain and Pelister Mountain. More than 80 percent of tourist revenues are generated in these locations. The town of Ohrid, an area of great natural beauty, also enjoys protection by UNESCO as a historical/cultural heritage site.

## Market Entry Strategy

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The decision on how to enter the Macedonian market can have a significant impact on the results. Depending on product, services, and long-term strategy, U.S. companies may choose direct exports to an end-user, various distribution models, licensing, joint ventures, or direct investment.

To discuss market entry options, please see [www.export.gov/ceebic](http://www.export.gov/ceebic) or contact the DOC/CEEBIC representative at the U.S. Embassy in Skopje, via <http://skopje.usembassy.gov/commercial/Commercial.HTML>

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## Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/26759.htm>

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### Using an Agent or Distributor

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U.S. companies seeking to market and distribute their goods will find a considerable number of merchants, agents, middlemen, wholesalers and retailers available in Macedonia. In fact, all of the typical distribution channels are available, although they often lack the sophistication of distribution networks found in western markets. The most significant marketing area in Macedonia is its capital, Skopje (population over 600,000), where the primary business activity is based. Other major business centers include Tetovo (population 51,000), Prilep (population 67,000) and Bitola (population 75,000).

Macedonia's retail sector is dominated by small shops. Retail outlets vary from roadside shops and open air markets to city storefronts and shopping centers. A few department stores can be found in the larger cities. While many stores specialize in goods such as shoes, leather, or handbags, it is still common to find stores with an unusual mix of merchandise (bicycles sold next to paper products and small appliances, for example.) Retail is now dominated by private companies such as Tinex, Tediko, Alkaloid, Replek and others. Foreign retailers Gorenje, Candy, Ariston, Samsung, LG, Franck, and others are already present in the market. Fruits and vegetables are typically sold at open-air public markets.

The main shopping mall in Skopje stood half-empty only a decade ago. Now it is teeming with merchandise and shops. Many of the shops carry Western goods. Some western outlets have also opened in. The Greek supermarket chain Veropoulos ("Vero"), which entered the market in 1998 with two stores in Skopje and one in Tetovo, has since added two more in Skopje and one in Bitola, and has plans for expansion into other

parts of the country. "Germanos Telecom Skopje," a subsidiary of the Greek GERMANOS Group, has been operating in the country since February 2002. It is now a leading supplier of telecommunications goods and services, with over 20 stores.

Consumer-oriented trade shows are an important part of the retail scene. Frequent sector-specific shows such as food shows and consumer electronics shows attract regional and local participants and exhibitors.

### **Establishing an Office**

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As specified by the Law on Trading Companies (Official Gazette No. 28/2004) the following forms of business can be established in Macedonia: limited liability company, joint-stock company, representative offices, branches, partnerships, sole trade companies, limited partnership, limited partnership joint stock companies, and individual tradesman/sole proprietorship. We strongly suggest that anyone interested in opening a business in Macedonia review the Law on Trading Companies ([http://www.economy.gov.mk/WBStorage/Files/Company%20Law%2024\\_Feb\\_04.pdf](http://www.economy.gov.mk/WBStorage/Files/Company%20Law%2024_Feb_04.pdf)) and work with a reputable local business consultant or attorney.

### **Franchising**

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McDonald's opened three very successful restaurants in Skopje from 1997 to 1999. Holiday Inn opened a popular hotel in downtown Skopje in 2000, and the Best Western Plaza opened in 2002. Some European companies such as Big Star, Diesel, Benetton and Mango have established outlets in the market.

The best prospects for franchising opportunities are in restaurants, hardware stores, specialty retail stores, printing and photocopying services, and equipment rental centers. Consumers in Macedonia are looking for retailers who can provide a consistent selection of quality products at reasonable prices. Entrepreneurs in Macedonia are also eager to obtain technology and management expertise.

Although franchising is a new concept for the business community in Macedonia, the legal system in Macedonia accommodates franchise agreements. In the beginning of 2003, the Macedonian Franchise Association (E-mail: [skopje@talk21.com](mailto:skopje@talk21.com)) was established to help domestic and foreign companies. Franchises have some advantages over domestic companies due to certain tax breaks and incentives.

Laws on labor relations are clearly spelled out, leases can be freely negotiated, and there are laws to protect trademarks, patents and copyrights. However, lack of capacity in the judicial system keeps these laws from being properly enforced. The primary challenge in establishing franchises is in obtaining favorable sites.

### **Direct Marketing**

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Direct marketing is not well developed in Macedonia. Direct marketing techniques need to be created and legislation for consumer protection strengthened. A style of mail-order catalogs unique to Macedonia has begun to enter the market. Currently, at least one business is using the television home shopping channel, "Teleshop," to sell sports equipment, kitchen tools, household cleaning products and health and beauty supplies. Internet marketing is insignificant.

Telemarketing has not caught on in Macedonia. Rural mail deliveries are sometimes unreliable, and rural people generally prefer to deal with local vendors.

Direct marketing through catalogs, telemarketing and the internet from the United States to Macedonia is still quite difficult. Credit cards are not widely used in Macedonia. With cautiously increasing confidence in the banking system, debit cards are just now becoming popular. Due to low purchasing power, the high cost of shipping, and lack of security for parcels and mail at most homes, catalog shopping and internet shopping from the United States is in its infancy. However, e-commerce is expected to grow in Macedonia over the long term.

### **Joint Ventures/Licensing**

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Existing legislation permits joint ventures, mixed ownership investment, and both foreign and domestic investment. Because many large firms are undergoing privatization, joint ventures are becoming more common. Often, a local company teams with a foreign company that provides equipment and merchandise, while the local company provides buildings, warehouses, office space and personnel. An example of a U.S. firm that has made a significant investment in the local production of pharmaceuticals is ICN Pharmaceuticals, Inc., in partnership with the local chemical producer OHIS.

### **Selling to the Government**

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Government procurement is regulated by the Law on Public Procurement (Official Gazette 26/98; 50/01; 2/02), which establishes the terms and procedures for public procurement in Macedonia. However, in practice, government purchases often are not open and transparent. Some tenders are restricted to domestic companies and foreign companies are ineligible to participate (especially in the areas of defense). By law, both local and foreign potential providers are supposed to be treated equally. However, it is clear that the tendering process is far from consistently transparent. Requests for assistance regarding the tendering process can be directed to the U.S. Commercial Service/Central and Eastern Europe Business Information Center (CEEIBC) at the U.S. Embassy in Skopje.

The central government, municipal institutions or agencies, or any entity receiving budgetary funds must use public procurement procedures. The intended contract can be for the purchase, supply, transportation, rent, lease, manufacturing, assembly or maintenance of personal property or real estate. It can also be, for the provision of services, or for the study, design, construction, or improvement of property. A simple tender, a two-phase tender, a silent auction, or negotiations with three or more potential

contractors (one in exceptional cases) must precede the contract to ensure competitiveness, equal opportunity and fairness.

Tenders financed by the World Bank and the EBRD must be conducted pursuant to the respective organization's procurement guidelines. This means that the tendering process is conducted in an open and transparent manner, with the emphasis on meeting tender specifications and price competitiveness. Companies should review tender specifications closely to ensure that they are not written to limit competition ("lockout" specifications). Requests for assistance regarding the tendering process can be addressed to the U.S. Executive Director's Office at the World Bank in Washington DC.

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Since Macedonia is a small market, there are no major distribution or warehousing operations. Efforts to establish free-trade zones to serve a larger Balkan market have not yet materialized.

## **Selling Factors/Techniques**

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Disposable income in Macedonia remains relatively low when compared with Western European countries. Most consumers purchase goods primarily based on price. The focus on price is reflected in the relatively poor quality of merchandise in traditional shops. Also evident in shops are many counterfeit brands, which indicates the importance of image. The importance placed on quality is growing, however, and more and more people are willing to pay a higher price for quality goods.

Many consumers prefer monthly installment payments for purchases. Financing and payment terms play a key role in successfully achieving sales. Local firms are also beginning to focus on quality and support services to attract customers. Domestically produced products sometimes offer exceptional quality.

Market size statistics are unreliable in predicting market responses. While low official disposable income statistics might initially discourage market entry, the size of the unofficial economy and inferences from observing actual sales activity paint a brighter picture. First-hand observation on the streets and in the shops is essential for gauging the amount of actual economic activity in Macedonia.

Strong local contacts are important for success in Macedonia. U.S. companies pursuing the market should be prepared to spend time cultivating relationships and find a local representative to provide product support. Typically, one agent or distributor can cover the entire country effectively. When selecting an agent, companies are encouraged to consider the potential partner's marketing reach, contact base, and ability to do business with the entire country and in surrounding countries.

Selling to state entities depends on cultivating relationships. U.S. companies sometimes complain that they are pressured for some form of kickback, which would violate the U.S. Foreign Corrupt Practices Act. Internationally financed public procurements offer the best opportunity for transparent purchasing decisions. Tenders financed by the

World Bank, European Bank for Reconstruction and Development (EBRD) and similar institutions follow rigid rules of transparency.

## Electronic Commerce

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eCommerce transaction volume in Macedonia is extremely low, both for internet merchants, who sell products online, and consumers, who shop online. According to best estimates, in 2004, only three Macedonian merchants accepted online credit card payments, and Macedonian consumers used credit cards for online transactions fewer than 400 times.<sup>1</sup>

There are several reasons for the small size of the market. On the merchant side, the main obstacle to eCommerce growth is that no Macedonian bank offers merchant services for eCommerce. The root cause is the small size of the market. With relatively few merchants interested in eCommerce, none of the banks see a return sufficient to justify fixed infrastructure investments.<sup>2</sup> Without domestic merchant accounts, online merchants must set up an offshore company or use an offshore payment gateway, which can charge as much as 10% of the transaction. Either option discourages merchants from entering the market.

On the consumer side, the biggest issues are low internet penetration and the low penetration of eCommerce-enabled credit cards. Also significant is the apparently high incidence of internet credit card fraud in Macedonia, which has caused many major eCommerce sites to limit access from Macedonia.

Internet penetration in Macedonia is low by international standards, with an internet-connected PC in only 16.5% of households. Most users subscribe to slower dial-up services. Broadband ADSL and wireless connections were beginning to roll-out in late 2004. Of those Macedonians using the internet, only 6.5% said they used the internet for shopping.<sup>3</sup>

Credit card use is also low. Major Macedonian banks had issued approximately 60,000 credit cards plus 30,000 debit cards by the end of 2004. However, the largest credit card issuer, Stopanska Bank, does not authorize online transactions with their Visa cards because they have not implemented Visa International's on-line authentication system. Stopanska offers customers a vehicle for charging on-line purchases, but since this requires customers to transfer funds and obtain a charge number for each transaction, it is rarely used.<sup>4</sup>

The percentage of internet fraud is high. According to Verisign, an international leader in electronic security, Macedonia ranks first among all countries surveyed in the perception of fraudulent transactions as a percentage of total transactions. Consequently, several

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<sup>1</sup> Based on the total number of internet-ready credit cards in Macedonia and an estimate of the percentage of users who buy online.

<sup>2</sup> Interview with Financial Services Volunteer Corps, December 2004.

