BUSINESS CONFEDERATION OF REPUBLIC OF MACEDONIA

BUSINESSMACEDONIA

REPORT
on
BUSINESS ENVIRONMENT
and
SOCIO-ECONOMIC SITUATION
in
The REPUBLIC OF MACEDONIA

SKOPJE, OCTOBER 2010

Supported by

SlovakAid

This document "***Report on f Business Environment and Socio –Economic Situation in The Republic of Macedonia***" is was written under a project ***"Improving business environment and labour market in Macedonia by transfer of successful know-how from Slovakia".*** The project was financially supported by the Slovak Official Development Assistance (Slovak Aid agency). It was implemented in 2010 and 2011 by the Business Alliance of Slovakia (BAS) and the Business Confderation of Macedonia (BCM/CERM).

This paper presents results from the survey on Business Environment Index and Socio-Economic situation of Macedonia.It gives an overview of the curent business and socio-economic situation in Republic of Macedonia.The paper is mainly based from research and experience of the experts:

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ABBREVIATIONS AND ACRONYMS

ALMP	Active Labor Market Programs
BCM	Business Confederation of Macedonia
BEI	Business Environment Index
BL	Business Law
CRM	Central Registry of Macedonia
EC	European Commission
ECB	European Central Bank
ESA	Employment Service Agency of the Republic of Macedonia
EU	European Union
GDP	Gross Domestic Product
IFC	International Financial Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
IPARD	Instrument for Pre-accession Assistance for Rural Development
LFS	Labor Force Survey
ME	Ministry of Economy
MES	Ministry of Education and Science
MF	Ministry of Finance
MKD	Macedonian Denar
MLSP	Ministry of Labor and Social Policy
NAPE	National Action Plan for Employment
NBRM	National Bank of Republic of Macedonia
NES	National Employment Strategy
OECD	Organization for Economic Cooperation and Development
PLMP	Passive Labor Market Programs
RM	Republic of Macedonia
SEC	Securities
SFRY	Social Federal Republic of Yugoslavia
SSO	State Statistical Office of R. Macedonia
VAT	Value Added Tax
WB	World Bank

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FOREWORD

During the 2010 year The Business Confederation of Macedonia conducted a survey on Business Environment Index in Macedonia by transfer of successful know-how from Slovakia. Conference on presentation of BEI in 2010 in Macedonia-BusinessMacedonia is closely approaching to the reader with the Report on the state of the Business Environment in the R.M. Actually, it is the first study ever developed by the Employers Organization together with the business community in Macedonia in close cooperation with economic science. The experts, authors of this document have endeavoured to map out the main barriers to enterprise. Solution proposals concerning the elimination of these barriers are its component part.
Business Confederation of Macedonia will be grateful to institutions and social partners that take part in developing and implementing the Government‘s economic policy for adopting the recommendations contained within this document..

BCM does not expect of the Government and its representatives to further various forms of Government support; instead, it urges them to lift barriers to enterprise. Among the most efficient forms of state aid are sound and solid laws, dependable institutions, and an efficient state administration. They are a necessary guarantee of the success of domestic entrepreneurs and a powerful driving force for new foreign investors wishing to enter the Slovak market.

The mission of Business Confederation of Macedonia is to help enhance the business environment in Macedonia. This effort is not an end in itself. Owners and managers of the companies associated in BusinessMacedonia realise that their country can only thrive if favourable conditions for economic activities are established. Only viable companies that operate in a sound environment are able to offer jobs and adequate remuneration. Only a thriving business community is able to ensure necessary funds for the state budget by means of taxes and take part in the care of public assets.

It is a sincere wish of BusinessMacedonia to turn Republic of Macedonia into a country in which it is worth doing business and make it a place which is good and healthy to live in.

Mile Boskov, President of Business Confederation of Macedonia

BEI IN MACEDONIA

I. Background and methodology

The Business Environment Index (BEI) was launched in Macedonia in the first quarter of 2010. Its implementation is the first outcome of the project "Improving business environment and labour market in Macedonia by transfer of successful know-how from Slovakia", in partnership of the Business Alliance of Slovakia (BAS) and Business Confederation of Republic of Macedonia (BCM). BEI is constructed from data collected from surveyed managers/owners of enterprises using a questionnaire with 33 questions, divided in 3 blocks: A) Legislation, B) Macroeconomic factors, and C) Company.

The aim of the BEI is to serve as a barometer for monitoring quality of business environment in Macedonia. It is the first attempt to develop a comprehensive indicator of (the quality of) the overall business environment in the country, notwithstanding the EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).[1]

BEI in Macedonia (BEIM) should provide meaningful information about the main barriers to enterprises and their development over time, with a quarterly periodicity. Main findings from the survey and developments in the overall index and its items would be discussed with the public, business sector and policy-makers for adopting recommendations for improvement of the environment. BEI would give (methodologically) relevant and objective voice of the business community (represented by BCM) in its dialogue with the policy-makers. The focus of BCM is not towards pressuring Government support. On contrary, it aims at reducing main obstacles to business through quality legislation with good enforcement record, efficient administration, better access to finance, qualified labour supply, etc.

[1] However, BEEPS is implemented on 3 years and is aimed at mapping main obstacles in the business environment over a longer period of time. Hence, it does not provide regular and high frequent information about the business environment and cannot trigger immediate response in case of deterioration.

II. Questionnaire 33 questions

A. The influence of main components of the legislative and regulatory framework on business
A1. Functionality of political system in the country
A2. Commercial law / Business legislation
A3. Labour Law
A4. Legislation on taxes, fees and investment
A5. Legislation on payroll taxes
A6. Market regulation, legislation on economic competition
A7. Bankruptcy and execution legislation
A8. Comprehensibility, applicability, stability of legislation
A9. Acceptance of subject equality before the law
A10. Law enforcement, judicial effectiveness
A11. Functionality of public institutions (register courts, tax offices,...)
A12. Regulation of market entry/exit (licensing, certificates, duties)
B. The influence of other significant external macroeconomic factors on business
B1. Government economic policy, access to information
B2. Presence of bureaucracy
B3. Corruption in public institutions
B4. Presence of unfair competition, crime , lawlessness
B5. Efficiency of state economy, access to state aid
B6. Price stability
B7. Stability and predictability of the SKK exchange rate
B8. Access to financing (loans, capital markets, etc.)
B9. Level of infrastructure (transportation, telecommunications, etc.)
B10. Quality and accessibility of primary inputs, labour force
B11. Credibility, financial discipline of business partners
C. The influence of our company on quality of business environment
C1. Accomplishing company vision, plans
C2. Company performance, productivity, profitability
C3. Management system, human resources management
C4. Investment and technological development, quality of production
C5. Liquidity, cash-flow, meeting company's obligations
C6. Conduct towards business partners, solving the problems, conflicts
C7. Employment, remuneration system, social program
C8. Relation to the environment
C9. Information openness, appearance in the public, image
C10. Support for local region, charity

III. Survey results on BEI

Subject	Starting value	1st quartal	2nd quartal	3rd quartal
A. The influence of main components of the legislative and regulatory framework on business				
A1. A1. Functionality of political system in the country	100	97,1	97	98,5
A2. Commercial law / Business legislation	100	101,3	101,3	101,4
A3. Labour Law	100	101,3	101,2	101,5
A4. A4. Legislation on taxes, fees and investment	100	100,7	100,7	100,8
A5. Legislation on payroll taxes	100	99,6	99,7	99,6
A6. Market regulation, legislation on economic competition	100	98,5	98,6	98,9
A7. Bankruptcy and execution legislation	100	99,4	99,1	99,4
A8. Comprehensibility, applicability, stability of legislation\	100	97,8	97,7	97,5
A9. Acceptance of subject equality before the law	100	101	100	100,8
A10. Law enforcement, judicial effectiveness	100	92,1	95	92,8
A11. Functionality of public institutions (register courts, tax offices,...)	100	98,7	99,2	99,4
A12. Regulation of market entry/exit (licensing, certificates, duties)	100	105,4	105,3	106,3
B. The influence of other significant external macroeconomic factors on business				
B1. Government economic policy, access to information	100	97,5	97,4	98,9
B2. Presence of bureaucracy	100	99,2	99,2	99,1
B3. Corruption in public institutions	100	99,8	99,7	100,1
B4. Presence of unfair competition, crime , lawlessness	100	99,1	98,9	99,2
B5. Efficiency of state economy, access to state aid	100	98,4	97,7	99,1
B6. Price stability	100	99,3	99	100,2

B7. Stability and predictability of the SKK exchange rate	100	101,3	101,1	102,1
B8. Access to financing (loans, capital markets, etc.)	100	93,9	94,1	96,6
B9. Level of infrastructure (transportation, telecommunications, etc.)	100	94,6	94,7	96,9
B10. Quality and accessibility of primary inputs, labour force	100	97,3	97,3	98,1
B11. Credibility, financial discipline of business partners	100	99,8	98,6	99,9
C. The influence of our company on quality of business environment				
C1. Accomplishing company vision, plans	100	97,6	97,2	98,2
C2. Company performance, productivity, profitability	100	98,4	97,2	101,2
C3. Management system, human resources management	100	99,4	98,9	100,4
C4. Investment and technological development, quality of production	100	98,8	98,5	99,5
C5. Liquidity, cash-flow, meeting company's obligations	100	98,1	96,9	98,2
C6. Conduct towards business partners, solving the problems, conflicts	100	98,8	98,2	99,3
C7. Employment, remuneration system, social program	100	100,4	100,2	99,9
C8. Relation to the environment	100	100,4	100,5	100,6
C9. Information openness, appearance in the public, image	100	100	99,4	101,1
C10. Support for local region, charity	100	100,9	100,6	100,6

IV. Analisys BEI quarterly

BEI in Macedonia in the first quarter of 2010

The questionnaire was send to 245 enterprises and 7 associations/institutions, out of which answers from 50 companies, 4 associations and 1 municipality (local development office) was received. Data were collected in a period of 4weeks.

Given that the BEI survey was implemented for the first time in 2010q1, the present report provides only level analysis and not the developments. A general comment to collected data is that there are only few answers with assigned extreme values, in particular "extreme improvement" and only in the section that deals with enterprises themselves, and no single answer with "extreme deterioration". Potential explanations are i) smaller changes in the business environment in the period under study, ii) managers resisting to assign extreme values, etc.

Only 30% of all 33 items were assessed by managers as improving, whereas the majority of items show deterioration. Managers assigned the biggest deterioration to Macroeconomic factors, where out of total 11 sub-items only one has positive value.

Entrepreneurs assigned the biggest deterioration to the item "Acceptance of subject equality before the law". About 70% of surveyed managers assigned value of -2 to the item. This item shows how effective is the enforcement of the equal approach to all concerned subjects in judicial proceedings or by public procurement.

The second biggest deterioration was assigned to "Access to finance" where all answers are with negative values of -2 (50%) and +2 (50%). This finding is in line with the 2008 BEEPS finding where employers detected access to finance as major obstacle to doing business in Macedonia (access to finance is major problem for 72% of surveyed businesses in the 2008 BEEPS). Moreover, the negative score for this item might be related to the reduced availability and increased costs of financing due to the global financial and economic crises which only partly and indirectly affected Macedonia.

Poor infrastructure quality (including transportation, telecommunications, etc.) is another important obstacle to business in Macedonia. About 70% of managers assigned value of -2 to infrastructure, though there are 10% of responses in this category that reported improvement in the infrastructure in 2010q1.

Moreover, "Functionality of the political system" and "Government economic policy and access to information" were reported to have deteriorated during the period under study. Managers assess the quality and accessibility of primary inputs, including labour force as constrain to doing business in Macedonia. The latter is in line with other studies of the Macedonian labour market showing that despite the abundant labour supply, there is a mismatch in terms of the knowledge and skills that are supplied and demanded. In addition, enterprises negatively assess their own (company) influence on the quality of business environment through not accomplishing company visions and plans.

The "Regulation of market entry/exit" which includes licensing, certificates and duties is ranked as the best improvement in the legislation. Such development might be result of the Regulatory Impact Assessment procedure implemented by the Government according to which many laws and procedures were found as either burdensome or completely non-necessary and hence were abolished/amended. In addition, in the recent period, much improvement happened in the custom administration, the use and

upgrade of the single window/one-stop-shop (EXIM system) for import and export permits, reduced fees for obtaining licences, certificates, etc.

Both "Commercial Law/Business legislation" and "Labour Law' were positively assessed by managers which can be related to the recent changes in the legislation. Stability of the MKD denar exchange rate is one of the external macroeconomic factors with a positive effect on the business environment.

Modest improvement was traced in the area of "Law enforcement and judicial effectiveness", the area where further reforms are welcomed given the importance of effective judicial system on doing business. Improvement was reported in "Legislation on taxes, fees and investment" which can be related to the recent gross-wage reform and gradual reduction of social contributions rates and reduction of some administrative fees.

BEI in Macedonia in the second quarter of 2010

The questionnaire was send to 280 companies/managers and 5 associations/institutions, out of which answers from 54 companies, 3 associations was received. Data were collected in a period of 4 weeks.

Given that the BEI survey is implemented for the second time in second quarter Q2 2010, the present report provides analysis of positive and negative developments.

Comments related to collected answers in second quarter reflect that there are answers with "soft deterioration" and answers with extreme deterioration in next sectors:

I) Efficiency of state economy,

II) Access to state financial aid,

III) Company performance, productivity, profitability.

There is explanation on extreme negatively results from the second quarter survey report:

A) Public debt toward companies,

B) Access to state aid or subsidies in time of crisis,

C) Investment and technological development, quality of production.

It is important to underline that there was no pressure or any negative influence on the companies during the second quarter survey. Continuance provided and discretion secured by BCM perform to realistic results of the survey.

Insignificant percentage of all 33 items were assessed by managers as improving, whereas the majority of items show deterioration.

Functionality of political system in the country survey , results with modest improvement was traced in the area of "Law enforcement and judicial effectiveness", the

area where further reforms are welcomed given the importance of effective judicial system on doing business. Improvement was reported in "Legislation on taxes, fees and investment" which can be related to the recent gross-wage reform and gradual reduction of social contributions rates and reduction of some administrative fees.

Both "Commercial Law/Business legislation" and "Labour Law' were partially positively assessed by managers which can be related to the recent changes in the legislation.

Positive result on modest development might be result of the Regulatory Impact Assessment procedure implemented by the Government according to which many laws and procedures were found as either burdensome or completely non-necessary and hence were abolished/amended. In the recent period, partial improvement happened in the public administration, the usage on new upgraded system for import and export permits, reduced fees for obtaining licences, certificates, etc.

The "Regulation of market entry/exit" which includes licensing, certificates and duties is ranked as the best improvement in the legislation.

However, the deterioration of the results related with functionality of political system in the country are closely related with existence of corruption and "black mailing" in doing profitable business. All above mentioned reflect on lack of improvement of economic reforms .

Managers assigned the biggest deterioration to **Macroeconomic factors**, where out of total 11 sub-items only one has positive value.

Government economic policy, and access to information item is deteriorated in second quarter ,entrepreneurs assigned the biggest deterioration to the item "Acceptance of subject equality before the law". About 70% of surveyed managers assigned value of -2 to the item. This item shows how effective is the enforcement of the equal approach to all concerned subjects in judicial proceedings or by public procurement.

The second biggest deterioration was assigned to "Access to finance" where all answers are with negative values of -2 (51%) and -1 (48%). Moreover, the negative score for this item might be related to the reduced availability and increased costs of financing due to the global financial and economic crises affected Macedonia.

Poor infrastructure quality (including transportation, telecommunications, etc.) is another important obstacle to business in Macedonia. About 70% of managers assigned value of -2 to infrastructure, though there are 10% of responses in this category that reported improvement in the infrastructure in 2010 Q1. Managers assess the quality and accessibility of primary inputs, including labour force as constrain to doing business in Macedonia.

Significant worsening is noticed in the area of Credibility, financial discipline of business partners. In addition this area underlines extreme deterioration of efficiency of state economy, access to state aid .

The second quarter survey results shows that there is significant deterioration on **The influence of our company on quality of business :**

- Company performance, productivity, profitability,

- Liquidity, cash-flow, meeting company's obligations.

In line with other studies of the Macedonian labour market showing that despite the abundant labour supply, there is a mismatch in terms of the knowledge and skills that are supplied and demanded.

In addition, enterprises negatively assess their own (company) influence on the quality of business environment through not accomplishing company development plans.

Worsening of company charity for local economic development ,

Lack of transparency of companies on doing business(indicator on legislation break down).

In all areas of this item ,the interviewed managers of the companies expressed their opinion that they can not efficiently affect on business climate, with their business activities they can only modestly affect on protection of environment.

Furthermore the second business environment index survey in Macedonia, results with unimportantly improvement of legislation provided. It is a reflection on recently adoption and implementation of part of EU legislation. However, there is a fact that there is no equal approach on improvement on overall business and economic situation.

BEI in Macedonia in the third quarter of 2010

Questionnaire was sent to 300 companies/managers and 6 association/institutions. Answers were got from 58 companies, 4 associations and from 1 municipality (office of local development). Time frame for calculating the date was 4 weeks.
Regarding the fact that this is third quarter research of this project, using results of third quarter BEI report we could make a good comparative analyze with the previous two quarterly BEI reports and to get a clear picture for the current conditions in Macedonia, is there any improvement in the situation or worsening in some sectors in the economy.
Comparing with the second BEI in Macedonia, where most often we could see the negative answers, in the third quarter BEI we can surely present that there is a "soft" improvement of the situation in the most of the areas, but also there is a status quo situation in some of them.
Comparing with the second BEI best improvements were in the next areas:
-Functionality of political system in the country
- Access to financing (loans, capital markets, etc.)
- Level of infrastructure (transportation, telecommunications, etc.)
- Company performance, productivity, profitability
- Information openness, appearance in the public, image

Posible explanations for this situation in the second quarter are:

a) Reforms in the laws (adjusting to EU Legislatiive)
b) Step by step overcoming the economical crises
c) Enhanced work in the infrastructure, improvement in the road network
d) Better possibilities for export toward EU countries
e) Stabile exchange rate of the Denar, stability of National Bank

It is expecialy important to mention that the companies were not under preasure and negative influence during the query, continuity and discretion was secured by CERM.

In **FUNCTIONING OF THE POLITICAL SYSTEM** all sectors except one, where there is no change, in the third BEI have increased values. Best improvement as previous mentioned was in the sector of Functionality of political system in the country, that improvement is based on improved political and social dialog in the country. Also good improvement is in the part of issuing licenses, certificates etc, what is a result of improvement of work of the electronic system and technologies in the institutions of government.

Area with the improvement regarding the second research is the **INFLUENCE OF MACROECONOMIC FACTORS ON THE ECONOMY.** In this sector also we have improvement in almost all sectors except in "Presence of slow bureaucracy" which shows us that there is still slow bureaucracy in the country. It is very important to underline report on "Access to Finance".The Sector that have greatest improvement in the third BEI research, which is completely opposite with previous two quarterly reports, where it was marked as worst sector. Big impact on this sector have improved banking system and better opportunities for gaining credits or loans from Macedonian banks. Also sector with good improvement is "Level of Infrastructure". This sector was also with low grade in previous two researches.

In all other sectors we have improvements, but with soft improvement grades which is a good sign for the improvement of Macedonian Economy.

INTRODUCTION IN TO THE SOCIO-ECONOMIC SITUATION IN MACEDONIA

This introduction socio-economic paper will present the population ,structure of the Republic of Macedonia, the impact of the economic environment, the informal economy and the global economic and financial crisis on employment and the unemployment rate; situation in the labour market and entrepreneurship; different types of social protection, insurance and rights; health and educational system; the activities for inclusion of marginalised groups in the social and economic trends.

1. Demographic indicators

The population of the Republic of Macedonia is 2,048,619, including 1,026,804 men and 1,021,815 women (DSZ, 2009), on the area of 25 713 km^2.
In terms of ethnicity, the Macedonians are most numerous with 64.2%, the Albanians account for 25.2%, Turks are 3.8%, the Roma are 2.7%, the Serbs are 1.8%, Bosniaks are 0.5%, Vlachs are 0.5% and the rest – 1%.
The population density is 78.7 people per km^2. 57.8% of the total population live in urban areas, while 42.2% live in rural areas. In 2006 the average age of the population was 36.2; people aged between 0 and 14 accounted for 19.2%; those between 15 and 64 were 69.6% and over 65 years of age accounted for 11.2%. In terms of religion, 64.78% are Orthodox Christians, 33.33% are Muslims, 0.35% are Catholics, 0.03% are Protestants, 0.17% are atheists and 1.34% belong to other religious groups.
The population growth rate in 2002 was 3.1, whereas in 2006 it stood at 1.8. The ratio of men to women amounts to 100.8 (men per 100 women). The birth rate is 11.1 (live births per 1000 inhabitants); the total fertility rate amounts to 1.49 (birth per woman aged between 15 and 49). The total mortality rate is 9.1 (deaths per 1000 inhabitants). Life expectancy (2003-2005) for men is 71.44 years, and for women – 75.88 years. The death rate of mothers per 100,000 live births is 3.7%, and 99% of births in the Republic of Macedonia take place with expert assistance. The abortion rate per 100 deliveries in 2005 was 28.3. In 2005, the infant mortality rate per 1000 live births was 11.5, and the child mortality rate per 1000 live births came in at 12.9; while in 2009 it fell to 10.3 and 11.0, respectively.
In 2005, the total marriage rate per 1000 inhabitants stood at 7.1, while the total divorce rate per 1000 inhabitants was 0.8 for the same period. The net migration rate came in at (minus) -758 in 2005.
The literacy rate of the population aged from 15 to 24 in the Republic of Macedonia amounted to 98.7%. The ratio of literate women to literate men for this age group stood at 93.9%. The adult literacy rate is 96.1%.
Last year (2008), 28.7% of the population was estimated poor (DSZ, 2009). The most vulnerable groups are multi-member households, given that 57.7% of the poor live in households of five and more members. Among the unemployed, the poverty rate is 38.4%, and 43% of the poor are unemployed. The educational level of the head of the household also has an influence on the number of the poor persons. In particular, 56.6% of the poor belong to households where the head of the household has no education or has completed primary education at the most.
The Human Development Index (HDI) comes in at 0.801 and the Republic of Macedonia ranks 69th in the world.

2. Macroeconomic environment

The Republic of Macedonia was less developed than other former Yugoslav republics. After it gained its independence, it faced with macroeconomic instability and growing fiscal deficit. The crises in the region had a negative impact on the economic and political situation in the country.

In 2007, the GDP growth rate was 5.9%, while in 2008 it stood at 4.8%
In 2008, Republic of Macedonia reached its 1989 GDP level , the country macroeconomic stability and steady GDP growth of 4% on average over the past ten years.
The GDP per capita amounted to USD 2.393 in 2006 or GDP at purchasing power parity of USD 8.200 per capita in 2006.
In 2007, the annual inflation rate was 2.3%, and in 2008 it reached 8.3% mainly due to external factors. In November 2009, the annual inflation rate came in at -2.3% (NBRM, 2009).
A World Bank report of 2008 showed that the Republic of Macedonia ranks fourth among reformers in the world.
The country's credit rating is BB+, according to Standard & Poor's.
Current situation:
-9,7% lower industrial production compared with 2008
-28,2% drop of international export
-6,6% fired workers
-1,8% drop of GDP(last 3 months of 2009)

2.1. Impact of the global economic and financial crisis on the Republic of Macedonia

The negative impact of the world crisis has affected the real sector through the decline in the external and domestic demand for products. Although in 2008 was achieved GDP growth of 4.8%, in the fourth quarter of 2008, the negative effects of the economic crisis were already spreading in the country and led to a decline in the overall economic activity.
The fall of the real GDP continued with further intensity and the GDP growth in the third quarter of 2009 stood at -1.8%.
In response to the crisis, in 2009 the government adopted three packages of anti-crisis measures, and the national bank undertook measures to cut lending on the part of banks and increase interest rates in a bid to protect the exchange rate of the denar.
To address the crisis, the government adopted a fiscal package of measures, mostly divided into two groups: (1) measures targeting companies of reduced liquidity which have unpaid contributions, taxes and other public dues, for the purpose of debt restructuring and waiver of interest payment in case of regular payment of the principal; (2) The second package of measures covers reduced social insurance contributions, as well as income tax exemption for companies for the share of undistributed earnings (re-invested profit). Meanwhile, the customs duties on materials and raw materials were cut for the textile industry, machinery and equipment for metallurgy.
In 2009, the government adopted a third package of 70 anti-crisis measures to simplify customs operations, speed up the flow of goods at the border, measures to regulate corporate obligations and requirements, measures to prop up carriers, total observance of the legal deadline for the VAT refund, overall implementation of infrastruc-

ture projects planned in the 2009 budget, overall payment of agricultural subsidies laid down in the 2009 budget, support for the small and medium-sized enterprises through easier access to lower-cost credit and support for export-oriented companies.
In the second half of 2009 were provided funds for direct credit support of the private sector (small and medium-sized enterprises) through European Investment Bank (EIB) credit lines. The first tranche of EUR 12.4 million from the credit line of the EIB totalling EUR 100 million, was extended in December 2009. Support will be granted to 35 projects worth EUR 35 million.
The National Bank raised the base interest rate in the first quarter from 7% to 9%, which led to higher interest rates at commercial banks. At the end of 2009 and in early 2010, the monetary policy was relaxed with the reduction of the reference interest rate by the National Bank of the f Republic of Macedonia by 1 percentage point (at the beginning of 2010, it is 8%).
The crisis has a direct effect on the labour market. The decrease in the economic growth and the amount of investment have a negative impact on job creation, prolongation of planned employment and the dismissal of workers, especially in metallurgy, textile and shoe and leather industry.
The government will soon announce a fourth package of anti-crisis measures in response to the calls of the business. Entrepreneur organisations have called for faster and simplified procedure for the provision of the planned credit support for small and medium-sized enterprises from the European Investment Bank, increase in the credit amount and support for big companies. Entrepreneurs suggested that the government should provide cheap loans through the *Macedonian Bank for Development Promotion* for local companies and to comply with the agreement on the regular settlement of the debt of state-owned enterprises and institutions to the private sector.
Social partners (employers and trade unions) were not involved in the development of the anti-crisis measures and their opinion has not been presented to the Economic and Social Council. The government consulted the chambers of commerce as regards the anti-crisis measures.

