

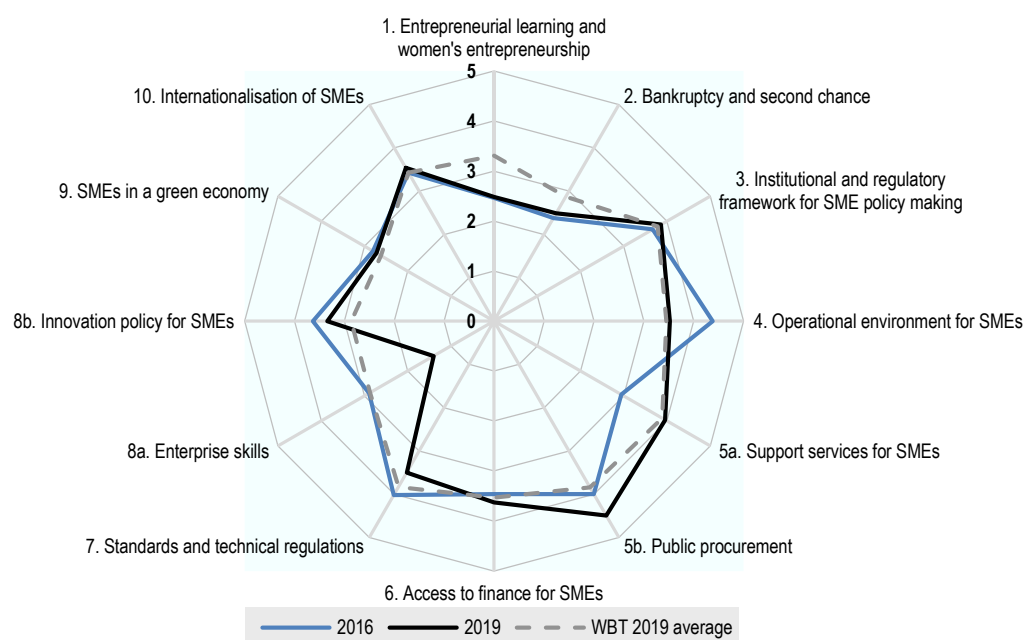
## Chapter 17. North Macedonia: Small Business Act profile

*This chapter covers in depth the progress made by the Republic of North Macedonia in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of North Macedonia's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the 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.*

The full version of this chapter is available at <https://doi.org/10.1787/g2g9fa9a-en>.

## Key findings

**Figure 17.1. Small Business Act scores for North Macedonia (2016 and 2019)**



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

The Republic of North Macedonia has made moderate progress in implementing the Small Business Act (SBA) since publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 17.1). The economy continues to offer a business environment receptive to SME needs, as well as a wide range of support programmes which are receiving a growing volume of financial resources. The main achievements that have helped the economy improve its performance in this assessment can be summarised as follows:

**The new SME strategy has been developed through an inclusive approach.** Three years after the previous SME strategy had expired, a new one covering the period to 2023 was adopted in 2018. This comprehensive document includes objectives for each of the ten SBA principles, and the priority areas have been identified based on the last SME Policy Index findings.

**A new online portal centralises the information on SME support services.** With European Union support, the Ministry of Economy has set up an online portal listing all the active calls for financial and non-financial support for SMEs. This will help to increase the awareness and uptake of programmes among SMEs.

**The Fund for Innovation and Technological Development has been scaled up, further boosting the innovation ecosystem.** More than EUR 3 million has been allocated to high-growth innovative SMEs since the fund's establishment in 2013.

Additional financial instruments were rolled out in 2018, substantially increasing government support to strengthening innovation infrastructure, such as incubators and accelerators.

**Public procurement processes are more streamlined.** Changes introduced to the law on public procurement in 2017 led to the abolishment of the Public Procurement Council, removing the need for costly and time-consuming approval procedures in order to participate in tenders. North Macedonia fosters one of the most SME-friendly environments in the region for public procurement.

**Resolving insolvency has become faster with the introduction of debt restructuring.** Following the amendments to the Bankruptcy Act in 2015, different creditors can actively participate and vote in insolvency proceedings, allowing for debt re-organisation plans. This has helped to reduce the average time to resolve insolvency from 1.8 years in 2016 to 1.5 in 2018.

**The Institute of Accreditation has signed bilateral and international agreements, further easing SMEs' access to international markets.** By eliminating the need for additional testing, mutual recognition of conformity assessment bodies' results in third countries is likely to lead to the increased acceptance of local SMEs' exports. Technical trade barriers have been lowered, decreasing SMEs' costs and administrative burden when exporting.

### *Priority areas*

Following the standstill in implementing new SME policy measures throughout most of 2016 and early 2017, efforts have visibly intensified for planning policies and harmonising them with the SBA principles. Building on this momentum, this report identifies eight priority areas in which North Macedonia should intensify its activities further:

- **Ensure effective implementation of the SME strategy by establishing a co-ordinating body.** Given its ambitious objectives and broad action areas, the effective implementation of the SME strategy hinges on a strong co-ordination mechanism; however, this has not yet been established. This mechanism should be set up, giving a leading role to the Agency for Promotion of Entrepreneurship.
- **Establish the planned National SME Association to strengthen private engagement in policy making.** The National Entrepreneurship and Competitiveness Council, established in 2012, has now ceased to operate. A new mechanism that incorporates the voices of micro and smaller enterprises in policy making is imperative for applying the “think small principle”.
- **Complete the reform of the legal framework for factoring and promote it amongst SMEs as a viable financial instrument.** To encourage the development of factoring services and increase their uptake by SMEs, the reform to increase legal certainty and transparency needs to be finalised. This should be complemented by awareness-raising efforts to promote factoring as an alternative financial instrument alongside bank loans.
- **Streamline company registration and the provision of licences and permits by consolidating the services under one-stop shops.** Although the current 27 “one-stop shops” operated by the Central Registry allow for easy registration of businesses, they do not centralise the application process for various licences and

permits. The registry's mandate needs to be extended so as to further simplify the process and reduce the administrative burden on SMEs.

- **Embark on a review of SMEs' skills gaps and training needs.** To date there has been no comprehensive analysis of skills shortages. Unidentified and unaddressed skills gaps continue to be a binding constraint on SME growth and competitiveness.
- **Conclude the preparation of the Green SME Development Strategy, and provide guidance to SMEs in adopting environmentally sound practices.** The finalisation of the planned strategy would be a first step towards ensuring a whole-of-government approach to SME greening. This should be followed by targeted activities, raising SMEs' awareness of the fact that resource efficiency offers high returns for low-cost investments.
- **Scale-up public support to further encourage linkages between multinational enterprises and SMEs.** Apart from a few donor-funded initiatives, there have been no systematic efforts to help SMEs integrate into European and global value chains. Support programmes, match-making services and targeted advice to SMEs on upgrading their production process need to be developed.
- **Assist SMEs to reap the benefits of e-commerce.** The share of enterprises selling online is just 3%, the lowest in the Western Balkans and Turkey (WBT) region. Despite the relatively solid legal framework, the lack of relevant information and communications technology skills necessitates public intervention to provide targeted support to SMEs.

## Economic context and role of SMEs

### *Economic overview*

North Macedonia is a small, upper-middle income economy with a population of 2.08 million and a gross domestic product (GDP) per capita of 15 290 current international dollars in purchasing power parity (PPP) terms in 2017 (World Bank, 2018<sup>[1]</sup>) – the third highest of the Western Balkan economies. The service sector contributes the most value added to the economy, generating 54.6% of GDP in 2017, followed by industry (24.1%); while agriculture, forestry and fishing accounted for only 7.9% of GDP (World Bank, 2018<sup>[1]</sup>). However, the agriculture sector did still account for 16.4% of employment in 2017, with most of the active labour force employed in the service sector (53.8%) and industry (29.8%) (ILO, 2018<sup>[2]</sup>).

Table 17.1 lists the economy's main macroeconomic indicators between 2013 and 2018. Following a solid growth period which saw GDP increase by 3.3% on average between 2013 and 2016, the economy stagnated in 2017. Growth in 2017 suffered from the political uncertainty which prevailed in the first half of that year due to delays in forming a government following the parliamentary election in December 2016 (EC, 2018<sup>[3]</sup>). This caused public and private investment to drop, thus offsetting increased exports and higher household spending underpinned by higher employment and wages (EC, 2018<sup>[3]</sup>).

Unemployment continued to decline to 22.4% in 2017 despite stagnant growth (Table 17.1). The largest increases in employment were observed in sectors linked to foreign direct investment (FDI) projects which benefitted from government fiscal support, such as wholesale and retail trade, transport, storage and manufacturing (Vostroknutova and Hernandez, 2018<sup>[4]</sup>). Although net FDI dropped from 3.6% to 2.3% of GDP between 2016 and 2017 (Table 17.1), the economy continues to benefit from FDI inflows. Since 2012, FDI has increasingly moved away from sectors such as clothing, iron and steel and concentrated on the transport equipment, chemicals and machinery sectors, thus increasing the share of higher value-added products in the economy's export structure (EC, 2018<sup>[3]</sup>). In 2017, the value of exported goods and services corresponded to 55.1% of GDP, an increase of 12.8 percentage points since 2013 (Table 17.1). No other economy in the Western Balkans and Turkey (WBT) region<sup>1</sup> had a larger share of exports relative to GDP in 2017. However, it is noteworthy that about half of total exports were produced by foreign companies established in North Macedonia, compared to only 16% in 2011 (EC, 2018<sup>[3]</sup>).

North Macedonia's external debt continued to increase in 2017, reaching 77.1% of GDP, up from 66.1% in 2013 (Table 17.1). Following three years of deflation, inflation – as measured by the consumer price index – picked up again and reached a moderate level of 1.4% in 2017 (Table 17.1). It was mainly fuelled by price pressures in the transport sector, as well as by alcohol and tobacco (EC, 2018<sup>[5]</sup>).

While the economic outlook is positive, with GDP growth forecast to recover in 2018 (3.1%) and 2019 (3.3%) (EC, 2018<sup>[5]</sup>), North Macedonia is faced with a number of structural challenges which could pose obstacles to sustained growth in the medium and long term. The main structural challenges are interdependent and pertain to fiscal sustainability, informality and the labour market.

Fiscal sustainability is one of the main risks to sustained long-term growth. As detailed in the OECD publication *Competitiveness in South East Europe: A Policy Outlook 2018* (2018<sup>[6]</sup>), North Macedonia's tax revenues represented only 16.7% of GDP in 2015, the

lowest of the Western Balkan economies, and considerably lower than the OECD average of 34.3% (OECD, 2018<sup>[6]</sup>). At the same time, its public debt has more than doubled since 2008 (EC, 2018<sup>[3]</sup>). Furthermore, social security contributions accounted for 35% of the economy's tax mix, compared to 26% in the average OECD economy (OECD, 2018<sup>[6]</sup>). As these contributions are levied at the same rate regardless of income levels, they prevent the tax system from becoming more progressive. High social security contributions also lead to labour market distortions and further fuel employment in the informal sector (OECD, 2018<sup>[6]</sup>).

Informal employment accounted for 18.5% of all employment in 2016 in North Macedonia (World Bank/WIIW, 2018<sup>[7]</sup>) and the informal sector is estimated to account for 17% of GDP (EC, 2018<sup>[3]</sup>). High levels of informality can have many negative consequences for an economy. Informality reduces the tax base, while informal employees might also receive social benefits, thus increasing the economy's fiscal burden. Similar to other Western Balkan economies, informal employment is most pronounced among young people. In 2016, 34.4% of 15-24 year-olds were employed informally (World Bank/WIIW, 2018<sup>[7]</sup>). Similarly, in 2017, one-quarter of young people aged 15 to 24 were not in employment, education or training (ILO, 2018<sup>[2]</sup>).

**Table 17.1. North Macedonia: Main macroeconomic indicators (2013-18)**

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth <sup>1</sup>	% year-on-year	2.9	3.6	3.8	2.9	0.0	3.1 <sup>f</sup>
Inflation <sup>1</sup>	% average	2.8	-0.3	-0.3	-0.3	1.4	1.9 <sup>f</sup>
Government balance <sup>1</sup>	% of GDP	-3.8	-4.2	-3.5	-2.7	-2.7	-2.6 <sup>f</sup>
Current account balance	% of GDP	-1.6	-0.5	-2.0	-3.1	-1.3	-0.8*
Exchange rate MKD/EUR	Value	61.6	61.6	61.6	61.6	61.6	61.5**
Exports of goods and services <sup>1</sup>	% of GDP	42.3	47.7	48.7	50.0	55.1	56.3*
Imports of goods and services <sup>1</sup>	% of GDP	60.4	64.9	65.0	64.7	68.8	69.6*
Net FDI <sup>1</sup>	% of GDP	2.8	2.3	2.2	3.6	2.3	3.9*
External debt <sup>2,3</sup>	% of GDP	66.1	64.9	68.0	70.7	77.1	..
Gross international reserves <sup>1</sup>	Ratio of 12 months imports of goods moving average	5.6	6.3	5.6	6.0	4.8	5.2*
Unemployment <sup>1</sup>	% of total active population	29.0	28.0	26.1	23.8	22.4	21.9 <sup>f</sup>
National GDP <sup>4</sup>	EUR billion	8.6	8.6	9.1	9.7 <sup>p</sup>	10.0 <sup>e</sup>	..

*Note:* ° estimated; <sup>f</sup> forecast; <sup>p</sup> provisional; \* average of 1st and 2nd quarter; \*\* average of 1st, 2nd and 3rd quarter.

*Sources:* <sup>1</sup> EC (2018<sup>[5]</sup>), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", <http://dx.doi.org/10.2765/319761>; <sup>2</sup> (EBRD, 2017<sup>[8]</sup>), *Transition Report 2017-18: Country Assessments*, <http://2017.tr-ebrd.com/countries/>; <sup>3</sup> (EBRD, 2018<sup>[9]</sup>), *Transition Report 2018-19: Country Assessments*, <https://2018.tr-ebrd.com/countries/>; <sup>4</sup> Eurostat (2018<sup>[10]</sup>), *Eurostat (database)*, <https://ec.europa.eu/eurostat/data/database>.

Overall, the quality of education needs to be strengthened at all levels. North Macedonia's results in the 2015 OECD Programme for International Student Assessment (PISA) were well below the EU and OECD averages (OECD, 2018<sup>[6]</sup>), and nearly one-

third of recent graduates are employed in a job unrelated to their field of study (EC, 2018<sup>[3]</sup>). These figures represent a serious threat to the economy's long-term growth prospects, as they increase skills shortages and mismatches and encourage young people to look for employment opportunities abroad, thus exacerbating the brain drain.

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

A regulatory and institutional environment which facilitates doing business is a necessary pre-condition for small and medium-sized enterprises (SMEs) to thrive.

#### **Box 17.1. Economic Reform Programmes**

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. public finance management
2. energy and transport markets
3. sectoral development
4. business environment and reduction of the informal economy
5. trade-related reform
6. education and skills
7. employment and labour markets
8. social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018<sup>[11]</sup>), *Economic Reform Programmes: Western Balkans and Turkey*, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>.

As outlined in its Economic Reform Programme 2018-2020 (Ministry of Finance, 2018<sup>[12]</sup>), despite the significant progress made over the last decade, North Macedonia's

business environment still presents some structural impediments to strengthening competitiveness and sustaining growth (see Box 14.1).

The key obstacles included in the document can be summarised as: 1) an unpredictable environment due to frequent changes to the regulatory framework; 2) non-transparent parafiscal charges; 3) an opaque interpretation and uneven enforcement of business regulations, notably by local administrations; and 4) the size of the informal sector and a lack of skilled workers (Ministry of Finance, 2018<sup>[12]</sup>; EC, 2018<sup>[3]</sup>). The regulatory framework is frequently changed and lacks systematic and transparent enforcement or commercial dispute settlement (EC, 2018<sup>[3]</sup>; DFID/FCO, 2018<sup>[13]</sup>), which can hamper businesses' planning capacity and investment decisions. There are often no clear rationales for the levy of parafiscal charges, with some overlapping of charges between the central and the local level (Ministry of Finance, 2018<sup>[12]</sup>). Businesses are also subjected to uneven enforcement of business regulations, e.g. inspections whose purpose is often not clear and which can induce fines that are applied in an inconsistent and unfair manner (EC, 2018<sup>[3]</sup>).

As outlined in Section on Operational environment for SMEs (Dimension 4), the informal sector is considerable, which exposes formal businesses to unfair competition. The lack of an adequately skilled workforce – due to deficiencies in the education system and the persistent brain drain – also hampers businesses' growth potential (EC, 2018<sup>[3]</sup>). In this area, SMEs have also indicated that the lack of programmes to strengthen their financial literacy and investment readiness is a primary obstacle to their development (Ministry of Finance, 2018<sup>[12]</sup>). In addition, non-tariff barriers, such as technical standards and administrative procedures, present an obstacle to SMEs' ability to benefit from trade (EC, 2018<sup>[3]</sup>).