<sup>3</sup> Open Society Institute of Macedonia (Soros Foundation), April 2004.

<sup>4</sup> Interviews with Pexim Computers and Financial Services Volunteer Corps, December 2004.

major international eCommerce sites block or restrict transactions from Macedonia, retarding the development of eCommerce.<sup>5</sup>

## Trade Promotion and Advertising

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Advertising is one of the fastest growing industries in Macedonia, despite the fact that the concept of advertising is relatively new here. Both consumers and companies are beginning to understand the effectiveness of advertising and the importance of marketing products. All forms of media are widely used: newspapers, magazines, television, radio, outdoor billboards and other signs. The following advertising media are preferred by companies in Macedonia (in descending order): printed media, both newspapers and magazines, radio, outdoor billboards/signs, trade shows, sales promotion literature, event sponsorship, and television. Commercial airtime is expensive for many Macedonian companies and the cost is rising. As a result, the leading users of television advertising are mainly foreign-affiliated companies, especially those specializing in consumer products. It may be necessary for a U.S. supplier to assist its agent or distributor in Macedonia to cover the cost of television commercials.

**Broadcast Media** - There is growing competition between state-owned "national" stations and numerous small, local independent stations. In Macedonia, over 100 radio and television stations are currently broadcasting. Satellite TV is also very popular.

**Print Media** - Newspaper advertising continues to dominate local markets. The market is characterized by a large choice of newspapers and magazines. Magazines are generally considered costly given the low standard of living and therefore lack wide public readership. There are about ten national daily newspapers in Macedonia. The most popular publications are "Dnevnik", "Fakti", "Utrinski Vesnik".

Dnevnik (Macedonian language)  
(Marketing Services)  
Tel: 389-2-316-6606 and 313-0204  
Fax: 389-2-329-7554  
Website: [www.dnevnik.com.mk](http://www.dnevnik.com.mk)

Fakti (Albanian language)  
(Marketing Services)  
Tel/Fax: 389-2-262-8424 and/or 262-8742  
E-mail: [fakti@mol.com.mk](mailto:fakti@mol.com.mk)  
Website: [www.fakti.com.mk](http://www.fakti.com.mk)

Utrinski Vesnik (Macedonian language)  
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E-mail: [marketing@utrinski.com.mk](mailto:marketing@utrinski.com.mk)  
Website: [www.utrinskivesnik.com.mk](http://www.utrinskivesnik.com.mk)

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<sup>5</sup> Internet Security Intelligence Briefing, Verisign, November 2004.

Business Directories, or “yellow pages,” have been introduced to the market. Their popularity and usage is increasing and they are becoming more effective.

- [www.yellowpages.com.mk](http://www.yellowpages.com.mk)
- [www.zlatnakniga.com.mk](http://www.zlatnakniga.com.mk)

Outdoor Advertising - Quality outdoor advertising as an organized marketing effort is new to Macedonia and limited to larger cities and main roads/highways. Most outdoor advertising is limited to billboards, buses, large signs and some electronic displays.

Direct Mail - With improved postal service, direct mail advertising is slowly increasing.

Retail/Point-of-Sale Advertising - Point of purchase promotions are not common, but are growing in popularity. Retail stores often treat retail and/or point-of-purchase advertising as a secondary activity. Likewise, merchandise is stocked on shelves with little consideration of appearance. Unless there is assistance from a producer or distributor, retailers will rarely make an effort to enhance point-of-sale advertising. Coca-Cola, for example, has pursued a visible point-of-sale (shops, bars, restaurants, hotels, gas stations) marketing campaign that involves posters and coolers with company logos. The campaign has won Coca Cola significant market share here.

Trade Events/Fairs - Trade fairs are particularly good promotion channels for industrial products in Macedonia. Local and foreign firms rely on trade fairs to build business connections, regain market visibility, and learn about new technology. A list of upcoming fairs and events appears in the appendices. An updated list can be found at [www.skopjefair.com.mk](http://www.skopjefair.com.mk). In Macedonia, U.S. Embassy/CEEBIC has managed a booth at certain trade fairs to help U.S. companies market their products and services by presenting their catalogs, brochures, and videos under the American Catalog Show program. For additional information on this cost-effective method to penetrate the Macedonian market, please visit: [www.export.gov/ceebic](http://www.export.gov/ceebic).

Sponsorships and Special Promotions – Special events offer an excellent avenue to launch new products. Because event promotion is new to the country, they offer an opportunity for a company’s products or services to stand out.

Advertising Agencies - Advertising and marketing agencies have developed over the past several years and offer a full range of services. Read under: Local Professional Services.

## Pricing

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Officially, per capita monthly income in Macedonia is 12,609 denars (according to official October 2004 data - approximately \$260). Since consumers are extremely price sensitive and consistently seek bargains for their purchases, companies must pay close attention to price. Imported products are priced substantially higher than locally produced goods. As mentioned earlier, favorable financing may be a critical selling factor for big-ticket items.

## **Sales Service/Customer Support**

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Although service and customer support are relatively undeveloped as marketing tools, local distributors are attempting to provide quality service to their customers. In the past, customers often have cited price as the determining factor in the purchase of a particular product. Customer service and support have been secondary considerations. Firms selling capital equipment or technology should emphasize customer service and product quality.

Companies in Macedonia may demand full service and support from the U.S. exporter when purchasing imported products. Since foreign prices are generally higher and their limited budgets are already stretched, value-priced/low-cost service and support by U.S. suppliers are important. Emphasis on customer support is an initial step in developing customer loyalty.

American companies seeking to operate in Macedonia may want to consider providing training to their distributors/agents to communicate the firm's distinctive corporate policies, behavior and standards.

## **Protecting Your Intellectual Property**

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Macedonian law protects copyrights, patents, trademarks, stamps, mark of origin, and industrial designs. Protection is provided through the registration process with the Industrial Property Protection Office (phone +389-2-311-6379). In practice, IPR rules are poorly enforced. Consumer goods manufacturers, CD producers and video vendors report the most serious infringements. US companies are advised to consult an attorney experienced in IPR issues and to offset IPR risk by establishing solid relationships and drafting tight contracts. For additional information on protecting your intellectual property at home and abroad, please see [http://www.export.gov/stop\\_fakes\\_gov/index.asp](http://www.export.gov/stop_fakes_gov/index.asp).

## **Due Diligence**

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While very few Macedonian companies have Dunn & Bradstreet or other internationally recognized business ratings, the Department of Commerce's Central and East European Business Information Center (CEEBIC) at [www.export.gov/ceebic](http://www.export.gov/ceebic) and the Commercial Service of the U.S. Embassy in Skopje, Macedonia at <http://skopje.usembassy.gov/commercial/Commercial.HTML> may have information on potential Macedonian companies or partners. However, the best source of in-depth analysis of a Macedonian partner is through one of the professional associations listed in the next section. U.S. companies selling to Macedonian companies for the first time should consider using instruments such as irrevocable letters of credit until a trusting relationship is established. Collecting delinquent payments from Macedonian companies is difficult due to the lack of collection services and an inefficient, overloaded court system.

Law Association:

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Bul. Krste Misirkov, BB  
1000 Skopje, Republic of Macedonia  
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1000 Skopje, Former Yugoslav Republic of Macedonia  
Phone: 389-2-313-5220  
Fax: 389-2-311-1811

PriceWaterHouse Coopers  
M. Tito, 12  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-6638  
Fax: 389-2-311-6525

Advertising:

Studio Marketing  
J. Walter Thompson  
Skopje, d.o.o.  
Ul. Dame Gruev, 7/9-3  
1000, Skopje, Republic of Macedonia  
Phone: 389-2-312-6198  
Fax: 389-2-321-7151  
E-mail: [main@smjw.com.mk](mailto:main@smjw.com.mk)

McCann Erickson Skopje  
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1000, Skopje, Republic of Macedonia  
Phone/Fax: 389-2-312-7276  
E-mail: [irena\\_apelgren@mccann.com.mk](mailto:irena_apelgren@mccann.com.mk)

Saatchi & Saatchi  
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1000, Skopje, Republic of Macedonia  
Phone: 389-2-329-7688  
Fax: 389-2-329-7689  
E-mail: [Zoran.Kardula@saatchi.com.mk](mailto:Zoran.Kardula@saatchi.com.mk)

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<http://www.mbla.org.mk>

<http://www.gti.org>

<http://www.deloitte.com/macedonia>

<http://www.ey.com>

<http://www.kpmg.com.mk>

<http://www.pwc.com.mk>

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The upcoming restructuring and privatization of Macedonia's state-owned electricity monopoly offers significant export and investment opportunities for U.S. companies. Elektrostopanstvo na Makedonija (ESM - The Electric Power Company of Macedonia) ([www.esmak.com.mk](http://www.esmak.com.mk)) is Macedonia's state-owned electricity monopoly and is responsible for generation, transmission, and distribution of electric power. ESM has three thermo-electric power plants that have a combined capacity of 1,010 MW and are powered by lignite coal and oil. The main thermal plant at Bitola supplies approximately 70 percent of Macedonia's electricity and is in good condition. ESM also runs 14 hydro-power stations - the four largest supply approximately 400 MW of electricity, and 10 smaller plants supply approximately 36 MW. In 2003, ESM generated 6,272.6 GWh, and 953 GWh were imported to fulfill the total demand of 7,225.6 GWh. ESM is a full member of the Union for the Coordination of Production and Transmission of Electricity European Interconnection (UCPTE), which ensures interconnect compatibility with European electric power systems. ESM has transmission lines connecting it to Greece, Serbia and Montenegro, and Bulgaria and will be constructing others to export and import electricity.

In efforts to upgrade the existing power generation capacities of ESM, as the winner of a World Bank funded tender, Westinghouse Process Control in July 2000 signed a contract to upgrade six hydropower plant facilities and supply a new dispatching system to monitor electricity production.

In June 2004, ESM put into operation the first unit of a 1,560 MW hydro power plant, Kozjak, the first new hydro plant in 30 years. The second unit came on line in September 2004. Kozjak is ESM's largest investment in recent years, and doubles as part of Macedonia's irrigation system development plan. Over 90 percent of the plant's equipment was imported from China. The construction of Kozjak started in 1995 with Chinese financing totaling USD 175 million.

The government signed an agreement with an Austrian private investment and merchant bank, Meindl Bank AG from Vienna, to manage the restructuring and privatization of ESM. The initial review and due diligence were carried out in spring, 2002. Parliament failed to pass necessary amendments to the Energy Law before its July 2002 pre-election dissolution, putting further privatization activities on hold. Proposed changes to the Law include the introduction of an Energy Regulatory Commission (ERC), which will create energy tariffs and pricing methodology and ultimately regulate the energy market.

Macedonia and Greece have already completed the construction of an oil pipeline connecting oil storage facilities at the port of Thessaloniki with Skopje's OKTA refinery. The pipeline began full operation in September 2002. OKTA has begun construction of a pipeline to Kosovo and Serbia. Macedonia's sole oil refinery, OKTA was originally created to meet the needs of all of southern Yugoslavia. Therefore, OKTA has the

capacity to meet not only the country's needs of 1.25 million tons of refined products, but to export refined products to neighboring areas as well.

