

Republic of Macedonia
Ministry of Economy

National Small and Medium Enterprise Strategy
(2018-2023)

*“Competitive SMEs driving inclusive
economic growth”*

March 2018

“Competitive SMEs driving inclusive economic growth”

Competitive SMEs driving inclusive economic growth, National SME Strategy (2018-2023) and Action Plan (2018 to 2020), Republic of Macedonia, Ministry of Economy, Skopje, Macedonia

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List of Acronyms

APPRM	Agency for Support of Entrepreneurship
BCM	Business Confederation of Macedonia
BDS	Business development service
EC	European Commission
EESE	Enabling Environment for Sustainable Assessment
EU	European Union
GDP	Gross Domestic Product
Government	Government of the Republic of Macedonia
ICT	Information and communications technology
ILO	International Labour Organization
MKD	Macedonia Denar
MSME	Micro, small and medium-sized enterprise
NCIE	National Committee for Innovation and Entrepreneurship
NGO	Non-government organisation
OECD	Organisation for Economic Cooperation and Development
OEM	Organization of Employers of Macedonia
R&D	Research and development
RIA	Regulatory impact assessment
SBA	Small Business Act (EC)
SEE2020	South East Europe 2020 Strategy
SME	Small and medium-sized enterprise

The SME Strategy in a Nutshell

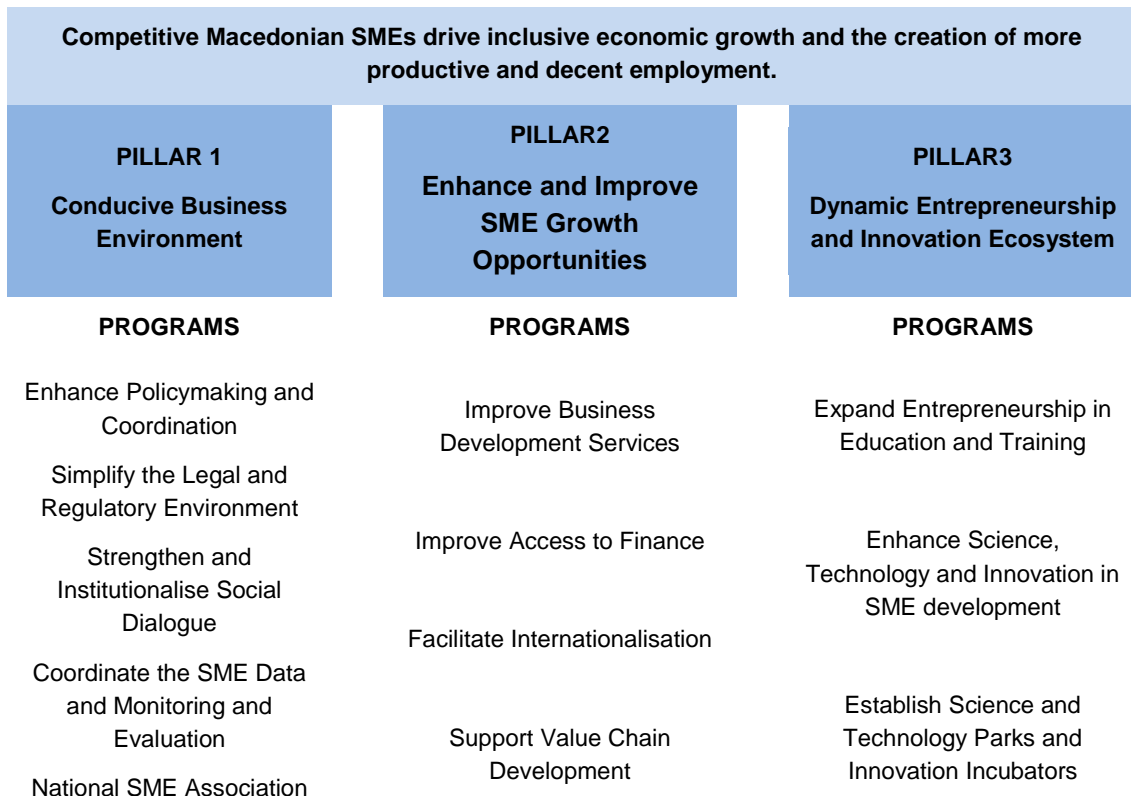
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Strategy Vision: **Competitive SMEs in 2023 as a drive of inclusive economic growth in Macedonia and in the creation of more productive and decent employment.**

General Strategy Aim: **The SME Strategy establishes a framework for public, private and civil society actors to collaborate in the support of SME development and innovation to improve SME competitiveness.**

Strategic Objectives:

1. **Conducive Business Environment:** To create a conducive business environment in which entrepreneurship and investment is encouraged.
2. **Enhance and Improve SME Growth Opportunities:** To help SMEs in Macedonia to become highly productive and competitive participants in European and other international markets.
3. **Dynamic Entrepreneurship and Innovation Ecosystem:** To drive Macedonia’s economic competitiveness through a more enhancing the entrepreneurial and innovative capacities of the SMEs.



Alignment with the European Union’s Small Business Act

The SME Strategy has been designed in alignment with the European Union’s Small Business Act (SBA). In line with the SBA, the SME Strategy will:

- **Create an environment in which entrepreneurs and family businesses can thrive and where entrepreneurship is rewarded:** it will create a conducive business environment for all SMEs, including family businesses, through a simplified legal and regulatory framework (Program 1.2), adoption of new SME Law and amending the Law on the Agency for Promotion of Entrepreneurship of the Republic of Macedonia, better policymaking and coordination (Program 1.1) and improved business development services (Program 2.1) and better access to finance (Program 2.2).
- **Ensure that honest entrepreneurs who have faced bankruptcy quickly get a new chance:** it will improve the procedures for bankruptcy and introduce an information campaign promoting a second chance for entrepreneurs who have previously failed (Program 1.2).
- **Design rules according to the ‘Think Small First’ principle:** it will introduce a specific regulatory impact assessment instrument, known as the SME Test, to analyse the ex ante effects of all legislative proposals on SMEs (Program 1.2).
- **Make public administrations responsive to SMEs’ needs:** it will improve policymaking and coordination within the SME sector (Program 1.1), it will improve social dialogue (Program 1.3), improve the data and analysis of the SME sector (Program 1.4), enhance the voice of the SME sector (Program 1.5), and enhance the impact of business and financial services, while creating an online SME Portal (Program 2.1 and 2.2).
- **Facilitate small business access to finance and develop a legal and business environment supportive to timely payments in commercial transactions:** it will improve access to finance through the creation of a movable assets register, introduce factoring, revitalise the credit guarantee scheme, and improve financial literacy (Program 2.2).
- **Help SMEs to benefit more from the opportunities offered by the EU’s Single Market:** it will strengthen links with the EU’s SME support programs (Program 2.1), while improving SME access to Government export promotion support services (Program 2.3) and the development of strategic industry value chains and clusters (Program 2.4).
- **Promote the upgrading of skills in SMEs and all forms of innovation:** it will expand entrepreneurship in all levels of education and training (Program 3.1), support innovation in the SME sector by facilitating better networks between academia and industry, including support for R&D (Program 3.2), and establish new Science and Technology Parks and Innovation Incubators (Program 3.3).
- **Enable SMEs to turn environmental challenges into opportunities:** it will support the development of “green SMEs” (Program 2.4).
- **Encourage and support SMEs to benefit from the growth of international markets:** it will promote a more productive and competitive SME sector by giving greater support to improving the internationalisation of the SME sector, which includes increased access to export promotion support services (Program 2.3) and the development of strategic industry value chains and clusters (Program 2.4).

PART 1: THE STRATEGY

1 Introduction

The Republic of Macedonia's national policy framework for economic and industry development, including its support for entrepreneurship, innovation and competitiveness sets the context in which the SME Strategy has been prepared. So too, does the broader European policy framework for economic development, small business promotion and entrepreneurship.

1.1 International Policy Context

The strategy has been prepared in order to support Macedonian small and medium enterprises (SMEs) to become more competitive within the increasing integrated world economy. It is aligned with a range of significant international policy frameworks.

Through the **Lisbon Agenda**(2000), the European Union (EU)has established a new strategic goal to become “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. The Agenda focuses on preparing for the transition to a knowledge-based economy and society by better policies for the information society and research and development(R&D). It seeks to modernise the European social model, investing in people and combating social exclusion. It supports sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.

The EU **Small Business Act** (2011) is an overarching framework for the EU policy on SMEs. It aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs and remove the remaining barriers to their development. Building on the European Charter for Small Enterprises (2000), the SBA's main priorities are: promoting entrepreneurship, reducing the regulatory burden, improving access to finance, and improving SME access to markets and internationalization. The SBA applies the 'Think Small First' principle in which the interests of SMEs are taken into account at a very early stage of policy making. This helps the EU and its member states develop SMEs-friendly legislation.The SBA was reviewed in 2011 and the progress of its implementation across the EU was assessed. The SBA Review aims to integrate the SBA with the Europe 2020 strategy. This will involve making smart regulation a reality for European SMEs, paying specific attention to SMEs' financing needs, taking a broad-based approach to enhancing market access for SMEs, helping SMEs to contribute to a resource-efficient economy, and promoting entrepreneurship, job creation and inclusive growth.

The Republic of Macedonia has gained **candidate country status for accession to the EU**, which has major implications for the SME strategy and program in regard to accelerating the harmonization of national legislation with EU legislation and the need to implement the revised European Charter for Small Enterprises. New initiatives such as the Instrument for Pre-Accession Assistance and the EU Competitiveness and Innovation Framework Program (previously 2007-2013, currently 2014-2020) present new challenges and opportunities in relation to science, technology and innovation as well as information and communications technology (ICT) as means of enhancing the competitiveness of SMEs.

