

CENTER FOR RESEARCH AND POLICY MAKING  
C R P M



**POLICY BRIEF N.2**

**GENERAL ISSUES AFFECTING THE SHTIP ECONOMY AND THE APPAREL AND  
TEXTILES INDUSTRY**

Date: August 9<sup>th</sup>, 2005  
Place: Skopje, Macedonia

The Center for Research and Policy Making (CRPM) is an independent, non-profit research and policy institute, created in recognition of the pressing need for independent, in-depth analysis of the complex issues involved in promoting stability and prosperity in Macedonia and South Eastern Europe. CRPM consists of experts from the country, working as researchers in the organization, as well as external consultants in close contact with the organization. It seeks to offer timely, provocative policy analysis on the most pertinent issues in the region and has no 'hidden agenda', but seeks to promote democratization and economic transformation in the country. CRPM wants to influence policy makers and public opinion to accept certain solutions as to how to resolve the key issues in the country. It has no party, political or any other organizational affiliation.

The Organization aims at filling an important gap in the regional civil society environment, which lacks institutions directed at monitoring and critically viewing the policy-making process and its output from an informed and educated point of view, while at the same time offering a forum for discussion and publishing of works dealing with this subject matter. The standpoint from which it approaches certain issues is principled. The organization considers peace and stability as the first principles that should reign in the Balkan countries, and believes that the major political goal of Macedonia is the integration with the European Union.

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## *Payments: Enforcing Payments in Macedonia and in the Region*

The most contingent problem of all interviewed companies in Stip is the problem with payments or most particularly enforcement of payment contracts. Most of the companies, especially in the apparel sector, work with traditional partners, and thus the insecurity to collect the due payments for them is lower. However this is somewhat conservative and backward behavior and not applicable in relation to the new changes in the apparel market pertinent to the Agreement of Textile and Clothing within the WTO framework, that will affect further changes in the apparel industry and thus the companies from Shtip should find alternative ways to pursue the same, or increase the level of production and in the same time arrange secure payments for their services. This is also next to the plans of many Shtip's apparel companies to sell their products on the domestic, Serbian and other neighboring markets. Here they are faced with very inefficient court system<sup>1</sup> and tradition to avoid payments which creates the snowball effect<sup>2</sup> and destroys the local economy.

In Macedonia the court procedures for enforcing payments contracts are numerous (for enforcement of a single contract 27 days, and holds the 64<sup>th</sup> place in the latest Doing Business report of the World Bank)<sup>3</sup>, long (take up to 509 calendar days<sup>4</sup>); and very expensive (Macedonia stands on the top in the region amounting to 32.8% of the value of the debt compared with the regional average of 17.7% and OECD (Organization for Economic Cooperation and Development) average of 10.8%).

The absence of good contract enforcement, trade and credit are restricted to a small community of people that has developed informal relations through kinship, repeated dealings with each other, or the security of available assets. The ability to enforce a contract is critical for businesses to engage with new borrowers or customers.

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1 According to the World Bank Report: Doing Business in 2005, the courts in the region are slow, inefficient, and even corrupt.

2 When in a contracting relation one company is a creditor, the problem in paying off its claim influences on company's becoming a debtor in a another contracting relation. The insolvency of one company creates insolvency to another company and soon the economy will be suffocated with the backlog in payments.

3 Serbia is 99<sup>th</sup> with 36 procedures, Bosnia and Herzegovina 96<sup>th</sup> also with 36 procedures, Albania is located at 108<sup>th</sup> place with 39 procedures, Turkey is 36<sup>th</sup> with 22 procedures, Greece is 2<sup>nd</sup> with only 14 procedures.

4 For comparison, in Serbia you need 1028 days, and in Slovenia 1003. However this is very slow and time consuming compared to Greece where the same procedure ends within 151 days.

## **Recommendation**

The effort to overcome problems with enforcing payments should be two-fold and should deal with both companies and courts or other institutions of the system, such as a credit rating agency.

The companies can help themselves in ensuring secure transactions / payments with clients if following these recommendations:

1. Ask the new client to provide references from other textile companies/service providers/food processing companies that operated in the region;
2. Do not produce without having at least half of the money available for an advance payment;
3. Work only with traditional clients, though it is the most conservative approach.

However as the courts have crucial role in enforcing payments, the policy makers should develop strategy that targets the reform of the judicial system on the basis of the following recommendations:

1. Establish information systems on caseload. Judiciaries with such systems (for example, in the Slovak Republic) can identify their primary users and the biggest bottlenecks.
2. Reorganize the workflow in the courts so that clerks, not judges, are responsible for company registration. This can free up resources for commercial litigation.
3. Simplify the procedures for commercial disputes, by reducing procedural formalism, or introducing new alternative dispute resolution mechanisms such as arbitration and mediation. Commercial arbitration and mediation in Macedonia are not practised, though the Slovenian example of having 54% of the commercial disputes resolved in a court-annexed mediation is an encouraging fact.
4. Modifying the structure of the judiciary may allow for small-claims courts and specialized commercial courts.
5. Introduce the notary writ as a more efficient enforcement mechanism for claims from pledges and leasing contractual relation where the ownership is clearly defined.

