

Business Advisory Council for South Eastern Europe
Skopje. March 14-15, 2005

EXECUTIVE SUMMARY AND OPERATIONAL CONCLUSIONS

- The BAC Board recommended that the BAC accept Mr. Valdas Varanavicius, Goran Radman and Georg Anterberger as new members. A Romanian candidate, Dinu Patriciu, is under consideration, given that the BAC already has 3 Romanian members. The Secretariat will circulate the CVs and if there are no objections, the above will be invited to join the BAC as full members.
- The BAC Treasurer adopted the BAC financial report, with some reservations **due to the current changes at the OSCE accounting system.**
- The BAC should remain flexible and explore possibilities of seeking links and cooperation with the Black Sea Region. Furthermore, the BAC could serve as a business advisory body to government in the BSEC region, as well as the Middle East and North Africa.
- Making Corridor X fully operational remains a priority for the BAC. SECI PRO will be instrumental in identifying specific problems and obstacles, as well as come up with solutions for removing them.
- Instead of having round tables before BAC meetings, the BAC welcomed the proposal to visit specific border crossing points with the participation of the PRO committees involved, ministers and representatives from local government. Mr. Kostic and Mr. Cupic offered to organize such a mission at the SaM and Bulgarian border, with the input of the respective PRO committees.
- The EPA pilot project needs an additional €80.000. Four BAC members have contributed €5.000 each to this effort. The paying members (with the exception of the 4 who contributed), should each contribute €2,500 (32/80,000). Mr. Ethymiadis will write a letter to the BAC members.
- The next BAC meeting will take place in Montenegro on May 30-31, **and if possible**, there will have been a business mission to the border between Serbia & Montenegro and Bulgaria prior to this meeting. Mr. Tsorbatzoglou will provide information and will coordinate with Mr. Kostic, Mr. Cupic and Mr. Alexandrov. A business mission to Romania was also proposed. After Montenegro, the next BAC meetings will be held on 28-29 September in Chisinau, and the week of 28 November in Belgrade.

MEETING REPORT

Roundtable on Investment and Doing Business

The discussion on foreign investment and doing business in f.y. Republic of Macedonia took place with Mr. Nikola Popovski, Minister of Finance, and Mr. Jean Lemierre, President of the European Bank for Reconstruction and Development, as well as with the Head of the European Agency for Reconstruction in Skopje, Mr. Daniel Giuglaris, who attended the meeting as an observer.

Mr. Nikos Efthymiadis chaired the session, welcomed the guests and addressed specific questions to each concerning the economic development of f.y. Republic of Macedonia.

Mr. Popovski was invited to elaborate on the following issues:

1. The effects that the peg of the dinar to the Euro has on exports, and measures which the government is willing to take in order to promote exports.
2. The next steps to improve banking services and increase availability of financing to SMEs.
3. The possibility to include private sector representation in the government Steering Committee for the Economy.

Mr. Lemierre, as President of the EBRD, was invited to elaborate on:

1. Initiatives that the EBRD can undertake to provide small loans and micro-credit to SMEs in the country.
2. The promotion of PPPs, and in particular those projects considered as priorities for WT II (7 projects).
3. Cooperation with MIGA, the IFC and other IFIs for the creation of mechanisms to facilitate trade and investment, such as export guarantees.
4. Specific activities to support capacity building for public administration, and in particular the EPA project.

Mr. Popovski gave an overview of economic growth, stating that it has been on average of 1% during the past decade, but there have been large fluctuations with annual rates. Unemployment on the other hand is high and stable. With regard to export and FDI facilitation, Mr. Popovski noted that the government has already identified obstacles and is in the process of taking steps to facilitate investors and traders, by:

1. dealing with corruption in the judiciary,
2. improving the labor law, which has created an inflexible market and is not delivering lower costs,

3. simplifying administrative procedures for businesses by creating a one-stop shop for company registration (to start operating on September 1st).
4. improving the state of infrastructure, especially electricity,
5. restructuring the banking and financial sector.

