

FYR MACEDONIA: MAJOR CHANGES SPURRED BY REGIONAL INTEGRATION

Regional integration efforts such as the accession process of the European Union can help drive reforms in business regulation. This has been the case in FYR Macedonia, which launched a comprehensive reform agenda after applying for EU membership. FYR Macedonia signed the Stabilization and Association Agreement with the European Union in April 2001 and received candidate country status in November 2005.¹ Its reform agenda has been driven largely by requirements to ensure that the country's laws are in line with the EU legal framework (*acquis*) and to fulfill certain macroeconomic criteria. Equally important has been the desire to attract investment and develop business activity to create jobs and achieve economic growth. Since 2004 the parliament has made important changes to legislation, including business regulations.

The efforts are showing results. FYR Macedonia is among the 10 economies that made the biggest strides in creating a regulatory environment more favorable to business in the past 6 years.² It moved up in the global ranking on the ease of doing business from 81 in *Doing Business 2006* to 22 in this year's report.³ Besides improving in the relative ranking, FYR Macedonia is also among the economies that closed the gap to the frontier the most in the past 6 years (see figure 1.9 in the executive summary).⁴

In addition to the EU *acquis*, FYR Macedonia has used the *Doing Business* reports to benchmark good practices and promote improvements to its regulatory framework to make it easier to do business. External assistance has contributed to the sustained success. The World Bank, the European Commission and the U.S. Agency for International Development (USAID) have provided funds and technical assistance for drafting new laws and implementing administrative reforms.

The institutional framework

The government of FYR Macedonia has been the driving force behind the reforms, with the reform agenda receiving support at the highest political levels. The cabinet of the

deputy prime minister for economic affairs has provided coordination to streamline the reform efforts, and the Ministries of Finance, Justice, Economy, and Transport and Communications have joined initiatives for reforming the legal and regulatory framework.

Along with political will and capacity, there has been strong collaboration among ministries, particularly at the operational level. As the government pushed for change, its efforts triggered initiatives in ministries and agencies. Since November 2006 the government has implemented 3 phases of a "regulatory guillotine" project aimed at reducing the regulatory burden and cutting red tape and bureaucracy. As part of this, the Ministry of Transport and Communications initiated several legal reforms to simplify and speed up the process of obtaining a building permit.⁵ And the Customs Administration introduced several measures to increase the speed and efficiency of trade.

In another initiative, the National Bank helped strengthen the financial system by establishing a public credit registry in 2008. Thanks to a more recent effort initiated by the Ministry of Finance, a private credit bureau was formed by the association of commercial banks and started operating in 2011.

E-government provided the platform for many of the reforms in the business regulatory environment. The government set out to transform public administration processes by establishing the Ministry of Information Society and Administration and implementing a number of e-government projects. The aim was to create more modern, integrated, efficient, transparent and secure processes. The first step was to establish the infrastructure; the second was to roll out the e-services.⁶ Support was provided by USAID, which has funded the development of e-government through 11 projects so far.⁷ Achievements have included an electronic tax system created in 2008 to streamline the filing and payment of taxes, an electronic cadastre for property registration introduced in 2010 and an online system for business registration that began operating in 2011.

The government also implemented tax changes. In 2008 it reduced the corporate

income tax rate to 10%. The following year it reduced rates for social security contributions and integrated their payment with that of other taxes.

Judicial reforms

A comprehensive information technology system was introduced in 2007 as part of the government's 2007-10 information technology strategy. This provided a foundation for reforms in judicial processes, especially through the introduction of electronic case management. Before reforms, the judicial system was plagued by inefficiencies. Procedures were slow, delaying access to justice. Getting final decisions enforced was a long and difficult process. Courts were overburdened with minor cases, and case management was unorganized. There was too little use of information technology—and qualified human resources were scarce.⁸ FYR Macedonia tackled these inefficiencies through several reform initiatives for which EU legislation provided a framework.

Modernizing the courts

Judicial reforms began in 2003, with the donor-funded Macedonia Court Modernization Project. The project introduced new practices in pilot courts with the aim of demonstrating modern case management methods, increasing proactive court management by judges and administrative staff and showing how courts could improve access for the public by reducing case backlogs and eliminating unnecessary delays.⁹

In a separate initiative starting in 2004, the Ministry of Justice developed a judicial reform strategy focused on building capacity, strengthening court infrastructure and improving information technology systems. The ministry set up an advisory body made up of representatives of judicial institutions to review and provide input on the strategy. It also organized several public debates, as well as roundtables giving representatives of the legal and judicial professions an opportunity to provide feedback and suggestions.