In addition to the Skopje-Thessaloniki pipeline, which follows European Transport Corridor 10, the U.S. consortium AMBO (Albanian-Macedonian-Bulgarian-Oil) has proposed a pipeline that would follow the east-west Corridor 8 route, linking the port of Burgas, on the Black Sea coast of Bulgaria, with the port of Vlore, on the Adriatic coast of Albania. The pipeline will transport oil from the Caspian region to markets in Western Europe and the United States. If this project is implemented, there could be substantial export and subcontracting opportunities for U.S. companies.

## **Opportunities**

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Although timing at this point is uncertain, the government expects the ESM privatization procedure to start in the first half of 2005.

The government plans to liberalize 30 percent of the electricity market by 2006 and the rest in subsequent years. The privatization will offer investment opportunities to U.S. companies interested in accessing a regional electricity market in Southeast Europe. As the price of electricity increases, there will be opportunities to use electricity more efficiently, such as insulating homes and installing more efficient heaters and electromechanical devices. Also, liberal legislation provides opportunities for small projects and Individual Power Plant (IPP) construction and operation.

ESM was split into two legal entities in December 2004 - one for production and distribution (P&D), and the second, the Macedonia Electric Power System Operator (MEPSO), for transmission and management. Only the P&D entity will be privatized, with MEPSO remaining state property. The P&D operation currently has about 7,500 employees, and MEPSO has 380.

## TRANSPORTATION

### Overview

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Macedonia is situated in the center of the Balkan Peninsula at the intersection of several key road and railway links. Macedonia has 8,200 kilometers of roadways (60 percent are paved and well maintained) and 700 kilometers of railways. Two Pan-European Transportation Corridors, Corridor 8 (east-west) and Corridor 10 (north-south) pass through Macedonia. Corridor 8 consists of the E-65 highway from Durrës, Albania to Varna, Bulgaria via Skopje and Sofia, Bulgaria. Corridor 10 consists of the E-75 south-north road from Athens, Greece via Skopje, Macedonia, Belgrade, Serbia and Montenegro, and Zagreb, Croatia to Munich, Germany.

Improvements in the past few years have been focused primarily on the elimination of “bottle necks” and the completion of the infrastructure in Corridor 8. U.S. TDA has facilitated \$30 million of feasibility studies and exports, through its South Balkan Development Initiative (SBDI), which was completed in 2002. Greece recently invested in developing Corridor 10 in both Macedonia and Greece, with the aim of encouraging last summer’s Olympic visitors to drive to Athens from northern Europe.

### Opportunities

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U.S. companies can participate in infrastructure development in the areas of construction equipment and materials, tollbooth equipment, electronic data processing equipment, traffic monitoring, project management services and telecommunications equipment.

Several foreign airline companies (Austrian Airlines, Swiss, Malev, Cirrus Airlines, JAT, Adria Airways, Croatia Airlines, Turkish Airlines) fly into Macedonia’s main airport near Skopje. Foreign carriers fly to Skopje from Vienna, Zurich, Budapest, Frankfurt, Belgrade, Ljubljana, Zagreb, Istanbul. U.S. companies have bid for contracts in the field of air transportation services, airport equipment and construction, and air navigation and control systems.

## COMPUTERS AND INFORMATION TECHNOLOGY EQUIPMENT

### Overview

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The computer and information technology (IT) sector in Macedonia is a promising area for U.S. IT companies. The IT sector is involved in many areas, including assembly, sales and maintenance of personal computers and main frames. Other areas include networking, systems integration, software development, Internet Service Providers, web design, multimedia, consulting, and training. In June 2002, Parliament passed the “e-Declaration,” a statement of commitment by the government to fast-track electronic commerce. For 2003, the total market was assessed at approximately \$50 million, a 60 percent increase since 2000. IT revenues for 2004 are estimated to grow to \$ 70 – 80 million.

Most of the world's largest IT companies, such as Microsoft, Cisco, IBM, Compaq, Hewlett Packard, Dell, Sun Microsystems, Apple, and Lotus, are present in Macedonia via branch offices, distributors, dealers, resellers, solution providers, and business partners.

In early 2004, the Macedonian Government signed an agreement with Microsoft to legalize Microsoft products used by the government. In addition, Microsoft has offered amnesty to large business users and has signed about 400 legalization agreements. Microsoft next plans to work with educational institutions and small businesses to legalize their software.

### Opportunities

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Several software development companies are creating applications for Western markets. These include banking, air traffic control, and website development.

Liberalization of the telecom industry in 2005 will offer many opportunities to sell products and services.

## CONSTRUCTION AND BUILDING MATERIALS

### Overview

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The construction industry is recognized for its skilled personnel and use of modern technology, especially in the area of civil engineering and hydro-construction. For this reason, Macedonia has been a major supplier of construction services, with local firms working on small and large-scale projects in Central Europe, the Middle East and Russia. Macedonian firms have good access to Russian markets and also have won contracts for EU projects in Germany and Italy.

According to data compiled from building materials manufacturers, building construction continues to grow rapidly. Macedonia also exports building materials, primarily to Kosovo and Albania. The construction industry has a turnover of 400 million US dollars annually, 20 – 25 % of which is spent on imported products, equipment and fixtures. In 2001, the Macedonian Development Bank began providing export insurance covering commercial risks for Macedonian exporters of building materials.

The construction industry has accounted for between five and eight percent of annual GDP over the last decade. Construction companies in Macedonia are versatile and skilled, designing and building roads, civil and military airports, bridges, high-rise buildings, industrial facilities, dams, tunnels, irrigation systems, water-supply systems, waste-treatment systems and purification facilities. Macedonian construction companies also provide expert studies, investment programs, and engineering and expert technical supervision of domestic projects.

### Opportunities

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There are both export and investment opportunities available for U.S. companies in the construction and building materials sector. Buildings in Macedonia are energy inefficient and heavy, and take a relatively long time to build. Wood and steel frame buildings are almost unknown, though builders in Macedonia are starting to examine American-style platform-frame wood construction and prefabricated housing. This situation offers many opportunities to promote high-tech American building materials based on advanced U.S. technology. U.S. building products that may have good market prospects include wood and vinyl windows, doors, flooring and kitchen cabinets, suspended ceilings, insulation, adhesives, cements, roofing shingles, heating and ventilation equipment, air conditioning, refrigeration and cooling systems. The domestic market in Macedonia consists primarily of cement and cement products, and gypsum products.

## **HOTEL & RESTAURANT EQUIPMENT/TOURISM**

### **Overview**

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The tourism sector offers export and investment opportunities and has significant potential for future development. The country's geographical location, mild climate, and historic and religious sites provide favorable conditions for the development of the tourism industry. Macedonia has 90 hotels, 10 campgrounds, 2 tourist settlements and in total, over 80,000 tourist beds. Macedonia has many tourist attractions, including three natural lakes (Lake Ohrid, Lake Prespa and Lake Dojran), and high mountains suitable for camping, hiking, and winter sports. The most popular tourist destination is Lake Ohrid. Almost 80 percent of Macedonia's tourist revenues are generated at Ohrid. The town of Ohrid, in an area of great natural beauty, also enjoys the protection of UNESCO as an historical/cultural heritage site. Numerous hotels need major repair and modernization, especially along the coast of Lake Ohrid, in Skopje, and at the winter ski resorts of Mavrovo, Mt. Shara, and Mt. Pelister. Tourists mainly come from the countries of the former Yugoslavia, Bulgaria, Greece, Germany, Holland, and Italy.

Radisson SAS Hotels & Resorts has signed an agreement to manage its first hotel in Macedonia. The Radisson SAS Palace Hotel will be located in the city center of Ohrid. The hotel, which opens in March 2006, will offer 140 guest rooms, including 12 penthouse suites with spectacular views of Lake Ohrid. The conference center will offer a business center as well as six meeting rooms. Other facilities include indoor and outdoor swimming pools, a health & fitness center, a spa with treatment rooms, and several shops.

The new Kozjak dam (see - Energy) has created the largest artificial lake in Macedonia. While access to the area is still very limited, new roads are being built that could open tourism opportunities in one of the most beautiful valleys in Macedonia.

### **Opportunities**

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Since there has been very little investment in tourism, legacy hotels need repair and upgrading. There has been an increase in construction of smaller hotels, more suitable to the Macedonian market, in areas around Lake Ohrid. There are no golf courses in Macedonia, nor do the three largest lakes, Ohrid, Dojran and Prespa, have any significant watersport centers. The Treska reservoir behind the new Kozjak dam mentioned above offers many opportunities for the development of tourism and real estate.

**Agricultural Machinery and Equipment**

The food and beverage industry is one of Macedonia's most promising sectors, based on previous performance and potential. Most of the food-processing facilities are in private hands. The industry nearly doubled between 1989 and 1995, relative to the rest of the economy. Agribusiness in Macedonia, including agriculture and food processing, accounts for 13 per cent of GDP and employs 30 per cent of the workforce. Food and beverage processing are significant industries, and companies in Macedonia produce canned and bottled fruits and vegetables, and wine for export. There are about 30 food-processing companies in Macedonia; 10 have facilities for canning, 10 have fruit juice production and bottling equipment, and 14 have facilities for drying. Most food processing companies have storage and cooling facilities, and eleven have deep freezing equipment that is more than adequate to meet the domestic demand. Processed foods are dominated by two major sectors, semi-finished products (including frozen, dried, and concentrate) and finished products (canned and preserved). Processed frozen foods are mostly exported to Germany, Holland, and other European countries. Processed dried foods are mainly exported to France, Germany, Austria, and Switzerland. Preserved fruits and vegetables are sold to neighboring countries, Australia, and Western European markets.

**Opportunities**

Macedonia needs agricultural machinery and equipment, meat and dairy equipment, and veterinary equipment and supplies to expand the quality and quantity of its production. The Fund for Agriculture in Macedonia is promoting the introduction of new agricultural technologies and products. Macedonia exports approximately 20% of its agricultural products. Domestic production of agricultural machinery is minimal, and the market relies on imports. There are substantial opportunities for U.S. companies in the agribusiness area for equipment that will add value to the food processing sector, such as bottling, packaging, and refining equipment. The U.S. Embassy/CEEBIC sponsored a booth at the Agroexpo trade show in October 2002 that offered U.S. companies the opportunity to display brochures, catalogs, and videos. For additional information on marketing opportunities available through CEEBIC, please visit: [www.export.gov/ceebic](http://www.export.gov/ceebic).

Macedonia produces approximately 1 million hectoliters of beer every year, mostly for domestic consumption, and 1.3-1.4 million hectoliters of wine per year. The wine sector needs investment if it is to remain competitive and reach its full potential. Currently, Macedonia exports most of its wine in bulk to be bottled in other countries and then sold. Export opportunities exist for U.S. companies for equipment that will increase the volume of wine bottled in Macedonia, and technology and supplies that will stimulate grape production. The government considers agriculture a target area for future growth and development, including increased foreign direct investment (FDI).

**Agricultural products**

Frozen chicken: Large open markets sell U.S. chicken leg quarters and liver for retail consumption. Preferred packing is in frozen flats of up to 20 kilos. These products are popular with lower-income consumers. Buyers are usually wholesaler/importers, and price is paramount. The National Veterinary Service accepts USDA certification.