Concerning SMEs, Mr. Popovski suggested that there should be consolidation of SMEs and openness to FDI and to foreign banks. Local banks should be able to provide lower rates, but the peg to the Euro has created a very tight monetary environment. As far as the tax system is concerned, Mr. Popovski insisted that it is very clear and that there are no changes planned, stating that there is a 15% profit tax, 18% VAT, corporate income tax, and personal tax (15%, 18% and 24%), as well as duties, which will all remain the same. As far as free trade zones are concerned, he noted that there have not been any results, or at least not the expected results.

Referring to the economic environment in the country, Mr. Lemierre noted that f.y. Republic of Macedonia has to be viewed as part of the region. The region needs stability and needs to realize that regional cooperation is essential since Southeast Europe no longer has a high profile political agenda, but rather a hard economic agenda to deal with.

With regard to PPPs, Mr. Lemierre indicated that there are many interesting PPP projects, but their legal structure is often too complicated. He gave the example of the Tirana Airport, which has a simple structure and has therefore been able to move forward at a fast pace. The EBRD fully supports this approach to PPPs.

As far as SMEs and banking are concerned, Mr. Lemierre stressed that there is still room for progress in this field. It is important for local banks in the country to develop a credit culture and be open to taking risks, which presupposes the development of institutional and human capacities to take and manage risks respectively. The EBRD is ready to invest funds in capacity building and to provide finance for SMEs. At the same time, the EBRD recognizes that trade is the number one element in doing business, which is why trade and export guarantees are easy and cheap programs to develop. The Bank is willing to work with MIGA and other organizations to this end.

The Bank has decided to adopt a new approach to financing medium companies in the country in order to fully understand the needs of SMEs. A team is currently developing a strategy on the basis of which the EBRD will proceed with small equity stakes and not large amounts. As for capacity building, Mr. Lemierre stressed its importance and the Bank's support from legal changes especially with regard to procurement, project monitoring and EU subsidies implementation. Moving forward with the EU means developing skills and human resources, he stressed, however, that the EBRD is not an organization that does policy loans, but projects.

Mr. Janevski, as local BAC member, raised the question of how investors can be more satisfied in the country and urged the government to implement certain aspects of communicating with the private sector and to proceed with practical and effective steps for supporting economic growth.

Ms. Danica Purg invited Mr. Lemierre to undertake the initiative to cooperate with the BAC on capacity building and consider financial support of the EPA project. She also commented on a previous excellent initiative of the EBRD to finance student loans in cooperation with ABN AMRO Bank, which had significantly increased opportunities for higher education and development of managerial skills in the region. She suggested that the EBRD identifies a new regional partner for the development of a similar program

Administrative Issues

The Zagreb report was unanimously adopted, with Declan Murphy saying that he was omitted from the list of participants.

Membership issues, including introduction of new members

Mr. Efthymiadis welcomed the new members and asked them to say a few words about themselves and their business. New members present were Mr. Vicktor Jackovich and Mr. Vladimir Cupic. The new member from the UK, Mr. Mark Harrison was unable to come at the last minute and sent his regrets. Ms. Vera Budway read out the list of regrets received by the BAC Secretariat. She then stressed the importance of confirming participation in meetings, given that it has an impact on logistical preparation (folders, name plates, seating, etc.). A complete list of participants and regrets is annexed to this report.

Ms. Budway then read out the names of candidates, to whom the Board recommended to extend membership. They are: Mr. Valdas Varanavicius from Lithuania, Mr. Goran Radman (Microsoft SEE), and Mr. Georg Antesberger, Siemens Austria. A fourth candidate, Mr. Dinu Patriciu from Romania is still under consideration, due to the fact that the BAC already has 3 Romanian members. The issue of the Romanian members will be clarified by a letter from Mr. Efthymiadis. The CVs of all recommended members will be sent out by the Secretariat and if there are no objections, they will be invited to the next meeting as members. Mr. Piet Steel, formerly with Solvay, will remain on the BAC in his new position with Toyota.

Christian Luger, who serves as the BAC Treasurer gave a report on the state of the BAC finances. The overview is annexed to this report. He explained the difficulties in accurate reporting due to complications and a new accounting system at the OSCE, where the BAC has

its account. Nevertheless, he adopted the report. He also used the occasion to announce his resignation from the BAC, due to a new position in Germany.