Private sector interviews conducted with SMEs and their representatives for this assessment indicated that corruption continues to hamper SMEs' capacity to do business. Quantitative data from Transparency International supports this finding. Transparency International's 2017 *Corruption Perceptions Index* ranks 180 economies by their perceived levels of public sector corruption according to experts and entrepreneurs, using a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean (Transparency International, 2018<sup>[14]</sup>). North Macedonia achieved a score of 35, ranking 107th, which shows that perception of public sector corruption has continued to deteriorate since 2014, when the economy achieved a score of 45 (Transparency International, 2018<sup>[14]</sup>).

According to the World Bank's *Doing Business 2019* assessment, North Macedonia ranked 10th out of 190 economies for overall ease of doing business (World Bank, 2018<sup>[15]</sup>). The World Bank's assessment also found that it had carried out 42 reforms to improve its business environment between the 2005 and 2019 assessments – the fifth highest number of reforms among all economies in the assessment (World Bank, 2018<sup>[16]</sup>). Table 17.2 provides an overview of the main developments in the business environment captured by the 2017, 2018 and 2019 *Doing Business* assessments.



Table 17.2. Recent business reforms in North Macedonia

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2019	<b>Construction permitting process</b> is less costly thanks to reduced land development fees	None
Doing Business 2018	None	None
Doing Business 2017	<p><b>Access to credit</b> has been strengthened by amending the laws to implement a functional secured transactions system, providing modern features for the collateral registry and allowing parties to grant non-possessory security rights in a single category of assets with general descriptions.</p> <p><b>Minority investor protections</b> have been made stronger by increasing shareholder rights and roles in major corporate decisions, introducing greater requirements for immediate disclosure of related-party transactions to the public, allowing greater access to corporate information during trial and clarifying ownership and control structures.</p> <p><b>Resolving insolvency</b> has become easier by changing voting procedures for reorganisation plans and allowing creditors greater participation in insolvency proceedings.</p>	<b>Enforcing contracts</b> has become more difficult by adopting amendments to the Law on Civil Procedure that mandate mediation before filing a claim, thus lengthening the initial phase of judicial proceedings.

*Note:* Only reforms which had either a positive or a negative impact on conducting business were considered.  
*Source:* World Bank (2019<sup>[17]</sup>), *Business Reforms in Macedonia, FYR*, [www.doingbusiness.org/Reforms/Overview/Economy/macedonia-fyr](http://www.doingbusiness.org/Reforms/Overview/Economy/macedonia-fyr).

### EU accession process

Following the signing of the Cooperation Agreement with the European Community in 1997, North Macedonia was the first Western Balkan economy to sign a Stabilisation and Association Agreement (SAA) with the EU in 2001. The SAA, which entered into force in April 2004, sets the political framework for North Macedonia's EU integration process. The government formally applied for EU membership in March 2004 and was granted candidate status in December 2005. The EU adopted the Accession Partnership for North Macedonia in February 2008, thus updating the previous European Partnership agreement of January 2006.

Since 2009, the European Commission (EC) has recommended opening accession negotiations with North. However, mainly due to the name dispute with Greece, the EU Council did not decide to start membership negotiations until June 2018. In March 2012, the European Commission and North Macedonia launched the High-Level Accession Dialogue to move its political reforms for integration forward. In 2015 and 2016, the EC made its recommendation on progress conditional on implementing the Pržino Agreement<sup>2</sup> and substantial progress in implementing the urgent reform priorities.

In February 2018, the EC injected renewed momentum into the EU accession of the Western Balkan economies with its new strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans", which details six flagship reform initiatives (EC, 2018<sup>[18]</sup>). These initiatives include addressing key issues regarding the rule of law, security and migration, increased connectivity and neighbourly relations.

On 17 June 2018, North Macedonia and Greece signed the Prespa Agreement, which notably foresees changing the economy's name from "the Republic of Macedonia" to the "Republic of North Macedonia", thus resolving the name dispute with Greece. The Prespa Agreement was subsequently ratified by the parliaments in Skopje on 20 June 2018 and in Athens on 25 January 2019 most recently. With Greece no longer objecting, the European Council agreed to start accession negotiations with North Macedonia in June 2019 under certain conditions, including public administration reforms; intelligence and security services reform; judicial reforms; and proactive investigations, prosecutions and final convictions in corruption and organised crime cases (Council of the European Union, 2018<sup>[19]</sup>).

In the meantime, progress reports by the EC have assessed the readiness of the economy to move closer to the EU. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey* provide the monitoring and guidance needed for the government to prepare to meet the further requirements related to Chapter 20 in the *acquis* when negotiating its accession to the EU. Chapter 20 aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment. Implementation of the ten SBA principles is one of the requirements of this chapter.

According to the latest progress report published in April 2018, North Macedonia is moderately prepared in the area of enterprise and industrial policy (EC, 2018<sup>[21]</sup>). However, the report notes that it has made no progress since the last report in 2016. The 2018 progress report called on the government to:

- Adopt a new industrial policy and strategies for SMEs, women's entrepreneurship, and tourism and include measures to facilitate SMEs' access to finance.
- Introduce initiatives to increase skills in companies, notably SMEs, enabling them to adopt new methods and technologies.
- Develop measures to link foreign direct investment with local companies.

### *EU financial support*

North Macedonia has received considerable financial support from the EU, which has been its largest provider of financial assistance. Under the Instrument for Pre-Accession Assistance (IPA), North Macedonia received a total of EUR 622 million between 2007 and 2013 (European External Action Service, 2016<sup>[22]</sup>). Under the second IPA (IPA II), it is scheduled to receive a total of EUR 664.2 million between 2014 and 2020, of which 11% will be allocated to improving economic competitiveness and fostering innovation (EC, 2018<sup>[23]</sup>). It will also benefit from the regionally focused IPA Multi-beneficiary Programme over the same period.

Funding is also available to support SMEs, including raising capital for start-ups, providing subsidised loans and guarantees, and fostering skills and financial education. These are offered and co-ordinated through the European Investment Fund, the Western Balkans Investment Framework, the European Investment Bank, the European Bank for Reconstruction and Development (EBRD) and the Western Balkans Enterprise Development and Innovation Facility. These give rise to various programmes, such as the Competitiveness of Enterprises for Small and Medium-Sized Enterprises (COSME) programme, InnovFin (Horizon 2020), the Programme for Employment and Social Innovation, the European Structural and Investment Funds and the SME Instrument.

In addition to the EU assistance funds, the European Investment Bank has provided North Macedonia with EUR 649 million in loans since 1999, and another EUR 93.4 million in Western Balkans Investment Framework grants since 2009, leveraging investments estimated at EUR 905 million (EC, 2018<sup>[23]</sup>).

### *SMEs in the national economy*

Article 470 of the 2004 Law on Trade Companies provides the legal definition of SMEs (Assembly of the Republic of North Macedonia, 2004<sup>[24]</sup>). It prescribes the criteria for classifying commercial entities as micro, small and medium-sized enterprises. These criteria are aligned with the EU definition as far as the number of employees are concerned, but deviate from it in other criteria (Table 17.3).

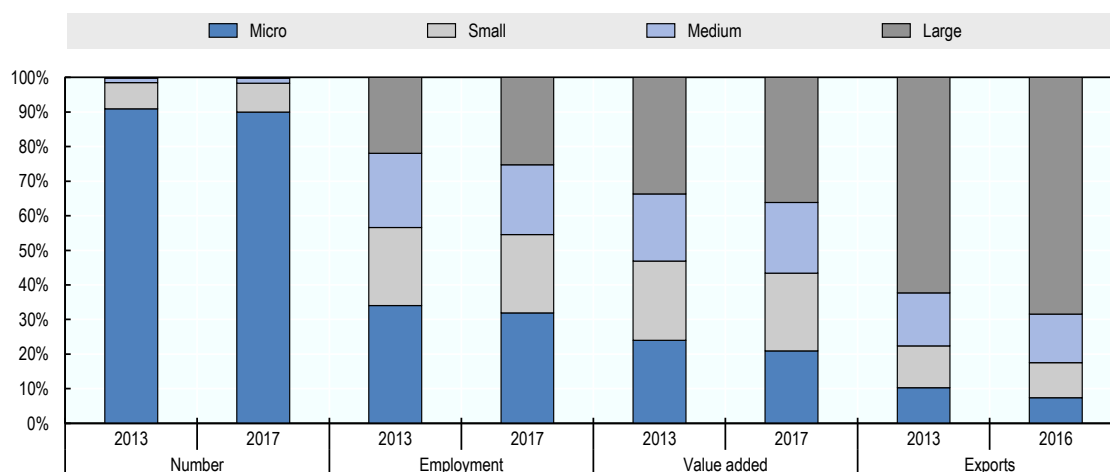
**Table 17.3. Definition of micro, small and medium-sized enterprises in North Macedonia**

	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 2 000 000 annual income or < EUR 2 000 000 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

Sources: EC (2018<sup>[25]</sup>), *What is an SME?*, [http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en); Assembly of the Republic of North Macedonia (2004<sup>[24]</sup>), *Law on Trade Companies*, [www.economy.gov.mk/Upload/Documents/ZTD%20konsolidiiran.pdf](http://www.economy.gov.mk/Upload/Documents/ZTD%20konsolidiiran.pdf).

As in the EU and the rest of the WBT region, SMEs play a dominant role in the economy's business sector. In 2017, 55 055 out of the 55 203 private businesses, or 99.7%, were SMEs (Figure 17.2). The vast majority of these were micro enterprises, with small and medium-sized enterprise making up only 9.7% (Figure 17.2). SMEs also provide much more private sector employment in total than large enterprises. Although their share of employment fell by 3.2 percentage points between 2013 and 2017, they still employed about three-quarters of all employed persons in the business sector in 2017 (Figure 17.2). In comparison, SMEs in the EU only employed 66.4% of all persons employed on average in the non-financial business sector in 2017, the latest year for which data were available (EC, 2018<sup>[26]</sup>). Micro enterprises in North Macedonia were responsible for providing the most jobs in 2017, employing almost one-third of persons employed in the business sector (Figure 17.2).

SMEs also generate the largest share of value added. In 2017, they generated 63.8% of the business sector's value added (Figure 17.2), while SMEs in the EU only generated 56.8% on average in 2017 (EC, 2018<sup>[26]</sup>). However, SMEs contributed less to the economy's export performance than larger enterprises. In 2016, they provided 31.2% of total exports, a smaller share than in 2013 when they produced 37.6% of total exports (Figure 17.2).

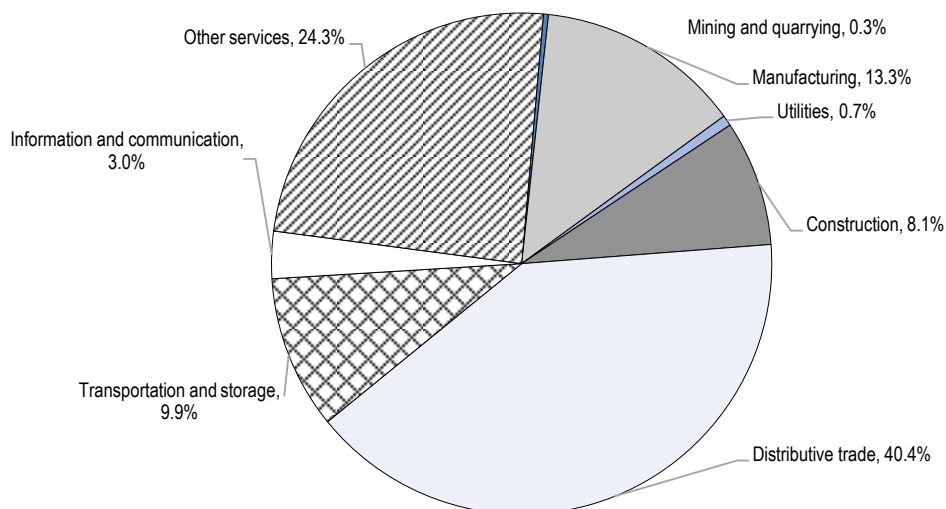
**Figure 17.2. Business demography indicators in North Macedonia (2013 and 2017)**

*Note:* Data for 2017 are provisional.

*Source:* State Statistical Office of the Republic of North Macedonia.

StatLink  <http://dx.doi.org/10.1787/888933937888>

The largest share of SMEs were operating in the distributive trade sector (40.4%) in 2017 (Figure 17.3). This represents a fall of 3.5 percentage points since 2013, while the manufacturing, construction, and information and communication sectors registered increases of 0.2, 0.8 and 0.5 percentage points respectively. Given the large share of SMEs in distributive trade, it is not surprising that the largest shares of business sector employment (30.3% in 2017) and value added (31.3% in 2017) were also generated in this sector.

**Figure 17.3. Sectoral distribution of SMEs in Republic of North Macedonia (2017)**

*Note:* Data for 2017 are provisional. Data for the agriculture, forestry and fishing sector are not available, and thus not reflected in this sectoral distribution. 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” (E); “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:* State Statistical Office of the Republic of North Macedonia.

Geographically, about 38% of enterprises were located in Skopje in 2017 (Table 17.4). In the other seven regions, the smallest share of enterprises (5.7%) were located in the northeast region.

**Table 17.4 Number of registered companies in North Macedonia by enterprise size and region (2013 and 2017)**

Region	Year	Enterprise size, by number of persons employed				Total	Share of total number of enterprises
		0-9	10-49	50-249	250+		
Vardar	2013	3 582	245	60	10	3 897	7.18%
	2017	3 547	299	59	12	3 917	7.10%
East	2013	3 785	384	121	17	4 307	7.93%
	2017	3 752	418	130	18	4 318	7.82%
Southwest	2013	5 271	325	48	2	5 646	10.40%
	2017	5 318	340	57	5	5 720	10.36%
Southeast	2013	4 183	390	58	7	4 638	8.54%
	2017	4 116	435	66	10	4 627	8.38%
Pelagonia	2013	5 596	434	70	15	6 115	11.26%
	2017	5 501	453	74	18	6 046	10.95%

Polog	2013	5 558	268	25	3	5 854	10.78%
	2017	6 260	335	36	4	6 635	12.02%
Northeast	2013	2 853	262	48	5	3 168	5.83%
	2017	2 825	258	50	3	3 136	5.68%
Skopje	2013	18 544	1 788	283	65	20 680	38.08%
	2017	18 370	2 034	322	78	20 804	37.69%
North Macedonia	2013	49 372	4 096	713	124	54 305	100%
	2017	49 689	4 572	794	148	55 203	100%

Source: State Statistical Office of North Macedonia.

## Assessment and Recommendations

### Process

The Small Business Act (SBA) assessment cycle was launched in North Macedonia with a kick-off meeting in Skopje on 10 October 2017. The meeting was organised in co-operation with the Ministry of Economy, which acts as the SBA Co-ordinator, nominated by the European Commission, and which is responsible for implementing the SBA principles.<sup>3</sup>

During the meeting, the new assessment framework (see Annex A for details) was presented to the line ministries and public institutions which were expected to contribute to the information collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Ministry of Economy distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the State Statistical Office of North Macedonia (MAKSTAT). From October 2017 to January 2018, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 15 January 2018 for review.

The review of the inputs by the OECD and partner institutions revealed the need for additional information on certain elements. This was requested from the Ministry of Economy, who sent back the updated questionnaire on 27 February 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts who collected data and information, and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD and EBRD in Skopje on 15 May 2018. The meeting aimed to fill any remaining information gaps in the questionnaire, while also serving as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across different policy areas to improve SMEs' performance and competitiveness. For the two policy dimensions whose assessment was led by the European Training Foundation (ETF) – entrepreneurial learning and women's entrepreneurship, and enterprise skills – similar meetings took place in Skopje on 27-28 February 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report (more information on how the scores are calculated can be found in the Policy Framework and Assessment Process chapter and Annex A). The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of North Macedonia were made available to the Government of North Macedonia for their review and feedback during August-October 2018.

### *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 17.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

**Table 17.5. 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)

North Macedonia scores 2.82 for entrepreneurial learning and 1.97 for women's entrepreneurship (Table 17.6), which are below the regional average. This is mainly due to its weak monitoring and evaluation performance in both sub-dimensions.

**Table 17.6. 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	3.13	3.73
		Implementation	3.35	3.61
		Monitoring and evaluation	1.00	2.57
		<b>Weighted average</b>	<b>2.82</b>	<b>3.43</b>
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	2.33	3.57
		Implementation	2.14	3.16
		Monitoring and evaluation	1.00	2.37
		<b>Weighted average</b>	<b>1.97</b>	<b>3.12</b>
	<b>North Macedonia's overall score for Dimension 1</b>		<b>2.48</b>	<b>3.31</b>

### *State of play and key developments*

#### *Entrepreneurial learning*

The previous assessment found that North Macedonia had made great policy progress on this sub-dimension by developing a common vision across government, laid out in an entrepreneurial strategy and action plan for 2014-20. Further progress during the current assessment period has been blocked by the lack of a mechanism for the government to work collaboratively towards this shared vision across portfolio and agency boundaries.

An Advisory Group, whose role was to translate the strategy into tangible engagement by all relevant actors, was formally established in November 2013. It included representatives from the Ministry of Education and Science (lead), the Ministry of Economy, the Ministry of Labour and Social Affairs, the Bureau for Development of Education, chambers of commerce, employers' organisations, business support organisations, and education and training providers. In practice however, the group has not met since June 2016. After the change of government in 2017, the Advisory Group's mandate was not renewed. This has left North Macedonia with no supportive architecture for a joined-up approach to designing, delivering or monitoring the government's strategic policy imperatives on developing entrepreneurial skills as a key element to drive innovation, growth and competitiveness.

