

POLICY BRIEF 10

IMPROVING THE ACCESS TO FINANCE FOR SMALL AND MEDIUM-SIZED ENTERPRISES - NATIONAL AND EUROPEAN FINANCING PROGRAMMES AND RECOMMENDATIONS FOR DEVELOPMENT OF NEW MEASURES AND SERVICES TO IMPROVE ACCESS TO FINANCE

PROJECT:

“STRENGTHENING CAPACITIES AND
MECHANISMS FOR SUPPORTING
CHAPTER 20 REFORM PROCESS”

THE REFORM PROCESS OF
CHAPTER 20: ENTERPRISE AND
INDUSTRIAL POLICY AIMS
TO PROMOTE STRATEGIES,
REGULATIONS AND
INSTRUMENTS THAT WOULD
IMPROVE COMPETITIVENESS AND
THE BUSINESS ENVIRONMENT,
DOMESTIC AND FOREIGN
INVESTMENTS AND THE
OVERALL BUSINESS CLIMATE IN
WHICH SMALL AND MEDIUM-
SIZED ENTERPRISES (SMES)
OPERATE, WHICH WOULD
ALSO LEAD TO STRENGTHENED
ENTREPRENEURSHIP AND
INNOVATIONS.

THE POLICY BRIEF SHOWS
THE CONCLUSIONS AND
RECOMMENDATIONS FROM THE
CHAPTER 20 PLATFORM EXPERT
WORKSHOP FOR PROMOTING THE
ACCESS TO FINANCE FOR SMES.



Author: YES Foundation,
Chapter 20 Platform: Enterprise and Industrial Policy

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Proofreading: Dejan Vasilevski

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INTRODUCTION

The accession process towards the European Union (EU) involves the adoption of the established EU *acquis* and preparations for proper implementation and carrying out of judicial, administrative, economic and other reforms that are necessary for the country to meet the requirements for joining the Union. The provided recommendations and tasks that the EU candidate-countries have to fulfil are divided into 33 chapters, each constituting the starting point for accession negotiations, i.e. each corresponding to a specific area. Candidate-countries are obligated to adapt their administrative and institutional infrastructures and to align their national legislation with the EU legislation in all these areas.

One of the negotiation chapters is **Chapter 20: Enterprise and Industrial Policy**, which aims to contribute to the development of competitiveness and the small and medium-sized enterprises (SMEs) sector through the following three areas: (1) enterprise and industrial policy principles; (2) enterprise and industrial policy instruments; and 3) sectorial policies. From year to year, our country is making progress in improving the overall business environment for SMEs by simplifying certain administrative procedures, financial support, legislative alignment, etc. However, additional efforts and funds should be provided in the forthcoming period and the capacities of the various actors in the process should be increased, if the goal is to obtain and establish the overall business environment that exists in the developed countries of the EU. In this regard, the project **“Strengthening Capacities and Mechanisms for Supporting Chapter 20 Reform Process (YESNetwork+)”** is being implemented, which aims to achieve coordination between civil society organizations (CSOs) in the reform process of Chapter 20, strengthen the policy making capacity, set up networking and monitoring policies for Chapter 20, improve the transfer of knowledge among CSOs and other relevant actors and raise the awareness about the importance of Chapter 20 for the country’s overall progress towards EU accession.

In the scope of the project the **Chapter 20 platform** has been created, comprising of 49 members, active actors in the civil society sector, policy makers and relevant institutions that act in the areas of this negotiation chapter. The platform will contribute to active involvement in the reform process of Chapter 20 through numerous activities, creating a resource centre with relevant materials for monitoring the reform priorities of the chapter, publicly available resources, through which the transfer of knowledge and coordination of CSOs and other actors at the national level will be supported.

CHAPTER 20 PLATFORM IS ACTIVELY WORKING ON STRENGTHENING CAPACITIES FOR CREATING AND MONITORING POLICIES, ORGANIZING TRAINING, WEBINARS, EXPERT MEETINGS, FORUMS, IMPLEMENTING RESEARCH AND OTHER RELEVANT ACTIVITIES.

This document presents the conclusions and recommendations of one of the expert workshops of the Chapter 20 Platform, with regard to the current state of affairs, challenges and opportunities for the promotion of the access to finance for small and medium-sized enterprises.

