

Competitiveness Strategy and Action Plan of the Republic of Macedonia 2016-2020

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Contents

FOREWORD	4
I. INTRODUCTION	6
II. POLICY CONTEXT AND GOVERNANCE	8
A. RELATION BETWEEN THE COMPETITIVENESS STRATEGY AND OTHER POLICY FRAMEWORKS	8
A1. <i>Innovation Strategy of the Republic of Macedonia</i>	8
A2. <i>Master Plan on Competitiveness</i>	8
A3. <i>Industrial Policy of Republic of Macedonia</i>	9
A4. <i>National Economic Reform Programme 2015</i>	9
A5. <i>Revised National Strategy for Small and Medium-sized Enterprises</i>	10
A6. <i>Programme for Stimulating Investment in the Republic of Macedonia</i>	11
A7. <i>Programme for Scientific Research Activities in the Republic of Macedonia</i>	11
A8. <i>Export Promotion Strategy</i>	12
A9. <i>Entrepreneurial Learning Strategy</i>	12
B. RELATION TO EU, OTHER DONORS AND REGIONAL PROGRAMMES	13
B.1 <i>Instrument for Pre-accession Assistance II</i>	13
B.2 <i>Indicative Strategy Paper for Macedonia</i>	14
B.3 <i>Sector Planning Document on Competitiveness and Innovation</i>	14
B.4 <i>Bilateral and Multilateral Donors, and other sources of funding</i>	15
C. GOVERNANCE ARRANGEMENTS	16
C.1 <i>Policy Coordination</i>	16
C.2 <i>Dialogue between public and private sectors and the academia</i>	16
C.3 <i>Monitoring, Evaluation and Coordination of policies</i>	17
III. ANALYSIS OF THE CURRENT COMPETITIVENESS SITUATION	18
THEME 1: - THE BUSINESS ENVIRONMENT.....	18
THEME 2: - ENTREPRENEURSHIP AND SME DEVELOPMENT	22
THEME 3: EXPORT AND INTERNATIONALISATION	24
THEME 4: FOREIGN DIRECT INVESTMENT	27
THEME 5: SKILLED AND ENTREPRENEURIAL LABOUR FORCE.....	29
THEME 6: INDUSTRIAL POLICY	31
THEME 7: ACCESS TO FINANCE	34
IV. SWOT ANALYSIS OF THE COMPETITIVENESS OF MACEDONIA	37
V. VISION AND STRATEGIC OBJECTIVES	39

OBJECTIVE 1: A SIMPLER AND MORE STABLE BUSINESS ENVIRONMENT.....	40
OBJECTIVE 2: A MORE ENTREPRENEURIAL AND PRODUCTIVE SME SECTOR	43
OBJECTIVE 3: A MORE VIBRANT EXPORT SECTOR	47
OBJECTIVE 4: A MORE ATTRACTIVE ENVIRONMENT FOR INWARD INVESTORS.....	49
OBJECTIVE 5: A MORE SKILLED AND ENTREPRENEURIAL LABOUR FORCE.....	51
OBJECTIVE 6: A REINVIGORATED INDUSTRIAL POLICY.....	54
OBJECTIVE 7: A HIGHER VOLUME OF FINANCE FOR THE ENTERPRISE SECTOR.....	56
ANNEX 1 - ACTION PLAN FOR 2016-2020 – IMPLEMENTING THE COMPETITIVENESS STRATEGY	59
ANNEX 2 – LIST OF MEETINGS	79
ANNEX 3 – LIST OF WORKING GROUP MEETINGS ON COMPETITIVENESS STRATEGY MEASURES.....	83
ANNEX 4 – LIST OF REVIEWED STRATEGIES AND RELEVANT DOCUMENTS	84

FOREWORD

Strengthening the Republic of Macedonia's competitiveness is a key to our future prosperity.

Macedonia has experienced recent economic growth. Over the past five years, the Gross Domestic Product (GDP) has increased from € 3,459 per capita (2010) to € 4,125 per Capita (2014). Monthly income levels have increased from € 410 (gross salary) to € 506 and the unemployment rate has declined from 32% to 25.5%. In global terms, the country has also made steady progress. In the World Bank's Doing Business analysis (2016) Macedonia ranks 12 out of 189 countries and in the World Economic Forum Index (2015-6), Macedonia ranks 60 out of 140 countries.

However, the successes of the past do not necessarily mean continuing prosperity in the future. Much more needs to be done to ensure that the country continues to raise the quality of life and living standards of our citizens over time.

There is a good deal of potential for further improvement. Our proximity to the European Union and Candidate Country status allows access to a single market of over 500 million people with an average per capita income of € 28,500 with 16.5% of global trade. Moving forward, the Association Agreement with the European Union and Central European Free Trade Agreement (CEFTA) mean that our country will increasingly harmonize its legal, as well as its economic base with that of our European neighbours, thus unleashing opportunities for growth and prosperity.

But our neighbours and competitors in the region are not standing still. They are actively cutting taxes, reducing business costs, building infrastructure and stimulating entrepreneurial greater activity. We need to rapidly improve our competitiveness if we are to compete with them.

Therefore, improving Macedonia's competitiveness is a central plank of the Government's economic strategy of building a prosperous economy while also reducing the still high levels of unemployment.

The guiding principle of the Government's Competitiveness Strategy is to focus on our own potential and strengths, rather than simply importing international models for development and applying them to our context. Our characteristics are unique and call for a customised approach embedded within the process of accession to the EU.

The resulting Competitiveness Strategy and Action Plan draws upon the existing strategies and detailed analysis and consultation, including the insights of the National Entrepreneurship and Competitiveness Council (NECC) and many other academic and business experts.

This Competitiveness Strategy is an integral step along the path of economic growth and prosperity, along with related economic development frameworks such as the Innovation Strategy. The strategy sets out the context and strategic ambitions / priorities until 2020.

Strengthening Macedonia's competitiveness is an essential pillar of the process of building a stronger economy and increasing the prosperity that we all aspire to.

I. Introduction

Competitiveness is defined as the ability of a country to produce goods and services under free and fair conditions in global markets while simultaneously maintaining and expanding the real incomes of its people over the long term (OECD, 2005). Another definition sees competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy (Global Competitiveness Report, 2014 – 2015).

Although the notion of competitiveness lies at the heart of business strategy development, its definition often covers many issues and does not lend itself to simple measurement. Clearly, the competitiveness of an organisation or country depends on a multiplicity of factors which are interrelated and cannot be looked at in isolation.

As the Republic of Macedonia strives to continue growing economically, it is important for the country to develop the competitiveness of its private sector. Because Macedonia will not be able to compete with low cost wages over the long-term, improving competitiveness through greater entrepreneurship, value added and productivity is crucial. This leads to the key themes which fall within the scope of the Competitiveness Strategy in the Macedonian context, namely:

- Business environment;
- Small and Medium Sized enterprises (SMEs);
- Industrial policy;
- Foreign Direct Investment (FDI);
- Access to markets/ internationalisation;
- Entrepreneurial skills;
- Access to finance.

The Competitiveness Strategy, therefore, aims to initiate the transformation of the country into a competitive economy able to harness entrepreneurial talent, increase the number of start-ups and gradually grow, add value, increase the productivity and export of its enterprises.

The government of the Republic of Macedonia has already embarked the country on a path of reforms to facilitate growth and innovation. The Innovation Strategy and the Government programme on R&D complement this Competitiveness Strategy.

Moreover, the Competitiveness Strategy in turn is built upon the foundation of other strategies, such as the SME strategy, the Export strategy, the Entrepreneurial Skills strategy, the Competitiveness Master Plan and the Industrial Policy strategy. However, it goes beyond these, especially in the case of the ones which are currently out of date. The emphasis is not on repeating the content of those related documents, but to create an umbrella strategy which prioritises actions in the previously noted seven fields over the period until 2020.

The strategy involved not only a review of existing Macedonian documents, but also the application of international good practice consistent with EU policy, as well as the engagement

with a multiplicity of public, private and academic institutions and individuals, including the National Competitiveness and Innovation Council.

The resulting measures were discussed, agreed and prioritised by a Competitiveness Working Group comprising of the following key members:

- Office of the Prime Minister;
- Cabinet of the Deputy Prime Minister for Economic Affairs (DPMEA);
- Ministry of Economy;
- Ministry of Education and Science;
- Ministry of Labour and Social Policy;
- Ministry of Finance;
- Agency of Foreign Investments and Export Promotion;
- Agency for Promotion of Entrepreneurship;
- National Council for Entrepreneurship and Competitiveness;
- Delegation of the European Union (observer).

Furthermore, the Competitiveness Strategy is embedded in three funding streams, namely:

- The IPA II, with funding worth 75 million;
- The Government budget, including but not restricted to IPA II co-financing;
- Other donor / International Financial Institution (IFI) funds.

Consequently, unlike many strategies whose weakness is often a lack of dedicated resources, the Competitiveness Strategy will have a sound resources basis for implementation, as well as a clear timescale. A related weakness is often the capacities of the public sector institutions to coordinate and implement detailed strategies and action plans. The Competitiveness Strategy has been designed to prioritise fewer measures and to distribute these over the period of implementation, so as to allow existing government capacities to implement the measures effectively, as well as to provide time for the private sector to absorb the funds and other forms of support.

The measures, timescale, budget and responsibilities are clearly allocated in the form of an Action Plan for the period 2016-2020, which can be found in Section VI of this strategy.

II. Policy Context and Governance

The Governance chapter describes the relation between the national competitiveness policy and other policy frameworks, as well as the relation of the competitiveness policy with international, national and regional policy layers. The chapter also deals with governance arrangements related to the implementation of the competitiveness policy, including coordination, consultation and monitoring and evaluation (M&E). It should be noted that a related strategy deals with the issue of innovation, namely the Innovation Strategy of the Republic of Macedonia for 2012-2020. The Competitiveness Strategy and the Innovation Strategy are complementary.

A. Relation between the Competitiveness Strategy and other policy frameworks

The competitiveness field is very wide. As discussed in the introductory chapter, there is no single definition of what constitutes competitiveness. However, in the Macedonian context, this covers the following themes:

- Business Environment;
- SME Development;
- Industrial Policy;
- Foreign Direct Investment;
- Export / internationalisation;
- Entrepreneurial skill development;
- Access to Finance.

There are a number of **overarching strategies** which connect up with these broad themes. These are discussed in general terms below.

A1. Innovation Strategy of the Republic of Macedonia

Innovation is a key driver of economic growth and the development of an innovation policy is considered as one of the cornerstones of the economic strategy of the Government. With this in mind, the aim of the Innovation Strategy is 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.

The document articulates a vision, that the Strategy will drive competitiveness and economic development, based on knowledge and innovation, thereby creating high value employment and prosperity for Macedonian citizens. With the intention, that by 2020, the Republic of Macedonia should have an effective national innovation system, created by all stakeholders, and open to the world. In order to fulfil this vision, four strategic objectives were defined:

- Objective 1 – enhancing the business sector’s propensity to innovate;
- Objective 2 – strengthening human resources for innovation;
- Objective 3 – creating a regulatory environment which will be supportive to innovation;
- Objective 4 – increasing knowledge flows between innovation actors.

A2. Master Plan on Competitiveness

The Master Plan on Competitiveness is developed as a matrix with the title “Competitiveness Action Plan for the period 2011 – 2015. In 2015 a second Action plan was developed for the next three year period. The Plan essentially follows the structure of the Global Competitiveness

Index, in that it is broken down into twelve separate Pillars: Institution; Infrastructure; Macroeconomic Stability; Health and Primary Education; Higher Education and Training; Efficiency of the Goods Market; Labour Market Efficiency; Sophistication of the Financial Markets; Technological Dedication; Market Size; Business Sophistication; and Innovation.

In total, the Master Plan contains 111 separate factors or issues. The Master Plan further reviews each Factor/Issue under the following headings:

- Measures foreseen in the Operational Programme of the Government of the Republic of Macedonia for the period 2011-2015;
- Measures not included in the Operational Programme of the Government of the Republic of Macedonia; and
- Measures proposed for improvement of the factor range.

As can be seen from the twelve separate Pillars, the Master Plan is very much an overarching strategic document. It is quite voluminous (95 pages, and 111 separate Factors/Issues), and as such, it covers the key aspects of the competitiveness sector.

A3. Industrial Policy of Republic of Macedonia

The Industrial Policy of the Republic of Macedonia 2009-2020, prepared by the Ministry of Economy adopted by the Government in June 2009, is a national strategic document for enhancing the competitiveness of Macedonian industry and the economy in general. The Policy focuses on knowledge, innovation and research, as the drivers of: industrial development; stimulating a more conducive business and investment climate; and supporting enterprises to improve their competitive capabilities through the acquisition of new technologies and new markets. The Policy focuses on five areas of intervention as the key pillars for enhancing the competitiveness of endogenous industry:

- International cooperation and FDI stimulation;
- Applied research, development and innovations;
- Eco - friendly products and services for sustainable development;
- Development of SME and entrepreneurship;
- Collaboration in clusters and networks.

The approach and objectives of the Industrial Policy are considered to be highly consistent with the Innovation Strategy of the Republic of Macedonia for 2012 - 2020 (see below). One of the main tenets of the Industrial Policy document is that industrial policy is not a stand-alone policy, and therefore requires integration of all relevant policies that relate to the competitiveness enhancement of industry. A detailed Action Plan has also been developed to allow for a successful implementation and coordination of the Policy.

A4. National Economic Reform Programme 2015

The National Economic Reform Programme (NERP) was submitted to the European Commission in January 2015. It covers the period 2015-2017 and is a successor to the previous Pre-accession Economic Programmes (PEPs). It is updated regularly on a three-year rolling basis. The document comprises of two parts: the first relates to the medium-term macroeconomic and fiscal framework, whilst the second presents the sectoral structural reforms that are necessary for promoting competitiveness and growth.

The Programme is prepared by the Ministry of Finance, coordinated by the Vice-President of the Government, in conjunction with the Minister of Finance, and in cooperation with a variety of the relevant ministries and other stakeholders. The sectoral structural reforms include three areas which are of specific relevance to the Competitiveness Strategy:

Human Capital:

- Flagship Measure I: - Reforming the secondary and tertiary education system to fit the needs of the private sector;
- Flagship Measure II: - Strengthen the linkages between business and academia.

Better Industrial Structure:

- Flagship Measure I: - Support of Competitiveness and SME Development.

Good Business Environment:

- Flagship Measure I: - Further reduction of regulatory and administrative burdens on businesses;
- Flagship Measure II: - Improving supply chain linkages between foreign investors and local companies.

The Economic Reform Programme 2016 covering the period 2016-2018 is in its final stage of preparation. The part referring to the structural reform agenda has been slightly re-structured and relates to the following, as per the new EC guidelines: 1/ public finance management, 2/ infrastructure, 3/ sector development (agriculture, industry and service sector development), 4/ business environment, corporate governance and reduction of the informal economy, 5/technological absorption and innovation, 6/trade integration, 7/employment and labour markets, and 8/ fostering social inclusion, combating poverty and promoting equal opportunities.

In addition to the above overarching documents, there are **several strategies directly connected** with the competitiveness themes, as previously discussed. The Competitiveness Strategy seeks to link up with these strategies, where they exist and are still relevant, and supplement them.

A.5 Revised National Strategy for Small and Medium-sized Enterprises

Although the above strategy, prepared by the Ministry of Economy of the Republic of Macedonia in March 2007) is out of date, many elements remain valued today. The vision of the SME strategy is to contribute to an overall increase of employment in the SME sector, and to the Gross Domestic Product. Its Goals are to:

- Increase the number of SMEs;
- Increase employment in SMEs;
- Increase the contribution of SMEs to GDP.

The focus of the Strategy, which took into account the renewed Lisbon Agenda, the European Charter for Small Enterprises, and the Governmental Programme (all of which are now superseded, such as by the Small Business Act), is directed at achieving the following objectives:

- Enhancing policy making;

- Simplifying the legal and regulatory environment;
- Simplifying taxation;
- Improving access to finance;
- Fostering ICT;
- Enhancing science, technology, and innovation;
- Promoting entrepreneurship in education and training;
- Encouraging internationalisation;
- Improving Business Development Services; and
- Strengthening public-private dialogue.

The Ministry of Economy is obliged, by Government, to prepare a new Strategy for the Development of SMEs in Macedonia. The Strategy should include the establishment of an integrated system of performance management, and also take into consideration the 2015 report on the Small Business Act. The new strategy is in the process of being created.

A6. Programme for Stimulating Investment in the Republic of Macedonia

The Programme for Stimulating Investment in the Republic of Macedonia (2011-2014) was prepared in 2011, with the assistance of the Investment and Enterprise Division of the United Nations Conference on Trade and Development (UNCTAD), which coordinated the preparation of the Investment Policy Review for the Republic of Macedonia (UNCTAD, 2010), from which the Programme is derived. The aim of the Programme was to develop policies and undertake reforms that led to more dynamic economic growth and development in the country, consistent with the strategic objectives of the “Programme of the Government of the Republic of Macedonia for the period 2011 – 2015”.

The Programme covered the period 2011 to 2014 but it is worth noting that the objective was to increase the country’s attractiveness for domestic and foreign investments by improving the general business and investment climate. The Programme included policies and measures in five main groups:

- Stable macroeconomic and fiscal policies;
- Tax and customs policies;
- Improvement of the business climate and the competitiveness sector;
- Encouraging investment;
- Support for small and medium-sized enterprises.

A7. Programme for Scientific Research Activities in the Republic of Macedonia

The main goal of the Programme for Scientific and Research Activities is to encourage and help the research community in the country in several areas with appropriate state budget funds. The target groups for this programme are the public and private universities, faculties, the Macedonian Academy of Sciences and Arts, independent research institutions and individual researchers. It is a programme of the Macedonian Government and it is implemented by the Ministry of Education and Science and the programme provides Government funding for:

- Scientific research projects (national and international);
- Publishing activity;
- Scholarships for young researchers;
- Organisation of scientific conferences in the Republic of Macedonia;

- Participation of scientific researchers in international conferences, seminars, etc.;
- Study trips;
- Public institutions programmes;
- Purchase of foreign literature;
- Access to electronic databases.

The background to the Programme is that total R&D expenditures in Macedonia have been constantly decreasing and is among the lowest in Europe, reaching only 0.19% of GDP in 2009. The rationale behind the Programme is to increase public investments in R&D, and encourage research performers to adopt a more active role in acquiring new knowledge and developing innovations. At the same time, the programme is based on the obligation of the Government to financially encourage and support research as determined by the Law on Scientific and Research Activities adopted in 2008.

A8. Export Promotion Strategy

The Export Promotion Strategy was originally prepared in 2010 and subsequently adopted by Government, with the Ministry of Economy in the policy lead, although actual implementation is mostly the responsibility of the Agency for Foreign Investments and Export Promotion). The strategy may be considered to be a road map for increasing the value of exports, generated by domestic Macedonian companies, from \$1.12 billion to \$1.45 billion, over the three year period 2011 to 2013, and to enhancing and fortifying the institutional framework for export promotion with InvestMacedonia as the focal point.

The Strategy recommended that the initial sector focus, whilst reflecting the Ministry of Economy's policy preferences, should be on the following four sectors:

- Textiles and Clothing;
- Agribusiness and Food Processing;
- Metal Industry and Precision Engineering – including automotive components;
- ICT.

The strategy, which lacks an action plan, is now in need of updating.

A9. Entrepreneurial Learning Strategy

The Ministry of Education and Science developed the first Entrepreneurial Learning Strategy (ELS) in the country, with the assistance of the European Training Foundation during 2012-4. The aims of the EL Strategy are to:

- Improve the employability skills of young people, leading to increased possibilities for youth employment;
- Create possibilities for everyone in the country to be equipped with the necessary entrepreneurial competences;
- Create a life-long entrepreneurial learning system;
- Strengthen entrepreneurial spirit through life-long learning principles implemented at all segments of the education system.

The main goal of the Strategy is to contribute to an increase in the number of SMEs (including young and women entrepreneurs) with a strong ability to compete in the wider EU markets;

increase the number of new innovative companies; and, to subsequently decrease unemployment rates to less than 25%.

The main responsibility for adoption and implementation of the Strategy and corresponding Action Plan, lies with the Ministry of Education and Science, however, from an operational viewpoint, the Strategy is being delivered by an ELS Steering Committee comprising relevant ministries and other stakeholders.

In preparing the Competitiveness Strategy, the above strategic documents have been consulted and used where relevant, though many are out of date or at various stages of implementation.

B. Relation to EU, Other Donors and Regional Programmes

The Competitiveness Strategy is to be implemented in the context of strengthening the association between the Republic of Macedonia and the European Union (EU). This entails the need to align the strategic objectives and policy measures with key strategic documents of the EU. This will contribute to fulfilling the vision and strategic objectives, leveraging the available external resources and competencies.

B.1 Instrument for Pre-accession Assistance II

The Instrument for Pre-accession Assistance II (IPA II) is the means by which the EU supports reforms in the “enlargement countries” with financial and technical help. The IPA funds build up the capacities of the countries throughout the accession process, resulting in progressive, positive developments in the region.

The funding allocation for Macedonia under IPA II for 2014 – 2020 is € 664.2 million, and the priority sectors for receipt of this funding are:

- Democracy and governance;
- Rule of Law and fundamental rights;
- Environment and climate change;
- Transport;
- Social development;
- Agriculture and rural development;
- Regional and territorial cooperation;
- Competitiveness and Innovation.

Under the above umbrella, financial assistance from IPA II funds can be used for the following: improving economic competitiveness; increasing productive investment; foreign direct investment; diversifying exports; creating conditions for sustainable economic growth and EU convergence; strengthening the business framework (legal and institutional), including by implementing the EU single market law.

Competitiveness and innovation falls within the policy area “Socio-economic and Regional Development”, for which an amount of € 298.8 million has been allocated. From this allocation, competitiveness and innovation measures/programmes have a total fund of € 73.0 million.

The measures proposed in this Competitiveness Strategy fall within the above remit.

B.2 Indicative Strategy Paper for Macedonia

The Indicative Strategy Paper, which was adopted on 19.08.2014, sets out the priorities for EU financial assistance for the period 2014 – 2020 to support Macedonia on its path to EU accession. The main financial instrument for the EU support is IPA II, and in order to increase its impact, the assistance will be concentrated on the areas where reforms, or investments, are most needed, and it will be tailored to take into account the capacities of the country to meet these needs. The Strategy Paper sets objectives; identifies key actions and actors; describes the expected results; indicates how progress will be measured and monitored; and, sets indicative financial allocations.

Financial assistance in the identified priority areas will be granted in line with/in support of:

- The EU's enlargement strategy;
- Relevant EU policies, particularly the EU 2020 Strategy;
- Applicable macro-regional strategies;
- Flagship initiatives of the EU to boost growth and jobs;
- Climate policy objectives.

In addition, it will focus on two key strategic priorities:

- Democracy and the rule of law including governance and public administration reform;
- Competitiveness and growth, including:
 - Improving the conditions for job creation by strengthening the education system and the national employment agencies;
 - Improving the business environment by supporting SMEs;
 - Linking R&D institutions to the business and employment sectors;
 - Increasing the competitiveness and growth potential of the agriculture sector.

