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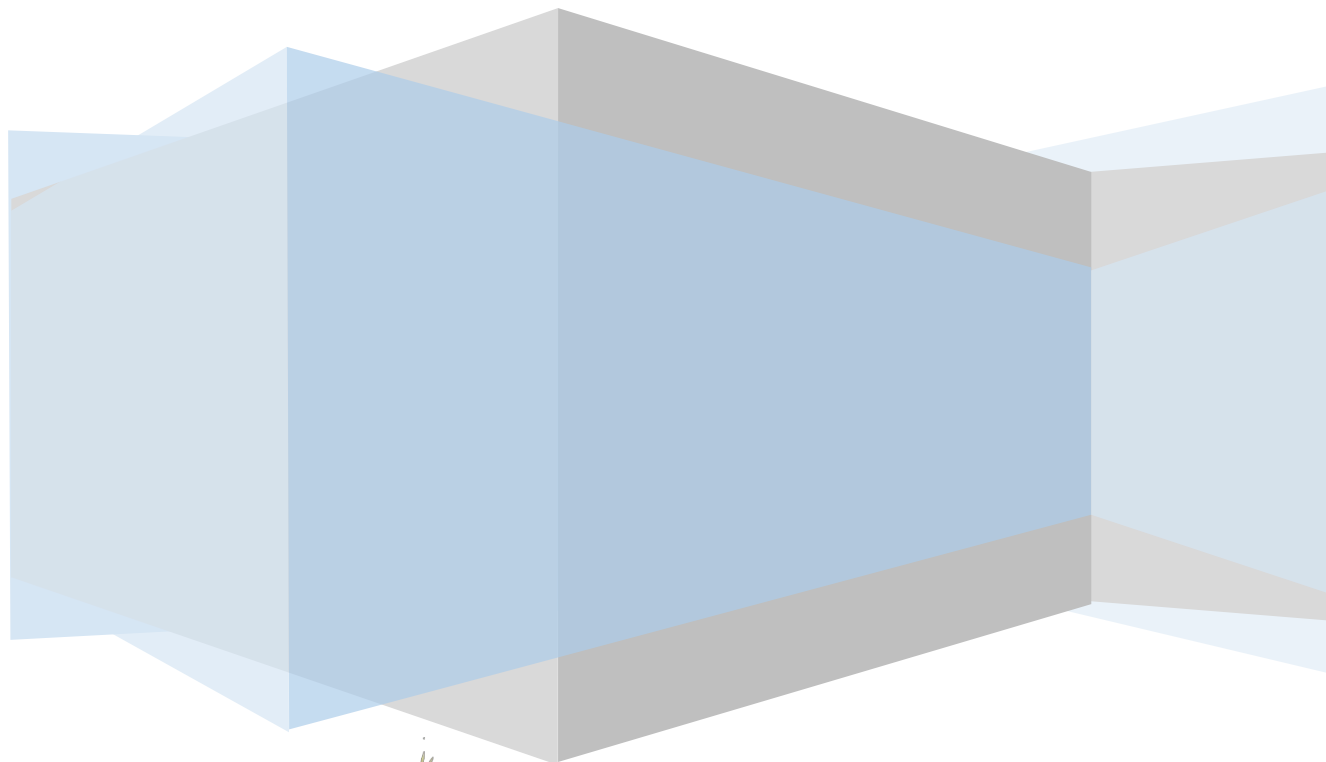
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REGULATION

Second Assessment of the Business Environment in Macedonia



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This publication is prepared by Jasminka Varnalieva for review by the United States Agency for International Development. The author's views expressed in this publication are the responsibility of the author and do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

The survey was organized and conducted by the USAID Projects – Partnership for Better Business Regulation and Modernizing the Inspection Authorities. The information provided in this report is designed to provide baseline assessment of the business environment in R. Macedonia. All findings and summarized conclusions are approved and discussed by all Project partners, EPI CENTAR International, Center for Development Policies IDEAS DePO, Economic Chamber of Macedonia, Economic Chamber of North-West Macedonia, ICT Chamber of Commerce – MASIT, Macedonian Chambers of Commerce)."

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Abbreviations

ECM	Economic Chamber of Macedonia
ECNWM	Economic Chamber of North-West Macedonia
ES-PAI	Electronic System for Collection and Analyzing of Information
ICT	Information and Communication Technology
MASIT	Macedonian Chamber of Information and Communication Technologies
MCC	Macedonian Chambers of Commerce
MSME	Micro Small and Medium Enterprises
PRO	Public Revenue Office
SME	Small and Medium Enterprises
USAID	United States Agency for International Development

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1 Executive Summary

The Second Assessment of the Business Environment in Macedonia was carried out in the period September 6 - 22, 2017. The goal of the assessment is to provide a mechanism to track changes in the selected areas of the business environment in Macedonia, and provide valuable recommendations for change to the government authorities and Chamber partners.

The research was done in full partnership with four partner Chambers of Commerce: Economic Chamber of Macedonia, Economic Chamber of North-West Macedonia, ICT Chamber of Commerce – MASIT, and Macedonian Chambers of Commerce. The Center for Development Policies IDEAS DePO and EPI CENTAR International as implementers of USAID Projects Modernizing the Inspection Authorities and Partnership for Better Business Regulation, respectively, coordinated all activities related to the survey and assisted the process in various manners.

Out of the pool of 1,300 identified companies contacted during the survey, 387 completed the questionnaire and their responses are the basis for analysis provided in this paper.

Inspection statistics

The surveyed companies have been visited by inspections on average 11 times in the last five years, which is almost the same as indicated in the Baseline Assessment. Large companies have been visited by inspections most frequently, on average 27 times in the last five years while micro companies had on average lowest number of inspections, 3. Having in mind that large companies are subject to regular annual audit by Public Revenue Office (PRO), these statistics are to be expected. When cross checking the size and the sector data available, it is clear that the biggest part of large companies belong to other sectors, and there is no participation of large companies in agriculture and tourism sectors that are most frequently visited by the inspections.

Micro companies had on average lowest number of inspections (3 in 2017 and 8 according to Baseline survey). About 17% of respondent companies have not been visited by any inspection in the last 5 years.

The average number of inspections varies significantly across different sectors. Agriculture and tourism are the two sectors with the biggest number of inspections. The reasons for such high frequency of inspection visits in agriculture companies, 46 will have to be further explored; they may be related to inquiries regarding subsidies granted to these companies. Tourism sector companies had on average 21 inspections in the last 5 years. The frequency of inspections has been the lowest in ICT sector, 2 inspections on average, but it is very low in construction sector as well, 4 inspection audits. This is strange since the construction sector is typically associated with high risks of various types and it is expected that the number of inspections will be higher.

In terms of locations, the biggest number of inspections in the last five years (80) is noted in the Southeast region. This indicator is much higher than any other comparator, and the reasons for this outlier will have to be further explored. When cross checking the survey data in terms of location and sector, it is obvious that the dominating sector in the Southeast region has been agriculture, with 50% of surveyed companies working in this sector. Southeast region also had highest frequency of inspections according to the Baseline Assessment as well (30), but still the difference to the other regions was not that significant. The number of inspections in the Skopje, Southwest, Polog and Northeast regions are on average between 5 and 7 inspections.

The most frequent inspections by institution have been the inspections conducted by the Public Revenue Office (PRO) and Customs with 26% of all inspections in 2017 survey and in the Baseline Assessment. State Labor Inspectorate carried out 22% of all inspection audits in 2017 and 18% in the Baseline Assessment. State Market Inspectorate is the third most important institution carrying out 10% and 13% of all inspections in 2017 and in Baseline Assessment respectively. Sector for Safety and Health of Working Conditions within State Labor Inspectorate had important role in terms of inspections, with 9% of all inspections in both assessments.

The State Inspectorate for Construction and Urbanism has the lowest frequency of inspections, 1.3% and 1.9% in 2017 and in the Baseline Assessment respectively pointing to very low activities of this institution, which is odd, particularly having in mind the very sensitive areas that it covers. Low number of inspections is also noted at the Ministry of Economy regarding concessions 1.48% of all inspection audits, however, given that the total number of registered concession contracts in the Registry of Concessions is 320, and not all of the companies granted concessions were part of the survey, this level of frequency is to be expected.

Out of the total number of companies, 65% have not experienced delays in getting licenses. Still, the number of companies faced with delays is 35% which is a number that requires urgent attention by the authorities. These percentages apply in general to micro, small and medium companies, while large companies have been facing delays in getting licenses more often, 50% of them reported experienced delays.

ICT and textile sector companies have not experienced delays in getting licenses in more than 80% of cases. On the other hand, agriculture and tourism sector companies have experienced delays in almost 50% of cases for getting licenses.

After completing the inspection audit, majority of companies, 45%, did not get any sanction. Warning was issued to 24% of companies, while 18% were issued fine. Temporary banning of professional activities was issued to 3% of companies, and no company was sanctioned with confiscation of assets. These statistics are similar to the Baseline Assessment data, according to which, 54% of all companies did not get any sanction, and warning was issued to 17% of companies, while 24% were issued fine. Temporary banning of professional activities was issued to 1.6% of all companies.

64% of ICT sector companies have not been fined compared to the other sectors where this number stands at around 50%. The ICT sector has also the lowest percentage of companies issued warning and fines (12% and 10% respectively), while for most of the other sectors, fines have been issued to around 18% of companies, except in tourism sector where 12% of companies were sanctioned with financial fine.

Most of the companies need additional education to stay in compliance with legal regulation. However, **according to the survey data, only 12% of companies received invitation for education** from inspection officers during inspection audits, while big majority of companies 72% did not get any invitation.

Inspection regulation and way of conduct

In order to stay in compliance with the legal regulations, companies need clear and easily available inspection regulation. **However, the survey statistics show that only 22% of the respondent companies believe that inspection regulation is clear and easily available.** This should trigger activities aimed at streamlining of inspection regulation, since 300 companies or 77% do not find these regulations clear, or are not aware of it.

Additional serious problem for companies is that they do not get clear information about the scope and process of the inspection audit. Survey data demonstrates that half of the surveyed companies received partially clear or not clear information about the scope and process of the inspection audit, while 5.68% of all

companies did not get any information from the inspection officers whatsoever. The number of companies that did not get any information, or got partially clear, or not clear information, a total of 56% is way too high to remain unresolved. There is a need to establish clear rules about handling inspection audit and providing clear and timely information about the audit to the companies.

According to the survey data, companies subject to inspection audit in Macedonia have not been treated according to the best practice inspection audit rules. Inspectors presented their identification documents to 32.87% of companies and inspection order documents to 30.91% of companies before the inspection audit. No documents were presented to 9.45% of companies, while a list of legal requirements was presented to only 7.68% of companies. This is a serious problem that requires urgent attention.

Typically, inspection audit has been conducted by either two or one inspector officers in majority of cases (74%). Only 7% of audits were conducted by three inspectors, and about 1% was conducted by more than three inspection officers.

For the majority of companies that have been subject of inspection audit, the audit took several hours (45%), or one working day (17%). 15% of the companies experienced audits that took several consecutive working days, or more than one week (6%). In terms of size break down, large companies experience bigger percentage of longer than average audits, compared to MSMEs.

In terms of company staff participating in the inspection audit, companies had to engage one employee in majority of cases 35%. Only 5% of companies had to engage more than 3 employees during the inspection audit. These are important indicators because scarce resources of the companies in terms of management or other personnel should not be taken away from regular professional activities for the inspection purposes. Large companies engaged three or more persons in more cases than the average.

The most frequent problem related to inspection audits identified by companies is insisting to find irregularity for the companies to be fined. This is a problem identified by 19.91% of the surveyed companies. The next group of problems is related to: inspectors not sufficiently prepared 14.29% of companies, unprofessional conduct 14.13% and too long audits 12.92%. It is clear that these major problems, emphasized by a total of 61% of companies need to be addressed immediately. Non-transparent procedures and uncoordinated inspection authorities have also been emphasized by companies.

After completing the inspection procedure, only 41% of companies were always able to get the audit report and to provide their remarks if they had any. However, 26% of the companies did not have access to the audit report on a regular basis, but rather sporadically. In addition, 15% of the companies were never presented the findings of audit report. Again, this is a systemic problem that requires immediate attention and solution. Within a transparent inspection audit procedure that needs to be established, presenting the findings of inspection has to be definitely included.

After the inspection audit companies did not file any appeal in most of the cases (59%). Only 14% of companies have filed one appeal to the relevant institution in the last five years, and only 9% of companies have filed 2-5 appeals. This indicator should be further explored to find out the reasons behind this extremely low level of appeals filed by the companies. One of the explanations could be that companies are not filing appeals because they do not trust the system, or they fear from revenge inspection visits and fines if they do file appeal. In any case, this is a matter that requires urgent attention.

Out of 387 companies, only 8% of all companies have had a case of accepted one appeal filed to the relevant institution. 3% of all companies got accepted 2-5 appeals, while 0.52% got positive responses to more than 5 appeals. In total, only 12% of total companies managed to resolve their appeals in a positive manner. However,

when calculating the number of accepted appeals versus the number of appeals filed, the percentage of successfully resolved appeals is higher (around 30%).

Taxes

Although Macedonia has some of the lowest tax rates in the region, still 20.75% of companies believe that tax burden is too high. In addition, 14.19% of companies in Macedonia consider tax legislation to be too complex and not clear. This is generally in line with the overall perspective and weaknesses of legislative framework being too complex and not very clear. 13.25% companies claim that tax regulation is being changed too frequently, even within the course of one year. 12.78% companies face problems with different standards of interpretation of tax legislation of different institutions in the system.

When asked about taxes that create biggest problems to companies, 37.73% of companies responded that they face biggest problems with Value Added Tax (VAT). VAT is very important tax in Macedonian tax system and many businesses often complain about VAT refund problems. Profit tax creates problems to 32.82% of companies, while personal income tax is a problem for 24.81% of companies. Only 4.65% of companies experience some problems with property tax.

Customs

In terms of customs, the biggest number of companies, 21.18% complained about the burden of too many documents, and 12.78% of companies complained about the speed of completing customs procedures. Interestingly, 10.65% of companies did not have any complaints about customs. The next set of complaints is regarding lack of interconnection between Customs and Public Revenue Office related to VAT refund emphasized by 8.40% of companies; IT system in customs procedures reported by 7.64% of companies; and the need to change regulation related to some procedures, stated by 7.39% of companies. The remarks provided by the businesses should be used as guidelines for further reforms in this area, so that the customs will no longer create obstacle for smooth operation of businesses in Macedonia.

Legal compliance

Legal compliance information is insufficiently available for majority of surveyed companies 46%, while 37% of companies believe that this information is mainly available. Only 6.72% of companies believe that the legal compliance information is fully available, while 10.34% of companies believe that this information is not available at all. Given the problem of too frequent changes in the legislation in Macedonia, there is an obvious need for improved access to information that would allow companies to stay in compliance with legal regulation.

When comparing the statistics from 2017 and Baseline Assessment, it becomes obvious that the situation is almost identical, with slightly higher percentages of companies in 2017 survey stating that they have fully available and mainly available information.

Out of 387 companies, 42.89% turned to external advisors, lawyers, consultants, accountants etc.; to assist them to stay in compliance with legal regulations. 119 companies (30.75%) used their own employees designated to follow legal regulations and keep up with the changes. 9.30% of companies asked Chambers for assistance in this area, and the same percentage of companies, 9.30% turned to relevant state institutions. 7.75% of companies did not use any advisory in this area. These indicators point to a well established fact that legal framework is still a big problem for businesses, and they do need assistance to keep track with changes and stay in compliance. It also demonstrates that Chambers and relevant institutions could do more to assist companies in this matter.

Big majority of companies, 286 (73.90%) confirm that they have not been involved in the process of adoption of legislation, which could include participation in workshops, panel discussions, focus groups, researches and similar activities. 101 companies (26.10%) did participate in this process. Unlike the majority of MSMEs, large companies are involved in the process of adoption of legislation in 69% of cases.

There are no major differences between the 2017 indicators focusing on involvement in the legislative process and the same indicators from the Baseline Assessment.

The list of top three solutions that could improve legal compliance of companies includes: simplified legislation, lower frequency of changes in legislation, and better awareness for current changes of the regulation.

Different companies use different types of external advice to keep in compliance with the legal regulations. **Biggest number of surveyed companies, 162 (41.86%) used accountants to help them stay legally compliant.** 88 companies (22.74%) used consultants, and 78 (20.16%) companies used lawyers. 33 companies (8.53%) did not use any external advice, while only 26 (6.72%) companies used advice from the Chambers. This demonstrates that companies tend to turn to different expert solutions in most of the cases, but the role of the Chambers in this area could be significantly improved.

When comparing the data related to types of external advisors used by companies in 2017 and in Baseline Assessment, it is obvious that while in 2017 survey the accountants have a leading role, in the Baseline Assessment, majority of companies used lawyers (35.59%), while 31.07% used accountants. According to the Baseline statistics, 7.91 % of companies were using Chambers advice to stay in compliance, which is very close to the 2017 statistics 6.72%.

Out of the 387 companies in the survey, a total of 280 companies (73%) have been either very satisfied (20%) or somewhat satisfied (53%) with the quality of advisory services. 64 (16%) companies have been not sufficiently satisfied, while 7 (2%) companies have been dissatisfied. This indicator points out that the advisory service providers should work hard to improve the quality of their services and make their clients very satisfied.

The top training required by the majority of companies 25.67% is in the area of finance and accounting, including tax and customs. Second highest priority for companies is training in labor regulations indicated by 17.85% of companies. The next priority group of required targeted trainings includes market inspections and law on trade; security and safety of the workplace; licenses and permits procedures; and public procurement.

Chambers

Almost three quarters of the respondent companies (70.54%) are satisfied or very satisfied with the services received from Chambers related to getting in compliance with the legal regulations. Only 8.27% of companies are not satisfied with the quality of the Chambers' services, but additional 21.19% of companies are somewhat

satisfied, leaving enough space for improvements. Chambers could explore in more details what could be done in addition to their regular work to increase the number of very satisfied and satisfied clients.

There are no major differences in the level of satisfaction of companies with the Chambers' services compared to the Baseline Assessment. These statistics are also similar for all participating chambers, with MCC and MASIT having the highest percent of very satisfied clients.

Big majority of companies, 70% believe that Chambers are involved in the process of adoption of legal regulation in terms of organizing workshops, focus groups, writing position papers and proposed changes in legislation in line with the needs of the private sector. 30% of companies consider that Chambers are not involved in the process of adoption of legal regulation. The Baseline Assessment statistics is almost identical with the 2017 survey responses.

The three most important priorities that Chambers' should focus on according to the companies are related to: (i) lobbying in front of the institutions (26%); (ii) providing accurate information on regulations (22%), and (iii) organizing more training (21%). It seems that networking (16%) and providing market information (15%), although important, have somewhat lower priority compared to the top three. The top three priorities have changed compared to the Baseline Assessment, since apart from the number one priority which is the same (lobbying), second most important priority was providing information for markets, and the third most important priority was networking with national and international companies. It seems that staying in compliance and getting timely and accurate information about changing regulation, as well as training, became more important in the last year.

Business Environment

Majority of surveyed companies, 71% believe that business climate in Macedonia is either equal or worse compared to the business environment in the region. Only 19% companies find Macedonia to be a better place for doing business and investment. It seems that there have been some improvements in the period between the two surveys, since according to the Baseline statistics, 82% of companies believed that the business environment in Macedonia was equal or worse than the region, and only 7.34% considered it to be better than the region. This perception is not in line with the overall ranking of the business environment according to the World Bank Doing Business Report, where Macedonia is ranked as much better place for doing business than the other countries of the region.

Legal regulation

Within the survey, participating companies were asked to provide their opinion on legislation in nine important areas: labor, construction, customs, tax, public procurement, environment, agriculture, hospitality and tourism, and fighting grey economy. In all of these areas perception of companies was clearly not positive. **Majority of companies stated that they were not happy with the regulations**, providing most responses as not enough satisfied, or not satisfied (lowest ranking). Very small portion of companies declared that they were very satisfied.

Priorities for reforms

According to the surveyed companies, 25% believe that the highest priority that needs urgent reforms is in the area of reducing grey economy, reducing corruption, and establishing level playing field. Second most important priority for reforms is in the area of efficient judiciary and contract enforcement (20%). Third priority for reforms is introducing transparent and predictable tax system and efficient tax administration (13%). The same priorities are listed in the Baseline Assessment as well.

Government support

Out of 387 respondent companies, only 2% believe that Government provides excellent support to businesses. Big majority of companies, 81% finds that there is either insufficient 62%, or no support at all 19%. The perception of companies in terms of government support to businesses has not been significantly changed compared to the same statistics in the Baseline Assessment. It is also in line with the dissatisfaction of local companies with unequal treatment compared to the foreign direct investors.

2 Introduction

Good business environment is one of the key factors that allows innovative private sector to grow and develop. Business environment is a complex and multi-faceted concept and there are different definitions of what a good business environment encompasses. Economic activities depend on reliable and good regulations and level playing field in order to produce best results. On the other hand, time required to complete certain administrative procedure determines to a great extent whether business owners could focus on their main activities or rather spend time on addressing barriers to doing business. Administrative barriers result in real and measurable cost for businesses.

In general terms, in the last twenty years Macedonia has put a lot of efforts to implement a number of critical reforms to improve its business environment and increase interest of potential investors to invest in the economy. To that end, the country has made significant progress in improving the overall ranking in the World Bank Doing Business Report and in closing the distance to frontier in most of indicators analyzed in the report. (Macedonia was ranked 11 out of 190 countries that participated in the latest 2018 report.)

Still, businesses in Macedonia are faced with various challenges during their day-to-day operations. Many of these challenges stem from the weaknesses in regulations, and/or in the lack of appropriate implementation and enforcement of legislation in different areas of work. Legislative framework in most areas in Macedonia has improved significantly during the past years, with majority of laws being according to the European standards, but the lack of proper implementation and enforcement in general creates considerable obstacles for businesses and citizens. On top of it, the legislative process became mostly one-way process, excluding any essential dialogue with businesses, their associations and civil sector. The need to provide suggestions and comments in the preparation phase is obvious from the fact that many new laws are subject to significant changes just several months after the official adoption. These very frequent changes in legislation result in uncertainties in doing business, and increased risk to fail compliance with legislation and pay severe sanctions and fines.

To be able to impact the challenging dynamics of the business environment, empowering a two-way communication related to legal regulations issues and improved business operations is essential. In light of this, the USAID Project – Partnership for Better Business Regulation envisions continuous efforts for accurate presentation of the legal regulations and requirements that concern the SMEs, as well as nurturing a sustainable public private dialogue that will be used for advocacy and lobbying of the SMEs' needs. In addition, USAID's Modernizing Inspection Authorities Project implemented by Center for Development Policies IDEAS DePo provided its inputs particularly in the area of inspections, and the findings and recommendations from the survey will be used to further improve and integrate in the inspection system in Macedonia.

This report is based on the findings of the second survey conducted by several Project partners. It is a follow-up after the first Baseline Report completed in February 2017. The idea behind is that this series of surveys and reports will provide a very good mechanism to track changes in the selected areas of the business environment in Macedonia, and provide valuable recommendations for change to the Project partners and government authorities. Moreover, all insights are intended to provide feedback to all Project partners in the

implementation and decision-making process, in relation with the envisioned tasks and activities towards better understanding of all stipulated legal requirements and improved compliance with the latest legislation changes. The identified specific challenges which impede the growth of the companies to a greater or lesser extent will represent a foundation for designing tailor-made solutions and tools, aiming at more sustainable practices instead of short-term fixes. Based on that, a significant number of companies across the country will be able to participate in the process, by becoming direct or indirect beneficiary.

The analysis provided in this report provides valuable data and specific opinion of 387 different sized companies across all planning regions in Macedonia.

3 Methodology

Methodology used for this paper includes conducting online survey of companies, in-depth quantitative and qualitative analysis of the data, obtaining general feedback from the participating business associations, desk research, etc.

The research underpinning the analysis of this paper was done in full partnership with four partner Chambers of Commerce: Economic Chamber of Macedonia (ECM), Economic Chamber of North-West Macedonia (ECNWM), ICT Chamber of Commerce – MASIT, and Macedonian Chambers of Commerce (MCC). MCC did not participate in the Baseline Assessment, while the other three Chambers continued partnership started last year. EPI CENTAR International and Center for Development Policies IDEAS DePo coordinated all activities related to the survey and assisted the process in various manners. EPI CENTAR provided computer system for statistical analysis, ES-PAI that enabled a complete synthesis of the collected data into one final statistical elaboration. It also provided data related to non-chamber members companies, as a reference point on the general opinion among the business entities in Macedonia. In this way, a number of large companies participated in the survey providing their insights on the business environment in the country.

In preparation of the survey, a detailed questionnaire was developed in a joint effort of all partners of the Project. The questionnaire includes a total of 56 questions; 51 structured questions with optional choice responses, and five open ended questions. Given the scope and the interest of the Project, the scope of research is focused on eight specific topics: inspections, taxes, customs, legal compliance, quality of chamber services, quality of regulations in several areas, general opinion on business environment and government support to businesses. In addition, the first section of the questionnaire determines the profile of respondent companies and allows for cross reference and analysis of a range of topics. This paper follows the flow of questionnaire and its structure is aligned to the structure of the questionnaire. This report also includes comparison of data obtained within the second survey to the comparable data from the baseline survey, wherever possible, since the Baseline Assessment incorporated 39 questions. All questions refer to the period of the last five consecutive years unless otherwise specified.

Within the preparation stage, each participating partner provided contacts of potential companies to be included in the survey, thus creating a pool of 1,300 companies from different sectors and locations in Macedonia. EPI CENTAR, through their ES-PAI - Electronic System for Collection and Analyzing of Information contacted all the companies from the pool and asked them to provide their feedback.

The survey was carried out in the period September 6 - 22, 2017. Unlike the baseline survey which was conducted in person or by phone, this survey was online. Out of the 1,300 companies contacted during the survey, 387 completed the questionnaire and their responses are the basis for analysis provided in this paper. The Baseline Assessment Report is based on responses from 177 companies.

4 Data Review

4.1 Sample description

First section of the survey determines the profile of respondent companies. It also serves as a basis for cross reference that allows in-depth analysis of the other topics of the research.

1. **Membership in Chambers** The first question of the survey is related to the membership of the companies to any chamber of commerce. It allows companies to select more than one optional response, since they can be members of more than one chamber. According to the survey data, majority of respondent companies, 83.80% are members of one or more chambers. Having in mind that Economic Chamber of Macedonia (ECM) is the largest chamber in the country, it is understandable that 42.02% of companies are members of ECM. 16.20% of respondent companies are members of Economic Chamber of North-West Macedonia (ECNWM) which covers big number of companies in North-West and South-West part of the country. 15.72% of companies are members of Macedonian Chambers of Commerce (MCC) which focuses primarily on SME interests. MASIT, which is a specialized ICT sector chamber, is represented in the survey with 4.93% member companies. There are also 4.93% companies participating in the survey that are members of other chambers of commerce not listed in the survey. Finally, 16.20% of companies are not members of any chamber, which allows the analyst to use information from these companies as a reference point for identifying main differences in the viewpoints on business environment issues of members versus nonmember companies.

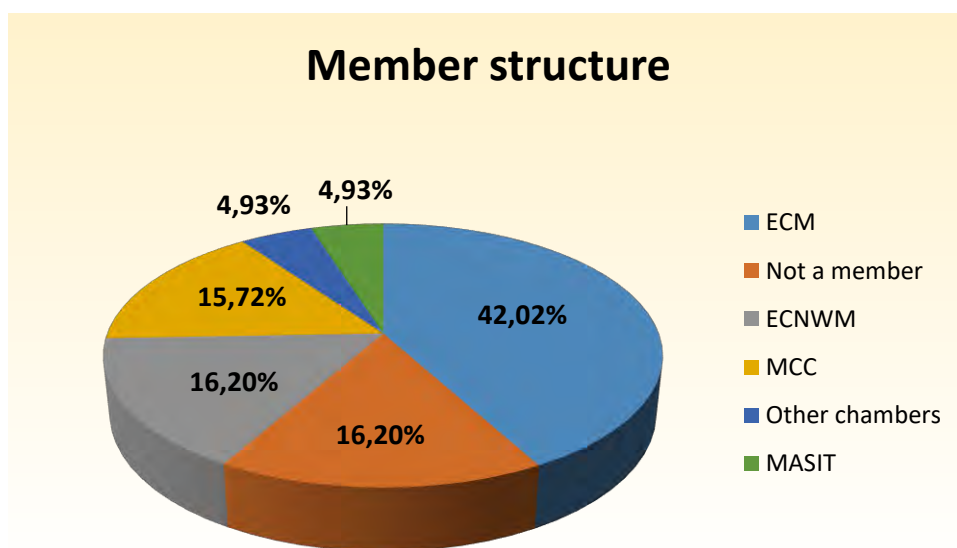


Figure 1: Member Structure

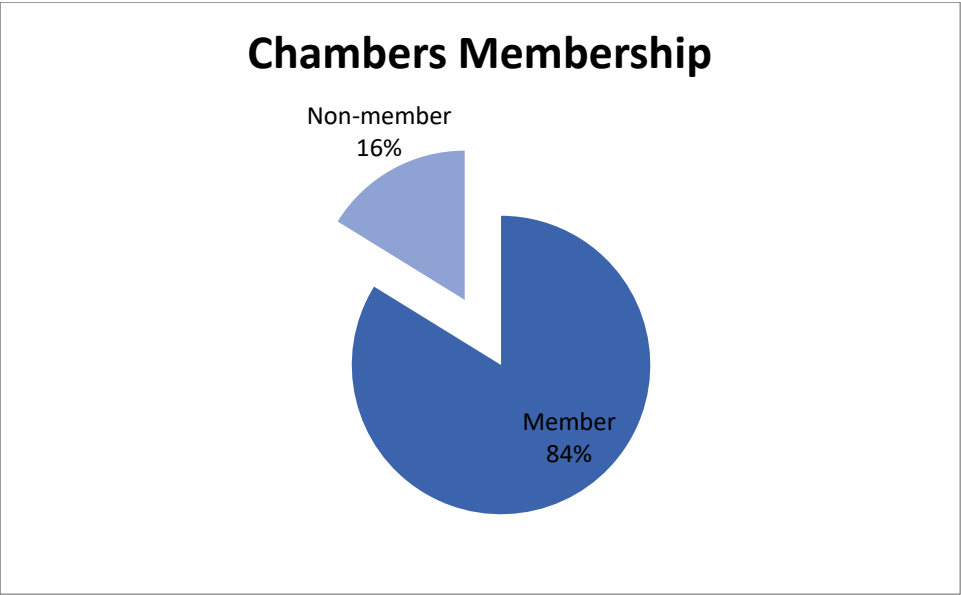


Figure 2: Chamber Membership

2. Location of the business The respondent companies are distributed in all of the eight planning regions in the country: Skopje, Polog, Pelagonia, Southeast, Southwest, Vardar, East and Northeast. The planning regions used in this survey are defined according to the Macedonian legislation. Companies from Skopje region participate with less than 50% of all companies, which is in line with the initiative for including more companies located out of the capital, and thus getting to know the business conditions in the less developed regions in the country. So, 45% of surveyed companies are located in the Skopje region; second most represented region in this survey is Southwest region with 14.21% companies, Vardar region with 9.30% companies, Polog with 8.79% of companies, and East with 8.01% of companies. Pelagonija, Northeast and Southeast regions are slightly less represented with 5.43%, 5.17%, and 3.62% of companies respectively. Overall, the sample of companies used in the survey is representative in terms of geographical distribution.

