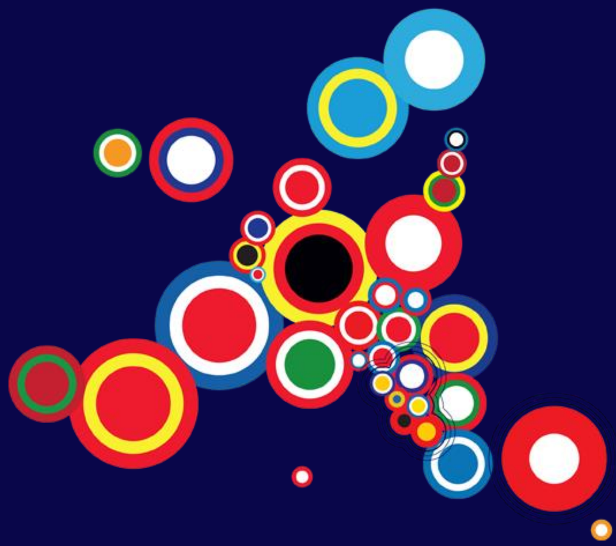
European Commission

INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Support for private sector development



Action summary

The Action will contribute to private sector development by improving the dynamics on the markets of financial services. It will support an EBRD-managed facility providing loans, grants and technical assistance to non-bankable SMEs to help them implement their investment strategies. This measure will increase the funding flow to the SMEs.

The Action will also explore the opportunities to integrate and address gender differences to expand SME growth.

Action Identification	
Action Programme Title	Annual action programme for the former Yugoslav Republic of Macedonia for the year 2016
Action Title	Support for private sector development
Action ID	*IPA 2016/039-619/06.03/MK/SME development*
Sector Information	
IPA II Sector	Competitiveness and innovation
DAC Sector	25010 (Business support services and institutions)
Budget	
Total cost	EUR 6,000,000
EU contribution	EUR 6,000,000
Budget line(s)	22.02.01.02
Management and Implementation	
Method of implementation	Indirect management with international organisation
Direct management: *Indirect management:*	 Delegation agreement with the European Bank for Reconstruction and Development (EBRD)
Implementation responsibilities	The EU Delegation will assume the role of contracting authority for this programme
Location	
Zone benefiting from the action	former Yugoslav Republic of Macedonia
Specific implementation area(s)	N/A
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by 31 December N+1
Final date for concluding delegation agreements under indirect management	At the latest by 31 December N+1
Final date for concluding procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation

Final date for operational implementation	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement

Policy objectives / Markers (DAC form)

General policy objective	**Not targeted**	**Significant objective**	**Main objective**
Participation development/good governance	☐	☑	☐
Aid to environment	☑	☐	☐
Gender equality (including Women In Development)	☐	☑	☐
Trade Development	☐	☐	☑
Reproductive, Maternal, New born and child health	☑	☐	☐
RIO Convention markers	**Not targeted**	**Significant objective**	**Main objective**
Biological diversity	☑	☐	☐
Combat desertification	☑	☐	☐
Climate change mitigation	☑	☐	☐
Climate change adaptation	☑	☐	☐

1. Rationale

Problem and stakeholder analysis

The SME sector is central to the economy of the country. About 94.3% of all active companies are SMEs, and they provide 81.2% of overall employment in the economy. As shown in the table below, 85.2% (60,215) of the active business entities in the country employ 1-9 employees. 78.3% of those entities are active in the following sectors: wholesale and retail trade; repair of motor vehicles and motorcycles; manufacturing; professional, scientific and technical activities; transportation and storage; accommodation and food service activities; and construction.

Active business entities and number of employees[1]		
Categorization of entities	**Number of entities**	**%**
1-9 employees	60,215	85.2
10-19 employees	3,092	4.4
20-49 employees	1,869	2.6
50-249 employees	1,305	1.8
More than 250	206	0.3
Without data	3,972	5.6
Total number of active businesses	70,659	

Most active sector of SMEs[2]					
Sectors of activity	**0-9**	**10-19**	**20-49**	**50-250**	**250<**
Wholesale and retail trade; repair of motor vehicles and motorcycles	22,678	837	364	115	16
Manufacturing	5,915	656	472	363	60
Professional, scientific and technical activities	5,560	185	47	13	2
Transportation and storage	5,421	247	121	44	7
Accommodation and food service activities	3,952	325	125	23	1
Construction	3,632	297	172	72	5

Shortcomings in access to finance exist both on the supply and demand side. The main sources of capital for SMEs in the country are loans from commercial banks. However, only 35% of total private-sector lending goes to SMEs. Smaller companies especially appear to struggle with accessing loans, which is reflected in the high share of businesses covering their financing needs with internal funds and retained earnings – around 80% according to the Business Environment and Enterprise Performance Survey (BEEPS V; EBRD, 2014b). Banks are risk adverse and do not offer products tailored to the SME development needs. All available evidence shows that pre-assessment and loan requirements create significant costs for the banks. The costs of finance for enterprises in the county are high due to high interest rates, more profitable lending areas for banks (such as government bonds), complexity of procedural compliance and low diversity of financial system. Banks are risk averse, particularly with SMEs and there are limited alternative sources of formal finance.

