



The former Yugoslav  
Republic of  
Macedonia



# 2018 SBA Fact Sheet

## Key points

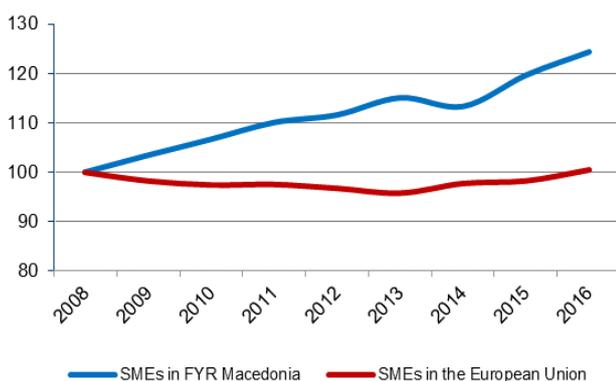
**Past & future SME performance**<sup>1</sup>: With more than two thirds of total value added and three quarters of employment, the share of SMEs in the economy of the former Yugoslav Republic of Macedonia is well above the respective EU averages of 57 % and 66 %. Over the period 2008-16, SME value added increased by 28 % and employment rose by 24 %, implying a slight rise in labour productivity. For 2018 and 2019, real GDP is projected to increase by slightly above 3 % annually, mainly through increased employment and about a third through further improving labour productivity. The overriding challenge for SMEs remains to catch up with European Union productivity levels.

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

**SME policy priority highlights**: The lengthy political crisis from 2017 continued in 2018 taking a toll on private sector development. There are evident shortcomings in the business environment, such as weak contract enforcement and a large informal economy. There are numerous strategic and policy documents that guide public interventions in this sector as well as complex institutions mandated to implement different sections of SME related policies. A New Plan for Economic Growth was adopted beginning of 2018, introducing mainly large subsidies to companies whose contribution to the overall economy growth is not assessed. It is not clear how that plan relates to numerous other strategies and policies that govern private sector development. Effective monitoring and evaluation of the numerous policies is needed.

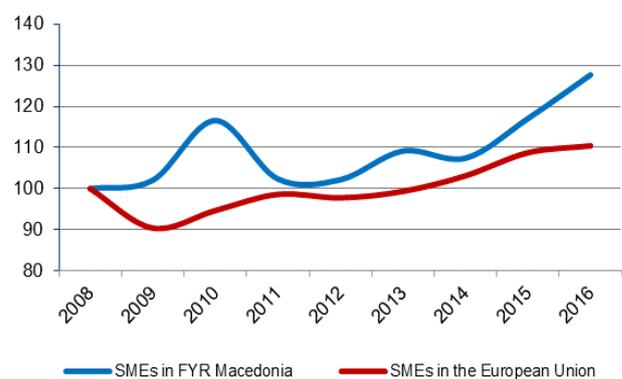
**Number of persons employed in SMEs**

(Index: 2008=100)



**Value added of SMEs**

(Index: 2008=100)



## About the SBA fact sheets

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

## Table of Contents

--DRAFT-- Key points.....	1
SMEs — basic figures.....	2
SBA profile.....	3
SBA principles.....	4
3.1 Entrepreneurship.....	4
3.2 'Second chance'.....	5
3.3 'Think Small First' and 'Responsive administration'.....	5
3.4 State aid & public procurement.....	6
3.5 Access to finance.....	6
3.6 Single market.....	7
3.7 Skills & innovation.....	8
3.8 Environment.....	9
3.9 Internationalisation.....	10
Interesting initiative.....	11

## SMEs — basic figures

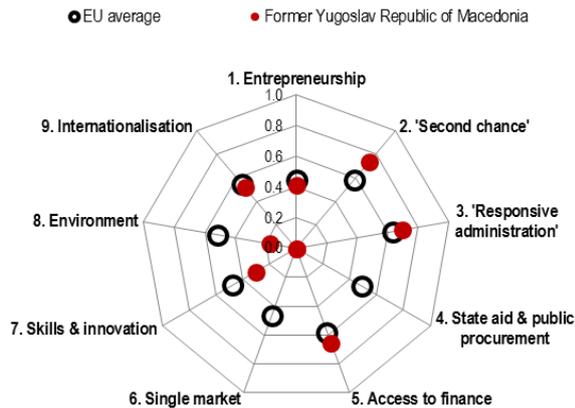
Class size	Number of enterprises			Number of persons employed			Value added		
	The former Yugoslav Republic of Macedonia		EU28	The former Yugoslav Republic of Macedonia		EU28	The former Yugoslav Republic of Macedonia		EU28
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	50 077	90.3 %	93.0 %	123 310	32.6 %	29.2 %	879	22.0 %	20.4 %
Small	4 473	8.1 %	5.9 %	85 669	22.6 %	20.1 %	929	23.2 %	17.8 %
Medium-sized	769	1.4 %	1.0 %	76 703	20.3 %	17.0 %	824	20.6 %	18.4 %
<b>SMEs</b>	<b>55 319</b>	<b>99.7 %</b>	<b>99.8 %</b>	<b>285 682</b>	<b>75.4 %</b>	<b>66.4 %</b>	<b>2 632</b>	<b>65.8 %</b>	<b>56.6 %</b>
Large	150	0.3 %	0.2 %	93 055	24.6 %	33.6 %	1 370	34.2 %	43.4 %
<b>Total</b>	<b>55 469</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>378 737</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>4 002</b>	<b>100.0 %</b>	<b>100.0 %</b>

