



British Embassy
Belgrade



STUDY OF THE CHALLENGES THAT HINDER MSME DEVELOPMENT IN FYR MACEDONIA

**Report for the British Council
and Swedish Institute**



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and Swedish Institute**

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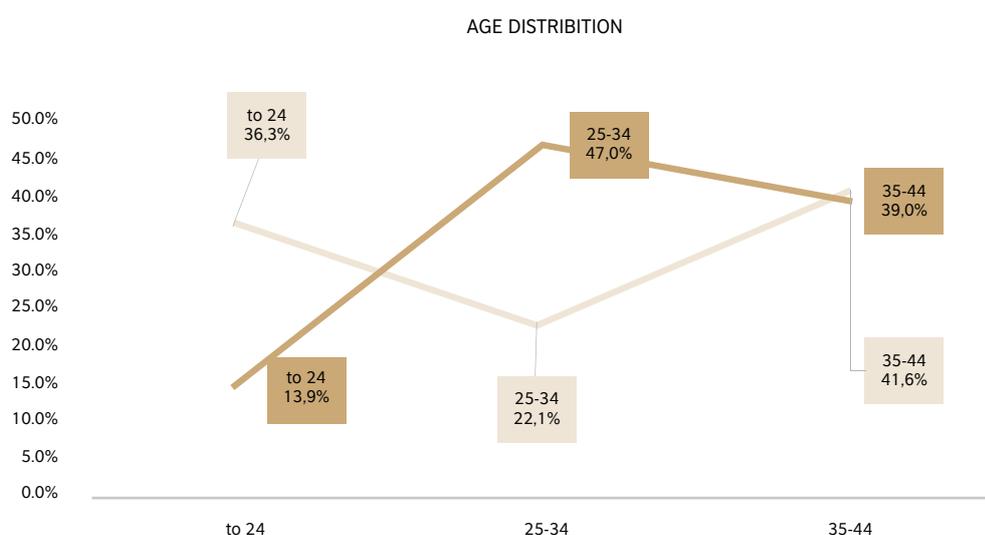
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EXECUTIVE SUMMARY

The Former Yugoslav Republic of Macedonia (to be referred to as FYR Macedonia from herein) is a landlocked country. It has made considerable progress since 2000 and the end of the Balkan Wars, but would still greatly benefit from raising its rate of economic growth. It has an interesting population profile with a dip in the economically important 25–34 years age range (**Chart 1**).

Chart 1. Age distribution

We undertook a survey of aspiring entrepreneurs across FYR Macedonia. The sample was largely self-selected based on previous telephone surveys where respondents had expressed an interest in entrepreneurship, plus a review of the commercial register and referrals from respondents. The age distribution of aspiring entrepreneurs was under represented in younger age groups but higher in the 25–34 year old group compared with the population.



Increased economic growth needs to be achieved against a background of relatively modest inflows of foreign direct investment, and disappointingly flat levels of gross domestic capital formation, contrasting with sustained increases in consumption. There has been significant progress in stabilising the trade balance. FYR Macedonia has a significant informal economy, a sizeable unemployment rate and a worrying loss of skills as qualified people migrate overseas.

There have been sustained efforts to improve the skills training systems, but the vocational training system still needs support.

Entrepreneurship aspirations are positive. There are few problems with structural issues such as ease of forming a company, although important regulatory simplifications (for example in property registration) are still needed. Five key issues stand out:

1. Access to finance is very challenging and acts as a significant barrier to both innovation and entrepreneurship. There is a particular need for access to affordable seed capital. This is a similar to the challenge being addressed by some of the rural micro-finance programs in Asia.
2. Connection to markets outside FYR Macedonia and the Western Balkans region is challenging for new entrepreneurs.
3. There is a considerable amount of energy and effort already being injected, but significant scope for improving the skills of entrepreneurial teams.
4. There may be a need to raise the entrepreneurial appetite of young people (under 25 years old).
5. FYR Macedonia seems to have incubated a significant number of opportunity-seeking entrepreneurs, rather than involuntary entrepreneurs seeking family incomes, but the support structure is limited. They might benefit from a focused event to bring together industries from across FYR Macedonia.

Following President Juncker's 2017, State of the Union address, the European Commission has created a set of flagship initiatives and support (the Western Balkans Strategy), targeting specific areas of interest for both the EU and the Western Balkans countries were launched in the former Yugoslav Republic of Macedonia on Sunday 25 February. President Juncker held a joint press conference with Mr Zoran Zaev, Prime Minister of the former Yugoslav Republic of Macedonia and met Mr Gjorge Ivanov, President of the former Yugoslav Republic of Macedonia.

POLITICAL AND GEOGRAPHICAL BACKGROUND

FYR Macedonia declared independence from Yugoslavia in 1991, and is a landlocked country, with borders to Kosovo to the northwest, Serbia to the north, Bulgaria to the east, Greece to the south and Albania to the west. The population is 2.06 million, equal to that of Brussels, Belgium. Approximately one quarter of the population lives in its capital city, Skopje. The national currency is the denar (MKD), and the approximate conversion rate (February 2018) is MKD 50 to US\$ 1.

Politically, the two years up to June 2017 were challenging, with political turmoil caused by a wiretapping scandal that brought down the ruling nationalist VMRO-DPMNE party bloc and halted the country's path toward joining the European Union. The new majority government, with Zoran Zaev as Prime Minister, has brought hope of a return to normality (LSE, 2017). One of the new government's first actions was to announce a transparency measure to publish details of inward investment decisions, and address the big gap between government announcements of investments and what actually happened under the previous administration.

FYR Macedonia was granted EU Membership Candidate State status in 2005. In 2009, negotiations began to bring it in line with EU regulations, and in 2015 these recommendations were codified in the Pržino agreement and the Urgent Reform Priorities, mainly in the areas of competition, transport and energy. A recent assessment suggests substantial further reform is required before the country will be ready to join the EU (European Commission, 2016).

In the new enlargement strategy launched in February 2018, the European Commission exhorted all six Western Balkan states to redouble their efforts, address vital reforms and complete their political, economic and social transformation as a clear commitment to the "fundamental values" of the European bloc. FYR Macedonia is making significant progress and the Commission is ready to prepare recommendations to open accession negotiations if conditions are fulfilled.

ECONOMIC BACKGROUND

Overall Economic Environment

FYR Macedonia is in improving economic health. In 2016, its GDP was US\$ 10.9 billion, having grown US\$ 1 billion over a six-year period, and 2.4% in 2016, although growth rate has varied over the years. Within the Western Balkans, FYR Macedonia is the fourth biggest economy, behind Serbia, Bosnia and Herzegovina, and Albania. It has seen improvements in exporting competitiveness relative to other countries and there has been a slight improvement in the ease of doing business domestically.

The economy, however, fared less well in 2017. In his review of the year, the Governor of the National Bank reported that the prolonged political crisis had gravely hit the national economy and was the main factor responsible for the lack of growth in 2017. The economy had even shrunk in the first half of the year. National output fell 1.9 percent in the second quarter of 2017, the first decline since 2012 (World Bank, 2017). There are hopes for an economic recovery in 2018 (back to pre-2015 levels), on the back of full political stability from the new government. **Table 1** shows the post-2008 GDP growth rate for FYR Macedonia.

Table 1. GDP growth rate

2008	2009	2010	2011	2012	2013	2014	2015	2016
5,5	-0,4	3,4	2,3	-0,5	2,9	3,6	3,8	2,4

Source: World Bank (2017b)

Outside GDP, FYR Macedonia has a large informal economy, with 22.5% of all those employed in 2012 in informal employment. This is highest in construction, with 43% of all jobs in the sector informal, but 16.5% of transportation jobs and 13% of trade jobs are also informal. Unemployment as at 2016, is high at 23.7%, although it has fallen from 31.4% in 2011 (ILO, 2017a). Purchasing power grew faster in FYR Macedonia than other EU Candidate States in the Western Balkans (on both a 9-year and a 4-year basis), and this is shown with adjusted US\$ per capita in **Table 2**.

