

POLICY PROPOSAL FOR ENTREPRENEURIAL CULTURE

START-UP AND ENTERPRISE SUPPORT SERVICES



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▶ 1. SUMMARY

High level of entrepreneurial culture and activity is necessary for achieving dynamic and sustainable socio-economic development. Developing the entrepreneurial attitudes and skills is necessary in order to fully utilise the domestic entrepreneurship potential. This can be achieved by developing a comprehensive support infrastructure to improve the entrepreneurial skills of the new entrepreneurs in all phases of business development.

Nevertheless, the entrepreneurial culture has not improved, and the entrepreneurial activity is continuously declining. Potential entrepreneurs increasingly fear a failure and the declared intentions to establish a business are not in line with the actual entrepreneurial activity. In the last couple of years, the outreach and scope of the policies for non-financial business service to start-up companies improved and their impact is yet to be measured. Challenges are identified in the design and implementation of policies targeted at start-up companies, meaningful investment in supply and demand to diverse and quality non-financial business services for wider number of new and small enterprises as well as the quality of the educational system to generate future entrepreneurs. In these lines, the employers' organisations propose policies in two main segments: 1) improving the non-financial support services available to start-ups and small enterprises and 2) improving the non-financial support structure including the entrepreneurship learning within the formal education.

1. Improve the non-financial support services	2. Improve the non-financial support infrastructure
<ul style="list-style-type: none"> 1.1. Comprehensive needs assessment of the potential, start-up and small enterprises 1.2. Support diversification, scale and accessibility of non-financial services throughout the country 1.3. Improve the quality through monitoring and evaluation 	<ul style="list-style-type: none"> 2.1. Support the sustainability of the non-financial service providers 2.2. Improve the quality of entrepreneurial learning in the formal education 2.3. Facilitate coordination between and across sectors and service providers

The policy proposals are based on the following basic principles: a) the programs for entrepreneurship development need to strive to provide non-financial support infrastructure that can potentially serve all newly-established businesses; b) business service providers should be supported to provide diversified offer to start-ups and enterprises in all industries and their different stages of development; c) policies should equally encourage public and private service providers and facilitate coordination and complementarity among them; d) the policies to support the non-financial services have to be accompanied with quality entrepreneurial learning in the formal education and policies to alleviate over-regulation and burden for the new entrepreneurs; and e) the support measures need to allow flexibility, experimentation with different approaches and possibilities for growth and sustainability of the service providers.

The proposed policy options are complementary to the newly adopted policies in this area and are fully supporting their goals and objectives. They can be implemented in phases and should encourage broader involvement and consultations with all key stakeholders, educational institutions, ministries, agencies, employers' organisations and chambers, service providers in their detailed design and implementation. The policies for enterprise support should be implemented in decentralized manner aligned with possibilities and capacities in order for the service to be delivered as close as possible to the entrepreneurs.

▶ 2. STATEMENT OF THE ISSUE

High level of entrepreneurial culture and activity is necessary for achieving dynamic and sustainable socio-economic development. For this reason, the countries in the world prioritise the entrepreneurship development within their economic policies. To achieve this, besides the access to finance, developing the entrepreneurial attitudes and skills is necessary in order to fully utilise the domestic entrepreneurship potential. Thus, building a support infrastructure for new entrepreneurs to improve their entrepreneurial skills in all phases of initiating and growing the business is one of the key elements of those policies.

The significant efforts of Republic of North Macedonia to improve the conditions for starting a business has been recognized in the international reports such as the World Bank's "Doing Business" where in 2020 the country is ranked 17th among 190 economies¹. In this regard, the country is one of the leaders in the region in the conditions for conducting a business. Nonetheless, the entrepreneurial culture does not measure significant improvement and the number of newly established enterprises has only slightly increased. The entrepreneurial activity is continuously declining accompanied with identified gender gap². There is a gap between the entrepreneurial intentions and entrepreneurial activity as well as a fear of failure³. As noted in the SME Policy Index: Western Balkans and Turkey 2019, the country has made moderate progress in implementing the EU's Small Business Act across policies with consistent improvement in the business environment and with growing financial resources for wide range of support programs⁴. In the last few years, the scope of non-financial services to start-up and small enterprises improved in terms of size and diversification of offered services assessed by significant improvement from score 2.94 in 2016 to 3.96 in 2019 (on a scale from 1 to 5)⁵.

The employers acknowledge the improvement in the financing and implementing wider range of entrepreneurship support programs and the adoption of some of the recommendations employers have advocated for in the last few years. Nevertheless, there is a need for a more systematic and coordinated approaches to meet the needs of the start-up and small enterprises. Besides the improvement of the overall socio-economic context and in particular the rule of law and fair playground for all business, for the long-term strengthening of the entrepreneurial culture and skills it is necessary to: a) increase legal certainty in conducting business and bridge the knowledge gap in this regard; b) provide increased, essential non-financial support available to broader scope of start-ups and small companies across industry sectors; c) base the policies in this area on sound, continuous needs assessment among the enterprises and support organizations, as well as systematic monitoring and evaluation of the quality and impacts; d) provide expanded and more diverse offer of non-financial services through wider range of public and private service providers; e) support the sustainability of public and private non-financial service providers to grow the scope, quality and range of their support services; f) promote good examples and build linkages to successful local entrepreneurs and g) allow flexibility in the design and delivery of the policies and programs to encourage non-financial service providers to innovate and experiment with approaches to better cater the needs of the enterprises.

In addition, it is crucial that the educational system on all levels encourages the entrepreneurial culture and builds the practical knowledge and entrepreneurial skills

1 Doing Business 2020, The World Bank

2 Global Entrepreneurship Monitor, Economy profiles, 2019

3 Ibid.

4 SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the Small Business Act for Europe, OECD

5 Ibid.

among the future generations of entrepreneurs. Even though it is formally introduced in the curricula on all levels of education, the implementation of entrepreneurial learning within the formal education is lagging behind in terms of scope, quality and effectiveness. The formal education in the country (especially secondary – general and vocational education and training, and the higher education) does not produce relevant entrepreneurship skills thus placing additional burden to the non-financial services providers to compensate for the failures of the system. There is a need for improved implementation of policies in this regard, in particular related to teacher training and incorporation of entrepreneurship into career guidance⁶. Besides the formal curricula, the employers believe that the educational system should nurture and stimulate culture of proactive approach, creativity, self-initiative and independence that are crucial for the success of the entrepreneurs.