Soybean meal: Some layer and broiler operations have their own feed mills, but most soybean meal is purchased directly from Greek crushers by large farms and concentrate producers. Higher protein meal is in demand, but the market is price sensitive.

Red meat: Sausage and variety meat processors are increasing demand for frozen pork, and especially beef offal, for use in local manufacturing. The National Veterinary Service accepts USDA certification.

Raw cotton: There are several spinners and weavers in Macedonia that have used U.S. cotton in the past (medium to short staple). The main competition is Greek cotton.

Specialty flour: The larger bakeries and mills have purchased specialty flours (high quality, high gluten) for use in blending. Small quantity lots are generally better.

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## Chapter 5: Trade Regulations and Standards

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### Import Tariffs

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Macedonia became the 146th member of the World Trade Organization (WTO) in April 2003 and is currently liberalizing its customs regime in accordance with WTO guidelines. As a WTO member, Macedonia has committed itself to the three basic rules of trade conduct: transparency in laws, equal rights and privileges for foreign and domestic firms and citizens, and most-favored nation treatment.

The customs legislation of Macedonia, which entered into force on January 1, 2000, ensured Macedonia's compliance with European Union standards.

Customs duties generally apply to most products imported by Macedonia. Tariffs range from 0-30 percent, with some food items facing a higher rate of 60 percent. The average rate is 10.5 percent. The maximum rate of 60 percent is applied to products such as fruit and vegetables, cereals, alcoholic and non-alcoholic beverages, and tobacco. There is no duty on raw materials for the textile and apparel industry. Excise taxes apply to wine, beer, coffee, cigarettes, mineral oils, tobacco, and cars. Excise taxes are determined by the type and quantity of the product and are levied in addition to the customs tariff. In November 2001, the parliament of Macedonia adopted new modifications to the legislation on excise taxes. The new excise tax for automobiles is 7.5% regardless of the engine capacity of the car. There are variable levies for agricultural and food products as well. Other products, like tobacco, wine, and various fruits are subject to import quotas. Import as well as export quotas are provided on a first-come-first-serve basis.

A Value Added Tax (VAT) of 18 percent is applied on all products and services. Only food, potable water and some printed materials such as newspapers, magazines and educational books are taxed at the preferential rate of 5 percent. For imports into Macedonia, the VAT is assessed on the CIF value of the goods plus the duty.

## **Trade Barriers**

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A number of products are subject to quality control by market inspection officials at customs offices. These officials are employed by the Ministry of Economy to ensure that imported goods are in compliance with domestic standards. The products subject to quality control include most agricultural products, cars, electrical appliances, or products in which poor quality may pose a health risk to consumers. When applicable, products also must pass sanitary, phytopathologic or veterinary control. (Additional information on sanitary requirements can be obtained from the Ministry of Health, and phytopathologic and veterinary requirements can be obtained from the Ministry of Agriculture, Forestry and Water Resource Management.)

Import regulations are generally numerous and not always available in English. In order to learn about customs duties, taxes and quality requirements for a specific product, U.S. exporters can consult the Customs Administration web page:

<http://www.customs.gov.mk>, or contact freight forwarders or business consultants in Macedonia.

## **Import Requirements and Documentation**

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An importer/exporter in Macedonia is responsible for providing the required import/export documentation, which consists of common trade, transport and customs documentation, as well as certificates of origin and certificates of quality control and licenses. Service providers are not subject to the customs regulations, but foreign trade transactions are subject to a documentation fee of one percent.

## **U.S. Export Controls**

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Most technology can be exported from the United States to Macedonia under general export licensing, but some equipment requires validated export licenses from the Bureau of Export Administration (U.S. Department of Commerce and/or Department of State). Generally, defense products and equipment such as optical equipment and software that may have a dual use require an export license. Export licenses can be obtained from the Bureau of Export Administration (BXA at the US Department of Commerce). BXA coordinates the licensing process with the Departments of State and Defense.

The need for an export license depends on the product's Export Commodity Control Number (ECCN), available from the manufacturer, or from BXA by calling (202) 482-3332 or -4811.

## **Temporary Entry**

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Products may be imported into Macedonia on a temporary basis. The rules on temporary imports are contained in the Regulation for Application of the new Law on Customs (Official Gazette No.21/1998).

Products allowed temporary import status include raw materials processed in Macedonia and re-exported, infrastructure equipment produced by foreign contractors, and office equipment for foreign firms.

Macedonia is a party to the Customs Convention on Carnet (ATA) for Temporary Import of Goods. Presentation of an ATA carnet, or TIR carnet, facilitates the process. An entry carnet may be obtained from a local chamber of commerce in the United States. Carnets are usually valid for 1 year and list the products to be imported on a duty-free basis. The carnet must be presented upon entry into Macedonia. Customs will stamp the carnet, thereby validating it. Upon departure, the carnet must again be presented for validation, confirming that the product is being transported out of Macedonia. Failure to re-export the goods results in application of the duties.

### **Labeling and Marking Requirements**

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Labels must contain the following information: quality, ingredients, quantity, manner of storage, transport, use, maintenance, country of origin and a “best before” date. The above information must be in Macedonian.

### **Prohibited and Restricted Imports**

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Cars older than six years may not be imported. Chemicals, weapons, ammunition, pesticides, and some other categories of products may require import licenses from the responsible ministry. See the Customs Administration website for details.

### **Customs Contact Information**

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Macedonian Customs Administration  
Lazar Licenoski 13, 1000 Skopje  
Republic of Macedonia  
Phone: +389 2 3 293 924  
Fax: +389 2 3 237 832  
[www.customs.gov.mk](http://www.customs.gov.mk)

### **Standards**

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## Overview

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Standards are regulated and developed by the following institutions:

1. Regulatory functions:

- Ministry of Economy acting as a coordinator;
- other Ministries for specific topic areas.

2. Controlling functions:

- Customs Administration;
- Market controlling inspections.

3. Preventive functions:

- Standardization Institute of the Republic of Macedonia;
- Bureau of Metrology;
- Accreditation Institute of the Republic of Macedonia;
- Laboratories, certification and controlling offices.

## Standards Organizations

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The Law on the Protection and Improvement of the Environment and Nature (official Gazette No. 69/1996) regulates safety standards for import/export purposes.

## Conformity Assessment

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Macedonia's main testing and conformity assessment bodies are:

- Standardization Institute;
- Accreditation Institute;
- Bureau of Metrology.

## Product Certification

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Product certification requirements are specified in the laws listed in section Overview.

The Law on Accreditation and the Law on Specifying Technical Regulations are being amended. The Law on General Safety of Products should be adopted in mid-2005.

## Accreditation

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The Parliament of the Republic of Macedonia adopted the Law on Accreditation in July 2002, prepared on the basis of European Law. Based on that, the Government has

established the Accreditation Institute (AI) as an independent legal entity. AI performs the accreditation of:

1. Laboratories for testing and calibration;
2. Organizations issuing product certifications;
3. Organizations issuing certificates for systems for quality;
4. Organizations issuing certificates for systems for protecting the environment;
5. Organizations issuing certificates for persons;
6. Organizations conducting supervisions.

AI participates at meetings with European and other international organizations for accreditation, and also acts as an advisory body to the Government on issues of accreditation.

The Accreditation Institute can be contacted at the following address:

Accreditation Institute of the Republic of Macedonia  
Mr. Zoran Grkov, Director  
Vasil Glavinov, bb, Blok X, Mezanin  
Tel/Fax: 389-2-329-6685  
1000, Skopje, Macedonia

### **Publication of Technical Regulations**

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Each of the standardization and accreditation organizations issues bulletins on its procedures. Also, sector-regulating laws are published in the Official Gazette as adopted or amended.

### **Labeling and Marking**

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Labels must contain the following information: quality, ingredients, quantity, manner of storage, transport, use, maintenance, country of origin and a "best before" date. The above information must be in Macedonian.

### **Trade Agreements**

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Macedonia is a member of the European Free Trade Association (EFTA). Currently, Macedonia has Free Trade Agreements (FTA) with Croatia; Bosnia and Herzegovina; Serbia and Montenegro; Slovenia; Turkey; Bulgaria; Romania; Albania; and Ukraine. To encourage trade, customs duties are set at minimal rates of one to two percent. In February 2001, Macedonia signed a Stabilization and Association Agreement (SAA) with the European Union. A critical component of the SAA is a preferential trade agreement that allows products from Macedonia to enter the European Union duty free. The agreement also provides for a gradual (10 to 12 years) reduction of duty rates for European Union products entering Macedonia.

## Web Resources

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Ministry of Economy - <http://www.economy.gov.mk>

Ministry of Finance - <http://www.finance.gov.mk>

Ministry of Internal Affairs - <http://www.mvr.gov.mk>

Macedonian Customs Authority - <http://www.customs.gov.mk>

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## Chapter 6: Investment Climate

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### Openness to Foreign Investment

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As a small, relatively open economy, Macedonia continues to take steps to attract foreign direct investment (FDI). The country has enacted legislation that not only ensures an equal footing for foreign investors vis-à-vis their domestic counterparts, but also provides numerous incentives to attract such investment. The recently elected government is in the process of developing a strategy for stimulating investment with a particular emphasis on attracting FDI. Macedonia's privatization process is almost complete. When the Macedonian Privatization Agency closed at the end of 2004, the government still owned residual shares in a few companies, but those will be sold in early 2005. The government plans to privatize the electric company, ESM, in 2005. The government owns 48% of the monopoly telephone company, Macedonian Telecommunications, but has not announced plans to sell its interest. Under Macedonian law, foreign and domestic investors have equal opportunities to participate in the privatization of the remaining state-owned capital. The World Bank's latest Financial Investment Advisory Service (FIAS) assessment made recommendations on removing barriers to registration and obtaining permits for land use, construction, and businesses.

Even before gaining full membership to the World Trade Organization (WTO) in April 2004, Macedonia consistently provided national treatment to foreign investors. The country also concluded a number of bilateral investment protection treaties and other multilateral conventions that impose stricter protection standards for foreign investors. The Constitution of Macedonia, as the supreme law of the land, guarantees the equal

position of all entities in the market, but provides free transfer and repatriation of investment capital and profits for foreign investors. There is no one law regulating foreign investments. Rather, the legal framework is comprised of several laws, including: the Trade Companies Law; Securities Law; Profit Tax Law; Customs Law; the VAT Law; Foreign Trade Law, the Law on Acquiring Shareholding Companies, the Foreign Exchange Operations Law; the Law on Foreign Loan Relations; the Law on Privatization of State-owned Capital; the Law on Investment Funds; and the Banking Law.

#### **- The Trade Companies Law**

A committee comprised of academics, experts, government officials, and businessmen replaced the old 1996 trade companies law with a more progressive one in May 2004. This is the primary law regulating business activity in Macedonia. It defines the types of companies allowed to operate in Macedonia, as well as procedures and regulations for their establishment and operation. As all foreign investors are granted national treatment, they are entitled to establish and operate all types of private or joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions other than what is customarily required by law.