Table 2. Purchasing power adjusted US\$ per capita income

World Bank Price Purchasing US\$ per capita income	2008	2009	2010	2011	2012	2013	2014	2015	2016	9 Yr Growth	4 Yr Growth
Macedonia FYR	10,418	10,925	11,296	11,612	11,841	12,667	13,516	14,023	15,121	45,1%	19,4%

Source: World Bank (2017a)

Exports have grown in both volume and diversity with 2008–14 export performance summarised as: *“A positive commodity composition effect and a positive market distribution effect (though smaller than in the previous period) slightly outweighed the narrowing, but still negative, competitiveness effect.”* (IMF, 2015).

The IMF report also showed that competitive advantages in agricultural and textile products, which had weakened over this period, have been augmented by new advantages, mainly in the chemical sector (IMF, 2015). **Table 3** shows the improvement in the current account of the balance of payments.

Table 3. Percentage surplus or deficit on balance of payments

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016
FYR Macedonia	-12,8	-6,8	-2	-2,5	-3,2	-1,6	-0,5	-2,1	-3,1

Source: IMF (2017a)

Foreign direct investment flows, mainly from Europe, have been important in FYR Macedonia, although the data are not granular enough to determine which sectors have benefited (see **Table 4**). IMF researchers have suggested that the flows into industry and services are broadly similar, but since 2011, there has been some slight preference towards industry (IMF, 2015).

Table 4. Foreign direct investment in FYR Macedonia (US\$ billions current prices)

2009	2010	2011	2012	2013	2014	2015	2016
2,5	2,1	2,2	2,4	2,8	2,4	2,3	2,2

Source: IMF (2017b)

Gross capital formation has failed to accelerate (see **Table 5**), which may limit potential volume and total factor productivity growth. Consumption has grown steadily (World Bank, 2017c).

Table 5. Gross capital formation (at constant 2010 US\$ prices)

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016
FYR Macedonia	2,407	2,393	2,302	2,714	2,991	3,006	3,326	3,447	3,300

Source: World Bank (2017d)

Role of Small and Medium Enterprises (SMEs)

SMEs have an important role in FYR Macedonia. According to the SME Performance Review, they account for almost two-thirds of the economy and around three-quarters of all jobs (European Commission, 2017). Between 2008 and 2014, SMEs' contribution to the economy grew by 7% and to total employment by 13%. SMEs contributed 73.9% of employment and 57.4% of value added over the period (European Commission, 2017).

SMEs are concentrated in the retail and repair sectors, followed by manufacturing. **Table 6** shows the national business structure for companies, by the number of people employed. Well over 80% of these sectors are inward domestic rather than outward export-orientated.

Table 6. SME structure (2009 base data last updated 2013)

	Total	% Tot	0	1-9	10-19	20-49	50-249	250+
Total	70,710	100	6,243	59,398	2,223	1,483	1,159	204
Agriculture, hunting and forestry	2,815	4	231	2,470	43	34	32	5
Fishing	57	0,1	8	47	2	-	-	-
Mining and quarrying	144	0,2	33	70	15	15	7	4
Manufacturing	8,225	11,6	639	6,089	577	482	364	74
Electricity, gas and water supply	124	0,2	16	54	11	12	22	9
Construction	4,004	5,7	360	3,298	182	104	53	7
Wholesale and retail trade: repair of motor vehicles, motorcycles and	29,270	41,4	1,945	26,326	619	275	96	9
Hotels and restaurants	3,938	5,6	189	3,499	179	53	17	1
Transport, storage and communication	6,496	9,2	337	5,896	148	78	26	11
Financial intermediation	334	0,5	72	211	13	12	17	9
Real estate, renting and business activities	6,215	8,8	783	5,129	162	87	41	13
Public administration and defence; compulsory	219	0,3	14	56	39	37	47	26
Education	954	1,3	54	418	36	169	274	3
Health and social work	3,246	4,6	55	2,896	90	65	44	12
Other community, social and personal	4,669	6,6	1,507	2,939	107	60	44	12

Source: Makstat (2017)

Table 7 shows details of businesses that ceased trading. Recent evidence suggests that entrepreneurial intentions in FYR Macedonia are higher than the EU norm, but fewer of these are focused on opportunity-driven entrepreneurship than elsewhere in the EU (European Commission, 2017).

Table 7. Analysis of businesses that ceased trading

		Total	%Total	Sole proprietor	Ltd and Joint Stock	Other legal forms
	Total	7,754		1,417	5,745	592
1	Wholesale and retail trade; repair of motor vehicles, motorcycles	2,977	38,4%	401	2,515	61
2	Retail trade, except of motor vehicles and motorcycles	2,181	28,1%	295	1,830	56
3	Education; human health and social work activities; arts, entertainment and recreation; other service activities	1,089	14,0%	312	291	486
4	Retail ssale in non-specialised stores	970	12,5%	135	823	12
5	Industry (except construction)	946	12,2%	212	717	17
6	Manufacturing	874	11,3%	211	655	8

Source: Makstat (2017a)

The EU economic assessment stressed the need to reduce government debt, revitalise the domestic private sector, reduce the informal economy and improve access to finance. Overall, FYR Macedonia climbed three places in the global competitiveness rankings in 2016, to reach 60th (European Commission, 2016).

Ease of Doing Business

FYR Macedonia is already ranked second in the world for ease of creating a business (EIB, 2016). However, SME access to finance remains an issue. Some bureaucracy is expensive and unhelpful. For example, obtaining construction permits requires ten procedures, takes 74 days, and costs 5.4% of income per capita. Average warehouse connection to the electricity grid requires three procedures, takes 97 days, and costs 229% of income per capita. Registering a property requires seven procedures, takes 30 days, and costs 3.3% of the property value. Enforcing contracts takes 604 days and costs 28.8% of income per capita per claim (Pinto Consulting, 2016).

EDUCATIONAL SYSTEM

FYR Macedonia has a skills shortage and there is evidence of a brain drain to more developed countries. This highlights a disconnect between the education system and commercial skills requirements, and a clear need to encourage a dialogue, working partnerships and government-supported schemes between education and industry in the form of apprenticeships and curricula development (Pinto Consulting, 2016).

There is evidence that the general level of education has improved, creating a landscape in which future entrepreneurs can learn and improve their technical skills, highlighted as a previous gap in the economy. FYR Macedonia participates in Erasmus+, giving young people the opportunity to develop and study abroad. It is also part of Horizon 2020, the EUR 80 billion EU Research and Innovation programme. There are moves to improve the quality of teacher training through continuous professional development and a salary incentive licencing system. Non-formal adult learning is being aligned with EU policies (ETF, 2016).

The European Training Fund (ETF) is driving and directing reform in education and labour market competency to achieve EU standards of entry. The European Commission assessment of FYR Macedonia identified the key challenges in education and skills, including the unattractiveness of the Vocational Education and Training (VET) system, insufficient links to, and lack of cooperation with, labour market needs, and low participation in lifelong learning. The VET system is characterised by the weak capacity of the VET Centre and providers, and a lack of cooperation with the business sector. Creating effective links between education and employers is a key priority. Development of the qualification system focuses primarily on 60 new occupational standards, but will not increase competitiveness without stronger links to labour market needs. The ETF coordinates its activities with key human resource development donors in the country supporting VET, skills and the employment sector.