[1] http://www.stat.gov.mk/PrikaziSoopstenie206_en.aspx?rbrtxt=79
[2] http://www.stat.gov.mk/PrikaziSoopstenie206_en.aspx?rbrtxt=79

Other forms of financing, such as: micro-financing, leasing, guarantee schemes, venture capital funds, business angels networks, stock and shares, factoring, and similar have not been sufficiently developed or are not available on the market. Equity financing is in its infancy.

On the demand side, SMEs face significant obstacles which prevent most of them from growing and becoming more competitive, particularly at international level. The most relevant among them are: lack of professional management, human capital constraints, deficient corporate governance and business conduct, as well as a general lack of capacity to adopt best industry practices, relevant industry standards and pursue innovation in various strategic and operation areas of their activities. All of these factors limit the SMEs abilities to develop good-quality business proposals to attract funding for their business operation.

OUTLINE OF IPA II ASSISTANCE

This Action will contribute to the private sector development by improving the dynamics on the markets of financial services.

It is grounded on the priorities for financial assistance as defined in the Indicative Strategy Paper 2014-2020. Improving the competitiveness of the private sector and particularly of the SMEs is of key importance for the country's development towards a functioning market economy and its successful accession to the EU. In order to reflect the EU's focus on economic governance and competitiveness, IPA II shall contribute to improving the business environment by supporting small and medium-sized enterprises (SMEs), reduce disparities between the different regions and link research & development institutions to the business and employment sector.

This Action puts an emphasis on strengthening the support systems for the private sector and addresses in particular the issue of poor access to finance under favourable terms for SMEs (both female- and male owned/led) to grow their business. It will support an EBRD-managed facility providing loans, grants and technical assistance to non-bankable SMEs to help them implement their investment strategies. This measure will increase the funding flow to the SMEs. It will also explore the opportunities to integrate and address gender differences to expand SME growth.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

The **Indicative Strategy Paper for 2014-2020** (ISP) defines improving the competitiveness and economic growth as being of key importance for the country's development towards a functioning market economy and its successful accession to the EU. The strategy focuses on strengthening 3 pillars: legal and institutional environment; competitiveness of the private sector; and local and regional competitiveness. The Sector Planning Document emphasises further on the following objectives:

- Improved legal and institutional framework and functioning of businesses
- Better access to finance and advisory services for businesses
- Increased and diversified export potential for businesses and access to new markets
- Strengthened capacities and skills of management and staff in companies
- Improved cooperation among universities, industry and government
- Enhanced research and innovative capacities for competitive business environment
- Increased public-private partnerships in the area of research and innovation
- Enhanced links between FDI and domestic companies

This Action document will tackle primarily the first two of the defined priorities.

The EU Enlargement strategy 2014 puts economic governance and competitiveness in enlargement countries in the focus of the Commission development efforts, in order to address the concerns of citizens in a persistently difficult economic environment, with high unemployment and low investment. This new approach is particularly important in the Western Balkan countries, since none of them is yet considered to be a functioning market economy. There will be an increased emphasis on sectoral structural reforms. The enlargement strategy also highlights the importance of public administration reform, which is also a key to economic development.

The **2015 EU Progress Report** recognises that the country has achieved a good level in developing a functioning market economy but emphasises on the need of additional efforts for:

- improving business environment by implementing the Master Plan for Competitiveness and the related Government Action Plan. Recommendations have been given as regards improving predictability of the legal and regulatory environment, enforcement of contracts, respect of intellectual property rights, payment discipline, labour legislation, quality and integrity of inspection services, etc.

- facilitating the disposal of non-performing loans by banks, removing potential obstacles to credit extension in the context of a sustained pick-up in credit demand, improving access to finance for SMEs and accelerating bankruptcy procedures. As part of the wider actions aimed at improving access to finance, the recommendation was extended to continue the implementation of the innovation strategy, and step up the use of instruments foreseen by the Innovation Fund as well as to strengthen the efforts to create supply linkages between foreign and domestic companies, with a view to enhancing productivity and employment in the domestic economy.

The Economic reform programme 2016-2018 is a key strategic document, presenting the national economic policy of the country and the agenda of key structural reforms and measures. The Programme is in line with the EU Strategy for fast, sustainable and comprehensive economic development "Europe 2020", as well as the SEE - 2020 Strategy of the Council for Regional Cooperation, called "Jobs and Prosperity in a European Perspective", which closely follows the vision of the "Europe 2020" Strategy. Sectoral reform measures being implemented and planned to achieve economic policy objectives 2016-2018 stated in the ERP are structured in 5 areas: 1) Physical capital, 2) Human Capital, 3) Better industrial structure 4) Good business environment, and 5) Trade integration. The Action is closely linked to the third and fourth area and will contribute to realization of the planned activities in these areas.

This Action proposes activities that will address deficiencies identified within the **Small Business Act** Review (i,e. SME Policy Index 2016)., in particular it focusses on several “Think Small” principles, namely facilitating SMEs’ access to finance, helping SMEs upgrade knowledge and skills, introduce innovation, and expand markets.

The Action aligns well with the **Europe 2020 strategy** for smart, sustainable and inclusive growth by investing in research and innovation. It is also well aligned with the main SEE 2020 themes of competitiveness, innovation and knowledge economies.

The National Programme for the Adoption of the Acquis (NPAA), which is the national roadmap toward fulfilling criteria for EU membership (especially the Copenhagen Criteria), also envisages creation and implementation of functional and proactive industrial policy, conducive to growth, based on knowledge, innovation and collaboration. The key principles of enterprise policy are linked to NPAA – Chapter 20: Enterprise and industrial policy, Economic Criteria as well as Chapter 22: Regional Policy and coordination of structural instruments and Chapter 25: Science and Research.