*These are data for 2016 provided by the State Statistical Office of the Republic of Macedonia and Eurostat (Structural Business Statistics Database) and were processed by DIW Econ. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.*

In terms of value added and employment, SMEs in the former Yugoslav Republic of Macedonia play a larger role in the non-financial business economy compared to the EU average for SMEs. SMEs account for almost two thirds of total value added and three quarters of all jobs, significantly above the EU

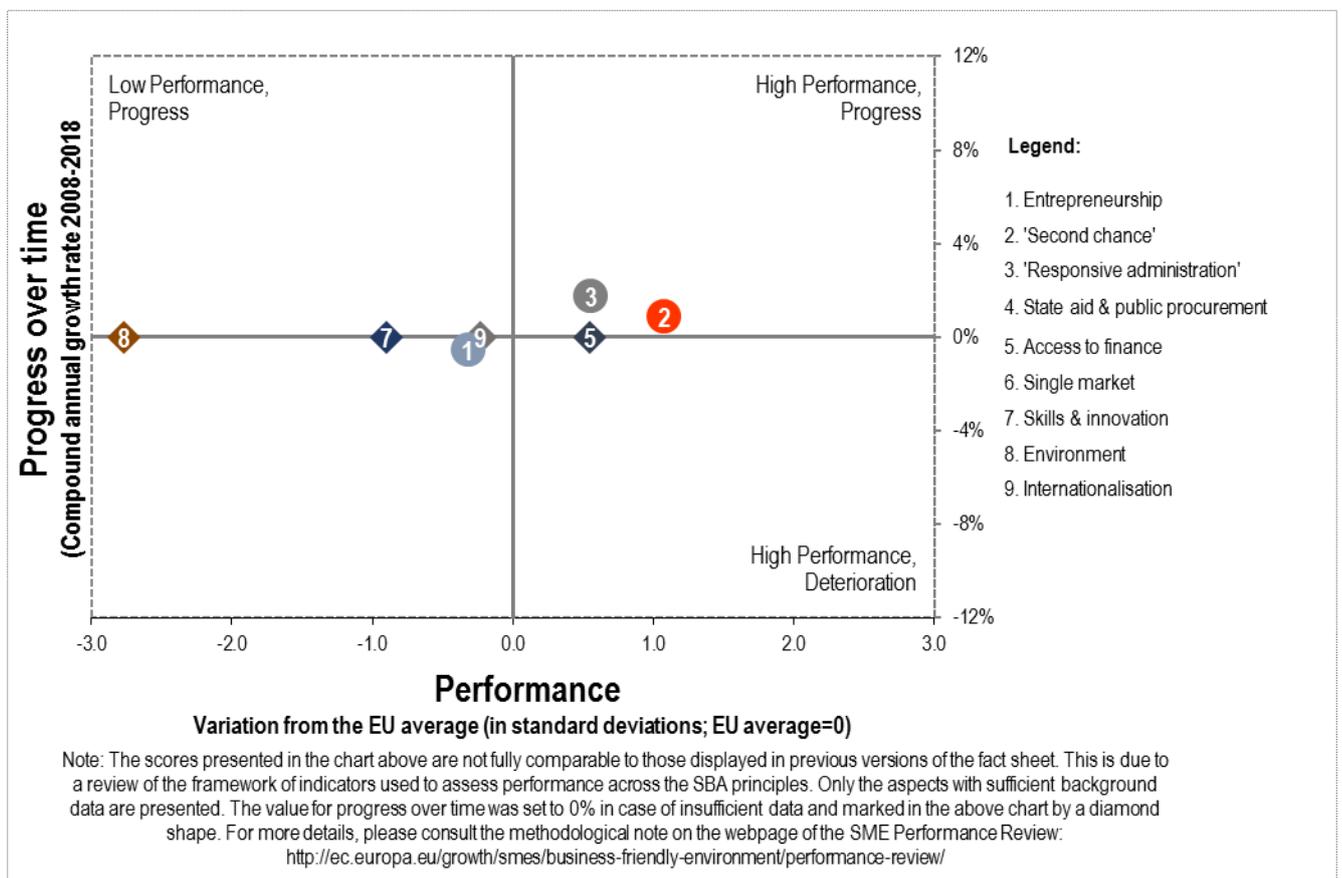
averages of 57 % and 66 %, respectively. Although SME productivity -as calculated by the ratio of value added to employment- has been increasing, by 2016, it was still only around EUR 9 200 per person, which is about 80 % or almost five times lower than the EU average.

