

# FYR Macedonia

In BEEPS V, the top three business environment obstacles identified by FYR Macedonian firms were competitors' practices in the informal sector; access to finance; and electricity issues (Chart 1). Electricity issues, transport and competitors' practices in the informal sector were most problematic for large firms, while young firms also complained about tax administration. Electricity issues were more pressing than access to finance for old firms, manufacturing companies and firms in the service sector. In BEEPS IV, political instability was in third place.

## Heavy reliance on internal funds and retained earnings; successful judicial reforms

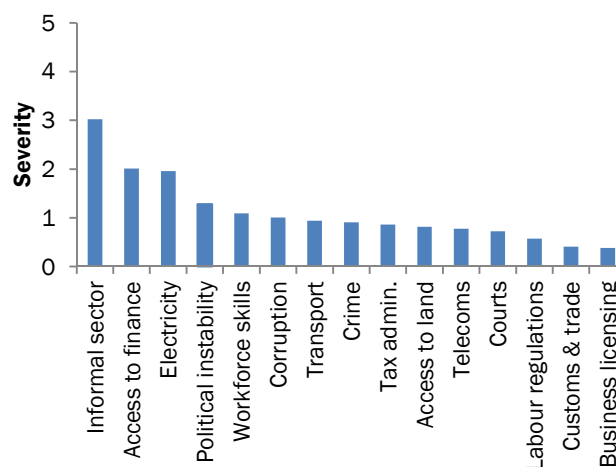
Although there have been some improvements in dealing with unregistered firms, **competitors' practices in the informal sector** remained the biggest problem for FYR Macedonian firms. The percentage of firms that reported competing against firms in the informal sector decreased from 74% in BEEPS IV to 56% in BEEPS V. However, it still exceeded the south-eastern Europe (SEE) average by almost 7 percentage points, putting FYR Macedonia in third place among SEE countries (Chart 2).

**Access to finance** has always been one of the top obstacles for FYR Macedonian firms. In financing their working capital and fixed assets, they relied heavily on internal funds and retained earnings: in BEEPS V, 81% of fixed asset purchases (up from 60.6% in BEEPS IV) and 78% of working capital was financed through internal funds rather than banks or other financial institutions (Chart 3). The share of credit-constrained firms remained about the same as in BEEPS IV, at 57%. Access to finance was relatively more limited for SMEs than large firms.

Analysis by the International Monetary Fund points to the inefficiency of **electricity** use, limited options for electricity supply and ageing generation facilities as the main challenges for the country's electricity sector. The share of revenue lost due to power cuts decreased from 11.8% in BEEPS IV to 7.5% in BEEPS V, but was still very high compared with the BEEPS V average and was the second highest in SEE, topped only by Kosovo.

There have been improvements in the **court** system, as indicated by its low ranking as an obstacle, moving from 4th to 12th place. Most of the corporate governance legislation has recently been revised in line with European Union and international standards. The share of firms that agree or strongly agree that the court system is fair, quick and able to enforce its decisions significantly increased and stood at 61%, 47% and 66%, respectively. The respective shares in BEEPS IV were much lower at 32%, 19% and 37%.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Competition from the informal sector

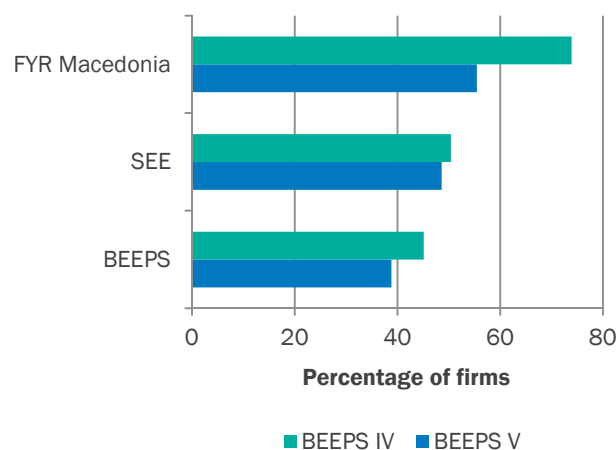


Chart 3. Sources of financing of fixed asset purchases