Further on, improving the competitiveness is a central plank of the Government’s economic strategy of building a prosperous economy, aiming at greater entrepreneurship, value-added and productivity. The newly adopted comprehensive **Competitiveness Strategy and Action Plan** (2016–2020) explores the country's potential and strengths in order to initiate the transformation of the country into a competitive economy, able to nourish entrepreneurial talent, increase the number of start-ups and gradually grow, add value, increase the productivity and export of its enterprises. The strategy defines **seven strategic objectives:** 1) a simpler and more stable business environment; 2) a more entrepreneurial and productive SME sector; 3) a more dynamic export sector; 4) a more attractive environment for inward investors; 5) a more skilled and entrepreneurial labour force; 6) a reinvigorated industrial policy; 7) a higher volume of finance for the enterprise sector. The **Master Plan of Competitiveness** (adopted in 2015) consists of 32 measures focused on 1) improving the business environment, 2) linking domestic companies with FDIs, 3) improving liquidity and access to finance and boosting economic activity, 4) enhancing consumer protection, 5). promoting labour productivity, 6). Improving the quality of infrastructure, 7) promoting education, research and development and 8) enhancing public private dialogue and transparency.

LESSONS LEARNED AND LINKS TO PREVIOUS AND ONGOING FINANCIAL ASSISTANCE

The following **key lessons based on the assessment of the previous and ongoing EU support in this sectors,** have been identified:

(a) The overall implementation of EU funds so far, mainly IPA I, suggests that the relatively modest administrative absorption capacity in the country's public administration bodies is reducing the effectiveness and efficiency of EC assistance. Securing sufficient human, material and technical resources should be set as a pre-condition prior to programme's commencement.

(b) Mixed level of commitment and beneficiary ownership can be identified across different public bodies. Some state bodies show a more engaged approach both in the process of programming and at the operative level. Proper level of "ownership" of projects and programmes is a pre-condition for effective mainstreaming of future EU funding into national development policies and schemes.

(c) Frequent changes of personnel in IPA Units and lack of systematic and regular trainings, especially on procedures for implementation of EU external assistance seriously reduce competence of the beneficiary staff and efficiency of assistance. It is essential to have skilled and motivated staff available for EU funds management, and further efforts are needed to identify, train, develop and retain such staff.

(d) Factors of sustainability must be assessed and embedded at the earliest design stage of programmes and projects. The experience in EU and other donor assistance provide sufficient evidence that many initiatives, bodies, processes are being utilised/operated as long as there is donor funding.

(e) Synergies between various activities (taking place at the same time) should be promoted and coordinated within related sectors and among donors in a systematic way.

(f) A general lesson learnt, applying to all sectors, is that policy and legislative development needs be evidence-based, costed and subject to appropriate internal and external stakeholder consultations at the right time of the legislative and policy-making process. This is a key in ensuring implementation and enforcement of adopted policies and legislation.

Previous financial assistance

Under **IPA I**, this Sector has benefited from around EUR 23 million. The assistance was mostly secured via Component I "Institution Building and Transitional Assistance". This support focused on strengthening public institutions regarding the EU Acquis, and on introduction of more business friendly principles in their operations. Support was provided to: restructuring the Customs Office; upgrading the public procurement procedures; capacity development of institutes for standardisation, accreditation and metrology; simplification and strengthening of bankruptcy proceedings; strengthening of the Public Revenue Office, etc.

Active bilateral donors in the sector include Germany, Switzerland and the USA. Multilateral donors and lenders active in the themes covered by the strategy include the United Nations, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (WB).

The **USAID's IDEAS** project provided technical assistance to support the expert development services of *"Invest Macedonia"*, the national Agency for Foreign Investment and Export Promotion of the former Yugoslav Republic of Macedonia. Several projects have also been targeting the development of SME and to improve access to finance.

The **Swiss Government** through the Swiss Agency for Development and Cooperation has been implementing a four year programme with two main objectives:

a. To enhance the competitiveness of the private sector through increased possibilities for businesses to obtain financing, as well as through improved core business skills;

b. Through key public and private actors, enable systemic change to address market deficiencies, leading to income and job opportunities, in selected sectors.

In addition, the Agency has recently started the process of developing its new country programme for the period 2017 – 2020.

The **World Bank Country Programme** as set out in their Country Strategy Paper provides a range of loans to the Government for important actions under competitiveness, including support for export, skills, and innovation. The “Innovations and Skills" support programme aims to:

- Support the re-organisation of higher education in order to develop the skills and knowledge relevant for the employability of graduates in the labour market; and

- Provide advisory services and capital for operating the Innovation Fund.

EBRD, EIB and others are operating regional programmes within the Country, and are providing loans mainly for SMEs.

EBRD, with EU support, implemented a regional "Western Balkans Private Sector Support Facility" (WB PSSF) featuring EUR 110 million provided by EBRD in credit lines to participating banks (PBs) and EUR 21.5 million grant resources, allocated by the EU. The facility, which is the predecessor of one of the current activities, provided loans, supported by grants and technical assistance, to the private sector in the region under two financing windows:

(i) the ***SME Competitiveness Support Facility window (SME-CSF)*** – supporting investments by SMEs to improve competitiveness and sustainability in preparation for EU accession.