The expected results to be achieved include:

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

The measures proposed in this Competitiveness Strategy fall within the above remit.

B.3 Sector Planning Document on Competitiveness and Innovation

The Sector Planning Document (SPD) has aims to assess the degree of readiness of the country in relation to the sector approach and the planning and sequencing of IPA II priorities. The overall objective of the SPD is to strengthen the legal, institutional and research environment for business operations, including the implementation of the internal market Acquis. Further objectives include improving the competitiveness and innovation of the economy, at both national and local level; increasing FDI; increasing research and development activities; increasing export and diversification; a more sustainable economic growth; and, real

convergence with the EU. This overall objective is realised through three specific objectives, and four priority areas of action, illustrated below.

Specific Objective	Priority Action
To improve the business environment, the liquidity, and access to finance for SMEs.	The design and implementation of a proper policy, strategy and legislation for SMEs; To improve liquidity and access to finance of SMEs.
To increase the productivity of companies, and improve the quality of products and services.	The provision of modern business support infrastructure and services.
To support the internationalisation of domestic companies, and improve their investment potential.	To increase enterprise investments.

The measures proposed in this Competitiveness Strategy fall within the above remit.

B.4 Bilateral and Multilateral Donors, and other sources of funding

Active bilateral donors from EU member states include France, Germany, Italy, the Netherlands and the United Kingdom. Other large donors from outside of the EU include Switzerland and the USA. Multilateral donors active in the themes covered by the strategy include: the Council of Europe; the Organisation for Security and Cooperation in Europe (OSCE); and, the United Nations. The main International Financial Institutions operating in the country are: the European Investment Bank (EIB); the European Bank for Reconstruction and Development (EBRD); and the World Bank Group (WB).

For example, the **Swiss Government** has recently started its new country programming process and has a four year programme with two main objectives:

- To enhance the competitiveness of the private sector through increased possibilities for businesses to obtain financing, as well as through improved core business skills;
- Through key public and private actors, enable systemic change to address market deficiencies, leading to income and job opportunities, in selected sectors.

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

- Support the re-organisation of higher education in order to develop the skills and knowledge relevant for the employability of graduates in the labour market; and
- Provide advisory services and capital for operating the Innovation Fund.

EBRD, EIB and others are operating regional programmes within the Country, and are providing finance for loan and investment funds to innovative growth businesses.

The Western Balkans Enterprise Development & Innovation Facility (WB EDIF) targets SMEs based in Albania; Bosnia and Herzegovina; Croatia; Kosovo; Macedonia; Montenegro; and Serbia. It provides financing instruments for innovation projects, innovative companies, and fast growing industries and a regional loan guarantee facility.

The measures proposed in this Competitiveness Strategy take into consideration the work being carried out by the above organisations and programmes.

C. Governance Arrangements

The governance arrangements should contribute to a strategic, realistic and coordinated approach to the implementation of the Competitiveness Strategy since it addresses the chosen objectives simultaneously to improve the competitiveness of the economy. Despite the complexity of competitiveness policy, a clear allocation of responsibilities for specific policy levels, measures, etc. is required in the form of an Action Plan (see Section VI). Moreover, an important role needs to be given to stakeholder consultation and assessing progress through monitoring and evaluation.

C.1 Policy Coordination

Institutional mechanisms should ensure a coherent approach and effective policy coordination. Currently, responsibilities for competitiveness measures are shared between different institutions.

At the strategic level of the Government of the Republic of Macedonia, the **Committee for Entrepreneurship and Innovation** performs a steering role and ensures the position of both competitiveness and innovation policy within government policies, programmes and projects, which also needs to be reflected in budgetary decisions. Coherent policy formulation is required across the seven strategic priorities, as well as innovation and R&D policy. The strategy should also take into account regional development policies, considering the policies of both the countries' neighbours and the European Union.

The Cabinet of the Deputy Prime Minister for Economic Affairs, the Ministry of Economy and the Ministry of Education and Science are crucial institutions involved in definition, implementation and monitoring of different policy measures from their respective policy domains. Implementation of specific policy measures also involves various government ministries and agencies, such as the Agency for the Promotion of Entrepreneurship, Fund for Innovation and Technological Development, InvestMacedonia, Department for Special Economic Zones, etc.

For effective policy coordination to occur it is necessary for the Committee for Entrepreneurship and Innovation to **meet on a quarterly basis** or more regularly, if required. The Committee will receive **quarterly / annual progress and evaluation reports** (see C3 below) with which to determine progress and areas for intervention, and will also engage in the necessary public private dialogue (see C2 below).

C.2 Dialogue between public and private sectors and the academia

Competitiveness (and innovation) policy is rather complex since it covers a wide range of themes and is governed by a number of different institutions (see Section VI). Its effective and efficient implementation needs to incorporate dialogue between public and private sectors, as well as the academic and civil society sectors. To ensure the consistency and effectiveness of competitiveness policies, extensive **inter-institutional dialogue and public-private consultations** are needed. That needs to include not only the dialogue between different government institutions, but also the involvement of the business and academic communities. Stakeholder

involvement should be incorporated into policy formulation, implementation and evaluation, in order to develop innovation policy that will contribute to needs and interests of all key actors and of the national innovation system as a whole.

The main tool for public private dialogue in the context of the Competitiveness Strategy will be the **National Entrepreneurship and Competitiveness Council (NECC)** since its remit coincides with the diverse themes involved in this strategy (see www.necc.mk). The NECC has been involved in the preparation of this strategy and will also be involved in the process of monitoring and evaluating the implementation of this strategy on a **six monthly / annual basis**.

C.3 Monitoring, Evaluation and Coordination of policies

Monitoring and evaluations of the competitiveness strategy, based on the Action Plan presented in Section VI, will enable the government to draw the right lessons from existing initiatives and to allocate government funds more efficiently and effectively.

Monitoring of the implementation of the competitiveness strategy will be done on a quarterly and annual basis by the **Cabinet of the Deputy Prime Minister for Economic Affairs**, which will be responsible for collecting the relevant data from the respective institutions. A **quarterly and annual report** with progress being made, bottlenecks in implementation and recommendations for facilitating implementation, including new measures, will be prepared and submitted to the Committee for Entrepreneurship and Innovation on a **quarterly and annual basis**. The same will also apply to the National Entrepreneurship and Competitiveness Council (NECC).

Mid-way through the implementation period covered by the action plan (mid-2018), there will be a **mid-term external evaluation** of the Competitiveness Strategy as a whole and its specific measures. The evaluation will be carried out by an independent group of experts, commissioned by the Cabinet of the Deputy Prime Minister for Economic Affairs. This external evaluation will not only address progress and problems, but will also make recommendations for more effective implementation, as well as additional measures to ensure that the action plan (mid-2018-2020) remains relevant and up-to-date. The mid-term evaluation and its recommendations will be presented to the Committee for Entrepreneurship and Innovation, the National Entrepreneurship and Competitiveness Council and will be made publicly available.

At the end of the implementation period (end 2020), a **final external evaluation of the overall Competitiveness Strategy** will be commissioned and implemented. The final evaluation report and its recommendations will be presented to the Committee for Entrepreneurship and Innovation, the National Entrepreneurship and Competitiveness Council and will be made publicly available.

III. Analysis of the current competitiveness situation

Introduction

To support the development of the Strategy, a comprehensive review of the competitiveness sector was undertaken, through numerous interviews and desk research including:

- An assessment of the country's existing strategies;
- A review of key strategic EU documents and programmes;
- On-going and planned activities of key bilateral and multilateral donors.

This review of the sector can subsequently be used to feed into the Sectoral Planning Document on Competitiveness and Innovation (2016). This chapter summarises the main findings of this review and analysis. However, although various aspects of competitiveness policies are addressed by public institutions and strategies, many challenges remain to foster competitiveness.

It is critically important for the country to enhance the competitiveness of its private sector through greater entrepreneurship, value added and productivity is crucial. This leads to the key themes which fall within the scope of the Competitiveness Strategy in the Macedonian context, namely:

- Business environment;
- Small and Medium Sized enterprises (SMEs);
- Industrial policy;
- Foreign Direct Investment (FDI);
- Access to markets/ internationalisation;
- Entrepreneurial skills;
- Access to finance.

Each of these themes is analysed below and forms the baseline for this strategy.

Theme 1: - The business environment

Current Situation

The Global Competitiveness Report has been one of the main tools for benchmarking competitiveness, and attempts to shed light on the key factors and their interrelations that determine economic growth, and a country's level of present and future prosperity. By doing so, it attempts to build a common understanding of the main strengths and weaknesses of an economy. To arrive at its conclusions, the Global Competitiveness Index combines 114 indicators that capture the concepts that matter for productivity, grouped into 12 pillars.

The results for Macedonia from the most recent Global Competitiveness Report for 2015 – 2016 are shown below.

"Basic Requirements"							
Pillars							
Institutions		Infrastructure		Macro-economic Environment		Health and Primary Education	
Rank	Score	Rank	Score	Rank	Score	Rank	Score
52	4.14	78	3.77	47	5.09	76	5.61

"Efficiency Enhancers"											
Pillars											
Higher Education and Training		Goods Market Efficiency		Labour Market Efficiency		Financial Market Development		Technological Readiness		Market Size	
Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
46	4.79	33	4.65	84	4.07	52	4.09	63	4.15	108	2.94

"Innovation and Sophistication Factors"							
Pillars							
Business Sophistication				Innovation			
Rank		Score		Rank		Score	
72		3.87		58		3.38	

Macedonia's overall ranking is **60th out of 140 countries**, which is an improvement of three places from its previous ranking of 63. It is considered to be at Stage 2 "Efficiency Driven", alongside 30 similar economies, including: Albania; Bosnia and Herzegovina; Bulgaria; Montenegro; and Serbia. Within the region, only Croatia and Romania are at a higher stage of development, as both are considered to be in transition from Stage 2 to Stage 3.

The business climate in Macedonia has consistently improved. Reforms to registration and permitting processes, property registration procedures, investor protection, and tax collection were carried out. In 2013, Doing Business ranked Macedonia the fifth most improved country among the top 50 economies in the world; it had jumped from 92nd position in 2006 to 25th in 2013, outstripping peer countries in the region.

Further improvements in the business climate, attracting private investment and improved export potential are essential in order to achieve sustained private sector led growth and job creation. As described in the diagnostic section, Macedonia has made important strides in this area already – the country has been recognised as one of the top ten reformers globally in the latest Doing Business Report – but many challenges remain, especially in terms of effective implementation of reforms and further capacity building that would be translated into higher investment and more and better jobs for the Macedonian population.

Considerable efforts have been made by the Government into establishing a simpler and more stable business environment, and the success or otherwise of these efforts can be seen from the assessments produced by the World Bank, through their "Doing Business" Reports and corresponding Indexes"; together with current assessment reports on the implementation of

the Small Business Act (OECD, 2016). In the World Bank's Doing Business analysis (2016) Macedonia ranks 12 out of 189 countries.

The World Bank produces an annual report investigating the regulations that enhance business activity, and those regulations that constrain it. The Report presents quantitative indicators on business regulations, including the protection of property rights that can be compared across 189 economies world-wide. The current Report for 2015, measures regulations affecting 10 areas of the life-cycle of a business, and specifically, attempts to shed light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations: "starting a business"; "dealing with construction permits"; "getting electricity"; "registering property"; "getting credit"; "protecting minority investors"; "paying taxes"; "trading across borders"; "enforcing contracts"; and, "resolving insolvency".

The "Doing Business" report on the current situation regarding the business environment in the country states:

- Starting a business: - according to the most recent Report, "starting a business" in the country requires 1 procedure, takes 1 day, costs 0.10% of income per capita and requires paid-in minimum capital of 0.00% of income per capita. Not surprisingly, on this basis, Macedonia stands 2nd in the global ranking of 189 economies on the ease of "starting a business", with only New Zealand ranking higher;
- Dealing with construction permits: - requires 10 procedures, takes 74 days, costs 5.4% of warehouse value, and Macedonia stands at 10th in the global ranking of 189 economies;
- Getting electricity: - requires 3 procedures, takes 97 days, and costs 229% of income per capita. Macedonia currently stands 45th in the global ranking;
- Registering property: - requires 7 procedures, takes 30 days, and costs 3.3% of property value. Macedonia currently stands 50th in the global ranking;
- Getting credit: - different evaluations are used for this issue. Macedonia currently stands at 42nd in the global ranking;
- Protecting minority investors: - different evaluations are used for this issue. Macedonia currently stands 45th in the global ranking;
- Paying taxes: - requires 7 separate payments per year, takes 119 hours per year, and the total tax rate is 12.9% of profits. Macedonia currently stands 7th;
- Trading across borders: - time to export (Border Compliance) – 9 hours; cost to export (Border Compliance) - \$103; time to export (Documentary Compliance) – 2 hours; cost to export (Documentary Compliance) - \$45. Macedonia currently stands 26th;
- Enforcing contracts: - time taken – 604 days; cost 28.8% of claim. Macedonia currently stands 26th in the global ranking;
- Resolving insolvency: - recovery rate percentage – 44.6%; time taken – 1.8 years; cost – 10% of estate. Macedonia currently stands 37th in the global ranking of 189 economies.

As can be seen from the above, in certain areas, e.g. "starting a business"; "paying taxes"; Macedonia is doing exceedingly well. Indeed, the issue of "paying taxes" is seen as a very attractive feature of the investment climate in Macedonia. Nevertheless, there are other areas, such as "registering property", "getting credit", etc. where improvements could be made.

Regulatory Guillotine

The economic policy of Macedonia in recent years has focused on the implementation of reforms with the purpose of providing a better business climate, in terms of conditions and standards, for the business sector, thereby strengthening the competitiveness of the Macedonian economy. Over the last number of years, a comprehensive process of regulatory reform has been implemented, by introducing a Regulatory Guillotine, and a Regulatory Impact Assessment (RIA), for simplification of procedures for doing business and trade. The Regulatory Guillotine which has been applied since 2006 and is now in the fourth phase of its development, aims at achieving the elimination of numerous administrative barriers, as well as the simplification of a huge number of procedures for issuing approvals, permits, and licenses for doing business. In June 2012, and after detailed analyses, together with an assessment of the proposals received from the SME sector, the Government adopted an Action plan for the implementation of this fourth phase of the Guillotine, named "Advantages for the small". The Guillotine operates on a regular basis, and during 2014, 64 laws, and 681 subordinated regulations were amended. Under the "Regulatory Guillotine 1st, 2nd, 3rd and 4th phase" Project 626 laws were amended (93 laws and 533 by-laws). These reforms have led to major improvements in the regulatory framework and have significantly eased the cost of, and barriers to, doing business in the Republic of Macedonia.

Government policies and measures remain focused on: i) improving the business climate; ii) continuing regulatory reforms for simplification of the procedures for doing business; iii) eliminating barriers; iv) improving public-private dialogue between Government and the business community; and, v) diminishing bureaucratic costs together with other initiatives aimed at creating equal conditions for both economic development, and private sector development. As a result of these measures, a recent report from the World Bank has ranked the Republic of Macedonia, for the fourth time, amongst the top ten economies in the world, where the business and regulatory environment has been the most improved.

Regulatory Impact Assessment (RIA)

A RIA is required for all regulations/laws prior to their adoption except the laws adopted in an urgent procedure; laws for the ratification of the international agreements; laws for the terminology alignment with other legislation; the National Budget, the Law on Budget execution; the laws for the debts in the Budget; the debt laws and guaranty laws. The specific regulation governing RIA includes written guidelines for the implementation of RIA, as well as a formal checklist for specific SME aspects. When the impact of a new regulation/law is assessed, a formal Draft RIA report is issued and published on the ENER Portal for consultation with the stakeholders. This report provides an overview of the views and comments made by the SME sector, together with an explanation as to why they were accepted or rejected during the RIA process. The government then publishes the Final RIA report after the regulation/law has been adopted. An ex-post evaluation of the impact of regulations, as a simplification monitoring tool, has been introduced by government, and this evaluation is currently overseen by the Ministry of Information Society and Administration.

One major issue, which neither the Guillotine, nor the RIA effectively addresses, is the failure to adhere to the policy of one single annual programme of legislation. It is difficult enough for SMEs to follow, understand, and implement new/changes to laws or regulations, when they have advance notice of these changes, but when they arrive "out of the blue", this imposes a

totally unfair and onerous burden, even on sophisticated SMEs. This problem arises when various ministries use the rationale of “emergency regulation” to introduce new/changes to laws that did not previously appear in the Government’s annual programme. The SME sector finds this extremely difficult to deal with, but their complaints appear to fall on deaf ears at present. This problem needs to be tackled as a matter of urgency. Therefore, support is required to ensure that Government develops and adheres to an annual programme of legislation and the opportunities for various ministries to by-pass the normal legislative process, through emergency legislation, needs to be minimised.

Priorities for change (extracted from existing programmes and strategies)

- Simplifying the legal and regulatory environment;
- Simplifying taxation;
- Improving the business environment to support the SME sector;
- Reducing regulatory and administrative burdens on businesses;
- Designing and implementing a proper policy, strategy and legislation, for the SME sector;
- Strengthening public-private dialogue.

Theme 2: - Entrepreneurship and SME development

Current Situation

The SME sector is central to the economy of OM, as it forms approximately 99% of all businesses, and provides over 76% of overall employment. SMEs generate nearly 67% of value-added, but their productivity is 80% below the EU average. In the period 2008 to 2013, SME employment increased by 14%, and SME value-added increased by 9%. As the GDP of the country is expected to grow by about 7% between 2014 and 2016, then further growth of SME employment and value-added, can be expected.

Therefore, the SME sector is rightly recognised as a main driving force of overall economic activity, and because of its size and flexibility, it represents the most dynamic, but at the same time, a vulnerable segment in the economic structure of the country. However, according to the preliminary findings from the most recent Small Business Act (SBA) Assessment Report (2015), limited progress can be observed on the institutional support framework for SMEs. The country has, however, strengthened the institutional, regulatory and operational environment for SMEs, e.g. measures have been taken to facilitate company registration and e-government services. Two main web portals provide an overview of all e-services – the website of the MoISA informs about the e-services that are offered, a central government website informs about e-government policy, however, information on the different types of licences and permits that are required, cannot yet be found on one single website. In mitigation, this is not perceived by SMEs as a major constraint to “doing business”.

Access to finance is considered as a major obstacle to “doing business”. The share of SMEs in total private sector lending is estimated at only 35%, yet they constitute almost 99% of all businesses. Smaller companies in particular struggle with accessing loans, and this is reflected in the high number of enterprises who solve their financing needs with internal funds and retained

earnings (approximately 80%). Part of the problem, is the relatively high collateral requirements (approximately 150%), combined with the banks' heavy reliance on immovable assets, together with a credit history assessment, as part of their loan decisions. The Government has supported lending to SMEs with different programmes provided by the Macedonian Bank for Development and Promotion. The extent to which this "access to finance" problem has limited the establishment of new businesses, and restricted the growth of existing businesses, has yet to be explored.

Business support services are another area which requires attention, as many smaller and micro-enterprises lack important skills in terms of business planning and financial management. This skills gap lessens their growth potential, and restricts their ability to access finance through normal banking channels. Training courses to help start-ups and growth enterprises are offered by various national and international sources, and it is suggested, that online training should be explored as a possible innovative option. Legal support services are also available through the Information Centre of the State Office of Industrial Policy; however, few advances have been made in the dissemination of SME related information. Although information about private business support services is provided online, this is not currently available through a single SME portal. The SME Observatory is the natural repository for this information but is not operational. The monitoring and evaluation of business support services is still in the early stages of development, and further efforts should be made to enhance the effectiveness of both the evaluation and the feedback mechanisms.

The previous National Development Strategy for SMEs 2011 – 2013 has expired, and although work has started on a new strategy for the sector, it has not yet been finalised, and policy coordination without a strategy remains weak. Therefore, the adoption of an SME strategy, based on the latest SBA Report (2015), as the main strategic document for continuous reforms and support to SMEs is a priority. The strategy will identify concrete steps to resolving outstanding challenges in the institutional and operational environment, including enhanced SME support services, strengthened consultation mechanisms with the private sector, and expanding the breadth and depth of statistical data collection amongst SMEs. The SME sector should be strongly and actively involved in the preparation of this strategy.

In general, the government allocated budget for the Ministry of Economy, the SME Agency, and service provision, needs to be enhanced for full-scale project implementation. As an example, the SME Agency for the Promotion of Entrepreneurship (APPRM), which should be the main organisation for developing the sector, currently employs only 11 people, and has a limited operational budget. The Agency provides a basic range of support services, under its "Support Programme for Entrepreneurship, Competitiveness and Innovation of SMEs 2015. These include programmes on "investment readiness", consultancy, training, and mentoring, but are limited by resource implications.

Consequently, SME owners/managers and their representatives chambers maintain that their sector has been somewhat neglected over the past number of years and that a greater share of the country's scarce economic development resources should be allocated towards enterprise development. Additionally, the awareness of SME policy implementation, within the SME community, is moderate, and that consultation mechanisms with the private sector are in need of strengthening.

Priorities for change (extracted from existing programmes and strategies)

- Supporting competitiveness and business development;
- Improving supply chain linkages between foreign investors and local companies;
- Providing a modern business support infrastructure and services;
- Improving business development services;
- Enhancing science, technology, and innovation, as functions of the development of SMEs;
- Fostering ICT.

Theme 3: Export and internationalisation

Current Situation

The two main institutions responsible for exporting are the Ministry of Economy and the Agency for Foreign Investments and Export Promotion, through its “Sector for Support and Promoting Export Activities” although the resources to fully implement their programmes are currently limited. These funds are supplemented with financial and logistical support from other donors (USAID, SIPPO, etc.). Additional support for exporting is delivered through the international network of Economic Promoters, whose activities focus on FDI, but also include:

- Organising B2B meetings and other promotional activities;
- Identifying market opportunities;
- Identifying potential partners;
- Creating specialised contact lists, and organising business visits.

The activities of the Agency’s Sector staff included organising business forums and events; visiting international fairs; and arranging the visits of foreign delegations. The Agency’s activities are implemented in line with the Export Promotion Strategy, which was originally prepared in 2010, revised, and finally adopted in November 2011. The Strategy defines four target sectors which are intended to contribute towards an increase in exports:

- ICT;
- Agribusiness and Food Processing;
- Textiles and clothing;
- Metal industry – precision mechanics and auto-parts.

The Agency provides export support to domestic companies by:

- Organising meetings between foreign investors and domestic companies;
- Providing market information to local companies via the Economic Promoters’ network.
- Information exchange and generating contacts for local enterprises;
- Registration on the company linkage portal;
- Facilitating the participation of local companies at international business events (fairs, trade meetings, etc.);
- Presentation of local companies on the InvestMacedonia web-portal;
- Export information supplied through the electronic information bulletin prepared by the Sector for Export Promotion.

The main priorities of the Agency are:

- Raising awareness among domestic companies regarding the benefits of exporting;
- Increasing the number of domestic companies that are using the support provided by the Agency for participation at fairs, business2business meetings, etc.;
- Increasing the value of exports generated by Macedonian companies.

