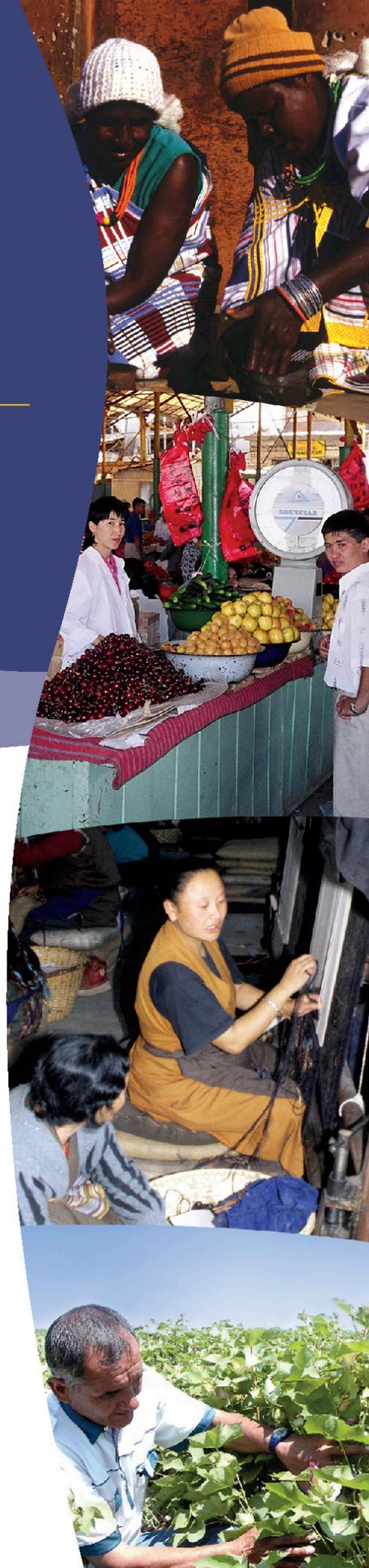


A Rapid Assessment of the Enterprise Development Support Framework and Preliminary Design for a Proposed Enterprise Development Project in the Republic of Macedonia

Carried out under the FIELD-Support Leader with Associates Cooperative Agreement

Submitted by:
Academy for Educational Development
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2 Rapid Assessment of the MSME Support Framework in Macedonia: Overview and Findings.

Macedonia's enterprise support framework encompasses a broad range of actors. Leaving aside the full array of financial institutions which were not addressed in this study, the framework is made up of five broad types of institutions: government ministries and agencies, donor projects, university centers, chambers and associations and business service providers both NGOs and private consulting firms.

The objectives of this rapid assessment were to assess the relevance and quality of services these different types of organizations provide to the MSMEs, the coverage that they have and especially their effectiveness and impact on MSME growth and job creation. This assessment should also identify what MSMEs need in terms of support in order to succeed and how easy it is for them to find the right type of support.

2.1 The Government Structure

As shown in Figure 2 below, the enterprise support activities of the government are spread across three primary Ministries: the Ministry of Economy (MOE), the Ministry of Labor and Social Policy (MLSP) and the Ministry of Local Self Government (MLSG).

2.1.1 The Ministry of Economy (MOE)

The MOE, through its SME Department, has primary responsibility for direction of SME matters. At least on paper, the SME Department's Agency for Promotion of Entrepreneurship (APPRM) has major implementing responsibility for all enterprise initiatives, including those flowing through other government agencies. Activities coming within the purview of the MOE include the operation of incubators, technology transfer and ICT programs of public universities and technology transfer centers, and the activities undertaken through Regional Enterprise Service Centers (RESCs).

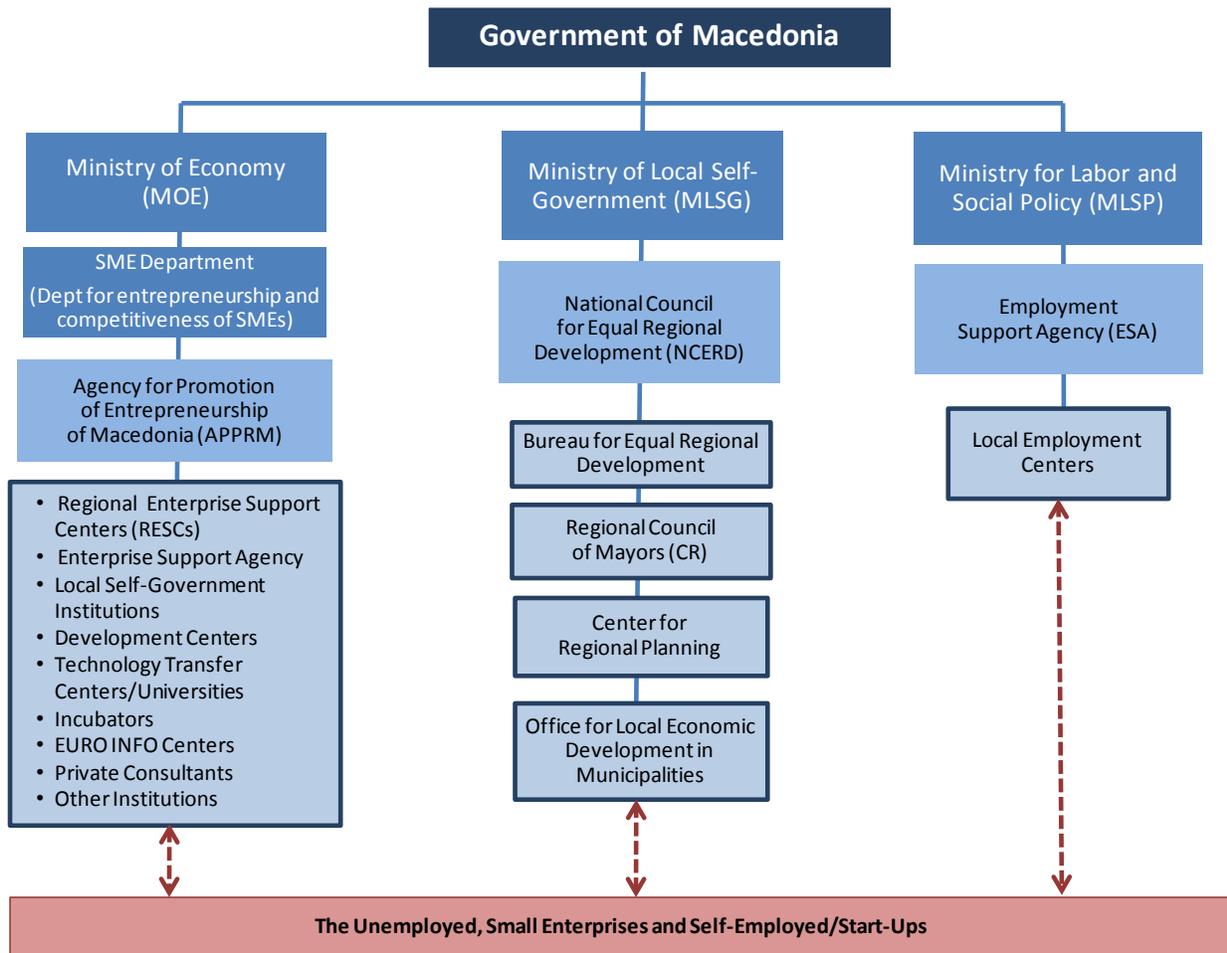
The donor-supported National Voucher Scheme for SME Development, which is implemented through RESCs, Enterprise Support Agencies (ESAs) and other authorized centers and their affiliated consultants, has been a primary source of subsidized technical assistance to SMEs and microenterprise start-ups. The vouchers are designed to give SMEs additional purchasing power to buy business services from accredited providers, mainly individual consultants, as well as create an incentive for consultants to seek out and offer services to clients.