## ***Labor legislation***

Employers in the apparel sector require more flexible labor regulations that will address the specificity of this sector (seasonal work; overtime; weekend labor etc). However one should be careful when classifying the labor in the textile industry as seasonal, as in that case most of the social security benefits and labor rights would be less

vigorously applied. Laws that regulate the number of hours in the work week and the overtime hours do not apply to seasonal workers and these are the details that are of particular interest to garment producers in Shtip and throughout Macedonia. There were attempts in Bulgaria for classifying all garment industry employment as seasonal.

The flexibility of fixed-term contracts in particular (used for seasonal workers and when there is an enhanced workload) has been subject of an initial assessment (on basis of an OECD developed methodology), covering numerous aspects of regular and fixed-term contracts and collective dismissal procedures. As shown below, employment protection scores for Macedonia are above the average for transition countries as well as above the scores of its neighbors (see Table 1). The scores for regular contracts have been reduced substantially, but fixed-term contracts, which are an important source of flexibility, do not score as well because temporary employment agencies do not have a clear legal framework to work in.

Moreover, collective dismissals are made after a rather prolonged process compared to individual dismissals. A further source of inflexibility is the disincentive against the use of part-time employees created by the floor set for social contributions, which is based on 65 percent of the average sectoral wage for full-time work, thereby increasing the effective payroll tax for part-timers.

**Table 1: Employment Protection Legislation in Transition Economies and OECD, Early and Late 1990s**

	Regular employment		Temporary employment		Collective dismissals		Combined score (regular and temporary employment)	
	Early 1990s	Late 1990s	Early 1990s	Late 1990s	Early 1990s	Late 1990s	Early 1990s	Late 1990s
Macedonia*	3.9	2.1	5	4.4	4.2	4	4.4	3.2
Transition economies**	2.4	2.2	3.5	3.4	2.5	3.4	3	2.8
OECD countries***		2.2		2				2.1

*Notes:* Using a scale of 0-6, where a higher score indicates more restrictive legislation. Following OECD (1999) methodology, the above summary scores reflect the following aspects of employment protection legislation: (a) regular contracts: difficulties in procedures for layoff, delay to start a notice, the length of notice period, the value of severance pay; definition of unfair dismissal; trial period, compensation for unfair dismissal, and the frequency of reinstatement; (b) fixed-term contracts: valid cases other

than the usual “objective,” maximum number of successive contracts, maximum cumulated duration, and temporary work agency: type of work for which such work is legal, restrictions on number of renewals, and maximum cumulated duration; and (c) collective dismissals: definition of collective dismissal, additional notification requirements, additional delays involved, and other specific costs to employers.

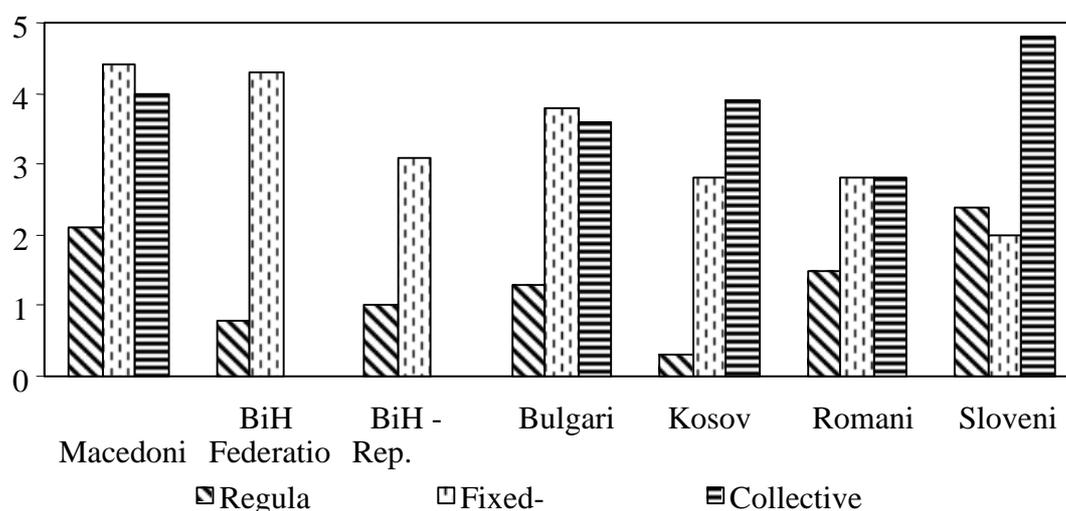
\*The latest score refers to 2003.

\*\*Average for Bosnia and Herzegovina, Bulgaria, Czech Republic, Estonia, Hungary, Kosovo, Poland, Romania, Russia, Slovakia, Slovenia, and Ukraine.