Europe 2020 sets out a vision of Europe's social market economy for the 21st century. Europe 2020 puts forward three mutually reinforcing priorities: smart growth (i.e., developing an economy based on knowledge and innovation), sustainable growth (i.e., promoting a more resource efficient, greener and more competitive economy) and inclusive growth (i.e., fostering a high-employment economy delivering social and territorial cohesion). Building on Europe 2020, the pre-accession countries of the Western Balkan region have also developed the **South East Europe 2020 Strategy** (SEE 2020), which reflects the determination of all the governments in South East Europe to embrace the bold policy approaches required to attain the levels of socioeconomic growth necessary to improve the prosperity of all its citizens and to facilitate eventual integration with the EU. The past two decades have seen much progress in South East Europe and many significant achievements. However, the region still faces some formidable challenges. The SEE 2020 Strategy recognizes the need for regional cooperation in selected areas to address these challenges and accelerate the attainment of development goals in key sectors.

Finally, the **EU Entrepreneurship 2020 Action Plan** is a blueprint for decisive joint action to unleash Europe's entrepreneurial potential, to remove existing obstacles and to revolutionise the culture of entrepreneurship in Europe. It aims to ease the creation of new businesses and to create a much more supportive environment for existing entrepreneurs to thrive and grow. The Action Plan supports entrepreneurial education and training to support growth and business creation, strengthen framework conditions for entrepreneurs by removing existing structural barriers and supporting them in crucial phases of the business lifecycle, and ignite a culture of entrepreneurship in Europe: nurturing the new generation of entrepreneurs.¹

1.2 National Policy Context

The Republic of Macedonia has established a detailed and strategically focused policy framework for economic and industry development, which shape public policies and programs for SME development.

1.2.1 Economic and Industry Policy Framework

The **National Economic Reform Program** (2017-2019) describes reforms to the medium-term macroeconomic and fiscal framework along with 19 sector reforms required for competitiveness and growth. Above all, these reforms are related to matching the qualifications and the needs of the labour market, creating an economy led by the innovations and the technology, upgrading the SMEs, networking via better transport infrastructure, improving the performances of the energy sector, overcoming the cross border connections, using the potential of the agricultural sector, tourism and the IT sector.

The **Plan for economic growth** also deals with enterprise support.

The first measure covers the supports related to the investments made to every additional new vacancy created, support for establishing and improving the cooperation with the suppliers from the Republic of Macedonia, support for creation of organisational forms of technological R&D, support for investment projects that are of significant economic interest, support to increase the capital investments and revenues, as well as support in pay-offs at the enterprises facing difficulties.

¹ European Commission (2013) *Entrepreneurship 2020 Action Plan; Reigniting the entrepreneurial spirit in Europe*, a communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 9.1.2013 COM(2012)795

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The second measure is related to enhancing the competitiveness of the enterprises, via ensuring the support for increasing the competitiveness on the market and in penetrating in new market as well as increase of sales.

The third measure is targeting the SMEs and it will be implemented via the Innovation Fund. The support is aiming the ‘gazelle’ enterprises, technological development of the enterprises, support of innovation, support of vocational education of employees as well as financial support via using the joint venture capital by the equity and mezzanine Fund.

The **Industrial Policy** (2009-2020) establishes the vision for an industrial sector oriented towards “higher value added products and services based on knowledge, innovation and collaboration”. This is on the development of capabilities in “applied research and manufacturing of sustainable, organic and specialized high-tech products and services serving the needs of international niche markets”. By 2020, Macedonia will develop the dynamic mix of sustainable and authentic industries like: organic wine and foods, eco-steel, eco-friendly construction, ICT, specialized electronic parts, renewable energy production, creative industries, medical equipment and services, authentic tourism and other industries.

The Industrial Policy highlights the importance of SMEs and entrepreneurship to contributing to increasing to net growth through better financing and the creation of a business climate that stimulates entrepreneurial spirit, lifelong learning and the promotion of innovations. It supports the strengthening of global supply chains through better partnerships with key exporters. The key objective of this measure is to improve competitive capabilities of domestic SME suppliers and accelerate collaboration between large exports oriented companies and domestic suppliers. This is consistent with the EU’s Integrated Industrial Policy, which presents a fresh approach to industrial policy that puts the economy on a dynamic growth path by strengthening competitiveness, providing growth and jobs, and enabling the transition to a low-carbon and resource-efficient economy. This is achieved by bringing together a horizontal basis and sectoral application, while dealing with the whole value and supply chain.²The Government of the Republic of Macedonia is also aligned with the EU’s strategy for industrial policy, which leads to stronger European industrial sector for growth and economic recovery. It seeks to establish a comprehensive vision, focusing on investment and innovation, while mobilising all the levers available to improve trade and SME competitiveness.³

The national **Innovation Strategy**(2012-2020) aims to initiate the transformation of the country into a knowledge-based economy, which is able to compete on international markets, through its skilled labour and innovative companies. It recognises innovation as a key driver of economic growth and seeks to drive competitiveness and economic development, based on knowledge and innovation. The strategy seeks to ensure that, by 2020, Macedonia has an effective national innovation system, created by all stakeholders and open to the world. This will be achieved by enhancing the business sector’s propensity to innovate; strengthening human resources for innovation; creating a regulatory environment which will be supportive to innovation; and increasing knowledge flows between innovation actors.

² European Commission (2010) *An Integrated Industrial Policy for the Globalisation Era—Putting Competitiveness and Sustainability at Centre Stage*, a communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 28.10.2010 SEC(2010)1272

³ European Commission (2012) *A Stronger European Industry for Growth and Economic Recovery*, a communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 28.10.2010 SWD(2012)297

The **Program for Stimulating Investment in the Republic of Macedonia** (2011-2014) aimed to develop policies and undertake reforms that lead to more dynamic economic growth and development by increasing the country’s attractiveness to domestic and foreign investors. The program sought to improve the general business and investment climate through more stable macroeconomic and fiscal policies, improved tax and customs policies, and support for small and medium-sized enterprises.

The **Export Promotion Strategy**(2011-2013) provided a road map for increasing the value of exports generated by domestic companies from US\$1.12 billion to US\$1.45 billion. It focused on four industry sectors: textiles and clothing, agribusiness and food processing, metal industry and precision engineering, and ICT.

The **Entrepreneurial Learning Strategy**(2013-2020) aims to improve the competitiveness of SMEs—especially those run by young people and women—to compete successfully in EU markets. It will achieve this by improving the employment skills and entrepreneurial competences of young people and strengthening the entrepreneurial spirit through life-long learning principles implemented at all segments of the education system.

1.2.2 SME Policy Framework

This strategy forms the most recent chapter in a series of successful policy interventions designed to support the development and competitiveness of the SME sector across the country. It envisages activities through which the Republic of Macedonia can work with the private sector and the international community, including the United Nations and the European Commission (EC), the World Bank and other international partners, to drive inclusive economic development.

The preparation of the SME policies in the Republic of Macedonia was initiated in 2002. This was the period when the Government signed the Memorandum with the EC for participation in the European Charter for Small Enterprises. All countries from the Western Balkan accepted the Charter obligations. It was on this basis that the Ministry of Economy produced the first **National Development Strategy for Small and Medium-Sized Enterprises**(2002-2013) included a ‘Program of Measures and Activities to Support the Development of Entrepreneurship and Competitiveness of Small Businesses for the Period 2003 to 2006’. This strategy was revised in 2007 and a new Program for the Development of Entrepreneurship, Competitiveness and Innovation of Small and Medium-sized Enterprises (2007-2010) was adopted.

The Programme of Measures and Activities for the Promotion of Entrepreneurship and the Creation of Competitiveness of SMEs (2002-2006) was prepared to accompany the first national SME strategy. The programme set out the priorities for improving the business environment and performance of the SME sector, focusing on:

- Creating the institutional infrastructure to promote entrepreneurship and competitiveness;
- Building a favourable economic environment and improve the degree of economic freedom;
- Promoting entrepreneurship and non-financial forms for support;
- Providing financial forms of support for entrepreneurship development; and
- Implementing a programme for the creation of competitiveness.

In 2016, the SME strategy was revised: the **Revised National Development Strategy for Small and Medium-Sized Enterprises** (2002-2013) sought to contribute to an overall increase of employment in the SME sector and to the Gross Domestic Product (GDP) by the end of 2013. This was to be measured in terms of increases in the number of SMEs, number

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of people employed by SMEs and the value of SME contribution to GDP. The revisions responded to respond to new and emerging challenges in the SME sector, including the need to ensure compatibility with the requirements of the *AcquisCommunautaire*, especially those relating to SMEs, and to incorporate a new focus on issues such as entrepreneurship, innovation, and ICT, which were a feature of the EU's Competitiveness and Innovation Framework Programme (2007-2013). The revised strategy sought to:

- Enhance policy making;
- Simplify the legal and regulatory environment;
- Improve access to finance;
- Simplify taxation;
- Foster information and communication technology;
- Enhance science, technology and innovation in function of the development of SMEs;
- Promote entrepreneurship in education and training;
- Encourage internationalization;
- Improve business development services; and
- Strengthen the public private dialogue

The current National SME Strategy (2018-2023) builds on the achievements of the former strategy. It continues efforts to improve the business environment for SME development, while strengthening efforts to improve competitiveness and innovation. As such, the strategy seeks to continue the reform momentum Government has achieved and to deepen these reforms wherever possible.

The Republic of Macedonia has recorded significant achievements in its economic and business reforms. The World Bank ranked Macedonia tenth in the world in its Ease of Doing Business ranking (*Doing Business in 2017*), a jump of six places from the year before. The World Economic Forum's Global Competitiveness Index ranked the Macedonian economy 60th in 2015-16, a significant leap from its 80th position in 2012-13.

The most recent EU SME Policy Index review (Organisation for Economic Cooperation and Development, OECD 2016) praised the Republic of Macedonia for its institutional framework and operating environment, which is seen as “one of the most advanced economies in the [South East European] region in promoting its SME sector”. The review encourages the country to go further within its reform program and ensure the proper delivery of services meeting the needs of SMEs. It also proposed improvements to the monitoring and evaluation of SME policies, programs and services, and to support the diversification of non-banking sources of finance.