2010 International rankings:

-Doing Business –	32 (+37)
-Employing Workers –	58 (+64)
-Getting Credit –	43 (-2)
-Protecting Investors	88 (+3) ?
-Trading Across Borders –	62 (+1)
-Closing a Business –	115 (+16)

2.2. Informal economy

The problem of the informal economy is firmly and deeply rooted in society. First of all, it has a negative impact on public revenue and is the main driver and cause for tax evasion, which is directly detrimental to the state and citizens. It has a negative effect on the employment rate, causes disproportions in national statistics, it undermines the fair competition of honest companies in an unlawful way and slows down their economic development.
A large number of people working in the informal economy claim to be unemployed to use health insurance granted to the unemployed. As far as sectors are concerned, the informal economy is most widespread in agriculture, services and industry.

The informal economy accounts for 35-40% of the GDP. The number of people without a contract of employment is 15,493.
A number of activities are planned to tackle the informal economy, such as higher penalties for workers without papers, enhanced inspection control, a campaign against undeclared work, obligatory payment of gross salary, etc.

3. Entrepreneurship in the Republic of Macedonia

Small and medium-sized enterprises (SMEs) are drivers for economic growth, representing 99.6% of the total number of business entities, and accounting for 65% of GDP and employing 78% of the total number of employees.
In the Republic of Macedonia, 63,237 new businesses were registered at end-2008, including 62,624 micro and small enterprises.
The leading world entrepreneurship research – the Global Entrepreneurship Monitor, conducted in 2008 – shows that the perception of the entrepreneurship in the Republic of Macedonia is positive in general. Evidence for this is found in respondents' answers about the opportunities and readiness to start a business, positive media reports on entrepreneurship and the opinion (expressed by as much as 80% of respondents) that entrepreneurship is a good choice of career. The positive perception of entrepreneurship has to be encouraged and used, as in the long run entrepreneurship can ensure economic growth and employment. Some of the efforts can be channelled into promotion of positive entrepreneurship examples through public events (MEDF, 2009).
Entrepreneurship is most widespread in the Republic of Macedonia among men, aged between 25 and 34, of higher educational level and higher income. And if these are global characteristics, it is worth mentioning that the gender gap in the Republic of Macedonia is slightly wider than in other countries in the region. On the other hand, the youngest population (aged 18-24) is considerably more inclined to embark on entrepreneurship than in other countries in the region.
Among the most common reasons for business closure are lack of profitability of the business and financial problems. The most common informal investors of entrepreneurs are close family members, while the most common sources of formal funding are bank loans.

4. Situation on the labour market

The development of a new private sector, in which SMEs are dominant, could not offset the effects of inappropriate privatisation of big state-run companies in the Republic of Macedonia, which took place during and after the transition period. The private sector has not been able to hire all laid-off employees, which has contributed to the continuous rise in the unemployment rate and to the decline of employment.
The labour market in the Republic of Macedonia can be characterized by low employment rate and very high unemployment rate. The unemployment rate in the country is almost four times higher than the EU average.
The employment rate in the Republic of Macedonia in 2005 was 33.9% compared with 63.8% in the European Union (EU). At the end of 2009, the total workforce in the Republic of Macedonia was 931,000 people, including 632,000 employed and 298,000 unemployed (DSZ, 2009).
Estimates show that 43.1% of the total population aged over 15 is not active.

The economic activity rate[2] is estimated at 56.9%, the employment rate[3] comes in at 38.6%, and the unemployment rate – at 32.1%. According to the national goals to be achieved by 2010 in line with the revised Lisbon Strategy, the employment rate is projected as follows:
- employment rate of 48% by 2010;
- employment rate for women of 38% by 2010;
- employment rate for aged employees (55-64 age group) of 33% by 2010;

The situation on the labour market has been regulated by the Labour Law, the Employment and Foreigners' labour Act, the occupational Health and Safety Law and other laws and regulations.

The labour market statistics available in the Republic of Macedonia does not give a realistic picture of the situation and is based on data from two different sources: administrative sources, which provide data only on legally employed people (collected by the Employment Service Agency – registered unemployed) and surveys (surveys of the workforce), which provide data on the legal, and to a certain extent the illegal, labour market (collected by the State Statistical Office – registered employed). The data on the unemployed provided by the two sources differ because of the application of different methodology.

4.1. Unemployment

One of the problems in the analysis of unemployment, but also in other areas, is the difference between the data coming from different official sources. As far as unemployment is concerned, these differences result from the use of different methodology and the differences in the understanding of the employment status.

From 2001 to 2005, the unemployment rate in the Republic of Macedonia was on the rise, from 31.2% in 2001 to 37.3% in 2005. Since 2006, the rate has started to slide. In 2006, the unemployment rate stood at 36.0%, in 2007, it came in at 34.9%, in 2008 – 33.8%, and in 2009 – 34.9%.

Data Base of the Employment Service Agency from 2007 show that in terms of sex, the registered unemployed are predominantly men – 58.3% of the official unemployed, compared with women, whose share is 41.7%.

Among different ethnic groups, the unemployment rate is lowest among ethnic Albanians (27%), and highest among the Roma (73%) (UNDP, 2009).

According to the educational level, over the reporting period, the largest number of unemployed were unskilled or semi-skilled (51.4%), followed by people of secondary education (24.8%), skilled and highly-skilled (16.9%), and finally come university-degree holders (5.1%).

According to the age structure for the same period, the young aged under 30 account for the largest share of the unemployed with 30.2%, the age group from 30 to 40 accounts for 25.3%, from 40 to 50 – 22.3% and over-50-year-olds – 22.3%.

Unemployment mainly affects the young, the people of low qualification, women, and there are signs of regional disparity in unemployment. Regional unemployment is particularly high in rural areas as well as areas dependent on industries affected by restructuring of the economy.

The Ministry of Labour and Social Policy is implementing a programme of further measures to cut unemployment .

4.2. Remuneration

The average monthly remuneration per employee amounts to approx 330 EUR. The successive reduction in the rate of contributions in the amount of 7.3 percentage points from 2008 to 2010 (2008 – 32%, 2009 – 27.9%, 2010 – 24.7%) and the transition from net to gross pay and the costs for food and transportation in the gross salary led to the improvement of the fiscal discipline, curbing the informal economy, as well as regularity in the payment of salaries and benefits to workers. In September 2009, only 2.6% of employees did not receive their remuneration, which is 5.7% below the figures for the corresponding period of 2008.

5. Social policy and rights

5.1. Social protection

Social protection as laid down in the Constitution of the Republic of Macedonia, is based on the principles of humanism, social justice and solidarity. Hence, special care and protection is provided to the underprivileged and to people incapable of work, families and children without parents and parental care. The social protection activity covers:

- social prevention,
- non-institutional protection,
- institutional protection and
- right to social assistance.

5.2. Pension and disability insurance

The Pension and Disability Insurance Act regulates the rights to pension and disability insurance, such as the right to old-age pension, disability benefits, family pension, injury benefit, right to social pension and right to relocation, employment rights, right to retraining or further training and right to additional monetary benefits.
DSZ data for December 2009 show that people entitled to an old-age pension are 149 563, those receiving disability benefits are 48 502 and family pension users total 75 156, or in total those entitled to pension and benefits are 273 221.

The new pension and disability insurance system is based on three pillars: compulsory pension and disability insurance based on generational solidarity (first pillar); compulsory fully-funded pension insurance (second pillar) and voluntary fully-funded pension insurance (third pillar).

6. Socio Economic Relations – education, dialogue, democracy

The Basic Capabilities Index, measuring the social progress of the country in terms of the basic conditions ensured for the citizens, such as the access to education and healthcare, is expressed in percentage. The Republic of Macedonia belongs to the middle category with a 97% index, which means that it manages to provide most of or all basic conditions to its population.

6.1. Education

Under the Constitution of the Republic of Macedonia, everyone is entitled to education; education is accessible for everyone under equal conditions, and primary education is obligatory and free of charge. Since 2007, secondary education has been obligatory as well, and this is when the nine-year primary education was introduced. Primary education is provided by regular and specialized primary schools as well as primary schools for adults (over 15 years of age). Secondary education can be obtained at a high school, vocational school, arts school and a specialized school and is provided by public and private institutions.
According to the State Statistical Office, at the end of the 2007/2008 school year, there were 220833 students in regular primary schools, and 99.3% completed the year; regular high schools had 92753 students, of which 99.6% completed the year. Data from different relevant sources showed that in the 2004-2005 period, 97% of the population of the relevant age group completed primary education and the country ranks 75th among 182 other countries in the world. In terms of secondary education, 81% of the population of the relevant age group completed the year, and hence the country ranks 35th among 134 other countries in the world.

Higher-education reforms also target to make it more accessible to citizens and to improve its quality. More private universities have been opened since 2000 and a couple of years ago distance learning courses were introduced throughout the country. Data of the State Statistical Institute for academic 2007/2008 showed that enrolled students totalled 64254 (with women accounting for 53.2%) with a 12.7% increase recorded in comparison with academic 2006/2007. The largest number of students attend state-run higher-education institutions.
The Ministry of Education and Science is in charge of upbringing and education of all types and levels, but meanwhile other institutions are also involved in this field (for example, the Adult Education Centre, the National Agency for European Education Programmes and Mobility). Apart from the laws on primary, secondary and higher education, other laws and policies regulate the development of education (for example, the Adult Education Act, the National Youth Strategy, etc).

6.2. Gender equity

The gender equity is a basic value of and it is guaranteed by the Macedonian Constitution. The women's rights/gender equity are regulated in different laws and policies such Law on Labour Relations; Law on Political Parties; Law on High Education; Law for Parliamentary Elections; Law on Local Elections; etc. In 2006 a Law on Equal Opportunities between Men and Women has been enacted in order to regulate the measures for establishing the equal opportunities of men and women, as well as responsibilities, tasks and duties of the relevant bodies for implementation. In addition a National Action Plan for Gender Equity was prepared for the period of 2007-2012 as strategic document of the Government that defines the 10 strategic fields for action, the activities, indicators, as well as responsible institutions, actors and stakeholders for establishing the gender equity in different fields. MLSP based on
this National Plan is preparing Annual Operative Programmes that are funded by the Government and foreign donors.
Until 2007 the issue of gender equity was addressed in the frames of the Sector for Labor – Unit for promotion of gender equity. By adopting the Law on Equal Opportunities the status of the Unit was increased on the level of Sector for gender equity

comprised of two units: Unit for Gender Equity and Unit for prevention and protection of any kind of discrimination. Beside the Sector in MLSP, there are other institutional mechanisms that should ensure the implementation of the legislative and policy for gender equity: e.g. coordinators for equal opportunities in each ministry (13); commissions and coordinators for equal opportunities in the local-self government units (75) and Commission for Equal Opportunities of Men and Women at the Macedonian Parliament. The basic task of the Parliamentary Commission is to ensure the inclusion of the gender equity concept in Macedonian legislative in general.

Although there is legislative, policies and mechanisms that should ensure the gender equity, a little progress can be noticed in its implementation. The appointed coordinators in the ministries and local-self government have no specific job description about this issue. In addition most of them lack experience in the field and are not familiar with equal opportunities policy (Jovanova& Shijachki, 2008; EC, 2009). Despite the requirement in the Law on Equal Opportunities, no mediator has been appointed yet to deal with complaints about unequal treatment. The national action plan for gender equality lacks coherence and its realisation still depends on external contributions. On the other hand civil servants were trained in awareness of equal opportunities issues. The administrative capacity of the Unit for Gender Equity in the MLSP was strengthened, and its mandate for coordinating gender issues with the relevant bodies was clarified. (EC, 2009).

The participation of women in political life is also regulated by several law and by-laws. In 2000 a Macedonian Women Lobby (MWL) was established aimed at achieving gender equality through improving the legislation, development of a strategy and strengthening public awareness. It connects the different women groups and organisations for a more efficient representation of women interests in the public, in the institutions and in the decision making bodies. MWL jointly with women's organizations as Union of Women Organisations in Macedonia (UWOM) succeed to include gender quotas in the laws governing the parliamentary and local elections. It contributed to the increase of the number of women members of the Parliament from 4.2% in 1990, through 7.5% in 1998 up to 33.3% in 2008. There is no major breakthrough in the number of mayors within the local self-governments, even in 2009 no woman was elected for one of the 85 mayors, compared to 3 under the previous elections. Still, a significant progress can be notified in the gender quotas within the councils of municipalities.

On joint initiative of MWL, UWOM and MLSP in 2003 a Women Parliamentarian's Club was established as an informal group of Women Parliamentarians from the Assembly of the Republic of Macedonia, regardless of their political orientation. During the past 5 years the Women Parliamentarian's Club had a task to review the present legislative and to propose new legislative in the area of the gender issues (Sobranie na RM, 2010).

Chapter 1.

TRANSPARENCY AND FIGHT AGAINST CORRUPTION

Proffesor .Dr.Vladimir Petkovski

Introduction

Given the broad range of activities that could be included under the rubric of corruption (such as patronage appointments, bribery, misuse of authority and power, and favoritism in awarding contracts), it is generally recognized that the concept is difficult to define.[4]But whatever definition of corruption one takes—out of many, such as the conventional definition, "abuse of public office for private gain, or "corruption equals monopoly plus discretion minus accountability,"[5] or the notion that "corruption occurs at the interface of the public and private sector"[6]—it comes down to the widely recognized point that corruption is fundamentally a problem of governance: weak states poorly control their own bureaucrats, poorly protect property and contractual rights, and do not provide credible institutions that guarantee the rule of law.

Yet, although a symptom of weakness of the state, corruption should be dealt with not only from the perspective of state governance but also from the firms' perspective. This leads to the need for exploring the links between state governance and corporate governance. Some empirical evidence in this regard (especially the nature and extent to which firms themselves are involved in approaching different levels of government in order to influence the content of laws, regulations, and decrees with a substantial impact on their businesses) is derived from the answers given by the firms' executives in the first survey. Basically, it is a problem of "state capture," that is, influencing certain parts of the legislative process through private payments to public officials.[7] However, a distinction should be made between state capture and administrative corruption, where the latter refers to bribes (private payments) given to public officials to "distort the prescribed implementation of official rules and policies."[8] The Business Environment Index component dealing with corruption of public officials shows a slight deterioration for 9% of the surveyed companies. On the other hand, the vast majority of surveyed companies (91%) do not see any improvement or deterioration in this area (The last published results from the Business Confederation of Macedonia for 2010).

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[1] Jain (2001a), p. 1
[2] Klitgaard (1988)
[3] Rose-Ackerman (1997), p. 31
[4] Hellman, Jones, Kaufman, and Schankerman (2000), p. 1
[5] "Level and pattern of corruption in the Southeastern European Countries," Draft, SEE Draft 1.doc. 01/08/01, pp. 2-3. For more detailed insight and discussion on administrative corruption and state capture see Hellman, Jones, Kaufman and Schankerman (2000) and especially World Bank (2000a), pp. xv-xvii. For a comprehensive summary of studies that have dealt with systemic administrative corruption and bribery see especially Jain (2001b), p. 61

Insights on the level of corruption -
World Business Environment Survey (WBES)

In Macedonia over the last several years there have been no complex or very detailed empirical surveys conducted on a micro level – enterprises, companies - focusing on the main types, basic features and magnitude of corruption. In addition, present analysis and notions of corruption are mainly based on the standard, internationally recognized Corruption Perception Index – CPI of the Transparency International. Still, this index, in spite of its methodological and empirical relevance, suffers from two shortcomings, namely: the index is indirect and only indicative in its nature, not conclusive, since it represents a perception of corruption. CPI is based on indirect notions of corruption in an individual country derived from the information, comments and analysis mainly from the media; in addition, CPI basically serves as a basis for making comparative analysis between countries.

Nevertheless, in the very beginnings of 2000' the first broad and more comprehensive survey on corruption was conducted in Macedonia within the framework of a global World Bank survey on world business environment in the countries in transition and the developing countries, entitled: "World Business Environment Survey – WBES". Within this survey, corruption was earmarked as an issue of essential importance for the over all social and economic life in the mentioned countries. The survey was conducted in 104 companies in Macedonia, based on the methodology developed by the World Bank.

Although this survey did not explore the methods by which firms influence the legislative process to their benefit, it nonetheless gives some indications based on the empirical data derived from the answers to the questionnaire. In all likelihood, this empirical evidence should be considered as the first broad and relevant attempt to explore this aspect of the social and economic reality that has been increasingly gaining ground in the Republic of Macedonia over the last few years.

The answers provide insight into the frequency of bribery, bribes paid, uncertainties associated with bribery, the recipients of bribes (the bribes paid by firms disaggregated according to different "services"), bribery connected with public procurement (politicians and officials demanding bribes in return for awarding contracts), and lobbying (the degree of influence firms wield at different levels of government). In other words, the survey basically relies on firm-level data on corruption and contains quantitative information on estimated bribe payments of Macedonian firms.[9]

Structure of the Questionnaire

The questionnaire had two separate sections. An initial "screener" questionnaire contains questions on the characteristics of the responding firm covering ownership, area

[6] When it comes to the firm-level aspect of corruption, J. Svensson points out that, although modern research on the economics of corruption started as early as 1975 (with Rose-Ackerman, 1975, 1978), economic studies on corruption at the firm level are rather limited (Svensson, 2000, p. 3). One reason for that, he estimates, was that "until recently it was considered impossible to systematically collect micro data on corruption." However, with appropriate survey methods and interview techniques, Svensson argues that firm managers are willing to discus corruption "with remarkable candor." Thus, Svensson concludes, quantitative firm-level data on corruption can be collected (Svensson, 2000, p. 12)

of major activity, number of employees and internationalization (including degree of foreign ownership and level of exports). The main questionnaire contains 64 questions. The broader focus here is on "Institutions and Policies" (macro dimensions) and "Bureaucracy, State Intervention and Corruption" (micro dimensions). The narrower focus is on frequency of bribery, bribes paid, uncertainties associated with bribery (the bribes paid by firms disaggregated according to different "services"), bribery connected with public procurement (politicians and officials demanding bribes in return for awarding contracts), and lobbying (the degree of influence firms wield at different levels of government)

The section "Institutions and Policies" deals with a broad range of issues relating to the efficiency and efficacy of government institutions and policies. Firms were asked to rate the quality of public services across a number of dimensions including central government, parliament, the judiciary, utilities, and the police, and to evaluate how serious various institutional obstacles are for their business, ranging across macro and microeconomic policy, crime, and corruption. Questions were asked about the legal system and its ability to protect property and contractual rights, and the predictability and transparency of policy making.

The section "Bureaucracy, State Intervention and Corruption," in contrast to the previous one focusing on the public goods and institutional environment provided or not provided by the state, is concerned with the nature of direct interaction between firms and state. This includes not only an analysis of the extent and types of state intervention in the operations of firms, but also the ways in which firms seek to influence the state. On corruption, specifically, firms were asked about the extent and frequency of bribery, the recipients of bribes and the nature of the corrupt transactions.

Characteristics of the Responding Firms

The sample composition was structured according to the origin of the firm, and geographical location - ex-state, new private (new private" firm is one with no state-owned predecessor from the time of startup), joint venture (domestic & foreign), and firms with foreign direct involvement.

Table 1. Composition of the Sample

	Origin of the Firm			***Foreign Ownership***	***Location***		
Total Number of Firms	*New Private*	*Ex-State*	*Joint Venture (Domestic & Foreign)*	*Firms with Foreign Direct Involvement*	*Capital City*	*Other Large Cities*	*Smaller Cities & Towns*
104	50	45	9	19	67	10	27

Subsequent parts of the survey present the micro characteristics of the corruption transactions: the frequency and level of bribery (in the sense of the additional tax burden that corruption imposes on firms), uncertainties associated with public procurement, and the extent to which there is bureaucratic accountability in the provision of public services

Frequency of Bribery

Firms were asked how frequently they face demands for bribes. Here, an important remark should be made, before exposing and reviewing the data. As has been pointed out, a high frequency of (demands for) bribery need not be associated with a high level of bribery or high economic costs imposed on the firms by corruption; it should be taken more as a measure of how ingrained corrupt practices are within bureaucracy.[10]

Table 2. Frequency with which Firms Pay Bribes

Always	7
Mostly	15
Frequently	12
Sometimes	14
Seldom	5
Never	24
Don't know	24

Out of 104 firms, 66 admitted facing demands for paying irregular "additional payments." The relatively high number of firms responding with "Don't know," on the other hand, could be interpreted either as an unwillingness to admit the existence of this practice, or as a genuine lack of knowledge about it. Altogether, if one includes those responding "Never," the proportion of uninformed or uninvolved firms is still reasonably high: 48 of the responding firms, or slightly over one third of those asked

Uncertainties Associated with Bribery

This question probes the uncertainties associated with bribery. The uncertainty is due to the fact that corrupt transactions are not legally enforceable agreements between the corrupt official and the firm. Various forms of uncertainty connected with bribery were represented in the sample by following questions: do firms know in advance the amount of the additional payment(a); the frequency of the requirement of another government official for additional payment after the firm already paid the required amount (b); the actual "deliverance" of the service, as agreed, after the firm pays required "additional payment" (c).

[10] "Bribe size and incidence are determined by the overall level of benefits available, the discretionary power of officials, the risk of corrupt deals, and the relative bargaining power of briber and bribee" (Rose-Ackerman, 1997, p.38). For more elaborate conclusions about the amount paid for bribery (the economic costs imposed to firms) see Svensson (2000, pp. 21-22). Svensson points out that the amount paid is a function of firm characteristics: a firm's current and expected future profits, and to what extend the firm's capital sock is sunk. Thus the amount of bribes does not appear to be a fixed sum for a given public service but depends on the firm's ability to pay: the more a firm can pay the more it has to pay. Or, in other words, the "price" a firm must pay for a given service is a function of the firm's ability to pay. Svensson shows that these findings are robust to a number of potential statistical problems

Table 3. The Uncertainties of Bribery

	Always	Usually	Frequently	Sometimes	Seldom	Never	Don't' know
a) Firms know how large the payment is	9	22	7	19	5	12	30
b)Must pay bribes more than once	1	7	10	19	7	19	41
c) Service is usually delivered	19	20	8	6	3	8	40

If we count the number of firms that respond "frequently," "mostly," and "always" (uncertainty is unimportant if the firm pays bribes infrequently), then it is obvious that in the cases (a) and (c) the level of uncertainty is pretty high (36% and 45.5%, respectively), as opposed to the case (b), where the uncertainty is considerably lower (17%)

Bribery as an Economic Cost

Bribery always means an additional tax imposed on the firms and is therefore an economic cost to them.

Table 4. Portion of Firm Revenue Paid as Bribes to Public Officials

0%	19
Less than 1%	12
1-1.99%	6
2-2.99%	18
10-12%	4
13-25%	2
Over 25%	0
Don't know	43

The answers provided with regard to bribery considered as an economic cost give a clear idea about the extent to which firms admitting to paying bribes should pay per annum out of their revenues for unofficial payments to public officials. In contrast to the relatively high number of "Don't know" answers, not a single answer indicated that firms pay an equivalent of over 25% of their revenues per annum in bribes. Still, most of the firms admitting to paying bribes come in the category between 2% and 10% (36 firms out of 104)

Bribes Disaggregated by Service

The proportion of bribes paid each year, by the firms surveyed for different services and the answers provided, could be interpreted in various ways, depending on what the emphases is being put on. Broadly speaking, the spectrum of services could be

disaggregated into two (even three) categories: public services, the services provided directly by the government, and "other" services, meaning courts or the development of new laws, decrees or regulations. Bribes are most frequently paid to obtain government contracts and customs/import clearance: the number answering "always" is 23 or 11 (corresponding to the two services), and the number answering "usually" is 9 or 8.[11]It is also interesting that the proportion of bribes spent by firms on "influencing the development of new laws, decrees or regulations" is lowest: only 9 answers altogether fall in the categories of "always" (5), "usually" (2), and "frequently" (2). This could be interpreted as a reasonably low level of "state capture" taking place in Macedonia because firms are relatively small. (Table 5)

Table 5. Services for which Bribes are Paid

	Always	Usually	Frequently	Sometimes	Seldom	Never	Don't know
Public utilities	9	8	10	9	13	38	17
Licenses and permits	8	11	14	15	3	30	23
Tax collection	9	3	10	10	3	45	24
Government contracts	23	9	8	4	3	34	25
Customs/imports	11	8	5	15	5	35	25
Dealing with courts	4	5	8	12	8	31	33
Legislature/ regulations	5	2	2	9	6	36	44

Bribery Connected with Public Procurement

Table 6. Fraction of Government Contract Value Paid as Bribes

0%	13
Up to 5%	19
6-10%	21
11-15%	1
16-20%	4
Greater than 20%	0
Don't know	46

The answers provided with regard to bribery connected with public procurement (the percentage actually paid) reveal a pattern similar to those regarding the percent of revenues which firms typically pay per annum in unofficial payments to public officials. The proportion of the contract value typically offered in bribery when doing business with government is, again, highest in the category "up to 10%" (38.4% as opposed to 34.6% for bribery considered as a economic cost).

[11] As for the cases when firms typically have to pay bribes when dealing with public officials whose actions directly affect the firms business operations, Svensson points to such examples as exporting, importing, or requiring public infrastructure services (Svensson, 2000, p.2)

Corruption and the Degree of Accountability

The accountability that officials face within the bureaucratic apparatus could deter them from engaging in corruption. The answers provided suggest that the behavior of officials could be constrained by other non-corrupt government officials.

Table 7. Possibility of Appealing to Another Official to Avoid Paying a Bribe

Always	11
Mostly	15
Frequently	10
Sometimes	17
Seldom	21
Never	10
Don't know	20

A relatively high percentage of the answers support the notion that non-corrupt officials might represent a kind of barrier to corruption. 34.6% of the answers are "always," "usually," and "frequently," as opposed to 29.8% that are "seldom" or "never."

Lobbying

The answers provided in the questionnaire regarding lobbying (trying to affect the outcome of a new law, rule, regulation, or decree is proposed that would have a substantial impact on the firm, and what channels firms would typically rely on to try to affect the outcome) show that the trade associations or lobby groups are the preferred channel for the firms for exercising influence. They could also be interpreted as a way in which firms try to mitigate the uncertainties caused by state policy making by becoming involved in the process.

Table 8. Membership in a Trade Association or Lobbying Group

Yes	69
No	35

Table 9. Channel through which Legislation or Regulation is Influenced

Trade Association or a lobby group	67
Firm's direct ties to public officials	2
Other	9

The number of firms belonging to a trade association or lobby group could be seen as rather high (66.3% of the firms surveyed).[12] The percentage of firms using trade associations or lobby group as their main instrument to affect regulations or decrees that could have an impact on them is also rather high (64.4%)[13], while only 1.9% of firms use their direct ties to public officials. However, the relatively high number of firms relying on trade associations or lobby groups to affect new laws, rules, regulations or decrees tells little, by itself, about the degree of influence that firms exercise over the state

Degree of Influence over the State

The firm's assessment of the degree of influence that they wield at different levels of government—the executive branch, legislature, ministries and regulatory agencies - show very clearly that firms basically do not exercise any substantial influence on any level of the government (executive, legislature, ministry or regulatory agency) when a new law, rule, regulation or decree is being discussed.