## SBA profile<sup>2</sup>



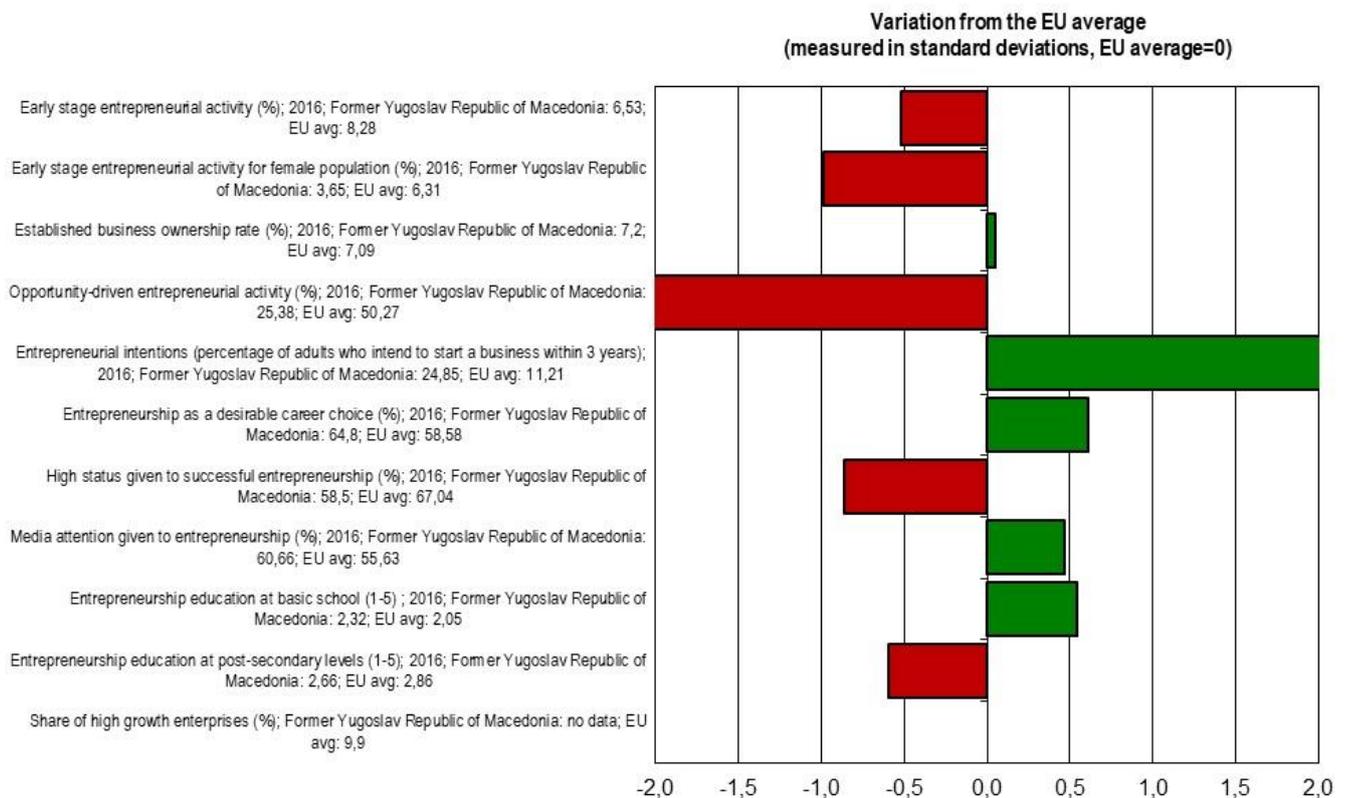
The overall SBA profile of the former Yugoslav Republic of Macedonia shows a mixed picture. The principles of 'second chance' and 'responsive administration' as well as access to finance; all score (somewhat) above the EU average. At the same time, 'environment', and 'skills & innovation' remain (well) below the EU average. Progress as compared to the EU has taken place mostly in the area of 'responsive administration' and 'second chance'. The (sometimes significant) constraints in data availability need to be kept in mind when interpreting the overall results. For instance, for most indicators the lack of data prevents to provide an idea of progress or deterioration over time compared to the EU average.

### SBA performance of the former Yugoslav Republic of Macedonia: state of play and development from 2008 to 2018<sup>3</sup>