As a small, open economy Macedonia will have to rely on exports and increased competitiveness to sustain long-term growth. Supported by an active strategy to promote Foreign Direct Investment (FDI – see below), Macedonia is shifting gradually to a more export-led growth model. In recent years, Macedonia has diversified its exports both in terms of products and destinations and increased the technological intensity of its export basket due to FDI activities. As a result, in recent years, the country has diversified its exports both in terms of products and destinations and increased the technological intensity of its export basket. Export growth reached 3.3% in 2013 and is expected to reach 15.6% in 2014, largely driven by an increase in FDI-related exports.

On the other hand, small and medium Macedonian companies face challenges of integration into international markets due to lack of managerial, financial and technical capacity, which limits their competitiveness. While multinational firms have made an impact on employment and growth of new industries with better long-term prospects, their limited backward linkages to domestic companies prevent a broader impact on the economy. Macedonia will need to boost and upgrade its exports further in order to improve its competitiveness, by: investing in its infrastructure; promoting a stronger investment climate; facilitating business growth and trade linkages; and, supporting business sophistication, skills, and innovation. This will help the country to attract additional investments for sustained private sector-led growth. Continued efforts to improve competitiveness are particularly important for Macedonia given its exchange rate peg to the Euro.

At present, the majority of exporting is still being done by the large FDI companies, whilst domestic companies play a minor role. The main trade partners and destinations for Macedonian exports in 2014 were: Germany, Bulgaria, Italy, Serbia, Greece, Belgium, and Croatia. Germany is the number one export destination with over 2 billion USD or 41.4% of the total exports. Exports reached a total of USD 4.9 billion and the main export commodities were food, beverages, tobacco, textiles, miscellaneous manufactured products, Ferro-nickel, iron, steel (flat-rolled products) and automotive parts.

Macedonian services exports reached an amount of USD 1.701 billion, which represented a significant increase as compared to the amount of 2013 (USD 1.163 billion). Mostly exported were commercial services followed by manufacturing on physical inputs owned by others, transport, travel, other business services, telecommunications, computer/IT services, construction, personal/cultural and recreational services. Exports are still too concentrated in commodities (metals and minerals), where there is little value-added in terms of quality or innovation.

The Government has implemented a number of measures that facilitate trade and trade flows to help the economy, including the establishment of the electronic One-Stop-Shop system for import and export licenses, which enables enterprises to submit requests on-line, for obtaining

import or export licenses as issued by the relevant state institutions. In addition, customs duties on more than 700 tariff lines have been reduced and eliminated, such as on the importation of machinery and equipment for the metal processing sector, textiles, and agriculture. The improved performance of countries in the Euro zone, in the final months of 2014 is expected to have helped to boost exports.

The Stabilisation and Association Agreements (SAA) have been implemented with various Balkan countries, and these are the legal frameworks that regulate the relations between the country involved, and the European Union. The Stabilisation and Association Agreement (SAA) with Macedonia entered into force on 1 April 2004, though the parts regulating trade and trade issues entered into force on 1 June 2001 by special “Interim Agreement on Trade and Trade-related Issues between the Republic of Macedonia and the European Community”.

The signing of the SAA opened up a number of new markets for local companies, however, as the agreement has been in place for quite a number of years, its impact is no longer quite as strong as before. In addition, any potential threats that were envisaged by the loosening of import restrictions have by now also worked their way through the system, and their impact should no longer be as strong.

The Central European Free Trade Agreement (CEFTA) is a trade agreement between non-EU countries, members of which are now mostly located in South-eastern Europe. CEFTA was originally founded by representatives of Poland, Hungary and the former Czechoslovakia, but was then expanded to include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Macedonia, Moldova, Montenegro, Romania, Serbia, Slovakia, Slovenia, and UNMIK on behalf of the disputed region of Kosovo. Once a participating country joins the EU, its CEFTA membership ends, and therefore, a majority of the original members have subsequently left. Macedonia joined in 2006, and continues to be a member. As with the signing of the SAA, membership of CEFTA opened up a number of new markets for local companies.

On a general note, most domestic firms in Macedonia, are small (fewer than 10 employees) and consequently have great difficulty competing in export markets, because of their inefficiencies, and the high costs related to customs, logistics, and trade infrastructure.

Priorities for change (extracted from existing programmes and strategies)

- Strengthening the institutions responsible for exporting;
- Increasing the competitiveness and growth potential of the agricultural sector;
- Encouraging internationalisation among SMEs;
- Developing a more export-led growth model;
- Diversifying the export base, both in terms of products and markets;
- Increasing the technology intensity of the export basket;
- Increasing the availability of online export services.

Theme 4: Foreign direct investment

Current Situation

A key part of the Government's competitiveness strategy, over the past number of years, has been to attract foreign direct investment (FDI) through a package of proactive promotion in key target markets; financial incentives; and, the establishment of the Technological Industrial Development Zones (TIDZs) around Skopje (2), Stip, and Tetovo, as well as a planned network of a further 11 TIDZs.

Foreign Direct Investment (FDI) was negligible pre-1998 (e.g. registering less than EUR 10 million in 1995), however since then, FDI has been steadily growing. It reached a peak of about EUR 400 million in 2001, which was largely attributable to acquisitions by foreign investors, of major companies and banks, during the privatisation process.

A sharp fall in FDI occurred as a result of the political crisis in 2001, and after that, foreign investment registered less than EUR 100 million in both 2002 and 2003. However, following various efforts towards achieving economic and political stabilisation, FDI has been on an upwards trend since 2004. The years 2006 - 2008 saw a significant new wave of investment mainly arising from privatisations in the energy sector, and certain green-field investments in Macedonia's free economic zones. The worldwide economic crisis resulted in a significant decrease in investment flow in 2009 however, during 2010 there were signs of a restoration of investor interest, although the actual FDI level experienced just a slight increase, compared to the previous year. In 2011, the FDI level increased significantly to € 337 million, compared to the previous FDI level for 2010 of € 160 million.

The Government has not only invested quite a large amount of resources into the Technological Industrial Development Zones (TIDZs), which are closely connected with the broader FDI policy ambitions. Investors in the Zones can benefit from tax holidays for up to 10 years, for both profit tax, and also personal income tax for the employees. In addition, there are VAT and customs duties exemptions, together with other incentives. Under the Law on Technological Industrial Development Zones, the Zones are used to facilitate economic activities to be performed under special conditions, including tax and other incentives for zone users. The aim of the TIDZs is to support the development of high modern technologies through an application of the highest environmental standards. The establishment, development and monitoring of the Zones is carried out by the Directorate for Technological Industrial Development Zones. In the event where a TIDZ is created based on a Public Private Partnership (PPP), then the institution responsible for its establishment, is the Ministry of Economy. In addition to the four currently operational TIDZs, there are a further eleven Zones planned in the following cities: Skopje III, Prilep, Gevgelija, Kicevo, Strumica, Rankovce, Struga, Radovis, Delcevo, Vinica, and Berovo, and one based on a PPP in Tetovo.

The tax exemptions and incentives available in the TIDZs include:

- Corporate income tax exemption for a period of up to ten years from the day of commencement of activities in the TIDZ. In order to fully utilise this tax exemption, the investor should start with its business activities no later than two years after obtaining the official decision for work to commence in the TIDZ;

- Personal income tax exemption on salary payments for a period of up to ten years, from the moment the investor commences its business activities in the TIDZ;
- VAT exemption on the sales of goods and services within the TIDZ, excluding the sales of goods and services considered as final consumption under the VAT law;
- VAT exemption on the import of goods into the TIDZ, which are ultimately intended for export, excluding the goods intended for final consumption as per the provisions in the VAT Law;
- Exemption from taxes and other duties related to the utilisation of construction land, connections to water, sewerage, heating, gas and the power supply networks.

The TIDZ users are also entitled to customs duties exemptions and reliefs, in accordance with the domestic customs legislation. These incentives, together with the infrastructure within the Zones are very attractive to potential Greenfield foreign investors, resulted in increased FDI inflows, especially in medium- and high-tech manufacturing industries. These investments jumped to EUR 78 million in 2013, accounting for net exports of EUR 87 million in 2013 and are expected to be up to EUR 190 million in 2014, with total exports of EUR 1.2 billion. The new FDIs located in and outside the SEZs employed around 5,000 workers in 2013, and this is expected to increase to 9,000 by end 2014.

Companies received State Aid packages, which include tax incentives and skills training for the employees. A recent Financial Times study on “European Cities and Regions for the Future 2014/15”, placed several regions in Macedonia among the top ten, in nine out of ten categories, such as ratings for price efficiency, business cooperation, and FDI strategy, were considered to be particularly favourable.

However, the situation in the country is not completely positive, and there are a number of factors that have to be taken into account. According to the Global Competitiveness Report (2013-2014), the most problematic factors for doing business in Macedonia are: access to financing; an inadequate infrastructure; an inadequately educated workforce; a poor work ethic in the national labour force; an inefficient government bureaucracy; insufficient capacity to innovate; policy instability; and restrictive labour regulations; These investments contributed to the acceleration of the economic growth of the country by creating new jobs, increasing productivity and competition, industrial specialization, the transfer of sophisticated technology, faster access to the global market, transfer of management skills, introduction of innovations, as well as higher integration of the country in the international trade.

As can be seen, the country is putting quite a lot of effort and resources into the pursuit of inward investments. As a result, the current FDI institutional structure is quite extensive. A number of different individuals, institutions, and Ministers, are directly involved.

- Cabinet of the Prime Minister: there is an FDI unit in the PM’s cabinet which focuses on trying to attract FDIs (medium-sized firms), and attempts to have a global outreach covering every continent. The unit does not have its own direct budget, but is funded out of the budget for the PM’s cabinet. The unit works in close cooperation with the team of Economic Promoters;

- Ministers without Portfolio: there were six Ministers without Portfolio, who all have an involvement in FDI activities (large firms); as well as several other prominent individuals representing other state bodies.
- The Ministry of Economy is responsible for the preparation of the Programme for stimulating investments. The previous Programme was for the period 2011 – 2014, and its main objectives were to increase the Country's attractiveness for both domestic and foreign investments (more details at page 10).
- Agency for Foreign Investments and Export Promotion (AFIEP), also known as Invest Macedonia: the Agency, as its name suggests, is the primary government institution which is in charge of attracting new foreign investments to the country, and is the direct employer of the Economic Promoters who are based in different target countries throughout the world. It also deals with aftercare and some aspects of state aid.
- Economic Promoters: there is a network of Economic Promoters, whose role is to promote investment incentives, opportunities, and the potential of Macedonia.
- Directorate for Technological Industrial Development Zones (DTIDZ): the Directorate manages the administrative affairs of all zones in Macedonia, including some elements of FDI and state aid.

Priorities for change (extracted from existing programmes and strategies)

- Mobilising Diaspora remittances for investment;
- Eliminating potential blockages to inward investment;
- Increasing the number of investments;
- Increasing the number of new jobs created from foreign investors;
- Improving the climate for investments;
- Establishing a one-stop-shop for domestic and foreign investors;
- Increasing backward linkages between foreign and domestic companies;
- Increasing the transfer of sophisticated technology from FDI companies;
- Increasing the introduction of innovations from FDI companies; and
- Increasing the transfer of management skills from FDI companies.

Theme 5: Skilled and entrepreneurial labour force

Current Situation

Education and skills have been identified among critical constraints to employability and competitiveness in the country. While access to education has improved, there is a challenging disconnect between education system outcomes and the private sector needs, as companies complain about the quality and availability of skills despite high unemployment. Lack of a clear accreditation mechanism means that employers do not know which skills a university graduate should possess, making hiring harder. Graduates of secondary vocational schools often have had no practical exposure to the job for which they are trained. Providing workers with the skills demanded in the labour market is central to inclusive growth since skills are the main asset workers have to improve their productivity, earn higher wages and lift their households out of poverty and into the middle class. The skills agenda is broad and involves all levels of education nevertheless, the Government is aware of the need to focus on adapting the post-primary education system to the needs of the labour market. Higher education reform has already

commenced in the country, which is aimed at bringing it in line with EU standards and making graduates' skills more market-relevant. The legislative framework on quality assurance in higher education system was amended to align it with EU standards, and a higher education funding model has been defined.

While access to education has improved, challenges remain in the provision of integrative "new economy" skills, and in better linking the products of the education system to private sector needs, as companies complain about the quality and availability of skills despite high unemployment. The secondary Vocational Education and Training (VET) and higher education systems emphasise traditional cognitive skills, and in the case of secondary VET, the focus is on narrowly-defined occupational profiles with low vertical and horizontal flexibility. Yet, the demand for skills has been moving away from routine, cognitive activities towards "new economy" skills that include non-routine cognitive (critical thinking and problem-solving), and non-cognitive skills (interpersonal skills, team work, work ethic, grit). Surveys have also shown that enterprises place equal value on cognitive and non-cognitive skills, and that the latter are particularly lacking.

Improving the country's labour market performance and economic competitiveness will require a more skilled and better educated labour force, as well as increased technology absorption, the diffusion of knowledge, and innovation. At the same time, the regulatory, institutional, and financial environment needs to be strengthened to further promote innovation at the firm level and improve the commercial significance of the country's academic science and technology assets. In its Work Programme for the period 2011–15, the Government is committed to investing in quality education, innovation, and information technology, which have been identified as top strategic priority areas, as outlined in the South Eastern Europe 2020 Strategy.

Priorities for change (extracted from existing programmes and strategies)

- Reforming the secondary and tertiary education system to fit the needs of the private sector;
- Strengthening the linkages between business and academia;
- Improving the conditions for job creation by strengthening the education system, and the national employment agencies;
- Linking R&D institutions to the business and employment sectors;
- Promoting entrepreneurship in education and training;
- Improving the employability skills of young people, leading to increased possibilities for youth employment;
- Creating possibilities for everyone in the country to be equipped with the necessary entrepreneurial competences;
- Creating a life-long entrepreneurial learning system;
- Strengthening entrepreneurial spirit through life-long learning principles implemented at all segments of the education system.

Theme 6: Industrial policy

Current Situation

The definition of what constitutes an industrial policy tends to be quite broad, and the current Policy includes five areas of intervention as the pillars for enhancing competitiveness: innovation, R&D, internationalization, SME support, eco products, services, infrastructure and skills policies, as well as targeted interventions boosting a specific sector, activity or cluster. The basic purpose of the document “Industrial policy of the Republic of Macedonia 2009-2020” is to enhance the competitiveness of domestic industry, based on knowledge, innovations and research, that leads to growth and development; the creation/stimulation of a business and investment climate; and support to enterprises for the improvement of their competitive capabilities through the acquisition of knowledge, new technologies and markets. The policy is horizontal in its nature and does not focus on supporting selected industries. It provides a stimulus for all pro-active Macedonian companies to develop and enhance their competitive capabilities and to re-orient towards higher value added products and services, which will enable sustainable long-term operations on international markets. It is not only about manufacturing, as it can also involve high value-added activities in agriculture and services. In the context of a developing economy, such as Macedonia, industrial policy involves targeted government actions which are aimed at: supporting production transformation that increases productivity; generating backward and forward linkages; improving domestic capabilities; and creating more and better jobs.

Industrial Policy has to be considered in light of the current situation in the country, where growth is expected to reach 3.2% in 2015, supported by continued public investment and strong FDI-related export. The continued expansion in economic activity reflects on the labour market outcomes with the unemployment rate down to 27.3% in the first quarter of 2015 from 28.4% in 2014, and 25.5% in the third quarter of 2015. However, relative to 2014, growth moderated in the first half 2015, driven by slowdowns in manufacturing and services, while private consumption and investment also weakened. The trade deficit narrowed significantly in the first half of 2015 as exports outperformed imports, but net FDI inflows declined slightly in the same period.

The Department for Industrial Policy within the Ministry of Economy has specific responsibility for the creation and the implementation of the Industrial Policy of Macedonia, however, this type of policy require an extremely high level of co-ordination and sequencing of actions in several fields, such as skills, finance and infrastructure.

Due to their complexity, and the broad range of their activities, industrial policies are not necessarily easy to put in place, and the risk of failure is quite high. In order to ameliorate this risk, the Department established an inter-ministerial working group, which resulted in the development of the document “Industrial Policy for the Republic of Macedonia 2009 - 2020. The Policy concentrates on accelerating the development of Macedonian industry through several specific areas of intervention.

The key prerequisite needed for successful industrial policy implementation is collaboration between Ministries, as well as between public and private sectors, which is designed to elicit information about: the creation of industrial policy measures, distributing responsibilities, and

evaluation of the results. For the implementation of the industrial policy, the Government created an implementation structure on two levels: 1. On the level of Ministers-Competitiveness Committee chaired by the Deputy Prime Minister in charge of economic affairs and 2. On the level of the Inter-Ministerial expert working group– coordinated by the Cabinet of the Deputy Prime Minister in charge of economic affairs which enabled dialogue, together with the joint development and implementation of a harmonised industrial policy. In 2009 the Competitiveness Committee of Ministers was established as a decision-making body for key national decisions about future competitiveness and the enhancement of Macedonian industry, assisted by the Inter-ministerial expert group. These structures were supported by the USAID IDEAS Project, and in particular the capacity building of the Inter ministerial working group, the implementation of Industrial policy measures, and in addition, the creation of a single portal for sharing the information for the measures and projects for competitiveness support – www.konkurentnost.mk

Firstly, International cooperation of key economic development stakeholders - the principal focus of this area of intervention is to help Macedonian companies to stimulate International cooperation and foreign direct investments enhancement by: improving and enhancing international cooperation of key stakeholders in economic development; strengthening the professional network for cooperation among business partners; the exchange of knowledge and experience; learning and development of management; marketing and other business capabilities (implementation of methods for increasing productivity and efficiency); attracting qualified personnel for the creation and promotion of innovative businesses; and, attracting foreign investments. Thus, the Republic of Macedonia will increase the capacity of domestic companies for absorbing new knowledge and experience.

The measures that are already implemented by the Foreign Investment Agency and the Agency for Entrepreneurship Support through the Programme for Improving Competitiveness of Macedonian Goods and Services, and the Programme for Stimulating Investments were complemented by a couple of new measures.

Additionally, intervention in this area will improve Macedonian companies' active relationships with suitable business partners internationally. Switzerland Global Enterprise through its Swiss Import Promotion Programme (SIPP) has been cooperating with Invest Macedonia, the Federation of Farmers in the Macedonian Republic (FFRM), and the Macedonian Association of Processors (MAP) to conduct an export support programme. This programme facilitates market access, and opens up new business opportunities in Switzerland and the EU by extensive matchmaking activities, and participation in selected trade fairs. This programme has its limitations, in that, it is only available to those enterprises that are currently "export ready" and, as a consequence, there are very few firms currently involved in the process. This means that there is a considerable gap in the system, as those enterprises that have export potential, but are not as yet "export ready", have no available support, so more needs to be done in this regard.

Secondly, applicable research and development and innovation. According to major international competitiveness studies, low expenditure on R&D; low innovation and R&D activity; a low level of technological readiness; and a low level of business sophistication are considered to be among the main weaknesses of the Macedonian economy. The government

has made some reasonable strides in terms of its preparations in the area of science and research, as progress has been made with respect to actions on innovation, and there has been some initial and active participation in the EU Research and Innovation Programme "Horizon 2020". An Action Plan on promotion and support for participation in Horizon 2020 was adopted focussing on SMEs and the mobility of scientists. In addition, a network of national contact points has been established and representatives to the Horizon 2020 Programme Committees have been nominated. Several workshops and information days have been held, and these resulted in a number of applicants submitting proposals for funding. Based on initial feedback, approximately 20 projects were successfully evaluated.

The country also cooperates actively at the regional level on the implementation of the Regional Strategy on Research for Innovation, and with the Central European Initiative (CEI). With regard to policy actions on innovation, the government has devoted its energies to the implementation of the National Innovation Strategy. This is seen to be high on the political agenda, as demonstrated by the allocation of € 20 million (in part with a World Bank loan) through the Fund for Innovation and Technological Development, to facilitate access to risk capital to co-finance innovations, new technologies start-ups and spin-off companies.

Unfortunately, the level of investment in research has stagnated at less than 0.30% of GDP; however, the government intends to strengthen research capacity, through a new 2015-2019 programme for higher education and scientific research activities, which is currently being prepared. This programme aims at funding national research, in line with the EU priority areas. Eco- friendly products and services for sustainable development – Macedonia possesses unique natural assets that can be leveraged for the high quality, eco-friendly production of wine, food, energy, authentic tourism services etc. Even basic metal products can be produced in eco-friendly processes. International niche markets which attract buyers with socially responsible purchasing preferences are growing rapidly (average annual growth rate of over 20%). These markets represent a major opportunity for Macedonian industry.

Thirdly, SME development and entrepreneurship. The specific target of this area of intervention is to improve access to finance for the development of innovative SMEs. According to a number of recent surveys, access to finance, is one of the top obstacles for doing business in Macedonia. SMEs themselves claim that access to finance is a major obstacle to many different aspects of their business, and smaller companies especially appear to struggle with accessing loans or credits, partly due to collateral constraints and asymmetry of information problems. This is reflected in a high share of businesses covering their financing needs with internal funds and retained earnings. In addition, it is an unfortunate fact, that there is also little product diversification amongst the non-bank financing options, which makes life difficult for innovative SMEs.

Fourthly, collaboration in clusters and networks. Several cluster initiatives are already operating in Macedonia. The key weakness that all existing clusters share is the lack of capabilities in the area of creating economies of scale in purchasing, gathering, applying and expanding knowledge, and creating innovative solutions to business challenges. These qualities of clustering still need to evolve in Macedonia. Furthermore, the analysis and strengthening of value chains need to be further developed in Macedonia.

Industrial policy in Macedonia will evolve into a pro-active, future-oriented development policy which anticipates coming developments in terms of resources and competitive advantages, as well as changes in the global markets. It should be horizontal in its nature, and not to focus solely on supporting selected industries. Rather, it should try to provide a stimulus for all pro-active Macedonian companies, to allow them to develop and enhance their competitive capabilities, and to re-orient towards higher value added products and services, which will enable sustainable long-term operation on the international markets.

Priorities for change (extracted from existing programmes and strategies)

- Increasing international cooperation with key economic development stakeholders;
- Supporting innovative SMEs through pilot projects with commercial banks;
- Increasing the risk capital available for investment opportunities in small but ambitious Macedonian companies;
- Increasing applicable innovation and R&D;
- Supporting industry to employ higher education researchers, in order to strengthen their technological and innovation competence;
- Stimulating technology transfer;
- Protecting Intellectual Property Rights;
- Developing sustainable eco-friendly products and services;
- Realigning public procurement to sustainable development, in a way which favours energy efficiency and respects the environment;
- Increasing collaboration in clusters and cluster networks;
- Accelerating supply chain partnerships.

Theme 7: Access to finance

Current Situation

The banking sector in Macedonia is broadly stable. The sector is dominated by three large banks that control around 60% of banking assets. During 2013 and early 2014, medium and small banks gained market share at the expense of the three large banks and now control 39% of all assets, compared to 30% at end-2012. Two of the three large banks are owned by parent banks in Greece and Slovenia that are facing difficulties that may affect the operations of their local subsidiaries. However, all foreign-owned banks in Macedonia operate as stand-alone subsidiaries under domestic regulation and supervision, and with their own balance sheets.

