



Поддржано од Словачката агенција за развој  
Supported

## Business Environment Index-Macedonia Second Quarter 2010

### I. Introduction

The project on evaluation of 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 Confederation of Employers of Republic of Macedonia (CERM). 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 during the second quarter 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).<sup>1</sup>

Main findings from the survey and developments in the overall index are the issues that should be discussed with the public, business sector and policy-makers in order on adoption recommendations for improvement of the business environment.

The result of assessment of BEI is a relevant expression and a voice of business community (represented by CERM) in its dialogue with the policy-makers, it has a value of **recommendation!!!**

The focus of CERM is not towards pressuring Government in political direction. On contrary, its a model of communication and dialogue, expression of business community on reducing main obstacles to business through quality legislation with good enforcement record, efficient administration, better access to finance, improvement of infrastructure etc.

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<sup>1</sup> 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.

## **BEI Macedonia in the second quarter of 2010**

The questionnaire was sent 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 CERM 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.