

# **Implications of the Legal Framework for the Development of Entrepreneurship**

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(Received: 18-10-13 / Accepted: 21-12-13)

## **Abstract**

A review of the situation, from general and universal to the specific and identifiable of a selected social context, singles out the Republic of Macedonia as a case study of this research that aims to determine the impact of legislation on entrepreneurship development in general and specific terms. The concept of labor is based on the idea of improving the development of entrepreneurship by pointing out the general situation in this respect in the Republic of Macedonia through the use of secondary research results and relevant reports of national and international bodies. This paper singles out specific regulations that influence the improvement of entrepreneurial prospects of the country. Each of the separate legal factors shall be accompanied with appropriate expertise regarding the detected faults. Based on the identified gaps and possibilities of the current situation, proper recommendations shall be made for improvement of the legal framework and enhancement of the entrepreneurial situation in the country.

**Keywords:** Entrepreneurship, Law, Law regulation, Customs procedures, Business policy.

## **1. Introduction**

Manifestation of law over the development of entrepreneurship can be expressed through profound and significant effects. Depending on the form and nature of the prescribed, they may aim to inhibit the entrepreneurial process or aim to incite, strengthen and create conditions for achieving maximum results in entrepreneurship. The question about the connection of entrepreneurship with legal regulations has always been discussed and numerous trials have been conducted, but the issue remains open just because of the variability of the legal system, the variety of regulations in different countries and the specifics of each of them including the impact they have on entrepreneurship as an separate issue worthy of attention.

## 2. Definitions and Preliminaries

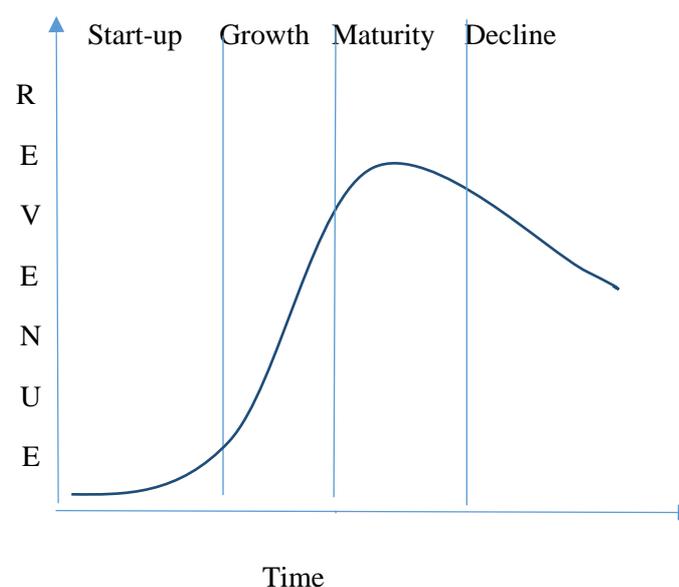
### 2.1 The Relationship between Law and Entrepreneurship-A Theoretical Approach

Traditionally, legal norms are treated as a limiting factor. They impose certain frames that can be experienced as narrow for certain types of behavior, as well as for the entrepreneurship. This gains even more weight considering the fact that entrepreneurs by nature are seen as someone who violates established rules, takes risks, and deviates from common behavior, etc. Starting from this mind-set, entrepreneurship could be considered a kind of creative anarchy, where the legal regulations would hamper innovation processes, something which could call even the entrepreneurship in question. However, the relationship between law and entrepreneurship is much more complex. Namely, the impact of legal regulations on entrepreneurship can be contained in three different types of relationships, such as:

- ❖ Legal regulations can encourage development of entrepreneurship (reducing entry barriers to markets, protection of property rights, guaranteed enforcement of contractual arrangements, etc.).
- ❖ The relationship between these two components can be neutral
- ❖ Legal regulations can limit innovation (eg. Implementation of too strict and restrictive laws and legal acts regulating labor relations).