According to a number of recent surveys, access to finance, is one of the top obstacles for doing business in Macedonia. SMEs themselves claim that access to finance is a major obstacle to many different aspects of their business, and smaller companies especially appear to struggle with accessing loans or credits, partly due to collateral constraints and asymmetry of information problems. This is reflected in a high share of businesses covering their financing needs with internal funds and retained earnings.

On the other hand, banks maintain that they have adequate money available to lend, but do not receive proposals of a sufficiently high standard, that they could, or indeed would support. This is the “Catch22” which has been repeated over a great many years, and in a great many

different countries of the world, both developed, and developing. Governments, donor organisations, and indeed the banking sector themselves, have developed many schemes, created various initiatives, and produced a great many financial products, to try and resolve the problem. As in any similar situation, there have been successes and of course, there have been failures, however, the above conundrum continues to apply.

Undoubtedly, there is merit to both sides of the argument, and the reality must lie somewhere in the middle – SMEs do have difficulty in accessing finance, and banks do struggle to attract high quality proposals. One possible factor, however, could be the relatively high collateral requirements (around 150 %, which is line with many countries in the region), combined with the banks' heavy reliance on (immovable) collateral, and credit histories, in their loan decisions. Nevertheless, it is quite a complex scenario, and many different factors need to be taken into consideration, before any new or even old remedies are proposed. Some of these factors are illustrated below.

General situation:

- Macedonia is a small and fragmented country, and its economy is not growing at a sufficient rate – due to the effect of the European financial and economic crises, there is insufficient dynamism in the economy. However, the GDP rate in 2014 and 2015 is among the highest in EU. On the plus side of the equation however, the country's financial sector has proven to be remarkably resilient over the years;
- Access to finance within the country, is supported by a well-developed regulatory framework, and, in addition, a comprehensive legal framework is in place to protect creditors' rights. Insolvency proceedings and practices have improved significantly in recent years;
- The regulatory framework has become more closely aligned with Basel II, and most Basel II recommendations have now been largely implemented, however, BASEL III can work to affect commercial banks' appetite for risk;
- Unfortunately, there is little product diversification amongst the non-bank financing options.

Banking sector:

- In 2014, foreign-owned banks held approximately 69% of total banking assets. It is estimated that 80% of banks are foreign owned, and that 90% of total bank deposits are held by only three banks. Currently, there are sixteen separate commercial banks operating;
- Banks are extremely liquid due to different reasons, such as: investors do not know where else they can invest their funds; the underdeveloped financial markets; the latest financial crises which negatively influenced different stock exchanges around the world including the Macedonian Stock Exchange; and, a conservative approach in terms of mentality etc, which has created a boom in the property market. Deposits and loans in local currency have significantly increased in recent years, and there is percentage of loans and deposits made in foreign currencies. Banks need to make a provision for their toxic assets, and they also need to work on the quality of their portfolio;
- The investment capacity of bankers is still low, so there is a definite need to improve core competences. This specifically applies to the SME sector, as there are no real

- incentives, or pressures, for bankers to chase this sector; Moreover, the problem is the quality of projects submitted, together with their sustainability and affordability;
- The collateral rate or interest rate levels and the quality of the project in terms of sustainability and affordability make the environment difficult for SMEs, and banks prefer the “comfort” of realistic collateral, rather than to rely on other lending methodologies. At present, the share of SMEs in total private sector lending, is estimated at around 35%;
 - Whether or not, BASEL III affects the appetite for risks, banks, in general, are very risk averse and conservative;
 - It has been stated, that the MBDP itself needs to emphasise its promotional or developmental approach to business, but, like most banks in Macedonia, it is quite risk averse. However, it has a strong portfolio of products at its disposal including:
 - Export credit financing – providing working capital for pre-shipment export finance or bridging the period between export and collection of payment from the foreign buyer;
 - SME financing – permanent working capital and investments from different sources: ICL-revolving, MBDP, EIB, EIB-revolving;
 - Financing agriculture and agro-industry – primary production, processing and export - through commercial banks or directly through MBDP;
 - micro financing - micro and small scale enterprises, individual entrepreneurs, handicraft shops, private merchants, market counters, and other micro and small scale entities;
 - Financing energy projects – energy efficiency and renewable energy sources;
 - Loans for reducing unemployment - creation and preservation of jobs and self-employment financing;
 - Special credit guarantees scheme - micro, small and medium enterprises which do not have sufficient collateral to apply for a bank business loan.
 - MBDP would welcome capacity building in order to develop new “Access to Finance” products.

Priorities for change (extracted from existing programmes and strategies)

- Strengthening the regulatory system to improve access to finance for SMEs;
- Strengthening the regulatory basis for venture and equity capital;
- Improving liquidity and access to finance for SMEs in general, and innovative/exporting SMEs in particular;
- Encouraging banks to become less risk averse with regards to the SME sector;
- Providing capacity building to support the development of new financing instruments;
- Increasing and improving the product diversity of non-bank financing instruments;
- Strengthening EXIM capacities; and
- Expanding financial literacy among SMEs.

Having surveyed the broad competitiveness agenda on the basis of the specific themes prioritised in this strategy, it is worth setting out a SWOT analysis of the current situation.

IV. SWOT Analysis of the Competitiveness of Macedonia

SWOT ANALYSIS	
STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • The business climate in Macedonia continues to be improved, and “Doing Business” ranked Macedonia the fifth most improved country among the top 50 economies in the world; • Reforms to registration and permitting processes, property registration procedures, investor protection, and tax collection have been carried out; • Proximity to large markets; • A Regulatory Impact Assessment (RIA), for simplification of procedures for doing business and trade is in place; • The GDP of the country is expected to grow by about 7% between the period 2014 and 2016; • SME employment (14%), and SME value-added (9%) have increased ; • The country has diversified its exports both in terms of products and destinations and increased the technological intensity of its export basket. Export growth reached 3.3% in 2013 and is expected to reach 15.6% in 2014; • Macedonian services exports increased from USD 1.163 billion in 2013, to USD 1.701 billion in 2014; • The Government has implemented a number of measures that facilitate trade and trade flows; • The establishment of the electronic One-Stop-Shop system for import and export licenses; • Customs duties on more than 700 tariff lines have been reduced or eliminated; • State Aid packages, which include tax incentives and skills training for employees, together with the infrastructure within the Technology Zones are attractive for potential Greenfield foreign investors; • The Government is committed to investing in the top strategic priority areas of quality education, innovation, and information technology; • The banking sector in Macedonia is broadly stable, and access to finance is supported by a well-developed regulatory framework; 	<ul style="list-style-type: none"> • Failure to adhere to the policy of one single annual programme of legislation; • Using the rationale of “emergency regulation” to introduce new/changes to laws; • Neglecting to design and implement a proper policy, strategy and legislation, for the SME sector; • Public-private dialogue, and consultation mechanisms with the private sector, need to be strengthened; • Productivity of SMEs is 80% below the EU average; • Limited progress on improving the institutional support framework for SMEs; • The share of SMEs in total private sector lending is estimated at only 35%; • Relatively high collateral requirements (approximately 150%), combined with Macedonian banks’ heavy reliance on immovable assets restricts lending to SMEs; • Many smaller and micro-enterprises lack important skills in terms of business planning and financial management; • The dissemination of SME related information is low; • The SME Observatory is no longer operational; • The allocated budget for the Ministry of Economy, the SME Agency, and service provision to the SME sector, is not sufficient for full-scale project implementation; • The SME Agency for the Promotion of Entrepreneurship (APPRM) currently does not employ enough people, and has a very low budget for 2015 which results in the provision of a limited range of support services; • The awareness of SME policy implementation, within the SME community, is moderate, • The Agency for Foreign Investments and Export Promotion has insufficient resources to fully implement their programmes; • Macedonian companies face challenges of integration into international markets due to lack of managerial, financial and technical capacity, which limits their competitiveness; • Backward linkages between FDI companies and domestic enterprises are limited; • Most domestic firms in Macedonia are small (fewer than 10 employees), and consequently have great difficulty competing in export markets, because of their inefficiencies, and the high costs related to customs, logistics, and trade infrastructure; • The most problematic factors for doing business in Macedonia are perceived to be: access to financing; an inadequate infrastructure; an inadequately educated workforce; a poor work ethic in the national labour force; an inefficient government bureaucracy; insufficient capacity to innovate; policy instability; and restrictive labour regulations • There is a disconnect between education system outcomes, and the needs of the private sector; • Graduates of secondary vocational schools often have had no practical exposure to the job for which they are trained;

	<ul style="list-style-type: none"> • Macedonia is a small and fragmented country, and its economy is not growing at a sufficient rate in order to put the country at the next level of development; • The tax base is reducing, and the country is reliant upon external finance; • Banks are extremely liquid, but there is little product diversification amongst the non-bank financing options; • Macedonian banks in general, are very risk averse and conservative, and their investment banking capacity is low, so there is a definite need to improve their core competences.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ○ The availability of EU financial support in the area of competitiveness; ○ Complete integration into the Single European Market; ○ The possibility of improving backward linkages between FDI companies and domestic companies; ○ Foreign trade agreements leading to increased foreign direct investments; ○ Technology development through FDI enterprises; ○ The development of strategic relationships with suitable international business partners; ○ International knowledge exchange; ○ Successful positioning on international markets with high-quality services (ICT, tourism etc.), eco-technologies, and products (wine, food, renewable energy etc.); ○ Successful mobilisation of EU development instruments (CIP, IPA etc.). 	<ul style="list-style-type: none"> ○ A future global economic crisis which makes SME development extremely difficult, and reduces government resources for SME support; ○ A slowdown of the EU integration process, and a weakening of its driving force for reform; ○ Pressure from international low-price competition, and a consequent loss of business for Macedonian industry; ○ Lack of capital needed for industry development from foreign investors.

V. Vision and Strategic Objectives

The Competitiveness strategy of the Republic of Macedonia for 2016-2020 is based on the following **vision**:

“Better regulatory, institutional, financial and business environment, leading to greater density, growth, productivity, profitability, employment and internationalisation of Macedonian firms.”

This is consistent with the **overall objective** of Sectoral Planning Document on Competitiveness and Innovation, which is to:

“Strengthen the legal, institutional and research environment for business operations, including the implementation of the internal market acquis; improve the competitiveness and innovation of the economy at national and local levels; increase Foreign Direct Investment (FDI); increase research and development activities; strengthen export and diversification; and, support a more sustainable economic growth and real convergence with the EU.”

It also takes its cue from the **results** to be achieved, which include:

- Improved legal and institutional framework, and functioning of businesses;
- Improved governance and business-related infrastructure, including at local level;
- Strengthened evidence-based decision-making by policy makers;
- Better access to finance and advisory services for businesses;
- Increased and diversified export potential for businesses, and access to new markets;
- Strengthened capacities and skills of management and staff in companies;
- Improved cooperation among universities, industry and government;
- Enhanced research and innovative capacities for a competitive business environment;
- Increased public-private partnerships in the area of research and innovation;
- Enhanced links between FDI and domestic companies.

To fulfil the competitiveness vision, **seven strategic objectives** were defined, namely to create:

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

In order to monitor and evaluate progress and impact, the following **targets** are to be achieved:

1. **Business Environment:** To raise the Macedonia’s score from **3.9** to **4.3** (Ireland), and its ranking from **#35** to a **top 20** ranking by the end of 2020.
Source: World Economic Forum – “The Global Competitiveness Report 2015 - 2016”.
Pillar 1: – Institutions, Section: 1.09 “Burden of government regulation”.

2. **SME sector:** To increase the number of active companies in FYR Macedonia, from a base of **70,659 (2014)** to **80,000** by the end of **2020**.
3. **Growth:** To accelerate the country's GDP per capita real growth from its current rate of 243.161 denars (2013), to a rate of 350.000 denars by the end of 2020. This rate of growth is required if Macedonia is to catch up with European countries.
4. **Productivity:** To raise the Macedonia's score from 3.9 to 4.2 (Poland), and its ranking from #63 to #50 by the end of 2020.
Source: World Economic Forum – "The Global Competitiveness Report 2015-16".
Pillar 11 – Business sophistication, Section: 11.07 "Production process sophistication"
5. **Employment:** The unemployment rate in the country currently stands at **25.5% (2015)**, and the target is to lower this to 22% by the end of **2018**.
6. **Export sector:**
Macedonian exports grew by **15.6%** in **2014** to reach **4.9 billion USD**, and the target is to reach a value of **5.6 billion USD** by the end of **2020**.
7. **Inward investment:** FDI inflows in 2014 averaged **2.4%** of GDP, and the target is to raise this to the South East Europe average of **4.5%** by the end of 2020.
8. **Access to Finance:** To raise the FYR Macedonia's score from **4.3** to **4.5** (Hungary), and its ranking from **#74** to **#60** by the end of **2020**.
Source: World Economic Forum – "The Global Competitiveness Report 2015-2016".
Pillar 8: – Financial Market Development, Section: 8.01 "Availability of financial services"

Objective 1: A simpler and more stable business environment

Measure (BS/I): *Strengthen capacity to implement a coherent annual government programme which minimises emergency legislation.*

Rationale: The rationale for this measure has been discussed in detail in Section IV Analysis of the current competitiveness situation. It is recognised that the existing process of preparing, and adhering to an annual government programme, needs to be reviewed, and strengthened. International best practices in this regard will be identified, which will form the basis for reform. Support, including any necessary capacity building measures will be provided to implement the reform programme.

Measure (BS/II): *Strengthen the Better Regulation system at central level and at ministry level,.*

Rationale: Whilst it is recognised, that the Guillotine and the Regulatory Impact Assessment have made a great contribution to improving the business environment, nevertheless, more still needs to be done in this regard. It is proposed therefore, to establish a better regulation capacity in Government, which will not only cover the Guillotine and RIA, but inter-alia, also take into consideration: the "Standard Cost Model" to measure regulatory compliance costs; the "One-in, Two-out" rule; the "Think Small First" principle; and the "Reversing the Burden of Proof" principle. Institutional building support, guidelines, handbooks, capacity building, etc. will be provided, thus contributing to the creation of a simpler, more stable, and more cost effective

business environment. Support will be provided to identify international best practices; review the existing system in Macedonia; and make recommendations for any necessary reforms. Support will be provided to implement these recommendations, at both the national level, and as well in five pilot local authorities, later to be rolled out at all municipalities. It is intended that the system will eventually be linked to relevant e-government tools, such as e-services.

Measure (BS/III): *Undertake a comprehensive reform of the interrelated areas of import, export and FDI.*

Rationale: The “Doing Business” indicators for export/import show that the time needed to complete these, is already very close to the OECD average. However, during the period 2009 to 2015, the Government only managed to achieve moderate improvements in terms of reducing the costs related to import/export. In addition, it is recognised that more effort could be made in reducing the actual number of documents that are still required. Using the Small Business Act as a template, it is proposed to undertake a detailed economic and regulatory analysis of the most important/relevant existing stock of legislation affecting import, export and investment, affecting both domestic and foreign companies. Following an in-depth consultation process, an Action Plan will be developed for either abolishing or amending unnecessary/obsolete/burdensome regulations, and for removing the barriers for import, export and investment.

Measure (BS/IV): *Continue reforms within the framework of the World Economic Forum’s Global Competitiveness Index.*

Rationale: It has been noted above, that the rankings from both these Indexes are considered to be extremely valuable when promoting Macedonia as an investment opportunity, and when seeking export opportunities. In order to continue the good progress that has been achieved to date, further technical support will be delivered to the relevant institutions to: a) review progress; b) identify any gaps or weaknesses; and, c) to recommend and implement targeted reforms within the scope of the Indexes.

Measure (BS/V): *Strengthen the permitting and licensing “One Stop Shop” system.*

Rationale: During the past few years, the government has established a wide e-government system which provides a range of advanced e-services to the Macedonian business community. Under the auspices of the Public Revenue Office (PRO), online tax filing and payment is not only in place, but is obligatory for all enterprises. Other functional e-services include licenses, approvals, permits, e-public procurement, and e-cadastre. Statistics and various data from enterprises can now be collected via e-forms through e-Stat. There are two main government web portals that provide an overview of all e-services available to SMEs – one is the website of MoISA, and the other is a central government website which informs about e-government policy. So, a system is in place, but there are areas where this needs to be expanded and strengthened. Agreement is already in place for a new project under IPA I – “Further expanding of the One-stop-shop system for building licenses and permits”. The purpose of this project is the development of legal, organizational and technical measures to implement a system that will allow secure electronic document exchange between selected public institutions according to their mandates with the purpose of electronic issuing of business licenses and permits at single point. The project will also map relevant procedures and processes, as well as to develop IT solution for exchanging documents and information among various institutions for the daily operation of the newly established “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. It is proposed to build on the work of this first project, by ensuring that all institutions are eventually covered, together with all licenses, approvals, and permits. Furthermore, to develop 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.

Measure (BS/VI): *Strengthen electronic tools leading to simplification, acceleration and reduction in the cost of procedures.*

Rationale: In addition to the measure discussed in detail above, a second complementary measure is proposed. This measure will further expand e-services for businesses including: the Electronic Documents Management System; the Information Centre for companies;; the Meta Database for all companies; the “E-documents”; and, the “E-invoices”.

Measure (BS/VII): *Further strengthening of the National Entrepreneurship and Competitiveness Council (NECC) to provide effective public-private dialogue in the area of competitiveness.*

Rationale: Public-private dialogue in Macedonia is mostly conducted through the National Entrepreneurship and Competitiveness Council (NECC) which was established in 2012. The NECC has a direct partnership status to the Government’s economic policy cabinet, and a high level commitment for cooperation. The NECC is a partnership of 17 chambers of commerce, business institutions, clusters, academic institutions and the Development bank. It has a special public partnership role with the Government at the highest level, through the Cabinet of the Deputy-prime Minister for Economic Affairs. The mission of the NECC is to promote ideas and policies that will enable broad and sustainable economic development within the country. Public-private dialogue is essential for the competitive development of Macedonia, and the NECC is the organisation tasked with this role. However, despite recent changes and improvements, it still lacks capacity, expertise, and the financial sustainability necessary to perform this role effectively. Furthermore, it has been suggested, that the NECC should be able to respond to the process of creating better regulations: a) in terms of RIA issues; b) to review the existing stock of legislation; and c) to conduct related consultations regarding these, with the business community. Therefore, it is proposed to provide further support to the organisation to ensure that it: a) focuses on its role; b) expands its membership; and c) achieves financial sustainability. This support, together with the provision of technical assistance to develop its capacity, will aim to place the organisation in a position to perform the demanding role expected of it, in relation to the competitiveness agenda in Macedonia. In order for the organisation to assume the duties related to the process of creating better regulations, additional capacity in this regard will have to be developed, and support will be provided to this end.

Measure (BS/VIII): Improving Private Sector Development Coordination, Monitoring and Evaluation at strategic level.

Rationale: An issue of major concern across all governments is how to coordinate and implement its strategies and action plans in relation to different themes. For example, in the case of Private Sector Development, there is typically a multiplicity of institutions (political, central bodies, ministries, agencies, etc.) strategies and action plans (e.g. SME, FDI, Export, etc.), which make it hard to coordinate at the sectoral level, harder to monitor and almost impossible to oversee, evaluate and ensure effective use of scarce public funds. This activity will focus on

introducing and strengthening the established systems for coordinating, monitoring and evaluation of programmes and strategies in the Private Sector Development area, and extending these to other key areas of government work. The strategies include the umbrella Competitiveness Strategy, as well as others e.g. Innovation, SMEs, Export, Sustainable Development, Balanced Regional Development, etc. There are also various coordinating mechanisms (e.g. Economic Council, Committee on Innovation and Entrepreneurship, Council on Balanced Regional Development, Council on Sustainable Development and Committee on Tourism). A review is required in relation to the current institutions, processes and electronic systems, followed by best practice recommendations for the creation of a coherent system of PSD policy making, coordination and M&E at strategic level. This will be followed by support to streamline the process, including procedures, capacity building and new electronic tools to assist those bodies with information and analyses in the decision making process, thus increasing the efficiency of processing national funds in support of SMEs/PSD at local, regional and national level. The PSD system will be introduced in Phase I and Phase II will expand the approach across the government system.

Objective 2: A more entrepreneurial and productive SME sector

Measure (SME/I): *Support to implement a more effective legislative environment for the SME sector.*

Rationale: This activity will focus on improving the regulatory and institutional framework related to new and existing SMEs regulations, including SME definitions, costs (and benefits) of doing business, etc. The overall activities will further strengthen the legislative framework for SMEs. More precisely, the activity will cover the revision of the existing and development of new SMEs regulation. Analysis of the implementation of the current regulations and their impact on SMEs will be conducted in order to streamline the real cost of doing business for SMEs. In order to move towards a more entrepreneurial and productive SME sector, a number of important measures are proposed. In spite of the improvements to the business environment mentioned above, more needs to be done to streamline regulations for the SME sector, and to embed the SBA's "Think Small First" principle in policy making. It is proposed to support the development of a systematised package of new or improved laws/by-laws to strengthen SME development. This will be done in close cooperation with the institution responsible for overall better regulatory reform (see Business Environment). Whereas the better reform project covers the overall system in the country, the support here will focus specifically the Ministry of Economy and the application stronger regulations for the SME sector, resulting in a more stable business environment in the long term for 99.8% of the enterprise sector.

Measure (SME/II): *Institution capacity building support for MoE, NECC and CDPMEA (SMEs, Industry and Export) and APPRM (and BSOs) for M&E.*

Rationale: As discussed above in Section IV, neither the Ministry of Economy, nor the SME Agency currently has sufficient resources (both human and financial) for full-scale project implementation. This situation has been allowed to perpetuate over the past number of years, hence the perception from SME owners and managers, that their sector, has been somewhat neglected over the past number of years. Improving the competitive environment means developing the SME sector, not merely relying on FDI to provide indirect development, means

the Ministry and the Agency have both to be strengthened considerably. Support will be provided to strengthen the capacity, within the Ministry and the Agency, to support SME competitiveness for the implementation, monitoring and evaluation of the new SME strategy and Action Plan. Additional support will be given to the SME observatory, and resources provided for the preparation of SBA Factsheets; for holding an annual entrepreneurship conference; for SME competitions/awards; and for an SME awareness raising week. Furthermore there will be direct financial support made available to SMEs (€ 1.5 million – in the form of voucher schemes and co-financing for BSOs, with a focus on international standards, certification, export, etc.). The Monitoring and Evaluation capability of both institutions will also need to be upgraded.