Discussion with Dr. Busek

Dr. Busek began by stressing that the BAC should remain flexible and should explore the possibility of seeking links and cooperation with and within the Black Sea region. Dr. Busek considers business missions to specific regions positive.

He then reminded that 2005 will be a complicated year for the region. In Bosnia there will be a change in the powers of OHR and the country has to start taking more decision. The critical issue for Kosovo is how to move forward with the status question. The political situation in Serbia not stable and in Croatia, the issue of extraditing General Gotovina to the Hague might postpone the negotiations with the EU. Opening negotiations with Croatia is important because it can really send a positive message to the other countries in the region.

Ms. Mary O'Mahony, SP WTII Expert on Trade, invited the BAC to come up with suggestions and comments on what would make trade easier in SEE. She reported on the progress of implementing the 29 free trade agreements in the region and promised to send the BAC a paper on the creation of a single free trade area.

The ERT representative, Mr. Dennis Kredler, briefed the BAC that his presence at the meeting was a "fact-finding mission", so that he could inform the ERT about the BAC and avoid duplication and seek possible links between the two organizations.

Mr. Jackovich noted that SEE is no longer a political priority, except for f.y. Republic of Macedonia. He sees a double track for the BAC as an advisory body, which is to 1) to advise governments in SEE to continue with their reform policies, and 2) to advise the governments of the Black Sea and the Middle East and northern Africa regions to liaise with the local business communities.

Mr. Declan Murphy identified the movement of development organizations beyond the Black Sea and the Middle East and Northern Africa, stressing that the BAC has a role to perform there, by developing linkages with local business communities.

The World Bank Manager in Skopje, Ms. Sandra Bloemenkamp, noted that the IFIs have initiated a vibrant dialogue with local governments about the judiciary, the court system, trade, and finances, and have established a loose but efficient network for this cause.

Mr Efthymiadis agreed that closer links with both the IFIs and other local business communities are welcome, noting that some of the initiatives of the foreign investors' councils in the region, such as the White Books on investment for instance, are or can be of great help to local governments.

Dr. Busek invited members to identify any connections they may have in the EU “Neighborhood Policy” region, and promised to ask Commissioner Ferrero-Walder about what she really wants to do.

Mr. Alexandrov mentioned that Bulgarian experts were going to the Ukraine to assist and Dr. Busek asked BAC members what kind of connections they have to the “new neighborhood” countries. Economic cooperation with Ukraine is becoming increasingly important.

As for the projects along Danube, Dr. Busek said that the Romanians, the Serbs and the Austrians are in the process of negotiating and are all willing to cooperate on this issue. He also announced that the Novi Sad bridge will open this May.

Mr. Hayashi, making a reference to the WT II network of free trade agreements, stressed the importance of avoiding the negative effects of a free trade area, by excluding others from trading with the region, and it was clarified that the FTAs will not create a closed market.

The floor was then given to Mr. Aris Vlachos, president of the International Council of Investors (ICI), which serves as the local foreign investors’ Council. He identified the key problems for investors in the country as being:

1. missing legislation
2. need for structural reforms
3. problematic labor market (where the ICI is willing to offer its assistance to the government)
4. protection of property rights (including intellectual property)
5. privatization
6. complying with state agreements
7. audit and bankruptcy
8. state administration and transparency
9. public administration, and in particular customs, taxation, auditing and the judiciary

The ICI is especially supportive of capacity building in the fields of state administration and the judiciary.

Mr. Janevski noted that there is a need for the government to admit problems and seek for help. The government delays with new laws because it is looking for perfect laws, but in the meantime consumption and exports remain limited.

Mr. Declan Murphy indicated that the establishment of the foreign investment promotion agency is a positive step which allows for optimism for foreign investors, while Mr. Fumagalli suggested that the government can pursue a more aggressive marketing policy of incentives such as free tax zones, in an effort to attract new investments which will create employment.