#### **- Law on Privatization of State-owned Capital**

According to this law, foreign investors are guaranteed equal rights with domestic investors when bidding on tenders for company share packages owned by the government. There are no impediments to foreign investors to participate in the privatization process of domestic companies.

#### **- Foreign Loan Relations Law**

This law regulates the credit relations of domestic entities with those abroad. Specifically, it regulates the terms by which foreign investors can convert their claims into deposits, shares or equity investment with the debtor company or bank. The Foreign Loan Relations Law also enables rescheduled debt to be converted into foreign investment in certain sectors or in secondary capital markets.

#### **- Law on Investment Funds**

This law governs the conditions for incorporation of investment funds and investment fund management companies, the manner and supervisory control of their operations and the process of selection of a depository bank. The law does not discriminate against foreign investors in establishing open-ended or closed investment funds.

#### **- Law on Foreign Exchange Operations**

This law establishes the terms for further liberalization of capital transactions. It regulates current and capital transactions between residents and non-residents, the transfer of funds across borders, as well as all foreign exchange operations. All current transactions of foreign entities are allowed. There are no restrictions for non-residents to invest in Macedonia. Foreign investors may repatriate both profits and funds acquired by selling shares after paying regular taxes and social contributions. In case of expropriation, foreign investors have the right to choose their preferred form of

reimbursement. While they cannot own land, foreign investors may invest in or own immovable assets and real estate.

### **- Other Legal Considerations**

Foreign investment may be in the form of money, equipment, or raw materials. To guarantee that the investment will not be nationalized, the investor can reserve the right to withdraw the deposit in the form effectuated with the investment. This regulation offers an additional incentive to foreign investors, since it is not offered to national investors.

The privatization process is governed by the Law on Transformation of Enterprises with Social Capital (Official Gazette 38/93) and the Law on Privatization of State-owned Capital (Official Gazette 37/96). To quickly finish the privatization of its remaining shares in companies, the government has offered large discounts on the nominal value of the shares and no longer imposes stringent employment and investment requirements.

Foreign investors are allowed to invest directly in all industry and business sectors except those limited by law. Investment in the production of weaponry and narcotics is prohibited without government approval. Investors in some sectors, such as banking, financial services, and insurance, must meet certain licensing requirements that apply equally to domestic and foreign investors.

### **Conversion and Transfer Policies**

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Macedonia's national currency, the denar (MKD), while fully convertible within the domestic market, is not convertible on foreign exchange markets. Conversion of most foreign currencies is possible on the official foreign exchange market. In addition to banks and savings institutions, numerous authorized exchange offices also provide exchange services. The National Bank operates the foreign exchange market, but participates on an equal basis with other entities. Sufficient foreign currency reserves are spelled out in the banking law. There are no restrictions on the purchase of foreign currency by residents.

Parallel foreign exchange markets do not exist in Macedonia due to the long-term stability of the denar. The National Bank's strategy is to maintain a stable exchange rate by pegging the denar to the Euro, keeping inflation low.

The Constitution of Macedonia guarantees the free transfer and repatriation of investment capital and profits. By law, foreign investors are entitled to transfer profits and income without being subject to a transfer tax. Investment returns are generally remitted within the international standards of three working days.

### **Expropriation and Compensation**

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According to the Constitution of Macedonia and the Law on Expropriation (Official Gazette 33/95, amended Official Gazette 20/98, and 40/99), foreign ownership is exempt

from expropriation except during instances of war, natural disaster, or for reasons of public interest. Public Interest, as defined by this Law, includes the following:

- Construction of infrastructure;
- Construction of power stations, waterworks, water supply systems, postal and communication systems and all accompanying and supporting infrastructure;
- Construction of buildings for defense and civil protection and regulation of border crossings;
- Buildings and equipment for research of natural resources, education, science, health, culture, social security, athletics or activities;
- Building settlements following extreme natural disasters and relocation settlements.

The beneficiary of expropriation is the state, especially when it allocates finances for public service, public enterprise, public funding and local government units. Under the Law on Expropriation, the state is obliged to pay market value for any property expropriated. If the payment is not made within 15 days of the decision brought for expropriation, default interest will be calculated.

There have been no expropriation measures taken since the 1950s, nor is there any reason to believe the government will take such action in the future. The government does not impose confiscatory taxes of any kind.

In 2002, under the Law on Denationalization, the government pursued an ambitious plan for returning or compensating nationalized property to claimants. Although many claims were resolved in 2002, much remains to be done as the new government continues its efforts at denationalization.

## **Dispute Settlement**

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Under Macedonian law, arbitration of international disputes is distinct from that of domestic disputes. The parties involved in an international dispute may agree to settle through a domestic or foreign arbitration tribunal. Ratified international agreements trump domestic legislation.

International arbitration is recognized and accepted as valid by government regulation. The government accepts binding international arbitration on investment disputes and has over 40 internationally-accredited arbiters on the country's arbitration list. The arbitration court applies the appropriate law based on issues determined by the parties. In the event that the parties cannot agree on the issues involved in the case, the court then makes its own assessment of the merits of the case.

International sources of arbitration law consist of bilateral and multilateral conventions, which Macedonia has signed or inherited from the former Yugoslavia on the basis of succession. Macedonia has signed the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA), the New York Convention of 1958 (governing the recognition and enforcement of foreign arbitral awards), and the Geneva Convention on the Execution of Foreign Arbitral Awards. Macedonia is also a party to the Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States and the European Convention on International Commercial Arbitration.

Furthermore, Parliament has instituted legislative changes to administer laws related to foreign investment. With the 1995 enactment of the Law on Courts, the judicial body evolved into a three-tiered court system: the Basic Court (or Court of the First Instance), the Appellate Court and the Supreme Court.

## **Performance Requirements and Incentives**

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Both the Law on Customs and Law on Profit Taxes offer incentives to foreign investors. Foreign investors are eligible for profit tax exemptions in four areas:

- Profits generated during the first three years of operation, in proportion to the amount of foreign investment;
- All profits reinvested in the company (maximum 25 percent of the tax base);
- Profits invested in environmental protection; and
- Profits invested in "underdeveloped" regions (maximum 50 percent of the tax base).

In 2003, the government amended the profit tax law to allow a tax base deduction of one euro for each euro of investment in fixed assets up to 100,000 euros, and 0.30 euros for each euro of investment over 100,000. The Ministry of Finance will also introduce this year a new profit tax law addressing EU and Western business standards while offering enhanced incentives to both domestic businesses and foreign direct investment.

Companies with at least 20 percent foreign capital are exempt from customs duties for the first three years after registration.

Foreign investors are not required to purchase from local sources or to export.

There are also no requirements for the government to be a partner in the enterprise. Commercial agreements determine which entity retains control over the investment revenue. Further, there are no requirements for reducing foreign equity over time or for transferring technology.

Geography plays an important role in determining investment incentives. The government places an emphasis on building in underdeveloped regions, and offers tax deductions as an incentive to develop, for example, in mountainous territory, border zones or rural regions.

Macedonia's government has no objections to accepting international monetary assistance or counsel from leading experts in sectors such as the economy, law, and education. When Macedonia receives foreign credit, the government is required to inform the parliament. Once informed, members of parliament decide whether the credit will be accepted. The government may, however, accept donations and irrevocable assistance without consulting with the parliament.

The Law on Residency of Foreign Citizens sets requirements for both working and resident visas. There are some non-discriminatory limitations on obtaining a visa. A foreign citizen working in Macedonia can be issued a multiple entry visa. An employer should apply to the Employment Bureau to obtain a work permit for any foreign employees working in Macedonia on a temporary or permanent basis.

There is no discriminatory export or import policy affecting foreign investors. Almost 96 percent of total trade (export/import) is unrestricted, with some exceptions for textile products. There are also quotas based on preferential agreements signed with the former Yugoslav countries. Current tariffs and other customs-related information are published on the Customs website, <http://www.customs.gov.mk>.

## **Right to Private Ownership and Establishment**

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Under Article 30 of the Constitution of Macedonia, the investor's right to own property is guaranteed. Foreign investors may acquire property rights for buildings and rights for other immovable assets to be used for their business activities. They may acquire residential property, but not ownership rights over construction land. Foreign investors are permitted to have only land-use rights, not land ownership rights. Ownership of property requires preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it unless the use of that property affects the general welfare of the public. If the property is expropriated or restricted, rightful compensation of its market value is guaranteed.

At the end of 1999, the government introduced two new laws governing competition, a law on restricted competition and an anti-monopoly law. Macedonia still lacks a fair competition law however. Under current law, state enterprises enjoy special privileges vis-à-vis their private counterparts. This is a new area of concern for the country's judicial system; and it is not yet clear how Macedonia will address this issue.

In May 2004, Parliament enacted a new law for trade companies (see above) to establish a legal environment for the development of domestic commercial entities and to encourage foreign investment. Under the Law on Trade Companies, trade companies are formed as separate legal entities that operate independently and are distinct from their founders, shareholders and managers. Depending on the type, trade companies have their own rights, liabilities, names and managerial offices. Under this law, there are five forms of trade companies: public trade (general partnership), limited partnership, limited liability company, joint stock company and limited partnership by shares.

This law gives shareholders important rights, guarantees greater transparency in all operations of publicly-held companies, and attempts to reduce obstacles to registration and permitting.

## **Protection of Property Rights**

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The Industrial Property Law, enacted in 1993, amended in 1998, and renamed the Law for Protection of Intellectual Property, governs the acquisition of intellectual property. The Industrial Property Bureau governs patents, trademarks, service marks, designs, models and samples. The protection of author's rights, software, CD and other intellectual property is administered by the Inspection Service within the Ministry of Culture, established in 1999.

Macedonia joined the World Intellectual Property Organization (WIPO) in 1993, and in 1994 became a member of the Permanent Committee of Industrial Property Protection Information of WIPO. As a successor to the former Socialist Federal Republic of Yugoslavia, Macedonia has adhered to international conventions and agreements that govern these rights.

Macedonia's accession to the WTO in April 2003 underscored the urgent need for the government to prevent copyright infringement. The first step in that direction was taken in 2002 when the Government reached an agreement with Microsoft to legalize all government software. Joint action taken by the Inspectors from the Ministry of Culture and Interior has shown some results in combating piracy in the production and sale of items such as CDs, DVDs, movies, and software.

### **Transparency of Regulatory System**

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In Macedonia, there are no laws, policies, or legal regulations that impede foreign investments. On the contrary, the government seeks to increase the level of foreign investment by enacting legal provisions (i.e. tax incentives) favorable to investors. Such provisions notwithstanding, excessive bureaucratic 'red tape' still poses difficulties in all spheres of government administration, providing opportunities for corruption. Some foreign investors are also dissuaded from pursuing business activities by irregular or severely delinquent payment by Macedonian clients for goods and/or services.

### **Efficient Capital Markets and Portfolio Investment**

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There are no legal barriers to the free flow of financial resources and portfolio investments. Financial resources are managed primarily through the Macedonian banking system, which is roughly 46 percent foreign owned. According to Central Bank data, at the end of June 2004 the percentage of non-performing loans in the total credit portfolio was 13.8 percent. Supervisory monitoring has been strengthened, restoring depositors' confidence. Banks have high liquidity but a relatively low intermediation rate. Credit is available on the local market and allocated on market terms. Retail interest rates have decreased slightly in 2004, to between 9 and 17 percent, depending on the type of loan.

