

# 17 North Macedonia: Economy Profile

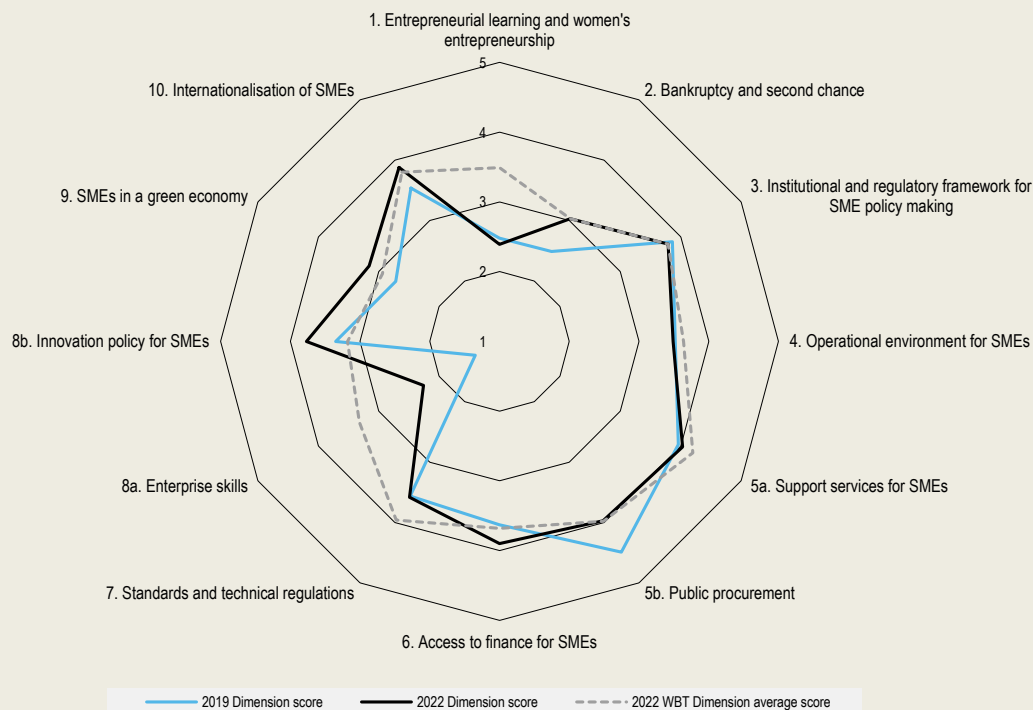
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This chapter covers the progress made by North Macedonia in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of North Macedonia's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the North Macedonian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

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## Key findings

Figure 17.1. Small Business Act scores for North Macedonia (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

The Republic of North Macedonia (hereafter “North Macedonia”) has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 17.1). North Macedonia has achieved its highest average scores in the following areas: support services for small and medium-sized enterprises (SMEs); public procurement; access to finance; innovation policy; and internationalisation of SMEs. While in access to finance, innovation policy and internationalisation, North Macedonia outperforms the WBT average, the economy still needs to step up its efforts in entrepreneurial learning and women’s entrepreneurship and enterprise skills.

### Main achievements

- **The insolvency legislative framework has gradually been improving.** In March 2021, the economy completed a new draft of the Insolvency Act, which is set to be enacted in 2022. The draft law features some positive developments, such as introducing preventive measures (pre-insolvency restructuring proceedings and an early warning system) and the inclusion of provisions for shortened and simplified bankruptcy proceedings for SMEs. In addition, North Macedonia is the only economy in the region that digitalises liquidation procedures, which has led to decreases in the amount of time taken for bankruptcy

liquidation procedures, reducing the procedural costs and ensuring creditors' claims recovery are valued at best market rates.

- **North Macedonia has a strong legal and strategic framework for government provisions of business support services (BSSs).** The economy introduced various financial and non-financial support programmes targeting SMEs, aimed at improving their capacity and competitiveness. The private provision of BSSs is envisioned through additional support for business incubators and technology parks with the goal of creating an environment conducive to knowledge and technology transfers. In addition, the government introduced new co-financing schemes for SMEs seeking assistance from private-sector consultants.
- **Efforts to promote financial literacy have gained momentum.** North Macedonia adopted its first Strategy for Financial Education and Financial Inclusion (2021-2025), which aims to develop special educational programmes for various target audiences, in line with a core competency framework that is currently under preparation. While the impact of the new strategy will only be seen in the medium term, the centralised one-stop-shop for financial support continues to provide information on financial and non-financial services for enterprises, serving as a useful and easily accessible platform.
- **SMEs' greening efforts have been encouraged by facilitated access to finance.** As recommended in the previous cycle, the Development Bank of North Macedonia has become an important factor in fostering green lending to SMEs' projects, including as part of COVID-19 recovery programmes. Moreover, the recently adopted Plan for Accelerated Growth (2022-2026) is expected to provide a stronger impulse to greening measures with the introduction of several instruments to promote and finance SMEs' green projects, such as the Hybrid National Green and Digital Fund for SMEs.
- **Export promotion and SME integration into global value chains (GVCs) are highlighted in newly adopted strategic documents, further contributing to a stronger legal and strategic framework that encourages SME internationalisation.** By adopting a new Law on Strategic Investment and simplifying company establishment within free economic zones, North Macedonia made noteworthy advancements in developing an attractive environment for foreign direct investment (FDI). Moreover, in order to further foment linkages between domestic SME suppliers and multinational enterprises (MNEs), the government launched an online business-to-business (B2B) portal to match local suppliers with international buyers, therefore contributing to North Macedonian SMEs' participation in GVCs.

### The way forward

- **Efforts are needed to boost entrepreneurship as a key competence across all levels of education,** building on the positive reforms of the vocational education and training (VET) curriculum aligned to EntreComp. Strong leadership should be provided through a multi-stakeholder partnership, guiding concrete government-led actions with a committed budget that supports curriculum reform, embedding practical entrepreneurial learning, development of teacher guidance as well as actions to expand pre- and in-service teacher training. Monitoring and evaluation are required to track efficacy and impact.
- **Urgent action is required to monitor and evaluate the progress, efficacy and impact of actions taken to support women's entrepreneurship,** to underpin the implementation of the recent women's entrepreneurship strategy. This should include a transparent monitoring and evaluation process, supported by urgent actions to enforce gender-disaggregated data via national statistics and government-funded programmes.

- **The institutional and regulatory framework for SME policy making has room for improvement.** Namely, a comprehensive strategy for simplifying legislation with the goal of improving the business environment, as has been adopted by other economies in the region, is absent in North Macedonia. The use of regulatory impact assessments to measure the effects of policies on SMEs and of public-private consultations to involve SMEs in policy making could also be further improved, namely by ensuring stronger quality control by the relevant oversight institutions.
- **Systematic training needs analysis is still lacking in North Macedonia.** Assessing the current SME landscape is done on an ad hoc basis without a strategic framework in place to ensure regular analysis of SMEs' needs. Similarly, systematic monitoring and performance-based evaluation of both public and private BSSs also warrants intensified efforts from the government.
- **Improve information provision and support services for SMEs who seek certification according to national, European or international standards.** While North Macedonia's legislation is comparatively well aligned with the European Union's technical regulations and quality infrastructure legislation, support services to firms should be expanded. One priority should be the establishment of a central web platform that lists all export-relevant sectoral and horizontal legislation and provides information about the standards and the conformity assessment procedures that firms need to follow to access the European Single Market. Furthermore, the creation of a larger programme (funded by international development co-operation partners or the government) to support SMEs that may not be able to self-finance investments related to conformity with standards would be important.
- **The lack of system-level skills intelligence remains a significant challenge.** A co-ordinated approach to understanding current and future skills needs could support policy planning and design toward better alignment of education to labour-market needs. Defined indicators for SME skills intelligence would guide future monitoring and evaluation related to SME skills at all levels.
- **Business-academia collaboration should be promoted with a systematic and targeted approach.** Efforts should include both demand and supply-side aspects, including raising awareness about collaboration opportunities and providing a targeted infrastructure stimulating exchange and financial incentives to boost collaboration as well as strengthening academic research excellence. An evaluation of the pilot voucher scheme, as well as a clear approach to the design and function of the Science and Technology Park, will be important elements, as is a review of the scientific research sector more generally.

## Economic context and role of SMEs

### *Economic overview*

North Macedonia is a small, upper-middle-income economy with a population of 2.07 million as of 2020 and a per capita gross domestic product (GDP) by purchasing power parity of USD 15 931 in 2020 (in constant 2017 international dollars), having shrunk by roughly USD 800 since 2019 (World Bank, 2022<sup>[1]</sup>). Compared to neighbouring economies, North Macedonia's economic activity sectors are relatively well balanced, with the services sector accounting for 57% of GDP, industry for 22.6% and agriculture for 9.1% in 2020, with annual decreases of 2.6% for services and 6.8% for industry and annual increases of 1.7% for agriculture in 2021. The economy's industrial sector is primarily based on manufacturing (13% of GDP), particularly in chemical products, basic iron, steel and ferro-alloys, machinery and textiles. North Macedonia's top sectors in terms of employment are services (employing 55% of North Macedonia's workforce), followed by industry (31% of the workforce) and agriculture (employing almost 14%) (MAKStat, 2021<sup>[2]</sup>).

North Macedonia's economy has shown steady growth since 2012, driven mainly by domestic consumption and exports (notably basic metals and textile products), with a slight drop in 2017, followed by another bout of continued growth. However, like all WBT economies, North Macedonia's economy was adversely impacted by the COVID-19 pandemic (Box 17.1), with a 6.1% decrease in GDP growth for 2020 brought on by a sharp decrease in remittances, which impacted adversely on household spending and a fall in investment (Table 17.1). However, the economy rebounded with a 4.2% GDP growth in 2021, fuelled by a strong recovery in the production of automotive supplies, a recovery of private consumption and the implementation of government support measures, and is expected to remain at 3.2% in 2022 (IMF, 2022<sup>[3]</sup>; European Commission, 2022<sup>[4]</sup>; EBRD, 2022<sup>[5]</sup>).

After a positive decline in external debt stocks in 2018, public spending in North Macedonia grew by approximately 15.2% from 2019 to 2020 due to unforeseen spending on COVID-19 mitigation measures and remains the second-highest in the region at 89.9% in 2020. Positive measures have been taken to alleviate public debt in recent years, including the repayment of a 2014 Eurobond in the amount of EUR 500 million in July 2021, reducing government and public debt by 4.46 percentage points and stabilising its position at under 60% in Q3 of 2021, a 3.1% reduction from Q2, thereby aligning itself with the Maastricht Criteria (Ministry of Finance, 2021<sup>[6]</sup>). North Macedonia is beginning to gear its public spending agenda towards energy efficiency projects, with plans to shut down all coal-fired thermal power plants, which account for approximately 50% of total electricity production and about one-third of consumption, by the end of 2027 under the National Energy and Climate Plan. In addition to being the first Western Balkan economy with structural plans to phase out coal, North Macedonia is also largely investing in renewables and gas-fired power capacity as a transitional fuel with a projected EUR 3.1 billion investment plan to establish approximately 1 600 MW of solar power plants, 600 MW of wind farms and 333 MW of hydropower plants. Other energy-efficient infrastructural projects are also on the agenda, such as a EUR 110 million investment for a 123 km-long gas interconnector pipeline with Greece that will have the capacity to transport roughly 1.5 billion cubic metres of natural gas annually (EBRD, 2022<sup>[5]</sup>).

Although the financial sector in North Macedonia saw poor performance in 2020 due to the pandemic, it sustained a decent recovery throughout 2021. Bank lending increased by 5.8% and 7% in Q3 and Q4, respectively, with credit growth during Q3 rising to 7.8% at the household level and 4% at the corporate level, while the non-performing loans ratio saw a minimal decrease of 0.2 percentage points since the previous year, settling at 3.1% in 2021 (European Commission, 2022<sup>[7]</sup>). Consumer prices increased by 8.8% month on month in March 2022, while the annual increase in 2021 was 3.2% compared to December 2020, influenced primarily by index increases on transport by 9%, restaurants and hotels by 5.9% and alcoholic beverages, tobacco and narcotics by 3.8%. Moreover, retail prices increased by 6% month on

month in December 2021, while the annual increase was 4.3% compared to December 2020, primarily due to increases in non-food industrial products, tobacco and agriculture products (MAKStat, 2022<sup>[8]</sup>).

**Table 17.1. North Macedonia: Main macroeconomic indicators (2018-21)**

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth <sup>1</sup>	% year-on-year	2.8	1.2	2.8	3.9	-6.1	4.2
National GDP <sup>2</sup>	EUR billion	9.466	10.03	11.25	11.182	10.879	..
GDP per capita growth <sup>2</sup>	% year-on-year	2.7	1	2.8	3.9	-6.1	..
Inflation <sup>1</sup>	% average	-0.2	1.4	1.5	0.8	1.2	3.2
Government balance <sup>1</sup>	% of GDP	-2.7	-2.7	-1.8	-2	-8.2	-5.4
Current account balance <sup>1</sup>	% of GDP	-2.9	-1.0	-0.1	-3.3	-3.4	-3.5
Exchange rate MKD/EUR <sup>1</sup>	Value	61.6	61.57	61.51	61.51	61.67	61.63
Exports of goods and services <sup>1</sup>	% of GDP	50.9	54.9	60.2	61.9	58.9	65.9
Imports of goods and services <sup>1</sup>	% of GDP	66.2	69	72.9	76.2	71.9	81.9
Net foreign direct investment (FDI) <sup>1</sup>	% of GDP	3.3	1.8	5.6	3.2	1.5	3.7
External debt stocks <sup>2</sup>	% of gross national income (GNI)	73.3	78.7	71.3	74.7	89.9	..
International reserves of the National Bank <sup>1</sup>	EUR million	2 613	2 336	2 867	3 263	3 360	3 643
Gross international reserves <sup>1</sup>	Ratio of 12 months imports of goods and services moving average	4.9	4.1	4.4	4.6	5.3	4.5
Unemployment <sup>1</sup>	% of the total population	23.8	22.6	21.0	17.5	16.6	15.8

Sources: 1. European Commission (2022<sup>[4]</sup>); 2. World Bank (2022<sup>[9]</sup>).

Despite the significant impact of the COVID-19 pandemic on the economy, North Macedonia's unemployment rate has continued to decrease, following a decade-long trend, settling at 16.6% in 2020 due in part to significant fiscal support provided to FDI and domestic companies in the post-pandemic period (OECD, 2021<sup>[10]</sup>). The unemployment rate further decreased to 15.3% (European Commission, 2022<sup>[7]</sup>) in the fourth quarter of 2021. However, continuous progress in the overall labour force participation shadows underlying disproportionalities and inequalities, particularly concerning employment setbacks of youth and women. The 0.6% rise in the labour force and 0.7% year-on-year rise in the activity rate of the working-age population in 2020 overshadows the -1% drop in the female workforce and a slight decline in overall female activity rates (European Commission, 2021<sup>[11]</sup>). Women in North Macedonia were also hit particularly hard during the pandemic due to high participation in some of the most affected sectors, such as healthcare and the informal economy, and disproportionately increased home responsibilities among the majority of women (United Nations, 2021<sup>[12]</sup>). Youth unemployment also faced setbacks in 2020, rising to 35.4% for those 15-24 years, while employment declined by 16% year on year for the same age group (European Commission, 2021<sup>[11]</sup>). Unemployed youth in the 15-19 year age group decreased to pre-pandemic levels in 2021 after almost doubling in 2020, while unemployed youth in the 19-24 year age group remains approximately 50% higher than pre-pandemic levels in 2019 after a 150% increase in 2020 (Employment Service Agency, 2022<sup>[13]</sup>). Moreover, the share of long-term unemployed in North Macedonia is steep (74% of all unemployed in 2021), and the long-term unemployment rate as of 2017 was over six times higher than in the European Union (17.4% vs 2.4%) (Employment Service Agency, 2022<sup>[13]</sup>; MAKStat, 2018<sup>[14]</sup>; Eurostat, 2020<sup>[15]</sup>).

### Box 17.1. North Macedonia's COVID-19 recovery programme

As part of its recovery, North Macedonia adopted five economic support packages to mitigate the impact of COVID-19 the first having been launched in March and April 2020, with the last having been presented in April 2021 in the amount of EUR 17.8 million. The cumulative sum of economic support packages totalled approximately EUR 1 billion for both short and long-term fiscal measures to maintain the liquidity of companies and jobs and support the financial sustainability of the economy and municipalities. Since the start of the pandemic, the government has implemented 106 policy measures covering financial, macroeconomic, banking and trade interests as well as movement, sanitary and health infrastructure changes to mitigate the effects of the pandemic:

- **Subsidies:** In order to preserve existing jobs and create new opportunities, North Macedonia provided financial assistance to companies affected by the crisis through monthly employment subsidies of between approximately EUR 235 and EUR 350 and 50% of salary contributions for employees in the tourism, transport, hospitality and other sectors affected by the pandemic.
- **Financial support to citizens:** The economy also implemented several cash support programmes to increase consumption and development of domestic economic activities, such as vouchers of MKD 3 000-6 000 for domestic tourism and purchases of Macedonian products and services, as well as vouchers of up to MKD 30 000 for trainings and courses for information technology (IT) and digital skills for those aged 16-29. Vulnerable groups, such as single parents, pensioners, passive job seekers, students, those over 64 years, independent artists, film workers, cultural workers and artists, also received payment cards worth a total of EUR 27.6 million.
- **Tax measures:** North Macedonia's tax response to COVID-19 was largely in line with other European economies, with exemptions of personal and corporate income taxes for self-employed, SMEs and enterprises COVID-19 susceptible sectors as well as reductions on import duties for sought after products like raw materials. The economy also implemented reductions of value-added tax (VAT) for restaurants, artisans, food and beverage services and exemptions of VAT for public donations, as well as a unique "weekend without VAT" under which more than 350 000 citizens were able to buy domestic products, services, computers and IT equipment worth up to MKD 30 000 without VAT for a period of three days, stimulating an injection of over EUR 170 million back into the economy.
- **Credit lines:** The Development Bank of North Macedonia provided an interest-free credit line worth EUR 54 million to all micro and small companies, which also offered a 30% grant for those companies that are run or founded by women, employ young people, are export-oriented or introduce innovation and digitalisation in their operations. The Development Bank of North Macedonia initially set up a EUR 5.7 million credit support (KOVID-1) option for SMEs in the form of interest-free loans with a 3-year repayment period and a grace period of 12 months. Under this scheme, microenterprises received loans between EUR 3 000 and EUR 5 000, small enterprises between EUR 10 000 and EUR 15 000 and medium enterprises between EUR 15 000 and EUR 30 000. A second credit line (KOVID-2) worth EUR 8 million, a third credit line (KOVID-3) co-funded by the European Union worth EUR 31 million, and a fourth credit line (KOVID-4) worth EUR 10 million were later opened to all industries impacted over 30% of revenues by the pandemic, specifically targeting enterprises in the field of tourism, transport, catering and event industry, private health facilities, sole proprietors and craftspeople from all industries.



Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues were exacerbated by the pandemic and remain key areas in need of reforms. In this regard, COVID-19 identified significant persistent challenges to North Macedonia's structural reform agenda, primarily with regard to further integration into global chains of higher technological value, continued clarification of the regulatory environment, increased innovation and logistical framework for its support, and support for moving towards sustainable energy infrastructure.

Sources: OECD (2021<sup>[10]</sup>; 2021<sup>[16]</sup>); Government of North Macedonia (2022<sup>[17]</sup>); European Commission (2021<sup>[18]</sup>; 2021<sup>[19]</sup>).

### ***Business environment trends***

The business environment in North Macedonia has seen some improvement since the last assessment, notably in reducing and clarifying the para-fiscal fees imposed on businesses by establishing a consolidated digital register of charges based on a comprehensive catalogue of electronic services provided on its e-portal. In an effort to streamline the number and complexity of charges for businesses, the government established a dedicated website that contains a clear list and value of the 377 para-fiscal charges that exist in the economy, but the burden is still to be reduced (European Commission, 2021<sup>[11]</sup>). North Macedonia also upgraded its national e-portal to include a total of 184 services, increasing public access and moderately improving the overall regulatory environment, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.026 in 2020, significantly lower than the OECD average of 0.064, indicating that the economy has lessened barriers to trade and maintains only a handful of reciprocity restrictions, notably in the real estate and legal sectors (OECD, 2020<sup>[20]</sup>). Moreover, as the government provided major support packages during the pandemic, changes to the transparency of finances were also implemented. Information on fiscal measures and transactions, including amounts and beneficiaries, were made available on line, as was a clear overview of the implementation of financial aid packages. The economy's positive trend in public administration transparency has been reflected in its score in Transparency International's Corruption Perception Index, which has increased four positions since 2021 and is now 89<sup>th</sup> place out of a total of 180 ranked economies (Transparency International, 2022<sup>[21]</sup>).

Although improving, the development of North Macedonia's business environment is still hampered by several key structural deficiencies and obstacles, which are acknowledged in the latest Economic Reform Programme (2021-2023) (Box 17.2) as well as the national SME Strategy (2018-2023). North Macedonia's legal and regulatory environment remains complex and difficult for enterprises and investors alike to navigate, leading to inefficiencies in business support and development services. Institutional factors such as over-burdensome time and costs of contract enforcement, inefficient customs, unfair competition and limited use of alternative dispute resolution mechanisms continue to adversely impact the ease of doing business in the economy (OECD, 2021<sup>[10]</sup>). Financial challenges remain a substantial impediment for businesses, particularly access to finance for SMEs, as credit risks remain high, alternative financing options remain limited and traditional financing institutions continue to require heavy collateral and credit histories. While North Macedonia has made progress in improving access to finance through the Fund for Innovation, the gap still remains significant, especially in the context of limited private-sector alternatives to bank finance (OECD, 2021<sup>[10]</sup>). Moreover, although a new bankruptcy law is under preparation, institutional and legal obstacles such as public administration transparency and unnecessary time and costs for dispute proceedings are still an impediment to a conducive business environment (European Commission, 2021<sup>[11]</sup>).

The informal economy in North Macedonia, notably in the agriculture, construction, household services, wholesale and retail trade sectors, is the predominant impediment to a hospitable business environment., with some estimates as high as 37.6% of GDP and putting informal employment as high as 43% (World



Bank, 2017<sup>[22]</sup>). The skills, expertise and powers of tax officials, judicial efficiency, contract enforcement, transparency and lack of digital services remain key barriers to reducing the size of North Macedonia's informal economy. The large grey economy creates strong competition for registered businesses and erodes a potential tax revenue base to fund public programmes. Employees in North Macedonia's informal workforce also suffered disproportionately, particularly during the COVID-19 pandemic, as businesses were excluded from support packages and the workforce did not qualify for wage subsidies. The impact of the North Macedonia's informal economy, historically functioning through unregistered labour, partially undeclared wages, irregularities in the enforcement of the Labour Relations Act, non-issuance of tax receipts or invoices, and underreported turnover is now compounded by freelance work and digital services that remain difficult to follow. Although positive steps have been taken to increase the employability of the young workforce through the introduction of a dual VET project and plans to shorten the conversion period for contract permanence, the competitiveness of local companies will continue to be dependent on higher investments in human and physical capital (European Commission, 2021<sup>[11]</sup>).

### Box 17.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes (ERPs) that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and

enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Sources: European Commission (2021<sup>[19]</sup>); IMF (2019<sup>[23]</sup>).

## ***EU accession process***

North Macedonia was the first Western Balkan economy to sign a Stabilisation and Association Agreement (SAA) with the European Union in 2001, setting higher political, economic, trade and human rights reform principles that paved the way for the economy to align itself with the EU standards. Although the European Council had continuously recommended opening accession negotiations with North Macedonia since 2009, efforts to move the economy past candidate status, which it has held since 2005, were hindered by bilateral challenges concerning cultural, historical and linguistic disputes with Greece and Bulgaria.

After demonstrating its determination to advance the EU reform agenda and delivering tangible and sustained results, North Macedonia was the last of the five WBT economies to enter accession negotiations in March 2020, followed by a presentation of a draft negotiating framework to the member states in July 2020 (European Commission, 2021<sup>[11]</sup>). Although North Macedonia has yet to open any EU *acquis* negotiating chapters, bilateral co-operation with the European Union is expected to result in five working groups to establish a roadmap to accelerate the process of holding the first Intergovernmental Conference of North Macedonia with the European Union to open the chapters for memberships. Aside from a moderate increase in the level of preparation regarding Judiciary, and Fundamental Rights from some level of preparation to moderately prepared, no changes in the degrees assigned to North Macedonia's preparation of the chapters have been noted since the 2018 enlargement report. In 2021, the European Union adopted a revised enlargement methodology that emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process, which will automatically apply to the negotiation procedures of the most recent accession candidates, North Macedonia and Albania (European Commission, 2020<sup>[24]</sup>).

According to the European Union's 2021 enlargement report for North Macedonia, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. The economy has done well to support the business sector during the COVID-19 pandemic with EUR 1.2 billion in assistance and restructured 370 para-fiscal changes that adequately supported the business sector's recovery. However, North Macedonia's enterprise and industrial policies are often overlapping in legislation and mandates of competent authorities leading to a complex and inefficient regulatory environment, while the Economic Growth Plan lacks impact indicators as well as systematic evaluation mechanisms that help reflect the needs of the business community (European Commission, 2021<sup>[11]</sup>). In this regard, North Macedonia should concentrate on:

- consolidating the institutional structure and mandates of the public bodies to ensure effective implementation, monitoring and evaluation of the strategies and policy measures
- continuing to implement, assess and renew the strategy and action plan to formalise the informal economy, with specific attention to its business environment component
- developing measures to increase the capacity of domestic companies to integrate into GVCs.

Further progress in the accession process will strongly depend on improved bilateral relations and co-operation on the 2017 Friendship Treaty with Bulgaria, as well as further alignment on benchmarks concerning the internal market and resource management set out in Chapters 2 and 33 on Freedom of Movement for Workers and Financial and Budgetary Provisions, respectively. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for North Macedonia to harmonise its regulatory framework with that of the *acquis*, meet the requirements of the accession chapters once they are officially opened and ultimately further its negotiations for entry to the European Union.

### *EU financial support*

The European Union is the largest provider of financial assistance to North Macedonia, helping the economy in implementing reforms that bring it closer to the *acquis*, particularly concerning strengthening the rule of law and improving public administration. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 1.2 billion provided to North Macedonia by the European Union between 2007 and 2020 under the IPA I and II, the European Union is providing an additional EUR 14.2 billion to the region under IPA III for the period 2021-27 to improve rule of law, fundamental rights and democracy; increase good governance, *acquis* alignment, good neighbourly relations and strategic communication; speed up the green agenda transition and sustainable connectivity; increase competitiveness and inclusive growth; and support territorial and cross-border co-operation (European Commission, 2021<sup>[25]</sup>). The new IPA funding also contributes to the joint European Union and European Bank for Reconstruction and Development (EBRD) Western Balkans SME Competitiveness Support Programme that assists privately owned North Macedonian SMEs in meeting new EU regulations and understanding the improvement requirements in the field of environmental protection, occupational health and safety and product quality and safety through financing options (EBRD, 2021<sup>[26]</sup>). In addition to loan and grant opportunities under the programme, SMEs benefit from tailor-made technical assistance and know-how for project preparation and implementation, as well as grant incentives worth up to 15% of the total loan amount on successful project completion.

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. In addition to infrastructural funding for North Macedonia's rail corridors with Serbia, Croatia and Bulgaria, significant wind park and solar power plant investments will be advanced in an effort to present North Macedonia's renewable energy landscape as a potential replicable example for the region. Furthermore, the European Union's support on a gas interconnection with Kosovo\* and Serbia will help the economy's transition from coal, while funding for updated waste management systems will support sustainable and green infrastructure solutions. North Macedonian SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility with the aim to strengthen the competitiveness of SMEs, enhance employment creation for youth in particular, and support innovation and green growth (European Commission, 2020<sup>[27]</sup>).

The European Union has been crucial in financially supporting the Western Balkans and North Macedonia in the wake of COVID-19. North Macedonia received EUR 220 million in grants and financing from the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and

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\* This designation is without prejudice to positions on status and is in line with United Nations Security Council Resolution 1244/1999 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

neighbourhood partners that aims to help them limit the economic fallout of the COVID-19 pandemic. The economy received the second MFA payment in June 2021 after fulfilling the programme's policy conditions to strengthen fiscal governance and transparency, fight corruption, enhance financial sector supervision, improve the business environment, and tackle youth unemployment (European Commission, 2020<sup>[28]</sup>). North Macedonia has also been the recipient of EUR 144 million of the European Union's Team Europe EUR 3.3 billion COVID-19 economic recovery support package to the region (EIB, 2021<sup>[29]</sup>).

North Macedonia was also the third candidate economy to join the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) in 2015, under which it benefits from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2020<sup>[30]</sup>). The economy has also participated in the European Union's Research and Innovation programmes since 2007 and is part of the Horizon 2020 programme, allowing North Macedonia access to the project's EUR 95.5 million budget to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges. The economy has ramped up investments in the set-up of Technology Parks and Business Accelerators and possesses particular strengths in the fields of energy and health innovation. North Macedonia's participation in the SMEs portion of Horizon 2020 is particularly high, with 909 applications, 122 participants and 92 signed grants for a total of EUR 14.8 million of EU funding distributed primarily to private for-profit enterprises (35.4%), followed by higher or secondary education institutions (26.3%), and research organisations (18.6%). In 2021, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union (European Commission, 2021<sup>[31]</sup>).