Measure (SME/IV): *Development of a culture of entrepreneurship, enterprise start-up and support for growth.*

Rationale: Whilst the “Self-Employment Programme” does a sterling job in assisting the unemployed, this is only one part of a complicated jigsaw. What about individuals who are already in employment, but have aspirations to become self-employed – they require assistance on a similar basis to that provided by the UNDP programme. In addition, there is a general need to promote start-ups and provide support to early growth enterprises. This type of support programme is a necessity, not only in Macedonia, but in most other countries of the world, both developed, and developing. A similar programme was established in Macedonia in 1998 when a network of Regional Enterprise Support Centres were established with EU support in Skopje, Bitola, Veles, Kumanovo, and Strumica. At the same time, with support from the UK Department for International Development (DfID), a similar network of Enterprise Support Agencies were established in Gostivar, Tetovo, and Ohrid. These Centres/Agencies offered a range of services to potential entrepreneurs and the business community, such as: business advice and information; business consultancy; business planning; business training; and research and economic analysis. This network covered most of the territory of Macedonia, and offered the services much in demand by their target market, however, the problem with the model, was the assumption, that over time, the network could become self-sustainable by charging fees for these services. Unfortunately, as has been demonstrated time and time again, and in many different countries, this concept of eventual self-sustainability, is a myth! Potential entrepreneurs, and early growth enterprises, are never going to be able to provide a sufficient level of income to make such a network self-sustainable, and once the outside support ends, the Centres/Agencies either “wither or die on the vine”, or re-focus their activities into more profitable areas. This does not happen overnight, it is a gradual process which can take a number of years to complete, but at the same time, the needs and demands of potential entrepreneurs, and early growth enterprises remain. So, the provision of the services listed above, is a gap that needs to be filled. It is proposed, that on a “Call for Proposals” basis, a country-wide network of enterprise support to potential start-ups and early growth is established. As well as the general provision of information, signposting, training, and support (e.g. business planning and access to finance), financial support will also be provided to stimulate start-ups. It is not the intention, to create a new network of Centres/Agencies, but rather to use, as far as possible, existing Centres/Agencies, including the Centres for Regional Development, that have been supported by GIZ. It is further suggested, that a Committee should be established to oversee the implementation and evaluation of project targets on a monthly basis, during two separate phases.

Measure (SME/V): *Programme of support for disadvantaged groups (women, youth, older persons, and ethnic minorities) of potential and actual entrepreneurs.*

Rationale: According to the recent Assessment Report on the SBA, the development of women entrepreneurship, is already well supported by a varied supply of training courses offered by the State, regional authorities, NGOs, and international donors. The Association of Business Women has been established since 2010, and offers a range of services to its members including: education and training; market and public opinion research; management consulting; data handling; and internet portals. The institutional framework is therefore in place to promote a specific policy agenda for women entrepreneurs, building on the Strategy and Action Plan on Gender Equality 2013 – 2020. In addition, the Ministry of Economy has an annual programme dedicated to develop business among women, including how to better support women in rural areas to develop their businesses. Other socially vulnerable groups, such as the Roma, are not so well supported. According to a 2011 World Bank/EU/United Nations Development Programme (UNDP) survey, the absolute poverty rate for Roma is 41%, as compared to 14% for the non-Roma population. The average Roma adult (age 25-64) has completed 6 years of education, compared to 10.5 years for the rest of the population. While unemployment rates are high in Macedonia as a whole, despite recent progress with its reduction, 53% of Roma adults (ages 15-64) are unemployed, as compared to 28% of the whole population. Roma are also among the group of workers that are likely to receive less than the minimum wage from their employers. Available data indicates that labour force participation among ethnic minorities is often significantly lower than among ethnic Macedonians, especially among women. Whereas ethnic Macedonian women have an employment rate of 41%, only 10% points lower than their male counterparts, women who are ethnically Turkish have an employment rate of 27% - a 32% point gap with men of the same ethnic background. Roma and ethnic Albanian women lag even further behind in terms of employment. Activity rates among ethnic minorities are two or three times lower among women than among men. Much political attention has also been given to the employment of young people in the country. In recent years, the government has been active in developing policies to promote youth employment (see National Employment Strategy and its National Employment Action Plan, as well as in the National Action Plan on Youth Employment) nevertheless, youth unemployment and underemployment still represents a major challenge for the country. One in every two young persons in the national labour force is unemployed. The high youth unemployment rate means a loss of investment in education and training, a reduced tax base and higher social costs. At the same time, long periods of unemployment in the early stages of life affect the job prospects across the working-life span of young people. It is proposed that a special programme is developed for those socially vulnerable groups, which are normally harder to access in terms of entrepreneurship. This programme will include an evaluation of previous such initiatives (best practice, impact, etc.), feasibility study, and data analysis of the target groups, leading to a strategy, action plan, technical assistance (e.g. training, consultancy and start-up or growth support) and finance (grants/co-financing and soft loans) to stimulate greater entrepreneurial activity on the part of the target groups.

Measure (SME/VI): *Improving access to procurement by SMEs.*

Rationale: As regards the award of public contracts, the use of the e-procurement system was expanded to include concessions and PPP contract notices, however, a register of the contracts awarded has not yet been set up by the Ministry of Economy. Tender requirements have yet to ensure wider participation by SMEs in public procurement. According to the Preliminary Assessment Report on the SBA (2016), some challenges regarding public procurement remain.

The Report suggests that Macedonia must ensure that the negative reference list does not result in a “blacklisting” of some economic operators. Any exclusion from public procurement procedures should only be made on a case-by-case basis, and under due consideration of the principle of proportionality. The use of non-price criteria in the award of contracts should be encouraged. The obligation under the Public Procurement Law that, in general, the “lowest price” criterion must be used when awarding contracts, while the most economically advantageous tender can only be chosen with the approval of the Public Procurement Council needs to be reconsidered. In light of the above, it is proposed to review existing public procurement practices (including e-Procurement) in relation to SMEs, and the implementation of reforms (e.g. laws/by-laws) to stimulate greater access to opportunities for SMEs and innovation.

Measure (SME/VII): *Awareness raising and support for business transfer.*

Rationale: Business transfers, acquisitions, and mergers are an extremely complex issue, not only on the personal level, but also from a legal and financial basis. Before consideration is given to taking one of these actions, careful preparations must be made to a long list of important issues including: acquisition methods; preliminary agreements; asset sales; share sales; seller’s title and liabilities; acquisition agreements; warranties and indemnities; consideration and acquisition financing; signing and closing; taxation; employees; pensions; competition/anti-trust issues. The legal status of the enterprise, also affects how each of these issues should be dealt with. Due to the above complexities, it is perceived, that many entrepreneurs may end up closing viable businesses due to a lack of preparation, or an absence of knowledge, as retirement approaches. Following an analysis of the current situation, support will be delivered to avoid unnecessary closure of viable firms, by raising awareness, developing a matching database (buyers and sellers), reviewing and if necessary reforming regulations, and providing legal, accounting, tax and business consulting support to assist business transfer. Training will also be delivered to Business Support Organisations to provide business transfer services, including business valuation, mergers and acquisitions, tax planning, etc. The training will be embedded by the selection of 20 companies to support throughout the business transfer process. These will be used as examples to raise awareness.

Measure (SME/VIII): *Resolving insolvency, bankruptcy, business closures and providing the opportunity for a “second chance”.*

Rationale: There has been more limited progress on reforming market exit procedures. The deletion from the central registry of companies that were not operational for a long time has started. However, improving exit options through facilitated bankruptcy procedures proves more challenging. In 2013, an amendment to the Law on Bankruptcy was adopted, which foresees an acceleration of proceedings. Yet, the number of bankruptcy procedures between October 2012 and July 2013 was lower by 29% compared to a year earlier. The average duration of voluntary company liquidation diminished only slightly. Overall, while business registration and operation was further facilitated, weaknesses in bankruptcy and liquidation procedures continue to pose a significant impediment to investment and access to finance. The insolvency law is governed by the bankruptcy law, which regulates clear provisions on the reorganisation and liquidation of distressed enterprises, and these are in line with international standards. The procedures outlined in the law, are considered to be transparent, and are systematically applied, which has helped to reduce the duration of bankruptcy cases. However, there is still room for improvement. The procedures for “resolving insolvency” are quite lengthy – 1.8 years,

costly – 10% of the total estate, and the recovery rate percentage – 44.6% is low. It is proposed therefore, to conduct a detailed best practices assessment into the procedures for reorganization plans; simple and effective business closure of inactive enterprises; overcoming the difficulties to complete bankruptcies; and offering a second chance to “failed entrepreneurs”. Targeted support will be provided to implement the best practices identified.

Other measures: in addition to the major priorities discussed above, it is also proposed to offer support to:

- ***Enterprise, Competitiveness and Innovation "Business" portal.***
- ***Improving governance among SMEs, including Corporate Social Responsibility (CSR).***

Objective 3: A more vibrant export sector

Measure (EXP/I): *Institutional strengthening of Export Support.*

Rationale: As discussed above in Section IV, the work of the Agency for Foreign Investments and Export Promotion is undoubtedly of value, but the export strategy that is currently being implemented is quite dated and in need of revision. In addition, the Sector for Export Promotion needs to be strengthened and provided with sufficient resources, both human and financial. Develop a new export strategy and action plan (stimulating indirect exports (via export agents), followed by direct exports to geographically and culturally close countries, followed by exports to EU, and finally global exports). The support will include developing a revised export sector focus; a review and possible reform of the Export Department in AFIEP (staff, responsibilities, information and contact services, with an explicit link to the Economic Promoters, etc.); co-financing for SMEs to participate in targeted fairs, expos, B2B, and similar events; financing for promotional activities; support to Made in Macedonia; capacity building for staff (Export Department and Economic Promoters), and for SMEs in relation to aspects of export.

Measure (EXP/II): *Export promotion drive with a focus on prioritised sectors.*

Rationale: For a small open economy such as Macedonia, improving export competitiveness is critical to bolstering economic growth and to reduce unemployment. The challenge which the country faces today is to transition the country to a higher growth trajectory, and accomplishing this will require the development of a much more competitive export sector. Since the mid-2000s, the country’s overall export performance has been better than in other Western Balkan countries. The export of goods and services have represented between 30 and 45% of nominal GDP, which is well above the shares in neighbouring countries. Overall, the country’s main comparative advantages remain in the production of intermediate and consumer goods, while also remaining highly competitive in the production of textiles, beverages, tobacco, food products, and chemical products. However, traditional export segments are becoming less competitive due to stagnant quality, low value-added and a lack of innovation. The Government recognises the importance of increasing the competitiveness of its exports, and will encourage the orientation of Macedonian industry towards higher value-added products and services. A recent World Bank report on “unlocking Macedonia’s competitiveness potential” identified opportunities to increase sectoral competitiveness in four specific areas: automotive products; the apparel sector; the agribusiness sector; and trade logistic services. Separately, there is also a strong drive to strengthen the tourism sector. There is a need to recalibrate this analysis to ensure that these are the sectors/sub-sectors on which to focus; and, to include the further

development of tourism, making a total of five priority sectors to build momentum in terms of an export promotion drive.

Measure (EXP/III): *SME Export Support Programme.*

Rationale: Switzerland Global Enterprise through its Swiss Import Promotion Programme (SIPP) has been cooperating with Invest Macedonia, the Federation of Farmers in the Macedonian Republic (FFRM), and the Macedonian Association of Processors (MAP) to conduct an export support programme. It facilitates market access, and opens up new business opportunities in Switzerland and the EU by extensive matchmaking activities, and participation in selected trade fairs. Whilst this support is very welcome to participating SMEs, nevertheless, the support has its limitations, in that, it is only available to those enterprises that are currently “export ready” and there are very few firms involved in the process. This means that there is a considerable gap in the system, as those enterprises that have export potential, but are not as yet “export ready”, have no available support. This activity involves selecting 250 targeted SMEs with export potential (targeted by experience; productivity levels; technological innovation; R&D activities; skills intensity and ICT capacities; and with a focus on manufacturing, software and business services, etc.). Provide support for these SMEs in terms of "Investment readiness" (including web tools) including, technical assistance and capacity building; and financing for export readiness issues (e.g. standards, health & safety, marketing, business planning, technology, branding, labelling, packaging, product testing, certification, contracting, customs, logistics, marketing, information and analysis, etc.).

Measure (EXP/IV): *Establish an export information and support capacity, and point of contact.*

Rationale: Many SMEs complain that the cost of obtaining relevant, current marketing data, analyses and reports is prohibitively expensive, and well outside of their budget capabilities. Invest Macedonia are extremely keen to provide such information to potential exporters, but currently do not have the financial resources to contract with the important export data providers. Support to access this information, and to make it readily available to potential exporters, is needed. Registers are needed with export data providers (e.g. Euromonitor), in order to provide data, analysis and dissemination support for SMEs. There is also a need to establish a single point of contact about exporting at AFIEP; support/promote local enterprises in international markets; work in close collaboration with the Enterprise Europe Network (EEN); and expand coverage of these services to other parts of the country (e.g. through co-operation with 8 Regional Development Centres), through a targeted number of domestic enterprises to be supported, with information, analyses, signposting, etc.

Measure (EXP/VII): *Leveraging export and internationalisation through achieving international standards.*

Rationale: One of the major barriers to exporting for SMEs in Macedonia is achieving the standards that have been established for goods and services in most international markets. Most products are made to specific standards that help to ensure that the products are: safer – reducing accidents and saving lives; better quality – improving levels of customer service; and easier to use – by ensuring that products and services are accessible to all consumers, including older and disabled people. However, standards do not just deal with products. Services such as healthcare, tourism, energy providers, banking, insurance, etc., are also covered by standards that deal with issues such as staff training and qualifications, information provision, customer service, complaints handling and billing. There are also standards to tackle key issues such as

social responsibility, the management of sustainable events and the accessibility of public buildings. Standards matter to everyone, and it is imperative that SMEs in the country take this important issue on board. As standards are voluntary, consumers can feel confident that organisations choosing to use them take issues such as safety, accessibility and customer service seriously. There is a need to raise awareness of the critical importance of creating "high quality, high standard products" consistent with international standards that are recognisable, trusted and valued on both the domestic and international markets. This will include financial and technical assistance support for targeted SMEs, in relation to ISO, HACCP, HALAL, etc.

Other measures: in addition to the major priorities discussed above, it is also proposed to offer support to:

- **Macedonian Export Promotion Portal.**
- **Review and strengthen FDI and export capacity of economic promoters diplomatic staff in embassies/consulates.**

Objective 4: A more attractive environment for inward investors

Measure (FDI/I): *Strengthening linkages between FDI/TIDZs and domestic companies.*

Rationale: From a review of on-going state funded programmes, it is evident that the Government has a strong interest in expanding the range of support services for businesses, in particular, focused on linkages with FDI, and innovative, growth oriented export enterprises. However, while the need for transfer of know-how to local companies has been identified in almost all national strategic papers, such support programmes are poorly funded and have been declining over the years. Furthermore, no significant, or systematic effort, has been made by the relevant public actors, to either develop local capacity, or to support already existing capacities, in a sustainable manner. A number of FDI companies have already developed cooperation with local universities, and some companies have also developed supply linkages with some domestic producers. However, further developments in terms of linkages with FDI companies, and also the export competitiveness of domestic firms, are constrained by: firm-level productivity; skills; some aspects of the business environment at the local level; and business sophistication. Business sophistication includes two elements: the quality of a country's overall business networks, as measured by the quantity and quality of local suppliers and the extent of their interaction; and, the quality of individual firms' operations and strategies. By the end of 2013, supply linkages between Macedonian companies, and foreign investors were estimated at €50 million in goods and services (including construction). However, backward linkages with local companies are still limited, thus restraining employment gains, net export growth, know-how sharing, and other spillovers from FDI. There is still the potential for a considerable increase in the value of these transactions, both in the medium and in the long term. Therefore, the Government will attempt to further stimulate partnerships among foreign manufacturing companies operating in Macedonia, local SMEs, and financial institutions, by: providing assistance to upgrade product quality, quantity and reliability through technical and managerial skills; business planning; and access to capital. The increased technological and business sophistication of local suppliers will, in turn, facilitate backward linkages with FDI and stimulate exports. The Fund for Innovation and Technological Development, which was established in 2014, is expected to play a key role in this regard. In addition, some new FDI projects (especially in the automotive industry, mining, and textiles and apparel sectors) offer good opportunities

for increasing linkages with local companies. Under the auspices of the World Bank's Supplier Development Programme, a pilot initiative has just been completed, with the aim of stimulating supplier development and backward linkages, between local SMEs, and large foreign companies, in selected light manufacturing industries. The ultimate objective of the programme was to help SMEs obtain an approved supplier status with large multinational companies. The programmes activities focused on four main categories:

- Supplier information dissemination;
- Capacity building and training;
- Upgrading of suppliers and technology extension; and
- Facilitating access to finance.

The pilot SDP has prepared the ground for a broader programme in terms of enabling the companies to take such an initiative further, improving government understanding of the importance of such a programme, for the development of competitiveness of SMEs, and building government's capacity to run such programmes. A working model has now been developed, tested, and proved to be successful. This model can now be taken forward, and mainstreamed to a much larger group of companies. Therefore, this activity will build on the experience of the WB's "pilot Supplier Development Program (SDP)" and mainstream the initiative (from 5 to 250 companies) in order to significantly strengthen the linkages between foreign investors (mainly in the TIDZs) in the key sectors (not only the light manufacturing industries), and domestic SMEs, through the provision of support in: i) supplier information dissemination; ii) capacity building and training; iii) upgrading of suppliers, standardisation, certification, technology extension; and iv) facilitating access to finance.

Measure (FDI/II): *Stock-take of FDI obstacles and systematic reform, including Public/Private dialogue.*

Rationale: In terms of "FDI attractiveness", Macedonia continuously scores lower in comparison to other SEE countries (e.g. in 2014, it had the second worst score next to Bosnia and Herzegovina). Foreign investors, who have invested or tried to do so in Macedonia, often note of the following:

- Lack of rule of law (corrupt and inefficient judiciary, political interferences);
- Politicisation of government administration (insecurity with regard to "fair" treatment);
- Broad-based corruption, including also in public tenders;
- Low corporate tax rate (10%), but many hidden charges;
- Heavy bureaucracy with complex procedures, and partly incompetent administrations;
- Largely outdated infrastructures (incl. High utility prices for private sector firms);
- Unclear land ownership relations;
- Difficulty in getting working permits for foreigners;
- Difficulty getting skilled and productive workers (insufficient education, language skills);
- Postponed NATO and EU accession processes, potentially straining political stability.

Investors also emphasise structural issues such as: a weak institutional framework; a rigid corporate sector; and a segmented - depressed labour market, however, investors pinpoint competitive wages as a main advantage. Other obstacles include: persistent solvency and liquidity problems; a restrictive policy framework; dependence on external demand; uncertain and slow recovery of investment – especially in the short and medium run; growth significantly below potential; and, absence of major external and policy improvements. Considering the

above, it is proposed to move from to a strategic approach for reducing FDI barriers, by working closely with the Foreign Investors' Council and the NECC, to undertake a detailed assessment of the current blockages to investment (see White Book, covering work permits, construction permits, waste permits, export permits, customs delays, legal system delays, etc.). It is proposed to determine what needs to be reformed on the basis of international best practices, and initiate reforms, ensuring this process has been subject to an effective PPD, through the involvement of the PMO, NECC and foreign investor representatives, such as the FIC.

Measure (FDI/III): *Mobilising Diaspora remittances for entrepreneurship.*

Rationale: Over the past 100 years, there were six major waves of emigration, with the two most recent ones occurring during the 1960's and following the break-up of Yugoslavia. The primary destinations were Australia, France, Germany, Italy, Norway, Sweden, Switzerland, Turkey, the UK and the USA. The level of education of migrating workers has increased in the recent period, highlighting the key challenge of "brain drain." According to a 2014 IMF report, Diaspora remittances have represented by far the most important financing flow in the balance of payments of Macedonia in recent years. They have superseded both official and other private capital flows to cover trade deficits hovering around 20 percent of GDP. From a development perspective, these remittances can be expected to play a crucial role in poverty reduction, consumption smoothing, and the funding of small-scale investment projects, thus alleviating financial constraints for underserved segments of the population, and ultimately allowing for better risk diversification within the public debt portfolio. Available survey-based research indicates that remittances reduce poverty and mainly affect consumption. Nearly 43% of recipients, receive at least € 1,000 annually, while for 39% of recipients, remittances received, constitute half of their disposable income; the average amount declared by recipients was US\$2,486. Regarding the use of these flows, current spending was considered the highest priority (74.1%), followed by savings (13.7%), home construction (8.8%), and house maintenance (5.7%). By contrast, investment was not considered an important use by recipients. It is critical for the government to signal the importance of engaging with the Diaspora on economic development, in a cost-effective manner. Diaspora investment should be raised as a policy priority to a level similar to the attraction of FDI, in the context of a public-private collaborative strategy to promote investment in productive capacities that would respond to both external and internal demand. It is proposed that a detailed study will be performed, covering the whole country, in order to determine: i) international best practices in mobilising remittances for productive non-property related investment; and ii) the potential within the country for such investments. Pilot initiatives will be established to determine how government can best intervene, in order to harness these remittances for competitiveness and innovation purposes.

Other measures: in addition to the major priorities discussed above, it is also proposed to offer support to:

- **Improve data collection, analysis and reporting of FDI, export and State Aid data**

Objective 5: A more skilled and entrepreneurial labour force

Measure (SD/I): *Continuation and Extension of Project Top Management.*

Rationale: It has been discussed at length that a great many enterprises lack important skills including business planning, marketing, and financial management. This skills gap lessens their growth potential, and restricts their ability to access international markets. Research has shown, that a large number of SME owners started off working on the factory floor, and as such their

background and expertise was technical/production oriented. They had little experience or knowledge about other aspects of SME management, i.e. finance, marketing, sales, HRD, etc. Therefore, it is considered as an imperative, that owners and managers of SMEs should regularly undergo training in order to eliminate the many perceived skills' gaps. This type of training is undoubtedly important, and as such, receives quite considerable attention from various strategies, programmes and other support initiatives, however; there is an area of need which is not presently covered by the various ongoing training programmes that have been established to tackle the training needs of the average SME. This area concerns the very specific training needs of the top management cadre of export-oriented SMEs, and their desire to gain knowledge, experience, and expertise outside of their normal sphere of operations. Exporting is quite a daunting and difficult activity, where mistakes can prove to be particularly damaging and extremely costly. These factors, together with many others, inhibit a large number of enterprises from going down the exporting route. Theoretical training in exporting is of course a sensible first step, but management can learn so much more, from a practical point of view, from those working in similar companies, who have previously established their businesses in international markets, and who are willing to share their experiences. The initiative will provide an opportunity for local SME owner/managers, primarily from export-oriented companies, to advance their management skills and gain practical knowledge from relevant companies abroad. Managers will be able to closely monitor the process of policy-making, negotiation, decision-making, marketing activities, and to draw upon the experiences from companies from more developed countries such as Slovenia, Germany, etc. An additional benefit of the initiative is that local companies will be able to establish on-going cooperation with successful companies, which can raise their own competitiveness, increase their volume of exports, and strengthen the Macedonian economy in general.