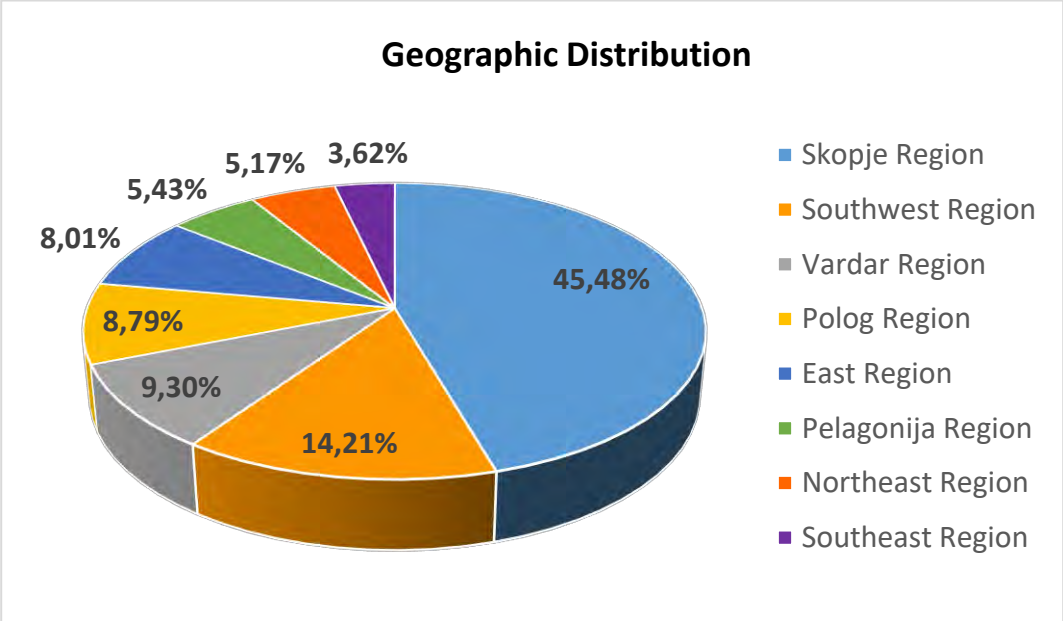


Figure 3: Geographic Distribution

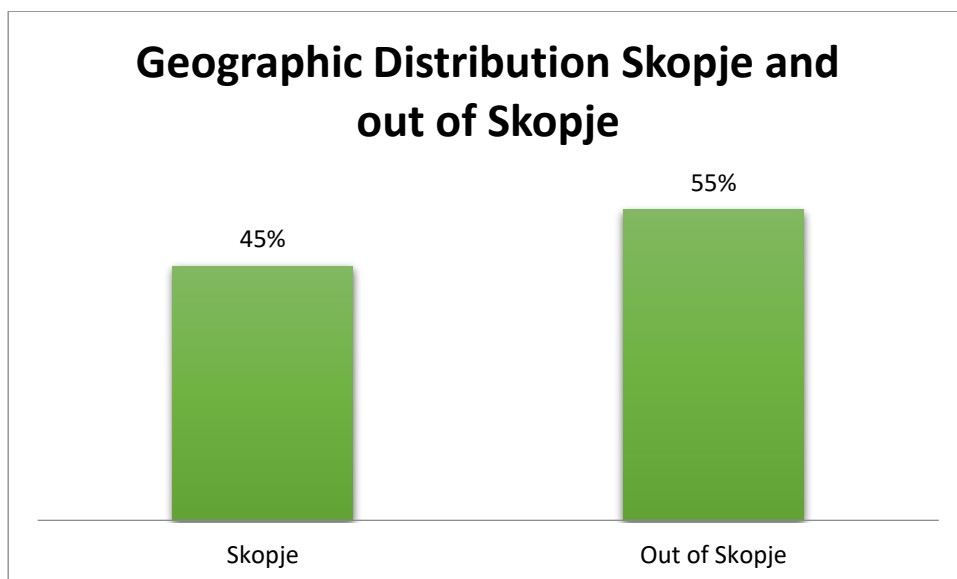


Figure 4: Geographic Distribution in Skopje and out of Skopje

3. Age of companies The average age of the companies participating in the survey is 33 years, with medium size companies being established 25 years ago, while small companies being on average 36 years in existence. All of the surveyed companies are pretty matured companies, which show their success to survive in very delicate transition period of the last 20-30 years when the entire socio-economic model has been changed, as well as partners and markets of most companies established in this period. Also, the fact that micro companies with up to five employees, which participated in the survey, have been established on average 35 years ago is in an important indicator suggesting that within their lifetime they did not succeed to leap over and become small companies. Perhaps they are working as small suppliers in the local markets, not export ready or producing goods or services that are non-tradable at long distance.

Size	Age/Years	Number of Employees in 2016
Micro	35	5
Small	36	26
Medium	25	141
Large	30	530

Table 1: Average Age of Companies

4. Sectors Survey focused on five specific sectors with high significance for the national economy - construction, agriculture, ICT, textile, and tourism. These sectors play considerable role in both employing big number of workforce, and creating a large portion of GDP. Some of them are more traditional like textile and agriculture, but some of them are more advanced and related to new technologies, such as ICT and tourism. Surveyed companies are well distributed across all of these sectors, and in addition there are 51% of companies working in other sectors. The biggest number of participating companies, 18.86% work in the in construction sector, 9.82% are ICT companies, 8.01% are registered as agriculture companies, while textile and tourism are represented with 6.98% and 5.68% of companies respectively. According to the latest business structure

statistics, the biggest section of all registered enterprises in Macedonia, 41%¹ belongs to the wholesale and retail trading sector, which could indicate that biggest part of the surveyed companies in the other sector are in fact wholesale and retail trading companies. This structure of the surveyed companies corresponds to the structure of Macedonian economy that is largely based on cheap labor and scarce resources, however, it is time for the Macedonian authorities to design and start implementing a modern and active industrial policy that would change the structure of the economy through introducing and promoting more advanced industries instead of very traditional and low value-added sectors.

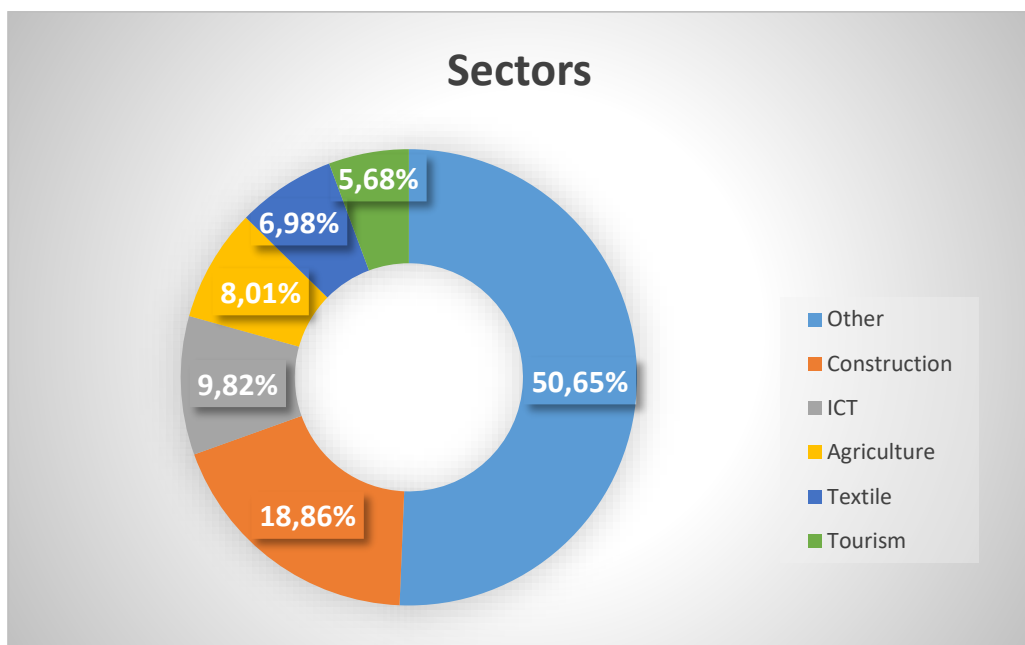


Figure 5: Sectors

5. **Ownership of companies** In terms of ownership, most of the respondent companies, 85.53% are local companies, 6.72% are foreign owned companies and 7.75% of companies have mixed foreign and domestic ownership. The ownership structure of companies surveyed in the Baseline Assessment is almost the same as the structure in the Second Assessment (85% local ownership and 15% of mixed and foreign ownership).

¹ Makstat Structural Business Statistics 2016 Preliminary Data #6.1.17.78, October 16, 2017, State Statistical Office of R. Macedonia

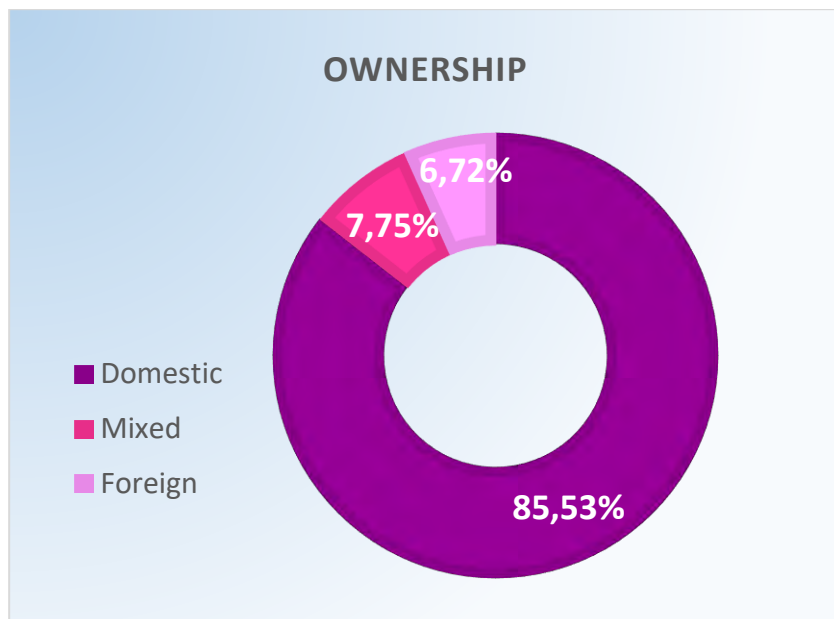


Figure 6: Ownership

6. **Size of the companies** Size of the companies is one of the most important indicators used for cross tabulation of data in this analysis. Statistically, more than 98% of Macedonian companies are MSMEs (micro, small, and medium enterprises), however, for the purpose of getting views and opinions of larger companies, 6.72% of the surveyed companies are large. Micro, small and medium companies are represented with 93% in the survey. Out of them, 47.29% of companies are micro companies, 28.17% are small, and 17.83% are medium size companies. The company size structure in the Second Assessment differs from the size structure of surveyed companies in the Baseline Assessment. While the participation of large companies is almost the same 7.91%, and the total of MSMEs is 92.09%, the micro size enterprises participate with smaller account of 25.99%, while the small size companies are represented with a bigger account of 41.24%. Both Baseline Assessment and Second Assessment used size definitions of the companies from the Macedonian Company Law. According to this law, micro company has up to 10 employees and up to 50,000 Euros gross annual revenues, small company is determined by 11-50 employees and Euros 50,000 to 2 million gross revenues. Medium company has between 51 and 250 employees and revenues between 2 and 10 million Euros, while large companies have more than 250 employees and over 10 million Euros annual gross revenue.

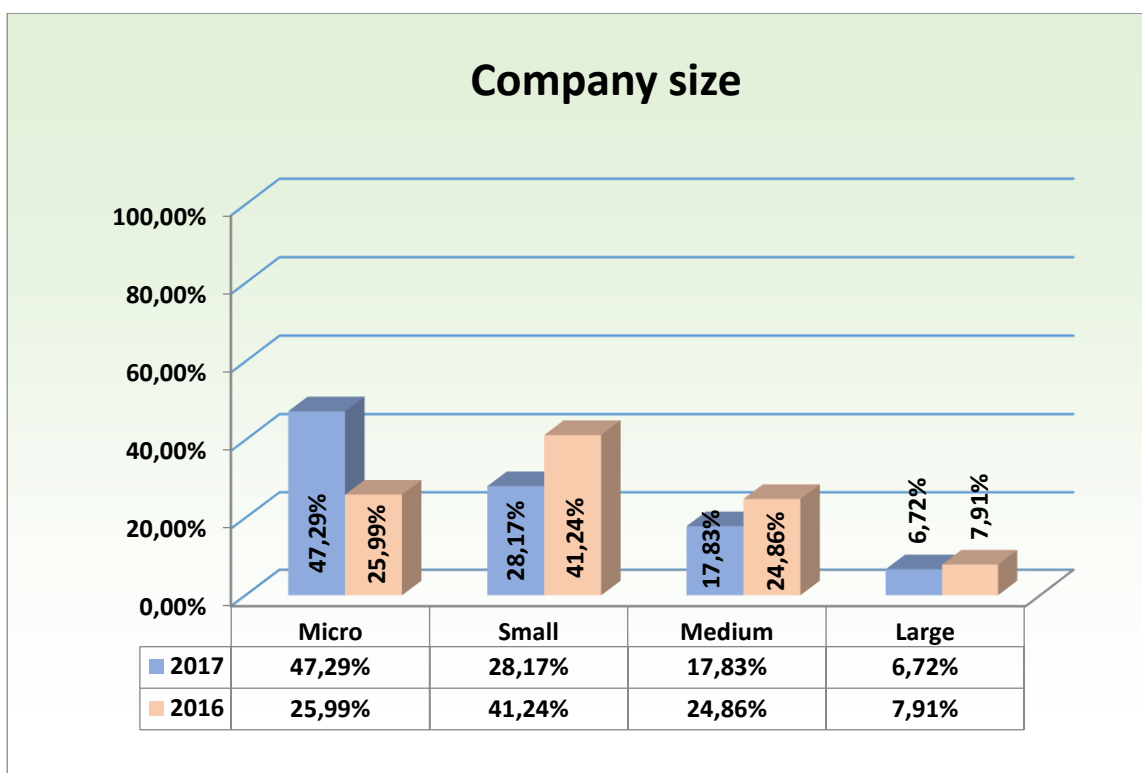


Figure 7: Company Size

7. Number of employees: The average number of employees in 2016 across the board of all surveyed companies was 70 persons. There are big variations in the number of employees based on the size of companies, so the average number of employees of micro companies is 5, and for small companies it is 26. Medium size companies employ on average 141 people, while large companies 530 persons. This is in line with the legal definitions of the size of the companies based on the “number of employees” criterion.

Average number of employees of the companies in the Baseline Assessment was 80, while number of employees broken down per size of the companies is very similar with the Second Assessment, except that the large and medium companies in the Second Assessment have on average more employees compared to the large and medium companies in the Baseline Assessment.

Size	Number of Employees in 2016	Number of Employees Baseline
Average	70	80
Micro	5	6
Small	26	28
Medium	141	111
Large	530	500

Table 2: Number of Employees

8. Change in the number of employees During the last five years, almost half of the surveyed companies (47.80%) increased their staff, 35.66% of companies remained with the same number of employees, while 16.54% reduced the number of employees. Increasing the staff typically is a good indication of success and

growth of an enterprise, so the sample of companies used in the survey shows that big majority of companies were doing well, with only 16% facing downturn and reducing staff.

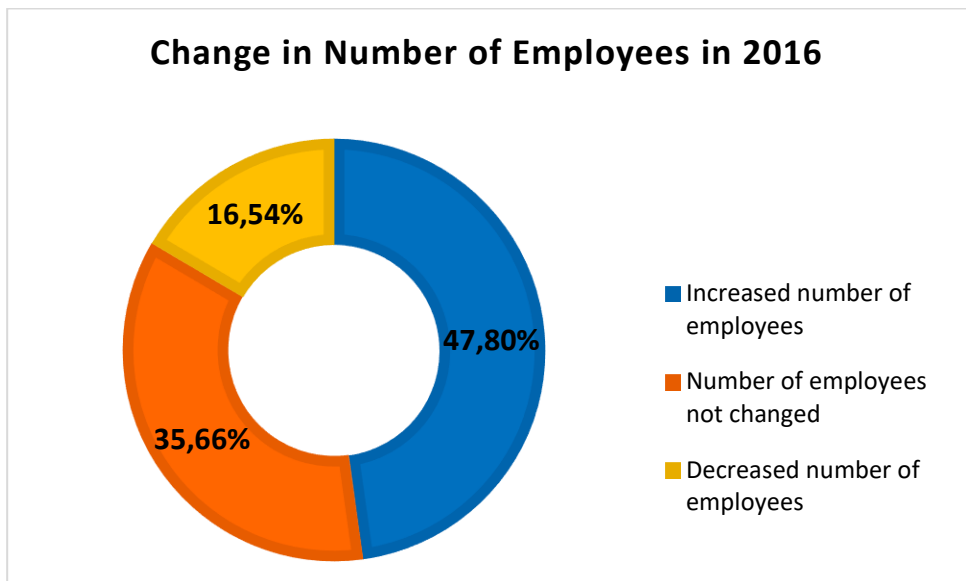


Figure 8: Change in Number of Employees 2016

When analyzing the change in number of employees broken down to the size of the companies, it is clear that number of medium and large companies who increased their staff (62% and 61% respectively) is higher than the number of micro and small companies with increased number of employees (38% and 52% respectively).

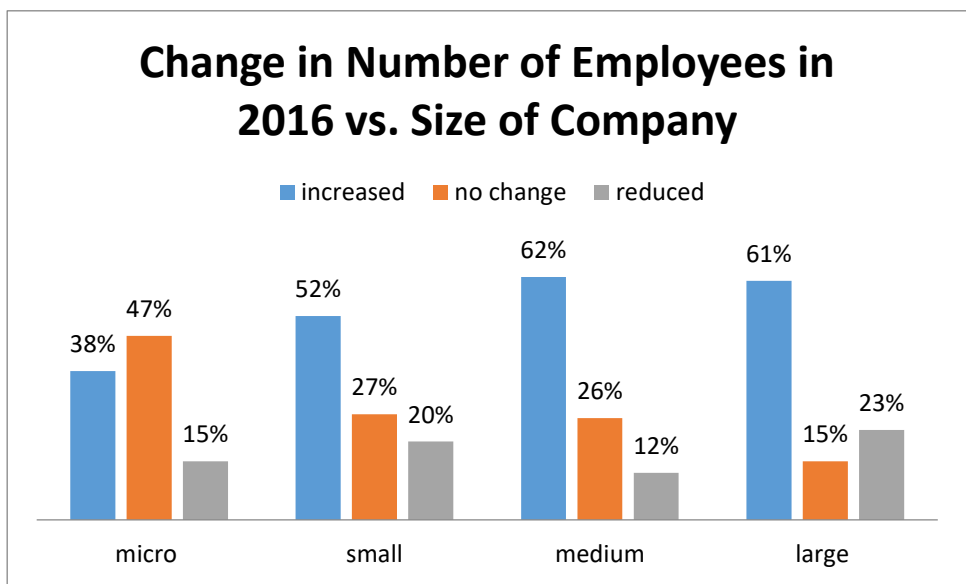


Figure 9: Change in Number of Employees 2016 per Company Size

In terms of sectors, ICT and construction are sectors where about 60% of companies have noted growth in the number of employees in the last five years, compared to 40% of textile and agriculture companies, and 55% of tourism sector companies with increased number of employees. These statistics are in line with the sectoral

trends in the Macedonian economy, according to which ICT and construction have been fast growing sectors in the last period.

When analyzing the growth of employees of the companies related to the ownership, the data shows that more than 60% of companies with foreign and mixed capital have their number of employees increased, compared to 45% of companies with domestic capital. Having in mind the large amount of benefits provided by the Macedonian government to the foreign direct investments in the last ten years, it is expected that the number of employees and the overall growth of these companies will be higher compared to the growth of the local companies that did not get a lot of government support.

4.2 Inspections

In well established and functional legal and economic system, inspections are very good indicator for compliance of businesses and citizens with legal regulations. However, when the legal system is stained with a number of deficiencies, inspections could turn into a powerful instrument for political and economic pressure and corruption. Therefore, establishing a well functioning system of inspections based on clear regulation with no need for expert interpretation, and transparent enforcement rules could be a very important step in creating a good, level playing field for all businesses. In the Macedonian system where the legislation is being changed far too frequently, and with no public debate or participation from stakeholders, the entire area of inspection system, which is very sensitive, should be carefully examined. This section sheds light on the inspection system in Macedonia and the responses from participating companies could be taken in consideration when creating specific policy instruments related to improved legal compliance.

9. Number of inspections The average number of inspections in the last five years across the board of all surveyed companies was 10.79. This number is slightly lower than the average number of inspections according to the Baseline Assessment (11.02). Large companies have been visited by inspections most frequently, on average 27 times in the last five years according to 2017 survey data or 20 times according to Baseline Assessment. Having in mind that large companies are subject to regular annual audit by PRO, these statistics are to be expected. Micro companies had on average lowest number of inspections (3 in 2017 and 8 according to Baseline survey). The number of inspections of the small companies according to 2017 survey was higher (17) compared to the same indicator in the Baseline Assessment (10). It is worth to note that about 17% of all surveyed companies have not been visited by any inspection in the last 5 years. When using the cross reference data, it appears that in terms of size, 22% of micro companies did not get any inspection so far. In terms of location, in Skopje and Southwest regions companies that had no inspection visit represent 22% each. In terms of sectors, 34% of all ICT companies have not been subject to any inspection. Finally, 27% of foreign owned companies did not get any inspection visit.

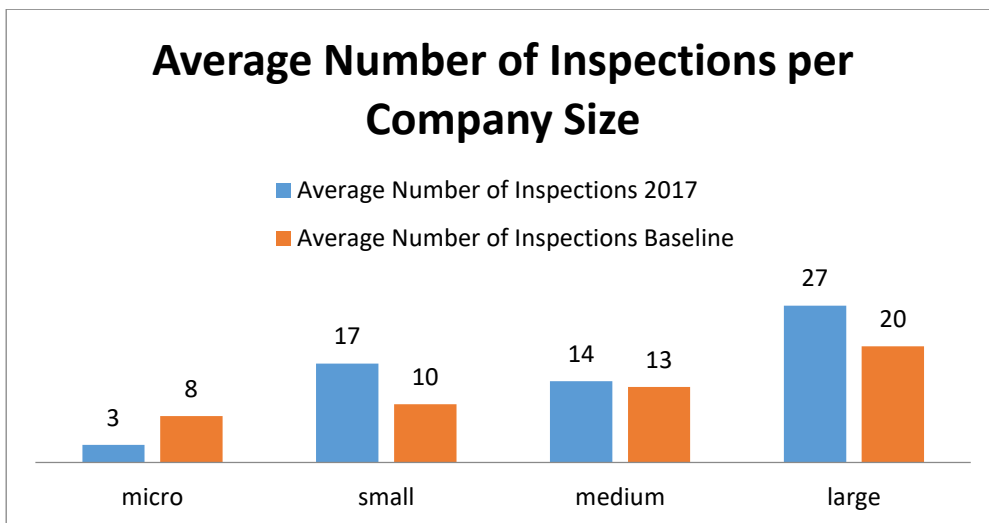


Figure 10: Average Number of Inspections per Company Size

The average number of inspections varies significantly across different sectors. Agriculture and tourism are the two sectors with the biggest number of inspections both according to 2017 survey and Baseline Assessment. It is worth to note that agriculture sector companies had on average 46 inspections in the last 5 years according to 2017 survey data, while all other sectors had between 2 and 21 inspection visits on average. The reasons for such high frequency of inspection visits in agriculture companies will have to be subject of additional research; it may be related to inquiries regarding subsidies granted to these companies. Tourism sector companies had 21 and 24 inspections according to 2017 survey data and Baseline Assessment respectively. Textile sector companies were subject to inspection 10 and 13 times according to 2017 survey data and Baseline Assessment respectively. The frequency of inspections has been the lowest in ICT sector, but it is very low in construction sector as well. This is strange since the construction sector is typically associated with high risks of various types (environmental risks, protection of workers on the sites, etc) and it is expected that the number of inspections will be higher.

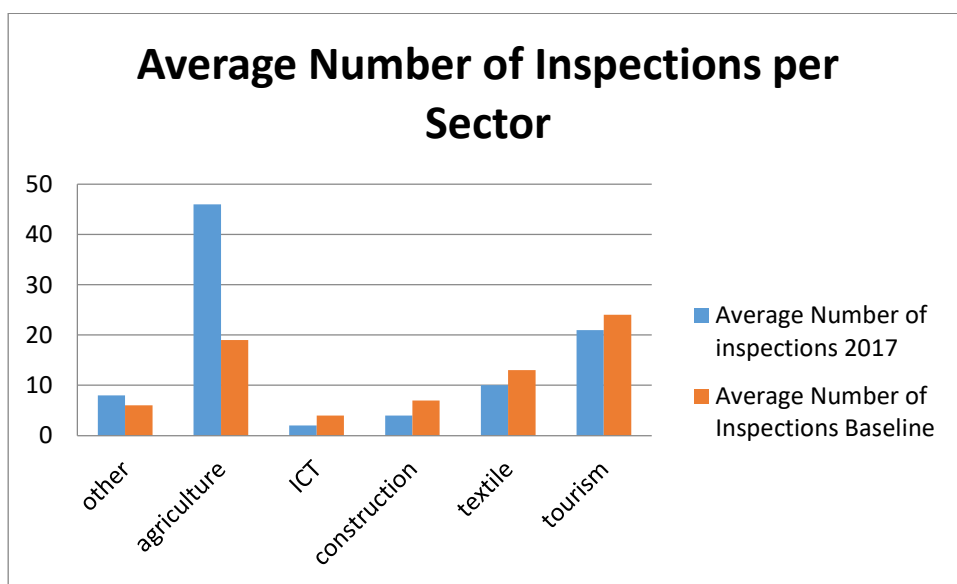


Figure 11: Average Number of Inspections per Sector

In terms of locations, the biggest number of inspections in the last five years (80) is noted in the Southeast region according to 2017 survey. This number is much higher than any other comparator, and the reasons for this outlier will have to be further explored, however when cross checking the survey data in terms of location and sector, it is obvious that the dominating sector in the Southeast region companies has been agriculture, with 50% of surveyed companies working in this sector. Southeast region also had highest frequency of inspections according to the Baseline Assessment as well (30), but still the difference to the other regions was not that significant. The number of inspections in the Skopje, Southwest, Polog and Northeast regions are on average between 5 and 7 inspections according to 2017 survey. The number of inspections in the East region (20) and Pelagonija (17) are slightly higher compared to the previous group of regions. When comparing the data from 2017 survey and Baseline Assessment, the biggest change, apart from Southeast regions, could be noted in the Southwest region where the number of inspections according to the baseline 25, dropped to only 6 in the 2017 survey. Another important remark is related to the very low number of inspections in the Skopje region, which is the same in the 2017 and Baseline survey.

