

In accordance with Article 4, par. 1 of the Law on the Establishment of the Agency for the Promotion of Entrepreneurship of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 60-2003) the Government of the Republic of Macedonia during its meeting held on 21.03.2007 adopted:

PROGRAMME for the Development of Entrepreneurship, Competitiveness and Innovation of the Small and Medium Enterprises (2007 – 2010)

1. INTRODUCTION

The SME Development Programme is based on the general perception of the role of Government of the Republic of Macedonia in the creation of a favourable business climate, and within this framework to prepare a policy for support of entrepreneurship and the development of SMEs.

In international perspective, the SME sector receives significant support, through defined strategies and programmes with clearly focused measures for financial and non-financial support, and through strengthening the institutions through which this support is implemented.

Complete implementation of the defined policies, measures and instruments of the Government's policy on the short and long run promises results. In this process, an effective implementation of the national policy for the development of entrepreneurship and SMEs depends on the efficient and timely coordination of all relevant institutions and Governmental bodies.

The role of the private sector and its opinions are also very important, which represents one integrated approach to the question of the development of SMEs in the country.

The SME Development Strategy is defining the general ways for the development of the SME sector in the Republic of Macedonia, whereas the Programme identifies the measures and instruments for the implementation of the strategical goals and development priorities in this area, which are necessary for the economic development of the country as well as faster European Union (EU) accession.

1.1 ENTREPRENEURSHIP: A NEW PHASE OF DEVELOPMENT

The first National Development Strategy for Small and Medium-sized Enterprises 2002 - 2012 elaborated by the MoE demonstrated that small enterprise development is a priority for the Government of the Republic of Macedonia. The Strategy was accompanied by a Programme of Measures and Activities for the Promotion of Entrepreneurship and the Creation of Competitiveness of SMEs 2002-2006, setting out the priorities in the country in order to improve the working environment and performance of the SME sector. The SME Programme of Measures and Activities sought to achieve the goals of the SME Strategy by focusing on the following measures:

- Create the institutional infrastructure to promote entrepreneurship and competitiveness.
- Build a favourable economic environment and improve the degree of economic freedom.

- Promote entrepreneurship and non-financial forms for support.
- Provide financial forms of support for entrepreneurship development.
- Implement a programme for the creation of competitiveness.

The changes that occurred in the political and economic environment generated the need to update and revise both the current SME Strategy with new goals and objectives and the SME Programme, with new measures and instruments.

The fact that Candidate Country status has been obtained requires an even greater reorientation around the accession requirements of the EU

A reorientation of the new SME Strategy and Programme aims at ensuring:

- Compatibility with the requirements of the *Acquis Communautaire (acquis)*, especially those relating to SMEs.
- Progress in implementing the revised European Charter for Small Enterprises (ECSE), which is effectively a “soft” *acquis* requirement.
- Compatibility with the Competitiveness and Innovation Programme (CIP) 2007–2013, with its new focus on issues such as entrepreneurship, innovation, and Information and Communication Technology (ICT).

The requirements of the new SME agenda arising from the renewed Lisbon agenda in turn calls for a slight reorientation of the focus of the SME Programme into the following main components:

1. Institutional architecture
2. Business environment.
3. Finance and taxation.
4. Innovation and competitiveness

The four sets of issues above are crucial in raising the competitiveness of SMEs in the country. At the same time, the increased level of profitability is expected to lead to growth and employment generation.

Both the new SME Strategy and Programme are planned to be implemented with state budget support - a signal of the Government's serious and systematic commitment to support entrepreneurship and SMEs as one of the prioritized development objectives. In this context, international support from bilateral and multilateral donors is sought to complement these development priorities.

During the implementation period of the Programme 2007-2010, Annual Action Plans will be prepared outlining objectives, prioritised measures (projects), institutional responsibilities and timelines for implementation.

On the basis of these Action Plans, the Ministry of Economy (MoE) will adopt Annual Financial Plans, which will outline the financial resources that are earmarked for the implementation of measures as well as the sources of finance. A number of measures will be implemented by the Agency for the Promotion of Entrepreneurship (APPRM) via competitive tenders involving the network of Business Support Organisations (BSOs) and business consultants/consultancies.

1.2 INSTITUTIONAL ARCHITECTURE

The SME institutional architecture is now largely in place (Figure 1). The main roles and responsibilities of the key players are:

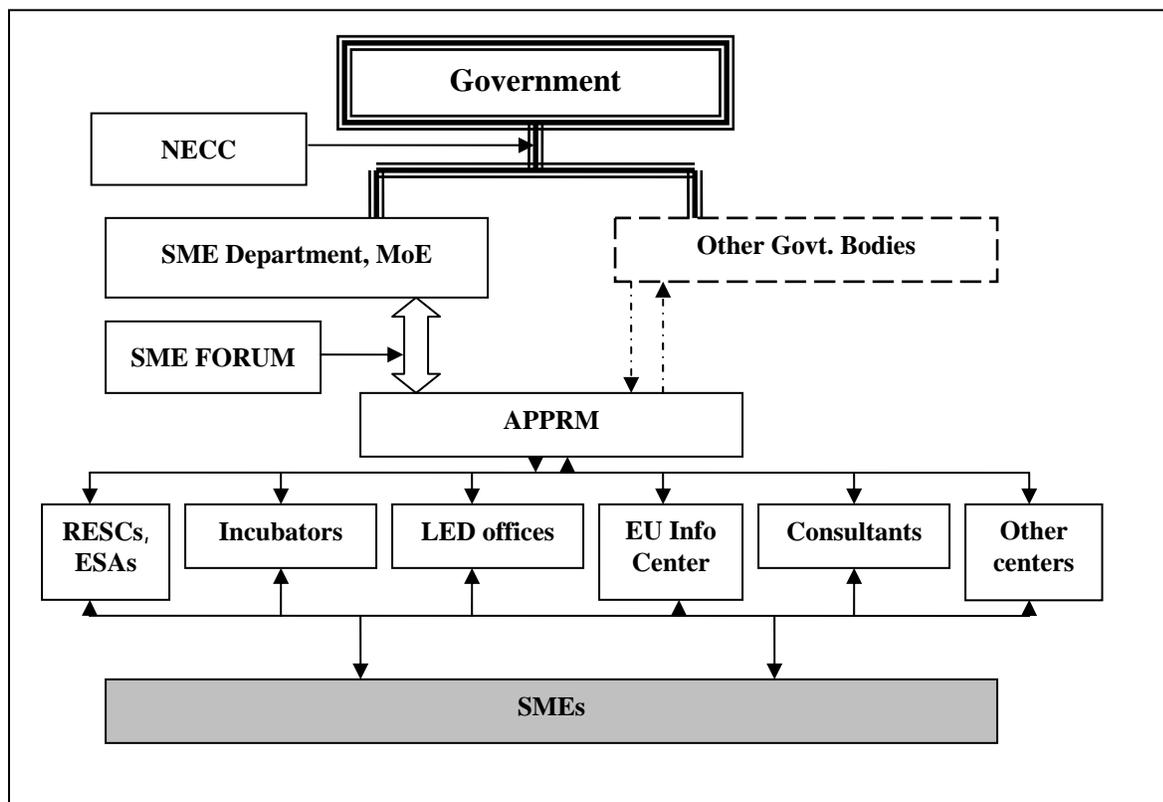
National level:

- Department for Entrepreneurship and Competitiveness (hereinafter: SME Department), MoE: responsible for creating and monitoring the implementation of SME policy.
- APPRM: responsible for implementing national SME policies, as set out in the SME Strategy and Programme, as basic development documents.
- National Entrepreneurship and Competitiveness Council (NECC): public-private dialogue on the issues relating to the wider competitiveness agenda.
- SME Forum: public-private dialogue on the issues relating specifically to SMEs.
- Other ministries: responsible for specific aspects relating to SME policy, such as Ministry of Finance (MoF), Ministry of Education and Science (MoES), Ministry of Labour and Social Policy (MoLSP), Ministry of Transport and Communications (MoTC).

Local level:

- Business Centres: overall ten regional centres are in operation, including five Regional Enterprise Support Centres (RESCs) located in Skopje, Strumica, Veles, Kumanovo, Bitola, three Enterprise Support Agencies (ESAs) located in Ohrid, Tetovo, Gostivar, the Prilep Region Enterprise Development Agency (PREDA) and one Roma Centre in Skopje.
- Business Incubators: seven incubators are operating (Prilep, Stip, Makedonska Kamenica, Delcevo, Veles, Ohrid and Strumica) and a youth entrepreneurship incubator (YES) is about to be opened in Skopje.
- Euro Info Correspondence Centre (EICC): provides information and assistance on EU business matters (e.g. EU markets, business cooperation, partner search, EU funding and tenders, EU legislation, EU standards, etc.)
- Local Economic Development Centres (LED Centres): 17 LED Centres are supported by the United States Agency of International Development (USAID), whereas 43 Centres are supported by the United Nations Development Programme (UNDP) in individual and clusters of municipalities.
- Consultants: include about 150 “independent” consultants performing business consulting (as individuals and/or legal entities) and some international consultants.
- Business Associations: at least 20 local and bilateral business associations covering numerous sectors of economic activity, including four with national coverage (Economic Chamber of Macedonia, Macedonian Chambers of Commerce, Economic Chamber of North West Macedonia, Chamber of Crafts).
- Other: four technology transfer centres (TTCs) – three in Skopje, one in Bitola, technological core units on the natural-mathematics, mechanical, electrical-technical and medicine faculty; Center for research, development and continued education at the Mechanical faculty; Center for applied researches and permanent education in the agriculture in the Agriculture faculty; Euro regional technological center at the Technical faculty in Bitola as well as Regional innovation center in Stip.

Figure 1: SME Institutional Architecture



This scheme shows the interaction between the players that make up the SME institutional architecture at the national and local level. It is these actors that will be responsible for implementing the SME Programme during the period 2007 – 2010.

1.3 CREATING THE SME PROGRAMME

The SME Programme has been drafted on the basis of detailed research of topics that were identified as being of particular importance for the development of the SME sector.

The SME Programme reflects the Government's reform agenda, as set out in the Work Programme of the Government of the Republic of Macedonia for the period 2006 – 2010 and it also incorporates the requirements of accession to the EU, concentrating on the *acquis* and European Charter for Small Enterprises.

The draft SME Programme was circulated to the following institutions for comment, feedback and approval:

- Ministry of Economy: all departments.
- Agency for Entrepreneurship Promotion.
- Ministry of Finance.
- Public Revenue Office.