The system works as follows. The client (SME or unemployed person) shows up at the authorized center and asks for support. The business advisers within centers then match the client with a consultant. The small business negotiates with one of the 140 accredited consultants⁸ (service providers). The business advisor issues a voucher to the client and the consultant starts working for the client. The service is delivered by the consultant and the SME pays 100% the negotiated cost when the service is completed. APPRM then reimburses 50% of the costs up to €200 to the SME. These vouchers are mostly used for development of business plans. The conditions of the reimbursement are that the voucher and evaluation form should be signed by both sides (SME and

⁸ 261 are registered but the team estimates that about 140 consultants are active.

consultant). For the microenterprise start-up clients, APPRM reimburses 100% of the cost to the enterprise. In 2007, the voucher counseling program provided advisory services to only 61 enterprises. An additional 48 enterprises participated in APPRM sponsored training sessions.⁹ Last year the agency introduced an innovation voucher in amount of €1500, but had budget to deliver only two of those.

Figure 2: The Government Structure to Assist MSMEs and Self-employment



Arguably, the program has had limited impact on the growth of enterprises in the country. Moreover, the voucher scheme does not address fundamental weaknesses in the supply of business services, such as the lack of qualified consultants able to help an enterprise solve specific business problems, such as strategic positioning of products into new markets. In addition, APPRM appears to be losing its position as lead coordinator for SME support. In 2010, APPRM will receive only US\$89,000, an amount which is only a quarter of its 2009 budget. In addition, the APPRM will not be asked to channel funds from other Ministries as it did in the past. With a small budget and a staff of ten people, APPRM does not appear to be in position to function as a significant player in the SME support structure in the foreseeable future.

⁹ National Self-Assessment Report, page 31.

2.1.2 Ministry of Labor and Social Policy (MLSP)

Within the government’s enterprise support framework, the MLSP is charged with implementing “active measures” aimed at ensuring the provision of support to all unemployed individuals as well as programs designed to help the unemployed transition back into the economy. The MLSP’s Employment Services Agency (ESA)¹⁰ and its network of 30 Employment Service Centers administer a Self-employment Project, which is co-funded by the Government of Macedonia and UNDP and implemented by UNDP. Table 4 below provides the three year funding for project.¹¹

Table 4: Cost of self employment programs 2007-2009

Year	GOM (US\$)	UNDP (US\$)	Totals (US\$)
2007	1,482,802	440,210	1,923,012
2008	2,665,371	75,000	2,740,371
2009	2,792,737	120,000	2,912,737
Total	6,940,910	635,210	7,576,120

Self-employment training—or development of microenterprise start-ups—has become a favored way for the government to address the youth unemployment problem. Each year about 2,000 applications are reviewed and around a 1,000 are selected to participate in a two-day workshop to evaluate and select the best individual business concepts.¹² The training program covers entrepreneurship, marketing and sales, and business planning. Accredited consultants deliver the training which typically has between 20 and 25 participants in each session. Out of the original 1,000, about 750 to 800 are selected to develop their business idea. Those selected can access the APPRM voucher system and uses its pool of accredited consultants to prepare start-up business plans. The typical voucher of 200 Euros can purchase about 13 hours of business consultancy services. Participants with acceptable business plans are provided start-up grants for equipment and materials (1,900, 2,500, and 3,000 Euros respectively in 2007, 2008, and 2009.) The relative cost structure for various steps in 2007 is given in Table 5 below.

A total of 559 microenterprises were formed under the 2007 self-employment program.¹³ An additional 529 were formed in 2008 and another 654 in 2009 for a total of **1742 start-ups**. In addition, (and not included in the budgets of either Table 4 or 5) 113 microenterprises in the grey

¹⁰ The acronym “ESA” is used for both the Enterprise Support Agencies (NGO business service provider) and the Employment Services Agency (Agency under MLSP)

¹¹ Source: Impact Assessment: Self-Employment Programme as part of the Government Operational Plan for Employment (December 2009)

¹² The eligibility criteria under the 2007 program were strict. To qualify, participants had to be registered as unemployed for more than five years, or be under 28 years of age, or currently receiving unemployment benefits. Candidates from underdeveloped regions of the country were also given priority. The criteria were further relaxed in the 2008 program. In that year, candidates were required to have been registered as unemployed for a minimum of two years or be 28 years old or younger and/or be female. In the 2009 program, the minimum was dropped to one year of unemployment, or less than 28 years old, or be female. In 2010, the current requirements are that the people must be unemployed for a minimum six months, be less than 28 years old, or be female. The requirements were loosened to increase demand for the services.

¹³ National Self Assessment Report, page 33.

economy were formalized in 2008 under this program, while the 2009 program involved formalization of an additional 250 microenterprises.

Table 5: Cost structure of the self employment program in 2007

<i>Items/ services</i>	<i>Number of candidates</i>	<i>Total (US\$)</i>	<i>Percent (%)</i>
Training Development of Business Idea	800	42,866	2.0
Business Plan Voucher system	591	200,532	10.5
Registration of Companies	559	38,483	2.0
Self employment grants	559	1,438,260	74.0
Administration cost		222,550	11.5
Total	559	1,923,012	100

An impact evaluation of the 2007 program revealed that of the 559 companies registered in 2007 only 342 were still active in 2009 (61%).¹⁴ Moreover, most of the active microenterprises (86%) did not grow enough to add employees and remained sole proprietorships. Only 48 microenterprises employed an additional 74 workers (an average of 1.5 additional jobs per microenterprise). In summary, the joint investment of GoM and UNDP of \$1.9 million in 2007 resulted in 342 active microenterprises (sole proprietorships) after three years creating 416 jobs (including the sole proprietors) with a cost per job estimated at \$4623.¹⁵

The assessment team was able to visit Employment Service Agencies and Employment Service Centers for Skopje, Strumica and Radovis Municipalities. While the centers provide a useful point of information collection and referral, it remains unclear as to what extent employers actually use their services when looking for new hires. Aside from the Self-employment Program, the much touted active measures don't appear to create jobs. Their main functions appear to be registering the unemployed and testing and processing potential candidates for the Program or other types of skills training. It would be a stretch to consider the active measures as an integral part of an effective business support framework. The services also compete (possibly crowding out) private employment agencies which might be more efficient in linking the supply (the unemployed really looking for jobs) with demand for new workers from private businesses.