Table 10. Perceived Influence of Firms on Branches of the Government

	Executive	*Legislature*	*Ministry*	*Regulatory Agency*
Not applicable	19	8	9	13
Never influential	48	46	51	53
Seldom influential	32	35	37	29
Influential	4	4	6	6
Frequently influential	1	1	1	2
Very influential	0	0	0	0

In all levels of government, the responses by the firms could be seen as negative, ranging between 96 and 99 out of 104. One could wonder whether there is an inconsistency in the facts that (a) the majority of the firms use trade associations or lobby groups to try to influence government policy (67 out of 104 firms), and (b) an overwhelming number of firms claim they have little or no influence on any level of government. The answer to this, in all likelihood, relates to two factors: the prevalence of small firms in the survey sample and the relatively low level of law enforcement.

Concluding Remarks

The data derived from the survey shed light on the corruption aspect of the business environment in Macedonia in the early 2000' and provide an opportunity to deepen our understanding of the empirical dimensions of corruption in Macedonia. The empirical evidence provided by the survey data should be considered as the first broad

[12] As a comparison, in a similar firm-level survey commissioned jointly by EBRD and The World Bank—The Business Environment and Enterprise Survey (BEES)— and conducted in Central and Eastern Europe (CEE), The Commonwealth of Independent States (CIS), and South Eastern Europe (SEE), the results show that only 25% of firms surveyed in SEE countries (the group containing Macedonia) belong to a trade association or lobby group (in Macedonia, the figure was 66.3%), compared to 38.2% for CEE countries; see "Level and pattern of corruption in the South Eastern Europe Countries," Draft, SEE Draft 1. Doc. 012/08/01, p. 7

[13] Again, as a comparison, 75.7% of CEE firms prefer to act through trade associations or lobby group and 15.1% rely on direct ties to public officials. For SEE countries these figures are 54.9% and 31.5%, respectively.

and relevant attempt to explore the phenomenon of corruption and its presence in the social and economic reality in the country.

The paper touches upon the typology of corruption, distinguishing between the state capture (illicit private payments to public officials for the purpose of influencing the legislative process when a new law, rule, regulation or decree is being discussed) and administrative corruption ("bribes," or private payments given to public officials for getting different services). The paper provides an indication of the linkages between corporate governance and national governance but does not go deeper by analyzing this phenomenon, and it does not explore the methods by which firms influence the legislative process to their benefit. On the other hand, it provides relevant insights into the frequency and level of bribery (in the sense of economic cost imposed on the firms by corruption), the kind of services firms are asked to pay for, uncertainties associated with corruption, bribery connected with public procurement, lobbying, and the degree of influence over the state

More precisely, the number of firms admitting to facing demands for irregular, additional payments—66 out of 104—clearly points to the fact that corrupt practices already have become a part of the social and economic life of Macedonia. A plurality of firms paying bribes pay between 2% - 10% of annual firm revenue (18 firms, total), and a significant number of firms (36 of them, or 34.6%) pay bribes amounting to 10% of revenue or less. The most popular services for which bribes are paid are "services provided directly by the government" (government contracts and customs/import clearance). Bribery connected with public procurement (admitted by 45 firms) mostly falls in the category of 1% - 10% of the contract value. A relatively high fraction of firms (34.6%) confirmed that corruption is a source of substantial uncertainty. The data trend in opposite directions for lobbying and the resulting influence over the state: although the majority of firms use trade associations or lobby groups (67 out of 104 firms), an overwhelming number of firms claim they do not exercise such influence on any level of government

Another insight –
Transparency ZC, Global Competitiveness Report, "Doing Business"

Valuable insights on the level of corruption in the main sectors could be further obtained from the data readily available and permanently updated on the web site of Transparency Zero Corruption which encompass the period from December 2006 to October 2010, having the responses of some 700 participants. In this on line survey of Transparency ZC, the main sector where the corruption has been most frequent is the Judiciary, with 55.3%. The other two sectors with most frequent intensity of corruption are the Cadastre, with 9% and the Custom office with 8.8% of all responses along with the Health services with 10.7%.[14] These data show relatively high similarity with the results from the survey conducted in the beginning of the 2000'.

Another way of gaining a valuable insight and a broader perspective on certain aspects of corruption in Macedonia would be obtained by analyzing the Global Competitiveness Report of the World Economic Forum. This could be achieved by observing one of the 12 pillars of competitiveness – The Institutions. This pillar is mostly con-

[14] Transparency ZC, "Fight against Corruption is on paper only", 31.08. 2010.

cerned with the institutional environment in each country, where corruption (along with excessive bureaucracy and red tape, overregulation, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, and the political dependence of the judicial system – is regarded as imposing significant economic costs to businesses and slow the process of economic development. According to data of the last three consecutive annual Reports of The World Economic Forum, with regard to the Global Competitiveness Index (2008-2009; 2009-2010; 2010-2011) Macedonia is continually upgrading its position – from 89th place in 2008-2009 to 84th place in 2009-2010, and to 79th place in 2010-2011. This represents an upward move of 10 places on the list of 133 countries in a time span of 3 years. More precisely, Macedonia with regard to the first pillar - the institutions - features on the 80th place which, almost entirely, corresponds to the place the country holds regarding the Global Competitiveness Index.

Also, some valuable information and insight regarding corruption could be obtained from the Annual Report of The World Bank – "Doing Business", where, as basic pillars of the business environment of each country are listed the following ten: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing business. Macedonia, according to the ten mentioned pillars, has achieved impressive progress in 2010 compared to 2009, climbing from the 69th position to 32nd position. If each of these ten pillars is analyzed separately, it becomes quite obvious that Macedonia was able to achieve quite remarkable progress, particularly with regard to "starting business", being ranked on the 6th position in the world, along with a relatively high position within the other two pillars – "protecting investors"(20th position), and "paying taxis"(26th position). Still, if we take into consideration some of the other pillars, such as: "dealing with construction permits", "trading across borders", or "enforcing contracts", than Macedonia is considerably falling behind – on the 138th, 62nd or 64th position. On the other hand, this is very important to bear in mind, since the last three pillars ("dealing with construction permits", "trading across borders", or "enforcing contracts") are generally considered as sectors where, according to all relevant empirical surveys and analysis of corruption, cases of corruption run rather high.

The process of accessing the EU and the fight against corruption

For the countries aspiring to become EU member states, the importance of fighting corruption as a significant part of the pre-accession process is more than obvious, especially the need to establish a permanent anticorruption monitoring. In this regard it should be pointed out that in Macedonia, a project entitled "A permanent Anticorruption Monitoring of the Key Priorities in the Pre-accession Process to the EU" has been underway for some time now with the aim to systemize the monitoring approach of the Transparency International. This project is widely regarded as a starting point in establishing a permanent anticorruption monitoring. The project has been carried out by The Transparency Zero Corruption in close cooperation with The Transparency International. The main activities to be undertaken in this regard are the following ones: development of indicators for the anti-corruption monitoring; monitoring of the anti-corruption activities of the government; awareness building with regard to corruption; establishing appropriate cooperation between the anti-corruption organiza-

tions and the civil sector; stimulating citizens' participation in the activities aimed at fighting corruption.

Similarly, the Progress Reports of the European Commission for the countries aspiring to become European Union member states contain an independent part focusing on the progress the individual county is making in fighting corruption compiled by Transparency International and furthered to the Commission. The European Commission for its part, also prepares its separate independent analysis, but, nevertheless is relying heavily on the recommendations of the TI. Thus, the countries aspiring to the EU, and especially candidate countries to the EU, like Macedonia, are expected to keep in mind these reports and to focus on the improvement of their image in fighting corruption. (Still, generally speaking, the Transparency International Reports have not been regarded with utmost care, unlike the EU Reports, despite the fact the latter rely pretty much on the TI reports, the reason for this being the fact that TI is still regarded as a non-governmental organization, as opposed to the EU Commission, which has greater authority and enjoys more respect.)

At the third annual conference on the performance of the State Commission for Anticorruption, the president of the Commission remarked that the cases of corruption in Macedonia were mostly present in the Judiciary, Customs Office and the State Administration on the national and local levels, alike. On this occasion he also pointed out that despite the progress achieved over the last several years, still the data should be regarded with concern.

As a further important element in assessing certain aspects of the types and the level of corruption and the fight against corruption are the Recommendations of Transparency International outlined in their annual reports with regard to the Corruption Perception Index. These recommendations to the member states are intended for the national partners of TI (in the case of Macedonia, Transparency Zero Corruption) to be furthered to the national governments in other to broaden their insights in this matter. For its part, Transparency International, after the global perception index has been published, engages in monitoring the progress of each individual country, and assesses the efforts undertaken to fully implement the recommendations.

In the Transparency International annual rankings of corruption based on data from country experts and business leaders at 10 independent institutions, including the World Bank, Economist Intelligence Unit and The World Economic Forum, Macedonia, along with eight other countries was specifically mentioned as one that has made improvements in scores from 2009 to 2010. More specifically, Macedonia has moved upward from 71st place in 2009 to 62nd place in 2010 with a Corruption Perception Index (CPI) in 2010 of 4.1, up from a CPI in 2009 of 3.8. Over the last five years: 2006, 2007, 2008 2009 and 2010, Macedonia has continuously improved its rank and CPI score.

Year	Rank	CPI Score
2006	105	2.7
2007	89	3.3
2008	72	3.6
2009	71	3.8

2010	62	4.1

The recommendations of GRECO

The recommendations of GRECO (Group of Countries against Corruption) should also be born in mind. These recommendations are being outlined in the GRECO Report within the framework of the third round of evaluation for Macedonia (August, 2010). The Report stresses the fact that Macedonia, although has undertaken substantial efforts and activities in order to implement international standards in fighting corruption, still, there is a need to further improve some parts of the national legislation which are still bellow the internationally established standards, especially with regard to: the abuse of influence, the narrow scope for potential perpetuators of bribes in the private sector, double criminalization of acts of corruption committed abroad, and the need to make appropriate changes in the law with regard to the abuse of the right to the so called "effective regret".

Furthermore, it has been recommended that Macedonia should take necessary measures to ensure that the criminal acts for both active and passive corruption in the public sector encompass all shortcomings in exercising public functions. As for the financing of political parties, GRECO acknowledges that the matter has been satisfactorily covered by a broad range of legal instruments, but still, so far there have not been any major case of a political party or an individual being accused or punished for wrongdoings or for breaking the laws. Furthermore, the GRECO recommendation has been concerned with the need to introduce a clear paragraph regulating the exact time of the actual beginning of the election campaign, and obligation to have financial reports timely prepared after the completion of the election process. GRECO also recommends better transparency with regard to the direct or indirect engagement of individuals connected with the political parties and their expenses as a part of the overall election expenses of the parties. In this regard, GRECO maintains that the supervision of the political parties financing should be carried out by a supreme independent body which will be helped by other officially authorized bodies having clear and appropriate powers and resources in order to be able to conduct effective supervision, investigation and implementation of regulations.

With regard to the corruption in the private sector, GRECO maintains that criminalization is not solely associated with direct involvement of the private sector alone, but, also associated with various public funds, public enterprises, political parties and local governments. Thus, GRECO recommends that it should be ensured that the legislation encompassing the bribes related to the private sector, should also cover, in the same time, and in a clear manner, the entire spectrum of individuals from the public sector associated with individuals from the private sector.

"The problem of the Balkan countries and Macedonia for that matter, and the negative reports they receive for their fight against corruption has often times to do with the fact that they have good, updated legislature for fighting corruption (some times even better then some older EU member states), but when we take into consideration the way in which they have been implemented, than the picture looks quite differently".[15]

[15] Adrian Auperle, Transparency International ; Source: Transparency ZC, 14.06.2010

Another point worth mentioning with regard to the TI position and engagement in Macedonia, as in other countries, is that in addition to the global report, TI opened consulting offices on the local level which serve as a focal point where citizens have the opportunity to report corruptive practices they are facing and to be given advice, free of charge, on how to deal with a corruptive situation they may find themselves in. The main reason for this approach of the TI could be interpreted as having in mind the fact that corruptive practices could not be associated only with high level positioned individuals on the national level, but on the local level, as well, and that the fight against corruption must be exercised and executed in a more systematic way.

Conclusions:

1. The Business Environment Index (BEI) in Macedonia represents a good basic barometer for tracking the quality of the whole business environment in Macedonia, especially due to the methodology of the approach, and also because, unlike the Business Environment and Enterprises Performance Survey (BEEPS), it follows the conditions in a three month period and provides relevant information for the main barriers to the development of companies' main business activities. Still, in the component B ("The influence of other significant external macroeconomic factors on business"), under section B3 ("Corruption in the public institutions"), it is recommended to insert another indicator which would reflect the ways in which companies, themselves, try to influence the state (public institutions), by lobbying (in ways that are incompatible with the Law on Lobbying), or by initiating non-formal understandings with public officials in order to win public procurement bids. All this could represent a barrier for other companies that employ fair business practice.

2. In creating the BEI Macedonia, it is important to bear in mind other sources of information, for example, The World Economic Forum (WEF) report on global competition and especially the World Bank's "Doing Business", and both of them should be taken in an indicative sense. This is especially related to those pillars of "Doing Business" in which, according to all relevant empirical research and analysis for corruption, the cases of corrupt activities are very frequent, for example "getting building licenses", "cross border exchange" or "making contracts". In all these cases, Macedonia, is showing not so good results, as opposed to the magnificent progress (from 69th place to 32nd, measured according to all 10 key pillars),

3. Transparency and corruption, especially the lack of transparency in the fight against corruption, according to widely accepted notion (including the Corruption Perception Index), have "closest encounters" especially in public procurements and financing political parties. The competition and transparency in public procurement should be further increased by supporting the methods of fair competition in the public procurement, according to the standards in the EU, and by opening to the public all public procurement contracts with the possibility of easy search and ranking. Improving transparency in financing political parties and politicians also, should be put higher on the agenda by publishing regular reports on financing political parties and providing reviews of property of politicians (publishing in a friendly way information on names of donors, amounts granted, and market value of property). For these reasons, public procurements and financing political parties must be held under observation

and be in some way incorporated in BEI Macedonia, (in the sub-component B3), as potential sources of corruptive tendencies, activities and non-transparency.

4. The judiciary system should be open to the public. In this regard, publishing all courts' and prosecutors' decisions on the internet (information on decisions, names of the prosecutors and the judges and explanations of the decisions) should enhance accountability and responsibility of the prosecutors and judges.

5. From the aspect of Macedonia's accession to the EU and the fight against corruption, one must bear in mind knowledge gained through the new instrument – Constant anti-corruption monitoring of key priorities in the pre-accession process toward EU - along with the observations of Transparency International, GREKO and Transparency Zero Corruption. They must in some way be mirrored in BEI-Macedonia.

6. Improving the process of creating and implementing legislation and reducing administrative burdens remains as a permanent requirement, along with the need for the Laws to be clear, easy to understand and to implement.

7. The main findings of BEI-Macedonia should be discussed on a quarterly bases in public, in the business sector and with the policy makers in charge of improving the business environment in Macedonia. It would also provide a synergy effect beneficial in the fight against corruption. For this reason, a free debate in the public and the media on social and economic issues should be supported, and the implementation of the Law on free access to information should be improved.

Chapter 2.

BUREAUCRACY AND TRADE BARRIERS

Ecc. Aleksandar Nikolov

The text examines the results of the Business Environment Index 2010 with regard to the extent of regulatory hurdles to doing business in Macedonia, as well as the effectiveness of the competition and cross-border trade policy. In doing so, it compares these findings with data from other publicly available sources in an effort to identify the reasons and rationale behind the perceptions of the business community and to provide balanced conclusions and recommendations on how to improve this particular aspect of the business environment. Though there are numerous overlaps and intertwining areas, the analysis is segmented in two parts that provide a convenient conceptual framework:

- Government regulation of business[16];
- Competition policy and barriers to entry and exit (including trade barriers).

Government regulation of business:

Burdensome or efficient?

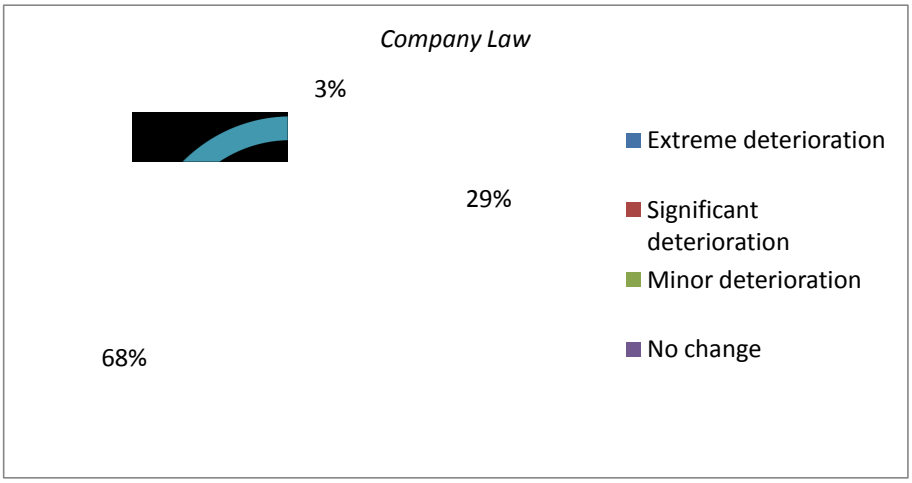
The government prescribes the rules of the game for business, establishing standards or guidelines that provide benefits to businesses while simultaneously imposing certain restrictions on business conduct in an effort to represent and protect various interests in society. In the wake of the global financial and economic meltdown complaints of "too much government regulation" gave way to renewed calls for more vigorous and comprehensive regulation of business activities. In the case of Macedonia the situation is somewhat different as the crisis was imported from abroad rather than induced by lenient regulation. Stimulated by the EU accession process, which produces major changes in the regulatory framework, the Government and business are trying to focus their attention on the quality of business related legislation and the quality of its implementation.

Quality of business related legislation

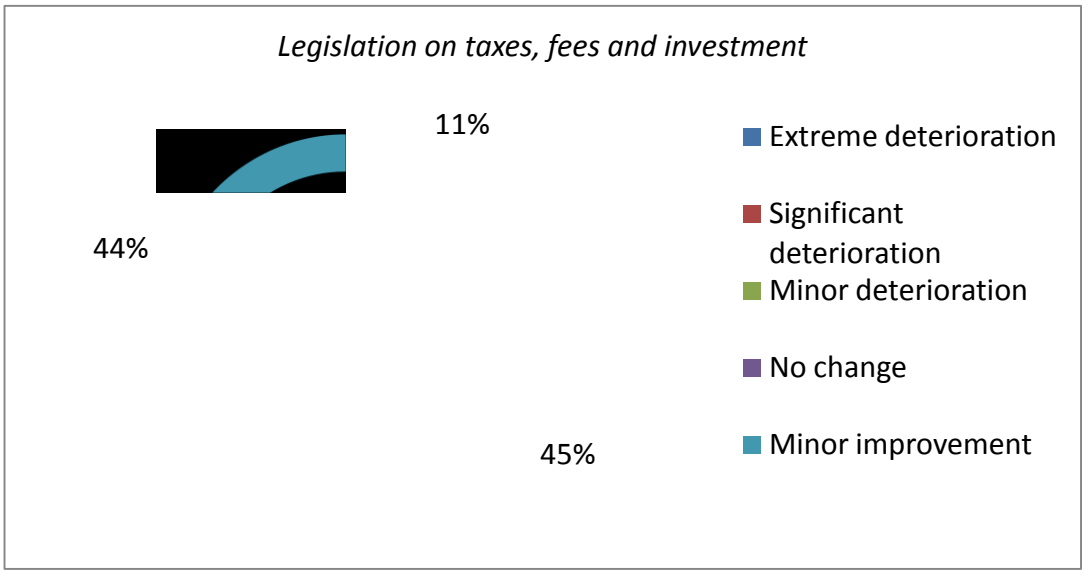
While a vast majority of surveyed companies (63%) reported no change in the *comprehensibility, applicability and stability of the legislative and regulatory framework* on business, thirty-seven percent observed deterioration. The situation is somewhat better with regard to the *Company Law* and *legislation on taxes, fees and investment*.

Recent changes in the Company Law have been mostly welcomed by the business community, as the chart shows.

[16] Excluding labour related aspects which are analysed in a separate text.



The Government managed to prepare and push through new amendments that addressed the last outstanding remarks of the European Commission in this area (EC, 2009). The April 2010 amendments[17] updated the provisions on accounting and auditing in line with international developments in the last seven years, regulated the procedure for cross-border mergers between Macedonian and EU companies[18] and improved the accountability mechanisms. The March 2010 amendments[19] improved the protection of shareholders rights, in particular with regard to convening and holding shareholders meetings.



The tax code was revised to simplify procedures and modernize the tax regime (World Bank, 2009). The changes in the legislation on taxes, fees and investments were also perceived positively with forty-four percent of surveyed managers describing them as minor improvement. In support to this, Macedonia is ranked as tenth in the world on

[17] Official Gazette of the Republic Macedonia, No 47/2010.
[18] To enter into force after Macedonia becomes a member of the EU.
[19] Official Gazette of the Republic Macedonia, No 47/2010.

the list of countries with lowest total tax rate[20] (World Economic Forum 2010) and 26th on the list of ease of paying taxes (World Bank, 2009).

The results of the two indicators dealing with specific pieces of business related legislation might seem to be in contradiction with the indicator "Comprehensibility, applicability and stability of the legislative and regulatory framework", where more than one third of companies noted deterioration. One way to explain such discrepancy is through the fact that the pace of reforms is such that it creates difficulties for companies to keep up with the volatile regulatory environment. The resources that companies have to put aside for monitoring and adjusting to these changes are significant. For example, the mentioned Company Law is a crucial law for doing business and as such it is amended rather infrequently in developed economies. In 2010, Macedonia's business community witnessed two relatively big changes to this law in just one month. Furthermore, the technique of legislative amendments[21] and the publication policy of the Official Gazette of the Republic of Macedonia, make it difficult for managers to quickly grasp the implications of regulatory changes for their business, or to determine the status of their compliance in a specific area of law. The lack of stability also makes it very difficult for companies to budget or perform forecasts on a medium or long term.

In the long run, part of these problems might be overcome with the improved implementation of the recently[22] introduced Regulatory Impact Assessment for new pieces of legislation to monitor and evaluate the impact of regulatory measures on the national economy.

As an illustration of other public-private exchange mechanisms, the draft Fourth Programme for Stimulating Investment (2011–2014) of the Government has undergone a stakeholder consultation process in September 2010, which resulted in updates and improvements prior to submission to the Government of the Republic of Macedonia for approval. Nevertheless, wider stakeholder participation in law and policy drafting and sufficient systemic analysis of legal acts by public bodies are yet to be ensured (OECD, 2009).

Another attempt to introduce improvement is the "Regulatory Guillotine" implemented by the Government – which abolished or amended rules, regulations and procedures that were found to be either burdensome or completely unnecessary. Between 2006 and 2010, the Government held consultations with companies of all sizes and with the business associations to identify hundreds of acts and procedures which hinder economic activity. Under the initiative, outdated rules and regulations (mostly from the Yugoslav era) were identified and later abolished or amended.

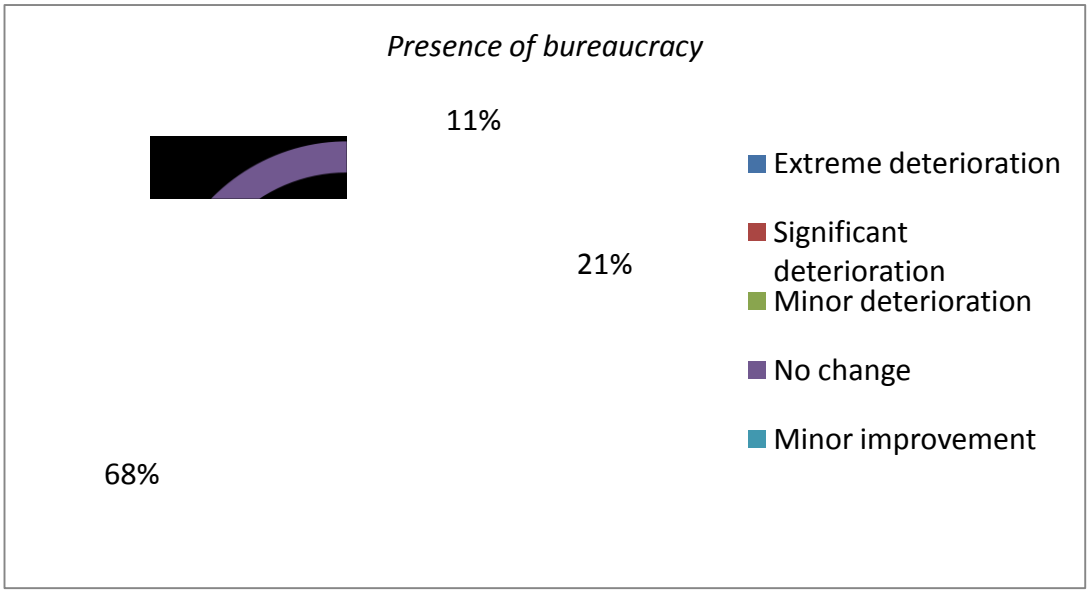
[20] Calculated for 2009 as a combination of profit tax (% of profits), labor tax and contribution (% of profits), and other taxes (% of profits).
[21] Consolidated texts of laws are not published automatically after each amendment or decision of the Constitutional Court.
[22] Became mandatory as of January 2009.

Quality of implementation of business-related legislation

The proper quality of implementation of legislation can depend to a large extent on the presence of functional public institutions and efficient and streamlined procedure which do not impose unreasonable costs and other hurdles to businesses, such as excessive paperwork and compliance procedures.

In contrast to the mostly positive developments with regard to the quality of regulations, seventy-one percent of businesses reported a status quo in the "*functionality of public institutions (register courts, tax offices...)*", while almost one third described worsening conditions of either minor (16%) or significant scale (13%). The simplified process of paying taxes – electronic filing is now mandatory for all taxes – has not been acknowledged by the business community despite Macedonia ranking 26th in the world on the ease of paying taxes (World Bank, 2009).

Almost one third of the surveyed businesses complained on growing bureaucratic hurdles to economic activity. This result is confirmed with the 2010 Executive Opinion Survey, conducted by the World Economic Forum together with its network of Partner Institutes, where managers listed "Inefficient government bureaucracy" as the most problematic factor for doing business in the country.