- Ministry of Education and Science.
- Ministry of Labour and Social Policy.
- Ministry of Agriculture.
- Ministry of Transport and Communications
- Central Registry.
- Secretariat for European Affairs.

Feedback and input was sought from the private sector through the mechanisms established under the SME Forum, involving the key business associations in the country. Response was also obtained from Working Groups that were established to address specific entrepreneurial and SMEs issues (Entrepreneurship, ICT, SME Strategy/Programme, etc.). Overall, 15 sessions were organized for this purpose. The draft SME Programme was presented at the SME Forum for detailed feedback on the 25th of October 2006.

The draft SME Strategy and SME Programme were presented for discussion at regional road-shows in November 2006 in Skopje, Prilep, Ohrid, Kumanovo, Stip. The comments and feedback received from the above processes have been incorporated into the text..

2. PROGRAMME COMPONENTS

The SME Programme 2007 – 2010 is structured around the following priorities:

- Strengthening the institutional framework
- Improving the business environment.
- Improving SME access to finance and simplifying taxation.
- Enhancing competitiveness and innovation

2.1 STRENGTHENING THE INSTITUTIONAL INFRASTRUCTURE

Strengthening the institutions that provide support for the small and new start up businesses and realising the small and medium business policy is an important precondition that needs to be fulfilled in order to have a sound and sustained private sector development. This not only refers to the national level, but also to the regional and local level.

In the Republic of Macedonia, many institutions that underpin an efficient and competitive market economy are relatively newly established and not sufficiently developed.

Institutions acting at the local level are also very important. Through these institutions local self-governments can foster the development of entrepreneurship and SMEs.

2.1.1 National Government Institutions

2.1.1.1 Department for Entrepreneurship and Competitiveness, Ministry of Economy

The SME Department of the MoE, in accordance with the law, has a key set of responsibilities in creating the national policy for the development of entrepreneurship and small and medium businesses.

The development of entrepreneurship and competitiveness in the Republic of Macedonia is supported by programmes and activities of other ministries and institutions.

The Ministry of Education and Science is implementing important projects which are related to the awareness development for entrepreneurial education, technological development and science-research activities and contribute to SME development.

Similar programmes that directly or indirectly are involving entrepreneurship and SMEs (employment, agricultural support, etc.) are elaborated and implemented by other responsible ministries.

2.1.1.2 Inter-Ministerial Coordination

The national policy for the development of entrepreneurship and SMEs, is implemented with active participation of the other ministries and institutions, relevant for the development of this segment of the Macedonian economy, although the MoE has the primary responsibility. Due to this reason, strong and consistent coordination and collaboration is required.

SME Programme Measures:

- Create an inter-ministerial SME Programme Coordination Group (Task Force).

- Ensure membership of all key ministries and agencies whose activities impact on SMEs.
- Establish monitoring and evaluation (M&E) as well as reporting mechanisms for SME Programme implementation

2.1.1.3 Donor Coordination

There is a coordination gap with regard to donor activities and projects in the area of SMEs. They are perceived to operate independently, often without coordinating with other donors or institutions responsible for SMEs. This leads to an uneven distribution of support, duplication of effort and confusion.

What is required is better coordination, especially at the project design stage, as well as greater continuity of support so as to generate a lasting impact on the development of the SME sector. The SME Programme opens the opportunity for donors to coordinate their programmes and projects and align them with the common goal of the private sector.

SME Programme Measures:

- Distribute the SME Strategy and Programme to all donors.
- Harmonize donor coordination with the Secretariat for European Affairs
- Prepare projects based on the SME Strategy and Programme.
- Organize and implement quarterly donor coordination meetings to present project concepts for funding and to discuss forthcoming projects.

2.1.1.4 Agency for the Promotion of Entrepreneurship of the Republic of Macedonia (APPRM)

According to the law for establishment of APPRM, it is an institution responsible for the implementation of the Government's programmes for support of entrepreneurship and development of SMEs.

In order to secure a higher working capacity, that will lead to even more effects and positive results regarding the development of entrepreneurship and SMEs and enabling the accession to the EU, both the staff and the budget need to be enhanced.

SME Programme Measures:

- Review resource / staffing needs of the APPRM vis-à-vis the role it is expected to perform in implementing the SME Programme. Increase the staff complement of APPRM.
- Deliver a capacity building programme for the new staff to ensure their ability to manage their new, wider set of responsibilities.
- Increase the level of state resources devoted to the annual SME Action Plan to € 2 million per annum.

2.1.2 National Business Support Structure

2.1.2.1 SME Forum

The MoE recognises the importance of public-private dialogue (PPD). This is undertaken through the SME Forum as well as through the NECC.

The SME Forum presents platform for a dialogue between MoE and the private sector, represented by its associations, for the issues related to the development of entrepreneurship and SMEs.

SME Programme Measures:

- Ensure that at least four meetings of the SME Forum are held per annum at which issues of immediate interest will be discussed.

2.1.2.2 SME Observatory

The SME Observatory is the responsibility of APPRM and its primary objective is to collect data and analyse, as well as monitor and evaluate the trends in relation to the SME sector. So far, the SME Observatory has focused on producing Annual SME Reports. However, there is significant scope for improving the operation of the SME Observatory. With respect to the Annual SME Report, the SME Observatory needs to be strengthened to become a comprehensive, time-series database.

It has yet to become the key source of comprehensive data for the SME sector, as well as the basis for proposing measures and reforms in support of the sector.

SME Programme Measures:

- Produce and disseminate the Annual Reports of the SME Observatory.
- Prepare an application for Instrument of Pre-Accession (IPA) funding to strengthen the SME Observatory, focusing on the following elements:
 - Build up the capacity of the APPRM staff members to undertake both the preparation of the Annual Reports of the SME Observatory including wider functions normally carried out by other SME Observatories (benchmarking, best practice, etc.)
 - Regularly collaborate with all organisations involved in collecting and using SME statistics and analysis (in addition to previously mentioned organisations, business associations, research institutes, etc.)
 - Develop and implement a dissemination strategy to ensure better use of SME statistics.

2.1.2.3 Human Resources Development Fund - Academy for Managers

The role of the Human Resource Development Fund (HRDF), established at APPRM, is to raise the training levels and standards among trainers, consultants and SMEs. The HRDF will be partly financed by the MoE and its founders (47 members paying an annual fee).

Additional funds will be raised by organising seminars and workshops. Phase II of the HRDF project ends in November 2006 and Phase III begun in January 2007 and will last until December 2008.

SME Programme Measures:

- Include managers of successful enterprises in the HRDF Board/Academy for Managers.
- Support HRDF to raise awareness among entrepreneurs about its existence and services on offer.
- Ensure sustainability of the HRDF through the provision of demand-driven services.
- Ensure recognition of the certificates issued by HRDF/Academy for Managers.

2.1.2.4 Euro Info Correspondence Centre

The Euro Info Correspondence Centre (EICC) in Skopje is a first stop-shop for Macedonian SMEs, providing information and assistance on EU business matters such as access to EU markets, EU funding and tenders. As a member of a wide European Network of such centres and direct link with EU institutions the EICC supports companies in doing business with companies in the EU.

Under the EU market access instruments, opportunities for companies that intend to enter the EU market are offered including partner search, export rules, market information, standards and labeling. Also, information about EU tenders and grants for Macedonian businesses is provided as well as about EU regulation and standardization so as to ensure that the exported products comply with EU regulations and standards. Even though all services are available on-line, the fact that there is only one such center in the country limits access of those SMEs that are operating outside the capital and that do not have access to Internet. There is also the issue of future sustainability since financing by the EU ceased in 2005.

SME Programme Measures:

- Ensure sustainability of the EICC by consider charging fees for services provided to SMEs
- Ensure budget funding for its functioning through the MoE

2.1.2.5 Technology Transfer Centers

The TTCs (three in Skopje, one in Bitola) aim at raising the awareness of the importance of easy transfer of new technology, applying new technology, and developing R&D centers.

The SME Programme therefore intends to achieve that the TTCs are fully operational and that they will offer support to enterprises, provided in cooperation with the universities (establishment of a network for efficient knowledge transfer from the universities to SMEs).

SME Programme Measures:

- Ensure that the TTCs are functioning to their full capacity
- Make sure that the TTCs are fully integrated in the national and EU technology support network
- Make certain that the TTCs are integrated in the Innovation Relay Center (IRC) consortium (initially as observers, and then as active participants and IRC counselors)

2.1.2.6 Innovation Relay Centre

In relation to the European Commission recommendations, the Republic of Macedonia is in need of greater economic development and strengthening the industrial development through linking knowledge-based resources and science on the national and EU level.

Although until now the Republic of Macedonia has made efforts through various national and international institutions to establish a certain infrastructure for linkages between the industry and the science and research institutions, still this process is in the starting phase. As a result, the creation of an IRC will contribute to the integration with the EU network and greater regional collaboraton.

SME Programme measures:

- Ensure functional IRC
- Link IRC to the EU network
- Use IRC services to promote structural changes and diversification of economic activities
- Include the IRC in the national network for technology transfer and in the wider EU network

2.1.2.7 National Entrepreneurship and Competitiveness Council

The NECC was established as a link between the Government and the private sector. While donor funding (USAID) has ceased, questions of sustainability emerge that need to be addressed so as to ensure that the NECC continues to operate as an efficient public-private dialogue (PPD) mechanism.

SME Programme Measures:

- Ensure sustainability of the NECC through public/donor funding

2.1.3 Regional Business Support Structure

Helping enterprises to develop their business activities, particularly at important turning points over the course of their life cycle, is crucial. There is evidence that good business support can make a measurable contribution to the competitiveness and dynamism of a modern economy. Business development services (BDS) are services that originate in a public policy initiative and aim to help enterprises or entrepreneurs successfully develop their business activity and respond effectively to the challenges of their business.

Services of this kind are usually provided directly to entrepreneurs, enterprise managers or staff. Support services can be provided either by public or private organisations or by individuals.

Usually, these services are aimed at different stages in the life cycle of an enterprise: one at the very beginning when starting up, during operation and when the business needs to be transferred to new owners.

2.1.3.1 Business Centres and Consultants

There is already a quite extensive Business Centre infrastructure, which is the legacy of the EU, as well as other donors of Europe, USA, Japan, etc. However, the business centres are neither financially sustainable nor delivering much support to their supposed target group, namely start-up and early growth enterprises.

The main reason for this is that they are preoccupied with surviving in an environment where they no longer receive regular donor support, little government funding is available while SMEs are largely unable and/or unwilling to pay for consultancy and advisory services.

