

2017 SBA Fact Sheet

The former Yugoslav
Republic of Macedonia



Key points

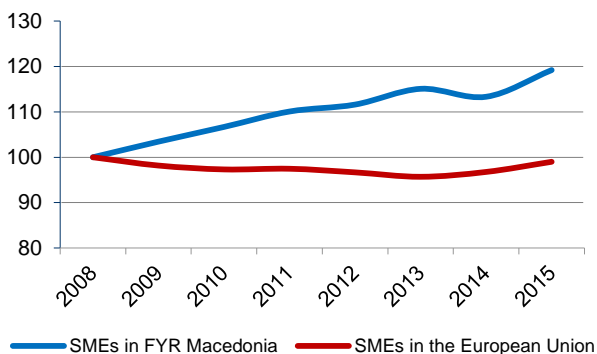
Past & future SME performance¹: SMEs in the former Yugoslav Republic of Macedonia account for almost two thirds of total value added and nearly three quarters of all jobs, well above the respective EU averages of 57 % and 66 %. In 2008-15, the value added by SMEs increased by 17 %, while employment grew by 19 %. Real GDP is projected to grow by around 3 % annually over 2017 and 2018, with most of the expansion taking place through increased employment and around 40 % through increased labour productivity. The main challenge for SMEs will be catching up with European productivity levels.

Implementing the Small Business Act for Europe (SBA): The overall SBA profile of the former Yugoslav Republic of Macedonia continues to show a mixed picture. The principles of 'second chance' and 'responsive administration' as well as 'internationalisation' score above the EU average; at the same time, 'environment', and 'skills & innovation' linger (well) below the EU average. Progress has continued mostly in the area of 'responsive administration'. The constraints in data availability need to be kept in mind when interpreting the overall results.

SME policy priorities: Small and micro companies face problems in particular with skills and innovation. There is a notable need to catch up as regards online transactions, lack of ICT skills and R&D support to SMEs. Similarly, to improve the lagging performance on the environment principle it will be important to develop and support resource-efficiency measures and green(er) products. Other remaining problematic issues include regular access to finance with a dearth of alternative non-banking financing sources, and a lack of entrepreneurship which is viewed negatively by those who believe that setting up a business is the only option to find work. The lack of a skilled labour force and basic business skills are a bottleneck for most SMEs, affecting their potential for growth in productivity and competitiveness and, consequently, in new employment. A comprehensive 'SME test' needs to be set up and administrative burden further decreased. This requires improvements in coordination among public policymakers and strengthened dialogue with the SME stakeholders. To address the relatively unpredictable regulatory environment there needs to be a more systematic and fuller use of the existing stakeholder consultation system including for SME stakeholders.

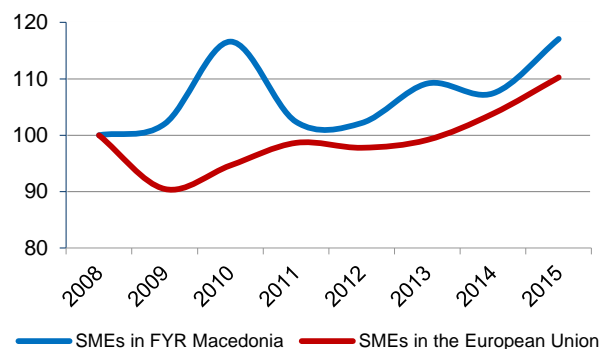
Number of persons employed in SMEs

(Index: 2008=100)



Value added of SMEs

(Index: 2008=100)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Former Yugoslav Republic of Macedonia		EU	Former Yugoslav Republic of Macedonia		EU	Former Yugoslav Republic of Macedonia		EU
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	48981	90.4 %	93.0 %	119026	32.3 %	29.8 %	818	21.9 %	20.9 %
Small	4306	7.9 %	5.8 %	82079	22.3 %	20.0 %	836	22.4 %	17.8 %
Medium-sized	739	1.4 %	0.9 %	72706	19.7 %	16.7 %	758	20.3 %	18.2 %
SMEs	54026	99.7 %	99.8 %	273811	74.4 %	66.6 %	2412	64.5 %	56.8 %
Large	157	0.3 %	0.2 %	94348	25.6 %	33.4 %	1327	35.5 %	43.2 %
Total	54183	100.0 %	100.0 %	368159	100.0 %	100.0 %	3739	100.0 %	100.0 %

National data are for the year 2015, provided by the State Statistical Office (SSO) and Eurostat. Data for the EU are estimates for 2016 produced by DIW Econ, based on 2008-14 figures from the Structural Business Statistics Database (Eurostat). 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). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

In terms of value added and employment, SMEs in the former Yugoslav Republic of Macedonia play a larger role in the non-financial business economy compared to the EU average for SMEs. SMEs account for almost two thirds of total value added and nearly three quarters of all jobs, considerably above the respective EU averages of 57 % and 67 %. In 2015, however, SME productivity — as calculated by the ratio of value added to employment — was only around EUR 8 800 per person, or no less than 80 % below the EU average. The wholesale and retail trade sector accounted for the largest share with nearly a third of SME value added, along with a similarly high share of employment. This sector is therefore significantly more important for SMEs compared to the EU average (where it is 6-10 percentage points lower).

SMEs are generally an important driver of growth in the 'non-financial business economy'. Over the period 2008-2015 SME employment grew by 19 % and value added increased by 17 % — with relatively buoyant growth in 2015. However, over that same period, SME productivity declined slightly by 2 %. Small firms outperformed the other SMEs, showing increases of 27 % for value added and 29 % for employment, respectively. The relatively dynamic growth in 2015 occurred particularly in several services sectors and in construction.

In the construction sector, SME growth was relatively strong, with a 59% increase in value added and a 20% increase in employment over the 2008-2015 period. This growth can be linked to several factors, including low interest rates stimulating

private housing demand, and elements such as a rise in public expenditure on infrastructure projects. 'Skopje 2014' was the most notable public construction project, starting in 2010 with a radical rebuilding of the capital city. Furthermore, two energy efficiency action plans aimed at reducing energy consumption included measures to promote the renovation of buildings. Therefore this stimulated the construction sector as well. However, there is a lack of funding for energy efficiency in SMEs, and the energy service company (ESCO) market is still underdeveloped.

SMEs in the professional services sector experienced the highest growth rates, with increases in 2008-2015 of 69 % in value added and 95 % in employment. One factor contributing to this development was the relatively high net inward foreign direct investment (FDI) flows into the former Yugoslav Republic of Macedonia, which totalled on average 3.1 % of GDP in 2008-2015. These investments had a positive influence on SMEs in legal and accounting activities, which benefited from increased demand for consulting, advising, and preparing legal documents. Similarly, the information and communication sector saw significant growth in value added and employment over that same period, of 70 % and 84 % respectively.