Despite the national context, the connection between entrepreneurship and legal regulation is obvious and necessary. The successful conduct of business requires knowledge and adherence to the prescribed legal legislation. The most common legal issues (which are of general nature regardless of the national system and national context) that directly affect the entrepreneurial business are taxation, insurance, civil and criminal liability, etc. The right is not a static concept; it is strictly because of its feature of dynamism and constant change that results in potential threats, as well as opportunities for the business and if such threats or opportunities are recognized and overcome, i.e. utilized by the entrepreneur in due time, they would be of great benefit to them.

**Figure 1:** The Life Cycle of an Entrepreneurial Business



The relationship between the prescribed legal legislation and the development of business can be followed in detail by monitoring the developmental stages of the business, their characteristics, needs, and their links to the relevant legal issues specific to each stage of the life cycle of the company separately (Figure 1)<sup>1</sup>:

### ❖ Start – Up Phase

The primary goal of the entrepreneur in the start - up phase is to provide sufficient necessary resources which will help them utilize given opportunities for the establishment and development of business. This phase involves creation of a new product or service typical of established business. Therefore entrepreneurs in this part of the life cycle of business usually need quality legal solutions to directly and indirectly protect the creative work of man, i.e. the businessman. For such purpose, there is a multitude of heterogeneous provisions governing the issue of the right of intellectual property. In this sense, one of such provisions is the Law on protection of rights of intellectual property. In order for an invention to be patented, protected and, in future, to be used the competitive advantage that would derive from it. Regardless of the nature of the business, every entrepreneur who has founded their own business, needs to have at least basic knowledge of the functioning and implementation of legislation in the field of establishment of companies, their development, models for their management, and of course, models of entering into obligatory legal relationships that directly reflect on the growth and development of the business environment in the company. Essentially, this refers to the proper implementation of the provisions in the area of contract law and statutory commercial law. Companies, on the other hand, must take care of the type of product or service offered to the market. In this respect, over the past decades, much emphasis is put on consumer policy and legislation, aimed at consumer protection. This is particularly evident when it comes to rogue contractual clauses that often become part of the contractual practices of companies. For this purpose, the aid that is generated within the provisions of the Law on Consumer Protection is of great benefit.

### ❖ Growth Phase

Along with the growth of the company, the number of legal issues governing the business increases, too. Namely, as the enterprise is becoming bigger and the business is growing, such situation imposes a need for knowledge of labor law matters. This situation is especially prominent in the area of protection of the rights of workers arising from inventions, patents and regulation of relations between the company and the worker particularly in the area of the rights on inventions. Also, it requires knowledge in the field of recruitment and successful selection of staff, management of human resources and so on. In order to increase motivation, the entrepreneur may allow participation of employees in the share of the firm, which entails knowledge of subtle issues in the field of law. In order to provide the necessary growth of the company, at this stage the entrepreneur may need additional funds. In the growth stage companies often are not sufficiently attractive to banks because they are not always able to provide a positive cash flow, but in those instances, there is the interest of business angels or other types of investors with venture capital, something which will require appropriate expert assistance. At this stage generally entrepreneurs also meet with specifications stipulated in International trade agreements. In fact, company business runs outside the borders of the national economy, therefore, knowledge of international conventions (Vienna Convention on the International Sale of Goods), and other regulations, directly affects the growth and development of companies. Each company has a thorough quantum of knowledge in the field of its business and the institutional and functional structure, provides participation in the international market and thus capitalization of its production.

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<sup>1</sup> Gill, J., (2005) "Business Law for the entrepreneur", Arima Publishing ASK House, p. 16

## ❖ Maturity Phase

Once the company has reached the desired level of growth, it is time for the maturity phase, in which the company tends to strengthen itself. At this stage, the entrepreneur may have a need for innovation of new products / services or to seek a full financial realization of what he had already invested in order for him to retire. Namely, the entrepreneurs are faced with two options: either to sell the business to interested investor/competitor, or to put the company on the stock exchange. Both options include complex knowledge and experience in many different areas of law, including several laws such as the Law on Protection of Competition and Company Law. Although it seems that the Company Law regulates status issues, in fact, having knowledge of such law plays a major role in company management, hence the creation of strategies for economic growth and development.