Education in entrepreneurship is a compulsory subject across all levels of education except higher education, where it is still an elective subject. Entrepreneurship key competences have been successfully incorporated into curricula across all levels through dedicated courses with learning outcomes. For instance, in vocational education and



training (VET), the key competences are incorporated into the learning outcomes of an optional course on business education.

At present, teacher training in North Macedonia is not focused on entrepreneurship education. There are no training programmes to develop teachers' entrepreneurial way of thinking, or to help teachers to structure and plan how they deliver the curricula, choose delivery methods, or translate key competences into learning outcomes or assessment methods and tools for entrepreneurial competences.

While courses on entrepreneurship are widely available and students can gain practical entrepreneurial experience, entrepreneurship is not reflected in career guidance. Guidance is focused on providing information about employment opportunities instead of looking to create future opportunities, so entrepreneurship does not feature as a career option, and practical coaching to help students implement a business idea or plan is not readily available.

### *Women's entrepreneurship*

Women's entrepreneurship represents a vast untapped source of innovation, job creation and economic growth in North Macedonia, but to date there is no policy or national mechanism to support it. The Ministry of Economy is still to finalise and publish the Women's Entrepreneurship Strategy 2017-2020.

Non-government organisations (NGOs) are leading collaboration from the bottom up and have clearly positioned themselves as the mechanisms that supports the governance of women's entrepreneurship. The process started under the Instrument for Pre-Accession Assistance (IPA) 2017 together with the YES Foundation, which aims to stimulate entrepreneurship and increase employment levels among young people by strengthening their skills and competences to start their own business. Currently the YES Foundation is in the process of establishing a Council for Women Entrepreneurship, a non-hierarchical network that fosters collaboration among NGOs. However, the council is not linked to any related governance mechanisms, which is necessary in order to address inequities and promote women's entrepreneurship effectively.

The Ministry of Economy has made some modest financial incentives available to strengthen the capacity of business support organisations, NGOs and other associations supporting women's entrepreneurship. In 2017 it allocated a budget of EUR 35 000 to this, receiving 44 applications, of which 16 were funded.

A growing number and variety of actors are engaging to support women entrepreneurs in North Macedonia. However, there is no dedicated portal or one-stop shop to help women entrepreneurs meet some of the main challenges they face, such as finding information on good practice, training, access to finance and networking. However, the YES Foundation project has plans to establish a national portal dedicated to women's entrepreneurship.

### *The way forward for Dimension 1*

The following challenges remain to be tackled to further improve the implementation of entrepreneurial learning and policy performance on women's entrepreneurship:

- **Reactivate the established co-ordination mechanisms.** The challenge North Macedonia faces is to ensure continuity of the co-operation and collaboration mechanisms to support policy and public investment decisions. Reactivating the Advisory Group led by the Ministry of Education and Science to steer the

Entrepreneurial Learning Strategy and Action Plan 2014-2020 would enable the government to work collaboratively towards its own shared vision. It would also serve to integrate entrepreneurial learning into wider national strategies such as the National Strategy for the Development of Education, which is currently under review. The group could also help integrate entrepreneurship education as a horizontal approach and make entrepreneurship key competences a cross-curricular requirement, rather than an optional subject at some levels.

- **Building teachers' capacity to provide competence-oriented education.** In order to create a culture of entrepreneurial thinking, the groundwork for implementing entrepreneurship key competences needs to be laid through systematic teacher training. The government needs to put in place a teacher training system, both pre and in-service, to systematically equip teachers with the same competences and practical skills they will need to transfer to their students. Currently teacher training materials only address entrepreneurship education; new materials need to be developed to ensure that teachers' study programmes include learning outcomes, pedagogy and pedagogical content knowledge at all levels of the education and training system. To address entrepreneurship as a key competence, it is important to include descriptions of learning outcomes based on a key competence approach in teachers' study programmes.
- **Enhance the ability of career guidance professionals to provide entrepreneurship-oriented advice.** Career guidance is more focused on providing information about employment than about self-employment. The professional capacity of guidance professionals will need to be developed so they can take a proactive role in including entrepreneurship in the guidance they provide. Guidance professionals need to be equipped to provide assistance to aspiring entrepreneurs. The Ministry of Education and Science could, in partnership with the Education Development Centre, assess the availability of entrepreneurship-oriented guidance and other business support for novice entrepreneurs and students in vocational and higher education. Guidance professionals also need resources to help provide legal, financial and business advice supporting entrepreneurial activity. Non-formal guidance methods could also work well, such as involving entrepreneurs in the guidance process as role models; as could innovation camps, mini-company approaches, student entrepreneur clubs, and so on.
- **Establish a formal co-operation mechanism for women's entrepreneurship.** The Ministry of Economy, which is leading the drafting of the Strategy for Women's Entrepreneurship 2017-2020, needs to address the need to co-ordinate and collaborate with NGOs promoting women's entrepreneurship. Lack of co-operation means substantial lost opportunities for women-led businesses. Linking the informal Council for Women Entrepreneurship and the (currently inactive) Advisory Group on entrepreneurial learning led by the Ministry of Education and Science would be a key step towards establishing a holistic approach to boosting North Macedonia's growth and competitiveness. It would also serve to establish the monitoring and evaluation of women's entrepreneurship support policies and programmes.

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

North Macedonia is one of two WBT economies, alongside Albania, that regressed in this dimension during this assessment period. Its score fell from 3.38 to 2.49 (Figure 17.1) and it is performing slightly below the regional average of 2.87 (Table 17.7).

**Table 17.7. Scores for Dimension 2: Bankruptcy and second chance**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		3.00	2.39
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.26	3.71
		Performance, monitoring and evaluation	1.60	2.46
		<b>Weighted average</b>	<b>2.60</b>	<b>3.21</b>
	Sub-dimension 2.3: Promoting second chance		1.84	1.93
North Macedonia's overall score for Dimension 2			<b>2.49</b>	<b>2.87</b>

### *State of play and key developments*

#### *Preventive measures and bankruptcy procedures*

Survival and bankruptcy procedures are regulated by the Bankruptcy Act adopted in March 2006 and amended several times since.<sup>4</sup> The latest amendment, in 2015, introduced changes to the voting rights of different groups of creditors on reorganisation plans. As a result, the average time to resolve insolvency fell from 1.8 years in 2016 to 1.5 in 2018 while the cost remained the same, at 10% of the estate. The recovery rate has increased slightly from 47.7 cents in the dollar in 2016 to 48 cents in 2018.

The Bankruptcy Act provides two options: 1) the adoption of a reorganisation plan for the survival of the debtor; and 2) the liquidation of the debtor. Debtors may also file for insolvency and simultaneously submit a reorganisation plan. Bankruptcy proceedings may be initiated if the debtor has not made any overdue payment in a period of 45 days. The debtor or the creditor can initiate bankruptcy proceedings concerning a legal entity,<sup>5</sup> as well as over the property of the debtor or sole proprietorships. Bankruptcy proceedings may not be implemented concerning a public legal/fund entity or property owned by the state.

The insolvency framework provides options for reorganising the debtor's business at several stages, all providing automatic stay protection from creditors. The legal entity is protected by the Law on Out of Court Settlement, which is a voluntary proceeding. The law grants debtors a 120-day preventive concordat period, during which time creditors cannot enforce their claims, and debtors have time to draft and negotiate a restructuring plan with their creditors. This pre-bankruptcy measure can have one of three outcomes:

- if all the creditors approve the debtor's plan, it leads to an effective new debt settlement
- if creditors holding more than 51% of the total debt approve the debtor's plan, it will allow for a fast-track in-court bankruptcy reorganisation

- if only creditors holding less than 51% of the total debt approve the debtor's plan, it leads straight to a simple in-court liquidation.

SMEs encountering financial difficulties are also protected by the Bankruptcy Act, which provides them with three more options for reorganisation: 1) debtor-initiated bankruptcy reorganisation via a 60-day fast-track procedure; 2) regular creditor-initiated in-court bankruptcy reorganisation; and 3) a reorganisation plan proposed by the bankruptcy administrator with the consent of creditors. However, evidence shows that only two reorganisation cases have been initiated since 2016.

In the case of liquidation, a liquidator is appointed by the Registration Court at the request of the creditors, replacing the former management. The announcement of the company's liquidation cannot be published earlier than 15 days and later than 30 days following the decision on the liquidation plan. This announcement should stipulate the conditions which must be respected by the creditors in order to file their claims and the deadline for depositing those claims.

The legal framework also specifies several aspects of dealing with secured transactions. Secured creditors have a right to a separate settlement outside the bankruptcy proceeding. The judge will grant such a right if the asset is not subject to a reorganisation plan. With the secured creditors' consent, collateral over an asset which is subject to reorganisation may be replaced by other assets from the estate which are not vital for the debtor's reorganisation. In any event, secured creditors have the right to be paid first from the proceeds of the sale of the assets over which they have a secured right (collateral).

When it comes to **preventive** measures, no major progress has been made since the last assessment. North Macedonia's early warning infrastructure remains undeveloped. Only the Central Registry publishes data on bankruptcy cases, allowing financially distressed companies to be identified. However, the system is not updated regularly and does not allow enough time for a customised reorganisation.

The IPA-funded project, "Strengthening the Administrative Capacities for Implementation of the Legal Framework for Bankruptcy and Liquidation of Companies", proposed in 2017 the development of a self-test website to allow the early detection of financially distressed companies in order to help them in a timely manner. However, this has yet to be established.

In addition, no progress has been made in implementing the recommendation of the IPA project on improving the insolvency framework or the Bankruptcy Law, despite the fact that the government has announced that it would be implemented by the end of 2018.

One of the other outcomes of the project was to organise training for entrepreneurs who fear failure. This training was offered in co-ordination with the Ministry of Economy, Economic Chambers, and the Chamber of Bankruptcy Administration. However, active entrepreneurs in financial distress did not attend, which shows that entrepreneurs are reluctant to seek help or advice before financial problems emerge.

### *Promoting second chance*

There is still no monitoring or evaluation of bankruptcy and second chance policies. The government does not provide any support programmes to promote second chance among entrepreneurs who have gone bankrupt. It should also be emphasised that personal bankruptcy does not yet exist in North Macedonia. This means the economy lacks a

structural and planned approach for overcoming the cultural stigma associated with failure.

### *The way forward for Dimension 2*

The North Macedonia Government has taken some positive actions to improve its insolvency regime, however, some challenges remain that could be overcome through the following steps:

- **Conduct awareness campaigns among entrepreneurs to promote out-of-court settlements as a less expensive alternative to file for bankruptcy.** As only two reorganisation processes have been initiated under the Bankruptcy Law, and none have been completed, the government should continue to implement the recommendations made under the IPA Project and further promote these measures in order to reduce settlement costs, time and administrative burdens on SMEs. Promotion campaigns may not only reduce the number of bankruptcy procedures, but also reduce the fear of failure among entrepreneurs.
- **Develop a fully fledged early warning system.** SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardships. Therefore, North Macedonia should consider introducing a system which would convince entrepreneurs to initiate recovery measures without delay. Such a system might take different forms, but should entail certain essential features. First, special detection procedures should be devised that would screen and monitor the early signs of SMEs in financial difficulties. Second, these SMEs need to be approached and provided with objective advice on assessing their financial situation, as well as on the various options available to them for recovery. Once they are better informed, SMEs can take the required steps at an earlier stage, thereby increasing their chance of survival. Early warning mechanisms established by EU Member States could offer a blueprint for this approach (Box 17.2).
- **Finish drafting and implement the insolvency framework recommended by the IPA Project.** By widening bankruptcy to include natural persons and establishing effective and efficient debt discharge rules, governments can accelerate the liquidation and debt discharge process. This will lower the administrative burden on courts, and help to reduce the length and the cost of bankruptcy proceedings.
- **Enhance monitoring and evaluation processes of bankruptcy and second chance policies.** The government needs to evaluate better the impact of its current insolvency framework on enterprises, and to use the results of this evaluation for creating a more SME-friendly business environment. This can be achieved by increasing the number of relevant indicators to assess the effective impact of insolvency policies. This task could potentially be assigned to the Central Registry, which is already collecting some quantitative data.
- **Introduce policy measures granting a second chance for honest entrepreneurs.** Currently there are no measures for granting second chances to honest entrepreneurs in North Macedonia. It is strongly recommended that the government expedites the introduction of the debt discharge rules to natural persons, and further develop them as a basis for establishing second chance proceedings.

### Box 17.2. Early Warning Europe

The international project Early Warning Europe (EWE) was developed with the objective of promoting SMEs' growth across Europe by assisting them during financially difficult periods. In 2016, Early Warning Europe applied for funding through Europe's Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and obtained almost EUR 5 million. The first wave of the project ran for three years and focused on setting up a full-scale early warning mechanism in Poland, Italy, Greece and Spain.

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the, European Small Business Alliance, Eurochambres and SME United. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. Currently, five new EU Member States are in the process of joining the EWE community, and several others have expressed their interest. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

The consortium is composed of three groups of organisations: 1) mentor organisations with substantial experience in providing support to companies in distress; 2) national or regional organisations that intend to implement early warning mechanisms; and 3) organisations that are responsible for supporting the pan-European communication and dissemination activities of the project.

Through EWE, entrepreneurs can receive help from consultants to get a clear overview of the company, identify the areas which are causing problems, and propose further remedial activities. The second step of the restoration process is collaboration with a mentor. Mentors work closely with the entrepreneur providing expertise, knowledge and support to get the enterprise back on the right track. Alternatively, they can guide companies toward a quick, organised closure when this is the best option for the company. This also contributes greatly to the company owner's chances of a second start and reduces the loss for the owner, the creditors and society as a whole.

Independent evaluations show a highly positive impact on society of the Early Warning system in terms of jobs saved and savings for the public treasuries. Evaluations show a general saving of 20% for the public treasuries on company closures under the Early Warning mechanism, a high level of job preservation and significantly better first-year turnover and growth after the Early Warning intervention.

An innovative element of the project is the introduction of artificial intelligence and the processing of big data in detecting early signs of distress in companies. Early Warning Europe has developed a data model that identifies the probability of distress in companies in Poland, Italy, Greece and Spain based on publicly accessible data, allowing the network partners to proactively assist companies that may not otherwise realise their problems before it is too late.

Currently the project has the support of more than 500 mentors. The support provided is

impartial, confidential and free-of-charge. In the first wave, EWE provided support to 3 500 companies in distress in Poland, Spain, Italy and Greece. In its second wave (2017-19) the project will support the establishment of early warning mechanisms in five additional EU Member States, with the ultimate goal of establishing early warning mechanisms in all EU Member States.

*Source:* Early Warning Europe (2018<sup>[27]</sup>), *Early Warning Europe website*, [www.earlywarningeurope.eu/](http://www.earlywarningeurope.eu/).

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

North Macedonia has slightly improved its performance in this assessment, from 3.67 to 3.86 (see Figure 17.1), which indicates a slow shift towards effective implementation of the SME policies (Table 17.8). More specifically, its improved score stems from positive developments in the institutional framework and public-private consultations.

**Table 17.8. 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	4.09	4.06
		Implementation	3.73	4.06
		Monitoring and evaluation	3.00	3.92
		<b>Weighted average</b>	<b>3.69</b>	<b>4.03</b>
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	5.00	4.00
		Implementation	3.40	3.25
		Monitoring and evaluation	4.20	3.23
		<b>Weighted average</b>	<b>4.04</b>	<b>3.47</b>
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.42	3.86
		Private sector involvement in PPCs	4.50	4.26
		Monitoring and evaluation	1.67	2.73
		<b>Weighted average</b>	<b>3.90</b>	<b>3.79</b>
	<b>North Macedonia's overall score for Dimension 3</b>		<b>3.86</b>	<b>3.79</b>

### State of play and key developments

#### Institutional framework

In April 2018, the government adopted a new SME Strategy (2018-23) and a related action plan, two years after it was developed (in 2016) and three years after the previous one had expired (in 2015). The strategy is well developed, fully aligned with the principles of the SBA Act and mostly follows recommendations from the *2016 SME Policy Index* (OECD, 2016<sup>[28]</sup>). The three main objectives of the strategy are: 1) creating a conducive business environment in which entrepreneurship and investment is encouraged; 2) supporting SMEs to become highly productive and competitive participants in European and other international markets; and 3) increasing economic competitiveness through enhancing the entrepreneurial and innovative capacities of SMEs (Ministry of Economy, 2018<sup>[29]</sup>). These objectives are translated into 12 programmes, each of which contains a set of concrete actions, with specified key performance indicators, budget, timeframe and a responsible institution.

The main institution in charge of SME policy design and co-ordination is the Ministry of Economy, via its Department for Entrepreneurship and Competitiveness. However, implementation of SME policies is entrusted to the Agency for the Promotion of Entrepreneurship (APPRM), which is up and running but hampered by a lack of financial



resources. The APPRM's budget for 2018 totalled around EUR 64 000, forcing it to rely on donor support to implement its planned SME-related programmes.