Furthermore, there is a need for improved coordination across the sectors and stakeholders. All key stakeholders in the provision of entrepreneurial skills (formal and non-formal) should be involved in the needs assessment and development of policies and programs in this area. Cooperation between the educational institutions, relevant public authorities, financial and non-financial service providers and the private sector should be encouraged in order to create vibrant and sustainable support system that will support the start-up and growth of the enterprises.

▶ 3. CONTEXT

3.1. General overview of entrepreneurial culture

In the last few years North Macedonia engaged in significant efforts to improve the conditions for starting a business also recognized in the global indices. While in 2012, the country ranked 23rd in the World Bank's study "Doing business" (DB), in the 2019 report the country ranked 10th and 17th in the 2020 report among 190 countries⁷. In regards to the Index of Economic Freedom, in 2020 the country ranked 41st as moderately free⁸, falling back from mostly free in the last few years. Main factors that impede the business activity identified in the Global Competitiveness Index Report 2016-2017 are the policy instability (14.8%), access to finance (13.5%), inadequately educated workforce (12.6%), weak work ethics of the workforce (11.3%) and inefficiency of the government bureaucracy (10.7%).

Besides the noted positive efforts, the available studies and the opinion of the experts and practitioners in the field⁹ indicate that the entrepreneurial culture has not improved, levels of entrepreneurship activity have not increased and the number of active enterprises in the country is only slightly increasing. This has been notified in the Global Entrepreneurship Monitor (GEM) which provides opportunity to entrepreneurial activity over several years. Their measurement of the Total Early Entrepreneurial Activity (TEA) of the Global Entrepreneurship Monitor has noted continuous decline in the entrepreneurial activity in North Macedonia from 14.5% in 2010, to 6.63% in 2013, 6.5% in 2016 and 6.18% in 2019. Men are 2.5 times more likely to start a business than women thus indicating gender gap in this area¹⁰. The motivations for starting a business in the country are still predominantly driven by necessity (7 out of 10 entrepreneurs) rather than seizing business opportunities leading

6 SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the Small Business Act for Europe, OECD

7 Doing Business 2019: Training for reform and Doing Business 2020, The World Bank Group

8 2020 Index of Economic Freedom, World Heritage Foundation, 2020

9 Experts and practitioners interviewed within this analysis

10 Strategy for development of women entrepreneurship in RNM 2019-2023, Ministry of Economy, 2018

to one of the lowest Motivational Index score according to GEM¹¹. This is complemented by the ILO survey from 2016¹² which suggests that primary motives of the entrepreneurs to establish new business are to become their own boss and the work flexibility that own business provides.

The Global Competitiveness Report 2019 of the World Economic Forum also measures the entrepreneurial culture across 141 economies ranking North Macedonia on the 129 place. The weak entrepreneurial culture has been identified in several parameters:

Table 1: Entrepreneurial culture indicators

	Value (1-7, where 7 is the best)	Rank
Attitudes towards entrepreneurial risk	3.1	134
Willingness to delegate authority	3.9	115
Growth of innovative companies	3.5	117
Companies embracing disruptive ideas	3.0	129

Source: *The Global Competitiveness Index Report 2019, World Economic Forum*

According to GEM, the societal values towards entrepreneurship improved i.e. higher percentage of the population believe entrepreneurs have high social status and that it is a desirable career choice. The self-perception of the entrepreneurs in the recent years has moved to the positive direction in regards to opportunities and capabilities for starting a business. While in 2016, 38.36% of the population saw good opportunities to start a company where they live, the percentage increased to around half of the population in 2019 (50.49%). In 2019, 60.87% believe they have the required skills and capabilities to start a business compared to 54.50% in 2016. At the same time, there is an increased fear of failure among the potential entrepreneurs and the reduced intention to start a business within three years (Table 2).

Table 2. Self-perceptions, Entrepreneurial behaviour and attitudes

Year	2016	2019
Perceived Opportunities Rate (percentage of 18-16 population who see good opportunities to start a firm in the area where they live, individuals involved in any stage of entrepreneurial activity excluded)	38.36%	50.49%
Perceived Capabilities Rate (percentage of 18-16 population who believe they have the required skills and knowledge to start a business, individuals involved in any stage of entrepreneurial activity excluded)	54.50%	54.50%
Fear of Failure Rate (percentage of 18-16 population who indicate that fear of failure would prevent them from setting up a business, individuals involved in any stage of entrepreneurial activity excluded)	34.44%	47.22%
Entrepreneurial Intentions Rate (percentage of 18-16 population who are latent entrepreneurs and who intend to start a business within three years, individuals involved in any stage of entrepreneurial activity excluded)	24.85%	20.28%

Source: *Global Entrepreneurship Monitor, Economy profiles*

11 Global Entrepreneurship Monitor, Global report 2016/17

12 National Strategy on SMEs 2018-2023

3.2. Public policies related to entrepreneurship and start-up support services

As identified in previous analysis¹³, the Government introduced several reforms, policies and programmes for encouraging the entrepreneurship, reducing barriers for start-ups, providing financial support and development of support services to start-up companies. The development of the small and medium size enterprises (SMEs) is one of the objectives of the Competitiveness Strategy of Republic of North Macedonia 2016-2020. One of the key documents in this area is the National Strategy on SMEs 2018-2023 in line with the Small Business Act of the European Union. Among others, the strategy incorporates objectives and measures to improve the business development services for SME in terms of efficiency, impact and their adequacy to the needs and possibilities of the SMEs. The envisioned measures include: a) establishment of one-stop-shop where SMEs can receive information, required licenses and permits; b) programme for business management training of companies owned and managed by young persons; c) targeted support to enterprises in the IT sector and the green economy; d) improving access to EU programs for SMEs; e) service for mentorship; f) establishment of science and technology parks and innovation incubators etc. The measures should be accompanied by system of monitoring and evaluation of the effectiveness of the business development services.