Source:WEF

Among 139 countries, Macedonia ranked 90th in the world on the extent of perceived burden for businesses in complying with governmental administrative requirements, such as permits, regulations and reporting (World Economic Forum, 2010).

The Government has tried to address some of these grievances through the "Regulatory Guillotine". The rule "silence is approval" was introduced, according to which if the regulator does not reply in a reasonable timeframe to a request for locational terms for construction, building permit, decision on terms for spatial planning and registration in the registry of the Phytosanitary Directorate, the request is considered as approved. Macedonia continued to improve the efficiency of the construction permitting

process by streamlining procedures and cutting approval times. Another improvement is noted in the process of registering property by introduced time limits at the Real Estate Cadastre Agency, reducing the time to register property by 8 days (though it still takes 58 days).[23]

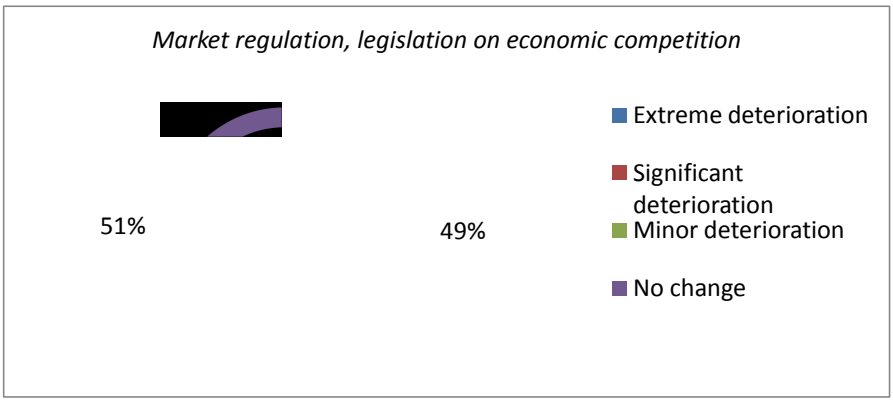
In addition, the administrative fees charged by seven state institutions[24] have been reduced, particularly noticeable in the fees for obtaining information, data and documents from the Real Estate Cadastre Agency.

Competition policy and barriers to entry and exit

Competition policy can assist in the creation of an environment that enables fair competition between businesses and companies on the basis of their products and prices, with the result that products and services are sold at competitive prices, consumers have a widening purchasing choice and the economy as a whole is more efficient. Before a firm can compete in a market, it has to be able to enter it. Entry barriers can retard, diminish, or entirely prevent the market's usual mechanism for checking market power: the attraction and arrival of new competitors (OECD, 2007). This area of the business environment can be better analysed in two segments – internal market barriers and cross border-trade barriers.

Internal market barriers

When asked about their stance on the state of affairs related to *"market regulation and legislation on economic competition"*, most of the surveyed businesses perceived no change in this area. However, the number of companies that observed slight worsening of the situation, made developments under this indicator the fourth largest factor with negative impact in the segment of legislative and regulatory framework for business.



Source:WEF

The European Commission acknowledged progress in the area of *anti-trust policy, including mergers* (EC, 2009). Amendments to the Criminal Code separated the pow-

23

World Bank, 2009.

24 The Real Estate Registry, the Central Registry, the Customs Administration, the Bureau of Metrology, the Official Gazette, the Institute for Standardization, the Institute for Accreditation.

ers of the Commission for Protection of Competition (CPC) from those of the public prosecutor's office in cartel cases. The enforcement record in mergers has reportedly been strengthened, whilst it remained low in the area of cartels. On the other hand, the administrative court annulled most of the CPC's decisions on abuse of dominant positions. September 2009 amendments to the Law on Technological-Industrial Development Zones, aimed at bringing it in line with the acquis on *state aid*. However, the *ex ante* control of State aid is partial and confined to a few large State aid providers (EC, 2009).

Intensity of local competition in the internal market is seen as relatively limited and below the average world level, and corporate activities are not spread among many firms, indicating certain level of market domination by a number of business groups (World Economic Forum, 2010). Executives surveyed for the purposes of the Global Competitiveness Report 2010 assessed the anti-monopoly policy as being insufficiently effective in promoting competition. [25]

One of the most promoted achievements in the reduction of barriers to entry on the local market is the "one-stop-shop" process for founding and registration of companies, with the Central Registry as an institutional focal point, making it possible to complete the registration process within four days. Also, several documents no longer have to be notarized. This ranked Macedonia sixth in the world on the ease of starting a business, as an average of the economy's rankings on the procedures, time, cost and paid-in minimum capital for establishing a business (World Bank, 2009).

Companies' on-line access to government services was improved by introducing on-line application systems for, among other things, company registration and export/import licences (EC, 2009).

The EC 2009 Progress Report also gave a positive assessment in the area of market entry/exit despite remaining weaknesses in the pace and efficiency in the realization of bankruptcy and liquidation procedures. Voluntary liquidation has been introduced and the backlog of overdue liquidation and bankruptcy cases has been reduced further. The average duration of bankruptcy procedures, although still far from satisfactory, has fallen slightly – from two years and two months to around two years.

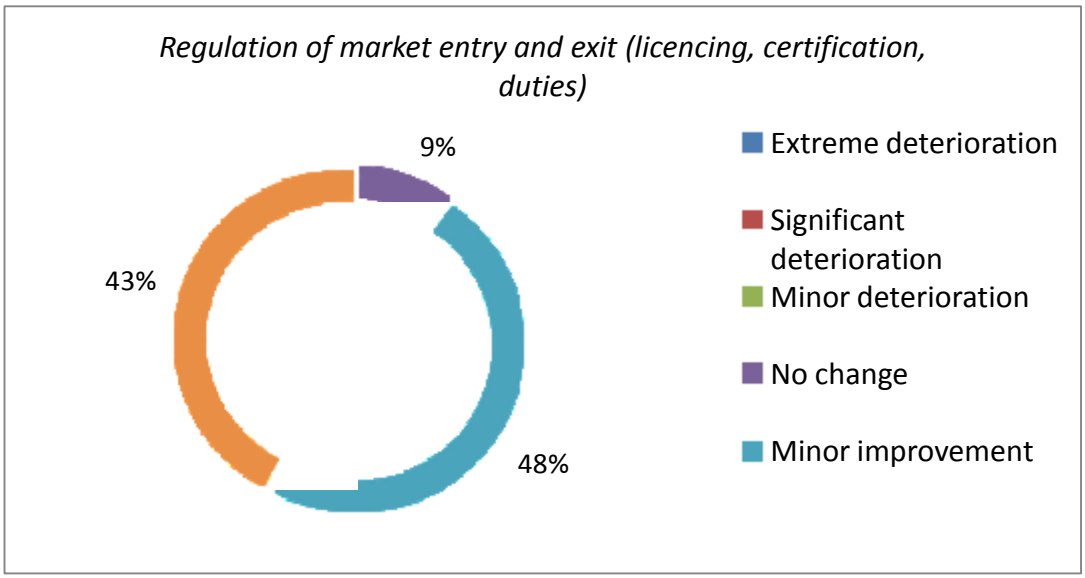
Such limited improvements appear not to be on a scale that would make a significant impact on the perceptions prevalent in the business community. Almost 20% of businessman noticed a minor deterioration of regulations covering bankruptcy and execution. The rest recorded no change in the field. This goes in line with the World Bank which noted no reforms in the field of closing a business[26], where Macedonia ranks as 115th among 183 economies (World Bank, 2009).

Cross-border trade barriers

The item *"Regulation of market entry/exit"* which includes licensing, certificates and duties is ranked as the best improvement both overall and in the segment related to the

[25] Among 139 countries Macedonia ranked 96th with regard to the intensity of local competition, 85th on the extent of market dominance and 94th on the effectiveness of anti-monopoly policy.
[26] Measured through the time, cost and outcome of bankruptcy of a local company.

legislative and regulatory framework for business. The reason why the vast majority (91%) of the surveyed businesses saw noteworthy progress in this area might be found in the new phase of the regulatory guillotine project, focusing in particular on customs, transport and agriculture. Important improvements occurred in the custom administration – including the use and upgrade of the single window/one-stop-shop (EXIM system) for import and export licences – and reduced fees were introduced for obtaining licences and certificates.



Despite some improvements in trade facilitation, businesses still face hurdles in finding information about customs and trading procedures, due to a lack of capacity in government authorities to provide such information, or due to inconsistent, incomplete or delayed information.

According to the 2010 Executive Opinion Survey, the prevalence of tariff and non-tariff barriers is still a limiting factor for the ability of imported goods to compete on the domestic market. The cross-border trade barriers are further explored using a review of different sources in three areas:

- Trade liberalization;
- Non-tariff barriers;
- Proactive export promotion.

Trade liberalization

As a *WTO member*[27], Macedonia is required to decrease trade barriers and enforce non-discrimination.

The country continued to gradually *reduce customs duties*, in line with its WTO obligations and with the Stabilization and Association Agreement with the EU. In 2009 Macedonia's Government reduced custom duties for import of 426 products, raw materials and semi-finished goods. Duty rates for import of products, raw materials and

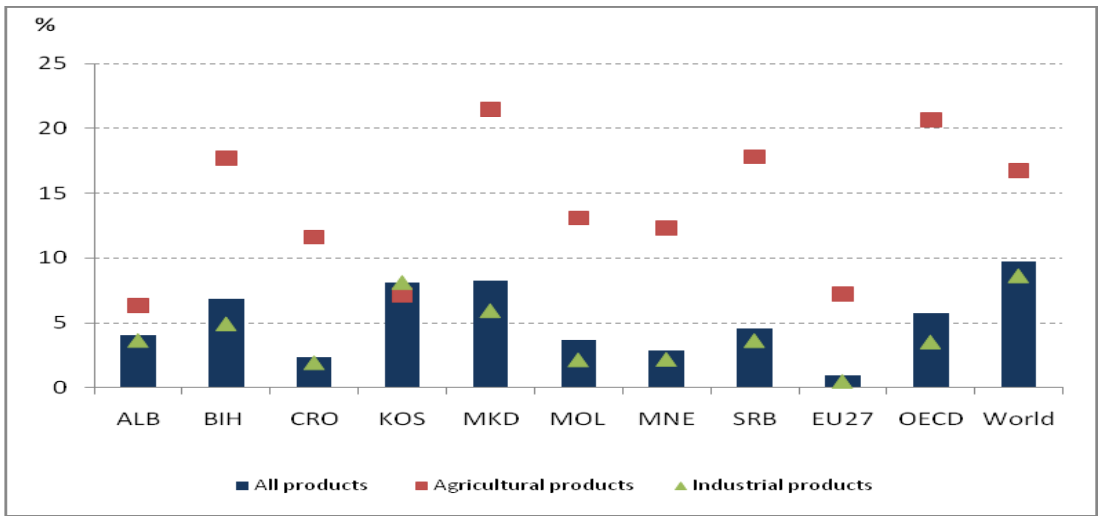
[27] Since April 4, 2003.

semi-finished goods for the needs of the textile industry saw the largest reduction (Customs Administration, 2010). This reduction serves the aim of stimulating export oriented industries by enhancing the competitiveness of their ready-made products at the international market.

The trade-weighted average tariff rate in 2009, including preferential rates applied to the rest of the world, was 5.4%.[28]

The chart below shows the average applied tariffs in 2009 for South East Europe economies, for different types of products and compares them to data for EU, OECD and the world. It shows that levels of applied tariffs in the region are adjusted to the world average.

Average applied tariffs (2008 or latest available year), OECD Investment Reform Index 2010



The *SSA* with Macedonia entered into force on April 1, 2004. The SAA chapter on the free movement of goods provides for the establishment of a free trade area between Macedonia and the EU, for both agricultural and industrial goods. The trade provisions of SAAs add to the autonomous trade measures (ATMs) that were unilaterally granted in 2000 to candidate and potential candidate countries by the EU, allowing goods duty-free entry to the EU with the exceptions of wine, sugar, baby beef and certain fisheries products.[29]

The signing and entry into force of the *Central European Free Trade Agreement* (CEFTA) 2006 represents an important landmark in the process of intra-regional trade liberalisation. CEFTA 2006 goes beyond tariff liberalisation and includes provisions on technical barriers to trade, sanitary and phytosanitary measures, rules of origin, and the so-called "new trade" issues (*i.e.* trade in services, investment, government procurement and intellectual property).

[28] International Trade Centre.
[29] OECD, 2010.

Non-tariff barriers

The potential benefits deriving from trade liberalisation and from the elimination of tariff-equivalent restrictions can be offset by the presence of non-tariff barriers (OECD, 2010). These can include quantitative restrictions, technical barriers to trade, sanitary and phytosanitary measures, and administrative barriers to trade. CEFTA includes provisions in these four areas. In addition, non-tariff measures lie explicitly within the mandate of the structures created under CEFTA: the Subcommittee on Technical Barriers to Trade and Non-Tariff Barriers, the Subcommittee on Agriculture and Sanitary and Phytosanitary Issues, and the Subcommittee on Customs and Rules of Origin.

Quantitative restrictions

Quantitative restrictions on imports and exports for economic reasons have been abolished in all Western Balkan economies. Currently, few quantitative restrictions on imports can be applied only for non-economic purposes, such as protection of public morals and the protection of human, animal and plant life or health. Economies in the region have also adopted a system of quantitative restrictions on imports of certain agricultural products, and maintain a system of differentiated exemptions in the framework of CEFTA. Currently, the Parties to CEFTA, including Macedonia, are negotiating further liberalisation by abolishing some of the quantitative restrictions.[30]

Technical barriers to trade

Standards and conformity assessment procedures can become a barrier to trade with the non-proportionality, discriminatory application and non-transparency of the measures. For example, the standards, technical regulations and conformity assessment procedures might not be justified by a legitimate objective. In other cases, domestic legislation could require that an imported good comply with specific standards that a similar locally manufactured good does not have to comply with. Finally, if the standards and regulations that a country adopts are not notified and made public, they could result in barriers against parties that are unaware of their existence.

Macedonia has already transposed a number of **EU New Approach pieces of legislation**[31]. It adopted a law on *General Product Safety*. Regulations on formal notification procedures in the field of standards, technical regulations and conformity assessment procedures were adopted in 2007.

In late 2009, the Government adopted a national strategy for the efficient execution of legal measures, strengthening of the administrative capacities and coordination of the institutions that constitute the quality system infrastructure (Ministry of Economy,

Institute for Standardization, Institute for accreditation, Bureau of Metrology, and the State Market Inspectorate).

[30] Ibid.

[31] The New Approach is based on the following key principles: EU legislative harmonisation is limited to essential requirements; European standardisation organisations draw up the corresponding technical standards; standards are voluntary, but a producer is obliged to prove that his products comply with the essential requirements; and public authorities are responsible for market surveillance, i.e. once the product is put on the market they have to ensure that it complies with the essential requirements.

Despite the significant increase in the number of staff in 2009, capacity issues remain a hindrance to proper functioning of the **Institute for Standardization**.

Progress has been made in **transposing European and international standards**. An annual program for adoption of Macedonian standards i.e. adoption of European standards and other documents for standardization is prepared and implemented. Still, the table below shows Macedonia is lagging behind Albania, Bosnia and Croatia in the transposition of standards.

Number of Transposed Standards, OECD Investment Reform Index 2010

	2009
Albania	15 029
Bosnia and Herzegovina	9 653
Croatia	21 368
Kosovo	1 200
Macedonia	6 011
Republic of Moldova	n/a
Montenegro	1 530
Serbia	5 072

With the aim of adjusting the legislative framework with new EU requirements, in April 2010, the Parliament of Macedonia adopted a Law on **Market Surveillance**. The Law transposes a larger part of the Regulation (EC) No 765/2008 of the European Parliament and of the Council. It specifies the principles, processes and procedures to be followed by the market surveillance institutions and sets inter-institutional coordination through the establishment a twelve member coordinative body. The body should also propose a strategy for coordination and market surveillance activities.

The State Market Inspectorate (SMI) improved its organisational structure by establishing three new specialised departments for product safety, human resources and misdemeanours which, however, still lack adequate staffing. The SMI's operational capacity was strengthened with IT equipment. The wide scope of responsibilities, understaffing, lack of equipment, inadequate powers of the inspectors and poor funding limit the ability of the SMI to conduct checks on technical compliance of products and to detect potentially defective products (EC 2009).

Conformity assessment[32] can also act as a technical barrier to trade. For some products to be traded there must be an assessment of the manufacturer's conformity by a

[32] Conformity assessment "ensures that the product or process satisfies technical specifications that are set by standards" (Vancauteren, 2009) and can involve the following procedures: testing (declaration of conformity through testing conducted at the manufacturer's own laboratory or by a third party laboratory), inspection (independent inspection of parts, materials and final products), certification (formal certification by a third party that a product conforms to particular standards, which often includes the granting of a mark, certificate or label), registration (independent audit of manufacturing quality systems that results in registration with a quality system register, *i.e.* ISO 9000) and accreditation (evaluating and attesting that testing and calibration laboratories, certification bodies and inspection bodies are technically competent to perform a specified task).

specialised government agency or certification body. Therefore, the local presence of accredited certification bodies is important to ensure that firms can obtain a certification without incurring prohibitive costs.

Progress was made in establishing a network of independent conformance assessment bodies and laboratories. However, a recent survey showed that a notable percentage of surveyed companies were not satisfied with the system of certification, accreditation and conformity assessment, citing among other things lack of conformity assessment and certification services provided through local entities, forcing companies to deal with costlier foreign bodies (EUROCHAMBERS, 2009). In addition, it pointed to the lack of laboratories dealing with CE marking in Macedonia. The CE marking certifies that a manufacturer has verified that a product meets EU consumer safety, health or environmental requirements. It is a mandatory conformance mark on many products placed on the single market in the European Economic Area (EU and EFTA countries).

Number of accredited conformity assessment bodies (CABs), OECD Investment Reform Index 2010

	Testing laboratories	Calibration laboratories	Certification bodies	Inspection bodies	Total CABs
Albania	9	2	2	3	16
Bosnia and Herzegovina	16	6	2	11	35
Croatia	92	13	14	34	1551
Kosovo	3	-	-	1	4
Macedonia[33]	15	4	2	30	51
Republic of Moldova	128	-	32	3	163
Montenegro	3	1	-	1	7
Serbia	277	25	19	50	373

Mutual recognition agreements between accreditation bodies are widely used to facilitate trade. These agreements facilitate the reciprocal acceptance of conformity assessment results produced by accredited conformity assessment bodies.

Macedonia is not a signatory to the ILAC[34] or IAF[35] mutual recognition arrangements. However, the Institute for Accreditation submitted an application to become signatory to the Multilateral Agreement of the European Co-operation for Accreditation (EA MLA)[36] for several conformity assessment areas: testing laboratories, inspection bodies and product certification bodies. In December 2009, the MLA pre-assessment team submitted the Pre-assessment Report, and the Institute for Accreditation is working to implement the Report recommendations.

Macedonia is negotiating an ACCA with the EU. Seven industrial sectors were included in the first set of negotiations which exceed 30% of the total trade exchange of

[33] The data for Macedonia are updated with 2010 figures from the Institute for Accreditation.
[34] International Laboratory Accreditation Forum for laboratory and calibration testing.
[35] International Accreditation Forum for quality and environmental management systems certification, inspection and product certification.
[36] The EA MLA is an agreement among EA accreditation body members to recognise the equivalence of certifications, inspections, calibration certificates and test reports issued by accredited bodies.

the Republic of Macedonia with the EU. The mutual recognition of conformity of industrial products means that the CE marking on the products will be recognized, as well as the certificates issued by notification bodies and the product conformity assessment procedure, that confirm that the product is safe and as such can be safely marketed in the internal EU market (Dodevska Stojanovska, B. and A. Shahov, 2009).

The diffusion of standards, measured by the number of certified firms, is also important in facilitating intra-regional trade and trade with external partners such as the EU. Macedonia fares badly not only in comparison with Bulgaria and Romania, but also compared to Croatia, Serbia, Montenegro and Bosnia (OECD, 2010). The Government needs to further promote the use of the standards among companies, with the aim of boosting their export competitiveness. The Program for financial support of agriculture for 2009 envisaged financial support for the implementation of standards for quality and safety of food, amounting to EUR 250,000. The Ministry of Economy and the Ministry of Environment and Physical Planning have also conducted annual programs for co-funding of costs for implementation and certification of quality management and environmental management systems of private entities.

Sanitary and phytosanitary (SPS) measures

While SPS measures may be introduced for legitimate reasons (notably protection of human health), they can also reduce export opportunities, because necessary institutions, infrastructure and legislation often need upgrading (OECD, 2001).

With regard to the legislative framework for food safety, veterinary and plant protection, Macedonia adopted several important framework laws that are aligned with the EU *acquis*. These address animal welfare and protection (2007), veterinary issues (2007), plant health and plant protection products (2007) and livestock (2008).

Some progress has been made in adopting implementing measures, especially in the areas of food safety, animal diseases and plant protection. The implementing legislation on *plant health (harmful organisms)*, *plant protection products* and *quality of seeds and propagating material* has yet to be adopted. In the area of veterinary policy implementing legislation was adopted on *control systems in the internal market* and for *imports* that further transpose the *acquis.*

Human and financial capacities are still insufficient in food safety and plant protectionagencies of Macedonia. The administrative capacity of the Phytosanitary Directorate and the management capacity of the Food Directorate are weak.

The responsibilities of the plant health authority are still divided between the Phytosanitary Directorate and the Directorate for Seed and Propagating Material (EC 2009), resulting with negative impact on the effectiveness of inspection procedures.

The equipment and facilities for border controls are still inadequate. An EU-compatible control system, particularly for veterinary import control, is still not in place.

In line with the SPS Agreement, Macedonia is a member of organisations that produce international standards on food, animal feed, animal and plant health as well as other SPS issues. These organisations include: the Codex Alimentarius Commission (dealing with food safety), the World Organisation for Animal Health – OIE19 and

the International Plant Protection Convention – IPPC (dealing with the prevention of plant pests).

As regards *international phytosanitary agreements,* no action has been taken to implement the international standards for phytosanitary measures, in particular for surveillance, export certification and determining pest status.

Under the "Regulatory Guillotine" initiative the Government introduced the following measures:

- continued presence of inspection bodies from veterinary and phytosanitary administration at the border crossings and their grouping during the control process;
- introducing the principle of selectiveness and risk assessment when exercising control by the veterinary and phytosanitary inspectors;
- decreased fees for veterinary-sanitary checks at the border crossings.[37]

Administrative barriers to trade

The 2010 *Doing Business* study confirmed progress in the area of trade facilitation. In the period 2006-09, time to export has been reduced by 15 days in Macedonia (highest reduction in the region), while the time to import has been reduced by 14 days (second highest reduction in the region). Executives assessed customs procedures as relatively efficient, and the value of the indicator for Macedonia ranks above the world average (World Economic Forum, 2010).

The Protocol amending the Kyoto International Convention on the Simplification and Harmonisation of Customs Procedures was ratified. A number of customs-related fees, including the fees for customs escort of goods and for temporary customs warehousing were abolished. The Government, under its "regulatory guillotine"
initiative, put forward measures for further simplification of customs procedures and faster cross-border trade transactions:

- Increasing the numbers of border crossings where the export-import customs are performed;
- Introducing possibilities for a postponed payment of the VAT when importing;
- Broader application of the simplified customs procedures, aiming at increased numbers of companies as users;
- Connecting the Customs Administration electronically to other relevant institutions so as to avoid duplication of submitted documents;
- Abolishing the administrative tax for customs declaration submission and for issuance of proof of origin EUR-1;
- Securing green label ribbon at the cross border crossings for empty vehicles and vehicles that transport fragile products.

The Government has also promoted EU style local customs clearance, so that goods can be cleared within the companies instead of at the customs terminal. This relieves the companies from paying terminal and shipping services.

[37] Dodevska Stojanovska, B. and A. Shahov, 2009.

The Protocol on rules of origin to the bilateral free-trade agreement with Turkey was ratified to allow diagonal accumulation of origin of goods[38]. By changing the bilateral accumulation of origin of goods into diagonal accumulation, as allowed by the Stabilization and Association Agreement, no customs duties for import in EU member countries will be paid for the final products of Macedonian origin made with raw materials from the Republic of Turkey (Dodevska Stojanovska, B. and A. Shahov, 2009).

Most South East Europe economies had already abolished general import and export licenses by 2006. Licenses are therefore only applied for non-economic purposes[39]. Macedonia made significant progress in facilitating procedures to obtain licenses, notably through the introduction in 2008 of EXIM ("one-stop shop" for licenses for export, import and transit). The system links sixteen state agencies and allows companies to submit electronically a single request in order to obtain all the documents required for import, export and transit. In addition to licenses, businesses can apply for tariff-rate quotas through the EXIM system, in accordance with the signed trade agreements by Macedonia, that are distributed to the applicants on a "first come, first served" basis. With the implementation of the EXIM system the process of issuing licenses is accelerated and simplified, as following:

- the service is available at any time;
- the electronic submission of applications generates time and cost savings for the companies;
- the efficiency of the process of issuing licenses and tariff-rate quotas is increased;
- licence requests and of issued licenses can be tracked electronically.

Trade barriers are also being eliminated through increasing the accessibility and transparency of customs laws and trading procedures. Customs laws and regulations, guidelines and procedures are published on a single website. A recent survey, established that an overwhelming majority of companies (86%) are satisfied with the accessibility of information on customs laws and regulations, such as tariffs, goods classification and customs procedures (EUROCHAMBERS 2009). However, only limited amount of information is available in English (mostly the laws). In addition, the information provided is not always complete, accurate and up to date.

Proactive export promotion

Until 2010 Macedonia did not have an independent export promotion agency that would work on improving the penetration of local companies in foreign markets. The Ministry of Economy was the only one systematically implementing export promotion activities. Export promotion activities are also occasionally undertaken by Chambers of Commerce and Economy. In addition, the Macedonian Bank for Development Promotion has a role in promoting exports through the provision of trade financing (OECD, 2010).

The 2009 *Conference on Enhancing Macedonian Exports* called for the establishment of an export promotion agency, either as an autonomous body or within another

[38] Official Gazette of the Republic of Macedonia no. 25/2009.
[39] Such as national security, protection of health, safety, the environment, morality, religion, intellectual property and compliance with international obligations.

agency. In April 2010, the Macedonian Parliament adopted a law establishing an Agency for Foreign Investment and Export Promotion (InvestMacedonia)[40] and its implementation started in July 2010. The Agency has a Director and a Governing Board, appointed by the Government. It has a staff of 25, and is funded from the state budget (EUR 6.8 million in 2010).