In March 2016, the State Audit Office published a report on SME development and support, which focused on policy and legal provisions for SME development, as well as the impact of financial and human development programs. This report recommended improvements in:

- *SME coordination*: harmonising legislation, specifically the Law on the Agency for Support of Entrepreneurship (APPRM) and the Law on Trade Companies, to apply a single classification of SMEs and to ensure equal treatment of state-aid support measures; enhancing communication between central and local SME policymaking and program development; and developing strategic policies on entrepreneurship and the SME support and development;
- *Efficient use of resources*: analysing the roles, functions and long-term sustainability of SME support agencies; improving communication among the central and local SME development agencies; and, where necessary, expanding the range of SME development services; and

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- *Monitoring and evaluation:* establishing an integrated performance management system, which includes the monitoring and evaluation of SME participation in the macroeconomic indicators (e.g., GDP, export, work force, productivity).

These recommendations have informed the formulation of the current strategy. So too, have the results of recent SME surveys and consultations, described in the following chapter.

2 SME Profile and Challenges

The SME Strategy seeks to respond to the critical challenges and issues facing the SME sector in the Republic of Macedonia. A series of assessments of the SME sector have been conducted in recent years, along with broader, international assessments. The findings of these reviews have informed the revision of government policies and strategies for SME development across the country.⁴ This includes a national survey of SMEs conducted during the preparation of this Strategy (ILO 2016).

2.1 SMEs Defined

The Republic of Macedonia hasn't a single definition for SMEs. In the Law on Classification of Commercial Entities of the Company (2004) in the parts related trade books, annual accounts and financial reports, the Article 470 specifies the classification of micro, small and medium-sized enterprises. In respect to accounting purposes. It is aligned with the EU definition (EU Recommendation 2003/361) in its thresholds regarding the number of employees but not in values defining turnover and balance sheet. Also, different agencies use different criteria for their services. For instance, the Law on APPRM (i.e. Law on establishing the Agency for Promotion of Entrepreneurship of the Republic of Macedonia), identifies the enterprises as independent enterprises that have less than 50 employees, having annual turnover less than 1,5 mil EUR (in MKD currency) and they are at least 51% privately owned (Article 3).

Figure 1: Definition of micro, small and medium-sized enterprises

Firm Size	EU Definition	Company Law of 2004 (Amended 2013)
Micro	<10 employees ≤EUR 2 million turnover or balance sheet	<10 employees ≤EUR 50 000 gross annual revenue, measured in MKD
Small	10 to 50 employees EUR 2–10 million turnover or balance sheet	≤ 50 employees, AND ≥ EUR 2 million annual income, measured in MKD, OR < EUR 2 million annual sales (assets), measured in MKD
Medium	<250 employees ≤EUR 50 million turnover ≤EUR 43 million balance sheet	≤250 employees, AND ≥10 million annual income, measured in MKD, OR < 11 million annual sales (assets), measured in MKD

SOURCE: Ministry of Economy (2004) Company Law (Amended 2013), Ministry of Economy

2.2 SME Profile

Despite the size of individual firms, the micro, small and medium-sized enterprise (MSME) sector as a whole dominates the Macedonian economy. The most recent data indicates that

⁴ These include: ILO (2013) *Enabling Environment for Sustainable Enterprise Assessment; Macedonia*; ILO (2016) *National Survey for SMEs*; OECD (2016) *SME Policy Index; Western Balkans and Turkey 2016; Assessing the implementation of the Small Business Act for Europe*; State Audit Office (2016) *Report on the efficiency of the system for creating and implementing the policies, measures and activities related to the SME development and SME support*; World Bank (2013) *Macedonia Country Profile; Enterprise Surveys*; World Bank (2016) *Doing Business in Macedonia*; World Economic Forum (2016) *Global Competitive Index 2016-17; Macedonia*.

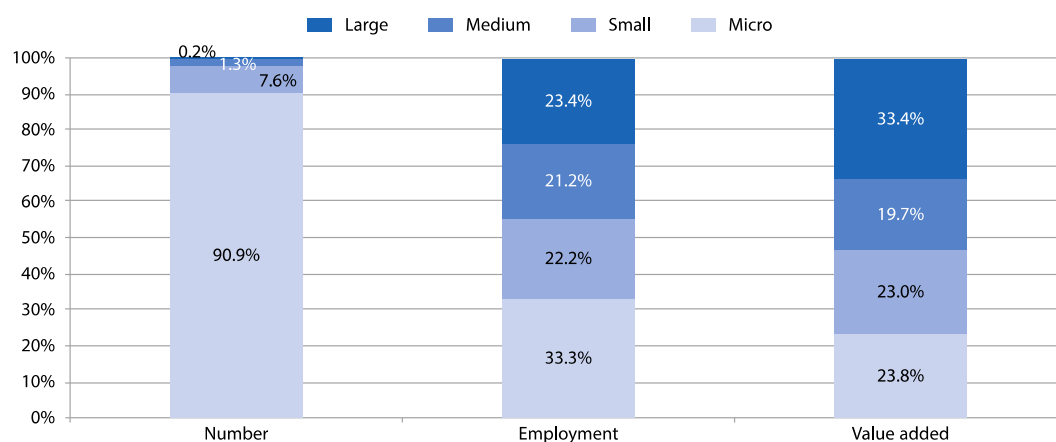
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99.8 per cent of all firms are found in the MSME sector. In 2013, 53,137 firms were MSMEs, a drop from 55,385 firms in 2009. As Figure 2, below, shows, 91 per cent of all firms in the country are micro-enterprises.

MSMEs are also major employers, providing 76.6 per cent of all employment. Here, it is found that micro-enterprises employ only a third of all workers, while SMEs combine to employ 43 per cent of all workers. The few large enterprises found in the country, each employing over 250 workers, provide employment for 23 per cent of the labour force.

From a value-added perspective, the contribution of micro-enterprises continues to decrease. Despite their number, micro-enterprises contribute only 24 per cent of value added, while SMEs contribute 43 per cent. Large enterprises are significantly greater producers of value addition. See Figure 2. Thus, a key challenge is to help micro and small enterprises to grow and to become greater contributors to national employment and value addition.

Figure 2: Enterprise demography indicators



SOURCE: OECD (2016) *SME Policy Index; Western Balkans and Turkey 2016; Assessing the implementation of the Small Business Act for Europe*, OECD Publishing, Paris

The shares for both employment and value added slightly increased over the period 2009-13. In common with other economies in the region, most SMEs are operating in the wholesale and retail sector (44%), followed by the manufacturing sector (13%) (OECD 2016).

2.3 Key Challenges

2.3.1 Business Environment

Macedonia has a relatively good business environment, but it can be improved. The World Bank’s *Doing Business in 2017* report ranks Macedonia tenth in the Ease of Doing Business Index. Indeed, the country is fourth in the world when considering the ease of starting a business. Similarly, the ease of registering for and paying taxes in Macedonia is ranked ninth in the world.

Labour Law

The ILO (2016) National SME Survey found that labour law was a major issue for many private sector employers. Some 91 per cent of all firms reported having formal written contracts with their employees. However, most employees are not unionized and are not insured against accidents or injury.

Besides this, many SME owners and managers have expressed concerns regarding the labour laws, describing these as “discouraging growth” and “rigid”.

Many formal SMEs describe very frequent and rigorous labour inspections.

Commercial Disputes

Access to justice and commercial dispute resolution is a challenge for many SMEs. The ILO (2016) National SME Survey found that most respondents (91%) had sought legal advice for a business-related matter. There is an opportunity to improve this area, particularly through the development of alternative dispute resolution mechanisms.

Bankruptcy

The ILO (2016) National SME Survey found that only six per cent of respondents had been bankrupt in the past. This was more frequent among micro-enterprises than larger size classes. The survey data has shown that most SME owners and managers believe that the current bankruptcy provisions do not allow a second chance for entrepreneurs. While establishing a company is easy, closing one is a more complex process that will need to be improved (via cutting the costs and time needed).

2.3.2 Business Development Services

There are many organizations, programs and projects supporting SME development. However, these are mostly provided directly by government and international partners and donors and very rarely from the private sector. There are also many private sector BDS providers, but most of these providers are located in Skopje. In the last few years the traditional models of supporting enterprise start-ups and growth (i.e., business skills training, business plan competitions) are being replaced with new models such as internationalisation, innovative solutions in investing in renewable sources of energy, etc.. Business training focuses on “business acceleration”, providing intensive three-to-four-month training with investment readiness. Accelerators currently focus on the ICT sector in Macedonia and most are located in Skopje.

2.3.3 Financial Services

Many SMEs struggle to access financial services. The EC (2016) report on Macedonia says access to finance remains difficult for SMEs, given impediments to both credit supply and demand, despite abundant liquidity of banks.⁵ This problem has been found across the country. The ILO (2013) Enabling Environment for Sustainable Assessment (EESA) Assessment found that the growth of SMEs is mainly based on self-financing, with a strong preference for the use of retained earnings or new, private or family capital or capital from friends. Debt financing is low, compared to other countries. Similarly, use of business angels and venture capital is low. The cost of a bank loan was cited in the ILO (2016) survey as one of the greatest problems for SMEs, especially smaller firms.

2.3.4 Entrepreneurship Culture

A little more than one third of the businesses surveyed by the ILO (2016) reported that they left a previous job in the private sector in order to start their business. A little less than a third had been unemployed when they began their business, with the remaining respondents being students or government employees before establishing their business. These figures did not vary much between men and women.

⁵ European Commission (2016) *The Republic of Macedonia 2016 Report*; Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 2016 Communication on EU Enlargement Policy, Commission Staff Working Document, 9 November, Brussels.

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The most common reason cited for starting a business was to become their own bosses (51%); the second most common reason was work flexibility (30%). Again, there was no variation between men and women.

2.3.5 Productivity and Working Conditions

Education and training contribute to the development of the knowledge-based economy and consequently to economic development in general. From the SME point of view, education and training and availability of required skills are vital development factors. Additionally, access to skilled workforce is one of the most problematic areas when it comes to SMEs.