National strategy for development of women entrepreneurship 2019-2023¹⁴ was adopted in 2019 for targeted support to women entrepreneurs. The strategy envisages focused, targeted support services to women who engage in entrepreneurial activities such as: a) facilitated access to finance, improving knowledge and skills of women entrepreneurs, supporting transition from unemployment to self-employment and from employee to entrepreneur etc.; b) targeted education and training programs, business development services, incubators, cooperation with the local government and educational institutions and c) promotion, networking and advocacy.

Entrepreneurship education is also an important segment of the policies that develops the capacities and entrepreneurial attitudes among the potential entrepreneurs. The employers and the start-up service providers agree that the education is crucial to the development of entrepreneurial culture. In 2014 the Government adopted the Strategy on entrepreneurship education in RNM 2014-2020 which covers all levels of formal education as well as non-formal education. While the entrepreneurship key competences are integrated in the curricula of the formal education on all levels, the main stakeholders believe that the implementation of the policies in this area is lagging behind in terms of scope, quality and effectiveness. There is a gap in the teachers' training (pre and in-service) on entrepreneurial attitudes and thinking and the career counseling does not integrate entrepreneurship as a career path for the young people especially in the secondary education including Vocational Education and Training¹⁵. The Strategy on SMEs 2018-2023 also expresses commitment to expand the entrepreneurship education in all levels of education. It emphasizes the cooperation between the industry, education and scientific research community which started to improve in the last few years albeit far from the level necessary for a vibrant entrepreneurial eco-system.

3.3. Start-up and enterprise support services

Recognizing the importance of supporting new entrepreneurs, in the last decade there has been steady increase in the supply of financial and non-financial services for start-up

¹³ The enabling environment for sustainable enterprises in North Macedonia, Organisation of employers of Macedonia (ORM) and Business Confederation of Macedonia (BCM), April 2019

¹⁴ Strategy for development of women entrepreneurship in RNM 2019-2023, Ministry of Economy, 2018

¹⁵ SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the Small Business Act for Europe, OECD

companies and SMEs. New financial instruments and more diverse business development services emerged in the last few years as a result of direct support from the government and foreign donors as well as improved understanding of the needs of the entrepreneurs.

3.3.1. Financial support for entrepreneurs

The size and scope of the entrepreneurship financial support has increased over the years mostly from the government and foreign donor sources while financial support from private sources is still scarce and inadequate to the needs. The annual budgets of the Program of the Ministry of Economy for development of entrepreneurship, competitiveness and innovation of SMEs have increased in the last few years from 4.300.000 MKD in 2013, to 38.390.000 MKD in 2018¹⁶ and 53.180.000 MKD in 2019¹⁷. The projected funding for 2020 is 47.940.000 MKD¹⁸. The self-employment programs of the Employment Service Agency (ESA) are considered one of the most-successful active employment measures which provide non-refundable support of 5.000 EUR for new entrepreneurs in equipment and raw materials. The Fund for Innovation and Technological Development (FITD) which provides financial support to domestic companies to improve innovativeness and technological development of start-up, micro and SMEs since 2018 has significantly increased its scope and financial support it provides. Until March 2020, FITD's has reported total investment portfolio of 63.740.890 EUR out of which 36.740.890 EUR FITD co-financing while the rest, own financing by the beneficiaries. It has served 343 enterprises, 52% of which start-ups and the highest number of around 34% in the IT industry. In addition to the measures under the Pillar III of the Government's Economic Growth Plan, FITD provides co-financing of up to 85% of the project costs (up to 30.000 EUR) for innovative projects in proof of concept or pre-commercialization phase of start-up and spin-off companies; co-financing and conditioned loans of 60-70% of project costs (up to 325.000 EUR) to SMEs for commercialization of the innovation and co-financing for technology extension of up to 50% of the project costs (maximum 500.000 EUR).

Foreign donors have also channeled significant financial support through various development programmes and intermediary organizations. The Swiss Agency for Development and Cooperation provides grants for start-up businesses through several projects in cooperation with the Centers for Development of the Regions such as the "Sustainable Inclusive Balanced Regional Development" (grants to innovative business projects through the business center for support and consulting services for SMEs of the Centre for Development of Skopje Region), Nature Conservation Programme in cooperation with the Centre for Development of the East Planning Region etc.

In majority of the financial support instruments, the financial provision is combined with non-financial support services, capacity building etc.

3.3.2. Non-financial support services

Over the last years, the scope of the non-financial services available to start-up companies and entrepreneurs became more diverse expanding from initial trainings for development of business plans to variety of business support and legal services, mentoring and increasingly to support in internationalization, innovative solutions for renewable sources of energy etc.¹⁹ They have been implemented through business support organizations, foreign aid

16 Program for competitiveness, innovation and entrepreneurship 2018, Ministry of Economy, Official gazette 17/2018

17 Program for competitiveness, innovation and entrepreneurship 2019, Ministry of Economy, Official gazette 16/2019

18 Program for competitiveness, innovation and entrepreneurship 2020, Ministry of Economy, Official gazette 277/2019

19 National Strategy on SMEs 2018-2023

development projects as well as government-funded programs. The progress in this area has been notified by the OECD's SME Policy Index where on the scale from 1 to 5 (best performance) the score significantly improved from 2.94 in 2016 to 3.96 in 2019²⁰. Most of the business development service providers are located in Skopje and with increased focus on IT and innovation²¹. In terms of ownership and legal status, the existing providers of non-financial support services include:

- Public, most notably the Agency for promotion of entrepreneurship of Republic of North Macedonia (APERNM) and in some instances the Centers for Regional Development and PEA;
- Private, with majority of the service providers registered as non-profit entities (associations or foundations, chambers) and few as private companies;
- Public-private partnerships such as the Business Accelerator UKIM established through partnership between the academia, private and the public sector.

Types and scope of non-financial services

The public and private actors provide array of non-financial services such as:

■ Pre-acceleration and acceleration programs

These programs are offered by several service providers such as CEED Hub, Business Accelerator UKIM, Seavus Accelerator and XFactor Accelerator in Veles. While CEED Hub provides the services to all economy sectors, some such as the Seavus Accelerator focuses solely on particular sectors (IT or tech industry), or the XFactor Accelerator and Business Accelerator UKIM on start-ups based on innovation in industries with high growth potential. Besides serving the mainstream companies, some of the service providers for example CEED Hub have also designed pre-acceleration programs for social enterprises, women and young entrepreneurs.