The new SME strategy places particular emphasis on monitoring and evaluation. Its key goals include enhanced co-ordination in gathering SME-related data and improved monitoring and evaluation of the strategy. The government plans to improve policy co-ordination by establishing a body to monitor the policies and measures defined in the strategy composed of relevant ministries, state and public institutions, business organisations, and employers' organisations (Ministry of Economy, 2018<sup>[29]</sup>). However, the strategy does not specify whether this body will be in charge of producing annual monitoring reports or if this task will be entrusted to the Ministry of Economy, as it was before.

When it comes to the informal economy, in March 2018 the government adopted a new strategy, Formalisation of Informal Economy: 2018-2022, to be implemented by the Ministry of Labour and Social Policy. An action plan, covering 2018-20, has been prepared and adopted, and includes a total of 29 measures. A co-ordination body has also been established, responsible for co-ordinating the process of implementation. The ministry, in co-operation with the co-ordination body, will prepare annual reports on the implementation progress. Measures to reduce the informal economy are mostly related to the financial support programmes aimed at formalising informal businesses.

In addition to these measures, North Macedonia has introduced measures to combat the informal economy in its SME strategy, and is the only WBT economy to do so. Its main focus is on raising awareness about the harmful nature of the informal economy. During 2018 and 2019, the government will design and roll out awareness and information campaigns about the benefits of formalisation and make it easier to register a business and obtain the necessary permits and licences (Ministry of Economy, 2018<sup>[29]</sup>).

### *Legislative simplification and regulatory impact analysis*

As in the previous assessment cycle, North Macedonia remains one of the top performers in this area due to its continuous and comprehensive legislative simplification actions and constant commitment to improving regulatory impact analysis (RIA) processes.

The regulatory guillotine has been applied since 2006; consequent efforts to review and simplify business-related legislation and regulations have resulted in an improved business environment. Government efforts to simplify and streamline the legal and regulatory environment for SMEs are expected to continue with the introduction of the new SME strategy, maintaining and deepening the reform momentum for a better business environment. This will include regular assessments of the impact of new and existing regulations on the business community (Ministry of Economy, 2018<sup>[29]</sup>).

Regulatory impact analyses are formally required for major regulations in North Macedonia, while the new SME strategy introduces an SME test. RIAs are supported by clear guidelines and are regularly published on line. The institution in charge of RIA is the Ministry for Information Society and Administration, which is a well-functioning and effective body. Nevertheless, the implementation of RIA could be further improved, as specified in the 2017 OECD-conducted monitoring report (OECD, 2017<sup>[30]</sup>). For example, the RIA forms – which must be signed by the State Secretaries – are sent to the government for adoption even if they are incomplete and lack basic information: they do not properly define the problems, consider or compare the options, identify the impact on the state budget, discuss the implementation aspects, or present the monitoring and

evaluation arrangements (OECD, 2017<sup>[30]</sup>). This mostly happens because the Ministry for Information Society and Administration does not have the formal right to return RIAs to line ministries and require them to improve their justification and analysis of a proposal before it can be sent for adoption by the government (OECD, 2018<sup>[6]</sup>).

Similar to the other WBT economies, North Macedonia does not conduct appropriate monitoring of the legislative simplification and quality control of RIA processes. It does not regularly collect data on the proportion of legislation that has been reviewed, simplified or removed.

### *Public-private consultations*

North Macedonia has a legal framework in place defining the general principles and procedures for conducting public-private consultations (PPCs). All business-related legislation (both primary and subordinate) is subject to consultation, and some other relevant documents, such as RIA reports or certain strategies, are open for consultations as well. There is also a single government portal, ENER (National Electronic Register of Regulations<sup>6</sup>), which aims to list all the ongoing PPCs in one place.

Despite the formal requirement to conduct PPCs, the quality of the consultation process differs greatly from ministry to ministry, as revealed by the interviews undertaken with SMEs. PPCs are frequently not published on the centralised portal since there is no obligation for line ministries to do so. The Ministry for Information Society and Administration, which is responsible for monitoring the ENER portal, has not done so regularly.

Again despite the formal requirement to conduct PPCs for major regulations, it is common practice for government acts to be adopted through an urgent procedure, i.e. without any consultation. In 2016, 70% of laws in North Macedonia were adopted in this manner, which is the second highest share in the WBT after Turkey, where it was 83% (OECD, 2017<sup>[30]</sup>; OECD, 2017<sup>[31]</sup>).

In 2012, the National Entrepreneurship and Competitiveness Council was established as a tripartite body, with representatives from the public and private sectors and civil society, to facilitate consultations with interested parties. However, the council does not seem to meet regularly as its last formal activity was recorded in December 2016.

The government has identified some of these issues as key challenges in creating a conducive business environment in North Macedonia. As a result, one of the main objectives of the new SME Strategy is to create mechanisms to strengthen consultation and dialogue with the private sector. It places special emphasis on enhancing private sector participation in policy development, particularly including female entrepreneurs in consultation processes and ensuring that micro enterprises' voices are heard. To attain this goal, the government plans to introduce a National SME Association to represent the interests of SMEs in government policy making, implementation and evaluation. The association would complement chambers of commerce by focusing on micro and small enterprises. As underlined in the strategy, the National SME Association will assume the role of the National Council for Entrepreneurship and Competitiveness, but it is not clear whether the latter body will cease to exist (Ministry of Economy, 2018<sup>[29]</sup>).

### *The way forward for Dimension 3*

As underlined above, North Macedonia has established an advanced institutional and regulatory framework for SMEs. In the future, it should focus on the following elements:

- **Ensure effective implementation of the SME Strategy given its wide-ranging and ambitious objectives and measures.** The SME Strategy is a well-developed and comprehensive document, structured around the SBA Act Principles and mostly aligned with the recommendations from the *2016 SME Policy Index*. As such, the strategy introduces a wide range of measures, though these are often broadly defined and not very specific. In addition, a number of institutions are involved in their implementation, with the Ministry of Economy and the APPRM acting as the two central bodies. In order to ensure effective implementation of the planned measures, the government needs to build strong and timely co-ordination among the various stakeholders. The Ministry of Economy will be especially important for this, in particular in maintaining close dialogue with the key actors implementing the strategy. The ministry also needs to ensure that the activities undertaken are regularly monitored and corrective actions implemented in the event of delays.
- **Enhance the quality of the PPC process.** The new SME strategy places particular emphasis on improving the quality of the PPC process through better involvement of the private sector in policy-making processes. However, North Macedonia also needs to address a number of other challenges in this area. First, the quality of the PPC process is not uniform and varies from one institution to another. Second, transparency of PPCs needs to be improved since it is left up to the discretion of each ministry to publish the draft regulations and documents for consultations on the single governmental e-portal. Third, PPC is very commonly bypassed through an urgent adoption procedure. To overcome these issues and increase compliance with the PPC requirements, the Ministry of Information Society and Administration needs to act as a central co-ordination unit, overseeing the proper use of the government portal for consultations and acting as a quality check and control mechanism.

## Operational environment for SMEs (Dimension 4)

North Macedonia is one of three economies in the WBT region – along with Albania and Montenegro – that regressed during the assessment period on this dimension (see Figure 17.1). Its score fell from 4.38 to 3.52 (Table 17.9), mainly as a result of the absence of monitoring and evaluation mechanisms for digital services.

**Table 17.9. 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 enterprises	Planning and design	4.39	4.07
		Implementation	3.63	3.47
		Monitoring and evaluation	1.00	2.05
		Weighted average	3.20	3.29
	Sub-dimension 4.2: Company registration	Design and implementation	4.67	4.48
		Performance	3.83	3.72
		Monitoring and evaluation	5.00	3.59
		Weighted average	4.63	3.97
	Sub-dimension 4.3: Business licensing	Licence procedures	3.25	3.67
		Monitoring and streamlining of licence system	3.51	3.18
		Weighted average	3.38	3.43
	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			3.52	3.45

*Note:* A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

## State of play and key developments

### Digital government services for enterprises

The Ministry of Information Society and Administration (MIOA), established in 2011, is the institution responsible for e-government services. North Macedonia offers a broad range of digital services (over 180), but not all of them are available at a single location. Different institutions host their respective e-services on their own web portals (see Table 17.10).

Nevertheless, two main web portals allow access to information for the business community and for citizens. One is hosted on the MIOA website ([www.uslugi.gov.mk](http://www.uslugi.gov.mk)) and the other is hosted by the Ministry of Economy ([www.konkurentnost.mk](http://www.konkurentnost.mk)); each portal provides access to various e-services.

The MIOA's portal has been established as the information portal to government services, providing direct links to almost all the ministries' services, application forms, published information and other material. The portal enables citizens and businesses to: 1) reduce the time required to find information about government services; 2) gain quick and easy access to information about changes in government services; 3) distribute information

services quickly; 4) link to government institutions; and 5) establish procedures for the simple modification of existing services and introducing new ones.

In order to enhance digital services, in February 2018 the government adopted the Public Administration Reform Strategy for 2018-22. One of its main objectives is the “delivery of services in a fast, simple and easily accessible way”. In this context, the government is working on establishing a National Portal for e-Services. This new national portal will offer faster and simpler services by creating a single contact point and a single sign-on in order to accelerate the e-services delivery process. The portal is expected to be up and running by the end of 2018.

**Table 17.10. An overview of e-services hosted by different institutions in North Macedonia**

Service name	Description	Responsible institutions	Address
e-Employment	Portal for checking personal employment history data.	Employment Service Agency	<a href="http://www.avrm.gov.mk/home.nspj">www.avrm.gov.mk/home.nspj</a>
e-Cadastre	Portal with geospatial data and status of services.	Agency for Real Estate Cadastre	<a href="http://www.katastar.gov.mk/en/home">www.katastar.gov.mk/en/home</a>
e-Health	Portal for health insurance services for citizens, as well as for medical institutions and businesses (pharmacist and general practitioner doctors).	The Health Insurance Fund	<a href="http://www.fzo.org.mk">www.fzo.org.mk</a>
e-Pension	The service provides information, some forms to download and a call centre	Pension and Disability Insurance Fund, Ministry of Labour and Social Policy	<a href="http://www.piom.com.mk/">http://www.piom.com.mk/</a>
e-Building permits	Portal for e-Building permits, all available and on municipalities' sites.	Ministry of Transport and Communications	<a href="http://www.gradezna-dozvola.mk/">www.gradezna-dozvola.mk/</a>
Exim (e-Customs)	One-stop shop portal for licences for import-export and transit of goods.	Customs Administration	<a href="http://www.exim.gov.mk">www.exim.gov.mk</a>
e-Tax	The e-Tax service provides online submission and returns facilities for companies, using authentication by digital signatures.	Public Revenue Office, Ministry of Finance	<a href="http://etax.ujp.gov.mk/">http://etax.ujp.gov.mk/</a>
e-Procurement	Portal that enables the whole process of electronic trading between contracting authorities in the Republic of Macedonia and domestic and foreign economic operators (suppliers).	Public Procurement Bureau	<a href="http://www.e-nabavki.gov.mk/">www.e-nabavki.gov.mk/</a>
e-Government	Upgraded portal for government e-sessions used by all ministries and a large number of state bodies. The portal allows the preparation of materials, their submission, and collaborative functionalities.	Government of North Macedonia	<a href="http://www.sts.e-vlada.mk">www.sts.e-vlada.mk</a>

Source: Adapted from EC (2018<sup>[32]</sup>), *eGovernment in the Former Yugoslav Republic of Macedonia*, [https://joinup.ec.europa.eu/sites/default/files/inline-files/eGovernment\\_in\\_North\\_Macedonia\\_2018\\_0.pdf](https://joinup.ec.europa.eu/sites/default/files/inline-files/eGovernment_in_North_Macedonia_2018_0.pdf).

Digital signatures are available for all existing services. The Data in Electronic Form and Electronic Signature Law states that “the generally accepted electronic signature with an authorised certificate related to the electronic data is equal to the personal signature, and therefore shall be of equally valid evidence with the personal signature which is related to paper documents”. However, legislation has made an unclear limitation to this rule.

According to the Data in Electronic Form and Electronic Signature Law, “the electronic signature shall not be valid when a personal signature is required in writing before a public notary or a court”; however, the law does not provide any clear instruction on which situations require a “personal signature in writing”.

At the beginning of 2016, North Macedonia launched an updated version of its data portal as well as the Third Action Plan for Open Government Partnership 2016-18 in co-ordination with MIOA. This action plan focuses on six thematic areas: 1) participatory policy making; 2) open data; 3) public access to information; 4) reducing corruption and promoting the rule of law; 5) efficient management of public resources; and 6) local level openness. The new version of the portal offers 154 datasets (109 active and others in the planning process) and links to information from 27 institutions.

By the end of 2015, the Interoperability Framework was finalised and started operating. The portal<sup>7</sup> is aligned with the European Interoperability Framework. It promotes and supports the delivery of public services. It also fosters cross-border, cross-administration interoperability and guides the public administration in its work to provide public services to businesses and citizens (EC, 2018<sup>[32]</sup>)

North Macedonia has not yet developed any tools to monitor and evaluate the digital services available to SMEs.

### *Business registration and licensing*

Entrepreneurs are able to register their companies at a single window through one of the 27 one-stop shops operating under the Central Register of the Republic of North Macedonia. Its online platform provides registration templates for each form of business.

Company registration and identification numbers are used in dealing with the public administration so businesses can use their registration number when accessing financial and tax services.

The Central Register is also responsible for monitoring and evaluating business registration. It produces quarterly reports and analyses the number of newly established companies. Based on the results, it has simplified procedures, resulting in easier and less costly registration. The number of procedures, four, remains the same since 2016. North Macedonia is still the least costly economy in the WBT in which to start a business, costing 0.9% of income per capita. However, since the previous assessment, the number of days it takes to start a business has doubled from 7 to 14 days. Thus, since the previous assessment it has slipped 19 places in the World Bank *Doing Business* ranking for starting a business, and is currently ranked 22 out of 190 economies (World Bank, 2018<sup>[15]</sup>)

In North Macedonia, each ministry is in charge of issuing licences according to their competences, and each regulates its own procedures. There is no single portal providing information about the licences needed or requirements to be met. However, the government is currently working on an e-licence portal with the aim of having all information and applications for entrepreneurs on line, as well as creating a single-entry point for licences and permits. It is expected to be operational in 2020. The portal should be a first step towards introducing a digital distribution system to the officials responsible for assigning licences – and hence towards greater transparency in the process.

### *Tax compliance procedures for SMEs*

North Macedonia offers simplified tax compliance procedures for SMEs. All taxpayers whose total annual turnover does not exceed MKD 1 million (Macedonian denars, approximately EUR 16 300) do not have to register for value-added tax (VAT), although SMEs in this category may voluntarily register for VAT purposes at the beginning of each calendar year. The standard rate of VAT is 18%, but a lower rate of 5% applies to specific goods and services, such as food for human consumption, livestock fodder, drinking water from public supply systems, computers and software, agricultural material and equipment, pharmaceuticals and medical equipment, publications and accommodation services.

For corporate income tax, an incorporated business<sup>8</sup> with an annual income of between MKD 3 million (around EUR 48 800) and MKD 6 million (around EUR 97 600), will pay 1% corporate income tax instead of the standard rate of 10%. Companies with an annual corporate income of below MKD 3 million are exempt from corporate income tax.

As for other incentives, if an enterprise is registered in a technological industrial development zone, it is exempt from corporate income tax, irrespective of its income, for a period of ten years from commencing activities in the zone. Moreover, the employees of these enterprises are also exempt from paying personal income tax for ten years.

### *The way forward for Dimension 4*

To further develop the operational environment of SMEs, the government needs to take the following steps:

- **Continue to centralise and expand digital services, allowing SMEs to complete all processes on line.** Centralisation will help give the government an overview of all available e-services and improve their efficiency. This will save time and reduce both the cost and the number of required procedures. The government also needs to amend the law to clarify the restrictions on the use of electronic signatures. This will give SMEs clearer information about the use of e-signatures and could save them time in their interactions with the administration.
- **Increase efforts to improve the monitoring and evaluation of digital services.** Proper monitoring and evaluation leads to well-informed, evidence-based policy making, increases transparency and reduces corruption in government actions. Currently there are no tools designed to monitor and evaluate the digital services available to SMEs. North Macedonia needs to incorporate monitoring and evaluation as an integral part of the policy-making process.
- **Continue efforts to centralise company registration and licensing under one-stop shops.** Single co-ordinating bodies (one-stop shops) can increase transparency, speed up processes, help to conduct effective monitoring and streamlining, and lower administrative burdens and costs for SMEs. The government is attempting to improve its existing one-stop shops to act as a single body, centralising procedures into one administrative system.
- **Regularly monitor and evaluate tax simplification measures.** Complying with the eligibility criteria of simplified tax schemes in the region is not always as simple for businesses as intended. Excessive documentation requirements coupled with the limited availability of online options to complete the procedures may

deter entrepreneurs and SMEs from making use of these schemes. WBT governments should therefore evaluate how to make it easier for SMEs to join the tax simplification schemes, while maintaining sufficient safeguards that prevent abuse and result in low tax compliance.