Measure (SD/II): *Develop incentives to encourage SME owners to invest in the workforce through a Skills Fund.*

Rationale: There are a variety of reasons why employers, and in particular SME owners have been reluctant to invest in their workforce, for example: training courses can be expensive and time consuming; attending such courses disrupts productivity; and, an employee may then be tempted by a better offer from a different employer. All of these reasons would appear logical and sensible to most entrepreneurs, but those who are more farsighted would recognise that the benefits of investing in their workforce outweigh the disadvantages. Nevertheless, raising the standard of employees within the SME sector, is considered to be extremely important for the overall development of the country's economy, and as such, cannot therefore be left entirely to those more enlightened entrepreneurs. The majority of entrepreneurs must be brought on board also. It will be necessary to carry out a detailed assessment of the current situation, including the existing legislation, in order to fully understand the factors that are inhibit SME owners from investing in their workforce. Once the situation has been clearly understood, and all potential factors identified, then initiatives can be taken to rectify the problems. One such possible initiative is the establishment of a Skills Fund which would provide incentives on a revolving basis for firms to invest in the training of their existing (and incoming) workforce. In some countries such as Singapore, employers are required by law under the Skills Development Levy (SDL) Act, to pay a monthly SDL for all employees rendering services in Singapore, including foreign employees and employees employed on casual, part-time, or temporary basis. The SDL payable is at 0.25% of the monthly remuneration for each employee, with the minimum payable of \$2 (for an employee earning less than \$800 a month) and a

maximum of \$11.25 (for an employee earning more than \$4,500 a month). All SDLs collected are channelled to the Skills Development Fund (SDF) which is used to support workforce upgrading programmes, and to provide training grants to employers when they send their employees to attend training under the national Continuing Education and Training system. The SDL and SDF are administrated by the Singapore Workforce Development Agency (WDA). Whether or not this is the appropriate model for Macedonia remains to be seen, but a review of international best practices can consider various solutions in this regard.

Measure (SD/III): *Strengthen cooperation between Universities and enterprises.*

Rationale: This measure is complementary to, and links with the measure above. It seeks to fill the gap in the system between academic learning, and the actual work-place scenario. Students come out of university filled to the brim with academic knowledge and theory, but are generally ignorant as to requirements of industry, and the practicalities of working in such an environment. Customised courses/scholarships/internships in domestic and foreign companies in areas of demand by the private sector based on surveys and labour market needs forecasts. These should include regulatory and other reforms to enable these courses/scholarships/internships to be of a sufficiently long timescale (e.g. 3-6 months), thereby facilitating real learning / contribution by the participants, and for the host enterprises to benefit from this cooperation.

Measure (SD/V): *Project "Foreign Experts for domestic SMEs".*

Rationale: This proposes an innovative solution to identified problems. It is axiomatic, that the vast majority of enterprises will encounter various problems during the course of their evolution, and most of these problems can be resolved through their own in-house expertise, or by the engagement of relevant local consultants. Occasionally however, some problems or situations will occur, which are not easily solved, or which requires a specific degree of expertise/experience, which is not readily available. When this happens, the enterprise can find itself at a total loss as to how to react to the problem/situation before irreparable damage results, and whilst the solution may lie beyond local knowledge and/or expertise, nevertheless, someone, somewhere, will have dealt with such a problem in the past. The issue then becomes a matter of identifying the right expert, and accessing their knowledge/skills, at an acceptable cost. A number of organisations, such as the International Executive Service Corps (IESC), and Voluntary Service Overseas (VSO) , Senior Expert Services (Germany), PUM (Nederland), ASEP (Austria), Swiss contact (Swiss), EBRD, and many others, work with micro, small, and medium businesses to connect them with the knowledge and tools they need to grow and thrive. These organisations can provide results-driven solutions in the fields of trade and enterprise, financial services, tourism, information communications technology, public and private capacity building. They can assist developing countries and emerging economies to improve their competitiveness by targeting markets for value-added exports, building capacity to meet technical requirements and industry standards, employing appropriate equipment and technologies, increasing access to finance, and strengthening business support institutions. These voluntary organisations could provide some of the expertise that is required under this initiative, and in a very cost-effective manner, however, in all probability, it may also be necessary to look beyond these organisations, and engage the services of senior experts from the most developed EU countries. Each expert would have a very specific, targeted assignment related to an identified problem/scenario, e.g. to improve the quality of a product or a process, and will attempt to provide a realistic solution, either through an on-site visit, or electronically if at all possible. This

measure would assist 300 SMEs by providing expertise from senior experts from the most developed EU countries. The main objective is to increase their competitive ability, improve the quality of products and processes, creation and maintenance of jobs, as well as an increase in the profits and income of the businesses and employees involved. This will be provided within targeted missions where the expert visits the company on-site, and assists/advises the company's management in regards to a specific challenge/problem, both on-site and off-site. Domestic companies would need to participate in the total mission costs in order to prove their serious approach towards expert engagement (e.g. accommodation, food, local transport).

Other measures: in addition to the major priorities discussed above, it is also proposed to offer support to:

- **Develop and implement certified import and export managers' courses**

Objective 6: A reinvigorated industrial policy

Measure (IP/I): *Implementation of Industrial Policy in Macedonia.*

Rationale: Industrial policy in Macedonia is a pro-active, future-oriented development policy, which anticipates coming developments in resources and competitive advantages, as well as changes in the global markets. The policy is horizontal in its nature and does not focus on only supporting selected industries. It aims to provide stimulus for all pro-active Macedonian companies, to develop and enhance their competitive capabilities, and re-orient towards higher value added products and services, which will enable sustainable long-term operation on the international markets. The policy does not have the ambition to solve all business related problems that are faced by Macedonian companies. Instead its aim is to succeed by going hand in hand with future-oriented education, tax, trade, employment and other policies, in the area of enforcement of the rule of law, and the creation of a level playing field for all market participants. This proposed measure is intended to give a boost to this overall concept. This would involve industrial strategy development and institution building with a focus on sectoral studies and the targeting of existing and emerging areas of potential, including the preparation of sector-specific action plans, based on smart specialisation and legislation, for key targeted industrial sectors and sub-sectors.

Measure (IP/II): *Cluster and value chain development.*

Rationale: This measure relates to the area of intervention concerning "collaboration in clusters and networks". The industrial policy identified the key weakness that all existing clusters share is "the lack of capabilities in the area of creating economies of scale in purchasing, gathering, applying and expanding knowledge, and creating innovative solutions to business challenges". The proposed measure attempts to address this weakness while also moving the emphasis on to value chain analysis and support to the various private sector players in the process. This will involve further support to both existing and new clusters, with an emphasis on value chain analysis of existing or new sectors and sub-sectors (based on the smart specialisation approach), identification of gaps / potential business linkages / intervention areas. There will also be provision of co-financing specifically for SMEs (€ 2 million) to improve the operation of value chains.

Measure (IP/III): *Strengthening capacities of SMEs for understanding IPR and implementing in-house R&D.*

Rationale: According to major international competitiveness studies, low expenditure on R&D; low innovation and R&D activity; a low level of technological readiness; and a low level of business sophistication are considered to be among the main weaknesses of the Macedonian economy. This proposed measure will attempt to address this identified weakness. SMEs neither fully understand the potential of Intellectual Property Rights (IPR), nor know how to value of or calculate R&D costs and benefits. An awareness raising programme is required, in collaboration with the relevant state institutions and chambers, focusing on IPR, R&D, patents, industrial designs, trademarks, innovation, funding, procedures, costs, etc. This measure will involve the provision of financial assistance to SMEs for first time registration, as well as support to go through the process. Furthermore, R&D costs are important for developing a composite index of R&D costs / GDP, and Macedonia lacks accurate data on this topic. Training of SME managers and accountants on this topic will be provided with a focus on in-house R&D activities. 2000 SMEs will be trained on these issues, after which a survey (standardised community survey) will be conducted, and the data used for the preparation of the Innovation Union Scoreboard.

Measure (IP/V): *Support in accessing EU competitiveness and innovation funds.*

Rationale: “SME development and entrepreneurship” – the specific target of this area of intervention is to improve access to finance for the development of innovative SMEs. However, rather than initiating pilot projects, with commercial banks, to support innovative SMEs through new financial instruments, it is proposed to try and facilitate more effective access to existing EU funds, such as IPA II, Eureka, Eurostars, COSME, HORIZON2020, etc. The process of applying for EU competitiveness and innovation funds, is becoming ever more complex, and at the same time more competitive. This project will facilitate more effective access to EU funds and support (IPA II, Eureka, Eurostars, COSME, HORIZON2020, etc.), with a focus on SMEs, universities, civil society and government officials. The emphasis will be on the provision of information, training, guidance, support with applications, preparation of good practice examples, and support with contractual issues, monitoring, evaluation and reporting.

Measure (IP/V): *Establishment of Triple Helix Partnerships.*

Rationale: Innovation can result from different sources, such as from close interactions between users and suppliers; from collaborative projects and networks; or from triple helix partnerships involving interactions between businesses, research institutions and local / central government. Therefore, the removal of obstacles for these interactions, together with the promotion of collaboration between the different actors of the innovation system are important and cost effective elements to improve the system. A precondition for effective interactions and knowledge flows, between research institutions and firms is for research institutions and higher education establishments to be attuned to the needs of the business community. This enables research institutions and higher education establishments to make a contribution to the overall capacity of the innovation system. This particular initiative will endeavour to increase knowledge flows, cooperation, collaboration, and interactions between innovation actors, by bringing together, in a collaborative partnership, the business community, research institutions/higher education establishments, and local / central government authorities. The intention is, for this partnership, to identify the best innovative projects and to provide technical assistance for their further development and commercial exploitation.

Objective 7: A higher volume of finance for the enterprise sector

Measure (AtF/I): *SME Competitiveness and Innovation Finance and Support.*

Rationale: As discussed above, the key to a successful “Access to Finance” structure would lie in freeing-up funding from the mainstream commercial banks. However, as also noted above, these banks are not only privately owned, but, in addition, the majority are in the hands of foreign owners. This being the case, there is not that much that Government can do to “encourage” banks to lend voluntarily to the SME sector. However, when surveyed, bank participants proposed that the Government could promote SME lending by taking action in following areas:

- Improving the regulatory and institutional environment, related both to favourable conditions for the banks’ operations, and the enabling business environment for SMEs;
- Improving the judicial environment, particularly in terms of the general protection of creditors rights, and also in the context of fast and effective collection on collateral;
- Solving the question of collateral by increasing the number of available guarantee instruments;
- Increasing the sources of financing by providing new SME credit lines, and establishing special instruments (credit lines, guarantee schemes, etc.) for start-ups, innovative and export-oriented SMEs.

It is worth noting, however, that interest rate subsidies and credit information bureaus are not identified as important areas for Government intervention. At some point in the future, the banks’ economic situation may change to the degree where lending to the SME sector becomes a commercial necessity, but until that happens the Government and other relevant stakeholders will have to consider providing various initiatives to ensure that the SME sector has a sufficient access to finance. To this end, it is proposed to establish a € 30 million fund from EBRD/commercial bank credit, to increase SMEs’ competitiveness in international markets, and to increase their investments in innovation. Building on previous initiatives, increase SMEs’ competitiveness on international markets and spur innovation through the mobilisation of € 30 million of lending, from EBRD credit lines, for investment by SMEs, through partnership banks. The contribution of € 6 million will be in the form of investment incentives/grants (€ 4.5 million), and technical assistance (€ 1.5 million), including assistance to sub-borrowers and participating banks, in support of the loans provided by the EBRD. The measure will focus on non-bankable SMEs and also engaging second tier commercial banks or those that have not previously worked with EBRD on similar schemes.

Measure (AtF/II): *Establishment of a national Credit Guarantee Scheme for SMEs.*

Rationale: It is also proposed, as a complementary measure, to establish a national Credit Guarantee Scheme for SMEs, with a capitalisation of € 4 million. Whilst there had been an earlier Guarantee Scheme previously operated by the MBDP, this was considered to have had some flaws in its original design, and therefore, before establishing the new Scheme, a detailed review and feasibility study will be conducted into international best practices. In addition, a specialist financial institution will be engaged to manage the Scheme, and to ensure that it is financially sustainable. International best practice highlights the importance of credit guarantees in overcoming the collateral requirements of commercial bank lending, leading to the establishment of a greater volume of bankable SMEs over a period of time. This proposal involves a review of international best practice (e.g. guarantee levels, targeting, products,

institutionalisation, etc.), a feasibility study, capitalisation of the guarantee scheme (€ 4 million), and operationalisation, using a specialist financial institution to manage this, together with a network of banks operating commercially, to ensure the scheme is financially sustainable.

Measure (AtF/III): *Strengthen the regulatory basis and improvement of financing instruments for SMEs.*

Rationale: It is argued by many reputable commentators, that the BASEL III international banking regulations could affect the commercial banks' appetite for risk; however, it is possible to moderate and/or obtain exemptions for SMEs for certain requirements. To this end, it is proposed to commission some surveys and feasibility studies to consider the fine detail of moderations/exemptions, including pilot initiatives. Although there is a general "all embracing" law on financial instruments, which was introduced in 2007, and is intended to cover, inter-alia, venture capital, business angels, equity finance, factoring and crowd-funding, it is considered to be inadequate in a fast moving financial environment. As an example, it would appear that factoring has different legal requirements from other financial instruments, and as the existing law does not cover these requirements adequately, this lack of legal certainty and transparency, restricts its development potential. At present, although there seven institutions registered to perform factoring, in fact only one is actually operational and factoring activities are as a result, quite limited. Therefore, it is proposed to assess international best practices in this regard, and develop new laws/regulations, where necessary, to enable these instruments to become more widely available and utilised. Surveys, feasibility studies, regulatory reforms and pilot initiatives to improve access to finance for SMEs (moderation and/or exemption of SMEs from certain Basel II / III requirements, moveable assets register, factoring law), including funds to test, fine-tune and mainstream pilot initiatives to the wider financial system.

Measure (AtF/IV): *Strengthen the basis for equity finance in Macedonia.*

Rationale: The "Industrial Policy of the Republic of Macedonia 2009 – 2020" recognises that there was an urgent need for an increase in the amount of risk capital that was available for investment opportunities in small but ambitious Macedonian companies. It was proposed that this increase will be made by the establishment of venture capital funds in the country. However, at present, the equity/venture capital industry in the country can only be described as nascent. The same adjective would also have to be used if describing the situation regarding business angels and crowd-funding. The proposed measure is intended to help develop the supply of, and demand for, these financial instruments. The focus is on developing venture capital, business angels, equity finance and crowd-funding laws; assessing international best practices and national experiences, providing technical assistance with implementation and capitalisation, to develop a business angels' network, and possibly crowd-funding, for start-ups in targeted sectors.

Measure (AtF/V): *Strengthen MBDP exim capacities and develop new export-oriented products.*

Rationale: It is acknowledged that the whole system for exporting needs to be considerably strengthened and improved. One area where action needs to be taken is in regard to expanding the range and scope of EXIM products and services provided through MBDP, which are currently underdeveloped. Utilising international best practices, and building on existing products, there will be a focus, inter-alia, on export credits, export credit guarantees, pre-shipment financing, export insurance, and export factoring. Review and expand the range and scope of EXIM products and services, available through MBDP, including piloting and mainstreaming new

initiatives. This will include a focus on short term credits (under two years), medium and longer term export credits (over two years), export credit guarantees, pre-shipment financing, export insurance, export factoring, etc. building on the existing products and experience where they exist, and international best practice, where they do not exist.

Measure (AtF/VI): *Expand financial literacy among SMEs.*

Rationale: To date, no assessment has been made available about the level of financial literacy amongst the business population in the country. This lack of data on the level of financial literacy among the business population therefore continues to be a challenge. The government does not currently incentivise training in this area, and financial literacy education is not systematically incorporated in the national curriculum or VET. An academy of banking and information technology was established in 2014. However, many smaller and micro companies continue to lack important skills in terms of business planning and financial management which dampens their potential to grow and access finance. In order to tackle this problem, it is proposed to conduct awareness raising activities, and to provide capacity building for SMEs to help them access financial instruments. Awareness raising and capacity building for SMEs, to help them access financial instruments, with the focus on firms with export and/or FDI potential (e.g. support to access domestic and international funds e.g. guarantee schemes, equity finance, business angels, etc.).

Measure (AtF/VI): *Support for the development of equity and mezzanine funding for the SME sector.*

Rationale: According to most recent surveys, access to finance, remains as one of the top obstacles for “doing business” in Macedonia. SMEs themselves continually claim that access to finance is the major hindrance to many different aspects of their business, and smaller companies in particular appear to struggle with accessing loans or credits. This is reflected in a high share of businesses covering their financing needs with internal funds and/or retained earnings. Unfortunately, there is currently little product diversification amongst the non-bank financing options, which suggests the necessity to provide capacity building to support the development of new financing instruments, and thereby increasing and improving, the product diversity of non-bank financing instruments. Two specific financial instruments, equity and mezzanine (a hybrid of debt and equity) funding which would be used to finance the expansion of existing companies in the SME sector, have been identified as new/diverse instruments, where support would be specifically needed. The Fund for Innovation and Technological Development could provide the appropriate vehicle for the disbursement of this type of financing, providing the appropriate legal framework, and capitalisation was in place.

ANNEX 1 - Action Plan for 2016-2020 – Implementing the Competitiveness Strategy

In order to fulfil the Competitiveness Strategy's vision, seven strategic objectives have been defined, namely to create:

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

This document, Competitiveness Action Plan converts the strategic priorities identified in the Competitiveness Strategy into a matrix of measures, rationale, funds, timescale, primary and secondary responsibilities, and indicators. Regarding the timescale, it should be noted that it refers to the programming year. It is not possible to predict how long this process will latest, but the faster is happens, the quicker implementation can occur.

A number of abbreviations are used in the Action Plan, including the following:

AFIEP	Agency for Foreign Investments and Export Promotion
GoRoM	Government of the Republic of Macedonia
APPRM	Agency for Promotion of Entrepreneurship of RM
BSC	Business Support Centre
BSO	Business Support Organisation
CDPMEA	Cabinet of the Deputy Prime Minister for Economic Affairs
CSO	Civil Society Organisation
DTIDZ	Directorate for Technological Industrial Development Zones
EEN	Enterprise Europe Network
FDI	Foreign Direct Investment
FIC	Foreign Investors' Council
FITD	Fund for Innovations and Technological Developments
MBDP	Macedonian Bank for Development and Promotion

MoAFWE Ministry of Agriculture, Forestry and Water Economy
MoE Ministry of Economy
MoES Ministry of Education and Science
MoF Ministry of Finance
MoISA Ministry of Information Society and Administration
MoJ Ministry of Justice
MoLSP Ministry of Labour and Social Policy
NECC National Entrepreneurship and Competitiveness Council
NGO Non-Governmental Organisation
NTTO National Technology Transfer Office
PMO Prime Minister's Office
RDC Regional Development Centres
SME Small and Medium sized Enterprise

#	Measure	Rationale	Funds	Timescale	Lead	Others	Indicators
I. A SIMPLER AND MORE STABLE BUSINESS ENVIRONMENT							
1	Strengthen capacity to implement a coherent annual government programme which minimises emergency legislation	SMEs cannot cope with the plethora of additions/changes to laws/regulations therefore support is required to ensure that Government develops and adheres to an annual programme of legislation. The existing process needs to be reviewed and strengthened. Furthermore, where/when various ministries attempt to by-pass the normal legislative process through emergency legislation, needs to be minimised. In both cases, international best practice will be reviewed, recommendations for reform discussed and agreed, followed by the delivery of support to implement the programme, including any necessary capacity building.	1,500,000 €	2016-18	General Secretariat of the Government	GoRoM; CDPMEA, Secretariat for Legislation, MoISA, Ministries, Local Authorities	Review report and recommendations; Implementation of recommendations; Number of people trained on reforms; Number of emergency laws before reforms; Number of emergency laws after reforms.
2	Strengthen the Better Regulation system at central level and at ministry level,	Assessment of the legal framework for better regulation (covering the Guillotine, RIA, standard cost method, "one in, two out", "Think Small First", "Reversing the Burden of Proof", etc.). This (better regulation) capability is normally centralised to the PM's Office and/or the General Secretariat of the Government, or similar, drawing on experienced staff with relevant expertise from relevant ministries. The necessary better regulation policy and legislation will be developed, systematised, and customised to MK specificities. In addition, institution building support, guidelines, handbooks, capacity building, etc. will be provided, thus contributing to the creation of a simpler, more stable, and more cost effective business environment. Furthermore, This will take the form of a review of international best practices, together with a review of the existing system. Recommendations will be made for reform if necessary, and implementation of these recommendations carried out at both national level, as well as in five pilot local authorities, later to be rolled out to all municipalities.	5,500,000 €	2017-20	CDPMEA, MoISA, General Secretariat of the Government	All Ministries, pilot local authorities	Better regulation strategy and action plan; Better Regulation law/byelaws; Institution building support; Annual Entrepreneurship Conference; No. of Guidelines issued; No. of training courses prepared; No. of participants in the training courses; More stable business environment created.