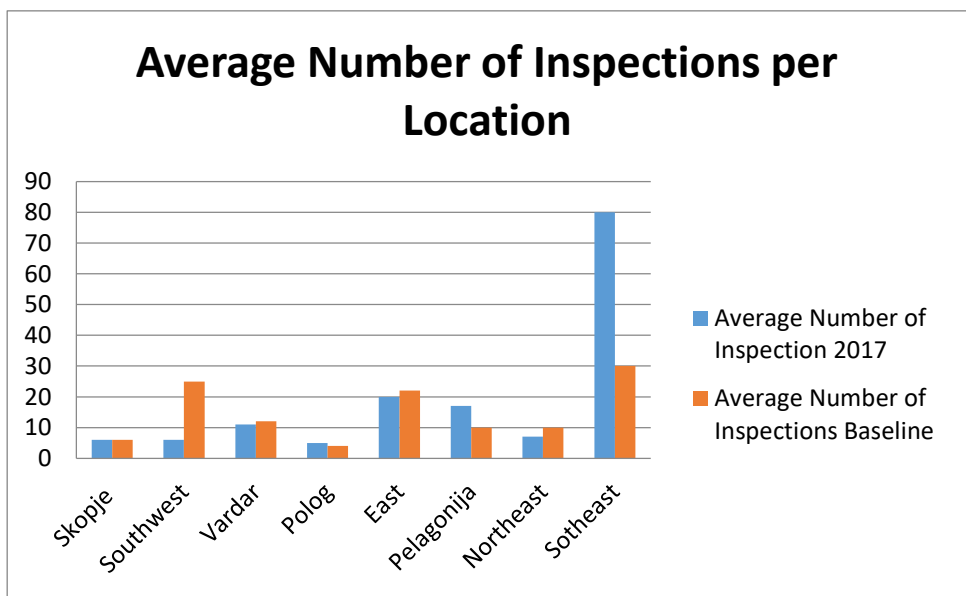


Figure 12: Average Number of Inspections per Location

10 Type of Inspections This question allowed the survey participants to select more than one optional response. The three most frequent inspections by type and institution (almost 60% of all inspections) both in the Second Assessment and Baseline Assessment have been inspections by Public Revenue Office (PRO), State Labor Inspectorate (SLI), and Market Inspectorate. PRO carried out 26% of all inspections both in the Second Assessment and Baseline Assessment. State Labor Inspectorate had 22% and 18% of all inspections in the Second Assessment and Baseline Assessment respectively, while Market Inspectorate had 10% and 13% of all inspections respectively. Sector for Safety and Health of Working Conditions within SLI had about 9% of all inspections in both assessments. Agency for Food and Veterinary had 5% of all inspections in the Second Assessment, which is a big reduction compared to 11% in the Baseline Assessment. State Inspectorate for Environment had slightly higher percent of inspection in the Second Assessment 5.3%, compared to 3.9% in the Baseline Assessment. The Agricultural Inspectorate had 2.36% of all inspections in the Second Assessment and slightly lower, 1.3% in the Baseline Assessment. This indicator doesn't correspond to the very high number of inspections of the agriculture sector companies (46). This discrepancy could be further explored, but when

cross checking available data it becomes obvious that agriculture companies have been subject to other inspections as well, such as PRO, State Labor Inspectorate, Agency for Food and Veterinary and others. The State Inspectorate for Construction and Urbanism has the lowest frequency of inspections, 1.3% and 1.9% respectively pointing to very low activities of this institution, which is odd, particularly having in mind the very sensitive areas that it covers.

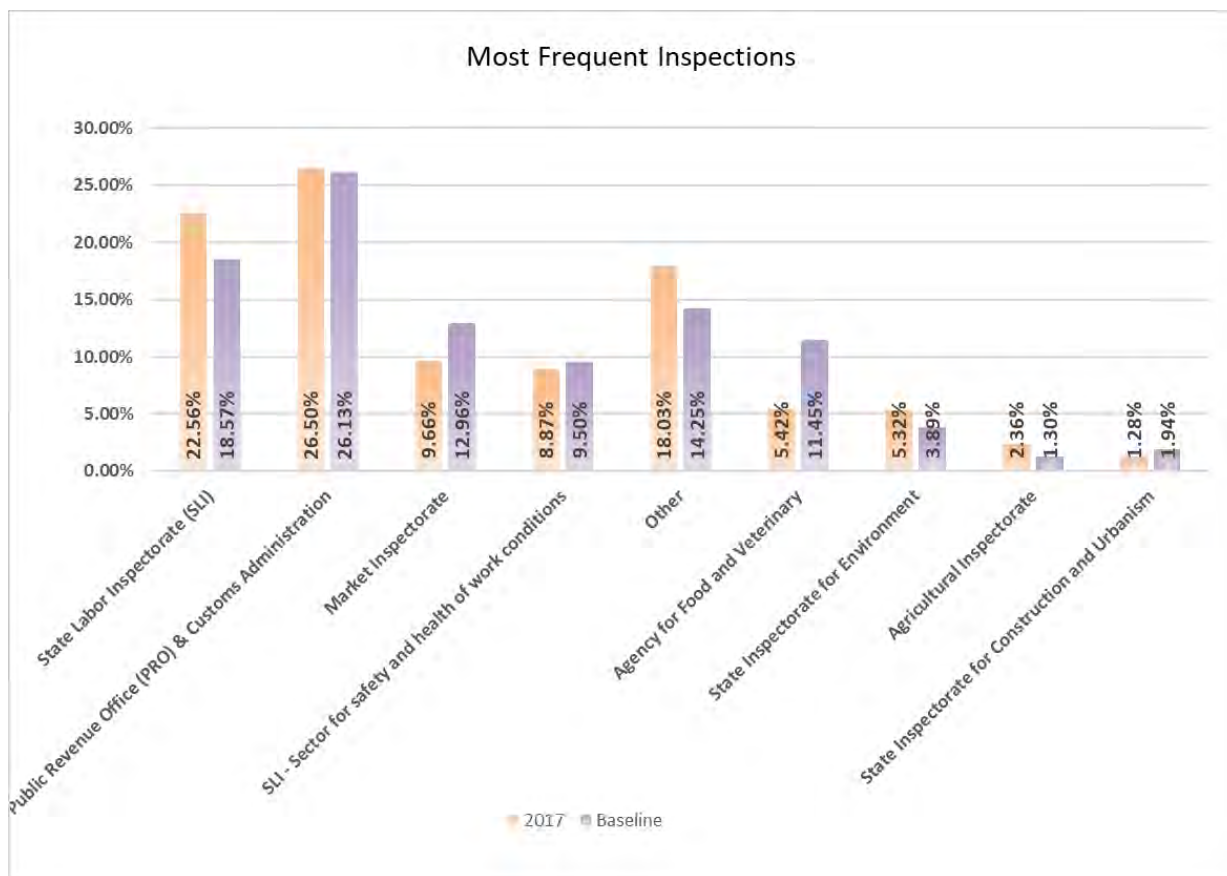


Figure 13: Most Frequent Inspections

11 Delays in getting licenses Out of the total number of companies, 65% have not experienced delays in getting licenses. Still, the number of companies faced with delays, 35% is an indicator that requires urgent attention by the authorities. In terms of variations across the board, these percentages apply in general to micro, small and medium companies, while large companies facing delays in getting licenses more often, so 50% of them reported experienced delays.

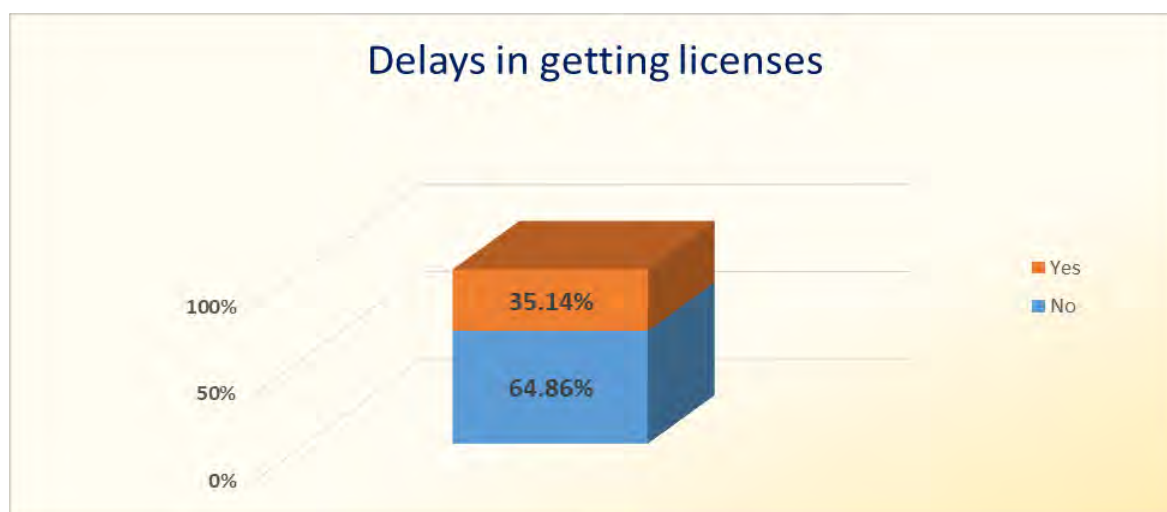


Figure 14: Delays in Getting Licenses

In terms of sectors, there are different experiences in delays in getting licenses. According to the survey data, it appears that ICT and textile sector companies have not experienced delays in getting licenses in more than 80% of cases. On the other hand, agriculture and tourism sector companies have experienced delays in almost 50% of cases for getting licenses.

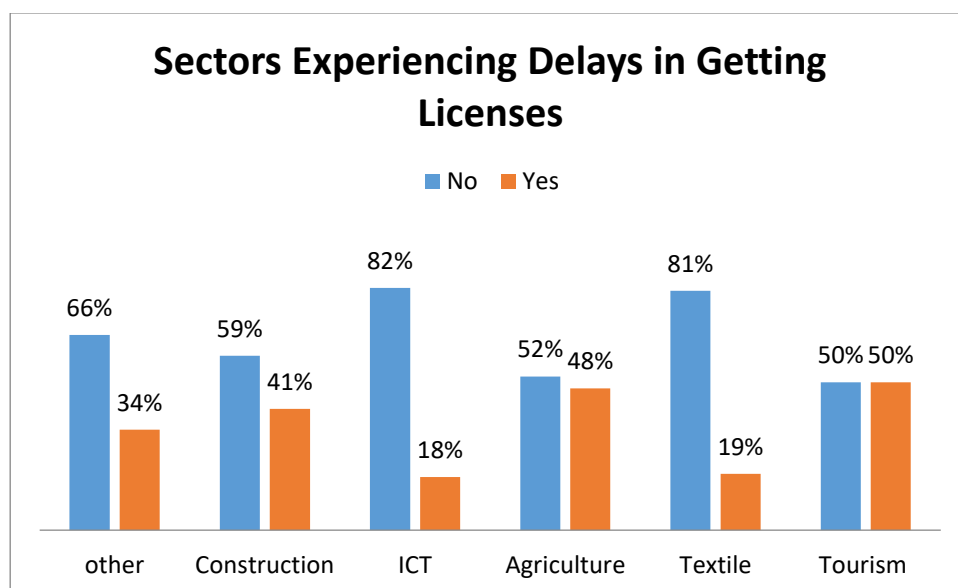


Figure 15: Sectors Experiencing Delays in Getting Licenses

12 Which licenses/consents/permissions are typically delayed, if there are delays in the procedure This is an open ended question, but the responses provided by companies confirm the statistics from the previous question, i.e. more than 60% of companies confirmed that they have not experienced delays in getting licenses. The responses from companies that did experience delay did not provide any specific trend or pattern. They are scattered around many different types of licenses or permits. One group of responses is related to getting license for authorized professions such as authorized architects, teachers, accountants, pharmacists, energy

controllers, etc. The other group of responses incorporates licenses for various types of services. One is related to imports or exports of specific products or services – permissions for organic exports, exports of bee products, import-exports, export of waste, import of chemical products, etc. The other group is related to obtaining operational licenses such as work license, performance license, license for selling brands, construction license, license for transport of passengers, for selling alcohol, environmental licenses, license for casino and game of chance, etc. Several companies responded that they have experienced delays in getting concessions or subsidies. Finally, some of the companies faced delays in getting veterinary certificates, certificates from Secretariat for European Integration, agreements from Public Procurement Council and other institutions, agreement for new products etc.

13 In terms of legal compliance, which is the area (legislation) where your company has biggest problem This is an open ended question, however, the responses of the companies did not emphasize any particular area that creates biggest problems in terms of legal compliance. Instead, some of the companies replied that they did not face any problems in terms of legal compliance, and the ones who have experienced such problems, indicated the following areas of legislation as a problematic ones:

- ✚ Taxes – tax procedure law, personal income tax, VAT, VAT refund, profit tax, real estate tax, PRO
- ✚ Construction, construction products
- ✚ Agriculture
- ✚ Ministry of environment
- ✚ Labor law, employment, subsidized employments, minimum wage
- ✚ Customs
- ✚ Waste management law
- ✚ Food, safety of food
- ✚ Safety
- ✚ Law on tourism and hospitality
- ✚ Health and education
- ✚ Protection of personal information
- ✚ Accountants- tariffs, rulebook
- ✚ Law on notaries'
- ✚ Small number of transport licenses
- ✚ Law on obligations and PRO
- ✚ Metrology
- ✚ Cadastre
- ✚ Law on financial discipline

Similar to the previous open ended question, responses to this question do not provide any obvious pattern or trend that could be singled out.

14. Issued fines This question allowed the survey participants to select more than one optional response. According to the second survey data, after the inspections, majority of companies, 44.57%, did not get any sanction; 23.83% of companies received warning, while 18.40% were issued financial fine. 3.77% of companies

have been sanctioned with misdemeanor payment, 2.88% were issued temporary banning of professional activities, and no company was sanctioned with confiscation of assets.

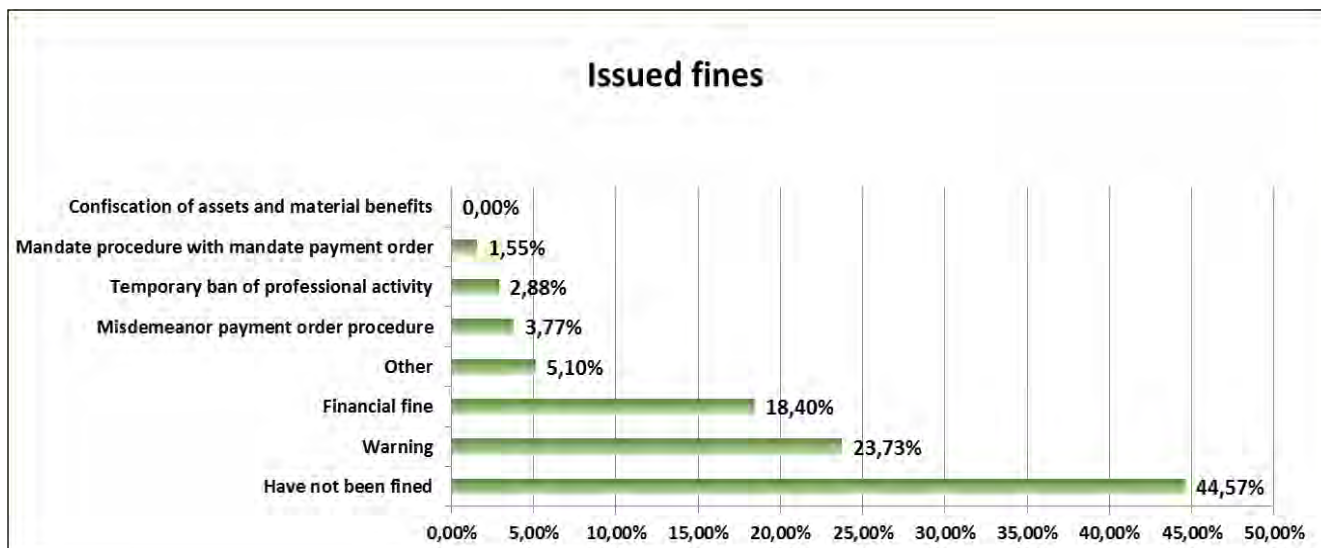


Figure 16: Issued Fines 2017

When comparing 2017 issued fines data with the Baseline Assessment, it is obvious that the percentage of companies that have not been fined has dropped in 2017 compared to the Baseline Assessment, while the percentage of companies that received warning has been increased. The segment of companies that were sanctioned with financial fine dropped from 24% in the Baseline to 18% in 2017. The section of companies sanctioned with temporary ban of professional activities, although low, still has been almost doubled in 2017 compared to Baseline. Some of the optional responses provided in 2017 Survey were not available in the Baseline, so for comparison purposes these responses were merged in the joint response – *other*.

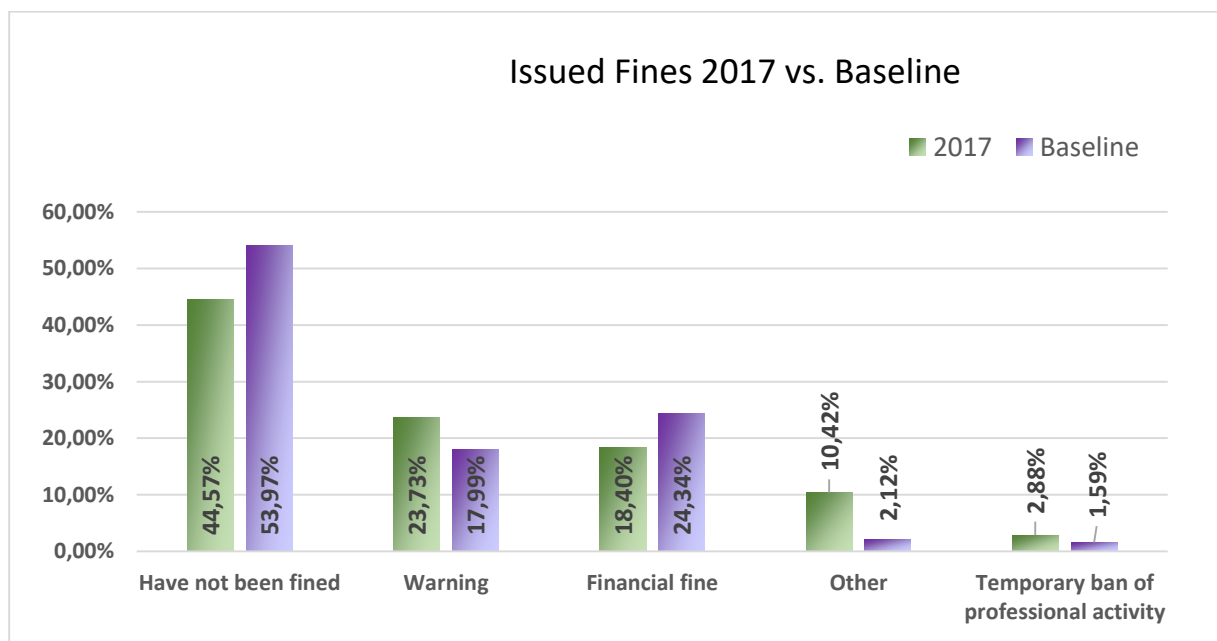


Figure 17: Issued Fines 2017 vs. Baseline

When analyzing fines related to the size of the companies, it is clear that in 62% of cases, micro companies have not been fined at all, and in 19% they have been warned. Only in 11% of cases, they had to pay financial fine, and 2% have been banned from professional activities. The indicators are similar for small and medium companies, although the percentage of companies that have not been fined is a bit lower, 30% of small and 37% for medium companies. About 27% of small and medium companies received warning, while 25% of small and 20% of medium companies had to pay financial fines. Smaller percent of small and medium companies were banned from professional activities, and were sanctioned with misdemeanor fines. The situation is different for the large companies, where 38% of companies did not get any sanction, 23% were warned, and 18% were issued financial fines. The number of other fines issued to large companies is also 18%, which is higher compared to MSMEs.

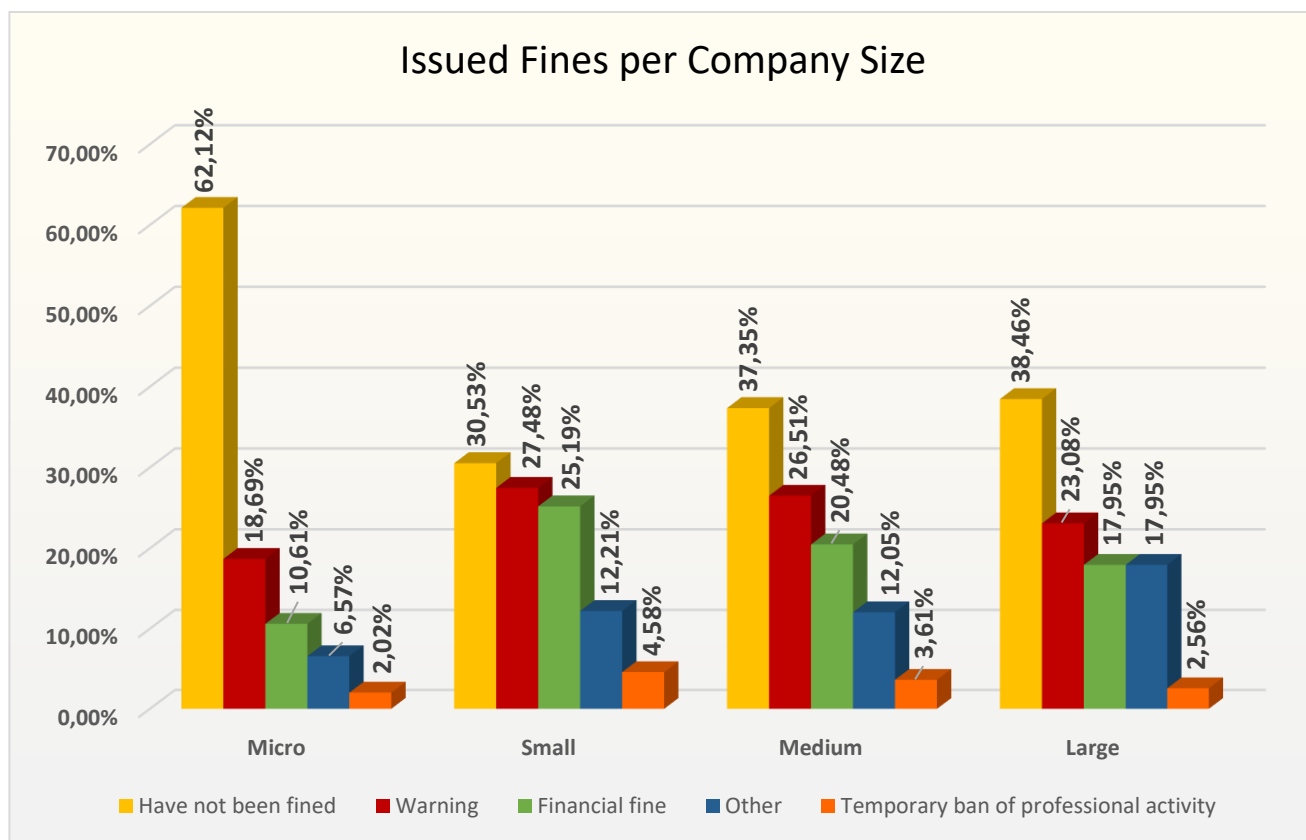


Figure 18: Issued Fines per Company Size

In terms of sectors, ICT sector is the obvious outlier, with 64% of companies that have not been fined, compared to the other sectors where this number varies between 40% and 47%. The ICT sector has also the lowest percentage of companies issued warning and financial fines (11% and 9% respectively), while for most of the other sectors, financial fines have been issued to around 17% of companies, except for tourism sector, where fines are lower, at 12%.

Issued Fines per Sector

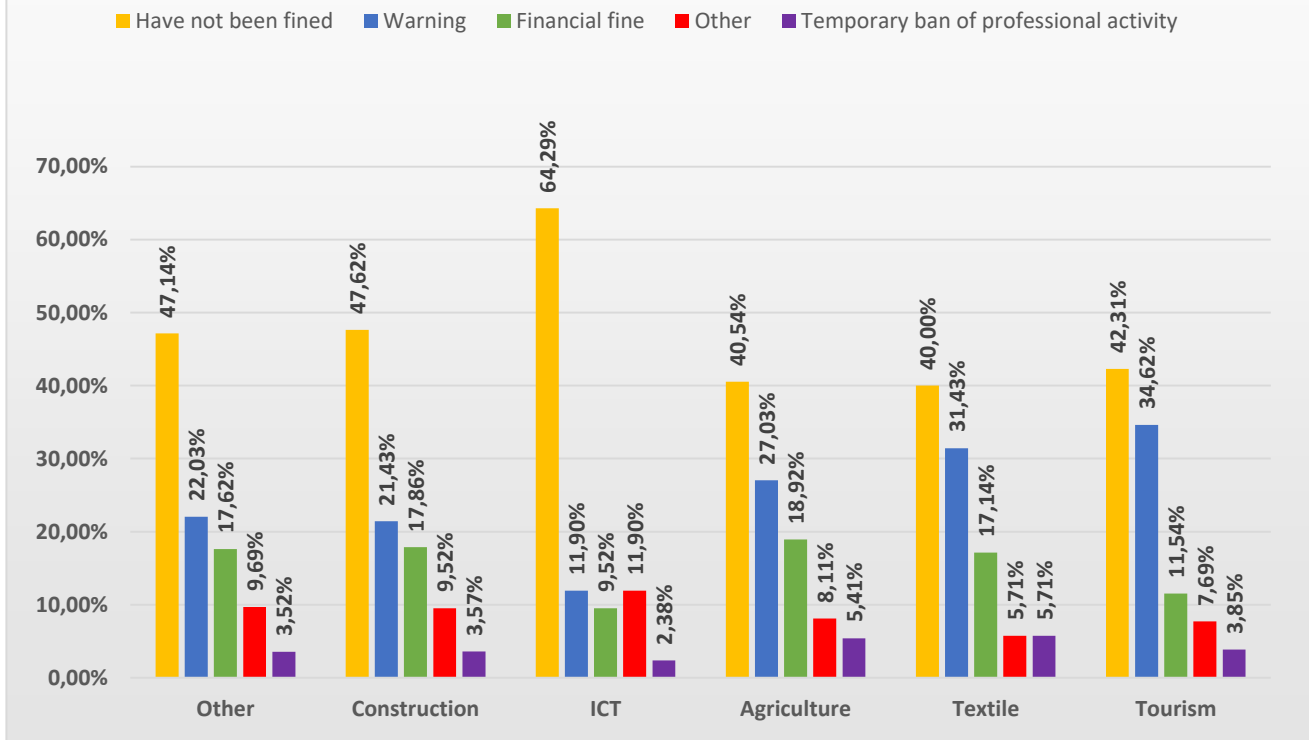


Figure 19: Issued Fines per Sector

In terms of fines issued to companies analyzed per location, statistics are pretty consistent across the regions, with several exceptions. For example, the percentages of companies that have not been fined vary between 27% and 42% across the regions, except in Skopje region, where this number is highest, 55%. Again, the portion of companies that were issued warning gravitates towards 26% for most of the regions, except for Skopje region, where it is lowest, 17%, and Pelagonija region where it stands highest, at 36%. In most of the regions, about 20% of surveyed companies have been issued financial fines; however, this number is lowest in Northeast and Southwest regions (14%) and in Skopje region at 16%. Temporary banning from professional activities varies between 2.5% and 4.7%, except in Southeast regions where this sanction has been issued to 5.3% of companies. In Pelagonija region no company has been banned from professional activities.

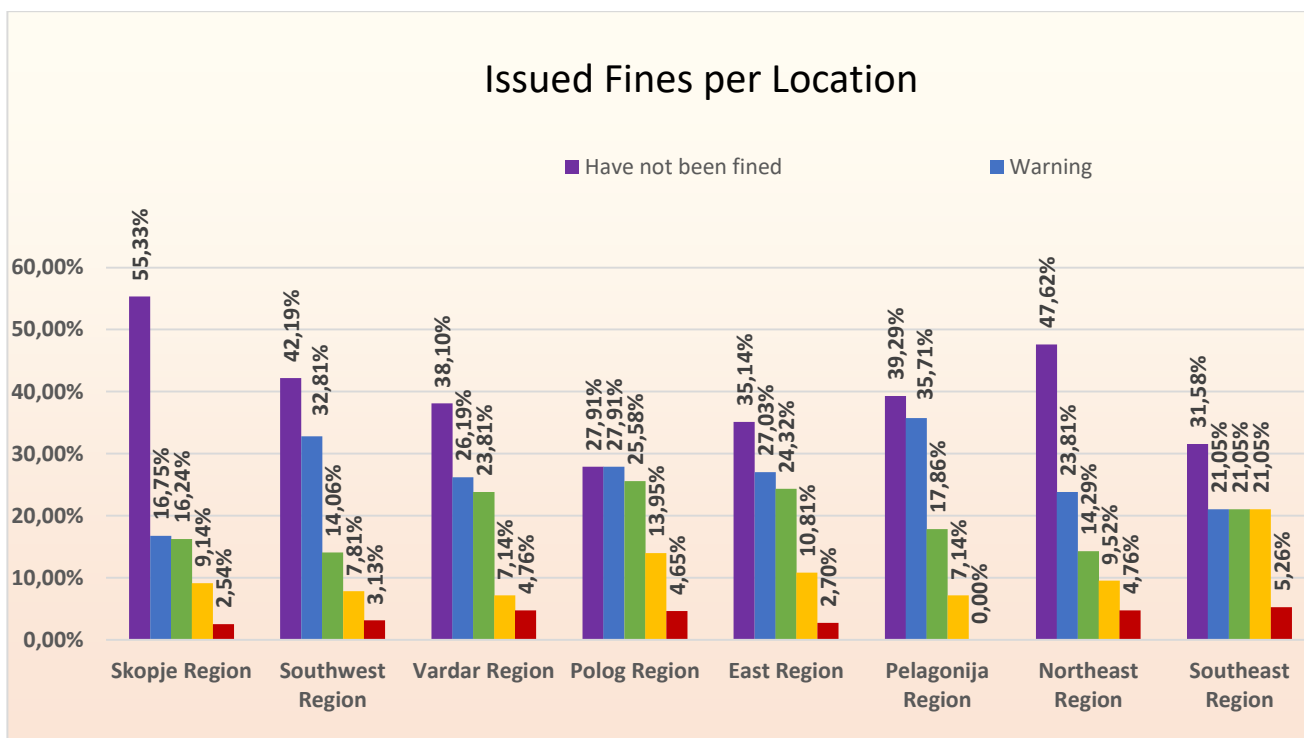


Figure 20: Issued Fines per Location

15. **Deadline for solving irregularities** After completing the inspection, 1.55% of companies have been sanctioned with no right to appeal, and 6.20% of companies have been provided such deadline to resolve irregularities that, in their view, was not sufficient to address the problem, and 12,92% have been sentenced immediately. These cases represent roughly 20% of all participating companies in the survey. In the other group of companies, which represent 63% of respondents, inspectors either did not establish any irregularity 16.28%, or provided sufficiently long deadline for the companies to resolve the irregularities, 41.86% of companies. Finally, 21.19% of companies have not been subject of any inspection in the last 5 years.