2.1.3 Ministry of Local Self-Government (MLSG)

Since the Macedonian government administration is structured on a two-tier system with the central government and municipalities, regionalization does not exist in administrative terms. However, aspiring to EU accession, Macedonia is committed to stimulating and supporting regional development and is pursuing a policy of balanced regional growth in accordance with EU specifications. The MLSG has been given the role of developing this regional strategy and is responsible for the creation and management of regional development policy, including the drafting of legislation and the design of an institutional framework for regional development.

¹⁴ According to the Central Registry (as of Nov 2009) 102 of the 559 microenterprise had been deleted from the register and 115 were inactive.

¹⁵ The evaluation of the GOM/UNDP program claims 527 (416 +111) jobs were created as a result of the 2007 program. The assessment team thinks this figure probably includes "employment counted" from the formalization program. The costs of the formalization program are not included in the budget figures in Table 5 above.

Under the MLSG, the Bureau of Regional Development is tasked with implementing government policy for regional development based on the Law of Equal Economic Development of Regions. The Bureau works through eight Centers for Regional Development and a number of Local Economic Development (LED) Centers which function at the municipality level.

The team visited the regional centers in Polog and South-east and three LED centers: Bogovina in Polog region, Struga in the South-west, and Strumica in the South-east. As a general rule, the positioning of this regional structure is potentially powerful but its capacity is weak. Employees tend to be appointed by political parties. Regional and LED Centers do not support SMEs directly and little economic development is actually carried out. But there are efforts underway to develop and implement new regional strategic plans, some of which incorporate SME development, but with much lower priority than transport, water supply and waste management infrastructure. In addition, GTZ has had some good experience in guiding the activities of selected regional centers. With proper guidance and committed staff, the Centers are positioned to play a major catalyzing role for business development if they were to work more closely with the private sector. Realistically, however, these Centers will have to be pulled into a development process rather than initiate or lead one.

2.1.4 Looking Forward

The fact that there is no single strong government agency able to speak with authority on behalf of SME issues and concerns is indicative of the lack of support to the sector. And, according to the 2010 GOM budget, the picture will not change. Much of the government's business development efforts will focus on the Agency for Foreign Investments (MakInvest), the Office for Technological Industrial Development Zones and the Ministry of Agriculture. The allocation for MakInvest (which includes subsidies for the users of Technological Industrial Development Zones) doubled from 2009 to US\$11 million for 2010. The US\$10.6 million budget for the Office for Technological Industrial Zones is largely for the construction of the zones. Over US\$7 million of the budget for the Ministry of Agriculture is dedicated to rural development focusing on modernization of agricultural businesses, building rural infrastructure, development of rural tourism and the production of renewable energy in rural areas. While all of these programs could offer opportunities for SME start-ups and expansions, there does not yet appear to be any focus on how to maximize potential for SME involvement.

2.2 Representative Donor Activities

The environmental scan conducted as part of the assessment process shows the depth and extent of donor influence and sponsorship of SME activities. It is evident that donor-sponsored programs form a significant part of the landscape into which any new project must fit. Major questions the team wanted to ask and answer as part of the assessment process revolved around the areas where a new project might be able to build on what is already in place while bringing something new and distinctive to the table.

2.2.1 USAID

This section highlights a number of other USAID programs which are of particular relevance to enterprise development.

The Macedonia Competitiveness Project (MCP)

MCP seeks to improve the Macedonian economy and the country's competitive positioning within the global market place. The project focuses on three broad initiatives: 1) attracting foreign direct investment and improving the performance of channels promoting such investment; 2) identifying and developing "market makers" (buyers, anchor firms, groups of firms, and/or service providers) for priority sectors (ICT, Fashion & Design, and Light Manufacturing); and 3) resolving critical implementation hurdles for investors and market makers. Typical interventions involve technical assistance for market linkages, partner identification, closing workforce gaps, meeting market/buyer standards, and other factors contributing to successful functioning of the export oriented supply chain.¹⁶ The project has facilitated over \$3.5 million in new exports during 2009 in target industries.

The MCP may be a natural partner for a new Enterprise Development Project with many possible complementarities. They have established a network of trained and certified business and financial advisors which have already built a solid client base among the SMEs and could be utilized. They are working with the automotive cluster and cultivating strategic partnerships involving investment and technology transfer which could open up new opportunities for the development of smaller firms. While smaller firms are inevitably a part of the clusters and value chains that MCP works with, SME activity has not been a focus of the project to date. Also in terms of addressing the immediate unemployment problem, a loss of jobs can be a byproduct of competitiveness activities as some firms downsize and modernize to become more efficient, at least in the short-term. Nevertheless, there is real potential to develop, in consultation with MCP, new avenues to competitiveness and job creation based on market expansion and small business growth.

The Macedonia Local Government Activity (MLGA)

MGLA assists municipalities in Macedonia to: 1) support development of the intergovernmental finance system; 2) improve municipal financial management capacities; 3) strengthen the creditworthiness of municipalities to enable municipal infrastructure investments; 4) improve tax and fee collection at the local level; 5) help municipalities stimulate local economic development; and 6) increase local government transparency and accountability. In the area of economic development, the MLGA has focused on improving the local business climate and supporting the launch of small projects through a tendering process. Public or donor tendering can be used as an effective tool to stimulate business development and innovation at the municipal level as well as create incentives for small business formalization. In these areas, MGLA would be an obvious partner with a new local and regional enterprise development activity.

The Business Environment Activity (BEA)

BEA seeks to improve the effectiveness of Macedonian legal and institutional environment for business formation and growth. The "Macedonia Business Environment Assessment" prepared for USAID in December 2009 highlights constraints to private sector development and job creation, such as access to markets and investment (FDI, equity, and bond markets), access to property rights (especially construction permits and land titling), access to finance (credit bureau and real estate

¹⁶ The Competitiveness project, as a part of their upgrading strategy, has become more involved in workforce development approaches. The project has placed over 250 interns in leading Macedonian companies. More than 40 career mentors trained to support interns' professional development. They have also carried out a workforce needs survey and training needs assessment for the ICT sector.

appraisal) and lack of an effective public private dialogue. BEA is an important counterpart to all USAID's economic growth activities and to any SME development program. Moreover, they have pinpointed the need for a more effective engagement between government and the business community.¹⁷

The Agribusiness Project (AgBiz)

AgBiz seeks to stimulate the sustainability and increased growth of Macedonian agribusinesses participating in value chains. The project targets value chains that have good potential in export markets, especially for value-added products and provides technical assistance such as: training, market development, workshops and conference participation support, facilitating access to finance and support for and interventions that address policy and institutional reforms. While the AgBiz Project would be another natural partner for a SME job creation activity, it is winding down operations. However, some of the companies assisted by the project might be good partners in a new enterprise development activity.