2.3.6 Representation, Dialogue and Advocacy

The ILO (2016) National SME Survey found that about half of all SMEs are members of some form of business or employers' organisation. Levels of membership varied by enterprise size: 45 per cent microenterprises, 58 per cent small enterprises and 77 per cent for medium enterprises. Businesswomen are more likely to join a business or employer's organisation: 61 per cent of all female respondents, compared with 44 per cent of male respondents. Most members of business or employers' organisations are passive members, reporting little direct engagement in the activities of these organisations.

3 Strategy Vision, Aims and Objectives

3.1 Strategy Vision

Competitive SMEs in 2023 as a drive of inclusive economic growth in Macedonia and in the creation of more productive and decent employment.

3.2 Strategy Aim

The SME Strategy establishes a framework for public, private and civil society actors to collaborate in the support of SME development and innovation to improve SME competitiveness.

3.3 Strategic Objectives

The SME Strategy has been designed around three Strategic Objectives. These have guided the formulation of three pillars, around which specific program interventions are organised. These are presented later in this document (see Chapter 5).

Strategic Objective 1— Conducive Business Environment:

To create a conducive business environment in which entrepreneurship and investment is encouraged.

Strategic Objective 2 — Enhance and Improve SME Growth Opportunities:

To help SMEs in Macedonia to become highly productive and competitive participants in European and other international markets.

Strategic Objective 3 Dynamic Entrepreneurship and Innovation Ecosystem:

To drive Macedonia’s economic competitiveness through a more enhancing the entrepreneurial and innovative capacities of the SMEs.

3.4 Target Groups

While the ultimate beneficiaries of the SME Strategy are all enterprises, formal and informal businesses, operating across the country in all sectors, and in line with the criteria that defines the micro, small and medium enterprises. The strategic interventions will be targeted toward those segments of the SME sector requiring most support or where the prospects for growth are greatest.

Across the Governmental infrastructure, the SME Strategy works with all ministries, departments and agencies to improve policymaking, coordination and the integration of economic, social and environmental policies and programs. Government also works closely with business and employers’ organisations, trade unions and non-governmental sector in order to achieve more qualitative implementation of the policies and measures of the Strategy. The cooperation will ensure greater transparency and SME readiness to response to the challenges and opportunities in the business environment and ease access to all services that are available for SMEs.

Government supports the creation of an institutional framework for SME development programs and services, including BDS and financial services. All the agencies operating

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within this framework are required to transparently identify and report on the SME target groups they seek to support.

Across the SME sector, specific attention is given to developing the following target groups:

- **High-growth-oriented SMEs:** these firms have usually been established for more than three years; they are most-often small or medium enterprises and have a good knowledge of the markets they operate in. With access to the right kinds of BDS and financial services, these enterprises have a great potential for job creation and for expansion into EU and other international markets.
- **SMEs in high-growth sectors and value chains:** economic development plans that identify industrial sectors with the potential for rapid growth should explicitly describe the ways SMEs in these sectors can grow. This will include strategies to increase their participation in the value chains of high-growth sectors.
- **Highly Innovative SMEs:** special attention will be given to supporting the development of SMEs, which have been formed to commercialise new innovative products, services or business models. This will involve partnerships with universities and the R&D sector.
- **Women-owned and youth-owned SMEs:** SME development provides a potent mechanism for the economic empowerment of social groups that are often excluded from full participation in the economy and its labour market, such as women and young people. Thus, SME development programs and services can be designed to support these groups.

4 Principles

The following principles inform SME development in the Republic of Macedonia:

1. The Ministry of Economy provides oversight and leadership in the development of the SME sector, coordinating and integrating policies and programs with key government ministries, departments and agencies, as well as with business and employers’ organisation, trade unions, and all other relevant civil society and non-government organisations (NGOs).
2. The SME development is strategically aligned with the Government of the Republic of Macedonia plans of economic development and by identifying specific sectors of economic growth.
3. SME development services enhance the potential for sustainable and inclusive economic growth, while supporting the creation of productive and decent employment in the SME sector.
4. Whenever possible, systemic, market oriented and sustainable approaches to SME development are applied in order to address the underlying constraints and barriers in the sector and ensuring all SMEs benefit from these interventions.
5. A business environment that is conducive to the growth of SMEs is essential. This is achieved through a continuous process of assessment, reform and dialogue with the business community.
6. All SME development services are carefully targeted, demand oriented, responsive, and integrated. Wherever possible, all actors engaged in the SME sector (public, private and community) and the SME sector itself, as represented by business and employers’ organisations and unions, work together to ensure their actions are complementary and coordinated.
7. Regular and structured dialogue between the ministries, departments and agencies, local municipalities and the SME sector is essential to the design of effective support interventions and a better business environment.
8. SME development pays special attention to the constraints and challenges facing women and young people who run and manage their own enterprise.
9. Investments are made into the generation and management of knowledge concerning the SME sector and development interventions.

In addition, the European Union’s “Small Business Act” presents ten key principles for small business development, which the Government of Macedonia endorses and seeks to apply:

10. Create an environment in which entrepreneurs and family businesses can thrive and where entrepreneurship is rewarded: government will care for future entrepreneurs by fostering entrepreneurial interest and talent, particularly among young people and women, and by simplifying the conditions for business transfers.
11. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance: government will promote a positive attitude in society towards giving entrepreneurs a fresh start, making it easier and quicker to apply for non-fraudulent bankruptcy, and ensuring re-starters are treated on an equal footing with new start-ups.
12. Design rules according to the “Think Small First” principle: ensuring government the impact of all government legislation and regulation on the small business sector are carefully considered before they are introduced.
13. Make public administrations responsive to SMEs’ needs.
14. Adapt public policy tools to SME needs and facilitate SMEs’ participation in public procurement and make better use of small business support programs.

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15. Facilitate small business access to finance and develop a legal and business environment supportive to timely payments in commercial transactions: in particular, government will facilitate the promotion of risk capital, micro-credit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions.
16. Help SMEs to benefit more from the opportunities offered by the EU’s Single Market: through improving the governance of and information on Single Market policy, enabling small business interests to be better represented in the development of standards and facilitating SMEs’ access to patents and trademarks.
17. Promote the upgrading of skills in SMEs and all forms of innovation: Government will encourage investment in research by SMEs and their participation in R&D support programs, transnational research, clustering and active intellectual property management by SMEs.
18. Enable SMEs to turn environmental challenges into opportunities: Government will provide more information, expertise and financial incentives to help the small business sector exploit opportunities for new “green” markets and increased energy efficiency, partly through the implementation of environmental management systems in SMEs.
19. Encourage and support SMEs to benefit from the growth of international markets: Government will facilitate the provision of market-specific support and business training activities.

5 Strategy Pillars

The Strategy Pillars present the major thrusts of the Strategy. These have been framed around the three Strategic Objectives (presented in Chapter 3).

Pillar 1: Conducive Business Environment

Strategic Objective 1: To create a conducive business environment in which entrepreneurship and investment is encouraged.

The SME Strategy will continue to support improvements to the national business environment in order to ensure the Republic of Macedonia is a business-friendly environment for domestic and foreign enterprises alike. Government has adopted the ‘Think Small First’ approach to policy and program development.

In order to ensure efficient implementation of the policies and measures defined in the Strategy and clear delegation of rights and obligations of different stakeholders, the Government will adopt new Law on SMEs which will secure legal basis for the implementation and monitoring the conducting the policies and measures. By this Law, the unique classification of enterprises will be ensured, and this will be a starting point to adjust the other laws and by-laws related to SMEs.

Government will enhance its policy coordination and integration affecting SMEs, via establishing a body for monitoring the policies and measures defined in this Strategy, composed of relevant ministries, state and public institutions, business organisations, employers’ organisations and unions. At the same time, the Government will work on improving the mechanism for acquiring the BDS for SMEs, using the ‘one stop shop’ principle (meaning all services at one place). The Ministry of Economy will lead a process through which SME support agencies are evaluated in order to improve their targeting and results. While Government will continue to support the APPRM and other public institutions and organisations supporting SME development, it will ensure they adopt a model for long-term sustainability. Consistent with the recommendations of the State Audit Office (2016) the Ministry of Economy will, in collaboration with other ministries, departments and agencies, including the National Council for Entrepreneurship and Competitiveness, integrate national policies related to entrepreneurship and the SME support and development, taking into consideration SME needs and feedback. This will include coordination and integration with local government units.

Government efforts to simplify and streamline the legal and regulatory environment for SMEs will continue, ensuring the reform momentum for a better business environment is maintained and deepened. This will include assessing the impact of new and existing regulations on the business community. Further reforms will be made to bankruptcy procedures, including reducing the time taken to complete bankruptcy procedures, which currently stands at 1,8 years.

More and more countries have started viewing bankruptcy as a learning experience for the entrepreneur. However, if no clear distinction is made between honest, and dishonest or fraudulent bankrupts, honest bankrupts can be stigmatized. Thus, lack of discharge and/or lengthy and burdensome debt repayments make it difficult to finance a new start-up.⁶ The OECD recognizes the importance of helping entrepreneurs who have had failed businesses to start new ones and to view bankruptcy as a means to better understand how to start

⁶ European Commission (2011) *A Second Chance for Entrepreneurs*, EC, Brussels

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afresh. This includes the use of campaigns to promote a positive attitude towards giving failed entrepreneurs a fresh start and encouraging potential re-starters through training and information campaigns.⁷

Government will introduce an early warning system to identify financially distressed companies to help prevent bankruptcy. This includes the establishment of self-tests, call centres and training courses to identify financially distressed firms.⁸ Information campaigns will be created to promote second chances for entrepreneurs that have previously failed but gained valuable experience in starting a business.

In line with the recommendations of the SME Policy Index (OECD 2016), the Government will strengthen its consultation and dialogue mechanisms with the private sector. Special attention will be given to including businesswomen in these mechanisms, as well as ensuring that microenterprises have a voice.