CEED Hub provides group acceleration and pre-acceleration programs for start-ups and SMEs which is followed-up with individual work with the companies based on their needs with duration of 12 weeks. The programs are complemented with other support services such as 3 months free-of-charge office space, mentoring, pitching sessions, seed financing with opportunity for angel funding etc. The acceleration program of Seavus Accelerator is delivered in a course of 8 weeks and serves early stage start-ups which already have a prototype and are already registered companies. The program is accompanied with presentation in front of investors with opportunity for financial support.

All pre-acceleration and acceleration programs combine the non-financial services with financial support in range from 5.000 EUR to 100.000 EUR. Each of the accelerator programs serves between 10 and 50 entrepreneurs/companies per year.

■ Business incubators

The offer of business incubator services is limited throughout the country. The most prominent business incubator is the YES Foundation (Youth Entrepreneurial Services) which caters the needs of young entrepreneurs. It provides full package of furnished office space with full utilities, free use of meeting room up to 3 hours per month, mentoring, advice and support, company promotion, technical support, establishing business contacts etc.

²⁰ SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the Small Business Act for Europe, OECD

²¹ Ibid.

Some of the other business support organizations, for example CEED, provide co-working space for the start-up entrepreneurs. Nevertheless, this kind of services are not as diverse and available throughout the country as some of the other non-financial services most likely due to higher need for physical infrastructure investment and operational costs.

■ ***Support in developing initial business plans***

Almost all public and private business service providers offer support in developing start-up business plans. It is delivered as trainings, workshops, direct consultancy, mentoring or combination of methods. They are often part of the pre-acceleration, pre-incubation program or included as an obligatory step towards receiving financial support such as the self-employment program implemented by the Employment Service Agency (ESA). The Agency for promotion of entrepreneurship of RNM - APERNM (via the Regional Business Centres) within its voucher system provides 100% subsidised counselling services to unemployed, potential entrepreneurs. According to their annual report for 2019 the highest number of issued vouchers was for general counselling on developing a business plan (17 out of 56)²².

■ ***Improving entrepreneurship knowledge and skills beyond initial business plans***

Wide range of capacity building programs, workshops, counselling etc. is available to start-ups and enterprises to improve their entrepreneurial skills. They are usually tailored to the needs of the particular beneficiaries and often based on needs assessment conducted within the program. Predominant topics include: a) general management such as financial management, sales and marketing, product management; b) legal counselling; c) access to market including implementation of quality standards; d) investment readiness; e) innovation. While the general management skills services for establishment and growth were predominant up until few years ago, now increasingly they are complemented with more specialized training and counselling on internationalisation, technology and innovation, green economy etc.

Counselling vouchers offered by APERNM provide wide range of generalist and specialist counselling; last year 20 out of 56 vouchers were for specialist counselling. The accelerator programs usually combine group trainings on general management issues with individual counselling designed to the needs of the particular needs. Some, for instance CEED Hub also provide individual consultations for start-ups that are not part of the acceleration program to improve some aspects of their business. For the established enterprises among others, CEED Macedonia offers specialized management trainings. Macedonia 2025 and NewMan's Business Accelerator serve as intermediary for professional development of company's staff abroad (mostly USA and Canada). Specialized courses on corporate social responsibility issues (business and human rights, business integrity etc.) are provided by Konekt and its Responsible Business Club to prepare the enterprises for the requirements of the global supply-chains.

Membership-based and industry chambers and organisations also provide business training and education including targeted approach to specific groups such as the Association of business women. Industry-specific organizations provide specific, industry related trainings. The Employer's organisations offer counselling on issues related to labour regulation and practices. The Business Confederation of Macedonia

²² Report on the implementation of the Programme for support of entrepreneurship, competitiveness and innovation of SMEs in 2019, Agency for promotion of entrepreneurship of Republic of North Macedonia

(BCM) is expanding their non-financial service portfolio to management training and legal advice on various issues with increased focus on access to foreign markets. The Human Resource Association provides specialized training in human resource management. Centres for regional development also organize entrepreneurship skills trainings and mentoring depending on the needs and on-going programs they implement.

■ ***Mentoring***

Mentoring has been increasingly recognized as crucial part of the non-financial services and has been considered by the service providers as essential need for the growth support of start-ups. Consequently, almost all business development service providers have incorporated individual mentoring for start-ups and enterprises. The approach and scope of the mentoring varies with availability of domestic as well as foreign mentors. For instance, PEA provides mentoring support for at-risk groups who are part of the self-employment program. Since two years ago, APERNM as part of a regional project supported by Japan International Cooperation Agency (JICA) has launched Mentoring program based on experience and methodologies of Japan's economy and delivered on local level by certified mentors from the Regional centres. In 2019, 28 enterprises received mentoring, half of them start-ups. The Fund for Innovation and Technology Development also provides mentoring and professional development for the recipients of their funding schemes. Private service providers usually provide peer-to-peer mentoring from experienced entrepreneurs to young entrepreneurs and start-up enterprises (Business accelerator UKIM, Start Up Macedonia, CEED Hub, YES Foundation, XFactor Accelerator, etc.).

■ ***Improving access to markets and finance***

Few of the business support organizations as part of their programs are also providing business services to support start-up and enterprise access to domestic and international markets as well as access to various funding opportunities (beyond the direct financial support they provide). The type of support in this regard varies. Seavus Accelerator as part of the acceleration programs covers the topics of investment readiness and prepares its beneficiaries to present themselves before foreign investors. CEED Hub has vigorous pitching sessions in front of the business angels and potential investors. YES Foundation offers specialized business services in this area including partner-search. The Centre for Development of the South-East Planning Region also facilitates partnering. Start-up Macedonia uses a network of so-called "start-up ambassadors" in other countries that are facilitating access to international markets for the Macedonian start-up companies. The vouchers provided by APERNM can be used for this purpose as well; in 2019, 1 voucher was used for market research and another 1 for preparation of investment-ready project. Employers' organisations are also considering including in their portfolio legal support for companies that want to access foreign markets.