## ❖ Phase of Decline

The last stage or phase of decline is characterized by reducing the demand for products/services, reduced income, as well as by reducing the need for manpower. At this stage, the entrepreneur often could face the necessity of Bankruptcy Law, although bankruptcy as a form can happen to the company in any stage. The entrepreneur is required to have at least basic knowledge in the field of administration, voluntary agreements and the process of liquidation, which will enable him, with the help of experts in the field of law, to successfully close commenced business.

## 3. The Specifics of the Relationship Right - Entrepreneurship: The Republic of Macedonia Case

### 3.1 The Current State of Entrepreneurship in the Republic of Macedonia - General Aspects

Entrepreneurship, with all its peculiarities, appears as a relatively new phenomenon regarding the economy in the Republic of Macedonia. With the acquisition of statehood in 1991, the Republic of Macedonia has been oriented towards the development of a market economy. This period of transition was featured by mass privatization and change of the ownership structure of the known state giants resulting in fragmentation into smaller companies. As a result of this process, which had buoyed great economic and social insecurity among the local population, there was a rapid actualization of the sector of small and medium enterprises that resulted in establishing such enterprises in bulk. One can freely say that rising unemployment caused by the privatization of large enterprises is a direct cause for the emergence of so-called "Spontaneous entrepreneurship", which was characteristic of the entire territory of the Republic of Macedonia. The emergence of mass registration of small and medium enterprises had its own features, although not very desirable. The founders of companies in the role of entrepreneurs in the majority were former employees of large factories, and as such they did not have any special entrepreneurial skills. Companies were established without prior analysis of the state of the environment, engaged in business without prior plan and strategy, and acted intuitively on the market. As such incompetence naturally led to their rapid emergence, it also led to rapid extinction of established companies<sup>2</sup>.

In this period the state was supported by many international donor organizations which assisted this process by transfer of money, knowledge and experience. As for example, we will use the data available to the U.S. Embassy in Skopje, according to which USAID, during

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<sup>2</sup> Serafimovska, H., (2011) "Condition and Entrepreneurial Prospects of Economy in Municipality of Štip", „2 August“ – Štip, p. 41

this period, invested in Macedonia over 450 million dollars through projects involving initiatives to accelerate the economic growth, development of democratic institutions and education of population in accordance with current economic trends.

Entrepreneurship as an option for the Republic of Macedonia is a necessity, if we know that there is a high unemployment rate of 30.6% for the last quarter of 2012<sup>3</sup>, but the situation is evaluated as positive according to the research conducted by the GEM National Team for Macedonia in which the country shows relatively high indices of entrepreneurship development. According to findings published in the GEM report, in 2009 the young population of 18 up to 24 years is more prone to entrepreneurship compared to other countries in the region. According to the TEA index (Total Early-stage Entrepreneurial Activity) the Republic of Macedonia has the highest level of entrepreneurial activity in comparison with European countries where research has been carried out by the GEM team. TEA index for Macedonia is 14.5 % and is higher than EU and OECD countries, as well as countries in the region. This means that 14.5 % of the respondents aged 18-64 are entrepreneurs<sup>4</sup>. As for the motives, half of them have taken entrepreneurial activities as a necessity, and others were motivated by the possibilities offered by entrepreneurship.

The commitment to support entrepreneurship was incorporated by the Republic of Macedonia into the policies and programs it implements in order to create appropriate conditions and institutional infrastructure at local and state level. In terms of both levels (state and local), key factors are the following:

- **At the state level:** Entrepreneurship and Competitiveness Sector under the Ministry of Economy of the Republic of Macedonia responsible for creating and implementing national policies for development of small and medium enterprises; Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APERM) responsible for implementation of national policies for development of the SME sector; National Council for Entrepreneurship and Competitiveness and SME forum and others.
- **At the local level:** 10 regional centers for promotion of entrepreneurship, 7 business incubators, Euro-info corresponding center which provides assistance and information to businesses associated with the European Union, 50 centers for local economic development supported by USAID and UNDP and others.

If the ability to turn failure into advantage is crucial for achieving competitiveness on the global market, then the thing that Macedonia is lacking is the change of the mindset of potential entrepreneurs exactly into such direction. Accepting failure and managing risk elements is the field that still needs to be worked on.