(ii) the ***Sustainable Energy Financing Facility window (SEFF)*** **-** providing credit lines for sustainable energy investments in the private sector, including industrial and residential energy efficiency and small scale renewable energy investments.

In total 24 MEUR were allocated to the country through this instrument (EUR 4 million in EU grant funds and EUR 20 million in EBRD loan funds). The proposed measure 2.1. of this action is a continuation of this regional initiative.

The **Western Balkans Enterprise Development & Innovation Facility (WB EDIF)** targets SMEs based in the Western Balkans. It provides financing for innovation projects, innovative companies, and fast growing industries and features a regional loan guarantee facility. The WB EDIF has been designed to offer complementary financial engineering instruments, addressing the entire range of SME financing needs in the Western Balkans. The Facility consists of four different pillars:

■ Enterprise Innovation Fund (ENIF): This pillar supports innovative SMEs in the Western Balkans from the early start up to the development stage of the businesses, by providing equity finance.

■ Enterprise Expansion Fund (ENEF): This pillar supports established SMEs with a high potential to grow in the Western Balkans in their further expansion.

■ Western Balkans EDIF Guarantee Facility: Under this pillar, guarantees are provided to incentivise them to build up new SME loan portfolios and thereby improving SMEs’ access to bank lending.

■ Support Services Facility: Under this pillar, governments of beneficiary economies can obtain support in implementing policy reforms to create a favourable regulatory environment to benefit innovative and high-growth SMEs in the region. The Small Business Support Facility in its turn provides know-how to SMEs to improve their performance and ensure their growth.

This action shall ensure full coordination with the WB EDIF in order to avoid duplication and to strengthen synergies that derive from addressing common objectives and needs. Furthermore, with a view to ensuring sustainability in future, the possibility for a "regionalization" of the approach should be analysed and promoted if obvious benefits will be identified and when funds allocations could be possible.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	
To improve the competitiveness and sustainability of the local companies within a well-functioning market	Contribution of SMEs to GDP (value added) – raising trend Contribution of SMEs to job creation – raising trend	– State statistical office/SBA fact sheets	
SPECIFIC OBJECTIVE	**OBJECTIVELY VERIFIABLE INDICATORS**	**SOURCES OF VERIFICATION**	**ASSUMPTIONS**
To strengthen SMEs financial and operational capacity	Turnover growth rate of the supported SME Employment growth rate of the supported SME Speed of growth compared to the average for the country	– Companies' accounts/employment books/ – Project reports	Positive dynamic on the markets (national, neighbouring and EU) The SMEs are having increasing opportunities to finance their activities and to grow their business
RESULTS	**OBJECTIVELY VERIFIABLE INDICATORS**	**SOURCES OF VERIFICATION**	**ASSUMPTIONS**
SMEs Business development concepts/plans elaborated and implemented Improved support systems for private sector	- No of business development plans supported - No of SMEs beneficiaries of loan and grant facilities (breakdown per various criteria) - Number and amount of private investments contribution by SMEs - No of standards/new technologies introduced - Number of loans provided by banks and value of financing mobilised - No of private banks involved in the support scheme - No of local consultants trained and involved in the support scheme - Client satisfaction rate (% SMEs stating satisfaction, added-value of specific service provided) - Number of entrepreneurship solutions implemented (systems/tools/services) - % of entrepreneurship solutions implemented targeting entrepreneurs with specific needs (female/young/of minority origin/with disabilities)	Annual Reports of the various institutions Evaluation Reports	Private banks are willing to participate in the support scheme as well as private consulting companies Interest of the SMEs to take loans for strengthening their development

DESCRIPTION OF ACTIVITIES

The action will be implemented through a single activity:

Activity 1: EBRD SME Competitiveness and Innovation Finance and Support

The measure will provide technical assistance and grants to selected companies through the SME Competitiveness Support Facility (SME-CSF), established by the European Bank for Reconstruction and Development (EBRD).

The EBRD SME CSF was established to provide loans, supported by grants and technical assistance to strengthen the competitiveness of SMEs. The facility operates at two levels. At the first level, EBRD provides loans to participating commercial banks while at the second level the banks provide sub-loans to the companies (sub-borrowers), which are selected upon specific criteria. In addition, EBRD contracts project consultants to perform eligibility assessment of potential sub-borrower for participating banks and provide technical assistance to the sub-borrowers in the preparation and implementation of investment projects eligible under the SME-CSF.

EBRD intends to invest in the facility the amount of **EUR 30 million**, which will be used for loans. The EU Contribution will be used for (i) investment incentives and (ii) consultancy costs as follows:

- ✓ Investment Incentives (indicatively EUR 4.5 million) **-** Upon successful implementation of their projects and subject to verification of such implementation by an independent consultant, the SMEs (sub-borrowers) will become eligible to receive an incentive payment in the form of a one-off grant that can be dedicated to repay part of the principal due to the participating bank or to invest in additional development activities. Investment incentives payable to a sub-borrower ***may amount to up to 15%*** of ***the disbursed sub-loan amount*** (or investment cost net of VAT if lower).