### ***SMEs in the domestic economy***

The classification of SMEs in North Macedonia remains unchanged since the last assessment and is defined by Article 470 of the Law on Trade Companies (Official Gazette of the Republic of North Macedonia, No. 215/21). The categories conform to the EU standard definition of SMEs by employee size but diverge on the other criteria concerning annual income and assets (Table 15.3).

**Table 17.2. Definition of micro, small and medium-sized enterprises in North Macedonia**

	EU definition	North Macedonia definition
Micro	< 10 employees = EUR 2 million turnover or balance sheet	< 10 employees ≤ EUR 50 000 gross annual income
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < EUR 2 million annual income or < EUR 2 million average total assets
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < EUR 10 million annual income or < EUR 11 million average total assets

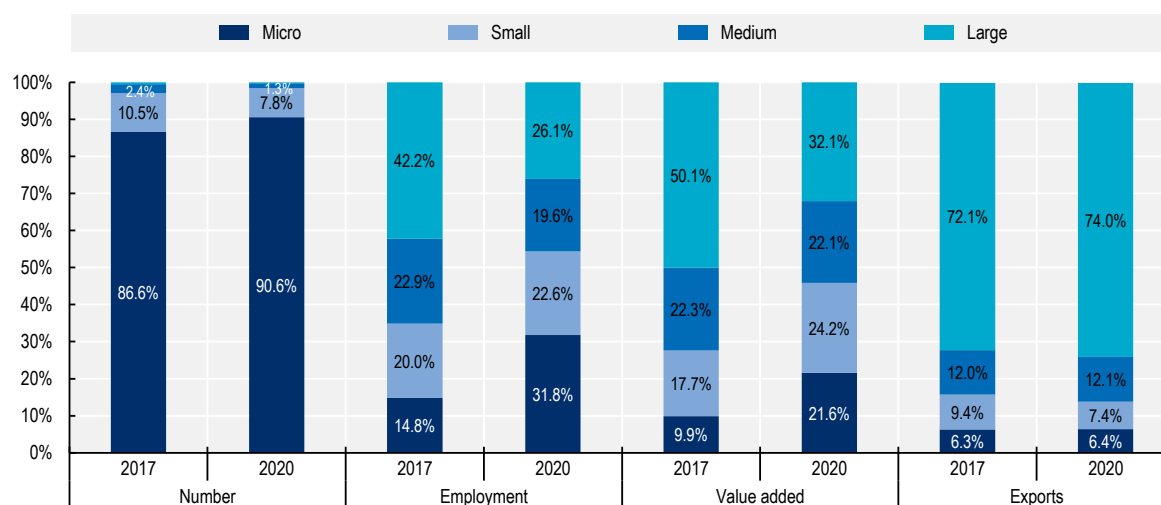
Source: Assembly of North Macedonia (2021<sup>[32]</sup>).

The breakdown of North Macedonian enterprises by size was 99.3% micro and small enterprises, 0.6% medium enterprises and only 0.1% large enterprises in 2020 (MAKStat, 2021<sup>[2]</sup>). In terms of enterprise size, microenterprises with fewer than ten employees dominate (90.6%), and most of them are in the field of trade. With 31.8% of the total employees hired, they created 21.6% of the total value added (Figure 17.2). Large enterprises with a share of only 0.3% and with engaged 26.1% of the employees generate 32.1% of the total added value within the business sector, mainly in the manufacturing sector (14.0%). However, small and medium enterprises hired 42.1% of the employees and created 46.3% of the total value in the business sector. In 2020, 74% of North Macedonia's formal workforce was employed by

micro, small and medium-sized enterprises (MSMEs) and created approximately 68% of the total value in the business sector, a 2% increase from 2019 and 7% increase from 2018 (MAKStat, 2021<sup>[2]</sup>).

Regarding fluctuations in business demography, the number of enterprises by size and employment remained largely stable between 2017 and 2020. On the other hand, micro and small enterprises increased their value added to GDP since the last assessment, albeit slightly by roughly 11.7 and 6.5 percentage points respectively. Medium enterprises noted a small contraction of 0.2 percentage points, while the value-added to GDP generated by large enterprises decreased by approximately 20 percentage points since 2017. Exports by enterprise size saw small but mixed changes, with microenterprises recording a 0.1 percentage point increase while large enterprises saw a rise of approximately 2 percentage points in exports from 2017 to 2020. Conversely, small enterprises noted a contraction of 2 percentage points, while medium enterprises' share of exports remained relatively constant. The role of women in the North Macedonian business environment is improving, with 20% of owners or managers in the IT sector being women, followed by engineering and food processing with 12% and all other industries with numbers below 7% (Innovation and Technology Fund, 2021<sup>[33]</sup>).

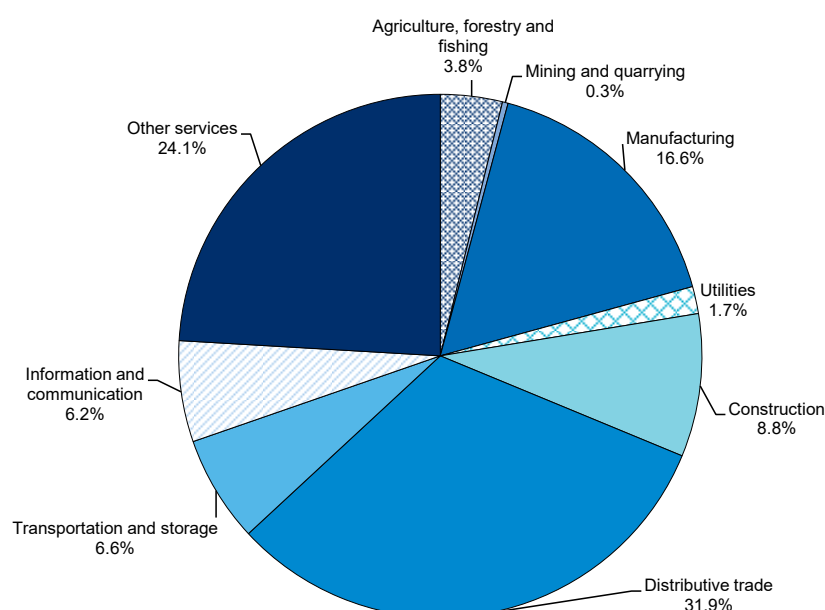
**Figure 17.2. Business demography indicators in North Macedonia (2017 and 2020)**



Source: Statistical Office of North Macedonia.

North Macedonia has seen slight changes in the sectoral distribution of SMEs since 2017 (Figure 17.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 36.40% but saw the greatest decrease in the number of enterprises since 2017, at a 2.6% decline. Other services follows as the second-highest number of SMEs in North Macedonia and witnessed a slight 1% increase in the number of enterprises since 2017. Minor increases were also noted in the information and communication, manufacturing, utilities, and mining and quarry sectors, albeit all under a 1% difference.

Figure 17.3. Sectoral distribution of SMEs in North Macedonia (2020)



Note:: Data for agriculture was unavailable for the year 2020. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" I; "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification. Source: Statistical Office of North Macedonia

Geographically, about 39% of enterprises were located in Skopje in 2020, followed by 11.51% in the municipality of Polog and 10.95% in Pelagoina (Table 17.3). The number of enterprises in Skopje increased by approximately 1 600 from 2017 to 2020, a growth of 5.9%. With the exception of Polog, where the number of enterprises increased by 3.45%, the share of businesses in other districts remained largely unchanged between 2017 and 2020, with variations of under 1.8%. Nevertheless, the number of microenterprises in the entire territory of North Macedonia increased by approximately 1 460, or 90% of the total increase in businesses since 2017.

Table 17.3. Number of registered companies in North Macedonia by enterprise size and district (2020)

District	Year	Enterprise size, by employment					Share of total number of enterprises
		0*-9	10-49	50-249	250+	Total	
Skopje	2017	23 908	2 333	564	142	26 947	37.73%
	2020	25 393	2 405	607	143	28 548	39.07%
Vardar	2017	4 913	352	106	12	5 383	7.54%
	2020	4 851	350	104	13	5 318	7.28%
East	2017	4 950	464	180	21	5 615	7.86%
	2020	4 906	474	168	17	5 565	7.62%



District	Year	Enterprise size, by employment					Share of total number of enterprises
		0*-9	10-49	50-249	250+	Total	
Southwest	2017	6 711	408	109	10	7 238	10.13%
	2020	6 743	399	115	11	7 268	9.95%
Southeast	2017	5 365	483	110	12	5 970	8.36%
	2020	5 231	512	110	12	5 865	8.03%
Pelagoina	2017	7 392	515	131	26	8 064	11.29%
	2020	7 330	512	131	24	7 997	10.95%
Polog	2017	7 612	398	100	8	8 118	11.37%
	2020	7 849	451	101	7	8 408	11.51%
Northeast	2017	3 695	302	82	5	4 084	5.72%
	2020	3 710	302	74	6	4 092	5.60%
North Macedonia	2017	64 546	5 255	1 382	236	71 419	100.00%
	2020	66 013	5 405	1 410	233	73 061	100.00%

Note: \*Including enterprises with an unascertained number of employees.

Sources: Republic of North Macedonia, State Statistical Office (2021<sup>[34]</sup>; 2018<sup>[35]</sup>).

## Assessment

### Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Economy, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Statistical Office of North Macedonia (MAKSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 15 October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Economy. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with North Macedonia was held on 2 December 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for North Macedonia. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in North Macedonia, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft *SME Policy Index* publication and the *Economy Profile of North Macedonia* were made available to the Government of North Macedonia for their review and feedback during February and early March 2022.

### Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 17.4). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes in the last assessment cycle, please refer to Annex A.

**Table 17.4. Description of score levels**

<b>Level 5</b>	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation.
<b>Level 4</b>	Level 3 plus evidence of a concrete record of effective policy implementation.
<b>Level 3</b>	A solid framework addressing the policy area concerned is in place and officially adopted.
<b>Level 2</b>	A draft or pilot framework exists with some signs of government activity to address the policy area concerned.
<b>Level 1</b>	No framework (e.g. law, institution) exists to address the policy topic concerned.

## Entrepreneurial learning and women's entrepreneurship (Dimension 1)

### Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21<sup>st</sup> century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

North Macedonia scored 2.39 for this dimension. During this assessment period, the economy has seen forward development in some areas, notably in the planning and designing of women's entrepreneurship. However, the progress was more limited in the area of entrepreneurial learning resulting in a slightly lower score than in the previous assessment when it achieved a score of 2.48 (Table 17.5).

**Table 17.5. North Macedonia's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.11	3.43
		Implementation	2.42	3.51
		Monitoring and evaluation	1.00	2.73
		<b>Weighted average</b>	<b>2.34</b>	<b>3.33</b>
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	2.60	3.97
		Implementation	2.96	3.83
		Monitoring and evaluation	1.00	3.11
		<b>Weighted average</b>	<b>2.46</b>	<b>3.73</b>
North Macedonia's overall score for Dimension 1			<b>2.39</b>	<b>3.49</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

The lagging development of education and training connected to entrepreneurial learning, as observed during the last assessment period, has continued. Some positive developments include reforms of the VET curriculum, which has seen enhanced inclusion of the entrepreneurship key competence, underpinned by EntreComp. The Innovation and Technology Fund has also introduced new support to expand programmes that foster entrepreneurial learning. Other developments are more limited, with little practical guidance available for teachers and fragmented pre-service and in-service training. There is also no evidence of an expanded focus on career guidance or higher education.

Progress can be seen in women's entrepreneurship with the launch of a new Strategy for Women Entrepreneurship Development (2019-2023) (Government of North Macedonia, 2018<sup>[36]</sup>) alongside a Memorandum of Co-operation between the government and the new National Platform for Women's Entrepreneurship. There is limited evidence, however, of active engagement through this memorandum and no regular monitoring or evaluation of actions set out in the new strategy (Table 17.6).

**Table 17.6. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 1**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Reactivate the established co-ordination mechanisms	There have been no developments during this assessment period in re-establishing co-ordination mechanisms relevant to entrepreneurial learning.	No progress
Build teachers' capacity to provide competence-oriented education	In 2019, the Bureau for Development of Education provided training for 2 000 teachers, and there is more recent evidence of teacher training to support the recent VET curriculum reforms. Wider examples are fragmented and are not system-level.	Moderate
Enhance the ability of career guidance professionals to provide entrepreneurship-oriented advice	There is evidence of integrating career guidance content into VET programmes. Progress does not appear to have been made at other levels of education.	Limited
Establish a formal co-operation mechanism for women's entrepreneurship	Progress has been made through the signing of a Memorandum of Co-operation with the new National Platform for Women's Entrepreneurship formed in 2020 to support the new Strategy for Women Entrepreneurship Development (2019-2023).	Moderate

*A national policy focus on lifelong entrepreneurial learning should be reactivated*

An Entrepreneurial Learning Strategy (2014-2020) (Government of North Macedonia, 2014<sup>[37]</sup>) was developed through a multi-stakeholder approach with the National Partnership for Entrepreneurial Learning. However, there has been no active implementation of this strategy since the last assessment period, and the mandate of the National Partnership expired in 2016. This has had a negative impact on the implementation of wider policies that highlighted this strategy as the main implementation route supporting actions for entrepreneurship education. The entrepreneurship key competence is highlighted within the 2018-2025 Education Strategy (Government of North Macedonia, 2018<sup>[38]</sup>), but there are no concrete actions attached to this area of work and the narrative within this document was linked to the now-defunct Strategy for Entrepreneurial Learning. More recent developments have also included reference to the entrepreneurship key competence.

*The entrepreneurship key competence is not consistently introduced across all levels of education, training policy or curricula*

Entrepreneurship education is delivered through a mix of mandatory or elective courses or as a cross-curricular competence. At the primary level, including lower secondary, the 2021 National Standard for Primary Education for first to ninth grades includes Technics, Technology and Entrepreneurship as the seventh cross-curricular competence area. It states that this competence should be delivered by being transformed into learning outcomes and associated assessment standards and included within most mandatory and elective courses. However, the Innovation course introduced in 2015<sup>1</sup> has been removed from the elective courses mentioned within this standard (Government of North Macedonia, 2021<sup>[39]</sup>).<sup>2</sup> There is a lack of information on how the cross-curricular competence defined in the new National Standard will be practically implemented into primary school teaching and learning through the cross-curricular approach.

In upper secondary education, entrepreneurship education continues to be included in elective courses for the first to third year and as a compulsory course in the fourth year, which is unchanged since the previous assessment period. In VET, the entrepreneurship key competence continues to be included in both professional and career education courses. Recently, this was expanded with the design of a new elective course providing practical entrepreneurial experiences through student engagement in student companies (Centre for Vocational Education and Training, 2021<sup>[40]</sup>), which used EntreComp to assist in developing the entrepreneurial learning outcomes. This offers a link to the themes of social innovation, social entrepreneurship and citizenship and was designed to allow active co-operation with municipalities and

the business sector. The Junior Achievement Company Programme is now accessible for all VET schools.<sup>3</sup> There is limited evidence of new developments within the higher education curriculum.

Alongside these core curriculum approaches, new support for entrepreneurship education has been introduced through the Innovation and Technology Fund, set up by the government to drive innovation activity. The Innovation and Technology Fund also set up The Young Minds Fund<sup>4</sup> to expand education programmes that develop innovation, creativity, and technology skills. It also funded established programmes, such as the innovative UpShift<sup>5</sup> programme, which delivers Sustainable Development Goals impact and social entrepreneurship learning through extra-curricular non-formal education in association with the United Nations Children's Fund (UNICEF); and Junior Achievement,<sup>6</sup> a programme supporting companies run by students in secondary education and VET. Junior Achievement collaborates with system-level stakeholders, including the Ministry of Education and the Bureau for Development of Education, and delivers student company programmes alongside teacher and leadership training. These programmes are not present in all schools, however, and the impact of this work is not reported.

*Practical guidance should support the introduction of entrepreneurship as a cross-curricular competence*

Alongside training, there is a need for system-level guidance to support teachers in the practical implementation of the entrepreneurship key competence as a cross-curricular key competence. Previously, the entrepreneurship key competence was introduced through stand-alone courses linked to innovation and entrepreneurship with textbooks available to support the curriculum.<sup>7</sup> The move to entrepreneurship as a cross-curricular competence entails a new focus on teachers to deliver this within most or all curricular areas, but there is limited evidence of plans to develop practical guidance to support this.

*Pre-service and in-service teacher training to support the entrepreneurship key competence is fragmented*

Training provision has been fragmented at all stages of teacher professional development. There is no current evidence of plans to introduce system-level training available to all teachers to support them in implementing entrepreneurship education. Previously, the Bureau for Development of Education<sup>8</sup> provided training in 2019 for 2 000 teachers on key competences, including the entrepreneurship key competence. Supported by the Innovation Fund, Junior Achievement North Macedonia delivered teacher training, but it was not available to all educators. European Erasmus+-funded initiatives, such as EntreCompEdu, also provided time-limited, online training for teachers during the COVID-19 pandemic.<sup>9</sup> There is no evidence of training available to higher education educators during the assessment period.

There are no clear mechanisms to influence the learning content of pre-service teacher training provision at the system level. The Pedagogical Faculty at the University St. Kliment Ohridski in Bitola includes one obligatory course on innovation and entrepreneurship for trainee teachers who will teach first to fifth grades of primary education.<sup>10</sup> While entrepreneurship is a priority at the education policy level, a learning process to develop an awareness of this key competence and how to implement it in teaching is not yet widely found among pre-service teacher training providers.

*Women's entrepreneurship policy and stakeholder engagement have improved, but more work is needed*

The Strategy for Women Entrepreneurship Development (2019-2023) (Government of North Macedonia, 2018<sup>[36]</sup>) was launched in 2019 with an Action Plan (Government of North Macedonia, 2019<sup>[41]</sup>) supporting these years. Non-government stakeholders were extensively involved in the design of the new strategy, and this strategy presented a significant step forward for the development of this policy agenda in the economy. However, there have been no multi-stakeholder national policy partnership meetings since 2020, and no insight on progress or results has been reported since its launch.

There is an ongoing strong informal partnership bringing together non-government stakeholders. Key stakeholders formed the new National Platform for Women's Entrepreneurship,<sup>11</sup> which was formally launched in May 2021 with support from European funding. In October 2021, the platform signed a formal Memorandum of Co-operation with the Ministry of Economy. This identifies the platform as the main social partner for policy-making and reform processes supporting women's entrepreneurship and identifies actions that the platform will implement to contribute to the implementation of the strategy, including an annual summit and awards for women's entrepreneurship. However, there does not appear to be ongoing engagement, consultation or shared decision making linked to implementing the strategy between the government and platform partners.

*Key statistical data for women's entrepreneurship is not yet disaggregated by gender*

It is not yet possible to identify gender among all population groups working as self-employed individuals or founders at the national level. The Action Plan for Implementing the Strategy for Women Entrepreneurship Development (2019-2023) targets the availability of gender-disaggregated data, addressing the founding of businesses and relevant registers for grants or other financial or non-financial support by 2019 to a complete database for women's entrepreneurship by 2020. This is still outstanding, with the lack of gender-disaggregated data having a significant impact on the evidence base through which decisions to support women's entrepreneurship can be made.

*Strategies relating to women's entrepreneurship and entrepreneurial learning have not been monitored or evaluated*

Across both the strategies for entrepreneurial learning and women's entrepreneurship, there is no evidence of monitoring or evaluation of the progress, results or impact of each strategy. The Entrepreneurial Learning Strategy (2014-2020) does not appear to have been implemented since 2017, and there is no evidence of evaluation since the strategy period ended in 2020. The Strategy for Women Entrepreneurship Development (2019-2023) is more recent, yet no public information is available on the progress of actions in the first few years of implementation. Planned actions, such as improving gender-disaggregated data by 2019, have not been achieved.

### ***The way forward for Dimension 1***

- **Reactivate the previously established policy and co-ordination mechanisms to support consistent development of entrepreneurial learning.** There is a need to create consistency and coherence across the implementation of entrepreneurial learning at different levels of education and ensure that there is a clear progression for learners to build on their development of the entrepreneurship key competence at each stage of their education. To achieve this, there should be clear co-ordination between all providers, both government and non-government, to communicate actions, map activity and share learning on implementation along different levels of lifelong learning, linked to different national strategies and led by different stakeholders. This work should contribute to and work towards a new strategic document shaping the development of lifelong entrepreneurial learning (see Box 17.3 for a relevant example from Montenegro).



### Box 17.3. Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives the co-ordination and development of lifelong entrepreneurial learning, gradually increasing the focus on this policy area and resulting in progress on the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each organisation. The partnership was initially informal, and organisations worked together to place the focus on increasing the profile of lifelong entrepreneurial learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021 as a working group of the National Council for Competitiveness led by the Ministry of Economy.

The previously recognised national policy partnership in North Macedonia brought together a full range of partners and was linked to the national strategy, similar to Montenegro. While a new strategy may not be immediately possible, partners can still be brought together; they can link work to the different strategies that place a focus on actions supporting lifelong entrepreneurial learning, enhance the work of all partners in the field and work toward further recognition of a partnership approach at the national and governmental levels.

Sources: Government of Montenegro (2020<sup>[42]</sup>) and McCallum et al. (2018<sup>[43]</sup>).

- **Provide accessible training courses and guidance for educators on the entrepreneurship key competence across pre-service and in-service training.** Current provision is fragmented, and there is a potential that new policy developments in primary and VET education may not be sufficiently supported without clear educator guidance on implementation alongside comprehensive pre-service and in-service teacher training.
- **Provide formal recognition to a national partnership for women's entrepreneurship to strengthen cross-government and stakeholder engagement and co-ordination.** Women's entrepreneurship is a powerful driver for women's social and economic empowerment. In this light, there should be formal engagement of stakeholders and active informal networks brought together into a recognised national policy partnership involving government and non-government stakeholders. This can be achieved through regular and consistent engagement of the national multi-stakeholder government working group established during the strategy creation process, as well as wider action designed to bring this policy area into the heart of government decision making, such as including a gender-focused social partner linked to women's economic empowerment as an additional national representative engaged in policy dialogue through the National Economic and Social Council.<sup>12</sup>
- **Establish a transparent monitoring and evaluation process to support current and future women's entrepreneurship strategies.** This process should be implemented in line with the proposals in the current strategy, collated annually and reported on publicly, with explanations of where actions are not yet achieved, identifying sources of funding and contributing to an updated action plan to support improved implementation. This work should

be the designated responsibility of a recognised national policy partnership body involving government and non-government stakeholders.

- **Prioritise the introduction of gender-disaggregated data sources to support women's entrepreneurship.** This should implement the actions already defined in the current Strategy for Women Entrepreneurship Development (2019-2023) and should be in line with requirements for harmonisation with Eurostat.

## Bankruptcy and second chance for SMEs (Dimension 2)

### Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In North Macedonia, as in other Western Balkan economies where SMEs represent a large share of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress (OECD, 2021<sup>[44]</sup>).

North Macedonia's performance on bankruptcy and second-chance policies has improved since 2019, mainly due to its simplified bankruptcy reorganisation and liquidation procedures that have started to bring first results. Its overall score improved from 2.49 to 3.03 and is performing at the WBT average (Table 17.7).

**Table 17.7. North Macedonia's scores for Dimension 2: Bankruptcy and second chance**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
<b>Dimension 2: Bankruptcy and second chance</b>	Sub-dimension 2.1: Preventive measures		<b>2.80</b>	<b>2.74</b>
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.30	3.47
		Performance, monitoring and evaluation	3.40	3.23
		<b>Weighted average</b>	<b>3.36</b>	<b>3.38</b>
	Sub-dimension 2.3: Promoting second chance		<b>2.00</b>	<b>1.96</b>
<b>North Macedonia's overall score for Dimension 2</b>			<b>3.03</b>	<b>3.03</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

North Macedonia has made progress since the 2019 assessment. In March 2021, the economy completed a new draft of the Insolvency Act (Government of North Macedonia, 2021<sup>[45]</sup>) in co-operation with the World Bank's International Finance Corporation (IFC), which is planned to be enacted in 2022. The draft act features some positive developments, such as introducing preventive measures (pre-insolvency restructuring proceedings and an early warning system) and includes provisions for shortened and simplified bankruptcy proceedings for SMEs. However, it does not refer to SMEs' access to a second chance (Table 17.8).

During the assessment period, the Government of North Macedonia introduced interim economic response measures to deal with the COVID-19 crisis (Government of North Macedonia, n.d.<sup>[46]</sup>). In particular, it made it impossible for a debtor to initiate a bankruptcy procedure during the state of emergency and six months afterwards. The government also amended the Law on Obligations by regulating default interest rates (OECD, 2020<sup>[47]</sup>). In addition, it revised the credit risk regulation to encourage banks to temporarily restructure loans and relaxed the loan classification standards for non-performing loans. According to the

State Statistical Office of North Macedonia, the number of concluded bankruptcies has been declining, while reorganisation remains an underused alternative (Table 17.9).

**Table 17.8. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 2**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Develop a fully-fledged early warning system</b>	A fully-fledged early warning system is not implemented yet. However, the new draft proposal for the Insolvency Act includes its definition and a regulatory basis to develop it.	Moderate
<b>Finish drafting and implement the insolvency framework recommended by the IPA Project</b>	The Bankruptcy Department at the Ministry of Economy of North Macedonia, supported by IFC/World Bank, drafted a new bankruptcy act. The public discussion procedure on the draft act was completed at the end of March 2021. Final discussion on the law is to be conducted in parliament.	Moderate
<b>Conduct awareness campaigns to promote out-of-court settlements as a less expensive alternative to file for bankruptcy</b>	No public awareness campaigns on promoting the benefits of out-of-court settlements were conducted during the assessment period. However, due to the COVID-19 pandemic, the government introduced interim measures to halt bankruptcy enforcement, limiting the potential impact/validity of this recommendation for the 2022 assessment.	n.a.
<b>Enhance monitoring and evaluation processes of bankruptcy and second-chance policies</b>	No changes have been introduced in monitoring and evaluation during the assessment period. However, monitoring and evaluation procedures are expected to be introduced as sub-law regulations of the new draft act.	No progress
<b>Introduce policy measures granting a second chance for honest entrepreneurs</b>	Second-chance policies for honest entrepreneurs were not developed during the assessment period. The legal framework still does not distinguish fraudulent bankruptcies from honest ones.	No progress

Note: n.a.: not applicable.

**Table 17.9. Number of concluded bankruptcies and reorganisations in North Macedonia, 2017-21**

	2017	2018	2019	2020	2021
Number of concluded bankruptcies	1 853	1 054	826	508	616
Number of reorganisations	14	18	5	5	9

Note: It should be noted that the lower cases in 2020 and 2021 could be due to the economic response measures adopted during the COVID-19 pandemic.

Source: Information provided by the government in the SME Policy Index 2022 questionnaire.

### *The insolvency legal framework has been gradually improving*

North Macedonia's insolvency legal framework is based on the 2006 Insolvency Act, as amended until 2013, and the 2014 Law on Out-of-Court Settlement, which reflects best practices summarised in the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law (UNCITRAL, n.d.<sup>[48]</sup>). Bankruptcy proceedings may be initiated with regard to a debtor's property but may not be implemented with regard to a public legal entity or property owned by the state.

An accelerated out-of-court settlement procedure is currently available only "for small values", which does not require the appointment of a board of creditors if the value of a debtor's bankruptcy assets is under MKD 1 million (approximately EUR 16 200) and SMEs with fewer than ten employees. However, the number of beneficiaries has not been collected during the assessment period indicating that the use and efficiency of the accelerated settlement are yet to be determined. The shortened procedure must end within 60 days of its initiation and does not require the appointment of an insolvency practitioner.

The current framework allows a reorganisation procedure when the debtor is insolvent or where its inability to pay is imminent. The reorganisation plan does not require a pro-vote – instead, a judge convenes the creditors’ assembly to discuss and vote on the proposed reorganisation plan. Alternatively, a plan may be filed after the main insolvency proceedings have been opened, at the latest, within 15 days prior to holding the first creditors’ assembly (EBRD, 2021<sup>[49]</sup>). Moreover, if the creditors decide to liquidate the company, the bankruptcy assets are sold by e-auction.

North Macedonia is the only economy in the region that digitalises liquidation procedures (Box 17.4).

#### Box 17.4. The digitalisation of bankruptcy liquidation procedures in North Macedonia

The 2015 amendment of the Insolvency Act in North Macedonia introduced the option of e-auction sales of assets from bankruptcy estates. Following seven years of implementation of e-auction sales, evidence shows that the amount of time taken by bankruptcy liquidation procedures has decreased, and creditors’ claims recovered at best market rates.<sup>1</sup> The main sale principles are defined in Articles 98-100 and Articles 189-196 as follows:

- The sale of the assets from the bankruptcy is done through e-auctions with public bidding.
- Parties interested in participating in e-auctions are required to pay a 10% bond/deposit of the book value of the asset. They then receive a Participant ID with which to bid. The ID is anonymous.
- The e-auction starts at a previously announced time and finishes in 30 minutes. All participants are automatically and electronically informed of the results of the auction.
- Two additional e-auction rounds can take place for any unsold assets. The process must be completed within 90 days of the decision on the sale of assets from the bankruptcy estate.
- The parties in the e-auctions have the right of appeal, which is resolved by a bankruptcy judge within three days of filing the appeal in court and is final.
- The shares of publicly traded companies from the estate are sold on the stock exchange.
- The initial price of an asset for bidding is not announced, and the auction starts from zero price.
- A proposal for the partial distribution of proceeds from the sale of assets may be submitted within eight days, upon completion of the e-sale, to the Board of Creditors to approve the costs of the procedure and distribution to creditors.
- There is an option for appeal on advance partial e-auctions and on final distribution to a bankruptcy judge, which is resolved by the judge within three days of filing the appeal in court and is final.