## SBA principles<sup>4</sup>

### 3.1 Entrepreneurship

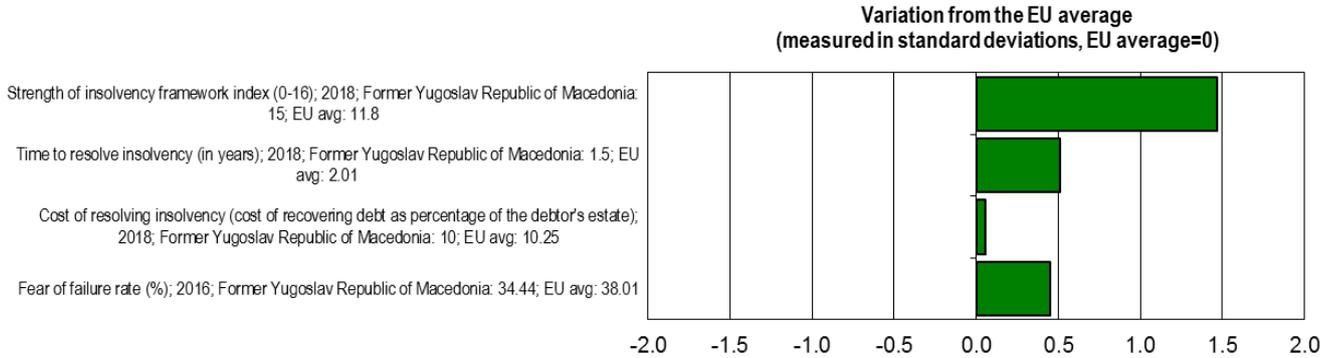


**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Compared to the EU average on this principle, the performance of the former Yugoslav Republic of Macedonia on entrepreneurship is just below the EU average, while in recent years it has deteriorated further compared to the EU score. The positive performance especially on entrepreneurial intentions and as a desirable career choice are likely to have contributed to the marginally improved indicator on the established business ownership rate. At the same time, the indicator on opportunity-driven entrepreneurial activity is substantially below the EU average, and even the lowest of all countries. This suggests that the positive performance on entrepreneurial intentions and entrepreneurship as a desirable career choice is at least partly

due to the perceived lack of alternative opportunities. This is further supported by the below-average score on the high status of successful entrepreneurship. Therefore, it is possible that people in the country are not so much driven to become entrepreneurs because of the opportunities presented but rather because few other career options seem available. Compared to the previous report, several other scores have also slightly deteriorated and stayed further behind the EU average, most notably with the indicator for early stage entrepreneurial activity for female population, i.e. the percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business.

### 3.2 ‘Second chance’

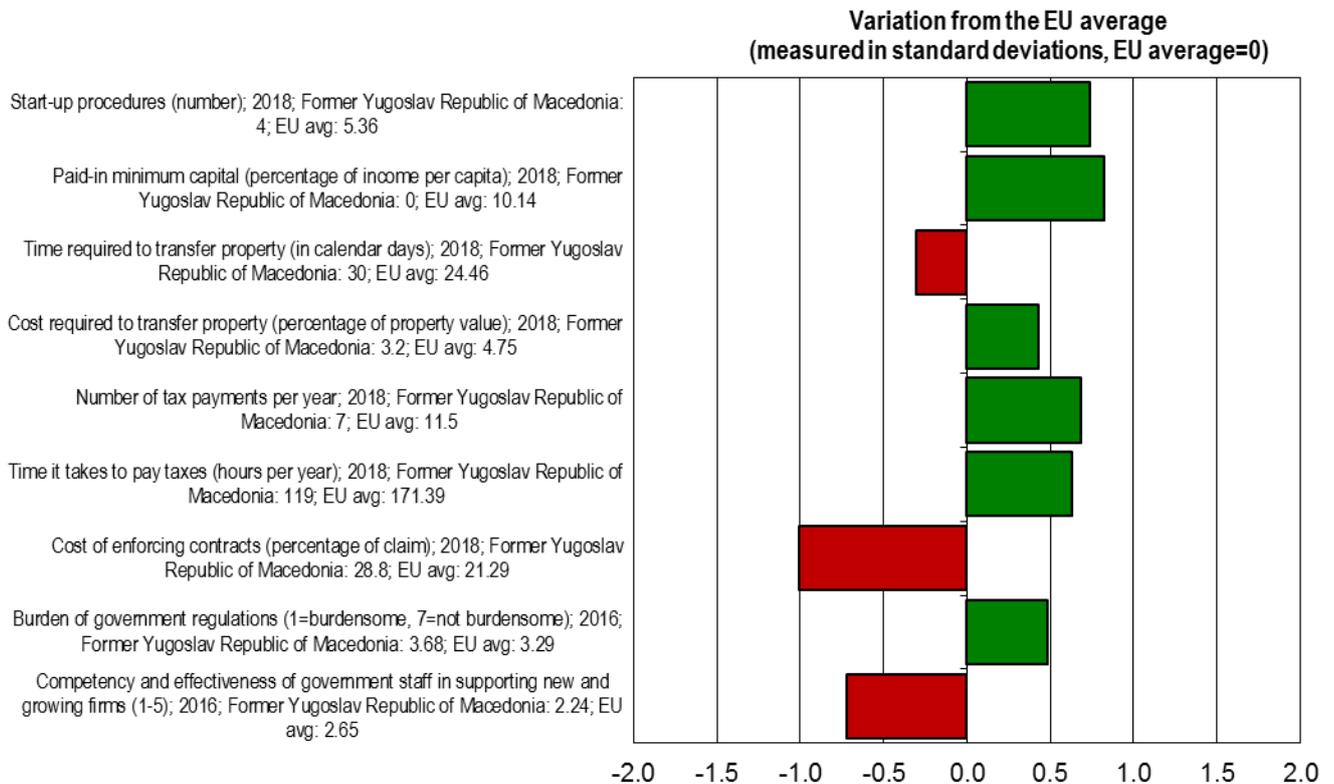


*Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.*

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. In this principle the country performs well above the EU average. The score of the fear of failure rate still exceeds the EU average but by a smaller margin compared to last year’s report, mainly due to an improved (lower) fear score in the EU. At the same time,

the insolvency framework index performs well, with one of the highest scores of all countries, an expression of sound legislation in place for rehabilitating viable firms and liquidating nonviable ones.