Macedonia's export promotion programmes[41] seem varied, but more time is needed be able to evaluate their efficiency, effectiveness and co-ordination.

The 4th Programme for Stimulating Investment envisages a measure to develop an export promotion strategy in 2011, in cooperation between the Ministry of Economy and InvestMacedonia. Meanwhile, a programme to support SME competitiveness which includes an export promotion component was developed in 2009/2010. The Industrial Policy of the Republic of Macedonia for the Period 2009 – 2020 envisages joint activities for support and promotion of export of the Ministry of Economy, the Ministry of Foreign Affairs, the economic chambers, the clusters, the diplomatic representative offices and economic promoters. The measures consist of:

- facilitating the creation of networks of international business partners;
- financing of strategic positioning studies on the key international markets;
- facilitating international knowledge exchange.

InvestMacedonia has enlarged the network of economic promoters abroad from 4 in 2006 to 32 in 2010. Financial resources for export promotion are largely provided from the state budget. Similar to other countries in the region, a cost-sharing support system is in place – albeit with a quite limited budget – where the Government covers part of the export promotion costs of exporters.

A tourist agency subsidizing system was also established. Each tourist agency that will attract a group of ten tourists from the neighbouring countries to stay for three days on bed and breakfast basis in a categorized object, will receive a 100 Euros subsidy.

Conclusions and recommentdations

Government regulation of business

Quality of business related legislation

- Engage in a dialogue with the business sector on developing mechanism to increase the stability and predictability of the regulation.
- Improve mechanisms for public policy consultation with the business community in the preparation of Regulatory Impact Assessments to ensure wider stakeholder consultations and a meaningful influence in policy formulation.

[40] Law on Establishing an Agency for Foreign Investment and Export Promotion of the Republic of Macedonia (Official Gazette of the Republic of Macedonia, 57/2010).

[41] Export promotion services and programmes can be grouped into four broad categories: country image-building (including promotional events and policy advocacy), expert support services (including training and information on trade finance, customs), marketing (including trade fairs and exporter missions), and market research and publications (OECD, 2010).

- Establish a body chaired by a high level political official with the power to review RIAs and block legislative proposals if it deems the assessment is improperly conducted or its results are negative.
- Alter the technique of legislative review and introduce the FORMEX v.4 system[42] in order to enable timely publication of consolidated texts of laws.

Quality of implementation of business-related legislation

- Continue the "Regulatory Guillotine" project to further streamline and reduce the administrative requirements for businesses, especially in the area of dealing with construction permits.
- Improve the functionality of public institutions by adequate staffing, increased investment in human resources, promoting results-based management, and combating corruption.

Competition policy and barriers to entry and exit

Internal market barriers

- Strengthen the human and financial resources of the Commission for Protection of Competition.
- Improve the implementation of anti-cartel regulation by the Commission for Protection of Competition.
- Strengthen the capacity in the area of competition policy of administrative court judges working on competition cases.
- Encourage firms in threat of insolvency to seek reorganization solutions; require debtors to file for insolvency as soon as they default or as soon as default is imminent; improve the efficiency of courts; train receivers and liquidators in efficient administration of distressed companies.

Cross-border trade barriers

Non-tariff barriers

Technical barriers to trade

- Strengthen the institutional framework for accreditation, in particular by increasing the number and qualifications of staff of the Institute for Accreditation.
- Further strengthen the human resources of the Institute for Standardisation. Conflicts between New Approach standards and old mandatory standards need to be resolved and the dynamic of standard transposition accelerated.
- Support the establishment of a network of independent conformity assessment bodies to facilitate certification for local firms, especially SMEs. The Government should also promote the use of standards among companies, with the aim of boosting export competitiveness.

[42] Formalized Exchange of Electronic Publications – XML format for data exchange among institutions.

Sanitary and phytosanitary measures

- Strengthen capacities in food safety and plant protection agencies.
- Competencies should be streamlined and co-ordination among SPS bodies should increase to reduce overlapping among inspection procedures.
- Additional efforts need to be made in adopting animal welfare and protection measures.

Administrative barriers to trade

- Further upgrading of the transparency and public availability of customs regulations and procedural requirements.
- Accession to the convention on Common Transit Procedures.
- Further streamline customs operations, reducing time and cost of procedures by: implementing a new customs declaration system for processing the customs declarations, implementing the Integrated Tariff System (TARIC), implementing the Excise Movement Control System, further developing a fully computerised single window system for export/import/transit licences on goods and quotas.

Proactive export promotion

- Strengthen the export promotion agency to improve the effectiveness of promotion activities. This would involve an increase in the budget allocations for the agency, but also consistent adoption of recognized best practices.
- A comprehensive export promotion strategy should be developed, along with an annual programme for implementation.

Chapter 3.

LABOUR MARKET

Employment conditions and labour market in Republic of Macedonia

M.Sc. Eftimov Ljupcho

According to many characteristics the labor market of the Republic of Macedonia is a unique phenomenon, not only in the close neighborhood, but also in the wider region. Extremely high and long-term unemployment rate (highest in Europe, with the exception of Kosovo), weak and anemic labor demand, inflexible, immobile and improperly structured labor offer, inadequate engagement of young people, lack of inclusion of vulnerable groups are only part of the Macedonian labor market's thorny problems. Almost every government has tried to change this invidious situation by bringing various laws, policies, strategies and operational plans in order to create more competitive conditions for employment of Macedonian population.

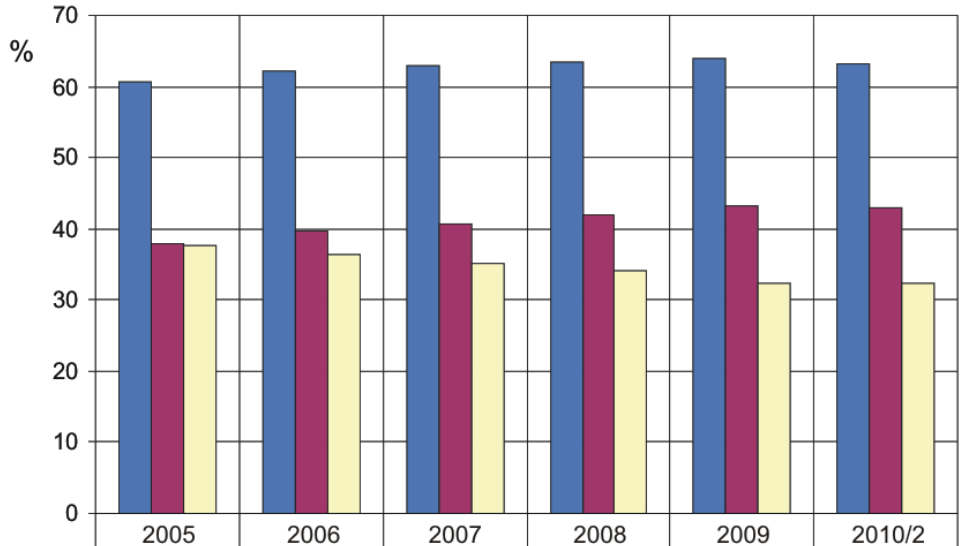
The aim of this study is to provide a comprehensive analysis of the current labor market condition in the Republic of Macedonia and to evaluate the success and effectiveness of existing policies, strategies and employment plans. At the same time, by detecting and isolating the main problems and needs, we will try to present possible solutions for current and future labor market policy makers. We believe that the recommendations from this study will be welcomed and considered with due seriousness, especially in this sensitive moment in which new National Strategy for Employment - 2014 needs to be created as a key document and foundation for many forthcoming programs, activities and operational plans for employment.

Finally, the main goal of this study is by utilizing scientific interpretation of the available statistical data provided by Macedonian state institutions, and by consulting the experience of developed European countries, to contribute in achieving higher levels of employment and in providing decent and dignified working conditions of the active population.

The current state of the labor market in the Republic of Macedonia

Definitely one of the thorny issues that has been burdening Macedonian people for many years is the unemployment. In Macedonia, the labor market is composed of 916.422 active persons, of which 620.474 persons are employed, and the remaining 295.948 are unemployed.[43] Expressed in percents, unemployment rate is not only slightly higher than the average unemployment rate in European countries, but it is extremely high and currently amounts 32.3 %. Accordingly, the employment rate is well below the European average and is barely 42.9 percent. The activity rate is 63.3 percent (see Fugure1). Because of these alarming data Eurostat Agency listed Macedonia in a special unemployment category.

Figure 1: Activity rate, employment rate and unemployment rate in Republic of Macedonia for the period 2005-2010, population from 15 to 64 years, in %



	2005	2006	2007	2008	2009	2010/2
Activity Rate	60,7	62,2	62,8	63,5	64,0	63,3
Employment Rate	37,9	39,6	40,7	41,9	43,3	42,9
Unemployment Rate	37,6	36,3	35,2	34,0	32,3	32,3

Despite of the tenuous condition of the national labor market, it should be stated that employment rate is improving during the last years. Thus, we have witnessed a constant decline in the unemployment rate from 37.6% in 2005 to 32.3% in 2009 and constant enhancement in the employment rate from 37.9% in 2005 to 43.3% in 2009. The activity rate of the population in the last 5 years has surged and is currently 64.0%.

However, despite of positive developments in this field in recent years, comparative analysis of data for both Macedonia and the EU countries show large and significant discrepancies. This impose a need for strong and rapid reform activities in almost all social domains (See Table 1).

[43] Source: Data are obtained from State Statistical Office of RM report for II. quarter of 2010

Table 1. Employment rate in Macedonia and EU 25

	Macedonia 2005	Macedonia 2009	Macedonian goals 2010	EU25 2005	EU25 2009	EU goals 2010
Overall employment rate	37.9 %	32.3 %	48 %	63.8%	65 %	70 %
Employment rate for women	30.1 %	33.5 %	38 %	56.35%	58.9%	60 %

Source: State Statistical Office of the Republic of Macedonia and Eurostat

Perhaps more important than confirming the major differences between the average employment rates of labor markets in Macedonia and the EU, is making a more thorough analysis of conditions and tendencies of the national labor market. This is crucial for the successful creation of strategies and active policies which should help in overcoming the problems in the near future. Based on our analysis conducted on data available from the State Statistical Office of the Republic of Macedonia and other state institutions, despite the high general rate of unemployment, following can be concluded:

- **Men dominate in the total number of employees.** Men have a steadily increasing share in the total number of registered employees of 45.4% in 2005 to 52.8% of in 2009. In contrary, the share of women in the total number of registered employees is quite low and grows with far lower rate of 30.1% in 2005 to 33.5% in 2009. However, gender differences in unemployment rates are marginal in all age groups compared with the large gaps in employment rates;

- **Unemployment rate of young people from 15-24 years is worrying.** Although in recent years has tended to decline from 62.6% in 2005, to 55.1% in 2009, is still almost twice as higher than the rate of unemployment for middle-aged or older people in the workforce. This is a global problem and according to the International Labor Organization this year, the current unemployment among young people in the world is at its highest level ever. Spain is considered to be hardest hit country, where almost 40% of young people are unemployed and a lot are already giving up on looking for work. Just for comparison, in the 1st quarter of 2010 unemployment of young Macedonian people had slightly increased to 57.1%, which is rather worrying rate. One of the reasons for such straitened condition, despite the overall high rate of unemployment, is considered to be reluctance of employers to hire inexperienced young people because of the high investments required for their training, low productivity, as well as the high fluctuation of the young individuals in the first phase of their career-the phase when entering the working place[44].

- Predictably, in most countries there is a **significant difference in unemployment according to the level of education**. While approximately 30.000 people with a university degree are unemployed, the number of unemployed persons with secondary education is 118.000, and those with primary or lower education is approximately

[44] Bojadzioski Dimitar, Eftimov Ljupcho (2009): Human Resources Management, Faculty of Economics-Skopje, pp. 267

115.000. It definitely confirms the thesis that people with low education levels are more affected by unemployment than those with higher qualifications. Perhaps this is one of the main reasons (despite the efforts of the Government of RM for providing greater access to education for young people) why young people in recent times are increasingly returning into education institutions. This is confirmed by statistics from the previous 5 year period. While analyzing the recent state of working force's educational level - a downward trend has been noticed in the share of persons with no education (2.626 persons) and persons with incomplete primary education (9.055 persons). The highest increase in the active population is observed in share of persons with higher education (about 35.925 persons). This situation contributes to increasing the number of employees with higher education (26.441 persons), but also increasing the number of unemployed persons with higher education (9.484 persons). Changes in educational structure of the labor market are expected in the near future. The Government reforms, which made secondary education compulsory and enabled opening of a large number of private and state universities and their dispersed classes, will definitely contribute to increasing the number of workers with secondary and faculty degree;

- An alarming fact, which must not be disregarded, is that **approximately 82% of the registered unemployed are long term unemployed** or unemployed for more than 12 months. As much as 63.8% of these, or about 191.000 people are looking for job for longer than 4 years. Most have lost every contact with the labor market, which makes tham even more unadequate for employers who are willing to give priority to candidates with recent experience and with enough work experience. Individuals which were unemployed for longer period of time and are without additional training, retraining or enhancement of the acquired knowledge in the meantime, almost have no chance in the labor market. The high rate of long-term unemployment is particularly worrisome from a social aspect as well, because these persons and their families struggle with poverty on daily basis and easely are becoming socially isolated.

According to all previous statements we can conclude that the favorable trends in the labor market occurring in the last few years are not result of increased economic dynamism but rather the increase in public spending and administrative effects of stricter business rules. All this indicates that there are numerous challenges that Macedonian politicians should face in the next few years in order to reform the labor market according to model of the EU countries. **The most important challenges are:**

- Slow economic growth;

- The lack of domestic and foreign direct investment;

- Large scale of informal or "gray" economy;

- Uneven regional development;

- Social issues;

- Small number of newly opened jobs;

- High unemployment rate among young people;

- Extremely high rate of long-term unemployed;

- Gender inequality;

- Mismatch between the educational system and the needs of the labor market.

As a particularly important issue that burdens the Macedonian economy is the proportion of the informal or "gray" economy in the overall business operations. Many of the unemployed in this country are part of the gray economy. A significant portion of incomes are not reported and not recorded by the institutions, and are created through illegal activities or activities that are not regulated by law. Even the developed countries are not immune to gray economy, but yet, in transition countries such as Macedonia, it has a much higher share. Just for comparison, while in 2007 it was approximately 19.4% of world GDP (the average is calculated on data from 162 countries), its participation was lowest in the OECD countries, amounting 14.6%, in developing countries was 28.3%, while the largest share of 41.1% of GDP was in transition countries. [45]

The average share of grey economy in the overall Macedonian economy in the period 1999-2007 is 36.2%, which must be recognized as relatively high. Situation is similar in neighboring countries like in Albania, Bosnia and Herzegovina, Croatia, Romania and Bulgaria (from 32-37%).

The most significant reasons for the high share of gray economy in the country are: inappropriate model of privatization followed by massive layoffs, fragile economy, social problems, weak capacity of state institutions, significant burden of taxation (corporate and personal) and inefficient law system.

Although, a series of steps have been taken in direction of reducing or discouraging the informal economy such as the reduction of social contributions[46], introducing a flat tax rate, adopting stricter regulations governing this matter, yet a lot of measures have to be applied in order to reduce it within normal limits.

Despite severe penalties for the offenders, every government without any exception has tolerated the gray economy. In fact, it is assumed that the gray economy is what maintains social peace in the country. But in the same time it destroys the legal business, creates unfair competition, slows the economic growth and violates all economic indicators of the state. Therefore, of crucial importance is to reduce it and put it within normal limits. But, experts on this matter, recommend that we should be very careful in the fight for its reduction in order not to punish individuals who are working informally, but to create conditions for their inclusion in legal economic flows.

Much more foreign investments, sustainable development and economic growth rates above 5 percent over next years are necessary for its reduction to some normal limits.

[45] Friedrich Schneider, Andreas Buehn, Claudio E. Montenegro, (2010), New Estimates for the Shadow Economies all over the World, pp.20

[46] With the last correction done in 2010 social contributions have become one of the lowest in the region.

Current employment policies in the Republic of Macedonia

National Employment Strategy (NES) is a key document, which serves as a foundation and a guideline for every other national policy, program and other operational plans that govern employment and the labor market. It also includes the medium-term strategies to stimulate employment that refer to the period from 2006 to 2010. It successfully detects most important challenges of the Macedonian labor market (many of them previously mentioned) in terms of macroeconomic and microeconomic policies, policies for promoting regional development, policies for combating the gray economy, employment policies and the policy of labor market, then policies of social security and social protection, and ultimately policies on education and training.

The strategy takes into consideration all relevant researches and analysis on the labor market made by several domestic and foreign experts, as well as experts engaged by the CARDS Project Employment Policy II. At the same time all stakeholders in the field of employment, i.e. various ministries (Ministry of Labor and Social Policy, Ministry of Finance, Ministry of Economy and Ministry of Education and Science), social partners (Unions and Organization of employers of Macedonia) and the local authorities were involved in the development of NES. It is specially important to mention that NES also incorporates employment policies of the revised Lisbon Strategy and the EU Integrated Guidelines.

For the preparation of NES two working groups were formed which were organized and coordinated by the Ministry of Labor and Social Policy MLSP and CARDS Project Employment Policy II.

Except for the creation, working groups are in charged to follow the course and pace of NES implementation, and to propose necessary changes to achieve set goals.

The working groups for implementation of NES are also involved in preparation of all other national policies and employment plans. Most important documents are the National Employment Action Plan (NEAP) for 2006-2008 and 2009-2010. These plans are based on the Guidelines for Employment no. 17-24 Guidelines for Entrepreneurship and no. 14 and 15 of the Integrated Guidelines for growth and employment places. The document does not cover all macroeconomic and microeconomic EU guidelines. This plan contains financial resources and budgetary implications as well as timeframe and deadlines for implementation of projects and measures.

In the future, as a replacement for NAPE, full National Reform Agenda will be made, which will cover macroeconomic, microeconomic areas as well as the area of employment, according to twenty-four EU strands.

Besides the above, other program documents related to employment are the National Strategy for Development of Education 2005-2015, National Strategy for Roma and the Decade of Roma Inclusion 2005-2015, Naconal action plans for Roma 2006-2008 (education, employment, health, housing), the National Action Plan for Gender Equality, the National Strategy for Development of SMEs, the Action Plan for combating the grey economy, the Governments Operation Program for the period 2006-2010, the Government Strategic Plan for 2009 and Strategic Plan of the MLSP 2008-2010, Multi-Operational Programme: Development of Human resources 2007-2013 and others.

Important fact is that the main coordinator for implementation of most of the employment policies (which are arising from all previously mentioned documents) is

the Ministry of Labour and Social Policy (MLSP). Their realization is mainly accomplished by the Employment Agency of the Republic of Macedonia (ESA) which counts thirty employment centers across the country. Their core activities besides the implementation of active and passive employment policies are: registration of the unemployed, administration of health insurance coupons and unemployed benefits, employment contract registration and termination of existing ones, counseling for those seeking work and so on.

Republic of Macedonia applies mainly two (common and well known in developed countries and countries in transition) employment programs: (1) passive program for benefits of unemployed, which enables unemployed to get temporary financial support (PPT), and (2) employment services and other active programs in the labor market (ALMP). ALMP are being submitted in order to enhance labor supply (for example: training, retraining, additional training) to increase the labor demand (e.g. salary subsidies / employment and public works), and to improve functioning of labor market (e.g. employment services).

As commonly applied ALMP in R. Macedonia are: self-employment program, a program of formalizing existing businesses of unemployed, employment preparation program (training in computers, foreign languages, for certain professions and skills scarce in the labor market, education for starting a business, internships) , a program for subsidizing the employment of unemployed orphans, disabled persons, single parents and older persons (55 to 64 years), professional orientation, job clubs, and other projects financed by domestic and foreign institutions.

Active employment programs definitely have a positive impact on the desired movements of the labor market. For their implementation funds are being allocated from the State Budget, Budget of the Employment Agency and from other sources. The amount of funds allocated on ALMP in relation to gross domestic product shows a positive tendency. In 2007 they represented 0.07 percent of GDP in 2008 to 0.17 percent and 0.25 percent in 2009. But unfortunately, as a result of the global financial crisis and restrictive budget policy this trend has been interrupted. If 2010 is compared with 2009, planned funds for Active programs and measures are reduced from 800 million to 600 million denars. Because of that, this year's operational plan does not include program for public works. Despite the undoubtedly positive impact of Active employment measures on employment, we must note that their capacity for serious corrections of the negative conditions in the labor market is limited. Primarily because the scope of unemployed persons with these programs is relatively small, for example in 2009 it covered only 3.7% of the unemployed (11.419 people), and in 2010 it is planned to include 2.6% or the same as in 2008 (approximately 7.000 people).

Some significant improvements in employment policies in comparison to incensement of the range of people and financial assets are expected to be achieved with implementation of activities of Multi-Operational Programme: Development of Human resources 2007-2013 (IPA - Component 4). This program already approved first direct grant for 2010 of 1.3 million euros to support the programs for training and internships.

Also very promising project is the project for self-employment through financing. This project provides loans amounting from 3.000 to 15.000 Euros under very favorable terms (interest rate of 1% per year) for unemployed persons to start small family businesses. In 2009, 1.315 persons were included and that cost were about 231 million denars. Public notice for this project has been announced as well for year 2010. This project’s results have been assessed as very successful. According to the analysis conducted in 2007, when this program started, it is determined that of

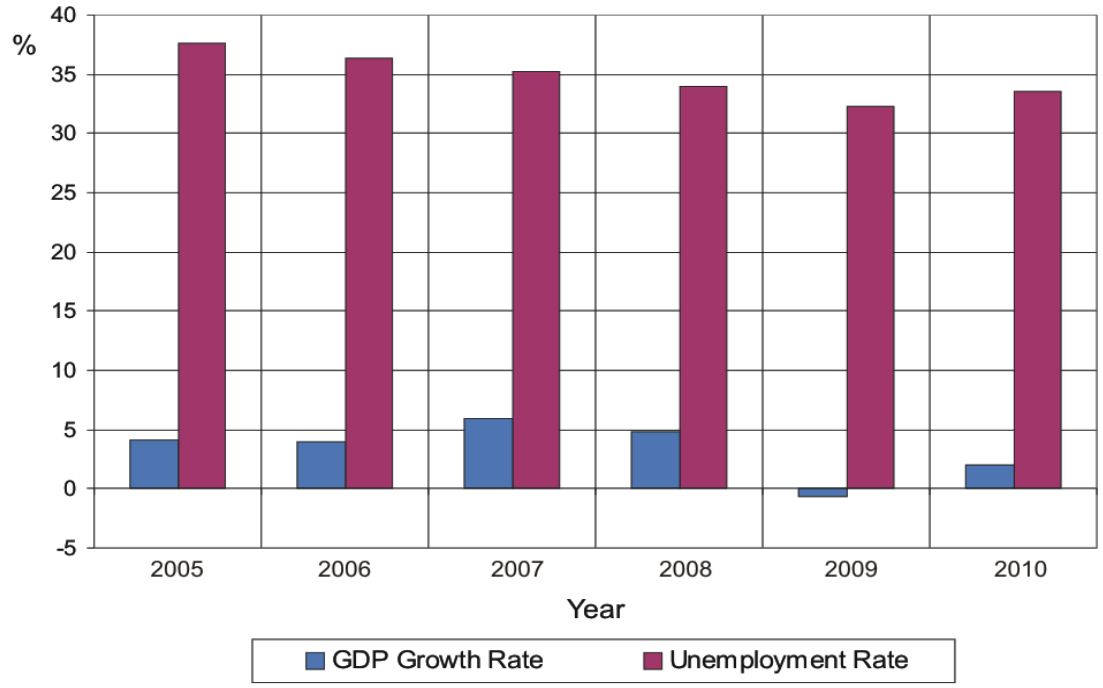
560 people employed in total, about 455 people keep their jobs, which is approximately 80% of financially supported persons. It is assumed that their family businesses provide working places for more persons, which only confirms the thesis that this a successful program that does not burden the budget financially, but after a certain period has positive impact on it. Besides this, many other projects conducted last few years, were mainly supported and funded by foreign institutions -already proven friends of Republic of Macedonia. Here we will mention only some of them: The Business environment project (in cooperation with USAID), the CARDS project "Technical assistance to support employment policy - Phase 3", Multi-Operational Programme: Development of Human resources 2007-2013 - IPA, the International Project: "Decade of Roma Inclusion 2005-2015 "and others.

Needs and recommendations for reforming the Macedonian labor market

Before we get into some more detailed analysis, we feel obliged to present several general conclusions concerning the existing employment policies and official documents that regulate the national labor market. Almost all the important documents such as the National Strategy for Employment 2010 (NES); National Action Plans for Employment 2006-2008 and 2009-2010 (NEAP) are professionally developed and founded on all relevant research and analysis on the labor market. Same, include most suggestions and proposals for improving the current situation given by numerous domestic and foreign experts. These documents do reflect real and major problems of the Macedonian economy and detect the greatest challenges of the Macedonian labor market. The reforms implemented in the last period, are one more indicator of commitment of persons responsible for creating better and more dignifying working conditions in the state. Still, a lot have to be done to reach the competitive conditions of labor markets in developed countries. **More structural reforms, resources and unpopular measures are needed for Macedonia to lose the throne of European unemployment recorder.** We would like to point out that urgency of taking all additional activities and reforms should not be neglected in order to change this unfavorable image in minimum time.

In addition, we will point out some of the needs for improvements, changes and reforms (institutional, legal and practical) that could help in efforts to enhance the competitiveness of the Macedonian labor market. According to the international experiences it can be concluded that the most important and largest creator of new jobs in each country is its rapid and continuous economic growth. **Steady GDP growth, foreign and domestic direct investments and more favorable business environment are considered as most important prerequisites for the creation of new jobs.** Unfortunately, for many years, after its independence, Macedonia was going through transition, followed by painful reforms, slow restructuring of the economy, suspicious privatizations of social capital and mass layoffs. Besides internal problems, the country was faced with various risks and problems due to different issues and military conflicts in neighboring countries. All this contributed to the slow GDP growth and low level of foreign investments, which definitely prevented significant increase of employment rate. Solely in the last 5 years some modest positive developments in the economy have been recorded and measured by GDP growth which led to some reduction in unemployment in the country (see Figure 2).