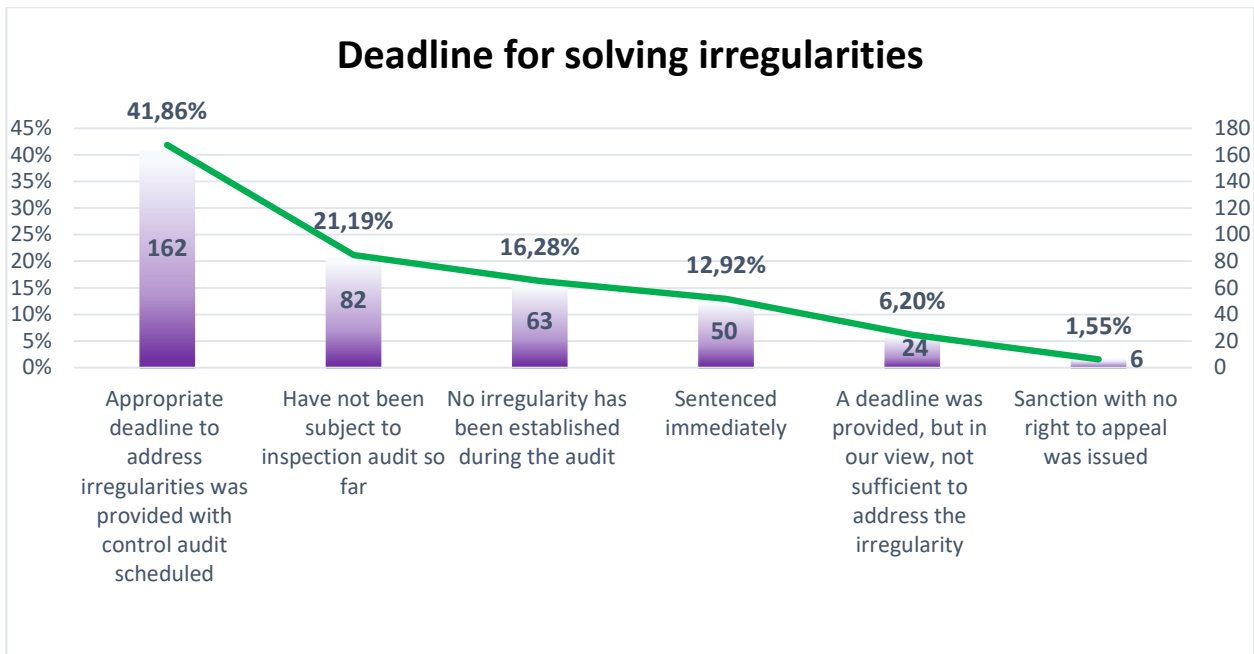


Figure 21: Deadline for Solving Irregularities

16 Invitation for education Most of the companies need additional education to stay in compliance with legal regulation. However, according to the survey data, only 11.63% of all companies received invitation for education from inspection officers during inspection audits, while big majority of companies, 71.58% companies did not get any invitation. In terms of sectors, there are no significant variations in the responses for various sectors. However, in terms of the size of companies, twice as many micro and small companies received invitations for education compared to medium and large companies. So, 38% of micro companies and 33% of small companies received invitation for education, versus 15% of medium companies and 13% of large companies. This makes a lot of sense because smaller companies definitely need more education and do not have sufficient resources to fund such activities.

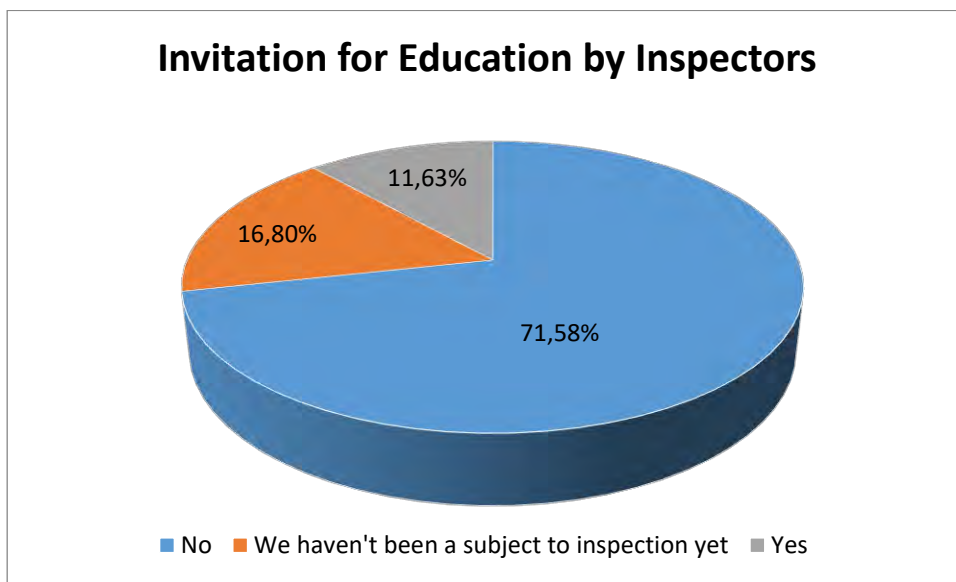


Figure 22: Invitation for Education by Inspectors

17 Inspection Regulation One of the key prerequisites for the companies to remain in the domain of legal compliance is to have clear and easily accessible inspection regulation. However, it is obvious that in the case of Macedonian surveyed companies, this is not the case. According to the survey data, only 22.48% of the respondent companies believe that inspection regulation is clear and easily available. This should trigger activities aimed at streamlining of inspection regulation, since a total of 77% of companies do not find these regulations clear, or are not aware of it.

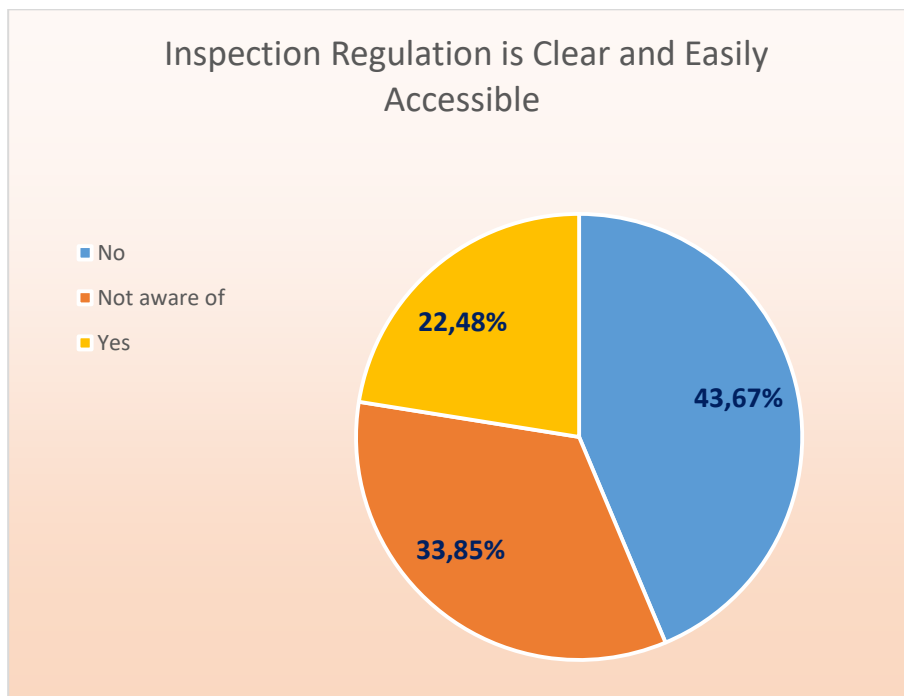


Figure 23: Clear and Easily Accessible Inspection Regulation

18 Getting clear information about the scope and manners of conducting inspection audit Within the inspection procedures, the companies should expect to get clear information about the scope and methods in which the inspection audit will be carried out. However, survey data demonstrates that half of the surveyed companies 50.90% received partially clear or not clear information about the scope and process of the inspection audit, while 5.68% of companies did not get any information from the inspection officers whatsoever. Only 26.61% companies received completely clear information about the inspection. These indicators point to a serious problem. The number of companies that did not get any information, or got partially clear, or not clear information, a total of 56% is way too high to remain unresolved. There is a need to establish clear rules about handling inspection audit and providing clear and timely information about the audit to the companies. Providing clear information about the inspection audit to only 26.61% of the companies is clearly unacceptable.

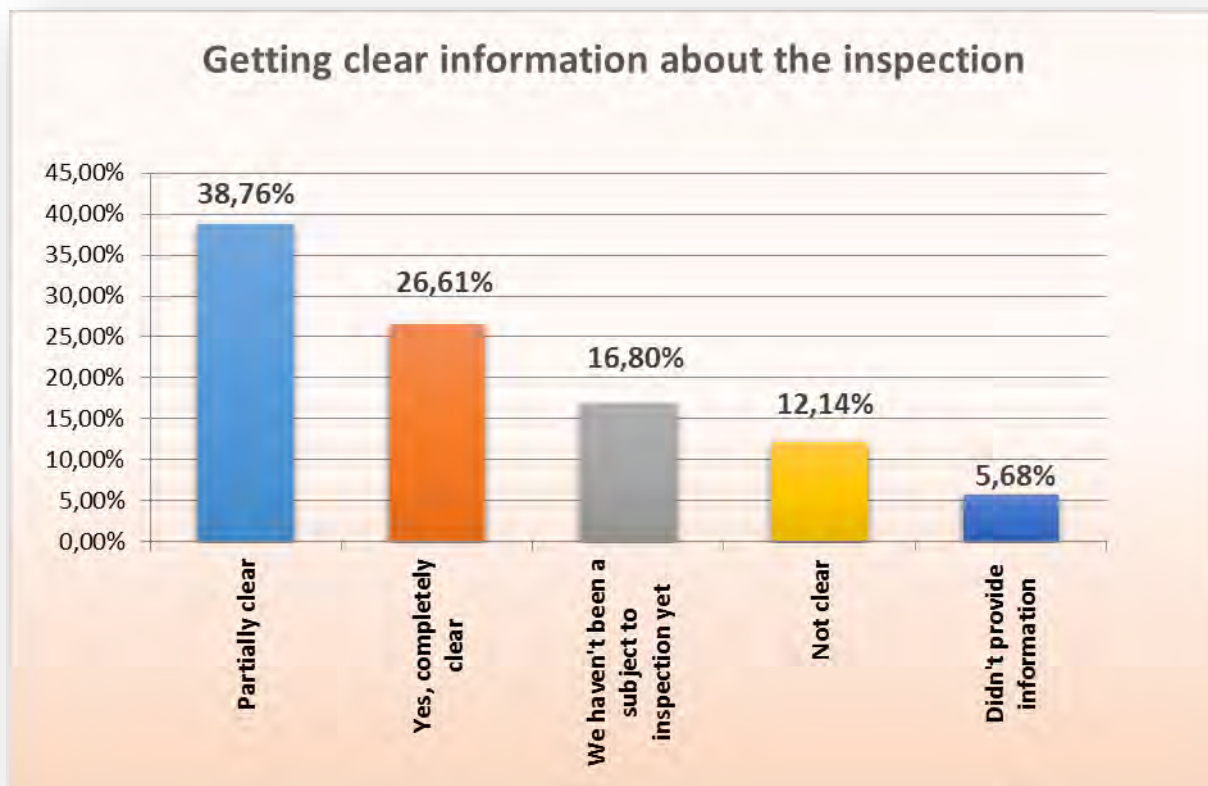


Figure 24: Getting Clear Information about the Inspection

19 Documents presented before the inspection According to inspection audit best practice, inspectors have to present certain documents to the companies subject to audit, such as identification documents, inspection order documents, list of legal requirements, etc. However, the survey statistics clearly show that companies subject to inspection audit in Macedonia have not been treated according to these best practice inspection audit rules. So, inspectors presented their identification documents to 32.87% of companies and inspection order documents to 30.91% of companies before the inspection audit. No documents were presented to 9.45% of companies, while a list of legal requirements was presented to only 7.68% of companies. This is a serious problem that requires urgent attention. These indicators again point to obvious need to establish clear rules about handling inspection audit. Presenting identification documents, inspection order document, and a list of legal requirements for the audit should be a must for any inspection audit procedure; therefore it should be clearly and officially required for all inspection officers and all inspection audits. If that is not a case, there could be cases where criminals may enter companies presenting themselves as inspection officers while in fact trying to commit a crime.

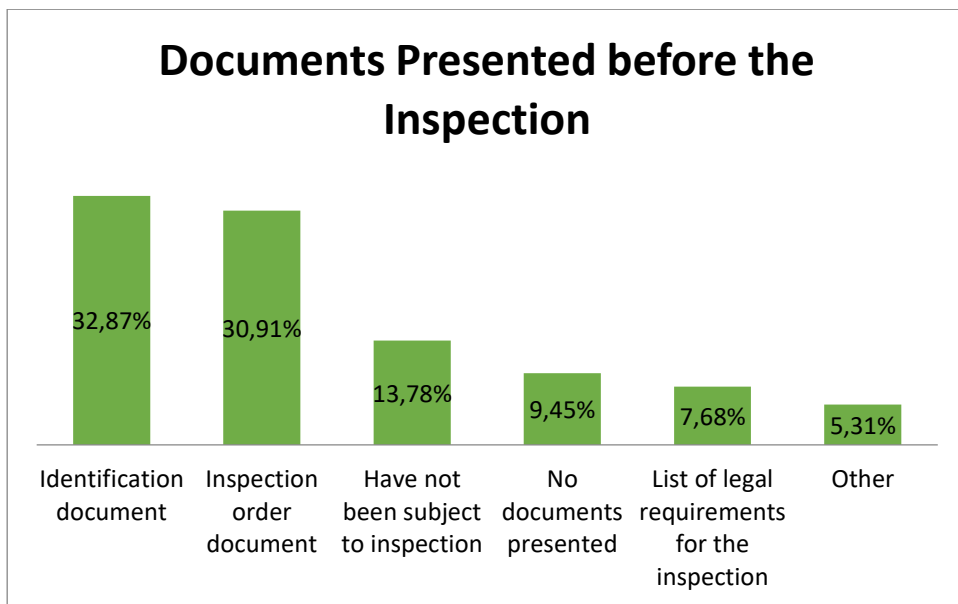


Figure 25: Documents Presented Before the Inspection

20 Number of inspector per inspection audit Respondent companies confirm that in majority of cases (74%) of audits, there were either two or one inspectors conducting the inspection audit. Only 7% of audits were conducted by three inspectors, and about 1% was conducted by more than three inspection officers.

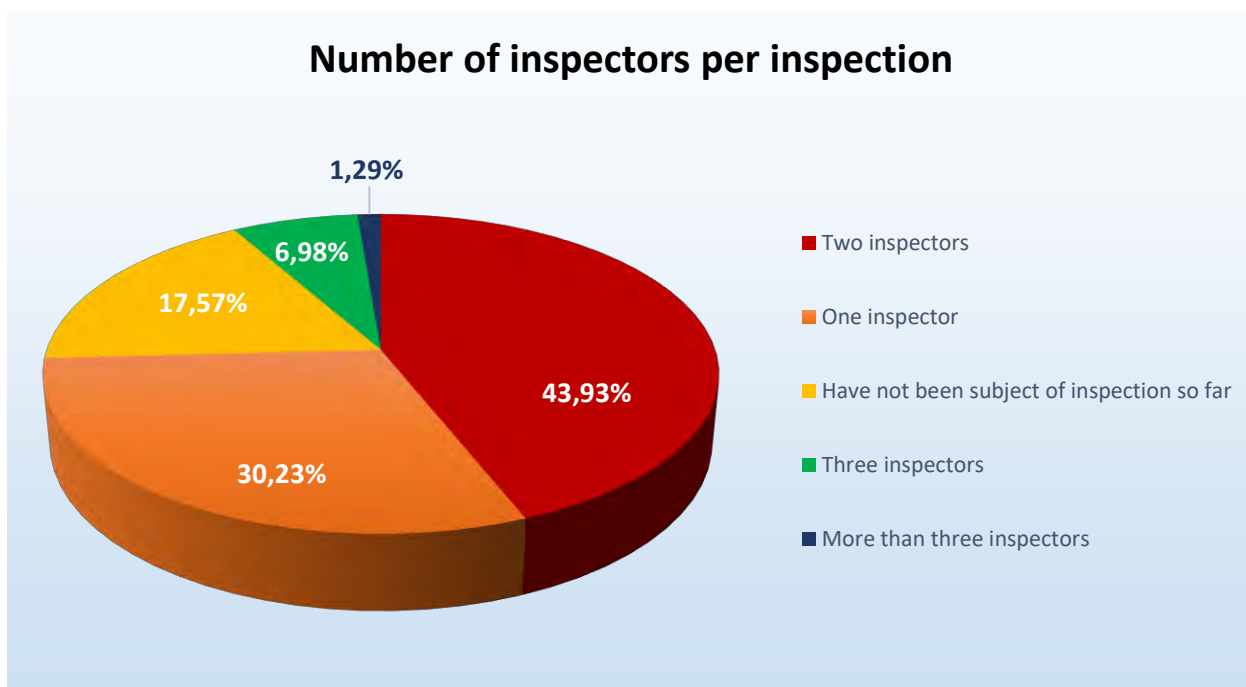


Figure 26: Number of Inspectors per Inspection

21 Average time of inspection For the majority of companies that have been subject to inspection audit, the audit took several hours (45%), or one working day (17%). 15% of the companies experienced audits that took several consecutive working days, or more than one week (6%). In terms of size break down, large companies experience bigger percentage of longer than average audits, compared to MSMEs. This indicator is very important since it should demonstrate how much resources in terms of high level staff engagement and time is spent by the companies during the inspection audit.

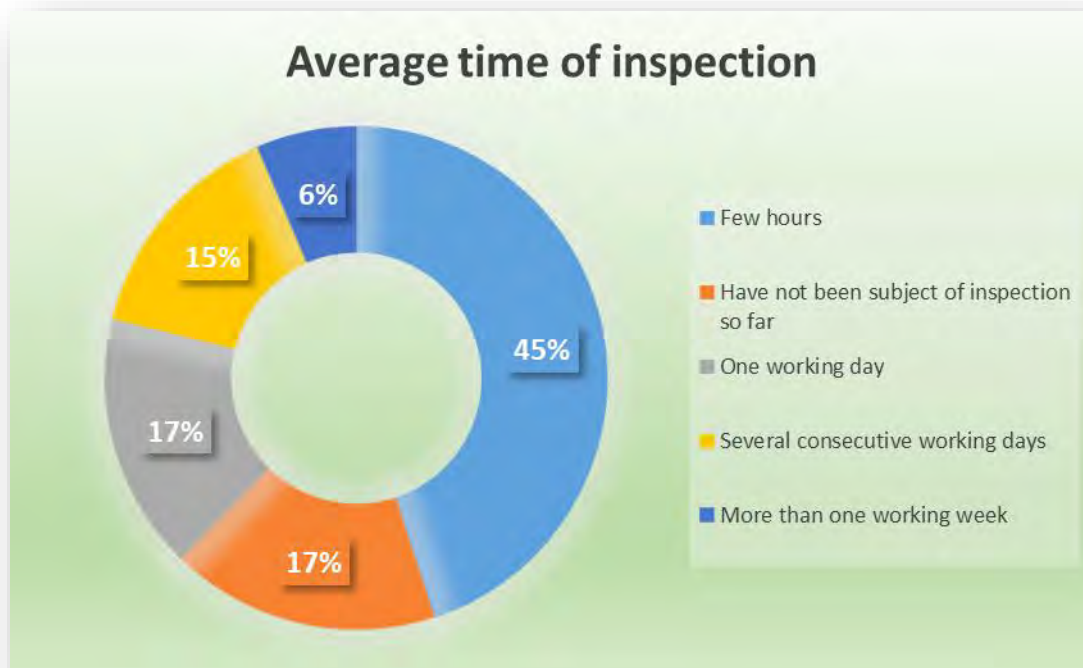


Figure 27: Average Time of Inspection

22. Number of employees engaged during the inspection In majority of cases (68%), companies had to engage either one person, the authorized one 34.63%, or two persons 33.33% of companies to be involved with the inspection audit. Only 10.08% of companies have engaged 3 persons during inspection audit, while 5.17% of companies engaged more than 3 persons. Again, this is important indicator because scarce resources of the companies in terms of management or other authorized personnel should not be taken away from regular professional activities for the inspection purposes. In terms of the size of the companies, variations in responses is not too big, except for the large companies who have to engage three persons (19%) or more than 3 persons (23%) in more cases than the average, while they engage one person, the authorized one only in 15% of cases.

Number of employees engaged during the inspection

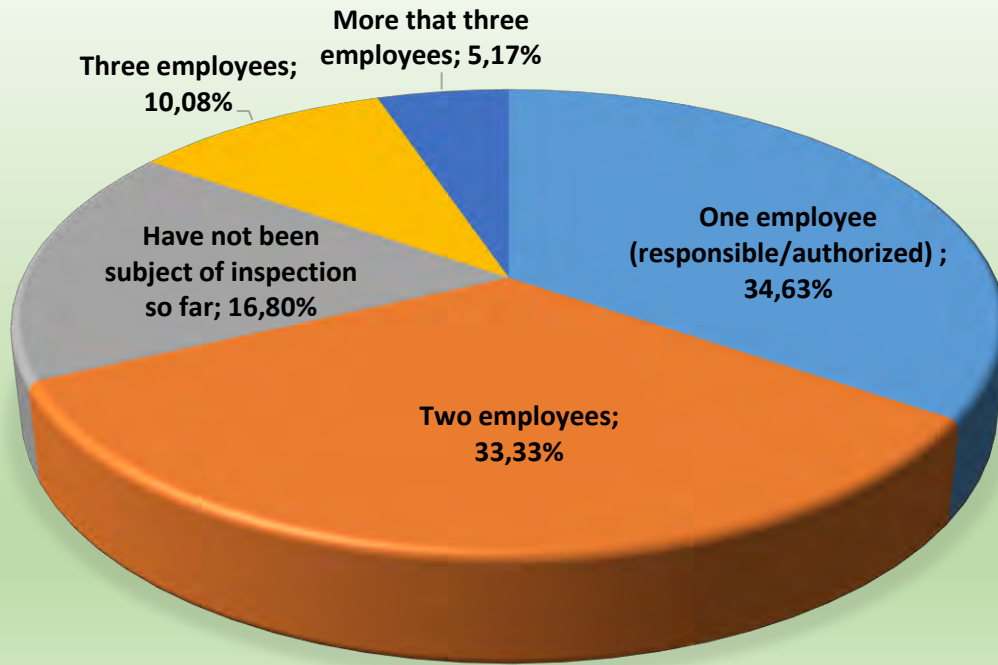


Figure 28: Number of Employees Engaged During the Inspection

In terms of the size of the companies, variations in responses indicate that micro companies engage one employee with the inspection in most of the cases, 50%, which is understandable having in mind that these companies have on average 5 employees in total. On the other hand, large companies have engaged three persons or more than 3 persons in majority of cases (42%), while they engaged one person, only in 15% of cases.

Number of Employees Engaged during Inspection per Company Size

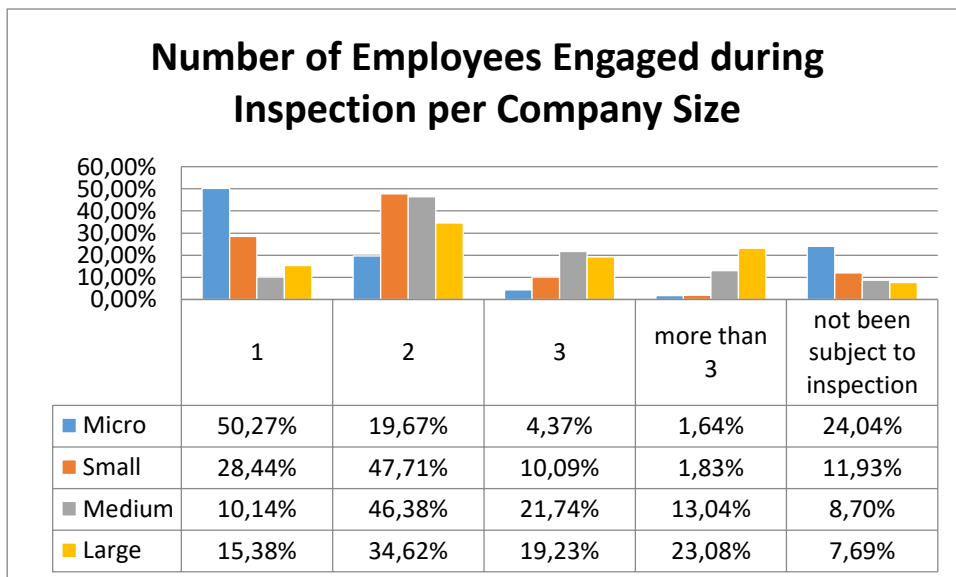


Figure 29: Number of Employees Engaged During the Inspection per Company Size

23 The worst problem during inspection audits This question allowed the survey participants to select more than one optional response. It is obvious from responses of the companies, that they do face big number of problems during inspections. The most frequent problem identified by companies is insisting to find irregularity for the companies to be fined. This is a problem identified by 19.91% of the surveyed companies. The next group of problems is related to: inspectors not sufficiently prepared 14.29% of companies, unprofessional conduct 14.13% and too long audits 12.92%. It is clear that these major problems, emphasized by a total of 61% of companies need to be addressed immediately. In addition, 10.18% of companies complained on non-transparent procedure, while 6.99% faced the problem of uncoordinated inspection authorities. Corruption has been registered as a problem of 4.86% of companies. Of course, there is the other side of the problem, when companies are not well prepared 5.17% of companies, or they do not cooperate with the inspection audit 0.76%. This question sheds light on most frequent problems related to inspections that need to be addressed in a systemic manner by creating a clear system of rules and conduct for the inspection officers.

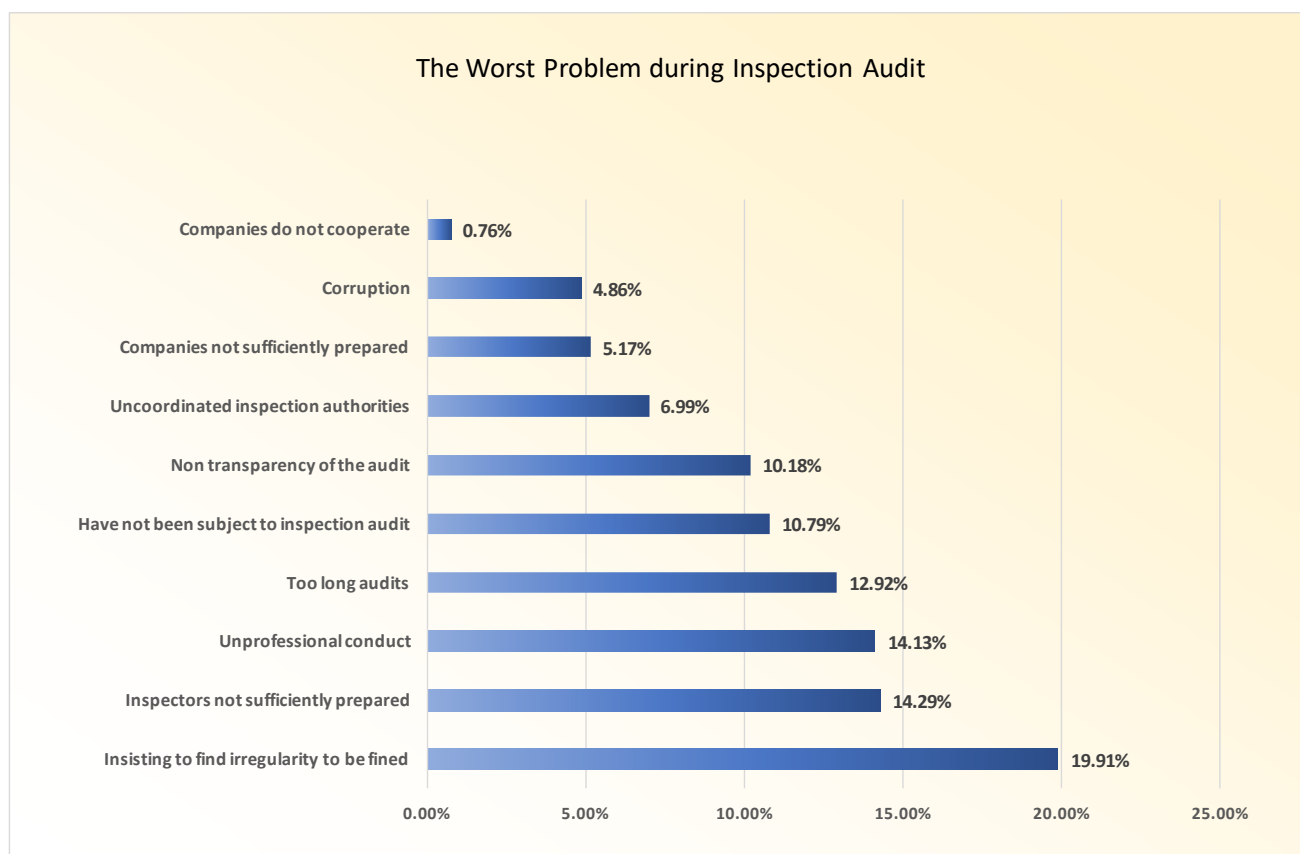


Figure 30: The Worst Problem during Inspection Audit

24. Presenting findings of inspection audit report to the companies After completing the inspection procedure, only 41% of companies were always able to get the audit report and to provide their remarks if

they had any. However, 26% of the companies did not have access to the audit report on a regular basis, but rather sporadically. In addition, 14.73% of the companies were never presented the findings of audit report. Again, this is a systemic problem that requires immediate attention and solution. Within a transparent inspection audit procedure that needs to be established, presenting the findings of inspection has to be definitely included.