### **3.2 The Legal Framework as a Basis for Determining Administrative and Bureaucratic Conditions**

In recent years, the Republic of Macedonia implemented numerous reforms to improve the business conditions in the country, and the results of such process were confirmed in the 2013 World Bank Report in which the Republic of Macedonia in terms of doing business is ranked number 23 out of 185 countries.

The country is primarily focused on regulations relating to the establishment of companies. Today in the Republic of Macedonia any form of Capital Company may be established in a

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<sup>3</sup> State statistical office of Republic of Macedonia, (2013) "Statement N° 2.1.13.04" from 18.03.2013, Skopje

<sup>4</sup> Global Entrepreneurship Monitor (GEM) National Team for Macedonia, (2009) "Entrepreneurship in Macedonia, Macedonian Enterprise Development Foundation (MEDF), Skopje

day, in a very fast and simple process. This is aimed at supporting the business, especially in the field of small and medium companies. A great portion of business ventures (in the form of artisans) are exempted from tax the first few years. Finally, it should be noted the progress and effectiveness of E-system, and the ability to realize numerous business deals through IT technology (contracting, e-signature, e- registration, e-permits for construction, etc.). The implemented reforms include the importance of the impact that the legal system has on the development of business and it is in this context that the reforms are mainly related to change of country's legislation and facilitation of the administrative bureaucratic conditions for doing business. As for changing the legal acts and by-laws to ensure rapid development of entrepreneurship, the state in the past few years began with the implementation of the **Regulatory Guillotine** whose implementation was scheduled to take place in several successive stages. The project involves a number of activities for simplification of regulations aimed at reducing and eliminating administrative barriers. By changing the legal provisions and simplifying extensive and complex by-laws, it is provided to ensure reduction of bureaucracy and corruption. It involves changing the rules that determine the discretionary power of public officials and establishment of the "silence means consent" rule in case the competent institution does not respond at the request of the client within the prescribed period, the request shall be considered approved.

One major obstacle for business development, from administrative and legal aspect, often is the **procedure for registration** of enterprises. In March 2005 the new One-stop-shop Law was adopted. It offers new solutions to the procedures of registration of companies and it simplifies them by introducing the concept of "one-stop-shop system". **One-stop-shop system** is based on the principle of transparency and accessibility, quality, safe and reliable technical infrastructure, comprehensive data, availability on the whole territory of the Republic of Macedonia, increased data quality and accuracy. When developing a business plan and trying to start a new business, entrepreneurs in the beginning are faced with obstacles in terms of procedures for company registration and business startup. Economies among themselves largely differ in regulations regarding the establishment and closure of businesses. With the reforms conducted and the introduction of the "One-stop-shop system" many of the difficulties have been overcome and the duration of the procedures for establishing business has been reduced. According to the European Commission Report on 'Doing business in Macedonia 2013', Macedonia is ranked on the first place with index 5 compared to five neighboring countries - Bulgaria (57), Montenegro (58), Croatia (80), Slovakia (83), Czech Republic (140), Greece (146) and the regional average of countries in Eastern Europe and Central Asia (60).

**Tax policy:** Taxes directly affect the cost, allocation of resources and incentive on firms to invest. Governments today, while conceptualizing tax systems, tend to find an acceptable compromise between the principle of fairness and the principle of efficiency in taxation, which are essentially contradictory. The principle of fairness assumes taxpayers possessing different property to pay differently, richer taxpayers to pay more, poorer less. But, if the amount of marginal tax rates becomes exaggerated, it can lead to excessive tax burden on the rich population, which would reduce their incentive to invest, something that would do harm to the principle of efficiency. Problems related to taxation directly affect the investment climate. Such situation results in corrupt and inefficient tax administration, widespread tax evasion, with some companies regularly paying taxes, and other companies not paying taxes<sup>5</sup>. As far as the current tax system of the Republic of Macedonia is concerned, it consists of a flat tax rate and provides the following types of taxes:

- Income taxes (Personal income tax and Profit tax)

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<sup>5</sup> Fiti T., Hadji Vasileva – Markovska V., Beitmen, M. (2007) "Entrepreneurship", Faculty of Economics, Skopje, p. 157