Domestic companies are financed primarily from cash flow, due to lack of bonds or securities as alternative credit instruments. Because of the scarcity of private financing, the need for financial assets creates increased credit demand. To obtain credit, applicants must generally fulfil the following criteria, which vary from bank to bank:

- Satisfactory business plan;
- Credit collateral (usually by mortgage);
- Investor's individual contribution to the project;
- Export-oriented and profitable project;
- The entity requesting credit needs to be at least 51 percent privatised.

Macedonia's securities markets are limited in turnover and capitalization. The establishment of a Stock Exchange in 1995 made it possible for portfolio investments to be regulated. On March 28, 1996, the commencement of trading operations created a

central market place for securities trading. This was also the first organized stock exchange in the history of the country. While activity on the stock market is limited, it does offer a vehicle through which foreign investors can move into the area. The Securities and Exchange Commission adopted legislation that regulates Macedonia's securities market. Only a handful of companies are listed on the First Market and a small number of shares are traded. Most of the activity takes place on the Second and Third Markets, where less transparency and disclosure are required. In January 2004, the government started issuing treasury bills. Other government-issued bonds are for frozen foreign currency deposits and denationalization. Despite an open and fully convertible current account, there is little portfolio investment in the form of short-term capital inflows.

Macedonia has no regulatory defense measures directed against foreign investment. Similarly, there are no private or governmental efforts directed toward restricting foreign entities from investment, participation, or control of domestic enterprises, consortia or industrial organizations. With the inflow of international aid, experts and projects, Macedonia is in the process of harmonizing its legal and regulatory systems with international standards.

The development of SMEs (Small and Medium Enterprises) is one of the government's major priorities. Macedonia continues to develop programs in coordination with experts from USAID (US Agency for International Development), GTZ (German Technical Assistance) and EAR (European Agency for Reconstruction) in order to boost the SME sector. Credit lines for SMEs are available through the Macedonian Bank for Development Promotion. Other banks also offer such loans, but on rather stricter terms. Opportunities for micro-financing are available through the newly established ProCredit Bank, and also through the savings house "Moznosti". Short-term purchase order and export financing are available through the USAID-supported SME Commercial Finance Fund. The main obstacles for companies attempting to secure loans include:

- A low level of domestic savings;
- High interest rates;
- Mistrust of the banking system;
- High operating costs of banks; and
- Poor quality business/project proposals.

## **Political Violence**

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Ethnic Albanian insurgents and government forces engaged in an armed conflict in 2001. The Ohrid Framework Agreement, signed in August 2001 by the four major political parties at the time, ended the conflict by granting greater legal and political rights to Macedonia's ethnic Albanian and other minority communities. Political violence has diminished dramatically, and was rare during 2004, although violence related to organized crime persists. An armed ethnic-Albanian paramilitary group briefly occupied a village a few kilometers outside of Skopje in the fall of 2004, citing political grievances, but the group lacked the support of local citizens and ethnic Albanian political leaders, and the stand-off was resolved peacefully. There have been no instances of violence directed specifically at foreign businesspeople or investors.

## **Corruption**

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Like its Eastern and Central European neighbors, after the fall of communism, Macedonia inherited a government system rife with corruption. By establishing an Anti-corruption Commission, the government made a commitment to combat corruption and bribery in public administration, focusing also on senior-level officials. A series of laws has been drafted and amended to control vices ranging from drug abuse to money laundering, and to create a legal firewall against corrupt practices, but enforcement has been anemic. In addition to the Laws on Criminal Procedure that criminalize acts of bribery, illegal mediation and the abuse of official position, two major laws for combating corruption were adopted in 2002: the Law on Money Laundering Prevention, establishing a directorate to monitor and report money laundering, and the Law on Corruption Prevention, which provides jail terms of up to 10 years for corruption and allows confiscation of illegally-obtained property.

Macedonia has signed the Organization for Economic Cooperation and Development's (OECD) Convention on Combating Bribery. Though all the necessary laws are in place, enforcement is weak, and the public is still skeptical of the government's willingness to prosecute corrupt officials within its ranks. The public generally views the police, courts and the healthcare sector as the most corrupt public institutions.

## **Bilateral Investment Agreements**

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Macedonia has concluded an "Agreement For Promotion And Protection Of Foreign Direct Investments" with the following countries: Albania, Austria, Bosnia and Herzegovina, Bulgaria, Belarus, Belgium and Luxemburg, Germany, Arab Republic of Egypt, Iran, Italy, Serbia and Montenegro, People's Republic of China, Republic of Korea, Malaysia, Poland, Republic of Romania, Russia, Republic of China, Slovenia, Turkey, Ukraine, Hungary, Finland, France, Netherlands, Croatia, Czech Republic, Switzerland, and Sweden.

Macedonia does not have a bilateral investment or taxation treaty with the U.S., nor have negotiations on such treaties begun.

## **OPIC and Other Investment Insurance Programs**

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Financing and insurance for exports, investment and development projects are made possible through agencies such as the U.S. Trade and Development Agency (TDA); the U.S. Export-Import Bank (EXIM); the Overseas Private Investment Corporation (OPIC); the European Bank for Reconstruction and Development (EBRD); the International Bank for Reconstruction and Development (World Bank); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the Southeast Europe Equity Fund (SEEF). Most of the funding for major projects is achieved through co-financing agreements, especially in the transportation, telecommunications and energy fields.

OPIC and MIGA are the country's chief investment insurance providers. OPIC insurance and project financing have been available to investors in Macedonia since 1996. OPIC's three main activities are risk insurance, project finance and investment

funding. MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors making qualified investments in developing member countries. MIGA covers investors against the risks of currency transfer restrictions, expropriation, breach of contract, and war or civil disturbance. MIGA and OPIC will continue to work together in the future.

Though its primary focus is investment assistance - including direct loans and capital guarantees aimed at the export of non-military items - EXIM also provides some insurance policies to protect against both political and commercial risks. TDA, SEEF, World Bank and EBRD focus more directly on financing agreements.

## **Labor**

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Relations between employee and employer are regulated by an individual employment contract pursuant to Article 14 of the Employment Relations Law. Both citizens of Macedonia and foreign nationals are subject to the law. The employment contract, which must be in writing and kept on the premises, should address the following provisions: description of the employee's duties, duration of the contract (finite or not), effective and termination date, location of the work place, hours of work, rest and vacation periods, qualifications and training, salary and payday.

The law is flexible with regard to working hours. Normal working hours for an employee are eight hours per day, five days per week. According to labor regulations, an employee is entitled to a minimum of 18 working days and a maximum of 26 working days paid annual leave during the course of a calendar year. Work permits are required for foreign nationals. There is, however, no limitation on the number of employed foreign nationals or the duration of their stay.

There are two main associations of trade unions. The Union of Trade Unions, the country's largest, is comprised of independent unions, and encompasses about 14 separate unions organized by industry sector. The Alliance of Independent Trade Unions basically exists as an opposition group to the former. Trade unions have become interest-based, autonomous labor organizations. Membership is voluntary and activities are financed entirely by membership dues. Almost 75 percent of employed workers are dues-paying union members. Due to the difficult economic climate and political infighting, the unions as a rule have not exercised much leverage vis-à-vis employers in recent years.

National collective bargaining agreements are negotiated between the labor unions, representing the employees, the Ministry of Labor and Social Welfare, representing the Government, and the Economic Chamber, representing the employers. Contracts are also negotiated at the company level. The primary pressures that unions face are related to recession, unemployment and privatization.

## **Foreign-Trade Zones/Free Ports**

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There are no active Free Trade Zones in Macedonia, although locations for such zones have been designated (Bunardzik - an area north of Skopje; an area at the town of Gevgelija near the border with Greece; and an area between the town of Bitola and the border with Greece). Amended legislation has been prepared for permitting and

regulating such zones. In June 2004, Welsh company Glyndor Estates won the tender to manage the free economic zone at Bunardzik, but administrative obstacles preventing the zone's operation were only resolved in December. Glyndor will develop the zone and collect rents from the tenants.

## Foreign Direct Investment Statistics

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### 1. Net Annual Foreign Investment by Year:

Year	\$ Millions
1998	127.7
1999	32.7
2000	178.5
2001	445.1
2002	81.67
2003	97.5
Q1-Q3, 2004	104.4

(Source: National Bank of Macedonia.)

### 2. Foreign Direct Investment by Country (\$ millions) (for selected countries):

<u>Country</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Q1-Q3 2004</u>
Germany	29.7	186.2	0.8	4.87	0.35
Greece	102.1	67.2	44.3	6.6	6.66
Hungary	0.05	92.2	0.02	0.0	0.003
U.S.A.	2.3	64.1	4.3	3.46	0.31
Switzerland	3.1	8.7	2.5	13.61	7.06
Cyprus	4.8	1.4	4.9	0.2	0.08
Slovenia	11.6	3.7	3.9	6.07	1.04
Italy	2.5	2.7	0.5	0.7	6.03
Great Britain	7.8	1.2	2.3	6.82	0.35
Austria	2.0	2.8	0.3	2.63	0.93

(Source: National Bank of Macedonia; Telekom investment in 2001 split among individual countries in consortium.)

### 3. Top Foreign Investments through Privatization and Post-Privatization

Name	Country	Investment	Size(US\$m)
Stonebridge	(various)	Makedonski Telekom	346.5
National Bank	Greece	Stopanska Banka	46.4
Balkanbrew	Greece	Skopje Brewery	34.0

Holding			
Hellenic Petroleum	Greece	OKTA refinery	32.0
Titan, Holderbank	Greece, Switz.	Usje Cement Factory	30.0
Balkan Steel	Liecht.	Ladna Valanica	21.0
QBE Insurance	UK	ADOR Makedonija	14.8
Duferco	Switz.	Makstil	11.5
East West Trade	Austria	Centro	11.0
KuppBall- Transthandel	Germany	FZC Kumanovo	3.4
SCMM	France	Feni-Kavadarci	2.3

(Source: EBRD Investment Profile for Macedonia)

## Web Resources

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National Bank of the Republic of Macedonia - <http://www.nbrm.gov.mk>

European Bank for Reconstruction and Development - <http://www.ebrd.com>

Organization for Economic Co-operation and Development - <http://www.oecd.org>

Website of the Government of Macedonia - <http://www.gov.mk>

Ministry of Economy - <http://www.economy.gov.mk>

Ministry of Finance - <http://www.finance.gov.mk>

Ministry of Culture - <http://www.culture.in.mk>

Ministry of Internal Affairs - <http://www.mvr.gov.mk>

Industrial Property Protection Office - <http://www.ippo.gov.mk>

Free Trade Zone "Bunardzik" - <http://www.bunardzik.com.mk>

Macedonian Customs Authority - <http://www.customs.gov.mk>

Macedonian Statistical Office - <http://www.stat.gov.mk>

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## Chapter 7: Trade and Project Financing

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- [How Does the Banking System Operate](#)
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### How Do I Get Paid (Methods of Payment)

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Trade financing options for Macedonian importers are limited. A considerable number of large importers regularly receive goods under a short-term supplier credit agreement. Importers are free to arrange payments through long-term supplier loans when they make larger purchases. For transactions abroad, the most preferred forms of payment are letters of credit or payments made in advance. The Macedonian Development Bank does provide some loans to companies seeking to purchase technology and equipment from overseas.