At the same time, SMEs in the manufacturing sector did not particularly benefit from inward FDI flows. The latter were mainly targeted towards manufacturing exports of large foreign owned companies, with little direct linkages to the local economy. Furthermore, SMEs in this sector performed below average because of weak domestic demand and declining prices for traditional exports such as basic metals and mineral products, and with negligible shift towards more dynamic markets. As a result, SME value added and employment in this sector fell over the 2008-2015 period, recording a decline in value of 14 % and 9 % respectively. To address this issue, SMEs

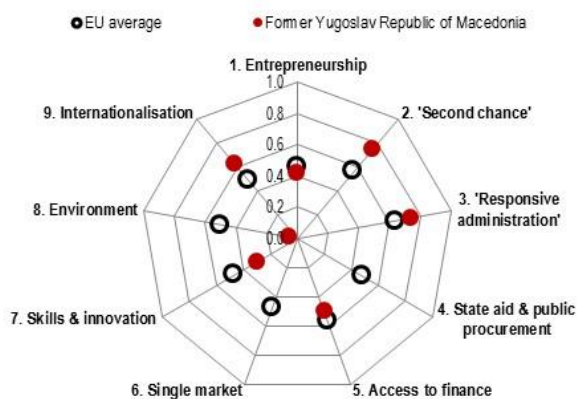
have received technical assistance to improve integration into the supply chains of foreign companies through the World Bank-funded competitive industries and innovation programme.

In 2015 the number of newly registered companies totalled 6877, or a decline of almost 4 % compared to the previous year. The highest share of company births — 31 % — was in the wholesale and retail trade sector, the most important sector for SMEs. The next highest share was in accommodation and food services, which accounted for 12 % of newly registered companies (similar as in 2014). In that same year a total of 6429 companies closed down, most of which (35.7 %) were in the wholesale and retail sector. Regarding the survival rates of newly registered companies, 41 % of new companies created in 2011, 67 % in 2013 and 81 % in 2014, were still operating in 2015. The largest survival rates are shown for companies operating in areas of financial services and insurance, professional, scientific and technical activities, and education.

In total for 2015 there was a net gain of 628 companies. This net increase in the number of new companies may to some extent reflect a more conducive regulatory environment for starting and operating a firm. In the 2017 World Bank 'Ease of Doing Business' ratings the country had continued its impressive climb and stood at 10th position in 2016, up from 12th in 2015. With such rankings it is well ahead of any other country in the region.

Real GDP is projected to grow by 1.7 % in 2017 and 2.7 % in 2018. This growth for the most part (around 60 %) is taking place through increased employment, with the remainder is accounted for through raised productivity. The main challenge for SMEs is to start catching up decisively with European productivity levels.

2. SBA profile²



The overall SBA profile of the former Yugoslav Republic of Macedonia continues to show a mixed picture. The principles of

'second chance' and 'responsive administration' as well as 'internationalisation' all score above the EU average. At the same time, 'environment', and 'skills & innovation' linger (well) below the EU average. Progress has continued mostly in the area of 'responsive administration'. The constraints in data availability need to be kept in mind when interpreting the overall results.

During 2016 and first quarter of 2017, which is the reference period for this year's fact sheet, the country has implemented several new policy measures, addressing policy areas under the Small Business Act.

There is a consensus that the areas that saw the most significant progress in 2016 were entrepreneurship and 'responsive administration' and, to a lesser extent, in access to finance.

In the area of entrepreneurship, there was a continued focus on, and additional funding for (i) implementing several policy measures to introduce new training schemes to support and stimulate young entrepreneurs, (ii) providing grants for start-ups and (iii) providing vouchers to co-finance advisory and mentoring

services for women entrepreneurs. Strategies have also been formulated for SMEs and female entrepreneurship.

Several measures have started to address the 'responsive administration' area including the portal www.uslugi.gov.mk as a first generation one-stop-shop for all SME administrative needs, and the establishment of regional centres for business support. Both measures aim to have positive effects on cost reduction and shorten the time needed to access information, raise claims, and request administrative authorisations and licences.

Newly adopted measures in the area of access to finance include grants for innovative start-ups and venture capital for investment in SMEs.

In the 'environment' area no new measures were adopted, due to a limited government focus on this dimension. Government programmes are mostly concerned with preparing feasibility studies and projects for environmental protection but there is a lack of specific incentives for eco-products and eco-businesses, as grants for innovative business are deemed to cover these areas.

The 'Think Small First' area showed moderate progress with the adoption of a law on fines, whose categorisation is made according to company size (turnover and number of employees), which benefits SMEs.

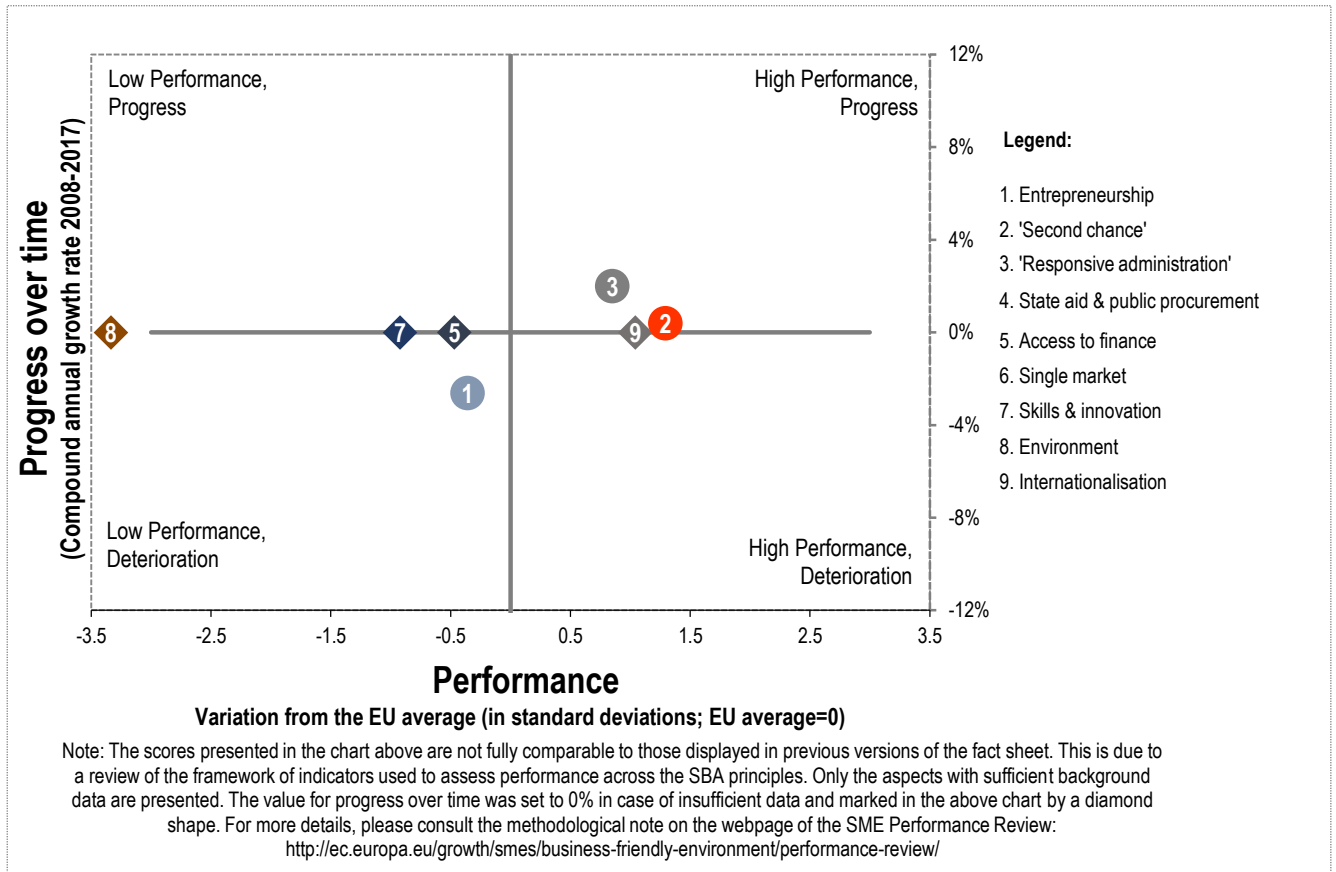
The country has drafted but not yet adopted a specific strategy to implement the SBA. Over the last few years, efforts to harmonise SME policy with SBA principles have been focused on other sectoral policies and programmes. SBA recommendations have been widely included in various national programmes and government policies.