### Support services for SMEs (Dimension 5a)

Since the *2016 SME Policy Index* assessment, North Macedonia has improved its performance in this dimension (see Figure 17.1), increasing its overall score from 2.94 to 3.96, and slightly outperforming the WBT average of 3.89 (Table 17.11). Its progress reflects improvements made in both sub-dimensions.

**Table 17.11. Scores for Dimension 5a: Support services for SMEs**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	3.22	3.84
		Implementation	3.95	3.68
		Monitoring and evaluation	2.92	3.19
		<b>Weighted average</b>	<b>3.52</b>	<b>3.63</b>
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	3.86	4.67
		Implementation	4.86	3.85
		Monitoring and evaluation	4.00	4.07
		<b>Weighted average</b>	<b>4.39</b>	<b>4.14</b>
	<b>North Macedonia's overall score for Dimension 5a</b>		<b>3.96</b>	<b>3.89</b>

### State of play and key developments

Since the *2016 SME Policy Index* assessment, the government has adopted two new strategy documents which frame its business support service (BSS) provision to SMEs.

In 2016, it adopted the Competitiveness Strategy 2016-2020, which is accompanied by an action plan up to 2020 that includes monitoring indicators (e.g. number of training courses provided), but no measurable targets. The strategy includes a brief qualitative recap on BSS supply, which is used to identify priority actions. Notable measures included in the action plan include a skills fund to encourage SMEs to invest in their employees' skills and a programme of management training in foreign companies.

Following the expiry of the previous five-year national SME Strategy in 2013, North Macedonia eventually adopted the National Small and Medium Enterprise Strategy 2018-2023. The preparation of the strategy was supported by the International Labour Organization, which conducted a national SME survey in 2018. It also benefitted from a report by the State Audit Office, which included recommendations for BSS provision. The strategy's action plan (still a draft at the time of writing) includes ten measures aimed at improving BSS provision. Each measure is associated with an implementation timeline, budget allocations and output indicators, but no measurable targets. Actions range from introducing an evaluation and performance measurement framework for SME



development, to assessing the feasibility of a national BSS accreditation framework, and establishing an online feedback mechanism for the clients of all BSSs.

Several government institutions provide BSSs in North Macedonia, in addition to international donor organisations and international financial institutions. The APPRM is the dedicated public institution in charge of BSS provision to SMEs, while seven Regional Entrepreneurship Centres also deliver programmes. The Ministry of Economy and the Employment Service Agency also provides a number of BSSs. These are discussed in more detail below.

On its webpage, the APPRM provides general information to SMEs, e.g. on drafting a business plan or on certification and standards. Under the Programme for Entrepreneurship, Competitiveness and Innovation, the APPRM also offers a variety of BSSs to SMEs, ranging from directly delivered services through the Regional Entrepreneurship Centres to co-financing schemes for the use of private sector consultants. The APPRM's budget for all BSSs under the Programme for Entrepreneurship, Competitiveness and Innovation was MKD 3.9 million (approximately EUR 63 500) in 2018, the same as in 2017. Under this programme it organised several training sessions for SMEs and potential entrepreneurs on a variety of topics (e.g. business plan development and women in entrepreneurship) in 2017. For example, it organised ten one-day workshops for SMEs which focused on investment readiness and innovation. It also organised ten one-day training sessions for high school and university students on management practices and business plan preparation. In addition, the APPRM organised three workshops aimed at bringing together start-ups and experienced entrepreneurs to learn from the latter's experiences.

One important development during this assessment period which will improve BSS provision has been North Macedonia's participation in the second phase of the Establishment and Promotion of Mentoring Service for SMEs in the Western Balkans Project. This project, which is being implemented in co-operation with the Japan International Cooperation Agency (JICA), seeks to enhance the mentoring system provided through SME and development agencies in Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia. In 2018, the APPRM published on its website the first call for interest in this free-of-charge mentoring programme. The support follows the business support methodology developed by Serbia's former National Agency for Regional Development in co-operation with JICA, and proposes the same programme activities. In Serbia, where the programme was standardised in 2008, it has achieved very positive results (see Box 17.3).

### **Box 17.3 The Development Agency of Serbia's standardised mentoring service**

#### **Background**

The Development Agency of Serbia's (RAS) mentoring programme is designed to provide timely, continuous mentoring support to SMEs and start-ups with growth potential at crucial stages of their business paths. The programme began in 2005, using a business support methodology developed by the National Agency for Regional Development in co-operation with JICA. In 2008, following a three-year pilot period that saw positive results, RAS standardised the programme and has run it ever since.

#### **Programme activities**

The mentoring programme follows a sequence of four main steps: 1) diagnosis; 2) analysis and action plan (proposing measures to improve the business); 3) intervention (implementing the proposed measures); and 4) evaluation and tracking.

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the growth potential. Based on the factors identified, the mentor and the beneficiary then prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure, human resources management, financial management, logistics and distribution, production-technological processes, intellectual property and quality systems. Depending on their needs, the mentor could also refer the SME to more specialised consulting services.

### **Impact**

- 2005-06: 37 civil servants received certified training by JICA
- 2006-09: more than 700 businesses supported
- 2011-12: 268 SMEs supported
- 2013-14: 213 SMEs supported
- 2015-16: 204 SMEs supported
- 2017: 253 SMEs supported

### **Results and feedback from SMEs (up to 2015)**

- 99% of beneficiaries completed the entire programme.
- 92% of beneficiaries felt there was a positive impact on some aspect of their business.
- 95.2% of beneficiaries accepted almost all the proposed measures to improve their business.

It is also worth noting that the programme gave a significant number of RAS personnel the opportunity to upgrade their skills and knowledge. This professional development has had a positive impact on the RAS and, in turn, enabled the agency to provide long-term support to the national SME base via the same trained civil servants.

The programme also contributed to raising awareness among Serbian SMEs about the importance and benefits of expert advisory support and non-financial business support schemes.

### **Success factors**

While the programme faced a number of challenges during its planning and implementation phase, caused by bureaucracy and systemic public sector delays, it nonetheless achieved all its objectives. Furthermore, its results were so positive that they led to the mentoring programme being institutionalised in 2011 as a standard service for SMEs in Serbia, delivered by the RAS with support from JICA.

Source: RAS (2017<sup>[33]</sup>), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, <http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service>; information collected from RAS over the course of this assessment.

In terms of co-financing schemes, the APPRM continues to offer vouchers for consulting services to SMEs and potential entrepreneurs. In 2018, it allocated MKD 900 000 (approximately EUR 14 700) to this voucher scheme from its budget under the Programme for Entrepreneurship, Competitiveness and Innovation. The voucher scheme entitles existing SMEs to benefit from co-financing of 50% of consulting costs, with an upper support limit of MKD 45 000 (EUR 732), rising to MKD 90 000 (EUR 1 464) for SMEs with innovative projects, i.e. with the potential to develop new products, services or processes. Potential entrepreneurs (unemployed persons or those who have been self-employed for up to six months) are entitled to vouchers covering 100% of consulting costs with an upper support limit of MKD 31 500 (EUR 513). In 2017, 17 SMEs and 14 potential entrepreneurs benefitted from this voucher scheme.

The APPRM restricts the use of private sector consultants under its co-financing schemes (such as consulting vouchers) to consultants it has chosen and who are committed to the programme's code of ethics. Its catalogue of consultants lists those who are eligible. The catalogue is available on the APPRM's website, which provides an interface to find consultants according to their location and field of expertise (e.g. management, information technology and management information systems, marketing and export development, and human resources). At the time of writing, the catalogue listed 633 consultants.

The Ministry of Economy and the Employment Service Agency also provide a number of BSSs. In 2018 the Ministry of Economy offered a number of co-financing schemes under the Programme for Entrepreneurship, Competitiveness and Innovation, e.g. for costs related to certification, employee training or the purchase of equipment. Similarly, the Programme for Self-Employment – which has been implemented by the Employment Service Agency, the Ministry of Labour and Social Politics, APPRM and the United Nations Development Programme (UNDP) since 2007 – provides training to potential entrepreneurs. It also issues vouchers for the use of private sector consultants (if they are included in the APPRM's catalogue), as well as grants of up to EUR 3 000 for the purchase of equipment to start a business.

Unlike most WBT economies, North Macedonia has a single web portal ([www.konkurentnost.mk](http://www.konkurentnost.mk)) which provides information on relevant legislation and studies, and centralises information on the BSSs (financial and non-financial) offered by different public institutions and international donors. It was established in 2018 with the support of the EU.

The APPRM monitors the implementation of its BSSs and publishes annual monitoring reports which are publicly accessible on its webpage. Among other things, the monitoring reports indicate the number of beneficiaries for each BSS and their location.

According to data gathered from the monitoring reports, SMEs' uptake of BSS has been relatively low – only 1.7% of all SMEs in North Macedonia used one of the APPRM's BSSs in 2017. In comparison, 18.6% of SMEs in Turkey used a publicly (co-)funded BSS in 2017, and 3.6% did so in the other five Western Balkan economies on average.

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

Despite North Macedonia's improvement in the provision of business support services, challenges remain which could be addressed through the following actions:

- **Conduct regular training needs analyses (TNAs)** to better adapt BSSs to SMEs' actual skills needs. During the current assessment period, North

Macedonia has not conducted a training needs analysis. Regular TNAs would help to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems. In particular, they would contribute to tailoring the BSSs on offer to the characteristics of micro and SME beneficiaries, the sectors they belong to, and their stage of development, as well as their actual experience in the market.

- **Introduce an evaluation and performance measurement framework and formal feedback mechanisms for programme beneficiaries.** While the APPRM monitors its BSS, it does not use any performance indicators to measure their actual impact. 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 SMEs' performance, and adapt the services on offer accordingly. In the meantime, North Macedonia could consider inviting an independent institution to conduct an in-depth evaluation of its current BSS provision.
- **Avoid duplication of BSSs and develop a sustainable market of private BSS providers.** Several government institutions, international donor organisations and international financial institutions (IFIs) offer BSSs to SMEs and potential entrepreneurs. In some cases, as with the Programme for Self-Employment and the APPRM's consulting voucher, the services partly overlap. In addition, financing 100% of potential entrepreneurs' consulting costs under the APPRM's voucher scheme might inhibit the local BSS market from developing sustainably in the long term. Using TNAs and monitoring results, public institutions should ensure effective co-ordination to make sure that the BSSs (particularly those in the form co-financing or subsidies) offered by different public institutions are complementary and achieve the intended impact.

## Public procurement (Dimension 5b)

North Macedonia receives a weighted score of 4.49 for this dimension, the best score in the WBT region (Table 17.12). It is also an improvement on its 2016 score of 4.0 (Figure 17.1).

**Table 17.12. Scores for Dimension 5b: Public procurement**

Dimension	Thematic block	North Macedonia	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	4.29	3.92
	Implementation	5.00	4.05
	Monitoring and evaluation	3.57	3.24
North Macedonia's overall score for Dimension 5b		<b>4.49</b>	<b>3.84</b>

### *State of play and key developments*

The main strategic document related to public procurement is the Public Financial Management Reform Programme 2018-2021, prepared by the Ministry of Finance. This strategy provides eight activities for strengthening the national system of public procurement, but no actions relate specifically to SMEs. The basic act regulating public procurement, the Law on Public Procurement (PPL), has been amended many times since its adoption in 2007, including some changes during this assessment period. Changes introduced in 2017 resulted in the significant reduction of formalities in public procurement processes thanks to the abolition of the Public Procurement Council and the obligation for contracting authorities to obtain (on payment of a fee) approval from the Council for some preparatory activities in public procurement. These amendments have enabled public procurement procedures to be streamlined and reduced the costs of procurement. However, the amendments have not yet removed inconsistencies with EU law concerning the use of the most economically advantageous tender criterion (the basic tender selection criterion according to the PPL is by price only) or the general obligation to hold electronic auctions.

The Ministry of Finance and the Public Procurement Bureau have been working in 2017-18 on a draft of the new PPL which should implement the 2014 EU Public Procurement Directives. The draft law was finalised in August 2018 but at the time of writing (October 2018) was not yet adopted by the government.

The current PPL provides for equal treatment and non-discrimination of economic operators. Access to public procurement is open to all economic operators, who may participate in public procurement procedures as legal persons, natural persons or groups of such persons. The PPL does not provide for preferential treatment of domestic suppliers or contractors over foreign ones.

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. Public procurement contracts can be divided by contracting authorities into lots. The contracting authorities can impose requirements on economic operators interested in participating in public procurement. These could concern: the personal situation of candidates or bidders, their ability to pursue the professional activity, economic and financial standing, technical or professional ability, and quality assurance and environmental management standards. The 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 contract. They may require tenderers to provide guarantees in the form of a bank guarantee or deposited funds, but must state this in the tender documentation. The contracting authority may require the winning tenderer to provide performance guarantees about the execution of the contract but not for design contests or the procurement of consulting services.

Economic operators who fail to meet their tender or performance guarantees will have negative references published on the electronic system of public procurement (ESPP) website (see below). This results in them being automatically excluded from participating in procurement procedures for one year from the date of the negative reference. This automatic exclusion does not comply with the EU *acquis*, however.

The PPL provides for advance payments, which benefit economic operators and particularly SMEs. Advance payments cannot exceed 20% of the public contract value. The PPL also allows for subcontracting by the winning tenderer to third parties (subcontracts). The tenderer is fully liable to the contracting authority for executing the contract regardless of the number of subcontractors hired. Public procurement provisions do not place any limitations on the value (share) of the subcontracted part or parts of public procurement contracts.

The Public Procurement Bureau within the Ministry of Finance carries out tasks related to developing the public procurement system. One of the strengths of North Macedonia's public procurement system is its advanced electronic procurement. The bureau maintains the ESPP website, which enables procurement procedures to be done electronically. It also publishes annual reports on the functioning of the public procurement system. These reports provide some statistical information on SMEs, such as the number of SMEs registered in the ESPP and how many are awarded public contracts each year.

The State Appeals Commission (SAC) is an independent, state-financed authority with the capacity of a legal entity. The SAC is competent to resolve appeals concerning contract-award procedures, as prescribed by the PPL. The SAC is also required to act *ex officio* with regard to 12 major violations listed in 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 PPL's provisions on legal protection of economic operators basically comply with the relevant EU requirements. The fees economic operators pay to file an appeal are relatively low compared with those applied in other economies in the region, and vary between the equivalent of EUR 100 and EUR 400.

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

North Macedonia has a solid public institutional and regulatory framework for public procurement which offers a number of solutions that take SMEs' needs into account. For the future, it should place more emphasis on the following points:

- **Further align national legislation with EU rules and international good practice.** In particular:
  - Modify provisions for the evaluation of tenders by enabling the general application of the most economically advantageous tender criterion (currently the only basic criterion is price).
  - Modify the current system of negative references resulting in automatic exclusion for a fixed time period from all public procurement procedures, to

comply with EU provisions and the case law of the Court of Justice of the European Union.

- Complete the implementation of the 2014 EU Directives.
- **Dedicate more attention to SMEs in strategic documents on public procurement.**
- **Increase the use of non-price criteria** by providing the contracting authorities with training, advice and examples of good practice.

## Access to finance for SMEs (Dimension 6)

North Macedonia's score for this dimension has increased to 3.63 from 3.46 since the last assessment (see Figure 17.1 and Table 17.13). Although this improvement was mainly driven by the removal of savings and loan associations from the assessment framework, improvements have also been made in the legal framework for bank lending and financial literacy.

**Table 17.13. 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	4.76	4.20
		Registers	4.75	4.58
		Credit information bureaus	5.00	4.55
		Banking regulations	3.50	3.79
		Stock market	3.46	2.93
		Weighted average	4.46	4.14
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	3.37	2.92
		Credit guarantee schemes	1.67	2.30
		Weighted average	2.69	2.67
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	2.17	3.57
		Leasing	3.17	2.84
		Factoring	1.50	2.45
		Weighted average	2.28	2.95
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	1.78	2.32
		Design and implementation of government activities	2.82	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	2.09	2.22
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	1.98	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	1.79	2.19
North Macedonia's overall score for Dimension 6			3.63	3.53

## State of play and key developments

### Legal and regulatory framework

Access to finance is supported by a reasonably well-developed regulatory framework. For instance, according to the World Bank's *Doing Business* report (World Bank, 2018), North Macedonia scores 10 out of 12 for the strength of its legal rights index, which looks at creditor rights and registers for pledges over immovable and movable assets. A cadastre operated by the Real Estate Cadastre Agency is available on line and is accessible to the public. There is a register for pledges over movable assets (the Central Registry of the Republic of North Macedonia), but it is not accessible on line. Instead, interested parties need to apply to the register to receive the desired documentation, thereby somewhat limiting its use.

North Macedonia has both a public credit registry and a private credit bureau. The private bureau's coverage is significantly wider, covering 100% of the population (compared to



only about 40% for the public registry). This coverage has been achieved over recent years by starting to collect information from retailers and utility companies. In 2018, the credit bureau also introduced credit scoring and anyone subject to credit referencing has the right to access their credit information.

