

NORTH MACEDONIA




1. Introduction

Small and medium-sized enterprises (SMEs) in North Macedonia are creating more jobs and are increasing their innovation activity. In addition, some administrative and regulatory barriers have been removed in the country. However, a number of key challenges remain, such as a lack of alternative finance sources, high levels of corruption and decreasing levels of SME participation in export activities.

SMEs in North Macedonia have been significantly impacted by the effects of the COVID-19 pandemic and the policy decisions taken to combat it. In 2020, overall SME value added declined by 8.6%¹. The downturn was particularly pronounced in the *accommodation and food services* sector, with SME value added falling by 10.2%. The *wholesale and retail trade* sector, the largest sector in terms of SME value added, was also affected, albeit not as severely, with value added down 1.8%. The *manufacturing* sector, in contrast, performed strongly in 2020, generating 4.6% growth in SME value added.

SMEs are the backbone of the country's 'non-financial business economy'. In 2019, they accounted for 65.7% of overall value added and 73.5% of overall employment, far exceeding the respective EU averages of 53.2% and 65.0%. However, SME productivity, defined as value added per person employed, was only EUR 10 900, around one quarter of the EU average of EUR 42 600. The average number of SME employees in 2019 was 5.0, significantly higher than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2019

	 Number of enterprises			 Number of persons employed			 Value added		
	North Macedonia		EU-27	North Macedonia		EU-27	North Macedonia		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	52 261	90.5%	93.3%	123 512	31.3%	29.6%	1.006	20.9%	18.7%
Small	4 553	7.9%	5.7%	87 707	22.2%	19.7%	1.082	22.5%	17.0%
Medium-sized	790	1.4%	0.9%	78 470	19.9%	15.8%	1.074	22.3%	17.3%
SMEs	57 604	99.7%	99.8%	289 689	73.5%	65.0%	3.163	65.7%	53.2%
Large	148	0.3%	0.2%	104 575	26.5%	34.8%	1.654	34.3%	47.0%
Total	57 752	100%	100%	394 264	100%	100%	4.817	100%	100%

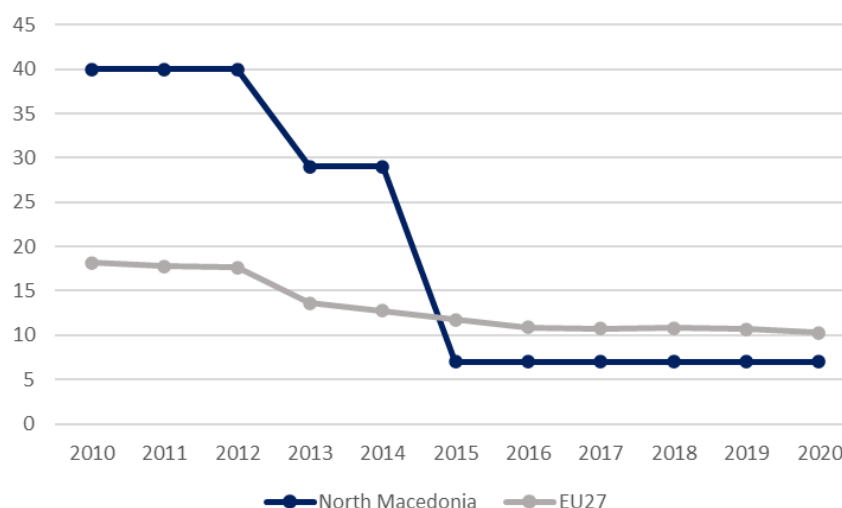
Source: These data are based on data provided by the State Statistical Office of the Republic of North Macedonia. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Some administrative and regulatory barriers have been removed

The country has made significant progress on several business environment indicators over the last decade. The number of tax payments has seen a significant decrease and now stands at 7 – this is 3 less than the EU average and 33 less than a decade ago. In addition, North Macedonia's businesses only take 119 hours a year to pay taxes – 54 less than the EU average. Tax payments are also available online. Since 2017, resolving insolvency takes half a year less than the EU average².

Figure 2: Number of tax payments per year



Source: World Bank's Doing Business, 2020³

The country also performs well on other indicators. No paid-in minimum capital is required to start a business, against an EU average of 8.44% of income per capita. The cost of registering property is also below the EU average, and construction payments can be issued online.

According to the World Bank's Doing Business Report, the country carried out 42 reforms to improve its business environment in 2005-2019 – the fifth highest number of reforms among all economies assessed⁴. However, according to a World Economic Forum report, the burden of government regulation in the country is still higher than the EU average⁵. Indeed, there is still room for improvement on several indicators, such as the time it takes to start a business or to register property, which are still above the EU average⁶.

SMEs and start-ups are creating more jobs

The number of start-ups creating new job openings has increased in the last 3 years – with an average annual growth rate of 7.38% over this period⁷.

Other indicators support this positive trend. The share of new businesses and entrepreneurs expecting to create six or more jobs in the next 5 years has been increasing since 2017 – it now stands at 23%, some 3 percentage points above the EU average⁸.