A major study identified the need to align high school educational and vocational training for select student groups. It also highlighted the need for basic literacy improvements before students move to high school vocational education, and identified “hot spots” of social deprivation amongst groups such as ethnic Roma (ETF, 2013). Work is underway to align vocational qualifications (ETF, 2017). Adult literacy has been tackled by the adoption of the Law on Adult Education in the late 2000s, which should also help to support entrepreneurial activity (EU Empobs, 2017). Training schemes and grants to encourage female and young entrepreneurs have been introduced to stimulate and motivate start-up activity among these segments, identified as particularly challenged within FYR Macedonia (European Commission, 2017).

Over the past two decades there has been a significant brain drain from FYR Macedonia (around 20% of Macedonian citizens with university degrees now live abroad). The problem is worse than many other countries. From 2008 to 2013, FYR Macedonia was among the ten countries in the world with the worst brain drain (Janeska et al., 2016).

A number of donors are active in supporting enhancement of the education system in FYR Macedonia, coordinated by the Ministry of Education and Science (MES):

- EU/IPA (3-year secondary VET, NQF development and post-secondary VET, and employment services); an initial EUR 2 million IPA project followed by IPA 11 (€2.3 million).
- Swiss Agency of Development and Cooperation: CHF 14.5 million for vocational skills development (youth employment and a large VET project from the second half of 2017). Helvetus and the Macedonia Civic Education Society are part of the inception phase. The Swiss Federal VET Institute and the Economic Chamber will also participate, with implementation starting in March 2018. This will include a number of programs developed in schools and incentives for companies to provide internships.
- World Bank (increasing the relevance of four-year secondary VET), US\$ 24 million.

ETF support is closely coordinated throughout, to complement donor support. In 2017, the ETF focused on supporting the country to develop the use of work-based learning (the country’s highest priority) in the VET system. In 2018, the ETF will continue to invest heavily in supporting progress in a number of initiatives (ETF, 2017).

INTERNATIONAL ACTORS AND SUPPORT

The European Bank for Reconstruction and Development (EBRD) has been responsible for a number of funding programmes to support SME growth including the SME Competitiveness Support Facility (EBRD, 2015), and support for local lenders in financing efforts. Other key external actors include:

- **European Union**, through accession preparations.
- **The World Bank**, through dedicated projects.
- **The International Monetary Fund (IMF)** has somewhat withdrawn from FYR Macedonia in recent years, awaiting a more stable political climate, but remains focused on trying to reform the economy into being more open to outside investment and globally integrated.

CURRENT GOVERNMENT POLICIES ON ENTREPRENEURSHIP

National government policy relating to business is mainly channelled through two agencies:

The Agency for the Promotion of Entrepreneurship of the Republic of Macedonia (APERM) http://www.apprm.gov.mk/about_us.asp	Agency for Foreign Investments and Export Promotion of the Republic of Macedonia http://www.investinmacedonia.com
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The Agency for the Promotion of Entrepreneurship of the Republic of Macedonia (APERM) is responsible for the implementation of the government's SME policy, and other projects that support entrepreneurship, competitiveness and innovation. The agency has not been particularly active in recent years, with the last major initiative introduced in 2014.

The Agency for Foreign Investments and Export Promotion of the Republic of Macedonia, Invest Macedonia, is a trade body rather than a policy institute and is responsible for attracting new foreign investments in FYR Macedonia, supporting international companies that have already invested and promoting Macedonian exports abroad. Its activities are mainly focused on large companies.

A landmark friendship treaty with Bulgaria, FYR Macedonia's key trading partner, was ratified in January 2018. It envisages Bulgarian support for FYR Macedonia's bid to join NATO and the EU, improving trade and transport infrastructure and easing customs and border formalities. Both countries need to significantly improve road and railway connections, as well as gas, electric and internet links, if business is to develop (Balkans Insight, 2018).

Government incentives to encourage entrepreneurship

A number of incentives are provided by the government to business start-ups:

- Each newly-registered enterprise is given a grant of EUR 3,000, and tax incentives for salaries and social contributions over a three-year period (European Commission, 2017).
- Tax subsidies are available for the production of green, eco-friendly, products and services, though there are no incentives for the promotion of environmentally-friendly production processes (European Commission, 2017).
- Low 10% corporate tax rate, which may help smaller enterprises become profitable more quickly (PWC, 2017; World Bank, 2017).

BANKING SYSTEM AND ACCESS TO FINANCE

Many entrepreneurs see access to finance in terms of how easy is it to obtain a bank loan, but this process can often require the pledging of assets against the loan. Banks are often reluctant to provide unsecured credit to entrepreneurs, especially those without experience. This is partly because of internal risk assessments, and partly because of the need to provide extra regulatory capital, which makes SME lending more expensive for banks than mortgage lending, for example. State guarantees and loan security can be used to offset some of the risk, depending upon the status of the guarantee or the loan security. This is a complex process, and SME lending costs therefore tend to be quite high. This in turn can prevent credit demand. In some cases, entrepreneurs do not even try to obtain a loan, resulting in banks not seeing the demand, and entrepreneurs feeling they cannot access finance. This can lead to differing views on the level of challenge in accessing finance.

FYR Macedonia has a robust banking sector, with 17 main banks. The three biggest, Komercijalna Banka, Stopanska Banka Skopje, and NLB Bank, collectively control 58% of the banking sector. The banking sector is regarded as 'in good health', with some areas for improvement, mainly around regulation and control.

Opinions vary on the banking system's ability to provide sufficient credit to the SME sector. The European Investment Bank sees that there is "*generally abundant supply of SME credit, access to which is only restricted by insufficient collateral and perceived inability of the borrowers to repay the loan*" (EIB, 2016). A recent study, however, found that "*Access to finance is considered as a major obstacle to 'doing business'*". SMEs have only 35% of total private sector lending, but constitute almost 99% of all businesses (Pinto Consulting, 2016).

A survey of SMEs in FYR Macedonia found that 78% had an issue with bank credit, often relating to the cost and conditions of the finance. A second financing problem was the high level of non-payments in trade credit (Boshkoska et al., 2016). This finding is reinforced by a study that found that more than 90% of the SMEs surveyed reported that (i) interest rates were too high; (ii) a key problem was finding sufficient start-up capital; and (iii) in practice, more than 70% of them had needed to rely on their own resources (Risteska et al., 2014).

Alternative Finance Sources

The funding gap for SMEs can often be filled by the use of personal assets, credit cards, and friends or family in the early days of a business. Trade credit can also be important, as can the use of asset-based lenders and factor receivables (where customer debts are exchanged for cash at a percentage of their value). Many companies rely on leasing and rental to acquire fixed assets.

In FYR Macedonia, entrepreneurs have tended to rely on their own resources (Risteska et al., 2014) and there have been significant problems with trade credit (Boshkoska et al., 2016). Leasing is little used (EIB, 2016). Some working capital finance is available from the Crimson Capital Macedonia SME Commercial Finance Fund (Crimson, 2017).

Equity Capital

All countries require companies to have a minimum start-up capital to be able to register the company. This is minimal in FYR Macedonia (source: case study interview). Businesses are expected to attract more capital as they grow, and their financing requirements are generally partly provided by equity and partly by debt. Equity can come from high net worth individuals, friends, families, groups of business angels or from venture capital funds.

The European Investment Bank supports a number of venture capital funds. South Central Ventures is active in FYR Macedonia (<http://sc-ventures.com/>) (EIB, 2017). I2Ban is a Macedonian-focused business angel network, so likely to consider seed investments, as is Ceed-Macedonia (EIB, 2016). For dedicated IT and financial technology investing, Bulgaria-based LaunchHub has a Western Balkans regional focus, and funds seed and early stage companies (F6S, 2017).