\*\*\*Average for Australia, Austria, Belgium, Canada, Switzerland, Germany, Denmark, Spain, Finland, France, UK, Greece, Ireland, Italy, Japan, Netherlands, Norway, New Zealand, Portugal, Sweden, and USA.

Source: Haltiwanger, *et. al.* (2003), World Bank (2002), Bank Staff Calculations for Macedonia.

Figure 1: Employment Protection Legislation in the Balkans, Late 1990s



Source: Table 1.

In the Macedonian garment industry there is a low-level criteria for evaluating job quality and this attests to the general conditions in the factories that lead to low expectations of workers, where the basic criteria is whether an employer is actually paying his or her workers. Systematic violation of other labor rights is subsequently marginalized though the connection between tax evasion and ignorance of labor laws seems obvious. The most common violations of basic labor rights in the garment industry in Shtip are the following:

1. Constant requirement to work excessive hours
2. Low pay
3. Obstructing the right of the workers to organize in syndicates and collective bargaining

The pressure to work excessive and underpaid overtime, plus meager wages and the absence of worker's representation are characteristic of pre-Fordist capitalist labor relations.

### **Recommendation**

As the afore mentioned preliminary assessment finds the average employment protection legislation in Macedonia more restrictive than in transition countries or in neighboring countries such as Bulgaria or Romania, despite improvements during the 1990s and again in 2003, the legal framework for flexible labor contracts needs improvement and clarification, in particular regarding the work of temporary employment agencies, and the process of collective dismissals. The method for calculating payroll taxes for part-time employees should be revised to reduce the effective tax rate. The introducing of flexible labor contracts will firstly work against hindering private sector activity and provide incentives for decreasing informality; secondly it will decrease unemployment and thirdly, it will enhance the payment of social benefits contributions and subsequently the sustainability of the public funds that provide social services. This measure should, however, be accompanied with others, such as job quality evaluations and adequate application of labor standards in an effort to decrease violations of labor rights in the garment industry.

### ***Access to Finance***

Sometimes it is unclear whether the relation between economic growth and development and financial sophistication isolates the effect of improvement in the financial system on the growth, or, in reverse, reflects the impact of good growth prospects on the incentive to develop the financial system. However, it is a well known fact that a developed economy is characterized with a developed financial system and vice versa, a developed financial system pertains to a developed economy. The Macedonian financial system is far from being developed as it lacks many financial instruments and institutions existing in all developed countries, while those which are active are either still in their infant phase, or undeveloped. That is a serious drawback, particularly taking into consideration the low level of domestic capital accumulation and the low level of FDI in the country.

The Macedonian Financial Institutions integrate the following:

- Banking sector
- Leasing Companies
- Business Incubators
- A Guarantee Fund
- A Venture Capital Fund
- Fund for Technology Development
- Funds for Promotion Activities
- Donors' Institution

The most commonly used financial sector is the **banking sector**. Commercial banks address short and medium-term enterprise financial needs by granting loans, using own resources or donors' funds. At present, 13 donor credit lines exist on the Macedonian market. At the moment, 21 banks operate in the country. With few exceptions, most of them are with small size and limited capabilities. In Shtip, most of the major Macedonian banks such as Komercijalna Banka, Stopanska Banka, and Tutunska Banka have outlets or their branches. The banking policy is created on a central level, although from very recently, branches have started to grant loans based on their own decision, particularly when the loan amount is not huge. Domestic ownership in the banks prevails, which might be one of the reasons for old fashion providing of services of most of the Macedonian banks. Until now, only 28.5 % of the total bank assets has been bought by foreign banks, which compared to Bulgaria, where by 2000, only 19.2% of bank assets remained with 5 state-owned banks while 25 foreign banks accounted for 74% of total banking assets, is not much. It seems that Bulgaria has made a strong commitment to foreign control of its banking sector and its intermediation effectiveness measures are currently stronger than those in Macedonia. The Bulgarian pattern was followed by Romania where already at the end of 1998, 36 banks were operating in Romania out of which 19% were state owned and 44% were mostly foreign owned.

Banks are generally very risk averse, demanding anything up to 200 % collateral for loans, and their procedures for lending to companies are inherited from the previous system that did not pay attention to risk management at all. In addition, most entrepreneurs themselves lack business experience, which increases the reluctance of banks to lend to them. The result is that many new or young enterprises encounter major problems in accessing the money they need to start up or fuel their growth. Lending is based on collateral, not on risk analysis. On the other hand, lack of collateral is by Macedonian managers repeatedly raised as being one of the most difficult hurdles for companies to overcome when trying to obtain loans. Additionally, banks prefer collaterals from the capital city as there are uncompetitive prices of real estate outside Skopje.