- Consumption taxes (Value Added Tax - VAT, Excise and Customs)
- Property taxes (Property tax, Estate sales tax and Inheritance and gift tax)
- Social contributions

In accordance with the general process of decentralization of the state, one of the key dimensions is also represented by the fiscal decentralization, i.e. fiscal autonomy within the competence of local self-governments. In this respect, the Law on Financing of Local Self-Government defines sources of funding municipalities (creators of the local business environment) as follows: Revenue from own sources of revenue, grants from the State Budget, as well as from the budgets of funds and borrowing. In this context, of particular importance are the Law and the supporting regulations concerning definition of the limits of the range of local self-government decisions on taxes and fees. Such taxes and fees are:

1. Local taxes established by law (property tax, inheritance and gift tax set by law, real estate sales tax, etc.).
2. Local taxes established by law (utility fees, administrative fees, etc.).
3. Local charges established by law (building and land use fee, public utility fees, compensation for physical and urban planning, etc.). The amount of defined taxes and duties, performance in issuing permits and documentation to start new businesses, as well as expanding the activity or scope of existing businesses are one of the key factors in any business setting.

Regarding the collection of the tax that enterprises are required to pay, according to 'Doing Business Report 2013', Macedonia ranks 24th in comparison with other 185 countries included in the survey. Such extent of tax collection is an indicator of the benefit of current tax policy in the state.

When talking about legislation, the thing that is particularly important in the preparation and amendment of regulations **is the process of consultation and involvement of stakeholders**. The Republic of Macedonia has established a practice of using modern technologies in order to increase the effectiveness and efficiency of the consultation in the preparation of regulations. Such e-collaboration is facilitated by creating National Electronic Register of Regulations - ENER<sup>6</sup>. Such registry, conceptualized as an internet portal, enables browsing and transparency of procedures for adoption of draft laws throughout their process of preparation to adoption. The relevant institutions have an obligation to publish every bill on ENER-website along with all supporting documents, and stakeholders are given the right to comment on and question each published regulation. Also, concerning e-cooperation in this matter, not only the cooperation involves regulations publishing on ENER's-website, but it also involves publishing draft regulations on web-pages of competent ministries, as well as on the official website of the Parliament of the Republic of Macedonia.

Such stakeholder participation in the drafting of regulations is established and defined by the legal framework which includes<sup>7</sup>:

- Rules of Procedure for Operation of the Government of the Republic of Macedonia;
- Methodology for assessing the impact of the regulation;
- Law on Organization and Operation of the State Administration;

<sup>6</sup> Trajkovski, J., Trajkovski, Lj., Trajkovska, J.S., Jovanovska, M., (2011) "With good consultation to good results – manual for stakeholders", Skopje, p. 24

<sup>7</sup> Trajkovski, J., Trajkovski, Lj., Trajkovska, J.S., Jovanovska, M., (2011) "With good consultation to good results – manual for stakeholders", Skopje, p. 26

- Strategy for Cooperation between the Government and civil society (2007-2011);
- Decree on public participation in the drafting of regulations and other acts, as well as plans and programs relating to the environment;
- Guidelines for the Manner of acting in the work of the Ministries for involvement of stakeholders in law-making process and
- Code on public consultation during the preparation of regulations.

#### **4. Recommendations for Improving Legislation Aimed at Creating a More Favorable Business Environment**

It is exactly because of the universal dimension featured by the following components of the legislation regardless of the national context that they should be strictly regulated and continuously controlled and refined:

**Property Rights:** Property rights are defined as many powers that determine the rights, privileges and restrictions of the owner relating to the use of resources<sup>8</sup>. A decision to start investing is in direct link with good protection of property rights, effective contract enforcement and the rule of law in general. Good protection of property rights encourages investment in machinery, human capital, technology, etc. This suggests that for creation of a favorable investment climate that promotes entrepreneurship is of particular significance the judicial system, which should ensure in each country a good protection of property rights<sup>9</sup>.