APPROACH AND CONCLUSIONS

The first national platform for enterprise and industrial policy - Chapter 20 organized three expert workshops for the purpose of discussion, coordinated action and forwarding recommendations to the relevant actors in the country, for the promotion of the various areas of the negotiation chapter, as part of its annual activities for 2018.

The expert workshop entitled as “Access to Finance for Small and Medium-Sized Enterprises” provided an overview and discussion of the current state of affairs, challenges and recommendations for the promotion of the opportunities and the access to finance for small and medium-sized enterprises. Discussions were held on selected topics, as being the national sources of finance (formal and informal risk capital and bank products), the European programmes dedicated to SMEs as well as the topic of development of new products and services to support the access to finance.

The workshop was attended by 37 experts from the civil society sector, from the business sector and the relevant institutions for this negotiation chapter - the Cabinet of the Deputy Prime Minister, in charge of economic affairs and coordination with the economic sectors, the Ministry of Economy, the Ministry of Education and Science and the Ministry of Labour and Social Policy.

Banks concluded that 95% of their portfolio is focused on small and medium-sized enterprises. However, it is necessary to change their approach to more investor-minded way of thinking, as in the case of the investment funds.

Micro-finance organizations in the country have invested 350 billion euro in 72,000 beneficiaries so far. Average loans amount from 200 to 5,000 euro.

Conclusions on the national sources of financing - bank products and alternative sources (business angels, risk capital and acceleration programmes)

- The banks do not recognize a need of introducing new bank products for SMEs, i.e. they deem that the offered products meet the demands of SMEs.
- Planning the businesses i.e. creating business plan to apply in the banks represents a challenge.
- Banks do not offer adequate solutions for the micro-companies, such as, for instance, for the most of the women entrepreneurs, and for which the most appropriate source of financing is the microfinance.

- The challenge of the microfinance organizations, however, is that their costs and risks are the same as for the banks, only that the microfinance is more expensive. This imposes the need of microfinancing law, since the law on banks does not meet the needs of these organizations in the long run.
- Education and mentorship in the direction of building capacities of and providing support to the entrepreneurs in the area of finance is required.
- What is a start-up company and the manner of its operation needs to be regulated by law in order to improve the access to finance for these companies.
- The number of start-ups in which the accelerators would be interested to apply is challenging, since small number of these companies are ready for investment.
- The Fund for Innovation and Technology Development (FITD) should increase the scope of its work, as it has so far shown excellent results for SME support.
- It's a challenge to find good start-ups, as well as good business angels.
- There are no legal regulations for business angels in the country, but there is a way to invest legally. If a law for business angel is adopted, it would give the investor the opportunity to invest in four to five companies at once, i.e. not to limit their right to invest in a new company if the first one fails.
- It is early to talk about investments in the social entrepreneurship (SE), since the existing social enterprises are more focused on the social aspect than on the entrepreneurial.

Conclusions on the European SME financing programmes

- On national level, we had 52 successful participations in Horizon 2020 as partners in projects, and profit of approximately eight million euro has been generated only. This is due to several factors, some of which include the low personal costs and insufficient involvement of the business sector.
- Special challenge for SMEs is the preparation of project proposals for the European programmes, a process that is not simple and requires additional education.

The country's ecosystem of start-ups is still at an early stage, it takes time and maturity to start thinking about legal regulations for business angels.

At the moment, a Social Innovation/Enterprise Fund establishment is ongoing, which will initially function in the form of grants.

Newly-created accelerators with the support of FITD have a fund of over 500,000 euro to invest in start-ups.

The Horizon 2020 programme is the largest EU research and innovation framework programme of the European Union (EU). The budget of the programme is 80 billion euro for a period of seven years, and from 2020, the new programme with a budget of one hundred billion euro will start.

Statistics show that Iceland is the most successful country in the percentage of granted vs. applied projects, with 12% success.

The last ten years, science and research have been continuously falling within the country. Investment in research in the country is 0.5%, and research in SMEs from 0.1% to 0.2% of GDP.

Within the Chapter 20 project, a sub-project was supported focusing on the challenges of pre-financing companies and creating new financial packages for the support of companies that have already obtained funding from the EU funds.