Government will improve the quality and quantity of data it collects on the SME sector. This will include improvements to regularly monitoring the SME sector profile (e.g., establishments, employment, gender issues, and value addition), trends and barriers. Consistent with the recommendations of the State Audit Office (2016) the Ministry of Economy will establish an integrated performance management system to clearly define the key success factors of the specific individual measures and to monitor the competitiveness of the SMEs through their participation in the macroeconomic indicators.

Improvements will also be made to the way Government monitors and evaluates the impact of SME development programs and services. This is consistent with the recommendation of the SME Policy Index (OECD 2016) to expand the breadth and depth of statistical data collection amongst SMEs. This will require improved coordination among Government agencies, such as the Ministry of Economy and the Statistical Office, and will improve the use of monitoring and statistical information to assess the impact of Government policies and programs.

Finally, support will be given to the creation of a National SME Association. This organisation will improve the voice of and represent the interests of SMEs in government policymaking and program delivery and evaluation.

Pillar 2: Enhance and Improve SME Growth Opportunities

Strategic Objective 2: To help SMEs in Macedonia to become highly productive and competitive participants in European and other international markets.

The Government will continue to support SME development, addressing constraints and fostering growth in new and emerging sectors. The BDS for SME development will be improved. The monitoring, evaluation and learning mechanisms and processes for SME development services will also be improved. Government will continue its efforts to monitoring programs and will be more rigorous in assessing the impact of development services and learning lessons to improve the policy and practice in SME development. This will include the production of SME feedback mechanisms on all SME development programs and services.

The Government will support the improvement of SME development services and practices, through mentorship, training, financial, expert and technical support, accreditation services

⁷ OECD (2016), *SME Policy Index: Western Balkans and Turkey 2016*, OECD, Paris.

⁸ For further information see: European Commission (2014), *Commission Recommendation of 12.3.2014 on a New Approach to Business Failure and Insolvency*, COM(2014), European Commission, Brussels.

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and other services that will be needed by these enterprises. The principle all at one place will be taken into the consideration in provision of this support, in order to ease the access of the required information. Support will also be given to the development of strategic clusters and value chains. All BDS providers will be encouraged to report to Government on how they are defining the target groups for their programs and services. The BDS providers will be also motivated apart from general types of trainings to offer also specially tailored made sessions for potential and high-growth enterprises.

Special attention will be given to supporting women’s entrepreneurship. This is consistent with the EU’s recent recommendation on SME development.⁹ New research on this topic will be commissioned and BDS providers will be supported in their efforts to develop specific tools and methods in this field.

The Government will also support a more productive and competitive SME sector by improving the access SMEs have to financial services. While significant progress has been made in this field, more needs to be done. Further reforms in this field will include the creation of an online register of movable assets, which can be used as collateral against banking loans, creating a portal where SMEs can get all information related to all forms of financing, programs and funds for SME support (domestic and foreign).

The national Industrial Policy (2009-2020) calls for the introduction of new financial instruments for SME development. In line with this and the recommendations of the SME Policy Index (OECD 2016), a program will be implemented to promote the use of factoring. In addition, the credit guarantee scheme will be revised, simplifying its procedures, working closer with private banks and generally reforming its design, structure and terms.

An information and education campaign on financial literacy will be introduced into the secondary education system, including gymnasiums and vocational and technical training institutions, and included in the suite of training services provided by SME development agencies.

The Government has established a strategic and institutional framework for export promotion, which is designed to improve the internationalisation of the SME sector. To ensure the SME sector is export-oriented and driven by new and emerging opportunities in the EU and around the world, Government will intensify its support in this field. A national assessment of the opportunities, barriers and capacity of SMEs to enter fast-growing international markets will be commissioned. The results of this will directly inform the revision of the national export strategy, which will be closely integrated into SME development. Government will provide more resources to the export promotion agency and will improve the monitoring and evaluation of export promotion services. This will include greater integration and coordination with the APPRM and other relevant organisations. Also, the portal will be created where all SMEs will obtain an information and data regarding the conditions, opportunities and limitations on foreign markets, which will ease the access to those markets.

The Government will support SMEs participation in strategic industry sectors. Greater effort will be put to identifying key international value chains in which Macedonian SMEs have a capacity to successfully participate, and the development of programs and services help these firms expand into these markets. This is consistent with the national Industrial Policy (2009-2020) in which a key objective is to improve cooperation in industry clusters and

⁹ European Commission (2016) *The Republic of Macedonia 2016 Report*; Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 2016 Communication on EU Enlargement Policy, Commission Staff Working Document, 9 November, Brussels.

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networks. This will be undertaken in partnership with the Enterprise Europe Network. As described in the Industrial Policy, the Republic of Macedonia will, by 2020, develop the dynamic mix of sustainable and authentic industries in the following areas: organic wine and foods, eco-steel, eco-friendly construction, ICT, specialised electronic parts, renewable energy production, creative industries, medical equipment and services, authentic tourism and other industries.

To further its reforms in the ICT sector, the Government will support SME developments within this sector while promoting the use of ICT by SMEs as an enabling strategy toward increased productivity and competitiveness.

The Government will support SME development within the green economy. This will involve reform of national policies, as well as the design of support instruments and services to provide incentives and support ‘green SMEs’ within environment-related markets, as well as to support the adoption of environmentally friendly business practices. This, too, is consistent with the national Industrial Policy in which a key objective is to support eco-friendly products and services. It will also complement the joint Government-World Bank Competitive Industries and Innovation.

Finally, the Government will support the creation of an online SME Portal, providing a wide range of useful information for the SME sector, including information on policies, programs, trends, and support services. The Portal will connect with the other one-stop-shops run by Government and other e-government initiatives. This includes the creation of an “umbrella one-stop-shop” that will operate as a network for inter-link the one-stop-shops, for business licenses and permits), currently functioning in the country. As outlined in the national Competitiveness Strategy and Action Plan (2016-2020), this will include a searchable web based database, that will enable users to determine all the licenses, approvals, and permits required to establish a business; enable the necessary forms to be downloaded and submitted, including developing a dynamic link to the institutions, to ensure that the database is constantly updated, whenever the licenses, approvals, and permit requirements change.

Pillar 3: Dynamic Entrepreneurship and Innovation Ecosystem

Strategic Objective 3: To drive Macedonia’s economic competitiveness through a more enhancing the entrepreneurial and innovative capacities of the SMEs.

The SME Strategy will create a dynamic entrepreneurship and ecosystem in which new, innovative start-ups are nurtured and supported. This will strengthen linkages between industry, education and academia, and the science-research community. Macedonian enterprises very rarely have close links with educational and science institutions and research centres. Creating, strengthening and sustaining these links will encourage the internationalisation of research activities and help promote partnerships with European research institutes and enterprises.

The Government has recognised the importance of developing human capital by preparing young people for the challenges of entrepreneurship. The National Entrepreneurial Learning Strategy and the initiatives of the National Entrepreneurship Educators Network set a clear direction in this regard. In the next phase of these endeavours, the Government will scale-up teacher and student training to ensure these are available throughout the education system. This will include the creation of new partnerships between the Government, industry and education.

Co-ordination among public, private, NGOs, and international providers will be improved. Training for SMEs and women entrepreneurs will be improved and vocational training

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programs and services will be more closely attuned to the needs of employers in line with the previously adopted Vocational Education and Training Strategy. Macedonia's vocational and higher education systems will be strengthened to meet the evolving challenges of both the business and R&D communities. Furthermore, to the technical and scientific sector will be given additional resources to support the career-long development of engineers and scientists. The Government will also nurture and facilitate increased collaboration between academia and the private sector. This will include the use of financial instruments, such as innovation vouchers, as well as providing direct financial support for R&D and innovation.

The Government will enhance the infrastructure and institutional support services needed to promote innovation through development of soft skills and capacity building activities for SMEs and innovative start-ups as well as support with networking, bringing academia and private sector and other actors together. This will include actions designed to improve access to finance for the commercialisation of new innovations, including venture capital. The Government has established the Fund for Innovation and Technology Development. The expansion of these efforts will include the exploration of international venture and investment funds and a stronger business angel network to secure private funding for high-growth firms. The Economic Growth Plan of the Government envisaged support to the SMEs in the area of innovation – support related to so-called 'gazelle' enterprises, support the technological development of the enterprises, support the innovation of enterprises, support of vocational development of employees as well as the financial support using the joint venture capital provided by the Equity and Mezzanine Fund.

The Government will facilitate the creation of a series of science and technology parks and innovation incubators in order to create a more dynamic entrepreneurship and innovation ecosystem, but it will also support the existing facilities to ensure their sustainability. It will explore the options for establishing at least two technology parks, connected with universities and technical institutions, along with at least five incubators or innovation accelerators and start-up centres at municipal or regional levels. In the first instance, the Government will undertake a feasibility study of the establishment of a science and technology park, which will include options for different modes of operation.

6 Programs

Pillar 1: Conducive Business Environment

Program 1.1: Enhance Policymaking and Coordination

The Government will enhance its policy coordination and integration affecting SMEs, while improving the delivery mechanism for SME development services.

Outcome: Enhanced government coordination and policy integration within the SME sector and a better delivery mechanism for SME development services.

Key Activities:

1. Coordinate SME support policies and programs by working with all ministries, departments and agencies, as well as regional and local structures.
2. Continue support to APPRM, The Fund for innovation and technology development and other public institutions and organisations supporting SME development and ensure the effective harmonisation and delineation of specific target groups in relation to the single definition for SMEs.
3. Evaluate SME support agencies and organisations and their services.
4. Work with institutions supporting SME development to design and implement a model for long-term sustainability.
5. Establish a coordination body responsible for implementation of the policies and measures of this Strategy and coordination of donor measures for SME support.
6. Explore the options for policies and programs designed to foster corporate social responsibility.

Lead institution: Ministry of Economy

Coordination body: Established by all relevant ministries, CPGRM, CDPGRM, institutions for SME support

Involved institutions:

- All Government ministries, departments and agencies
- Local government authorities
- SME development agencies (APPRM and others)

Program 1.2: Simplify the Legal and Regulatory Environment

Government efforts to simplify and streamline the legal and regulatory environment for SMEs will continue, ensuring the reform momentum for a better business environment is maintained and deepened. This will include further reforms to bankruptcy procedures, including reducing the time taken to complete bankruptcy procedures.