Implementation of Basel III is underway and capital requirements in line with Basel III have already been adopted since March 2017, with SME loans having the same capital requirements as corporate loans. Since June 2016, banks are required to disclose foreign exchange risks to their clients if they take out a loan in foreign currency or in local currency with a foreign exchange clause.<sup>9</sup> At the same time, exchange rate stability remains one of the key objectives of the National Bank of the Republic of North Macedonia (NBRM). The NBRM also includes de-euroisation as an objective in its official strategy.<sup>10</sup> The share of loans denominated in a foreign currency<sup>11</sup> has been relatively stable, averaging around 45% since the last assessment, with a slight decreasing trend since 2017 (NBRM, 2018<sub>[34]</sub>).<sup>12</sup> Although this share is still sizeable, overall levels are lower than in many other regional economies, such as Albania, Bosnia and Herzegovina, and Serbia.

#### *Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)*

Lending to the private sector has been somewhat subdued and has slowed to non-financial corporations, including SMEs, in particular in recent years. As a result, non-financial corporations' share of banks' total credit exposure declined from 43% in December 2015 to 40% in June 2018 (NBRM, 2018<sub>[34]</sub>),<sup>13</sup> and more recent credit growth has mainly been driven by consumer lending. Around one-third of all business loans go to SMEs,<sup>14</sup> compared to just under half across the other Western Balkan economies. Non-performing loans (NPLs) have dropped significantly since their peak in 2013, partly due to the easing of write-off standards introduced by the NBRM in 2016. Building on these actions, a draft strategy has been developed to improve NPL management and support the development of a market for the sale of NPLs. The preparation of an action plan to guide implementation is ongoing. Furthermore, North Macedonia's banking sector has one of the highest NPL coverage ratios in the region. All of this should, in the medium term, help strengthen credit growth. SMEs in particular tend to suffer from high collateral requirements and complex loan application procedures which exacerbate the issue of access to credit.

SME financing is supported by North Macedonia's Bank for Development Promotion, which also offers a credit guarantee scheme. However, take up is minimal with just one active credit line in the economy. The Ministry of Economy has a grants programme to support entrepreneurship and competitiveness through the Agency for the Promotion of Entrepreneurship. To give entrepreneurs better access to these programmes, a centralised portal (<https://konkurentnost.mk/>) providing information on financial and non-financial support programmes and their criteria has recently been established.

Non-bank financing remains below potential. Microcredit is mainly offered through specialised microfinance institutions. There are also small-scale microcredit organisations that are not regulated by the NBRM and that provide loans of up to EUR 10 000. They usually also provide training alongside this finance and are widely used by the smallest companies and the informal sector. Leasing penetration is around 0.2% of GDP, one of the lowest levels in the region. Similar to other Western Balkan economies, it is highly concentrated in vehicle leasing. Sparkasse Group is the only entity offering equipment

leasing in the economy. Factoring is offered by the majority of commercial banks and there are several dedicated factoring companies, but take up has been very limited to date, partly due to the absence of an adequate legal framework. The EBRD is supporting a project to improve the factoring legal framework, which is expected to be completed in 2019, thereby reducing legal uncertainty. However, given the very low awareness of factoring services and their potential benefits to small businesses, further efforts will be needed to promote factoring once the new legal framework is fully in place.

Venture capital is in its infancy, although the development of the sector is part of the Innovation Strategy 2012-2020. Overall, investors' appetite remains low and equity investments in the economy remain limited with barely any active equity funds present. One positive sign is the three recent small-scale investments of the IFI-supported Enterprise Innovation Fund (ENIF). According to the European Business Angels Network, there are also three local business angel networks in North Macedonia but investments are negligible both in number and size. One key public funding source for start-ups is the Fund for Innovation and Technological Development (FITD). It has a programme to provide grants to young firms (up to six years old) in North Macedonia for research and development (R&D) activities (FITD, 2018<sup>[35]</sup>).

### *Financial literacy*

The share of financially literate adults in the population is low – 21.5% in 2014 compared to a regional average of 27.5% (GFLEC, 2015<sup>[36]</sup>).<sup>15</sup> Low levels of financial literacy can be a major obstacle to SMEs' access to finance and often go hand in hand with a low uptake of alternative instruments, as seen above. The Ministry of Finance is one of four organisations tasked with improving the population's financial literacy. Efforts currently mainly focus on school programmes, although there is training for entrepreneurs. For example, the Agency for the Promotion of Entrepreneurship offers training, but not on a regular basis. Private training providers also exist.

### *The way forward for Dimension 6*

Despite a relatively well-developed legal framework, lending to SMEs remains below potential and could be supported by helping SMEs overcome collateral constraints. The take up of alternatives to bank financing is also low, partly due to an inadequate legal framework as well as low awareness and understanding of non-bank financing products. Efforts to support SMEs' access to finance should include the following:

- **Increase awareness of the various financing instruments.** Making information on financial instruments available to small businesses would help increase uptake of non-bank financing by widening knowledge about opportunities other than bank credit. Awareness could be raised via a central information platform (e.g. on line) that is easily accessible and has clear guidance on the various aspects of access to finance, including explanations or learning tools to help entrepreneurs understand the range and applicability of different financial products. This platform could be established on a standalone basis, or be added to existing websites such as the recently created <https://konkurentnost.mk> (see Section on Operational environment for SMEs (Dimension 4) for more information on this website).
- **Complete the reform to create a specific legal framework for factoring.** This will improve the certainty and transparency of factoring transactions and thus

facilitate uptake. The reform of the legal framework should be complemented by awareness-raising efforts to broaden and deepen businesses' knowledge of this financing instrument.

- **Improve the accessibility of registers for securities over movable assets.** The system should be easily accessible to users and ensure reliable, up-to-date records to encourage lending against such collateral. This will encourage the use of movable assets as collateral and thus help SMEs access financing.
- **Consider reviewing the existing credit guarantee scheme** to ease pressure on SMEs to provide collateral. Simplified procedures and closer collaboration with banks, ideally by them having a stake in the scheme, may improve uptake and make the scheme a more effective tool to support SMEs' access to bank credit.

## Standards and technical regulations (Dimension 7)

Compared to the previous assessment, North Macedonia has regressed in this dimension (see Figure 17.1), with its overall score decreasing from 4.02 to 3.50 (Table 17.14). This regression reflects its weaker performance in harmonising with the EU *acquis*, especially the stagnation in transposing technical regulations and declining institutional capacities and competences for standardisation and market surveillance.

**Table 17.14. Scores for Dimension 7: Standards and technical regulations**

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		2.50	3.12
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	3.00	3.87
		Standardisation	3.50	3.97
		Accreditation	4.92	4.53
		Conformity assessment	2.80	3.65
		Metrology	4.11	4.47
		Market surveillance	4.60	4.43
		<b>Weighted average</b>	<b>3.82</b>	<b>4.15</b>
		Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.50
	SME participation in developing standards		2.50	2.57
	Financial support to SMEs		2.00	2.39
	<b>Weighted average</b>		<b>3.00</b>	<b>3.07</b>
	<b>North Macedonia's overall score for Dimension 7</b>		<b>3.50</b>	<b>3.83</b>

### *State of play and key developments*

#### *Overall co-ordination and general measures*

The Internal Market Division within the Ministry of Economy is responsible for the overall policy and co-ordination of technical regulations and quality infrastructure. However, its co-ordination role excludes the market surveillance “pillar”, hampering a holistic approach to quality infrastructure. During the assessment period, the National Programme for Adoption of the Acquis 2017-2019 was adopted to guide further efforts towards aligning legislation with the EU *acquis*.

North Macedonia has no central contact point for exporters or designated portal to provide enterprises with all the relevant information about the technical regulations they need to meet in order to place products on the domestic, European and international markets. As a result, SMEs face difficulties in accessing information on what standards they need to meet, as well as how to apply them.

#### *Harmonisation with the EU acquis*

Administrative structures are in place in the area of technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance. However, North Macedonia is yet to reach full alignment with EU sector-specific legislation, especially the 2001/95/EC General Product Safety Directive. A draft of the new Law on

Product Safety is envisaged for January 2019, and North Macedonia has already accepted a plan for adopting the necessary rulebooks to finalise alignment with the directive. It has yet to assess the training needs of the institutions implementing the technical regulations.

North Macedonia has made significant progress in adopting European standards. By the end of 2017, it had adopted 23 686 European standards and withdrawn all conflicting standards. However, most of the standards are adopted by the endorsement method, i.e. issuing an “endorsement notice”, which makes it difficult for SMEs to find the relevant standards, understand their content and apply them correctly. North Macedonia is also developing its own national standards, and by 2017 the Standardisation Institute (ISRM) had notified the European Committee for Standardisation (CEN) of 17 original national standards, with 9 more in the pipeline. The ISRM currently employs 25 staff but aims to increase the number to 28 in order to strengthen and expand its current activities. It also aims to increase and diversify its revenues – currently revenues from the sale of standards make up 5-10% of its total budget. North Macedonia is a full member of the CEN and the European Committee for Electrotechnical Standardisation (CENELEC). It is also a full member of the European Telecommunications Standards Institute, a member of the International Organization for Standardisation and an associate member of the International Electrotechnical Commission.

The economic needs and priorities for conformity assessment have been analysed and the designation procedure has been fully implemented (OECD, 2018<sup>[6]</sup>). North Macedonia has satisfactory capacity and competence to carry out conformity assessments in priority sectors, and enough accredited conformity assessment bodies (CABs). In total, it has 206 CABs, a significant increase from the 130 in the previous assessment. It has managed to increase the number of CABs by accrediting laboratories operating within state-funded higher education facilities and public health institutions. All CABs are easily accessible for SMEs through an online register on the Institute for Accreditation of the Republic of North Macedonia’s (IARM) website, which provides detailed information on the types of activities they undertake, e.g. testing, inspection and certification.

The legislation on conformity assessment is in line with the EU *acquis* and the Accreditation Council (comprising representatives of government, CABs, industry, universities and the consumer protection agency) monitors the activities of the IARM. North Macedonia is a full member of the European Co-operation for Accreditation (EA) and a signatory to the Multilateral Agreement (EA MLA). In 2018, the scope of the EA MLA was extended to the certification of management systems, meaning it now covers five areas.<sup>16</sup> In the WBT region, only Turkey and Serbia have signed EA MLAs covering more areas of accreditation. The IARM is a member of the International Accreditation Forum and is a signatory to its multilateral agreement for product certification. As a full member of the International Laboratory Accreditation Cooperation, it is also a signatory to its Mutual Recognition Arrangement. North Macedonia has also been the most active of the WBT economies in regional co-operation – the IARM has concluded bilateral agreements with all the national accreditation bodies in the region. These international recognition agreements enhance the acceptance of products across national borders. By removing the need for additional calibration, testing and/or inspection, this reduces technical barriers to trade, relieving SMEs of extra burdens and costs when exporting.

Legislation in the field of metrology is not fully aligned with the EU *acquis*, although new legislative documents to complete the harmonisation process are being drafted. The Bureau of Metrology of the Republic of North Macedonia (BOM) is operational but has only 45 employees; it needs additional technical experts but no funding has been

allocated to finance staff increases. In 2017, BOM benefited from twinning assistance from the Czech Metrology Institute under the IPA II programme. The project aimed to raise awareness and strengthen the technical capacity of BOM's staff working in the fields of electrical quantities, dimensions and gas flow. The Metrology Council is responsible for monitoring metrology activities and reporting on them to the Ministry of Economy. However, these reports have not yet been made available. BOM is a member of the European Association of National Metrology Institutes and the International Organisation of Legal Metrology. It is an associate member of the European Cooperation in Legal Metrology and the International Bureau of Weights and Measures.

The State Market Inspectorate carries out market surveillance. Although North Macedonia has the most advanced risk-based inspection in the region, market surveillance activities are hampered by the lack of inspectors, outdated equipment and insufficient financial support to carry out product sample tests. In 2017, the State Market Inspectorate conducted 752 inspections of non-construction products (an increase from 500 in 2016), and 524 inspections of construction products (an increase from 261 in 2016).

### *SME access to standardisation*

North Macedonia has made efforts to foster dialogue between the ISRM and business associations representing SMEs. The Chamber of Commerce provides information to SMEs and facilitates communication with them. For example, the ISRM and the Chamber of Commerce organise joint seminars in various cities, particularly for the construction sector.

The ISRM publishes monthly bulletins to inform SMEs about newly adopted national standards, proposals for new standards and the work of Technical Committees (TCs). Its website also regularly provides information on new standards developed by CEN and CENELEC. However, there are no practical guides to implementing standards or successful case studies on the benefits of using them.

There are no financial or other measures to encourage SMEs to get involved in TCs, such as covering their travel costs or introducing digital tools to make participation easier. However, the ISRM has set up a working group to develop a strategy and an action plan to increase SMEs' participation in standardisation. One proposal under consideration is offering SMEs discounts when buying standards – something which is not currently available. SMEs can also apply for a voucher from the Innovation Fund to support investment in quality infrastructure, including implementing standards and gaining certification. In 2016, 9 companies used 13 vouchers to implement standards, falling to 6 companies and 11 vouchers in 2017.

### *The way forward for Dimension 7*

Despite North Macedonia's progress in incorporating European standards, it still needs to address some key challenges:

- **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. For example, this could include guidance for SMEs on how to find the relevant standards for their sector. The coverage of the current web portal ([www.konkurentnost.mk](http://www.konkurentnost.mk)) could be extended to include the information exporters need on technical regulations and standards.

- **Encourage SMEs to get involved in the process of developing standards.** SMEs may be aware of standards in general but may not realise that they can actively participate in and influence their development. This is why the ISRM has set up a working group to develop a strategy and an action plan to increase their participation. One of the measures the working group could consider is offering training to SMEs in the benefits of participating in standards development and implementing standards. Box 17.4 offers some additional examples of best practice to increase SME participation in standardisation, which could also inform the ISRM's strategy and action plan.
- **Complete the alignment with the General Product Safety Directive** and ensure there are adequate administrative capacities to enforce it. The General Product Safety Directive (GPSD) complements sector-specific safety rules that apply to toys, electrical and electronic goods, cosmetics, chemicals, and other product groups. When the European Commission held a public consultation on the ten most burdensome legislative acts for SMEs across the EU, the GPSD came fourth (EC, 2013<sup>[39]</sup>). North Macedonia should ensure that it also provides enough support to SMEs to help them access and implement harmonised standards and other responsibilities under this directive

**Box 17.4. Increasing SME participation in standards development: lessons from OECD and EU best practice**

- The ISRM could develop case studies of SMEs that have successfully participated in standardisation. The website of the Belgian national standards body includes a series of case studies and testimonials of SMEs (NBN, 2018<sup>[37]</sup>).
- Web-conferencing could help SMEs to participate in TCs, allowing them real-time engagement without having to incur travel costs. Standardisation meetings in Germany are either completely virtual or some members can join through the web-conferencing tool. SMEs can also use the national standards body's dedicated portal to read and comment on draft standards without being members of the TC (DIN, 2018<sup>[38]</sup>).
- Business associations in North Macedonia could inform their members about relevant standardisation projects for their sector or discipline. For example, the German trade association for the machinery industry is working closely with the national standards body to provide SMEs with information on standards and new draft standards developed at the European and international level. It also selects comments from SMEs on draft standards and formulates a common strategy.

*Sources:* Information from the websites of the national standards bodies of Belgium and Germany .



## Enterprise skills (Dimension 8a)

North Macedonia performs poorly on this dimension, with a score of only 1.4, well below the WBT average (Table 17.15).

**Table 17.15. Scores for Dimension 8a: Enterprise skills**

Dimension	Thematic block	North Macedonia	WBT average
Dimension 8a: Enterprise skills	Planning and design	1.50	3.38
	Implementation	1.50	2.83
	Monitoring and evaluation	1.00	2.29
North Macedonia's overall score for Dimension 8a		<b>1.40</b>	<b>2.87</b>

### *State of play and key developments*

As North Macedonia strives to pursue economic growth, the competitiveness of its SMEs is brought to the fore. Because the economy will not be able to compete with low-cost wages in the long term, it will be crucial to improve its competitiveness through greater entrepreneurship, value added and productivity (Republic of North Macedonia, 2016<sup>[40]</sup>). The Competitiveness Strategy and Action Plan aimed to increase the number of SMEs and reduce the unemployment rate from 25.5% in 2015 to 22% by the end of 2018. This and future goals, such as smart specialisation,<sup>17</sup> will not be reached without the right skills.

Very limited information is available about the labour market and its skills structure. There has been no systematic approach to analysing SME training needs, which means skills mismatches – both in quantity and quality – go unidentified and unaddressed, risking hampering the productivity and growth of SMEs. This in turn affects the ability of SMEs to contribute to reducing unemployment. Unlike larger companies, SMEs cannot bear the cost of closing skills gaps by providing their own training. There have been a few recent initiatives to improve the quantity and quality of information on current and future labour demand but they are at an early stage. The Ministry of Economy has a plan to establish an integrated performance management system in line with the recommendation by the State Audit Office and the SME Strategy to improve the quality and quantity of SME data. Neither of these make specific mention of a dedicated training or skills needs analysis of SMEs, however. The Ministry of Education and Science, supported by the World Bank's Skills Development and Innovation Support Project, has established a Skills Observatory function within the ministry and is developing an online platform (subject to data protection laws) to provide information on education and training provision, job placements for graduates, links to information about job demands, forecasting of labour demand, etc (ETF, forthcoming<sup>[41]</sup>).