Interest rates are still high and vary between 6.5% and 12% p.a. Interest rates, among others, are determined by the rate by which the state borrows money. The official key interest rates in 2004 were:

Country	Percentage
Bulgaria	2,44
Macedonia	6,50
EURO Area	2

The Table clearly shows that the Bulgarian is in advantageous position vis-à-vis the Macedonian. With such low official key interest rate, the loan interest rates are much lower in Bulgaria in comparison to Macedonia. A similar issue is the question of reliability, competitiveness and readiness of the Macedonian banking sector to give access to credits to the SME sector. The general impression is that: “After a period of instability in the banking sector, greater confidence has been restored. Private commercial banks are considered to be satisfactory stable, however the degree of competitiveness and services remains “poor” as far as small entrepreneurs are concerned.”<sup>5</sup> Also, some small entrepreneurs claim that the commercial banks discriminate the small firms against the big ones when giving access to credits.<sup>6</sup> Another impediment in this regard can be the high interest rates provided by the banking sector. In Romania, the private sector considers the commercial banking system to be fairly stable, with increasing levels of competition. At the same time, the SME owners and managers are concerned by the perceived high level of bureaucracy of the commercial banks, for example in relation to credit application procedures. Moreover, banks are perceived to be conservative, not very proactive towards their SME clients and discriminating against small firms as compared to larger firms.<sup>7</sup> The same conclusions apply to the Bulgarian banking sector and the way it is perceived by the entrepreneurs.

Furthermore, Macedonian banks possess huge short term credit resources, which they should find a way to transform into long term due to the fact that Macedonian companies necessitate long term financial schemes. **Micro lending** has been promoted very recently in Macedonia by very few banks and two saving houses. It is offered at rates around 18 % p.a. The banks often perceive micro loan as a high risk and low return activity due to the important failure rate and the high handling cost for micro-loans. **Export credit insurance (ECI)** is available since 2001 solely through the state owned Macedonian Bank for Development and Promotion. The very small number of subscribers shows the ECI has not

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5 See OECD and EBRD, *FYR Macedonia, Enterprise Policy Performance Assessment*, September 2003.

6 Id.

7 See OECD and EBRD, *Romania, Enterprise Policy Performance Assessment*, December 2002.

been advertised at all. In fact, during interviews that CRPM team conducted with apparel companies, the need for export insurance was pointed out, as it does not exist on the market at all. In addition, many exporters operate on the basis of long established relationship with the same clients, and do not feel the need for insurance against a risk.

**Leasing** is still in infant phase. With exception of enterprises, located in the country's capital, few enterprises in other parts of the country are conversant with it. Only two leasing companies operate on the market and cross-border leasing is undeveloped. **Factoring** is not developed in Macedonia at all. At present, two Guarantee Funds and one Venture Capital Fund operate on the market. Again the access to their services is limited to those entities located outside the capital city. Although several **Venture Capital Funds** were registered, only one, the **SEAF**, operates on the market, providing **expansion (or development) finance**. Few performing and fairly developed SME have been benefiting from SEAF. None of them is from Shtip. Reasons for that are found in poor managerial capabilities, unclear financial statements, insufficient financial profitability of SME, and SME managers' preference to stay independent. Additional drawback is the weak and illiquid stock market in Macedonia. However, the investment program of SEAF is about to be closed. This is a serious disadvantage taking into consideration the up-scaling trend in EU of **venture capital** as one of the most relevant sources of finance for companies to fund their investments. The **Fund for Technology Development** is administrated by the separate Department for support of the technology development of the Ministry of Education. The Fund is financed by the budget of the Republic of Macedonia and 0.01% of the total budget amount is aimed at technology transfer and development. Funds are publicized through yearly bid for co-financing, by the Ministry of Education, to encourage projects introducing innovation/improvements and the key condition is established co-operation with the state University and/or research centers. Considering the limited amount of disposable funds, limited number of projects profited in the last period. At the same time, it seems that the public awareness of the existence of the fund is insufficient.