- ✓ Technical Assistance and Advisory Services (indicatively EUR 1.5 million) – this activity will ensure that eligible sub-projects are pursued and satisfactorily completed and that, only in such case, incentives are disbursed. The type of services include:

  (1) Investment advisory services to SMEs such as assessment of the proposed investment and consistency with eligibility criteria; ensuring cost effectiveness in the identification of appropriate measures; assistance in the formulation of sub-loan applications to the private banks; advising loan and grant applicants on alternative financing possibilities and recommendations to the sub-borrowers on their investment strategy;

  (2) Sub-project assessment assistance to the private banks, including: (a) recommendation on the eligibility of any proposed sub-project; (b) understanding and appraising sub-loan applications from a technical perspective; (c) carrying out marketing and information dissemination activities related to the Programme aiming at informing a wide range of potential sub-borrowers about the Programme and the benefits of the eligible investments;

  (3) Verification services, for a consultant who will check and confirm that sub-projects have been implemented in accordance with the relevant eligibility criteria and EBRD recommendations. Verification by the VC of successful sub-project completion will be the trigger for payment of the EU funded incentive payments to sub-borrowers.

  (4) Advisory assistance directly linked to compliance with standards but also for areas that are more widely linked to competitiveness, including corporate governance, export promotion, resource efficiency.

EBRD will implement the proposed measure through its already well-established delivery mechanism, and offer SMEs external advice and know-how in a wide range of areas, including marketing, strategy, quality management, energy efficiency and implementation of ICT systems. A key objective of the Programme will be also to support development of the local market for business advice. By promoting professional standards of the consulting industry and building the capacity of business support organisations, the Programme will thereby contribute to the establishment of a sustainable support infrastructure for the SME sector.

The measure will focus on non-bankable SMEs and/or projects and also engage second tier commercial banks or those that have not previously worked with EBRD on similar schemes. A thorough market analysis will need to be conducted in order to identify the target SME and to avoid crowding out of other financing instruments. Strengthen the basis for equity finance is also important, thus the proposed measure is intended to help develop the supply of, and demand for, these financial instruments. This measure will bring together all relevant institutions like Ministry of economy, Fund for Innovation and Technology Development, Chambers of Commerce and others in order to advise on the best financing mode.

EBRD will ensure that support is tailored to different SMEs, i.e. taking into account gender differences and encouraging also women-led/minority-led enterprises to benefit from the facility.

RISKS

The political commitment is the key factor that may impact on the success of the Action. Any reluctance of national institutions to engage in far reaching reform of the institutional structures for SME support represents a major risk. This issue is being addressed in two ways. First, the relevant pre-conditions have been outlined and included in the action. Second, the Commission/EU delegation is being engaged in an intensive sector dialogue aimed at motivating and strengthening the political will to undertake the needed reforms and allocated the required resources.

CONDITIONS FOR IMPLEMENTATION

The following conditions apply to this Action:

- Sufficient progress in implementation of the sector approach, including adoption and implementation of the sector roadmap, enhancing of the institutional capacity, organisation of regular sector reviews and donor coordination

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The contracting authority will be the EU Delegation to Skopje.

Various bodies and institutions will be involved in the implementation of the Action.

- Cabinet of the Deputy Prime Minister in charge for economic affairs (CDPMEA), which has the mandate for overall coordination of the economic affairs as well as the reforms in the private sector development.

- Ministry of Economy is the policy-making body for the competitiveness with stronger role in the management of various economic issues as defined in the Law on the organisation and the competences of state bodies and related substantive laws.

- Agency for promotion of entrepreneurship (APPR), which is the main SMEs support agency implementing projects and measures for improving SMEs competitiveness, strengthening their capacities, enabling government support thought different grant and voucher schemes.

- The National Entrepreneurship and Competitiveness Council - the main public private platform aimed at achieving consensus for the key business-related policies and strategies. NECC gathers representatives of the key business associations and academic establishments in the country. This is the place where strategies and measures for improving of the competitiveness of the companies and economy are being crafted.

- *The Macedonian Bank for Development Promotion* provides credits and other forms of support i.e insurance of claims based on performed export against short term commercial risk.

Following the introduction of sector approach under IPA II, a Sector Working Group (SWG) for the competitiveness sector has been established. The SWG is i.a. responsible for alignment of the national planning process in the sector with IPA programming, ensuring that all EU funds are properly targeted to achieve synergy with the national funds and increase the impact on private sector development.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The Action will be implemented through direct management and indirect management with an international organisation.

The table below provides further information on the method of implementation and the types of financing.

Result/ Measure	Method of implementation	Types of financing	Justification
Activity 1: SME Competitiveness and Innovation Finance and Support	Indirect management with IO/EBRD	Delegation agreement with EBRD	The combination of a credit line with Grants shall bring extensive gain for the private sector development efforts

EBRD has an outstanding and long term experience in providing funding and advisory services for SMEs. In addition EBRD has established a significant fund for crediting the SMEs in the country amounting to EUR 30 million.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

The EUD as responsible contracting authority has the overall responsibility for Monitoring and Evaluation together with the NIPAC in line with the IPA II regulation and the Framework Agreement.

The Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. In addition, the Action might be subject to external monitoring in line with the EC rules and procedures set in the Financing Agreement.

The action will be monitored through the IPA Monitoring Committee in line with the provisions of the IPA II legal documents.

A specific Steering Committee will be set up at contract level.

Monitoring of the implementation of the competitiveness strategy will be done on a quarterly and annual basis by the Cabinet of the Deputy Prime Minister for Economic Affairs, which will be responsible for collecting the relevant data from the respective institutions. A report with progress being made, bottlenecks in implementation and recommendations for facilitating implementation, including new measures, will be prepared and submitted to the Committee for Entrepreneurship and Innovation on a quarterly and annual basis. Moreover, the already established Government Economic Council would be the main body for monitoring of the implementation of the activities.