1. The time to resolve insolvency decreased from 1.8 years in 2016 to 1.5 years in 2020. The recovery rate increased from 44.6 cents on the dollar in 2016 to 48 cents on the dollar in 2020.

In February 2021, the government initiated a public discussion procedure for the new draft of the Insolvency Act (hereafter, the “new draft act”), developed with the support of the IFC and harmonised with the latest EU Directive 2019/1023 on preventive restructuring frameworks (European Commission, 2019<sup>[50]</sup>). The new draft act aims to establish a more efficient insolvency system by improving the regulatory framework, particularly by encouraging companies with difficulties to try to negotiate temporary debt relief and out-of-court debt settlement arrangements (Konstantinovic & Milosovski, 2021<sup>[51]</sup>). It also foresees the creation of an insolvency register under the Central Registry, the development of a code of ethics for bankruptcy administrators and professional standards for the management of the bankruptcy estate.

The new draft act introduces a new reorganisation procedure, where a plan can be proposed by a solvent debtor who faces imminent insolvency or by a creditor who has the prior consent of the debtor. The procedure provides a moratorium on enforcement of creditors' claims during the pre-insolvency procedure and is designed to be completed within 90 days from its initiation and can be prolonged for a maximum of another 30 days. The plan may perform financial restructuring of the debtor's venture, like debt-equity swaps, aimed at more favourable conditions for recovery of the creditors' claims. The reorganisation plan confirmed by the court is valid for all creditors (those who voted for the plan and those who did not).

This new pre-insolvency procedure is envisaged as an alternative measure to avoid liquidation. It is a hybrid proceeding in which the court approves the negotiated settlement between the creditors. An appeal may not be filed against the court confirmation. This aims to resolve problems encountered in other economies, such as Croatia, which has introduced pre-insolvency settlements between a debtor and its creditors that could be later annulled in a voiding procedure before the court (Maganic, 2015<sup>[52]</sup>).

With the introduction of this proceeding, North Macedonia's legal framework will provide access to two alternative restructuring proceedings for SMEs experiencing financial difficulties: 1) the existing out-of-court settlement (OECD et al., 2019<sup>[53]</sup>); and 2) the new hybrid pre-insolvency reorganisation.<sup>13</sup>

#### *Preventive measures are being included in the new legislative framework*

The new draft act includes the definition of an early warning system. Article 7 states that once a month, the Ministry of Economy will publish on its website a list of companies that have not made certain payments. The data collection will be made through various institutions, such as the Public Revenue Office or the Pension Insurance Fund. Following the publication of the data, the law states that the MoE will provide advisory services to the companies/debtors in financial difficulty. The implementation of preventive measures initiatives continued during the assessment period. The Agency for the Promotion of Entrepreneurship continued to provide mentoring services under the programme co-funded by the Japan International Co-operation Agency (JICA). As of 2019, 44 newly established SMEs<sup>14</sup> and 79 SMEs older than 3 years have received mentoring support, while 17 mentors have been trained and obtained the authorisation to work as mentors (APP, 2020<sup>[54]</sup>). These services aimed to increase SMEs' sustainability, competitiveness and improve their financial management, thus indirectly contributing to preventing their insolvency.

#### *Second-chance programmes for failed entrepreneurs are still lacking*

There have been no developments regarding second-chance programmes to secure the reintegration of honest entrepreneurs back into the economy. Debt discharge regulation in the new draft act has not evolved, and the existing policy has not changed, leaving SMEs with no access to a second chance. Furthermore, the debt discharge is currently possible only for sole-trader debtors and does not apply to SMEs. Moreover, the maximum time of full discharge is set to six years, which is a considerably long timeframe for entrepreneurs.

In addition, although the Strategy for the Development of Micro, Small and Medium-Sized Enterprises in North Macedonia (2018-2023) (Ministry of Economy, 2018<sup>[55]</sup>) highlights the importance of second-chance policies, it failed to suggest measures that would promote a second chance for honest entrepreneurs. Namely, the first two elements of its special "Programme 1.2 simplification of legal and regulatory environment" under Pillar I "Favourable business environment" (which are "1. Update of insolvency legislation; and 2. Establishment of an early warning system for SMEs and entrepreneurs with financial difficulties") were completed through the finalisation of the new draft act, whereas second chance remains neglected.



## The way forward for Dimension 2

- **Finalise the adoption of the draft Insolvency Act.** The current draft Insolvency Act tackles many regulatory gaps. Therefore, the government should accelerate its adoption, initially planned for early 2022. Following the implementation of the draft Insolvency Act, the legislature should carry out an evaluation and address potential legal gaps.
- **Widen the scope of simplified bankruptcy proceedings for SMEs.** The current Insolvency Act and the new draft act provide limited simplified treatment only if a debtor's bankruptcy assets are under MKD 1 million (approximately EUR 16 200) and the SME has fewer than ten employees. Increasing the threshold and the size of businesses would allow more SMEs to benefit from simplified proceedings and reduce court case duration and administrative burden. In addition, the government needs to ensure that administrative proceedings are financially affordable for SMEs and the procedure is further simplified, e.g. re-evaluating the need for creditor committees for some cases (Box 17.5). Simplified and fast-track procedures are even more relevant in the aftermath of COVID-19 as they allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment.
- **Promote second chance for SMEs and honest entrepreneurs.** The debt discharge is currently possible only for sole-trader debtors. The government should widen the scope and establish clear rules for debt discharge, particularly for SMEs, as is an example of good practice in the United States (Box 17.5). Moreover, the law should clearly distinguish fraudulent from honest entrepreneurs to allow for a quicker reintegration of honest entrepreneurs into the economy.

### Box 17.5. US Bankruptcy Code Subchapter V: Small Business Reorganisation

In 2019, the United States adopted a new subchapter of its Bankruptcy Law, which regulates the Small Business Reorganisation Act (SBRA), where “small-business debtor” is broadly defined as a “person engaged in commercial or business activities that has aggregated non-contingent liquidated secured and unsecured debts as of the date of the filing of the petition in an amount not more than USD 2 725 620; exclusion from this rule is available for businesses with aggregated debt of up to USD 7.5 million due to COVID-19 Interim measures.”

The new legislation comes at the time of COVID-19 to strike a balance between formal Bankruptcy Liquidation (Chapter 7) and Bankruptcy Reorganisation (Chapter 11) proceedings for small business debtors. The act lowers costs and streamlines the plan confirmation process to better enable small businesses to survive bankruptcy and retain control of their operations. The US SBRA significantly simplifies the court proceeding and places a maximum of three or five years of disposable income to be paid under the confirmed plan throughout the life of the plan's implementation. Initial statistics show that two-thirds of all filed Chapter 11 formal Court Reorganisations were transferred to SBRA filings. Initial data confirm that 80% of all filed plans are confirmed in 120 days.

#### Main principles

- No one but the debtor engaged in a non-publicly traded business activity (except if it complies with the aggregated debt level threshold defined in the law) can file a petition for small business reorganisation.
- No US trustee quarterly fees are paid.
- No exclusions in the proceeding: the debtor must file a plan within 90 days.
- No creditor committees: Creditor committees will not be appointed in Subchapter V cases unless ordered by the Bankruptcy Court for cause.

- No competing plans: The debtor has the exclusive right to file a plan, which must be filed within 90 days from the date of the bankruptcy petition unless extended for cause.
- No absolute priority: The debtor need not comply with the “absolute priority rule”, which generally prohibits the owners from retaining equity unless all creditors are paid in full. A plan may be confirmed over the objection of one or more impaired classes of creditors. In order to obtain confirmation through a “cram down”,<sup>1</sup> a debtor need only demonstrate that the plan is fair and equitable, does not unfairly discriminate and provides for the debtor’s contribution of all of its projected disposable income.
- No disclosure statements: Disclosure statements are not required, although the plan must include information typically found in a disclosure statement, including a summary of historical operations, liquidation analysis and projections demonstrating an ability to make payments under the plan.
- No enforcement is allowed against the implementation of a cram down or a non-consensual confirmed plan, until the court case file is not closed (between three and five years from the plan confirmation).
- The debtor is in possession of its business, and the bankruptcy administrator only assists in assessing the viability of the business and facilitates the development of a consensual plan to reorganise the business.
- The appointed bankruptcy administrators have strong business qualifications and include lawyers, restructuring consultants and financial advisers with diverse backgrounds in such areas as business, law, accounting, turnaround management and mediation.
- Deferral of administrative expense payments: Administrative expenses that typically must be paid upon the effective date of the plan may be deferred over the life of the plan for up to five years.
- Discharge provisions: If the plan is confirmed with the consent of all affected creditors, the debtor will receive a discharge of its debts upon plan confirmation. For plans confirmed through “cram down”, the discharge will take effect when all of the payments called for under the plan are made.
- Residential mortgage modification: The SBRA authorises a small-business debtor to modify a residential real estate mortgage to the extent that proceeds from the loan were used to fund the business, a form of relief previously unavailable under the Bankruptcy Code.

1. A cram down is the imposition of a bankruptcy reorganisation plan by a court despite any objections by certain classes of creditors. A cram down involves the debtor changing the terms of a contract with a creditor with the help of the court. This provision reduces the amount owed to the creditor to reflect the fair market value of the collateral that was used to secure the original debt.

Source: Bonapfel (2021<sup>[56]</sup>).

## Institutional and regulatory framework for SME policy making (Dimension 3)

### Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. This is why, when designing policies that impact the private sector, policy makers should take into account the unique needs of SMEs, especially given their importance for the economy in terms of employment, value added and business demographics.

In North Macedonia, SMEs represent an important share of employment (73.9% in 2020) and value added (67.9% in 2020), both of which are higher than the EU average (MAKStat, 2021<sup>[2]</sup>). It is thus particularly important to “think small first” when designing and implementing SME policies. The COVID-19 pandemic has further exacerbated challenges that Macedonian SMEs face, such as high levels of informality and a heavy administrative burden.

At 3.79, North Macedonia’s score for Dimension 3 has deteriorated very slightly since the previous assessment (when it was 3.86), mainly due to a lack of progress in monitoring and evaluation for regulatory impact assessment (RIA) and the lack of a plan for consistent and monitored legislative simplification (Table 17.10). However, North Macedonia has slightly improved its performance in some areas, such as in the overall policy framework, by including elements such as SME greening and innovation into its recovery plan.

**Table 17.10. North Macedonia’s scores for Dimension 3: Institutional and regulatory framework for SME policy making**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.70	4.28
		Implementation	3.80	3.96
		Monitoring and evaluation	3.28	3.81
		<b>Weighted average</b>	<b>3.97</b>	<b>4.03</b>
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.10	3.84
		Implementation	3.00	3.47
		Monitoring and evaluation	2.70	2.95
		<b>Weighted average</b>	<b>3.27</b>	<b>3.48</b>
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.56	4.00
		Private sector involvement in PPCs	4.32	3.92
		Monitoring and evaluation	2.60	3.10
		<b>Weighted average</b>	<b>4.07</b>	<b>3.79</b>
North Macedonia's overall score for Dimension 3			<b>3.79</b>	<b>3.79</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

The COVID-19 pandemic forced North Macedonia to reorient resources initially allocated to the implementation of its SME Strategy (2018-2023) towards more immediate support for SMEs. Despite the delays caused by this development, concrete actions, such as a mapping of para-fiscal charges, have been carried out and the implementation of the policy framework has continued. An increase in financial resources for the SME implementation agency should allow it to pursue its agenda with more independence and consistency. The government has also adopted a plan for economic recovery seeking

to meaningfully support SMEs in their green and digital transitions. However, issues remain with the consistent and effective application of RIAs and PPCs, as both policy tools lack effective quality control (Table 17.11).

**Table 17.11. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 3**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure effective implementation of the SME Strategy given its wide-ranging and ambitious objectives and measures	As recommended in the previous assessment, the government strengthened the co-ordination of the strategy's implementation by establishing a co-ordination body in June 2019. While the implementation of the SME Strategy (2018-2023) advanced, important delays have been recorded as a result of the COVID-19 pandemic.	Moderate
Enhance the quality of the public-private consultation (PPC) process	Although the frequency that the government posts calls for PPCs on the dedicated online portal has improved and the share of laws passed by urgent procedure has somewhat declined since 2019, significant issues related to PPC quality control, transparency and regularity remain.	Limited

*Despite delays, the implementation of the SME policy framework has continued, and institutional co-ordination of its implementation has been strengthened*

North Macedonia continued to implement its SME Strategy (2018-2023) during the assessment period. Although the COVID-19 pandemic and subsequent reallocation of resources caused a delay in the implementation of the strategy – namely almost a third of the activities foreseen by the Action Plan for 2018-2020 were not implemented – several key objectives, such as strengthening co-ordination and implementing measures to improve the business environment, were achieved.

As recommended in the 2019 assessment, North Macedonia has strengthened the co-ordination of the implementation of the SME Strategy (2018-2023) by establishing a co-ordination body in June 2019. Under the leadership of the Ministry of Economy, this body is composed of members of the various ministries and public bodies responsible for implementing the strategy as well as representatives of chambers of commerce. While the co-ordination body monitors the strategy's implementation and reports on its progress to the government, these reports are internal and are not publicly available.

Implementation of North Macedonia's Strategy for the Formalisation of the Informal Economy (2018-2022) has continued, with reforms related to SMEs focusing on increasing incentives for businesses to operate formally, such as streamlining the registration and tax declaration process and rationalising charges. However, implementation of the strategy and its action plans has also experienced delays. Given North Macedonia's large informal economy, estimated to represent around 37% of GDP and taking on multiple forms,<sup>15</sup> the negative effects on businesses and society are significant (European Commission, 2021<sup>[57]</sup>).

*Financial support to SME support programmes has increased, and a new framework for supporting the COVID-19 recovery has been adopted*

The main implementation body for SME policies, the Agency for the Promotion of Entrepreneurship, saw its budget for support programmes for SMEs increase since the last assessment. Namely, the resources allocated to the voucher system for subsidised counselling rose by 79%, from around EUR 14 500 in 2018 to approximately EUR 26 000 in 2021, while the resources allocated to mentoring services for SMEs

increased more than threefold, from around EUR 9 700 to approximately EUR 35 600 over the same period. This increase is welcome and should continue so as to lessen the Agency for the Promotion of Entrepreneurship's dependence on international development co-operation partners' funding and allow for continued, focused support to SMEs in line with North Macedonia's policy goals.

To strengthen government support for recovery from the COVID-19 crisis, North Macedonia adopted the Plan for Accelerated Economic Growth (2022-2026). Through a variety of financial instruments and implementing bodies, the plan focuses strategic investments in areas that will accelerate the greening, innovative growth, digitalisation and the growth of human capital of North Macedonia's economy. SMEs are specifically mentioned as target beneficiaries of the plan's support programmes in these key areas.

While data are collected on SME innovation (through North Macedonia's participation in the Community Innovation Survey), there is room for improvement in data collection on SME digitalisation and information and communication technology (ICT) use and for indicators related to SME greening and bankruptcy. The continued development of SME-specific data collection will be key to evaluating the success of North Macedonia's ambitious support plans for SMEs in these policy areas.

*Efforts have been made to simplify the business environment, but a more systemic approach is lacking*

In consultation with the private sector, seeking to further simplify the business environment for SMEs, the government of North Macedonia carried out a mapping of the various para-fiscal charges due by SMEs. This exploratory analysis, conducted in December 2019, identified 377 para-fiscal charges due by SMEs to various institutions at the local and central levels. The Ministry of Economy presented the findings to the government and encouraged the different line ministries to rationalise or remove the charges where possible, in line with the government's aim to improve the business environment and increase incentives for businesses to operate formally. However, the level of para-fiscal burden has not yet decreased, and the government has not yet developed a methodology to better control the future introduction of para-fiscal charges, something which the private sector (through the Chamber of Economy of North Macedonia) has voiced as a priority.

Although this progress is encouraging and steps have been taken to promote entrepreneurship and facilitate business registration (see Dimension 4) in line with the relevant policy documents, such as the SME Strategy (2018-2023) and the Formalisation of Informal Economy Strategy, a comprehensive plan for amending and repealing legislation to improve the business environment is lacking.

*The effective use of regulatory impact assessments to pre-emptively measure the impacts of policies on SMEs remains a challenge*

As in the previous assessment, RIA is mandatory for all primary legislation in North Macedonia, provided it undergoes the regular legislative procedure. In practice, however, there is significant room for improvement regarding the consistent application of RIA, as in 2020, only around half of the draft laws subject to RIA were submitted to the government with an RIA report. Furthermore, the fact that line ministries most often conduct RIA towards the end of the policy-making process limits its potential usefulness (OECD, 2021<sup>[58]</sup>).

Despite slight improvements in the quality of RIA conducted since the last assessment, the overall quality of RIA in North Macedonia leaves significant room for improvement. While problems, policy objectives and reasons for state intervention are generally adequately defined, challenges persist in properly analysing options and calculating costs and benefits (OECD, 2021<sup>[58]</sup>). This lack of capacity for conducting the quantitative aspects of RIA is particularly troublesome for SMEs since they are often disproportionately affected by compliance costs compared to larger companies, which have more resources and thus more capacity to adapt to changes in the regulatory landscape. Although the government planned to introduce an SME Test<sup>16</sup> into the RIA methodology through the SME Strategy (2018-2023), this has not yet been

done. Furthermore, according to the government, SME aspects are considered in less than a quarter of RIAs that are conducted, chiefly due to the aforementioned limited capacity for conducting options analysis and cost-benefit analysis.

The Ministry of Information Society and Administration, charged with carrying out the quality control of RIA, is limited in its capacity to effectively fulfil this task. While it provides line ministries with opinions and guidance on how to improve RIA, this feedback is not binding and there is no guarantee that line ministries will always submit RIA for the Ministry's opinion consistently (OECD, 2021<sup>[58]</sup>). The Ministry is planning to conduct a survey of the public administration to identify the main challenges faced when conducting RIA across various line ministries, which can be considered a positive step in monitoring and evaluation of RIA's use across the government. The Ministry also conducts regular aggregate reporting on the use of RIA in the public administration, but this reporting is limited to analysing the respect of ministries' obligations to conduct RIA and does not look at the quality of RIA conducted across various ministries. Activities to improve RIA are limited in their scope, and could be broadened and intensified (OECD, 2021<sup>[58]</sup>).

*Despite encouraging efforts to strengthen public-private dialogue, the quality of public-private consultations could be improved*

With the aim of better engaging the private sector in the policy-making process, the Government of North Macedonia, through a memorandum of understanding with four chambers of commerce, established a platform for public-private dialogue as a forum for reviewing legislative proposals and discussing topics raised by the private sector. As part of this platform, an online portal for public-private dialogue (<https://biznisregulativa.mk>) was created (Box 17.6). This portal allows private-sector stakeholders to submit position papers for consideration by the government, and hosts events to further engage the private sector. The National SME Association, which the government planned to establish as part of the SME Strategy (2018-2023) to strengthen the voice of SMEs in public-private dialogue, has not been established.



### Box 17.6. North Macedonia's Biznisregulativa.mk portal for public-private dialogue

With the aim of better engaging the private sector in the policy-making process, the government of North Macedonia, through a memorandum of understanding between itself and four chambers of commerce, established a platform for public-private dialogue as a forum for reviewing legislative proposals and discussing topics raised by the private sector. As part of this platform, the government and the chambers of commerce established an online portal (<https://biznisregulativa.mk>) to allow businesses and their representatives to submit policy proposals and opinions to the government.

The portal allows private sector stakeholders to submit position papers for consideration by the government. The platform for public-private dialogue also hosts formal meetings and events to further engage the private sector in the public dialogue. Since its creation, the Biznisregulativa portal has been quite active, with over 80 position papers submitted between 2018 and 2020 and more than 50 events organised, hosting over 1 000 participants, the majority of which were small and medium-sized enterprises.

Some examples of position papers submitted include requests for wage subsidies and tax exemptions related to the COVID-19 pandemic and suggestions for amendments to the draft Law on Waste Treatment. The platform for public-private dialogue and Biznisregulativa can serve as an example to other economies in the region of a platform that allows businesses to engage governments proactively, instead of the other way around, which is the usual approach (through mandatory public-private consultations), allowing the business community to propose policies directly and make their needs heard.

Source: Information provided by the government of North Macedonia. For more information, see: <https://biznisregulativa.mk>.

Despite efforts to strengthen public-private dialogue, significant challenges remain in ensuring the inclusiveness and effectiveness of the overall PPC process. First, while the share of legislation that is adopted through urgent procedure has decreased in recent years, it remains very high (around 42% in 2020) (European Commission, 2021<sup>[57]</sup>). This means that a significant share of legislation is adopted while bypassing the requirements for RIA and PPCs, limiting the extent to which stakeholders can voice their views on policy issues that could potentially have an impact on them. Moreover, although the frequency of the use of the single National Electronic Register of Regulations as an online portal for PPCs has somewhat improved since the last assessment, the portal is still underutilised, and line ministries' use of it is not consistent (European Commission, 2021<sup>[57]</sup>; OECD, 2021<sup>[58]</sup>). A key challenge in ensuring the effective application of PPCs in North Macedonia is that there is no systematic quality control or monitoring mechanism of the PPC process, meaning that the government cannot effectively identify and respond to the main challenges that various line ministries face in conducting effective PPCs (OECD, 2021<sup>[58]</sup>).

### *The way forward for Dimension 3*

- **Strengthen quality control of regulatory impact assessment and improve its monitoring and evaluation.** To fulfil its role effectively, the Ministry of Information Society and Administration, in its capacity for ensuring quality control of RIA, should be vested with the ability to return RIA that are incomplete or of unsatisfactory quality to line ministries, with the aim of making its feedback binding or at least mandatory for consideration. Estonia can provide an example of good practice, as the Ministry of Justice of Estonia has the formal right to return RIA to line ministries if their quality is judged insufficient.<sup>17</sup> Regular, publicly available reporting on the use of RIA and its adherence to quality standards would allow the government to identify

where efforts to improve capacities for conducting effective RIA should be concentrated, as well as to measure progress between different line ministries. The reports prepared by the Ministry of Finance of Montenegro can serve as an example of good practice (Box 17.7).

### Box 17.7. Montenegro's reports on the quality application of regulatory impact assessment

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and progress made in improving its quality.

As in some other economies in the WBT region, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders, and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made in these different areas compared to previous years.

In its latest report, the Ministry identified that 68% of RIAs conducted in 2020 were "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders, and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA in these areas.

The other WBT economies would benefit from making their reports on the use of RIA more analytical, as the key to effective use of RIA as a policy-making tool lies beyond respect for formal requirements, requiring regular measurement of policy makers' ability to conduct detailed, evidence-based analysis in several areas.

Source: Montenegrin Ministry of Finance and Social Welfare (2021<sup>[59]</sup>).

- **Introduce monitoring and evaluation and reinforce the quality control of public-private consultations.** A dedicated institution (for instance, the Ministry of Information Society and Administration, or a centre-of-government institution) should be given a leading role in co-ordinating institutions' adherence to quality standards for PPCs, with the aim of harmonising the consistent use of PPCs across all relevant institutions. Regular and publicly available reporting can help measure the frequency of PPCs, their adherence to quality standards, as well as stakeholder engagement. A survey of the public administration to identify the main difficulties institutions have in conducting effective PPCs could also be a useful tool and could even be integrated into the aforementioned reporting system. Albania provides an example of good practice from the region when it comes to monitoring and evaluating the performance of the PPC system (Box 17.8).

### Box 17.8. Albania's reporting on public-private consultations

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

Starting in 2021, every six months, line ministries publish reports summarising the PPCs that they have held. The reports are available on the online PPC portal (<https://konsultimipublik.gov.al>) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

North Macedonia could take inspiration from this system, as it would allow the government to measure the consistency of ministries' use of PPCs, but also the quality of the overall PPC process across different ministries.

Sources: Reports available on Albania's online portal for PPCs: <https://konsultimipublik.gov.al>; Council of Ministers of Albania (2021<sup>[60]</sup>).

## Operational environment for SMEs (Dimension 4)

### Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which they have to navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' abilities to operate, take advantage of market opportunities efficiently and grow.

For an economy like North Macedonia, which was heavily impacted by the COVID-19 pandemic, increasing the availability of digital services for SMEs – including business registration and licensing – as well as improving the efficiency of administrative procedures – including tax compliance procedures – will be key to improving the operational environment by saving time and resources.

North Macedonia's performance in Dimension 4 remained relatively comparable to one from the previous assessment (when it scored 3.52) (Table 17.12). In the area of digital government services for SMEs, North Macedonia's score has remained constant (3.20 in 2019) due to a slow rollout of digital government services for SMEs and a limited progress in monitoring and evaluation. While there has been almost no change in North Macedonia's performance in company registration, progress has been achieved in streamlining business licensing, which rose from 3.35 in 2019 to 3.75 in 2022.

**Table 17.12. North Macedonia's scores for Dimension 4: Operational environment for SMEs**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.40	4.28
		Implementation	3.27	3.33
		Monitoring and evaluation	1.73	2.48
		<b>Weighted average</b>	<b>3.22</b>	<b>3.40</b>
	Sub-dimension 4.2: Company registration	Planning and design	4.85	4.42
		Performance	3.80	3.93
		Monitoring and evaluation	4.80	4.06
		<b>Weighted average</b>	<b>4.62</b>	<b>4.18</b>
	Sub-dimension 4.3: Business licensing	License procedures	3.65	3.88
		Monitoring and streamlining of license system	3.85	3.73
		<b>Weighted average</b>	<b>3.75</b>	<b>3.80</b>
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
North Macedonia's overall score for Dimension 4			3.49	3.64

### State of play and key developments

Throughout the assessment period, North Macedonia made efforts to improve the rollout of digital government services for businesses. A new national portal for digital services has been established, greatly improving the ease of access for key services. North Macedonia has also strengthened its legal framework for the provision of digital services and the use of e-signatures through the adoption of three new laws. However, the overall level of availability of digital services remains low. Positive developments were

observed in the increasing amount of available open data, while more could be done to promote its reuse by the business community. While the company registration framework is well-designed, qualified electronic certificates,<sup>18</sup> issued by certified providers, are required to register a company on line, which increases the cost of the process and presents a technical barrier for some businesses. Along with the review of all para-fiscal charges, business licences are being streamlined and centralised on the digital services portal, which should increase their accessibility, transparency and predictability. Low-paid self-employed entrepreneurs can bear a high effective tax burden because of the way social security contributions (SSC) are designed. However, they can benefit from simplified tax regimes that reduce their tax burdens as well as their tax compliance costs. North Macedonia has implemented simplified tax administration procedures for SMEs and e-services for tax purposes are widely used (Table 17.13).

**Table 17.13. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 4**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Continue to centralise and expand digital services, allowing SMEs to complete all processes on line</b>	While the upgrade of the government's digital services portal ( <a href="https://uslugi.gov.mk">https://uslugi.gov.mk</a> ) is an encouraging step forward in the centralisation of digital services, many services remain purely informational, and the rollout of increasingly digitalised services is slow.	Moderate
<b>Increase efforts to improve the monitoring and evaluation of digital services</b>	No progress has been made on this front.	No progress
<b>Continue efforts to centralise company registration and licensing under one-stop-shops</b>	While business licensing is being integrated into the new digital services portal, there are no plans to include company registration.	Limited
<b>Regularly monitor and evaluate tax simplification measures</b>	North Macedonia implemented comprehensive measures to ease tax compliance for businesses during the COVID-19 crisis, including for SMEs, and is supporting the economic recovery through targeted tax measures. E-filing is widely used in North Macedonia, which is an effective measure to reduce compliance costs for SMEs. North Macedonia could use its business tax returns more effectively to evaluate from a tax policy perspective the tax burden that businesses face, as well as the functioning and design of the procedures that aim to simplify tax compliance for SMEs.	Moderate

*Although a new online portal has improved the centralisation of digital services, many more services remain to be digitalised*

In December 2019, the government launched an updated digital services portal (<https://uslugi.gov.mk>) to centralise the services offered on the domains of various institutions to improve the accessibility and efficiency of service delivery. Initially providing access to services for citizens only, from July 2021, the portal also provides access to services for businesses. While this is certainly an improvement, and the number of available digital services and users continues to grow, many of these services remain purely informational and cannot be completed fully on line, with businesses being able to complete only 26 services for legal entities fully on line, out of the 184 on the portal. Moreover, only 18% of total public services were accessible on the portal in 2020, leaving room for improvement regarding the centralisation of service access (Ministry of Information Society and Administration, 2020<sup>[61]</sup>).

A key issue in the consistency of the rollout of digital government services across different administrations is the lack of a harmonised approach and overall ownership of digital services by a single institution, as each institution is responsible for the development of its own services. This means that institutions develop services unevenly. Some digital services, such as taxation, are thus more digitalised and accessible than

others. This has been recognised as a challenge, and the government has formed two working groups, the first of which is co-ordinated by the Cabinet of the Prime Minister and aims to review legislation and address the reluctance of some administrations to digitalise their services and practices. The other working group is co-ordinated by the Ministry of Information Society and Administration and aims to lay the technical groundwork for increased digitalisation of government services (OECD, 2021<sup>[58]</sup>). The Ministry drafted guidelines for the modernisation of services and service delivery standards, which should help establish common standards for digital services. However, these guidelines have not yet been adopted.