SECIPRO and CORRIDOR X

Mr. Yanis Tsorbatzoglou reported on developments within the SECIPRO network. He reported that the group had established closer ties with Western European PRO committees, namely through EURORPO. He mentioned the positive developments with regard to TTFSE II, which is expected to start in fiscal year 2006, with the participation of Bulgaria and f.y. Republic of Macedonia. Mr. Tsorbatzoglou also highlighted the contribution of the network to the WTII studies for NTBs, and praised the immediate response of the Moldovan government with the establishment of MoldovaPRO (which does not include Transdnistria).

Unlike ModlovaPRO, AlbaPRO and CroatiaPRO are two committees that are suffering. AlbaPRO has been a failure due to lack of political support and capacities, and CroatiaPRO receives no political support or leadership from the Chamber of Commerce. The concept of the PRO Committees and their effectiveness lies with public private sector consultations, the involvement of many ministries, transparency and cooperation of border crossing agencies, which is not happening in this case.

With regard to Corridor X and the BAC initiative for improving its operability, Mr. Tsorbatzoglou stated that the problem is clearly related with border crossings, and in particular border crossings in Serbia & Montenegro, bringing up as an example that 10km lines at the Bulgaria-Serbia/Montenegrin border crossing. Although SCGPRO has made significant progress with the implementation of the Trade Facilitation Component the reality is that SCG has begun work under the TTFSE two years after all other participating countries. Adding to this the internal difficulties with Montenegro and the frequent changes in the leadership of Customs the need for assistance to the process is clear. He identified the problem lying with the constant changes of personnel at the border agencies.

Closing, Mr. Tsorbatzoglou referred to the next steps of SECIPRO, which include the publication of the trade facilitation manual for Moldova and a workshop on trade facilitation with WTO in Washington, DC, in early June 2005.

Mr. Efthymiadis commented that the more discussion there is about Corridor X, the more it seems that the bulk of the problems are in Serbia & Montenegro. He suggested that a good way to convince all governments to move forward with problems at border crossings would be to organize border missions instead of roundtables at BAC meetings, with the participation of ministers and other local governments' representatives.

This suggestion was greeted with positive reactions by all members, and Mr. Kostic immediately offered to coordinate with representatives of the Serbian/Montenegrin government for such a mission at the Serbia/Montenegrin and Bulgarian borders, in cooperation with Mr. Vladimir Cupic and Mr Alexandrov. Mr. Efthymiadis invited Mr. Tsorbatzoglou to come up with an agenda and an appropriate timing for such a mission, suggesting possible participants from both sides, while Mr. Kostic and Mr. Cupic will get representation from the local government. Mr. Tsorbatzoglou was also requested to provide information which will reflect the problem at the border crossings, which he said are already available.

Mr. Tsorbatzoglou also made a brief comment about the situation with the Croatian PRO committee, noting that if the leadership of the Chamber decided to disengage, then the CroatiaPRO will not be able to function.

EPA Project: progress and next steps

Ms. Purg reported that she had sent letters to all BAC members asking for financial support for the project. Four BAC members responded by pledging 5000 euros each: Pierre Daures (Bouygues), Aldo Fumagalli (SOL), Yasuo Hayashi (Mitsui) and Ference Bartha (Bartha Financial Services). An additional €30,000 was transferred from the Liechtenstein contribution for the Commercial Arbitration Project. The project now has a total of €50,000.

Mr. Daures suggested that in addition to the €1.000 membership fee, each BAC member should pay an extra amount of €1.000 to go to the project. Those 4 BAC members who have contributed should be exempt.

Dr. Busek asked Mr. Efthymiadis to set a deadline of 15 June and if the funds are not able to be collected, the BAC should not proceed. Mr. Kostic suggested that 50,000 euros should be divided by the number of paying members. Mr. Kent pointed out that this is the first time that BAC members have been asked to pay for a project.

Following a budget cut of €20.000 for the pilot project, [the sum that needs to be found is €80,000](#). There are 36 paying BAC members and 4 have already contributed, which leaves 32. €80,000 divided by 32 equals €2.500, thus each BAC member should send €2,500 to a special account established at the Bled School for this purpose. This should be done by the end of April. Mr. Efthymiadis will write a letter to the BAC members.