2.2.2 GTZ

GTZ-Regional Economic Development (RED) operates specifically to assist Macedonia to develop the regional focus required to support its accession to the EU. The program operates in four regions of Macedonia (Polog, South East, East and South West) to:

- Provide policy advice and institutional and capacity building for regional development on a national level;
- Strengthen the capacity of Regional Councils and Centres for regional development and regional management (newly established regional structure); and
- Improve the business climate for the purpose of Local and regional economic development (LERD) through a number of micro projects for supporting women and youth entrepreneurship activities (business plan competitions, training and consulting services).

GTZ has been instrumental in working with regions to define their strategic priorities and develop implementation plans for, among other things, enterprise development. In two regions, as part of regional strategic plans, a concept for the support of SMEs has been developed. All four regions have undertaken cluster interventions in alternative tourism with SME development implications. Rather than work directly with businesses, GTZ works through existing government entities, for example, the network of LED offices in municipalities and the Centers for Regional Development. The GTZ personnel interviewed expressed the need for a complementary approach that would work directly with the private sector to put “the economic” back in the regional economic development agenda.

2.2.3 European Union (EU)

Three key EU initiatives are relevant to the assessment of the SME support framework.

¹⁷ Surprisingly, the BEA has been involved in supporting the active labor measures of the Employment Service Agency through the development entrepreneurial skills and how to register a business. They introduced a training of trainers program and trained some of the Agency's senior staff in entrepreneurship and business start-ups. BEA even provides micro-grants for start-ups (US\$ 2000) for small number of unemployed persons who have developed “feasible” business plans in their training course. The question remains whether the important work of legal and regulatory reform for business development is being diluted by forays into workforce and entrepreneurship training fields.

Instrument for Pre-Accession Assistance (IPA)

The European Commission has decided to create a single Instrument for Pre-Accession Assistance for the period 2007-2013. It will replace the 2000-2006 pre-accession instruments. IPA consists of five different components: transition assistance and institution building; cross-border cooperation; regional development; human resources development; and rural development. The programs that will support implementation of each of these components are currently in the development stage and are unlikely to be completed for some months. However, it seems likely that there will not be much in these component plans of direct relevance to job creation through SME expansion. There is, however, a large capacity building and human resource project planned to assist the Employment Service Agency in 2011. The details are not known but they might have implications for the ESA's "active measures".

Competitiveness and Innovation Program (CIP)

The European Commission CIP program supports the development of business and industrial innovation and improved access to finance and business services. The CIP program targets small and medium-sized enterprises (SMEs), encourages adoption and use of ICTs and promotes the increased use of renewable energies and energy efficiency. Within the overall CIP program the major program of relevance to this assessment is the Entrepreneurship and Innovation Programme (EIP) which seeks to support innovation and SMEs. It will operate in Macedonia to provide access to CIP financing, particularly to support investments in technological development, innovation and eco-innovation, technology transfer and cross border expansion of business activities. CIP would be an important resource upon which to draw for any new enterprise development activity.

The European Enterprise Network (EEN)

EEN in Macedonia (part of CIP from 2007-2013) is implemented by the University of Ss. Cyril and Methodius, APPRM, the Chamber of Commerce and Foundation M.I.R. (Sintef- Norway). EEN Macedonia is a part of EEN networks in 45 EU countries. The EEN in Skopje is a one-stop-shop for Macedonian SMEs seeking to access EU markets, source EU funding or bid on upcoming tenders. EEN also offers services for companies looking for business partners, agents or distributors in Europe, follow-up services for match-making and participation in training sessions on EU topics and conferences. Again, this represents an important resource in the pool of resources for SME development.

2.2.4 United Nations Development Programme (UNDP)

Mentioned above, since 2007, UNDP has implemented support to the Self employment activity (See Table 3 above), as well as support for business formalization under a separate program. Funding, totaling more than US\$9 million equivalent, has been provided by the GOM and UNDP for self-employment and business formalization from 2007-2009.

2.2.5 European Bank of Reconstruction and Development (EBRD)

Turn-Around Management & Business Advisory Services (TAM-BAS)

TAM-BAS is an EBRD regional program with its head office in London. It receives financial support from a variety of EBRD member countries, including the US. The program is operating in 22 countries, with one office in Macedonia staffed by four people including a Director, a projects officer, an administrative officer and a part-time project officer focused on environmental projects. Both TAM and BAS support SMEs. TAM supports substantial managerial and structural changes

(turnaround) within companies, while BAS supports narrowly defined projects with a rapid pay-back. Eligible SMEs must have been in operation for at least 3 years. BAS will cover 50% of the projects costs up to a maximum of 10,000 Euros. The program in Macedonia began in May 2002. As of December 2008, BAS had assisted 315 SMEs. Over the next two year period BAS will focus on projects relating to rural development, and environmental protection. The program appears to have had a positive impact on the quality of consulting services in Macedonia, especially in several specific fields such as environmental audits, energy audits, and small hotel management.

2.2.6 Other Donor-Involved Programs

There are two additional donor-funded initiatives that provide SME support services with potential relevance to a new enterprise development activity.

Center for Entrepreneurship and Executive Development (CEED)

CEED/Macedonia is a member of a larger program operating in much of Eastern Europe and the Balkans. CEED operates under the umbrella of the Small Enterprise Assistance Fund (SEAF) and receives financial support from donors such as USAID and FMO (the entrepreneurial development bank of the Netherlands) on a project by project basis. Major services provided by CEED are high-quality entrepreneurship and management training, training in networking; mentorship for young entrepreneurs; coaching for leadership development; venture forums; matchmaking and hosting of other related workshops, seminars and events. The participation fee is high generally about €1.500 per annual training program series. Customized services are also provided for companies. Since CEED is based and operates in Skopje and the fees are relatively high, the direct impact on regions and smaller businesses is minimal. However, CEED has been recognized as a force in upgrading the quality of training to an international standard and improving the knowledge of the Macedonian consulting services. While some CEED centers are completely commercial, the CEED center in Skopje still requires donor funding to survive.

CEED will probably receive a grant from USAID for microenterprise development. Under the grant, CEED will tailor its successful business management program aimed at medium enterprises to the needs of micro and small enterprises. They will target 180 companies in four regions aiming to generate 250 new jobs. The proposed approach is modeled on the already successful Top Class program for SME managers, small equity fund and the Business Support office in Kosovo.

Macedonian Center for International Cooperation (MCIC) and the Macedonian Enterprise Development Foundation (MEDF)

MCIC, which is the parent of MEDF, was originally set up by Dutch and faith-based organizations. Today MCIC is the management arm for MEDF, whose mission is to support development of small enterprises by improving access to financial services, promoting entrepreneurship, mainstreaming innovations and developing partnerships. MEDF serves micro-enterprises up to ten employees (including farmers), small enterprises up to 50 employees and, to some extent, medium-sized enterprises up to 250 employees. MEDF has a special focus on regions outside Skopje and rural areas. Since 1998, and as of December 31, 2009, MEDF disbursed €28.2 million through its financial intermediaries for 7,253 MSMEs. According the project, with these loans, 12,877 existing jobs have been supported and 2,847 new jobs created. Since MEDF provides both financial and non-financial services outside of Skopje, they remain an important resource for any regional approach to SME development.