■ ***Business networking and information sharing***

The services in this area have been also improving. Start Up Macedonia was established primarily for the purpose to serve as central hub where start-ups can access information on establishing and growing their business. At present it gathers 35 organizations that provide financial and non-financial support to start-up companies and is finalizing a digital platform MKStartups space which is supported by FITD. APERNM has also improved their web portal www.konkurentnost.mk to streamline the information available to start-up and other enterprises. The site still does not

compile the offer of services provided by private entities in a user-friendly manner, for example a possibility to search by type of service, self-assessment that could direct the entrepreneur to kind of service most suitable to their needs etc. In 2019 APERNM established an “Info help-desk” as a central point where the potential entrepreneurs and start-ups can receive information on the available financial and non-financial support, investment opportunities in the region, assistance in solving problems etc. This service is delivered via selected 8 business service providers. The Centers for Regional development are also providing information on available calls for funding and other support available to companies in their region.

In terms of business-to-business networking (B2B), the chambers and employers' organizations provide such opportunities for new entrepreneurs to connect to other Macedonian companies albeit the focus of the networking activities is not with particular focus on start-ups. The Association of business women provides business networking opportunities for women entrepreneurs. CEED Hub together with CEED Macedonia provides notably the most extensive B2B targeted networking for their start-up beneficiaries through their business club of 700 entrepreneurs and organizes regular events with the Hub focused on targeting those opportunities for the start-up beneficiaries.

■ *Other non-financial services*

The Business Start-Up Center organizes business plan contests for high-school and university students and young, new entrepreneurs complemented with business plan training, mentoring and financial prize. Over the years they have supported 60 start-up companies. They also engage in entrepreneurial learning and teacher training in the formal education. Almost all public and private service providers organize events to address the needs of the start-ups and enterprises and provide sharing of knowledge. CEED Hub organizes boot camps for young potential entrepreneurs on business design thinking. APERNM and their regional centers, the Centers for Regional Development and other private entities provide general non-formal entrepreneurial learning trainings to raise awareness and interest in engaging in entrepreneurship activity. These trainings often target specific groups such as youth, women, potential social entrepreneurs etc.

Funding of non-financial services

The predominant source of funding for the non-financial business services is the domestic and foreign public funding. With exemption of business incubator and co-working space services, almost all of the services for start-up companies are provided free of charge and there seems to be lack of appetite for market-based services on both the demand and supply side. For established enterprises, combined models of co-financing exist, such as the voucher system provided by APERNM which co-finances 50% of the counselling cost for SMEs, partly subsidized EBRD non-financial services, fees for participation at specialized trainings etc.

Government support to non-financial services has increased over the years. For instance, within the Program of the Ministry of Economy for development of entrepreneurship, competitiveness and innovation of SMEs in 2017, around 4.9 million MKD were allocated for non-financial services (1.6 mil for cluster associations, 3 mil to projects to support and develop entrepreneurship and 300.000 MKD for specialized business trainings) while in 2019 the allocated funds for these purposes increased to 14.2 million MKD (7 mil for clusters, 6 mil for projects to support and develop entrepreneurship and 1.2 mil for specialized training). The Fund for Innovation and Technology Development in the last two years has introduced co-financing grants for establishment, operation and investment of business-technology

accelerators. FITD is providing 75% co-funding up to 0.5 million MKD and has supported the establishment of 3 such accelerators with total funding of around 1.5 mil EUR. The voucher system for business counseling implemented by APERNM has been regularly budgeted at 900.000 MKD per annum even though all relevant reports indicate the potential and need to increase the scope and impact.

Foreign donors and development programs such as USAID, the EU, Swiss Development Cooperation, JICA have been the major financial contributor for start-up and enterprise non-financial services mostly through their project funding and grants to business support organizations.

Such financing structure based mostly on project funding presents challenge for the long-term sustainability of the non-financial business services as well as the possibility of the providers to increase outreach and design services/instruments based on the identified needs rather than the donor priorities.

Monitoring and evaluation of the business development services

In terms of financial support services, there is more consistent monitoring and evaluation information such as the number of newly-established businesses (in the case of self-employment measures) or the financial performance and growth of the financed companies. However, there is no specific information available about the quality and impact of the non-financial services. The service providers mostly use internally developed monitoring tools to measure their outputs in terms of numbers of clients served, monetary value of the offered support, sectors and types of entrepreneurs they served etc. For the national government programs there is a monitoring and evaluation procedure and reporting requirement which again mostly focuses on the outputs. This data is available in the annual reports of the service providers. As for the quality of the support, the service providers mostly use evaluation questionnaire for the trainings and measure participants' satisfaction. Some such as CEED Hub circulates evaluation questionnaire to their beneficiary start-ups every six months. Most of the service providers rely on more informal input from their beneficiaries as to the effects of the provided non-financial service on their business.

▶ 4. INTERNATIONAL COMPARISON

According to the international rankings, North Macedonia is positioned higher than the peer countries, outperformed only by Ireland and Bulgaria in terms of the economic freedom (Table 3).

Table 3. International rankings on conditions for doing business

Country	Ranking according to WB "Doing Business"	Ranking according to Economic Freedom
North Macedonia	17	41
Ireland	24	6
Slovenia	37	52
Bulgaria	61	36
Croatia	51	84
Serbia	44	65

Sources: *Doing Business 2020; 2020 Index of Economic Freedom*

The Global Entrepreneurship Monitor (GEM) indicates that North Macedonia has lowest start-up entrepreneurial activity compared to the peer countries with 6.18% of 18-64 population who are either a nascent entrepreneurs or owner-manager of a new business, compared to 7.80% in Slovenia, 10.47% in Croatia and double i.e. 12.41% in Ireland. Nevertheless, the percentage of the population that perceives business opportunities is similar with the other compared countries and they are convinced they possess the necessary skills and knowledge to start a business in higher percentage (60.87%) than their counterparts in Ireland (42%) and Slovenia (57.46%). However, they express higher fear of failure than their peers in those two countries.