Mr. Dominese suggested that another option to gather the missing funds for the EPA project is to get a loan and then pay it back in a period of three years from the members' fees.

Mr. Efthymiadis suggested that another option for the EPA project could be the EU TAIEX project, which can cover travel expenses of trainees, accommodation and food, as well as daily allowance, and provides similar benefits and compensation to speakers/lecturers.

No discussion followed.

Report from the meeting with the Commission

Mr. Efthymiadis reported from his meeting with Olli Rehn, the Commissioner responsible for Southeastern Europe, with the other Board members. The meeting was very positive and Mr. Efthymiadis reported on the BAC missions to Tirana and Chisinau. He also mentioned the idea of establishing a PPP Center of Excellence in Sofia.

PPPs: new Initiatives

Mr. Daures reported that he met with the EBRD concerning PPPs and also participated in the Stability Pact Working Table II Task Force on PPPs. All the IFIs are on board. There is a list of 7 priority projects. He then stressed again the importance of the EPA project and that action must be taken immediately because of the urgent need in the region.

Business Missions and Next Meetings

Mr. Efthymiadis suggested that as a Chairman he would prefer not to have one of the four meetings in a city like Venice, Thessaloniki or Vienna, where there is no communication with local governments. He took the initiative to forego the planned Thessaloniki meeting for May, and instead proposed to have the meeting in Montenegro, where the BAC has never been. Ms. Budway informed the BAC of the very positive reaction of the President of the Montenegrin Parliament to such a possibility, and members accepted this proposal with positive reactions. Dr. Busek suggested holding the meeting in Kotor, which is near the border with Croatia and the Dubrovnik airport, so as to facilitate travel arrangements (both Podgorica and Dubrovnik).

Mr. Daures noted the need to increase communication with local governments, and suggested that there should be a business mission to Bucharest, given recent elections, to meet with the new government. Mr. Murphy added that there has been a new appointment in the Romanian government in charge of business and investment facilitation.

Mr. Efthymiadis concluded that the next BAC meeting will take place in Montenegro on May 30-31, prior to which – *hopefully* - there will have been a business mission to the border between Serbia & Montenegro and Bulgaria, for which Mr. Tsorbatzoglou will provide information and which will be coordinated with Mr. Kostic and Mr. Cupic.

After Montenegro, the next BAC meetings will be held on 28-29 September in Chisinau, and the week of 28 November in Belgrade.

Decision on the letter to the Prime Minister

The letter was discussed and finalized. It is attached to this report.

Other Business

Professor Alexandar Andrejevic presented the Novi Sad Fair, which will be held in October of 2005. All information was sent to the BAC members at the Zagreb meeting. He stressed the

importance of developing cooperation among business associations in South Eastern Europe and asked for BAC support and participation. The BAC welcomed this initiative.

Mr. Efthymiadis concluded the meeting by suggesting that at future BAC meetings, BAC members should share their experience in investing in the region by providing a good example, as well as a bad one.