2.3 University Programs and Activities

A wide range of university-based and/or sponsored activities are underway, many of which are exciting and relevant to the challenges associated with positioning Macedonia to better compete and deal with its unemployment challenges. University related efforts are often particularly exciting because they involve the participation of foreign universities and sponsors interested in the introduction of new technologies and ideas and because they have potential to attract private sector sponsors. A number of interesting university-related initiatives are highlighted below:

The Center for Science, Innovation and Technology

When completed, the Center will provide electrical engineering and ICT support to all sizes of enterprises. It will be established within the Facility of Electrical Engineering and Information Technologies at the University of Ss. Cyril and Methodius and work in collaboration with Delft University (Holland), Aalborg University (Denmark) and INNOTECH of the Budapest University of Technology and Economics (Hungary).

Technology Transfer Centers (TTC)

These centers provide reasonably sophisticated design and engineering assistance to microenterprises and SMEs as well as would-be start-ups. There are four TTCs (funded by GTZ) three located in Skopje and one in Bitola as follows:

- ERTC (Euro-regional Technology Center) -- University of Bitola (founders Technical faculty in cooperation with Bitola municipality).
- CIPOZ (Center for Research and Permanent Education in Agriculture) -- University in Skopje-- Faculty for Agriculture
- CTT (Center for Technology Transfer)-- University in Skopje--Faculty for Electrical Engineering
- CIRKO (Center for Research, Development and Continuous learning)- University in Skopje- Faculty for Mechanical Engineering

Presumably TTCs could play a useful role in a new regional economic development strategy if supported by practical business planning from business service providers.

FON University and other private universities

In relation SME support services, they do not appear to have any tailored programs for SME development. Both FON and several other private universities have staff experienced in entrepreneurial training and would be interested in participating in regional market assessment activities.

Ss. Cyril and Methodius University

The National Center for the Development of Innovation and Entrepreneurship Learning (NCDIEL) is a business start-up center (BCS) established in November 2009 with Austrian funds and is located at the Ss. Cyril and Methodius University Start-up Centre under the Facility of Mechanical Engineering. NCDIEL focuses on providing technology and financial support to young entrepreneurs, mainly recent graduates and students from universities around the country.

Currently BSC-NCDIEL is a partner on the project Capacity building towards Knowledge Based Economy. The aim of the project is strengthening capacities of Agency for Entrepreneurship Promotion (APPRM) and the provision of business start-up training; business plan competitions,

seed capital funding, and general promotion of innovative thinking and the “entrepreneurial spirit”. Also the staff of the BSC has been part of study on entrepreneurial activity in Macedonia as a part of GEM (Global Entrepreneurship Monitor) survey of 2008. They remain an important educational resource albeit somewhat academic in their approach to entrepreneurship.

South-East European University (SEEU)

The SEEU is well respected private university. At the moment they have around 2000 students in business administration. Of interest for SME development is the Business Development Center (BDC) under the South East European University umbrella. It was founded in 2004 as a part of USAID project e-BIZ and with support of Indiana University. This center offers a variety of training courses and consulting services, but not on very large scale. The BDC facilities are the some of the best in Macedonia.

In close cooperation with YES incubator, the BDC has opened a new “incubator “on its premises. For the moment one company is using the incubator premises and 4 have moved out to find their own premises. The services offered in incubator are: training, advice on legal issues, consultancy and on-line skills training. The Incubator development was supported financial by SOROS foundation and SEEU. The BDC also operates a business club with 20 members, all business people from the Tetovo area.

It is worthy to note that SEEU graduates are very successful in finding jobs. The latest survey compiled in February of 2009 showed that 65 percent of SEEU graduates found jobs within a year and more than 12 percent were employed even before their graduation. SEEU maintains good contacts with over 300 potential employers and try to align the curricula with the demands of the job market. In terms of SME development, however, BDC does not appear to work closely with mainstream SMEs. The BDC primarily targets students and graduates. But there is still a good potential to engage with the BDC leadership to improve their incubator, develop their idea for a IT Technological Park and engage more effectively with SMEs and regional economic development.

2.4 Chambers and Associations

Macedonia has three main chamber organizations.¹⁸ The largest, the Economic Chamber of Commerce, has a membership of 15,000 out of which most are small and medium enterprises. However, it is largely perceived as supporting the needs of the largest and most developed companies, rather than attracting the smaller ones. It provides a variety of services focusing most on education, government relations and the provision of standardized business documentation. Members of the Economic Chamber of Macedonia also participate in establishing macroeconomic indicators (GDP, foreign trade exchange, employment, settlement of obligations towards the state, etc.).

¹⁸ Other Chambers have been established in Macedonia in cooperation with foreign countries such as Amcham (American Chambers of Commerce), European Business Association - EBA and AHK-DMWV (Deutsche Auslandshandels Kammern- the German Chamber). AmCham Macedonia aims to support and advance the interests of U.S., international and leading local businesses in Macedonia. AHK-DMWV represents German companies in Macedonia. They also provide services to local companies which are involved in bilateral business. They are increasingly active in the marketing Germany as a business location for interested Macedonian companies.

The Economic Chamber offers businesses the opportunity to participate in many **sector specific associations** (agriculture, textiles, construction, metal mechanics, ICT, etc.). These sector specific associations are presented in the text box below.

The second largest chamber is The Union of Chambers of Commerce, which is more tailored toward the smaller businesses. It is union of eight independent chambers: Industry, Trade, Services, Hotels, Agribusiness, Tourism, Accounting and Construction. They have around 1.400 members with most members in the services sector.

Lastly, the North-West Macedonian Chamber of Commerce has around 1000 members. The NWMCC mostly is serving businesses located in North-West part of Macedonia (primarily Albanian businesses).

The services offered by all three of the above mentioned chambers include:

- Issuing various documents for the needs of all the companies (certificate of origin, ATA Carnets, recommendations, opinions) and confirms facts and documents aiming to facilitate the movement of goods, services and business people.
- Organizing specific exhibitions and participation of SMEs on fairs, exhibitions, individual presentations and presentations on international tourism fairs and exchanges abroad.
- Support on issues of interest for their members (labor legislation, foreign trade exchange, taxation and customs system, financial system, vocational training, etc.).
- Support in production quality improvement and in the scope of it for the implementation of the quality standards from ISO 9000 serial, environmental protection standards ISO 14000, food products quality standards HACCP and others, as necessary for Macedonian products to compete in world markets.

The headquarters of all three chambers are based in Skopje. Even though all claim to have a network of offices in the cities outside of Skopje, those offices are typically not very functional. This means the members typically must travel to Skopje in order to get the requested services. Although the membership of chambers is growing quickly, they depend upon donor support to develop their capacity and quality of services.