Businesses' satisfaction with digital services declined from 56% in 2017 to 41% in 2021 (Regional Cooperation Council, 2021<sup>[62]</sup>), highlighting the urgency of accelerating the rollout of fully digitalised services for businesses in North Macedonia. The Public Administration Reform Strategy (2018-2022) foresees the introduction of monitoring and evaluation of the performance of digital services provided through the digital services portal, but this has not yet been implemented. The government, therefore, cannot properly measure the success of the digital services which are rolled out. The process of digitalising public services is an excellent opportunity to ensure that public services are adapted to the end needs of businesses and that rather than simply transposing the same administrative processes into a digital format, focus is given on how digitalisation can make services more efficient and save time and resources for businesses. North Macedonia is at an early stage of the rollout of its digital services, and this can be an advantage as it would allow the government to take a more proactive approach to re-engineering digital services.

*The legal framework for enabling the delivery of digital services has been strengthened, but implementation has yet to follow*

In 2019, North Macedonia passed several laws with a view to strengthening the legal framework necessary for the key enablers of digital government services for citizens and businesses. The Law on the Central Registry of Population and the Law on Electronic Management and Electronic Services were adopted to facilitate the interoperability of data between public institutions, while the Law on Electronic Documents, Electronic Identification and Trust Services gives equal legal value to electronic documents and e-signatures as traditional documents and signatures (OECD, 2021<sup>[58]</sup>).

The government is working on a draft National ICT Strategy, which should target accelerating the digitalisation of public services, advancing interoperability and improving the management of public digital infrastructure through the establishment of a Digital Agency of North Macedonia. While the development of a new policy framework to address these goals is encouraging, as they constitute the necessary enablers for the use of digital services, the latest draft does not address accelerating the deployment of digital services for businesses or how to improve the accessibility and delivery of digital services for businesses.

Despite the strengthening of the legal framework and developments in the policy framework, implementation is sluggish. While, as of 2021, 39 institutions were connected to the interoperability platform, data interoperability is only ensured at a basic level, with the integration of several key registers.<sup>19</sup> There is significant room for improvement in order to reach its potential and ensure the application of the once-only principle (European Commission, 2021<sup>[57]</sup>). Similarly, while the update of the legal framework for e-signatures aligns it with the *acquis*, namely the eIDAS regulation,<sup>20</sup> the uptake of qualified electronic certificates remains low, possibly due to the high cost of trust services, as well as to their technological requirements (purchasing and using the necessary software) (OECD, 2021<sup>[58]</sup>).

*The availability of open government data has increased, but more could be done to promote its reuse by businesses*

North Macedonia has completed the implementation of its Open Data Strategy (2018-2020), with an overall good degree of implementation (Open Government Partnership, 2021<sup>[63]</sup>). The number of datasets on

North Macedonia's open data portal has more than tripled since the last assessment (from 109 in 2019 to 324 as of February 2022), increasing the pool of public data that SMEs can potentially use to develop innovative products, and increasing the transparency and accountability of government (the number of institutions publishing open data on the portal increased from 27 to 63 over the same period) (Ministry of Information Society and Administration, 2022<sup>[64]</sup>).

The government has introduced criteria for open data formatting, annotation and structuring in order to facilitate its reuse. Detailed guidelines are available as part of the Open Data Strategy (2018-2020). Moreover, the Ministry of Information Society and Administration has been implementing activities such as training, seminars and capacity-building sessions to increase institutions' ability to publish open data and has developed a standardised general procedure for publishing open data by government institutions.

The government has also adopted and is implementing its Open Government Partnership National Action Plan (2021-2023), which focuses on transparency, anti-corruption, access to justice and the provision of public services. In this regard, the government has planned an activity to promote its online service portal in rural areas to improve the accessibility of digital services to farmers and agriculture workers. While this is an encouraging step towards promoting the use of digital services and fostering inclusion, it must be noted that the government has not made noteworthy efforts to promote the reuse of open data by businesses for the creation of innovative products.

*The company registration process remains well-designed with no substantial changes since the last assessment*

Company registration is undertaken at a single window through one of the 27 one-stop-shops operating under the Central Registry of the Republic of North Macedonia. While entrepreneurs can electronically register their company via <http://e-submit.crm.com.mk/eFiling/en/home.aspx>, a qualified electronic signature is required to use the e-registration portal. As such, the majority of entrepreneurs use the services of an authorised registration agent to prepare their company application, increasing the length and cost of registration (World Bank, 2020<sup>[65]</sup>). For example, 6 procedures and 15 days are required to start a business, compared to 4 procedures and 14 days, respectively, in the previous assessment. Nevertheless, costs remain rather low at 3.1% of income per capita (World Bank, 2020<sup>[65]</sup>). Efficient implementation of the recently adopted Law on Electronic Documents, Electronic Identification and Trust Services (2019), which aligns the legal framework of e-signatures with the *acquis*, should make online registration fully operational.

With the amendment of the Company Law in 2021 and the introduction of the "Special Limited Liability" company status, the founding capital of limited liability companies has been reduced to EUR 1, compared to EUR 5 000 previously. This change is expected to provide a push for entrepreneurship in North Macedonia.

Monitoring and evaluation mechanisms of company registration are in place and under the responsibility of the Central Register. Quarterly reports analyse the number of entities in the Trade Register in terms of company size, sector of activity and geographic location and take into account companies' feedback. While the objective of these reports is to simplify the registration procedure, no progress has been noted during the assessed period.

*Digitalisation and streamlining of the licensing process are underway*

North Macedonia is undertaking streamlining reforms to reduce the administrative burden on SMEs, including on business licensing.

While each administrative body is currently in charge of issuing licences according to their competences, centralising and digitalising all business licences on line is ongoing on the digital service portal (<https://uslugi.gov.mk>). The portal works as a one-stop shop for information and applying for all business



licences and has been made operational at the beginning of 2022. It also integrates the previous portal specific to import, export and transit permits (<https://exim.gov.mk/EILWeb/startPage.jsf>). This portal is a first step toward increasing the efficiency of the licensing process; the standardised and harmonised data will enable more comprehensive data exchange and interoperability in the future. This is a positive development, considering that around one-third of businesses in North Macedonia consider the lack of availability and accessibility of relevant information to be a big or very big obstacle to obtaining a business licence (Regional Cooperation Council, 2021<sup>[62]</sup>).

As planned under the Economic Reform Programme (2021-2023), all para-fiscal fees and charges for SMEs are being reviewed and streamlined and will be included as part of the digital service web portal. This process is being carried out by a working group, assisted by the EU Delegation in North Macedonia, and takes feedback from SMEs into consideration. The aim of the streamlining process is to simplify the system and establish a legal and operational framework of non-tax duties and para-fiscal fees, improve their transparency and predictability, and thus create a more favourable business environment. The process of amending the Law on Administrative Taxes started in September 2021 and should be completed at the end of 2022.

Promisingly, the number of procedures, requirements, paperwork and cost for obtaining business licences are decreasingly – albeit slowly – considered a challenge in North Macedonia; 36% of respondents claimed that they represented a very big or big obstacle in 2021, compared to 44% in 2019 (Regional Cooperation Council, 2021<sup>[62]</sup>). Nevertheless, the excessive discretionary power of government officials, inconsistent application of regulations and the (explicit or implicit) practice of giving bribes remain important challenges for around one-third of businesses<sup>21</sup> (Regional Cooperation Council, 2021<sup>[62]</sup>).

*Some tax-related measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery were targeted at SMEs*

North Macedonia introduced a comprehensive set of tax measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery. Corporate income tax (CIT) and personal income tax (PIT) payments for businesses were waived during the crisis. VAT filing and payment were deferred, and no interest was charged on the deferred liabilities (Official Gazette of the Republic of Macedonia, 2020<sup>[66]</sup>). In addition, North Macedonia subsidised a temporary reduction in employer SSCs for businesses that did not dismiss employees and that did not distribute dividends. Moreover, conditions for SMEs to qualify for the simplified CIT regime were loosened. Finally, in 2020 and 2021, corporations could carry forward losses up to five years, instead of the regular period of three years. Overall, these measures are broadly aligned with measures taken in countries around the world, although they tend to be somewhat wider in scope.

*The design of SSCs can put a high effective tax burden on low-paid self-employed entrepreneurs*

Self-employed entrepreneurs with low earnings face a higher effective tax burden than self-employed entrepreneurs with higher earnings because of the minimum SSCs that need to be paid. While the standard PIT rate in 2021 was 10%, the 2023 PIT reform will strengthen tax progressivity as taxable income exceeding MKD 1.08 million (approximately EUR 17 560) will be taxed at a rate of 18% instead. Self-employed workers pay a 28% SSC rate levied on net income (Official Gazette of the Republic of Macedonia, 2021<sup>[67]</sup>). The SSC base cannot be less than 50% of the average wage, which implies that minimum SSCs need to be paid, and cannot exceed 12 times the average wage. The minimum SSCs that need to be paid can result in very high effective tax rates for entrepreneurs with a low income and that can induce small entrepreneurs to operate in the informal economy. Once the tax administration is confident that it can avoid widespread non-compliance among self-employed entrepreneurs, it could consider levying SSCs on actual earnings rather than imposing a minimum.

There are no special tax rules for gig workers. They are taxed under the same rules that apply to self-employed workers and employees who work under a contract for occasional or temporary services. Whether or not this results in a taxation approach that is aligned with the specific characteristics of non-standard work remains an open question.

*CIT incentives are available to incorporated SMEs and large businesses, but the period to carry forward losses is relatively short compared to common practice in the region*

The standard CIT rate in 2021 was 10%. North Macedonia operates a dividend distribution CIT system, which implies that reinvested profits are deductible from taxable corporate profits; put differently, the CIT is levied only when profits are distributed (IBFD, 2021<sup>[68]</sup>). This regime is relatively uncommon; it is applied in Estonia and Latvia and to SMEs in Poland. Businesses located in special economic zones are exempt from CIT for ten years. In addition, a tax credit is available to businesses that install and use an electronic cash register. Finally, CIT losses can be carried forward up to three years, which is the shortest period among economies in the region, except for Albania, which has the same period. As young and/or innovative SMEs might have low profits and large investment, a short period to carry forward losses could create a tax-induced disadvantage for SMEs and other businesses to innovate, take risks and invest. North Macedonia should monitor the tax burden of young and innovative SMEs to assess whether introducing a longer right to carry forward losses could help businesses to grow.

*Self-employed and incorporated SMEs can benefit from simplified tax regimes that reduce their tax burdens and their tax compliance costs*

The self-employed can benefit from a lump-sum tax regime that reduces compliance costs. However, conditions to qualify for the regime can induce unincorporated SMEs to remain within the regime rather than to grow into the regular PIT regime. To qualify for the lump-sum tax regime, businesses cannot have turnover exceeding two annual average gross wages, cannot employ more than one employee (previously, they could not hire any employees at all) and have to operate in specific business sectors. PIT liabilities are fixed and set for one year, which is simpler than calculating liabilities under the standard PIT regime. However, the restriction on the number of staff creates a hurdle to hiring workers and, despite the reform that now allows employers to hire one employee, could continue to encourage businesses to hire informal employees.

Incorporated SMEs can also benefit from a simplified CIT regime that reduces the tax burden and compliance costs but, as it is very generous, comes at a significant revenue cost and creates tax avoidance opportunities. Under the simplified CIT regime, businesses with an annual turnover of less than MKD 3 million (approximately EUR 48 600) are exempt from CIT (Official Gazette of the Republic of Macedonia, 2021<sup>[69]</sup>). Moreover, businesses with annual turnover between MKD 3 million (approximately EUR 48 600) and MKD 6 million (approximately EUR 97 200) million benefit from a 1% rate levied on turnover instead of the standard 10% CIT rate levied on profits. Owner-managers are allowed to register multiple businesses under this regime. This is uncommon in international comparison as it stimulates tax avoidance; business owners might be induced to split up their businesses when they have to start paying CIT under the standard CIT regime. However, businesses operating in activities such as banking, insurance and gambling do not qualify for this regime. North Macedonia should prioritise the simplification of tax administration procedures over CIT exemptions to reduce the incentive for businesses to remain under the simplified CIT regime. Business owners that own multiple businesses operating in the same sector should not be allowed to qualify several times for the simplified tax regime. In addition, as small corporations barely pay CIT, the tax administration might be inclined to loosen its efforts in auditing these businesses as they forego little CIT revenues. This further incentivises businesses to stay within the simplified regime rather than grow into the regular CIT regime.

*The generous simplified CIT regime creates tax-induced incentives for SMEs to incorporate*

The effective tax rate on distributed profits is low as a result of low CIT liabilities under the simplified CIT regime, a low statutory CIT rate and a low dividend withholding tax that is also levied at a rate of 10% (IBFD, 2021<sup>[68]</sup>). As labour income is taxed at relatively high rates, owner-managers of closely held corporations would want to receive their remuneration in the form of lower-taxed capital income instead of in the form of a higher taxed salary.

*Few VAT simplification measures apply for SMEs*

Businesses with annual turnover below MKD 25 million (approximately EUR 406 464) file VAT returns less frequently than larger businesses; however, no other VAT simplification measures are implemented for SMEs. Businesses with annual turnover exceeding MKD 2 million (approximately EUR 32 517) have to register for VAT and voluntary registration is possible for businesses with lower turnover. In 2021, the standard VAT rate was 18% and there were two reduced VAT rates of 5% and 10% (IBFD, 2021<sup>[68]</sup>). While businesses with annual turnover exceeding MKD 25 million file VAT returns on a monthly basis, smaller businesses have to submit VAT returns on a quarterly basis, which can reduce VAT compliance costs. North Macedonia could consider introducing additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes or cash accounting for VAT purposes.

*SMEs benefit from simplified tax administration procedures, and e-services for tax purposes are widely used*

While businesses under the regular PIT regime are required to hold an income book, an expense book, a book of fixed assets and an inventory, self-employed workers subject to the lump-sum tax regime are not required to hold books at all (Official Gazette of the Republic of Macedonia, 2021<sup>[67]</sup>). There is no special treatment for corporations, which are required to follow international accounting standards. The more burdensome requirements for corporations balance to some extent the favourable tax treatment they face compared to unincorporated businesses. SMEs subject to the simplified CIT regime pay taxes once a year, while the self-employed under the lump-sum tax regime make tax prepayments on a monthly basis like other businesses subject to PIT. North Macedonia could assess whether its tax administration procedures could be adjusted to the specific needs of SMEs, for instance, through business surveys.

While e-services for tax purposes are widely used in North Macedonia, reducing compliance costs for SMEs, the digital certificate required to file and pay tax returns on line is not free. The PIT, CIT and VAT can be paid through electronic banking, and business tax returns are filed electronically for PIT and CIT on an annual basis. But as the digital certificate is required to file and pay taxes, the two digital certificates used to determine the electronic identity of the business when filing tax returns and paying taxes on line are not free. These certificates are not delivered by the tax administration but by the Clearing House KIBS AD Skopje and Macedonian Telecom.

## ***The way forward for Dimension 4***

- **Build the capacity of the public administration to understand the end needs of users when designing digital services.** While digitalising existing public services is an effective means of saving time for businesses and improving the efficiency of existing administrative procedures, going forward, it could be beneficial for the government to adopt a proactive approach of redesigning services around the final needs of businesses, with a view of making them more efficient and delivering more public value. The full implementation of the once-only principle will allow this re-engineering of services to deliver its full benefits. Box 17.9 provides a framework for how governments should design digital services around the needs of users.

### Box 17.9. Keys to successful user-oriented service delivery

Successfully designing public services that are tailored to and are responsive to users' needs is a process that depends on several key factors, based on the OECD's Conceptual Framework for Analysing the Design and Delivery of Services:

- Firstly, **governments must consider contextual factors**, such as the political and administrative culture of a country, the technological context (availability of and widespread use of tools such as internet and ICT or e-signatures in businesses) and socio-economic and cultural factors. Embracing a digital by default approach risks excluding users who may be unable to complete services on line and need in-person support. Therefore, governments should understand how existing service delivery channels (websites, call centres, networks of service provision) can work together to provide inclusive access to services for all. Information shared through different channels (online, in-person, telephone) should be integrated to allow users to complete services end-to-end even if they change channels in the middle of the process.
- Secondly, **public sector service design should be guided by a philosophy that is based on inclusiveness of stakeholders, agile design and iteration**. In the case of digital services for businesses, this means that businesses, including SMEs, should be consulted proactively when designing services or adapting them to digital models. User feedback can also be collected ex post through monitoring and evaluation. An agile design philosophy allows governments to iterate on services and integrate user feedback throughout the service design and delivery process, as opposed to collecting feedback as a separate process.
- Lastly, **governments should enable the delivery of services based on a user-centric approach by taking a government as a platform approach, giving civil servants the resources and tools necessary to drive this transformation**. Concretely, this refers to establishing common standards for service delivery, empowering administrations with the ability and resources to explore, test and propose new services, developing reusable technical components (such as payments or identity), and establishing appropriate guidelines for public procurement to ensure the reflection of these principles when outsourcing.

Sources: OECD (2014<sup>[70]</sup>; 2020<sup>[71]</sup>).

- **Improve inter-institutional co-ordination for digital service delivery.** While the creation of government working groups to address the uneven rollout of digital services across different institutions is a welcome first step, the end goal should be the creation of a road map for the accelerated rollout of fully digital public services, placed under the authority of a competent institution. For example, either the Ministry of Information Society and Administration or an appropriate centre-of-government institution with sufficient authority could take ownership of the process. Consideration could also be given to empowering the Digital Agency of North Macedonia with ensuring the technical implementation of the rollout, as specialised agencies or institutions have shown good results in other regional economies, such as Albania and Turkey. Given businesses' low satisfaction with digital services, the full digitalisation of key services for SMEs should be a priority.
- **Introduce monitoring and evaluation of digital service performance.** Introducing metrics to measure the success of digital services (such as frequency of use, user satisfaction or geographic availability for local administration services) will be key to improving them and

ensuring that they are relevant for businesses. To go a step further, production-related data (such as usage patterns, number of transactions, etc.) can be collected in order to understand the underlying reasons for business satisfaction or dissatisfaction with a given service and identify areas for improvement. Data collection on service performance should be constant and mandatory for each institution responsible for a given service, and oversight should be given to the institution charged with co-ordinating the delivery of digital services (see previous recommendation). Special attention should be given to making sure that data are disaggregated by enterprise size class, in order to identify whether SMEs face distinct challenges. Box 17.10 shares Norway's example of developing a monitoring and evaluation system through its online services portal.

#### Box 17.10. Norway's Altinn portal

Altinn (altinn.no) is Norway's digital one-stop shop for businesses and citizens. Launched in 2003, the portal has undergone several iterations and has developed into a one-stop shop for digital services, providing over 1 000 digital services and forms, as well as a platform for government design and iteration of public services. The Brønnøysund Register Centre, as the institution responsible for managing Norway's digitalised registers, is in charge of managing and developing the platform, in co-ordination with line ministries and in consultation with end-users.

Altinn is connected to Norway's National Population Register and Register of Legal Entities, allowing it to monitor the use of the platform, as well as individual services, by both businesses and citizens dynamically. This allows the Norwegian government to identify potential gaps in service use as well as where additional outreach efforts might be necessary (among which business categories, in which geographic area, for example).

Altinn's success has led to it being used by 100% of businesses for filing tax returns and annual accounts and some 99% of businesses for declaring and paying VAT.

Altinn is an example of how the interoperability of government data can strengthen monitoring and evaluation. The platform has automatic access to key information about its users, as such information is collected automatically.

While this requires a high level of interoperability and data security, something which the WBT economies are working towards, it provides an example of how a platform for digital services can monitor the use of the services directly. Some WBT economies already collect data on the use of services through their portals automatically, and would benefit from expanding the range of indicators collected (in the case of businesses: size class, sector of activity, etc.), without necessarily making this data collection automatic (users could enter the information themselves initially).

Source: OECD (2020<sup>[72]</sup>).

- **Improve the accessibility of e-signatures.** Now that the legal framework is in place for increasing the use of e-signatures, the government should focus its efforts on lowering the cost of obtaining qualified electronic certificates for e-signatures, in particular for company registration. This could, for instance, be done by rolling out electronic ID cards that contain qualified electronic certificates, as several regional economies have done.
- **Finish digitalising business licensing and consider creating a central co-ordination body responsible for overseeing the licensing process.** While North Macedonia is

digitalising business licensing in a Central Register, licences are still granted by different public institutions. North Macedonia could create a central co-ordinating body under the authority of digital government authorities in charge of interoperability and data-sharing with the different institutions responsible for granting licences. Going further, to increase transparency, the body could be responsible for granting licences (those that do not require the competent authority's approval) and overseeing the overall licensing process. Moreover, the government could introduce electronic distribution and nomination of licence officers to distribute the workload equally among licensing officers to respond to requests faster. Introducing services based on ICTs for SMEs could enhance their trust in government and reduce conflicts of interest. North Macedonia could follow Albania's electronic licensing process (Box 17.11), which has proven to be effective as the majority of businesses in Albania now claim that the lack of fully digitalised licensing process is a minor obstacle or no obstacle at all (Regional Cooperation Council, 2021<sup>[62]</sup>).

### Box 17.11. Albania's business licensing process

#### The licensing process is centralised and fully operational on line

In Albania, the National Business Centre (NBC), which operates as a one-stop shop for company registration as well, is in charge of receiving applications for licences, permits and administrative authorisations, then submitting them to the relevant authorities as needed. The NBC oversees interoperability and the exchange of data between public institutions. The process follows the "silence-is consent" principle: if the NBC fails to answer a request within a prescribed time frame as detailed in law, consent to the request is automatically given. Since 2020, services for obtaining licences and permits are only accessible on line and are free of charge (<https://qkb.gov.al/home>).

#### Categories of licences

There are three categories of permits and licences for businesses. The first uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled. In the second category, the decision is based on self-declaration and documentary proof provided by the applicant. The third category of licences, in addition to the requirements of the second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method. The NBC is the authority responsible for granting licences from Categories 1 and 2, and relevant ministries along with the NBC for granting licences falling under Category 3.

#### Electronic distribution and nomination of licensing officers

For all permit and licence requests (in person before 2020 and on line), the electronic system checks the documents and assigns applications randomly to an officer. Businesses can trace their application's status on NBC's website using their case number.

Overall, a digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps to monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Source: AIDA (n.d.<sup>[73]</sup>).

- **Evaluate the tax burdens faced by SMEs under the different simplified tax regimes.** The aim should be to design a coherent tax system that incentivises businesses to operate in the formal economy and SMEs to grow into the regular tax regime – for instance, by using business tax returns. North Macedonia could evaluate whether the conditions to qualify for the lump-sum tax regime prevent SMEs from growing into the standard PIT regime and whether it continues to stimulate indirectly the informal economy. It could evaluate tax return records to identify whether businesses bunch around the MKD 3 million (approximately EUR 48 600) and MKD 6 million (approximately EUR 97 200) thresholds. This would be an indication of the distortive impact of the very low tax rates for SMEs under the simplified CIT regime.
- **Rebalance the tax burdens of unincorporated and incorporated SMEs** to limit the tax-induced incentives for SMEs to incorporate, for instance, by moving to a less generous simplified CIT regime, increasing the dividend withholding tax, lowering SSCs and increasing the progressivity of the PIT. Tax-induced incentives to incorporate could be evaluated as part of the 2020-2023 Tax System Reform Strategy that foresees a review of foregone tax revenues.
- **Develop a comprehensive strategy to ease tax administration procedures for SMEs** by assessing the remaining hurdles for SMEs, for instance, through business surveys. North Macedonia could assess, for instance, whether there is scope to further extend e-services for taxpayers and whether the digital certificates could be paid by the tax administration to reduce the burden for SMEs.



## Support services for SMEs (Dimension 5a)

### Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

In North Macedonia, where SMEs still struggle with competitiveness, BSSs are a key element in improving their productivity on a national and international level. Both public and private BSSs should be accessible and well-matched to the needs and demands of SMEs. A policy mix of financial and non-financial support proves most effective in the case of North Macedonia, where access to finance and technical assistance have been negatively affected by the COVID-19 pandemic.

North Macedonia scored 4.03 in this cycle (Table 17.14), which is a slight improvement compared to the previous assessment when it scored 3.96. Overall, the economy slightly lags behind the regional average in this dimension.

**Table 17.14. North Macedonia's scores for Dimension 5a: Support services for SMEs**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	3.57	4.17
		Implementation	4.14	4.24
		Monitoring and evaluation	3.89	3.88
		<b>Weighted average</b>	<b>3.92</b>	<b>4.15</b>
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	4.00	4.63
		Implementation	4.50	4.21
		Monitoring and evaluation	3.40	3.84
		<b>Weighted average</b>	<b>4.13</b>	<b>4.26</b>
North Macedonia's overall score for Dimension 5a			<b>4.03</b>	<b>4.20</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

North Macedonia acknowledges the importance of BSSs for SME growth and development and included it as one of the main targets in its strategic documents. The government introduced numerous financial and non-financial support programmes for SMEs, though some were stalled by the COVID-19 pandemic. Progress in implementing recommendations from the previous assessment cycle is uneven and warrants more effort from the government (Table 17.15). There has been no progress in conducting regular and systematic training needs analysis among SMEs, leading to a risk of a mismatch between the demand and supply of BSSs. North Macedonia has moderately advanced supporting a functioning market of private-sector consultants, and introducing evaluation systems requires additional attention from the government.

Government initiatives for private BSSs provision remain fairly limited, despite moderate advancement. The SME Strategy (2018-2023) envisions supporting the private provision of BSSs through establishing technology parks and incubators and fomenting their linkages with academia, and increasing the quality and overall accessibility of BSSs.

Monitoring and evaluation remains a challenge for North Macedonia and warrants further efforts from the government.

**Table 17.15. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 5a**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Conduct regular training needs analyses (TNAs) to better adapt BSSs to SMEs' actual skills needs</b>	North Macedonia does not conduct regular training needs analysis and has not conducted a demand and supply analysis of BSSs, risking a mismatch between SME needs and offered support services, and thus a low uptake.	No progress
<b>Introduce an evaluation and performance measurement framework and formal feedback mechanisms for programme beneficiaries</b>	There has been limited progress in implementing an evaluation and performance framework. The BSSs beneficiaries take a satisfaction survey, but details on whether the results are incorporated in future programme design are lacking.	Limited
<b>Avoid duplication of BSSs and develop a sustainable market of private BSS providers</b>	The Agency for Promotion of Entrepreneurship of the Republic of North Macedonia (APPRM) created a database of private consultants, but a sustainable market segment of private BSSs providers is still lacking. North Macedonia did not introduce an accreditation quality control mechanism for consultants, thus risking a less optimal quality of privately-provided BSSs.	Moderate

*Despite a strong strategic framework for BSSs provision, implementation remains hampered, largely due to the COVID-19 pandemic*

North Macedonia acknowledges the importance of BSSs for SME growth and development and included it as one of the main targets of the SME Strategy (2018-2023) (Ministry of Economy, 2018<sup>[74]</sup>) and Programme for Entrepreneurship Support, Competitiveness, and Innovation of SMEs 2020 (APPRM, 2020<sup>[75]</sup>). Both documents emphasise the importance of the availability of financial and non-financial support services for SMEs. Through the strategies, the government aims to provide SMEs with training, consulting, and education activities,<sup>22</sup> as well as improved access to finance.<sup>23</sup>

While its strategic framework allows for more substantial BSSs provision, the implementation of strategies and programmes in North Macedonia was affected by the COVID-19 pandemic, as funds were redirected to mitigate the effects of the crisis. This had a significant negative impact on the budget Agency for Promotion of Entrepreneurship of the Republic of North Macedonia (APPRM),<sup>24</sup> responsible for the public provision of BSS ranging from training, education initiatives, vouchers, co-financing and consulting services and tailored mentoring.<sup>25</sup> The reduced budget of APPRM also impeded the implementation process of its Action Plan to a certain extent, including external partners' accreditation of consultants and granting of loans. As direct contact between consultants and SMEs has been hindered, many services were moved on line. This was the case of the training of mentors within the APPRM, which allowed for the advisory services to continue unimpeded. Some 41 and 54 companies benefited from these services in 2019 and 2021, respectively.

A number of BSSs are also provided by the Fund for Innovation and Technological Development (FITD), especially those pertaining to SME and start-up innovation projects. In light of the severe negative impact the COVID-19 pandemic had on SMEs and start-ups, in particular, the FITD introduced its own support mechanism for SMEs, entailing both financial support and technical assistance to SMEs. Due to the amplified restrictive measures regarding the movement of persons and the organisation of large-scale events, FITD's in-person activities were also scaled back (Fund of Innovation and Technical Development, 2021<sup>[76]</sup>).

*Lack of a systematic assessment of SMEs' training needs may result in inadequate long-term support for SMEs*

Since the last assessment cycle, North Macedonia has expanded both the range of the types of services offered and the number of beneficiaries. New services include resource efficiency, digitalisation and IT. This diversification of the portfolio of services offered led in turn to an increase in uptake.

Nevertheless, North Macedonia lacks a broader systematic approach to analysing the domestic SME landscape and its needs and demand for support services. While private and public institutions perform sporadic assessments, a whole-of-government approach to supporting SMEs is incomplete. As a result, the government-provided BSSs might not adequately cater to SMEs' needs in the long run.