### 3.3 ‘Think Small First’ and ‘Responsive administration’



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

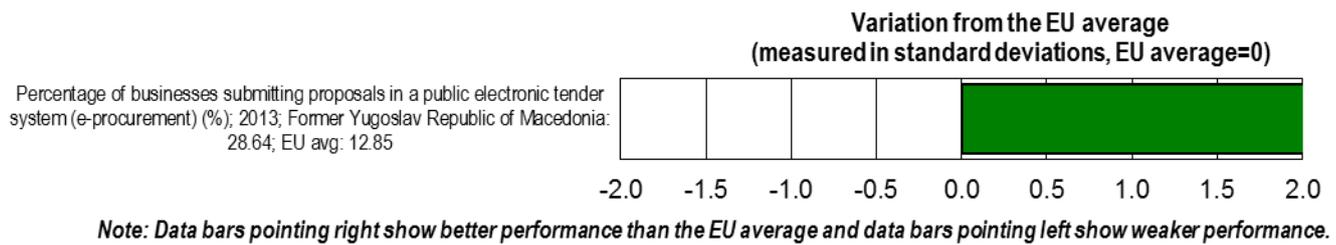
The ‘think small first’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to consider SME interests at the early stages of the policy-making process. The principle also calls for newly designed

legislation, administrative rules and procedures to be made simple and easy to apply. However, application of the principle significantly declined in 2017- 2018.

'Responsive administration' refers to public administration being receptive to the needs of SMEs. Overall, the former Yugoslav Republic of Macedonia performs above the EU average on this principle, but compared to the previous report the country's position deteriorated somewhat against the EU in most of the

indicators mainly because of improving EU scores, or, in the case of start-up procedures, a worsening of the country's score. Both paid-in capital requirements and tax practices remained above - less burdensome than- the EU average.

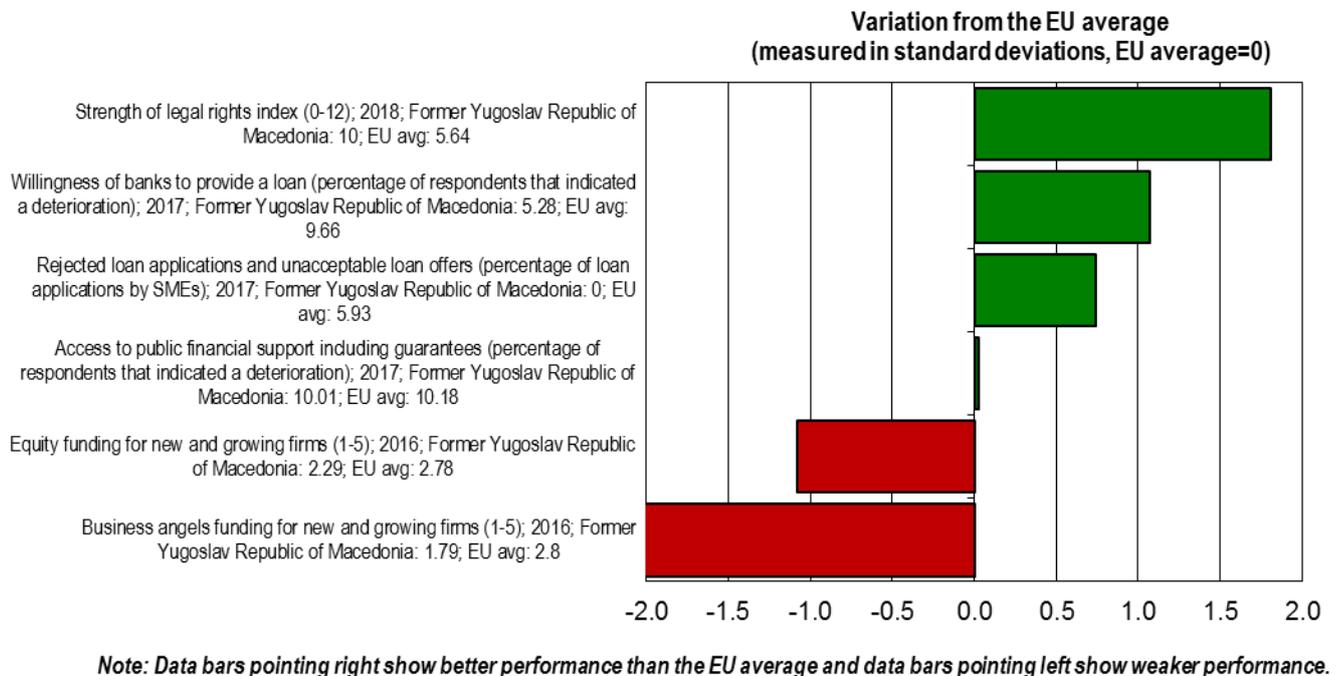
### 3.4 State aid & public procurement



As there is no sufficient data available for the country in this domain, no general conclusions can be drawn on its performance.