**MEETING IN SKOPJE
14-15 March 2005**

Participants List

1. Alexandrov, Velitchko – ITA Holding, Bulgaria
2. Bozoudi, Maria - BICC, Thessaloniki
3. Budway, Vera Maria – BAC Secretariat
4. Busek, Erhard – Special Coordinator, Stability Pact for SEE
5. Cupic, Vladimir – Hypo Alpe Adria Bank – Belgrade (new member)
6. Daures, Pierre – Bouygues Group, France
7. Dominese, Giorgio - CNEAS, Italy
8. Eckenschwiller, Conrad – Bouyges, France
9. Efthymiadis, Nikos (*Board*) – Efthymiadis Group, Greece
10. Fumagalli, Aldo (*Board*) – SOL, Italy
11. Harms, Michael – Committee on Eastern European Relations, Berlin
12. Harrison, Mark – Harrisons – Serbia & UK
13. Hayashi, Yasuo – Mitsui, UK
14. Ivanchich, Samo – PartnAir, Slovenia
15. Jackovich, Victor – Jackovich International/Erwin Associates, US
16. Janevski, Svetozar, Pivara Skopje, Macedonia
17. Kent, Muhtar (*Board*), Efes Pilsen, Turkey
18. Kostic, Budimir – Raiffeisen Serbia
19. Koshikawa, Yoshinori – Mitsui, Belgrade
20. Luger, Christian – Siemens
21. Mix, Michael – Bechtel, Romania
22. Murphy, Declan - OECD
23. O'Mahony, Mary – Expert, WT II, Stability Pact
24. Purg, Danica – Bled School of Management, Slovenia
25. Pushka, Ilir – Alcon, Pristina
26. Raffaseder, Andrea – VA Tech, Austria
27. Salvador, Luciano – SOL, Italy
28. Takas, Vasili – INA Telecom, Greece
29. Tsorbatzoglou, Yanis – SECIPRO Coordinator
30. Velija, Vebi – VEVE Group, Albania
31. Vigroux, Jean-Pierre – Pricewaterhousecoopers, Bulgaria
32. Viezzoli, Claudio – ERBD, London

Regrets

Atilgan, Cumhur
Bartha, Ferenc
Brodach, Georg
Harrison, Mark
Hufnagl, Christian
Istomin, Oleg
Munteanu, Alexandru
Salman, Nermin
Nussbaumer, Manfred
Puljic, Lerka
Sergio Valentini
Steel, Piet (career change – Toyota)

Guests

Nikola Popovski – Minister of Finance of the Republic of Macedonia
Jean Lemierre – President, European Bank for Reconstruction and Development
Dennis Kredler – Senior Analyst, European Round Table of Industrialists, Brussels
Sandra Blumenkamp – World Bank Representative, Skopje
Daniel Giuglaris – Head of Center, European Agency for Reconstruction, Skopje
Aris Vlachos – President, International Council of Investors, Skopje

Observers

Alexander Andrejevic – Novi Sad Fair
Bjorn Kuhne – Political Advisor, Stability Pact, Brussels
Gabriella Konevska – Regional SECI Advisor, Skopje
Verniamin Karakostanoglu – Head of the Stability Pact Office, Thessaloniki

**Business Advisory Council for South Eastern Europe
Skopje, 14-15 March, 2005**

Program

Monday, March 14	
9:00 – 14:00	SECIPRO meeting – Macedonian Chamber of Commerce
14:30 – 18:30	EBRD Seminar – Hotel Holiday Inn
19:00 – 20:30	Reception – Hotel Holiday Inn
Tuesday, March 15	
Millennium II Room	
<i>Roundtable on Investment and Doing Business</i>	
9:00 – 10:30	Welcome & Opening Remarks: Mr. Nikos Efthymiadis Discussion with Minister of Finance Mr. Nikola Popovski, Dr. Erhard Busek, EBRD President Mr. Jean Lemierre, and EAR Skopje Head of Office Mr. Daniel Giuglaris (avoid formal presentations and address practical issues, allowing enough time for discussion and interaction with BAC members, who are well established professionals, most of them already familiar with the EBRD structure and methodology)
10:30 – 10:45	Break
<i>BAC Meeting</i>	
10:45 - 11:15	Administrative issues (adoption of the Zagreb report, membership issues, fees)
11:15 – 12:00	Report and Interaction with Dr. Busek (SECI/SP)
12:00 – 14:00	Reports on action plan and priorities <ul style="list-style-type: none"> 1. Interaction with a representative of the local Foreign Investors' Council (Aldo Fumagalli, FIC Chair, Declan Murphy) 2. Trade and Transport Facilitation: report from SECIPRO and presentation of the action plan on the operability of Corridor X (Yanis Tsorbatzoglou) 3. EPA project: progress and next steps (Danica Purg) 4. Report from the meeting with the Commission; (Nikos Efthymiadis) 5. PPPs: new initiatives (Pierre Daures, Nikos Efthymiadis) 6. Business missions and next meetings: suggestions and follow-up 7. Discussion of the letter addressed to the Prime Minister
14:00 – 14:15	Other business
14:15	Lunch (BAC members)
14:15	Meeting with a representative of the Prime Minister and delivery of recommendations (Dr. Busek, Sveto Janevski, Nikos Efthymiadis, Aldo Fumagalli)

Skopje, March 15 2005

Your Excellency,
Dear Mr. Prime Minister,

The Business Advisory Council (BAC) for South Eastern Europe would like to extend its deep appreciation to you and your government for your support and hospitality during our stay in your capital.