Social Impact Investing

Just as there are leaders in the technology and medical worlds, there are funds that specialise in social or environmental impact investing, where the return is more than just financial. In FYR Macedonia, there is an SME-focused fund from Washington Impact Investor SEAF of EUR 3.65 million that has been running since 2014. It is unclear how much of this fund has been deployed (SEAF, 2017). EIB (2016) suggests that this fund is targeted at early to late stage (Series A and above capital raises) rather than the seed finance entrepreneurs often need.

There is also a linked diaspora bond facility called “Homestrings”, which is likely to be suitable for larger companies.

Small Enterprise Assistance Funds

A small number of government enterprise assistance funds have been introduced to support innovative SMEs including:

- The Fund for Innovation and Technology Development is intended to support innovation, spin-outs and scale-ups. There are a variety of grants available, but as in the current fourth open call, these tend to be used up before the end subscription date (FITR, 2017).
- Western Balkans Enterprise Development and Innovation Facility is an EU-funded initiative working through delivery partners such as Procredit for bank guarantees (which can be up to €0.5 million) and South-Central Ventures for venture capital. Other funds are available for larger SMEs through the Enterprise Expansion Funds and business advice through the Support Services Facility (WBEDIF, 2017).

LOCAL SUPPORT ORGANISATIONS

European Bank for Reconstruction and Development

<http://www.ebrd.com/work-with-us/advice-for-small-businesses/fyr-macedonia.html>

The European Bank for Reconstruction and Development works through partners when dealing with smaller companies, and provides a network of consultants and advisers who can be accessed on a co-payment basis.

Business Confederation of Macedonia

<https://bcm.mk/en/bcm/>

The Business Confederation of Macedonia, established in 2001, has three offices across the country. Its mission is to make FYR Macedonia a more 'business friendly' country. It acts more as a lobbying group than a direct support agency, and monitors regulations and searches for ways to improve the business climate. It also acts as a business support agency, providing legal assistance in labour relations, and information on health and safety and corporate social responsibility.

Economic Chamber of Macedonia

[http://www.mchamber.org.mk/\(S\(2omwul45hdcqxyft55dybb55\)\)/default.aspx?lId=2](http://www.mchamber.org.mk/(S(2omwul45hdcqxyft55dybb55))/default.aspx?lId=2)

The Economic Chamber is a voluntary business and professional association which organises a number of conferences, exhibitions and presentations to enrich, support and represent the interests of its entrepreneur members. It also provides a networking platform for members. The Chamber had around 15,000 members in 2012.

Macedonian Chamber of Commerce

<http://www.chamber.mk/en/>

The Chamber of Commerce is a central organisation bringing together 29 Sectoral Chambers and has about 1,000 members. It undertakes networking and lobbying activities and provides document certification and verification activities, which can be important elements in facilitating foreign trade, when overseas jurisdictions require certified documents. Certified documents still need to be apostilled and confirmed at the destination company embassy, in line with the 1961 Hague Apostille Convention.

Balkan Environmental Association

<http://benaweb.gr/>

The Balkan Environmental Association is a think tank that advises on ways to improve the environment of the Western Balkans. They work with SMEs, for example, by hosting conferences to help them develop in a more sustainable way.

Balkan Small Business Association

<http://www.mbb-org.eu/en/>

Based in Bulgaria, the Balkan Small Business Association works regionally (including in FYR Macedonia) primarily with small businesses that have some sort of craft focus, to provide training and business support. They publish a number of studies showing how businesses can promote themselves.

European Training Foundation

<http://www.etf.europa.eu>

The European Training Foundation (ETF), based in Turin, is an established European Union agency that focuses on enabling vocational training, including for entrepreneurs and workers in developing countries. It has been operational since 1994, and has undertaken an important piece of work mapping vocational needs to availability (ETF, 2013). In FYR Macedonia, the ETF is working with a wide range of organisations to improve vocational training and align vocational standards to European norms (ETF, 2017).

Macedonia 2025

<http://www.macedonia2025.com/>

Macedonia 2025 is linked to the SEAF Macedonia Fund (mentioned in the Access to Finance Section) and acts as a networking and skills enhancing catalyst for business management. It operates in partnership with other organisations such as USAID. Part of its operation is to connect successful and aspiring businesses, enabling skills uplift and knowledge transfer.

Enterprise Europe Network

<http://een.ec.europa.eu/about/branches/mk/skopje>

The Enterprise Europe Network is a co-operative of business centres and foundations supported by the European Commission to disseminate relevant information to SMEs. There are three partners located in Skopje. They are available to help SMEs with advice, support and opportunities for international partnerships.

Social Impact Lab

<http://socialimpactlab.co/en/programs/sia>

Social Impact Lab runs workshops to help attract young people to entrepreneurship, capping interest with a competition for business ideas and innovation that has a EUR 6000 prize fund.

Incubators

- **Seavus**

<http://seavusincubator.com/>

Works with start-ups in the area of the Internet of Things, gaming, software and technology development and support, creative industries (e.g. graphic design, online media). It is a multi-functional working space which also offers mentoring, access to technology and marketing support.

- Incubators listed in the Science Park and Innovation Centre Directory

<https://www.spica-directory.net/centers/?c=36>

Delcevo

Turtel Shtip

Gica Incubator Ohrid

Inkubator Strumica

Business start Up Centre

Business Support Centre Bitola

Incubator: Gica

Peer to Peer Networks

Peer to peer networks operate largely online, and continue to evolve. Two key networks are:

StartUs Magazine

<https://magazine.startus.cc>

StartUs is a magazine and online hub that aims to connect entrepreneurs across Europe. The magazine will often feature articles about issues affecting FYR Macedonia and allows SME owners and employees to connect. In addition to news, the website also contains a job board.

CEED Hub

<https://ceedhub.mk/about-us/>

CEED Hub, based in the Macedonian capital, Skopje, is a space where entrepreneurs can work, exchange ideas and network. It also runs a series of "Pitch Days" to help entrepreneurs improve their pitches and find investment.

SURVEY RESULTS: THE ENTREPRENEUR PERSPECTIVE

Introduction

A programme of primary research, with telephone interviews among potential/new business start-ups was undertaken specifically for this project, across the six Western Balkans states to provide a regional overview of entrepreneurial activity and explore individual experiences of setting up and running a business. The programme allows us to look individually at each market, and also compare the experiences and attitudes of entrepreneurs in FYR Macedonia to those of their peers across the region. As part of this programme, 105 interviews were carried out in Montenegro from mid-December 2017 to early January 2018.

Profile of respondents

For the purposes of this report, we refer to these respondents as entrepreneurs. It is pertinent, however, to appreciate how respondents see themselves, as this may be an indicator of future growth and success:

- 46% described themselves as entrepreneurs;
- 22% described themselves as businesspeople; and
- 32% described themselves as self-employed (**Table 8**).

Table 8. Age bands and education levels, by self-description

Q1: Which age band do you fall into?	Total	Entrepreneur	Business person	Self Employed
Sample size	105	48	23	34
Under 25	7%	4%	0%	15%
25-34	55%	54%	48%	62%
35-44	38%	42%	52%	24%
Q2: What is the highest level of education you achieved?				
No higher education after school leaving age	31%	27%	30%	38%
Technical qualification or higher	69%	73%	70%	62%

Respondents were equally split between those intending to start a business in the next 12 months (50%) and those who had set up a business in the last two years (new start-ups). Of those who already ran their own businesses, 40% were employing five or more staff. The survey focused on entrepreneurs under the age of 45. Within the sample:

- 7% were under 25 years old;
- 55% were aged 25–34; and
- 38% were aged 35–44.

The highest level of education achieved by age, and self-description, is shown in **Table 9**.