The only sectoral Chamber is MASIT – the Chamber of ICT companies with close to 80 members. In addition to the regular services to members, it also develops the national ICT export promotion strategy, conducts ICT workforce needs analysis, and organizes an annual regional conference on ICT trends.

In addition to these dominant chambers, there is a Chamber of Crafts with regional units in Skopje, Tetovo, Gostivar, Debar, Ohrid, Struga, Resen, Bitola, Prilep, Gevgelija, Stumica, Vinica, Srip, Veles and Kumanovo. They provide services to craft-based microenterprises. The services that are offered include registration of the businesses and information.

A whole palette of business associations also exist, most relevant of whom are MAKAMTRANS (Association of Transporters), MAP (Macedonian Producers' Association), Federation of Farmers, Federation of Employers, Apparel Association, Macedonian Artisan Trade Association (MATA), MCA – Macedonian Consultants' Association,

These provide very targeted services to the relevant sectors. They are much smaller in terms of membership and activities than the larger chambers but may provide a more efficient avenue for addressing the specific needs of the targeted companies.

MATA will probably receive a grant from USAID with a direct bearing on microenterprise development. As a trade association, MATA works with small-scale artisan industries. Through its Creative Industries Center, MATA assists artisans and designers set up micro and small enterprises. Under the coming grant, MATA will train 1400 individuals, which should lead to 30 new companies and the expansion of 120 existing companies. While MATA follows a typical approach to subsidized

Main Sector Associations of the Economic Chamber

[Agriculture and Food-processing Industry Association](#)

[Association of Civil Construction, Building Materials and Non-metal Industries](#)

[Association of Power Supply Industry and Ferrous and Non-ferrous Metallurgy](#)

[Association of Tobacco and Tobacco Products Producers](#)

[Association of Wood-processing Industry and Furniture Manufacturing](#)

[Banking Association](#)

[Catering Industry and Tourism Association](#)

[Chemical Industry Association](#)

[Information Technology Association - Macedonian Association of the IT Companies](#)

[Insurance Companies Association](#)

[Leather-processing Industry Association](#)

[Metal-working and Electrical](#)

[Paper and Pulp, Printing and Publishing Industries Association](#)

[Pro-Mark Media Association](#)

[Public Utilities Association](#)

[Textile and Garments Industry Association](#)

[Trade Association](#)

[Transport and Electronic Communications Association](#)

[Macedonian Energy Association - MEA](#)

[Macedonian Metal Association - MMA](#)

[Macedonian Mining Association - MMA](#)

[Macedonian Packaging Association - MPA](#)

[Engineering Industry Association](#)

business services, they will remain a potential EDP partner and a recipient of information on market opportunities in the regions.

2.5 Business Service Providers

The range of entities grouped under this heading includes both public and private organizations—from business incubators to private consulting firms. As a general rule business support providers include all organizations that offer enterprise development services ranging from information access and networking to group marketing to training to business plan development, accounting and financial support. Many of them are non-government organizations. While the organizations highlighted here are major players in the Macedonia enterprise support framework, their functions and services are broadly different and each operates to provide different pieces of the support framework.

2.5.1 Business Incubators

Business incubators provide access to a shared pool of services and office space to help new start-up companies overcome the initial cost and technical obstacles faced by new enterprises. Macedonia's earliest incubator projects have largely ceased operation altogether or have simply become locations where it is possible to pay below-market- rent. The two best ongoing examples of incubators in Macedonia are found in Bitola and Skopje. The Skopje-based YES (Youth Entrepreneurial Services) incubator began operation in January 2006 with financial support from SINTEF (Norwegian NGO) and Open Society Foundation (Soros). YES also received support from the Ministry of Education in the form of its building. In the period 2007–2009, 27 companies passed through the incubator. Currently, 14 companies are using premises of YES incubator. Of the 13 which left the incubator, four failed (30% failure rate to date). The YES incubator has not had an easy time financially; the positive results it has achieved to date appear to be attributable in large part to the dynamism of the Director.¹⁹ As a general observation, most incubators in Macedonia may be too small to achieve commercial viability.

2.5.2 The Business Start-up Center in Bitola

The Business Start-up center was set up by the municipality of Bitola, the University "St Kliment Ohridski" and the regional Chamber of Commerce. The center offers a diverse mix of services to start-ups and existing companies such as support to register a company, lending, business planning, consulting and training of different sorts and office space with subsidized rent. The center will, in all likelihood, receive a grant from USAID in 2010. As a recipient of the grant, the center plans to target 100 new companies and 120 existing SMEs which are expected to create 250 new jobs. The center also has firm commitments from donors and the municipality to finance the physical expansion of its incubator.

¹⁹ In addition to YES, SPARK in Bitola is also praised as an excellent incubator. Unfortunately the assessment team did not visit the SPARK incubator to assess its effectiveness.

2.5.3 Regional Enterprise Support Centres (RESCs)

RESCs were set up in five municipalities (Bitola, Veles, Skopje, Kumanovo and Strumica) with funds from the EU to provide basic business support to the MSMEs. With the cessation of EU funding, they have struggled to continue operations but maintain some level of activity. They are part of the Ministry of Economy structure, as shown in the earlier graphic, but they receive little in the way of support and their major interactions with SMEs are through the Enterprise Support Agencies (see below). They maintain databases of registered companies and rosters of consultants to facilitate their ability to support self-employment and business development.

2.5.4 Preda

Preda is similar to the RESCs and to the ESAs but funded by the Swiss Government and located in the municipality of Prilep.

2.5.5 Enterprise Support Agencies (ESAs)

ESAs were first established in 1998 to provide direct technical assistance to MSMEs in the municipalities of Ohrid, Gostivar and Tetovo. The assessment team visited the ESA centers in Tetovo and Ohrid. Staff offer a range of consulting services specifically to support implementation of government and donor-sponsored entrepreneurship and enterprise development activities. The ESAs are authorized by APPRM to implement voucher scheme activities, as well as to provide other services as required by fee-paying microenterprise and SME clients. The ESAs are structured to operate as private business agencies and, since losing direct funding from donors, have worked to evolve as private consulting firms.

Taken as a whole, the three ESAs in Tetovo, Gostivar and Ohrid, the five RESCs in Skopje, Kumanovo, Veles, Strumica, Bitola and Preda in Prilip form an informal regional network of nine MSME support organizations (see Figure 3 below). While the services they provide are largely oriented towards the donor-generated market for self-employment training, business planning and other subsidized micro and small enterprise support programs, the consultants and staff appear to be quite experienced and skilled. This network of experienced experts would certainly provide a reliable support to any efforts which might be carried out to build a new market-oriented microenterprise and SME development activity. It is estimated that these nine centers serve around a 1000 clients a year.²⁰

2.5.1 Private Consulting Firms

There are a number of private consulting companies that offer business advisory services to businesses. The service mix includes accounting, audit, tax risk assessment, brokering financing, improving quality standards, marketing, HR services, business health checks, new product/service development, organizational restructuring and strategic planning among others. These consulting companies are mostly concentrated in Skopje and their clientele are generally medium to large businesses that are used to paying the full commercial price for such services.