As a step in the right direction, FITD, in collaboration with a grassroots organisation, StartUp Macedonia, conducted an analysis of the start-up landscape in North Macedonia, assessing their BSSs demand and training needs. The results showed a strong need for sales growth assistance; 86.7% of respondents expressed a need for mentoring in that area, while 76% needed support in expanding to new markets (Fund of Innovation and Technical Development, 2021<sup>[76]</sup>). While the government addresses the needs in the short run,<sup>26</sup> the lack of a methodical approach to assessing SMEs' training needs and demand for BSSs at different stages of development risks less aptly targeted support for SMEs and potentially inefficient use of resources.

The government made no progress on conducting new market research, training needs surveys or analysis of entrepreneurial skills among SMEs. This weakens North Macedonia's commitment to increasing SME capacity. The government acknowledges the importance of entrepreneurship among SMEs and low levels of education at the time of assessment (ILO, 2019<sup>[77]</sup>); however, no concrete actions have been taken to measure entrepreneurial skills, training needs and BSSs needs among SMEs.

*Despite the lack of a dedicated strategic focus on the private provision of BSSs, North Macedonia moderately advanced in supporting SMEs through co-financing and subsidies*

While publicly provided BSSs are clearly outlined in strategic documents, private BSSs are not targeted to a great extent. While the SME Strategy (2018-2023) envisions establishing technology parks and incubators, they are mostly dedicated to boosting innovation rather than privately-provided support services for SMEs. This lack of a dedicated focus on private providers can partly explain why most BSSs are provided either by the government or international development co-operation partners rather than the private sector. Beyond financing, the international projects entail training consultants to assist SMEs in their development endeavours. The aforementioned mentoring initiative by APPRM, supported by JICA is a prime example of capacity building among SMEs through the services of internationally accredited consultants on the ground. In addition, the EBRD also provides hands-on advisory support through the Western Balkans SME Competitiveness Support Programme.<sup>27</sup> The German Gesellschaft für Internationale Zusammenarbeit (GIZ) also launched a new project that aims to improve the quality of BSSs in North Macedonia through enhanced knowledge and technology transfer and to establish accelerators and mentorship programmes.<sup>28</sup>

APPRM offers self-employment grants, co-financing and vouchers for subsidised consulting services.<sup>29</sup> The vouchers are contingent on using the services of consultants from a database of Entrepreneurship Advisers, who are authorised to work under the voucher scheme. The consultants who successfully passed the procedure to be included in the database can apply to participate, as authorised consultants, in the self-employment programme, which awards vouchers for the unemployed to start an enterprise. The beneficiaries are guided by consultants, who assist in the preparation of a business plan, company registration and coaching. The programme issued 1 534 and 1 747 vouchers for the unemployed in 2020 and 2021, respectively (APPRM, 2020<sup>[75]</sup>; 2021<sup>[78]</sup>). As unemployment remained high at 15.8% in 2021 this measure is well targeted to lower unemployment in the economy and further incentivise entrepreneurship.

Grant recipients have access to information services and training in the first year of operations; however, the programme's effectiveness remains unproven due to a short monitoring timeframe. The uptake of other co-financing schemes offered by APPRM remains low across North Macedonia, as entrepreneurs gravitate towards the self-employment programme deemed as more beneficial.

*Monitoring and evaluation systems are in place in North Macedonia, however with a limited scope of assessment*

Since the last assessment cycle, there has been no change in North Macedonia's monitoring frameworks, and BSSs provision by the government is monitored to a limited degree. APPRM publishes annual reports on its performance, including the results from the satisfaction survey that SMEs are invited to take after benefiting from government-provided BSSs. This practice, however, does not constitute any systematic or targeted feedback systems on the impact of these services on SME performance. JICA conducted a confidential field survey of its specialised mentoring programme in 2019, but this remains the only independent review of government provision of BSSs since the last reporting cycle.

Similarly, the services of private-sector consultants are also monitored by the government to a limited degree, further leaving room for a sub-par quality of services provided. APPRM's efforts to keep track of the usage of private consultants by SMEs and the monitoring and evaluation mechanisms are also scant. While APPRM systemically uses satisfaction surveys also to receive feedback from privately-provided BSSs beneficiaries, it is unclear how the results are used in future support scheme design. As mentioned,, while these surveys can be a useful tool in measuring SMEs' feedback and identifying areas of improvement, they provide scarce information on the programmes' impact and effectiveness (Lopez Acevedo and Tan, 2011<sup>[79]</sup>). There is a need for a stronger evaluation mechanism framework for both public and private BSSs, which could help the government provide better targeted and more viable support policies for SMEs.

APPRM's self-employment scheme also warrants intensified monitoring efforts. At the time of this assessment, the agency has a set of indicators measuring the programme's effectiveness.<sup>30</sup> The success of the self-employment programme is measured by the number of businesses opened, the survival rate after one year and jobs created. While it is a notable basis for an efficient monitoring and evaluation mechanism, the one-year survival rate indicator falls short of providing a broader picture of a company's performance. One year is not indicative of long-term survival for a microenterprise. The survival rate in the majority of economies surveyed by the OECD is slightly above 60% after three years, 50% after five years and just over 40% after seven years (OECD, 2019<sup>[80]</sup>). Extending the monitoring of APPRM's self-employment grant beneficiaries to a period of up to three years and beyond would give the government a broader insight into whether or not the businesses created as a result of the grant are viable beyond the minimum survival period.

Since the previous assessment, the government established a Monitoring and Evaluation Unit responsible for efficient monitoring of the implementation of the Industrial Policy (2018-2027),<sup>31</sup> which is interconnected with the Programme for Entrepreneurship Support, Competitiveness and Innovation, the government's framework for the provision of BSSs. Though the Monitoring and Evaluation Unit is still in its early stages, this is a good first step for the government to introduce a separate entity tasked with monitoring and evaluation and increase its accountability for the adopted strategies while extending the scope of their assessment.

### ***The way forward for Dimension 5a***

- **Conduct regular training needs analysis to better adapt business support services to SMEs' actual skills needs.** Regular and consistent TNAs would help fill the gaps in BSS provision, better target the support provided and create more effective BSSs provision systems (see Box 17.12 for a good practice example from Turkey). While sporadic TNAs or

assessments can provide temporary insight into the domestic SME landscape, a systematic mechanism to analyse the demand for BSSs and their training needs can demonstrate the evolution of SMEs as the economy grows and develops. Furthermore, SMEs at different stages of development require a different set of skills and training; therefore, regular assessment is crucial.

### Box 17.12. Turkey's approach to training needs analysis

Turkey's SME Development and Support Organisation (KOSGEB)'s Information Management and Decision Support Department is responsible for analysing the supply and demand for BSSs and SMEs' training needs. The assessments are conducted systemically, regularly and in a formalised manner. KOSGEB extends the evaluation practice to regional institutions to assess their institutional capacity to support SMEs on the ground. KOSGEB also conducts regular TNAs and updates the dedicated training portal accordingly. Analysis results are then used in future support programme design.

The regularity and consistency in conducting TNAs contribute to SME support measures being well targeted and successful in Turkey. In addition, KOSGEB collaborates with Regional Development Agencies in Turkey; therefore, their SME outreach is broader, allowing them a more comprehensive view of SME needs across the economy.

North Macedonia has the institutional capacity to conduct systematic research on training needs and demand for BSSs among its SMEs. APPRM could extend the research conducted by the FITD on the start-up landscape in North Macedonia and use a similar methodology to assess SME needs for BSSs. APPRM's website could be used to systematically publish results of analyses or to serve as a platform for SMEs to submit their opinions and express their evolving training needs on a regular basis.

Source: KOSGEB (2022<sup>[81]</sup>).

- **Develop a strong monitoring and evaluation mechanism to measure business support services' impact on SME performance.** Evaluation of the impact of BSS provision should be the crucial element in BSSs policy design. A framework to measure the performance of SMEs after having benefited from initiatives could provide valuable insight into both positive and negative effects of selected incentives, and demonstrate or confute the viability of BSSs provided. Extending the monitoring period for APPRM's self-employment scheme to up to three years could also provide the government with a more insightful view of the survival of newly formed businesses and the effectiveness of the grant scheme in reducing unemployment. Developing a publicly available database of success indicators to improve the government's insight into the efficiency of BSSs provided is the next step to ensure a stronger monitoring and evaluation system. The national SME Strategy (2018-2023) envisages the introduction of a thorough evaluation and performance measurement framework, as well as feedback mechanisms, to measure the actual impact of BSSs on SME performance and adapt the services on offer accordingly.

## Public procurement (Dimension 5b)

### Introduction

Easy access to public procurement markets for SMEs and increased participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionately affected by complex procedures and often discouraged by the effort needed to take part in these procedures, for an uncertain outcome.

As the public procurement legal framework in North Macedonia already contained all the tools and procedures for emergency procedures, no major legal changes were needed to respond to the COVID-19 pandemic (OECD, 2021<sup>[58]</sup>). The Public Procurement Bureau published instructions on the use of the negotiated procedure without prior notice (OECD, 2021<sup>[58]</sup>), and the government adopted a number of fiscal transparency measures and prohibited the publication of most non-essential procurements. Additional requirements on reporting of concluded contracts and publication of data were also introduced (OECD, 2021<sup>[58]</sup>). Accordingly, in 2020, there were 2 856 such contracts valued at approximately EUR 10 million (European Commission, 2021<sup>[57]</sup>).

North Macedonia's average score of 3.97 (Table 17.16) for this dimension is in line with the average score in the region. It is lower than the previous assessment's score (4.49) mainly due to limited progress in implementation and lack of collection and storage of information on economic operators by contracting authorities.

**Table 17.16. North Macedonia's scores for Dimension 5b: Public procurement**

Dimension	Thematic block	North Macedonia	WBT average
Dimension 5b: Public procurement	Planning and design	4.44	4.16
	Implementation	3.92	4.15
	Monitoring and evaluation	3.40	3.27
North Macedonia's overall score for Dimension 5b		<b>3.97</b>	<b>3.98</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

North Macedonia made moderate improvements in the implementation of the previous cycle's recommendations (Table 17.17). The new Law on Public Procurement (Ministry of Finance, 2017<sup>[82]</sup>) entered into force in April 2019. It implements the 2014 EU Procurement Directives and, except for some minor deviations, represents a high level of compliance with the relevant EU provisions. The Public Procurement Bureau (Public Procurement Bureau, n.d.<sup>[83]</sup>) prepared a new public procurement strategy covering the period 2022-26, whose main objective is to strengthen the position of SMEs in public procurement (Public Procurement Bureau, 2021<sup>[84]</sup>). An e-appeals function was added in April 2019 to North Macedonia's already advanced Electronic System for Public Procurement (Public Procurement Bureau, n.d.<sup>[85]</sup>).



**Table 17.17. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Further align national legislation with EU rules and international good practice</b>	The new Law on Public Procurement (PPL) implements the 2014 EU Procurement Directives, in particular the concept of economically advantageous tender. New provisions enable contracting authorities to apply quality-related criteria instead of awarding contracts based only on the lowest price. The PPL contains, though, provisions that are problematic from the EU perspective, such as negative references and the "automatic" exclusion of economic operators. The PPL also fails to implement some instruments that are useful for economic operators, such as self-cleaning.	Moderate
<b>Dedicate more attention to SMEs in strategic documents on public procurement</b>	The Public Procurement Bureau prepared a draft of a separate strategy for the development of the public procurement system, which envisages a number of activities dedicated to strengthening the position of SMEs in public procurement, in particular producing guidelines, organising training, and strengthening monitoring and reporting. At the time of writing, the strategy has not yet been formally adopted by the government.	Moderate
<b>Increase the use of non-price criteria by providing the contracting authorities with training, advice and examples of good practice</b>	The Public Procurement Bureau provides support to contracting authorities in the application of non-price criteria by issuing various guidelines and other supporting tools promoting its application. Nevertheless, in practice, the lowest-price criterion remains the dominant criterion for awarding contracts.	Moderate

*The public procurement market is relatively competitive, but cases of annulled procurement procedures are frequent*

The public procurement market in North Macedonia accounted for 8% of GDP in 2020 (11% in 2019) and totalled 23% of the state budget (European Commission, 2021<sup>[57]</sup>). The average number of tenders submitted per procurement procedure (3.62) (OECD, 2021<sup>[58]</sup>) is higher than in some other economies in the region. However, cases of annulled public procurement procedures are relatively frequent (approximately 20% of all procurement procedures) (Public Procurement Bureau, 2021<sup>[86]</sup>), as are cases where contracts are concluded following procedures with only one participant (Public Procurement Bureau, 2021<sup>[86]</sup>). The main reasons for cancelling procedures are lack of tenders, serious errors in procurement documents prepared by contracting authorities as well as prices or contract terms that are less competitive than those normally offered on the market (Public Procurement Bureau, 2021<sup>[86]</sup>). Some 63% of contracts were awarded to SMEs in 2020 (compared to 61.44% in 2019) (Public Procurement Bureau, 2021<sup>[86]</sup>).

*The legal framework was modified in order to transpose the 2014 EU Procurement Directives*

The new PPL offers several provisions beneficial for SMEs. First, economic operators can join forces and submit a tender or a request to participate as a group without being required to assume a specific legal form of association.<sup>32</sup> Second, contracting authorities can divide public procurement contracts into lots based on objective criteria concerning the type, characteristic, purpose, time or place of execution, to take into consideration the possibility of SMEs participating in the tender.<sup>33</sup> If the contracting authority does not divide the procurement into lots in an open or restricted procedure, it is obliged to explain the main reasons why.<sup>34</sup> Third, contracting authorities are not allowed to apply requirements related to the economic and financial standing of suppliers or their professional or technical ability that are disproportionate to the subject matter of the public procurement, its complexity and value, or to the lot of the subject matter of the procurement in procurements divided into lots.<sup>35</sup> Fourth, public contracts are awarded based on the most economically advantageous tender,<sup>36</sup> in line with the 2014 EU Directive, and e-auctions are no longer mandatory.<sup>37</sup> The price cannot be used as the sole award criterion for the procurement of services for



software development, architecture or engineering services, or translation or consultancy services.<sup>38</sup> In practice, however, the lowest-price criterion remains the dominant criterion for the award of contracts.<sup>39</sup> There appear to be a number of reasons for the very limited use of non-price criteria, including: fear of change; preference to stick with well-understood procedures; and lack of practical training, guidance and resources needed to increase knowledge, understanding and confidence on the part of contracting authorities who may be concerned about the consequences of selecting and applying qualitative criteria incorrectly.

Finally, contractors can receive partial remuneration in advance.<sup>40</sup> In the case of contracting authorities from the public sector, the maximum amount cannot be more than 20% of the value of the contract. The amendment of the PPL adopted in April 2020 allowed contracting authorities to provide even higher advance payments without the need to request a bank guarantee from the contractor but only with regard to products related to fighting the COVID-19 pandemic.<sup>41</sup>

Some provisions of the PPL can, however, create barriers in access to the public procurement market. In all procurement procedures, with the exception of small value and simplified procedures, economic operators have to submit a tender security (in the form of a bank guarantee amounting to a maximum of 3% of the tender value) or submit a statement on steadiness of the tender. If they withdraw their tender before the expiration of its validity period, do not accept correction by the tender committee of arithmetical errors in the tender, fail to sign the public contract in accordance with the requirements of the tender documentation and the tender submitted, or do not provide the performance guarantee, they lose the tender security (if it was required), and are excluded from the procedure. Exclusion concerns, though, not only the procedure in which they took part but also any procedures to be organised in future in the period not shorter than six months and no longer than one year. Exclusion results from a negative reference published on the Electronic System for Public Procurement's (ESPP) website. Its duration depends on the number of negative references received by a given bidder such a solution is not compliant with the *acquis*.

The PPL also contains provisions related to sustainable procurement (as provided in the EU Public Procurement Directive) and allows environmental or social considerations to be taken into account in describing the object of the procurement, defining qualification or award criteria or contract performance conditions. In particular, the PPL contains provisions concerning reserved procurement, i.e. allowing competition to be restricted to economic operators whose primary purpose is the social and professional integration of persons with disabilities or people from socially vulnerable groups,<sup>42</sup> the application of labels in the description of the object of the procurement (i.e. requiring that goods or services have special environmental or social characteristics).<sup>43</sup> Social or environmental requirements can also be included among the selection criteria for the best tender;<sup>44</sup> the bidder's compliance with relevant obligations concerning environmental protection, social policy and labour protection are also assessed in the procedures to verify whether a tender is abnormally low.<sup>45</sup> Finally, the PPL regulates specific procedures for social and other special services.<sup>46</sup>

*The institutional set-up supports contracting authorities and economic operators in conducting public procurement operations and enables electronic procurement processes*

The Public Procurement Bureau carries out tasks related to developing the public procurement system, including: monitoring and analysing the functioning of the public procurement legal framework and system, providing advisory and operational support to contracting authorities and economic operators, developing manuals and brochures, organising and conducting training activities, managing and developing the ESPP, preparing reports on public procurement procedures, managing the negative reference list, administrative control, and co-operating with international institutions, including co-ordination with the European Union. The Public Procurement Bureau also publishes annual reports on the functioning of the public procurement system.<sup>47</sup> These reports provide some statistical information on SMEs, such as the number of SMEs registered in the ESPP and awarded public contracts each year.

The public procurement system benefits from an advanced ESPP,<sup>48</sup> which is efficient and highly appreciated by users. All communication and exchange of information, requests to participate, and submission of tenders must be conducted through the ESPP, from which procurement documents can be downloaded. The ESPP has been upgraded and started using “red flags” for irregularities. It also started using electronic archives and electronic complaints mechanisms. The ESPP’s e-appeals function became fully operational with effect from 1 April 2019.<sup>49</sup> The electronic procurement mechanism also enables easy tracking of COVID-19 related procurements as well as financial information on COVID-19 contracts.

*Economic operators’ rights in public procurement are protected by a review of appeal by an independent review body*

The State Appeals Commission<sup>50</sup> is an independent, state-financed authority with the capacity of a legal entity. It is competent to resolve appeals concerning contract-award procedures, as prescribed by the PPL. Any economic operator with a legal interest in the award procedure that has suffered damage, or may suffer damage, as a consequence of a possible violation of the PPL, may initiate an appeal. The time limit for submitting an appeal is ten days from the triggering event. The limit is reduced to five days for simplified open procedures and small-value procurements. In both cases, time limits are compliant with EU requirements and good international standards. As a general rule, appeals are submitted electronically using the ESPP’s e-appeals function. The e-appeals system covers the full appeals process, from submission of the appeal and supporting documents to payment of the relevant fees, submission of supplemental information, and publication of both the notification of the appeal and the decision of the State Appeals Commission. These new functionalities streamline the review process, save economic operators’ time and money, and strengthen the overall transparency of the system.

**The way forward for Dimension 5b**

- **Complete the process of harmonising the Law on Public Procurement with the EU Public Procurement Directive**, in particular concerning the provisions related to “negative references” and the “self-cleaning” mechanism. Macedonian authorities should complete the process of harmonising the PPL by implementing the missing EU provisions, in particular those related to self-cleaning of economic operators (Box 17.13), as well as deleting or modifying provisions which are not EU compliant, such as those related to negative references.

**Box 17.13. Self-cleaning of economic operators**

Article 57 (6) of the 2014 EU Public Procurement Directive introduced provisions concerning “self-cleaning” measures. Accordingly, economic operators finding themselves in a situation where there are subject to exclusion from a procurement procedure can adopt compliance measures aimed at remedying the consequences of any criminal offences or misconduct and effectively preventing further occurrences of misbehaviour.

In accordance with EU requirements, the economic operator concerned may provide evidence that the measures it has taken are sufficient to demonstrate its reliability despite the existence of relevant grounds for exclusion.

For example, in **Slovenia**, the economic operator should prove that it has paid or undertaken to pay compensation in respect of any damage caused by the criminal offence; it has fully clarified the facts and circumstances by actively collaborating with the investigating authorities; and it has taken concrete technical, organisational and personnel measures that are appropriate to prevent further criminal offences. If the contracting authority considers those self-cleaning measures insufficient to prove the

reliability of the concerned economic operator, it should receive a statement from the contracting authority of the reasons for not considering those measures sufficient not to exclude the economic operator.

The new Law on Public Procurement does not contain provisions equivalent to this. To finish harmonising the law, provisions that provide an opportunity for bidders to prove their reliance to the contracting authority, notwithstanding the formal existence of grounds for exclusion as those presented above, should be prepared and adopted.

Source: Slovenian Public Procurement Directorate (2015<sup>[87]</sup>).

## Access to finance (Dimension 6)

### Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement private-sector financing without crowding it out.

Across the world, including in North Macedonia, the COVID-19 pandemic suddenly increased pressure on firm finances, especially for smaller firms that do not have large financial buffers. It brought access to credit to a sudden halt, requiring a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Since the last assessment, North Macedonia has made progress in facilitating SMEs' access to finance. Its score has increased from 3.63 in 2019 to 3.90 in 2022, amid advances in banking supervision and the establishment of a legal framework that facilitates venture capital. Major progress has been made in enhancing financial literacy (Table 17.18). As a result, North Macedonia is the highest performer amongst the Western Balkan economies, though exceeded by Turkey.

**Table 17.18. North Macedonia's scores for Dimension 6: Access to finance for SMEs**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.80	4.27
		Registers	4.60	4.63
		Credit information bureaux	5.00	4.37
		Banking regulations	4.40	4.09
		Stock market	3.80	3.23
		Weighted average	4.60	4.20
	Sub-dimension 6.2: Bank finance	Bank lending practices and conditions	3.60	3.23
		Credit guarantee schemes	2.40	2.61
		Weighted average	3.14	2.98
		Microfinance institutions	2.00	3.37
	Sub-dimension 6.3: Non-bank finance	Leasing	3.40	3.24
		Factoring	2.00	2.71
		Weighted average	2.45	3.09
		Sub-dimension 6.4: Venture capital	Legal framework	2.30
	Design and implementation of government activities		2.90	2.57
	Monitoring and evaluation		1.00	1.47
	Weighted average		2.31	2.40
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.60	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	3.08	2.50
North Macedonia's overall score for Dimension 6			3.90	3.68

Note: WBT: Western Balkans and Turkey.

## State of play and key developments

Access to credit is embedded into a solid legal and regulatory framework, and steps have been taken to further strengthen financial stability. However, financial intermediation remains low, and lending to SMEs, in particular, has decelerated in recent years. While the availability of credit information is robust, no progress has been made to overcome the outstanding impediments. The Development Bank of North Macedonia (DBNM) provides some credit relief in the form of subsidised SME credit lines, including support from international co-operation development partners. In addition, a new COVID-19 Guarantee Fund was established in 2021, replacing previous initiatives. It does not, however, have a tailored SME focus. While alternative finance continues to remain limited, partially due to an insufficient legal framework for microfinance and factoring, progress has been made to facilitate venture capital investments. Following a review of legal obstacles, a new Law on Alternative Investment Funds is under preparation. Lastly, in 2019, North Macedonia participated in an OECD regional assessment of financial literacy, which led to the adoption of the first Strategy for Financial Education and Financial Inclusion in 2021.

Table 17.19 provides an overview of the implementation of the recommendations for Dimension 6 made in the previous assessment.

**Table 17.19. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 6**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase awareness of the various financing instruments	The Konkurentost platform provides some information about financial and non-financial support for entrepreneurs. However, these are sometimes outdated and only provide general information, with no details on the types of financial products nor their suitability, benefits or risks. The newly adopted Strategy for Financial Education and Financial Inclusion (2021-2025) envisages a comprehensive set of measures to boost financial understanding, which may increase awareness and understanding of alternative sources of finance in the medium term.	Limited
Complete the reform to create a specific legal framework for factoring	The new Law on Factoring is still pending adoption, currently planned for early 2022.	Limited
Improve the accessibility of registers for securities over movable assets	No actions were taken.	No progress
Consider reviewing the existing credit guarantee scheme to ease pressure on SMEs to provide collateral	The new state Guarantee Fund is an important milestone; however, it bears the risk of mainly being used by exporting companies and not specifically benefiting SMEs. Lack of private-sector participation in its design and implementation may further hinder uptake.	Moderate

*Lending is supported by a strong legal and regulatory framework and comprehensive credit information*

Access to finance is embedded into a well-developed legal and regulatory framework, regulated by the 2016 Law on Banking. The regulation was brought in line with Basel II requirements in 2017, while more recently, the National Bank of the Republic of North Macedonia has adopted a new methodology for managing liquidity risks and has enhanced its criteria for licensing banks, thereby bringing the regulatory framework in line with Basel III core principles for effective banking supervision. Additionally, on 1 October 2021, the European Commission adopted a decision assessing that the prudential, supervisory and regulatory requirements applied to credit institutions located in North Macedonia are equivalent to those applied in the European Union. Furthermore, in April 2021, a Memorandum of Co-operation was signed between the relevant authorities responsible for financial market supervision to establish a Financial Stability Committee. A dedicated law to permanently establish the committee and increase the

competencies of the national bank to lead the development and implementation of the macro-prudential and financial stability policies is currently under preparation. This will significantly strengthen financial stability, but may impact less sound financial sector players in the short term unless targeted mitigation measures are adopted.

Some impact can be witnessed by the National Bank of the Republic of North Macedonia's Denarisation Strategy. Adopted in 2018, it has resulted in a decrease in the share of foreign currency indexed loans from 46.4% in 2016 to less than 45% at the end of 2020 (European Commission, 2021<sup>[57]</sup>).

Lending is facilitated by a comprehensive system of credit information. A cadastre operated by the Real Estate Cadastre Agency is available on line and accessible to the public. In contrast, access to the register for pledges over movable assets (the Central Registry of the Republic of North Macedonia) continues to be available only upon request, thus limiting its usage. In addition, both a public credit registry and a private credit information bureau are operative. Coverage of the public registry has stagnated at around 41% of adults since the previous assessment, while the private credit information bureau has covered the entire adult population for several years, which was achieved by incorporating information from retail and utility providers, significantly widening coverage. Combined, these services provide effective tools for financial service providers to effectively assess the creditworthiness of loan applicants, even for clients with a less substantial credit history.

Little progress is evidenced with regard to access to capital market finance. A new Capital Markets Law, to bring legislation in line with *acquis*, is pending adoption in 2022, and even though special provisions envisage listing "small joint-stock companies", requiring a minimum capital of EUR 250 000, no listings have taken place. To encourage equity finance for small firms, in 2019, the Macedonian Stock Exchange signed an agreement with the crowdfunding platform Funderbeam, and since then, one domestic company has initiated fundraising via the platform.

#### *Financial intermediation remains low and dependent on subsidised bank lending*

Banks continue to dominate North Macedonia's financial sector, accounting for 80.5% of all assets at the end of 2020 (NBRNM, 2021<sup>[88]</sup>). The sector has managed the impact of the COVID-19 pandemic relatively well, though credit growth has decelerated compared to previous years, with the majority of lending continuing to go towards households. Non-performing loans continue to fall, standing at 3.4% at the end of 2020, owing to ongoing mandatory write-offs, further strengthened in 2019, and crisis mitigation efforts, which enabled more flexible loan repayments.

Overall, financial intermediation remains relatively low, and finance continues to be costly, especially for smaller enterprises amid strict collateral requirements and complex lending procedures. The share of SME lending has decreased further in recent years to 27%, down from 30% in 2018. The DBNM provides SME finance through credit lines at preferred interest rates, including via a new MKD 90 million (approximately EUR 1.5 million) SME fund, set up with support from the European Union in 2020, offering 0% interest working capital loans. In addition, a EUR 100 million credit line signed with the European Investment Bank in late 2021 supports SMEs and mid-caps that increase their labour force or that invest in the modernisation of equipment, energy efficiency or environmental protection, capped at 1.6% interest. While this comprehensive and timely support helped SMEs navigate through the economic shock, these highly competitive interest rates risk undercutting and crowding out commercial SME lending. Limited monitoring and evaluation of the DBNM's credit lines prevent a full impact analysis of its support. In addition to lending, North Macedonia also established a credit Guarantee Fund in 2021 to support its COVID-19 response, offering guarantees of up to 80%. The fund does not, however, specifically target SMEs, but is instead geared towards export-oriented companies. Previous credit guarantee schemes operated by the DBNM have ceased operations due to limited uptake.

### *Diversification of finance remains low*

Alternative sources of finance remain highly limited, owing partially to insufficient regulation of non-bank finance instruments and insufficient awareness of the benefits of such products. Microfinance is not subject to regulation by the national bank and not available at a meaningful scale, but a small number of specialised microcredit institutions continue to support otherwise unbankable companies,<sup>51</sup> typically in the informal sector. A number of predominately local providers offer leasing. Uptake has somewhat increased in recent years, standing at EUR 103 million in assets in mid-2021, but remain mainly used for passenger vehicle funding. Factoring remains subdued, offered only by a handful of financial service providers. A new law drafted in 2018/19 with support from the EBRD to strengthen the legal framework for factoring, is still pending adoption, thereby limiting legal certainties around this type of financial instrument.

In contrast, progress has been made to develop equity-based finance. With support from the World Bank, North Macedonia undertook a comprehensive review of legislative obstacles to private investments. The Law on Investments, which governs venture capital and private equity activities, was amended in 2021 to remove the maximum threshold on the number of shareholders and reduce the minimum duration requirement for a fund. In addition, a new Law on Alternative Investments remained under preparation at the time of writing, and is planned to be adopted in 2022, to align the legislative framework for private equity and venture capital to the *acquis*.