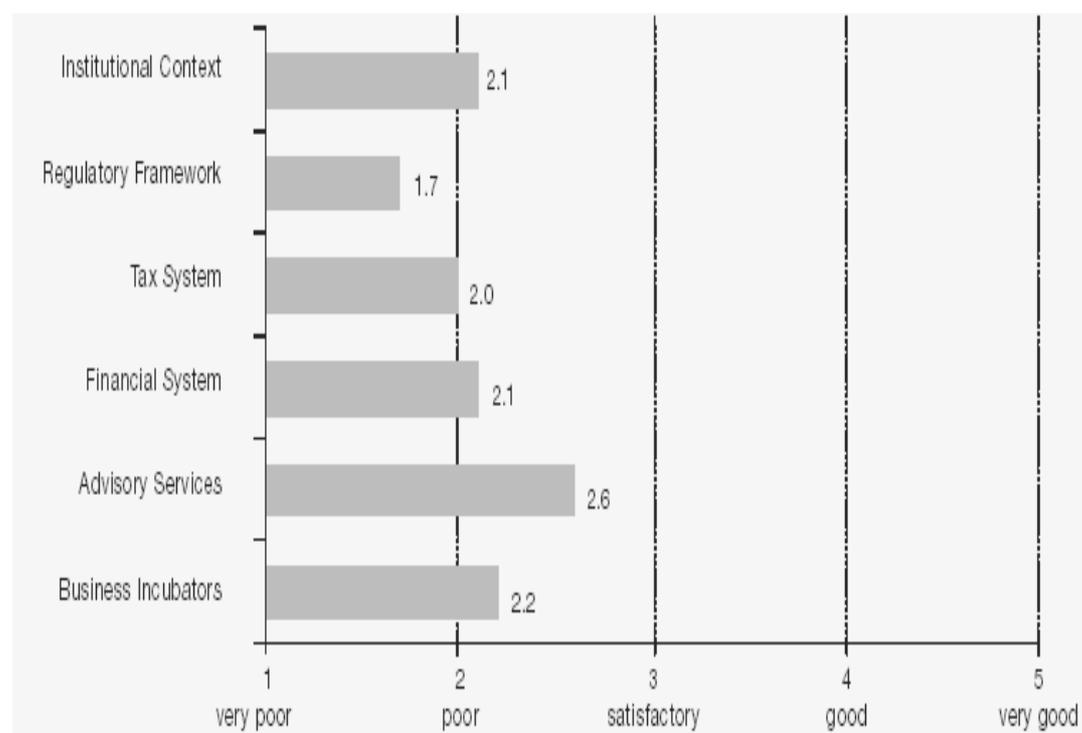
Furthermore, the **Fund for Promotion Activities** is administrated by the Department for promotion activities of the Ministry of Economy. The Fund co-finances promotion and other marketing activities of SMEs in the country and abroad, as well as implementation of ISO standards. Additional co-financing source for diversified advice and consulting services for SMEs is the Programme of BAS (Business Advice Services). Complimentary techniques to help entrepreneurs, especially start-up business firms in the EU, are the Business Incubators and Business Angels. The **Business Angels** network is not developed in Macedonia at all. The World Bank has established seven **Business Incubators** in the country. Most of them tackle many difficulties. Although tenants are expected to graduate from the incubator within a reasonable time frame to allow others to use the service, it seems that "reasonable time frame" is more considered by SMEs as long or "forever" time frame. CRPM research reveals that Shtip companies are not informed about

other financial instruments and institutions existing in Macedonia besides banks and their services, neither about their activities and the possibilities they offer.

### *Bureaucratic Obstacles to Doing Business in Macedonia (Bulgaria and Romania - Comparative Overview)*

A research on the SME sector in Macedonia carried out by EPPA (Enterprise Policy Performance Assessment) in the year 2002 showed that among all the administrative and legal obstacles taken into account, the regulatory framework rated the poorest of all. During the research six frameworks of good practice were taken into account, such as institutional framework for SME policy, rule of law and regulatory environment, tax policy for small businesses, financial instruments for fostering small businesses, advisory services provided to small and newly established businesses and implementation of business incubators.<sup>8</sup>

Table 1: Average ratings of the 6 dimensions of good practice by SME owners and managers<sup>9</sup>



<sup>8</sup> See OECD and EBRD, *FYR Macedonia, Enterprise Policy Performance Assessment*, September 2003.

<sup>9</sup> Id.

The focal points of the above-mentioned survey highlight the business climate in Macedonia and give a clear view on the main administrative, legal and factual obstacles that businesses face in Macedonia:

a. The general observation by the entrepreneurs was that the Macedonian government provides little or no support to the development of the SME sector. The statement given by one entrepreneur when asked about the role of the local and regional governments in fostering the SME sector is appalling: “They are a bit like airplanes without engines”.<sup>10</sup> When considering the issue of the degree of communication and consultation between the governmental institutions and the private sector the general observation of the Macedonian entrepreneurs is that SME policies are usually drafted by persons that lack experience and have no understanding of the functioning of the business sector in Macedonia.

b. While analyzing the issue of the rule of law and the regulatory framework<sup>11</sup> few things should be highlighted as potential administrative and legal obstacles to doing business in Macedonia:

b1. The most important obstacle from an administrative and legal point of view is the company registration procedure. In April 2004 new Law on Trade Companies was enacted in Macedonia. The Law offers new solutions as to the company registration procedure and it simplifies it by introducing the concept of “one-stop-shop”. Unfortunately, this system of company registration has not been implemented yet into practice. Namely, there is a legal dispute about the transfer of the competencies for Trade Registry from the Courts to the Central Registry.<sup>12</sup> It should be noted that the introduction and the functioning of the “one-stop-shop” system was envisaged 2 years ago. The introduction of this system would have made the company registration procedure simpler in terms of money and time. The new Law on Trade Companies stipulates that the company registration procedure should not be longer than 8 days. According to the new system rules, all the documents necessary for the company registration should be issued solely by one institution - the Central Registry. Apart from having a very good Law on paper, the factual situation shows the opposite and Macedonia is regarded as a country with a cumbersome company registration procedure that on average lasts not less than 2 months. Moreover, the costs of registering a company

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10 Id.