Table 4: Entrepreneurial activity and self-perception

Country/2019	Total early-stage Entrepreneurial Activity (TEA) %	Perceived Opportunities Rate %	Perceived Capabilities Rate %	Fear of Failure Rate %
North Macedonia	6.18	50.49	60.87	47.22
Ireland	12.41	50.22	42	31.39
Slovenia	7.80	47.59	57.46	42.23
Croatia	10.47	55.66	71.19	50.66

Source: *Global Entrepreneurship Monitor, 2019*

In regards to the implementation of the Small Business Act into the government policies in the Western Balkans and the Region, the SME Policy Index 2019 indicates that the entrepreneurial learning in North Macedonia is lagging behind (2.82) compared to the countries in the region such as Albania (2.94), Serbia (3.70) and Montenegro (4.08). The country is also by far surpassed by the region's peers in relation to policies on women's entrepreneurship scoring low 1.97 compared to Montenegro with 3.46 and Serbia 4.35 (Table 5). Nevertheless, the policies related to the support services to SMEs are improving. North Macedonia is scored with 3.52 on business support services directly provided by the government, performing better than Albania (3.01) but not as good as Montenegro (3.83) and Serbia (4.33). In the government's initiatives to stimulate private business support services, the country outperforms the compared countries scoring 4.39.

Table 5: Support services to SMEs and Entrepreneurial learning (score 1 to 5, where 5 is the best)

Country/2019	Support services to SMEs – Provided by the government	Government initiatives to stimulate private business support services	Entrepreneurial learning	Women's entrepreneurship
North Macedonia	3.52	4.39	2.82	1.97
Albania	3.01	4.21	2.94	2.62
Montenegro	3.83	4.23	4.08	3.46
Serbia	4.33	3.91	3.70	4.35

Source: *SME Policy Index: Western Balkans and Turkey, 2019*

▶ 5. IMPACT

Notwithstanding the high rankings of the country for establishing and doing business, the opinions of the business support providers and experts indicate that the entrepreneurship potential and culture in North Macedonia has not been fully utilised. While the support infrastructure has significantly improved in the last few years, the number of newly established businesses is not growing significantly and there is a gap between the perceived opportunities and the actual entrepreneurial activities. The overall socio-economic context and weak rule of law creates attitudes where the desired career paths are either in the public administration or abroad and does not create incentives for entrepreneurial activity. Even though the supply of financial and non-financial support for start-up enterprises has improved in the last few years, the fear of failure remains, indicating that the potential entrepreneurs perceive the policies and support infrastructure not sufficient and consistent to undertake the risks of establishing a business.

Targeted support measures are needed for the first-time entrepreneurs combined with policies to alleviate the administrative burden and cost of start-up business. New policies in this area have been introduced in the last two years complemented with new policy support measures and financing, thus their effects are yet to be assessed. In a lack of comprehensive analysis of the entrepreneurs' needs and consistent system for evaluation of the impact of existing support infrastructure, the perception of the employers and the experts is that the financial and non-financial support is not sufficient in size and does not fully cover the continuous needs of the start-ups and enterprises. The support is mainly concentrated in Skopje and in the last couple of years with predominant focus on innovation and fast growing industries thus leaving gaps in the support of the wider range of enterprises. Based on the opinions of the practitioners and experts in the field, there is still need for in-depth specialized services, support in accessing new markets and hands-on support in legislation and procedures. Often, even when specialized non-financial services exist for different stages of development of the company, they need to be matched with adequate financial instruments to cater the needs of those enterprises. As most of the non-financial support services are not market-based and are heavily relying on project funding, it creates limitations in the scope and consistency of the offered services and creates donor dependence on the possibilities of the service providers to build more diverse and comprehensive expert, specialized support.

The quality of education plays crucial role in building the entrepreneurial skills. Even though formally there is improvement in terms of policies and programs, the relevant analysis and the stakeholders indicate low quality of entrepreneurial learning in the formal education which creates significant gaps in attitudes towards entrepreneurship as career path, the actual demand for business support and in the entrepreneurial skills. Such gaps put pressure on the non-financial service providers to compensate for the failures of the educational system which is not possible with their existing capacities and limited resources. Improved quality of the formal education entrepreneurial learning and synergies with the non-formal business service providers would create more nurturing and robust support infrastructure for the new entrepreneurs.

▶ 6. POLICY OPTIONS

In the last years, the Employers' organisations have advocated for specific policy measures related to the non-financial services to new entrepreneurs, start-ups and SMEs. Many of those proposed policy measures have been initiated such as the mentoring services, help-desk services through the regional centres, policies targeting specific target groups such as

women entrepreneurs etc. To further support the development of non-financial services, their quality and outreach in a way that would provide sustainable growth of the enterprises and the entrepreneurial skills, the Government should upgrade and where necessary revise the policies and programmes with accompanied adequate resources for actual impact. In these lines, the policies need to take into consideration the following principles:

- The programs for entrepreneurship development need to strive to provide non-financial support infrastructure that can potentially serve all newly-established businesses based on entrepreneurs' needs and built on sustainable grounds;
- Business service providers should be supported in a way to create infrastructure which will: a) provide diversified offer to start-ups and enterprises in their different stages of development; b) be de-centralised and close to the entrepreneurs they need to serve and c) take into consideration the specifics of different types of start-ups and not only those in the fast growing industries;
- Policies should equally encourage public and private service providers and facilitate coordination and complementarity among them;
- To achieve effectiveness, efficiency and impact, the policies to support the development of non-financial services have to be accompanied with quality entrepreneurial learning in the formal education and policies to alleviate over-regulation and burden (administrative and fiscal) for the new entrepreneurs;
- The programs for support of the non-financial business services need to allow flexibility, experimentation with different approaches and possibilities for growth and sustainability of the service providers.

In this regard, there are several policy options that will address the above-outlined needs and challenges. Most of the proposed policy options are complementary and build upon the existing policies introduced in the last couple of years.

6.1. Improve the non-financial services

This set of measures is focused on improving the offer and accessibility of non-financial services to all potential entrepreneurs, start-ups and small enterprises. At the same time, their objective is to also alleviate the legal uncertainty of the newly established enterprises. This policy option includes following measures:

6.1.1. Comprehensive needs assessment of the potential, start-up and small enterprises

At present, the type and scope of most of the non-financial support measures are based on the perceived needs and international best practice. The private service providers are additionally tailoring their services based on the needs assessment of their specific beneficiaries. Comprehensive assessment on the capacity building and non-financial support needs would provide informed guidance in shaping the specific policy measures. Furthermore, it can be also used by the private business service providers in shaping their programs. The needs assessment would cover enterprises in different stages of their development from potential entrepreneurs to start-ups, small enterprises in growth and scaling-up phase etc. The needs of the specific target groups also need to be taken into consideration such as women, youth, ethnic minorities and geographical area (Skopje vs. other parts of the country). This analysis can be combined with other type of support needed such as financial and fiscal support and should be conducted in regular intervals to capture trends (for ex. biannually).