Consultations with banks and chambers have been undertaken to support this initiative and sub-project, and support from the EU Delegation was also provided.

- There is a lack of promotion of the programme by the Ministry of Education and Science, which faces insufficient administrative and financial capacity (there are only two people in charge of the programme, without a promotion budget).
- Promotion of European programmes for SMEs is mainly done through the instrument of Chapter 20 - Enterprise Europe Network in Macedonia (EEN-M) and its direct work with Macedonian companies and other actors (universities, research centres, etc.).
- Banks are familiar with the various European programmes and some of them are involved in placing the financial instruments available within these programmes and they are satisfied with their implementation.

Conclusions on development of new products and services to support the access of SMEs to finance

- Companies that have received funding from a European project are not able to provide 30 to 50% of the costs as pre-financing without the help of bank lending.
 - It is necessary for the banks to create a special support/programme for companies that have already obtained funds from the EU and where the loan guarantee will be the agreement with the EU (introduction of the so-called project financing). It is necessary for the banks to involve themselves in the project preparation process when the companies prepare the applications for EU programmes, in order for them to correspond to future credit programmes in the banks.
- Support through the Agency for the Promotion of Entrepreneurship (APE) with a project voucher is also proposed. In addition to the regular voucher and the innovative voucher, there can also be a project voucher that will provide training for preparation of European projects for the companies.
 - The system of functioning of the voucher scheme implies training and specialization of a number of consultants and experts whose expertise would provide support to the companies.

RECOMMENDATIONS FOR POLICY MAKERS

Recommendations for improving the national capacities to facilitate the access to finance

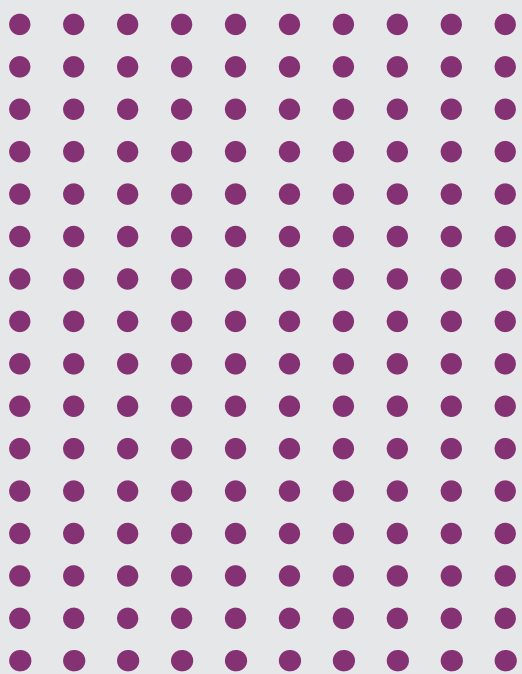
- Promotion of the regulatory framework for financing SMEs, by creating a law for the microfinance organizations, and legal regulation for investment through business angels can be adopted in the long run.
- Improvement of the mentorship in the direction of training entrepreneurs for financial literacy, as well as writing business plans for applying in banks.
- In addition to the introduction of new financial instruments, the companies should also be educated in the area of finance and their research capacity should be stimulated.
- Improvement of the support and finances for research work at national level.
- Increasing the scope and support of the Fund for Innovation and Technology Development in the company development.
- Regulating what start-up represents precisely and how this type of companies operate, training and mentoring the start-ups in the direction of entering foreign markets (internationalization).

Recommendations for better use of the European programmes for SME financing

- Improvement of the education and support of companies in preparation of application proposals for the European programmes.
- Providing a budget for the Ministry of Education and Science's programme activities for promoting the European SME financing programmes.
- Involving the Government and/or the financial sector in the support of financing the companies that have received funding from European projects by the means of issuing bank guarantees as creditors.

Recommendations on development of new products and services to support the access of SMEs to finance

- Creating a special programme (financial packages) from banks for companies that have already obtained EU-funded projects and other international institutions.
- Banks should join the process of project preparation when the companies prepare the applications for EU programmes.
- Project voucher which will provide the companies with support for European project preparation, as well as additional specialization of the experts for drafting projects, should be created by the APE.



POLICY BRIEF 10

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