At the same time, a multiplicity of private business consultants is emerging that are competing directly with the BSOs. As the market for business service providers widens, there is a need to secure a level playing field and transparency in the use of public resources, whilst at the same time driving-up the quality and standards of business services over time. In this context, the Government's strategy is to continue to provide support to the BSOs on a project by project basis. This will be on a competitive and contractual basis, subject to close monitoring and assessment of quality and impact.

SME Programme Measures:

- Improve the quality of business consultants in the country to international standards (e.g. Certified Management Consultant) using the HRDF to assist this process.
- Develop a number of programmes, which provide BSOs and other consultants with the opportunity to support the SME market (such as the HRDF, SMEDP, voucher scheme, etc.) on a competitive and contractual basis.
- Develop platforms for horizontal integration, namely cooperation, capacity building and exchange of information between BSOs.
- Cooperate with BSOs to develop new competitiveness and innovation programmes and projects making maximum use of the new IPA instruments.

2.1.3.2 Business Incubators

Seven business incubators have been created (Prilep, Makedonska Kamenica, Delchevo, Stip, Strumica, Ohrid and Veles) and two other ones are about to open in Skopje (YES, focused on young entrepreneurs, one at the Mechanical University).

The SME Programme will provide general support to the business incubators, as well as other BDS providers, to improve their standards, capacities and techniques. An important issue will be to cooperate with the business incubators to develop competitiveness and innovation programmes that answer the needs of SMEs and that might eventually be financed with EU funds.

SME Programme Measures:

- Provide general support to BDS providers (including business incubators), covering among others skills, standards, accreditations and vouchers.
- Cooperate with business incubators to develop competitiveness and innovation programmes and projects for IPA funding.

2.2 IMPROVING THE BUSINESS ENVIRONMENT

While rules are vital for the functioning of a market economy, a healthy regulatory environment must encourage sustainable growth and help enterprises to become more competitive. Therefore, if SMEs are to provide the dynamic boost to the economy, policy needs to create the right business environment for them to thrive.

In its new partnership for growth and jobs, the renewed Lisbon strategy for economic reform, the EC is pushing for the integration of the “think small first” principle into all EU and national policies. This means assessing initiatives from the point of view of smaller businesses and ensuring SME needs are prioritised.

Unnecessary regulations already in place or in the pipeline will have to be scrapped while at the same time simplifying bureaucracy for SMEs.

In the Republic of Macedonia the legal and regulatory environment as it pertains to SMEs is evolving rapidly, fostered by the harmonization process with EU legislation. SMEs are affected by changes in policy, legal and regulatory requirements in many areas including those that affect business establishment and post establishment operation, financial reporting, taxation,

contract and dispute resolution, bankruptcy, technical standards, as well as banking and finance.

2.2.1 Streamlined Regulations

The sheer number of laws and regulations imposes a substantial compliance burden on SMEs. Often regulations are not necessary or too demanding for SMEs. This makes it necessary to introduce the “think small first” principle into national policies for entrepreneurship and SMEs of the Republic of Macedonia, including legislation. It requires a review of existing legislation ensuring that the needs of SMEs are taken into account.

In order to improve the overall business environment, the Government has made a strategic decision to take stock of and assess existing regulations on business practices and to abolish those regulations, which prevent the normal operation of companies by using the regulatory guillotine approach. In addition, the quality of new regulations, which affect business activity, are planned to be improved in a systematic manner for SMEs.

SME Programme Measures:

- Take stock of and assess existing regulations on business practices
- Streamline regulations and remove those that do not serve any public interest
- Introduce criteria for issuing new laws/regulations so as to minimize administrative and compliance costs
- Increasingly use Regulatory Impact Assessment (RIA) when drafting new laws and regulations starting with pilot projects.

2.2.2 Definition of SMEs

Public support of the SME sector requires a clear understanding of the target group. Support schemes need to have a common understanding of SMEs that will benefit from the assistance. Considering the aspiration of joining the EU, there is also the need to harmonise with common practices in the EU – Table 1.

Apart from this, the definition of SMEs requires harmonisation within the national legislation since differences are noticeable in several laws.

Table 1: Comparison on Macedonian and EU SME Definitions

	EU Definition	Law on Trade Companies (2004)
Micro	Up to 10 employees	Up to 10 employees
	Annual turnover \leq € 2 million	Annual turnover $<$ € 50.000
	Balance sheet total \leq € 2 million	Not more than 80% of the gross income should come from one client
Small	Up to 50 employees	Up to 50 employees
	Annual turnover \leq € 10 million	Annual turnover $<$ € 2 million
	Balance sheet total \leq € 10 million	Balance sheet total $<$ € 2 million
Medium	Up to 250 employees	Up to 250 employees
	Annual turnover \leq € 50 million	Annual turnover $<$ € 10 million
	Balance sheet total \leq € 43 million	Balance sheet total $<$ € 11 million
Large	All others which do not fall under the above mentioned classification	All others which do not fall under the above mentioned classification

Source: MoE

SME Programme Measures:

- Eliminate discrepancies between the national and EU definition of SMEs.
- Eliminate discrepancies in the definition of SMEs in various national laws.

2.2.3 SME Statistics

For preparing the SME development policy and in order to see the impact of the measures and instruments, a comprehensive statistical evidence of the SME sector is required.

SME data collections do not present distinctively different characteristics from other data collections. They are generally regarded as an additional dimension to structural business statistics (SBS). Following the Bologna Charter of SME Policy, statistics on SMEs is one of the cross-cutting themes of the Bologna Process. The clarification and harmonization of conceptual and measurement issues on SMEs have been recognized as a prerequisite for accurate and comparable data on international level.

In the Republic of Macedonia, all official statistical research is carried out in compliance with the Law on State Statistics (1997) as well as with the Programme of Statistical Research for the period 2003-2007. Nevertheless, there remain certain business information requirements that need to be fulfilled in relation to Eurostat, the SME Observatory and the OECD Statistics Directorate.

SME Programme Measures:

- Cooperate with the State Statistical Office (SSO) to identify information gaps relative to OECD/EU (acquis) standards.

- Cooperate with the MoF (classification of SME contribution to taxes) and the Customs Office (classification of importing and exporting SMEs and the value of this trade) to fill-in statistical gaps.
- Establish a single database of short-term and structural data.
- Streamline the collection of data from the key statistical sources (Central Registry, SSO) through a common software tool allowing ease of collecting and analysis.

2.2.4 European Charter for Small Enterprises

The Republic of Macedonia became a member of the ECSE in 2003, thereby committing itself to achieving progress in the ten areas encompassed by the Charter, whilst also cooperating with the other countries in the region. The National Report regarding the ECSE describes the progress made as well as sets policy priorities for the forthcoming year. The preparation of the National Report regarding the ECSE is based on a standard questionnaire prepared by the EC. However, in 2006, this questionnaire was changed in line with the priorities of the revised Lisbon strategy leading to a scoring system in the ten Charter areas relevant for SME development and ultimately to an SME Index for the country. The National Report has thus become a self-evaluation tool assessing the development status of the SME sector on a scale of 1 (lowest) to 5 (highest).

SME Programme Measures:

- Prepare/implement an awareness raising campaign among stakeholders about the existence of the National Report, its content and utility as a coordination/communication tool.
- By way of questionnaire/workshops involve all relevant stakeholders in the preparation process, including priority setting for the forthcoming Annual Action Plan.
- Produce the National Report
- Participate in ECSE-related conferences (MoE and APPRM).

2.2.5 Registration: Starting a Business

The company registration process has been significantly improved due to the establishment of the one-stop-shop system (currently ten offices) and registration takes place within three days (eight in the case of crafts). The cost of craftsmen registration in the Central Registry is MKD 1,700, MKD 2,200 for sole proprietors, MKD 3,400 MKD registering a Limited Liability Company (LLC) and MKD 6,000 for a share holding company. However, these are only parts of the costs related to starting a business. Other costs include the preparation of a stamp, opening of a bank account, notary verification, etc. Actual costs for an entrepreneur to start a business amount to approximately MKD 12,000 (or MKD 6,000 for craftsmen). As illustrated by the example of registering a LLC – Table 2 – the country compares favourably in terms of the time required for registration (in days) and the costs of registration (% of income per capita), but unfavourably in terms of minimum capital requirements (as % of per capita income) when benchmarked with the South-East European (SEE) average. However, the average standards observed in OECD countries have yet to be reached.

The fact that the minimum capital requirement for establishing a LLC is very high (€ 5,000) suggests that there is still room for significant improvement in the area of starting a business.

Table 2: Comparison of Registration Procedures

	Republic of Macedonia		Average for SEE Region	Average for OECD
	Statutory	Actual		
Number of procedures	10	10	9.4	6.2
Time required (days)	5	18 ¹	32.0	16.6
Costs (% of income per capita)	-	7.4	14.1	5.3
Minimum capital (% of income per capita)	-	112.0	53.9	36.1

Source: World Bank (WB) Cost of Doing Business (2006)

SME Programme Measures:

- Introduce a single registration form.
- Ensure on-line availability of registration documentation and forms in addition to hard copies at the one-stop-shops.
- Introduce sample documentation both on-line and in the one-stop-shops.
- Increase the number of one-stop-shops to cover the whole country (approximately 31).
- Ensure that on-line registration is operational as soon as possible (since it would allow a firm to be registered in less than one day).
- Provide customized training to all staff of the one-stop-shops to become more service-oriented.
- Reduce (abolish) the minimum capital requirement for LLCs in consultation with the MoF.
- Introduce a unified registration cost (independent of the type of the legal entity).
- Initiate discussions with the Ministry of Justice (MoJ) to ensure (i) best practice notarization of documents; (ii) abolishment of the requirement for employing a manager during registration; and (iii) removal of the obligation to have a registered office space.
- Initiate feasibility study for merging registration and licensing under one-stop-shop system.

2.2.6 De-Registration: Closing a Business

Firms are born (start-up) and die (close). This is not an unusual phenomenon found in market economies, but an indication of their dynamics. Although significant progress has been made in relation to the registration of enterprises, none has occurred relative to de-registration. The process of closing a business takes almost four years, costs 28% of the value of the estate and has a very low recovery rate (15.5% out of every dollar involved). On all indicators, the country performs significantly worse than the region, let alone the average for the OECD countries (Table 3). Under these circumstances, the preferred option of entrepreneurs might be to keep the enterprise inactive without legally closing it down.

¹ The WB survey was carried out in spring 2006; however, the majority of enterprises participating in the research had been registered using the previous procedures.