In April 2018, the government adopted a new National Strategy for SMEs (2018-2023) which aims to boost SMEs' job creation potential. The strategy foresees specific measures to promote young, high-growth enterprises as important contributors to employment. In line with the new strategy, the APPRM provides training and mentoring to SMEs, although these services are limited by its budget. Training provision for pre-start-ups is available from the Agency for Employment, the Agency for the Promotion of Entrepreneurship, the APPRM and donors such as the UNDP. No training is provided for SMEs trading with the EU Single Market but there are plans to conduct a national assessment of the constraints and opportunities in emerging international markets, and the capacity of SMEs to enter them. The new SME Strategy plans to intensify government



support in this area. The Ministry of Economy runs a targeted programme for women entrepreneurs. The UNDP's self-employment programme concentrates solely on the unemployed; training for those already in employment but with entrepreneurial aspirations is not readily available.

Although information about private business support services (e.g. mentoring or coaching) is available on line, the online platform being developed by the Skills Observatory does not include support services to business. However, the new SME strategy foresees the creation of a comprehensive online one-stop SME portal to provide a range of useful information for the sector, such as on policies, programmes, trends and support services.

The new strategy for SMEs expects to provide a much-needed framework for SME skills governance, as well as monitoring and evaluation, by establishing a co-ordination mechanism between the Ministry of Economy, the State Statistical Office and other stakeholders from the public and private sectors and civil society. This will complement the Competitiveness Working Group chaired by the Office of the Prime Minister and which includes the Cabinet of the Deputy Prime Minister for Economic Affairs, line ministries and the Agency of Foreign Investments and Export Promotion, the Agency for the Promotion of Entrepreneurship and the National Council for Entrepreneurship and Competitiveness.

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

To address these challenges and boost the competitiveness of the economy, the government needs to:

- **Develop a systematic approach to determining what training is needed, when and where.** Access to skilled labour is one of the biggest barriers to SMEs' competitiveness and growth. To move forward with smart specialisation, North Macedonia will need to identify the skills required by the smart specialisation niches and the impact this will have on the demand for labour. It will be critically important to collaborate with the education sector to understand the existing and future requirements for skills, and to ensure new workers can supply them, as well as improving the skills of the existing workforce. The Ministry of Economy should therefore take the lead in developing a regular and systematic value-added SME TNA, through the co-ordination body for the National Strategy for SMEs, and in close co-operation with education and training providers.
- **Proactively provide SMEs with a wider array of learning opportunities** and multiple channels to support their growth, whatever their level of development. SMEs would benefit if the training on offer was both broader and more targeted to SMEs at different stages of development and aspirations. Access to finance – for example from the FITD – could be coupled with training, or promote collaboration with other entrepreneurs. This could be achieved by supporting peer-to-peer networks, which might match start-up SMEs who have strong technological knowledge with an entrepreneur with expertise in their target market, for example. Existing regional networks of public services might be used to build up support to SMEs, such as a local one-stop shop for information on training, mentoring opportunities, connecting to networks, business advice, etc.
- **Support SME internationalisation.** The new SME Strategy foresees the government intensifying its support for increasing SMEs' exports. The Ministry

of Economy should include education and training in its planned assessment of the opportunities, constraints and capacity among SMEs entering emerging international markets. Training services (including coaching and mentoring) to support SME internationalisation should be an integral part of the planned increase in funding to the Agency for Foreign Investment and Export Promotion of the Republic of North Macedonia (Invest Macedonia).

## Innovation policy for SMEs (Dimension 8b)

North Macedonia is second only to Turkey in the region for this dimension, with a score of 3.35 (Table 17.16), continuing its strong performance since the last assessment (see Figure 17.1).

**Table 17.16. Scores for Dimension 8b: Innovation policy for SMEs**

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.80	3.46
		Co-ordination of innovation policy	3.67	2.97
		Implementation of innovation policy	4.14	3.04
		Weighted average	3.94	3.15
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.14	2.99
		Technology extension services for established SMEs	2.67	1.74
		Weighted average	2.95	2.49
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.20	3.76
		Indirect financial support	1.22	1.38
		Weighted average	3.01	2.81
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	3.00	2.52
		Institutional infrastructure for industry-academia co-operation	2.80	2.72
		Intellectual property rights	3.00	3.00
		Weighted average	2.92	2.70
North Macedonia's overall score for Dimension 8b			3.35	2.86

### *State of play and key developments*

#### *Policy framework for innovation*

The government laid out its strategic innovation policy framework in 2012 when it adopted the 2012-2020 Innovation Strategy. This document was prepared following a comprehensive evaluation of the national innovation system conducted in partnership with the OECD under the Regional Competitiveness Initiative. The government also adopted a 2016-18 action plan, with estimated budgets for each activity.

In 2013, FITD was established as the implementing agency for innovation policy. The World Bank's Skills Development and Innovation Support Project allocated FITD significant resources, giving it a total budget of EUR 17.7 million. One component of this project included capacity building for FITD and piloting of financing instruments for innovative SMEs. FITD is fully operational, with a staff of about 25, and its operational costs are fully financed from the state budget. After several cycles of financing, an impact assessment of FITD's instruments was conducted in 2018, but at the time of writing the result of this assessment was not yet publicly available.

To co-ordinate all actors and monitor the implementation of the Innovation Strategy, the government established an advisory body, chaired by the Deputy Prime Minister for

Economic Affairs, which brings together all the relevant public institutions with private sector representatives.

### *Government institutional support services for innovative SMEs*

There are few active incubators in North Macedonia. One example is YES Foundation's business incubator in Skopje which focuses on micro, small and medium-sized companies in the information and communications technology sector. It supports their business incubation and offers services, training, mentoring and networking opportunities. Another example is the South East European University TechPark Incubator in Tetovo, which is located on the university campus. The CEED Hub in Skopje also offers a co-working space for young entrepreneurs and provides opportunities for education and mentoring programmes. Finally, the Centre for Technology Transfer and Innovations has recently been established at the Faculty of Electrical Engineering in Skopje. This operates as a technology transfer office, but also provides co-working space and services to start-ups.

Significant improvements are expected in government support for business incubation and acceleration from 2018 onwards. The Fund for Innovation and Technological Development has launched two co-financing programmes for these activities. One instrument provides financing of up to EUR 500 000 and up to 75% of total project value for accelerator programmes. Three accelerators were awarded funds through this instrument in October 2018. The second instrument supports technology extension services: up to EUR 500 000 is awarded to service providers; four such providers were chosen during the first call for proposals in October 2018.

### *Government financial support services for innovative SMEs*

The FITD also operates two financing instruments for innovative SMEs. The first is a co-financing grant for newly established start-up and spin-off companies through which companies can apply for support of up to EUR 30 000 and up to 85% of the total project value. The latest (fifth) call for this instrument was launched in October 2018. About EUR 1.1 million have been allocated so far by FITD through this instrument. The second instrument supports companies' commercialisation activities with grants of up to EUR 100 000 and up to 70% of the total project value. So far, FITD has allocated about EUR 1 million through this instrument.

In 2018 FITD also implemented the third pillar of the national Economic Growth Plan (Box 17.5), through which co-financing grants were provided for high-growth companies, micro enterprises, innovation, VET and youth employment. This instrument generated high interest among businesses; out of the 236 which applied, 79 received funding. Most of the funding (81%) was allocated to business innovation projects. The total support amounted to EUR 10.3 million and the government has announced further support for this measure in 2019.

In terms of indirect financial support for private sector research, development and innovation activities, there are no tax incentives for R&D, but the government is currently working on amendments to the Procurement Law which will encourage innovation through procurement and will also include the quality of proposed goods and services in the procurement criteria (see Section on Operational environment for SMEs (Dimension 4)).

*SME and research institution collaboration and technology transfer*

Although there are very few instruments at the moment that foster business-academia collaboration, the government has recognised its importance and is designing several new activities to encourage collaboration. The only existing instrument is the innovation voucher scheme for SMEs, offered by the Agency for the Promotion of Entrepreneurship. In addition to this, the FITD commercialisation scheme does allow businesses to apply for projects in consortia with research institutions; however, this type of collaboration is not mandatory for this instrument.

**Box 17.5. The Economic Growth Plan: The new industrial policy support framework**

The Economic Growth Plan (EGP) is comprised of three pillars and serves to provide an outline for industrial growth, with a particular focus on supporting investments by large companies. The EGP is underpinned by the Law on Financial Support of Investments (2018) for the first two pillars, and FITD's Programme of Work for the third pillar.

EGP's activities provide support to all enterprises in North Macedonia. The three pillars are as follows:

**Pillar 1: All enterprises: investment**

- creating new jobs
- establishing and enhancing co-operation with suppliers from North Macedonia
- establishing technological development and research departments
- investment projects of significant economic interest for North Macedonia
- increasing capital investments and income
- acquiring companies in difficulty.

**Pillar 2: All enterprises: internationalisation**

- helping companies to increase their competitiveness in new markets
- winning new markets and increasing sales.

**Pillar 3: SMEs**

- supporting fast-growing SMEs ("gazelles")
- supporting micro enterprises
- improving innovation in SMEs
- promoting professional upgrade and practice for newly employed young people
- preparing the legal bases for developing venture capital.

Source: Ministry of Economy (2018<sup>[42]</sup>), *Industrial Strategy with a Focus on the Manufacturing Sector: Draft for Consultation*, <https://konkurentnost.mk/wp-content/uploads/2018/06/IndustryStrategy17MayCLEAN.pdf>.

The government is also preparing a feasibility study for the development of a science and technology park in North Macedonia through an EU supported project. At the same time, the World Bank Skills Development and Innovation Support project mentioned above is supporting the establishment of a national technology transfer facility – to be potentially located within the premises of the new science and technology park – which will provide technology transfer services to all research institutions in the economy.

*The way forward for Dimension 8b*

North Macedonia has made significant efforts to support private sector innovation since 2012. However, some challenges remain, which the following steps could help to resolve:

- **Ensure sustainability and streamline existing innovation support programmes.** FITD's institutional capacity building and design and piloting of innovation support instruments have been financed through a World Bank-supported project. Delays in implementation mean that this project is expected to be extended for another two years. But when this project comes to an end, the government will have to take over regular financing of the FITD instruments. The transition from donor-based or loan-based funding to budgetary funding often creates problems and can lead to instruments not being available over an extended period of time, which causes uncertainty for businesses. Therefore, it is important for the government to secure continuous funding for these efforts while at the same time regularly monitoring and evaluating their impact to ensure that they are designed to meet enterprises' needs. With the large number of instruments introduced, including those through the Economic Growth Plan, it is important to avoid overlap and confusion among enterprises and to streamline measures to ensure they cover all stages of the innovation cycle.
- **Develop specific instruments for joint business-academia collaboration.** To supplement the government's efforts in fostering business-academia collaboration, such as the development of technology transfer activities, funding will be needed to support projects co-developed by businesses and research institutions. Even though the two can collaborate through the FITD commercialisation scheme, it is often the case that when an instrument is not tailor-made to require this type of collaboration, it will not happen on its own.
- **Improve monitoring and evaluation in all innovation programmes.** The first impact assessment of the FITD programmes is under way, but continuous monitoring and evaluation is needed for all innovation policies, including those implemented through the various government ministries.

## SMEs in a green economy (Dimension 9)

North Macedonia is among the few WBT economies that have improved their performance in this dimension. Even though the score of 2.72 in 2018 points to a slight deterioration compared to 2.80 in 2016 (see Figure 17.1). and Table 17.17), this is mainly a result of methodological changes. Positive developments have occurred, but mainly in policy design – additional efforts are still needed to move SME greening forward.

**Table 17.17. 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 1: Framework for environmental policies targeting SMEs	Planning and design	3.67	3.81
		Implementation	2.91	2.56
		Monitoring and evaluation	1.85	2.12
		<b>Weighted average</b>	<b>2.93</b>	<b>2.85</b>
	Sub-dimension 2: Incentives and instruments for SME greening	Planning and design	2.38	2.32
		Implementation	2.91	2.76
		Monitoring and evaluation	1.85	1.72
		<b>Weighted average</b>	<b>2.54</b>	<b>2.42</b>
	<b>North Macedonia's overall score for Dimension 9</b>		<b>2.72</b>	<b>2.61</b>

### *State of play and key developments*

#### *Framework for environmental policies targeting SMEs*

Environmental policies that target SMEs have become part of North Macedonia's new SME Strategy, adopted in 2018. The strategy is fully aligned with the Small Business Act for Europe and translates Principle 9 (Enable SMEs to turn environmental challenges into opportunities) into concrete actions. The strategy includes a set of measures on providing advice and guidance to SMEs, improving resource efficiency and introducing financial incentives for SME greening. Monitoring mechanisms are an integral part of the SME Strategy.

One of the activities foreseen is the preparation of the Green SME Development Strategy in 2018, to be implemented from 2019 onwards. However, it is not clear what measures this Green SME Development Strategy will entail and what its concrete timeline will look like. The total budget mobilised for its realisation is EUR 35 000, with the Ministry of Economy acting as the co-ordination body, working alongside the following partner institutions: the Ministry of Environment and Physical Planning, the Agency for Foreign Investments and Export Promotion, and the Agency for the Promotion of Entrepreneurship (APPRM).

In addition to this strategic document, SME greening is addressed in some other national documents. These focus in particular on information dissemination and providing expertise to help SMEs take advantage of the opportunities from emerging green markets and improved resource efficiency. Resource efficiency and eco-innovation are promoted through the Draft Waste Prevention Plan 2018-2024, whose main objectives are strengthening waste management capacities at both the national and local level, transposing the EU's environmental regulations, and working towards the zero-waste target. It also focuses on preventing waste generation and benefitting from green market

opportunities, such as exporting waste. The Ministry of Environment and Physical Planning (MoEPP) is the focal point for supporting SMEs and other stakeholders with advice and guidance. In addition, a Waste Prevention Working Group – consisting of government members, private sector representatives and experts – is to be created to represent and encourage all stakeholders in the economy to implement waste prevention actions. Training courses for waste producers and SMEs in waste prevention and the circular economy are planned as part of the EU-funded Twinning Project (2017-2019) in partnership with MoEPP.

The private sector was consulted in developing environmental policies, SME greening strategies and related action plans. The government of North Macedonia also co-operates with business associations and local councils for providing environmental guidance to SMEs. According to the SMEs interviewed, this co-operation is quite successful. The Waste Prevention Plan is a good example of public-private co-operation – private sector representatives are part of the working group aimed at providing concrete advice and guidance to interested SMEs.

### *Incentives and instruments for SME greening*

MoEPP offers support to SMEs in obtaining environmental licences. It develops programmes in consultation with businesses and the non-government sector, especially ecological organisations. Moreover, once a year MoEPP awards SMEs for the best corporate social responsibility practices, with one of the award categories being environmental protection.

Financial incentives are planned to be introduced through the new SME Strategy, but it remains unclear what type of incentives, and through which channels they will be introduced.

### *The way forward for Dimension 9*

SME greening is doubtlessly gaining momentum in North Macedonia – many initiatives are foreseen in recent strategies, and this policy area is gradually being mainstreamed into SME policy making. To ensure the effective implementation of the planned policy measures, the government should consider the following measures:

- **Adopt a whole-of-government approach to create synergies and avoid overlapping greening initiatives.** Given the different SME greening activities that are planned as part of the various strategies in North Macedonia, their effective co-ordination is vital to avoid overlaps. In this context, a whole-of-government approach will help to ensure an integrated government response to SME greening. The establishment of a formal co-ordination mechanism in which the Ministry of Economy and the Ministry of Environment and Physical Planning plays a vital role will be important. But given the cross-cutting nature of greening policies, other relevant ministries, such as the Ministry of Education and Science, should also be active members of this co-ordinating mechanism.
- **Facilitate access to finance for SMEs that aim to adopt environmentally friendly practices.** Financial incentives for SME greening are being introduced with the new SME Strategy. Nevertheless, it is unclear what type of incentives will be used and how they will be financed. The government needs to decide which financial incentives will be introduced, dedicate the related funds and carefully plan the financial schemes to support SMEs. The government is



encouraged to introduce a loan guarantee scheme to support the approval of green project loans and encourage lenders to make their loan terms more attractive to borrowers. To achieve this the government could leverage existing mechanisms, such as the Bank for Development Promotion of North Macedonia, which offers a credit guarantee scheme created to support SMEs' access to finance, mainly through guarantee instruments.

- **Support the transition to a circular economy through direct assistance to the SMEs operating in economic zones.** North Macedonia has well-established economic zones. Targeted assistance for increasing resource efficiency could be provided to those businesses operating in these zones. In particular, the government could develop projects to raise awareness and promote the benefits of increased resource efficiency, while also providing financial, training and mentoring support to SMEs to implement it. In this way, the government could actually test the model among the smaller business population, which could subsequently be replicated across the economy. The Turkish example of Energy Management Units in its Special Industrial Zones is a good model to replicate (Box 17.6).

### **Box 17.6 Enhancing SME energy efficiency in Turkey: Energy Management Units in special industrial zones**

Energy efficiency is one of Turkey's key SME greening goals, and as such is reflected in Turkey's SME Development Strategy 2015-2018. The strategy includes a number of measures to meet the objective of improving energy efficiency.