Figure 2. The tendency of the unemployment rate and real GDP growth (in%)



Unfortunately, such slightly positive trend in 2009 was stopped due to global financial and economic crisis. Because of this fact, **reforms in several areas, including macro policy, investment and business climate will be crucial for establishing more favorable conditions in the labor market. Without significant foreign and domestic (greenfield) investment, without improving the business climate, without securing cheap credit lines for small and medium-sized businesses and without reforms of the judicial system, more dynamic economic development of the country and significant reducing of the unemployment rate can not be expected.**

The experiences of EU countries suggest that active and passive employment policies have a very significant role in providing better opportunities for employment of unemployed and other vulnerable categories of citizens, yet can not be expected those to have significant impact on overall unemployment rate. **Impact of active programs and employment measures on the level of employment is positive, but their capacity for serious corrections of the negative labor market conditions is limited.** Definitely just sustained combinations of macroeconomic and microeconomic policies, labor market policies and active employment policies can make a serious synergetic effects in the process of creating new jobs and better working places.

-Increasing the capacity of the Employment Agency of the Republic of Macedonia. According to the ESA in 31.12.2008, the agency had 525 employees of which 276 work on active policies for labor market (52.6 percent), 169 are engaged in implementation of passive policies (32.2 percent) and 40 employees are employed for support (7.6 percent). 48 of total ESA employees work in the central agency, and nearly a quarter of the remaining employees (98) is working in the Employment Center in Skopje. ESA employees are well educated - 274 of them have completed high education (52 percent), 74 persons (14 percent) have higher education, while 177 persons or 37 percent of employees have completed secondary education or lower. Ac-

cording to gender structure, 216 are men and 309 are women, so the ratio between the two sexes in percentage is 41 percent (men) and 59 percent (women).

Statistically, each employee in the ESA serves an average of 654 unemployed people in comparation with their EU colleagues who work in average with 110 to 150 unemployed persons. But even these figures do not show the real picture. If we consider the fact that only 52.6 percent of employees in the ESA are actively involved in providing direct services and advices to the unemployed, the reality is that each of them works with approximately 1.300 unemployed persons. This is ten times higher workload than in the developed countries. But despite the implementation of active and passive policies, employees form the ESA are engaged in some nonessential activities like registration of the unemployed, administration fees and medical coupons for the unemployed, and administering newly made and terminated job contracts which complicates their work even more.

Certainly such undesirable conditions in the ESA should be changed as soon as possible. With this work load quality of their services and general motivation to work is questionable.

Maybe transferring of some administrative affairs of the ESA to another state institution should be considered, to unburden ESA employees and engage them in ALMP activities.

Besides increasing the number of employees in terms of implementing ALMP important reform area is the improvement of their skills, competencies and specialization in the implementation of specific policies.

-Increasing the amount of funds allocated to support employment policies (as a percentage of GDP). The amount of state funds allocated for financing ALMP calculated in percentage of GDP is low and does not correspond with the state of the Macedonian labor market. While the EU27 with an unemployment rate of less than 10 percent, allocates about 0.525 percent of GDP, Macedonia with an unemployment rate of 32.1 percent barely 0.17 percent of GDP in 2008[47].

For comparison even some neighboring countries do allocate more, for example Bulgaria allocated 0,307 percent, and Montenegro 0.368 percent of GDP in 2008. Even though in 2009 Macedonian Government increased the percentage of funds allocated to 0.25 per cent of GDP, already in 2010, because of the impact of the global financial crisis these funds were reduced from 800 to 600 million denars. For a countries with higher unemployment such as Macedonia, strong financial support from central budget for the employment programs is crucial. Also special attention should be paid that larger part of the funds will be allocated to ALMP i.e. programs that can create real jobs.

- Broadening the portfolio of active policies that the Republic of Macedonia applies for stimulating of new employments. More space should be provided for those programs which, by the national and international experience, are assessed as most cost-effective and which, according to the characteristics of the national labor market, are best suitable for the country (according to the unemployment rate). As example, because of the different national characteristics, Estonia assigned 71 percent of ALMP funds for training. Croatia has assigned 75 percent of subsidies for employment. Bulgaria allocates 71 percent for programs for creating of new jobs. The majority of the

[47] Data obtained from Eurostat and ESA in 2008.

funds in Czech Republic and Poland intended for employment programs are for vulnerable and disadvantaged categories of people.

The active labor market policies have a long tradition and were initially started in periods of economic recessions and depressions and times of high unemployment. These policies have two main goals: economic objective, increasing the chances for unemployed to find jobs, increasing productivity and wages, and social objective, improvement of social inclusion and participation of the unemployed in the labor market[48].

The active labor market policies available in Republic of Macedonia are:

- **Job search assistance** is the basic role that counselors perform in employment centers. It is a pretty cheap way of providing assistance to unemployed through: 1) **counseling** which skills or qualifications should be gained to increase their chances on the labor market, 2) **providing information for the labor market** or the current state of employment, most frequently available working places and the skills required for their obtaining 3) **practical assistance in seeking work** through providing tips for available working places, preparation for application on specific place, improving self promotion skills for interview and so on.

- **Career management services and professional orientation** is one of the most cost-effective and simplest programs for assisting the unemployed persons. Specifically designed to help young people (high school and colleague students) to be well informed when making decisions in any part of their further career. These programs presume guidance for opportunities in the labor market, available working places as well as skills and knowledge required. In European countries professional orientation services and advice for career management students receive during the study. In Macedonia, currently only few universities and schools have career centers integrated. Providing relevant information to young people about the possibilities for their further education or employment in the labor market is critical for their adequate professional orientation.

- **Job clubs** are also relatively effective way to provide active assistance for long-term and other categories of unemployed persons. In job clubs' open offices interactive meetings are being organized for unemployed persons which sometimes include employed people and employers. Through workshops, lectures, interviews and trainings it is intended to enable club members to get informed about their rights and responsibilities, opportunities for self-employment, psychological help is being offered, support and practical advice in the process for applying for work and trained for successful self-promotion on the labor market.

- **Job Fairs** or more known as **Career Days** is an event which is organized once or several times a year in order to connect the companies that have available working places with job seekers, whose qualifications or skills are appropriate for those specific jobs. These events are actually connecting the supply and demand in the labor market, where companies are not only trying to find suitable candidates for available job places, but at the same time promoting their products or services and building a positive image. Unemployed persons on the other hand are trying to find out more information on employment opportunities, abilities and skills demanded in the labor mar-

[48] Kuddo, A. 2009. "Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries." Washington DC: World Bank.

ket, as well as to present themselves in the best light. These fairs are suitable for employment of young persons. Azerbaijan is a country that uses these events very successfully. In the period from 1997 to 2007 by this events were employed exactly 56.564 people or about 20 percent of the total number of visitors. A similar event is *Carrier days* which for 14 years in a row is organized by AIESEC Macedonia situated at the Faculty of Economics - Skopje. It has grown into traditional event where successful Macedonian companies meet prospective young people in order to initiate cooperation between the two sides in building a career, practical training, to obtain a diploma research, staff recruitment etc..

- **Regular contacts with employers** is a modern and very important service for employment agencies. By maintaining frequent communication with employers (through direct visits, telephone conversations, emails etc..) they are trying to identify required knowledge, skills and abilities for available working places in order to recruit most suitable candidates for them. With their proactive role in meeting the needs and demands of employers mutual trust is being established as the most important prerequisite for their long-term continuous cooperation.

- **Trainings** are very important programs for improving skills and abilities of the unemployed and other vulnerable categories of persons, while meeting the needs of the labor market. Some programs are designed to acquire basic job skills, others for additional training or retraining for the unemployed, and the third programs are intended to expand or upgrade the knowledge and skills of existing staff and are conducted on working place. Training can be conducted by employment centers, by other state institutions, private agencies, human resources, or companies themselves. They are being funded by state employment agencies, municipalities or by companies. According to certain experience of developed countries trainings have best effect on young people and women with lower education levels. Also considered as the most efficient are combined trainings which are partially being done in the classroom (theory) and the partially on the working place or in a particular company.

- **Virtual companies** (firms for practice or computer simulation of a business) is a very economical way for interactive learning, gaining and improvement of business skills as preparation for work in a real company. The virtual company is a successful software designed for simulation of a real company which includes managing the accounting, financial management, marketing, sales and purchasing, human resources management, payment of taxes and so on. It is a successful method for education and business training for students and job seekers. This program provides a realistic picture of everyday business life and internal business processes, insights into foreign business relations as well as all other business processes. This project includes 42 countries around the world which use it as a way of compulsory or additional education for business students, but lately also as a way to train unemployed people from the younger population.

- **Public works** is program for rapid creation of new jobs, applicable for countries in economic recession and facing high unemployment. It is one of more expensive active programs that have short-term effect. Particularly positive program for short-term employment of people from vulnerable categories of citizens, as well as long-term unemployed persons seeking work for more than 3-4 years. By engaging in public work unemployed gain financial assistance and certain work experience. If well designed and properly directed the program may have a positive impact in reducing poverty. This program is oftenly used in Russia, Bulgaria, Belarus and Ukraine.

- **Wage subsidies or taxes** is program usually applied for motivating employers to hire new workers or retain existing ones in periods of massive layoffs. Some countries use these programs to motivate employers to report informally employed workers. Subsidies are often given for wages or social benefits. Rarely can apply for reduction or exemption of part of the taxes. If well designed it has positive effects (usually oblige employers to retain workers after the termination subsidies or tax exemptions) and is focused on young people, long-term unemployed or in regions with extremely high rates of unemployment.

- **Stimulating the entrepreneurship or self-employment** is quite an interesting program designed to help people with entrepreneurial skills and ideas to start their own business and avoid long-term unemployment. Development of small and medium businesses and support of entrepreneurship is widely considered as an excellent bumper in times of high unemployment. That particular sector is critical for creation of new jobs, as opposed to big companies that are near or have reached their optimum size and have no significant opportunity for employment.

This is highly effective program that has excellent results as is the case is in Macedonia (since 2007) and Montenegro (from 1999). As a program it is commonly used by young people up to 30, who have secondary or higher education. Assistance offered to these people is often financial (loans with very favorable conditions), technical (training, counseling, assistance in creating and implementing a business plan) or a combination of both. Perhaps the greatest step forward in implementing this program was in neighboring Bulgaria, where a network of 42 business centers is created, 10 business incubators and 17 open offices known as JOBS. They provide various types of services and assistance for micro and small enterprises - offices, financial, information, marketing services, assistance in planning, training and other. These also enable close cooperation between government, municipalities, NGOs, business and civil sector. The results of the network operations are impressive: 120.000 performed business services, 13,000 people passed through their various trainings, 120 newly opened businesses, 7,000 created or saved jobs.[49]

-Employment programs for vulnerable categories of persons (orphans, disabled persons, single parents with 2 or 3 children, young single parents, parents of persons and persons with disabilities, victims of domestic violence, people dependent of social assistance, national minorities and other). It is a combination of one or more different programs which objective is employment stimulation of these persons in order to facilitate and speed up their integration into the social mainstream.

Taking into consideration the characteristics, features and particularities of the Macedonian labor market, as most suitable and effective programs to stimulate the employment would be the following:

-Programs that deal with the general unemployment. According to the other countries' experience proved as successful and fairly cheap are: job search assistance (through counseling, information and practical assistance in preparing applications for jobs), job clubs, job fairs or career days, virtual companies and regular contact with employers.

These are effective programs that ensure positive results not only in developed but also in countries with similar problems and economic development. Serbia, for

[49] Kuddo, A. 2009. "Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries." Washington DC: World Bank, p.60

example, where unemployment rate was above 20 percent, in 2005 were observed following rates the result of most cost-efficient recruitment ALMP: virtual enterprises: 28 percent, job clubs: 25 percent, job search training 15-20 percent, jobs fairs - 10 percent (CEOP 2006).[50]

-Programs for reducing the unemployment among young people from 15-24 showed good results in many countries. These programs are primarily for professional orientation and counseling for career management. It is advisable to establish career centers for career management in educational institutions, so young people can get this type of advice during the educational process. Highly successful programs are Job Fairs and programs for stimulation the entrepreneurship. The biggest problem among young people is lack of practical experience which is much valuated as well as required among employers. The best programs for gaining practical experience during education are virtual enterprises and practice, as well as internship after completing the formal education. That is why obligatory practice has been introduced for students during the educational process in Republic of Macedonia. Some countries, in order to reduce unemployment among young people apply some more expensive programs such as subsidies for employment (wage subsidies or contributions), subsidizing or organizing trainings needed for their adaptation to the demands of the workplace.

- Programs for reducing the long-term unemployment which are relatively cheap are assistance in job search (through counseling, informing and practical assistance in preparing job applications) and job clubs. These programs show limited results in transition countries due to high unemployment rates. That is why more suitable for dealing with long-term unemployment in these countries are relatively more expensive programs which give quick results. Such programs are public works, subsidized employment and training on the working place. First are being applied for short-term employment of small targeted groups such as social cases. In order to successfully deal with long-term unemployment combination of all the previously mentioned active programs is required.

- Activation programs for inactive persons (currently in Macedonia there are 531.133 such persons) or encouragement for unemployed people to intensify their job search or formalize their existing but undeclared employment. These are policies that offer certain benefits and rights while searching for job (they people are being registered in records for unemployed and get benefits arising from that, also certain training, retraining, etc.), and sanctions if they reject proposed job position (deletion from the records for unemployed). However, special attention should be paid when determining the sanctions in order not to harm any rights of the unemployed as: (1) "suitable work" (2) occupational protection (i.e. enabling unemployed people to refuse work which demands change of occupation), (3) requirements for independent job search, (4) frequency of contacts with ESA (5) compulsory participation in programs after a certain period of unemployment.[51]

Only professionally designed and well targeted programs can have a positive impact on unemployment in the country, but improperly designed and targeted programs may even have the opposite effect (effect of "crowding out" or "replacement" of the previous workers with those which employments are subsidized). Therefore, particular caution for their design and implementation is required. In this

[50] CEOP (2006). Technical Assistance for Evaluation and Monitoring of Employment Promotion Project, Belgrade, cited from the World Bank report. (2008a). Active Labor Market Programs in FYR Macedonia (in Macedonian). Washington DC, p.29

[51] World Bank. (2008a). Active Labor Market Programs in FYR Macedonia (in Macedonian). Washington DC, p.21

direction international experience has shown that **cooperation with local municipalities, educational institutions**, **representatives of local employers**, **chambers of commerce and NGOs can be very useful**. Such cooperation enables designing of more creative, cost-effective and target oriented programs.

Lately more efforts are being devoted to **stimulate cooperation with the private sector** in designing programs for solving labor market problems.[52] A typical example of successful private sector involvement in resolving or overcoming some problems in the labor market in the Republic of Macedonia is the Law on Temporary Worker's agencies employment in 2006. This way registration of more than 30 private agencies have been enabled. These agencies are now successfully governing temporary employment, facilitate bureaucracy that companies face for their employment and legalize the previous illegal or informal employments. Today these agencies are organized in National Federation on temporary worker's agencies employment.

Perhaps it is time to think about private sector involvement as an executor or supplier of some services required in the labor market. As example for this is great number of countries (Serbia, Slovenia, Bulgaria and Poland). These countries supplied a variety of programs needed in the labor market (training, employment mediation, counseling on career management, virtual enterprises, etc..) through a public tender. This way not only wider range and better services are being provided, but often entire recruitment process is being accelerated.

Possible Practical Solutions for Improvement of the Macedonian Labor Market

In addition to the previously stated needs and recommendations for reform of the Macedonian labor market, below we will suggest some practical suggestions and possible solutions for improving the employment conditions.

- Establishment of a national network of large business incubators and business centers with solid business infrastructure. Those should have capacity sufficient to support 500 to 1.000 small businesses and entrepreneurial ideas, providing significant subsidy to their costs in the first three years.[53] Such business incubators and centers are necessary in each city that has more than 20.000 inhabitants. Business incubators and centers would provide support for the businesses establishments, but also various types of services during their work - offices, financial, information, marketing services, assistance in planning, training and others. Also, those would stimulate close collaboration between government, municipalities, NGOs, business sector and civil society in order to accelerate the local economic development. Each business incubator would have a solid annual budget of several million euros, which would be used partially for covering its operational costs, but mainly for micro-financing of businesses. Loans with particularly favorable conditions would be provided for: 1. companies operations (for working capital) and 2. financial leasing for purchasing of technology, production or agricultural machines and equipment.

Only ambitious projects such as this can bring significant changes in economic development of the country, and also help in reducing overall unemployment. This measure normally arises greatest interest and encourages employments of young people as one of the vulnerable groups in the national labor market.

[52] Confirmation for this is the ILO Private employment agencies convention, 1997.
[53] The first three years of establishment are considered as crucial for the survival of small businesses.

-Establishing the **national (on-line) web register** which will become mandatory (proscribed by Law) and free for advertising of all available working places in the state. Same would not have eliminatory character (so each employer will be able to announce available working place also in any other printed or electronic media), but it will certainly have mandatory character (each must initially be published on this web page). Advertising by employers will be done in a simple way, electronically or via free number, so electrical message or a written document is submitted to the web administrators. Most appropriate entity for conducting this project is ESA alone or in partnership with other public or private institutions. This way largest and most comprehensive database of available working places in the state would be created. This measure will facilitate access to updated information to all unemployed persons in the labor market, but also to all entities that have some active role in it.

-Legal-regulating, promoting and encouraging the use of **flexible working time.** It is a working concept in which 50% of working time or less has to be spent in the workplace (e.g. 10-14 hours), and the rest during the day (or week) that suits you, of course in agreement and with knowledge of the employer. With the development of information and communication technology, this concept can easily be upgraded or combined with the similar concepts such as **part-time job** or **working from home**. Some western companies apply this concept of working time as a way of reducing the operation costs. This measure is of particular importance and help for increasing the employability and facilitating of working life for women as a vulnerable group, and also increasing the flexibility of our labor market.

-**Introducing a voucher system for employment of graduates not older than 27 years** who had gain certain average (GPA) during the study or have completed faculty during regular period of time. It is an employment program for young people who have just graduated and for which the state is subsiding all salary contributions that the employer should normally pay during one or two years. This measure is of special importance for the involvement of young people without working experience in the labor market and preventing them to pass into the group of long-term unemployed.

-Similar to the previous is **voucher system** with a fixed value that could be applied to **long-term unemployed persons (for over 4 years or more)** for their education, training, retraining or similar programs. These trainings would be conducted by 4-5 certified and professional agencies for training or educational institutions in strictly controlled conditions and with predetermined rules and standards. This measure is applicable for long-term unemployed, that are out of work for 4 years or more as a particularly vulnerable category on the labor market. Such programs will not only enable improvement of their skills and qualifications, but contribute to enhancement of their confidence and prevent social exclusion.

-**Establishing of virtual enterprises** (firms for practice or fictional companies for simulation of real business). Virtual enterprises are most suitable tool for students or unemployed persons to gain or improve their business skills in interactive manner as a way to prepare themselves for work in real companies. This program provides an insight to everyday business processes such as accounting, financial management, marketing, sales and purchasing, human resources management, payment of taxes and so on. Virtual companies are very successful method for business training. At very beginning this project European-PEN was introduced as European project. But during some period of time it became international and today this project includes 5.500 virtual enterprises from 42 countries around the world.

Countries-leaders in the number of registered virtual enterprises in Europe are Austria - 1094, Slovakia - 674, the Czech Republic - 594 and Germany - 574 compa-

nies. In the neighborhood Slovenia has 246, Croatia - 73, Serbia - 94 companies (until October 2010). We believe that virtual enterprises can be successfully used in Macedonia as a way of compulsory or additional education for business students, but also as a way to train unemployed people especially younger population. This is a helpful way in acquiring specific practical experiences needed for employment, but also an efficient way for dealing the fear of failure while managing their own businesses.

-Creation of specific employment programs for all other categories of vulnerable citizens: children without parents, disabled persons, single parents with 2 or 3 children, young single parents, parents of persons and persons with disabilities, victims of domestic violence, national minorities and other vulnerable categories of people. Creation and implementation of these tailored programs is critical for re-integration of these people to normal social streams.

-The on-line registration of employments – system (USAID and ESA project) to become **mandatory for the registration of employees in all medium and large companies** in order to reduce expenses of keeping employee records for both the employers and the ESA.

-O**utsourcing some of the atypical ESA activities** to another institution or private company, such as employment contract registration and termination of existing ones, administration of health insurance coupons.

Within the EU countries the average number of counselors responsible for employment is around 150 unemployed persons, the recommendations of ILO is one counselor for 100 nemployed, and reality in Macedonia reveals approximately 1.300 unemployed per one ESA counselor or less than 10 minutes service for each unemployed. Outsourcing these atypical ESA activities will cut in half the workload of its staff and will allow them to engage more actively and more professionally in creating and realizing employment policies.

-Improving the capacity of the ESA. Primarily it is more than important to find a way to filter the ESA records for unemployed persons. Many of the unemployed persons register themselves in order to gain the right for free health insurance. Although in 2009 appropriate changes were made in the law, so healthcare insurance is no longer associated with unemployment, yet the number of such cases is still high. This fact can be confirmed if we compare the official data for state unemployment obtained by the labor force survey from State Statistical Office and the data from ESA. Despite these changes continuous trainings are necessary to refresh the knowledge and skills of ESA employees especially those who are directly involved in the implementation of active employment policies. The effectiveness of public policies to reduce unemployment largely depend on the capacity of relevant institutions in charged for their realization.

-Introducing competition in the ESA services. Many neighboring countries purchase training programs from private employment agencies through public tenders. Also, private employment agencies can be financially encouraged for their greater involvement in providing employment assistance to certain vulnerable categories. For example, a financial reward can be assigned to a private employment agency which enabled employment of a person who was unemployed longer than one year (by the ESA record), to whom was given active support for job search or training for improving his job skills by this agency, and who succeeded to keep his job more than 6 months.

-Enlarging the number, capacity and engagement of labor inspection in the country. There is still a large number of informally employed who are officially recorded as unemployed. Some of them even use social-welfare and unemployment benefits. According to some unofficial estimates there are more than 30.000 unregis-

tered employees for which contributions and taxes are not being paid, and their wages are paid in cash. Some of them are engaged temporary or seasonal, but most are long-term employed. Just for comparison, those informally employed count almost 10 percent of the total unemployed workforce.

Also lately employers are keen to violate formal working hours. According to many researches and testimonies this is becoming more often a rule than exception. Many of the employees in the private sector are working about 10 hours daily instead of common 8 hours, and lately even work on Saturdays, Sundays, and most state holidays. Moreover their overtime work is not recorded in working hours nor is being paid. According to some unofficial estimates, if this phenomenon could be minimized, the rate of unemployment in the country can be reduced by additional 5 percentage points, because overtime costs much more and employers would be more interested in hiring one more person instead to pay 30% more for overtime hours. Also overtime work is usually with a lower productivity due to workers' fatigue. The aspect of increased injuries and illnesses in workers who often work overtime, as well as the consequences on family and social life should not be neglected.

- **Simplification of procedures for continuing social welfare** for those persons who were working occasionally during the year (such as seasonal workers in agriculture, construction, tourism and public works). Most of the temporary workers refuse to be officially recorded as employed since at the end of the working arrangement they need to pass through all administrative and bureaucratic procedures for receiving social assistance again. That is the main reason why many of the unemployed who are offered the public work are keen to reject it.

- **Compulsory establishing of the professional career centers in all secondary schools, high education institutions and employment centers** in order to enable early professional orientation for all young people. Of particular importance for young people is having access to information on opportunities and current situation while making decisions for further directions of their career. These career centers need to engage professional career counselors able to cope with all the challenges of this profession. In that direction just completed professional training of 28 certified career counselors in Macedonia should be acknowledged. This training is part of a USAID project for enhancing competitiveness and is active in 15 other countries worldwide. However, in order to achieve serious results, such training should be conducted on significant larger number of career counselors.

-**Better anticipation of future country occupations demand and better professional distinctiveness of students completing secondary education**. Currently there is a high demand on Macedonian labor market for: bakers, cooks, welders, car painters, mechanics, technical maintainer, electricians, miners, farmers, IT engineers, managers, brokers, freight forwarders and insurance agents. But despite high unemployment in the country there is a significant unsatisfied demand for such professional profiles due to inadequate planning and anticipation. We are producing professionals that are theoretically well-prepared but without skills and abilities needed for quick and easy adoption to the workplace and performance of actual job duties. Lately more valued and required are so-called soft skills such as creative thinking, problem solving, good communication skills, teamwork ability and proactivity. Reforms in secondary vocational education and better anticipating of staffing and professional profiles in cooperation with companies is required to meet the expectations of employers. Also more practice should be introduced in the educational process.

-**Scholarships** for **studying deficient occupations** designated by the state. This measure will enable meeting the demand for certain types of workers that employers

can not easily employ. These cases represents nearly 20 percent of the total demand for employees in the state.

Finally, I would like to point out that the previously stated suggestions and possible solutions tend not to be final, complete or unique. Any of them could be subject to elaboration, amendment or adjustment to needs and specifics of the Macedonian market. In that direction, beside the international experience, also very useful can be the cooperation between local municipalities, educational institutions, representatives of local employers, chambers of commerce and NGOs. Only with an open and sincere cooperation between all active participants in the labor market effective solutions can be created for achieving higher levels of employment and provide decent and dignified working conditions for the active population.

Conclusion

According to many characteristics the labor market of the Republic of Macedonia is a unique phenomenon, not only in the close neighborhood, but also in the wider region. Extremely high and long-term unemployment rate (highest in Europe, with the exception of Kosovo), weak and anemic labor demand, inflexible, immobile and improperly structured labor offer, inadequate engagement of young people, lack of inclusion of vulnerable groups in the labor market, are only part of the Macedonian labor market's thorny problems.

Due to this fact, reforms in several areas, including macro policy, investment and business climate will be crucial for establishing more favorable conditions in the labor market in future. Without significant foreign and domestic (greenfield) investments, without improving the business climate, without securing cheap credit lines for small and medium-sized businesses and without any reforms of the judicial system, a more dynamic economic development of the country or more significant reducing of the unemployment rate can not be expected.

Definitely, only sustained combinations of macroeconomic and microeconomic policies, labor market policies and active employment policies can produce synergetic effects in the process of creating new and better working places.

In that direction many activities have to be done such as increasing the capacity of the ESA, increasing the amount of funds allocated to support employment policies (as a percentage of GDP), and broadening the portfolio of active policies that the country applies for stimulating of new employments (job search assistance, career management and professional orientation, job clubs, job fairs, regular contacts with employers, trainings, virtual companies, public works, wage subsidies or taxes, employment programs for vulnerable categories).

Undoubtedly, the impact of active programs and employment measures on the level of employment is positive, but their capacity for more serious corrections of the negative conditions of the labor market is limited.