Table 3: Comparison of Closing a Business

	Republic of Macedonia	Average for SEE Region	Average for OECD
Time (years)	3.7	3.5	1.4
Cost (% of estate)	28.0	14.3	7.1
Recovery rate (cents on the dollar)	15.5	29.5	74.0

Source: WB Cost of Doing Business (2006)

Although a new Law on Bankruptcy (2006) was passed, which is more harmonized with EU and international legislation, there is a need to reform the process of closing a business.

SME Programme Measures:

- Undertake a study of the problems involved in closing businesses with subsequent recommendations for streamlining the process based on international best practice
- Initiate a pilot programme for the implementation of streamlined procedures and draw lessons for a nation-wide replication.
- Streamline the process of bankruptcy to 12 months (2007) and 6-8 months (2010).

2.2.7 Licensing and Permitting

In addition to registration, many business activities must obtain additional working licenses and/or permits in order to start their operations. Such post-registration requirements entail a process of applying to the relevant authorities that deal with these issues in the respective business location. Examples are to be found in sectors such as construction, transport, health, tourism, catering and production. The costs of complying with these additional requirements are very high, thus discouraging entrepreneurship: it takes an average of 18 steps, 222 days and costs 90% of per capita income in order to go through the process. Even though the Republic of Macedonia compares relatively well with neighbouring countries, it performs poorly in comparison with more advanced economies (Table 4). This would suggest that there is room for improvement in all relevant areas, i.e. the number of procedures to follow, the time it takes to obtain licenses or permits as well as the costs involved.

Table 4: Comparison of Dealing with Licenses

	Republic of Macedonia	Average for SEE Region	Average for OECD
Procedures (number)	18	21.4	14.0
Time (days)	222	242.5	149.5
Cost (% of per capita income)	89.8	564.9	72.0

Source: WB Cost of Doing Business (2006)

In fact, there are substantial barriers to the granting of licences and permits. Irrespective of the authority in charge of issuing a license, SMEs experience common problems. These include issues such as non-transparent application procedures, lengthy and unpredictable approval procedures; political and/or business interests influencing the decision-making, varying licensing procedures depending on the region where the enterprise is registered, inefficient administrative bodies that cause delays; and a lack of adherence to the established procedures

SME Programme Measures:

- Define regulatory reform policy (global/selective/pilot, quantitative targets, approach – ex ante/ex post notification -, responsibilities)
- Evaluate the stock of existing licenses and permits as well as their justification and cut out those that do not serve any public interest (regulatory guillotine approach)
- Process the standard type of licenses and permits within no more than 14 days.
- Streamline the process for obtaining a construction/building permit within a timeframe of not more than 45 days.

2.2.8 Inspections

The task of the inspection authorities is to ensure compliance with the laws and regulations by legal and physical persons, hence the activities of the inspectorates cover the whole business community, including SMEs and the crafts sector. However, the system of inspections and controls is in need of modernization and considerable improvement. The problems include: the selective approach by the inspectorates; arbitrary decisions and subjective interpretation of regulations; rent seeking and other abusive behaviour of inspectors; frequent inspections of long duration; very bureaucratic appeals procedures; disproportionate sanctions and fines; a lack of transparency and information. However, this situation occurs due to low status of inspectors, lack of human resources (numbers and qualification); lack of career prospects; limited opportunities for capacity building; vague and sometimes contradictory legislation; insufficient coordination between the various inspectorates and inefficient control and monitoring mechanisms.

SME Programme Measures:

- Require all inspectorates to publish the latest regulations (legislation, regulations, amendments, internal decrees, etc.), procedures, penalties, appeals, etc. on the MoE website for easy access by SMEs.
- Establish a system for ensuring that inspectorates both implement and respect their operational work plans and inspection schedules.
- Commission a feasibility study for streamlining the number of inspectorates from 17 to a more efficient and effective number.
- Full fiscalisation of the legal entities in accordance with the law.

2.2.9 eGovernment Services to Businesses

E-Business means “doing business by electronic means”, which covers not just implementing e-commerce (buying and selling on-line) but also the following aspects: B2B (Business To Business or activities realized between companies, for example suppliers and traders), B2C (Business To Customer or relations between end customers and companies) and G2B (Government To Business or activities realized between government and businesses such as tax declaration, social security services). One area that the SME programme could usefully intervene is to strengthen the G2B services. The performance in this area is very poor in comparison to EU countries and although there are signs of improvement, this is slow and unlikely to attain the requirements of the EU’s 2010 initiative for eGovernment. Eight Government services should be prioritised:

- Social Contribution for employees in corporations.
- Corporate tax declaration for income from some standard activities.
- Value Added Tax (VAT) declaration and/or notification for standard transactions.
- Registration of a new company (already underway via the one-stop-shop system).
- Submission of data to the SSO.
- Customs’ declaration submission for standard procedures.
- Public procurement submission for tenders subject to national public announcement.

The degree of on-line sophistication will then be measured according to the stage of development (stage 0=no web presence, stage 1=information set on web, stage 2=form download available from web, stage 3=interaction with web application, stage 4=complete transaction realized through web).

SME Programme Measures:

- Undertake a detailed feasibility study for each of the eight G2B services and obtain recommendations and action plan for meeting at least Stage 3 (interaction with web application) in each case.
- Obtain funding (state and donor) to implement action plan according to deadlines.
- Ensure inter-ministerial liaison to comply with the G2B action plan, building on the ICT contact points that already exist in the ministries.
- Promote the eGovernment concept and services available to SMEs through road shows.

2.2.10 eCommerce / eBusiness Legislation

In order to enable businesses to become active participants in the information society, coherent policies, laws and legislation are essential to allow the use of e-services. In particular the enactment of appropriate legislation on eCommerce and eGovernment is important.

SME Programme Measures:

- Adopt a law and corresponding by-laws for eCommerce and eBusiness, building on the experience of countries at a similar stage of accession to the EU

2.2.11 Defining Standards

The National Information Society Strategy (NISS) covers some but by no means all methodologies, standards, models and policies required for effective eGovernment services (Table 5 below)

Table 5: Realization of ICT Methodology, Models and Policies

	Republic of Macedonia
e-Government architecture	2007
Document template and workflow	Partly
Tender document template and workflow	No
Open source in e-Government	No
Extensible Mark-up Language (XML) standards	No
Benchmarking	No
Data security	No
Standards for information systems protection ISO 17799	2008
ISO 9001 standard for quality of the Government services	2008
Interoperability	No

SME Programme Measures:

- Define the standards highlighted in the table above, starting with standards for digital document exchange, digital invoicing and digital ordering.

2.3. IMPROVING ACCESS TO FINANCE AND SIMPLIFYING TAXATION

2.3.1 Improving Access to Finance

While in recent years the loan volume of the banking sector has increased particularly benefiting the enterprise sector, SMEs still experience difficulties in accessing commercial loans. This is related to an underdeveloped banking system. Strengthening the functioning of the banking system and financial intermediation is a necessary, but not a sufficient condition for SME financing to improve.

There are size-specific constraints that impose barriers for SMEs to access commercial bank finance. Insufficient assets and low capitalization, low prospects for growth and the vulnerability to market fluctuations combined with the limited technical, managerial and marketing skills of the small business owner lead commercial banks to perceive SMEs as a high-risk clientele that is better avoided when it comes to providing loans. SMEs usually do not disclose information to the extent and quality required by banks to properly assess their creditworthiness in cash flow-based lending. In asset-based lending excessive collateral requirements together with the type and quality of collateral asked for put a particular strain on SMEs. All of this is compounded by more promising and less risky investment opportunities such as government securities and lending to large borrowers.

Alternative financial instruments like financial leasing, factoring or equity capital, either provided by business angels or equity funds, are not commonly used, even though in most instances the legal environment is in place.

In the financial market there is a particular problem for the entrepreneurs who want to start up a business activity because the number of microfinancing institutions, both banking and non-banking, is not sufficient.

2.3.1.1 Private Credit Bureau

The credit information available in the country is not sufficient for credit appraisal. Sources include the credit registry at the National Bank of the Republic of Macedonia (NBRM), the Macedonian Bank for Development Promotion (MBDP) and the Central Registry. Due to the asymmetric information of banks and their clients there is the danger of adverse selection. Internationally, private credit bureaux have proved to be an appropriate tool to overcome the information problem of banks. They would grant banks access to a “payment profile” of prospective SME clients on a commercial basis. This in turn would allow banks to distinguish between high and low risk SMEs when undertaking cash flow based lending. It will lead to a reduction of transaction costs and thus provide incentives for banks to extend loans to SMEs. However, the establishment of such a credit bureau will require answering to certain legal, regulatory and information technology requirements.

SME Programme Measures:

- Facilitate the establishment of a private credit bureau to provide commercial banks with the information they need to properly assess the creditworthiness of SMEs.
- Ensure that the approach to the credit bureau is broad-based involving all financial institutions so as to enlarge the exchange of information among banks.

- Review and amend laws that might constitute an obstacle to the exchange of information (bank secrecy regulations, data and consumer protection laws), preferably consider enacting a Law on Credit Information that would provide clear authority to collect and distribute (positive and negative) data.

2.3.1.2 Secured Transactions Regime

Asset-based lending is the preferred option of commercial banks. It requires a functioning market for secured transactions, conditioned by a wide range of pledgeable assets, an easy and inexpensive registration as well as a quick and simple realization in case of default. While the Law on Contractual Pledge (2005) permits a variety of collateral to be used for securing a loan, immovable property (mortgage) is preferred, whereas among the movable assets equipment is not widely accepted. Likewise, recognition of accounts receivable and inventory is not commonly practiced. Although the Pledge Registry has been seen as a model in the region, issues remain including filing the entire pledge contract, high costs of scanning large documents and high registration fees. The registration of mortgages still suffers from the absence of a unique registry (cadastre). The statutory priorities for employees of insolvent companies in regard to unpaid wages reduce the priority rights of banks and the value of security. As to the realization of collateral, the Law on Bankruptcy (2006) and the enactment of the Law on Enforcement Procedures have led to streamlined bankruptcy procedures and gave pledge agreements executive force that allow banks to execute against collateral without court proceedings. A more widespread use of self-help mechanisms will encourage banks to reduce their collateral requirements to the benefit of SMEs.

SME Programme Measures:

- Encourage the Central Registry to lower the fee to internationally comparable levels (€ 8-12) to enhance the registration of pledges of small loans.
- Ensure that unregistered pledges are considered lower in ranking as compared to registered pledges, rather than considering them not binding.
- Ensure that collateral creditors have priority over other claims in case of bankruptcy consistent with international best practice.
- Raise awareness of the importance and best practice in relation to other forms of moveable property (equipment), accounts receivable, inventory, etc. that can be used as collateral.