Open to both the public and private sector, the U.S. Export-Import Bank (EXIM) serves as a potential source of export financing and insurance for U.S. transactions in Macedonia. The Small Business Administration also provides financial and business development assistance to aid small U.S. companies in developing export markets.

A new USAID-sponsored project targets established Macedonian companies that need short-term financing to fill a large order. The project offers companies competitive interest rates for working capital against a purchase order.

### How Does the Banking System Operate

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The financial system in Macedonia consists of the National Bank of the Republic of Macedonia (Central Bank), commercial banks, savings houses, exchange offices, money markets, the Deposit Insurance Fund, as well as insurance companies and a stock exchange. The banking system itself is two-tiered, based on the Banking Law and the National Bank Law. The Central Bank is the independent money-issuing institution responsible for the stability of the national currency (denar), general liquidity of payments within the country and abroad, and the conduct of monetary policy. The Central Bank also serves as the main regulatory body responsible for the supervision of all banking institutions.

In cooperation with the International Monetary Fund (IMF) and the World Bank, the Central Bank is implementing a monetary program whose main goal is to maintain price stability. This objective is being achieved by an exchange rate targeting strategy, whereby the denar is pegged against the euro as a nominal anchor for the economy. The Central Bank prepares annual monetary and foreign exchange projections and reports, which are subject to approval by the Parliament.

The banking system in Macedonia consists of 21 private banks, 15 savings houses and the state-owned Macedonian Bank for Development Promotion. According to the Banking Law, banks observe the principles of profit maximization, liquidity, safety and profitability. A foreign bank can establish a branch either as a legal entity or as a representative office. Savings houses are limited in their banking activities to savings-related services for individuals. They may neither undertake other banking operations nor directly offer services to companies.

The two largest banks, Komercijalna Banka and Stopanska Banka, dominate the banking system. In 2003, these banks had 55.5 percent of the total net assets of the banking system, market share of 55.4 percent, 33.2 percent of the banking capital, 48.3 percent of the total credits and 66.8 percent of the total deposits.

The banking sector in 2002 enjoyed a deposit increase with the changeover of 12 European currencies into the euro, since banks offered their customers lower or no commissions to convert to the euro. Most of the deposits stayed inside these banks in 2003 as well. A slight increase in loans was registered, but not enough for a serious boost to the enterprise sector. Due to the short maturity of the deposits, banks were reluctant to lend and tended to keep most of their liquidity safe in accounts abroad.

Few banks in Macedonia face liquidity or solvency problems. The Macedonian bank Ex-Im was placed into the Central Bank's receivership at the beginning of 2003 and is undergoing bankruptcy proceedings in 2004. A joint IMF and World Bank team, in their Financial Sector Assessment Program conducted in 2003, assessed the banking system as stable and resistant to various risks (interest rates, foreign exchange, credit risk etc.). They also gave recommendations for further improvement of banking supervision.

The banking sector finished 2003 with a net profit of US\$ 8.9 million: 17 banks with a market share of 9.7 percent finished with total net profit of US\$ 28.4 million, and four banks had losses totaling US\$ 19.5 million. The banking system in Macedonia employees about 4,600 person.

The financial system is relatively weak based on to western standards, but has improved considerably over the past several years. In most cases, commercial banks have offered new banking services and products for private businesses. With the reform of the payments system, banks have taken over all payment transactions from the former Payment Operations Bureau. The use of credit cards, however, is still not widespread. Although short-term credit is available, it is extremely expensive and difficult to access without large collateral security. Customer service is still poor according to western standards and needs improvement.

The low level of domestic savings in the banking system, high and rigid demand for financial assets, as well as high operational costs, have led to high nominal and real interest rates in the commercial banking sector over the past several years. With more disciplined fiscal policy, interest rates started to come down in 2003, and maintaining the same trend during 2004. Availability of credit to the private sector is constrained by requirements for high levels of collateral in the form of real estate, dollars, euros, gold, etc.

Domestic and foreign entities are treated equally when opening bank accounts in Macedonia. Foreign exchange operations are regulated by the Law on Foreign Exchange Operations (Official Gazette No. 49/2001 and Official Gazette No. 103/2001), which became effective on October 15, 2002. The main objectives of this law are to:

1. regulate resident and non-resident foreign transfers to and from Macedonia;
2. supervise and control foreign exchange.

This law also regulates the operations of exchange offices. Foreign currency accounts and foreign currency deposits of domestic and foreign individuals are regulated by the Banking Law (Official Gazette No. 63/2000). The Macedonian Parliament in July 2003 adopted changes to the Banking Law, the National Bank Law and the Law on Foreign Exchange Operations.

**U.S. Banks and Local Correspondent Banks**

- There are no U.S. Banks present in Macedonia.

- Major Macedonian banks:

Komercijalna Banka AD  
Kej. D. Vlahov, 4  
1000 Skopje, Republic of Macedonia  
Tel: 389-2-310-7107  
Fax: 389-2-311-1780  
<http://www.kb.com.mk>

Stopanska Banka AD (majority owned by Greek National Bank – GNB)  
Ul. 11 Oktomvri, 7  
1000 Skopje, Republic of Macedonia  
Tel: 389-2-329-5295  
Fax: 389-2-311-4503  
<http://www.stb.com.mk>

Tutunska Banka  
Ul. 12-ta udarna Brigada, BB  
1000 Skopje, Republic of Macedonia  
Tel: 389-2-316-1114  
Fax: 389-2-310-5600  
<http://www.tb.com.mk>

ProCredit Bank  
Ul. Marks i Engels, 3  
1000 Skopje, Republic of Macedonia  
Tel: 389-2-321-9950

Fax: 389-2-321-9901  
<http://www.pbb.com.mk>

Macedonian Bank for Development Promotion  
Ul. III Makedonska Udarna Brigada, BB  
1000 Skopje, Republic of Macedonia  
Tel: 389-2-311-5844  
Fax: 389-2-323-9688  
<http://www.mbdp.com.mk>

## **Project Financing**

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Financing and insurance for exports, investment and development projects are possible through U.S. agencies such as the U.S. Trade and Development Agency (TDA), the U.S. Export-Import Bank (EXIM), the Overseas Private Investment Corporation (OPIC), the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (World Bank), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the Southeast Europe Equity Fund (SEEF).

Most major project funding is achieved through co-financing agreements, especially for transportation, telecommunication and energy projects.

## **Web Resources**

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

U.S. Trade and Development Agency: <http://www.tda.gov/>

Multilateral Investment Guarantee Agency: <http://www.miga.org>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

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## Chapter 8: Business Travel

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### Business Customs

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There are no specific customary business practices that are distinct to Macedonia. Making the economic transition has led to the adoption of many Western business codes of conduct in this country.

Business attire for professionals in Macedonia is similar to that in the U.S. Shaking hands is the standard form of greeting and introduction. Establishing a good relationship in Macedonia requires the creation of trust. Meetings, luncheons and dinners create the opportunity to gain both mutual trust and understanding.

The more traditional businesses operate from 8 AM until 4 PM, but an increasing number of businesses are adopting Western working hours.

### Travel Advisory

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(Prior to travel, U.S. citizens are encouraged to check the Embassy web site <http://skopje.usembassy.gov> or the State Department site at <http://www.travel.state.gov> for the latest travel warnings and advisories. Travelers may also contact the Consular Section at the U.S. Embassy in Skopje (phone: + 389-2-311-6180 or fax: + 389-2-311-7103).

Crime in Macedonia is relatively low, but precautionary measures should be taken at all times.

### Visa Requirements

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U.S. citizens wishing to enter Macedonia need a valid passport. A visa for Macedonia is not required for tourist/business purposes for stays up to 90 days. Travelers are also required to complete an entry/exit document when they enter Macedonia. The exit

portion of this document must be retained for presentation to Immigration officials upon departure. Loss of this form may result in departure delays.

Macedonian citizens may find information and applications for obtaining a U.S. visa at:

U.S. Embassy – Skopje, Macedonia: <http://skopje.usembassy.gov>

## **Telecommunications**

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Fixed telephony is available in all towns, but visitors will usually rent a cell phone on arrival. European GSM phones will work in Macedonia. There is cell phone coverage in all populated areas and in most unpopulated areas as well.

Fixed line services are provided by Macedonian Telecommunications (MacTel). There are two cell phone service providers – Mobimak, wholly owned by MacTel, and Greek-owned OTE - Cosmofon.

There are several Internet access service providers. See Web Resources.

## **Transportation**

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Airports:

Skopje Airport – Petrovec (20km east from Skopje)

Tel: 389-2-323-5156

<http://www.airports.com.mk>

Ohrid Airport (12km north-west from Ohrid)

Tel: 389-46-262-503

<http://www.airports.com.mk>

Airlines:

Macedonian Airlines – MAT

Tel: 389-2-329-2300

<http://www.mat.com.mk>

Adria Airways

Tel: 389-2-311-7009

<http://www.adria-airways.com>

Alitalia

Tel: 389-2-311-8602

<http://www.alitalia.com>

Austrian Airlines

Tel: 389-2-312-8177  
<http://www.austrian.airlines.com.mk>

Croatia Airlines  
Tel: 389-2-311-5858  
<http://www.croatiairlines.com>

JAT  
Tel: 389-2-311-8306  
<http://www.jat.com>

Lufthansa  
Tel: 389-2-312-8177  
<http://www.lufthansa.com>

Malev Hungarian Airlines  
Tel: 389-2-311-1214  
<http://www.malev.hu>

SWISS Airlines  
Tel: 389-2-322-6813  
<http://www.swiss.com>

Turkish Airlines  
Tel: 389-2-311-7214  
<http://www.turkishairlines.com>

Rent a Car agencies:

AVIS Rent a Car  
Tel: 389-2-322-2046  
<http://www.avis.com.mk>

BUDGET Rent a Car  
Tel: 389-2-329-0222  
<http://www.budget.com.mk>

## Language

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Many of the citizens speak foreign languages. English is the predominant foreign language, followed by German and French. Although many companies in Macedonia have English speakers among their managers, U.S. business representatives should be prepared to do business through locally hired interpreters.

## Health

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Health facilities are limited, and are rarely up to Western standards. Medicines may be in short supply. Hepatitis A and Brucellosis are endemic in Macedonia. Travelers to the region may wish to consult their physicians about the advisability of getting a Hepatitis A vaccination. Information on vaccinations and other health precautions may be obtained from the Center for Disease Control and Prevention's hotline for international travelers at 1-877-394-8747; fax: 1-888-232-3299, or by visiting the CDC's internet homepage at <http://www.cdc.gov>

## Local Time, Business Hours, and Holidays

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Time: GMT + 1 hour

Business Hours: 08:00 – 16:00

2005 Holidays:

January 1-2	- New Year's Day
January 7	- Orthodox Christmas
January 20*	- Kurban Bajram
May 1*	- Orthodox Easter
May 1-2	- Labor Day
August 2	- Ilinden Uprising Day
September 8	- Independence Day
October 11	- People's Uprising Against Fascism
November 3*	- Ramadan Bajram

\*changes every year

If a holiday falls on a weekend, the government will generally issue a decision shortly before the holiday declaring the preceding Friday or following Monday an official holiday. In some cases, the government may declare an extended holiday. For instance, because of the alignment of New Year's Day and Orthodox Christmas in 2005, the government declared the entire week of January 3<sup>rd</sup> a holiday.