Outcome: The legal and regulatory framework for SMEs is ‘business-friendly’, reducing the steps and time required for compliance with EU.

Key Activities:

1. Adopting the SME Law and continuation of the reforms to make compliance of the national SME legislation with that of the EU;
2. Increase the use of RIA in ex-post evaluations including the SME Test¹⁰
3. Continue to reform bankruptcy procedures including reducing the time taken

¹⁰ As outlined in the EC Expert Group report of 2009, *Think Small First; Considering SME interests in policy-making*, March, EC Enterprise and Industry Directorate General

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to complete bankruptcy procedures (currently 1.8 years);

4. Introduce an early warning system to identify financially distressed enterprises to help prevent their bankruptcy (e.g. introduction of self-testing instruments, call centres and training courses);
5. Design and rollout an information campaign to promote second chances for entrepreneurs who have previously failed, but gained valuable experience in starting a business;
6. Design and rollout an awareness and information campaign on the benefits of formalisation (i.e., encouraging business to register and obtain all the licenses they require);
7. Revise the procedure for removing the companies from the Registry.
8. Reduce the costs of start-up companies via preparing an analysis in which concrete recommendations and measures will be defined.

Lead institution: Ministry of Economy and Central Registry

Involved institutions: All Government ministries, departments and agencies, including the Ministry of Local Self-Government
Regional and local government authorities
SME development agencies (APPRM, FITD and others)

Program 1.3: Strengthen and Institutionalise Social Dialogue

The Government will strengthen its consultation and dialogue mechanisms with the private sector. Special attention will be given to including businesswomen in these mechanisms, as well as ensuring microenterprises have a voice.

Outcome: A regular and structured economic-social dialogue mechanism is established to inform the development and reform of public policies, laws and regulations in the SME sector.

- Key Activities:**
1. Liaise with the representatives of the SME community to identify the needs, interests and potential for improved social dialogue;
 2. Prepare a feasibility study exploring the role, structure, membership and functionality of a high-level social dialogue mechanism, ensuring strong representation of women;
 3. Consult with the private sector and SME community on the appropriate social dialogue mechanism;
 4. Reform and monitoring the existing social dialogue mechanism.

Lead institution: Ministry of Economy

Coordination body: Established by all relevant ministries, CPGRM, CDPGRM, institutions for SME support and National Council for entrepreneurship support and competitiveness

- Target Groups:**
- All Government ministries, departments and agencies
 - Economic-Social Council
 - SME development agencies (APPRM and others)
 - Business and employers' representative organisations

Program 1.4: Enhance the Coordination of SME Data Gathering and Usedue to improving the policies for SME Support

The Government, via the coordination body, will improve the quality and quantity of data it collects on the SME sector. It will improve the way this information is collected and distributed to, and used by, all relevant stakeholders. It will establish an integrated performance management system to clearly define the key success factors of the specific individual measures and to monitor the competitiveness of the SMEs through their participation in the macroeconomic indicators.

Outcome: Relevant quantitative and qualitative sex disaggregated data on the SME sector and its trends is produced and publicly available, along with the results of regular monitoring and evaluation data.

Key Activities:

1. Commission a study into the current statistical and analytical data on the SME sector and the ways this can be improved;
2. Improve the quality and quantity of the SME data and establishment an integrated performance management system to clearly define the key success factors of the specific individual measures and to monitor the competitiveness of the SMEs through their participation in the macroeconomic indicators (e.g., establishments, employment, gender issues, value added), trends and barriers—including specific information on job creation trends and dynamics in the SME sector;
3. Improve the use of monitoring and statistical information to assess the impact of Government policies and programs.
4. Implement evidence based policy making practice in drafting the new policy programs and measures (i.e. Annual plans) based on the results of the previous analyses regarding the impact that those policies had on SME development.

Lead institution: Ministry of Economy

Involved institutions:

- State Statistical Office
- SME development agencies (APPRM and others)
- Business and employers’ representative organisations

Program 1.5: Improve SME Voice—ANational SME Association

Government will assess and, where necessary, promote the creation of a National SME Association to represent the interests of SMEs in government policymaking and program delivery and evaluation. The association would complement the chambers of commerce, by focusing on micro and small enterprises. It will reflect the role of the National Council for Entrepreneurship and Competitiveness and ensure the SME sector is able to effectively engage with Government.

Outcome: Micro and small enterprises are represented in policymaking and program review processes through their membership of the National SME Association.

Key Activities:

1. Assess the demand for and scope of a potential National SME Association;
2. Consult with the SME sector and current representative structures, on the outcome of the above study and a way forward.

Lead institution: Ministry of Economy

Involved institutions:

- SME development agencies (APPRM and others)
- Business and employers’ representative organisations

Pillar 2: Enhance and Improve SME Growth Opportunities

Program 2.1: Improve Business Development Services

Government will support the efficiency and impact of BDS in the SME sector based on the needs assessment conducted. The monitoring, evaluation and learning mechanisms and processes for SME development services will be improved and support will be provided to improve SME development services and practices, through training, financial, expert and technical support, accreditation services and other services needed to the SMEs, taking into the consideration the one stop shop principle, in order to ease the access and acquisition of the required information by the SMEs. Special attention will be given to supporting women’s entrepreneurship. This is in line with the activities and measures envisaged with the action plan of the Competitiveness Strategy.

In addition to the actions listed below, APPRM will establish a mentor support service with support from the Japanese International Cooperation Agency.

Outcome:	BDS are more responsive to SME development needs and opportunities and provided in a cost-efficient, coordinated and client-focussed manner. The impact of BDS is regularly quantified and publicly reported.
Key Activities:	<ol style="list-style-type: none">1. Monitor and evaluate the SME development programs and services;2. Introduce an evaluation and performance measurement framework for SME development;3. Regularly identify and promote good practices in SME development and create opportunities for learning among SME service providers;4. Explore the feasibility and scope of a national BDS accreditation system;5. Establish a client feedback mechanism for all BDS clients;6. Introduce an annual process through which all BDS providers publicly report on their target groups, services and results;7. Commission a study into the needs, opportunities and barriers facing businesswomen and ensure the findings of this study are used to improve BDS delivery;8. Creation of an SME Portal providing useful information for SMEs across the country. The Portal will connect with relevant Government one-stop-shop facilities, including the one-stop-shop for business permits and licenses, as well as other e-government initiatives. It will include a searchable database of all relevant laws, regulations and permits. It will provide a valuable platform for online engagement between government and the SME community. As indicated above, the Ministry of Society and Information will lead this work, as outlined in the National Competitiveness Strategy.9. Improve access to EU SME promotion programs and links with EU regional programs (e.g., COSME, Horizon 2020, Program for Employment and Social Innovation—PROGRESS Component, Erasmus, and Life Plus).10. Develop a training program to improve business management skills among youth-owned-and-managed enterprises.
Lead institutions:	Ministry of Economy, Ministry of Information society and administration and CDPGRM
Involved institutions:	<ul style="list-style-type: none">• SME development agencies (APPRM and others)• Minister without portfolio responsible for legislation for improving the

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investment climate for domestic enterprises

- Business and employers’ representative organisations

Program 2.2: Improve Access to Finance

Government will introduce new financial instruments for SME development. This is consistent with the EU’s 2016 recommendations for SME development in Macedonia.¹¹ This will include the creation of an online register of movable assets, which can be used as collateral against banking loans, along with a revitalisation of the credit guarantee scheme. Throughout the term of the Strategy, Government will explore new options for SME financial policy reform and program development. This will include the use of government loan guarantees, including export guarantees for SMEs, direct lending to SMEs, subsidised lending, venture capital, equity lending, as well as increasing engagement and advocacy with the commercial banking sector.¹² Government will also explore the options for encouraging SME investments within the Macedonia Diaspora. An information and education campaign on financial literacy will be also implemented.

Outcome: SMEs have greater access to a broader range of financial products and services to improve their competitiveness and growth.

Key Activities:

1. Create an online register of movable assets, which can be used as collateral against banking loans;
2. Establish a program to promote the use of factoring to strengthen legal certainty and transparency.
3. Revitalise the credit guarantee scheme at the MBDP, simplifying its procedures, working closer with private banks and improving its design, structure and terms.
4. Create an information and education campaign on financial literacy into the secondary education system (including gymnasiums and vocational and technical training institutions) as well as in the range of training services provided by SME development agencies.
5. Ease the procedures to establish and operate a financial institutions offering alternative financial instruments (factoring, leasing, funds, etc).

Lead institutions: Ministry of Economy, CDPGRM, National Bank of Republic of Macedonia

Involved institutions:

- Ministry of Finance
- Minister without portfolio responsible for legislation for improving the investment climate for domestic enterprises
- Ministry of Education and Science
- Macedonian Bank for Development Promotion
- SME development agencies (APPRM and others)
- Commercial banks
- Bureau for development of education
- Central Registry
- CPGRM and CDPGRM

¹¹ European Commission (2016) *The Republic of Macedonia 2016 Report*; Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 2016 Communication on EU Enlargement Policy, Commission Staff Working Document, 9 November, Brussels.

¹² For example, see: OECD (2015) *Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard*, OECD Publishing, Paris

Program 2.3: Facilitate Internationalisation

Greater support will be given to improve the internationalisation of the SME sector to ensure the SME sector is export-oriented and driven by new and emerging opportunities in the EU and around the world.

- Outcome:** SME participation in international markets has increased.
- Key Activities:**
1. Stronger policy and program linkages are created between SME development and Government’s export promotion support;
 2. Commission a national assessment of the opportunities, barriers and capacity of SMEs to enter fast-growing international markets and ensure the results inform the revision of the national export strategy;
 3. Increase support to the export promotion agency and establish the coordination and joint implementing activities between this Agency and APPRM in implementing the export promotion activities — through the formulation of a SME export promotion program;
 4. Improve the monitoring and evaluation of export promotion services, through the publication of an annual report on SME participation in export markets.
- Lead Agency:** Ministry of Economy
- Target Groups:**
- Agency for Foreign Investments and Export Promotion
 - SME development agencies (APPRM and others)
 - Commercial banks
 - CPGRM and CDPGRM

Program 2.4: Support Value Chain Development

Government will support SMEs participation in strategic value chains. Increased support will be given to reforms in the ICT sector—Government will support SME developments within this sector while promoting the use of ICT by SMEs as an enabling strategy toward increased productivity and competitiveness. Support will also be given to SME development in the green economy and the development of ‘green SMEs’.