In January 2016, a new process was set up to define the strategy for SMEs over the 2017-2020 period, where all policies related to the SBA would be included. Compliance of the national SME policy with the SBA falls under the responsibility of the Ministry of Economy, which also acts as the coordinating body for inter-government working groups which perform an annual SBA self-assessment.

The SBA National Coordinator within the Ministry of Economy, appointed in 2011, has helped to simplify communication channels between SME stakeholders and the government.

SME stakeholders are aware of the SBA through the initiatives of the chambers of commerce, which holds information sessions to promote the SBA to relevant stakeholders. The political crisis that continued in 2016 has likely undermined the country's overall business environment for SMEs and harmed investment.

SBA performance of Former Yugoslav Republic of Macedonia: state of play and development from 2008 to 2017³



3. SBA principles⁴

3.0 'Think Small First'

The 'Think Small First' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Key provisions of the 'Think Small First principle' were already introduced in 2009. However, their implementation varies among responsible institutions. Draft legislative texts are subject to comments by SME stakeholders within the existing consultation system (National Electronic Registry of Regulations (ENER)), and the time for comments was extended from 10 to 20 days. However, by-laws are still not subject to public debate. At the same time, the use of ENER by SMEs and business associations remains limited. The number of legal acts available for consultation with ENER actually declined, from 367 in 2013 to only 80 in 2016. This in turn is linked to a frequent use of the fast legislative procedure, which continued in 2017 as well. This prevents a proper and systematic consultation with SME stakeholders and increases uncertainty for the SME business operating environment.

Regular systematic public-private dialogue declined over 2016-2017. Public bodies attempted to consult the main SME associations on SME related policies but mostly on an *ad hoc*

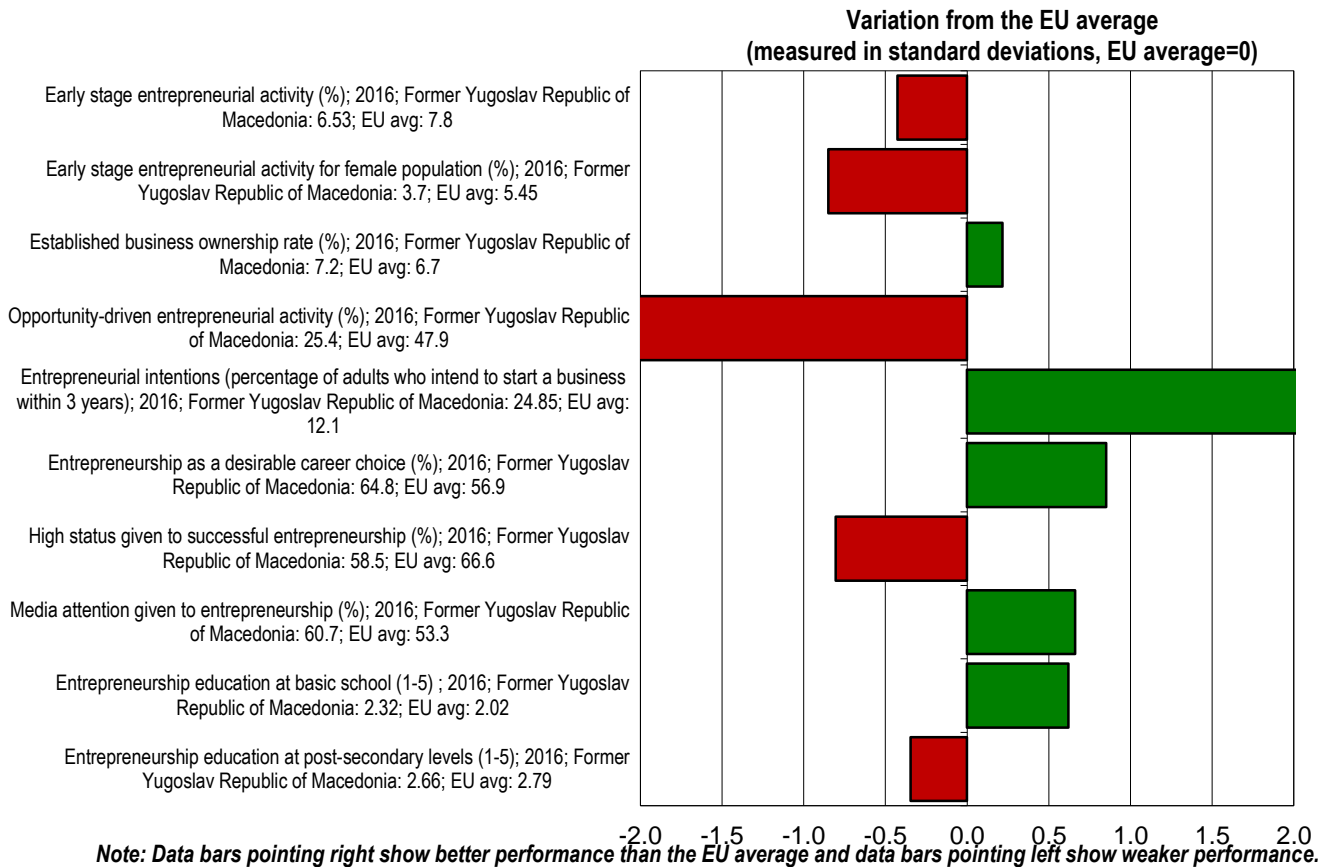
basis. Regular and systematic consultation which in the past took place within the National Council for Competitiveness (NCC) is no longer happening as the NCC ceased to operate.

In 2017 the government continued to run a programme for direct interaction with companies, mainly via visits of high-level government officials to individual businesses. However, the efficiency and effectiveness of such communication is unclear and has not been evaluated.

The Regulatory Impact Assessment (RIA) is mandatory for new regulations or amendments of existing laws (Official Journal No 66/2009) and the expected costs and benefits need to be analysed and disclosed. All RIA reports are prepared and publicly accessible with ENER before the regulation is adopted. However, the quality of the RIAs on the new legal acts remains poor. Most of the public bodies lack sufficient human or financial capacity to prepare thorough RIAs. Furthermore, the Ministry of Economy does not publish its annual plans for RIAs and legislative changes. All this contributes to uncertainty for SME business operations.