11 For a more profound analysis on this matter see: See OECD and EBRD, *FYR Macedonia, Enterprise Policy Performance Assessment*, September 2003.

12 See *Ednoshalterskiot sistem se zapletka vo ekspertskite pravni tolkuvanja*, Kapital, Broj 265, 25.11.2004 (available at <http://www.kapital.com.mk/DesktopDefault.aspx?tabindex=1&tabid=65&EditionID=436&ArticleID=8544>, last visited 16.02.2005)

in Macedonia range from 200 to 500 euros.<sup>13</sup> The system of company registration is so bureaucratic that its complexity can be nicely described with an observation made by an entrepreneur as a respondent in the EPPA survey: “Every bureaucrat has his own rules and own methods”.<sup>14</sup>

Table 2: Starting a business<sup>15</sup>

Indicator	Macedonia	Regional average (Europe and Central Asia)	OECD average
Number of procedures	13	9	6
Time (days)	48	42	25
Cost (% of income per capita)	11.6	15.5.	8
Min. capital (% of income per capita)	89.5	51.8	44.1

Unlike Macedonia, Romania experienced very good start in implementing the “one - stop - shop” national network system of company registration. Still, the Romanian entrepreneurs felt the burden of collecting various types of licenses issued by different institutions in order to register a company. Moreover, the entrepreneurs felt that the costs of establishing business in Romania are too high (ranging from 500 to 1000 euros). It is expected that the introduction of the principle of “silent consent” will improve the matters in this area.<sup>16</sup> Entrepreneurs can expect to go through **5** steps to launch a business over **28** days on average, at a cost equal to **7.4%** of gross national income (GNI) per capita, compared with the regional average of **52.8%** of GNI and OECD average of **44.1%** of GNI.<sup>17</sup> There is **no minimum deposit** requirement to obtain a business registration number.

On the other hand, the legal requirements for company registration in Bulgaria involve a number of distinct steps:

- Certificate of “uniqueness” of the company issued by the National Statistical Institute.
- Court decision for registration of the company in the Companies’ Register.
- Entry in the BULSTAT (Bulgarian Statistics Office) Register.
- Registration with the National Social Security Institute.
- Registration with the Tax Administration.

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13 Id.

14 See OECD and EBRD, *FYR Macedonia, Enterprise Policy Performance Assessment*, September 2003.

15 World Bank Group, *Snapshot of Business Environment – Macedonia, FYR, 2004*.

16 See OECD and EBRD, *Romania, Enterprise Policy Performance Assessment*.

17 World Bank Group, *Snapshot of Business Environment – Romania, 2004*.

One nuisance in the process is that in every stage of the registration procedure, applicants submit copies of the same documents to different institutions. The finalization of all five different types of required registrations takes at least one month, an average of 10 documents, a period of 27 business days and BGN 199.<sup>18</sup>

b2. Corruption is a well known occurrence for entrepreneurs doing business in Macedonia. There are bodies, public institutions, to curb corruption and bribery (e.g. Anti - Corruption Commission) but according to various national and international analysts their work has so far proved rather futile.

Similarly to Macedonia, in 2002, the Romanian Government has established an anti - corruption institution, and according to a survey undertaken by OECD much smaller percentage of firms is affected by corruption with respect to 1999 when 50.9% firms admitted to having made frequent bribe payments, whereas in 2002 only 36.7% of firms did so.<sup>19</sup> Thus, considerable progress can be seen in the Government's efforts to combat corruption.<sup>20</sup>

In Bulgaria the corruption is still considered a major problem, the main sources being the registration and licensing regime, customs officers, the police and the judicial system. A National Anti-Corruption Strategy was adopted in October 2001 to create a legal and institutional framework to promote anti-corruption co-operation and to implement specific measures. SMEs acknowledge the effort but are skeptical about its prospects of success.<sup>21</sup> Here are the results of a survey, where the foreign investors in Macedonia and Bulgaria were asked if they were ever obliged to pay bribes to state officials for different problems related to their business.<sup>22</sup>