Sector consultation tools and mechanisms will be established in line with the Government consultation framework set up in the context of the sector approach.

A platform in cooperation with the National entrepreneurship and competitiveness council will be established which will have a monitoring role from the site of the business sector. The business sector through NECC would be informed on a regular (quarterly/semester) bases and will be involved in the evaluation of the activities.

INDICATOR MEASUREMENT

Indicator	**Baseline Value** (year)	**Target 2020** (4)	**Final Target (2020)**	Source of information
IMPACT INDICATORS				
Contribution of SMEs to GDP (value added)	67% (2013)	70%		Official statistics/ SBA factsheets
Contribution of SMEs to job creation	76% (2013)	80%		Official statistics/ SBA factsheets
OUTCOME INDICATORS				
Turnover growth rate of the supported SMEs Employment growth rate of the supported SMEs Speed of growth compared to the average for the country	to be measured at entry point	25% 15% 10 %		Accounting books/employment records
OUTPUT INDICATORS				
No of business development plans supported/No of SMEs beneficiaries of the loan and grant facilities - breakdown as per: - type of support (advisory, other) - size of SMEs (micro/small/medium) - environmental impact (neutral/sensitive) - gender sensitiveness/neutral (management/ownership or business focus) - vulnerability/minority sensitive/neutral (management/ownership or business focus)	0 (2015)	120		EBRD Project-derived statistics/ Grant scheme reports
No and amount of private investments contribution by SMEs[3]	0 (2015)	MEUR 7,5		
No of standards/new technologies introduced	0 (2015)	30		
Number of loans provided by banks and value of financing mobilised	0 (2015)	MEUR 30		
No of private banks involved in the support scheme	0 (2015)	5		
No of local consultants trained and involved in the support scheme	0 (2015)	15		
Client satisfaction rate (% SMEs stating satisfaction, added value of specific service provided)	0 (2015)	85%		

[3] Inter alia business contributions to implementation of business plans, loan interests, partial funding of support services by business, etc

Number of entrepreneurship solutions implemented (systems/tools/services)	0 (2015)	20-30		
% of entrepreneurship solutions implemented targeting entrepreneurs with specific needs (young/female/of minority origin/ with disabilities)	0 (2015)	20%		

NB: Where possible, the data will be disaggregated by female/male

5. SECTOR APPROACH ASSESSMENT

NATIONAL SECTOR POLICY AND STRATEGY

There are various specific strategic documents that embrace different aspects of competitiveness under authority of several public bodies. The main strategies covering this sector are: Competitiveness Master Plan; Industrial Policy; Entrepreneurial Learning Strategy; and Innovation Strategy. In order to consolidate various policy documents governing the private sector development, in February 2016, the Government adopted an umbrella "Competitiveness Strategy". The strategy sets out the context and strategic ambitions / priorities for period 2016 to 2020. It sets “Better regulatory, institutional, financial and business environment, leading to greater density, growth, productivity, profitability, employment and internationalisation of the country's firms" as the main strategic vision. The strategy defines about 133 measures, estimated at about €132,000 and classified under 7 main policy objectives:

1. simpler and more stable business environment;
2. more entrepreneurial and productive SME sector;
3. more vibrant export sector;
4. more attractive environment for inward investors;
5. more skilled and entrepreneurial labour force;
6. reinvigorated industrial policy;
7. higher volume of finance for the enterprise sector.

The strategy is accompanied with a Competitiveness Action Plan, which converts the strategic priorities into a matrix of measures, rationale, funds, timescale, primary and secondary responsibilities, and indicators.

There is a high degree of compatibility and coherence between the strategic documents listed above. Jointly, they encompass a clearly stated economic policy of the country, targeted towards more jobs and growth. The complementarity and coordination in development and implementation of different policies in this area is supposed to be ensured via governing Committees chaired by the Deputy Prime minister in charge of economy affairs.

INSTITUTIONAL CAPACITIES AND LEADERSHIP

The institutional setting is very complex. It involves a wide range of institutions including, inter-alia: the Cabinet of the Deputy Prime Minister in charge of Economic Affairs; the Ministry of Economy; the Agency for the Promotion of Entrepreneurship; the Agency for Promotion and Support of Tourism; the Fund for Innovation and Technology Development; the Directorate for Technological Industrial Development Zones; the Agency for Foreign Investment and Export Promotion (*"Invest Macedonia"*); *the Macedonian Bank for Development Promotion*; the Employment Support Agency; the Central Registry; the Institute for Standardisation; the Bureau for Metrology and the Institute for Accreditation.

The institutional leadership is ensured by the Cabinet of Deputy prime minister responsible for economic affairs and for the coordination of economic departments. The line ministries and institutions are responsible for drafting and implementing relevant strategies, that cover different aspects of the competitiveness sector (SME development, R&D and innovation, ICT development, foreign direct investments, intellectual property rights, consumer protection, state aid, business environment and services) and are sufficient to frame the strategic direction for the future. However, there is overlapping of functions and activities between institutions. Furthermore, institutions show different capacities (human, financial, legal) to implement various business support programmes within the institutions.

The Ministry of Economy (MoE) experienced significant cuts in its operational budgets and is operating at a very low level of performance, which is not consistent with national or EU expectations, in terms of the role of the state in relation to industrial policy, SME development and export promotion.