**Conditions and Perspectives:** in the future in terms of enterprises, particularly when establishing one requires a deposit as guarantee for third parties entering into obligatory relations with the company (any company when starting a business to deposit a minimum of funds in the bank). According to current solutions, the charter (core) capital is not a sufficient instrument to ensure the claims of third parties<sup>10</sup>. Suggested changes would significantly affect the strengthening of property rights of third parties with respect to creditors of a debtor company.

**Stability, Predictability and Transparency of the Legal System:** Attracting foreign investment, investment by domestic investors and the development and expansion of businesses already commenced, as well as risking new ventures closely depends on the stability of the legal system<sup>11</sup>. Namely, the conditions for capital investment should be guaranteed, and any future development should be noted.

**Conditions and Perspectives:** the current reforms in the area of e - collaboration and the introduction of the National Electronic Register of Regulations – ENER, Macedonia made a step forward in the field of transparency in establishing regulations<sup>12</sup>. But it should be noted that Macedonia as a country aspiring to join the European Union is in the process of reform, constantly changing and adapting the legal system for the purpose of approximation to European regulations. Such constant changes of the rules relating to business create ambiguity and uncertainty in the business community in Macedonia and impede the conduct of domestic business and attracting foreign investments. Stability is the field that has yet to be done in order to improve the business environment in the state.

<sup>8</sup> Tietenberg, T. (2000) “*Environmental and natural resource economics*”, Addison Wesley Longman, Inc., p. 56

<sup>9</sup> Serafimovska, H., (2011) “*Condition and Entrepreneurial Prospects of Economy in Municipality of Štip*”, „2 August“ – Štip, p. 81

<sup>10</sup> Pepeljugovski, V., Dabovik, J., et al. (2012) “*Intellectual Property Law- Enforcement*”, Akademski Pecat, Skopje, p.23

<sup>11</sup> Ministry of Finance of the Republic of Macedonia, (2011), “*Macroeconomic Policy, Public Finances and Structural Reforms*”, “*Pre-accession Economic Programme 2011 – 2013*”, Skopje, p.110

<sup>12</sup> British Embassy Skopje, (2011), “*Recommendations and Action Plan for Improvement of the Regulatory Reform in Macedonia*”, Project: “*Better Business Regulation in Macedonia*”, Skopje, p.3

**Implementation of Contractual Rights and Ineffectiveness of the Legal System:**

Contractual provisions constitute the foundation on which rests the whole private law and basis for realization of commercial transactions. The Republic of Macedonia has a thorough and quality system of the contractual relationships that dates back to the Draft of the Contractual Relations Act - ZOO. The major disadvantages are manifested in the form of minimal realization of the transactions and the absence of guarantees that contractual obligations will be fulfilled<sup>13</sup>. The absence of a guarantee for performance of the contractual obligations has a key role in the stability of the business sector. The basis for creating a stable business system is directly dependent on the financial strength of enterprises. In the Republic of Macedonia, the limited liability companies are the most common in respect of their form. Taking into account the minimum investment for establishing this form of company and the opportunity to invest through non-monetary contribution, there is an obvious danger that third parties, the creditors, will settle accounts with their debtor - a limited liability company. In this regard, it is necessary for an intervention that would provide greater security to creditors in terms of meeting their requirements. The greatest danger comes from the fact that such enterprises with the status of creditors cannot collect their receivables from debtors and soon they become debtors to their creditors. It is essentially the vicious circle of business risk that companies in the Macedonian business environment hardly cope with.

**Conditions and Perspectives:** A change and improvement of judicial reforms should be brought about for protection of property rights, as well as an increase in the performance of contracts which at the moment last for a long time and have a variable success. As in all other areas of the judicial system, and in the field of contract law, there are many long-lasting procedures and inefficient systems for realization of contractual relationships that need to be done. Provisions remain on paper, and the practice is silent<sup>14</sup>.

**Customs formalities and the condition of the customs system** may prove to be an advantage or another barrier to doing business. Entrepreneurs seek customs system with simple procedures that will reduce costs for customs clearance<sup>15</sup>.