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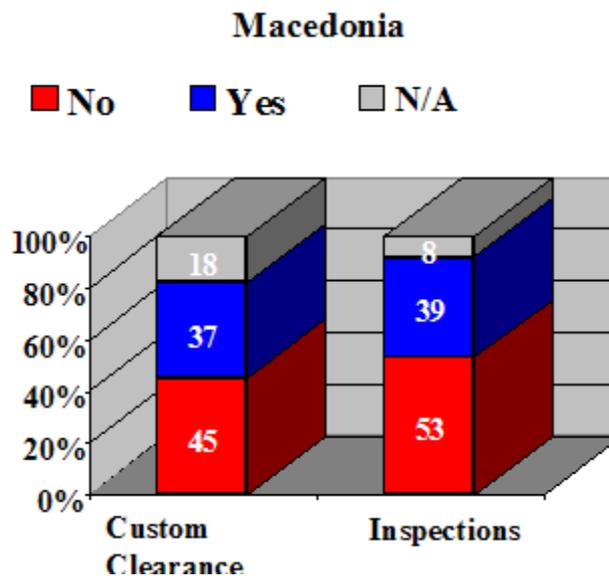
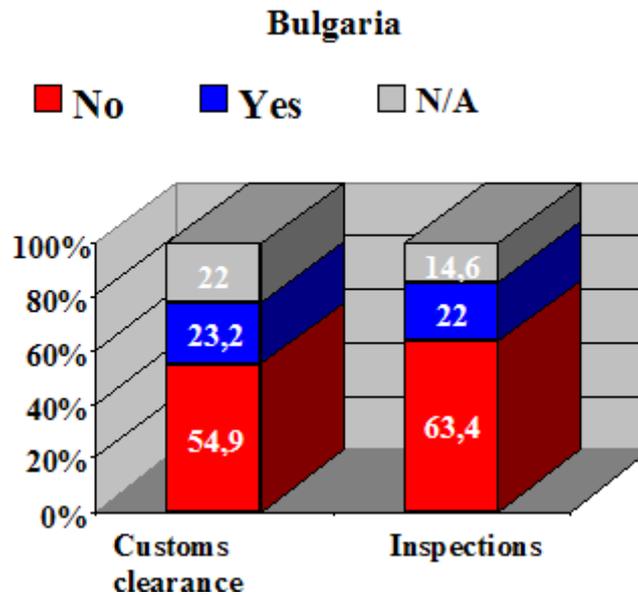
18 See OECD and EBRD, *Bulgaria, Enterprise Policy Performance Assessment*, December 2002. "Two pilot "one-stop-shop" initiatives are under-way. The first was launched in six local administrations in June 2000 by a decision of the Council of Ministers. A similar USAID project is planned for 30 municipalities. In December 2002 the Council of Ministers agreed to improve the administrative services to enterprises, based on the principle of "one-stop-shops". The first of the resulting offices are expected to open in 2003 in Sofia and Ruse".

19 See OECD and EBRD, *Romania, Enterprise Policy Performance Assessment*, December 2002.

20 According to the Global Corruption Report (Transparency International, 2001) Romania was placed in the 69<sup>th</sup> position behind countries such as Bulgaria and Moldova.

21 See OECD and EBRD, *Bulgaria, Enterprise Policy Performance Assessment*, December 2002.

22 Yalamov, *Comparative Survey of Foreign Firms in Albania, Macedonia and Bulgaria, January – February 2001*.



b3. Considering obstacles to doing business another issue that should be taken into account is the stability, predictability and transparency of the legal system. Hereby, one should note that constant changes of the legal rules pertaining to doing business generate ambiguity and uncertainty among the business community in Macedonia.

b4. The next issue that should be considered in this regard is the difficulty of enforcing contractual rights and the highly ineffective judicial system in Macedonia. The figures from the survey conducted by the World Bank Group show the following:

Table 3: Enforcing contracts<sup>23</sup>

Indicator	Macedonia	Regional average (Europe and Central Asia)	OECD average
Number of procedures	27	29	19
Time (days)	509	412	229
Cost - court and attorney fees (% of debt)	32.8	17.7	10.8

Unlike Macedonia where it is not practiced at all, the arbitration in Bulgaria as a means of settlement of economic disputes is becoming more popular. A number of arbitration courts have been set up at business and professional organizations such as Bulgarian Industrial Association (BIA), the Bulgarian Chamber of Commerce and Industry (BCCI), the National Union of Legal Advisors in Bulgaria, etc. The legal validity of arbitration awards is the same as court judgments.<sup>24</sup>

On the other hand, entrepreneurs tend to view the judicial system in Romania as being slow and erratic in reaching judgments, and open to external influence. Moreover, there is a perception among entrepreneurs that the court system cannot adequately enforce securities, contracts, bankruptcy and other commercial laws. The bankruptcy law is considered to be fairly comprehensive, allowing sufficient scope for liquidating failed businesses or reorganizing failing businesses. However, it places considerable responsibility on judges and administrators, and its procedures are considered to be time-consuming.<sup>25</sup> In Romania, the cost of enforcing contracts is **12.4**, (% of debt) compared with the regional average of **17.7%** and OECD average of **10.8%**. The number of procedures needed to accomplish this is **43** within **335** days.<sup>26</sup>

b5. The next issue that should be analyzed is the issue of the ease with which a business can secure its rights over the property. The World Bank Group Survey shows the following figures:

Table 4: Registering property<sup>27</sup>

Indicators	Macedonia	Regional average	OECD average
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23 World Bank Group, *Snapshot of Business Environment – Macedonia, FYR, 2004*.