The role of APPRM, as in the case of the MoE, has been eroded over time to the point where its annual programme, provided directly by the State amounts to a mere 3.9 mio Denars (€ 63,000). This is a trivial sum for SME development and does not justify the number of staff members that are currently engaged.

The FDI support suffers from institutional fragmentation, which may be undermining the country's strong and on-going commitment to attracting FDI. The cooperation among these institutions is problematic and there is an overlap of activities, rivalry and lack of information exchange, which negatively reflects on the entire system for attracting FDI. There is a need to institutionalise and integrate all the FDI, export and state aid functions into one, coherent and well-resourced institution, covering all the necessary functions.

-In the past several years, the CDPMNEA and Prime mister office (PMO) took over implementation of some specific business support measures. The new structure seems unjustifiable, as the CDMPEA and PMO should not side line the line ministries' responsibilities, when it comes to project implementation, but rather have a strategic and coordinating character.

SECTOR COORDINATION FRAMEWORK

Lead and coordination institution in the area of private sector development is the Cabinet of the Deputy Prime Minister, in charge for economic affairs and coordination of economic affairs (CDPMNEA). The Deputy prime minister is also the main interlocutor for programming of IPA programs in the sector Competitiveness and Innovation. The CDPMNEA is leading the working group on Economic criteria of the National programme for the Adoption of the Acquis Communautaire (NPAA).

Other bodies that coordinate specific aspects of competitiveness are:

- Economic Council is a policy making body and steering body for monitoring the implementation of the Government's economic agenda. The Economic Council covers many different themes, but not necessarily on a planned or regular cycle, except in the case of FDI matters. The topic depends on the government sessions and/or requests made by the Chairs of Committees. This may result in a degree of discrepancy between the decisions made, and actual implementation, due to the lack of a regular follow-up mechanism. The EC does not perform properly its function to oversee and coordinate the implementation of multiple relevant strategies and action plans connected with competitiveness and innovation, including monitoring, evaluation and problem solving.

-Committee for Innovation and Entrepreneurship development is the strategic body responsible for the co-ordination of the Innovation (and entrepreneurship) Policy. The Committee operates at the strategic level for guidance, monitoring, and coordination of measures derived from the Innovation Strategy, and wider entrepreneurial matters

The public consultation on legal acts has eroded in the past, as most of the legal acts are enacted within so called "fast procedure" i.e. with no public debates. The stakeholders still may present their objections on legal acts via ENER. However, there is no analysis to what extent the business sector's comments are integrated in the new legal acts.

The coordination with civil society and other non state actors takes place through the National Council for Entrepreneurship and Competitiveness. It was formally established in 2012 as an association having 19 assembly members, including chambers, universities, MCA2000, Institute of Directors, Organisation of Employers, Trade Unions. Its remit is to contribute to sustainable economic development, with a wide-ranging focus, including Public Private Dialogue (PPD), competitiveness, entrepreneurship, SMEs, export, doing business, financial institutions, domestic and foreign direct investment (FDI). The NECC's key weakness is its very broad and demanding remit. This raises expectations on the part of its many private stakeholders, as well as the GoM, however, it has limited capacity and resources to deliver those expectations. There is a need to strengthen its role as a representative of its membership, to develop a clear private sector agenda, which reflects the needs of its members, and avoids the possibility of private sector capture by state.

The coordination of key donors is organised in a non-regular manner by the CDPMNEA. Donor coordination mainly takes place in the form of high level meetings aimed at securing a detailed inventory of the separate operations of each donor, pursuing funds for specific government measures, and ensure coherence and complementarity.

MID-TERM BUDGETARY PERSPECTIVES

The Budget System Law prescribes the obligation of presenting the medium term expenditure framework as the three-year expenditure limit for budget users aiming to increase predictability of public financing and improving transparency of the planning process in general. However, the three –year budget allocations are driven by Ministry of Finance using basic assumptions of an annual increase based on inflation and agreed allocations to the specific institution. Thus, there is no mid-term, sector-based, budgetary planning process in the country that could be used to develop mid-term expenditure frameworks across a whole sector.

The strategies governing this sector identify a number of specific measures and partially allocate respective budgets. However, the annual allocations awarded to the ministries/institutions for implementation of private sector development polices do not reflect their actual needs/plans and have declined over the past five years. The exception is the programme for FDI attraction that regularly receives significant funding. Small/no attention is being paid to the mid-term budget perspectives.

PERFORMANCE ASSESSMENT FRAMEWORK

The current institutional setting for performance assessment of the competitiveness policies is complex and involves a number of line ministries, independent public bodies, local self-government units, public-private initiatives, etc. The overall framework for monitoring and implementation of sector policies and strategies is a responsibility of CDPMNEA, line ministries and different coordinating bodies and working groups.

A range of monitoring reports are produced by the relevant Line Ministries/Agencies on progress in implementation of relevant strategies and action plans including: Action Plan for improvement of the Competitiveness, Action plan for combating unemployment, Strategy for industrial policy, Strategy for innovation, Strategy for entrepreneurship, etc.

While there are specific mandated bodies to conduct monitoring and evaluation of the specific PSD policies and obligation to produce regular implementation reports, the national system in general faces a number of deficiencies, such as:

- The emphasis is on reporting **how the annual budget allocations are used** in general terms, with a focus on a **qualitative analysis** with no/ poor quantitative analysis (no impact analysis)
- Monitoring indicators are not incorporated /or are poorly defined in the specific strategies/programmes. This makes the monitoring and evaluation exercise impossible or irrelevant.