2.3.1.3 Improve Operationality of the Guarantee Fund

The MBDP Guarantee Fund was created by the amended *Law on the Establishment of the MBDP* (2005). MKD 265 million (€ 4.23 million) have been placed into the Guarantee Fund. The Fund is managed by the Guarantee Committee, a separate department of the Steering Committee of MBDP. The objective of the Fund is to provide guarantees to secure a commercial bank loan. It was set up in recognition of the problems that SMEs face in providing collateral in the amount (often 200% of the loan) and quality that banks request as security in asset-based lending. Guarantees amount to 33% of the loan value up to a maximum amount of € 35.000 for investments no greater than € 150.000.

Despite interest shown by SMEs not a single guarantee has been issued in the last twelve months. This is an indication that the concept of the Fund has not adequately addressed the collateral problem of SMEs. Apparently, SMEs are not able to provide the additional collateral to

cope with the often excessive collateral requirements of banks. Cumbersome administrative barriers may be an additional reason for SMEs to avoid using the Loan Guarantee Fund.

SME Programme Measures:

- Conduct a thorough review into the reasons for non-utilization of the Guarantee Fund by SMEs and present recommendations for reform.
- Introduce changes in the functioning of the Guarantee Fund in order to increase its utilization

2.3.1.4 Provide Financial Support for Exporting Enterprises

Smaller enterprises in the Republic of Macedonia often encounter difficulties in applying for and receiving export credits and related services through commercial banks. Procedures and paperwork are considered burdensome and export credits insufficient. Often countries have answered by various schemes, enabling the foreign buyer of exported goods and/or services to defer payment over a period of time. Official support may be provided as: (i) “pure cover”, i.e. insurance or guarantees given to exporters or lending institutions without financing support, (ii) financing support, i.e. direct credits/financing, refinancing and interest rate support, (iii) aid financing, i.e. credits and grants.

Short-term business (generally raw materials, commodities and manufactured goods) is more likely within the realm of smaller firms than medium- and longer-term business (capital goods). Following international best practice, small export enterprises should be supported through the MBDP by official export credits to increase their chances in penetrating international markets.

SME Programme Measures:

- Support financing small export enterprises through loans at favourable terms to cover export-related expenses (e.g. purchase of raw materials, marketing expenses, development of distribution network)
- Seek a new credit line from the World Bank for financing export activities of enterprises

2.3.1.5 Equity Finance

Equity capital provided by outside investors offers an opportunity to address the needs for resources of fast growing SMEs. This capital is put into a business in return for a share of the profits and ownership of part of the business.

Venture capital – a particular form of equity - focuses on relatively high-risk businesses, in the expectation that the profits will be above average. For most SMEs, equity funding would go hand-in-hand with institutional changes to allow for the issuance of shares, reporting to outside investors and delegating to a larger management team. Equity finance is not very prominent among Macedonian SMEs.

2.3.1.6 Microfinancing

Obtaining small loans (microfinance) is of particular importance for small / start-up companies. This form of financing of potential and existing entrepreneurs is well known in countries undergoing transition as well as underdeveloped countries such as India, Bangladesh etc.

This model of financing enterprises, particularly in the start-up phase, has proven to be effective and the EU has allocated special funds to support its development.

In Macedonia, this form of financing is still underdeveloped, despite the fact that it is a tool for the potential faster development of enterprises. Normally microfinance is not available through commercial banks, since they do not fund start-ups, but rather through special, non-banking financial institutions and programmes.

Macedonia has a number of examples of microfinance institutions such as Horizonti Programme, Moznosti Savings House, FULM Savings House, but these are insufficient to meet the needs of potential and existing entrepreneurs.

SME Programme Measures:

- Secure additional donor funding (or state budget support) and institutions to manage these funds on a non-commercial basis
- Undertake a feasibility study for transferring the EU PHARE microcredit line (a revolving fund which has not yet been utilized) to the new institution

2.3.1.7 Business Angels

Business angels invest directly into a company in a personal capacity. Typically, venture capital investors do not want permanent ownership of a business, but rather to “exit” it within five to seven years by selling the shares they acquired. Commonly, a return on investment of at least 35% per year is expected. In the Republic of Macedonia, the extent to which business angels assist SMEs is modest. In the Republic of Slovenia, there are more than 28 registered business angels participating in a network. According to the EU best practice what is needed are initiatives to raise the awareness of the concept, the creation of a business angel panel to discuss pertinent issues, as well provide financial supporting for the creation of business angel networks that match potential investors with enterprises.

SME Programme Measures:

- Initiate an awareness raising campaign that presents the potential benefits of business angels as a source of equity finance.
- Support the creation of a business angel network to match potential angel investors and SMEs.
- Through the network build up capacity of SMEs to present their investment opportunity effectively to potential angel investors.

2.3.1.8 Equity Funds/Venture Capital

Investment funds are organised under the leadership of one or several institutions and meant to attract private investors together with the leading participants. In the Republic of Macedonia, the legal and institutional infrastructure for establishing and managing such funds is in place. The conditions for establishing investment funds, are set out in the Law on Investment Funds (2000). Although several venture capital funds were created, only the Small Enterprise Assistance Fund (SEAF) is still operating. It provides direct financing to enterprises in amounts ranging from USD 200.000 to USD 1.500.000, by taking over the minority share (between 20% and 49%) of a company. Operating on a commercial basis, it focuses strictly on businesses with attractive underlying fundamentals. Due to the very limited number of SMEs that can benefit from SEAF, its impact on SME finance is not significant. In fact, during its five-year operation, only 14 SMEs have benefited from equity investment.

SME Programme Measures:

- Initiate discussions for establishment of mutual investment funds, matched with investments from the European Bank for Reconstruction and Development (EBRD), USAID, International Finance Corporation (IFC) and commercial domestic and foreign banks.

2.3.1.9 Leasing

Leasing provides an opportunity for filling a financing gap for SMEs that need new equipment for their operations but cannot obtain loans to purchase it. Since leasing companies retain legal ownership of leased assets, they are able to overcome obstacles of bank lending. The Law on Leasing (2002) - amended in 2003 and 2006 - provides the framework.

The Law on Contractual Pledge (2005) requires the registration of leases thus lowering the risk of fraud by lessees.

Yet only moderate progress is being made. From the eight licensed leasing companies only two are operating and leasing is limited to about 1.3% of resources used to finance new investment. Leasing of cars is widespread, leasing of equipment the exception. Contract issues are regulated by the Law on Leasing, rather than providing the parties the freedom to enter into flexible but prudent leasing arrangements that are attuned to the lessee's anticipated cash flow and ability to pay. Leasing contracts are subject to a higher registration fee than the registration of pledge contracts. Fiscal legislation, in particular in regard to VAT issues and depreciation, are not yet clear. Courts are not efficient enough in issuing authorizations to recover unpaid leased equipment. The awareness of the advantages of leasing among SMEs is low.

SME Programme Measures:

- Collaborate with the MoF and MoJ in amending the Law on Leasing to only address the leasing activity and not the leasing contract while the latter should be incorporated in the Law on Obligations.
- Encourage the Central Registry to adapt registration fees that reflect the Macedonian reality and the fees charged in the EU.
- Ensure that the by-laws regulating the registration as well as the depreciation of leased objects are amended in line with European best practice and with the International Accounting Standards (IAS 17).
- Collaborate with the MoJ to achieve short, special court's procedures by which the right to ownership will be protected on the same basis as the right of possession so as to ensure a quick, simple and effective repossession process of the leased assets.
- Work with the MoJ to ensure that notary's writ for leasing has the same executive power as the executive court's decision to allow for out-of-court enforcement.
- Undertake a pilot initiative to assess the feasibility of micro-leasing in the agricultural sector.
- Promote the awareness of leasing as a potential alternative to loan financing.

2.3.1.10 Factoring

In many countries factoring has become a prominent new financial instrument for the provision of working capital and liquidity to SMEs. As a multifaceted product for companies engaged in domestic or international trade, it combines finance and services by collecting accounts receivable, providing buyer credit coverage and the corresponding bad debt coverage in the event of loss due to the buyer's financial inability to pay. Even though the business, legal and

banking framework has developed a structure for factoring and SMEs have a need of critical working capital and liquidity, factoring is only provided by one company. The awareness among SMEs is extremely low. Receivables are usually financed internally and externally through bank loans, for which companies mortgage real estate and in some cases pledge equipment with the usual difficulties attached to these instruments. Even though the legal and banking system recognizes factoring, modifications and clarifications will be needed as a starting point for market development.

The recognition of factoring as a financial product under VAT legislation with a subsequent exemption as well as adjustments to the Law on Banking that go beyond referencing factoring as a potential banking activity to clearly defining it, are some of the issues that need to be addressed. While it remains the commercial decision of banks and non-financial institutions to offer this product to their clients, a public campaign for awareness and education could help properly position the product thus preparing the grounds for market development.

SME Programme Measures:

- Through the SME Forum raise the awareness about factoring as a potential source of finance for SMEs.
- Review the legal and regulatory framework for factoring (Law on VAT, Law on Banking, Law on Accounting) and adjust to international best practice.
- Promote pilot initiative to stimulate factoring.

2.3.1.11 Franchising

Franchising, where the franchisor sells a business idea and methodology or a “franchise business” to a franchisee, who operates the business under the franchisor’s name, offers many advantages to SMEs. SMEs may use and market goods or services under the franchisor’s trademarks, service marks, and trade names, for which the enterprise usually pays an up-front fee and a percentage of the sales. Thus, an SME does not have to start the business from the ground up, but can use a previously developed and operated business concept. Moreover, banks may be more willing to finance the franchisee of a reputable and established franchisor than the entrepreneur that wants to open an unproven business. Overall, a franchise can significantly reduce business risks.

Although franchising is a relatively new concept for the business community in the Republic of Macedonia, the legal system accommodates franchise agreements. They have some advantages over domestic companies due to certain tax breaks and incentives. Laws on labour relations are clearly spelled out, leases can be freely negotiated, and there are laws to protect trademarks, patents and copyrights. In fact, there are successful examples of franchises operating in the country.

However, there are still constraints for the concept to be used more prominently. Among them is a lack of awareness about franchising as an alternative to starting a business from scratch.

SME Programme Measures:

- Increase awareness of the franchise concept by implementing an awareness campaign

2.3.2 Simplifying Taxation

The tax system in the Republic of Macedonia is still in a state of transition to conform to the principles of a modern market-based tax system. The tax burden is low in international comparison (OECD average 36% of GDP, Republic of Macedonia 20% in 2005).