- Outcome:** SME participation in strategic, growth-oriented industry sectors has increased.
- Key Activities:**
1. Identify key international value chains in which Macedonian SMEs have a capacity to successfully participate, and develop support programs and services to help these firms expand into these markets;
 2. Facilitate stronger partnership arrangements between the APPRM, the Agency for Foreign Investments and Export Promotion and the Enterprise Europe Network;
 3. Support SME development in the ICT through customised BDS and financial service instruments;
 4. Support SME development in the green economy through the reform of national policies and the design of support instruments and services to provide incentives and support for “green SMEs” within environment-related markets.
- Lead institution:** Ministry of Economy
- Target Groups:**
- Enterprise Europe Network
 - Minister without portfolio responsible for legislation for improving the investment climate for domestic enterprises
 - Agency for Foreign Investments and Export Promotion

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- SME development agencies (APPRM and others)
- Commercial banks
- Ministry of Transport and Communications
- Ministry of Information Society and Administration
- Ministry of Environment and Physical Planning

Pillar 3: A Dynamic Entrepreneurship and Innovation Ecosystem

Program 3.1: Expand Entrepreneurship in Education and Training

Recognising the importance of developing Macedonia’s human capital by preparing young people for the challenges of entrepreneurship (including social entrepreneurship), the Government will expand entrepreneurship education. It will scale-up entrepreneurship education by expanding teacher and student training to ensure these are available throughout the education system. Strengthen the vocational and higher education system to meet the evolving challenges of both the business and R&D communities. Further, the technical and scientific domains will have additional resources to support the career-long development of engineers and scientists.

Outcome:	Entrepreneurship skills are integrated into all levels of education and training.
Key Activities:	<ol style="list-style-type: none">1. Expand entrepreneurship education program in schools, gymnasiums, and the vocational education system, including training in social entrepreneurship;2. Establish new and continue to support the existing partnerships and initiatives between the Government, education and research institutions and industry;3. Improve entrepreneurship training for women entrepreneurs through the development of a training module for use in a variety of training settings;4. Strengthen the vocational and higher education system to meet the evolving challenges of both the business and R&D communities.
Lead Institution:	Ministry of Economy
Involved institutions:	<ul style="list-style-type: none">• Ministry of Education and Science• Ministry of Culture• National Entrepreneurship Educators Network• SME development agencies (APPRM and others)• Universities• VET Center• Business and employers’ organisations• CPGRM and CDPGRM

Program 3.2: Enhance Science, Technology and Innovation in SME development

The infrastructure and institutional support services needed to promote SME innovation will be further developed. This will include the development of networks bringing academia and private sector and other actors together, along with improvements to the Fund for Innovation and Technology Development.

Outcome:	SME growth is driven by increases in technology transfer and innovation.
Key Activities:	<ol style="list-style-type: none">1. Facilitate networks between academia and private sector and other actors, including financial actors;2. Expand the Fund for Innovation and Technology Development to increase the range of SME beneficiaries by assessing the extent to which SMEs are aware of and accessing the fund, and devising initiatives to address the factors constraining SME use;3. Commission a study into international venture and investment funds;

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4. Investigate options for expanding the business angel network;
5. Nurture and facilitate increased collaboration between academia and the private sector, including the use of financial instruments, such as innovation vouchers, as well as providing direct financial support for R&D and innovation.

Lead institutions: Ministry of Economy, CPGRM and CDPGRM

- Involved institutions:**
- Ministry of Education and Science
 - Minister without portfolio responsible for legislation for improving the investment climate for domestic enterprises
 - Fund for Innovation and Technology Development
 - SME development agencies (APPRM and others)
 - Business and employers’ organisations

Program 3.3: Establish Science and Technology Parks and Innovation Incubators

The Government will explore the options for establishing at least two technology parks, connected with universities and technical institutions, along with at least five incubators or innovation accelerators and start-up centres at municipal or regional levels. In the first instance, the Government will undertake a feasibility study of the establishment of a science and technology park. In this respect, a Strategy for smart specialisation will be prepared, in order to identify the sectors and industries that have comparative advantage and adequate capacities to support the science-technology park.

Outcome: Higher levels of innovation are achieved through SMEs located in specialised facilities.

- Key Activities:**
1. Commission a feasibility study into the costs and benefits associated with creating at least two technology parks, connected with universities and technical institutions and identify the most desirable modes of operation;
 2. Commission a feasibility study into the costs and benefits associated with creating at least five incubators or innovation accelerators and start-up centres at municipal or regional levels.

Lead institutions: Ministry of Economy, CPGRM and CDPGRM

- Involved institutions:**
- Ministry of Education and Science
 - Ministry of Local Self-Government
 - Regional and local government authorities
 - SME development agencies (APPRM and others)
 - Business and employers’ organisations

7 Key Stakeholders and Implementation Mechanisms

7.1 Government coordination

The **Ministry of Economy** has the primary responsibility for SME development.

7.2 Policymaking and oversight responsibilities

The Ministry of Economy has the primary responsibility for SME policy development and oversight. However, there is a range of other ministries and institutions involved in policy making and advocacy within the SME sector. This includes **Ministry of Finance, Ministry of Education and Science, Ministry of Culture, Ministry of Environment and Physical Planning, The Cabinet of the Prime Minister, Minister without portfolio responsible for legislation for improving the investment climate for domestic enterprises and the Cabinet of the Deputy Prime Minister responsible for economic affairs.**

In addition, the **Economic and Social Council in the Republic of Macedonia**, established in 1996, promotes and encourages tripartite social dialogue at national and local levels, as well as promotion of bipartite social dialogue at enterprise level and strengthening the capacity of social partners through involvement in all the activities is one of the most important commitments of the Government of the Republic of Macedonia. The Council has an advisory consultative role during the creation and implementation of the economic and social strategies and policies and will influence in terms creation for economic and social stability in the country. It has 12 members: four each from government, employers and trade unions.

7.3 Implementation of the SME programs and services

The current institutional infrastructure for SME support in Macedonia was established and strengthened in the last decade. This provides the main driver for implementation of the individual measures from this SME Strategy and is the most important direct link to the SME sector.

The **Agency for Entrepreneurship Support (APPRM)** is responsible for implementing the Government’s SME policies. APPRM’s mission is the promotion of entrepreneurship and small businesses, through the implementation of priority projects that reflect demand-driven areas of intervention in SMEs and Government programs for entrepreneurship support and SME competitiveness. The main responsibilities of the APPRM are:

- Creating and developing the institutional infrastructure to support and develop entrepreneurship and competitiveness in the SME sector;
- Implementing and coordinating state and international support for SMEs;
- Promoting entrepreneurship through financial and non-financial forms of support measures; and
- Implementing the program of measures and activities to support entrepreneurship and create competitiveness in the small business.

Other key organisations include:

- Economic Chamber of Macedonia

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- Macedonian Chambers of Commerce
- Economic Chamber of North-west Macedonia
- Worker Organisations
- Business Confederation of Macedonia
- Organization of Employers of Macedonia
- Craftsmen chamber
- The Association of Business Women
- 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).
- SME Forum

The **National Committee for Innovation and Entrepreneurship**, established in 2011, is made of members from key ministries, academia, and the business sector. It focuses on the commercialisation of innovation and increasing the level of innovation activities in the business community and in society as a whole. NCIE is responsible for the coordination of governmental policies and measures for boosting innovation and competitiveness; coordination of budget allocation in accordance with government priorities, monitoring the work of the Fund for Innovation and Technological Development, review and approval of programs to support development projects and programs of the Fund, before resulting in government procedure, provision of recommendations to the government in terms of programs and projects by international organizations to support and develop innovation activities, regular monitoring of policies and measures of the European Union and the countries with best practices in the field of innovation, and assessment of their impact, making recommendations and proposals to the ministries for their innovation-related activities, and making recommendations and suggestions to the government related to the business environment, intellectual property rights, and support for innovation activities.

Fund for Innovations and Technology Development, established to encourage and support innovation activities in micro, small and medium-size enterprises (MSMEs) in order to achieve more dynamic technological development based on knowledge transfer, development research and on innovations that contribute to job creation, and to economic growth and development, while simultaneously improving the business environment for the development of competitive capabilities of companies. The scope of work of the Fund is based on co-financing of MSMEs, in order to initiate innovation activity, implementation of innovation solutions and innovation processes, introducing innovations and companies' transfer of technology, as well as the support of the enterprises that have high growth potential. Furthermore, the financing of new established, micro and small enterprises, foundations and accelerators, in order to enhance the innovation among the enterprises, as well as transferring the results from the scientific researches in applicative (commercial activities), via establishing the spin-off companies and achieving the long-term positive contribution for the development of the national economy and enhancing the competitiveness via technological and operational upgrades and opening of new vacancies. The Fund will also provide a support to establishment of new business-technological accelerators (institutions that provide institutions support to innovation activity), in order to accelerate the entrepreneurship by providing the support to physical persons that want to open an start-up, as well as to already established companies in their beginning phase (that exist on the market not longer than 6 years) by providing educative, logistic and financial support.