Table 9. Highest level of education and self-description, by age group

Q2: What is the highest level of education you achieved?	Total	Under 25	25–34	35–44
Sample size	105	7	58	40
No higher education after school leaving age	31%	86%	21%	38%
Technical qualification or higher	69%	14%	79%	63%
Q10b: Would you describe yourself as:				
An entrepreneur	46%	29%	45%	50%
A businessperson	22%	0%	19%	30%
Self-employed	32%	71%	36%	20%

Respondents were typically 'e-connected', and stayed abreast of news/current affairs on a daily basis:

- online via desktop or laptop 98%
- online via smart phone 4%
- from printed media (publications/press) 2%

They also engaged with a range of current and topical affairs (69% followed news and events relating to their business sector; 49% the local economy, 39% national politics; and 28% foreign affairs).

Almost half of these new businesses were developing or had developed in professional or technical sectors based on their own education and acquired skill sets (**Table 10**).

Table 10. Business activity of sample

Business activity	Total
Sample size	105
Design, IT and software	17%
Entertainment, education and consulting services	16%
Creative industry	13%
Tourism and hospitality	6%
Furniture production and construction	15%
Agriculture, food production and trade	13%
Trade	12%
Recycling	2%
Health care and pharmaceuticals	3%
Personal care services	2%
Cleaning services	2%
Other	2%

Business scope and operations

Most new businesses have domestic fields of operation within FYR Macedonia (one in three works only within their local areas) but even for young businesses such as these, one in four exports goods or services abroad, mainly outside the Balkans (**Table 11**). Those operating in the professional services space are more likely to export. There is far less importing activity however.

Table 11. Expected activity of businesses

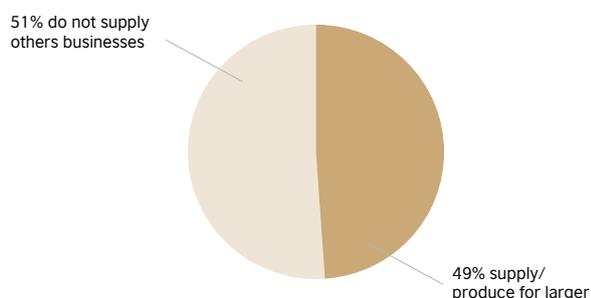
Q9: Do you (expect to)...	Total	Professions/ Business services activities	Trade/ other business activities
Sample size	105	47	58
Operate only within FYR Macedonia	72%	62%	81%
Q9c: Where do you operate within Macedonia? Sub Sample size	76	29	47
At a national level	50%	52%	49%
At a local level	50%	48%	51%
Export goods/ services to other countries	23%	38%	10%
Q9a: Where do you export goods/services to? Sub-Sample size	24	18	6
To countries within the Balkans region	54%	50%	67%
To countries outside the Balkans region	75%	83%	50%
Import goods/ services from other countries	9%	6%	10%

Working within a supply chain

Half of all businesses in the survey supply larger organisations (**Chart 2**).

Chart 2. Businesses as suppliers

Q6: Does your business make products or supply services that will be used by other, larger, organisations?



The key industry sectors in which these businesses operate are shown in **Table 12**.

Table 12. Sectors in which new businesses operate

Q6a: Which industry sectors does your [intended] business service or supply?	Top 5 sectors
Sample size	51
Business Services	33%
Construction	22%
I.T/ communications	22%
Food and beverage processing	16%
Tourism	8%

Business trading models

Most businesses in the survey interacted with customers face-to-face, but more than half also have an online and telephone presence of some kind, which may be a servicing, sales or information platform.

This is, however, primarily a cash-based economy, particularly for trade and production-led businesses, with 76% accepting payments this way (**Table 13**).

Table 13. Payment methods accepted by businesses

Q7. Does (will) your business?	Total	Professions/ Business services activities	Trade/ other business activities
Sample size	105	47	58
Have a digitally (online) interface with customers	66%	83%	52%
Have a telephone based interface with customers	51%	53%	50%
Service your customers face to face/ in person	85%	79%	90%
Q8: And do (will) you accept payments ...?			
Sample size	105	47	58
Online (via payment cards)	42%	51%	34%
Over the telephone (via payment cards/ bank debits)	15%	17%	14%
Through automated bank credits/ cheques	24%	30%	19%
In cash	76%	66%	84%

Motivation for setting up a business

The motivation behind setting up a business may well be an indicator of future success.

There is often more than one reason for starting up, but an underlying theme was the pursuit of long-term financial security and independence (**Table 14**).

Table 14. Motivation for setting up a business

Q10a: What are your key motivations for setting up your own business?	Total	Self-description		
		Entrepreneur	Businessman	Self employed
Sample size	105	48	23	34
To build financial independence	50%	50%	57%	47%
Opportunity to make money	49%	44%	57%	50%
Utilising skill sets	46%	60%	39%	29%
Providing long term financial security for family	33%	31%	35%	35%
Offset unemployment	30%	21%	17%	50%
Natural progression	23%	29%	13%	21%

For 55% of start-ups, the choice of sector or business was a natural one, to follow their profession or skillset, and a further 8% were taking over a family business. As **Table 15** shows, opportunity, ease of set-up and low-cost entry also drive the choice of some start-up activity.

Table 15. Reason for sector choice

Q5b: Why have you chosen to start a business in this specific activity?	Total
Sample size	105
It is my profession/ skill set	55%
I am seizing a good opportunity	27%
Encouraged by family/ The experience of others	16%
It is cheap/ low cost to set up a business doing this	10%
It is easy to set up a business doing this	10%
Continuing/ extending a family business	8%
There are incentives available to set up a business doing this	8%
Financial independence	5%
Unique market opportunity	4%
Self-employment	2%
Found a suitable partner	1%

Perceptions of the business climate and business confidence

The process of setting up the business was quite fast, and 87% of those surveyed had taken less than six months to register their business and obtain any necessary licenses.

However, respondents felt that the current (domestic) business climate was somewhat challenging (**Chart 3**).

Chart 3. Views of the business climate

Q11a. From your position, how would you describe the business climate in this country? (5-point scale)



The challenges perceived to make the climate unfavourable for businesses are:

- Low standard of living and consumer spending power 32%
- Problems with payment 22%
- Unstable political and economic situation in the country 22%
- Inefficiency of institutions/regulation 17%
- Lack of entrepreneurial culture and business mentality 17%
- Lack of funding and support for companies 7%

(Q11b: in what way is the business climate unfavourable for businesses? Sample size 41)

This links to perceptions of the barriers to business growth, which are dominated by problems accessing finance, concerns about acquiring customers and a lack of local government and bureaucratic support.