Consistent with European practices, business activity in Macedonia slows during late July and August, when many people take their extended summer holidays.

## Temporary Entry of Materials and Personal Belongings

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<http://www.customs.gov.mk/EN/DesktopDefault.aspx?tabindex=0&tabid=22>

## Web Resources

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Macedonian Telecom  
Tel: 389-2-314-1411  
<http://www.mt.net.mk>

Mobimak  
Tel: 389-70-6622  
<http://www.mobimak.com.mk>

Cosmofon  
Tel: 389-2-244-1000  
<http://www.cosmofon.com.mk>

MT Net  
Tel: 389-2-311-4454  
<http://www.mt.net.mk>

ON Net  
Tel: 389-2-310-0800  
<http://www.on.net.mk>

Unet  
Tel: 389-2-306-6505  
<http://www.unet.mk>

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## Chapter 9: Contacts, Market Research, and Trade Events

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- [Market Research](#)
- [Trade Events](#)

### Contacts

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#### U.S. Government:

Embassy of the United States of America  
Department of Commerce / U.S. Commercial Service-CEEBIC  
Mr. Arben Gega, Commercial Specialist  
Bul Ilinden, bb  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-6180 ext. 2172  
Fax: 389-2-311-7103  
E-mail: [Arben.Gega@mail.doc.gov](mailto:Arben.Gega@mail.doc.gov) or [GegaA@state.gov](mailto:GegaA@state.gov)

U.S. Department of Commerce  
Central and Eastern Europe Business Information Center (CEEBIC)  
Ms. Jennifer Gothard, Director  
Mailstop: R-CEEBIC  
14<sup>th</sup> and Constitution, NW, Washington, D.C. 20230  
Phone: 202-482-2645  
Fax: 202-482-3898  
E-mail: [ceebic@ita.doc.gov](mailto:ceebic@ita.doc.gov)  
Website: [www.export.gov/ceebic](http://www.export.gov/ceebic)

U.S. Department of Commerce  
International Trade Administration  
Mr. Jonathan Kimball, Desk Officer  
H-3319, 14th and Constitution, NW, Washington, D.C. 20230  
Phone: 202-482-4915  
Fax: 202-482-4505  
E-mail: [Jonathan.Kimball@mail.doc.gov](mailto:Jonathan.Kimball@mail.doc.gov)

U.S. Trade and Development Agency  
Ms. Andrea Lupo, Project Manager  
1000 Wilson Boulevard, Suite 1600  
Arlington, VA 22209-3901  
Phone: 703-875-4357  
Fax: 703-875-4009  
E-mail: [alupo@tda.gov](mailto:alupo@tda.gov)  
Website: <http://www.tda.gov>

U.S. Export-Import Bank

Ms. Margaret Kostic, Director for Southeast Europe Initiative  
811 Vermont Avenue, N.W.  
Washington, D.C. 20571  
Phone: (202) 565-3556  
E-mail: [margaret.kostic@exim.gov](mailto:margaret.kostic@exim.gov)  
Website: [www.exim.gov](http://www.exim.gov)

Overseas Private Investment Corporation (OPIC)  
Mr. John F. Moran, Director, Business Development  
1100 New York Avenue, NW  
Washington, DC 20527  
Phone: (202) 336-8799 or (800) 424-OPIC  
Fax: (202) 408-9859  
E-mail: [jmora@opic.gov](mailto:jmora@opic.gov)  
Website: <http://www.opic.gov>

U.S. Department of Agriculture  
Foreign Agriculture Service  
Trade Assistance and Promotion Office  
Washington, DC 20250  
Phone: 202-720-7420  
Website: <http://www.usda.gov>

**Business Associations:**

American Chamber of Commerce in Macedonia  
Mother Teresa, # 20-1/12  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-310-9756  
Fax: 389-2-312-3872  
E-mail: [contact@amcham.com.mk](mailto:contact@amcham.com.mk)  
Website: [www.amcham.com.mk](http://www.amcham.com.mk)

U.S. Business Council for Southeastern Europe  
Mr. Thorsten Knuttson, Executive Director  
Wall Street Station  
P.O. Box 1521  
New York, NY 10268-1521  
Phone: 212-439-9025  
Fax: 908-439-9105  
E-mail: [info@usbizcouncil.org](mailto:info@usbizcouncil.org)  
Website: [www.usbizcouncil.org](http://www.usbizcouncil.org)

Macedonian Economic Chamber  
Mr. Boris Calovski, Secretary of Foreign Economic Relation Dept.  
Dimitrie Cupovski, 13  
1000, Skopje, Republic of Macedonia  
Phone: 389-2-311-7101  
Fax: 389-2-311-6210  
Website: [www.mchamber.org.mk](http://www.mchamber.org.mk)

## **Government of Macedonia**

Website: [www.gov.mk](http://www.gov.mk)

Embassy of the Republic of Macedonia  
Mr. Nikola Dimitrov, Ambassador  
1101 30th Street NW, #502, Suite 302  
Washington, D.C. 20007  
Phone: 202-337-3063 or Fax: 202-337-3093

Ministry of Transport and Communications  
Mr. Xhemali Mehazi, Minister  
Plostad Crvena Skopska Opstina, 4  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-312-3292 or Fax: 389-2-312-6228  
<http://www.dtk.gov.mk>

Ministry of Economy  
Mr. Fatmir Besimi, Minister  
Jurij Gagarin, 15  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-309-3470 or Fax: 389-2-308-4472  
<http://www.economy.gov.mk>

Ministry of Agriculture, Forestry and Water Resource Management  
Mr. Sadula Duraku, Minister  
Leninova, 2  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-3045 or Fax: 389-2-321-1997  
<http://www.mzsv.gov.mk>

Ministry of Finance  
Mr. Nikola Popovski, Minister  
Dame Gruev, 14  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-6012 or Fax: 389-2-311-7280  
<http://www.finance.gov.mk>

Ministry of Foreign Affairs  
Mrs. Ilinka Mitreva, Minister  
Dame Gruev, 6  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-9190 or Fax: 389-2-311-5790  
<http://www.mnr.gov.mk>

Ministry of Defense  
Mr. Jovan Manasievski, Minister  
Orce Nikolov, bb  
1000, Skopje, Republic of Macedonia  
Phone: 389-2-311-2872 or Fax: 389-2-322-7835  
<http://www.morm.gov.mk>

Ministry of Health  
Mr. Vladimir Dimov, Minister  
Vodnjanska, bb  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-3429 or Fax: 389-2-311-3014  
<http://www.zdravstvo.gov.mk>

Ministry of Labor and Social Policy  
Mr. Stevco Jakimovski, Minister,  
Dame Gruev, 14  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-7787 or Fax: 389-2-311-8242  
<http://www.mtsp.gov.mk>

Ministry of Education and Science  
Mr. Azis Pollozhani, Minister  
Dimitrija Cupovski, bb  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-7896 or Fax: 389-2-311-8414  
<http://www.mon.gov.mk>

Ministry of Culture  
Mr. Blagoja Stefanovski, Minister  
Bulevar Ilinden, bb  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-312-7163 or Fax: 389-2-312-7112  
<http://www.culture.in.mk>

Ministry of Justice  
Mrs. Meri Mladenovska - Gjorgjievska, Minister  
Dimitrija Cupovski, bb  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-323-0732 or Fax: 389-2-322-6975  
<http://www.covekovi-prava.gov.mk>

Ministry of Internal Affairs  
Mr. Ljubomir Mihajlovski, Minister  
Dimce Mircev, bb  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-322-1972 or Fax: 389-2-311-2468  
<http://www.mvr.gov.mk>

Ministry of Environment and Physical Planning  
Mr. Zoran Shapuric, Minister  
Drezdenska, 52  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-306-6930 or Fax: 389-2-306-6931  
<http://www.moe.gov.mk>

Ministry of Local Self - Government  
Mr. Rizvan Sulejmani, Minister  
Dimitrija Cupovski, 9  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-321-1829 or Fax: 389-2-321-1764  
<http://www.mls.gov.mk>

Agency of Information  
Mr. Vele Mitanoski, Director  
Guro Gakovic, 64  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-8038 or Fax: 389-2-311-4695  
<http://www.mia.com.mk>

Agency for Transformation of Enterprises with Social Capital  
Mr. Bosko Stefanovski, Director  
Nikola Vapcarov, 7  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-312-6059 or Fax: 389-2-312-6022  
<http://www.mpa.org.mk>

Agency for Promotion of Entrepreneurship  
Vladimir Sarac, Director  
Nikola Vapcarov 7  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-310-9736 or Fax: 389-2-313-5494  
Email: [sarac@apprm.org.mk](mailto:sarac@apprm.org.mk)  
[www.apprm.org.mk](http://www.apprm.org.mk)

Bank Rehabilitation Agency  
Mr. Haki Fazliu, Director  
Vasil Glavinov, 16/6  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-312-1250 or Fax: 389-2-312-6323

Customs Administration  
Mr. Ilija Ilovski, Director  
Lazar Licenovski, 13  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-6188; 322-4342 or Fax: 389-2-323-7832  
<http://www.customs.com.mk>

National Bank (Central Bank)  
Mr. Petar Goshev, Governor  
Kompleks Banki, bb  
PO Box 401  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-2177 or Fax: 389-2-311-1161  
<http://www.nbrm.com.mk>

Statistical Office  
Mrs. Katerina Kostadinova - Daskalovska, Director  
Dame Gruev, 4  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-329-5600 or Fax: 389-2-311-1336  
<http://www.stat.gov.mk>

Industrial Property Protection Office  
Mr. Xhemail Elmazi, Director  
Bulevar Ilinden, bb  
1000 Skopje, Republic of Macedonia  
Phone: 389-2-311-6379 or Fax: 389-2-311-6041  
<http://www.ippo.gov.mk>

## **Market Research**

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To view market research reports produced by the U.S. Commercial Service, please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Due to limited staff resources, limited market research reports are available from CEEBIC's website at: [www.export.gov/ceebic](http://www.export.gov/ceebic)

Other resources for market information include the following web sites:  
<http://www.mchamber.org.mk/www1/m001.htm>  
<http://www.mpa.org.mk/>  
<http://www.macedonia.org>

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration for the site is required, but free of charge.

## **Trade Events**

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

The Skopje Trade Fair schedule is at:

[http://www.skopjefair.com.mk/index\\_en.htm](http://www.skopjefair.com.mk/index_en.htm)

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## Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the links below.

[http://www.export.gov/comm\\_svc/](http://www.export.gov/comm_svc/)

<http://www.mac.doc.gov/ceebic/>

<http://www.BuyUSA.gov/macedonia>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.