However, the percentage of businesses submitting proposals in a public electronic tender system is higher than in the EU.

### 3.5 Access to finance

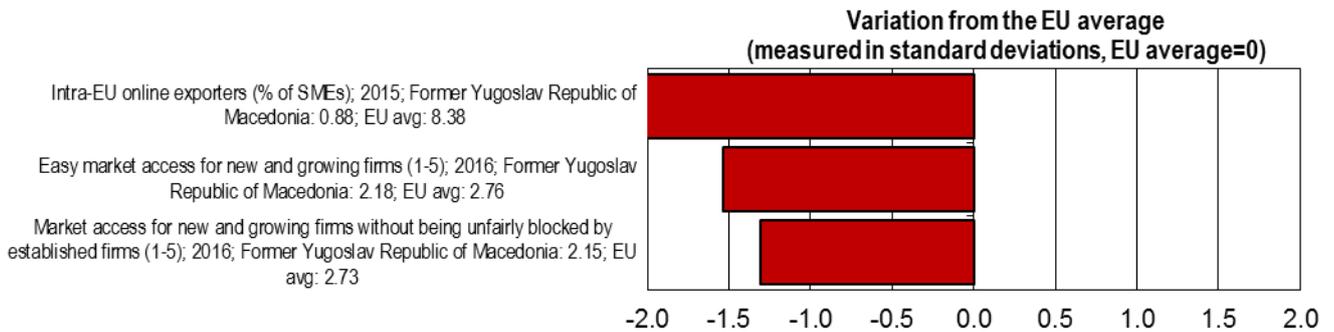


Data to indicate performance on the principle access to finance are available only for a limited number of corresponding indicators. The strength of the legal rights index rose further above the EU average, as did the willingness of banks to provide loans. The latter, as well as the turnaround in the rejection of loan applications indicator from below EU average (higher

rejection) to well above EU average (lower rejection) is partially due to an improved economic situation and outlook, high banking liquidity and further improved bank' profitability. At the same time, commercial bank loans remain by far the main source of financing for SMEs. There is significant lack of alternative financing sources such as equity and business angels

funding for new and growing firms. The overall performance of this indicator is slightly above the EU average score.

### 3.6 Single market



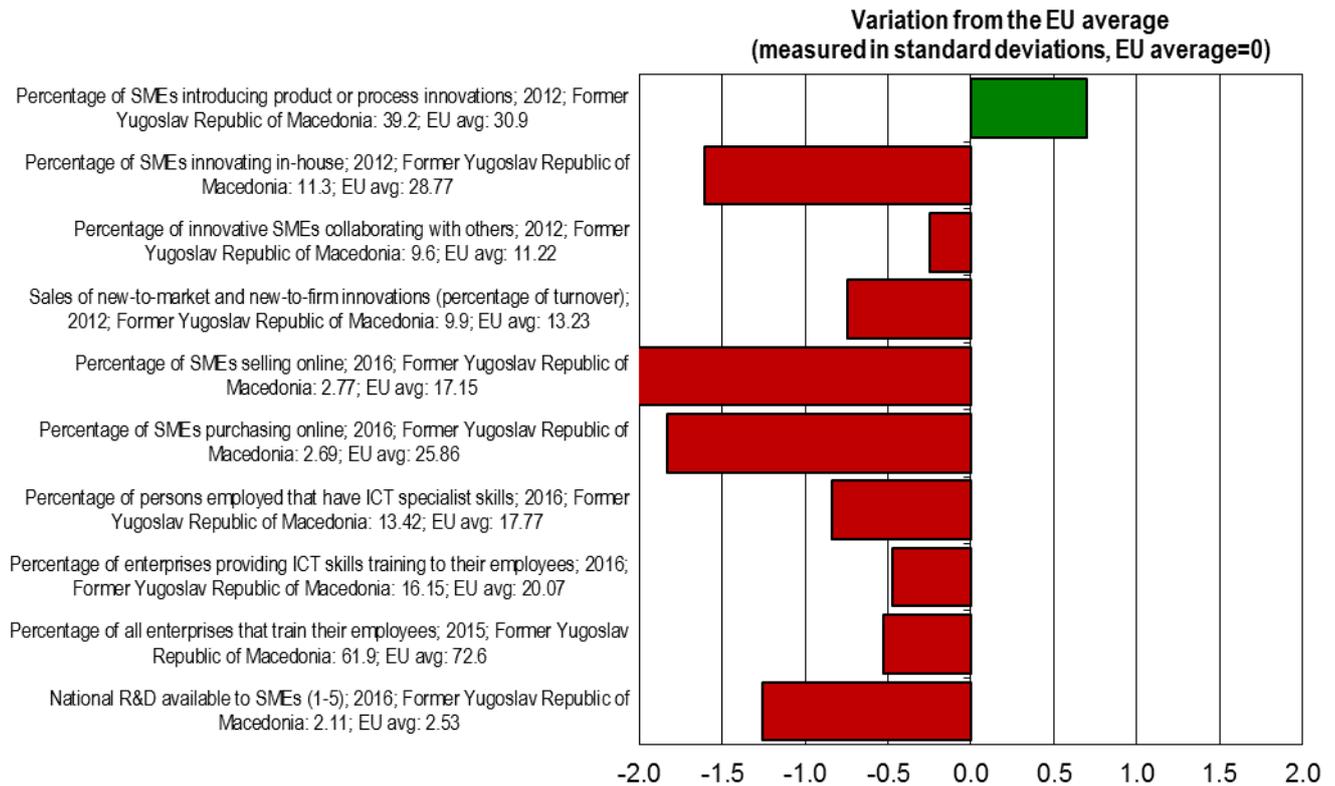
**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