Our meetings allowed us to take note of the positive developments in your country with great satisfaction, and in particular your government's commitment to fully engage in economic reform. We applaud your course towards the European Union and we are ardent supporters of your efforts to join the European family and harmonize to the *acquis*, through the implementation of the Stabilization and Association Agreement. Recognizing the importance of your achievements, especially in the short period of time since your government was formed, the BAC is your ally and solid partner in pursuing economic growth and European integration.

We fully endorse endeavors which are essential for the improvement of the business environment and the attraction of FDI, which will bring new capital, technology and managerial know-how in f.y. Republic of Macedonia. Your initiatives to establish a competitiveness council and a one-stop shop for company registration are very constructive to this end. At the same time, however, the business community has to tackle with a complex labor law and an unclear taxation regime, both acting as disincentives for domestic and international investors.

We must also note that the current strict macro-economic policy (peg with the Euro, low inflation and sometimes under-inflation) has had positive effects on macro-economic balances. However, it bears cumbersome costs for the country's export capacities and overall growth potential. We highlight the need to continue alignment of government development priorities with those of donors, and in addition emphasize the importance of facilitating and maximizing the benefits of the forthcoming World Bank Programmatic Policy Development Loan.

May we insist on the establishment of an efficient investment promotion agency and we fully endorse your efforts for judicial reform, which requires a comprehensive and intensive program. There is also a clearly identifiable danger that the country's competitiveness and growth record remain stagnant, due to weak public administration

capacities and a lack of specifically defined priorities and policies for infrastructure investments – including the framework governing public private partnerships. Capacity building of civil servants at national and municipal level is thus necessary. We must therefore underline the necessity of real and effective implementation of those reforms envisaged by the broader EU membership perspective, with an emphasis on public administration, the judiciary, free trade and border crossing facilitation, and improvement of the banking and financing services.

This is particularly important for Small and Medium Enterprises, which form the backbone of your economy. Meeting this goal means facilitating their access to finance, providing incentives to banks to engage in micro-financing and lending activities, cooperating with more regional banking institutions and improving managerial capacities both for the SMEs and the banking sector.

The BAC sincerely appreciates the political will of your government to cooperate with the international community for regional and local development. With the next Parliamentary Elections due in autumn 2006, we find it necessary to use this very limited time to focus on the above priorities.

We have annexed to this letter six very practical priorities that we feel should be immediately addressed. These priorities are the results of consensus reached during the past two days of meetings and discussions. Substantial improvements in these areas will have a very favorable effect on the decision making of investors.

In the name of the Business Advisory Council, Mr. Prime Minister, I am at your disposal for further discussions and consultations.