24 See OECD and EBRD, *Bulgaria, Enterprise Policy Performance Assessment*, December 2002.

25 See OECD and EBRD, *Romania, Enterprise Policy Performance Assessment*, December 2002.

26 World Bank Group, *Snapshot of Business Environment – Romania, 2004*.

27 World Bank Group, *Snapshot of Business Environment – Macedonia, FYR, 2004*.

		(Europe and Central Asia)	
Number of procedures needed to transfer the title from the buyer to the seller	6	6	4
Time (days)	74	133	34
Cost (% of property value)	3.7	3.1	4.9

On the other hand, in Bulgaria it takes **19** days and **9** procedures to register property.<sup>28</sup> In Romania, it takes **170** days and **8** procedures to register property.<sup>29</sup>

b6. Another issue that should be taken into account is how well collateral and bankruptcy laws facilitate lending, i.e. access to credit (this is referred to as “Legal Rights Index “ in the World Bank Survey, and this index ranges from 0 to 10 - see the table below). The Credit Information Index in the World Bank Survey (see the table below) measures the scope, access and quality of credit information available through public registries or private bureaux. This index ranges from 0 to 6.

Table 5: Getting credit<sup>30</sup>

Indicator	Macedonia	Regional average (Europe and Central Asia)	OECD Average
Cost to create collateral (% of income per capita)	15.9	7.7	5.2
Legal Rights Index	6	5.4	6.3
Credit Information Index	2	2.0	5.0
Public credit registry coverage (borrowers per 1000 adults)	6	6.3	76.2
Private bureau coverage (borrowers per 1000 adults)	0	46.7	577.2

28 World Bank Group, *Snapshot of Business Environment – Bulgaria*, 2004.

29 World Bank Group, *Snapshot of Business Environment – Romania*, 2004.

30 World Bank Group, *Snapshot of Business Environment – Macedonia, FYR*, 2004.

If these data are compared with the data from the survey on the performance indicators of Romanian economy it will be concluded that:

Table 6: Getting credit<sup>31</sup>

Indicator	Romania	Regional average (Europe and Central Asia)	OECD Average
Cost to create collateral (% of income per capita)	1.1	7.7	5.2
Legal Rights Index	4	5.4	6.3
Credit Information Index	3	2.0	5.0
Public credit registry coverage (borrowers per 1000 adults)	4	6.3	76.2
Private bureau coverage (borrowers per 1000 adults)	0	46.7	577.2

b7. The next issue analyzed is the tax system in Macedonia and mainly the tax incentives offered to businesses established and functioning in Macedonia. The numerous tax reforms resulted in rendering less onerous and more transparent tax system. However, the SMEs owners and managers claim that there are “double standards” applied when it comes to calculating taxes for smaller businesses and larger businesses. Namely, SMEs are exposed to stringent sanctions by the tax administration for delays and failure to pay taxes on time, unlike large business entities that are tolerated in this regard.<sup>32</sup> Moreover, the equal treatment of enterprises irrespective of the size and the turnover stifles the development of the SMEs sector in Macedonia. Another issue that must be taken into consideration is all the paperwork generated around the tax system, which can be expensive and time consuming, especially for the smaller businesses.<sup>33</sup>

In Romania, rapid changes in fiscal policies undermine the ability of enterprises to forecast and plan the expected tax levels. This leads to lower investment and scarce job creation and adds to the compliance cost burden to firms.<sup>34</sup> On the other hand, in Bulgaria there are no tax incentives and instruments to support existing SME development and there

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31 World Bank Group, *Snapshot of Business Environment – Romania*, 2004.

32 See OECD and EBRD, *FYR Macedonia, Enterprise Policy Performance Assessment*, September 2003.

33 Id.

34 See OECD and EBRD, *Romania, Enterprise Policy Performance Assessment*, December 2002.

are no incentives to promote the start-up of new enterprises. The major problem of Bulgarian tax policy is that it is not yet perceived to be coordinated with the general economic policy. The tax system is subject to unpredictable change and the meaning of rules is often unclear. The rapidly evolving tax system makes it hard for small businesses to keep abreast of changes and to ensure that they can plan ahead with a degree of confidence. The tax system is perceived by SMEs to discourage competitiveness, business development and creation of new jobs.<sup>35</sup>

b8. The planning laws and planning system are another issues that might raise as an obstacle in doing business. In Macedonia the planning laws and the planning system are outdated and limit business establishment and expansion.<sup>36</sup>

b9. Customs formalities and the outdated customs system might be another impediment to doing business in Macedonia. Entrepreneurs seek a customs system with simple procedures that will reduce the costs of customs clearance. The system in Macedonia is time and money consuming and there is a lack of information about customs formalities.<sup>37</sup>

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35 See OECD and EBRD, *Bulgaria, Enterprise Policy Performance Assessment*, December 2002.

36 See *Transaction Costs for Business Entry and Contract Enforcement in the Republic of Macedonia*, Institute for Market Economics and Forum Foundation, Skopje – Sofia, 2002 – 2003.

37 Id.

ПОДРЖАНО ОД

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