3	Undertake comprehensive reform of the interrelated area of import, export and FDI	It is necessary to undertake an economic and regulatory analysis (with the SBA as a possible template) of the most important/relevant existing stock of legislation affecting import, export and investment, affecting both domestic and foreign companies. This should be followed by a process of inviting wide feedback on the principal priorities for reform, leading to a plan for either abolishing or amending unnecessary/obsolete/ burdensome regulations, and removing barriers for import, export and investment.	1,000,000 €	2017-19	CDPMEA	GoRoM, MoE, MoF, AFIEP, Customs, relevant ministries and state bodies,	Economic and regulatory analysis; Feedback on priorities for reform; Plan for regulations and tackling barriers; Implementation of the Action Plan.
4	Continue reforms within the framework of the World Economic Forum's Global Competitiveness Index	Macedonia's image is affected by its position on international indices as this influences investments, imports and exports. Further technical support will be delivered to the relevant institutions to review progress; identify gaps or weaknesses, awareness raising, annual conferences, etc. and to make recommendations and implement targeted reforms within the scope of the index.	2,000,000 €	2016-20	CDPMEA	Ministries, state bodies, etc.	No. of gaps/weaknesses identified; No. of changes/reforms made; No. of awareness raising activities; Positive movements in the Global Compt. Index.
5	Strengthen the permitting and licensing "One Stop Shop" system	Build on the IPA I project "Further expanding of the One-stop-shop system for building licences and permits", whose purpose is the development of legal, organisational and technical measures, in order to implement a system that will allow secure electronic document exchange between selected public institutions, according to their mandates, with the purpose of the electronic issuing of business licenses, approvals, and permits, at a single point. This follow-on project will aim to build on the work of the first project, by ensuring that all institutions are eventually covered, together with all licenses, approvals, and permits. Furthermore, the project will develop 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.	3,000,000 €	2017-20	CDPMEA	MoISA, MoJ; MoE; MoF; Central Registry	A fully functioning virtual "One Stop Shop" system for approvals, licences, and permits, operating and accessible throughout Macedonia.
6	Strengthen electronic tools leading to simplification, acceleration and reduction in the cost of procedures	Expand e-services for businesses including: - the Electronic Documents Management System; - the Information Centre for companies;; - the Meta Database for all companies; - the "E-documents"; - the "E-invoices"	2,500,000 €	2017-19	CDPMEA	MoISA and MoJ; MoE; MoF; Central Registry, customs	No. of electronic tools leading to simplification, acceleration and reduction in cost of procedures; No. of procedures simplified and accelerated; Decrease in time/cost of procedures.
7	Further strengthening of the National Entrepreneurship and Competitiveness Council (NECC) to provide effective	Public-private dialogue is essential for the competitive development of Macedonia. The NECC is the organisation tasked with this role however, despite recent changes and improvements, it still lacks capacity, expertise, and the financial sustainability necessary to perform this role effectively. Further support is required to ensure that it focuses on its role; expands its membership; and achieves	2,500,000 €	2016-20	NECC	All ministries, CDMMEA	A fully functioning, and properly financed NECC, with an appropriate operating structure, providing effective public-private dialogue, together with the creation of better regulations, in the area of

	public-private dialogue in the area of competitiveness	sustainability. This support, together with the provision of technical assistance to develop its capacity, will aim to place the organisation in a position to perform the demanding role expected of it, in relation to the competitiveness agenda in Macedonia. Furthermore, additional capacity will be developed to respond to the process of creating better regulations: a) in terms of RIA issues; b) to review the existing stock of legislation; and c) to conduct related consultations regarding these, with the business community.					competitiveness, in place.
8	Improving Private Sector Development Coordination, Monitoring and Evaluation at strategic level	This activity will focus on introducing and strengthening the established systems for coordinating, monitoring and evaluation of programmes and strategies in the Private Sector Development area, and extending these to other key areas of government work. The strategies include the umbrella Competitiveness, as well as others e.g. Innovation, SMEs, Export, Sustainable Development, Balanced Regional Development, Industrial Policy etc. There are also various coordinating mechanisms (e.g. Economic Council, Committee on Innovation and Entrepreneurship, Council on Balanced Regional Development, Council on Sustainable Development and and Committee on Tourism). A review is required in relation to the current institutions, processes and electronic systems, followed by best practice recommendations for the creation of a coherent system of PSD policy making, coordination and M&E at strategic level. This will be followed by support to streamline the process, including procedures, capacity building and new electronic tools to assist those bodies with information and analyses in the decision making process, thus increasing the efficiency of processing national funds in support of SMEs/PSD at local, regional and national level. The PSD system will be introduced in Phase I and Phase II will expand the approach across the government system.	4,000,000 €	2016-2018	CDPMEA	Line ministries and relevant state bodies	Best practice analyses; Current mechanisms reviewed; Recommendations provided; Remit, procedures, and systems for coordinating implementation of Strategies/Action Plans improved; A fully functioning Institutions providing oversight and coordination on the implementation of relevant Strategies and Action Plans connected with competitiveness and innovation in place. New electronic tool for PSD; Electronic tool tested and extended to whole system; No. of participants trained; Allocation of funds better coordinated.
SUBTOTAL			21,000,000 €				

#	Measure	Rationale	Funds	Timescale	Lead	Others	Indicators
II. A MORE ENTREPRENEURIAL AND PRODUCTIVE SME SECTOR							
1	Support to implement a more effective legislative environment for the SME sector	In line with EU standards and the Small Business Act, support the development of a systematised package of laws and by-laws to be improved or created (e.g. One Stop Shop Law, Law on E-Management, SME definition, etc.) to strengthen SME development, as well as embedding the "think small first" principle in its activities (e.g. RIA system, SME test, competitiveness proofing, "reversing the burden of proof" consultation, ex-post analysis), in close cooperation with the General Secretariat and the body responsible for regulatory reform (MoISA). This is a follow-up activity connected with the introduction of the better regulation system in Macedonia (see Business Environment), with a specific focus on application stronger regulations for the SME sector, resulting in a more stable business environment.	1,500,000 €	2017-18	MoE	MoISA, APPRM, stakeholders, PMO	No. of laws passed package of laws and by-laws; The "think small first" principle embedded in regulatory procedures and reforms; No. of RIAs done; No. of ex post assessments done.
2	Institution capacity building support for MoE, NECC and CDPMEA (SMEs, Industry and Export) and APPRM (and BSOs) for M&E	Strengthen capacity to support SME competitiveness for the implementation, monitoring and evaluation of the SME strategy and action plan. This will include strengthening the SME observatory/SME Factsheets, capacity and support for an annual entrepreneurship conference/awards/SME week etc. Furthermore there will be direct financial support to SMEs (Euro 1.5 million - in the form of voucher schemes and co-financing for BSOs, with a focus on international standards, certification, export, etc.). The M&E capacities will be strengthened to ensure effective implementation in the future.	2,500,000 €	2016-18	MoE	APPRM, SME stakeholders, SMEs, add NECC, CDPMEA, PMO	Capacity building measures; Outputs of the Strategy; Monitoring reports; SME Observatory reports available; No. of SME Factsheets; Annual Entrepreneurship Conference; No. of SME awards and other events; No. of voucher schemes; No. of BSO co-financing schemes.
3	Enterprise, Competitiveness and Innovation "Business" portal	Create a single web portal for businesses (covering all stages from pre-start-ups, to start-ups, and early growth SMEs), including general information; registration and deregistration; access to finance; on-line applications; forms and costs; providing on-line services, business support in different areas, etc. The single web portal will combine: www.uslugi.gov.mk; www.konkurentnost.mk; and other MK and relevant EU relevant. The Portal will be designed to be integrated in the national portal for e-Services, including institutional aspects to ensure ownership, updating, etc. based on the integrated information approach.	1,000,000 €	2017-20	CDPMEA/NECC	MoE, MoISA, APPRM	Web portal for businesses; Information available on web portal; Services available on web portal; No. of SMEs accessing the portal; Institutional ownership of the portal.

4	Development of a culture of entrepreneurship, enterprise start-up and support for growth	On a "Call for Proposals" basis, establish a country-wide network of enterprise support to potential start-ups and early growth, as well as the general provision of information, signposting, training, support (e.g. business planning and access to finance), and financial support to stimulate start-ups. Develop a Committee to oversee implementation and evaluation of project targets on a monthly basis during two phases of 2 million each (3+3 years)	4,000,000 €	2016-20	MoE	APPRM, RDCs, (SME offices), Chambers, ESAs, RESCs, LEAs, etc. based on tender, outputs, M&E, NECC	<p>Project targets established;</p> <p>No. of Project Targets achieved;</p> <p>Country-wide network of support;</p> <p>No. of start-ups and early growth enterprises using the network;</p> <p>No. of requests for info and signposting;</p> <p>No. of training courses provided;</p> <p>No. of individuals trained;</p> <p>No. of business plans developed;</p> <p>No. of requests for financial support;</p> <p>No. of requests for financial support approved;</p> <p>No. of new start-ups;</p> <p>No. of people employed in SMEs.</p>
5	Programme of support for disadvantaged groups (women, youth, older persons, and ethnic minorities) of potential and actual entrepreneurs	Development of a special programme for target groups which are normally harder to access in terms of entrepreneurship. This will include an evaluation of previous such initiatives (best practice, impact, etc.), feasibility study, and data analysis of the target groups leading to a strategy, action plan, technical assistance (e.g. training, consultancy and start-up or growth support) and finance (grants/co-financing and soft loans) to stimulate greater entrepreneurial activity on the part of the target groups	3,000,000 €	2017-18	MoE	MoLSP, BSOs, SMEs	<p>Evaluation report , best practices, impact;</p> <p>Feasibility Study;</p> <p>Data analysis of target groups;</p> <p>Strategy and Action Plan;</p> <p>No. of training courses provided;</p> <p>No. of individuals trained;</p> <p>No. of business plans developed;</p> <p>No. of requests for financial support</p> <p>No. of requests for financial support approved;</p> <p>No. of start-ups from target groups;</p> <p>No. of enterprises from the target groups supported;</p> <p>No. of people employed in target group SMEs.</p>

6	Improve access to procurement by SMEs	Review existing public procurement practices (including e-Procurement) in relation to SMEs, and the implementation of reforms (e.g. laws/byelaws) to stimulate greater access to opportunities for SMEs, including support to implement reforms to regulations, and deliver capacity building for public institutions and SMEs	750,000 €	2018-19	MoE, MoF	Public Procurement Bureau, Public Procurement Council, PMO, Contracting authorities, Chambers, SMEs	Review report on existing public procurement, and e-procurement practices; No. of laws/byelaws reformed; Capacity building measures, results and monitoring reports; No. of SMEs awarded public procurement contracts; Value of public procurement contracts awarded to SMEs; Percentage of public procurement contracts awarded to SMEs.
7	Awareness raising and support for business transfer	Many entrepreneurs end up closing viable businesses due to lack of preparation as retirement approaches. Following an analysis of the current situation, support will be delivered to avoid unnecessary closure of viable firms, by raising awareness, developing a matching database (buyers and sellers), reviewing and if necessary reforming regulations, and providing legal, accounting, tax and business consulting support to assist business transfer. Training will also be delivered to Business Support Organisations to provide business transfer services, including business valuation, mergers and acquisitions, tax planning, etc. The training will be embedded by the selection of 20 companies to support throughout the business transfer process. These will be used as examples to raise awareness.	2,000,000 €	2017-19	MoE	MoF, BSOs, SMEs	Current situation analysis; Awareness raising activities; Buyers and sellers matching database; No. of regulations reformed; No. of consultations held/support given; No. of training courses provided to Business Support Organisations; No. of BSO staff attending courses; No. of business transfers, business valuations, mergers and acquisitions, and tax planning services provided; No. of companies supported.
8	Bankruptcy, business closure, 2nd chance	Assessment and implementation of procedures to allow for simple and effective business closure of inactive enterprises. Review of the 2nd chance in the country and support to further development in line with best practices. In addition, targeted support to overcome the remaining bankruptcy procedural difficulties (1.8 years to complete bankruptcy procedures, cost 10% of the estate, with a recovery rate of 44.1%), introduce an early warning system, train SMEs, courts, legal professionals, awareness raising, etc.	1,500,000 €	2018-19	MoE	MoF, MoJ, Central Registry, Courts, SMEs	Assessment report; Implementation procedures; Review report, best practices identified; Time/cost to complete bankruptcies; Recovery rates from bankruptcies; Early warning system in operation;

							Training programme; No. of SMEs / legal professionals attending the training programme; No. of awareness raising activities.
9	Improve governance among SMEs, including Corporate Social Responsibility (CSR)	Develop a CSR strategy and action plan, and provide support for implementation, monitoring and evaluation. Review and reform the Law on Donations and Sponsorships to improve existing and develop new regulatory incentives to encourage SMEs to include CSR principles into their strategies. Undertake awareness raising activities showcasing the business case for CSR. SMEs which have developed good practice examples can deliver capacity building jointly with Chambers and other business representatives. Resources provided for annual national competitions and awards. Incentives shall be included in order to stimulate interest in CSR by companies.	500,000 €	2016-17	MoE	Chambers, MoJ, SMEs, CSOs, NECC	CSR Strategy and Action Plan; Monitoring and evaluation reports; Law on Sponsorship review; No. of awareness raising activities; Best practice examples; Capacity building activities; No. of competitions and awards.
SUBTOTAL			16,750,000 €				

#	Measure	Rationale	Funds	Timescale	Lead	Others	Indicators
III. A MORE VIBRANT EXPORT SECTOR							
1	Institutional strengthening of Export Support	Develop a new export strategy and action plan (stimulating indirect exports via export agent), followed by direct exports to geographically and culturally close countries, followed by exports to EU, and finally global exports). The support will include: developing a revised export sector focus; a review and possible reform of the Export Department in AFIEP (staff, responsibilities, information and contact services, with an explicit link to the Economic Promoters, etc.); co-financing for SMEs to participate in targeted fairs, expos, B2B, and similar events; financing for promotional activities; support to Made in Macedonia; capacity building for staff (Export Department and Economic Promoters), and for SMEs in relation to aspects of export.	2,000,000 €	2016-18	AFIEP	Economic promoters, MoE, APPRM, SMEs	New Export Strategy & Action Plan; Review of Export Department; Recommendations for reform of ED; Value of exports to geographically and culturally close countries; Value of global and exports to EU countries; No. of applications made by SMEs for co-financing (fairs, expos, B2B); No. of SME applications approved; No. of Promotional events conducted Capacity building reports.
2	Export promotion drive with a focus on prioritised sectors	WB analysis has highlighted 5 sectors offering export potential, namely: food processing, logistics, automotive, textile and (further development of) tourism. There is a need to recalibrate the analysis and selection of sector and sub-sectors to focus on, followed by the preparation of detailed Action Plans for the implementation of the prioritised export promotion drive sub/sectors. Furthermore, resources are required to build momentum in terms of the export promotion drive (estimated to be Euro 5 x 5 sectors), with a focus on support to SMEs.	25,000,000 €	2017-2020	CDPMEA, WB	MoE, AFIEP, Ministries, investors, SMEs	Analysis of sub/sectors to prioritise; Review of previous initiatives; Export promotion initiatives; Customised Action Plans; Delivery of support to SMEs; Export promotion initiatives; Value of exports in selected sectors.
3	SME Export Support Programme	Select 250 targeted SMEs with export potential (targeted by experience; productivity levels; technological innovation; R&D activities; skills intensity and ICT capacities; and with a focus on manufacturing, software and business services, etc.). Provide support for these SMEs in terms of "Investment readiness" (including web tools) including, technical assistance and capacity building; and financing for export readiness issues (e.g. standards, health & safety, marketing, business planning, technology, branding, labelling, packaging, product testing, certification, contracting, customs, logistics, marketing, information and analysis)	6,000,000 €	2016-20	CDPMEA and AFIEP	PMO, MoE, , APPRM, local & international consultants, SMEs	250 export potential SMEs identified; No. of SMEs supported; No. of SME applications made for "export readiness" financial assistance; No. of SME applications approved; No. of SMEs exporting; Value of SME exports.

4	Establish an export information and support capacity, and point of contact	Register with export data providers (e.g. Euromonitor), in order to provide data, analysis and dissemination support for SMEs. Establish a single point of contact about exporting at AFIEP; support/promote local enterprises in international markets; work in close collaboration with the Enterprise Europe Network (EEN); and expand coverage of these services to other parts of the country (e.g. through co-operation with 8 Regional Development Centres), through a targeted number of domestic enterprises to be supported, with information, analyses, signposting, etc.	2,000,000 €	2017-20	AFIEP	EEN, RDCs, SMEs	Contracts with export data providers; Single point of contact on exporting; No. of contacts/"hits" registered; Service disseminated nationwide via Regional Development Centres; No. of SMEs supported with information, signposting, etc.; No. of SMEs supported/promoted in international markets; No. of SMEs exporting; Value of SME exports.
5	Macedonian Export Promotion Portal	Build on the existing portal (company directory) and establish as a priority, a comprehensive national e-portal, for SMEs and exporters, with a focus on the content, design and user-friendliness. Undertake reviews of best practice portals (www.izvoznookno.si), and build from these by 'leap-frogging', leading to a "showcase" portal, aimed at 'helping Macedonian exporters and aspiring exporters, to help themselves to obtain quality market intelligence, and to log into interactive training modules, covering a range of cross-cutting issues directly impacting on export performance. The Portal will be designed to be integrated in the national portal for e-Services, including any necessary institutional aspects to ensure ownership, updating, etc.	500,000 €	2016-17	AFIEP	MoE, MoISA	Best practice portals' review; Comprehensive "show-case" national e-portal, for SMEs and exporters, established; No. of contacts/"hits" registered; Institutional ownership of the portal. Integration of portal with national e-portal.
6	Review and strengthen FDI and export capacity of economic promoters diplomatic staff in embassies/consulates	Review and strengthen the economic capacity of the network of diplomatic representations and consulates abroad with a focus on MoFA's Economic Diplomacy vs Economic Operations. Streamline recruitment, contracts, training (FDI and export), liaison with AFEIP, and monitoring/evaluation. Increase the capacity of the Economic Promoters/economic attaches/ambassadors, to assist SMEs in penetrating foreign markets, by providing information on the local business environment; generating concrete business opportunities in foreign markets; assisting companies in making business contacts; participating in economic fairs; promoting the Macedonian economy as a location for FDI; searching for business opportunities via Macedonian living abroad (e.g. Diaspora); and liaison with InvestMacedonia, etc. Implementation of measures such as Macedonian product weeks, etc. Develop training toolkits, databases, etc. to ensure continuity and to avoid overlaps, etc.	250,000 €	2018-19	MoFA; AFIEP	Economic Promoters; embassies; consulates	Economic capacity review; Recruitment, contracts, training (FDI and export), liaison with AFEIP, and monitoring/evaluation streamlined; Capacity building reports; No. of SMEs assisted in penetrating export markets; No. of SMEs assisted in making business contacts; No. of SMEs getting market intelligence; No. of business opportunities

							generated; No. of economic fairs participated in; No. of promotional activities conducted; Training toolkits; Databases; No. of successful FDI initiatives; No. of enterprises exporting; Value of exports.
7	Leveraging export and internationalisation through international standards	Raise awareness of the critical importance of creating "high quality, high standard products" consistent with international standards that are recognisable, trusted and valued on both the domestic and international markets. This will include financial and technical assistance support for targeted SMEs, in relation to ISO, HACCP, HALAL, etc.	1,500,000 €	2017-20	MoE	Institute for Standardisation, Bureau of Metrology, AFIEP, APPRM, Chambers, NECC, SMEs	Awareness raising activities; No. of requests for technical assistance from SMEs; No. of requests for financial assistance made by SMEs; No. of requests for financial assistance approved for SMEs, for support with international standards.
SUBTOTAL			37,250,000 €				

#	Measure	Rationale	Funds	Timescale	Lead	Others	Indicators
IV. A MORE ATTRACTIVE ENVIRONMENT FOR INWARD INVESTORS							
1	Strengthening linkages between FDI/TIDZs and domestic companies	Build on the experience of the WB's "pilot Supplier Development Program (SDP)" and mainstream the initiative (from 5 to 250 companies) in order to significantly strengthen the linkages between foreign investors (mainly in the TIDZs) in the key sectors (not only the light manufacturing industries), and domestic SMEs, through the provision of support in: i) supplier information dissemination; ii) capacity building and training; iii) upgrading of suppliers, standardisation, certification, technology extension; and iv) facilitating access to finance.	5,000,000 €	2017-20	CDPMEA, MoF, World Bank	AFIEP, DTIDZ, MoE, Foreign Investors, SMEs, financial institutions, BSOs, etc.	No. of requests from local enterprises for supplier information and capacity building support; No. of SMEs attending training; No. of local SMEs receiving support; No. of SMEs upgraded; No. of local enterprises supplying goods/services to FDI companies; Value of goods/services supplied by local enterprises to FDI companies.
2	Stock-take of FDI obstacles and systematic reform, including Public/Private dialogue	Move from the existing ad-hoc approach, to a strategic approach for reducing FDI barriers, by working closely with the Foreign Investors' Council and the NECC, to undertake a detailed assessment of the current blockages to investment (White Book, covering work permits, construction permits, waste permits, export permits, customs delays, legal system delays, etc.). Determine what needs to be reformed on the basis of international best practices, and initiate reforms, ensuring this process has been subject to an effective PPD, through the involvement of the PMO, NECC and foreign investor representatives, such as the FIC.	1,500,000 €	2016-17	CDPMEA, NECC	MoE, AFIEP, DTIDZ, Ministries, Agencies, FIC, NECC, enterprises	Assessment on current FDI blockages; International best practices identified; Regular and effective PPD conducted through the involvement of GoM, NECC, and foreign investors; No. of FDI barriers/blockages identified and eliminated; No. of successful FDI initiatives.
3	Mobilising Diaspora remittances for entrepreneurship	Remittance inflows amount to approximately 18% of GDP, which greatly exceeds FDI (about \$2bn vs \$500mn in 2011). An estimated 28-30% of the inflow of remittances from the Diaspora (400-500,000 people, mainly living in Italy, Germany, Australia, Switzerland, Turkey, Austria, Slovenia, Croatia, France, Canada) is potentially available for investment, and this represents an extremely interesting issue for policy focus in the future. A detailed study will be performed, covering the whole country, in order to determine: i) international best practices in mobilising remittances for productive non-property related investment; and ii) the potential within the country for such	1,500,000 €	2018-20	MFA	MoE, MoF, AFIEP, Diaspora institutions, MoE, NGOs	Study report; International best practices identified; Potential for mobilising remittances, for productive non-property related investments; No. of pilot initiatives established.

		investments. Pilot initiatives will be established to determine how government can best intervene, in order to harness these remittances for competitiveness and innovation purposes.					
4	Improve data collection, analysis and reporting of FDI, export and State Aid data	Simplify the data collection of FDI and Transnational Corporation (TNC) activities, by coordinating the Central Registry (identifies foreign-owned firms), the National Bank (collects data on FDI), and the State Statistical Office, resulting in an annual TNC survey, data collection and relevant statistics.	300,000 €	2018-20	AFIEP	MoE, MoF, Central Registry, National Bank, State Statistical Office, investors	Annual TNC survey; Annual data collection; Relevant annual statistics.
SUBTOTAL			8,300,000 €				

#	Measure	Rationale	Funds	Timescale	Lead	Others	Indicators
V. A MORE SKILLED AND ENTREPRENEURIAL LABOUR FORCE							
1	Continuation and Extension of Project Top Management	Top Management is a programme of practical and theoretical training in foreign companies for 200 managers (primarily by export-oriented companies). This project will enable managers primarily from export-oriented companies to advance their management skills and gain practical knowledge from the respective companies abroad. Managers will be able to closely monitor the process of policy-making, negotiation, decision-making, marketing and to draw experiences from companies from more developed countries such as Slovenia, Germany, etc. One of the benefits of this project will be to establish contacts with many successful companies which are of great importance to cooperation to raise competitiveness, increase exports and strengthen the Macedonian economy in general.	5,000,000 €	2016-20	CDPMEA	PMO, MoE, MoES MLSP, SMEs, faculty staff, consultants, practitioners	Annual survey conducted; Annual training programme developed; No. of SME managers/technical staff trained; Monitoring and evaluation reports; Training programme adjusted on an annual basis.
2	Develop incentives to encourage SME owners to invest in the workforce through a Skills Fund	Assess the existing situation, including legislation, that inhibits SMEs from investing in their workforce. Develop recommendations and legislation, based on international best practice, for the establishment of a Skills Fund to provide incentives on a revolving basis for firms to invest in the training of their existing (and incoming) workforce. More generally, recommend the most suitable model / fund for stimulating employers to implement continuous skills development and accreditation. The agreed model will be implemented in close cooperation with the private sector.	5,000,000 €	2016-20	CDPMEA, NECC	MoE, Chambers, enterprises, MoES, Employment Agency	Assessment Report on existing system; Identification of legislation changes; A suitable model/fund, consistent with EU requirements, identified; No. of incentives provided; No. of workers provided with training, skills development and accreditation.
3	Strengthen cooperation between Universities and enterprises	Customised courses/scholarships/internships in domestic and foreign companies in areas of demand by the private sector based on surveys and labour market needs forecasts. These should include regulatory and other reforms to enable these courses/scholarships/internships to be of a sufficiently long timescale (e.g. 3-6 months), thereby facilitating real learning / contribution by the participants, and for the host enterprises to benefit from this cooperation.	2,000,000 €	2017-20	MoES	FDI/SMEs, MoE, CDPMEA, MoES, NECC, Universities	Areas of demand identified; Changes to the law on internship; No. of individuals undertaking internships in domestic and foreign companies; Customised courses combining scholarships and internships developed.
4	Develop and implement certified import and export managers' courses	Train the trainers scheme to develop a pool of 40 experts/consultants with the necessary skills required, in order to develop a practical, hands-on export curriculum, undertake Train the Trainers courses and cascade the training to 200 companies per annum (1,000 over 5 years).	500,000 €	2016-20	CDPMEA, NECC	AFIEP, BSOs, MoE, universities, SMEs	No. of academics/experts/consultants trained as trainers; Certified export managers' course

							developed; No. of individuals graduating in export management; Certified managers' course on import substitution developed; No. of individuals graduating in import substitution management.
5	Project "Foreign Experts for domestic SMEs"	This Project will assist 300 SMEs by providing expertise from senior experts from the most developed EU countries. The main objective is to increase their competitive ability, improve the quality of products and processes, creation and maintenance of jobs, as well as an increase in the profits and income of the businesses and employees involved. This will be provided within targeted missions where the expert visits the company on-site, and assists/advises the company's management in regards to a specific challenge/problem, both on-site and off-site.	1,000,000 €	2016-20	General Secretariat	PMO, SMEs, CDPME, NECC	No. of SMEs assisted; No. of hours of assistance provided; Increased in jobs/job retention; Increase in export volume/turnover/profitability; Evaluation of overall impact on SMEs.
SUBTOTAL			13,500,000 €				