The country still needs to strengthen fundamental parts of the 'Think Small First' principle, especially the need for a comprehensive 'SME test' and to ensure the quality of RIAs. It should also establish a durable mechanism for systematic consultation with companies and promote the full and systematic use of ENER with stakeholders.

3.1 Entrepreneurship



The performance of the former Yugoslav Republic of Macedonia on entrepreneurship is still within the EU average, although in recent years it has deteriorated further compared to the EU score. The positive performance notably on entrepreneurial intentions and also as a desirable career choice might have contributed to the improved indicator on the established business ownership rate (although the latter declined compared to the previous report). However, there is a somewhat more negative interpretation in that entrepreneurship's positive performance is mainly due to the perceived lack of other opportunities. This is supported by the below-average score on the high status of successful entrepreneurship. There is the perception that few people are driven to become entrepreneurs because of the opportunities presented; rather, they become entrepreneurs because few other career options seem available. The score for this indicator is among the worst of all countries. Compared to the previous report, several other scores have also slightly deteriorated, most notably media attention given to entrepreneurship, i.e. the percentage of people who agree with the statement that they often see stories in the public media about successful new businesses.

Overall, in recent years all planned measures in the area of entrepreneurship have been put in place.

The Programme for competitiveness, innovation and entrepreneurship offered measures for SME support, implementation of industrial policy and support to cluster associations. In 2016, it backed more than 70 companies in product development, market development, and introducing standards. It then provided grants for craftsman and female entrepreneurs, and training. Around 10 cluster associations received grants for specific project activities and for organising a regional conference, 'Days of Clusters 2016'.

In 2016 the Agency for entrepreneurship promotion secured some additional funds to support entrepreneurship. These were allocated for measures such as co-financing investments, advisory services, training, as well as info sessions.

Following the positive response to employment measures for young people and women, the support programmes for these specific categories implemented by the National Employment Agency continued throughout 2016-2017. The third EU direct grant to the Employment Service Agency ('Support to Youth

Employment’) started in December 2016 and provides grants for start-ups established by young entrepreneurs or women.

The National Strategy for SMEs and Strategy for Women’s entrepreneurship 2017-2020, includes a broad set of measures that were drafted but have not yet been adopted. The strategy aims to increase women’s entrepreneurial activities and to increase female employment to 70 % by 2020.

A draft National Strategy for SMEs 2017-2020 was developed but also not yet adopted. This evolves around SBA principles and

includes the participation of all relevant stakeholders. It comprises numerous measures including (i) drafting assessment studies, (ii) establishing an on-line movable asset register, (iii) a feasibility study for factoring, (iv) campaigns to improve SME financial literacy, (v) drafting strategies for the green economy, (vi) export promotion, and (vii) development of new business support services.

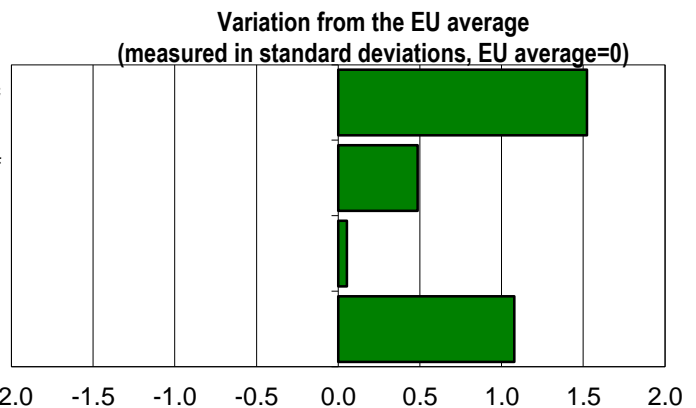
3.2 ‘Second chance’

Strength of insolvency framework index (0-16); 2017; Former Yugoslav Republic of Macedonia: 15; EU avg: 11.88

Time to resolve insolvency (in years); 2017; Former Yugoslav Republic of Macedonia: 1.5; EU avg: 1.97

Cost of resolving insolvency (cost of recovering debt as percentage of the debtor’s estate); 2017; Former Yugoslav Republic of Macedonia: 10; EU avg: 10.25

Fear of failure rate (%); 2016; Former Yugoslav Republic of Macedonia: 34.44; EU avg: 40.7



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

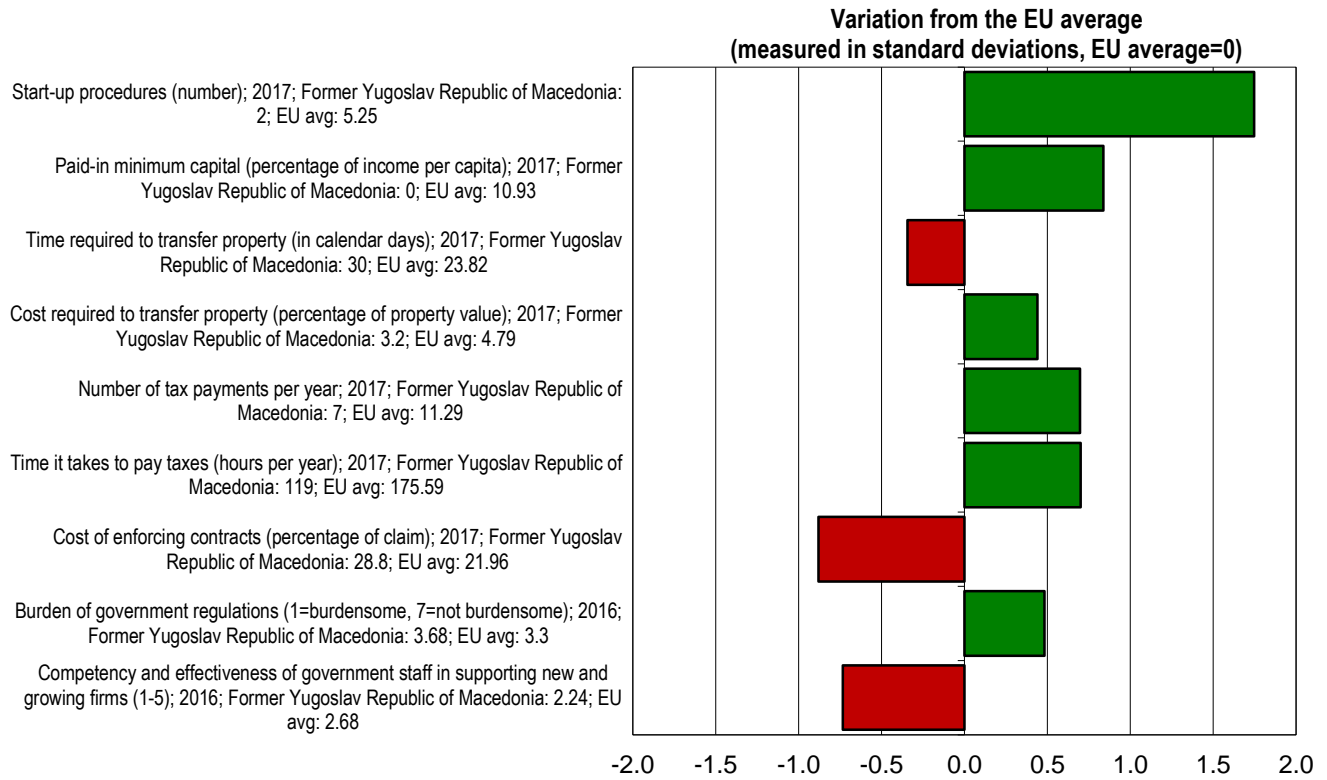
‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. In this principle the country clearly performs above the EU average, and it has further improved somewhat against the EU score over recent years. In particular the insolvency framework index performs well, with one of the highest scores of all countries, demonstrating that sound legislation is in place for rehabilitating viable firms and liquidating nonviable ones.