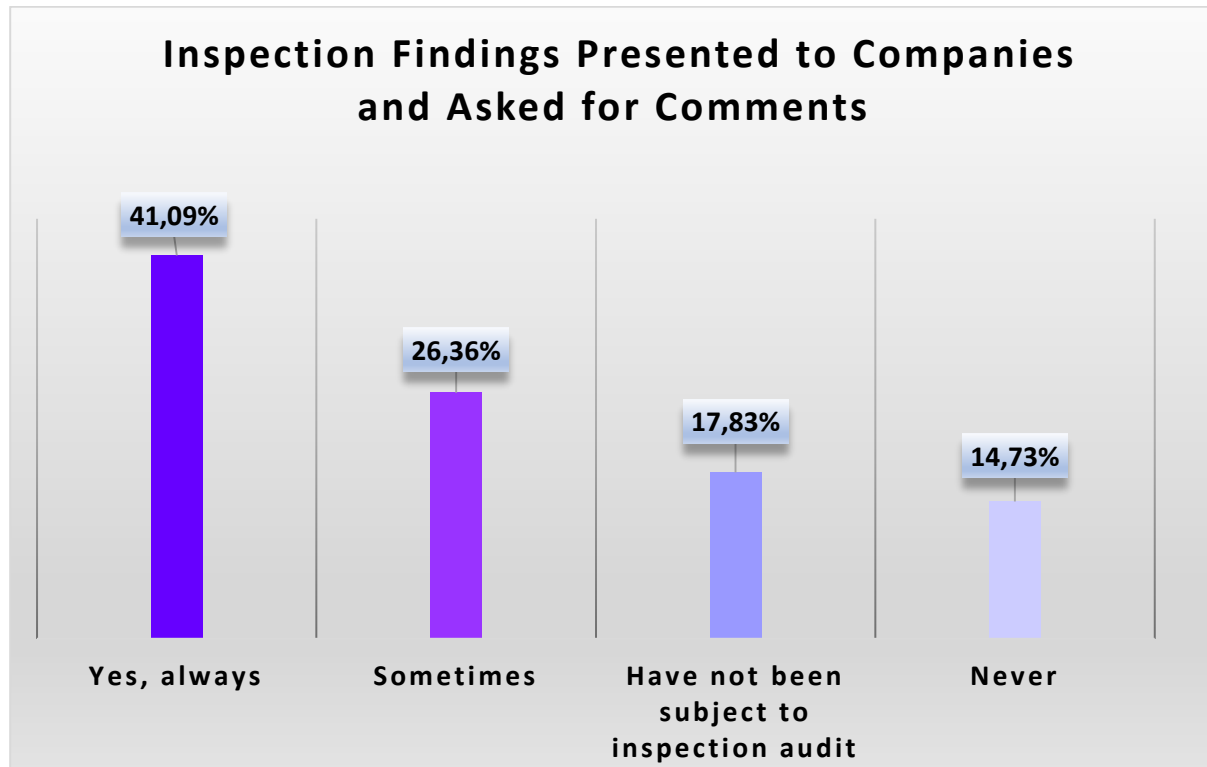


Figure 31: Were the inspection findings presented to you and were you allowed to comment?

25. Number of appeals filed by companies after the inspection audit In a transparent and reliable inspection and legal system, companies should be empowered to file appeals in all cases where they face certain irregularities or breach of procedures. However, survey statistics show that in most of the cases, companies have not filed any appeal after the inspection audit (58.66%). Only 13.95% of companies have filed one appeal to the relevant institution in the last five years, and only 9.05% of companies have filed 2-5 appeals. Seven out of 387 companies (1.81%) filed more than 5 appeals in the last five years. This indicator should be further explored to find out the reasons behind this extremely low level of appeals filed by the companies. One of the explanations could be that companies are not filing appeals because they do not trust the system, or they fear from revenge inspection visits and fines if they do file appeal. In any case, this is a matter that requires urgent attention.

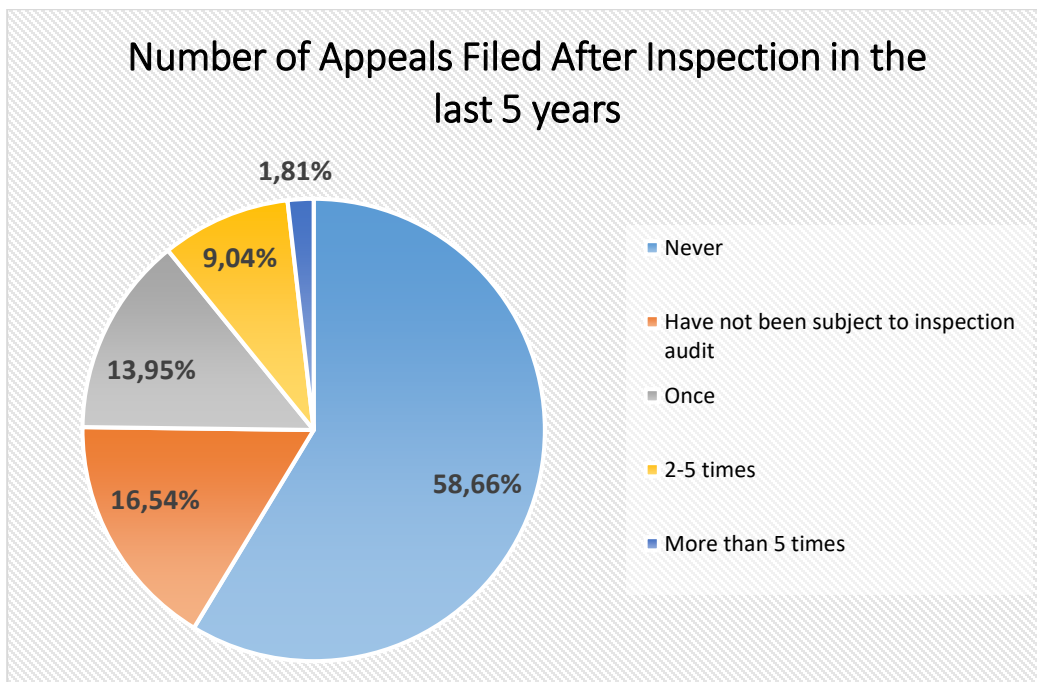


Figure 32: Number of Appeals Filed After Inspection in the last 5 years

26 Number of accepted appeals in the last 5 years Perhaps one of the potential responses from the previous question will be unlocked by the responses to this question. Out of 387 companies, only 8.27% companies have had a case of accepted one appeal filed to the relevant institution. In addition, 3.10% of companies got accepted 2-5 appeals, while 2 companies (0.52%) got positive responses to more than 5 appeals. In total, only 11.89% of total companies managed to resolve their appeals in a positive manner. However, when calculating the number of accepted appeals versus the number of appeals filed, the percentage of successfully resolved appeals is higher (around 30%).

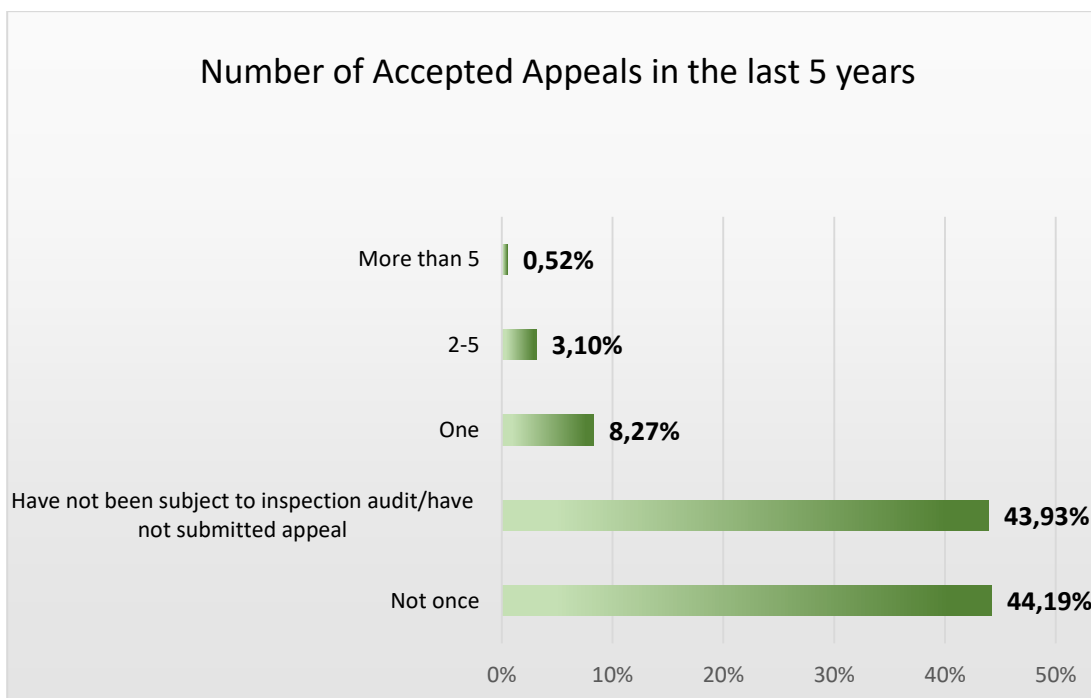


Figure 33: Number of Accepted Appeals in the last 5 years

4.3 Taxes

Taxes are one area of business environment in which Macedonia implemented a number of reforms in the last years. According to the latest Doing Business Report 2018, Macedonia ranks 29 out of 190 countries in the Paying taxes category, or the distance to frontier is 84.72. The number of reforms in this system includes introducing electronic system for filing and paying taxes, lowering the rates of several taxes, linking the electronic databases of several institutions to create one unique system etc.

However, the perspective of businesses about tax system in Macedonia may not always concur with these assessments.

27 If the actual tax regulation has negative impact on your company, where exactly is the problem This question allowed the survey participants to select more than one optional response. Although Macedonia has some of the lowest tax rates in the region, still 20.75% of companies believe that tax burden is too high. One of the most frequent complaints of businesses almost everywhere in the world is that tax burdens are too high.

Next set of complaints is related to tax legislation and regulations. To that end, 14.19% of companies in Macedonia consider tax legislation to be too complex and not clear. This is generally in line with the overall perspective and weaknesses of legislative framework being too complex and not very clear. This remark has to be taken very seriously. Legislation in general, but tax legislation in particular needs to be straightforward and very clear with no needs to be further interpreted or clarified. On top of it, 13.25% of companies claim that tax regulation is being changed too frequently, even within the course of one year, which influences their ability to fulfill their annual financial plans. To make things worse, 12.78% of companies face problems with different standards of interpretation of tax legislation of different institutions in the system. According to 9.61% of companies, big problem related to the tax regulation is also the fact that opinions and expert interpretations in this area are not published in public and transparent manner. Again, this is one of the problems that could be noticed in many areas of Macedonian legislative framework which reduces transparency and clarity of the system. Penal policy in the tax legislation creates negative impacts to 8.79% of companies, and 7.85% of companies believe that tax and customs officers are not sufficiently competent and responsive to their requests. 7.27% of companies have other problems in the tax system, while 5.51% experienced problem related to the electronic system for filing and paying taxes. These perspectives of businesses could be used as guiding principles to design and implement a set of reform instruments that could improve the overall tax system and ease the operation of businesses in this area.

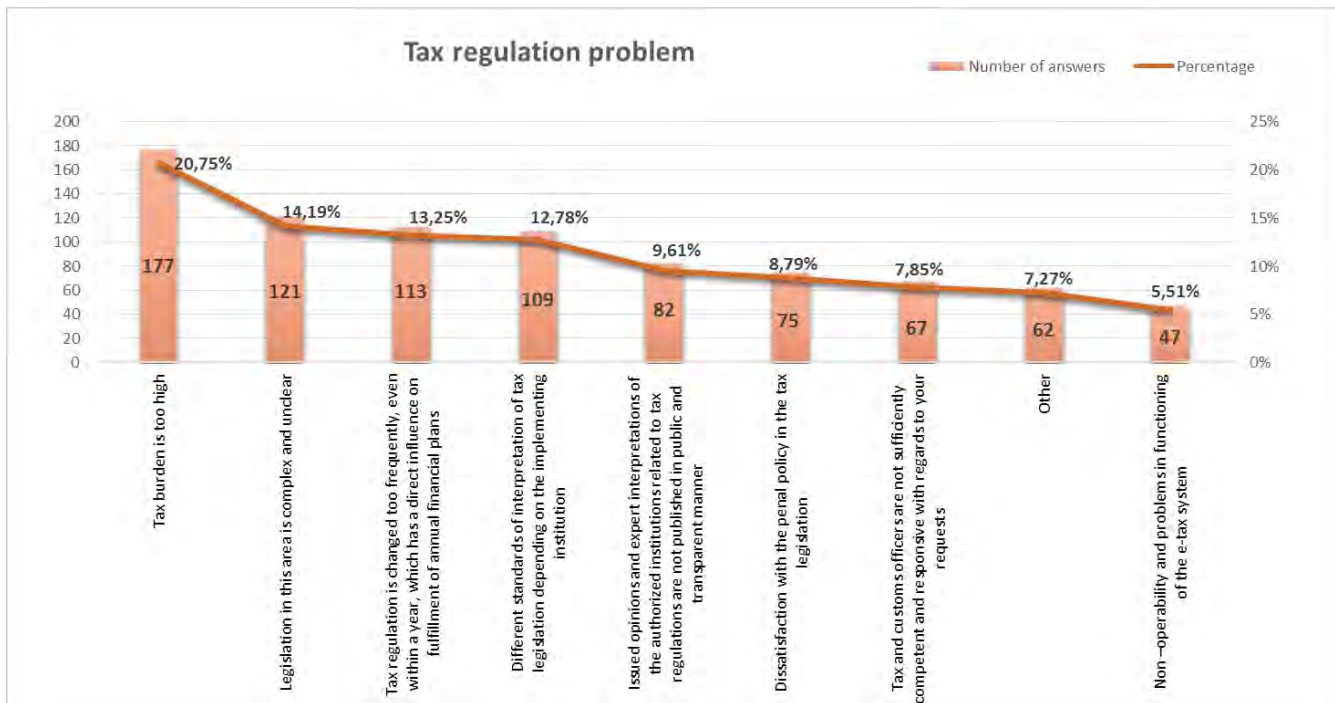


Figure 34: Tax Regulation Problem

28 In your opinion, what should be the direction of tax regulation reforms This is an open ended question, but more than 30% of the respondent companies did not provide any specific recommendation on the right direction for tax regulation reform. About 13% of companies suggested that tax reforms should be implemented by reducing tax rates, including in particular reducing VAT, or profit tax rates. To that end, several companies suggested reducing taxes specifically for ICT companies, as well as for micro and small companies. Second most frequent group of suggestion is related to simplification of legislation, simplification of the entire tax policy, and increased transparency and clarity of the system. Related to the simplified legislation, several companies asked for legislation that would be implemented to achieve equal treatment of all companies, equal implementation of regulation, and fighting competition from grey economy companies. Some of the companies believe that our tax system should be changed so that it is brought in line with EU legislation. A small number of companies suggest introducing progressive tax for personal income tax and profit tax, including lower taxes for micro enterprises as the right tax reform agenda. Several companies suggest that tax policy to be affirmative rather than used as a tool of repression. Two companies suggested changing of article 32 a, and one of the companies suggested abolition of the law on financial discipline. Another group of suggestions is related to better education of inspection officers, better coordination of inspections, and improved interactions with companies.

29 Potential effects of the progressive tax rate on businesses One of the big reforms that are announced by the new government in Macedonia is introducing a progressive tax rate system instead of the actual system of flat rates. When asked about the potential effects of the progressive tax rate on businesses 107 companies (27.65%) responded that they expect positive effects. 133 (34.37%) companies believe that it will have negative effects, while 33 (8.53%) companies expect no effects on businesses at all. It is worth to note that 114 (29.46%) companies do not know what would be the effects of introducing progressive tax rates on businesses. This percent is even bigger for the large companies (50%). This type of radical change of one tax system with another

could trigger a number of effects on businesses and on citizens. Therefore, such change should be well documented and carefully explored, taking in consideration positive and negative impacts on businesses and citizens, before legally introducing the new tax system.

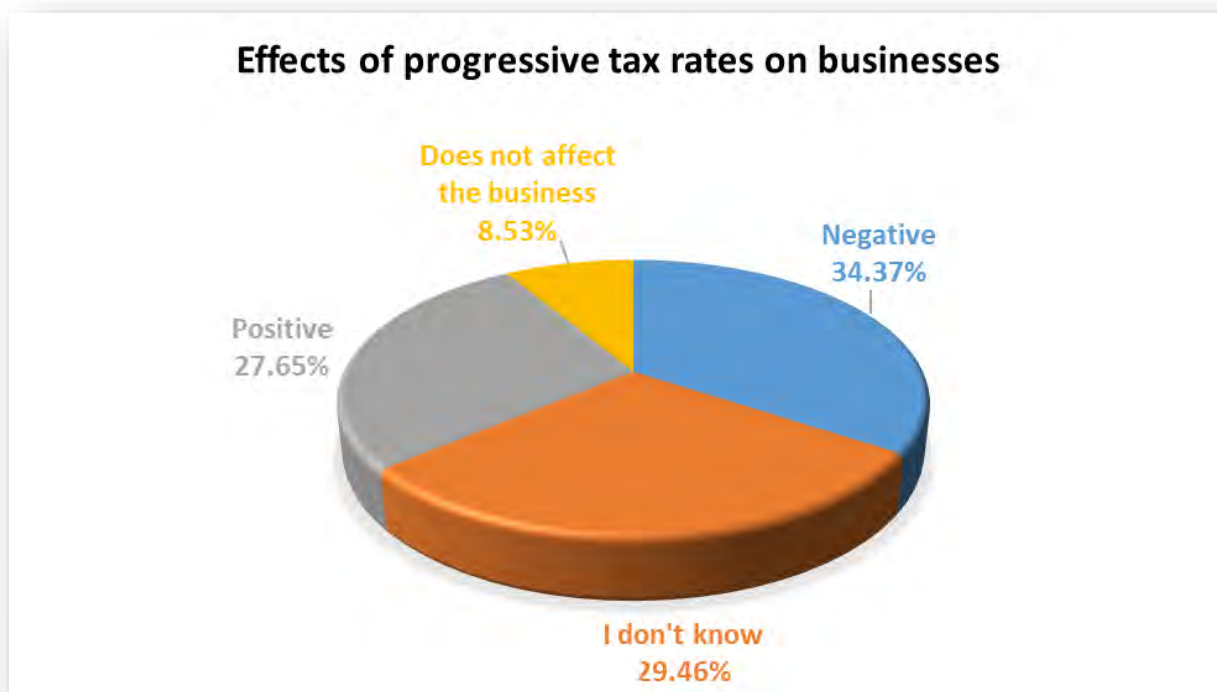


Figure 35: Effects of Progressive Tax Rates on Business

30. **Which tax creates biggest problem for companies** In terms of various types of taxes, and problems they create for businesses such as cumbersome and unclear regulation, needs for changes, too much administration etc., 37.73% of companies responded that they face biggest problems with the value added tax (VAT). VAT is very important tax in Macedonian tax system and many businesses often complain about VAT refund problems. Profit tax creates problems to 32.82% of companies, while personal income tax is a problem for 24.81% of companies. Only 4.65% of companies experience some problems with property tax.

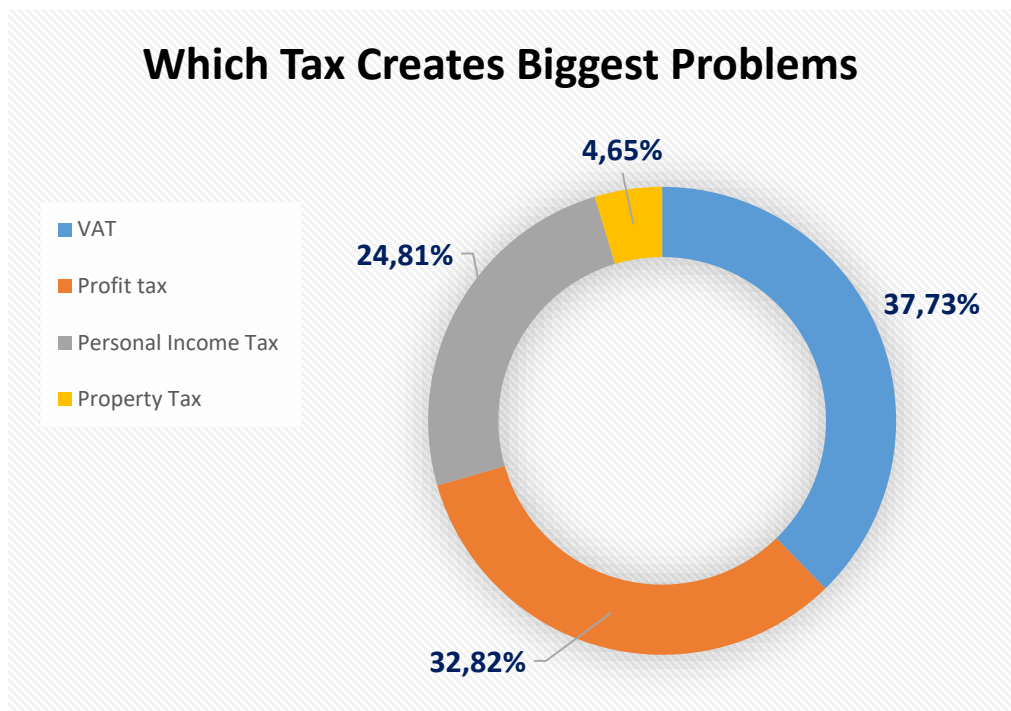


Figure 36: Which Tax Creates Biggest problem

In terms of size breakdown, the statistics are pretty consistent, except for the personal income tax which creates larger than average problem for medium size companies and lower than average problem for large companies. In addition, property tax is a source of problem for more large companies compared to micro, small and medium size companies.

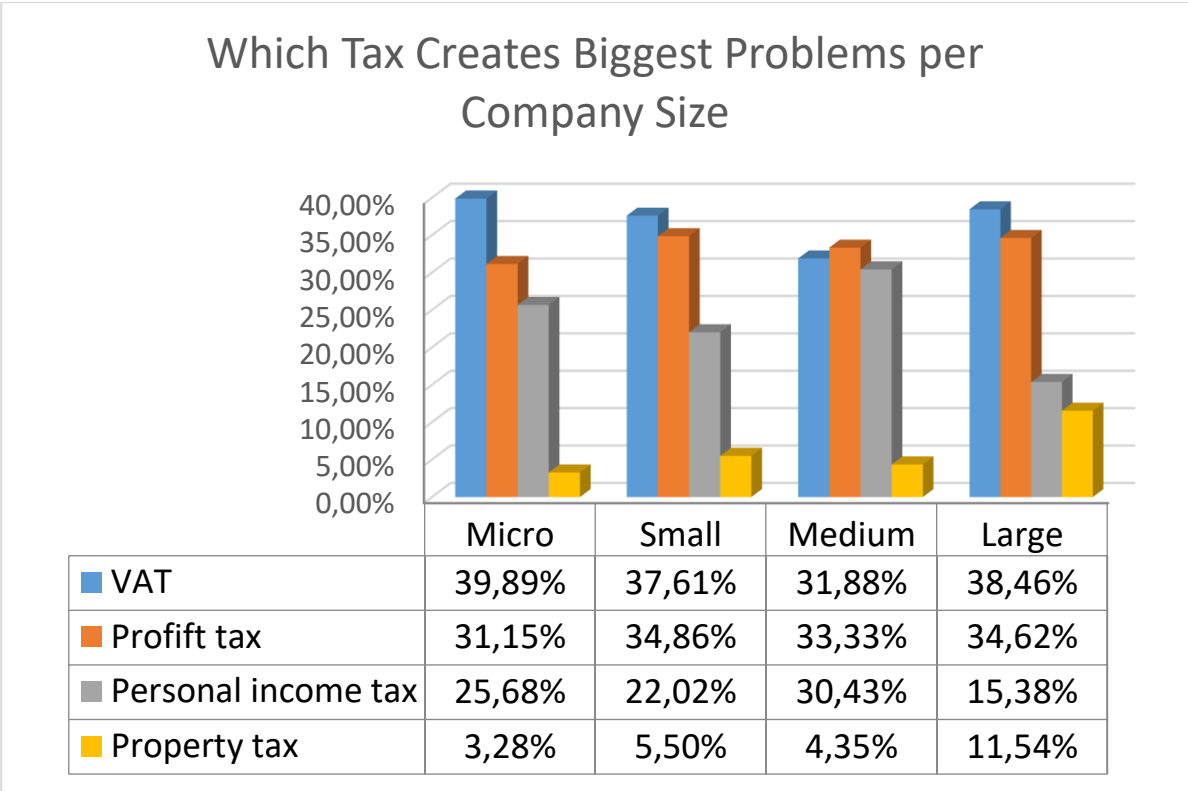


Figure 37: Which Tax Creates Biggest Problem per Company Size

4.4 Customs

Customs administration and its operations is very important area that allows businesses to trade their products across the borders without any delays. Similar to tax area, there have been a lot of reforms in the area of customs in the last years. Still, there are more things to be improved in this context. Macedonia ranks 27 out of 190 countries in Trading across borders category of the World Bank Doing Business Report 2018, with a distance to frontier 93.87.

31 Remarks about customs This question allowed the survey participants to select more than one optional response. When asked to provide their remarks for customs the biggest number of companies, 21.18% complained about the burden of too many documents, and 12.78% of companies complained about the speed of completing customs procedures. Interestingly, 10.65% of companies did not have any complaints about customs. The next set of complaints is regarding (i) lack interconnection between Customs and Public Revenue Office related to VAT refund (8.40%); (ii) IT system in customs procedures (7.64%); and (iii) the need to change regulation related to some procedures (7.39%). Companies also complain about (i) over-burdened administration of customs procedures (7.14%); (ii) incompatibility of Inspections with Customs administrations (6.89%); and (iii) insufficient competence of customs officers (6.39%). 4.64% of companies had remarks about corruption of customs officers, while 3.76% of companies expressed their dissatisfaction with the penal policy of the customs operations. Finally, 3.13% of companies complained about the insufficient cooperation with

participants in customs procedure. These remarks provided by the businesses should be used as a platform to develop further reforms in this area, so that the customs will no longer create obstacle for smooth operation of businesses in Macedonia.

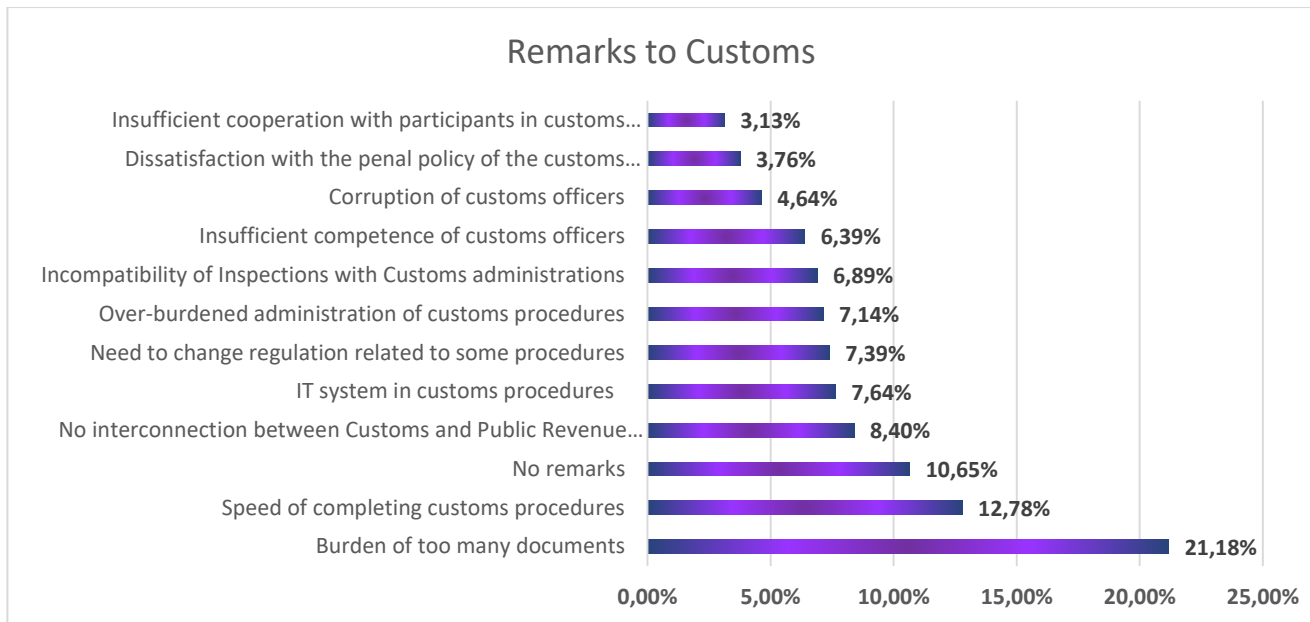


Figure 38: Remarks to Customs

32 In your opinion which goods and services according to tariff system are not in compliance with the legal regulation, (VAT, etc). This is an open ended question; however, the majority of respondent companies did not provide any specific response to it (62%). Next group of most frequent responses quoted VAT as non compliant regulation (22%), while 1% of companies believe that personal income tax regulation is a problem in this area. The other responses are scattered around various topics, such as meat industry, food, coffee, textile, goods with origin outside of EU, orthopedic accessories, temporary import for export, motor vehicles, machinery and spare parts, raw materials, animal feed, waste, services, etc.