The practice of other transitional countries shows that an efficient tax system with transparent, simple and low taxes is one of the basic preconditions for economic growth. Lower tax rates and simplified accounting will make the costs/risks from tax hiding, higher than costs for payment. This requires a closer adherence to the basic principles of a modern tax system in a market economy: Efficiency considerations call for taxation to have a minimal effect on the allocation of resources (neutrality), while equity concerns would expect taxation to treat similar taxpayers in a similar way and ensure that the tax burden is consistent with the ability to pay. This should be coupled with a simple tax system that is easy to comply with and administer and a tax administration that can respond to the demands of a growing market economy and the resultant increase in the number of tax payers.

Among the first measures undertaken by the new Government was the introduction of the flat tax rate of 12% (i.e. 10% starting in 2008) which created possibilities for more investments in the Republic of Macedonia.

SME Programme Measures:

- Assess possibilities for tax reliefs – exemptions for start ups in accordance with EU best practices.

2.3.2.1 Reimbursement of Value Added Tax Credits

According to the law, if the amount of the tax credit in a given tax period (month, quarter, year) is higher than the tax assessed for the supply of goods and services, the difference is to be refunded. If the taxpayer does not claim reimbursement, the reimbursable amount is considered as tax advance for the following tax period. The VAT surplus has to be reimbursed within 30 days. If the VAT is not refunded within this period, an interest rate of 0.05% for each day of delay will be added to the reimbursable amount. The right of tax refund for completed export is realized only in the amount of the calculated VAT in the country, and never higher than the one presented in the import documents (invoice, import customs declaration, etc.). However, the Law does not stipulate any special provisions and deadlines for the return of the tax credit for exporters.

In practice, businesses are undermined by the lack of timely refunds, often they are not refunded at all. This imposes particular constraints on the cash flow of such businesses. While it is expected that the introduction of e-tax services will lead to quicker VAT refunds, there is a need to ensure proper enforcement of the refund procedures.

SME Programme Measures:

- Undertake a review of the causes of delays or failure to refund focusing on small businesses, leading to recommendations for reform.
- Ensure full implementation of the Law on VAT, particularly with respect to VAT reimbursement
- Coordinate with the Ministry of Finance to ensure that the law is in accordance with the recommendations of the EU.

2.3.2.2 Informal Economy

Informal activities represent a pervasive element of the economy throughout the South East European (SEE) region, as illustrated by Table 6.

Table 6: Informal Economy in the SEE Region

	Alb	BiH	Bul	Cro	Mac	Mol	Rom	SaM	CEE average
Informal economy (% GNP)	33.4	34.1	36.9	33.4	45.1	45.1	34.4	29.1	22.7

Source: Schneider (2002)

In two countries, one of which is the Republic of Macedonia, almost half (45.1%) of the Gross National Product (GNP) is generated by the informal economy. This very high level of grey economic activity suggests that there is a need of introducing measures in order to reduce it. This in turn means that an action should be taken in a comprehensive and integrated manner in order to have a positive impact. While various aspects of the proposed changes to taxation, business environment, etc. will lead to incentives to formalise all or part of the current informal activities, additional efforts are required to encourage the formalisation of businesses.

SME Programme Measures:

- Prepare and undertake a detailed awareness raising campaign to maximise the impact of initiative (covering the amnesty, proposed reductions in taxes and social contributions, simplified tax for SMEs, streamlined business environment (licences, permits, registration)
- Stimulate worker registration by reducing the personal income tax, more flexible forms of employment relations and greater flexibility in the process of hiring and firing workers
- Modernization and automatization of the Customs procedures and profesionalization of the customs management
- Incorporate street vendors and petty tradesman with a special law and procedures (reduced contributions, special tax benefits etc) in order encourage selfemployment and exit from the sphere of the informal economy
- Prepare a National Awareness Raising Campaign focusing on the informal economy and exploring issues such as: why the informal economy matters to everyone; the government's role; the costs and risks of operating informally; benefits and assistance provided to those who wish to legalise their businesses.

2.4 IMPROVING COMPETITIVENESS AND INNOVATION

There is still a general lack of sufficient knowledge and information among entrepreneurs about what the MoE, APPRM, SME Forum and the rest of the SME national institutions are doing in respect to SME development.

To fill this gap, what is needed is to raise the awareness for the entrepreneurial culture and spirit in the function for creating an entrepreneurial society.

This can be achieved through the provision of pertinent information, including brochures and guides that highlight specific issues of starting up a business.

SME Programme Measures:

- Promote and distribute strategic documents, programmes and other information in order to better inform the potential entrepreneurs and business community.
- Establish an SME-oriented Question and Answer (Q&A) portal on the MoE's web site to be dealt with by the SME Department of the MoE.
- Produce a brochure on the range of policies, institutions, finance, etc. related to SME development .
- Produce a brochure on business registration through the one-stop-shop system (MoE, Central Registry).
- Produce a brochure on licenses and permits (MoE, relevant Ministries and institutions).
- Produce a brochure on the range of financial products and their pros and cons (e.g. leasing, factoring, business angels, equity funds, etc.) (MoE, MoF).
- Produce a brochure on Business Angels and Business Angels Networks .
- Produce a brochure on available business services and guidance on key topics such as business planning, applications for credit, etc. (MoE, APPRM, HRDF, etc.).

2.4.1 International and National Standards

Of the 45.000 active enterprises in the country, barely 100 are internationally certified for quality and safety standards such as ISO, HACCP, Total Quality Management (TQM), British Standard Association, etc. Traditional consumer habits, low technology transfer, absence of foreign companies, etc. are among the reasons for the insufficient engagement of Macedonian entrepreneurs in improving their capacities and competitive advantages. SMEs tend to act locally and/or regionally in a relatively small market without facing significant direct competition. With Candidate Country status, the situation must change significantly if local enterprises are to compete both in their domestic market and indeed expand and compete in the EU and global markets. Raising standards is central to this process.

SME Programme Measures:

- Collaborate with the Bureau for Standardization (BfS) and business associations (such as through the SME Forum) to promoting the importance of ISO and other international standards to SMEs.
- Develop projects for IPA funding to assist SMEs to introduce/upgrade ISO and other international standards.
- Utilize the HRDF to develop a larger pool of consultants able to assist SMEs to implement internationally agreed standards.

2.4.2 Clusters

The aim of the SME joining in clusters is to benefit from advantages that lead to higher competitiveness.

Individually, very often SMEs are not capable of capturing market opportunities, they have problems with acquiring the raw inputs, export related problems, the availability of BDS and issues related to applying the technological innovation.

Cluster/network development through co-operative endeavours aim at helping SMEs to overcome their problems Supporting the creation and strengthening of SME networks and the

development of existing SME clusters would require awareness- and trust-building initiatives, the dissemination of best practices within an audience of scarcely motivated SME owners and the creation of suitable discussion fora and ultimately of a governance framework for the cluster as a whole.

In line with this, cluster efforts in the Republic of Macedonia seek to help enterprises to increase their competitiveness in domestic, regional and international markets. As a result of previous efforts, clusters are already in existence for lamb and cheese; tourism; IT, wine and apparel.

These clusters are supported by the NECC and there is the possibility of establishing a further three clusters for food processing and farming, shoe industry and furniture.

SME Programme Measures:

- Support NECC to continue supporting the existing five clusters.
- Support SME associations to establish new clusters.
- Raise awareness at national and local level within institutions and enterprises to support clustering as a model for increasing the competitiveness.

2.4.3 SME eReadiness

eReadiness is the degree to which a country is prepared to participate in the networked world. The current data available in the Republic of Macedonia do not allow for a detailed assessment of the eReadiness of SMEs. However, proxy indicators such as the use of Internet, availability of web/home page, security facilities, number of employees using ICT, availability of broadband connection, accessibility to Local Area Network (LAN) and Intranet suggest that Macedonian firms have a long way to go to catch-up with their competitors in the EU. To achieve this, the application of ICT should become more prominent in the relations between the government, businesses and citizens.

SME Programme Measures:

- Undertake a study to determine the level of ICT and e-Business usage, benchmark with EU practice and draw conclusions/recommendations for broadening usage
- With the same purpose, undertake a study to determine the e-Readiness index and benchmark with EU (European e-Business Report)
- Develop and implement a “Go Digital” project covering the following phases:
 - Phase 1: Prepare case study of successful companies using ICT, e-business etc.
 - Phase 2: Prepare demo portal to be used for presentation to SMEs.
 - Phase 3: Road show demonstrating phases 1&2 to 20 cities (20 SMEs).
 - Phase 4: Essential ICT literacy courses (2 days) for 200-4,000 SMEs.
 - Phase 5: 1 computer and 2 year Internet access for 200-4,000 SMEs.

2.4.4 ICT Awareness Raising

A major incentive for companies to invest in e-business solutions is because it can help them to increase the efficiency of their business processes and as a result their overall competitiveness. SMEs still suffer from a limited understanding of ICT and its potential, limited budget for ICT investments and difficulty in recruiting ICT professionals.

Macedonian enterprises currently have a low level of ICT literacy, awareness and usage. Currently, ICT is not used as a key tool to increase the level of productivity and companies with growth potential fail to explore fully ICT as a tool that would enhance their level of competitiveness. All the evidence suggests that the Republic of Macedonia lags the EU by several years with the consequence that the Government needs to improve the eReadiness of the country, focusing on the SME sector.

The key target groups of the activities to raise awareness of the importance of ICT would be: (i) companies that do not make any use of ICT and (ii) companies that make very little use of ICT.

SME Programme Measures:

- Implement a multi-annual awareness raising campaign focusing on SMEs and the use of ICT (media campaign, road shows, demo portal, show casing successful ICT users implementing eBusiness concept).
- Create an SME Portal that will serve as a gateway for information relating to the SME sector, linked to all relevant organisations (e.g. SME Department, APPRM, Central Registry, business associations)

2.4.5 R&D Investment

The percentage of GDP devoted to R&D in 2003 was only 0.22% of GDP compared to neighbouring countries like Serbia (0.32%), Bulgaria (0.5%), Croatia (1.1%) and Slovenia (1.5%). Whilst it increased slightly to 0.25% of GDP in 2004, it remains a miniscule amount compared with the revised Lisbon agenda target, namely to increase R&D spending to 3% of GDP by 2010.

Equally of concern is the fact that the R&D expenditure comes mainly from higher education (60.2%) and only a small amount comes from the enterprises. In the EU the average participation of the business sector is 65.3% (2000) and neighbouring countries also have significantly higher business contribution in R&D. The revised Lisbon target is that 66% of the investment in R&D should be contributed by the private sector by 2010.