Changing laws to speed up court proceedings

Enacting and amending laws on civil procedure and enforcement of judgments has also played an important part in improving the

judicial environment. A new law on enforcement, coming into force on June 1, 2006, and amended in 2011, enabled creditors to initiate the process through private enforcement agents. This enforcement model has served as inspiration for other economies in the region, including Croatia.

Overall, the changes have produced results. The time to enforce a contract fell from 509 days in 2004 to 370 days in 2009, as measured by *Doing Business*. A 2011 amendment to the law on civil procedure, the result of an analysis of court cases by the Ministry of Justice, is aimed at further reducing the cost and duration of court proceedings. The law sets deadlines for the different steps in a court case. One tool helping to meet those deadlines is software supporting electronic case management.¹⁰

While courts are more efficient and the case backlog smaller, the backlog still remains a major problem. But the Ministry of Justice estimates that the latest amendments to the law on enforcement—with the expected transfer of 402,000 cases from the courts to notaries or enforcement agents—will soon reduce the number of cases in the courts by more than 80% compared with 2006. That will allow faster enforcement of contracts and speedier reduction of the large case backlog.

Reforming bankruptcy

FYR Macedonia's 2006 Bankruptcy Law greatly reduced the average duration of bankruptcy cases. According to the Ministry of Economy, concluding cases took an average of 1.4 years under the 2006 law—compared with 6.6 years under the 1997 Bankruptcy Law and 13.8 years under the 1989 Law on Forced Settlement, Bankruptcy and Liquidation.¹¹

Recent amendments to the 2006 law are aimed at making the bankruptcy process even faster. The amended law, which came into force in 2011, requires bankruptcy trustees to use an electronic system to record all phases and actions during bankruptcy proceedings, increasing transparency. Trustees can log on to the system to upload documents and track cases. The amendments to the law reduced the legal time frame for

trustees to sell all the assets of the bankrupt company and conclude the bankruptcy case to a maximum of 18 months.

Administrative reforms

Through the regulatory guillotine project, the government of FYR Macedonia has undertaken several reforms to streamline administrative processes, reduce costs and introduce the “silence is consent” rule. The most important achievements include reducing the complexity, time and cost of starting a business and registering property and speeding up the export and import process.

Making business registration one stop

As a first step to streamline business registration, FYR Macedonia launched a central registry on January 1, 2006. A 2005 law had transferred business registration out of the courts—where the process was slow, expensive and overly complex—and made the registry the only body in the country responsible for registering companies.¹²

The government created a one-stop shop at the central registry, unifying and simplifying the procedures to register a company and its employees. This cut the number of procedures to start a business from 13 in 2004 to 3 in 2010, and the time from 48 days to 3, as measured by *Doing Business*. The new registry, along with legal changes such as abolishing the minimum capital requirement, enabled FYR Macedonia to join the top 6 economies worldwide on the ease of starting a business.

In April 2011 the government further streamlined and reduced the cost of business registration by introducing an online system. Now there is no need to get corporate documents and signatures notarized. By July 2011 only a few applications for business registration had been received through the online system. But use of the system is expected to grow as its existence becomes more widely known.

Making property registration faster and easier

A series of changes at the real estate cadastre in Skopje have made registering property faster and easier. A 2008 law streamlined procedures and set time limits. The number

of property cases awaiting registration in Skopje shrank from 15,035 in 2005 to 2,082 in May 2011. The average time to process applications fell from 60 days in 2004 to 5 in 2011. All fees were cut by 50% in 2007 as part of the regulatory guillotine project and by another 10–72% in January 2010. These accomplishments won the cadastre an award of excellence from the World Bank in June 2010.¹³

The cadastre has introduced performance standards to motivate staff to work more efficiently. Staff exceeding the average can receive a salary increase of up to 25%. The cadastre has also worked to improve its public image, by holding “open days,” opening “hotlines” to answer questions and meeting with citizens in the municipalities of Skopje. A customer asked about his recent experience reported having to wait in line outside the cadastre for 4 hours in the summer heat—but considered that a huge improvement over a few years ago, when transferring property took several months.

The most recent efforts to increase efficiency and effectiveness include launching an electronic cadastre and front desk in 2010. The “e-cadastre” is aimed at improving management of the workload and providing real-time dissemination and exchange of data. The “e-front desk,” supported by the Netherlands, includes electronic conveyance, recording and processing of applications. Among other things, it allows notaries to check information on encumbrances and the status of applications.