This may reflect increased public support through key policies such as entrepreneurship programmes for unemployed people (*Поддршка на самовработувањето - претприемништво*). These include training in entrepreneurship and business planning skills, help with developing a business plan and EUR 5 000 grants to register a new company. According to the latest results available, this measure has trained 1 700 people, made investments worth EUR 13.1 million in start-ups and has led to 1 438 new companies – 2.68% of the total active SMEs in 2018⁹.

The number of innovative SMEs is growing

According to the State Statistical Office, the number of innovative SMEs increased by 53% in 2014-2020¹⁰. This trend is in line with the increased involvement of SMEs in policymaking (but still not sufficient), as well as greater SME participation in public support for innovation, technological development and digitalisation. For example, the Fund for Innovation and Technological Development of North Macedonia – involved in the main innovation and entrepreneurship programmes in the country – reports receiving 20 times more applications from SMEs to calls than grants available.

In recent years, several measures to support innovation in SMEs and start-ups have also been launched – including grants to support innovation activities in start-ups and spin-offs¹¹, low-interest credits for SMEs for technological investment¹², financial support to help commercialise innovations¹³, and other co-financing programmes. The impact of this financial support should be assessed and monitored on a regular basis. The government also started preparations for a smart specialisation strategy in 2020 following a delay.

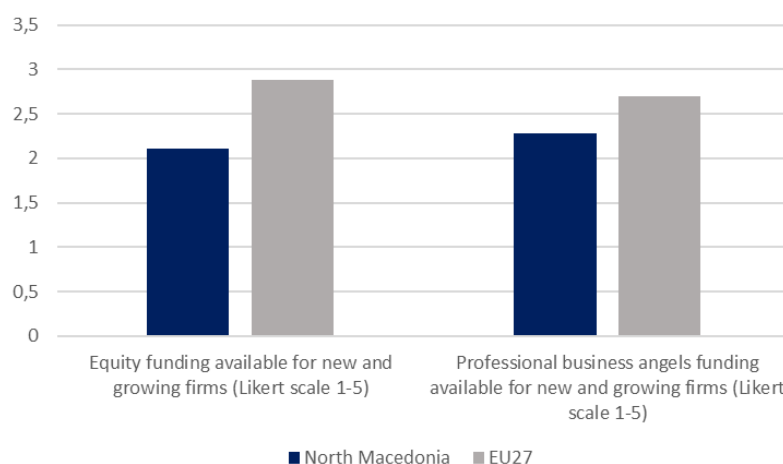
3. Key challenges

Equity funding and alternative non-banking sources remain underdeveloped

According to the National Bank of the Republic of North Macedonia, the country lags behind EU Member States in the share of private equity funding and non-banking sources available to new entrepreneurs and start-ups, such as venture capital, equity, mezzanine financing and business angel financing¹⁴.

Indeed, the venture capital market is still in its early stages of development and only represents 0.018% of GDP, significantly below the EU average of 0.04%¹⁵. The availability of equity funding and business angel funding for new and growing businesses is also below the EU average¹⁶.

Figure 3: Equity funding and business angel funding for new and growing firms



Source: National Expert Survey of the Global Entrepreneurship Monitor, 2019¹⁷

SME participation in exports has decreased

SMEs' contribution to the economy's export performance compared to that of larger firms is becoming less significant. In 2018, SMEs provided 26.7% of exports, while in 2016 their exports represented 31.2% of the total¹⁸.

Some of the latest government measures related to internationalisation include the introduction of ISO and Halal standards, as well as the organisation of business events abroad and co-financing of the costs of attending trade shows and fairs abroad. However, SMEs do not fully benefit from the available support to attend B2B events and trade fairs – SMEs used only 29.8% of the budget for participating in trade fairs¹⁹.

High levels of corruption hamper SME capacity to do business

Private sector representatives indicate that corruption is a significant challenge that continues to hamper SMEs' capacity to do business. According to data from Transparency International's 2020 Corruption Perceptions Index, people's perceptions of public sector corruption in the country have been worsening since 2014²⁰.

The government has taken some measures to address this issue, including a judicial reform and the establishment of more transparent procedures for procurement and state aid contributions to the private sector. In addition, the government has created a Parliament Commission to fight corruption.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Tourism, transport and retail were the sectors hardest hit by the COVID-19 crisis. In 2020, 20 000 employees were made redundant and signed on as unemployed. The government adopted four packages of economic measures to overcome liquidity issues related to the crisis. These included financial support to pay wages, loans for SMEs with low interest rates, deferral of bank loan instalments and a reduction of taxes²¹.



GREEN TRANSITION OF SMES

Despite the fact that the share of SMEs that have benefited from public support in this area is on a par with the EU average, only 53% of SMEs have implemented resource efficiency measures and only 8% offer green products or services – against EU averages of 89% and 25%²². There are some measures that specifically support the green transition of SMEs, such as a credit line for energy efficiency²³ or the programme for competitiveness, innovation and entrepreneurship, which supports projects dealing with climate change²⁴.