SME Programme Measures:

- Facilitate discussions to encourage the Government / other ministries to adopt a target of 1% of GDP invested in R&D by 2010 and 40% participation by the private sector.
- Encourage private sector to increase value of investment into R&D.
- Create R&D institutions to support technological development of SMEs
- Facilitate a discussion with the MoF to introduce tax incentives for the SME sector to invest in R&D.

2.4.6 Technological Industrial Development Zones (Export Processing Zones)

Science and Technological Industrial Parks (TIDZs) provide optimized soft and hard environment to transform R&D achievements into real productivity, attract and congregate talented people, technologies and capital by providing whole set of service system and preferential policies and speed up industrialization of high and new technology. Importance is attached to linkages between high-tech development and market demand at home and abroad. Specialized parks maybe formed within a Science and Technology Industrial Park focusing, for example, on software, biology and biochemistry or optoelectronics.

Feasibility studies suggest that there is potential to create at least two technological parks in Bitola and Skopje, however, their development is constrained by a lack of funds (e.g. the Bitola technology park would require a grant of € 700,000 – € 1 million), as well as the incompatibility of certain laws (Law on Science and Research Activity, Law on Technological Culture and Law on Technological Development).

The Government is committed to prioritising at least one of the new technology parks focusing on software production, computer chips and other ICT-related aspects (Vardar Silicone Valley).

SME Programme Measures:

- Undertake a feasibility study to select possible TIDZs.
- Collaborate with the MoES to streamline the relevant legislation, enabling the creation of technology parks.
- Collaborate with the MoF to secure provision of state support (infrastructure, tax incentives, etc.) to stimulate investment in technology parks.
- Encourage larger enterprises to link with the universities in creating technological parks.

2.4.7 Promotion of R&D

According to data from the Central Registry, during 2004 only 2 small, 21 medium and 31 large enterprises invested in R&D activities amounting to € 1.7 million in 2003 and € 1.24 million in 2004. These figures are extremely low and demonstrate the lack of R&D investment by national enterprises.

SME Programme Measures:

- Collaborate with the MoES to develop an awareness raising campaign (media campaign, best practice fairs, brochures and practical guidelines for SMEs, information on web portals, etc.) to demonstrate the role of investment in R&D with respect to future enterprise competitiveness and profitability.
- Raise the awareness of the importance of R&D at regular meetings, conferences, etc. of the network of business associations.
- Organise roundtable discussions where successful companies (e.g. HiTech Corporation, Mikorn, MZT Hepos, etc.) can highlight to SMEs best practices in the commercialization of new technological developments.
- Develop award schemes, which reward innovative solutions to business problems (see below).

2.4.8 Innovation Scoreboard

A key issue is the necessity to monitor and evaluate the progress in the performance of science, technology and innovation (STI). The *European Innovation Scoreboard* (EIS) is an instrument developed by the EC to evaluate and compare the innovation performance of the Member States on the basis of a series of innovation indicators that capture a country's performance. The Republic of Macedonia lacks the data and instruments to measure innovation trends and thus to develop appropriate STI policies.

SME Programme Measures:

- Select the relevant indicators to track the development of science, technology and innovation in line with EU best practice (Innovation Scoreboard).
- Establish a Memorandum of Understanding between the MoE and the SSO to collect the data for the above system of indicators.
- Prepare and publish an annual Innovation Scoreboard for the Republic of Macedonia benchmarked against EU countries.
- Raise the awareness of the existence of these indicators among SMEs as well as the relevant public institutions that will provide data for the Innovation Scoreboard.

2.4.9 Science-Innovation Interface

There are a few examples of effective links between universities and the private sector. They include the CIRKO Mes Centre and the four GTZ-funded TTCs located at the universities of Skopje and Bitola that are collaborating with about 1,000 SMEs.

By co-financing R&D projects, which are the result of the collaboration between universities and enterprises, the continuation of the cooperation between science-economy is being realised.

Yet, there is a need to intensify the cooperation between higher education and SMEs in the future, consistent with the revised Lisbon agenda and the CIP.

SME Programme Measures:

- Publicise to SMEs the services, know-how, software and equipment available via the CIRKO/TTCs that can be used as potential R&D providers.
- Stimulate R&D faculty staff to sell their ideas and knowledge to SMEs through direct contacts, internship programmes, practical work in relation to student graduation thesis, etc.
- Establish regular networking among the TTCs, CIRKO, IRC, CIPOZ, etc. in order to diffuse best practice knowledge, develop a common SME databank, organise regular events to promote best practice, etc.
- Undertake a feasibility study to establish science parks, hi-tech business incubators, spin-off firms, etc. exploiting links between universities and SMEs.
- Introduce entrepreneurial education among science, technology and engineering students (e.g. recently established Mechanical University Business Start up Centre).
- Encourage universities to utilise their knowledge of project application and management procedures to assist SMEs to apply for international funds e.g. EC.
- Increase the number of companies using funds for development purposes and increase the amount of funds provided by the Government for this purpose.

2.4.10 Human Resources & Brain Drain

Human resources have been dramatically affected by the massive “external” brain drain as the best experts seek better opportunities abroad combined with the “internal” brain drain as specialists in the country are not employed in the fields of their expertise.

The so-called Full Time Equivalent (FTE) index for R&D staff in the Republic of Macedonia is 1.70 (Table 7). This is significantly lower than the average in the EU (5.68) and in neighbouring countries (Bulgaria: 4.63; Slovenia: 4.64; Greece: 3.30). The country also has a notably lower number of R&D staff in the business sector (5.4%).

Table 7: R&D Staff and their Distribution

Country	Percentage of researchers in			
	FTE	Business sector	Government sector	Higher education
Macedonia	1.70	5.4	29.5	65.1
Finland	13.77	56.9	12.3	29.8
Sweden	10.10	60.6	4.9	34.5
Greece	3.30	15.20	13.60	71.00
EU-15	5.68	49.7	13.4	34.5
Slovenia	4.64	33.6	32.3	30.7
Bulgaria	4.63	6.4	40.2	53.1

Source: MoES (2006)

The R&D human resources are ageing rapidly. The average age of PhD graduates is 40 and there are very few young scientists entering R&D institutions due to budgetary restrictions. This is compounded by the internal and external brain drain driven by low pay, status and outdated facilities.

SME Programme Measures:

- Create a network of Macedonian scientists abroad to stimulate joint projects with Macedonian universities, research institutions and SMEs.
- Increase salaries, enhance quality of R&D equipment and raise the status of R&D staff in research institutions.
- Provide financial support to scientists to participate in international conferences.
- Provide scholarships funded by the Government to stimulate students to study technology and engineering subjects, especially at Master and PhD level.
- Establish a fund to stimulate young scientists to commercialise their ideas, knowledge, innovations, etc. (MoES).
- Provide facilities for young innovators (space, equipment, trainers, Internet, etc.).
- Encourage SMEs to provide practical work experience for young innovators.

2.4.11 International Cooperation

There are already relatively high levels of international cooperation between Macedonian universities and international partners within the framework of the TEMPUS, ERASMUS, COST, Framework Programme (FP) 6, North Atlantic Treaty Organization (NATO), International Atomic Energy Agency (IAEA), and bilateral programmes. These enable scientists to visit international institutions and exchange knowledge. However, there is a need to further intensify these links and exchanges.

SME Programme Measures:

- Increase information and awareness of the wide range of possible exchange/knowledge transfer programmes available (MoES) through regular information provision to universities and SMEs.
- Provide training on project application preparation and project cycle management to enable universities and SMEs to obtain and manage exchange programmes.
- Raise awareness of Macedonian scientists of the European Research Area and encourage greater participation.

2.4.12 Technological Diffusion

Successful commercial application of knowledge and technology depends on firstly, the scope of knowledge creators to transfer their knowledge to technology users such as SMEs and secondly, the willingness of technology users (SMEs) to understand and utilize this knowledge. Both issues are relatively underdeveloped in the Republic of Macedonia and need to be further supported.

SME Programme Measures:

- Encourage knowledge creators (universities, public institutes, etc.) to organise fairs and fora to showcase new products and services to SMEs (e.g. Skopje fair exhibitions, Entrepreneurship Fair/Europe Day, promotion of international projects at Faculty of Mechanical Engineering, etc.). Attention needs to focus on attracting SMEs to these events through collaboration with business associations.
- Introduce new university courses on issues such as new product development, innovation management, commercialisation of innovations, etc.
- With support of MoES organize courses/seminars for SMEs in the area of new product development, innovation management, etc.

2.4.13 Intellectual Property Rights

The State Office for Industrial Property is responsible for developing the IPR system in the country. Data from the State Office indicate that the IPR indicators are improving (Table 8). The State Office organises annual events to promote creativity and innovation such as the International Intellectual Property Day, “The Patent of the Year”, Makinova fair, or participation in the international exhibition of ideas-inventions-new products. However, more needs to be done to stimulate patenting, the enforcement of IPR among others.

SME Programme Measures:

- Increase the awareness among scientists and SMEs of IPR issues, such as procedures for obtaining patents, registering trademarks, registering industrial designs, etc.
- Simplify and reduce the costs of the above IPR procedures in line with international best practice.
- Encourage scientists to protect their intellectual property by establishing an award scheme and recognising successfully protected innovations (see below).
- Increase the awareness of the penalties and costs associated with non-compliance with IPR rules and regulations among SMEs and scientists.

Table 8: Intellectual Property Rights (2001-2005)

	Year				
	2001	2002	2003	2004	2005
Total number of patents applications	125	241	435	452	436
National	65	44	47	44	53
Foreign	60	197	388	408	383
Total number of trademarks applications	1186	1035	993	1056	1050
National	440	411	478	458	433
Foreign	746	624	515	598	617
Total number of industrial design application	80	41	71	47	60
National	75	29	45	31	47
Foreign	5	12	26	16	13

Source: State Office for Industrial Property

2.4.14 Entrepreneurship Awareness

In contrast to EU economies, the levels of entrepreneurship in the Republic of Macedonia are low. The country is not generating sufficient start-ups partly due to the imbalance between risks and rewards, focusing on employment rather than self-employment.

There is a need to increase the awareness and appreciation of the role of entrepreneurship in society, to encourage people to look beyond their current preference for a stable job, while ensuring that the balance of risk and reward is tipped more in favour of the entrepreneur. The current perceptions of society at large are consistently negative in relation to entrepreneurship. Therefore, a medium-term campaign is needed, which counteracts this negative perception by presenting role models or portraits of success, working closely with the media.