Since 2016, the EU has been supporting reform of the bankruptcy and liquidation legal framework by establishing smart and efficient insolvency rules and thus boosting investment, jobs and growth. The assistance includes (i) training

judges to ensure unified court practices, (ii) promoting bankruptcy administration as a profession, (iii) and aligning national tax laws with European practice in respect of removing bankrupt entities from the VAT system.

The Central Register continued to delete inactive companies from the trade register. All trade companies that fail to submit annual accounts for three years in a row or to provide information about their electronic post address, are deleted from the trade register. This initiative started in 2012 and aims to reduce barriers to market exit; around 6500 inactive companies are deleted on annual basis.

3.3 'Responsive administration'



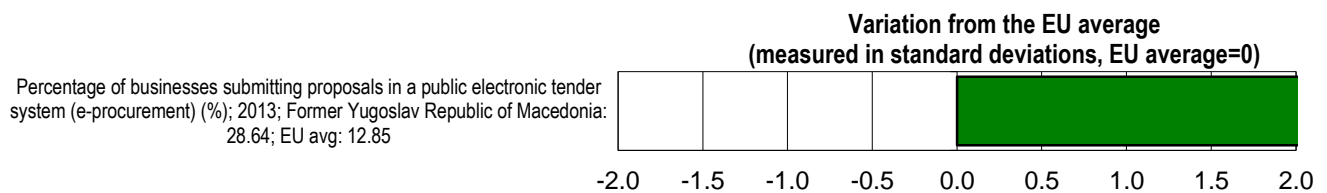
Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

'Responsive administration' refers to public administration being receptive to the needs of SMEs. Overall, the former Yugoslav Republic of Macedonia performs above the EU average on this principle, and has further improved its position over recent years. It scores particularly well on the minimal number of start-up procedures and paid-in capital requirements, and on tax practices. As compared to the previous year, almost all indicators showed some improvement. At the same time, while not directly captured in the data above, it should be noted that there is still a lack of regular SME stakeholder consultation in current legislative procedures, contributing to a relatively uncertain regulatory environment. This highlights that the (already existing) stakeholder consultation system needs to be used fully and more systematically.

An interoperability platform enabling data exchange between some 26 public institutions started to operate in March 2016. The new procedures and platform allows data to be exchanged between the bodies linked into the system and to transfer claims from one public body to another. The objective is to reduce the number of documents that need to be submitted by businesses/citizens, and to provide services more efficiently.

The Ministry of Information Society and Administration developed a Public Service Catalogue software application that includes 199 public services under 26 laws. The national E-service portal, a central interface where business can access all government services, is undergoing further upgrades. The government allocated financial resources to procure the necessary equipment and is continuously improving the portal's functionality.

3.4 State aid & public procurement



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Regarding the indicators related to this principle, there are no sufficient data available for the former Yugoslav Republic of Macedonia. Therefore, it is not possible to draw any general conclusions on its performance on state aid & public procurement vis-à-vis the EU. The indicator for businesses taking part in e-procurement, with the most recent available data covering 2013, shows that the country performed well above the EU average at the time.

State aid to companies is regulated within various national and local SME support programmes, and provided through a number of public bodies with different objectives and volumes of individual subsidies. However, there is still no inventory of state aid to SMEs or a regional state aid map, and little transparency on the state aid selection process.

The law on public procurement was adopted in 2007 and has been amended numerous times in recent years. It includes several elements favouring SMEs, such as the decision to split large tenders into smaller lots. Information on public procurement opportunities is available through the e-procurement system, which is a mandatory system for all contracting authorities. The e-procurement system is also widely used by SMEs, but subscription fees are not equal for domestic and foreign companies. The e-procurement system is linked with the Central Register and allows an automatic generation of companies' profile data relevant for their participation in tenders. Only a 'lowest price' contract award criterion is used, while the process is based on mandatory e-auctions. However,

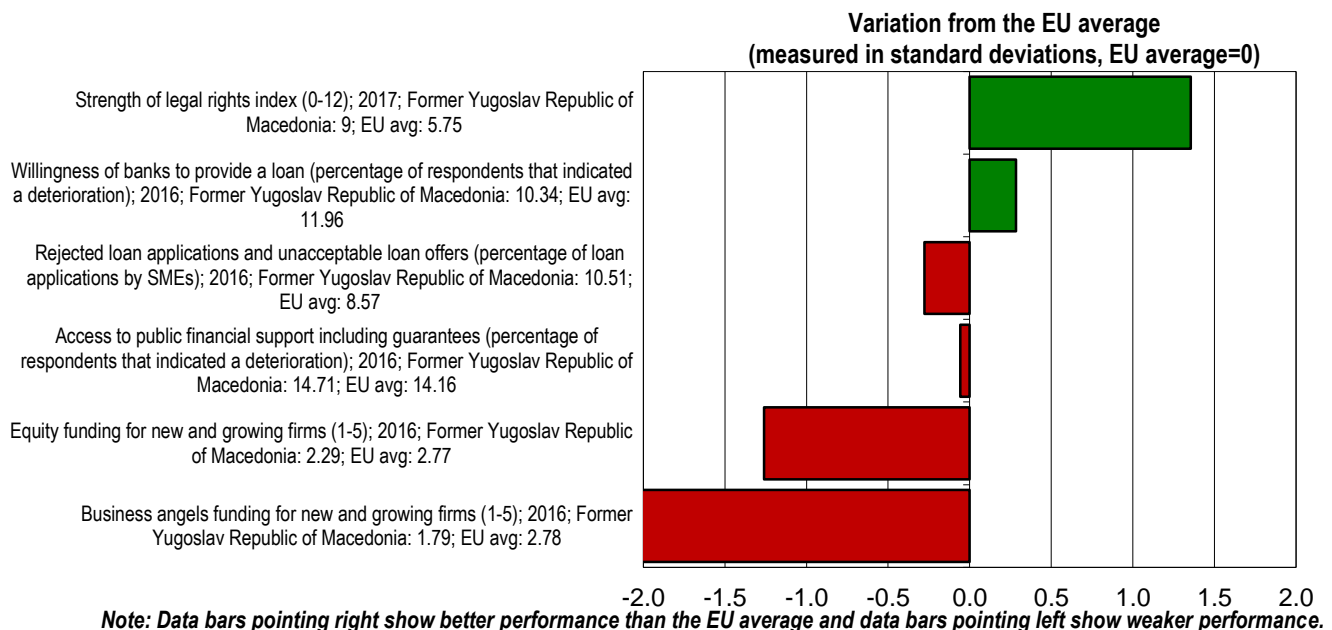
the latter is not in line with EU legislation in this area and poses problems for SMEs, as they are often better placed to compete on quality rather than price. The contracting authorities also use a 'negative reference list' to exclude certain companies from participating in future tenders for 1-5 years. Such blacklisting is not in line with European Court of Justice case law and can deter SMEs from participating in public procurement. The Public Procurement Council is responsible for checking tender criteria, including those which could limit SME access to such tenders. At the same time, the prior approval of the Council makes the procurement process more complex, expensive, and time-consuming.