Developing an ecosystem in support of innovation and start-ups remains a priority for North Macedonia. Under the framework of the Western Balkans Enterprise Development and Innovation Facility, the Enterprise Innovation Fund has invested more than EUR 6 million into five early-stage companies to date. Apart from these investments, there have not been any venture capital activities, but North Macedonia's now fully operational Fund for Innovation and Technological Development offers financial support for innovative start-ups, thereby laying the foundation for future seed investments. Business angel investments have dropped significantly in recent years, but CEED HUB Skopje, via its Business Angel Club, offers support to start-ups and matches them with potential investors.

Lastly, both crowdfunding and initial coin offerings remain unregulated.

### *Efforts to promote financial literacy have gained momentum*

Progress is also evident with regard to enhancing financial literacy. In 2019, North Macedonia participated in a regional financial literacy assessment conducted by the OECD's International Network for Financial Education.<sup>52</sup> Accordingly, Macedonian respondents to the survey scored 56% of the maximum scores covering financial understanding, behaviour and attitude, putting it ahead of Romania and Montenegro but below four other South East European economies (OECD, 2020<sup>[72]</sup>). This assessment is an important policy tool to monitor financial literacy development and evaluate policy. Based on the results from the assessment, in 2021, North Macedonia adopted its first Strategy for Financial Education and Financial Inclusion (2021-2025). It aims to develop special educational programmes for various target audiences, in line with a core competency framework currently under preparation. This will serve as guidance for designing training and ensure consistency in the approach. Implementation of the strategy is overseen by a working group made up of representatives from the private financial sector, the regulator and civil society, which met in late 2021 for the first time. While the impact of the new strategy will only be seen in the medium term, the centralised one-stop shop for financial support<sup>53</sup> continues to provide information on financial and non-financial services for enterprises, serving as a useful and easily accessible platform. However, the platform falls short of providing detailed and continuously up-to-date information and does not provide educational or awareness-raising content.

## **The way forward for Dimension 6**

- **Continue to introduce measures to strengthen financial stability.** The establishment of the Financial Stability Committee is an important step and should be institutionalised swiftly. Additional



steps should be considered to enable effective non-performing loan resolution and prepare the financial sector for an expected increase in impaired loans once the temporary measures phase out. This could include continuous improvements to the insolvency framework as well as a strengthened mechanism for financial mediation and out-of-court settlements.

- **Review the financial support schemes offered by the Development Bank of North Macedonia.** An evaluation of the impact and performance of the DBNM's activities would help identify bottlenecks and areas in which the DBNM can complement the private sector. The review should include plans to phase out highly subsidised financial support schemes, and to replace them with more sustainable measures, maximising impact and additionally. In this regard, the scale, mandate and governance of the new credit guarantee scheme should be revisited, establishing a more long-term mechanism including private-sector participation and building on lessons learnt from previous credit guarantee schemes.
- **Ensure timely adoption of the new Law on Factoring, including support for subsequent implementation.** Following the adoption of the law, a large-scale awareness-raising campaign, implemented in conjunction with financial service providers and private-sector associations, would help reach potential beneficiaries and disseminate information on the opportunities of non-bank financial services. Such information should also be updated on the <https://konkurentnost.mk> platform.
- **Develop an action plan to support the implementation of the new Strategy for Financial Education and Financial Inclusion (2021-2025).** Such an action plan should include clearly defined objectives and key performance indicators, various target audiences, clearly defined competencies of the relevant stakeholders, and a budget to implement it. A balanced composition of the Working Group between public and private sector representatives, as well as regular and effective monitoring of the implementation measures, will be critical to achieving impact and results.

## Standards and technical regulations (Dimension 7)

### Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible to and supportive of SMEs. At the same time, a high level of alignment with the *acquis* is a pre-condition for recognition of an economy's procedures and institutions by the relevant European QI bodies and associations.

North Macedonia has the highest export exposure to the European Union of all the Western Balkan economies, as 77% of its exports go to the EU-27 (Eurostat, 2021<sup>[89]</sup>). Harmonisation of technical regulation and other QI elements such as standardisation, accreditation and conformity assessment with the *acquis* is therefore essential for North Macedonia's economy.

North Macedonia's scored 3.58 in this dimension (Table 17.20), which is a slight improvement compared to the previous cycle when the economy scored 3.50. The Macedonian QI remained largely operational during the COVID-19 pandemic, as accreditation and standardisation meetings and assessments were either conducted on line or under additional precautionary measures. Overall, while the improvements have been noted in several areas, North Macedonia remains below the WBT average in this dimension.

**Table 17.20. North Macedonia's scores for Dimension 7: Standards and technical regulation**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		3.00	3.90
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	3.91	4.38
		Standards	3.27	3.77
		Accreditation	3.89	3.89
		Conformity assessment	4.43	4.22
		Metrology	3.31	4.13
		Market surveillance	3.27	3.96
		<b>Weighted average</b>	<b>3.68</b>	<b>4.06</b>
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	3.80	3.88
		SME participation in developing standards	3.00	3.21
		Financial support to SMEs	4.40	3.57
		<b>Weighted average</b>	<b>3.73</b>	<b>3.55</b>
North Macedonia's overall score for Dimension 7			3.58	3.96

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Progress in standards and technical regulations was limited during the assessment period. Of the three recommendations made in the previous assessment (Table 17.21), substantial progress has only been achieved in one, namely the adoption of a new product safety regulation in December 2020. Despite still not being completely aligned with the *acquis* (European Commission, 2021<sup>[57]</sup>), this new regulation is an important step forward in aligning horizontal QI legislation. To achieve full alignment with the *acquis*, the

corresponding by-laws and laws on technical requirements still need to be adopted. Furthermore, the enforcement capacities of the market surveillance agency are still insufficient (European Commission, 2021<sup>[57]</sup>) and need to be increased to ensure proper enforcement of this new law.

Information access on standards and technical regulation is still suboptimal, as there is no central portal and/or contact point available for companies seeking information about regulatory requirements from the European Union or other main trade partners. As briefly mentioned above, due to its large reliance on exports to the European Union, such a tailored information source, grouping together in one place all the key information about technical regulations, standards and conformity assessment, would be of high relevance to Macedonian firms.

Finally, the barriers to participation in technical standards committees have been lowered due to the introduction of digital meetings in response to the COVID-19 pandemic. This is a positive development that can be witnessed in all WBT economies, and the digitisation of standardisation should continue after the pandemic, as it lowers participation costs for SMEs. However, more still needs to be done, beyond digitisation, to further include SMEs in the standards development process.

**Table 17.21. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 7**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish a single source of tailored information for SMEs on the regulatory requirements and conformity assessment procedures SMEs need to follow to export to the EU Single Market	No single information source is available. The Standardization Institute of the Republic of North Macedonia (ISRSM) has a section on SMEs, but it is restricted to standards. The Competition Department's website is not well maintained.	Limited
Encourage SMEs to get involved in the process of developing standards	The ISRSM introduced digital committee meetings during the pandemic. Other than that, there are no specific measures or financial support to enhance participation.	Moderate
Complete the alignment with the General Product Safety Directive and ensure there are adequate administrative capacities to enforce it	New product safety regulation was adopted on 18 December 2020 and is harmonised with EU Directive 2001/95 and partially harmonised with Regulation 768/2008.	Strong

*On a regional level, North Macedonia advanced exchange on quality infrastructure but lacks a joint QI strategy and legislative action plan*

While the National Programme for Accession guides the legislative harmonisation process, there is currently no national strategy or action plan in place that sets objectives for harmonisation with the *acquis*. The government is currently developing such a strategy, which is very important, as the last strategy dates from 2015. The quality infrastructure activities are co-ordinated by the Ministry of Economy's Internal Market Division, but there is no joint QI strategy in place, and the individual strategy documents on accreditation and metrology expired in 2020 and have not yet been updated.

Regarding the regional exchange on QI between Western Balkan economies, North Macedonia has been advancing co-operation during its current Central European Free Trade Agreement (CEFTA) presidency by fostering the development of mutual recognition agreements of technical regulation in selected priority sectors of CEFTA members (CEFTA, 2021<sup>[90]</sup>). However, discussions on this matter have not been concluded yet.

*A new Law on General Product Safety was adopted, but staff reductions in accreditation and metrology may reduce enforcement capacities*

Alignment of sectoral legislation with the *acquis* remains very low. National legislation in the area of machinery, lifts, low voltage, pressure equipment, portable pressure equipment, electromagnetic

compatibility, personal protective equipment, gas appliances, explosive atmospheres, and radio and telecom equipment is not yet aligned with the latest *acquis*. Similarly, the new Law on Product Safety, adopted in December 2020, is not yet fully aligned with EU legislation as corresponding by-laws and laws on technical requirements have not been adopted (European Commission, 2021<sup>[57]</sup>).

In standardisation, North Macedonia has maintained a high implementation rate of European standards (97%) (CEN-CENELEC, 2021<sup>[91]</sup>) and all conflicting national standards have been withdrawn. The Standardisation Institute of the Republic of North Macedonia (ISRSM) developed a strategy for 2020-22 with the support of the International Organisation for Standardisation (ISO). The strategy identifies various priority industries such as manufacturing, construction and agriculture and provides a long list of international standards, organised by industry, that the ISRSM aims to adopt during these two years. The strategy also provides calculations on the human and financial resources needs, concluding that they are sufficiently available. This is a bit surprising and potentially because they narrowly focus on standard adoption activities, thereby neglecting more long-term expenses such as capacity building. Regarding education on standardisation, ISRSM staff is providing some activities in civil engineering and construction, but there is no systematic engagement in standards education, and this is also not mentioned in the strategy. Educating firms, associations and the general public about the benefits and procedures of standardisation is important, as this knowledge is often not yet present in smaller companies that do not export. Lowering knowledge barriers may unleash unrealised potential of firms that previously have not considered getting their products or services certified for foreign, or even the local, markets.

There have not been any major developments in accreditation in North Macedonia. The Institute for Accreditation of North Macedonia (IARM) continues to have multilateral recognition agreements in five fields with the European Co-operation for Accreditation,<sup>54</sup> and at the moment, no further expansion is planned due to insufficient market demand for other accreditation fields. In response to the restrictions imposed by COVID-19, the IARM conducted remote inspections of conformity assessment bodies (CABs), but this practice was not employed for first-time assessments. The IARM's last strategic plan expired in 2020 and has not been updated.

The number of accredited conformity assessment bodies has increased by 26%, from 206 in 2018 to 259 in 2021, making North Macedonia the economy with the third most CABs in the region after Serbia and Turkey. In that context, it is worrying that the IARM's total staff decreased from 18 to 15 during the assessment period, which means that it has to supervise an increasing number of CABs with a decreasing number of staff.

Staff reduction was even more severe in the Bureau of Metrology, whose total staff decreased from 45 to 33 since the last assessment. While the Bureau of Metrology is a member of all major international metrology associations and there is metrology legislation in place, the institution lacks technical staff and an updated strategy.

In market surveillance, the regulative gap with the *acquis* continues to be among the largest in the region, as the current legislative framework dates back to 2007 and hence is neither aligned with EU Regulation 768/2008 nor with the newer Regulation 1020/2019. Market surveillance is carried out by the Department of Public Information, which lacks enforcement capacity and operates with an insufficient number of licenced inspectors, outdated equipment and insufficient funds to carry out product sample tests. Nonetheless, the number of inspections increased from 359 in 2019 to 428 in 2020 (European Commission, 2021<sup>[57]</sup>).

*Financial support programmes for SMEs cover standards-related costs, but there are no specific initiatives to enhance SMEs' participation in developing standards*

There has been some progress with respect to access to standardisation compared to the previous assessment, which is also reflected in the higher score in this sub-dimension. The ISRSM's website has a specific section for SMEs and provides basic information about the benefits of standards for SMEs as well

as instructions on how to find correct standards for firms. However, the guides and brochures in the local language are outdated, and the linked material from CEN/CENELEC is only available in English. More updated and translated material that provides information about the certification process would be desirable.

While there are no financial measures in place to increase the participation of SMEs in committees, training and meetings were held on line because of COVID-19. There is a discount on the standards' price for companies that participate in technical committees.

The Macedonian government has two programmes that provide financial support for the implementation of standards. The first is a voucher programme by the National Entrepreneurship Support Agency to provide financial support for implementation-related costs of standardisation. Some 58 firms benefited from this programme between 2019 and 2021 (APPRM, 2021<sup>[92]</sup>). In addition to subsidising implementation costs, firms have access to consultants that assist them. The second programme is the Ministry of Economy's Programme for Competitiveness, Innovation and Entrepreneurship, which co-finances certification for ISO standards for SMEs of up to 60% of total costs, but no more than MKD 100 000 (around EUR 1 600) (Ministry of Economy, 2021<sup>[93]</sup>). In 2019 and 2021, 12 and 11 firms benefited from this programme, respectively, which was paused in 2020 due to COVID-19.

### ***The way forward for Dimension 7***

- **Deepen co-operation of quality infrastructure areas through a joint strategy.** The different QI pillars have all developed a solid legislative and institutional framework, but the strategic documents in various areas are outdated. A joint strategy that aligns activities and provides clear targets for each of the six QI pillars is desirable. In this context, Serbia's Quality Infrastructure Strategy (2015-2020) represents a positive example from the region (see Box 17.14).
- **Ensure complete alignment with the EU General Products Safety Directive and adopt a new horizontal strategy or action plan for alignment with the *acquis*.** The level of legislative alignment with the *acquis* is comparatively low in North Macedonia, and an updated strategy or action plan that identifies unaligned legislation and sets a road map for adoption would be an important step to assure future alignment with the *acquis*.
- **Improve information sharing and SME participation through a centralised portal.** Information about the different QI areas remains fragmented across many different websites, making it hard for firms to learn about all the steps required to place a product on the EU Single Market. A central portal listing key legislation and guidance documents with links to the existing financial support schemes would be very useful for local firms that want to implement standards and export to the European Single Market.

#### **Box 17.14. A joint QI strategy: Serbia's Quality Infrastructure Strategy (2015-2020)**

Despite having an institution that co-ordinates the national QI activities (usually the Ministry of Economy), most economies in the WBT region lack a joint QI strategy. A joint strategy can be an important guide to identifying common as well as dimension-specific challenges, co-ordinating the activities of the different QI institutions, and setting joint as well as dimension-specific targets.

One notable exception in the region is Serbia, which has developed a five-year QI Strategy for 2015-20. The strategy starts by analysing the status quo in each of the QI pillars (technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance). For some areas, this is done through a so-called SWOT (strength, weakness, opportunity and threat) analysis. This is then followed by a list of objectives per QI pillar. Finally, the QI Strategy is accompanied by annual action plans, which operationalise the strategy's more generic objectives into concrete,

measurable activities. Each activity lists the responsible entity, a timeline and the budget source from which the respective activity is financed.

This traditional combination of a multi-year strategy and annual action plans is a good approach to breaking large strategic goals down into smaller pieces and keeping track of them, which is particularly useful in a policy area like quality infrastructure, which includes so many different institutions. A successful QI strategy should set measurable objectives for the different pillars (e.g. standardisation, accreditation, metrology, etc.) and develop concrete activities that work towards these objectives. Furthermore, it needs to specify the human and financial resources required to implement the activities and specify who will monitor progress. In the case of QI, it is also important to define multi-dimensional goals and specify how the different institutions will co-operate with each other. The Serbian example incorporates most of these aspects and hence can be regarded as a best practice for the region.

A QI strategy would be particularly relevant for North Macedonia, as there were individual strategies for accreditation and metrology that recently expired. It is thus a good time to consider the idea of a joint strategy. Furthermore, the standardisation, accreditation, metrology and market surveillance bodies all lack financial and human resources, which means that efficient co-operation between them, governed by a joint strategy, is of particular importance.

Source: Ministry of Economy (2021<sup>[94]</sup>).

## Enterprise skills (Dimension 8a)

### Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

In North Macedonia, 99.9% of all companies are SMEs and account for 74% of total employment in the economy, or three out of every four jobs. While the capacity for SMEs to generate new employment has grown since 2018 (European Commission, 2021<sup>[95]</sup>), SMEs in North Macedonia are contributing significantly less per person employed than the EU average. Enterprise skills development is needed to build capacity, sustain jobs and grow the social and economic contribution of SMEs, which is crucial to supporting

North Macedonia is emerging from the severe economic challenges posed by the COVID-19 pandemic. This assessment sees an increase in practical implementation, for example, through increased support for youth and social entrepreneurship, alongside more diverse training provision (though limited in reach). The improvements in this dimension are reflected in the higher score as North Macedonia scored 2.26 (Table 17.22), higher than in the previous cycle when the economy was at 1.40.

**Table 17.22. North Macedonia's scores for Dimension 8a: Enterprise skills**

Dimension	Thematic block	North Macedonia	WBT average
Dimension 8a: Enterprise skills	Planning and design	1.17	2.86
	Implementation	3.16	3.85
	Monitoring and evaluation	1.67	2.67
North Macedonia's overall score for Dimension 8a		2.26	3.32

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

In North Macedonia, there is limited policy driving the provision of enterprise skills, while there has been no annual report on the implementation of relevant strategies. There has been recent policy progress focused on the smart specialisation process through the identification of priority domains and towards the formal development of a strategy. There is no system-level approach to monitoring results or evaluating the impact of government-financed training. As a result, there is little insight into the skills needs of the economy through consistently collected skills intelligence. Compounding this is a lack of central co-ordination to bring together fragmented strategy actions delivered by different public agencies (Table 17.23).



**Table 17.23. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 8a**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Develop a systematic approach to determining what training is needed, when and where</b>	No advances have been made in the area of training needs analysis. There is an ongoing need, too, for a system-level skills intelligence framework linking education, training and the labour market.	No progress
<b>Proactively provide SMEs with a wider array of learning opportunities</b>	Provision of training and support is limited in reach and accessibility. There is no clearly defined co-ordination of training provision across policy or providers. Overall, provision appears to have expanded in some areas, such as internationalisation and the green economy but remains lacking in training to support digitalisation and sustainability.	Limited
<b>Support SME internationalisation</b>	The Fund for Innovation and Technology is providing a range of training and mentoring that includes a focus on internationalisation. There is limited evidence of internationalisation training through the APPRM with the introduction of funding for internationally focused business support and co-financing for enterprises to pay for the costs of ISO certification.	Moderate

*The development of a co-ordinated approach to gathering skills intelligence is needed to support evidence-based policy making*

Since the previous assessment, a lack of skills intelligence remains at the national level. There is no clear lead institution responsible for co-ordinating and collating the necessary data to provide the evidence base required to inform SME skills policy and programming; despite commitments in the SME Strategy (2018-2023), there has been no evidence of progress. There is an increasing need to support enterprise skills development for SMEs that would not otherwise prioritise training for employees, due to the COVID-19 pandemic having caused companies to further reduce their investment in human capital (European Commission, 2021<sup>[96]</sup>). While this work is currently driven by the SME Strategy (2018-2023) (Government of North Macedonia, 2018<sup>[97]</sup>), skills intelligence would help address skills gaps and combat rising youth unemployment resulting from the pandemic (International Bank for Reconstruction and Development / The World Bank, 2021<sup>[98]</sup>). It is critical to understand how government investment in skills intelligence can be best targeted for SMEs and how to align it with the preliminary list of smart specialisation priorities.<sup>55</sup> It is also important to consider how to develop the dual education model, highlighted by businesses and SMEs as having the potential for a longer-term impact on enterprise skills through sustainable human capital development (Srbinoski, Petreski and Petreski, 2020<sup>[99]</sup>).

*Training and support for SMEs is fragmented and is not effectively promoted, with limited focus on digitalisation, internationalisation and sustainability*

The provision of training and financial support is driven through the SME Strategy (2018-2023) (Government of North Macedonia, 2018<sup>[97]</sup>); however, there is limited public information on the progress of the implementation and results of this strategy. Overall, training provision for developing enterprise skills among start-ups, early-phase and growth enterprises appears limited and fragmented. Government-financed training for aspiring entrepreneurs at the pre-start-up stage is provided via the national Agency for Employment,<sup>56</sup> while APPRM provides a range of support for early-phase entrepreneurs, including access to business counsellors through a voucher scheme.<sup>57</sup> This programme is open via a budget-limited annual call, however, so year-round support may not be available due to budget limitations. APPRM also provides limited training for women entrepreneurs available nationally, activities to promote youth entrepreneurship and was a partner in a regional project supporting eco-innovation businesses.<sup>58</sup> APPRM also delivers the structured national mentoring programme for SMEs, implemented with the support of JICA since 2017,<sup>59</sup> and which, since the onset of the pandemic, has been successfully adapted to work on

line (classroom training in 2020 was finished on line, while the mentoring process was implemented using a combined onsite and online approach). These standardised mentoring services are designed to support company operational performance and increase their sustainability on the market. The Fund for Innovation and Technology (FITR) is also a key provider of start-up finance and training, with provision of start-up and growth mentoring for innovative enterprises,<sup>60</sup> alongside a range of financial support for innovative businesses and social enterprises.<sup>61</sup>

While the SME Strategy (2018-2023) and wider documents recognise the importance of training to support digitalisation, internationalisation and sustainability, there is limited practical training in these areas. Business leaders and SMEs have identified the importance of training subsidies to support upskilling of employees as a key driver for increasing internationalisation (Srbinoski, Petreski and Petreski, 2020<sup>[99]</sup>). There is limited evidence of training to promote internationalisation within open-access start-up support, though FITR is fostering the growth of innovative and internationally oriented companies through their business support programmes and schemes to help companies access global software services platforms,<sup>62</sup> alongside training supporting clusters and subsidies to support the costs of International Organisation for Standardisation (ISO) certification. APPRM is responsible for developing national training to support digitalisation and development of employees' digital competence, but this is still under development. With regard to sustainability, this is highlighted in the SME Strategy (2018-2023), but there is no evidence of available training.

Enterprises access information primarily via organisational websites and the central portal led by the government. Established in this assessment period, <https://konkurentnost.mk> is the new portal that targets existing enterprises; it provides tools, information and news related to support and funding calls for enterprises. It is run by the Ministry of Economy and supported by EU funding. It does not, however, bring in wider content from non-government providers, even if they receive government financing to run their activities. This portal shows significant potential and could be expanded to bring in information from both government and non-government actors to engage a wider audience, including women and young entrepreneurs.

*The smart specialisation process is progressing with a strategy to be finalised in 2022, but SMEs have not yet been fully engaged*

Progress was made in 2021 towards the development of the Smart Specialisation Strategy (S3), supported by a Joint Research Centre (JRC) workshop on the Entrepreneurial Discovery Process. The mapping exercise was completed in early 2020, and the four sectors identified were: smart agriculture and the food industry; the information-communication industry; Industry 4.0 (encompassing the mechanical, metal processing and automobile industry); and smart buildings and materials. The finalisation of the strategy is anticipated in 2022<sup>63</sup> and is feeding into the new National Development Strategy (2021-2041), for which the broad consultation process started in 2021.<sup>64</sup> S3 development is being led by the S3 Working Group, an inter-institutional grouping with members representing government, ministries and academia. System-level education and training actors are involved in this working group as well, but there has not yet been significant direct engagement with SMEs.

The involvement of SMEs is anticipated in the next phase of S3 development. Separate subgroups have now been established for each priority sector, which aim to strengthen mutual trust, promote new forms of co-operation, scan for potential areas for investment and refine approaches on how and what to invest in those areas. The European Training Foundation will provide support to assess skills implications for each priority sector, for which it will be important for the government to ensure the development of a full vision of the priority area in order to support the development of a more comprehensive understanding of current and future skills mismatches. There is also a need to focus on raising awareness among SMEs and the entrepreneur community and engaging them as key stakeholders in S3 development. Doing so would provide the insight and evidence needed to develop S3 actions focusing on enterprise and labour-market skills needed to take forward the priority sectors.

### *The way forward for Dimension 8a*

- **Designate a lead organisation to design and co-ordinate an SME skills intelligence framework**, implementing the actions outlined in the SME Strategy (2018-2023). The lack of system-level skills intelligence remains a significant problem. A co-ordinated approach to understanding current and future skills needs could support better alignment of the education system to labour-market needs. Defined indicators for SME skills intelligence can guide future monitoring and evaluation related to SME skills at all levels (Box 17.15).

#### **Box 17.15. Statistical barometers used to strengthen the skills agenda in Kosovo**

In Kosovo, a set of statistical barometers has been developed to strengthen the skills agenda and establish a national approach to skills intelligence. The three barometers so far established are:

1. **Labour Market Barometer**, which collates information and analysis from 12 institutional data sources.
2. **VET Barometer**, which collates 200+ variables from 20 VET schools.
3. **Skills Barometer**, launched in December 2021, will collect 3–5-year forecasts of skills needs from businesses in Kosovo to inform the government and other institutions.

The challenge in Kosovo has been to ensure sustainability for the work initiated through international development co-operation partners' funding. The Labour Market Barometer is a portal collecting information, resources and data on current and future skills needs for the labour market and creates strong collaboration between diverse partner institutions relevant to the skills agenda. The system is now managed by the Employment Agency, after a two-stage development phase supported by the United Nations Development Programme (UNDP) and Aligning Education and Training with Labour Market Needs (ALLED2), a project of the Austrian Development Agency. ALLED2 developed the Skills Barometer in co-operation with the Kosovo Chamber of Commerce (KCC), and commitment is now finalised between KCC, the Ministry of Education and the National Council for VET to conduct the barometer every three years. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant national agencies.

This example shows a pathway to shaping a national skills intelligence framework at the system level based on the need to support evidence-based policy making using robust information on skills mismatch and future skills needs. The actions stemmed from international partner-funded initiatives towards sustainable action led by a partnership of public and private sector institutions. It builds a consistent approach and strengthens co-operation between different institutions, which is already a strong feature of the landscape in North Macedonia.

1. See <https://sitp.rks-gov.net/> for a list of the national institutional databases used to create the Labour Market Barometer.  
Sources: Government of Kosovo (n.d.<sub>[100]</sub>); ALLED2 (n.d.<sub>[101]</sub>; 2021<sub>[102]</sub>).

- **Deepen the training offer for SMEs and place a focus on internationalisation, digitalisation and sustainability.** While there are commitments to upscale SME skills training within the current SME Strategy (2018-2023), this is not widely evidenced, and current provision is limited. There is a clear need to expand government-financed training support to ensure year-round access to support for entrepreneurs at different phases of development and to include training in key priority areas, such as sustainability, digitalisation and

internationalisation (Box 17.16). This can build on and complement the work being developed by the Chamber of Economy of North Macedonia to provide a six-month programme of lectures and discussion forums linked to enterprise development and skills development.<sup>65</sup>

### Box 17.16. Supporting sector-based digitalisation in France

The Assembly of French Chambers of Crafts (APCMA) is a French public body and network of local chambers of crafts. It has developed four areas of innovative digital services to increase competitiveness, efficiency and proximity with customers. This offers a mix-and-match approach that can be tailored to the needs of enterprises:

1. **Digital training:** Craft companies are offered training courses on digital tools in four main areas: computer, digital, Internet and social networks. The aim is to develop digital competences among founders and employees and raise awareness of the need to integrate digital tools from the very start of the business for both administrative and commercial gain.
2. **Digital diagnosis:** APCMA offers personalised digital diagnostics for craft companies, where a business counsellor visits the company to carry out a digital inventory and advise on developing a digital strategy.
3. **Development of mobile applications (apps):** These are intended to support the integration of SMEs into the digital marketplace. For example, APCMA created an app called “Choose my craftsman”, which is a listing service based on the user’s geolocation. CMA Aquitaine has created “Aqui-artisan”, an app that communicates relevant news to artisans in the Aquitaine region.
4. **The creation of innovation poles:** These provide access to clusters as a route to create synergies and connections between professional organisations, innovation support and research laboratories.

Over time, APCMA has developed an offer that promotes digitalisation with a sharp focus on the administrative process as well as commercial success for these enterprises, with a flexible approach that could be adapted to different sectors. They are raising awareness on the need to acquire digital skills from the start of a business, and they offer training opportunities, digital diagnosis and digital strategy advice.

North Macedonia needs to focus on supporting digitalisation and developing digital competences across enterprises, and it will be important to ensure that it uses a flexible approach that can be adapted to the needs of each enterprise.

Sources: SME United (n.d.<sup>[103]</sup>) and APCMA (n.d.<sup>[104]</sup>).

- **Consider how to open up access to online information on training and support available to start-ups, early-phase firms and enterprises.** This could be achieved through expanding the existing enterprise portal at <https://konkurentnost.mk> or developing a bespoke portal. Within this development, there should be a focus on providing tailored content for women and youth entrepreneurs.
- **Design and implement a quantitative and qualitative monitoring and evaluation approach of government-financed SME training.** Comprehensive data, including gender-disaggregated data, will drive improvement in the quality and outcomes of government-financed training for enterprises. APPRM has made a good start through its annual reporting,<sup>66</sup>

but this needs to be deepened to: ensure impact is understood; include all government-financed provision; and provide evidence to support enterprise skills actions aligned with the development of the Smart Specialisation Strategy.

## Innovation for SMEs (Dimension 8b)

### Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

North Macedonia can further leverage its well-developed institutional support structures for innovation by creating regional innovation systems and encouraging cross-border co-operation to boost research and development (R&D).