33. List the products for which you believe raw materials should have lower or no custom duties in order for the final products to be more competitive This is also an open ended question that allowed companies to provide their suggestions and opinions, however, most of the companies (more than 55%) did not provide any specific proposal. From the specific proposals, the most frequent responses (5%) included raw materials, without providing more details about kind of products these materials are intended for. Another group of responses (5%) are grouped around raw materials needed for agriculture and dairy products (seeds, grains, animal feed, livestock, raw milk, oranges and other fruit raw materials for juice production, fertilizers, agriculture machinery, packing sacks, etc). The next group of specific suggestions is related to materials needed for ICT products (3%) of responses. One group of responses (2%) is related to construction and construction materials (concrete, cement, iron, etc). The same number of responses is provided about import of textile materials (2%). Finally, there are other suggestions provided for various products such as electricity, drugs, raw materials for detergents, books, science and research materials and instruments, furniture, petroleum, etc.

4.5 Legal Compliance

Good business environment requires good regulation and level playing field for the companies to compete and develop. In order to stay in line with the legal requirements, companies need to be informed about the changes in the legal framework and all necessary steps they need to undertake to stay in compliance. This is not always easy.

34 Availability of information necessary for legal compliance When asked about the availability of information necessary for the companies to stay in compliance with legal regulation, only 6.72% of companies responded that the information is fully available, while 10.34% of companies believe that this information is not available at all. Legal compliance information is insufficiently available for majority of surveyed companies, 45.99%, while 36.95% companies believe that this information is mainly available. Given the problem of too frequent changes in the legislation in Macedonia, there is an obvious need for improved access to information that would allow companies to stay in compliance with legal regulation.

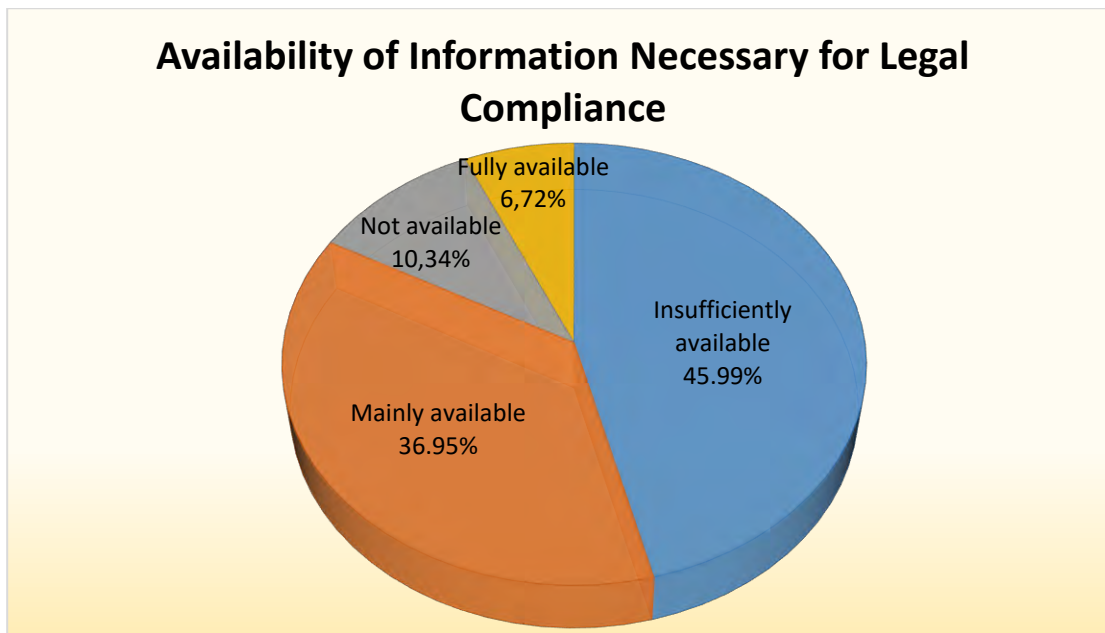


Figure 39: Availability of Information Necessary for Legal Compliance

When comparing the statistics from 2017 and Baseline Assessment, it becomes obvious that the situation is almost identical, with slightly higher percentages of companies in 2017 survey stating that they have fully available and mainly available information.

Availability of Information Necessary for Legal Compliance 2017 vs. Baseline

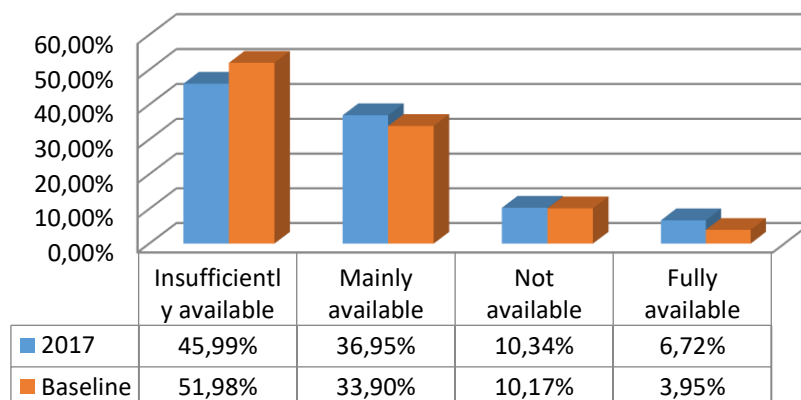
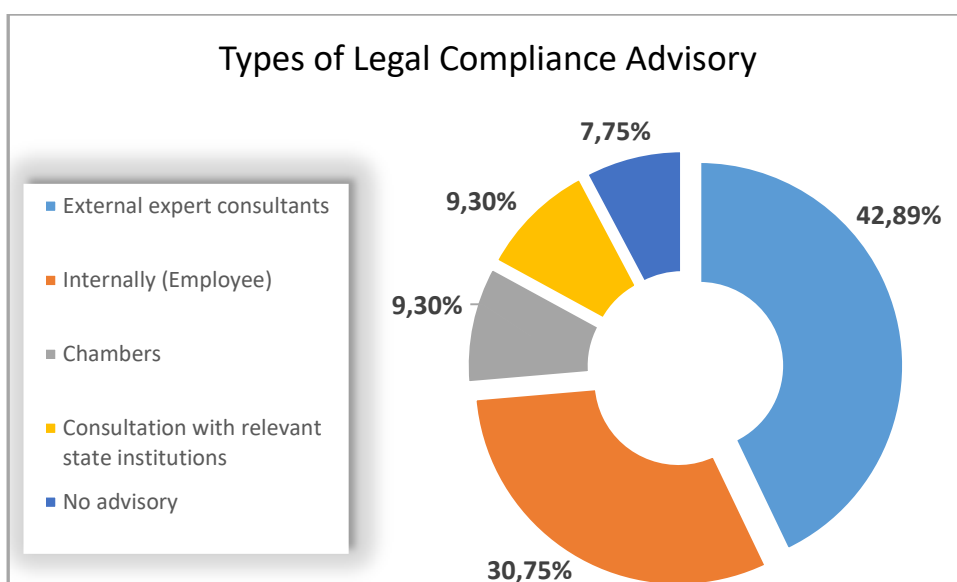


Figure 40: Availability of Information Necessary for Legal Compliance 2017 vs. Baseline

35 The ways to check if companies' documents are in compliance with legal regulation Different companies use different ways to find out whether their legal documents are in compliance with the requirements of legal regulations. Out of 387 companies, 42.89% turned to external advisors, lawyers, consultants, accountants etc.; to assist them to stay in compliance with legal regulations. 119 companies (30.75%) used their own employees designated to follow legal regulations and keep up with the changes. 9.30% of companies asked Chambers for assistance in this area, and the same percentage of companies, 9.30% turned to relevant state institutions. 7.75% of companies did not use any advisory in this area. These indicators point to a well established fact that legal framework is still a big problem for businesses, and they do need assistance to keep track with changes and stay in compliance. It also demonstrates that Chambers and relevant institutions could do more to assist companies in this matter.

Types of Legal Compliance Advisory



36. Involvement of companies in legislative process in the last 5 years Big majority of companies, 286 (73.90%) confirm that they have not been involved in the process of adoption of legislation, which could include participation in workshops, panel discussions, focus groups, researches and similar activities. 101 companies (26.10%) did participate in this process. There are no major differences between the 2017 indicators focusing on involvement in the legislative process and the same indicators from the Baseline Assessment.

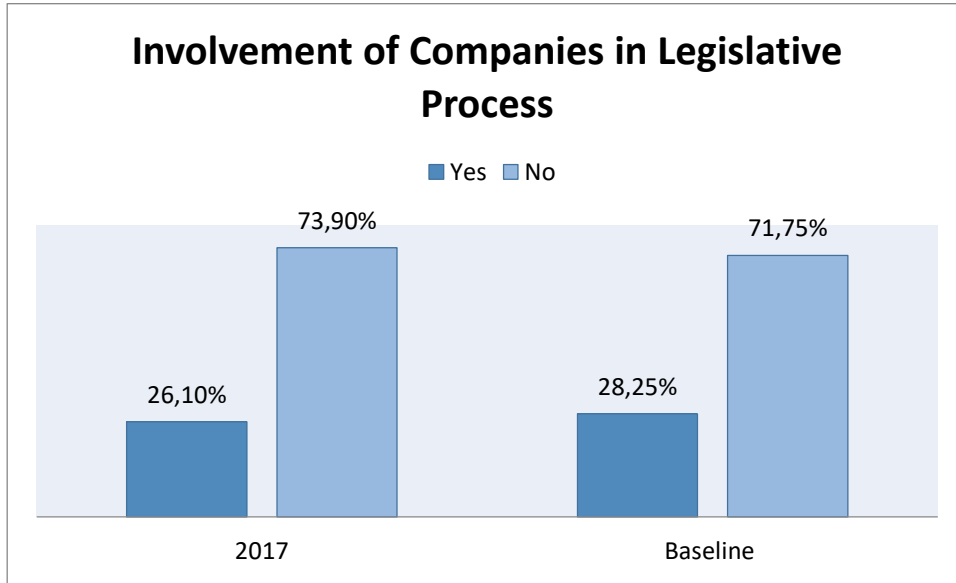


Figure 42: Involvement of Companies in the Legislative Process 2017 vs. Baseline

When analyzing responses of the companies broken down by size, one could note big difference between responses from MSMEs that fit into the overall statistic on one hand and information from large companies, which confirms that large companies are indeed involved in the process of adoption of legislation in 69% of the cases.

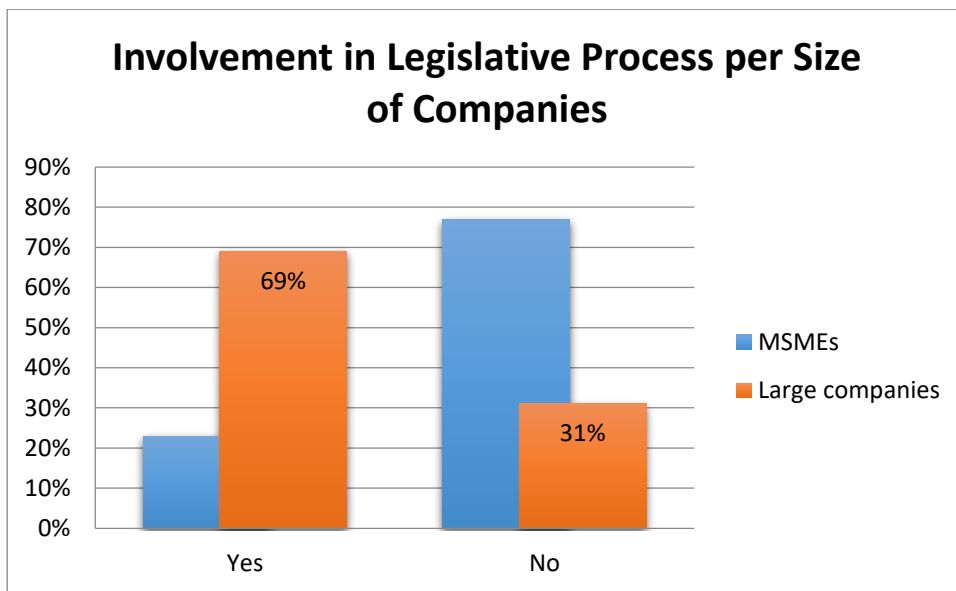


Figure 43: Involvement in the Legislative Process per Size of Companies

37 Which solutions will improve legal compliance of the companies The surveyed companies were asked to prioritize the given solutions for improving legal compliance. According to the respondents, the list of top three solutions that could improve legal compliance of companies includes (in order of priority) : (i) simplified legislation (24%), (ii) lower frequency of changes in legislation (18%), and (iii) better awareness for current changes of the regulation (16%). Next group of solutions includes (i) creation of functional web portals specialized in providing legislative information (11%), and (ii) assistance to enterprises in the process of legal compliance (11%). The next group of suggested solutions is related to Chambers that could (i) set up info points as part of Chambers' work (7%), and (ii) provide better communication with Chambers (7%). Finally, one proposed solution is to provide counseling vouchers to companies to co-finance consultancy activities (6%). Once again, it is confirmed here that in Macedonia there is a big problem of too complex legislation that is being changed way too frequently. Companies have problems to keep up with all the changes and stay in legal compliance, so the best solution to this problem is to address the core of the problem, simplify legislation and then stop changing it on a regular basis. Perhaps it may be time to make another regulatory guillotine and re-establish the regulatory impact assessment procedure that was introduced almost 10 years ago, but is obviously not fully implemented.



Figure 44: Solutions for Improved Legal Compliance

38 External advisors used by the companies Different companies use different types of advice to keep in compliance with the legal regulations. Biggest number of surveyed companies, 162 (41.86%) used accountants to help them stay legally compliant. 88 companies (22.74%) used consultants, and 78 (20.16%) companies used lawyers. 33 companies (8.53%) did not use any external advice, while only 26 (6.72%) companies used advice from the Chambers. This demonstrates that companies tend to turn to different expert solutions in most of the cases, but the role of the Chambers in this area could be significantly improved.

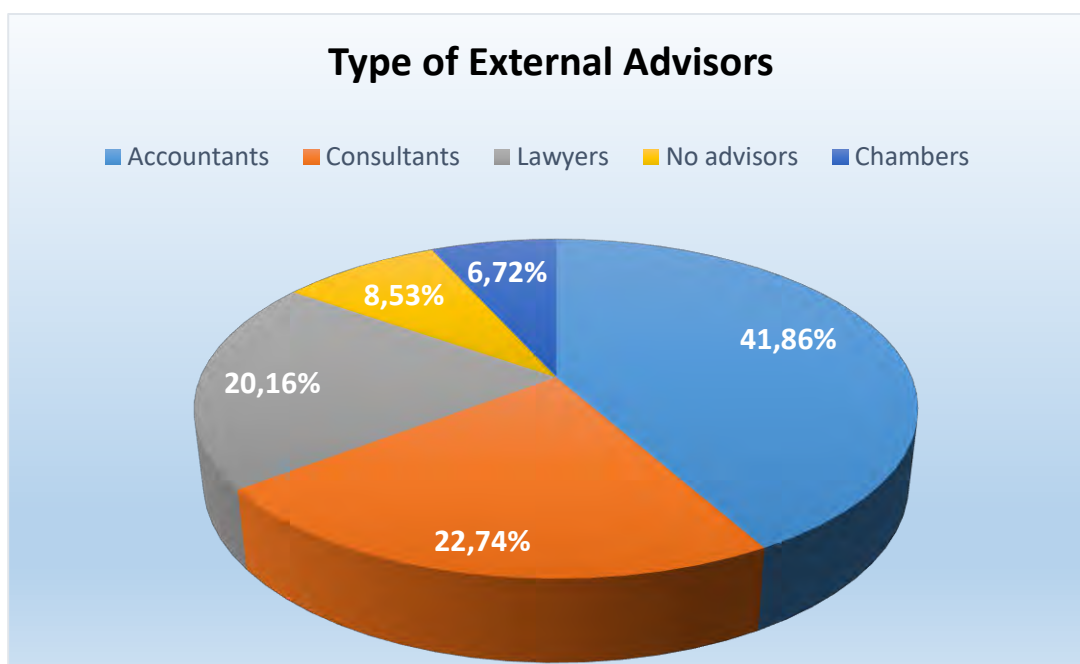


Figure 45: Type of External Advisors

When comparing the data related to types of external advisors used by companies in 2017 and in Baseline Assessment, it is obvious that while in 2017 survey the accountants have a leading role, in the Baseline Assessment, majority of companies used lawyers (35.59%), while 31.07% used accountants. According to the Baseline statistics, 7.91 % of companies were using Chambers advice to stay in compliance, which is very close to the 2017 statistics 6.72%.

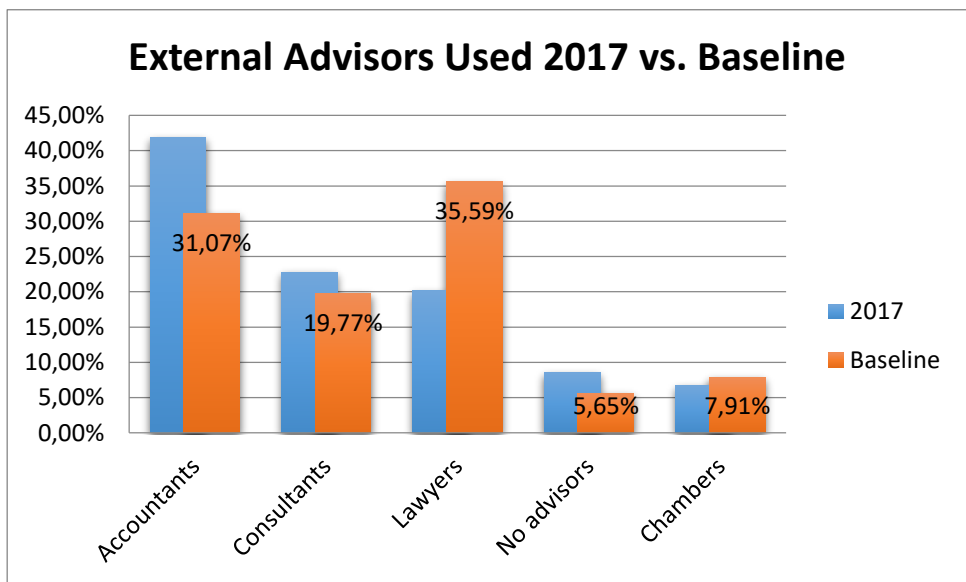


Figure 46: External Advisors Used 2017 vs. Baseline

39 To what extent companies have been satisfied with the services of external advisors related to legal compliance Out of the 387 companies in the survey, a total of 280 companies (73%) have been either very satisfied (20%) or somewhat satisfied (53%). 64 (16%) companies have been not sufficiently satisfied, while 7 (2%) companies have been dissatisfied. This indicator points out that the advisory service providers should work hard to improve the quality of their services and make their clients very satisfied.

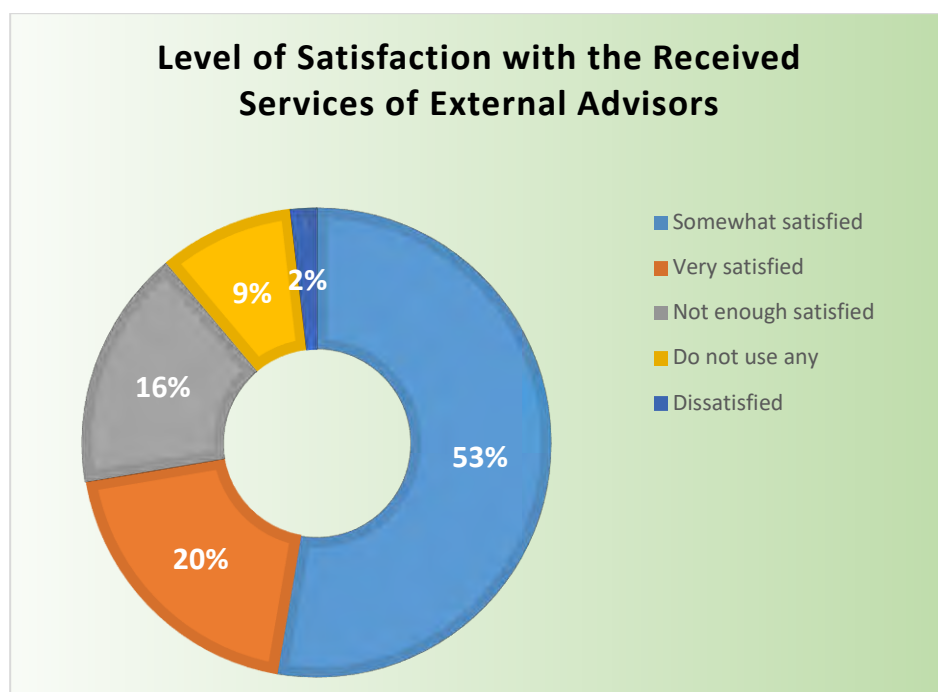


Figure 47: Level of Satisfaction with the Received Services of External Advisors

40 What kind of trainings and info-sessions will be most useful for the company This question allowed the survey participants to select up to 3 responses. The top training required by the majority of companies 25.67% is in the area of finance and accounting, including tax and customs. Second highest priority for companies is training in labor regulations indicated by 17.85% of companies. The next priority group of required targeted trainings includes (i) market inspections and law on trade, 11.69% of companies; (ii) security and safety of the workplace, 10.90%; (iii) licenses and permits procedures, 10.43%; and (iv) public procurement, 9.79% of companies. Somewhat lower priority of trainings is required in civil construction 4.90% and environmental protection 4.50% of companies. Finally, companies ranked training in agriculture and tourism with lowest priority, with 2.29% and 1.97% of companies listing them respectively. This list of priorities could serve as a good platform for providing structured trainings by Chambers, donors or advisory service providers targeted to assist companies in getting legal compliance.



Figure 48: Required Targeted Trainings

4.6 Chambers

41 In which way do companies rate capacity of the Chambers in providing assistance for legal compliance

Almost three quarters of the respondent companies (70.54%) are satisfied or very satisfied with the services received from Chambers related to getting in compliance with the legal regulations. Only 8.27% of companies are not satisfied with the quality of the Chambers' services, but additional 21.19% of companies are somewhat satisfied, leaving enough space for improvements. Chambers could explore in more details what could be done in addition to their regular work to increase the number of very satisfied and satisfied clients, and reduce the number of dissatisfied or somewhat satisfied companies. There are no major differences in the level of satisfaction of companies with the Chambers' services compared to the Baseline Assessment. These statistics are similar for all participating chambers, with MCC and MASIT having the highest percent of very satisfied clients (21%), as demonstrated in Figure 46.

Level of satisfaction for the received services

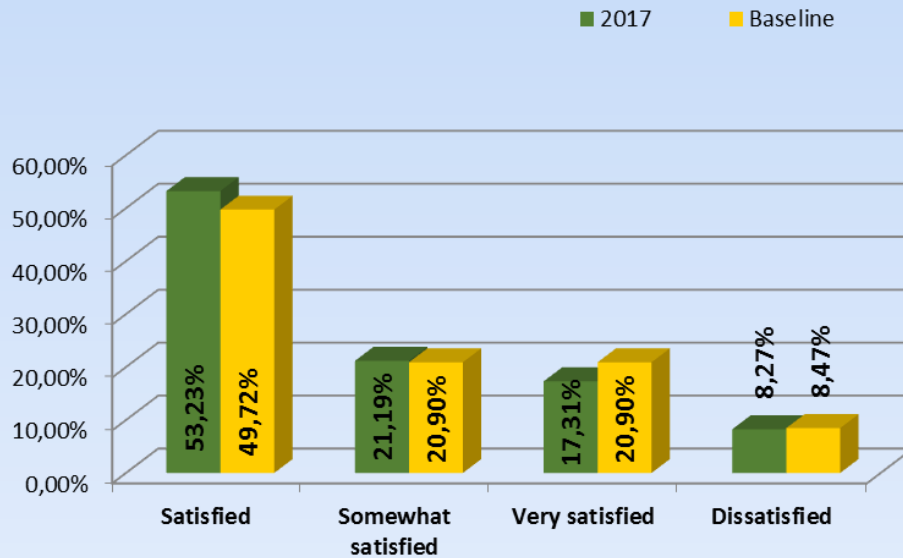


Figure 49: Level of Satisfaction with the Received Services of Chambers

Level of Satisfaction with Received Services

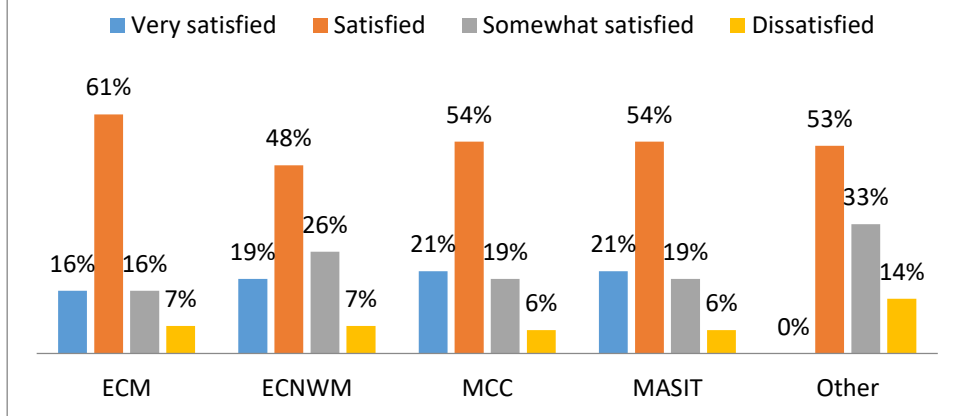


Figure 50: Level of Satisfaction with the Received Services of each of the Chambers

42 How frequently did companies use services of the Chambers during 2016 Companies have had different experiences in frequency of using Chambers’ services during 2016. 25 (6%) companies used services every day, 45 (12%) once a month; 66 (17%) once a quarter. In other words, 299 (77%) companies did use services of the Chambers, while 88 (23%) companies did not.

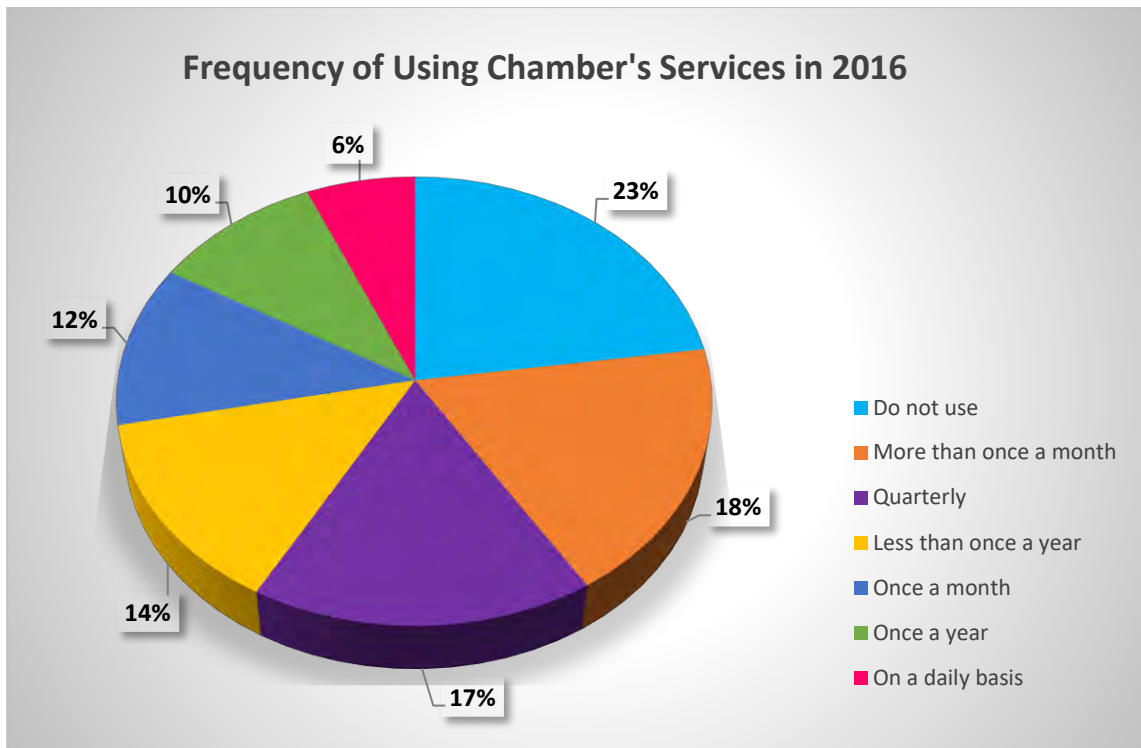


Figure 51: Frequency of Using Chambers’ Services in 2016

43 Do companies consider that Chambers are involved in the process of adoption of legal regulation Big majority of companies, 70.03% believe that Chambers are involved in the process of adoption of legal regulation in terms of organizing workshops, focus groups, writing position papers and proposed changes in legislation in line with the needs of the private sector. 29.97% of companies consider that Chambers are not involved in the process of adoption of legal regulation. The Baseline Assessment statistics is almost identical with the 2017 survey responses.