6.1.2. Support diversification, scale and accessibility of non-financial services throughout the country

- At present, most of the non-financial support services are based in Skopje. The Regional entrepreneurship centres (REC), and the Accelerator in Veles is the main support infrastructure for the companies outside the capital city. For efficient use of resources and existing infrastructure, policy measures should support cooperation between existing private service providers and the REC to extend more systematically their services to start-up companies throughout the country. The opportunities for online training and counselling should be explored as well.
- Free legal advice on the legal requirements should be accessible to all entrepreneurs before they register their business as well as in the first months of operation. Large numbers of first entrepreneurs is focused on developing their business plans and are not familiar with all the legal requirements in different areas of operation. They are not able to pay for professional legal aid while no existing source of information provides summarized, comprehensive guidance in a user-friendly manner and with adequate interpretation (beyond uploading legal texts). Thus, the enterprises often waste few months in collecting information and understanding their obligations instead of focusing on implementing their business plans. Taking into consideration that not all entrepreneurs are internet savvy, in the practical information these services should be offered through various channels such as REC etc.
- It is plausible that the policy measures included the establishment of the info helpdesk by APERNM and the REC. For utilising all available resources this service should establish broader cooperation with the employers' organizations and chambers. For greater outreach and accessibility, the entry points should be the Central Registry when the entrepreneur submits the registration documents. The Central Registry can also automatically share information to all newly registered enterprises on the legal requirements and available helpdesk support. The legal advice service can be implemented in cooperation with organization or company that already provides these types of services.
- In the first two years of enterprise operations, the inspection bodies should be in counselling function rather than sanctioning and control. As part of their regular activities, the inspectors should advise the start-ups on how to operate in compliance with the legislation. If during their visits in the first two years, the inspectors notice irregularities, they should advice on corrective and mitigation measures. This measure does not require additional resources and at the same time will strengthen the entrepreneurs' trust in the institutions and will improve tax collection on the long-term.
- At present, the support measures under the Program for entrepreneurship, competitiveness and innovation and those offered through APERNM are implemented via periodic public calls. This however, not necessarily serves the needs of the entrepreneurs as they often don't receive the information on time or do not trust that they would receive the support. The business support services (including mentoring and counselling vouchers) should be offered to all newly established businesses. The Central registry would regularly inform APERNM and REC on the newly registered enterprises followed by a visit to establish specific needs for support services. Based on that, the entrepreneur will be directed towards the most appropriate services according to their needs. In delivery of the services APERNM and REC would cooperate with the private business development service providers.

- Such targeted approach in the start-up stage would build relationships and cooperation that can be utilised in the next phases of the development of the business. This would help companies identify and create demand for more diverse and specialized services to advance the business and access international markets. These services should be available to all sectors regardless of their fast growing potential.
- Specific target groups such as women and youth could receive more hours of non-financial services than the other entrepreneurs.
- These proposals would require increased resources for the non-financial business services. APERNM operates with very modest annual budgets and the existing 900.000 MKD annually for voucher counselling is not sufficient to increase diversification and scope of the services available to start-ups and small enterprises. Furthermore, the voucher system should be revised to allow greater flexibility for the beneficiaries to use various non-financial services provided by the private service providers (e.g. full acceleration program etc.) and co-financing structure (e.g. if one company has used two counselling vouchers with co-financing of 50%, the next would be available with 30% public financing etc.).
- To fully utilise access to new markets and export potential, policies need to create technical support system of SMEs that will assist them to increase their competitiveness and explore the opportunities to access new markets on national, regional and global level. This system would rely on cooperation among different stakeholders on national and local level and would include training and workshops, counselling, targeted mentoring, market analysis, information, networking opportunities etc. Access to information on regulation in the foreign countries is a key to this support mechanism as one of the identified gaps in this area is that even though the enterprise has potential for export they are not familiar with the customs, import and tax legislation with a targeted country. One entry point for this type of information for all interested SMEs would greatly contribute to their willingness to explore international markets.

6.1.3. Improve quality through monitoring and evaluation

The latest Strategy on SMEs 2018-2023 has identified this need and already envisages measures in this direction. The Ministry of Economy has discussed the need to establish a Department for monitoring and evaluation (M&E) which would consistently assess the impact of the public policies and measures in this area and would continuously assess the needs of the start-ups and SMEs. Developing a systematic framework for M&E of non-financial business services is of particular importance as they are more difficult to track and measure than the financial services. Structured system of obligatory periodical feedback from the beneficiaries of the measures (fully or partly subsidized by the national programs) would facilitate this process. If proved functional, such M&E framework could be also offered to be used by the private service providers thus enabling comparable and more comprehensive evaluation.

6.2. Improve the non-financial support infrastructure (service providers)

These policy options are focused on the intermediary support infrastructure i.e. the non-financial business service providers as they are crucial for providing diverse scope and quality of the non-financial services. Similar to the enterprises themselves, they also need financing and support to expand their service portfolio, recruit and maintain quality expertise and increase outreach to companies they serve.

6.2.1. Support the sustainability of the non-financial service providers

Financial sustainability is one of the main challenges of the enterprise service providers. As outlined in the analysis, most of the offered services for start-ups and small enterprises are dependent on foreign donor funding or state funding and are offered free of charge. Furthermore, besides the three accelerators funded by FITD, the state or municipal funding for the support organizations is very low. Overall, many of the non-financial services are project based with limited timeframe thus might not be able to offer consistent, long-term support to all target groups and all areas they have identified as needed. In this regard, public support programs should allocate more funding to different type of non-financial services (public and private) that serve all type of industries and enterprises. It could be further complemented with specific sub-programs for women, youth and ethnic entrepreneurs.

In addition, voucher-type mechanism could be designed to partially subsidize wider array of non-financial services provided by the private service providers (part would be paid by the entrepreneur). The cost for the non-financial services could be also incorporated as portion of the financial support/investment. Both approaches should be based on the principle that the entrepreneur will decide which service provider to use. This will have multi-fold benefits beyond the sustainability of the service providers such as: a) improved quality of the services; b) the entrepreneurs will carefully consider what type of services they need and want to invest in rather than take them for granted as they are free and c) will support the monitoring and evaluation framework as the service providers subsidized by the government would need to report in line with the same M&E framework.