MARKET ACCESS

The government set up a one-stop shop on the border with Albania and Serbia in 2019, allowing SMEs to trade with only one custom procedure²⁵.



REGULATORY BURDEN

There have been recent efforts to reduce the regulatory burden. In 2020, the government started the process to reduce 337 parafiscal taxes for SMEs²⁶. In addition, consultations on creating an e-register of regulatory changes – involving SMEs – took place in 2020²⁷.



DIGITALISATION OF SMES

According to the State Statistical Office, 95.2% and 98% of small firms and medium-sized firms respectively have access to the internet, while 52% of small firms and 69% of medium-sized firms have a website. E-government services are quite popular – 74% of small firms and 88% of medium-sized firms use them. In addition, more than 50% of SMEs use social media²⁸. However, companies are lagging behind in the use of other digital solutions such as cloud services. According to Eurostat data, only 7% of businesses have used cloud services, against an EU average of 23%²⁹.

¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). Due to data constraints, for 2020, only value added data can be estimated (data for employment and number of enterprises are only available up until 2019).

² World Bank (2020), *Doing Business report*, available at: <https://www.doingbusiness.org/en/data/exploreeconomies/north-macedonia>

³ Ibid.

⁴ Ibid.

⁵ World Economic Forum (2019), *Global Competitiveness Report 2018-2019*, available at: http://www3.weforum.org/docs/GCR2018/GCI_4.0_2018_Dataset.xlsx

⁶ See Note 2.

⁷ National Employment Agency (2019), *Agency Report on Implementation Operation Plan for employment*, available at: <http://av.gov.mk/godishni-izveshtai.nspix>

National Employment Agency (2019), *Annual reports of National Employment Agency 2019-2017*, available at: <http://av.gov.mk/godishni-izveshtai.nspix>

⁸ Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at: <http://www.gemconsortium.org/data/key-aps>

⁹ National Employment Agency (2020), *Operational plan for employment*, available at: <https://av.gov.mk/operativen-plan.nspix>

¹⁰ State Statistical Office of the Republic of North Macedonia (2020), *MskStat database*, available at: www.stat.gov.mk

¹¹ Fund for Innovation and Technological Development (2020), *Report on awarded projects on the call*, available at: https://fitr.mk/wp-content/uploads/2020/09/FITR-Tabela_Startapuvaj_29.09.2020_fin.pdf

¹² Development Bank of North Macedonia (2020), *Loans offer*, available at: <https://www.mbdp.com.mk/mk/kreditiranje/msp#eib5-100-000-000>

¹³ World Bank (2020), *Fund for innovation and technological development*, available at: <https://fitr.mk/wp-content/uploads/2020/10/komercijalizacija-13.10.2020.pdf>

¹⁴ National Bank of the Republic of North Macedonia (2019), *Bank Financing to SMEs in the Republic of North Macedonia: Evidence from Survey Data*, available at: <https://www.nbrm.mk/ns-newsarticle-bank-financing-to-smes-in-the-republic-of-north-macedonia-evidence-from-survey-data-en.nspix>

¹⁵ Eurostat (2018), *EVCA*, available at: <http://www.investeurope.eu>

¹⁶ National Expert Survey (2019), *Global Entrepreneurship Monitor*, available at: <http://www.gemconsortium.org/data/sets>

¹⁷ Ibid.

¹⁸ See Note 9.

¹⁹ Ibid.

²⁰ Transparency International (2019), *Corruption Perceptions Index*, available at: <https://www.transparency.org/en/countries/macedonia-fyr>

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- ²¹ Government of the Republic of Macedonia (2020), *Announcement of COVID-19 measures*, available at: <https://vlada.mk/ekonomski-merki-covid19>
- ²² European Commission (2017), *Eurobarometer survey of SMEs and the environment*, available at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm
- ²³ Development Bank of North Macedonia (2020), *Financial products*, available at: <https://mbdp.com.mk/mk/proizvodi>
- ²⁴ Ministry of Economy (2020), *CIP programme*, available at: [http://www.economy.gov.mk/Upload/Documents/KIP%202020%20%20SI%20vesnik%20277%20-%202019%20\(3\).pdf](http://www.economy.gov.mk/Upload/Documents/KIP%202020%20%20SI%20vesnik%20277%20-%202019%20(3).pdf)
- ²⁵ Customs administration (2019), *Signed Protocols for Implementation Of 'One Stop Shop' at Tabanovce*, available at: <https://customs.gov.mk/index.php/en/2016-08-15-20-09-54/2016-08-15-15-05-6/2298-potpishani-protokolite-za-implementacija-na-one-stop-shop-na-tabanovce-3>
- ²⁶ Ministry of Economy (2019), *List of parafiscal taxes*, available at: <http://www.economy.gov.mk/doc/2838>
- ²⁷ Government of North Macedonia (2020), *Unique national register for regulations*, available at: www.ener.gov.mk
- ²⁸ See Note 10.
- ²⁹ Eurostat (2018), *Cloud computing services*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_cicce_use