North Macedonia has made good progress in this dimension since the last assessment, improving its score further from 3.35 in 2019 to 3.77 in 2022, positioning it ahead of Montenegro but behind Serbia and Turkey (Table 17.24). Progress has been made in particular with regard to strengthening the institutional support structure and providing financial support schemes at scale and sustainable levels.

**Table 17.24. North Macedonia's scores for Dimension 8b: Innovation policy for SMEs**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.08	3.81
		Implementation of innovation policy	4.32	3.31
		Co-ordination of innovation policy	3.80	3.30
		<b>Weighted average</b>	<b>4.14</b>	<b>3.46</b>
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.86	3.27
		Technology extension services for established SMEs	3.00	2.14
		<b>Weighted average</b>	<b>3.51</b>	<b>2.82</b>
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.60	3.81
		Indirect financial support	2.70	2.26
		<b>Weighted average</b>	<b>3.84</b>	<b>3.19</b>
		Innovation voucher schemes and co-operative grants	3.50	2.85
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Institutional infrastructure for business-academia co-operation	3.04	2.99
		Intellectual property rights	3.00	3.05
		<b>Weighted average</b>	<b>3.22</b>	<b>2.95</b>
North Macedonia's overall score for Dimension 8b			<b>3.77</b>	<b>3.18</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

According to the European Innovation Scoreboard 2021,<sup>67</sup> North Macedonia is an emerging innovator. Despite some uncertainty over the economy's future strategic approach to innovation, owing to the expiry of its overarching Innovation Strategy (2012-2020) in 2020, significant progress has been made in innovation policy implementation capacity, and the FITD is now fully operational and implementing several

financial support programmes at scale. Nevertheless, overall investments in R&D remain low at 0.4% of GDP, and further efforts, including a thorough evaluation of support measures under the expired Innovation Strategy (2012-2020), are required to maximise impact and ensure sustainability (European Commission, 2021<sup>[57]</sup>). Efforts have also been made to strengthen North Macedonia's institutional support infrastructure, which now includes both incubators and local accelerators, and support is available beyond start-ups. In contrast, more needs to be done to stimulate collaboration between businesses and academia and the commercialisation of research, although the FITD has launched some pilot initiatives.

Table 17.25 provides an overview of measures implemented in response to the recommendations made in the previous assessment.

**Table 17.25. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure sustainability and streamline existing innovation support programmes	The expiration of the World Bank Skills Development and Innovation Support Project, which provided significant support to the Fund for Innovation and Technology Development (FITD), provides some uncertainty over the fund's future operations. However, during the assessment period, the government of North Macedonia allocated a significant state budget (EUR 18.5 million in 2022), and the fund now operates at full capacity, greatly increasing its chances of becoming sustainable in the medium term.	Strong
Develop specific instruments for joint business-academia collaboration	Efforts to stimulate exchange and collaboration between businesses and academia have become a priority since the last assessment. In consultation with all relevant stakeholders, a pilot innovation voucher scheme was launched in 2020, generating solid demand and uptake. Design of a competitive co-operation grant scheme is underway.	Moderate
Improve monitoring and evaluation in all innovation programmes	In 2021, an independent assessment of the impact of state aid provided under the Economic Growth Plan (EGP) was conducted, implementing a comparative analysis of the impact and effectiveness of state aid provided under Pillars I and II of the EGP, compared to Pillar III, which was implemented by the FITD. It suggests good economic impact of FITD programmes under the EGP; however, it falls short of providing a comprehensive evaluation of the overall impact, efficiency and effectiveness of the FITD's various programmes.	Moderate

*The policy framework for innovation needs to be updated, while implementation capacities have expanded*

North Macedonia's Innovation Strategy (2012-2020) expired in 2020, though elements of innovation are reflected in the national Economic Reform Programme (2019-2021). A Smart Specialisation Strategy, developed with support from the European Commission's JRC, is expected to be adopted in 2022, thereby representing a continuation of the previous Innovation Strategy. In addition, preliminary work commenced in 2021 to develop a dedicated strategy for the development of artificial intelligence.

Implementation capacity has progressed substantially. The FITD, established in 2013, has been the main vehicle for the implementation of the Innovation Strategy (2012-2020) and continues to do so. The fund has become fully operational since the last assessment, doubling the number of employees to around 50. However, only a small proportion are full-time staff. The remaining expertise is outsourced, putting institutional stability and the building of long-term institutional knowledge and capacity at risk. The operationalisation of the FITD has benefited greatly from support from the World Bank, both for internal capacity building and funding, which enabled the launch of several financial support schemes. In total, the FITD has received over EUR 40 million, though World Bank support expired in 2021, making the FITD more dependent on government resources, thereby risking continuity unless sufficient funding is allocated or additional international development co-operation partners' support secured.



Co-ordination of innovation policy continues to remain complicated, with various line ministries overseeing the implementation of the innovation policy framework. A National Committee for Innovation and Entrepreneurship, based in the Prime Minister's Office, and an Inter-Ministerial Working Group for Innovation have been charged with overseeing the implementation of innovation policy. In addition, a National Start-up Committee was set up in early 2021 to develop a coherent approach to building a start-up ecosystem, though its focus is not on innovation.

### *An active institutional support structure provides support beyond start-ups*

Progress has been made in creating an effective institutional support structure for innovative companies, which has been a priority under North Macedonia's innovation policy framework. As one of its first initiatives, the newly created National Start-up Council, comprised of both public and private-sector stakeholders, commissioned an assessment of the start-up ecosystem. This is an important step to further strengthen the institutional support structure provided to innovative SMEs. The study found that the ecosystem does not sufficiently focus on the broader spectrum of early-stage companies, thus requiring closer co-ordination between start-up support organisations to ensure synergies and complementarity of services. Subsequently, the council proposed a set of measures to boost start-ups, including better access to finance and legislative changes to attract investors, which, however, have yet to be addressed.

Five incubators operate in North Macedonia, providing co-working space, training, mentoring and networking opportunities for start-ups. Examples include the YES Incubator in Skopje – North Macedonia's oldest incubator, the BiTHub Bitola and the Business Impact Lab Skopje – which works together with Sparkasse Bank and offers office space and training to social entrepreneurs. CEEDHub Skopje also provides start-up support, while its Business Angel Club is formally registered as a Business Angel Network. While these institutions provide vital support to North Macedonia's start-up community, there is not always a clear link to innovation.

The FITD has been the driving force in the establishment of local accelerators in recent years, providing almost EUR 2 million to establish the Seavus Accelerator in Skopje, the X Factor Accelerator in Veles and the Business Technology Accelerator in collaboration with Ss. Cyril and Methodius (UKIM) University in 2018. They provide tailored pre-acceleration and acceleration programmes as well as early-stage funding, and so far have made investments in four companies. Another call to support accelerators is planned for 2022. In addition, in late 2021, the FITD, together with PricewaterhouseCoopers, launched the Catalyst Mentoring Programme to provide training for start-ups that have already developed a service. Technology extension services are available at a small scale and with financial support provided through the FITD during the previous assessment. These services benefit three providers.

### *Financial support for innovation has gained momentum*

Good progress has been made in providing financial support to foster innovation activities. The FITD has played an important role in the government's Economic Growth Plan (2018-2020), and funding for the FITD has increased substantially since the last assessment amid increasing allocations from the state budget. Between 2015 and 2020, the FITD made more than EUR 40 million available, of which EUR 17.7 million were provided under the World Bank Skills Development and Innovation Support Project, which expired in 2021. In 2021, the FITD's funding stood at over EUR 12 million, significantly up from EUR 4 million in 2018, while EUR 18.5 million were planned for 2022.

Since its establishment, the FITD has launched seven<sup>68</sup> different finance schemes, ranging from co-financing grants for start-ups, commercialisation and the establishment of accelerators to grants for technology extension, as well as grants for technology development and innovation vouchers. In total, over 550 projects have been financed. In addition, the FITD launched a dedicated finance scheme to introduce innovative products and processes to respond to changing demands during the COVID-19 pandemic. The

FITD's latest programme, launched in 2021, offers co-finance grants for innovative projects to overcome the economic consequences of the COVID-19 pandemic and in healthcare.

In 2018, the FITD conducted an economic impact assessment, which was complemented by an external comparative impact analysis in 2021 on state aid in North Macedonia. They suggested that FITD schemes have had a substantial economic impact but also looked critically at grant size justification. To date, however, there has not been an independent evaluation, including lessons learnt, on the effectiveness, design and methodology of the FITD's programmes.

While significant efforts have been made to boost direct financial support for innovation, progress on introducing indirect incentives remains limited. Amendments to the Law on VAT in 2019 now include an exemption from value-added tax for scientific research activities, although there are no other indirect measures explicitly supporting R&D.

*Further efforts are needed to stimulate collaboration between businesses and academia and to boost investments in R&D*

Investment in R&D has remained stagnant at 0.4% of GDP since the previous assessment, with the private sector providing around one-quarter (European Commission, 2021<sup>[57]</sup>). Against this background, several pilot initiatives are currently underway to boost collaboration between scientific research institutes and SMEs. In 2020, following a series of stakeholder consultations, the FITD piloted an innovation voucher scheme to facilitate research projects between higher research institutes and SMEs. The scheme covers up to 80% of costs and is capped at MKD 500 000 (approximately EUR 8 000). Some 34 vouchers were awarded out of the 71 applications received. In addition, in 2021, the fund launched "FabLabs", an initiative to support young innovators and students with the services, technology and infrastructure of laboratories to develop their ideas. Work is also ongoing to design a competitive co-operation grant scheme.

Efforts are also underway to strengthen the infrastructure in support of collaboration. Following a feasibility study in 2018, the first phase of constructing a Science and Technology Park has started. In addition, INNOFEIT, the Centre of Technology Transfer and Innovations at UKIM University, was established in 2018 and also hosts one of the three new accelerators. It offers match-making services for businesses with researchers, access to laboratories, co-working space as well as pre-incubation support to start-ups. However, there is no systemic approach for providing technology transfer services, and overall, support remains limited.

Lastly, intellectual property protection does not include a specific focus on collaboration between researchers and businesses and does not have provisions to encourage the commercialisation of patents.

### ***The way forward for Dimension 8b***

- **Complete the development of the Smart Specialisation Strategy.** Timely adoption and implementation of the new strategy will be important to ensure the continuity of the innovation framework and maintain the momentum built over recent years. The new strategic framework should incorporate lessons learnt from the previous Innovation Strategy (2012-2020), while strengthened co-ordination across ministries would further increase implementation efficiency and impact.
- **Incorporate a strong element of monitoring and evaluation into the innovation policy framework.** A comprehensive evaluation of the performance of the Innovation Strategy (2012-2020) would help identify the bottlenecks that are hindering innovation, streamline policy measures, and ensure future activities target those areas where support is needed the most and impact is maximised. The impact assessments of FITD programmes have been an important milestone towards this goal; however, due to the increasing scope of FITD support schemes, a

more systematic approach to monitoring and evaluation is needed to ensure efficiency and effectiveness.

- **Promote business-academia collaboration in a systematic and targeted approach.** Efforts should include both demand- and supply-side aspects, including raising awareness about collaboration opportunities and providing a targeted infrastructure stimulating exchange and financial incentives to boost collaboration but also strengthening academic research excellence. An evaluation of the pilot voucher scheme, as well as a clear approach to the design and function of the Science and Technology Park, will be important, as is a review of the scientific research sector more generally.

## SMEs in a green economy (Dimension 9)

### Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021<sup>[105]</sup>)), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021<sup>[106]</sup>).

For a small economy with natural endowments like North Macedonia, achieving sustainable and green economic growth is essential, especially in the post-COVID-19 context. The pandemic has put additional pressure on North Macedonian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

North Macedonia has improved its score under this dimension, from 2.72 in 2019 to 3.16 in this cycle, with the main progress achieved in scaling up its financial incentives for SME greening (Table 17.26). To fully implement the related SBA Principle 9 (Enable SMEs to turn environmental challenges into opportunities), North Macedonia will need to ensure effective implementation and monitoring of its greening measures.

**Table 17.26. North Macedonia's scores for Dimension 9: SMEs in a green economy**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.70	3.87
		Implementation	2.62	2.81
		Monitoring and evaluation	1.89	2.47
		<b>Weighted average</b>	<b>2.80</b>	<b>3.06</b>
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	4.40	3.06
		Implementation	3.23	3.02
		Monitoring and evaluation	2.60	2.12
		<b>Weighted average</b>	<b>3.46</b>	<b>2.85</b>
North Macedonia's overall score for Dimension 9			<b>3.16</b>	<b>2.94</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

While the SME Strategy (2018-2023) includes environmental policies targeting SMEs, none of the measures planned has been implemented so far. Nevertheless, adopting the Plan for Accelerated Growth (2022-2026) should boost the greening of SMEs, particularly in their post-COVID-19 economic recovery. SMEs' greening efforts have been encouraged by facilitated access to finance, including in COVID-19 recovery programmes. However, non-financial tools to support environmental practices have rarely targeted SMEs, despite being envisaged in North Macedonia's legislation (Table 17.27).

**Table 17.27. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 9**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Adopt a whole-of-government approach to create synergies and avoid overlaps between greening initiatives</b>	No developments have been recorded as regards this recommendation. There is still no co-ordinating body for SME greening policies, which hampers proper implementation and monitoring.	No progress
<b>Support the transition to a circular economy through direct assistance to the SMEs operating in economic zones</b>	The soon-to-be-adopted Waste Prevention Plan (2021-2031) aims to promote eco-efficiency, eco-innovation and a green (circular) economy. The Programme for Competitiveness, Innovation and Entrepreneurship for 2021 has also provided support to SMEs for energy efficiency and circular economy projects. However, no improvements have been noted on the economic zones side.	Limited
<b>Facilitate access to finance for SMEs that aim to adopt environmentally friendly practices</b>	Several financial initiatives were introduced in this assessment, including financial instruments support to enterprises affected by the COVID-19 pandemic. Moreover, the recently adopted Plan for Accelerated Growth (2022-2026) foresees two funds to finance green economy projects.	Strong

*Green policies targeting SMEs are well-designed, but the lack of a whole-of-government approach hampers proper implementation and monitoring*

In addition to North Macedonia's SME Strategy (2018-2023), which has a special focus on environmental policies,<sup>69</sup> the newly adopted Plan for Accelerated Growth (2022-2026) is expected to provide a stronger impulse to greening measures in the post-COVID-19 economic recovery with the introduction of several instruments to promote and finance SMEs' green projects. Elements of the green economy targeted at SMEs are part of several sectoral strategies<sup>70</sup>, particularly the Waste Prevention Plan (2021-2031), adopted in 2021 after being delayed since 2018. The plan is harmonised with the Law on Waste Management (2021) and should encourage eco-innovation and accelerate the circular transition (Box 17.17).

#### **Box 17.17. SMEs and the circular economy in North Macedonia**

SMEs are important for achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in North Macedonia, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

While there is no specific policy framework for a circular economy in North Macedonia, the recently adopted Law on Waste Management (2021) addresses the circular economy and secondary raw materials and is fully harmonised with the *acquis* in this area. Moreover, the upcoming Waste Prevention Plan (2021-2031) is expected to accelerate the circular transition by reducing waste production and increasing levels of reuse, recycling, and recovery of products. An awareness-raising campaign on circular economy concepts is planned under the strategy, with a special focus on SMEs.

The circular economy has rarely been the focus of financial or non-financial incentives to support SMEs in their greening efforts. Nevertheless, the Programme for Competitiveness, Innovation and Entrepreneurship for 2021, implemented by the Ministry of Environment and Physical Planning, has provided financial support for a technical feasibility study for a few circular economy projects. The programme has also provided support for the training, implementation and certification of environment and energy management systems, which might be used as efficient tools upon which further, more

targeted circular economy activities can be built. Promisingly, the additional financial incentives introduced with the recently adopted Plan for Accelerated Growth (2022-2026) should encourage SMEs' circular transition.

Sources: Ministry of Economy (2021<sup>[107]</sup>); OECD (2021<sup>[106]</sup>; 2021<sup>[101]</sup>).

Several institutions<sup>71</sup> are involved in the conception and implementation of environmental policies targeting SMEs in North Macedonia, including private-sector representatives. However, the lack of an overarching body responsible for co-ordinating SME greening policies and corresponding funds hampers proper implementation and monitoring of activities undertaken by different institutions. A modest budget is dedicated for projects targeting public awareness, education and trainings in relation to the protection of the environment in general (around EUR 125 000).<sup>72</sup> According to the government, all measures planned under the SME Strategy (2018-2023) relating to the green economy have been postponed because of the COVID-19 pandemic, and the dedicated funds have been reallocated. The Green SME Development Strategy, one of the main activities foreseen in the SME Strategy (2018-2023), has not been prepared.

While monitoring and evaluation mechanisms are envisaged under the SME Strategy (2018-2023), the relevant authorities have not monitored environmental policies and measures, and no evaluation has been conducted.

*Environmental advice and guidance have been provided to SMEs, and the private sector has been increasingly involved in this regard*

Similarly to the 2019 assessment, SMEs in North Macedonia have been regularly offered environmental advice and guidance from the government, the Chamber of Commerce and local councils, which are all actively involved in providing SMEs with information and expertise in their greening transition. For instance, awareness on green policies for SMEs has been raised through the National Corporate Social Responsibility Award, which is organised annually by the Ministry of Environment and Physical Planning (MoEPP), and includes the environment as one of its categories.<sup>73</sup> North Macedonia's first Aarhus Centre<sup>74</sup> was set up in 2019 as a platform to engage citizens, governments and the private sector in a dialogue on environmental challenges, support public participation in the areas of energy, climate and environment and facilitate access to environmental information.

Moreover, activities to foster SME awareness of green policies have been increased since North Macedonia's involvement with the Green Climate Fund (GCF)<sup>75</sup> in 2019. Activities organised as part of the GCF readiness and preparatory support programme have proven effective tools to engage with and collect data on the private sector. Extensive consultations were organised with relevant stakeholders, including the private sector, to ensure alignment between chosen GCF priorities, relevant national strategies and ongoing efforts. Following these consultations, different activities were organised to raise awareness of the GCF, identify climate-financing opportunities, and map private actors with existing or potential roles in supporting climate action. The recommendations emanating from the undertaken activities should be available in 2022 and will aim to support the design of policies and related financial instruments (Green Climate Fund, 2021<sup>[108]</sup>).

*A range of financial initiatives has been developed to support SMEs in their greening efforts and, to some extent, as part of COVID-19 recovery programmes*

While implementation of green policies has been advancing slowly, solid progress has been achieved in multiplying financial incentives available to SMEs to improve their environmental performance.

Through its Programme for Competitiveness, Innovation and Entrepreneurship (2012-2021), the MoEPP provided financial and technical support to 839 SMEs for renewable energy, energy efficiency, and, more

recently – in 2021, circular economy projects<sup>76</sup> (Box 17.17). Furthermore, in line with the Strategy for Innovation (2012-2020), until 2020, the Fund for Innovation has offered a total of 17 co-financed grants to SMEs' projects in relation to clean technologies and eco-products, in the amount of EUR 2.7 million.<sup>77</sup>

As recommended in the previous cycle, the DBNM has become an important actor in fostering green lending to SMEs' projects. The Financing Sustainable Energy Sources Projects credit line was developed to finance SMEs' projects related to renewable energy (up to EUR 3 million) and energy efficiency (up to EUR 500 000). Moreover, with the aim of connecting greening aspects to its COVID-19 recovery programme, the Development Bank's credit line KOVID3 offers SMEs the possibility to apply for a 30% grant if they plan to implement projects related to the green economy.<sup>78</sup>

The recently adopted Plan for Accelerated Growth (2022-2026) foresees two funds to finance green economy projects. First, a Hybrid National Green and Digital Fund for SMEs, Start-ups and Innovative Enterprises has been established to invest in green and digital SMEs to support their growth and entry into international markets, with a total portfolio of EUR 27 million.<sup>79</sup> The Fund is expected to start investing in the second half of 2022. Second, a Green Investment Fund is also being developed by the government and international partners to accelerate investments in renewable energy sources and energy efficiency solutions. It is expected to be worth EUR 36.3 million.

While the introduction of several financial incentives should encourage SMEs' greening activities, co-ordination between all instruments is needed. Currently, no co-ordinating body monitors and provides data on SMEs benefiting from financial initiatives for green practices.

*Non-financial tools for SME greening have been introduced, although their implementation remains limited*

Although non-financial tools supporting SME greening have been increasingly included in North Macedonia's legal framework, evidence on the use of these policies is lacking. The Long-Term Climate Action Strategy, adopted in 2021, and the subsequent Law on Climate Action (planned for 2022)<sup>80</sup> do not specifically target SMEs but aim to reduce GHG emissions with special licensing regimes for low-environmental risk installations. The law prescribes permits for stationary installations with simplified requirements for facilities with minimal environmental impact, which should mainly benefit SMEs by minimising unnecessary costs.

Moreover, environmental management systems (EMS) and eco-labels are legislated in the Law on Environment (2011), and rulebooks on eco-labels are available for some sectors (such as tourism or cleaning products). In addition to contributing to an increased demand for green business practices, certification of green practices could be useful for SMEs when dealing with business licensing and administrative requirements. Moreover, SMEs can benefit from such schemes when the business benefits outweigh both the direct costs in terms of fees that must be paid to obtain certification and the indirect costs of staff time to be spent complying with their requirements (OECD, 2021<sup>[106]</sup>). The 2021 Programme for Competitiveness, Innovation and Entrepreneurship has provided financial and technical support for the training, implementation and certification of environment and energy management systems (ISO 14001 and ISO 50001). However, programmes promoting SMEs' certification remain limited. There is almost no data on how many SMEs have adopted EMS or eco-labels in North Macedonia and if they have benefited from such schemes.

The Law on Public Procurement (2019) includes relevant provisions on green public procurement, including on lifecycle costs. Additionally, the Public Procurement Bureau and the Energy Agency have developed guidelines on energy efficiency measures to be used in public procurement procedures. However, the introduction of green public procurement measures in tenders has remained limited.



### *The way forward for Dimension 9*

- **Ensure effective implementation of SME greening measures through cross-sectoral co-ordination.** Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for successful implementation as well as to create a synergy between the various financial instruments and avoid overlaps between the different initiatives. While North Macedonia ideally should have a co-ordination body for SME greening, this does not need to be created from scratch. The task could be entrusted to the co-ordination body in charge of SME policy implementation established in 2019. Co-ordination should not stop at policy design and implementation but should continue for regular monitoring and evaluation.
- **Raise SMEs' awareness on eco-labels and environment management systems and monitor the implementation of such schemes.** North Macedonia should raise the recognition of green certification and eco-labels among SMEs by emphasising their role in offering a competitive advantage, providing opportunities in new markets and enhancing customer confidence. Business associations can help design marketing and promotional materials that SMEs could use to display their "green credentials" to their customers (OECD, 2018<sup>[109]</sup>). Moreover, monitoring and evaluation mechanisms will be necessary to keep track of the number of certifications delivered and ensure the efficiency of awarding procedures. Box 17.18 provides examples of an SME-oriented certification scheme in Norway.

#### **Box 17.18. Environmental certification of SMEs in Norway**

The Eco-Lighthouse Programme is a programme for the environmental certification of SMEs in Norway. With this programme, companies are supposed to reduce their impact on the environment, reduce costs and make use of an environmental profile in their marketing. The Norwegian Ministry of the Environment supports the programme.

The Eco-Lighthouse Office is responsible for marketing at the national level and the continuous development of the programme (including developing and improving trade demands in co-operation with consultants, companies and branch organisations). The office also arranges training courses for consultants who conduct environmental audits and local government staff responsible for certifying companies.

The municipalities recruit new companies, establish contacts between consultants and companies, make use of the media and carry out inspections before the environmental certificate is awarded.

The municipalities also issue the certificates when the companies have implemented the action plan to satisfy the established requirements.

The Eco-Lighthouse Foundation is the first national certification scheme in Europe to be recognised by the European Commission. The recognition verifies that the scheme holds the standard and quality on a par with international eco-labelling schemes (Eco-Management and Audit Scheme and ISO 14001).

As of 2022, 6 700 certificates have been delivered through the programme.

Sources: Eco-lighthouse Foundation (2022<sup>[110]</sup>) and OECD (2021<sup>[106]</sup>).

- **Support SMEs' transition to a circular economy.** To ensure effective implementation of the soon-to-be adopted Waste Prevention Plan (2021-2031), North Macedonia should support SMEs in their green and circular transition through awareness raising, capacity building and sharing of best practices. Facilitating partnerships and peer-to-peer learning between businesses of all sizes could encourage SMEs to engage in green and circular practices (OECD, 2020<sup>[111]</sup>). Building on the growing involvement of business associations, the government could facilitate circular

economy initiatives, such as the Circular Glasgow project, led by the Glasgow Chamber of Commerce. Even though this is a city-level project, it could easily be scaled up to the national level in North Macedonia (Box 17.19).

### **Box 17.19. Circular Glasgow: Capacity building on the circular economy**

Since 2015, the Glasgow Chamber of Commerce has hosted Circular Glasgow and is responsible for delivering this initiative with Zero Waste Scotland, the Glasgow City Council (United Kingdom) and key stakeholders.

Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas.

This is done by carrying out: 1) workshops and events – a series of knowledge-sharing business-to-business networking events; 2) a Circle Assessment – a tool that helps businesses understand opportunities to become more circular; and 3) the Circle Lab – an online hackathon event to find a circular solution to local challenges. The Circle Lab sought solutions to make Glasgow's event industry more circular.

Following the 2020 edition, ways to turn the winning ideas (namely a deposit-based reuse system for food and drink containers, circular designs for event marketing and branding, and a scheme that will repurpose organic waste into energy and fertilisers) into pilot projects were explored.

Building on the work of Circular Glasgow, the city of Glasgow adopted its Circular Economy Route Map (2020-2030) to reflect and shape a circular economy approach at a city-wide level to continue this momentum.

Sources: OECD (2019<sup>[112]</sup>; 2020<sup>[113]</sup>); City of Glasgow (2020<sup>[114]</sup>).

## Internationalisation of SMEs (Dimension 10)

### Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into GVCs and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

For a small open economy such as North Macedonia, internationalisation and export-led development are key factors in achieving inclusive growth. Competitive manufacturing and services sectors contribute to robust growth and productivity performance. North Macedonia's current integration into world trade has largely relied on a narrow export base, which incorporates little domestic value added. The COVID-19 pandemic has put additional pressure on SMEs, especially in the area of access to finance, availability of technical assistance and maintaining liquidity. Therefore, a broad range of well-coordinated policies is required to boost SMEs' internationalisation, productivity and competitiveness, while easing labour reallocation during the ongoing recovery.

North Macedonia scored a total of 3.88 (Table 17.28), which is a moderate increase from the score received in 2019 (3.54). While the economy performed well under the first sub-dimension on export promotion, the second sub-dimension received sub-par scores, indicating that more efforts are needed in integrating SMEs into GVCs. The efforts on promoting the use of e-commerce remain largely in line with the regional average; however, more work is needed to effectively support e-commerce uptake among SMEs.

**Table 17.28. North Macedonia's scores for Dimension 10: Internationalisation of SMEs**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.61
		Implementation	4.58	4.24
		Monitoring and evaluation	3.67	3.65
		<b>Weighted average</b>	<b>4.52</b>	<b>4.23</b>
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.67	3.88
		Implementation	3.26	3.57
		Monitoring and evaluation	1.67	2.70
		<b>Weighted average</b>	<b>3.36</b>	<b>3.49</b>
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.67	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	3.67	3.29
		<b>Weighted average</b>	<b>3.33</b>	<b>3.32</b>
	North Macedonia's overall score for Dimension 10			<b>3.88</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

North Macedonia advanced in reinforcing the strategic framework for export promotion by preparing to adopt the Strategy for Export Promotion (2022-2026). In line with OECD recommendations (Table 17.29), the economy focused on shifting to higher value-added exports and intensified its capacity-building efforts. Nevertheless, there are still outstanding challenges within the domestic supplier base. There has been

moderate progress in designing e-commerce policies in North Macedonia, though most support schemes and programmes focus more broadly on digitalisation.

**Table 17.29. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 10**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Develop consistent and targeted export support programmes focused on capacity building to ensure more SMEs become ready to export</b>	Despite the COVID-19 pandemic being a major challenge to implementing export promotion activities, North Macedonia made moderate progress in shifting its focus to capacity building. The new Strategy for Export Promotion (2022-2026), set to be adopted in late 2022, emphasises improving SMEs' export preparedness and increasing their competitiveness abroad.	Moderate
<b>Continue to develop programmes building on the cluster mapping activity and supplier development pilot programme</b>	The government did not introduce any new programmes on cluster formation and development.	No progress
<b>Solidify the framework for e-commerce and revise schemes to support the uptake of e-commerce</b>	North Macedonia introduced a number of initiatives supporting the digitalisation of SMEs and increasing their technological capacity. However, a solid government framework to promote the uptake of e-commerce is still lacking.	Moderate

*North Macedonia further reinforced its strategic framework for export promotion with a dedicated focus on transitioning to higher-value exports*

Export promotion in North Macedonia is governed by the Law of Financial Support of Investment and the SME Strategy (2018-2023). The soon-to-be-adopted Strategy for Export Promotion (2022-2026) focuses on supporting domestic SMEs in improving their export capacity and helping them transition to higher value-added activities. Prompt adoption of the Strategy will be a step in the right direction and a welcome development in prioritising higher complexity of exports among SMEs, as the North Macedonian export base consists of both lower value-added products (agro-food and textiles) with a potential to transition and a few higher value-added products, such as automotive parts (OECD, 2019<sup>[115]</sup>). Assessment of the opportunities, obstacles and capabilities is at the centre of the process, including an analysis of export opportunities for SMEs, which was in preparation by the World Bank at the time of assessment.