As part of the Energy Efficient Industry Project, the Turkish Government has formed Energy Management Units in the special economic zones (known as Organised Industrial Zones or OIZs), to reach out to particular production-oriented SMEs, as well as to encourage them to adopt energy efficiency measures. OIZs are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The infrastructure provided in OIZs includes roads, water, natural gas, electricity, communications, waste treatment and other services.

The project is implemented by the Energy Efficiency Association in partnership with the Ministry of Energy and Natural Resources of Turkey and an Organised Industrial Zones Higher Organization Council. The project aims to enhance energy efficiency in SMEs that are part of the OIZs by raising awareness, promoting a culture of efficiency amongst their staff, and introducing small-scale changes in the industry (reducing electricity/water consumption and achieving savings through simple modifications of certain parts of manufacturing processes). In developing the expertise to develop Energy Management Units the government co-operated with the local office of the Japan International Cooperation Agency and some other partners.

For the last couple of years, energy efficiency has become more pronounced in Turkey – a growing number of SMEs are benefitting from the programmes and savings are being achieved by the beneficiaries.

*Sources:* Bütüner (2014<sup>[43]</sup>), *Organized Industrial Zones in Turkey - SWOT*, [www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot](http://www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot); KOSGEB (2014<sup>[44]</sup>), *SME Strategy and Action Plan 2015-2018, Energy Efficient Industry*, <http://enerjiverimlisanayi.com/en/icerik/projemiz/41>; Invest in Turkey (2018<sup>[45]</sup>), *Investment Zones*, [www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx](http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx).

## Internationalisation of SMEs (Dimension 10)

North Macedonia has made marginal improvements in its support to the internationalisation of SMEs, increasing its overall dimension score from 3.43 to 3.54 over 2016-2019 (see Figure 17.1 and Table 17.18). The contributing factors to its improved performance lie particularly in its sustained support for export promotion and its enhanced efforts for SME integration into global value chains. However, the general lack of programme implementation due to weak operational capacities is a persistent impediment to further improvement.

**Table 17.18. 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	4.86
		Implementation	4.06	4.24
		Monitoring and evaluation	2.86	3.01
		<b>Weighted average</b>	<b>4.10</b>	<b>4.18</b>
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.60	3.58
		Implementation	3.29	3.08
		Monitoring and evaluation	1.00	1.76
		<b>Weighted average</b>	<b>3.22</b>	<b>2.97</b>
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45
		Implementation	3.00	2.26
		Monitoring and evaluation	1.00	1.36
		<b>Weighted average</b>	<b>2.69</b>	<b>2.44</b>
	<b>North Macedonia's overall score for Dimension 10</b>		<b>3.54</b>	<b>3.43</b>

### *State of play and key developments*

Trade performance indicators reveal that the import/export costs related to border compliance remained stable in North Macedonia between 2014 and 2017 (at USD 150 and USD 103 respectively) (World Bank, 2017<sup>[46]</sup>). SMEs' share of exports in North Macedonia has decreased modestly over the assessed period and stands at 31.6%, the lowest of the WBT economies. At the same time, SMEs' value added has increased across all size categories, as have the value of exports per enterprise and the total volume of exports, indicating both increased and enhanced productivity of SMEs.

The government has implemented a number of measures that simplify and facilitate trade by making the process of importing and exporting less cumbersome. These include an electronic one-stop shop for obtaining import and export licences, which was first established in 2008 and has been steadily improved over the years.

### *Export promotion*

On the whole, North Macedonia's performance in export promotion is above the average of the region. Export promotion is covered in the Ministry of Economy's National Strategy for Small and Medium Enterprises 2018-2023, which aims to be aligned with the

Small Business Act.<sup>18</sup> Activities to support export promotion under the current SME Strategy include:

- a national assessment of the opportunities, barriers and capacity of SMEs to enter fast-growing international markets and ensure the results inform the revision of the national export strategy
- increased support to the export promotion agency through the formulation of an SME export promotion programme
- improved monitoring and evaluation of export promotion services through the preparation of an annual report on SME participation in export markets.

Likewise, the Competitiveness Strategy and Action Plan 2016-20 covers measures for export promotion. It seeks to select 250 SMEs with export potential to support them with technical and financial assistance for export readiness. The private sector is extensively consulted in forming these strategies through the chambers of commerce, which review them. The primary bodies responsible for implementing the above activities include the Ministry of Finance, Invest Macedonia, and SME development agencies (APPRM and others).

Invest Macedonia is the primary government agency responsible for promoting companies in foreign markets and supporting them in exporting. It is established as a separate legal entity with operational autonomy. Its website offers a centralised source of information to guide companies on exporting; a separate comprehensive handbook for export promotion; and links to useful contact points which include other government institutions and relevant agencies, consulting firms, banks, chambers of commerce and state-owned enterprises.<sup>19</sup>

As well as than providing extensive market information, Invest Macedonia offers support through promotional events, arranging business-to-business meetings and creating qualified export promotion leads in order to help domestic producers. In 2017, Invest Macedonia managed a budget of MKD 600 000 (approximately EUR 9 741) to support export promotion activities, with MKD 4 170 000 (approximately EUR 67 805) allocated for 2018, funded entirely by the government. However, changes in staff are frequent, and have delayed the implementation of its 2018 work plan. Invest Macedonia submits bi-annual reports on its activities to the government, though these are not publicly available.

North Macedonia targets its financial and technical support to export-ready SMEs.<sup>20</sup> The Ministry of Economy provides co-financing to SMEs at 75% up to a maximum amount of EUR 3 000, for market research, marketing strategy, training and promotional materials. It also supports clusters at a 75% co-financing rate (up to EUR 6 500) for export promotion and foreign fairs. The Ministry of Economy issues annual competitive calls for its funding. Activities are monitored and made publicly available in annual reports; however, the beneficiaries of financial support are not made public, nor has there been an independent review of the impact of the export promotion measures.

As regards trade financing, the availability of export credit guarantees for SMEs is explicitly mentioned in the national SME Strategy. The Bank for Development Promotion of North Macedonia provides export credit and insurance, while all major banks and some other non-bank financial institutions provide trade finance loans, guarantees, and letters of credit. One such institution, the Crimson Development Fund, which focuses specifically on trade finance for SMEs (EIB, 2016<sub>[47]</sub>).<sup>21</sup>

### *Integration of SMEs into global value chains*

North Macedonia's measures to facilitate SME integration into global value chains are covered in three main strategies: the National Strategy for Small and Medium Enterprises 2018-2023; the upcoming Industrial Policy; and the Economic Growth Plan (Box 17.5).

The National Strategy for Small and Medium Enterprises 2018-2023 addresses the development of strategic industrial value chains and clusters. The accompanying action plan aims to identify key international value chains in which SMEs have a capacity to participate successfully, and to develop support programmes and services to help these firms expand into these markets. These measures will be realised through an assessment report on SME participation in international markets (2018) and a cluster mapping report identifying industry clusters connected to international value chains (2019), with a budget of EUR 60 000 over the two-year period.<sup>22</sup>

The forthcoming Industrial Policy (draft at the time of writing) also aims to encourage SME integration into global value chains. Prepared with the support of the EU, it will replace the Industrial Policy 2009-2020. It identifies the lack of SME support as a key threat to the manufacturing sector, and other weaknesses are highlighted, including insufficient linkages between industry, FDI and SMEs (and other sectors of the economy). To remedy these, it foresees objectives and measures related to value chain integration, such as identifying and targeting support to priority manufacturing sub-sectors.<sup>23</sup>

Likewise, the Economic Growth Plan, which underpins the new industrial policy support framework, envisages supporting internationalising companies to increase their competitiveness in new markets. On the whole, the EGP is not SME-oriented, as most measures are not dependent on the size of the enterprise. However, it contains specific measures for micro and SMEs under its "SME pillar" (Box 17.5).

According to the World Economic Forum's Global Competitiveness Index, cluster development in North Macedonia is perceived by private investors as being the most advanced of the WBT economies (WEF, 2017<sub>[48]</sub>). Currently there are 30 clusters in North Macedonia, spanning the information technology, automotive industry, textiles, fashion design, wine, agricultural mechanisation, wood processing and food processing sectors. The Ministry of Economy provides support for clusters in export promotion and foreign fairs (see Export promotion).

North Macedonia has also been implementing activities for promoting business linkages between SMEs and large domestic exporting firms, and encouraging technology transfers from multinational enterprises (MNEs). Some initiatives have been carried out through the support of international donors, such as the Macedonia Manufacturing Expo held at the end of 2016, whose aim is to integrate companies into global supply chains. The event was sponsored by the USAID Small Business Expansion Project, with 48 domestic suppliers and 16 foreign companies present as potential buyers.<sup>24</sup>

An earlier programme was the Supplier Development Pilot Programme which ran from 2014 to 2015.<sup>25</sup> This pilot programme aimed to identify and assess the current state of linkages between foreign direct investors and domestic enterprises and to equip suppliers with the information, skills and technical capacity to meet MNEs' requirements. The results and lessons learned were published in 2017 (World Bank, 2017<sub>[49]</sub>). Following the pilot, the Macedonia Automotive Backward Linkages Programme is expected to be carried out between 2015 and 2018.

North Macedonia informs SMEs about the programmes and policy initiatives available for facilitating their integration into global value chains. It also raises awareness of the potential of participating in global value chains through the websites of Invest Macedonia and the Ministry of Economy. Moreover, all companies within business associations and chambers of commerce are notified regularly by e-mail about ongoing activities and programmes.

### *Promoting the use of e-commerce*

E-commerce is still in its early stages in North Macedonia – even so, of the six WBT economies for which data were available in 2018, North Macedonia had the second highest percentage of individuals purchasing online, at 25% (in the last 12 months preceding the survey), though it still lagged behind the EU average (60%) (Eurostat, 2018<sub>[10]</sub>). However, at 3% it had the lowest rate of SMEs selling on line of all five WBT economies for which data were available in 2016 (latest data available) – well below the EU average of 18%<sup>26</sup> (Eurostat, 2018<sub>[10]</sub>). Consumers in North Macedonia lack full access to innovative payment systems, although they can use PayPal to send funds.

The Ministry of Information Society and Administration (MIOA) is responsible for raising awareness of and promoting e-commerce. Currently, it has a website offering practical information on e-commerce, covering national legal regulations, tips for engaging in e-commerce for both consumers and merchants, and links to several active e-stores in North Macedonia.<sup>27</sup> However, there is no strategic framework or ongoing initiative beyond this.

Between 2013 and 2014 North Macedonia had a programme that offered vouchers for SMEs looking to develop e-commerce websites – this government programme supported 31 e-stores. Since then, there have been no further programmes targeting uptake of e-commerce. Meanwhile, the private sector has moved forward in catalysing e-commerce, with the eCommerce Association of North Macedonia offering education and training, networking events, market information, and advocacy and lobbying services for its members.<sup>28</sup> It has a graduated membership fee according to company size, making the services accessible for smaller enterprises.

North Macedonia's legal framework for e-commerce is the most fully developed in the region in terms of alignment with the EU framework, following a gap analysis and consequent amendments over 2010-14 (OECD, 2018<sub>[6]</sub>). However, there is still room to update its legal framework for consumer protection to harmonise it more fully with that of the EU (OECD, 2018<sub>[6]</sub>).

### *The way forward for Dimension 10*

Taking the above developments into consideration, North Macedonia can further improve its efforts to support the internationalisation of SMEs through the following measures:

- **Develop consistent and targeted export support programmes** focused on capacity building to ensure more SMEs become ready to export. Monitoring practices should increase their focus on assessing the actual impact and effectiveness of these programmes.
- **Continue to develop programmes building on the cluster mapping activity and supplier development pilot programme.** Given the limited funds available, the government could focus on leveraging its networking capabilities to offer

centralised platforms for the clusters identified from the mapping activity and encourage investor after-care that ensures knowledge spill-overs from MNEs.

- **Solidify the framework for e-commerce and revise schemes to support the uptake of e-commerce.** North Macedonia could focus on building the technological capacities of SMEs that may be inclined to engage in e-commerce. As a first step, it could aim to integrate digital processes into existing business models to improve the operational efficiency of SMEs: this can be achieved by offering grants to assist SMEs in technological upgrading, attending training workshops, and accessing consultancy services.

## Conclusions

North Macedonia's progress in implementing the Small Business Act since the 2016 assessment has been slow, partially due to the pre-electoral period spanning to the end of 2016, as well as the delays experienced in forming a government in 2017. It was only in mid-2017 that SME policy planning and implementation took off again.

In spite of these adverse conditions, North Macedonia still boasts one of most varied and developed SME support services network in the whole region – one which is receiving an increasing amount of earmarked funding, through, most notably, the APPRM and the Fund for Innovation. Following the adoption of the SME Strategy in 2018, it is expected that the design and delivery of support measures will move away from being ad hoc and become more targeted, addressing enterprises' most pressing needs.

## Notes

<sup>1</sup> The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the “region” in this publication implies these seven economies.

<sup>2</sup> The Pržino Agreement was a political agreement struck between the four main political parties in North Macedonia on 15 July 2015, mediated by the EU. This agreement built on the 2 June (2015) accord and included the return to parliament of the Social Democrat Union of Macedonia party, the organisation of a caretaker government preparing elections and the appointment of a special prosecutor to investigate the issues surrounding or arising from the interception of communications. The Pržino Agreement enabled the political deadlock that persisted in North Macedonia in the first half of 2015 to be overcome.

<sup>3</sup> In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs' interests through government bodies. These SME envoys do not exist in pre-accession countries.

<sup>4</sup> Amendments published in the Official Gazette of the Republic of Macedonia 34/2006, 126/2006, 84/2007, 47/2011, 79/2013, 164/2013, 29/2014, 98/2015 and 192/2015.

<sup>5</sup> A legal entity has legal capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions. It can take several forms such as an association, corporation, partnership, proprietorship, trust or individual that has legal standing in the eyes of the law.

<sup>6</sup> <https://ener.gov.mk/>

<sup>7</sup> The portal referred to is the Nextsense Interoperability Platform: <https://www.nextsense.com/interoperability-platform.nspix>.

<sup>8</sup> Except companies that provide banking, financial, and insurance services, as well as services in the field of games of chance and entertainment games.

<sup>9</sup> NBRM Decision on amending the decision on credit risk management, published in the Official Gazette of the Republic of Macedonia No. 223/15.

<sup>10</sup> NBRM Strategic Plans, see for example the Strategic Plan of the National Bank of the Republic of North Macedonia 2019-2021 (NBRM, 2018<sup>[59]</sup>).

<sup>11</sup> This includes indexed loans.



<sup>12</sup> NBRM Financial Stability Indicators.

<sup>13</sup> NBRM banking system indicators on credit exposure.

<sup>14</sup> IMF Financial Access Survey.

<sup>15</sup> S&P's Financial Literacy Survey covers more than 140 countries, asking the population about four basic financial concepts. Further information can be found here: <http://gflec.org/initiatives/sp-global-finlit-survey/>.

<sup>16</sup> The scope now covers: calibration laboratories, testing laboratories (excluding medical laboratories), certification bodies (products), certification bodies (management systems) and inspection bodies.

<sup>17</sup> Smart specialisation originated in the EU as a concept for stimulating innovation driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services – and finally economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

<sup>18</sup> The current SME strategy incorporates the same measures for export promotion as in the Export Strategy which was phased out in 2015.

<sup>19</sup> These publications were made possible through funding from USAID and GIZ.

<sup>20</sup> In particular, it provides assistance to SMEs characterised by their ability to generate a certain amount of turnover and that have been identified as “fast-growing” by having increased both their number of employees and turnover by 20% in one year.

<sup>21</sup> According to the European Investment Bank, the Crimson Development Fund provides SMEs with numerous instruments (short-term working capital, term loans, revolving credit lines, and convertible debt) which can be combined and tailored to meet specific investments.

<sup>22</sup> The programmes will be led by the Ministry of Economy in partnership with the Agency for Foreign Investments and Export Promotion and other SME agencies (APPRM and others).

<sup>23</sup> The Fund for Innovation and Technological Development (FITD) will continue to support technological extension and absorption among SMEs via implementation of the Absorption of TT (technology extension) initiative.

<sup>24</sup> The event included direct business meetings between domestic and foreign companies, such as Siemens, Van Hool and Scoutbie.

<sup>25</sup> This programme was financed by the Competitive Industries and Innovation Support Program (a multi-donor trust fund).

<sup>26</sup> The Eurostat indicator refers to SMEs employing between 10 and 249 employees, but excluding those in the financial sector.

<sup>27</sup> This project was made possible through USAID funding. For more details, see the website at: [www.e-trgovija.gov.mk](http://www.e-trgovija.gov.mk).

<sup>27</sup> For more information, see the e-Commerce Association's website at: <https://ecommerce.mk/en/home#home>.

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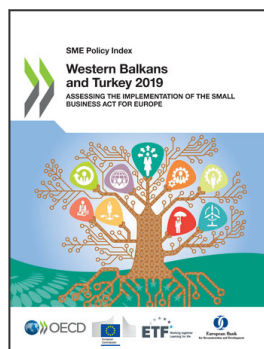
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