National Entrepreneurship Educators Network, established in 2011, by the National Centre for Development of Innovation and Entrepreneurial Learning, the network includes

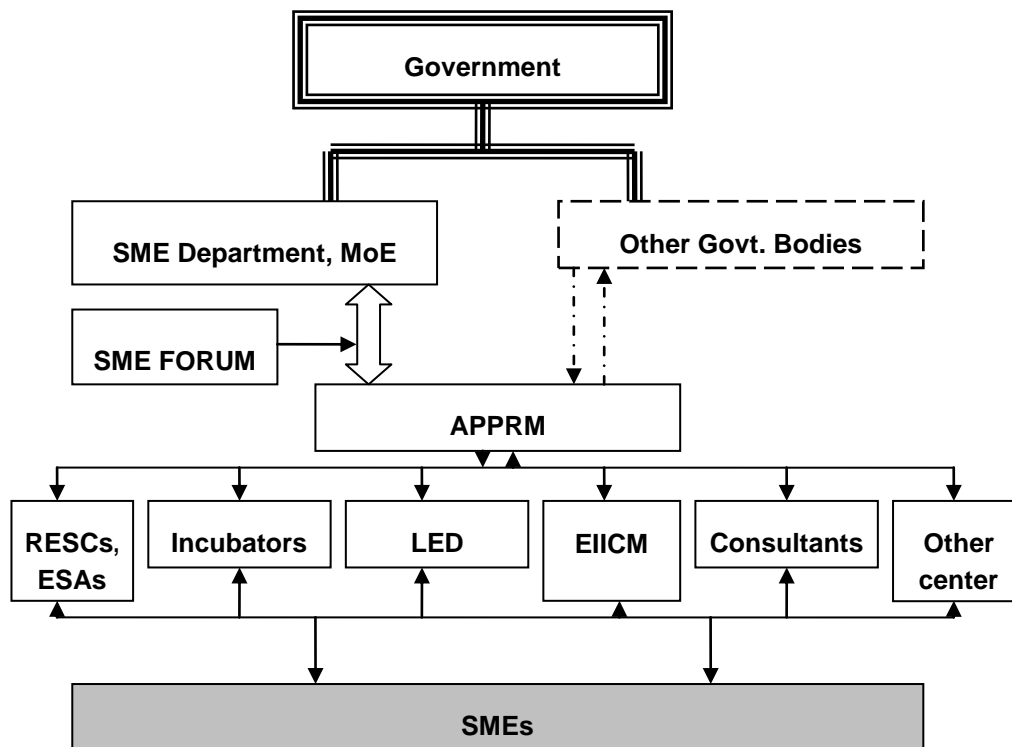
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professors and assistants from universities and teachers who teach the subject “Business and Entrepreneurship” and other economy related subjects in high school in the country. The main purpose of the network is enabling networking tools between educators to share their best practices related to entrepreneurial learning, enabling teachers’ development and continuous improvement of the curriculum on all educational levels.

At the local level, there are a number of important institutional arrangements. These include:

- Regional Business Centres: ten regional centres are in operation, including five RESCs located in Skopje, Strumica, Veles, Kumanovo, Bitola, three ESAs located in Ohrid, Tetovo, Gostivar, the Prilep Region Enterprise Development Agency and one Roma Business Information Centre in Skopje.
- Three business incubators are currently operating: SPARK incubator in Bitola (established with the Dutch support and financed in the next years by USAID), Youth Entrepreneurship Service incubator in Skopje (financed by Norwegian bilateral assistance) and the World Bank-supported incubator in Strumica, while two additional start up centres operate in Tetovo and Skopje, financed by the SINTEF and the Austrian development agency respectively.
- Enterprise Europe Network provides assistance to helps SMEs make the most of the business opportunities in the European Union and 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.).
- Eight planning centres established in all eight statistical planning regions
- The Business Start-up Centre and the National Centre for Development of Innovation and Entrepreneurial Learning in the Faculty of Mechanical Engineering at Ss. Cyril and Methodius University in Skopje.
- Consultants: include about 250 ‘independent’ consultants performing business consulting, as individuals or as other legal entities, and some international consultants.

Figure 1: SME Support Institutions



7.4 Strategy Implementation and Review

The Ministry of Economy is responsible for the overall implementation of the Strategy, according to the attached work plan. The work plan identifies lead agencies and time frames for all programs and activities. The Ministry of Economy will coordinate these agencies and monitor progress. It will apply the monitoring and evaluation framework presented in the following chapter.

The Ministry of Economy will commission a review of the Strategy in 2020.

7.5 Donor Coordination Mechanism

There is no formal mechanism for the coordination of international donor and development agency support for SME development in the country. This SME strategy can provide the basis for donor coordination in the field of SME development. Under Pillar 1, Program 1.1: Enhance Policymaking and Coordination (Activity 1.1.5, see workplan), the Ministry of Economy will establish a coordination body to coordinate and plan for donor-supported SME development programs and business environment reform processes.

8 Monitoring and Evaluation Framework

8.1 High-level M&E Framework

The implementation of the Strategy’s activities and monitoring the achievement of the goals will be conducted by the involved institutions and organisations defined in the Strategy (Ministry of Economy, CPGRM, CDPGRM, Minister without portfolio responsible for legislation for improving the investment climate for domestic enterprises, Ministry of Finance, Central Registry, Agency for Promotion of Entrepreneurship, etc.).

Level	Result	Indicators
Impact (Vision)	Competitive Macedonian SMEs drive inclusive economic growth and the creation of more productive and decent employment.	<ul style="list-style-type: none"> SME contribution to GDP SME contribution to employment Use of formal employment contracts in SMEs Number of SMEs in which all employees are fully registered Extent of union representation across the SME workforce
O/come 1	Macedonia’s SMEs operate in a conducive business environment in which entrepreneurship, investment and productivity is encouraged, consistent with European norms and standards.	<ul style="list-style-type: none"> Improved policymaking and coordination Reduced compliance costs Improved social dialogue Regular M&E of policies, programs and services
O/come 2	SMEs in Macedonia are highly productive and competitive participants in European and other international markets.	<ul style="list-style-type: none"> Improved access to business and financial services Greater participation in international markets Increased private investment in strategic growth sectors.
O/come 3	Macedonia’s economic competitiveness is increasingly driven by an entrepreneurial and innovative SME sector.	<ul style="list-style-type: none"> Increased levels of entrepreneurship Increased value addition in the SME sector Increased collaboration between business and academia Improved infrastructure and facilities to support innovation and entrepreneurship

8.2 Program-level M&E Framework

8.2.1 Pillar 1: Conducive Business Environment

O/come 1: Macedonia’s SMEs operate in a conducive business environment in which entrepreneurship, investment and productivity is encouraged.			
No.	Program	Outcome	Indicators
1.1	Enhance Policymaking and Coordination	Enhanced government coordination and policy integration within the SME sector and a better delivery mechanism for SME development services.	Policy coordination mechanisms established Policies integrated across government MDAs SME services and defining the involved institutions Donor-support programs aligned with strategy
1.2	Simplify the Legal and Regulatory Environment	The legal and regulatory framework for SMEs is “business-friendly”, reducing the steps and time required for compliance.	New business environment reforms implemented Increase number registered enterprises
1.3	Strengthen and Institutionalise Social Dialogue	A regular and structured social dialogue mechanism is established to inform the development and reform of public policies, laws and regulations in the SME sector.	Number of business organisations involved Number of issues jointly agreed with government and the private sector
1.4	Coordinate SME Data and Monitoring and Evaluation	Relevant quantitative and qualitative gender disaggregated data on the SME sector and its trends is produced and publicly available, along with the results of regular monitoring and evaluation data on SME support agencies.	Improvements to the range of qualitative and quantitative data collected Public debates on data and evaluation findings Changes to SME development program targeting Improvements in data disaggregation by gender, size, location, etc.
1.5	National SME Association	Micro and small enterprises are represented in policymaking and program review processes through their membership of the National SME Association.	Participation by SMEs in the association

8.2.2 Pillar 2: Enhance and Improve SME Growth Opportunities

Outcome 2: SMEs in Macedonia are highly productive and competitive participants in European and other international markets.

No.	Program	Outcome	Indicators
2.1	Improve Business Development Services	BDS are more responsive to SME development needs and opportunities and provided in a cost-efficient, coordinated and client-focussed manner.	<ul style="list-style-type: none"> Client feedback Number of SMEs accessing support services (gender disaggregated) Number of private sector BDS service providers Growth of SMEs (employment, turnover) receiving support from SME service providers
2.2	Improve Access to Finance	SMEs have greater access to a broader range of financial products and services to improve their competitiveness and growth.	<ul style="list-style-type: none"> Range of financial services provided Number of SMEs accessing financial support services (gender disaggregated) Number of micro and small enterprises accessing commercial bank finance (gender disaggregated)
2.3	Facilitate Internationalisation	SME participation in international markets has increased.	<ul style="list-style-type: none"> Number of SMEs (gender disaggregated) accessing international markets Number of SMEs (gender disaggregated) accessing government export support programs and services Number of export-oriented industry clusters
2.4	Support Value Chain Development	SME participation in strategic, growth-oriented industry sectors has increased.	<ul style="list-style-type: none"> Number of SMEs (gender disaggregated) operating in strategic, growth-oriented industry sectors Number of SMEs (gender disaggregated) accessing government strategic industry support programs and services

8.2.3 Pillar 3: A Dynamic Entrepreneurship and Innovation Ecosystem

O/come 3: Macedonia’s economic competitiveness is increasingly driven by an entrepreneurial and innovative SME sector.

No.	Program	Outcome	Indicators
3.1	Expand Entrepreneurship in Education and Training	Entrepreneurship skills are integrated into all levels of education and training.	<ul style="list-style-type: none"> Number of male and female students taught entrepreneurship skills Number of teachers and trainers taught teaching skills in entrepreneurship training Number of education and training institutions providing entrepreneurship training
3.2	Enhance Science, Technology and Innovation in SME development	SME growth is driven by increases in technology transfer and innovation.	<ul style="list-style-type: none"> Number of SMEs (gender disaggregated) accessing government science and technology support programs and services Amount of funds invested by SMEs into R&D Number of new products and services commercialised
3.3	Establish Science and Technology Parks and Innovation Incubators	Higher levels of innovation are achieved through SMEs located in specialised facilities.	<ul style="list-style-type: none"> Number of SMEs (gender disaggregated) accessing government science and technology support programs and services Participation of SMEs in specialised science and innovation facilities.

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