6.2.2. Improve the quality of entrepreneurial learning in the formal education

As the entrepreneurial learning in the formal education is one of the weakest links in the implementation of the SME policies (as noted in the SME Policy Index 2019), more commitment and actual measures should be implemented in this segment. As discussed previously, weak entrepreneurial knowledge base creates additional strain to the non-formal service providers who do not have the infrastructure network and outreach available to the formal educational institutions. The biggest gaps are identified in the teacher training and career counselling. To support good quality teacher training measures should create links and direct cooperation between the schools/teachers and the non-financial business service providers. They could provide more practical entrepreneurial teacher training and at the same time instigate entrepreneurial way of thinking and excitement about the topic. They could also jointly design practical projects for the students, provide internship opportunities etc. In addition, career guidance should formally include entrepreneurship i.e. establishing own business as viable and desirable career path.

6.2.3. Facilitate coordination between and across sectors and service providers

At present, besides initiatives such as Start-Up Macedonia there is lack of coordination between the stakeholders engaged in the non-financial business support services. Public policies should strive to facilitate cross-sector dialogue and coordination and cooperation between the public and private service providers. Many of the measures outlined above provide options for such cooperation. Synergies should be also encouraged between the academia, service providers, the institutions and the large companies to efficiently use the limited resources and benefit from diverse expertise built in the different sectors. This is of particular importance in expanding the non-financial services from developing to more specialized and technical services. The private non-financial service providers should also be engaged in the development of policies and measures and can support the processes such as needs analysis and M&E.

7. POLICY RECOMMENDATIONS

The ongoing key policy documents such as the Strategy on SMEs of RNM 2018-2023 and the strategy for development of women entrepreneurship 2019-2023 have identified many of the existing gaps and challenges and provide solid framework for improving the access to quality business development services. The proposed measures are complementary to these policies and are fully supporting their goals and objectives. Implementation of all of the above-outlined policy proposals is recommended to create comprehensive system for support of start-ups and small enterprises and improve entrepreneurial culture in the country.

The proposed measures under “6.1.2. Support diversification, scale and accessibility of non-financial services throughout the country” that relate to start-up enterprises should be implemented in a package of measures under targeted Programme for support of newly-established businesses and complemented with financial support and other policy measures. The financial projections should be based on existing statistical data in regards to number of newly-registered business in the last few years on national as well as regional and municipal level. In the Regulatory Impact Assessment (RIA) not only the financial implications should be taken into consideration but also the effects of these policies on the strengthening the entrepreneurship culture and economic impact.

In determining in more details the gap between the existing scope of the implemented measures and the real needs and functioning of the enterprises, cooperation with the business associations such as employers’ organisations and the service providers is recommended. It is further recommended that the measures are implemented in pilot-phase which would enable easier adjustments until they reach optimal results.

In relation to the entrepreneurial learning it is of utmost importance that the policy measures for non-financial enterprise support services are implemented in parallel with the policy improvements in the entrepreneurial learning within the formal education. The entrepreneurship education measures need to include significant portion of practical work having in mind that entrepreneurship is learned through practice and experience.

These policies should be developed with broader involvement and consultations with all key stakeholders, educational institutions, ministries, agencies, employers’ organisations and chambers, service providers etc. Only with such consistent and participatory approach, sustainable and practical solutions that will address the needs of all interested stakeholders can be achieved.

8. JUSTIFICATION

Policy proposals outlined in this document are based on the recommendations provided by the Employers’ organisations and other stakeholders interviewed for the purposes of the analysis. Their argumentation is based on existing data, analysis, and research as well as on the targeted analysis on the non-financial services landscape conducted for this purpose. Detailed explanation on the proposed policy measures is outlined in Chapter 6. Some of the measures refer to the existing policies and programs, while this document provides additional proposals for improvement and upgrade.

The Organisation of Employers of Macedonia (ORM) and the Business Confederation of Macedonia (BCM) are available for further consultations and discussions with the relevant ministries, institutions and other stakeholders to further develop the policy measures in a

way to enable their practical implementation. We believe that proposed policy measures would lead to vibrant non-financial support infrastructure that would benefit existing and new entrepreneurs and ultimately the entrepreneurial culture in the country.

▶ 9. IMPLEMENTATION

Some of the proposed policy measures can be implemented in phases with previously determined dynamic and action plan to ensure commitment and enable key implementation stakeholders to plan and prepare.

Additional analysis and financial implication calculation will be required to translate these policy proposals to viable and efficient policy measures. Ultimately, strategic policies and programs that will adequately address the needs and identified challenges would require additional financial and institutional resources.

The policies for enterprise support should be implemented in decentralized manner aligned with possibilities and capacities in order for the service to be delivered as close as possible to the entrepreneurs.

The Organisation of Employers of Macedonia (ORM) and the Business Confederation of Macedonia (BCM) are committed to support the implementation of the proposed measures. The role of the employers' organisations is particularly crucial in information dissemination, linking the companies and institutions, and providing support to measures for building the capacities of companies.

▶ 10. MONITORING AND EVALUATION

As indicated in one of the measures, in order to achieve the expected results and impacts of the proposed measures, it is necessary to establish a monitoring and evaluation system from the very beginning. It is also necessary to establish a set of key indicators which is not too extensive (to avoid creating an extensive administrative burden), but which will provide a clear picture on the impact of the non-financial service measures on the overall entrepreneurship activity. Indicators should not reflect only the general image, but they should also provide segregated data regarding the use and availability of financial services (according to the number of different companies, by sectors, size, geographic distribution, types of services, etc.) as well as their quality.

On the onset, it is important to conduct an analysis of the implementation and results of the existing policies and measures. It would enable the establishment of a suitable monitoring and evaluation system for future policy proposals.

The Organisation of Employers of Macedonia (ORM) and the Business Confederation of Macedonia (BCM) will continue to monitor the situation and the progress made in this area. In accordance with their abilities, they will prepare reports and analysis that will be available to the institutions, business community and the wider public in order to contribute to the advancement of policies within this segment.