- There is **little or no monitoring and evaluation capability** in the institutions despite the use of sometimes significant public funds. In some cases, such as Industrial Policy, the importance of Monitoring and Evaluation is explicitly recognised; its organigram anticipates the establishment of an M&E Unit. The fact that the M&E Unit was never established illustrates the level of priority currently given to such activities;

Generally, there is **little emphasis on creating systematic performance monitoring tools,** such as databases of companies, sectors, baseline or comparator statistics, time-series information on beneficiaries, inputs, outputs, outcomes, etc.. There is **little attempt to collate input, output and outcome data across the annual programmes**, either individually (e.g. SMEs, Industry, Export) or in aggregate (e.g. MoE programmes), let alone across the whole of the competitiveness sector (all relevant public institutions involved in business environment, SME, Industry, Export, FDI, etc.). Furthermore, **the annual reports connected with the use of public funds are not publicly available** on the web sites of all public bodies.

6. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

Gender equality constitutes a basic principle of international and regional human rights instruments that the country has signed and ratified. While no evidence has been collected for different treatment of enterprises on the ground of the sex of the company owners or the management, this action will still address this cross-cutting issue in the following ways:

- Create equal opportunities for men- and women-led enterprises to access funding and business services.
- Introduce gender-sensitive indicators for measuring the success of the Action. In particular the following indicators will be applied:
    - Number of women and Number of men, benefiting from the action (absolute No and % of all final beneficiaries).

EQUAL OPPORTUNITIES

The designed activity will be implemented in full respect of the principles of anti-discrimination and equal opportunities. Businesses and people involved in the action implementation will be treated similarly, unhampered by artificial barriers or prejudices or preferences.

MINORITIES AND VULNERABLE GROUPS

Any intervention designed and implemented will follow the principles established in the national and international provisions, but also will take care to provide benefits to the groups of population without distinction, including people belonging to minorities and vulnerable groups.

This action will address this cross-cutting issue in the following ways:

- Create equal opportunities for enterprises owned/managed by persons from minority origin and/or vulnerable groups to access funding
- Introduce relevant indicators for measuring the success of the Action such as number of entrepreneurs form minority origin or of vulnerable groups, benefiting from the action (absolute No and % of all final beneficiaries)

Engagement with civil society (and if relevant other non-state stakeholders)

Civil society is considered an important actor in Competitiveness and Innovation Sector. Civil society is involved in the sector working group (extended format) that has been established in each of the sectors identified with the Indicative country strategy. Non-profit organisations ad business associations took part in the development of the new Competitiveness strategy. This Action was also consulted with the civil society organisations at the programming and formulation stage through meetings organised to have CSOs opinion on the planned activities, objectives and expected results. CSOs will further be acquainted with the results and impact of the action.

Environment and climate change (and if relevant disaster resilience)

The environmental impact of the various activities envisaged in this Action is considered through:

- Channelling the envisaged support measures for businesses only to "environmental friendly" or "environmentally neutral" businesses. No support will be provided to "environmentally non-friendly" business activities.
- Introduction of environment-oriented markers and measuring No of "environmentally neutral" vs "environmentally friendly" businesses supported – min balanced figures should be expected.

7. Sustainability

The envisaged activity is expected to result into improved performance of the supported SMEs, which will positively impact on their survival rate, thus creating more stability on the local markets. The advisory services in parallel to the grants will strengthen the management capacities of a number of SMEs. The Action will improve the knowledge and competences of a huge number of business managers and employees, thus investing in a sustainable way into the social capital of the country.

8. Communication and visibility

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be the responsibility of the Contracting authority and the separate contractors, and shall be funded from the amounts allocated to the Action. National authorities will be closely associated with the implementation of the communication and visibility aspects of the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

Accordingly, the beneficiaries must recognise the funding by the European Union (EU) and implement specific information and communication activities designed to raise the awareness of specific or general audiences of the EU support, as well as of the results and the impact of this support.

A budgeted communication and visibility plan should be included in the work plan of any EU-funded project highlighting the external communication activities that need to take place at key stages in the life of the action. However, there should also be provision in any communication plan to capture and incorporate in it any unforeseen visibility opportunity that may arise unpredictably. A good communication reflex and the ability to exploit unexpected opportunities to the benefit of the action are often as important as more formal efforts and may even sometimes be free of cost. Organising a public event or participating in an event organised independently from the action (for example, conferences, workshops, seminars, fairs, exhibitions, etc.) may offer excellent opportunities for generating interest in an action's particular achievements, in addition to the EU-funded project promotional materials. Those attending EU-funded training courses, conferences, seminars, fairs, exhibitions and workshops should be made aware that the EU is financing the event and media should be informed accordingly.

Having in mind importance of digital communication in today's era of web technologies and social media, creation of EU-funded projects' communication materials in an internet friendly format is essential.

It is the responsibility of the beneficiary to keep the EU Delegation fully informed of the planning and implementation of the specific visibility and communication activities. Before initiating any information, communication or visibility activity, the contractor should contact the EU Delegation, Press and Information Officer and Programme Manager. The beneficiary shall also report on its visibility and communication actions.

The EU Delegation will always be invited to participate in visibility and communication events.