Table 16. Perceived barriers to business

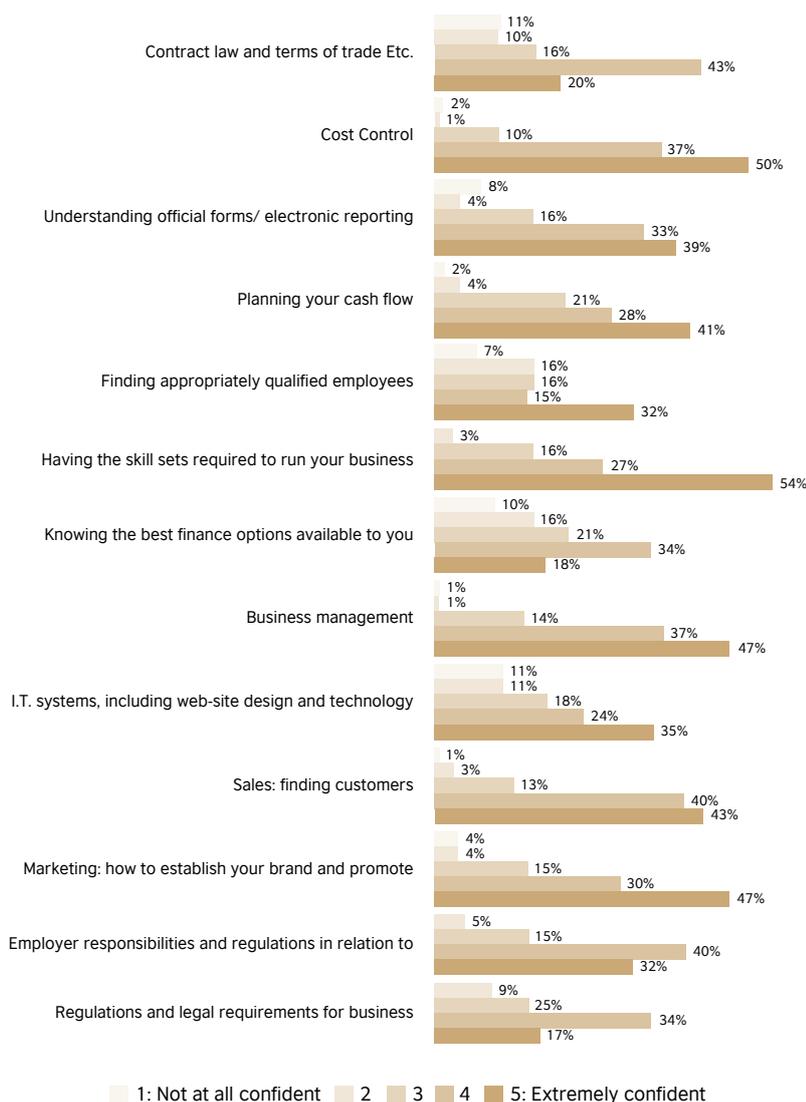
Q12. What do you perceive is the biggest barrier to (setting up) (growing) a business? (open ended, grouped responses)		
Rank	Sample size	105
1	Lack of finance, lack of adequate options for finance	38%
2	Lack of support from the state and municipalities	19%
3	A lot of competitors	13%
4	Problems with payment.	7%
5	Problems with finding qualified staff/recruitment	5%
6	Lack of entrepreneurial skills and ambition	4%
	No obstacles	16%

Levels of confidence

It is significant that barriers to growth identified by respondents were generally external to the business, rather than internally-generated. **Chart 4** shows that entrepreneurs are quite confident about most aspects of setting up and running their businesses, especially those areas that they control. They are less confident about regulatory and bureaucratic measures and choosing finance options.

Chart 4. Entrepreneurs' level of confidence in taking particular actions

Q13. How would you describe your own level of confidence in each of these aspects of setting up/running a business? (Sample size 105)



Advice and support

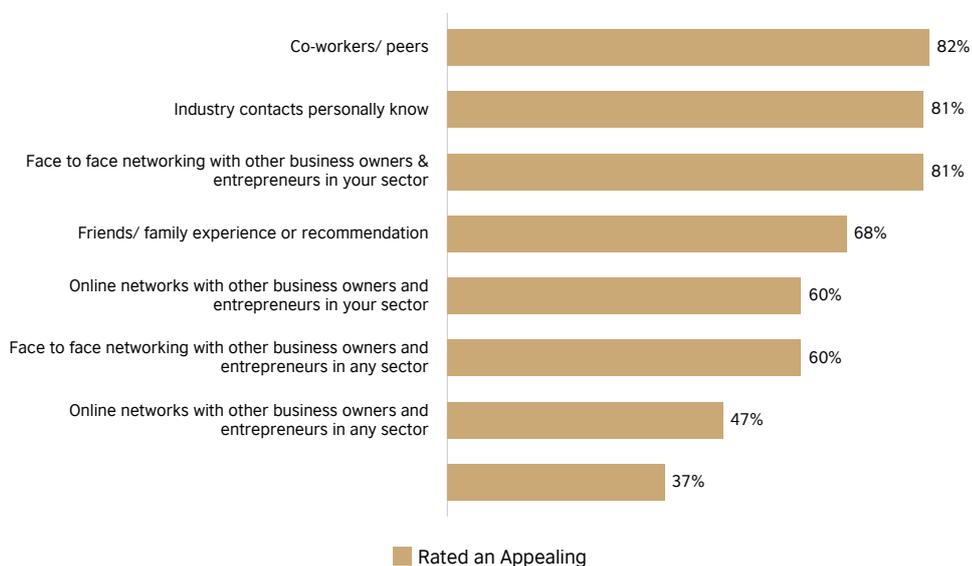
Entrepreneurs are more likely to turn to those around them for advice and support, and prefer to ask those closer to their own experience and business activity (**Chart 5**). Interacting face-to-face is ideal, but many entrepreneurs would also find online resources appealing.

The appeal of engaging with like-minded individuals resonates strongly with the findings of the British Council's programme: *encouraging youth entrepreneurship in the Western Balkans project September 2015 – March 2016* and suggests a large potential audience for local, targeted programmes and resources that can successfully improve skills acquisition, preparedness and motivation among young entrepreneurs.

Chart 5. Sources of advice and support

Q14. Here are some sources that people might turn to for support and advice when setting up and running a business. Please tell me how appealing each one is to you?

Sample size: 105



Young entrepreneurs often work in isolation, without ready access to expert business advice. Their trusted advisers are often subject-specific (**Table 17**).

Table 17. Trusted advisers

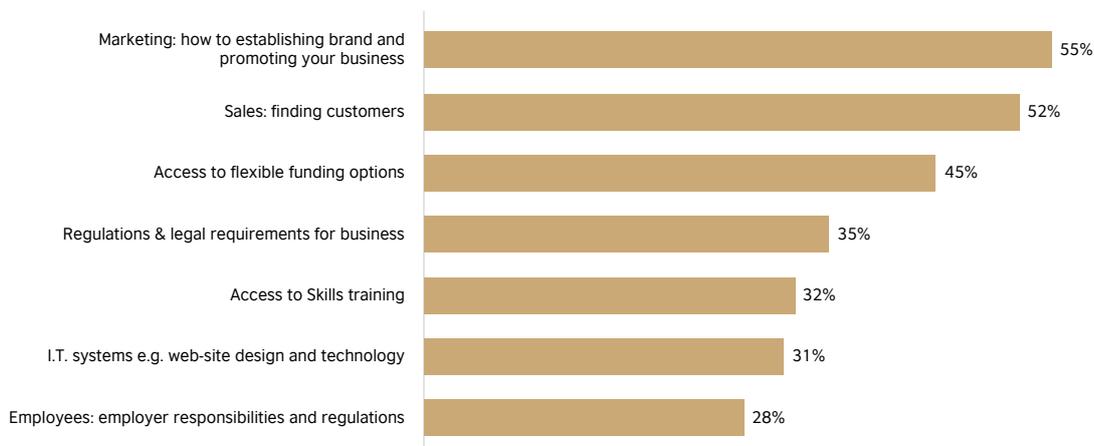
Q18. Who are your most trusted advisers?		Total
Sample size		105
1	Personal friends and family	35%
2	My college/employees	21%
3	Accountant	18%
4	Lawyer	10%
5	Bank Manager/Financial adviser	3%

The low ranking of accountants is in stark contrast to the views expressed by small businesses in the UK, which regard accountants as their most trusted advisers (Open University, 2014).

Chart 6 shows that, notwithstanding levels of confidence, new and prospective business owners recognise the need for support and training across all aspects of their business, from core activities (sales and marketing) to business management and governance. The importance of accessibility to funding is also highlighted. Nearly half of our respondents wanted to understand more about the options available to them.