SME Programme Measures:

- Prepare and implement an Entrepreneurship Awareness Raising Campaign aimed at changing the perceptions of society at large towards entrepreneurs and create a more positive attitude towards risk-taking and social responsibility in relation to businesses.
- Create the campaign with the integral involvement of the business community (business associations, chambers), run over the medium-term and operate at three levels:
 - Macro level: coordinated media campaign (TV adverts, printed advertisements, brochures, posters, etc.) to change perceptions of entrepreneurs and emphasize their contribution to employment, social welfare, environment protection and national growth.
 - Meso level: coordinated activities by business associations, chambers, BSOs, etc. in relation to entrepreneurship (e.g. fairs, conferences, distribution of best practice brochures, etc.).
 - Micro level: promotion of concepts that gain support and respect of society at large, such as corporate governance, social entrepreneurship, corporate social responsibility,

environment protection awareness, health and safety at work, combating the informal economy, etc.

2.4.15 Entrepreneurship Awards

In addition to seeking to change society's perception of entrepreneurs, there is a need to reward successful entrepreneurs as a means of presenting role models to counteract negative perceptions and encourage entrepreneurs in their activities. The MoES has a good practice of awarding the most successful innovation projects through the universities within the context of the MAKINOVA innovation trade fair.

However, for the awards to have a positive and lasting impact there is a need to ensure extensive media coverage of the event as well as transparent and accountable selection criteria (e.g. balance sheets, turnover, gross profit, productivity, sustainability, total fixed assets, R&D). In addition to a trophy, the winners will be invited to participate in a relevant international event, sponsored by the MoE and business associations.

SME Programme Measures:

- Establish an annual Entrepreneurship Award Scheme involving among others MoE, APPRM, business associations and chambers, leading to the following types of award:
 - Entrepreneur of the year (micro, small, medium).
 - Manager of the year.
 - Young entrepreneur of the year.
 - Outstanding female entrepreneur of the year.
 - Innovative company of the year.
 - Best product of the year.
 - Exporter of the year.
 - Investor of the year.
 - Creativeness award (to companies registering inventions and protecting intellectual property).
 - Sustainable company of the year (social & environmental sustainability).
- Combine the Entrepreneurship Award Scheme with the Entrepreneurship Fair (see below).
- Offer scholarships for post-graduate students at the Economic Institute

2.4.16 Entrepreneurship Fair/Europe Day

As part of the process of raising awareness of the importance of entrepreneurship, the SME Department co-organised the European Day of the Entrepreneur on the 9-10th of May 2006 at the Skopje Fair. The event generated significant press and public interest.

It would be beneficial to undertake the Entrepreneurship Fair/Europe Day on an annual basis, subject to the mobilisation of resources (€ 50,000 per event) and to link this to the annual Entrepreneurship Award Scheme (see above). Moreover, it is important to foster the participation of SMEs in similar fairs in the country.

SME Programme Measures:

- Organize an Annual European Day of the Entrepreneur.
- Foster the participation of SMEs in other national fairs.

2.4.17 Vouchers for SMEs

The Republic of Macedonia has one of the highest unemployment rates in the SEE region. In order to reduce this rate, the Government has started a self-employment project. Since November 2005, the implementation of the pilot-project called (subsidised) Voucher Consultancy for Potential Entrepreneurs and Existing enterprises, has started. The results achieved by the programme for voucher consultancy, especially in regard to start-up businesses, hiring of consulting companies and centres for business consulting as well as the evaluation made by independent consultants encouraged an initiative to continue with the implementation of this programme in the next period.

SME Programme Measures:

- Obtain a mixture of state (20%) and donor (80%) funding to implement the programme.
- Develop a three year voucher programme assisting unemployed to help them become established as well as assisting operating companies (MoE, APPRM, MoLSP).
- Provide relevant guidance to start-ups (viable business plans, organizational structuring, staffing, marketing etc.).

2.4.18 Top 500 Managers

The exposure of managers to best management practices through direct contacts with renowned international companies is fairly limited. This impairs the ability of SMEs to compete effectively in EU and world markets. Through placements in internationally renowned companies, top managers will be made aware of best management practices, which they could then apply in their own enterprises. Therefore, top Macedonian managers would benefit from twinning and training programmes in well-known international companies. Such training would be specifically designed to improve the competitiveness of private companies in five sectors, which offer significant growth potential. The managers would be selected in a competitive and transparent process, work in a more developed economy (such as Slovenia, Poland) for three months, return to the Republic of Macedonia to reflect on the initial experiences and then work in an advanced economy (e.g. Germany, Britain), together with the top management of the relevant companies. This will lead to the development of new contacts and networks, new market knowledge, modern management experience, and new corporate philosophies. This way the training programme is expected to contribute directly to the future competitiveness of the Macedonian firms participating in the project. Scope may exist to extend this to a further 500 managers.

SME Programme Measures:

- Work with the World Bank to prepare a € 9 million project.
- Identify five sectors with economic potential and select 500 participants.
- Evaluate the project and extend to a further 500 managers if possible.

2.4.19 Lifelong Learning

Ensuring that all people have access to learning and training opportunities during their entire life cycle by means of lifelong learning (LLL) is a priority for the Republic of Macedonia. This is particularly important for SMEs since a number of people were forced to start-up their own business following the privatisation process, the subsequent lay off of staff and the lack of

employment opportunities due to a mismatch between available and required skills and due to the lack of free time. Very often they were not prepared enough to run a business. A greater focus on lifelong learning, as far as SMEs are concerned, is overdue to provide them with the skills that are required for successfully be engaged in business.

Entrepreneurship was not taught in the Republic of Macedonia as a specific subject, but only as part of the business related subjects in economic high schools.

SME Programme Measures:

- Develop the legislative framework for the LLL concept (MoES).
- Develop LLL models/contents as far as entrepreneurship is concerned.
- Define the target groups and indicators for monitoring and evaluation of LLL as far as SMEs are concerned.
- Provide tax exemption for investments in human capital by SMEs.
- Introduce the subject of business and entrepreneurship for first year students in the high schools

3. COORDINATION, MONITORING AND IMPLEMENTATION

3.1 BACKGROUND

The SME Programme 2007–2010 amounts to an extremely challenging agenda for the SME architecture of the Republic of Macedonia to implement. Although significant effort is often expended on the creation of these programmes, their impact has been limited by a variety of factors:

- Lack of adequate background *research*.
- Lack of *consultation* with the SME sector.
- Lack of adequate *time* to implement the programme.
- Lack of political *commitment* to support implementation.
- Lack of adequate *resources* from the state budget.
- Lack of capacity to *coordinate* implementation with stakeholders.
- Lack of capacity to *monitor* progress.
- Lack of *evaluation* to assess the impact.

3.2 RESEARCH

In preparing the SME Programme the MoE's SME Department commissioned detailed research on all aspects of the Programme, while additional sources of information (OECD, WB) were also taken into account. All the key stakeholders were interviewed as part of the research exercise. This served as the basis for determining the measures to be incorporated. The initial measures were combined with the priorities of the Government's work programme, as well as the imperatives of harmonizing with the Acquis Communautaire, especially as far as the SME-oriented requirements are concerned.

3.3 CONSULTATION

The background research led to a series of draft measures. These draft measures (reports and recommendations) have been circulated to various Departments within the MoE, as well as all the relevant ministries and agencies for consultation. Moreover, they have been discussed in detail with the SME sector, via the SME Forum. The SME Forum established three working groups in order to focus on various aspects of the SME Programme. The feedback obtained was incorporated into the revised SME Programme. Subsequently, the draft SME Programme was presented to the full session of the SME Forum for consultation. Finally, a series of "road shows" were prepared to obtain feedback from the regions of the country. Finally, the draft SME Programme was circulated to all relevant Ministries and Agencies since the MoE – while coordinating implementation - does not have sole responsibility for implementing the Programme.

3.4 TIMETABLE

The timing and timetable are critical to the success of such programmes.

The SME Programme comes at the beginning of the Government's political mandate. The priorities contained in the Government's Work Programme are reflected in the SME Programme. Consequently, the success or otherwise of the SME Programme will be attributable to the new Government's activities during its term of office.

3.5 COMMITMENT

The measures of the Programme are determined by the needs of the SME sector, the objectives of the Government (Work Programme of the Government 2006 – 2010 in the area of SMEs), as well as the requirements for accession to the EU, which the Government is fully committed to.

3.6 RESOURCES

The implementation of the Programme depends on the resources from the state budget dedicated to the implementation of the measures mentioned in the Programme. The Programme reflects the needs of accession to the EU and the need to strengthen and increase the competitiveness of SME to confront the challenges of the single market. Moreover, strenuous efforts will be made to coordinate with donors / EU to ensure that significant additional project funding is obtained to implement the SME Programme.

3.7 COORDINATION

By its very nature, the implementation of the SME Programme is not the sole responsibility of any one institution – SME development is not a “stand-alone” exercise. The SME Department cannot, on its own, hope to secure implementation of all the issues included in the SME Programme. It will work closely both with the APPRM and the SME Forum. Moreover, it is important to establish a mechanism to ensure that the other Ministries and Agencies that have agreed to implement the measures contained in the SME Programme deliver on their commitments. This will be secured through:

- Monthly SME Programme coordination meetings with relevant Departments at the MoE.
- Monthly SME Programme coordination meetings with APPRM.
- Monthly SME Programme coordination meetings with relevant Ministries / Agencies.

3.8 MONITORING

The effective implementation of the SME Programme calls for dedicated capacity to coordinate the meetings for Programme implementation . This means that:

- The SME Department and APPRM staff will be allocated responsibility specifically related to various aspects of the SME Programme.
- A monitoring mechanism will be established, including indicators of progress. Moreover, the SME Forum will monitor progress via quarterly meetings.
- Quarterly progress reports will be submitted to the MoE.

3.9 EVALUATION

Finally, the lack of evaluation of programmes leads to a “blind” approach to policy making. Without a mid-term evaluation, it is often hard to assess progress and implement corrective measures to ensure that the SME Programme is delivered effectively.

- Mid-term evaluation (June 2008) to assess progress in implementation of the SME Programme and to propose recommendations/changes.
- Final evaluation (December 2009) to assess overall progress with implementation and impact of the SME Programme. The recommendations of the final evaluation will be used to prepare the new SME Programme for the period January 2010 – December 2013.

4.0 This programme enters into force the day following its publication in the Official Gazette of the RM.

No.

President of the Government of the
Republic of Macedonia

Skopje

Mr. Nikola Gruevski