Opinion about the Chamber's involvement in the process of adopting legislation

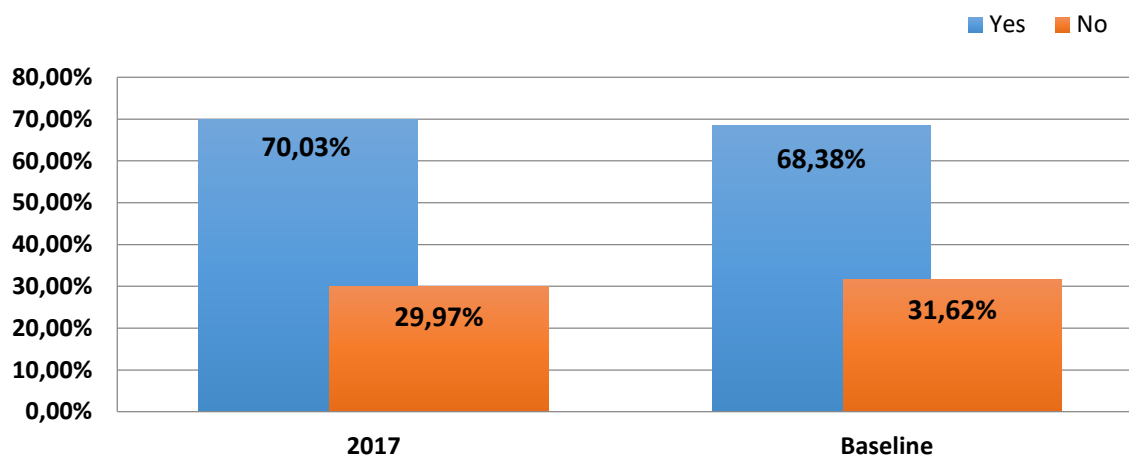


Figure 52: Opinion about Chambers' Involvement in the Process of adopting Legislation

44 Which aspects of the work of Chambers should be improved according to and prioritized by the companies

Respondent companies suggest that the three most important priorities that Chambers' should focus on are related to: (i) lobbying in front of the institutions (26%); (ii) providing accurate information on regulations (22%), and (iii) organizing more training (21%). It seems that networking (16%) and providing market information (15%), although important, have somewhat lower priority compared to the top three. The top three priorities have changed compared to the Baseline Assessment, since apart from the number one priority which is the same (lobbying), second most important priority was providing information for markets, and the third most important priority was networking with national and international companies. It seems that staying in compliance and getting timely and accurate information about changing regulation, as well as training, became more important in the last year.

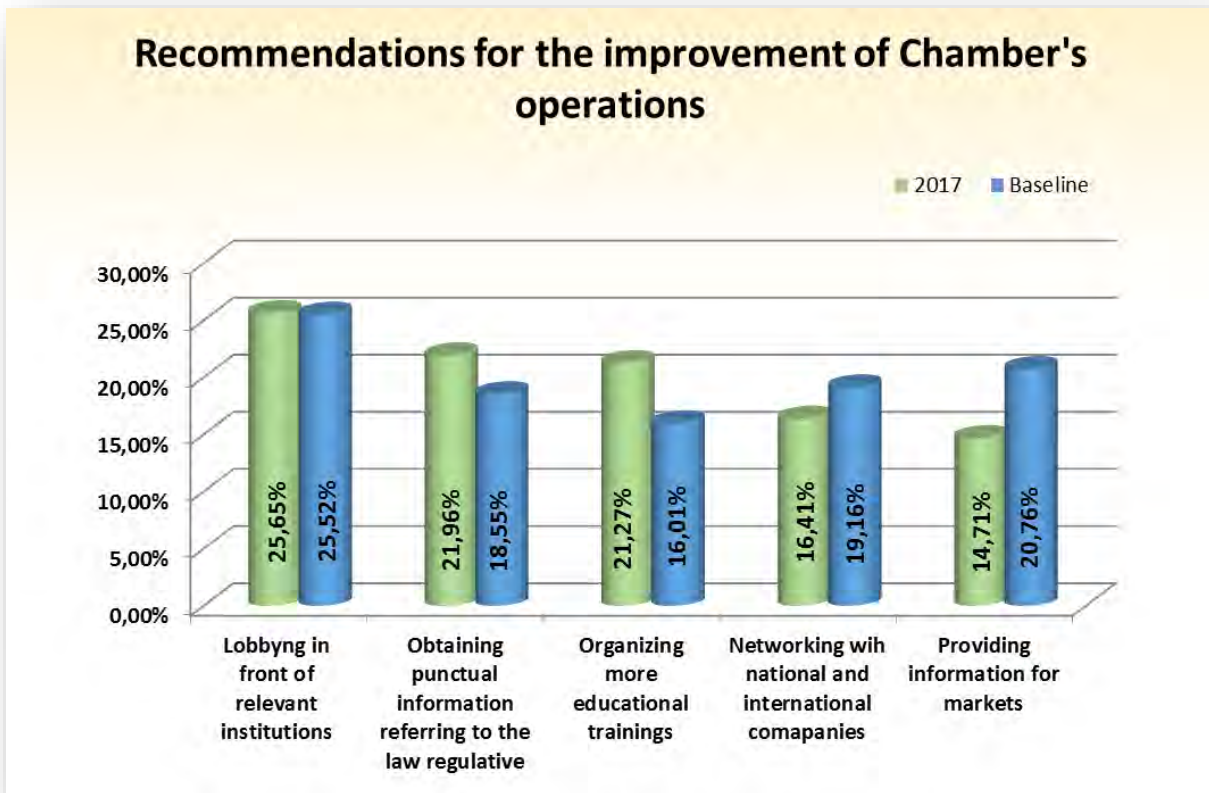


Figure 53: Recommendations for Improvements of the Chambers' operations

4.7 Business environment

45. How companies perceive Macedonia today related to the other countries in Western Balkan region in terms of business environment and investment destination Majority of surveyed companies (70.80%) believe that business climate in Macedonia is either equal (40.05%) or worse (30.75%) compared to the business environment in the region. Only 72 (18.60%) companies find Macedonia to be a better place for doing business and investment. The perception of companies surveyed in the Baseline Assessment is even less favorable than 2017 statistics. So, according to the Baseline statistics, 53.11% of companies find the business environment in Macedonia to be worse than the region, and only 7.34% find it better than the region. These perceptions are not in line with the overall ranking of the business environment according to the World Bank Doing Business Report, where Macedonia is ranked as much better place for doing business than the other countries in the region.

Opinion for the business climate in Macedonia

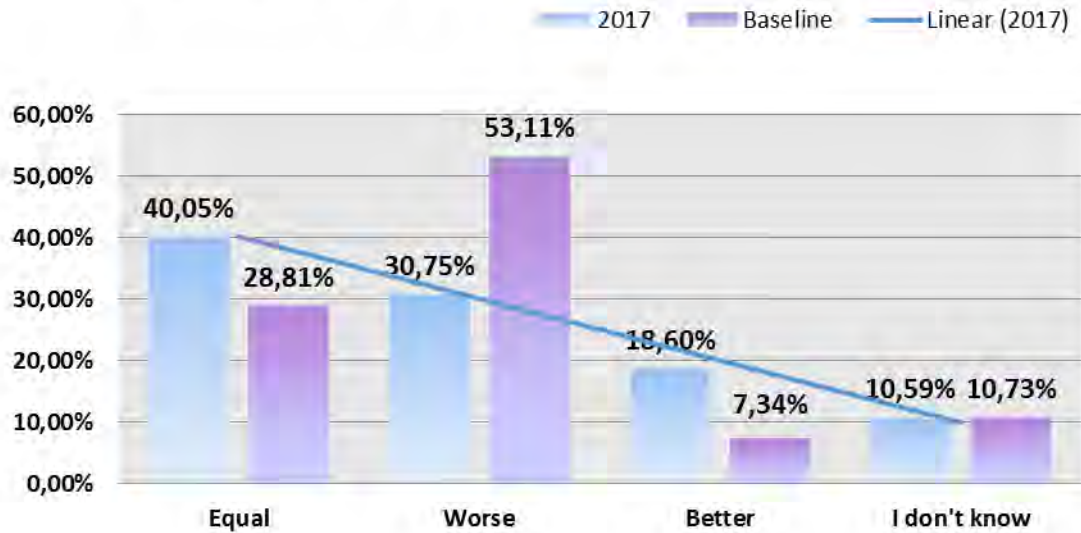


Figure54: Opinion on the Business Climate in Macedonia

There are no big fluctuations from the average numbers in terms of the companies' perception on business climate in Macedonia broken down by size of the companies, except for the views of large companies. According to the statistics, much lower number of large companies believe that business climate is worse than the one in the region (15%) than average (31%), and higher percent believe it is equal (46%) compared to average 40%. This could mean that large companies enjoy different treatment and benefits in terms of business climate compared to MSMEs.

Opinion on the Business Climate in Macedonia per Company Size

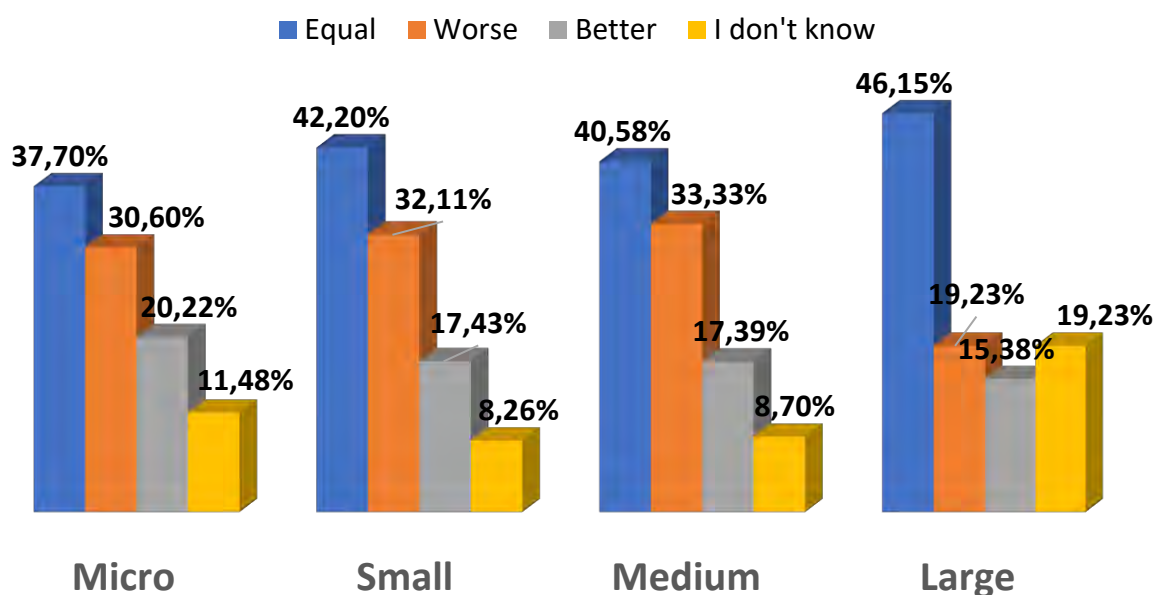


Figure 55: Opinion on the Business Climate in Macedonia vs. Company Size

In terms of sectors, much higher portion of textile and tourism companies perceive business climate to be equal to the regional one. More than average number of agriculture and ICT companies believes that business climate is worse, while the lowest number of companies that perceive the business climate to be better than the region is in the textile and tourism sectors.

Opinion on the Business Climate in Macedonia per Sector

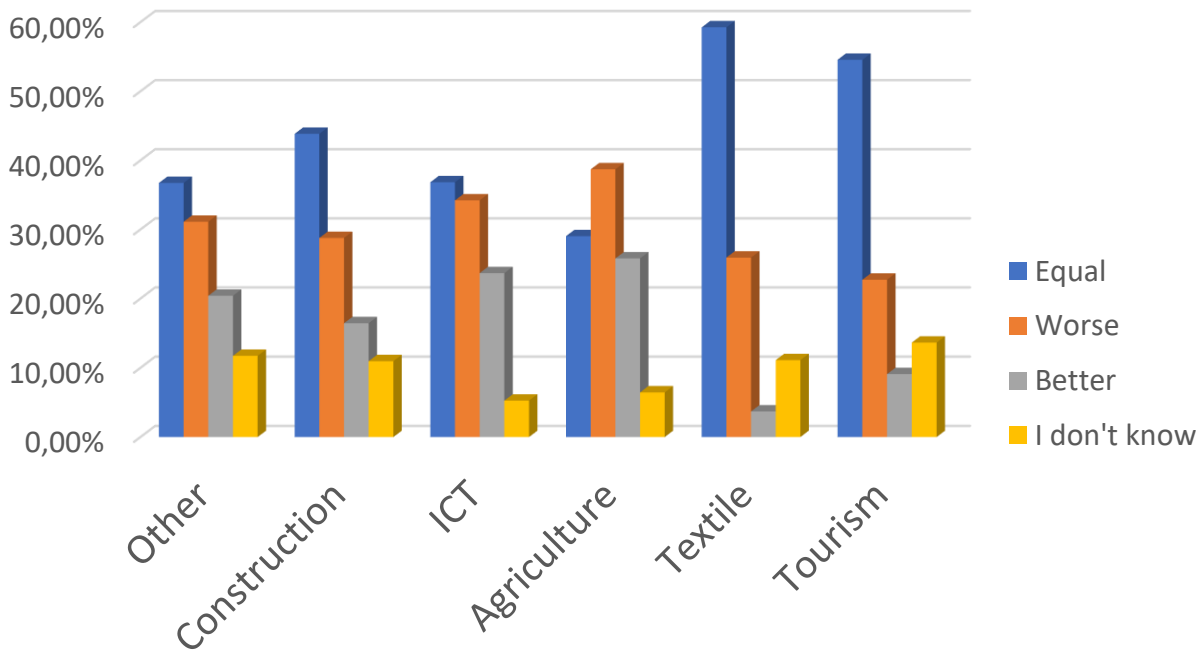


Figure 56: Opinion on the Business Climate in Macedonia per Sector

4.8 Legal Regulation

46 Perception of companies related to their satisfaction with labor legislation In terms of labor legislation, perception of companies is clearly not positive. Out of 387 companies, majority of 44.70% of companies are not enough satisfied and 16.80% are not satisfied (lowest ranking). In other words, 61% of companies are not happy with the labor regulation. Only 2.84% of companies are very satisfied (highest ranking), and 23.26% companies are satisfied. The perception of companies in terms of labor legislation has not been significantly changed compared to the same statistics in the Baseline Assessment.

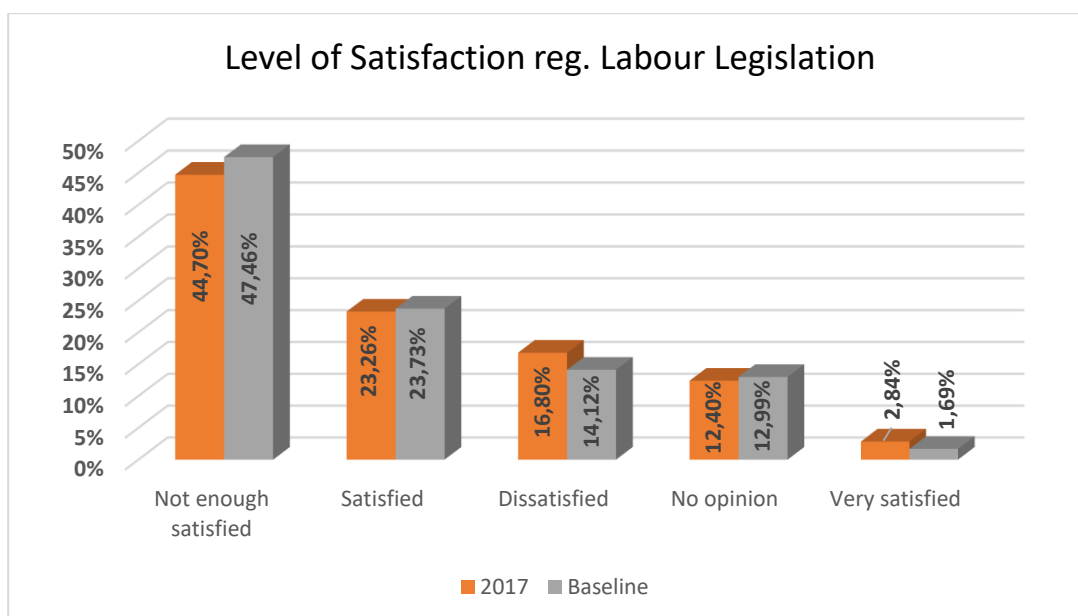


Figure57: Level of Satisfaction regarding Labor Legislation

47. Perception of companies related to their satisfaction with construction legislation When analyzing data on satisfaction with sectoral legislation, such as construction legislation, the *no opinion* answers are not taken in consideration, since companies from the other sectors are not familiar with sector specific legislation of other sectors. In terms of construction legislation, perception of companies is clearly not positive. Out of 387 companies, majority of 40.08% of companies are not enough satisfied and 28.24% are not satisfied (lowest ranking). In other words, 68% of companies are not happy with the construction regulation. Only 3.82% of companies are very satisfied (highest ranking), and 27.86% are satisfied. The perception of companies in terms of construction legislation has not been significantly changed compared to the same statistics in the Baseline Assessment.

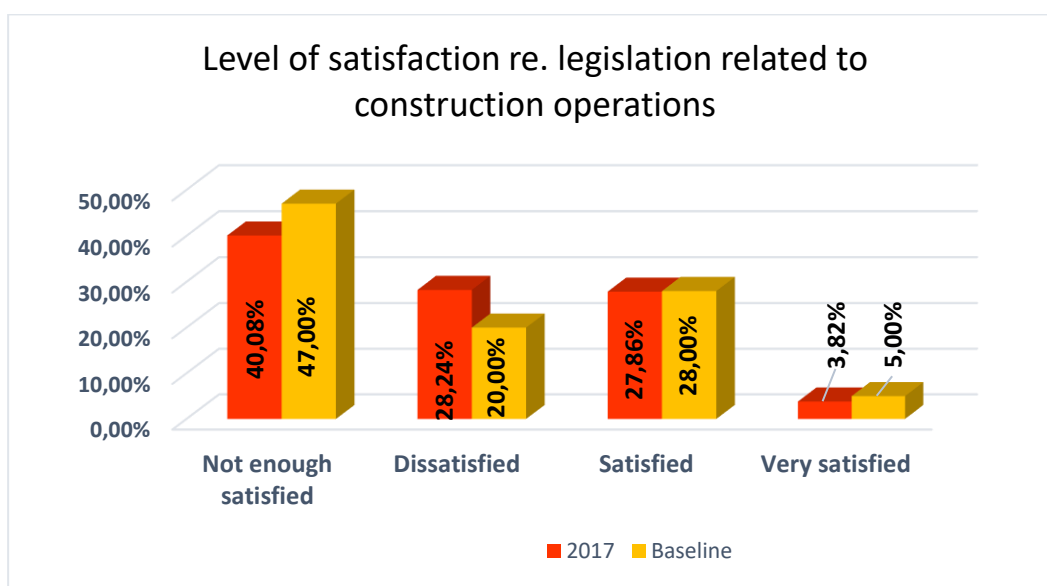


Figure 58: Level of Satisfaction regarding Construction Legislation

48. Perception of companies related to their satisfaction with customs legislation In terms of customs legislation, perception of companies is not positive. Majority of companies, 29.20% are not enough satisfied, and additional 14.20% are not satisfied (lowest ranking). In other words, 43% of companies are not happy with the customs regulation. Only 2.84% of companies are very satisfied (highest ranking), and 22.74% companies are satisfied. Customs legislation has not been a part of Baseline Assessment.

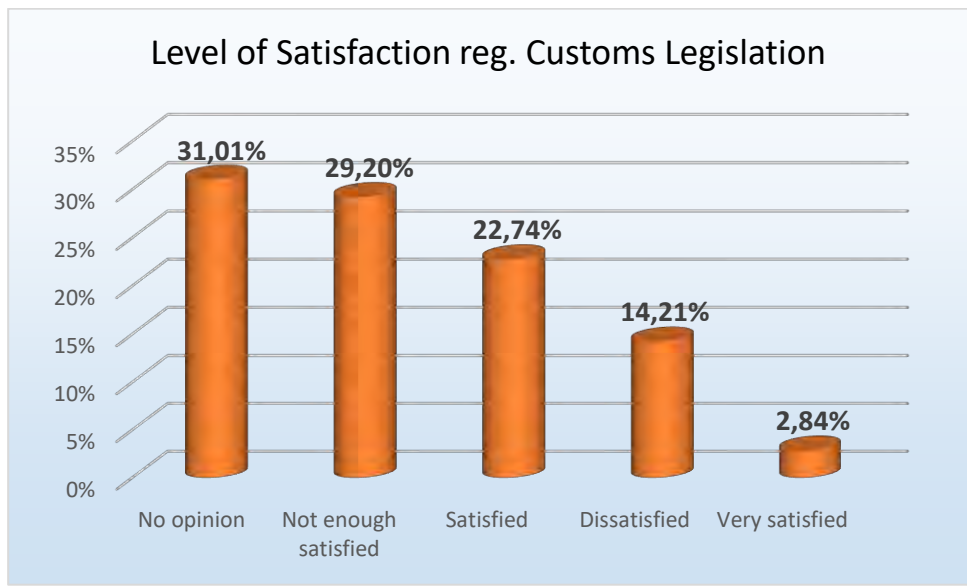


Figure 59: Level of Satisfaction regarding Customs Legislation

49. Perception of companies related to their satisfaction with tax legislation In terms of tax legislation, perception of companies is also not positive. Out of total number of companies, majority of 36.95% are not enough satisfied and additional 17.83% of companies are not satisfied (lowest ranking). In other words, 55% of companies are not happy with the tax regulation. Only 5.17% companies are very satisfied (highest ranking), and 28.42% companies are satisfied. The perception of companies in terms of tax legislation has not been significantly changed compared to the same statistics in the Baseline Assessment.

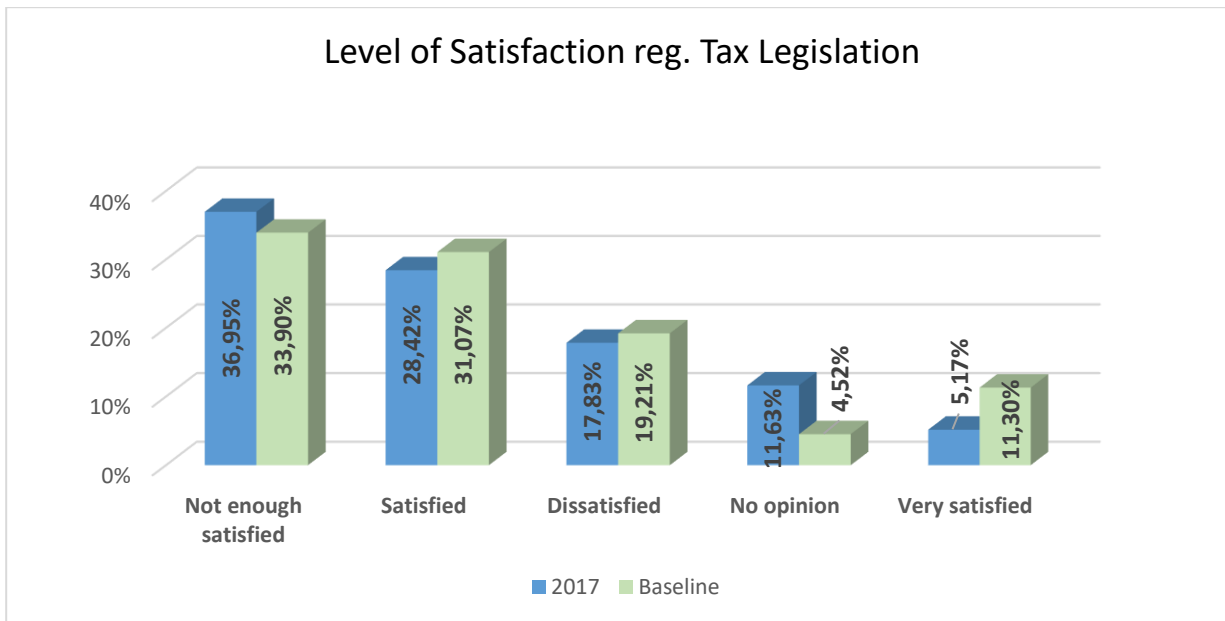


Figure 60: Level of Satisfaction Regarding Tax Legislation

50. Perception of companies related to their satisfaction with public procurement legislation In terms of public procurement legislation, perception of companies is not positive. Majority of companies, 27.65% are not enough satisfied, and additional 21.19% are not satisfied (lowest ranking). In other words, 49% of companies are not happy with the public procurement regulation. Only 4.39% of companies are very satisfied (highest ranking), and 22.48% of companies are satisfied. The perception of companies in terms of public procurement legislation has not been significantly changed compared to the same statistics in the Baseline Assessment.

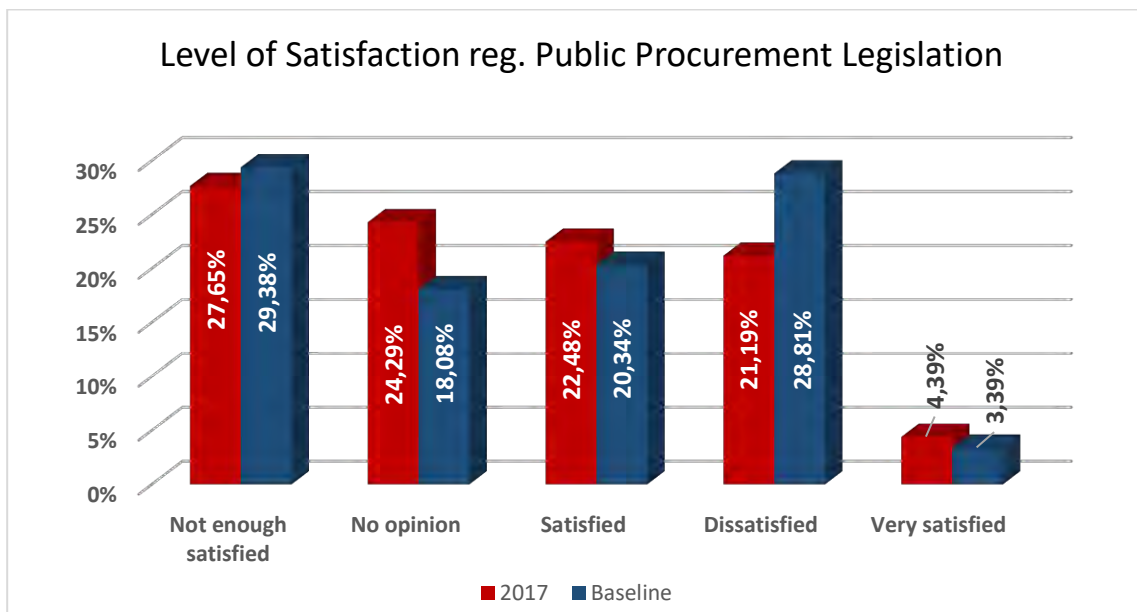


Figure 61: Level of Satisfaction regarding Public Procurement Legislation

51 Perception of companies related to their satisfaction with environmental legislation In terms of environmental legislation, perception of companies is clearly not positive. Majority of companies, 33.07% are not enough satisfied and additional 26.10% are not satisfied (lowest ranking). In other words, 59% of companies are not happy with the environmental regulation. Only 3.10% of companies are very satisfied (highest ranking), and 16.80% are satisfied. Environmental legislation has not been a part of Baseline Assessment.

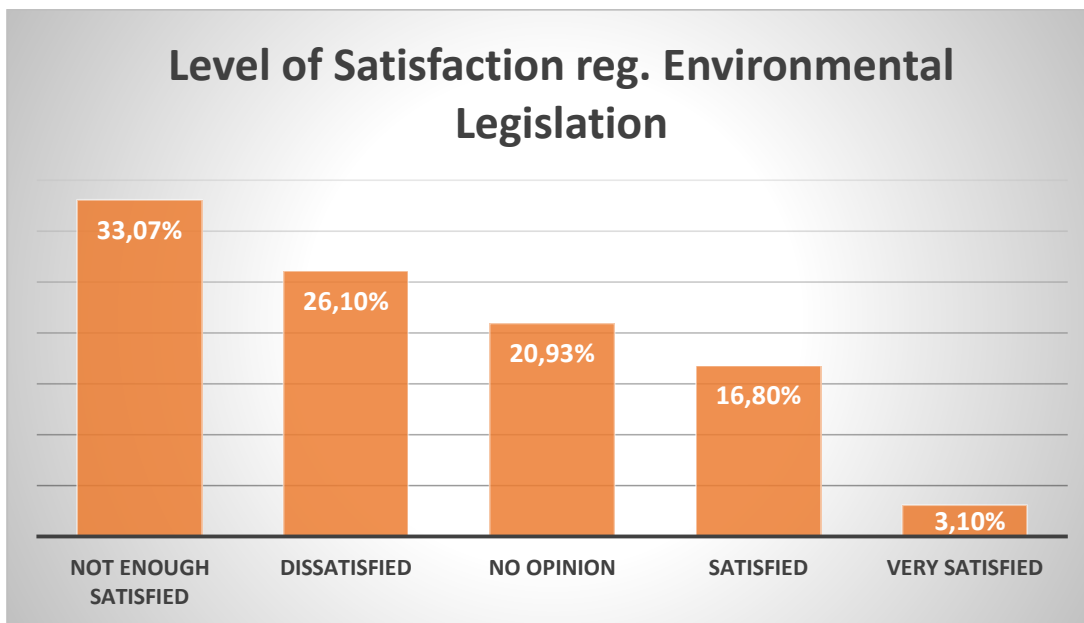


Figure 62: Level of Satisfaction regarding Environment Legislation

52 Perception of companies related to their satisfaction with agriculture legislation When analyzing data on satisfaction with sectoral legislation, such as agriculture legislation, the *no opinion* answers are not taken in consideration. In terms of agriculture legislation, perception of companies is not very positive. Out of 387 companies, majority of 42.20% are not enough satisfied and additional 27.52% are not satisfied (lowest ranking). In other words, 69.72% of companies are not happy with the agriculture regulation. Only 3.67% of companies are very satisfied (highest ranking), and 26.61% are satisfied. Agriculture legislation has not been a part of Baseline Assessment.