Taking into consideration the characteristics, features and particularities of the Macedonian labor market, as most suitable and effective programs to stimulate the employment would be the following: programs that deal with the general unemployment, programs for reducing the unemployment among young people from 15-24, programs for reducing the long-term unemployment, activation programs for discouraged unemployed persons. Only professionally designed and target oriented programs can have a positive impact on unemployment in the country. In that direction we would like to encourage the cooperation with local municipalities, educational in-

stitutions, representatives of local employers, chambers of commerce, NGOs and definitely with the private sector.

At the end we are suggesting some practical suggestions and possible solutions for improving the employment conditions such as: establishment of a national network of large business incubators and business centers with solid business infrastructure, establishing national (on-line) web register free for advertising of all available working places in the state, Legal-regulation and promotion of the concepts flexible working hours, part time job and working from home, Introducing a voucher system for employment of graduates and trainings of long-term unemployed persons, establishing of virtual companies, scholarships for studying scarce occupations, specific employment programs for all categories of vulnerable categories of citizens, outsourcing some of the atypical ESA activities, improving the capacity of the ESA, introducing competition in the ESA services, enlarging the number, capacity and engagement of labor inspection in the country, simplification of procedures for continuing social welfare, compulsory establishing of the professional centers in all secondary schools, institutions for high education and employment centers and better anticipation of future country occupations demand.

Finally, I would like to point out that the previously stated suggestions and possible solutions tend not to be final, complete or unique. Any of them could be subject to elaboration, amendment or adjustment to needs and specifics of the Macedonian market in order for achieving higher levels of employment and provide decent and dignified working conditions for the active population.

Chapter 4.

ACCESS TO FINANCE

M.Ss.Marina Serafimovska

1. Abstract

After its independence Republic of Macedonia was faced with all challenges which transition brings and which, at the same time, are characteristics of all countries leaving the communist regime and plan oriented economy and have started the process of transformation into market oriented economy. The biggest sign and the most important reforms, indeed, were happened in financial and corporate sector. Here, principally, is talking about cleaning the banks from bad loans and creating conditions for entering foreign capital into this sector, privatization of the firms with social capital and establishment of number of financial institutions which are necessary for effective and efficient functioning of the new system.

After the establishment of the stable financial system, resulting from stable monetary as well as fiscal economy, Macedonia has a banking system that functions effectively with all its advantages and disadvantages for our conditions in direction of financing corporate sector, existing of primary capital market and undertaking activities for revival of secondary capital market, all of these supported by solid law regulation.

Although, such established system was subject of certain smaller or bigger internal shocks, however, the biggest influence over the financial sector had the global economic and financial crisis which indirectly has its own influence in Macedonia, most expressive in 2009. The first half of the 2010, period for which this statement about the access to finance in Macedonia is written, the first signs of convalescence in the economy could be noticed but only in separated segments. The process of convalescence and stabilization from such economic and financial crisis is relatively slow, and because of that, the access to finance in the first half of the 2010, which has significant imperfections even before the crisis, is assessed on very low level. Therefore, the aim of this research and resulting statement is to present the current situation and conditions in Macedonia about the access to finance by the corporate sector, as well as alternative opportunities for financing of existing and newly formed businesses, together with the comparison of the same issues in the European Union with giving some recommendations for future improvements in the financial sector in Macedonia.

2. Conditions and legal framework about access to finance of the private sector

More than twenty years Republic of Macedonia is in process of transition in which it has entered after its independence from SFRY transforming itself from plan oriented economy toward market oriented economy. The process of transformation understands issuing appropriate law regulation and establishment of required institutions for support and function of the newly established system.

As the biggest reform in this process of transition can be point out the process of privatization of social capital, as the first step in 90s followed by new law regulation about companies, securities, banks, taxes, etc. Thus, in 1996 Company Law was issued in which for the first time were defined the forms of the legal entities, their responsibilities and their organization, disclosure of information etc. In this year the first transactions on the Macedonian Stock Exchange, established in 1995, were realized. The existence and functioning of MSE has enjoined the necessity of new Law on securities issued in 1997 (the first one was issued in 1993). This restructuring of the entities and transformation of the capital as well as existence of the capital market for the first time has contribute to the establishment of new financial ad regulatory institutions such as Central Securities Depository, Securities and Exchange Commission and Anti-Money Laundering Office which have own contribution for building and improving the quality of the financial sector. On the other side, beside the capital market, there is a developed banking system in Macedonia which is strictly regulated (Law on Banks issued 2000) and is subject to supervision from he National Bank of Republic of Macedonia.

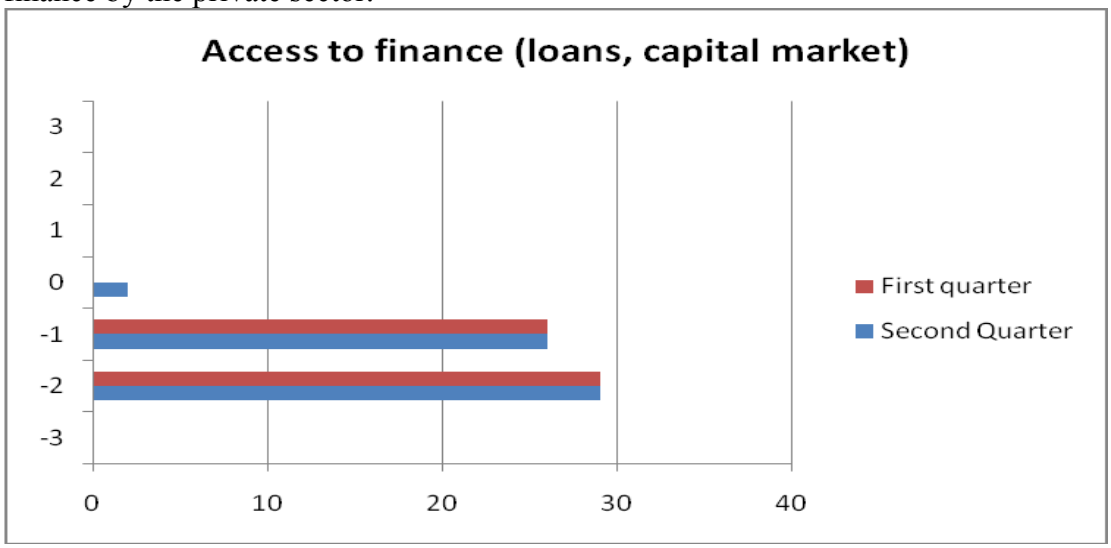
However, despite the well developed banking sector and the rest financial institutions, as well as institutional and law regulation setting of the capital market, general conclusion is that Macedonian entities continually are facing with the issue of enough and adequate financing. Although the reason for such issue should be find on both sides, on financial institutions as well as on private sector, kind of mechanisms for stimulation of private sector about utilization of unused resources and opportunities, and banks to undertake more other activities about clients requirements instead of only single lending activities. The global financial crisis, besides its indirect effects in Macedonia, has additional influence over the so difficult access to finance of the private sector, such as the banking sector and the capital market.
In this context the paper has the intention to express a general presentation about the conditions for finance engagement by the Macedonian legal entities, as well as to analyze the reasons why this segment is characterized as problematic on the basis of questionnaire done by Confederation of employers of Republic of Macedonia for the first two quarters. Some additional data available on the web sites of the National Bank of Republic of Macedonia, Central Registry of Macedonia and European Central bank are used through the paper.

3. Current situation and conditions for usage of sources of finance in the Republic of Macedonia

According to the latest research (questionnaire) of the Confederation of Employers of Republic of Macedonia, the access to finance in the second quarter of 2010 continually is significant issue for the private sector in Macedonia. General conclusion is that dominant source of financing for the companies in Macedonia continue to be bank loans and own resources of financing (retained earnings). The other sources of financ-

ing such as issuing securities, joint ventures, investments etc., remain insufficient exploited.

According to the data from number of studies about financing of the private sector, the availability of the sources of financing in the Republic of Macedonia is assessed as unfavorable, expensive and without possibilities for options from the businesses/users. The latest research done by CERM in which 57 managers were examined from the same number of companies shows that all managers the access to finance for the second quarter of 2010 has been assessed with negative grade (51% with -2 and 48% with -1 on the scale from -3 to 3). Although it might be concluded that such low grades for the access to finance significantly are result of the global financial crisis which has its own influence in Macedonia, however the characteristics of the transition economy and undeveloped economy have significant effects over the access to finance by the private sector.



Source:

There are number of factors which influence over the situation and conditions of the sources of financing, from which in the rest of the paper in more details will be analyzed following:

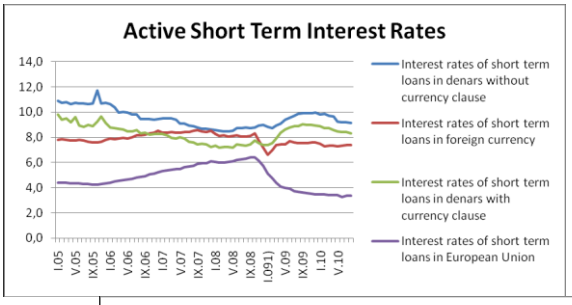
- Characteristics of the banking system in the Republic of Macedonia;
- Primary capital market;
- Insufficient adept of the financial managers about financing and design of he organizational units about financial issues within the companies;
- Access to international funds;
- Assistance from the Government.

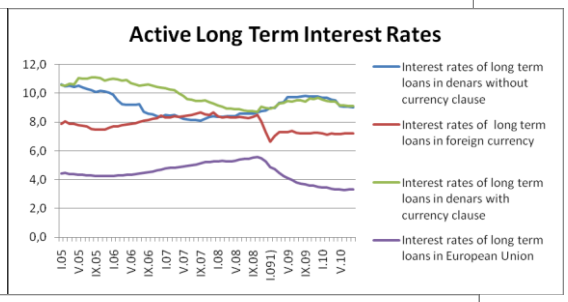
In continuance all above mentioned factors about availability of sources of finance for the companies will be explained.

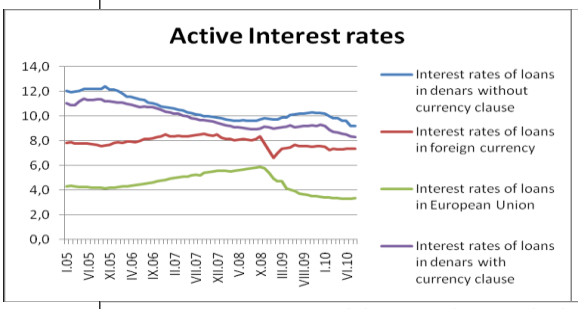
3.1. Characteristics of the banking system in the Republic of Macedonia

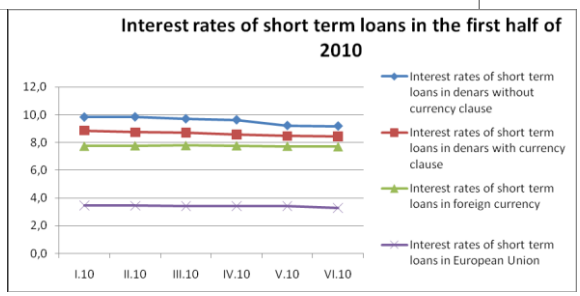
The banking sector in Republic of Macedonia can be characterized as relatively conservative and preventive from the view point of allowing credits to the private sector or offering other services related with the access to finance. This means that the banking sector in Macedonia is characterized with high interest rates, great precaution about the creditworthiness of the legal entities, complex and long lasting procedure for credit allowing, lack of financial consulting for the clients etc. From the other side, in the recent years number of foreign well known banks entered into the banking sec-

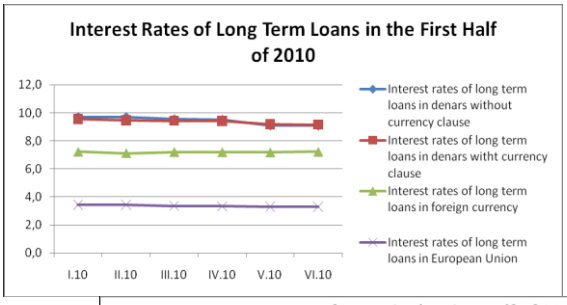
tor in Macedonia, most often taking over domestic banks, although there are examples for the organic entrance of the foreign banks too. Thus, the graphs below, are presenting the level of the active interest rates of the banks in Macedonia and the level of the active interest rates of the banks in European Union. The active interest rates in Macedonia are significantly greater in comparison with the active interest rates in European Union. This difference especially is big for the credits that are allowed in denars (Macedonian national currency) or credits without foreign currency clause.

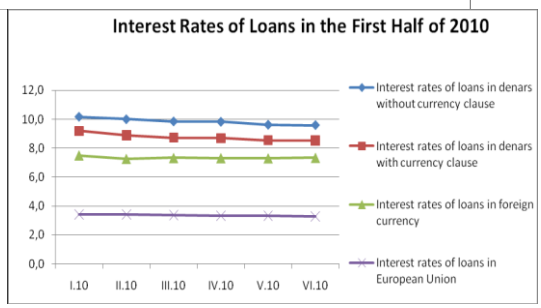












Source: NBRM and ECB

Such difference related with the interest rates of the credits offered by the banks in Macedonia and the banks within European Union indicate that bank debts of the entities in Macedonia is expensive resource of funds in comparison with their competitors from the European Union, that additionally and indirectly influence the competiveness and the export of the Macedonian companies. The continual growth of the interest rates during 2009, continue with continual drop during the first half of the 2010 that, in fact, is result of the NBRM policy of decreasing the interest rates.

Analysis about interest rates is extensive, but as most important reasons and factors for extant high interest rates of bank loans in Republic of Macedonia could be selected following:

- The monetary policy with its instruments has influence over the interest rates. Defending the fixed foreign exchange rate, NBRM did mobilizing of national payment funds (denars) through issuing Central Bank bills with high interest rate and through increasing of mandatory reserve which result in increasing of the bank active interest rates.

- Consequently to the increased confidence in domestic currency as well as losing the pressure over the foreign currency exchange rate happened in the second half of the 2009, monetary policy measures, especially in the part of interest rates of the Central Bank bills, are significantly relaxed, although the effects on decreasing interest rates are not in proportion with the changes of the monetary policy measures;

- As a result of the problems in the real sector, global financial crisis and aggravated results of the businesses, banks have increased active interest rates in accordance with the rule conservatism which is characteristic for the banks in Macedonia, adding here the increased risk of unpaid portfolios;

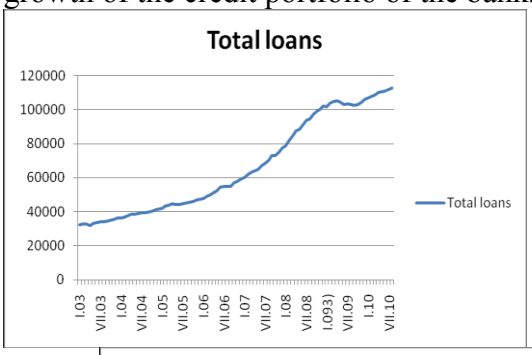
- Financing government consumption through issuing government securities with high yield, significantly has influenced mobilization of available money funds from private sector, including banks, to the Government. So called

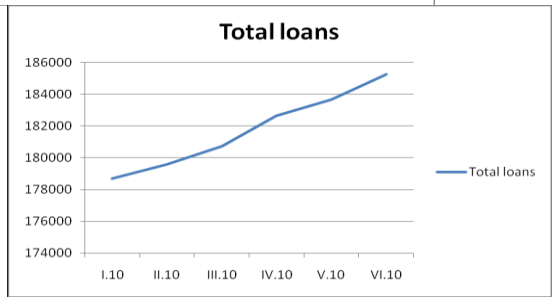
crowding out effect practically is happened in Macedonia and it has influence over the possibility of debt private businesses, as well as over the price of debt (high interest rates);

- As a result of the global economic crisis, possibilities for debts (using foreign credit lines) of the domestic banks are limited. This was followed by increasing interest rates of the foreign credit lines, what in the end result in increasing active interest rates of the banks in the country;

- Absence of the competition in debt source of financing (bonds, commercial bills etc.,) gives opportunity to the banks to increase active interest rates.

Considering that bank loans are the only source of debt financing in Macedonia, could be concluded that the high interest rates partly are result of the insufficient supply and competition of external source of financing. In circumstances where there is no developed primary capital market, and when the practice of issuing corporate bonds is not exploiting, the bank loans are the only source of financing businesses. Therefore, one more conclusion could be derived. Namely, although competition in the banking sector (in RM there is a 17 banks), the high interest rates partly are result of the bigger demand for bank loans from the private sector than the possibilities of the bank to crediting this sector.
However, in time of global financial crisis, NBRM, except instantaneous facilitation and relaxing monetary policy (decreasing of the mandatory reserves and interest rates of the Central Bank bills), cannot afford to undertake more radical measures and changes (leaving the policy of defending fix foreign exchange rate and introduction of fix exchange rate regulated by law, or even introduction of fluctuate exchange rate) which will have influence over the bank activities, crediting and interest rates. All of these policies have pros and cons and it is not recommendable to undertake movement to any of this policy, especially in time of global economic crisis and their further explanation is out of scope of this study.
From the analysis of the bank statements also can be noticed the trend of continual growth of the credit portfolio of the banks presented on the graphs below:



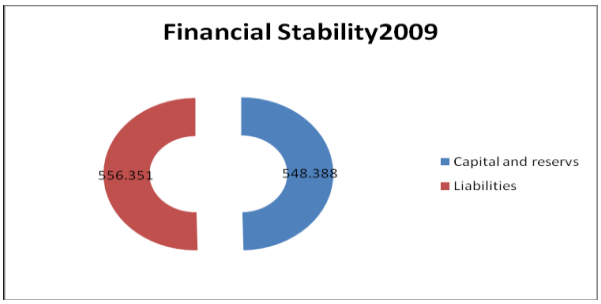


Source: NBRM

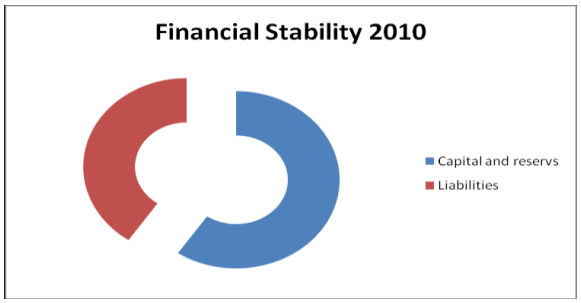
With exception of the mild decline of the credit activity during 2009 as a result of the grater prudence of the banks related with the allowing credits as a result of the crisis in the real sector, notable is that the level of the credit portfolio invested in the private sector (excluding households and non-for-profit organization which are in their function) continually is increasing. According to the data from the NBRM, the credit activity at the end of the first quarter was increased by 1,42 percents from the beginning of the year, at the end of the second quarter was increased by 3,96 percents, and including august 2010 was increased by 5,35 percents. This positive trend of credit activity growth is expecting to continue to the end of the year 2010.

From the private sector aspect, although the level of interest rates, complex procedure for credit allowing, the period of allowing, collateral/mortgage and administrative costs are noted as problematic about usage of bank credits, they remain primary choice and basic source of financing businesses in Republic of Macedonia. This is especially relevant for small and medium size enterprises whose main sources of financing is their own savings as own resource of financing as well as bank loans as debt resource of financing. Just because of the big demand from small and medium size enterprises for loans, banks have developed special credit lines for such enterprises, as well as special credit lines for starting new businesses. The fact that small and medium size enterprises are relying only on own savings and do not come out on the capital market (do not issue shares) in order to collect additional funds refer to the significance of the bank loans as most significant, if not single resource of external financing. From the other side, the big companies listed on Macedonian Stock Exchange, although have possibility to issue stocks as source of additional financing, it is not common practice usual for Macedonian companies. But, what is characteristic for the Macedonian big companies is their creditworthiness and well developed business relationships with banks that are additional concessive factor for allowing credits by the banks. The above graphs on which is presented the credit activities of banks only confirm ascertainment for the increased necessity of the companies for long-term and short-term credits especially during and after world economic and financial crisis when companies had available much less internal sources of financing (they earned lower profits, or even losses). On the graphs below the structure of the debts and own resources of funds for the companies in 2009 and companies with obligation for mid-year reporting in 2010 is presented. Furthermore, from the analysis done, it can be concluded that almost all long-term debts are for long-term bank loans.

In addition to what is already mentioned, from the bank sector analysis in Macedonia it can be concluded that the offer of financial sources from the banks in majority or fully is consisted of credits offer. It can be confirmed also from the structure of the revenues in the income statements of Macedonian banks which is indicating domination of revenues from interest in relation with the other revenues. This is not a case in the countries with well developed banking systems (banks in European Union) where non-interest revenues have tendency for increasing and gain greater significance.



Source: NBRM and CRM – analysis done on 52.000

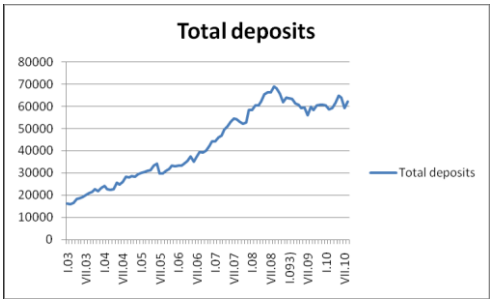


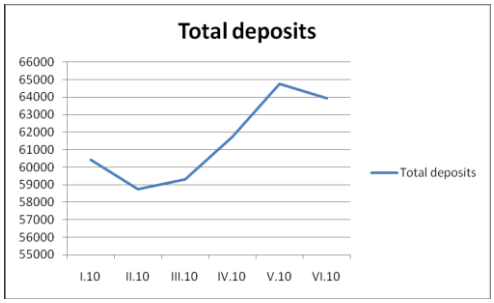
Source: SEC – analysis done on 100 enterprise required to report half yearly

All of these facts indicating that in the previous period banks in Macedonia did not find economic interest in redirecting their activities toward other activities in implementing new bank operations and offering other ways of businesses financing. The offer in the area of investment banking, factoring, term and derivative agreements still does not exist in Macedonian banks or exists as isolated cases.

3.2. Primary capital market

Cost of capital are the most significant factor in decision making about sources of financing. From there, the high interest rates of bank loans theoretically should contribute to finding alternative sources of financing with lower costs. Primary capital market is significant source of financing for the enterprises that can provide additional money funds with stocks issuing through public and private offers. Furthermore, enterprises with limited liabilities and sole traders can decide to become shareholder's companies through publishing initial public offers. On this way, enterprises with strategy for expanding activities and big investments are gaining additional own capital which is with much lower costs than bank loans. Unfortunately, the history of acquiring additional funds by means of issuing securities, i.e. by means of capital market in Macedonia is consisting only from one case of issuing shares with public offer in which 1,1 millions euro own capital were provided. All other cases of acquiring funds on the capital market by means of issuing securities are reckon among private offers.
Realized during the stock exchange boom and with positive attitude of the investors (domestic and foreign) relating to the investments in shareholder capital, above mentioned public offer, for both the frequency (only one issuing of stocks) as well as the amount of provided funds (1,1 million euro in stocks), can be characterized as isolated, insignificant and without influence over the further development of this sector and of secondary capital market. The big companies during the period of stock exchange boom and the aftermath period did not find interest in activating liquidity money funds, and small and medium enterprises did not recognize this possibility for financing their own development.
In direction of further development of the capital market as source of financing in Macedonia could be concluded that there is a potential capital market to be stimulated and to be very active. The possibility for capital market development can be seen from the level of bank deposits (free financial funds) which are in continual growth (excluding the period of 2009 when under the influence of world financial market movements, deposits amount noticed insignificant decline).





Source: NBRM

Opportunity for offering investment in debt or equity securities to the owners of available free financial funds, which in principle will gain better income, should be recognized by the banking sector and used by the entities which have lack of financial funds for financing own operations and/or development.
However, should be foresight that in times of economic crisis, the negative attitude of the investments towards investments in stocks and overall stock exchange activities, minimal foreign direct investments and outflow of foreign portfolio investments, the possibilities for using primary capital market as a source of financing are pretty limited. As additional factors with negative influence or with insufficient contribution to the primary capital market might be noted the following:

- **Banks**, in the context of the all previously mentioned, do not offer services on regular basis about issuing securities and providing additional financial funds by means of emission of securities. Departments for investment banking (in the banks where such departments exists) primarily includes classic brokerage operations and operations with custody accounts. In some banks, these consultancy operations are included in some other departments (for example, Department for cash management and liquidity) and are considerably neglected. The procedure for issuing securities and their offer and sale, which is complex and contain activities in the part of preparing offer from formally-legal point of view and in the part of marketing and selling, the banks havnot implemented it as business process offered to the interesting clients o regular basis;

- **Brokerage houses** (that are not within the banks) in the current period are faced with dramatically declined stock exchange activity and difficulties in financing their own businesses. In such conditions they are referred to reducing costs of their working leading to reducing of their potential for offering services about issuing securities. Most of the brokerage houses do not have such potential at all because they are registered for performing minimal services regulated with law for which is required lowest adequacy of the assets on their disposal;

- **Macedonian Stock Exchange**, although started the project for acquisition of bigger enterprises registered as companies with limited liability or sole traders into listed companies and their capital increasing by means of issuing securities, because of the capital market conditions they decrease the intensity of activities related with this project;

- **The Government,** although undertook particular steps for helping companies financing such as decision companies to do not pay taxes on the re-invested profit, contri-

buting to increased money funds of the companies (70 million euro), however there are certain potential steps for stimulating capital market (such as repealing taxes on capital income for investors investing their funds on the capital market, tax deduction for companies issuing securities on capital market, subvention of the process of issuing securities, facilitation the process of issuing securities, etc.) that were not undertaken to support development of the primary capital market;

- **Inadequate preparedness of the companies** to exploit this source of financing. General ascertainment is that financial management and organizational units in the companies responsible for the operations related with financing do not practice the opportunity for increasing funds through by means of issuing securities. More factors can be mentioned as reasons for such situation, among which are inadequate education and inadequate human resources and organizational fitting, issues with transparency, insufficient knowledge in the complex law regulation, insufficient confidence in the capital market, negative attitude for stock exchange operations etc.

Besides abovementioned factors for weak activity on the primary capital market which influence both, the companies already listed on Macedonian stock exchange as well as the companies with limited liability, there are other factors influencing and contributing to the (non)activity of the companies the capital market. For the companies with the limited liability should be mention that the fear from intensive and frequent control from the regulatory authorities and the fear from losing/sharing of ownership are significant factors that acting against participation of these companies to the primary capital market. Although these factors to a great extend are subjective and they cannot be institutionally influenced, except with more information offered to the managers about the advantages of this source of financing, however, involved parties on the capital market – banks, government, stock exchange, brokerage houses, regulatory authorities – should undertake particular activities that are under their competence and will contribute to increased popularity of the capital market as a source of financing.