Increasing the speed and efficiency of trade

The Customs Administration has undertaken a range of measures to make importing and exporting faster and more efficient. In 2002 it introduced a risk-based inspection system to minimize the time to process customs declarations and prevent unnecessary delays in customs terminals. The Customs Administration uses various information technology systems for risk management and has continued to introduce guidelines for risk management in customs controls since 2005.¹⁴

By using risk profiling, risk-based inspection systems can focus only on the riskier containers, reducing the need for physical inspections of cargo and allowing most traders to get their goods cleared more quickly. After analyzing potential risk factors, these systems typically direct containers through a “red channel” (for physical inspection), “yellow channel” (inspection of documents only) or “green channel” (no additional inspections). Since 2009 FYR Macedonia has also used a “blue channel” allowing goods to be released from customs without inspection and instead to undergo postclearance control. Imports going through the yellow channel are cleared in 1 hour on average, and exports in 23 minutes on average.

In 2008 the Customs Administration introduced an electronic single window that allows traders to submit customs documents online. Early in the same year it introduced 4 mobile scanners and rationalized the customs fee schedule and permit structure. As a result of these changes, the time required to export fell from 19 days to 17 in 2008, and the time to import from 17 days to 15, as measured by *Doing Business*.

Conclusion

It takes time for reforms to translate into changes in the economy. But FYR Macedonia has shown that it is on the right path—and more changes are soon to come. To make resolving insolvency faster and easier, FYR Macedonia plans to implement an electronic system for the sale of assets of bankrupt companies. The Ministry of Transport and Communications aims to launch an electronic process for building permit applications by July 2012. The cadastre continues to improve its operations and has several

ongoing projects with international donors to digitize all property records and to establish a national geoportal allowing citizens to see the location of land plots and their surroundings online, a useful tool for builders and developers.

But the process of EU accession will demand broader changes. The European Commission reported in 2010 that “limited progress” had been made in reforming the judiciary, a key priority of the accession partnership and a key remaining challenge to EU accession. It identified other areas of “limited progress” as social policy, employment and corruption. It also reported that implementation of the anticorruption legal framework remained deficient.¹⁵ But there is good reason to be hopeful. FYR Macedonia has already shown itself capable of overcoming obstacles that are part of every reform process—through political will, a desire to change and coordination with stakeholders.

NOTES

1. European Commission 2005.
2. FYR Macedonia was among the 10 economies that improved the most in the ease of doing business as measured in *Doing Business 2008* and in *Doing Business 2010*.
3. The ease of doing business ranking cited from *Doing Business 2006* is the ranking published in the report, not a back-calculated ranking that has been adjusted for changes in methodology and data revisions.
4. For details on the distance to frontier measure, see the data notes.
5. The Law on Spatial and Urban Planning (amended February 14, 2011) and Law on Construction (amended February 14, 2011) have streamlined the construction permitting process. Among other things, the amendments set deadlines for the approval

process and introduce a “silence is consent” rule for cases where the deadlines are missed.

6. Armenski, Gusev and Spasov 2007.
7. E-gov Project, <http://www.egov.org.mk>.
8. FYR Macedonia, Ministry of Justice 2005.
9. Between November 2003 and March 2006 the number of cases pending for more than 1 year in the pilot courts fell by 19%, and the number pending for more than 3 years by 48%. The Macedonia Court Modernization Project (2006) attributes these results to judges and lawyers working harder and focusing on older cases as well as new ones; measures to discourage multiple court appearances; the project’s employment of court coordinators to work with the judges and staff; the establishment of case flow committees in each pilot court; a yearly backlog reduction plan tailored to the needs of each local court; the circulation of results from all pilot courts; and monthly tracking of pending and closed cases.
10. Following the introduction of electronic case management, the Automated Court Case Management Information System (ACCMIS) software was introduced in 2009 and became fully operational in January 2010.
11. FYR Macedonia, Ministry of Economy 2011.
12. Under judicial authority the registration process required filing documents and forms at several different institutions, leading to higher fees and longer wait times (USAID 2009).
13. Agency for Real Estate Cadastre Skopje 2011.
14. An automated risk-based inspection system, CDPS Risk-Based Selection for Red, Yellow, Green and Blue Channel Inspection, has been in place since 2002. Other information technology systems in place include the South-East European Messaging System, created by the European Commission’s EuropeAid Co-operation (AIDCO) and the European Union’s Customs and Fiscal Assistance Office (CAFAO).
15. European Commission 2010.