In addition a number of business management training centers begun to form, but they usually offer expensive high end courses with renown speakers.

²⁰ Source: Nebi Jusufi of ESA Tetovo.

The general conclusion is that unless heavily subsidized by the donors, the micro and small companies, especially those out of the capital, do not utilize training and consulting services to support the growth of their business.

Figure 3: MSME Regional Support Network



Source: Nebi Jusufi, Enterprise Support Agency, Tetovo

2.6 Key Findings

- **Finding #1: Microenterprises and SMEs are critically underserved by the existing business support framework.**

The table below estimates the number of MSMEs per annum that receive business support services in Macedonia. The figures are **very rough estimates** since accurate data is not available. These rough estimates are silent about the quality and effectiveness of services provided and excludes auditing and accounting services as well as financial services.

Table 6: Rough Estimates of MSMEs served by the Business Support Framework

Business Support Framework	Most Relevant Business Services Programs	Estimated MSMEs Served Annually
Government Agencies/UNDP	Self Employment Program	600 microenterprise start-ups

Business Support Framework	Most Relevant Business Services Programs	Estimated MSMEs Served Annually
Donor Projects	Macedonia Competitiveness Project AgBiz TAM-BAS Consulting Services Others	Estimated at 250 MSMEs
University Centers	Technology Transfer Centers and Business Development Centers	Estimated at less than 50 micro and small enterprises
Chambers and Associations	Certification, documentation and trade fairs	Unknown but may be 400 MSMEs receiving trade and certification assistance.
Business Service Providers	ESAs, RESCs and Preda Incubators, private consulting firms	Estimated at 1,200 micro and small enterprises
Rough Estimate of the Total of the number of MSMEs receiving services per year.		2,500

Conservative estimates place the number of active registered microenterprises and SMEs in the country at around 63,000. If this is true, then MSME support services provided through the current enterprise development support framework are currently reaching (even by the most optimistic estimates) less than 4% of the existing enterprises in the formal economy. Adding up the total throughput of the incubators, the number of clients from the network of SME support centers and the number of participants in start-up trainings from government programs, around 2,500 clients are receiving support each year. If one were to add the number of unregistered businesses operating in the grey economy to the overall total of MSMEs, the percentage served would drop to almost nothing.²¹

- **Finding #2: While aspects of a business services network are in place, business service providers within the network do not know how to provide services that SME clients (the enterprises most likely to grow and create new jobs) need and are willing to pay for. Moreover there are a wide range of service support mechanisms which might be tapped and leveraged if business service providers knew how to work with clients and in collaboration with other service providers.**

Existing business service providers generally lack know-how and skills to provide the services that would really help businesses grow. For instance, many small businesses need and want assistance accessing new markets and developing new positioning strategies that differentiate their products

²¹ The Ministry of Labour and Social Policy estimates that the grey economy in Macedonia produces about 20% of the GDP. Others have estimated it as high as 40% of GDP. It can be safely assumed that many of those registered as unemployed are really working in the grey or informal economy and are registering as unemployed to receive benefits.

and services from what competitors offer. Most small firms need help formulating such strategies, yet few business service providers have this kind of practical experienced-based know-how. Many of the services provided lack a clear market-orientation and/or strategic sophistication. Providers remain wedded to academic training models where the problem is seen as a dearth of entrepreneurial motivation, knowledge and skills rather than a lack of understanding of market opportunities and realities. The standardized package of services currently being delivered cannot generally provide the kind of business solutions that lead to enterprise growth and job creation.

At the same time, the existing networks of providers and the array of organizational resources offer real opportunities to leverage effective support for those who know how to “work the system”. There are so many discrete and disconnected services in Macedonia that by knowing the market opportunities and the available resources, providers can package and link their clients with effective solutions. Opportunities and available resources can be brought together to create effective business solutions. SMEs will buy effective business solutions to their specific real world problems. For service providers, however, it is always easier and requires far less knowledge and experience to sell standardized business planning to microenterprise clients for which the donors will pay the bill.

- ***Finding #3: Current activities carried out within incubators and technology centers have limited potential for impact on either SME growth or employment creation.***

Technology startups are important to Macedonia and the work of the technology incubators and universities holds great promise for building new avenues for creating jobs in the long term. But they cannot and will not be able to respond to immediate SME development requirements. Business requires practical solutions to concrete problems. Incubators and technology centers need to understand their own customer base and develop innovative service packages that customers are willing to pay for and that will drive business growth. Many of the so-called incubators have become merely landlords of office space rather than effective service providers. Technology centers, while staffed with enthusiastic proponents of technology commercialization, often lack the private sector experience to truly understand tangible business requirements and how to source and package what is truly needed by technology-based entrepreneurs. Technology centers seem more connected to academia than to the business community they are trying to serve.

- ***Finding #4: Current donor-government programs, including the “active measures,” tend to be poorly linked to market opportunities and have a limited impact on employment creation***

Effective job creation requires implementation of business programs which are linked directly to real market opportunities. No government activity encountered makes these needed connections.

For all the donor and government resources expended on the unemployment problem, the actual job creation figures have been very modest indeed. Perhaps less than 3,000 new jobs can be directly attributed to the enterprise support framework over the last several years despite millions of dollars of donor investment. The Employment Services Agency alone claims to have created about 1,741 new microenterprises (i.e. self-employment) and formalized another 363 enterprises working in the grey economy.

An impact evaluation of the 2007 self-employment program revealed that of the 559 companies registered in 2007 only 342 were still active in 2009. The remaining active enterprises accounted

for a total of 416 jobs including the sole proprietors owning and operating the microenterprises. Aside from this one impact evaluation, there is no system in place to monitor the continued viability of the microenterprises established beyond the first three months. This makes it difficult to measure cost-effectiveness.

However, given the typical high failure rates of microenterprise start-ups as a general rule, often as high as 80% in the first three years of operation, one can safely assume that the number of remaining active enterprises from this initial 2007 program is even fewer in 2010 than it was in 2009 with only negligible employment increases, if any. In 2009, two years after the program, the cost per job created was estimated at \$4,623 per job. In 2010, one could assume the cost would rise to over \$5,000 taking into account the high probability of more business failures. The UNDP managed self-employment scheme actually turns out to be a relatively expensive and ineffective way to attack the unemployment problem

- ***Finding #5: There is a clear lack of effective private sector involvement in helping donors and government address the unemployment problem***

In our assessment, we were surprised to find little evidence that regional business communities have been involved in helping to understand and act on the unemployment problem. Of course, private-public dialogues have been carried out and businessmen have been put on various advisory boards. But, it is worth noting, that neither government officials nor donors have yet challenged the business community to come forward and be a part of the solution. The almost complete lack of substantive private sector involvement in helping define the job creation problem and mapping the opportunity structures of the market has contributed to the series of “workforce-type solutions,” such as entrepreneurship training, to what is essentially a larger business development problem. Those who understand markets and business must be part of the solution if there is going to be a serious attempt to start-up scores of new businesses, to expand existing ones, and, as a result, deliver the needed jobs.