Respectfully yours,

Nikos Efthymiadis
Chairman of the BAC Board

PRACTICAL PRIORITIES TO BE ADDRESSED

1. Promote a comprehensive and intensive effort for judiciary reform, overcoming internal political conflicts and achieving a broader societal and parliamentary consensus for necessary constitutional reforms.
2. Engage the private sector in policy making, by including investors (and not only selected donors) in the open meetings of Deputy Prime Minister's Steering Group on the Economy (Ministers of Economy, Finance, Transport, Agriculture and Labor). The BAC for SEE and OECD are whole heartedly setting representatives at your disposal for this purpose, especially with regard to investment facilitation (inter alia: corporate taxation and tax relieves, labor regime, visa regime, property and real estate register, incentives for investments in rural areas, accounting and auditing).
3. Improve banking and financing services for SMEs, by cooperating with IFIs on SME and micro lending. Providing more guarantees to creditors and protecting their rights, as well as reducing the 11% return of treasury bonds, would create additional incentives for banks to engage in SME lending.
4. Take decisive action to reform public administration on two levels: a) expand and accelerate educational and training programs for civil servants, both at the state and the municipal level, and b) creating sustainable, efficient and effective mechanisms which will curbe administrative barriers to doing business (such as the planned one-stop-shop for business registration). Both steps can positively enhance local capacities to make full use of the funds available from the EU and IFIs, and of opportunities presented by foreign investors.
5. Proceed as soon as possible with the practical and effective revision of the Free Trade Agreement with Serbia and Montenegro and conclude negotiations for an FTA with UNMIK, so as to support the move to a single Free Trade Agreement and create a genuine Southeast European free trade area.
6. Fully utilize EU instruments (INTERREG 3, SAPARD, and potentially ISPA) to develop public infrastructure, restructure existing industries, and promote investment and entrepreneurial activity in greenfield investment - especially in sectors where the country has true comparative advantages (eg agribusiness). Also, maximize the benefits of technical assistance programs, in particular for public administration (emphasis on project management)

Skopje, March 15 2005

PRESS RELEASE

The Business Advisory Council for Southeast Europe concluded its meeting in Skopje, f.y. Republic of Macedonia on March 15 2005, following discussions with the local government, the local business community and investors, as well as international financial institutions and development organizations active in the country.

The BAC meetings allowed the body to take note of the positive developments in f.y. Republic of Macedonia with great satisfaction, and in particular the government's commitment to fully engage in economic reform. We applaud the country's course towards the European Union and the BAC is an ardent supporter of efforts to join the European family and to harmonize with the acquis, through the implementation of the Stabilization and Association Agreement. Recognizing the importance of macro-economic achievements, especially in the short period of time since the current government was formed, the BAC is an ally and solid partner for growth and European integration.

The BAC fully endorses endeavors which are essential for the improvement of the business environment and the attraction of FDI, which will bring new capital, technology and managerial know-how to f.y. Republic of Macedonia. The initiatives to establish a competitiveness council and a one-stop shop for company registration are very constructive to this end. At the same time, however, the business community has to tackle with a complex labor law and an unclear taxation regime, both acting as disincentives for domestic and international investors.

The BAC would like to invite the government to undertake concrete steps on the following issues:

1. consider the negative effects of strict macro-economic policy on the country's export potential
2. increase availability of SME financing
3. support the sustainability of the newly established investment promotion agency.
4. enhance efforts for judicial reform with the cooperation of all political parties, so as to deliver and implement a comprehensive and intensive reform program.
5. develop public administration capacities
6. facilitate the framework governing public private partnerships
7. facilitate trade and border crossing, with an emphasis on the effective implementation of free trade agreements, and support the process of moving to a single regional free trade agreement
8. make full use of EU instruments and programs for development (including INTERREG and SAPARD, and potentially ISPA)

The BAC sincerely appreciates the political will of the government to cooperate with the international community for regional and local development. With the next parliamentary elections due in autumn 2006, we find it necessary to use this very limited time to focus on the above priorities.

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Annex V

BAC overview on 28.02.2005

VV1	BAC for SEE membership fees	IN	OUT
	Balance carried forward from 2003	€36.537.60	
	Income 2004	€28.685.36	
	Total income	€65.222.96	
	Dr. Busek's invoices		— € 12.718.90
	Meeting costs (Bled School of Management)		— € 1.500.00
	Meeting costs (Istanbul)		— € 2.258
	Conference equipment		— € 603.32
	Meeting costs (Sheraton Zagreb)		— €10.001.64
	Total expenditures		— € 27.081.86
	Total Funds available	€ 38.141.10,-	

After OSCE adjustments

	IN	OUT
Reimbursement for :”Dr. Busek’s expenditures June2004” (see the OSCE report)	€7.777.13	
Reimbursement for :”Dr. Busek’s expenditures July 2004” (see the OSCE report)	€4.941.77	
TOTAL income	€12.718.90	
Reimbursement for “ Leaflets for BAC to SEE” (see the OSCE report)		— € 2.320
Total expenditures		— € 2.320
The anticipation income funds	€50.860.00	
The anticipation available funds	€48.540.00	