A law regulating late payments to contractors was adopted, with strict deadlines for payments and fixed penalties for non-compliance. However, in July 2017 the government assessed that the arrears of government bodies owed to the private sector had reached around EUR 400 million. Therefore, more efficient enforcement of the law on financial discipline and the law on obligations should be further harmonised with the EU Late Payment Directive to improve SME liquidity.

There is a need to organise and incorporate all FDI, export and state aid functions into one coherent and well-resourced body, covering all necessary functions.

No significant additional measures were adopted or announced in 2016 or in the first quarter of 2017.

3.5 Access to finance



The data to indicate performance on the principle access to finance is only available for a limited number of corresponding indicators. While the strength of the legal rights index is above EU average, both the lack of equity- and business angels'-funding for new and growing firms push the overall performance back within the EU average score margins.

Access to finance remains a major challenge for SMEs in the country, especially access to alternative non-banking sources such as venture capital, equity & mezzanine and business angels' financing. There is no business angel network in place, and related legislation is still missing.

The commercial banking sector is relatively sound and well capitalised and has funds for loans. However, SMEs, especially micro companies and start-up companies face difficulties in accessing bank loans. Financial institutions working with smaller companies consider the latter to often have a low level of financial literacy (although no assessment has been made available about such a level of financial literacy amongst businesses). Smaller and micro companies continue to lack important skills in business planning and financial management which limit their potential to grow and access financing.

A new EU-financed venture capital fund opened a representative office in the country and provided two investments to local

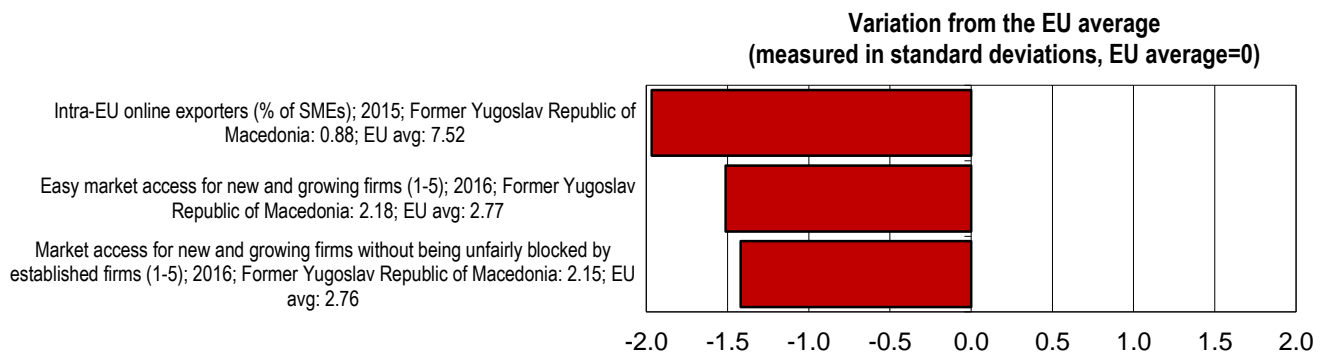
innovative start-up companies. Overall, the venture capital market is still developing at an early stage.

Factoring activities are limited, offered only by the one state owned bank (MBDP) and one private company. There is no specific legal framework in place that would encourage such services to be developed by providing more legal certainty and transparency.

Micro-finance is partially addressed within the active labour market measures of the Employment Agency. However, the public funding is programme-based and provides no systemic solution for micro-finance users.

State subsidised loans for SMEs have been on the market through the use of funds from the European Investment Bank (EIB). Since 2010 some EUR 350 million has been provided to support 1 758 SME investments, which created around 7 000 new jobs. The credit line was transformed into a revolving facility and all available resources are to be placed on capital market also in 2017.

3.6 Single market



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

As the former Yugoslav Republic of Macedonia is not an EU Member State, no relevant comparable data can be retrieved regarding the single market. However, the few available indicators are all (considerably) below EU scores, suggesting that new and growing firms have difficulties accessing the market with little change from the previous Fact Sheet.

In 2016 and the first half of 2017 the Ministry of Economy continued to operate a programme to support SMEs when introducing EU standards into their operations. In addition, several training sessions were organised to introduce standards to SMEs operating in area of construction and wood processing.

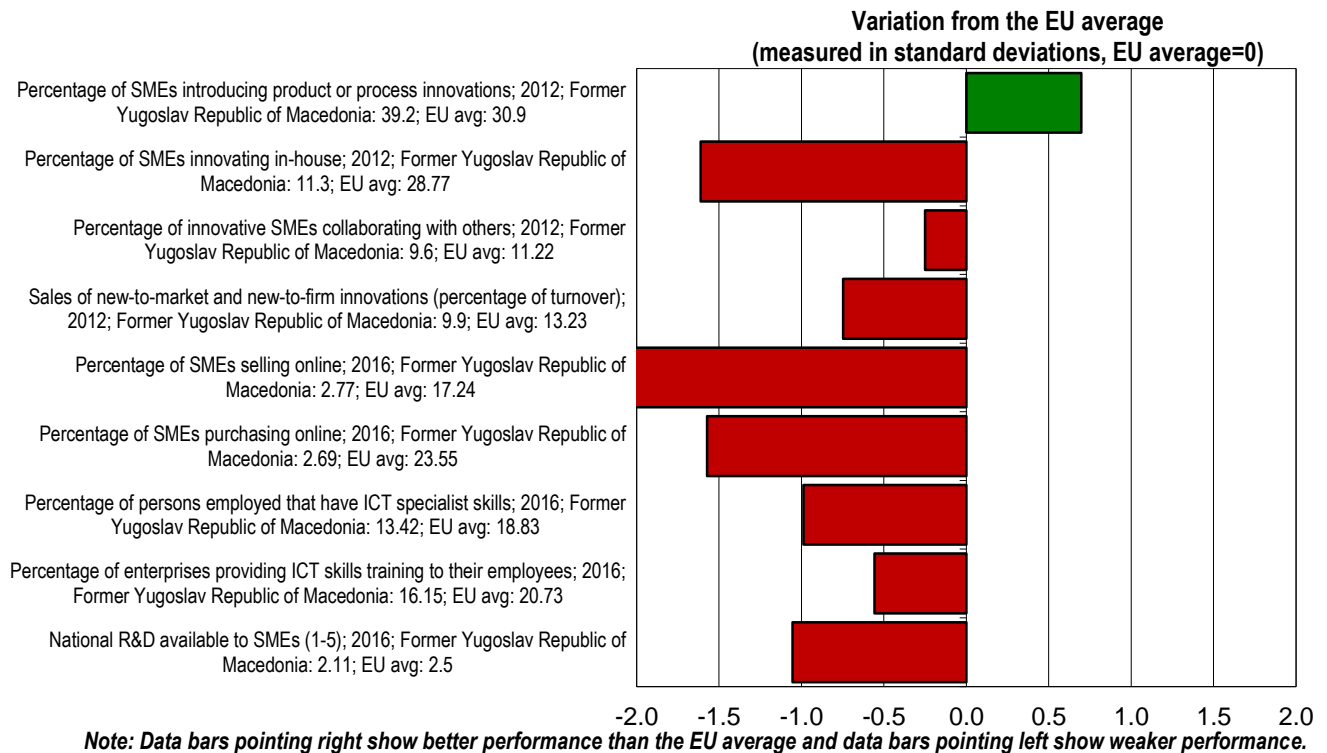
The capacity of the Institute of standardisation was improved with intensive training and new equipment (both financed via IPA I). The new installed software application should further improve cooperation with European standardisation bodies.