As Turkey is not an EU Member State, no relevant comparable data on EU legislation transposition and trade within the single market is available.

However, the few available indicators for 2015 and 2016 are all

(significantly) below EU averages, underlining the very low share of SMEs creating export sales on-line to the EU as compared to the EU average. The available data also indicates that new and growing firms have relatively more difficulties accessing markets than their average counterparts in the EU.

### 3.7 Skills & innovation



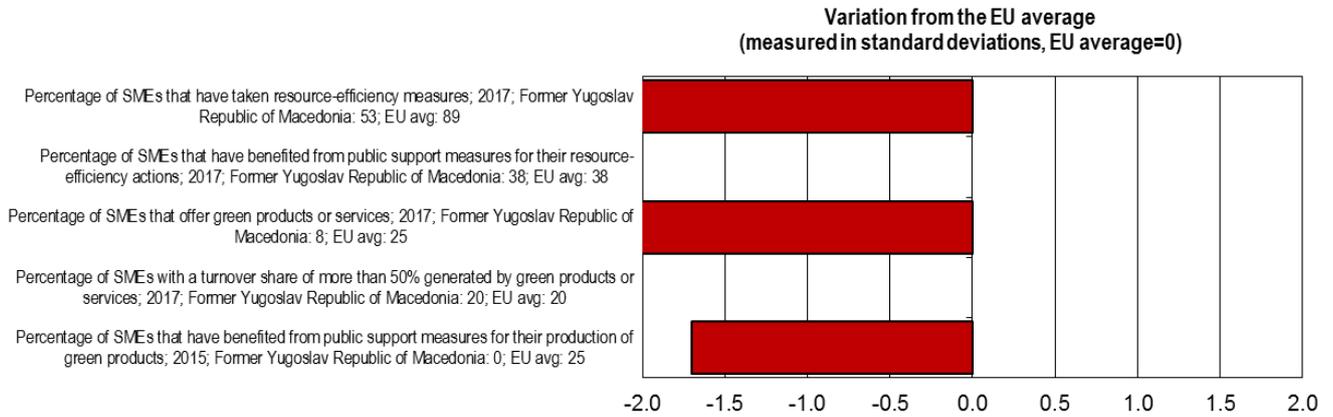
**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

The former Yugoslav Republic of Macedonia performs significantly below the EU average on the principle ‘skills & innovation’ in nearly all indicators. Overall, these indicators demonstrate a rather poor performance compared to the EU average. The one indicator that shows a relatively positive rating vis-a-vis the EU is the share of SMEs introducing a new product or production process. At the same time, the indicator for innovative SMEs collaborating with others is only marginally below the EU average. This implies that those SMEs that are innovative tend to cooperate with e.g. research institutes or

other SMEs, even though very few SMEs create such innovation in-house.

The low availability of R&D resources and innovation support for SMEs acts as a further constraint as it is also again noticeably under the EU average. The lowest indicator concerns SMEs selling or purchasing online. Overall there is therefore considerable room for improvement in these indicators and hence for the principle in general. This is a particularly important growth-related principle for SMEs that essentially cuts across all production sectors.