3.2. Financial management and financial department

One of the factors for big influence over the exploiting possibilities for financing by the entities, choosing the most favorable option for financing and optimal utilization of internal sources of financing is the way or organizing of the organizational unit responsible for financial management and its equipment with competent human resources.
From numerous analysis and researches related with financial management and financial department in the companies in Macedonia, general ascertainment is that the companies in Macedonia neglect the importance of existence of separate organizational unit with experienced and competent staff who will work on the issues related with the company financing. Most often this function is marginalized, and very often this organizational unit operates within other organizational unit (for example accounting).[54]
The dominant orientation of the companies to the usage of bank loans and in the presence of established unfavorable conditions in terms of costs and duration of the pro-

[54] Center for Economic analysis: Debt vs. Equity Financing in Macedonia, Skopje, November 2007

cedure for loan allowance, indicate to the insufficient paid attention on the analysis of the other sources of financing such as:

- Primary capital market, explained on the previous pages;
- Managing own working capital (active management of the assets engaged in working capital);
- Usage of investments as a source of financing.

Primary capital market

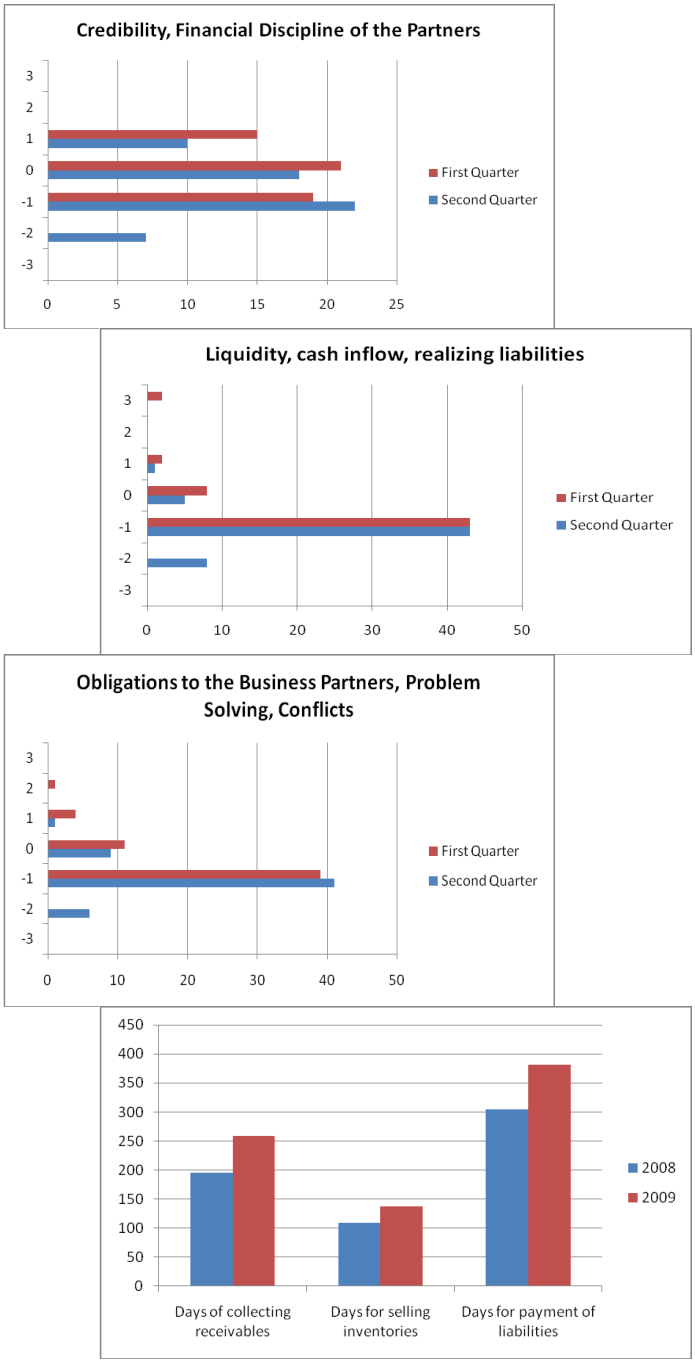
This topic in more details was explained in previous part, and here only will be mentioned that the complex procedure from the regulatory (formal-legal preparation of the emission) as well as marketing point of view (selling the emission) are the main obstacles in independently engagement of the companies in exploiting this source of financing.
As additional factor that has negative influence over the primary capital market is insufficient confidence of the managers for the capital market and the general negative attitude for operations with securities in conditions of recession and declined yields and turnover of the Macedonian Stock Exchange.

Managing own working capital

The active management of the companies for the current assets and working capital as one of the sources of financing is not exploited on satisfactory level. The reasons for this can be located into two groups of factors:
In the first group of factors with negative influence over the active management with the current assets and working capital can be listed following:

- Credibility, financial discipline of the partners;
- Liquidity, cash inflow and realizing liabilities;
- Obligations to the business partners, solving issues and conflicts.

From the answers on the above mentioned questions received from the research done by Confederation of Employers of Republic of Macedonia in which 57 managers were included from the same number of the companies, the difficulties in managing working capital can be ascertained. Such difficulties in managing working capital make impossible the adequate budgeting of inflow and outflow as well as precise calculation of costs and yields related with the working capital.



Source:BEI

In the second group of factors with negative influence over the working capital management, and from there, over the financing of the companies is included the lack of tools for working capital management. Here, principally, the main accent is put on the factoring (the possibility of premature payment of the regular receivables for particular replenishment) and term agreement (currency buying, materials and other on the future date with fixed exchange rate/prices).

The contemporary procedures for working capital management include complex models for determining adequate levels of inventories, keeping up the small number of days for receivable collection and longer period for liabilities payments, optimal allocation of liquidity funds on short term for providing acceptable yield, minimizing the losses related with inadequate capital engaged in current assets, covering the risks from prices changes, foreign exchange rates, hedging etc.

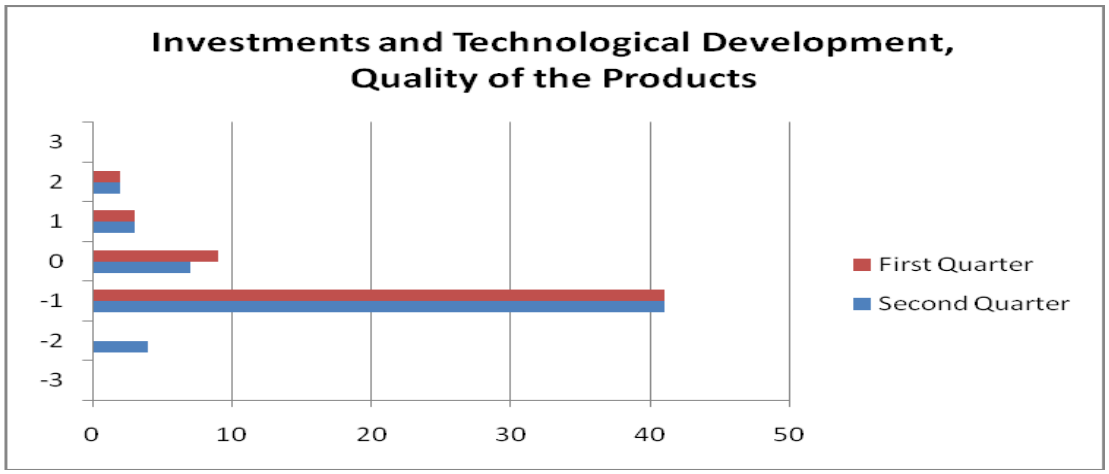
All of these operations, if they are adequately performed and in conditions where possibility for their realization exists, they are facilitating the process of financing activities in the companies. In the opposite sense, in conditions when the implementation of such models and practices is impossible due to the factors stated in the previous two paragraphs, they additionally complicate or have negative influence over the processes for selecting and using different sources of financing. For example, overdue collection of receivables in particular company will contribute to decreasing of its liquidity and inability to finance budgeted operational activities, that further on contribute to looking for alternative ways for financing, principally forced bank's debts (during the period when it is not in accordance with the company strategy neither the company budget). In this case as a result of bad management with receivables or financial indiscipline of the partners lead to situation in which the companies instead to exploit budgeted internal sources of financing to use external sources of financing which are very expensive source of financing.

Investments as source of financing

Company's financial funds remaining free (not invested) on long term can be used adequately invested as a source of financing. Yields from interests, rents, dividends, capital incomes as a result of asset management of the company such as: surplus of money funds that can be long term time deposits, securities classified as available for sale, real estate classified as investment property etc., are significant generator of funds for financing regular activities.

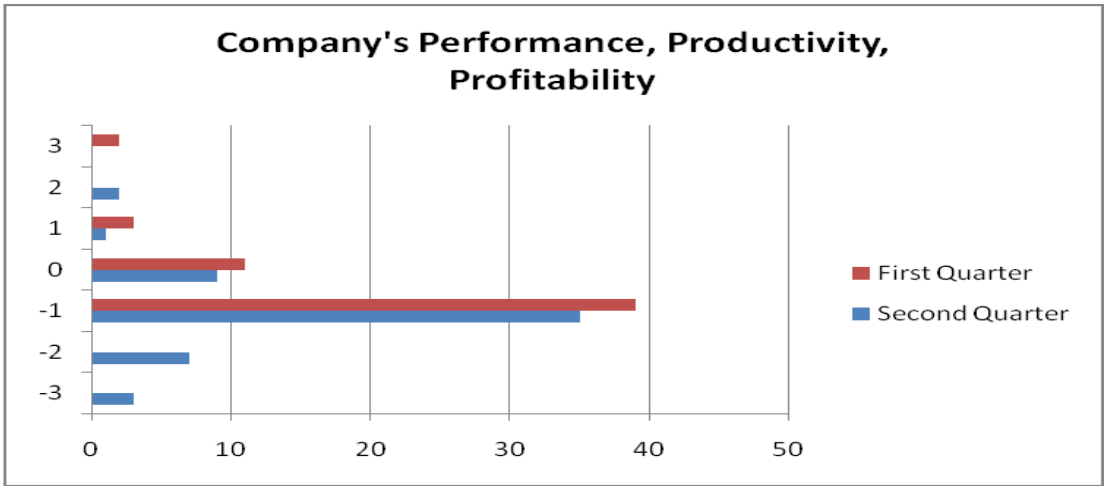
The practice in Republic of Macedonia refers to number of situations from which inadequate investment of the available funds can be ascertained. The general direction of the companies in assets management is their investment as deposits or receipt rent for their renting. Other operations such as portfolio investments on the Stock Exchange, investments in investment funds are isolated and insufficiently used as available opportunities.

Analyzing the access to finance for the companies and usage of the different sources of financing should be underline and examine for which objectives the sources of financing are used. Theoretically sources of financing are used for investments in non-current assets as well as for improvements of company's liquidity i.e. investment in current assets. From the realized questionnaire by the Confederation of employers of Republic of Macedonia on 57 companies in Macedonia can be noticed that investment activity in the companies in the second quarter of 2010 in comparison with the first quarter is aggravated. This can be noticed on the following graph:



Source:BEI

The theory and practice from developed economies, more concretely from the European Union, show that all factors influencing the external financing (investment in non-current assets, inventories and working capital) as well as the internal sources of financing have certain influence over the net increasing of needs for external and internal financing of small and medium size enterprises. From this point of view, there are significant differences among different types of enterprises. Namely, investment in non-current assets is more significant for big and medium size enterprises, while inventories and working capital are especially important for increased needs for external financing of small and micro enterprises.
In context of all disadvantages and difficulties with which are faced Macedonian companies for access to finance, absolutely expected is decreased investment activity of the companies in the second quarter of 2010 as well as aggravated company's performance. This means that absolutely expected productivity and profitability of the examined companies is decreased, presented also on the following graph:



Source:BEI
For overcoming of all disadvantages and issues with which Macedonian companies are faced in direction of better and greater access to finance or at least moderating and improving of the current situation, special role should have economic chambers in the country. Economic chambers as institutions that integrate the private sector in the country should undertake certain steps in direction of increasing knowledge to the companies for available possibilities for providing financial funds, carrying out trainings for the employees in the companies, play the role of mediator between corporate sector and financial institutions, as well as participation in country's social dialog.

3.3. International financial institutions and European Union funds for economic development

3.3.1 International Financial Institutions

Several international financial institutions are established and operate in Macedonia. As a more important can be mentioned World Bank and its International Financial Corporation (IFC) and European Bank for Reconstruction and Development (EBRD).
These institutions are in general directed towards providing funding support for companies which have potential to grow as well as certain quality. IFC and EBRD are shareholders in most of the Macedonian banks as well as other non-financial companies. They also provide finances as lenders, with possibility loans to be converted into

shares in the future, or to be repaid. Exit, sale of the stakes into companies is usually performed after they achieve certain level of growth.
International financial institutions also appear as funds providers in some reforms that are implemented in Republic of Macedonia. By size and the importance, pension system reform and implementation of the second and third pillar can be mentioned. This reform was financed by loan provided by World Bank. Other projects which can be mentioned are REPARIS project, project for improvement of the municipalities, project for social transfers and as a most important can be mentioned the project in amount of USD 30 million aimed for helping Macedonian government to manage the influence of the global crisis, to strengthen flexibility of the financial market by addressing of the potential deficiencies and to help Macedonia overrun the crisis in better condition.

3.3.2 European Union funds for economic development

Republic of Macedonia as a candidate country for joining EU has a access to EU funds for pre-accession assistance. This help is provided by Instrument for Pre-Accession Assistance – IPA. Along with other goals of IPA, from the providing of finances aspect, which is subject of this study, as a most important can be pointed out economic reforms and third component (out of five) which is intended for regional development and covers also improvement of the small and medium size enterprises by investments in research and innovations. Only for 2010 in the IPA section are envisioned EUR 30 million.
IPARD program is fifth component of IPA and represents pre-accession assistance for rural development enabling access to EU funds intended for financial help in agriculture and rural development for the period from 2007 to 2013. According to the program passed by Government of Republic of Macedonia IPARD shell provide improvement in competitiveness in agriculture and improvement of the living quality of the rural population. Total amount of the available assets for IPARD amounts EUR 60,7 million.
Users of these funds can be enterprises which invest in agriculture for achieving compliance with the EU standards, investments in processing and marketing of the agriculture and fishing products by their restructuring and capacity building for achievement of the EU standards and diversification and development of the rural economic activities.
However, Republic of Macedonia seriously lacks with preparation of institutions and other resources in order to enable using of this pre-assessment assistance. That is the one of the most important reasons for low percentage of using funds in caption.

3.4. Government help for the private sector in Republic of Macedonia

In terms of global financial crisis when Republic of Macedonia is also faced with financial problems, Government undertake certain measures for help of financial and non-financial sector by providing financial funds as well as by introducing measures for facilitating the operations of the private sector. In line with this Government provided favorable credit lines from international financial organizations. Amount of EUR 100 million from European investment bank for financing of micro, small and medium enterprises are available through Macedonian bank for supporting of development. Only 46% from this credit line are used.

Furthermore, Government undertakes certain facilitation measures in the tax segment. Companies are exempt from payment of tax on the reinvested earning. Effect of this measure was EUR 70 million that should be paid into budget, remained in the private sector. However, there are other measures by which Government can help primary and secondary capital market. Some of them are: release from capital gain tax, simplifying of the procedure for issuing shares, improving of financial institutions' flexibility, decrease of collateral for loans from foreign compensation funds (bank guarantee or mortgage 2:1).
Furthermore, Government shall be focused on supporting sectors for which country have production capacity. This will give support to number of small and micro companies, which represent the biggest part of the Macedonian businesses.

4. Conclusions and recomendations

After developing of law regulation and transformation of social capital into private, in Republic of Macedonia were established basis for new modern banking system. However, in the period after transition banks remained to offer loans with high interest rates for the private sector, which are significantly higher than those offered by EU banks. High interest rates make landing as source of financing to be very expensive and all of this in the time when other sources of financing are not used by the private sector.

According to research data, access to finances in the first half of 2010 is rated almost in 100% as negative (on the scale from -3 to 3, 51% of the interviewed gave -2 grade, and 48% -1). In the first half of 2010 the fall of interest rates is remarkable, especially in the loans in MKD. Interest rates for the loans in foreign currency can be said that are not significantly changed. Even banks' loans are characterized with high interest rates, they remain main source of financing. Lending activity is increasing in 2010 (overall the trend of lending activity increase is for longer period, except for 2009 due to effect of global financial crisis on Macedonian banks). For the purpose of terms of lending and access to finances improving, Republic of Macedonia and NBRM shall strive towards reduction of interest rates to the EU levels. This will give to Macedonian companies better competitive position.

Except banks' loans which remain to be most important source of finances in the private sector (especially in the small and medium enterprises), capital market shell be increasingly used as a source of financing with lower costs. Deposit base and interest for investing in treasure bills shows that population and private sector have capacity which can be used for capital market investments. For the purpose of this segment development, all institutions shell play certain role. In line with this following steps should be undertaken:

- Except classic banking operations, banks shell focus on investment banking too. They shell establish processes for offering and advising their clients with the possibilities for providing financial assets, first of all by securities issuing;

- Private brokerage houses which are not part of the banks shell strengthen their investment advisory and to offer packages for businesses which want to engage finances by means of capital market.

- MSE shell continue with the project of promoting transformation of bigger limited liability companies into joint stock companies;

- Government shell undertake additional measures for capital market stimulation For example: capital gains tax exemption for the investors that made investments on the primary market, tax facilities for the issuers on the primary market, subventioning of the process of securities issuing, simplifying of the procedures for issuing, etc;

- Chambers of commerce shall act in direction of education and information for all new funds raising possibilities which available. They shall also play the role of the main intermediary in the social dialog between Government and private sector.

  On the other side, businesses shall achieve appropriate internal structure for using of all previously discussed sources of financing. In this section, companies shell invest in development of accounting and finances divisions by equipping them with educated staff capable to research and make use of the most favorable sources of financing. This will lead not only for better use of external sources of financing as banks and capital market, but also to better use of finances available trough international institutions, EU funds, credit lines and compensation funds offered by Government financial institutions, etc.

WISH LIST
OF
BUSINESS CONFEDERATION OF MACEDONIJA
ON
IMPROVING BUSINESS ENVIRONMENT IN
R.MACEDONIA

Transparency and fight against corruption

1.**Open the judiciary system to the public**

Publishing all courts and prosecutors decisions on internet,(information on decisions, names of the prosecuters and the judges and explanation of the decisions).This measure should enforce accountability and responsibility of the prosecuters and judges .

2.Increasin the competition and transparency in the public procurement

Support the methods of Fair competition in the public procurement ,according to the standards in EU;
Open to public all public procurement contract with possibility on easy search and ranking.

3.Supporting free debate in public and media on social and economic issues

Improve the implementation on Free access to information Law.

4.Improving transparency in financing political parties and politicians

Publishing od regular reports on financing poitical parties and reviews of properties of politicians (publishing and use on friendly way information's on names of donors, amounts granted, market value of property.

5.Improving process of creation and implementation of legislation and reducing administrative burdens

The Laws have to be clear , easy to understand and to implement

Bureaucracy and trade barriers

1.Quality of business related legislation

Improve mechanisms for public policy consultation with the business community in the preparation of Regulatory Impact Assessments to ensure wider stakeholder consultations and a meaningful influence in policy formulation, and establish a body that can block legislative proposals if it deems the RIA is improperly conducted or its results are negative.

2.Quality of implementation of business-related legislation

Further streamline and reduce the administrative requirements for businesses, especially in the area of dealing with construction permits.

3.Competition and internal market barriers

Strengthen the financial resources of the Commission for Protection of Competition, as well as its human resources – especially in the area of cartels and abuse of market dominance;
Encourage firms in threat of insolvency to seek reorganization solutions and mandate debtors to file for insolvency as soon as they default or as soon as default is imminent.

4.Technical barriers to trade

Expand Government programs for co-funding costs for implementation and certification of EU and international standards with the aim of boosting export competitiveness.

Labor Market

1.Reforms in macroeconomic policy, investment and business climate will be crucial for establishing more favorable conditions in the Macedonian labor market. Without significant foreign and domestic (greenfield) investment, without improving the business climate, without securing cheap credit lines for small and medium-sized businesses, without reforms of the judicial system, and without increasing the amount of funds allocated to support employment policies (as a percentage of GDP), more dynamic economic development of the country and significant reducing of the unemployment rate can not be expected.

2.Broadening the portfolio and coverage of the active policies that Macedonia applies for stimulating of new employments. More space should be provided for those programs which, by the national and international experience, are assessed as most cost-effective and which, according to the characteristics of the national labor market, are best suitable for the country (according to the unemployment rate). Additional programs to stimulate employment which should enrich the existing ALMP portfolio are: virtual enterprises, job fairs, career centers, regular contacts with employers, subsidized employments of young individuals and long-term unemployed persons.

3.Stimulating the entrepreneurship and self-employment. Development of small and medium businesses and support of entrepreneurship is widely considered as an excellent bumper in times of high unemployment. That particular sector is critical for creation of new jobs, as opposed to large companies that are near or have reached their optimum size and have no significant capacity for employment. In that direction, beside attractive and favorable credit lines for SMEs, we should seriously think about establishment of a national network of large business incubators and business centers with solid business infrastructure and capacity sufficient to support 500 to 1.000 small businesses and entrepreneurial ideas, providing significant subsidy to their costs in the first three years.

4.Simplification of the procedures for continuing social welfare for those persons who were working occasionally during the year (such as seasonal workers in agriculture, construction, tourism and public works). Most of the temporary workers refuse to be officially recorded as employed since at the end of the working arrangement they need to pass through all administrative and bureaucratic procedures for receiving social assistance again. That is the main reason why many of the unemployed who are offered the public work or seasonal jobs are keen to reject it. The system of social assistance should motivate people to move in formal employment. To lower tax burden for low income per person. Fostering the labour inspection inspections in order to reduce the misuse of social

5.Better harmonization of the educational systems to the needs of labor market In this moment despite the high unemployment in the country there is a significant unsatisfied demand for some professional profiles due to inadequate planning and anticipation of the state occupations demand and proper professional profiles. Currently there is a high demand on Macedonian labor market for: bakers, cooks, welders, car painters, mechanics, technical maintainer, electricians, miners, farmers, IT engineers, managers, brokers, freight forwarders and insurance agents. We are producing professionals that are theoretically well-prepared but without skills and abilities needed for quick and easy adoption to the workplace and performance of actual job duties. Lately more valued and required are so-called soft skills such as creative thinking, problem solving, good communication skills, teamwork ability and proactivity. Reforms in secondary vocational education and better anticipating of staffing and professional profiles in cooperation with companies is required to meet the expectations of employers.

Access to finance

1.Stabilizing the macro economic policy (by decreasing budget deficit)and changing of the monetary strategy ,so that the banking sector become more effective. in order successive changes into banking sector to become effective. Most of all, decreasing of bank's interest rates that would lead to lower cost of financing for the companies and increasing their competitiveness.

2.Fostering the competition among banks; except classic banking operations, banks shell focus on non-classic banking services too such as investment banking. They shell establish processes for offering and advising their clients with the possibilities for providing financial assets, first of all by securities issuing.

3.Developing capacities for raising funds on the capital market .for example Private brokerage houses which are not part of the banks shell strengthen their investment advisory and to offer packages for businesses which want to engage finances by means of capital market either with issuing securities or investing their available financial assets in order to increase them.

4.**Government shell undertake additional measures for capital market stimulation** For example: capital gains tax exemption for the investors that made investments on the primary market, tax facilities for the issuers on the primary market, subtending of the process of securities issuing, simplifying of the procedures for issuing, etc.

5.Fostering education and information for all new funds raising possibilities. For example: Business communities should take more active part, they shall also play the role of the main intermediary in the social dialog between Government and private sector.

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Jain (2001a), p. 1

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"Level and pattern of corruption in the Southeastern European Countries," Draft, SEE Draft 1.doc. 01/08/01, pp. 2-3. For more detailed insight and discussion on administrative corruption and state capture see Hellman, Jones, Kaufman and Schankerman (2000) and especially World Bank (2000a), pp. xv-xvii. For a comprehensive summary of studies that have dealt with systemic administrative corruption and bribery see especially Jain (2001b), p. 61

When it comes to the firm-level aspect of corruption, J. Svensson points out that, although modern research on the economics of corruption started as early as 1975 (with Rose-Ackerman, 1975, 1978), economic studies on corruption at the firm level are rather limited

(Svensson, 2000, p. 3). One reason for that, he estimates, was that "until recently it was considered impossible to systematically collect micro data on corruption." However, with appropriate survey methods and interview techniques, Svensson argues that firm managers are willing to discus corruption "with remarkable candor." Thus, Svensson concludes, quantitative firm-level data on corruption can be collected (Svensson, 2000, p. 12)

"Bribe size and incidence are determined by the overall level of benefits available, the discretionary power of officials, the risk of corrupt deals, and the relative bargaining power of briber and bribee" (Rose-Ackerman, 1997, p.38). For more elaborate conclusions about the amount paid for bribery (the economic costs imposed to firms) see Svensson (2000, pp. 21-22). Svensson points out that the amount paid is a function of firm characteristics: a firm's current and expected future profits, and to what extend the firm's capital sock is sunk. Thus the amount of bribes does not appear to be a fixed sum for a given public service but depends on the firm's ability to pay: the more a firm can pay the more it has to pay. Or, in other words, the "price" a firm must pay for a given service is a function of the firm's ability to pay. Svensson shows that these findings are robust to a number of potential statistical problems

As for the cases when firms typically have to pay bribes when dealing with public officials whose actions directly affect the firms business operations, Svensson points to such examples as exporting, importing, or requiring public infrastructure services (Svensson, 2000, p.2)

As a comparison, in a similar firm-level survey commissioned jointly by EBRD and The World Bank—The Business Environment and Enterprise Survey (BEES)— and conducted in Central and Eastern Europe (CEE), The Commonwealth of Independent States (CIS), and South Eastern Europe (SEE), the results show that only 25% of

firms surveyed in SEE countries (the group containing Macedonia) belong to a trade association or lobby group (in Macedonia, the figure was 66.3%), compared to 38.2% for CEE countries; see "Level and pattern of corruption in the South Eastern Europe Countries," Draft, SEE Draft 1. Doc. 012/08/01, p. 7

Again, as a comparison, 75.7% of CEE firms prefer to act through trade associations or lobby group and 15.1% rely on direct ties to public officials. For SEE countries these figures are 54.9% and 31.5%, respectively.

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