The Institute of accreditation became a full member of the International Accreditation Forum (IAF) and signed an Agreement on mutual recognition of the results of certification bodies for products, processes and services. It also signed a multilateral agreement in the field of medicinal laboratories with ILAC-MRA (Organisation for laboratory accreditation cooperation). These agreements will enable SMEs to use the services of conformity

assessment bodies registered in the country for various export related certificates.

No progress was made to eliminate remaining non-tariff barriers to trade to comply with Articles 34-36 of the Treaty on the Functioning of the European Union (TFEU).

3.7 Skills & innovation



The former Yugoslav Republic of Macedonia evidently performs below the EU average on the principle ‘skills & innovation’. At the same time, some of the data refer to 2012, the last available year, and there are only a relatively limited number of indicators and data available. Nevertheless, the most recent indicators also continue to show a poor performance across-the-range compared to the EU average. This includes a much lower percentage of SMEs trading online — among the worst of all countries, low availability of R&D support for SMEs, and a below-average percentage of people employed with specialist ICT skills. The latter in turn is linked to a below-average score on the share of SMEs providing ICT skills training to their employees. Therefore there is clear and significant room for improvement in this important and growth-related principle for SMEs that cuts across all production sectors.

There has been some development related to labour market skills in recent years. A proposal for modernising vocational education was drafted and a number of new qualification and occupation standards were developed to reflect labour market needs. So far, around 223 qualification programmes are verified and available for job seekers. A comprehensive national employment strategy for the 2016-2020 period was adopted (in November 2015, while a strategy for adult education

covering the 2016-2020 period has been drafted and is expected to be adopted by the end of 2017.

Some activities linking higher education, the private sector and public authorities were initiated in a project with IPA funding. The main public support programme for creating new jobs and helping start-up companies, providing EUR 11.5 million in 2016, continues to be the operational programme for labour market services and active employment programmes and measures. It provides grants or soft loans to SMEs to fund internships, salaries, equipment procurement, training sessions and advisory services. Measures also focus on unemployed young people and women. However, a skills observatory has not yet been established.

The limited set of indicators available show that the national research systems perform very poorly. The national strategy on research expired in 2010, and has not been updated since. Due to a lack of national funding there were no national calls for proposals in support of science and research. Similarly, the national programme on higher education and scientific activity has not been updated. The one positive development is the adoption of an Action Plan for implementing the Innovation Strategy 2016-2018.

The Innovation Fund continued to provide grants to SMEs to introduce innovative products and services. In 2016, the Fund disbursed some EUR 780 000 to 16 companies/applicants, which was below the available budget amount for that year. For 2017, the Fund developed new support measures and increased the budget for grants to EUR 3.7 million. The new measures include grants or soft loans to SMEs to (i) commercialise innovations, (ii) for technology-transfer projects and (iii) to establish accelerators.

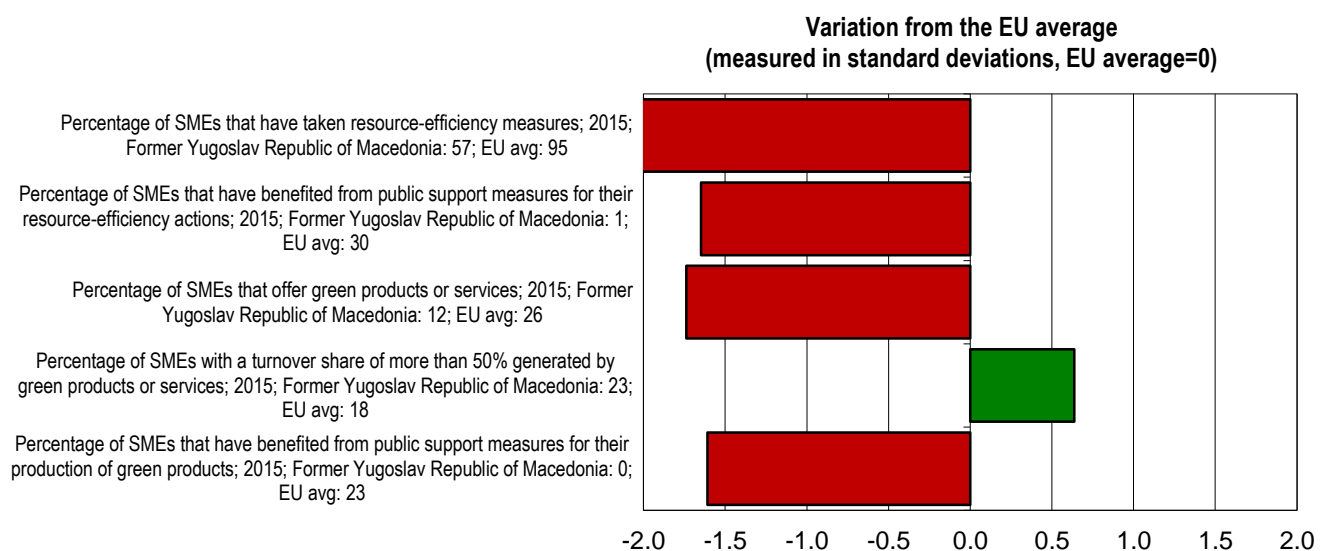
As in the previous 5 years, the Ministry of Economy continued to run a small grant scheme for innovations in SMEs within its competitiveness and industrial policy programme. The

programme is being subject to a mid-term review where new measures are expected to be developed by mid-2018.

SMEs have a rather poor track record of using EU instruments for R&D, especially in the framework of Horizon 2020. Overall, since the programme was set up the country has only used EUR 2.2 million for projects, despite an EU contribution of EUR 8.1 million.

Overall, the country should re-asses the efficiency and effectiveness of the current R&D support measures in order to improve SMEs investments in research and innovation.

3.8 Environment



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

The country's overall performance regarding the environment is significantly below the EU average, and among the worst of all countries in the region. While the precise measurement results of each single indicator need to be interpreted with the usual caution, the overall picture seems clear and shows there is ample room for improvement under this principle.

The public measures to promote and support SMEs to introduce energy efficiency and environmental aspects into their operation remain moderate.