Chart 6. Self-identified areas for skill development

Q16. If you could access training and support on any of the following, which would you be likely to take up? (Sample size 105)



Our respondents reinforced the need for a range of mechanisms through which they could access advice and support.

Financial incentives had an understandable appeal (to facilitate business cost control and expenses), but there was also a strong appetite for opportunities to engage with peers and mentors face-to-face, whether in a networking or learning capacity.

Online resources were also seen as useful for obtaining advice, albeit secondary (**Table 18**).

Table 18. Desired forms of support and advice

Q17. What form of advice and support delivery would be helpful to you?	
Sample size	102
In-person training courses	44%
Peer-to-peer support	39%
Financial incentives	34%
Networking	33%
Access to incubators/ innovation hubs	27%
Mentoring	25%
Online resources e.g. downloadable content; online training and chat facility	22%

Future ambitions

Respondents were very optimistic about their growth and development plans. Over the next two years, the majority were planning to expand business product or service lines and invest in business assets and staff (**Table 19**).

Table 19. Future ambitions

Q19a. How likely will you be to access the following over the next 2-3 years? % saying likely/very likely		Ranking (most likely)
Sample size	105	
Opening new markets at home or abroad	76%	1
Product or service development costs	71%	2
Purchase or leasing of business assets (equipment, vehicles etc.)	66%	3
Hiring staff	64%	4
Premises/ office relocation	50%	5
Legal expenses	32%	6
Patenting	29%	7

Business growth is perceived to be largely dependent upon the development of a customer base (**Table 20**). More than one in three entrepreneurs in the survey also identified that they would need an injection of capital to achieve growth.

Lack of finance/access to finance was cited earlier as the key barrier to doing business so this is perhaps not surprising.

Table 20. Drivers for success

Q23. Thinking about the next 2-3 years, what do you perceive to be the key drivers for success in your business?	Total	Ranking
Sample size	105	
More customers	77%	1
Capital injection	41%	2
Product/service development	35%	3
Increased skill sets / employee training	32%	4
Change of premises	19%	5

When we look at the ambitions of these young businesses over the next few years, it is easy to understand why access to finance was important. Our entrepreneurs were ambitious for the future, and generally confident in their ability to achieve their ambitions (**Chart 7**).

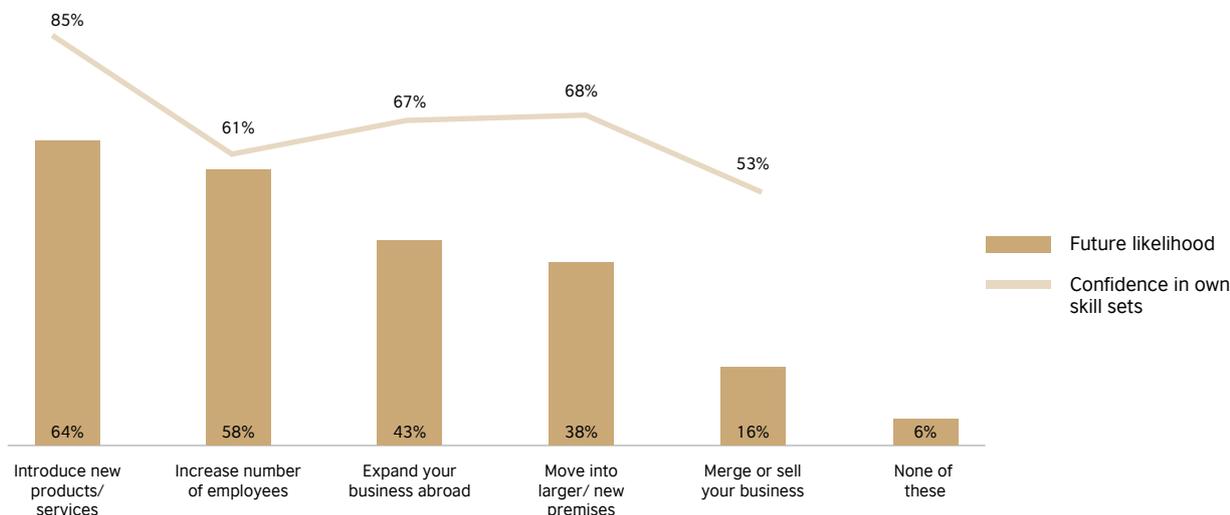
This is as a positive sign for the future, but ambition also needs support, advice and access to finance.

Chart 7. Future ambitions and confidence

Q24a. Thinking ahead 2 - 3 years, it is your ambition to do any of the following?

Q24b. At this stage, how confident are you that you have the knowledge and skills sets to enable you to do this?

Sample size 105

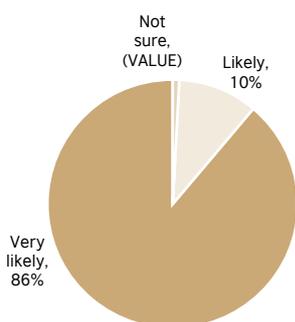


Access to Finance

Nine out of ten entrepreneurs surveyed were very likely to need access to finance over the next few years to fund planned growth or investment (Chart 8).

Chart 8. Need for funding

Q19. How likely are you to seek funding in the next 2 3 years? (Sample size 105)



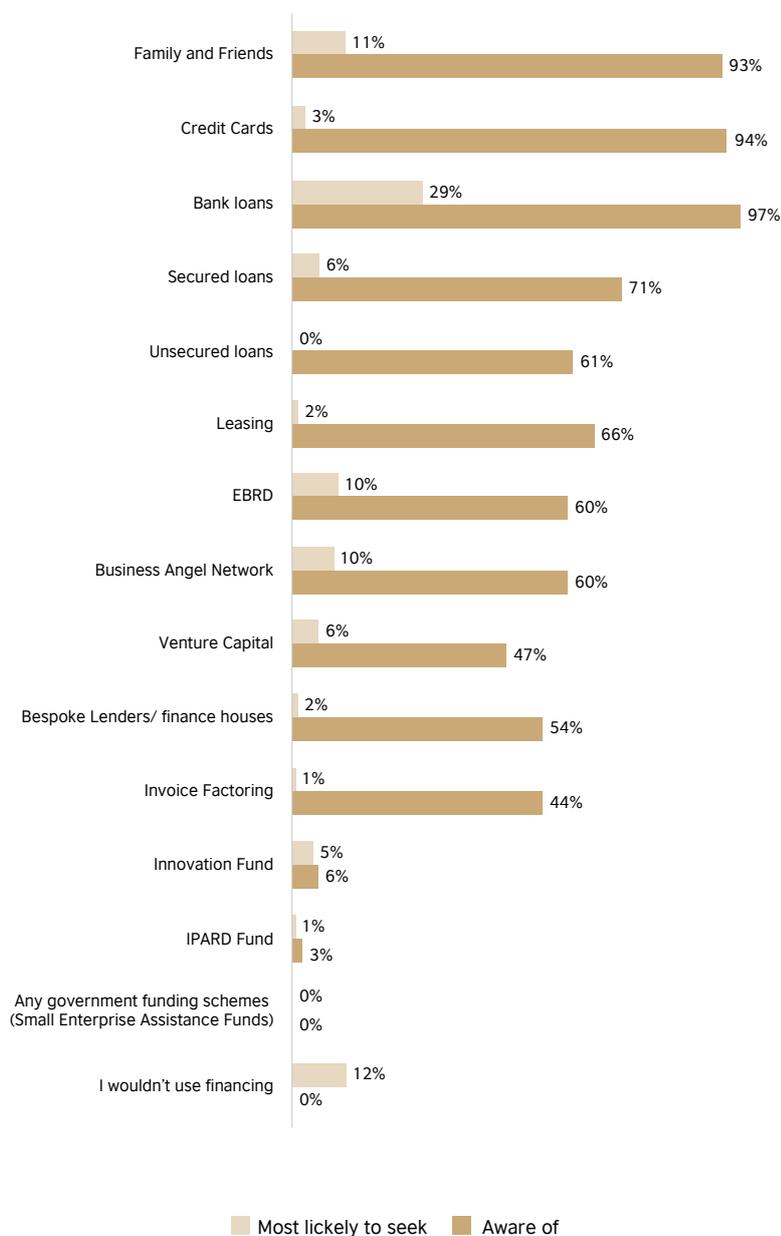
Q19b. What do you envisage you will need funding for? (Sample size 101)