#	Measure	Rationale	Funds	Timescale	Lead	Others	Indicators
VI. A REINVIGORATED INDUSTRIAL POLICY							
1	Implementation of Industrial Policy in MK	Industrial strategy and institution building with a focus on sectoral studies and the targeting of existing and emerging areas of potential, including the preparation of sector-specific action plans, based on smart specialisation and legislation, for key targeted industrial sectors, and sub-sectors.	1,500,000 €	2016-17	MoE	MoES, APPRM, stakeholders	Institution building reports; No. of sectoral studies; No. of sector-specific action plans.
2	Cluster and value chain development	Further support to both existing and new clusters, with an emphasis on value chain analysis of existing or new sectors and sub-sectors (based on the smart specialisation approach), identification of gaps / potential business linkages / intervention areas. Provision of co-financing specifically for SMEs (Euro 2 million) to improve the operation of value chains.	3,000,000 €	2017-20	MoE	Clusters, value chains, SMEs, NECC	Analysis of existing or new sectors and sub-sectors' value chains; No. of gaps identified in new sectors and sub-sectors' value chains; No. of potential linkages identified; No. of applications made by SMEs for co-financing to improve operation.
3	Strengthening capacities of SMEs for understanding IPR and implementing in-house R&D	SMEs neither fully understand the potential of IPR, nor know how to value of or calculate R&D costs and benefits. An awareness raising programme is required, in collaboration with the relevant state institutions and chambers, focusing on IPR, R&D, patents, industrial designs, trademarks, innovation, funding, procedures, costs, etc. Provision of financial assistance to SMEs for first time registration, as well as support to go through the process. Furthermore, R&D costs are important for developing a composite index of R&D costs / GDP, and Macedonia lacks accurate data on this topic. Training of SME managers and accountants on this topic, will be provided with a focus on in-house R&D activities. 2000 SMEs will be trained on these issues, after which a survey (standardised community survey) will be conducted, and the data used for the preparation of the Innovation Union Scoreboard.	1,500,000 €	2016-18	MoE	State Office of Industrial Property, FITD, Chambers, accountants, SMEs, BSOs	No. of awareness raising activities on IPR, R&D, patents, industrial designs, trademarks, innovation, funding, procedures, and costs; No. of applications made by SMEs for technical support; No. of applications approved for SMEs for technical support; No. of applications made for financial assistance for first time registration; No. of applications approved for financial assistance for first time registration; No. of SME managers and accountants trained on valuing/calculating R&D costs; Standardised community survey; Innovation Union Scoreboard.

4	Support in accessing EU competitiveness and innovation funds	The process of applying for EU competitiveness and innovation funds, is becoming ever more complex, and at the same time more competitive. This project will facilitate more effective access to EU funds and support (IPA II, Eureka, Eurostars, COSME, HORIZON2020, etc.), with a focus on SMEs, universities, civil society and government officials. The emphasis will be on the provision of information, training, guidance, support with applications, preparation of good practice examples, and support with contractual issues, monitoring, evaluation and reporting.	2,000,000 €	2016-20	MoE/MoES	SMEs, universities, civil society and government officials, MoLSG, NECC, Centres for dev. planning regions	International best practices identified; No. of SMEs supported to make applications for EU funding; No. of applications made by SMEs; No. of applications approved for SMEs; No. of requests for information/guidance; No. of SMEs supported in contracts; No. of SMEs attending training courses; Monitoring and evaluation reports.
5	Establishment of Triple Helix Partnerships	Triple helix partnerships will be introduced as an innovative and cost-effective measure, which brings together businesses, research institutions and local government, in a particular sector of the economy. Support will be provided in the form of a competition, in which best projects receive technical assistance for further development.	3,000,000 €	2017-20	CDPMEA and NECC	MoE, MoES, FITD, NTTD, NECC, SMEs, universities, PMO	No. of competitive application rounds; No. of applications made; No. of TH partnerships approved; No. of SMEs supported in contracts; No. of SMEs expanding their activities.
SUBTOTAL			11,000,000 €				

#	Measure	Rationale	Funds	Timescale	Lead	Others	Indicators
VII. A HIGHER VOLUME OF FINANCE FOR THE ENTERPRISE SECTOR							
1	SME Competitiveness and Innovation Finance and Support	Building on previous initiatives, increase SMEs' competitiveness on international markets and spur innovation through the mobilisation of Euro 30 million of lending, from EBRD credit lines, for investment by SMEs, through partnership banks. The contribution of Euro 6 million will be in the form of investment incentives/grants (Euro 4.5 million), and technical assistance (Euro 1.5 million), including assistance to sub – borrowers and participating banks, in support of the loans provided by the EBRD. The measure will focus on non-bankable SME and engaging second tier commercial banks as well as those that have previously worked with EBRD on similar initiatives.	6,000,000 €	2016-20	EBRD	MoE, CDPMEA, SMEs	EBRD credit line operational; No. of SME applications for TA; No. of SMEs assisted by EBRD; No. of investment incentive/grant applications made; No. of investment incentive/grant applications approved; No. of people employed in SMEs.
2	Establishment of a national Credit Guarantee Scheme for SMEs	International best practice highlights the importance of credit guarantees in overcoming the collateral requirements of commercial bank lending, leading to the establishment of a greater volume of bankable SMEs over a period of time. This proposal involves a review of international best practice (e.g. guarantee levels, targeting, products, institutionalisation, etc.), a feasibility study, capitalisation of the guarantee scheme (Euro 4 million), and operationalisation, using a specialist financial institution to manage this, together with a network of banks operating commercially, to ensure the scheme is financially sustainable.	5,000,000 €	2017-20	EBRD; EIB; EIF	CDPMEA, MoF, MBDP, MoE, banks, SMEs	International "best practices" review; Feasibility study; Guarantee scheme capitalised; Guarantee scheme operational and managed by a financial institution; Guarantee scheme financially sustainable.
3	Strengthen the regulatory basis and improvement of financing instruments for SMEs	Surveys, feasibility studies, regulatory reforms and pilot initiatives to improve access to finance for SMEs (moderation and/or exemption of SMEs from certain Basel II / III requirements (in close cooperation with the National Bank), moveable assets register, factoring law), including funds to test, fine-tune and mainstream pilot initiatives to the wider financial system.	2,000,000 €	2016-18	CDPMEA	MoF, Stock Exchange, Security and Exch. Commission, PMO, NBRM, APPRM, MoE, angels, SMEs	International best practices identified; No. of new laws covering venture capital, business angels, equity finance and crowd-funding developed; No. of new start-ups in targeted sectors supported by business angels, or by crowd funding; No. of people employed in targeted SMEs.
4	Strengthen the basis for equity finance in Macedonia	Review of existing regulation and improving the legal framework for alternative sources of funding (venture capital, business angels, equity finance, crowd funding); review the international best practices and national experiences, provide technical assistance with implementation and capitalisation, to develop a business angels' network, and possibly crowd-funding, for start-	2,000,000 €	2016-18	CDPMEA	MoF, Stock Exchange, Security and Exch. Commission, PMO, FiTD,	International best practices identified; Review of national experiences; No. of new laws covering venture capital, business angels, equity

		ups in targeted sectors.				APPRM, MoE, angels, SMEs	finance and crowd-funding developed; No. of new start-ups in targeted sectors supported by business angels, or by crowd funding; No. of people employed in targeted SMEs.
5	Strengthen MBDP exim capacities and develop new export-oriented products	Review and expand the range and scope of exim products and services, available through MBDP, including piloting and mainstreaming new initiatives. This will include a focus on short term credits (under two years), medium and longer term export credits (over two years), export credit guarantees, pre-shipment financing, export insurance, export factoring, etc. building on the existing products and experience where they exist, and international best practice, where they do not exist.	3,000,000 €	2017-19	MBDP	MoF, Central Bank, banks, SMEs	International best practices review; Exim products and services review; No. of new exim products and services developed and available; No. of pilot initiatives; No. of export credits (short, medium and long-term) provided; No. of export credit guarantees, pre-shipment financing, insurance and factoring provided.
6	Expand financial literacy among SMEs	Awareness raising and capacity building for SMEs, to help them access financial instruments, with the focus on firms with export and/or FDI potential (e.g. support to access domestic and international funds e.g. guarantee schemes, equity finance, business angels, etc.).	3,000,000 €	2016-18	CDPMEA	MoE, Clusters, Chambers, SMEs, NECC	No. of awareness raising activities; Capacity building reports; No. of applications made for domestic and international finance; No. of applications approved for domestic and international financial instruments.
7	Support for the development of equity and mezzanine funding for the SME sector	This activity will involve developing the legal framework for equity and mezzanine funding specifically for the finance for Fund for Innovation and Technological Development, consistent with international best practice in this field. The second part of the activity involves capitalisation and support for funding instruments, including disbursement, monitoring and evaluation.	3,000,000 €	2017-20	FITD	SMEs, MoES, MoF	No. of best practice examples examined; Draft regulations; Approved regulation; Sum of equity finance capitalisation; Sum of mezzanine funding capitalisation; No. of instruments created; Volume of applications received; Volume of disbursement.
SUBTOTAL			24,000,000 €				
OVERALL TOTAL			131,800,000 €				

ANNEX 2 – List of Meetings

	INSTITUTION	DATE	TIME	MEETING PARTICIPANTS	COMMENT
1	<i>CEED Macedonia</i>	22.09.2015	16.00	Mr. Jovan Madjovski - Manager	
2	<i>Economic Chamber of Macedonia</i>	23.09.2015	10.00	Ms. Jadranka Arizankovska - Senior advisor Ms. Sofce Jovanovska - Advisor of Executive Board	
3	<i>Economic Chamber of Macedonia Foreign Investors Council</i>	23.09.2015	10.00	Ms. Elena Milevska - Associate	
4	<i>Economic Chamber of North – West Macedonia</i>	23.09.2015	14.00	Mr. Fatmir Bytyqi - Executive Director	
5	<i>UNDP</i>	25.09.2015	10.00	Ms. Vesna Bisheva - Assistant resident representative, Ms. Suzana Ahmeti - Program associate	
6	<i>Economic Chamber of Macedonia Foreign Investors Council</i>	25.09.2015	14.00	Vlatko Stojanovski - Associate	
7	<i>GTZ</i>	1.10.2015	12.30	Sonja Andonova - Associate	
8	<i>Macedonian Chambers of Commerce</i>	2.10.2015	10.30	Maja Saveska - Advisor	
9	<i>Macedonian Chamber of Information and Communication Technologies - MASIT</i>	5.10.2015	15.00	Anita Nikova - Executive Director	
10	<i>Directorate for Technological Industrial Development Zones - DTIDZ</i>	8.10.2015	09.00	Viktor Mizo - CEO Emina Skrijelj - Associate	
11	<i>Ministry of Labour and social policy</i>	8.10.2015	11.00	Goran Veleski - Advisor	
12	<i>Agency for Foreign Investments and Export Promotion of the Republic of Macedonia (Invest Macedonia)</i>	8.10.2015	14.00	Milica Zivkovska - Export Promotion Head of Department Nevenka Stamenkovska - Head of Investor Servicing Department	
13	<i>Agency for Promotion of Entrepreneurship of RM (APPRM)</i>	9.10.2015	9.00	Nikola Tanevski - Associate	
14	<i>Agency for Employment</i>	13.10.2015	9.00		
15	<i>Johnson Matthey</i>	14.10.2015	8.30	Jatin Thakrar - Plant Manager	Foreign Investor
16	<i>Van Hool</i>	14.10.2015	10.00	Avram Stojcevski - Plant Manager	Foreign Investor
17	<i>Cabinet of Prime Minister</i>	14.10.2015	18.00	Dimce Lazarevski - State Counselor for SMEs Support	

18	KEMET Electronics	15.10.2015	9.00	Guido Galleni - Senior Managing Director Balkans, KEMET Electronics	Foreign Investor
19	USAID MACEDONIA	15.10.2015	10.00	Tanja Markovska - MBA, CMC, Project Management Specialist, Economic Growth Office	
20	World Bank Office	15.10.2015	13.00	Ms. Gordana Popovikj Friedman – Country Specialist Mr Todor Milchevsk - IFC	
21	McKinsey	15.10.2015	16.30	Tilman Tacke - Consultant	Commissioned to prepare a report on overall FDI structure
22	Ministry of Education and Science	16.10.2015	10.00	Elena Gligorovska - Coordinator for Business and Innovation Skills Development and Innovation Support Project (SDISP) Ministry of Education and Science	
23	USAID	16.10.2015	14.00	Tanja Markovska - Project Management Specialist, Economic Growth Office	
24	Cabinet of Deputy Prime Minister for Economic Affairs	20.10.2015	10.00	Romela Popovic - CDPMEA, Tanja Veljkovic - CDPMEA, Dane Josifovski - CDPMEA, Maja Baric - CDPMEA, Elizabeta Georgieva - Programme Manager - Operations I – EUD, Jaromir Levicek – EUD	
25	National Entrepreneurship and Competiveness Council of the Republic of Macedonia	20.10.2015	14:00	Viktorija Mitrikeska - Executive office manager Dejan Stojanovski - Administrator, Goran Lazarevski - USAID IDEAS Project, Senior Advisor	
26	EBRD – European Bank for Reconstruction and Development	21.10.2015	10.00	Naum Ribaroski - Principal Banker, Vlado Bojadzievski - Principal Banker, Anca Iona Ionescu - Head of EBRD Resident Office Maja Anteska - National SBS Program Manager Dane Josifovski, CDPMEA Maja Baric, CDPMEA	
27	MBDP – Macedonian Bank for Development Promotion	21.10.2015	15.00	Aleksandar Manevski - Head of Planning and Analyzing department Darko Stefanovski - Manager or Credit Insurance Department	
28	Innovations Fund	22.10.2015	14.00	Jasmina Popovska - Manager	
29	NECC – Supervisory Board	22.10.2015	16.00	Toni Petreski - Chairman	
30	Macedonian Business Angels Network	26.10.2015	10.00	Ilija Vuckov - President	
31	Ministry of Information Society and Administration	26.10.2015	14.00	Gordana Dimitrovska - Head of unit for regulatory reform	
32	Mechanical Faculty	27.10.2015	15:00	Radmil Polenakovic - Professor	

33	Goran Lazarevski/USAID	27.10.2015	11.30	Goran Lazarevski – USAID IDEAS Project Senior Advisor	
34	USAID/Small Business Expansion Project	28.10.2015	10.00	Carl Jenkins - Project Director Mimi Makedonska - Deputy Project Director	
35	USAID/AgBiz Project	28.10.2015	12.00	Goran Damovski - USAID Agbiz Project Manager	
36	Agency for Foreign Investments and Export Promotion of the Republic of Macedonia (Invest Macedonia)	29.10.2015	13.30	Kliment Sekeroski - Deputy CEO Milica Zivkovska - Export Promotion Head of Department	Export issues
37	Agency for Foreign Investments and Export Promotion of the Republic of Macedonia (Invest Macedonia)	29.10.2015	13.30	Kliment Sekeroski - Deputy CEO Nevenka Stamenkovska - Head of Investor Servicing Department	FDI issues
38	Embassy of Switzerland in the Republic of Macedonia	29.10.2015	16:00	Lilian Kandikjan, MBA - National Programme Officer	
39	Faculty of Mechanical Engineering	30.10.2015	12.30	Radmil Polenakovic - Professor	
40	International Finance Corporation - IFC	30.10.2015	15.00	Zoran Martinovski - Resident Director	
41	Faktor Trust	2.11.2015	12:30	Suzana Tunteva - Director	Private Factoring Company
42	Cabinet of Deputy Prime Minister for Economic Affairs	3.11.2015	10.00	Tanja Veljkovic – CDPMEA, Maja Baric - CDPMEA, Jana Stojkova – CDPMEA	Simplification topic
43	Regional Development Center – Pelagonija	3.11.2015	11:30	Emilija Gjeroska - Director	
44	Swiss Embassy	4.11.2015	15.00	Natalija Puntevska – Export Specialist	
45	Ministry of Finance	5.11.2015	10.00	Aleksandra Ivanovska - Associate Jordan Trajkovski – Head of Department	
46	Prime Minister Cabinet Economic Council	6.10.2015	12.00	Kristina Keleman - Associate in PM Cabinet Elizabeta Georgieva - Programme Manager - Operations I - EUD	
47	Ministry of Finance	11.11.2015	10.00	Financial Systems Department	
48	Minister without portfolio: Vele Samak	11.10.2015	11.30	Vele Samak - Minister without portfolio Andrea Tevdoski - Analyst	
49	Cabinet of Deputy Prime Minister for Economic Affairs	11.11.2015	14.00	Maja Barik - CDPMEA Tanja Velkovic - CDPMEA	Capacities of the cabinet of the DPMEA
50	Business Start up Centre – Faculty of Mechanical Engineering	11.11.2015	15.00	Bojan Jovanovski - Associate	

51	Workshop I & II Skills Development Business Simplification	13.11.2015	09:45	Relevant Stakeholders	
52	Agency for Foreign Investments and Export Promotion of the Republic of Macedonia (Invest Macedonia)	16.11.2015	16:40	Kliment Sekeroski - Deputy CEO	
53	Directorate for Technological Industrial Development Zones	17.11.2015	08:30	Viktor Mizo - CEO	
54	Workshop III & IV SME/SBA - Industrial Policy	17.11.2015	09:45	Relevant Stakeholders	
55	Macedonia Export	18.11.2015	13:30	Petar Lazarov - Managing Partner	Private company dealing with export
56	Ministry of Information Society and Administration	18.11.2015	13:30	Rozalinda Stojova - Head of Unit for development and promotion of information society	
57	Workshop V, VI & VII Access to Finance, FDI, Export,	19.11.2015	09:45	Relevant Stakeholders	
58	EU Delegation	19.11.2015	16:30	Elizabeta Georgieva - Programme Manager - Operations I Jaromir Levicek - EUD Martin Klaucke - EUD	
59	Cabinet of Deputy Prime Minister for Economic Affairs	20.11.2015	10:00	Tanja Veljkovic - CDPMEA Jana Stojkova - State Advisor, CDPMEA Elizabeta Georgieva - Programme Manager - Operations I - EUD	
60	Cabinet of the Prime Minister – FDI Unit	20.11.2015	14:00	Ivana Nikolic - Head of FDI Unit Sasha Grujevski - State Advisor	
61	EU Delegation / Meetings with ERP Team	23.11.2015	09:00	Elizabeta Georgieva-Programme Manager, Operations I – EUD, Jaromir Levicek - EUD, Economic Reform Program Team	
62	EBRD – European Bank for Reconstruction and Development	9.12.2015	10.00	Naum Ribaroski - Principal Banker, Vlado Bojadzievski - Principal Banker, Anca Iona Ionescu - Head of EBRD Resident Office Maja Anteska - National SBS Program Manager	
63	Cabinet of Deputy Prime Minister for Economic Affairs	9.12.2015	11:30	Tanja Veljkovic - CDPMEA Dane Josifovski – CDPMEA Maja Baric - CDPMEA	
64	World Bank	10.12.2015	11:30	Gordana Popovic, Resident Specialist	

ANNEX 3 – List of Working Group meetings on Competitiveness Strategy measures

	Date of WG Meeting	Theme	Number of participants	Attending Institutions
1	13 November 2015	<i>Simplification of Business Environment</i>	18	Government of RM, Ministries; Chambers of Commerce; Academia; NECC; Delegation of EU;
2		<i>Skills Development</i>	13	
3	17 November 2015	<i>SMEs</i>	14	Government of RM, Ministries; Chambers of Commerce; Academia; Agency for SMEs Development; Delegation of EU;
4		<i>Industrial Policy</i>	11	
5	19 November 2015	<i>Access to Finance</i>	14	Government of RM, Ministries; Academia; Macedonian Development Bank ; Delegation of EU;
6		<i>FDI</i>	16	Government of RM; Ministries; Academia;
7		<i>Export and Internationalisation</i>	16	Invest Macedonia + TIDZ Directorate; Delegation of EU;

ANNEX 4 – List of reviewed strategies and relevant documents

	Name of document	Note
1	Sector Planning Document - competitiveness and innovation	
2	Competitiveness Master Plan 2011 – 2015;	
3	Work Programme of the Government 2011-2015 Date: 2011	
4	National Economic Reform Programme - 2015 Date: 2015	
5	Pre-Accession Economic Programme 2013-2015 Date: 2013	Prepared by: Ministry of Finance of RM
6	Small Businesses Act for Western Balkans	Prepared by: OECD
7	Regulations governing Regulatory Impact Assessment Date: 2013	Prepared by: Ministry of Information Society and Administration of RM
8	Revised National strategy for development of SMEs 2002-2013 Date: 2017	Strategy
9	Action plan on youth employment 2015 Date: 2015	
10	Export Promotion Strategy 2011-2015 Date: 2011	Strategy
11	Strategy for Innovation 2012-2020 Date: 2012	Strategy
12	Strategy for Entrepreneurial Learning in the Republic of Macedonia 2014-2020 Date: 2014	Strategy
13	Strategy for development of tourism in Republic of Macedonia 2009-2013 Date: 2011	Strategy
14	Strategy for development of rural tourism in Republic of Macedonia 2009-2013 Date: 2011	Strategy
15	National Strategy for Development of Agriculture and Rural Development 2013-2017 Date: 2013	Strategy
16	National Employment Strategy of the Republic of Macedonia Date: 2015	Strategy
17	Regional Development Strategy of the Republic of Macedonia 2009-2019 Date: 2009	Strategy
18	National Strategy for Sustainable Development of the Republic of Macedonia 2009-2030 Date: 2019	Strategy
19	Strategy to promote the export of Macedonian industry for software and informatics services Date: 2010	Strategy
20	National Strategy for Development of Information Society - 2005 Date: 2005	Strategy
21	National Strategy for Development of Electronic Communications and Information Technologies Date: 2011	Strategy
22	Short Term ICT Strategy - 2016 Date: 2015	Strategy