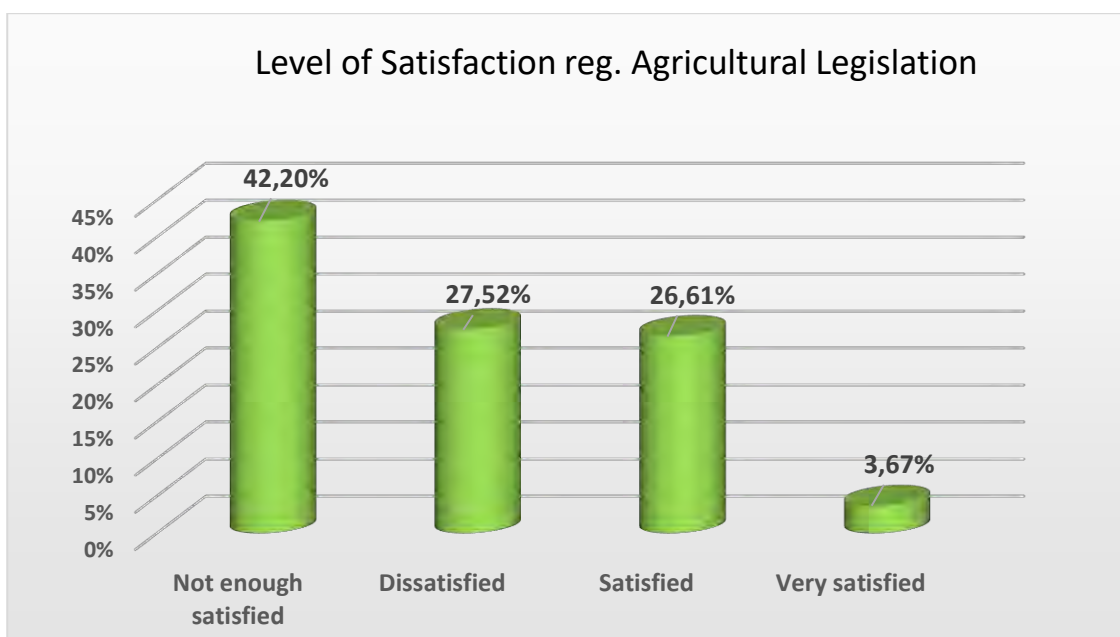


Figure 63: Level of Satisfaction regarding Agriculture Legislation

53 Perception of companies related to their satisfaction with hospitality and tourism legislation When analyzing data on satisfaction with sectoral legislation, such as hospitality and tourism, the *no opinion* answers are not taken in consideration. In terms of hospitality and tourism legislation, perception of companies is not very positive. Majority of companies, 45.37% are not enough satisfied and 19.38% are not satisfied (lowest ranking). In other words, 65% of companies are not happy with the hospitality and tourism regulation. Only 5.73% of companies are very satisfied (highest ranking), and 29.52% are satisfied. Hospitality and tourism legislation has not been a part of Baseline Assessment.

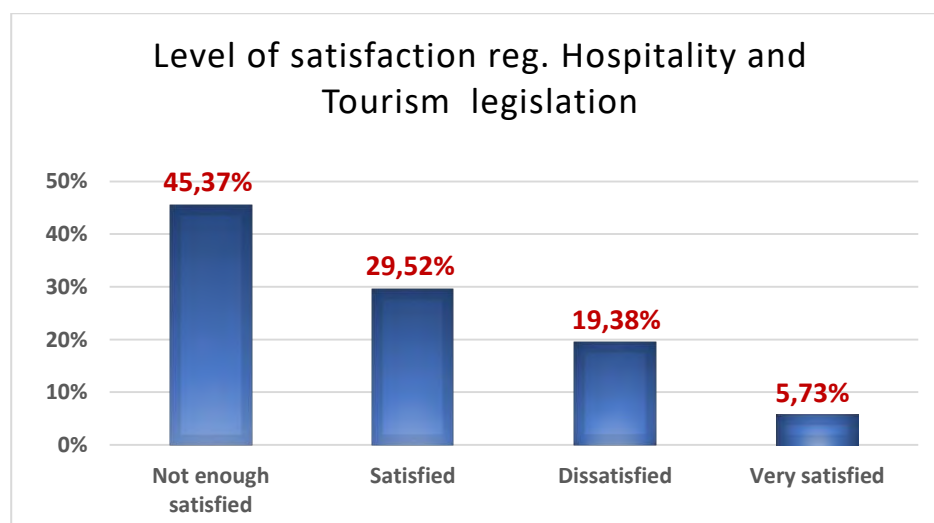


Figure 64: Level of Satisfaction regarding Hospitality and Tourism Legislation

54 Perception of companies related to their satisfaction with fighting grey economy legislation In terms of fighting grey economy legislation, perception of companies is very negative. Out of 387 companies, majority of

38.24% of companies are not enough satisfied, and additional 32.04% are not satisfied (lowest ranking). In other words, 70% of companies are not happy with the grey economy regulation. Only 3.10% of companies are very satisfied (highest ranking), and 14.73% are satisfied. The perception of companies in terms of grey economy legislation is not very different from the same statistics in the Baseline Assessment, although the percentage of companies with lowest ranking of grey economy legislation is even higher in the Baseline statistics.

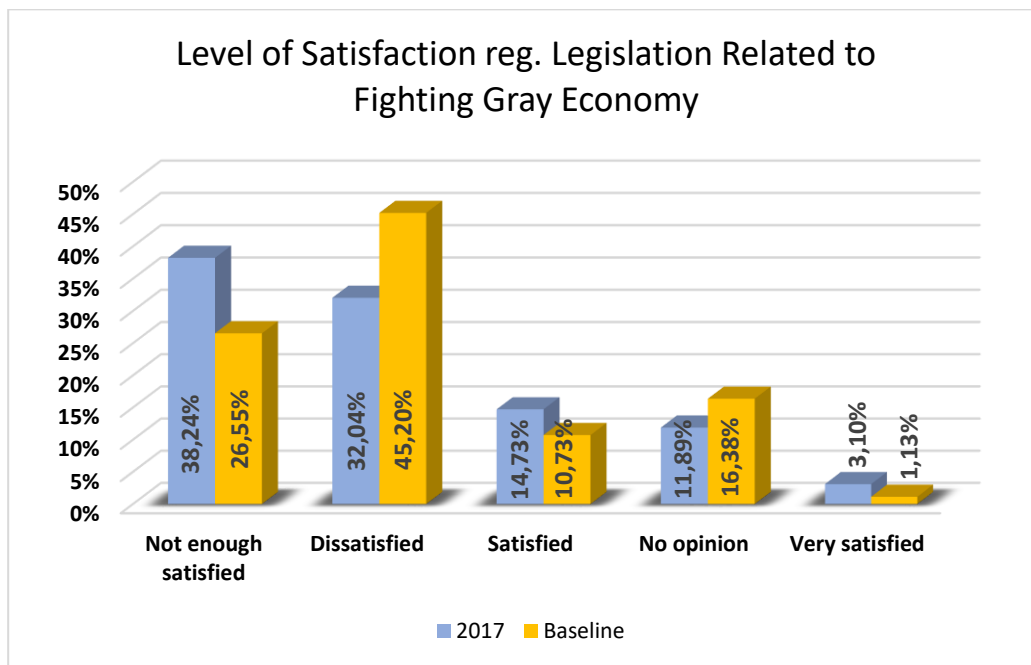


Figure 65: Level of Satisfaction regarding Legislation related to Fighting Grey Economy

55 Rank priorities of all areas where reforms are needed to improve business environment The companies were asked to prioritize the given options for reforms needed to improve business environment. According to the surveyed companies, 24% believe that the highest priority that need urgent reforms is in the area of reducing grey economy, reducing corruption, and establishing level playing field. Second most important priority for reforms is in the area of efficient judiciary and contract enforcement (20%). Third priority for reforms is introducing transparent and predictable tax system and efficient tax administration (13%). The next group of priority reforms includes stabilizing macroeconomic environment and improved tax regulations. Further areas of reform include efficient implementation of customs procedures, and transparent and more efficient public procurement system. The lowest priority for reforms according to the businesses is in the area of increased flexibility of labor regulations.

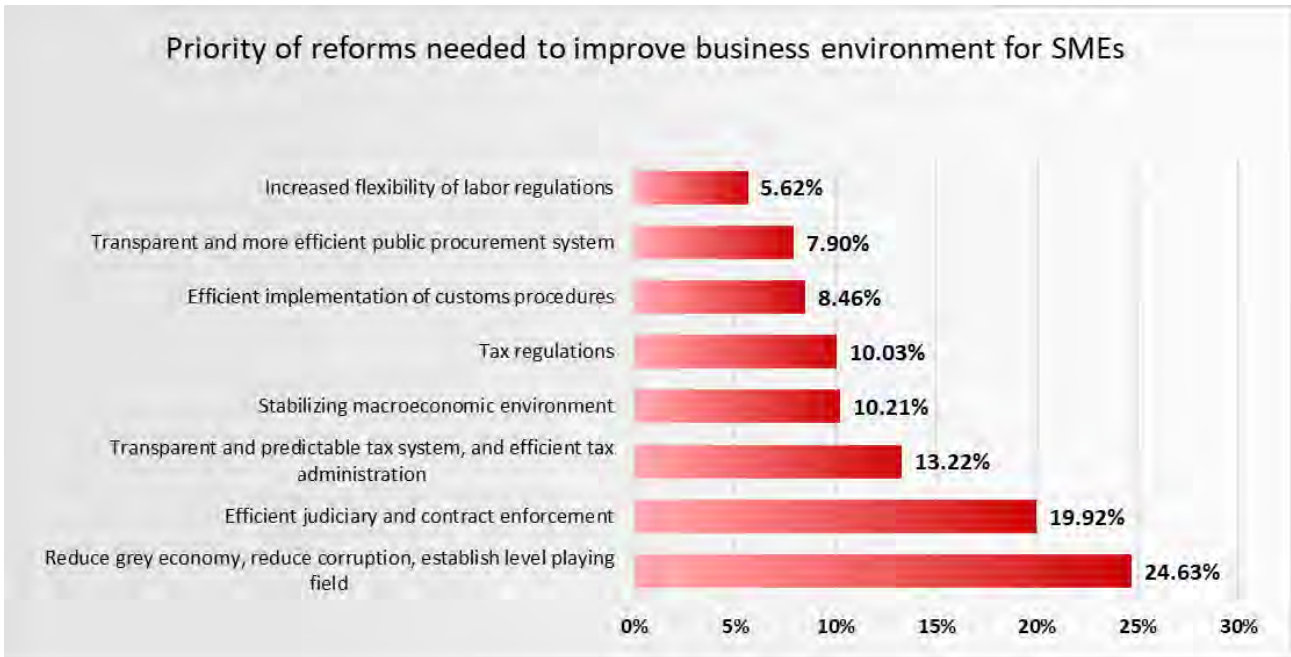


Figure 66: Priority of Reforms Needed to Improve Business Environment for SMEs

When comparing Baseline statistics with 2017 survey it is clear that the priority list of reforms remains the same, although certain percentages are different. So, the number one priority in both assessments remains the same, reducing grey economy, reducing corruption, and establishing level playing field. Second most important priority for reforms is in the area of efficient judiciary and contract enforcement, and third priority according to both assessments is in the area related to tax system and tax administration.

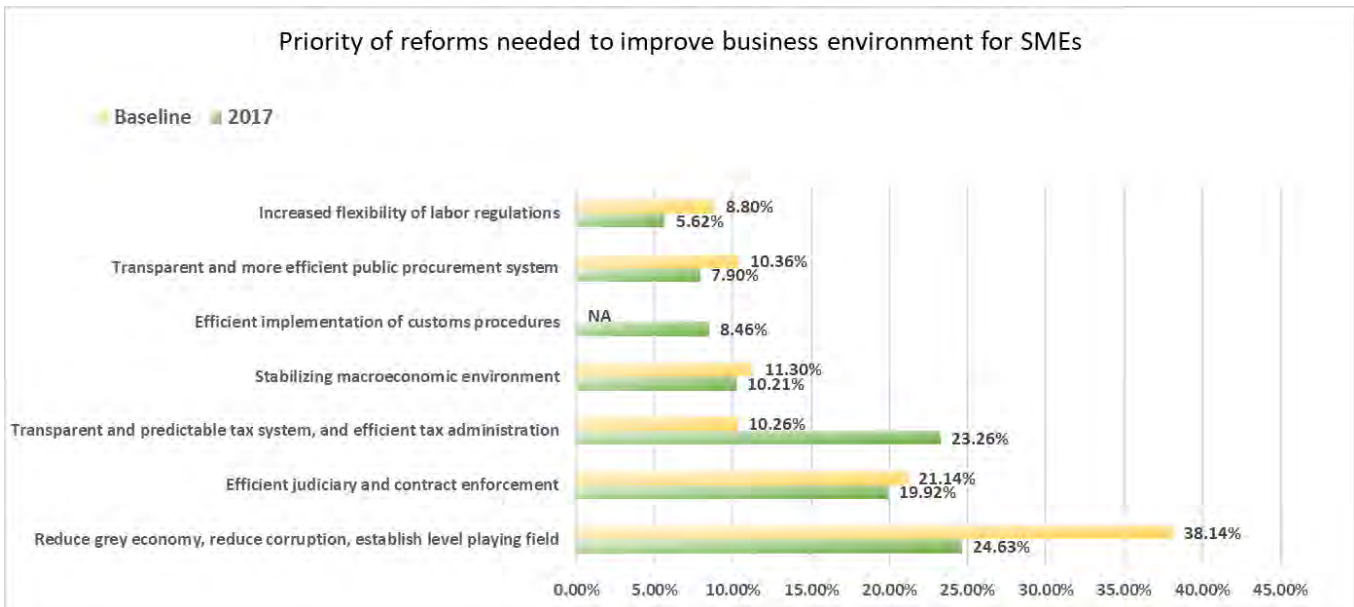


Figure 67: Priority of Reforms Needed to Improve Business Environment 2017 vs. Baseline

4.9 Government Support

56. **Government support to businesses** Out of 387 respondent companies, only 2% believe that Government provides excellent support to businesses. Big majority of companies, 81% finds that there is either insufficient 62%, or no support at all 19%. The perception of companies in terms of government support to businesses has not been significantly changed compared to the same statistics in the Baseline Assessment. It is also in line with the dissatisfaction of local companies with unequal treatment compared to the foreign direct investors.

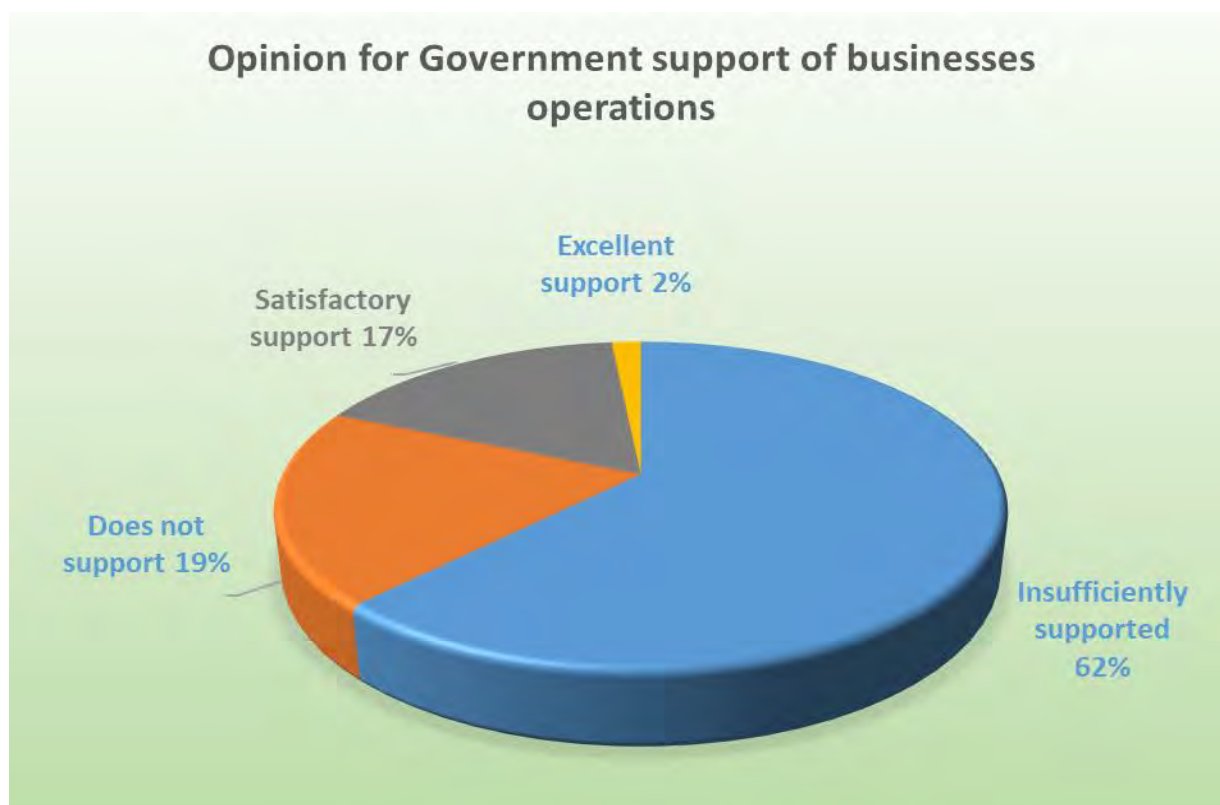


Figure 68: Opinion on Government Support for Business Operations

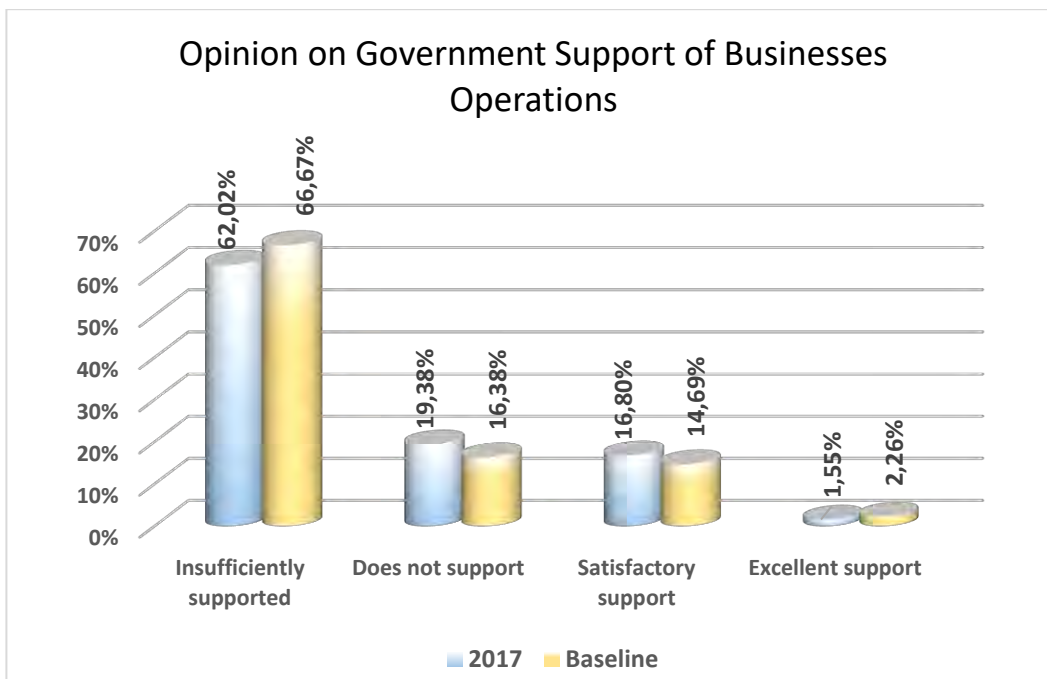


Figure69: Opinion on Government Support for Business Operations 2017 vs. Baseline

5 Conclusions and Recommendations

Business Environment

The Second Business Environment Survey results clearly indicate that most of the Macedonian surveyed companies do not believe that business environment in Macedonia is better than the regional comparators. Majority of surveyed companies, believe that business climate in Macedonia is either equal or worse compared to the business environment in the region. This perception differs significantly from the overall ranking of the business environment according to the World Bank Doing Business Report, where Macedonia is ranked as much better place for doing business than the other countries of the region. Participating companies obviously face many challenges in their business operations that are not captured within the Doing Business analysis.

Perhaps this discrepancy could also be linked to the lack of government support to local businesses, compared to lavish benefits provided to foreign investors. Unequal treatment of companies is certainly not a good practice, so the steps of the new Government to address this issue and provide a true level playing field where companies will compete based on their competencies, rather than on state aid.

The Government officials could establish a structured dialogue with businesses and their associations on regular basis in order to better understand the specific issues that companies face in their business operations and to identify potential solutions to address the problems and improve the business environment.

Legal regulation

One of the big problems identified by companies within the Second Survey is the quality of legal regulation. Majority of companies are in general not satisfied with the regulations, providing most responses as not enough satisfied, or not satisfied (lowest ranking). Very small portion of companies declared that they were very satisfied. Regulations that were subject of analysis included nine important areas: labor, construction, customs, tax, public procurement, environment, agriculture, hospitality and tourism, and fighting grey economy. In all of these areas perception of companies was clearly not positive. The tax regulations received highest level of positive perception. Companies expressed highest level of dissatisfaction with the regulation related to fighting grey economy.

In terms of legislation changes, big majority of companies, confirm that they have not been involved in the process of adoption of legislation, which could include participation in workshops, panel discussions, focus groups, researches and similar activities. Still, large companies are involved in the process of adoption of legislation to a much higher degree compared to MSMEs. Big majority of companies, believe that Chambers are involved in the process of adoption of legal regulation.

Given that the process of adoption of new legislation in the last years is generally being done without consultations with stakeholders and experts, and without public debate, perhaps it is the right moment now to re-establish the good legislative practice of careful design and adoption of legislation that would allow passing solid pieces of legislation that would not be changed numerous times and immediately after parliamentary adoption.

Priorities for reforms

According to the surveyed companies, highest priority reforms are related to reducing grey economy, reducing corruption, and establishing level playing field. Second most important priority for reforms is in the area of efficient judiciary and contract enforcement. Third priority for reforms is introducing transparent and predictable tax system and efficient tax administration. This list of priority reforms could be used to establish the course of action for the new government reform agenda. In terms of the government announcements for introduction of progressive tax rates system, the surveyed companies do not have a clear position about the possible effects of the new system. This systemic change will trigger long term significant effects for businesses and citizens; therefore, the government should undertake in-depth analysis and effects simulations before the final version of changes is officially introduced.

Legal compliance

Information needed for the companies to stay in legal compliance is still insufficiently available for majority of surveyed companies. Only for a small portion of companies the information has been fully available. Given the problem of too frequent changes in the legislation in Macedonia, there is an obvious need for improved access to information that would allow companies to stay in compliance with legal regulation.

In order to stay in compliance with legal regulations, most of the companies turned to external advisors. Biggest number of companies used accountants, while consultants and lawyers have been used at a lower rate. Smaller number of companies used their own employees designated to follow legal regulations and keep up with the changes, while some companies asked Chambers and relevant state institutions for assistance in this area. This practice points to a well-established fact that legal framework is still a big problem for businesses, and they do

need assistance to keep track with changes and stay in compliance. It also demonstrates that Chambers and relevant institutions could do more to assist companies in this matter.

Although most of the companies have been mainly satisfied with the quality of advisory services, still there is room for further improvements of the quality of provided services that would allow their client companies to become very satisfied.

The list of top three solutions that could improve legal compliance of companies includes: simplified legislation, lower frequency of changes in legislation, and better awareness for current changes of the regulation.

Most of the companies need training in order to stay within legal compliance. According to survey results, the top training required by the majority of companies is in the area of finance and accounting, including tax and customs. Second highest priority for companies is training in labor regulations. The next priority group of required targeted trainings includes market inspections and law on trade; security and safety of the workplace; licenses and permits procedures; and public procurement. Chambers and other business associations could use this list of required targeted trainings to organize knowledge development and coaching programs that will address the needs of companies.

[Inspection statistics](#)

The surveyed companies have been visited by inspections on average 11 times in the last five years. Large companies have been visited by inspections most frequently. About 17% of respondent companies have not been visited by any inspection in the last 5 years.

The average number of inspections varies significantly across different sectors and across the regions. Agriculture and tourism are the two sectors with the biggest number of inspections. The frequency of inspections has been the lowest in ICT sector, but it is very low in construction sector as well. This is strange since the construction sector is typically associated with high risks of various types and it is expected that the number of inspections will be higher. The biggest number of inspections is noted in the Southeast region, while the number of inspections in the Skopje, Southwest, Polog and Northeast regions varies between 5 and 7 inspections.

The most frequent inspections have been the inspections conducted by the Public Revenue Office and State Labor Inspectorate. The State Inspectorate for Construction and Urbanism has the lowest frequency of inspections, pointing to very low activities of this institution, which is odd, particularly having in mind the very sensitive areas that it covers.

After completing the inspection audit, majority of companies, 45% did not get any sanction. Warning was issued to 24% of companies, while 18% were issued fine. Temporary banning of professional activities was issued to 3% of companies, and no company was sanctioned with confiscation of assets.

Big majority of companies, 72% did not get any invitation for education from inspection officers during inspection audits.

[Inspection regulation and way of conduct](#)

A number of companies identified problems related to the inspection audits. First, for most of the companies inspection regulation is not clear and easily available. Additional serious problem for companies is that they do not get clear information about the scope and process of the inspection audit. In addition, there are problems

related to identification of inspector officers prior to starting the audit. Finally, a number of surveyed companies did not get inspection audit report after completing the inspection procedure. Very few companies have filed an appeal after the inspection audit, therefore, even smaller percentage of companies managed to resolve their appeals in a positive manner.

Surveyed companies identified that the most frequent problem related to inspection audits is inspectors insisting to find irregularity for the companies to be fined. The next group of problems is related to inspectors not sufficiently prepared; unprofessional conduct and too long audits.

It is clear that these major problems, emphasized by most of the companies need to be addressed immediately. Non-transparent procedures and uncoordinated inspection authorities have also been highlighted by companies.

This feedback should trigger immediate activities aimed at streamlining of inspection regulation, as well as establishing clear rules of conduct of inspection officers during the inspection audit. Companies need to be certain that the persons entering their premises are indeed authorized inspection officers, and they need to know the scope of the inspection. They also need to be officially informed about the findings and conclusions of the inspection audit. Finally, there is a need for additional trainings of the inspection officers so that when conducting audit they will appear as confident and knowledgeable officials.

Taxes

Although Macedonia has some of the lowest tax rates in the region, still a big number of companies complain that tax burden is too high and tax legislation is too complex and not clear. This is generally in line with the overall perspective and weaknesses of legislative framework being too complex and not very clear. In addition, companies claim that tax regulation is being changed too frequently, even within the course of one year. One big problem in this area is related to different standards of interpretation of tax legislation provided by different institutions in the system.

In terms of various taxes, majority of companies have complained that they face biggest problems with VAT. VAT is very important tax in Macedonian tax system and many businesses often complain about VAT refund problems. Profit tax and personal income tax create problems for a number of companies, while property tax has not been identified as a problem generator.

Tax legislation is very important pillar of the economy and it should be treated with great attention. It should be clear and easily interpreted in a standard manner by all institutions involved in the tax process. Government should avoid too frequent and inconsistent changes in the tax legislation that could trigger uncertainties and increased risks for the companies. In terms of the specific tax enforcement, government officials should pay attention particularly to the identified weaknesses related to VAT and VAT refund process to ensure establishment of timely and non-selective refund system.

Customs

In terms of customs, biggest problems for most of the companies are the burden of too many documents, and the speed of completing customs procedures. In addition, companies face problems generated from lack of interconnection between Customs and Public Revenue Office related to VAT refund, and the IT system in

customs procedures. Similar to other areas of research, companies identified a need to change regulation related to some of the customs procedures. These remarks provided by the businesses should be used as guiding principle for further reforms in this area, so that the customs will no longer create obstacle for smooth operation of businesses in Macedonia. For example, customs authority and government should make an assessment to identify if there are unnecessary documents and steps in the customs procedures that could be abolished to make the custom clearance procedures faster and more efficient. They should definitely work on improvements on the IT system, and create a good connection between Customs and PRO, particularly in terms of VAT refund.

[Chambers](#)

Almost three quarters of the respondent companies are satisfied or very satisfied with the services received from Chambers related to getting in compliance with the legal regulations. Only 8% of companies are not satisfied with the quality of the Chambers' services, but additional 21% companies are somewhat satisfied, leaving enough space for improvements. Chambers could explore in more details what could be done in addition to their regular work to increase the number of very satisfied and satisfied clients, and reduce the number of dissatisfied or somewhat satisfied companies. These statistics are similar for all participating chambers, with MCC and MASIT having the highest percent of very satisfied clients.

Three most important priorities that Chambers should focus on according to respondent companies are related to: (i) lobbying in front of the institutions; (ii) providing accurate information on regulations; and (iii) organizing more training. Networking and providing market information, although important, have somewhat lower priority compared to the top three. Obviously, the companies have improved their own skills in market research and finding new customers, so their priority and focus turned towards improving their lobbying skills and improving regulations. Chambers should be responsive to these new developments and do their best to assist companies in advocating their interests before the government institutions, writing position papers and proposing changes in legislation in line with the needs of their member companies.