1.	Hiring staff	39%
2.	Opening new markets at home or abroad	38%
3	Purchase or leasing of business assets	31%
4.	Working capital /cashflow	28%
5.	Product or service development costs	27%
6	Premises/ office relocation	25%
7.	Patenting	5%
8.	Legal expenses	5%

In total, 38% considered it was difficult to secure funding, and 21% considered this easy. The chart below shows that awareness of more specialist investors (beyond mainstream bank lenders) is quite high (for instance, almost two thirds were aware of the EBRD and Business Angel Networks). However, there was no perception of government funding being available, and although entrepreneurs were generally aware of a range of funding providers, in practice they were not likely to venture beyond bank loans and informal family financial support. This finding underscores entrepreneurs' recognition of the need for support in identifying sources of finance.

Chart 9. Awareness and use of forms of funding

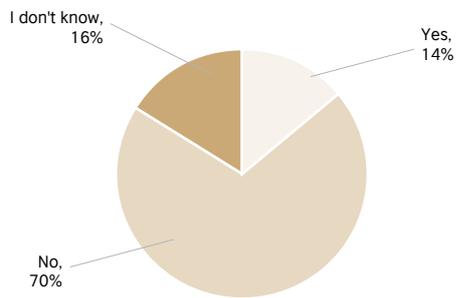
Q20. Which of these forms of funding are you aware of?
 Q21a. Which form of funding would you be most likely to seek?



Interestingly, access to trade credit was not regarded as a driver of success. Only 14% of respondents felt that this would help their business expand, and of these, most felt it would have, at best, a moderate impact. This concept had a little more traction with trade or production-related businesses, with 19% seeing a potential benefit vs. 9% professional or service-related businesses, but it is likely that this was an unfamiliar form of finance to our respondents.

Chart 10. Likely use of trade credit

Q8b. Would your business expand if you could offer trade credit? (Sample size 105)



This concludes the findings of the primary research undertaken specifically for this project, involving 100 telephone interviews with new or prospective business start-ups in the Former Yugoslav Republic of Macedonia. Fieldwork was undertaken in December 2017 and January 2018.

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ANNEX I – ESTIMATION METHODOLOGY FOR EARLY STAGE LOAN DEMAND

Overview

We have sought to separate out the loan demand for an MSME or a self-employed person's first two years of operation. This is often the most difficult and challenging period to fund, because lenders suffer from extreme information asymmetry. These business lack an audited trading/tax declaration record, credit rating data is likely to be sparse and the lending officer may have no detailed sector or local environment knowledge. The problems of information asymmetry have been highlighted by Stiglitz and Weiss (1981).

We have sought to estimate this “funding gap” by adopting a “bottom up” approach, estimating funding needs for MSMEs and self-employed people differently, on the basis that their funding needs are likely to differ. Our estimates are very rough and need further research and rigorous testing. We have included them because they are indicative pointers to the sufficiency or otherwise of existing schemes to support entrepreneurs in their first two years of activity.

Self-Employment

Self-employed people were an important component of our survey results. We assumed that each self-employed person would require seed capital or initial finance equal to three months of the 2015 euro current price per capita GDP for their home country. We took the data for this from the IMF (2018). We converted US\$ from the IMF date to € at 1.1998 US\$ = 1 EUR (an approximate 2017 year-end rate). The number of new self-employed people is based upon 5% of the self-employed population joining/leaving self-employment each year. The self-employed numbers were from the International Labour Organisation (2017).

MSMEs

For new SMEs, we assumed a blanket requirement of EUR 5,000 for their start-up capital needs in the first year. For the number of businesses being registered, we relied on World Bank data (World Bank, 2017e).

Year One Seed Capital

Taking these together, we calculated the seed (or first year) capital requirement by country, shown in **Table A.1**.

Table A.1 Western Balkans seed capital requirement for first year of operations

Number of New Limited	New Self Employed Estimate	Euro Per Cap GDP 2015	Seed Per Limited Liability	Seed Per Self Employed	Limited Liability Seed	Self Employed Seed	Total Est Seed Req
2,679	30,000	3,280	5,000	820	13,395,000	24,600,790	37,995,790
2,814	7,000	3,489	5,000	872	14,070,000	6,106,259	20,176,259
3,993	4,000	2,922	5,000	730	19,965,000	2,921,811	22,886,811
5,686	9,000	4,046	5,000	1,011	28,430,000	9,102,698	37,532,698
2,818	1,000	5,388	5,000	1,347	14,090,000	1,346,977	15,436,977
8,236	43,000	4,365	5,000	1,091	41,180,000	46,922,483	88,102,483
Total					131,130,000	91,001,017	222,131,017

Source: Authors

Year Two Calculation

For year two, we assumed that 25% of the new SMEs would reach the growth phase, and that those MSMEs would require the average SME loan value for their country. The average MSME loan value was taken from Table 11 in Hauser et al. (2016).

For the remainder of companies and self-employed people, we made the blanket assumption that those that survived their first year would have grown but not have reached full cash self-sufficiency. They were therefore likely to require additional finance equal to the entire (for all firms) amount required in the first year. These parameters give the calculated requirement for Year 2 in **Table A.2**.

Table A.2. Year 2 start-up finance requirement

Number of New Limited Liability companies	New Self Employed Estimate	Average Loan Size	% Year 2 Full Loan Demand	Total Fast Growers	Total Rest	Grand Total Year 2
2,679	30,000	35,668	25%	23,888,643	37,995,790	61,884,433
2,814	7,000	34,409	25%	24,206,732	20,176,259	44,382,991
3,993	4,000	30,507	25%	30,453,613	22,886,811	53,340,423
5,686	9,000	45,052	25%	64,041,418	37,532,698	101,574,116
2,818	1,000	47,519	25%	33,477,136	15,436,977	48,914,112
8,236	43,000	25,753	25%	53,025,427	88,102,483	141,127,910
Total				229,092,968	222,131,017	451,223,985

Source: Authors

Total First Two Year Finance Requirement vs Total MSME Lending By Country

We took these findings and combined them into **Table A.3**, then compared them to overall MSME lending in each Western Balkans state. The overall SME lending figures come from Table 14 in Hauser et al. (2016).

Table A.3. Total entrepreneur first two year finance requirement vs total MSME lending by country

Number No SMEs	Euros Av Loan	%	Millions Euros				
			Total SME Loan Demand	Seed Year 1 Est. Demand	Early Stage Year 2 Est. Demand	Total Early Stage Est. Demand	SME Loan Demand % Early Stage
111,059	35,668	36.0%	1,426	38	62	100	7.0%
186,341	34,409	51.5%	3,302	20	44	65	2.0%
45,985	30,507	52.2%	732	23	53	76	10.4%
70,453	45,052	40.1%	1,273	38	102	139	10.9%
22,313	47,519	52.8%	560	15	49	64	11.5%
280,845	25,753	61.8%	4,470	88	141	229	5.1%
Regional Total In Millions Euro			11,763	222	451	673	5,7%

Source: Authors

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