### 3.8 Environment

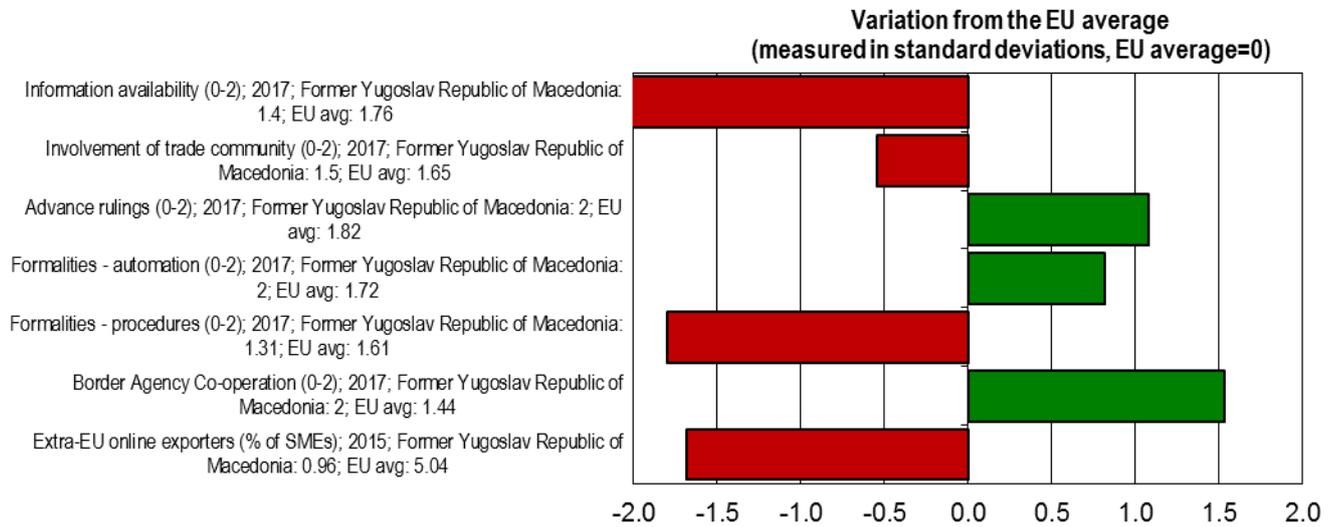


**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

On the environment principle the country shows a very mixed but overall negative picture as several indicators score significantly below the EU average and is in fact among the worst performing in the region. The percentage of SMEs that have taken resource-efficiency measures is considerably lower compared to the EU average. At the same time, the percentage of SMEs that have benefitted from public support for resource efficiency measures is very close to the EU average. Somewhat similarly, the share of SMEs offering green products or services is substantially lower

than the EU average, as is the support that SMEs receive for the production of such green products. However, of those SMEs that do produce green products and services the percentage with a turnover share of green products of over 50% is again very close to the EU average. While the precise measurement results of each single indicator need to be interpreted with the usual caution, there clearly seems abundant room for improvement under this principle.

### 3.9 Internationalisation



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

The updated data<sup>5</sup> on the country’s overall score on the principle ‘internationalisation’ provide a rather mixed if not seemingly contradictory picture with almost all indicators either (substantially) above or below EU average indicator scores, resulting in an overall result that is just below the EU average.

On the negative side and compared to the EU, the relative lack of easily available information about customs rules and procedures as well as transparency mechanisms such as enquiry points clearly stands out. A similar observation applies to the indicator for relatively burdensome formal border control

procedures. These indicators might at least partially account as well for the very low share of exporting SMEs selling on-line.

On the other hand and at the same time, border agency cooperation and advance rulings (an indicator assessing prior statements by customs to requests from traders regarding rules, classification, origin, valuation method, etc., applied to specific traded goods) as well as formalities- automation (electronic data exchange, automated border procedures; use of risk management) stand out positively compared to the EU average.



## Interesting initiative

Below is an example of an initiative from Serbia to show what governments can do to support SMEs:

### Cooperation in border control

The former Yugoslav Republic of Macedonia and Serbia agreed to set up a joint border control at the border crossing Tabanovce (MK) - Presevo (SR). Two countries endorsed memorandum for cooperation beginning of 2018.

At the moment, the relevant national authorities from both sides work jointly on the necessary modalities and protocols to allow for joint border controls, both for the passenger transport and transport of goods.

The overall objective is for the police and the customs officers from two countries to follow together and process the documents simultaneously, allowing for faster flow of people and goods.

In the first phase a joint control regime will be set up for the passenger crossing, to be followed with joint customs clearance between the two countries. For this purpose, the newly built customs terminal building at the road border crossing Tabanovce will be used jointly by the customs officers of the two countries. The terminal was built in 2018 with 2 million EUR of EU funds under the Instrument for Pre-Accession.

The planned arrangement is expected to shorten the time necessary for passport control and customs clearance of goods for about 50%. The initiative follows the spirit of good neighborhood relations and the principles of the regional economic area for the countries in the Western Balkans.

## Important remarks

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

SME Performance Review:

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

[grow-spr@ec.europa.eu](mailto:grow-spr@ec.europa.eu)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm)

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

## Endnotes

<sup>1</sup> The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008–2015 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

<sup>2</sup> The 2018 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

<sup>3</sup> The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2018. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2018. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

<sup>4</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. Only those measures were selected which are expected to have the highest impact in the SBA area in question.

<sup>5</sup> Important methodological changes were introduced for this principle in 2017. All World Bank indicators were replaced by six OECD trade-facilitation indicators (following a scale on which 0 is the worst and 2 is the best score). Therefore, the overall performance in this area cannot be compared to that of 2016 and earlier