Invest North Macedonia defined six high value-added priority sectors<sup>81</sup> ranging from IT, agribusiness and food processing, wine, textiles, automotive components and the electro-metal industry. These are aligned with the OECD's product-space analysis for North Macedonia, which showed that the products with the greatest export potential in North Macedonia are base metals, chemicals, machinery and textiles (OECD, 2019<sup>[115]</sup>). Moving up GVCs and focusing on a higher value-added of the export base, North Macedonia would increase SMEs' productivity growth, thus boosting their income, helping them remain profitable and create employment (OECD, 2007<sup>[116]</sup>).

*Invest North Macedonia provides comprehensive support for SMEs but has no authority to grant financial support directly to SMEs*

Invest North Macedonia is a government agency tasked with investment support and promotion. It caters to investors and provides them with customised services before and after an investment, along with a broad range of activities, including export promotion. The agency launched a separate export promotion portal<sup>82</sup> for domestic SMEs to access information on export opportunities. The SMEs can list their products and services on a global marketplace that is visible to international importers.

Although Invest North Macedonia offers a broad range of support measures for export-oriented SMEs, it does not provide direct trade financing. In 2019, the government introduced a new Law of Financial Support of Investment that gave the agency a more substantial role in the decision-making process for approving

financial support for SMEs. The agency has autonomy in terms of regulating the types, amounts, conditions, and procedures for granting financial support to investing business entities. However, no direct payments are handled by the agency.<sup>83</sup> This diverts from the practice common in the WBT region and among OECD member countries, where export promotion agencies tend to have a broader mandate allowing them to expand grants directly to SMEs (OECD, 2018<sup>[117]</sup>).

*The government reinforced both the strategic framework for GVC integration and its implementation, although room for improvement remains*

The integration of North Macedonian SMEs into GVCs is included in several government strategies and constitutes a key aspect of SME support in North Macedonia. The SME Strategy (2018-2023) defines increased SME participation in GVCs as one of the main targets of the government's internationalisation programme. To achieve this goal, the government envisages analysing SMEs' potential to integrate into GVCs and developing dedicated programmes and services to help them access foreign markets. The strategy's measures focus on increased support for the ICT sector and the green economy and improving co-operation within industry clusters and networks. The Europe Enterprise Network has been enlisted to support the development of strategic industries, such as food and wine, steel, construction, renewable energy and tourism (Ministry of Economy, 2018<sup>[74]</sup>).

By adopting the new Strategy for Export Promotion (2022-26), North Macedonia will reinforce its commitment to boosting SME competitiveness. The government already provides technical advisory support for SMEs aiming to digitalise their operations, adopt international standards, invest in tangible assets and upgrade their products. Different international initiatives are also in place aiming to improve SME competitiveness by furthering their technological advancement and increasing their productivity<sup>84</sup>. In addition, the Law on Financial Support of Investments has a special provision on financial support for SMEs to establish and develop co-operation with local suppliers. The provision applies particularly to companies operating within technological, industrial development zones (TIDZs), which manufacture product components and assemble final products for export. This constitutes a good first step to further advance SME integration into GVCs, especially in light of the COVID-19 pandemic disruption of traditional supply chains (Srbinoski, Petreski and Petreski, 2020<sup>[99]</sup>).

To successfully compete in the global market, the SME supplier base needs assistance in overcoming the lack of information on foreign markets and limited global exposure. To address this issue, three portals have been launched since the previous assessment: a government's online matchmaking portal - Macedonian Suppliers Business Portal, which links local suppliers with international buyers; Invest North Macedonia's export promotion portal and the Brownfield portal, which is a database of available production and business facilities allowing domestic and foreign investors to browse and use these facilities with prior registration.

The economy is also part of the Regional Supplier Development Programme,<sup>85</sup> with Western Balkan economies working together to map suppliers from the region in the sectors of light manufacturing, the automotive industry and agro-food, and this initiative could be particularly beneficial for SMEs in North Macedonia as it would allow for a regional regrouping and thus enable SMEs to collectively answer to more important demands from MNEs. While the initiative is a good step in the right direction to increase SME integration into GVCs, its uptake remains below optimal. This may be due to insufficient promotion efforts, as the portal is user-friendly and contains up-to-date information on opportunities for both SMEs and MNEs.

Despite the COVID-19 pandemic's negative impact on the economy, the global supply chain disruptions might present opportunities for exporting SMEs and MNEs, especially those with existing linkages. MNEs were particularly affected by the disruptions along global supply chains; this opens a possibility for increased collaboration with domestic SME suppliers to fill the gap caused by import distortions from other continents during the pandemic. SMEs already connected to locally operating MNEs could benefit from forming a cluster, although government support would be crucial to upgrading the linkages and boosting

technology and innovation transfers (El-Meehy, 2004<sup>[118]</sup>). However, despite being mentioned in North Macedonia's strategic framework, since the last assessment cycle, there have been no new programmes to support cluster formation and development.

*Monitoring and evaluation of projects related to GVC integration are limited and chiefly done by international partners*

North Macedonia's monitoring of projects related to GVC integration is limited in light of the absence of dedicated government programmes. The government collects data on SME internationalisation, although specific information on SME integration into GVCs is lacking, which in turn deters monitoring and evaluation. Consequently, the government lacks insight into the effectiveness of introduced policies, as evidence-based inputs are limited. While existing external initiatives aiming to assist SMEs in GVC integration are monitored, it is performed by international development partners on an ad hoc basis, without a government framework for evaluation.

*Although North Macedonia has advanced in harmonising its e-commerce legal framework with EU directives, the focus of its support schemes remains too broad*

North Macedonia has made notable efforts in prioritising e-commerce in its strategic documents and ensuring their alignment with EU directives. The Law on Consumer Protection is currently under government procedure and will be fully aligned with EU standards and CEFTA provisions. The law is an extension of the broader Law on Safety of Goods and includes provisions on e-commerce and e-payments. The new Law on Payment Services and Payment Systems, which implements European directives and regulations pertaining to e-payment services, is planned for adoption in late 2022. The law was approved by the government and submitted to the parliament for adoption at the time of assessment.

The aforementioned laws are part of a broader SME Strategy (2018-2023) and are aligned with the government's draft National ICT Strategy (2021-25), whose timely adoption was delayed due to the lack of implementation of the previous strategy caused by the COVID-19 pandemic. Support for SMEs aiming to increase digitalisation levels within the company has also been included in the Ministry of Economy's Programme for Competitiveness, Innovation and Entrepreneurship 2019, 2020 and 2021, although details on implementation and monitoring are lacking.

Although there are no dedicated government programmes for the promotion of e-commerce, North Macedonia has implemented a series of initiatives to boost SMEs' uptake of e-commerce and digitalisation processes. To mitigate the effect of the pandemic, the North Macedonian Development Bank, in collaboration with the European Union, introduced a series of interest-free credit lines and grants for affected MSMEs aimed at modernisation and digitalisation of business processes while the FITD launched co-financed grants for technological development of digital solutions. However, the scope of both grant schemes remains broadly defined, encompassing digitalisation activities without being specifically directed to e-commerce activities. While this is a welcome development in line with OECD best practices, North Macedonia lacks government programmes that aim solely to promote e-commerce practices among SMEs. Adopting a cross-border e-commerce sales channel could accelerate SME growth and foreign expansion<sup>86</sup>.

A dedicated entity overseeing the implementation of e-commerce programmes is still lacking, and no separate budget to promote the uptake of e-payments and e-commerce is currently envisaged by the government, as these activities fall within the scope of the general budget for promotional activities. While North Macedonian Association for e-commerce makes notable efforts in informing SMEs on new initiatives and available services through their online portal, collects data on e-commerce and prepares comprehensive reports and analyses, their overreach remains limited, and the resulting analysis is available through a paid membership only, which limits access to information.

### *The way forward for Dimension 10*

- **Extend Invest North Macedonia's mandate to further strengthen investment facilitation and the quality of aftercare services.** Increasing the agency's capacity could have a positive impact on attracting export-oriented FDI within the TIDZs and fomenting SME-MNE linkages through dedicated programmes. Invest North Macedonia should have sufficient resources, authority and capacity to adequately meet the needs of potential investors and to assist SMEs in creating productive linkages with them in order to benefit from knowledge and technology transfers, improve their competitiveness and move up the value chain.
- **Promote intensified cluster formation by developing new support policies supporting industrial clustering in priority sectors of the economy.** Since the last assessment cycle, there have been no new programmes promoting cluster formation and development. Priority sectors for export promotion (IT, agribusiness and food processing, wine, textiles, automotive components and the electro-metal industry) have high potential for industrial clustering and shifting to higher value-added activities. The programmes should have proper monitoring and evaluation systems in place to ensure effective implementation.
- **Establish a dedicated government programme focused on promoting e-commerce uptake among SMEs.** Government support for private initiatives and international partner organisations' programmes is also a vital component of digitalisation and modernisation efforts, as outlined in strategy documents. Box 17.20 provides a relevant good practice example.

#### **Box 17.20. Digitalise your SME: A collection of initiatives from Chile**

Chile's Ministry of Economics, Development and Tourism introduced a new initiative to equip SMEs with training to adopt e-commerce practices and digitalise their operations called "Digitalise your SME". The project entails workshops, events and capacity building to provide solid tools to further digitalise Chilean SMEs. The project consists of eight different initiatives:

- **Buy SME:** An online platform that connects newly digitalised local SMEs with potential customers.
- **Digital Route:** An education programme developed together with Servicio de Cooperación Técnica (SERCOTEC) (Technical Co-operation Service) that aims to equip SMEs with technical skills to digitise their operations.
- **SMEs Online:** An online platform for SMEs, created to facilitate the incorporation of e-commerce.
- **Local SMEs:** A free online platform for local microenterprises, which is accessed with the help of an online assistant, and where users can learn about taking their businesses on line.
- **SME Launch:** A widely accessible education platform for companies and the general public to enhance technical and digital skills related to tax matters and logistics across the economy.
- **Tourism Connect:** A dedicated resource for SMEs in the hospitality and tourism industry, created to augment their digitalisation.
- **Digital Challenge:** A national campaign that promotes digitalisation across Chile.

The initiative is divided into three main components: raising awareness, education and adoption. Through a single online platform, SMEs can increase their visibility, integrate an e-commerce



distribution channel into their operations, receive assistance with establishing a payment infrastructure and understand the legal framework. The project was launched in 2019 and seeks to assist over 25 000 SMEs countrywide.

E-commerce promotion is lagging in North Macedonia, as the uptake of digital practices remains low. Introducing capacity-building activities, training and step-by-step guides on how to engage in an e-commerce sales channel and digitalise operations could improve the uptake of digital support programmes within the economy. Given that there is no dedicated entity to oversee e-commerce implementation, the government could empower SMEs while simultaneously connecting them to a global marketplace through online business-to-business or business-to-consumer matchmaking platforms.

Source: Ministry of Economy, Development and Tourism, Chile (2020<sup>[119]</sup>).

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## Notes

- <sup>1</sup> For information on this ninth-grade course in primary education, see [https://www.bro.gov.mk/wp-content/uploads/2018/02/Nastavna\\_programa-Inovaciji-IX\\_odd-mkd.pdf](https://www.bro.gov.mk/wp-content/uploads/2018/02/Nastavna_programa-Inovaciji-IX_odd-mkd.pdf).
2. For full information on the Concept for Primary Education, see <http://osnovnoobrazovanie.mon.gov.mk/%D0%BA%D0%BE%D0%BD%D1%86%D0%B5%D0%BF%D1%86%D0%B8%D1%98%D0%B0-%D0%B7%D0%B0-%D0%BE%D1%81%D0%BD%D0%BE%D0%B2%D0%BD%D0%BE-%D0%BE%D0%B1%D1%80%D0%B0%D0%B7%D0%BE%D0%B2%D0%B0%D0%BD%D0%B8%D0%B5/> (accessed on 30 January 2022).
3. For more information, see <http://jamacedonia.mk/web/company-programme/>.
4. For more information, see <https://fitr.mk/%d1%84%d0%be%d0%bd%d0%b4-%d0%b7%d0%b0-%d0%bc%d0%bb%d0%b0%d0%b4%d0%b8-%d1%83%d0%bc%d0%be%d0%b2%d0%b8/> (accessed on 30 January 2022).
5. For more information on the Upshift programme, see <https://fitr.mk/en/existing-initiatives/>.
6. For more information on Junior Achievement, see <http://jamacedonia.mk/web/>.
7. Since the COVID-19 pandemic, these textbooks are now available on line; see below for examples:

*Innovation and Entrepreneurship* textbook for ninth grade primary and years 1-3 of secondary education (last years of lower secondary level through to upper secondary level)

- Ninth grade primary: <https://www.eucebnici.mon.gov.mk/pdf/Inovacii%20IX%20cela%20Sep%202020.pdf>.
  - Year 1 of the course *Innovation and Entrepreneurship*: <https://www.eucebnici.mon.gov.mk/pdf/Inovacii%20i%20pretpriemnistvo%20I%20MAK%20PRINT%20comp%202020.pdf>.
  - Year 2 addressing project-based activity: <https://www.eucebnici.mon.gov.mk/pdf/Inovacii%20i%20pretpriemnistvo%20-%20II%20god.%20cela%20Sep%202020.pdf>.
  - Year 3 of the course *Innovation and Entrepreneurship*: <https://www.eucebnici.mon.gov.mk/pdf/%D0%98%D0%BD%D0%BE%D0%B2.%D0%B8%20%D0%BF%D1%80%D0%B5%D1%823-%D1%82%D0%B0%20comp%202020.pdf>.
8. In 2019, the Bureau for Development of Education supported large-scale training for over 2 000 teachers on key competences, including the entrepreneurship key competence.
  9. More information on EntreCompEdu can be found at [www.entrcompedu.eu](http://www.entrcompedu.eu). This European project was led by University of Wales Trinity Saint David, and development/training delivery in North Macedonia was implemented by the National Centre for Development of Innovative and Entrepreneurial Learning (see <http://ncdiel.mk/>).
  10. For more information, see <https://pfbt.uklo.edu.mk/wp-content/uploads/sites/5/2021/12/Nastavnik-l-ciklus.pdf>.
  11. The National Platform for Women's Entrepreneurship is a coalition between the Association of Business Women, the Miro Foundation, the Macedonian Chamber of Commerce and the National Federation of Farmers. Co-funded by the European Union, the main goal of the project is to strengthen the capacity of civil society to create public policy proposals and advocacy in the field of women entrepreneurship, by merging existing networks into a single platform that will be of interest to women entrepreneurs at all levels. It will do this by building a national platform, facilitating structural dialogue and networking between stakeholders at the national and local levels, capacity building within civil society organisations and promoting women entrepreneurs as drivers of change in public policy. For more information, see <https://en.weplatform.mk/>.
  12. For more information, see <https://www.mtsp.gov.mk/socijalno-partnerstvo-ns%20article-ekonomsko-socijalen-sovet.nsp.x>.
  13. The procedure is characterised as a quasi-collective proceeding under the supervision of a court or an administrative authority appointed by the court (Deloitte, 2017<sup>[121]</sup>). The proposed procedure is similar to the already enacted pre-insolvency and restructuring procedures in Croatia in 2015 (Ministry of Justice, Government of Croatia, 2015<sup>[122]</sup>), in Serbia in 2016 (Parliament, Serbia, 2016<sup>[123]</sup>) Bosnia and Herzegovina in 2021 (Parliament, Bosnia and Herzegovina, 2021<sup>[124]</sup>). The procedure provides a possibility to the debtor to solve its existing debt to creditors only through

financial reorganisation or to undertake more serious operative restructuring and turn-around of the debtor's business.

14. The service refers to free mentoring for newly established SMEs, not older than three years from the date of publication of the call and companies whose business operation is longer than three years (registered before February 2017), which are at a crucial moment for their further growth and market development or survival. Manufacturing enterprises and enterprises owned/operated by women entrepreneurs are particularly encouraged to participate in the call.
15. Mainly unregistered labour and undeclared wages and other irregularities related to labour as well as underreporting turnover.
16. The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to the potential impacts of a regulation on SMEs. The SME Test methodology starts with an examination of the SME aspects in RIA, and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see: [https://ec.europa.eu/info/sites/default/files/br\\_toolbox-nov\\_2021\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf).
17. For more information on the Estonian example, see: <https://www.oecd-ilibrary.org/sites/06899687-en/index.html?itemId=/content/component/06899687-en>.
18. A qualified electronic signature is an electronic signature that is made with a qualified certificate for identifying the signer. This certificate consists of an electronic document that links the data of the signer and the validation of the signature to the unequivocal identification of the subject. Qualified certificates require either acquiring them as a service from certified private providers, therefore incurring a cost, or the use of electronic ID cards, requiring the use of card-reader hardware.
19. National Population Register, Central Register (of business entities), cadastre.
20. Regulation (EU) No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market, or the eIDAS regulation, establishes the European framework for electronic trust services and the use of e-ID. For more information, see: <https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation>.
21. The excessive discretionary power of government officials and inconsistent application of regulations remain an important constraint for 30% of business, which reported it as being a big or very big obstacle to obtaining a licence. Moreover, the same share of businesses reported that the explicit or implicit norm to give bribes was a big or very big obstacle.
22. The programme's activities include: collecting, processing and publishing data and information relevant for SMEs; creating an online database of initiatives offered by regional support centres; conducting training, consulting and education activities for the SME sector; organising conference events to encourage networking; implementing regional and national co-operation programmes; providing subsidies and vouchers for counselling services for SMEs; and co-financing development projects in co-operation with international development co-operation partners.

23. The SME Strategy (2018-2023) envisages revitalising credit guarantees schemes through the Development Bank of North Macedonia, grants, leasing and loans for SMEs to improve their access to finance.
24. In 2019, APPRM had a set budget of MKD 3.9 million (approximately EUR 63 370). For 2020, the government increased the budget to MKD 20.8 million (approximately EUR 338 044), illustrating a strengthened commitment to SME development. Due to the impact of the COVID-19 pandemic, the 2020 budget was revised down by approximately MKD 3 million (approximately EUR 48 600), amounting to MKD 17 million (approximately EUR 276 286) in October 2020. The budget for 2021 remains at MKD 17 million.
25. Mentoring services, provided in collaboration with JICA, include assistance in preparing business plans, consultations on preparing applications for financial support and credit and business partner search.
26. APPRM offers grants supporting certification and standardisation (see also Standards and technical regulations (Dimension 7)).
27. For more information, see <https://www.ebrd.com/news/2021/ebd-and-eu-to-boost-competitiveness-of-small-and-mediumsized-enterprises-in-north-macedonia.html>.
28. For more information, see <https://www.giz.de/en/worldwide/103539.html>.
29. Start-ups enjoy a 100% subsidy up to EUR 500, while a 50% subsidy is offered to existing enterprises, with a ceiling of EUR 750.
30. The indicators include: geographical coverage; the number of advisors available; areas of specialisation; the number of applications; acceptance rate; the number of people interested in the programme; voucher amounts; the number of grants provided; percentage of customer satisfaction; and percentage of unused vouchers.
31. The Industrial Policy (2018-2027) focuses on the manufacturing industry and aims to promote increased employment and productivity of the sector. The strategy outlines five strategic goals: strengthen manufacturing foundations in the economy; increase productivity, innovation and technology transfer; catalyse green industry in manufacturing; stimulate manufacturing exports; and increase learning capacities within the manufacturing sector.
32. PPL, Article 106.
33. PPL, Article 78 (1).
34. PPL, Article 99 (2).
35. PPL, Article 89 (3).
36. PPL, Article 99 (1).
37. According to the Public Procurement Bureau's annual reports they are, however, applied very often – in 91.9% of procurement procedures in 2020 and 93.8% in 2019.

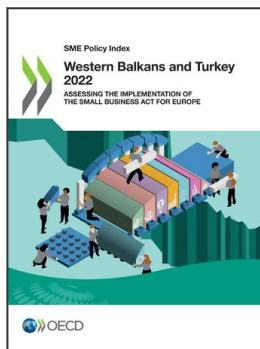
38. PPL, Article 99 (5).
39. In 2020, the price was the only criterion in 95.7% of procurement procedures.
40. PPL, Article 103.
41. See [https://www.bjn.gov.mk/wp-content/uploads/2021/05/ZJN\\_izmena.pdf](https://www.bjn.gov.mk/wp-content/uploads/2021/05/ZJN_izmena.pdf).
42. PPL, Article 29.
43. PPL, Article 83.
44. PPL, Article 99.
45. PPL, Article 110.
46. PPL, Articles 121-123.
47. See <https://www.bjn.gov.mk/category/godishni-izveshtai>.
48. See <https://e-nabavki.gov.mk/PublicAccess/Home.aspx#/home>.
49. See <https://e-nabavki.gov.mk/PublicAccess/home.aspx#/compliance>.
50. See <https://dkzjn.gov.mk>.
51. Companies too small to be served by conventional banks.
52. The report was based on a survey of levels of financial literacy in Bulgaria, Croatia, Georgia, Moldova, Montenegro, North Macedonia and Romania, collecting primary data using its globally vetted OECD/INFE Toolkit. In addition to calculating globally comparable financial literacy scores, the analysis covers financial inclusion and elements of financial well-being, paying particular attention to attributes of individual financial resilience.
53. See <https://konkurentnost.mk>.
54. North Macedonia currently has multilateral recognition agreements with the European co-operation for Accreditation in the following accreditation fields: testing, calibration certification of persons, management systems and inspection.
55. For more information, see the analysis of preliminary areas of smart specialisation identified in the 2021 report by the European Commission at [https://eprints.ugd.edu.mk/29254/1/FIN%20Final%20Report%20QA%20%20RNM\\_5.4.2021.pdf](https://eprints.ugd.edu.mk/29254/1/FIN%20Final%20Report%20QA%20%20RNM_5.4.2021.pdf)
56. For more information, see <http://av.gov.mk/programi-za-vrabetuvanje.nspj>.
57. For more information, see <http://nikola@apprm.gov.mk/News?LCID=16&jazik=MK&NewsID=518>.



58. APPRM was a partner in an Erasmus+ Knowledge Alliance in Eco-Innovation Entrepreneurship to Boost SMEs Competitiveness. For more information, see [https://issuu.com/facultyofeconomicsprilep/docs/brochure\\_smecomp](https://issuu.com/facultyofeconomicsprilep/docs/brochure_smecomp).
59. For more information, see [https://www.jica.go.jp/project/english/all\\_europe/001/outline/index.html](https://www.jica.go.jp/project/english/all_europe/001/outline/index.html).
60. The Catalyst Programme was developed by FITR in collaboration with PWC North Macedonia and supports early-stage start-ups. For more information, see <https://fitr.mk/%d0%bc%d0%b5%d0%bd%d1%82%d0%be%d1%80%d1%81%d0%ba%d0%b0-%d0%bf%d0%be%d0%b4%d0%b4%d1%80%d1%88%d0%ba%d0%b0/> (accessed on 30 January 2022).
61. For information on how FITR supports social entrepreneurship, see <https://fitr.mk/%d0%bf%d0%be%d1%82%d1%82%d0%b8%d0%ba%d0%bd%d1%83%d0%b2%d0%b0%d1%9a%d0%b5-%d0%bd%d0%b0-%d1%81%d0%be%d1%86%d0%b8%d1%98%d0%b0%d0%bb%d0%bd%d0%be%d1%82%d0%be-%d0%bf%d1%80%d0%b5%d1%82%d1%80%d0%bf%d1%80/> (accessed on 30 January 2022).
62. FITR has established a partnership with Amazon Web Services (AWS) through which the Fund provides loans for the use of the AWS global platform (amounts are incremental at USD 10 000, USD 25 000 and USD 100 000).
63. S3 development is being supported by international development co-operation agencies, including the World Bank, GIZ and the Swiss Agency for Development and Cooperation. For more information, see <https://www.biznisvesti.mk/koordinativen-sostanok-na-rabotnite-grupi-za-sozdavane-strategija-za-pametna-spetsijalizatsija/>.
64. The National Development Strategy (2021-2041) is being developed through a defined methodology designed in collaboration with the UNDP and the British Embassy. For more information on the public and stakeholder consultation process, see <https://www.nrs.mk/en-GB/pocetna/za-nrs/nashata-strategija.nspj>.
65. For more information, see <https://www.mchamber.mk/Default.aspx?mId=3&evid=80054&lng=1>.
66. For more information, see [www.apprm.gov.mk/content/Documents/Godisen\\_izvestaj\\_2020\\_APPRSM.pdf](http://www.apprm.gov.mk/content/Documents/Godisen_izvestaj_2020_APPRSM.pdf).
67. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of EU countries and their regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.
68. In addition, the FITD launched a programme aimed at providing co-financed grants for professional development and internships for newly employed young people. However, amid limited interest, this scheme was closed unsuccessfully under the first call.

69. The strategy is fully aligned with the Small Business Act for Europe and translates Principle 9 (Enable SMEs to turn environmental challenges into opportunities) and includes a set of measures on providing advice and guidance to SMEs, improving resource efficiency and introducing financial incentives for SME greening.
70. National Strategy for Sustainable Development (2009-2030), National Strategy for Agriculture and Rural Development (2014-2020) and Industrial Strategy (2018-2027).
71. The Ministry of Economy, the Ministry of Environment and Physical Planning, the Ministry for Agriculture, the Vice Premier for Economic Matters and the Innovation and Technological Development Fund are involved in developing and implementing SME greening policies.
72. Beneficiaries of this budget can be legal and natural persons, including state, municipal or local bodies that carry out programmes, projects and other activities regarding the protection or improvement of the environment. This programme provides grants and co-finances projects, and is financed by the charges paid on the basis of the polluter-pays-principle and the national budget.
73. In 2019, the SME, Adora Engineering, won the contest with the project “Traditional construction for a healthy and modern home”, which envisaged the construction of residential buildings using traditional techniques to ensure energy efficiency and eco-comfort. In 2021, two bigger companies won the contest for photovoltaic power plant projects.
74. Aarhus Centres are established in line with the Aarhus Convention. The United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention) was adopted on 25 June 1998 in the Danish city of Aarhus (Århus) at the Fourth Environment for Europe Ministerial Conference and aims at empowering the role of citizens, civil society organisations and the private sector in environmental matters. The Aarhus Convention establishes a number of rights for individuals and civil society organisations with regard to the environment.
75. The Green Climate Fund – established within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) – is the world's largest climate fund, mandated to support developing countries in raising and realising their nationally determined contributions (NDC) ambitions towards low-emissions, climate-resilient pathways.
76. Specific activities included:
  - the preparation of project documentation for installation of photovoltaic panels for electricity generation from renewable energy sources
  - financial support to MSMEs for the purchase and installation of photovoltaic panels
  - financial support to companies for the preparation of technical project documentation or a technical feasibility study for increased energy efficiency and circular economy measures
  - procurement, implementation, certification and training for environmental management standards in the fields of horizontal standards, harmonised and other standards, and standardisation documents in the field of processing industry (MKC EN ISO 50001; MKC EN; ISO 9001; ISO 14001; ISO 22000; MKC EN ISO 45001; MKC EN ISO 31000).

77. The 17 projects have been supported under the following instruments from the FITD: 3 – Co-financed grants for commercialisation of innovation; 2 – Co-financed grants for the improvement of innovation; 5 – Co-financed grants for start-ups and spinoffs; and 7 – Co-financed grants for technology development.
78. The first payments of the approved loans started at the beginning of 2021. Funds are mobilised from the EU IPA programme and amount up to EUR 30 million. Loans are approved with a three-year deadline for repayment. Negotiations are ongoing for extending the deadline for payment to an additional 12 months.
79. EUR 10 million will be financed by the government and the rest by private investments.
80. Both were prepared as part of an EU-funded project that started in 2019, which aimed to strengthen North Macedonia's administrative capacity in line with EU accession in achieving a low-carbon competitive economy and a climate-resilient society. For more information, see <https://climateaction-ipaproject.mk/>.
81. Invest North Macedonia prioritised the following sectors: information technology, agribusiness and food processing, wine, textiles, automotive components and the electro-metal industry.
82. For more information, see <http://export.investnorthmacedonia.gov.mk/>.
83. Direct payments are within the purview of the Ministry of Economy.
84. In addition to government efforts, an international initiative spearheaded by the International Finance Corporation of the World Bank aims to improve SME competitiveness by furthering their technological advancement and increasing their productivity. The project currently being developed will also focus on facilitating certification and standardisation to comply with international regulations. SMEs will receive financial and non-financial support to gain a technological advantage to allow them more significant participation in GVCs. The project will last until 2025.
85. The Regional Supplier Development Programme is a joint initiative of the Western Balkan economies, the World Bank, the EBRD, the Western Balkans 6 Chamber Investment Forum (WB6 CIF) and the Regional Cooperation Council (RCC). The initiative is conducted under the Common Regional Market Action Plan, and the Economic Chamber of North Macedonia is also actively involved in the programme. The Economic Chamber of Commerce is tasked with mapping suppliers in the Western Balkans region, which are later included in the supply chain module of the Market Access database developed under the framework of the Regional Supplier Development Programme.
86. Traditional SMEs usually do not engage in export activities, as participation ranges from 2% to 28%. Some 97% of SMEs that moved their sales on line are exporting and expanding their export range globally (World Trade Organization, 2016<sup>[120]</sup>).



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