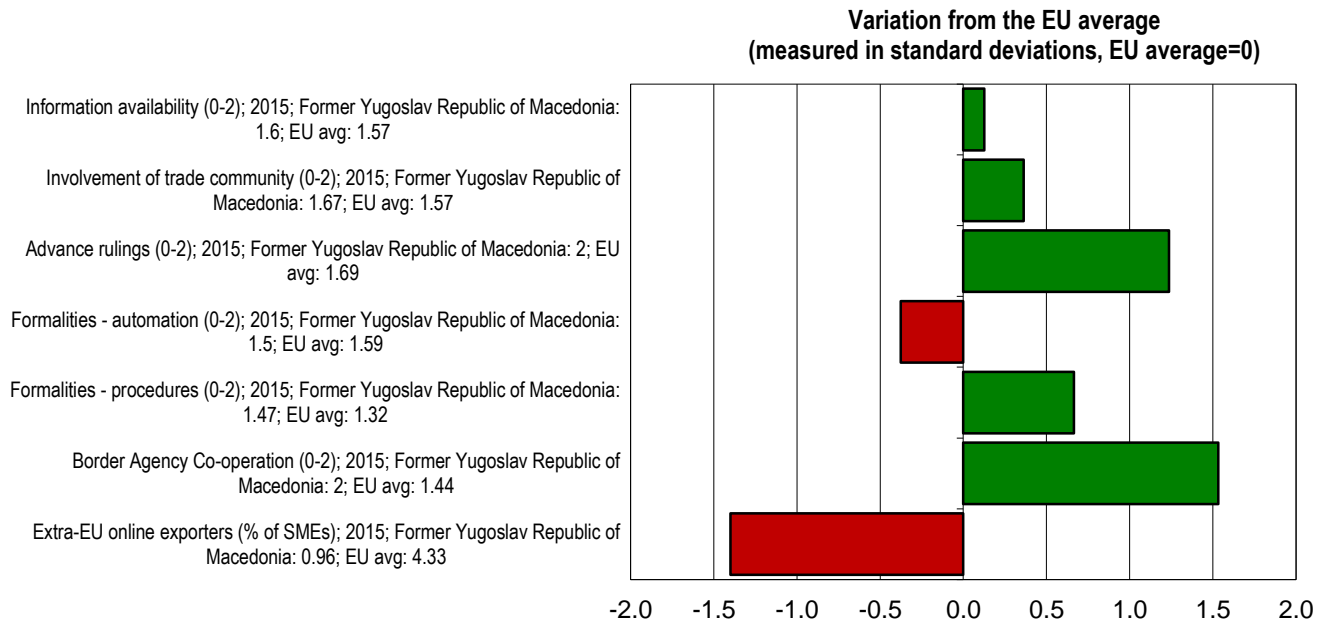
In 2017, some additional resources have been made available for SMEs to produce electricity from renewable resources via the IPARD 2014–2017 programme.

The national authorities also identified a need to reform national policies and to design new support instruments and incentives for 'green SMEs'. However, so far no significant efforts were made and no funding was allocated for designing and implementing effective measures.

Discussions on a 'Green SME development strategy' are ongoing with a draft expected by end-2018 and the implementation to start in 2019.

Overall, there has been no major additional development in this field in 2016, nor in the first half of 2017.

3.9 Internationalisation



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Important methodological changes were introduced for this principle in this year's edition, whereby all World Bank indicators were replaced by six OECD trade-facilitation indicators (following a scale on which 0 is the worst and 2 is the best score)⁵. Therefore, the overall performance in this area cannot be compared to that of last year.

Based on the latest available data (2015), the country's overall score on the principle 'internationalisation' shows an above-average performance compared to the EU. This includes notably border agency cooperation and advance rulings (an indicator assessing prior statements by Customs to requests from traders regarding rules, classification, origin, valuation method, etc., applied to specific traded goods). Nevertheless, and in line with the below-average performance of SMEs trading on-line (under 3.7 Skills & innovation), there are still relatively few SMEs with on-line international sales compared to the EU average.

The FDI and Export Promotion Strategy expired in 2015 but there has been no initiative to draft a new strategy. While significant funds were made available to attract FDI, the export strategy was not implemented in a coherent manner due to a lack of funds, capacity, and prioritisation. Some public funds for export support were budgeted for the 2016 and 2017 Ministry of Economy programmes, but these were marginal and did not have a significant impact on SME export potential. Several initiatives were undertaken to link foreign investors with local SMEs, but this only had a limited effect as well.

Export credits, credit insurance and factoring support are provided by the Macedonian Bank for Development Promotion. However, SMEs have only used this support to a limited extent. Therefore the country needs to re-assess the efficiency and effectiveness of such ongoing measures.

The Agency for Foreign Investments and Export Promotion (ASIPIRM) and the Enterprise Europe Network (EEN) continued to effectively operate and support internationalisation of national companies.

In 2016 the customs tariff code was aligned with the latest changes in the EU Combined Nomenclature. Ratification of Protocol 4 to the Stabilisation and Association Agreement (SAA) will expand the preferential rules of origin. The amended customs code further reduced penalty fees set for customs violations. However, the new electronic system for processing customs declarations and excise documents was not completed, and the electronic integrated tariff system is not fully utilised.

It would be helpful if the country abolishes fees for customs declarations, and completes and consolidates the developed IT systems in order to improve service quality. Also a new combined FDI and Export Strategy and an Action Plan need to be created in order to reap the benefits of synergies. Both need to be properly funded and implemented within a multiyear planning perspective. Furthermore, policy initiatives supporting internationalisation of SMEs should increasingly reflect specific SME needs.

4. Interesting initiative

Below is an example of an initiative from the former Yugoslav Republic of Macedonia to show what governments can do to support SMEs:

One-stop shop (OSS) platform

The Ministry of Information Society and Administration has started to develop and implement a central national e-service portal or one-stop shop (OSS). This should become the central interface and contact point where citizens and businesses can access all business-related services, including obtaining and paying for licences and permits. The project has commenced and aims to be completed by end-2018. Using the OSS will allow companies to submit all requests for specific licences, permits or access to other public body decisions, which will then be forwarded to the relevant responsible public body. In order to accelerate the e-service process, and to simplify and streamline procedures and the volume of required documents, the public body is firstly obliged to search for already available data on the applicant through a secure electronic data exchange between institutions. Only if data are not available may it then request the applicant company or citizen to submit further information. This approach also aims to comply with the 2020 Service Directive and the Digital Agenda for the EU.

Currently there are already several OSSs for specific business needs; the idea here is to integrate these into one umbrella OSS platform.

Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures considered relevant. They do not and cannot reflect all measures the government has taken over the reference period.

SME Performance Review:

https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/sme-performance-review_en

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. 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). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

² The 2017 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

³ The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Therefore, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'think small first' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

⁴ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. Only those measures were selected which are expected to have the highest impact in the SBA area in question.

⁵ See Moïsé, E., T. Orliac and P. Minor (2011), 'Trade Facilitation Indicators: The Impact on Trade Costs', OECD Trade Policy Papers, No 118, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5kg6nk654hmr-en> for more information on the methodology applied to construct the indicators; further information is available at: <http://www.oecd.org/trade/facilitation/indicators.htm>