**Conditions and Perspectives:** Positive effects of customs modernization and risk management<sup>16</sup> are manifested by reducing the time of export and import in Macedonian customs operations. There is a challenge to create positive trends towards greater facilitation of legal trade, a solid foundation for the prevention and detection of customs fraud. It needs improvement and simplification of customs system in the country in order to reduce the cost and duration of the procedures, and the lack of information about customs formalities needs to be surpassed.

**Corruption** as a phenomenon is widespread everywhere. Commonly regulated from a central level, it is a problem for every country. There are bodies, mechanisms and public institutions in order to harness this phenomenon, but it is still difficult to keep such phenomenon under complete control or to eradicate it completely. As a global phenomenon, corruption is present at all levels, but it mostly affects the business, its establishment and operation. In addition to further strengthening cultural awareness and building confidence between Macedonian

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<sup>13</sup> **Galev G., Dabovik, J., (2009)** "*Law of Obligations*", University St. Cyril and Methodius, Faculty of law, Justinian First, Skopje, p. 207

<sup>14</sup> **Davitkovski, B. Pavlovska-Daneva, A., Tupancevski, N., (2012)** "*Administrative, Judicial and Criminal Law Enforcement of Intellectual Property Rights*", Akademski Pecat, Skopje, p.32

<sup>15</sup> **Nikolovski, A., (2009)** "*Commercial Law*", Skopje, University St. Cyril and Methodius, Faculty of Economics, p. 103.

<sup>16</sup> **Biljanovska, J., (2011)** "*Risk management in prevention and detection of customs fraud in the Republic of Macedonia*", University St. Kliment Ohridski, Bitola

enterprises, it takes a creation of a stronger comparative integration in entrepreneurship for provision of prevention mechanisms, measures against possible forms of corruption<sup>17</sup>.

**Conditions and Perspectives:** on November 12, 2002, a State Commission for Prevention of Corruption was formed under the Act on Prevention of Corruption, adopted in April the same year. The State Commission on preventive and repressive plan operates by approaching in legal manner to improvement of the normative and institutional environment of the country, acting on specifically indicated cases of corruption and conflict of interests, which is appropriate to conducting a strategic anti-corruption policy in the long term aimed at improving the conditions for the development of entrepreneurship in the country. In the process of eradicating corruption, the already introduced Regulatory guillotine makes its own contribution; however, this area is still something that needs to be worked on<sup>18</sup>.

## 5. Conclusion

Survey results show that the Republic of Macedonia is a country, which thanks to the reforms, has relatively high indices of entrepreneurship development and is characterized with significantly more favorable position in terms of the region on this issue precisely because the underlying advantage contained in the young population favoring entrepreneurship, which is the driving force in such process. But the specifics of the situation arise exactly from the pressure for rapid reforms imposed by country's commitment to the European integration. The pressure to reform the system and improve the legal framework of the country apart from increasing the entrepreneurial opportunities, it simultaneously creates and uncertain developments, brings high dose of uncertainty in the environment that threatens business interests, increases the risk for investment and reduces entrepreneurial performance in the country. The situation on the ground indicates that Macedonia has successfully passed all the preparatory activities required for creation of a favorable entrepreneurial climate. Detected flaws in the legal regulations serve to prove that it is a common problem and usually hard to solve, in many developed countries across Europe and the world, as it is with the problem of corruption. Following an expertise, recommendations were given which mainly relate to additional regulation of property rights from functional points of view, more effective enforcement of contractual rights and reorganization of the customs system that would provide simplified procedures and reduced costs for customs clearance. Such results indicate that the impact of legal regulations on business development is paramount, and in this respect the Republic of Macedonia is a country of regulated legal system that successfully protects the interests of entrepreneurs, guarantees their investments and fosters interest in further simplification of improvement of regulations aimed at increasing opportunities for more efficient and effective execution of whole entrepreneurial process.

The Republic of Macedonia is a country where process of reforms takes place with great intensity and a high degree of success, but what emerges as a real problem on the ground due to which the desired results are delayed is the absorption capacity of the human resources that requires further development.

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<sup>17</sup> State Commission for Prevention of Corruption of the Republic of Macedonia, (2011), "Annual Report of SCPC for 2010", Skopje, p.5

<sup>18</sup> Ibid

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