Annex A: List of Documents Reviewed

1. Agribusiness Sector Assessment Nov 2008
2. Annual Report 2007 of the Republic of Macedonia
3. Biz CLIR 2009 Agenda for Action
4. Business Environment Assessment, December 2009
5. Chapter 3- poverty (World Bank)
6. Competitiveness Enhancement Programs to be supported by GOM in 2010
7. Competitiveness Enhancement Programs Budget (Feb 2010)
8. Doing Business in Macedonia, FYR –Doing Business – The World Bank Group 2010
9. Doing Business in Macedonia, FYR –Doing Business – The World Bank Group
10. Entrepreneurship In Macedonia (MEDF - GEM, 2008)
11. Evaluation of USAID Competitiveness Project (SOW) March 2010
12. FIAS 2007 Regional Review
13. FPI Investment Strategy
14. Implementation of Self-employment III Project as part of the Governmental Operational Plan for Employment for 2009 March 2009 (hard copy pp1-3; other pages must be read online)
15. Inclusive Growth June 2009 vol 1
16. Inclusive Growth June 2009 vol 2
17. Interviews 17 March 10
18. Macedonia Country Economic Memorandum 2009, Moving to Faster and More Inclusive Growth, June 2009 (World Bank)
19. Macedonian WFD report April 20 2009
20. Macedonia, FYR 2009 MKD Doing Business In Macedonia 2010
21. National Action Plan for Employment 2009-2010 (English) Ministry of Labour and Social Policy, December 2008.
22. National Innovation System and its relation to small enterprises: the case of the Republic of Macedonia
23. National Program for the FYR of Macedonia Under the IPA Transition Assistance and the Institution Building Component for 2008 and 2007
24. National Self Assessment Report 2008 ENG 14 Nov 08 (1)
25. Program for the Development of Entrepreneurship, Competitiveness and Innovation of the Small and Medium Enterprises (2007-2010)
26. Program Description for the Design of the Improving Workforce Skills of Youth Project
27. Macedonia's Agenda for Action (Business Climate and Institutional Reform Diagnostic) March 2009
28. Revised National Development Strategy for Small and Medium-Sized Enterprises (2002 – 2013) (15.05.2007)
29. Self-Employment Programme as part of the Government Plan for Employment: Impact Assessment (December 2009)
30. Small Enterprise Development in the FYR of Macedonia Overview May 2007
31. SME Observatory 2007 Final (English 1)
32. SME Observatory 2008 Final, November 2009 (Macedonian language)
33. SME Program 2007 -2010 (English)
34. Strengthening the Management and Implementation of the Voucher Counseling Scheme, (GFA consulting for the EU; Nov 2006)
35. Unemployment reports of Employment Service Agency, (31.12.2009)
36. USAID Final Report from EG roundtable August 2009
37. USAID Macedonian Business Environment Assessment
38. USAID Taking Steps to a 21st Century Workforce
39. USAID Workforce Development Regional Overview (April 2009)

Annex B: List of Organizations and Projects Interviewed³⁰

Government of Macedonia	
Ministry of Economy (MOE)	
	Department for Support of Entrepreneurship and Competiveness of SMEs
	Agency for Promotion of Entrepreneurship of Republic of Macedonia (APPRM)
Ministry of Labour and Social Policy (MLSP)	
	National Employment Services Agency
	Employment Service Agency of city Skopje
	Employment Service Centre (Strumica Municipality)
	Employment Service Centre (Radovis Municipality)
Ministry of Local Self Government (MLSG)	
	Bureau For Regional Development
	Regional Planning Centre (Polog)
	Regional Planning Centre (Northeast)
	Local Economic Development Office (Struga Municipality)
	Local Economic Development Office (Bogovino Municipality)
	Local Economic Development Office (Strumica Municipality)
Donor Programs	
USAID	
	Primary Education Project
	Macedonia Competiveness Project
	Macedonia Local Government Activity Project
	Business Environment Activity
	Agricultural Business Project
	Workforce Development Design Team
GTZ	
	GTZ-RED HQ ,Skopje
	GTZ-RED Office, Tetovo
	GTZ-Red Office, Ohrid
UNDP	
	Self -Employment Active measures project (I,II,III,IV) under MLSP in collaboration with Employment Service Agency, Ministry of Education and Science, Centre for Vocational Education and Training, Agency for Promotion of Entrepreneurship
EU	
	EU Office Skopje
	EEN (Europe Enterprise Network)
	Office of the EU Special Representative delegation of the European Commission IPA
EBRD	
	TAM/BAS
Others	

³⁰ Unfortunately the team did not develop a complete listing of all the persons interviewed, only organizations and projects. The partial list of the persons interviewed as not been included.

	CEED
Business Support Organizations	
Business Services Providers	
	ESA Tetovo
	ESA <u>Ohrid</u>
	RESC Skopje
	RESC <u>Strumica</u>
Incubators	
	YES incubator
	BIZ ING Ltd (former incubator)
	Incubator Strumica
Others	
	Economic Chamber of Commerce
	Union of chambers of commerce
	SME Fund
	MEDF
	MIS KOM Ltd
Universities	
	Business Development Center -SEEU, Tetovo
	FON: Struga Unit
	University American College
	Ss. Cyril and Methodius University: NCDIELL-BDS
	CIRCO University in Skopje-Faculty for Mechanical Engineering
Businesses	
	Komercijalna Banka
	Ohridska Banka SOCIETE GENERALE GROUP
	Elenica - Construction materials company
	Tehnoproduct food processing company
	CAR SAMUIL, hotel and spa
	Podgorski An, restaurant & patrol station
	MODING, Tetovo
	METALEKS, Tetovo
	GUDALAT (SUNGOLD), Gostivar
	VEZË SHARRI, v. Trebosh, Zhelino

Annex C: Classification of Enterprises: EU and Macedonia

EU Definition for Enterprises	Macedonia: Law on Trade Companies (2004)
Micro	
Up to 10 employees	Up to 10 employees
Annual turnover ≤ 2 million EUR	Annual turnover < 50.000 EUR
Balance sheet total ≤ 2 million EUR	Not more than 80% of the gross income should come from one client
Small	
Up to 50 employees	Up to 50 employees
Annual turnover ≤ 10 million EUR	Annual turnover < 2 million EUR
Balance sheet total ≤ 10 million EUR	Balance sheet total < 2 million EUR
Medium	
Up to 250 employees	Up to 250 employees
Annual turnover ≤ 50 million EUR	Annual turnover < 10 million EUR
Balance sheet total ≤ 43 million EUR	Balance sheet total < 11 million EUR
Large	
All others which do not fall under the above mentioned classification	All others which do not fall under the above mentioned classification

Source: http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm