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OF MACEDONIA**

**Department for Entrepreneurship and Competitiveness**

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FOR THE SME SECTOR**

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# Content

List of tables and graphs .....	4
Acronyms .....	5
Preface .....	6
Chronology .....	8
1. Macroeconomic Situation .....	12
1.1 Macroeconomic environment in Republic of Macedonia .....	12
1.2 Gross Value of Production at Basic Prices .....	14
1.3 Gross Value Added at Basic Prices .....	16
2. Legal Framework .....	19
2.1 Opening a business .....	19
2.2. One-stop-shop registration system .....	20
2.3 Classification of Enterprises.....	21
3. Enterprises in the republic of Macedonia – Size and Structure.....	23
3.1 Enterprises in the Republic of Macedonia.....	23
3.1.1 Active enterprises by Sectors .....	23
4.1 Exports from the Republic of Macedonia .....	29
4.2 Import into the Republic of Macedonia .....	31
5. SMEs and Employment .....	34
5.1 Employment in the Republic of Macedonia .....	34
5.2 Self-employment .....	35
5.3 Employment by Sectors of Economic Activity .....	37
5.4 Employment According to the Ownership Type of Enterprises .....	38
5.5 Unemployment in the Republic of Macedonia.....	40
6. Financial Situation and Financing of SMEs.....	43
6.1 Profit and Loss at the Enterprises.....	43
7. Taxation Policy.....	47
8. Business Demographics and Business Dynamics .....	49
8.1 Active Enterprises by Municipalities.....	49
8.2 Craftsmen .....	52
8.3 Sole proprietor .....	54
Reference .....	60

## List of tables and graphs

Table 1-1 Basic macroeconomic indicators	12
Table 1-2 Gross value of production by sectors	15
Table 1-3 Gross value of production by type of enterprises	16
Table 1-4 Gross value added by sectors	17
Table 1-5 Gross value added by type of enterprises	19
Table 2-1 Expenses related to registration of enterprises	21
Table 2-2. Classification of enterprises	23
Table 3-1 Number of registered entities	24
Table 3-2 Number of active enterprises by sectors	25
Graph 3-1 Participation in percentage of the active enterprises in 2009	26
Table 3-3 Number of newly registered enterprises through the one-stop-shop registration system (2006-2008) NACE rev 1.1	27
Table 3-4 Number of newly registered enterprises through the one-stop-shop registration system (2006-2008) NACE rev 2.0	28
Table 3-5. Number of active SME's by years (2006-2009)	29
Table 4-1 Countries to which Macedonian enterprises export	31
Table 4-2 Import into the Republic of Macedonia	33
Graph 5-1 Percentage distribution of employees by enterprises in 2009	36
Graph 5-2 Overview of businesses by activity	38
Table 5-1 Candidates for the self-employment project	38
Table 5-2 Number of employees by sectors of economic activity	39
Table 5-3 Number of employees by the ownership type of enterprises in 2009	40
Graph 5-3 Employed in SME's by the ownership type of enterprises in 2009	41
Graph 5-4 Number of unemployed in Republic of Macedonia by gender	42
Table 5-4 Number of unemployed by age	43
Table 6-1 Gains and losses realized at the enterprises	44
Table 6-2 Value of assets and liabilities	45
Table 8-1 Number of active enterprises by municipalities	50
Table 8-2 Craftsmen by municipalities	53
Table 8-2 Sole proprietor by towns	56
Table 10-1 Foreign direct investments	59

## Acronyms

AAS -	Agreement for Association and Stabilisation
BDS -	Business Development Services
CR -	Central Registry
EBRD -	European Bank for Reconstruction and Development
EU -	European Union
FIAS -	Foreign Investment Advisory Services
GDP -	Gross Domestic Product
GP -	Gross Product
IPB -	Intellectual Property Bureau
MBDP -	Macedonian Bank for Development Promotion
MoE -	Ministry of Economy
MoF -	Ministry of Finance
MoLSP -	Ministry of Labour and Social Policy
NACE -	General Industrial Classification of Economic Activities within the European Communities
OECD -	Organization for Economic Co-operation and Development
PRO -	Public Revenue Office
SEE -	Southeast Europe
SME -	Small and Medium-Sized Enterprises
SSO -	State Statistical Office
VA -	Value Added
VAT -	Value Added Tax
RM -	Republic of Macedonia
APPRM - Macedonia	Agency for Promotion of Entrepreneurship of the Republic of Macedonia
IMF -	International Monetary Fund
WTO -	World Trade Organisation
MKD -	Macedonian Denars

## **Preface**

Since 2004, every year in the Republic of Macedonia annual statistical reports are prepared that represent the situation of the SME sector. These annual reports are prepared by the Observatory team for small and medium enterprises for the Ministry of Economy.

The main objective of the Observatory is to create a sustainable mechanism for monitoring, analyzing and developing policies that will be mostly in the interest of the private sector. In this regard, the annual reports created each year assist in great manner the policy makers, mostly to the people from the Ministry of Economy and are responsible for the preparation of strategies, programs and action plans for small and medium enterprises. In addition, the data processed in these annual reports is also used by many institutions, organizations and projects in preparation of various analyses, papers, and reports.

In preparation of these reports the methodology used is the same as the one that is used by the European Observatory for small and medium enterprises from Netherlands, while preparing reports for enterprises from the European Union.

Currently, as a main source of information the SME Observatory is using the data base of the Central Registry of the Republic of Macedonia (Trade Register). Apart from this institution, the Observatory cooperates with other information providers such as the State Statistical Office, Fund for pension insurance, Ministry of Economy, Ministry of Finance, commercial banks, donor funded projects and other relevant institutions and organisations that have information on SMEs and that can contribute to writing of this report.

A future commitment of the SME Observatory is to start collecting information directly from enterprises. This will be done on the basis of sample surveys conducted among entrepreneurs.

We hope that the areas and content processed in this report will be interesting for you and will at least briefly draw your attention.

Sincerely,  
Observatory Team  
for Small and Medium Enterprises

## Chronology

Year	Main Factors Affecting Business Climate and Entrepreneurship
1991	<ul style="list-style-type: none"> <li>▪ Independence. Macedonia declared independence, and separated from Yugoslavia, the only republic to do so peacefully</li> </ul>
1992	<ul style="list-style-type: none"> <li>▪ Economic crisis. Inflation: 1 780 %</li> </ul>
1993	<ul style="list-style-type: none"> <li>▪ UN Membership</li> <li>▪ A new government is formed with participation of Albanian party</li> <li>▪ Economic downturn</li> </ul>
1994	<ul style="list-style-type: none"> <li>▪ Population Census</li> <li>▪ Start of privatization process</li> <li>▪ Introduction of the International Monetary Fund (IMF) Programme to improve macroeconomic stability</li> </ul>
1995	<ul style="list-style-type: none"> <li>▪ Trade embargo from Greece</li> <li>▪ UN sanctions</li> </ul>
1996	<ul style="list-style-type: none"> <li>▪ Law on Trade Companies enacted</li> </ul>
1997	<ul style="list-style-type: none"> <li>▪ Devaluation of the Denar</li> </ul>
1998	<ul style="list-style-type: none"> <li>▪ Law on Handicrafts enacted</li> <li>▪ Strategy to attract FDI</li> <li>▪ Development of the Financial Market</li> <li>▪ Real GDP growth by 3.4%</li> <li>▪ Exports exceeds imports for the first time since independence, and foreign investments exceeded the level of all previous years</li> </ul>
1999	<ul style="list-style-type: none"> <li>▪ The Kosovo crisis causes 360 000 inhabitants from Kosovo to flee in</li> <li>▪ Rise of tensions</li> <li>▪ Law on Banking and Law on Securities enacted</li> </ul>



<p style="text-align: center;"><b>2000</b></p>	<ul style="list-style-type: none"> <li>▪ Law for value added enacted</li> <li>▪ Real GDP growth of 4.6%, making it an annual continuous economic expansion</li> <li>▪ The customs legislation enters into force ensuring compliance with European Union (EU) standards</li> </ul>
<p style="text-align: center;"><b>2001</b></p>	<ul style="list-style-type: none"> <li>▪ Security crisis in the country. Initiated by the conflict from 18<sup>th</sup> of February in the village of Tanusevci</li> <li>▪ Signing the Ohrid Framework Agreement and Demilitarisation Accord</li> <li>▪ Signing the Agreement for Stabilization and Association</li> <li>▪ Annual GDP growth rate of -4.5%</li> </ul>
<p style="text-align: center;"><b>2002</b></p>	<ul style="list-style-type: none"> <li>▪ Population Census</li> <li>▪ Parliamentary elections</li> <li>▪ Changes to the Law on Trade Companies. Changes are related to the initial registration process, and re-defining the rights and responsibilities of both directors and shareholders</li> <li>▪ The Parliament approves the “E-Declaration” – a statement of commitment by the government to advance the electronic commerce</li> <li>▪ Government approves the National Strategy for SMEs</li> <li>▪ The Law on Micro-Financing banks is enacted</li> <li>▪ Annual GDP growth rate of 0.9%</li> </ul>
<p style="text-align: center;"><b>2003</b></p>	<ul style="list-style-type: none"> <li>▪ Republic of Macedonia becomes a member of the European Charter for Small Enterprises</li> <li>▪ Republic of Macedonia becomes a member of the World Trade Organization (WTO)</li> <li>▪ The Law on the Agency for the Promotion of Entrepreneurship was adopted</li> <li>▪ The Stand-by Agreement with the IMF is signed</li> <li>▪ Decrease of VAT from 19% to 18%</li> <li>▪ The Law to foster Employment was adopted</li> <li>▪ The Law on State Aid was adopted. Support is granted to SMEs to contract consulting services and trainings in order to improve their work performance</li> </ul>

<p style="text-align: center;"><b>2004</b></p>	<ul style="list-style-type: none"> <li>▪ New Law on trade Companies is adopted</li> <li>▪ New Law on Trade is adopted</li> <li>▪ New Law on Craftsmen Activities adopted</li> <li>▪ Several bilateral agreements signed for free trade with some countries</li> <li>▪ Full implementation of the Law for Money Laundering</li> <li>▪ Financial police was established</li> <li>▪ Negotiations for new IMF arrangement</li> <li>▪ Annual GDP growth rate of 2.9%</li> <li>▪ 1 EUR = 61.5 MKD</li> </ul>
<p style="text-align: center;"><b>2005</b></p>	<ul style="list-style-type: none"> <li>▪ The Republic of Macedonia receives Candidate Country Status for EU membership</li> <li>▪ Establishment of Euro Info Correspondence Center</li> <li>▪ Realization of voucher scheme for provision of consultancy services in two pilot regions – Skopje and Strumica</li> <li>▪ Establishment of SME Forum</li> <li>▪ Legal framework for the establishment of the Guarantee Fund was adopted</li> <li>▪ Negotiations for new IMF arrangement</li> <li>▪ GDP growth rate of 3.8%</li> <li>▪ 1 EUR=61.5 MKD</li> </ul>
<p style="text-align: center;"><b>2006</b></p>	<ul style="list-style-type: none"> <li>▪ Establishment of one-stop-shop system for registration of companies</li> <li>▪ New version of the SME strategy adopted</li> <li>▪ Four-year SME program adopted</li> <li>▪ Reducing the interest rates</li> <li>▪ Reducing the Profit and Personal Income Tax to 12% (flat rate)</li> <li>▪ 1EUR=61.2 MKD</li> </ul>

<p style="text-align: center;"><b>2007</b></p>	<ul style="list-style-type: none"> <li>▪ According to Doing Business (World Bank Report) Republic of Macedonia is ranked 4<sup>th</sup> for implementation of reforms</li> <li>▪ According to Transparency International Republic of Macedonia is ranked 84<sup>th</sup> for fighting corruption</li> <li>▪ Reducing the Profit and Personal Income Tax to 10% (flat rate)</li> <li>▪ GDP growth rate of 5.1%</li> <li>▪ 1EUR=61.2 MKD</li> </ul>
<p style="text-align: center;"><b>2008</b></p>	<ul style="list-style-type: none"> <li>▪ Price of oil in June reached highest level to 133.8 USD for one barrel</li> <li>▪ Lowest percentage of unemployment</li> <li>▪ Beginning of world economic crisis</li> <li>▪ GDP growth rate of 4.9%</li> <li>▪ 1EUR=61.27 MKD</li> </ul>
<p style="text-align: center;"><b>2009</b></p>	<ul style="list-style-type: none"> <li>▪ Global financial and economic crisis</li> <li>▪ Government introduced 4 anti-crisis measures</li> <li>▪ Zero tax rate of income tax</li> <li>▪ Reduced inflation (average cost of living)</li> <li>▪ GDP growth rate of 0.8%</li> <li>▪ 1EUR = 61.27 MKD</li> </ul>

# 1. Macroeconomic Situation

## 1.1 Macroeconomic environment in Republic of Macedonia

Negative effects on domestic economy from the global financial and economic crisis lead to decrease of domestic economic activity in 2009. The first effects from the global crisis were visible in the 4<sup>th</sup> quarter of 2008 with the decrease of the domestic growth, whereas in 2009 the Gross Domestic Product recorded real annual decline of 0.8% compared to 2008. Thus for the first time since 2002 in the domestic economy is recorded a decline in economic activity. The effects from the global economic crisis were gradually carried on the domestic economy during 2009. In the third quarter, the deepest decline in economic activity was recorded of 1.8% since the global economic downturn. In the previous two quarters the real decline of the Gross Domestic Product was 0.9% and 1.4%. However, in the last quarter of 2009 the first signs of recovery of the domestic economy were recorded, when the real growth of the Gross Domestic Product was 1.2%.

Key macroeconomic indicators are presented in table 1-1:

**Table 1-1 Basic macroeconomic indicators**

	2003	2004	2005	2006	2007	2008	2009
(%)							
<b>Real sector</b>							
Real GDP growth	2.8	4.1	4.1	4.0	5.1	4.9	-0.8
Industrial production	4.5	-12.1	7.0	2.6	3.7	5.5	-9.4
Inflation ( average cost of living )	1.2	-0.4	0.5	3.2	2.3	8.3	-0.8
Employment growth	-2.9	-4.1	4.3	4.6	3.5	3.2	3,4
Unemployment rate (International Labor Organization definition)	36.7	37.2	37.3	36.0	34.9	33.8	32.2
Trade balance (% of GDP)	-18.4	-21.2	-18.4	-20.1	-20.3	-26.7	-23.0
Public debt (GFS methodology)	44.9	42.6	46.9	39.9	33.3	28.7	32.1
<b>External sector – Current prices in USD</b>							
Gross Domestic Product (mil) nominal	4 631	5 368	5 815	6 561	8 162	9 835	9 378
Gross Domestic Product per capita	2 285	2 642	2 855	3 216	3 994	4 805	4 572
Export (million)	1 363	1 675	2 042	2 415	3 398	3 978	2 691
Import (million)	2 306	2 931	3 232	3 752	5 280	6 851	5 043
Trade Balance (million)	-851	-1 139	-1 063	-1 285	-1 629	-2 552	-2 156
Foreign Direct Investment (million)	117	322	94	424	321	356	251

<b>Work Force</b>							
<b>Number of unemployed</b>	390 361	391 072	359 989	321 274	316 905	310 409	298873
<b>Number of employed</b>	545 108	522 994	555 938	570 404	590 234	609 015	629901

Source: Ministry of Finance, National Bank of the Republic of Macedonia

Gross domestic product in 2009 amounted to 9 378 million U.S. dollars which represents a decrease of 4.64% compared to 2008. The real decline in GDP was 0.8%.

The global financial and economic crisis halted the phenomenon of “price boom” especially the prices of food and energy, causing a significant downward adjustments of inflation in 2009. The fall in import prices caused a process of disinflation in the Macedonian economy. So, after the high average inflation of 8.3% in 2009, costs of living noted a decline and equaled to -0.8%.

Insufficient utilization of capacities in export-oriented activities complemented with a decline in activity due to lower domestic demand caused a decline in industrial production for 9.4% in 2009. The greatest impact on the decline of industrial production sectors were manufacturing of basic metals, textiles, manufacture of other non-metals and minerals, and manufacture of electrical machinery and tools.

Unfavorable economic conditions globally had significant portable effects on external trade in 2009. Due to the fact that more than 60% of the foreign trade accounted to EU and other developed countries hit by the financial crisis, the deficit widened to 2.1 times compared to 2008. The total exchange of goods with foreign countries on annual basis reached 83.5% of GDP versus 112.7% of GDP in the previous year. Slowed down international trade brought the foreign exchange of goods to almost the average level from 2001 to 2004. The fall of global demand was reflected by a significant decline in exports of goods, which was reduced to 29% of GDP versus the average part of 40% of GDP in the last three years. In 2009 import of goods was reduced to 54.5% of GDP versus an average part of 65% of GDP in recent years.

According to State Statistical Office and Employment Agency active population in Republic of Macedonia in 2009 amounted to 928 775 persons, of which 629 901 persons are employed or 67,8%, and 298 873 persons or 32.2% are unemployed. The number of

employees compared to the previous year increased by 3.4%. Compared to 2008 the number of unemployed persons decreased by 3.7%. The activity rate of the population in 2009 was 56.7%, employment rate 38.4%, while the unemployment rate was 32.2% and compared to 2008 has decreased.

After an increase from the previous year, the foreign direct investments noted a decline of 29.9%. It is a result of reduced global liquidity and investors' growing aversion to risk entering. The complex access to financing through bank loans is also a factor that contributed for reduction foreign direct investments.

## 1.2 Gross Value of Production at Basic Prices

The Gross Value of Production (GVP) is the value of produced goods and realised services during the year without considering whether they are completely sold or held as stocks<sup>1</sup>. The value of production consists of three categories: market production, production for own final use and non-market production.

**Table 1-2 Gross Value of Production by Sectors**

	2004		2005		2006		2007		2008	
<i>(Basic prices, million MKD)</i>										
Sector	small	medium	small	medium	small	medium	small	medium	small	medium
Agriculture, hunting and forestry	55 991	2 308	57 717	2 745	61 872	3 581	61 545	3 811	73 221	5 540
Fishing	56	-	76	-	108	-	121	-	154	-
Mining	894	452	1 849	331	928	2 224	1 202	1 026	1 719	286
Manufacturing	37 603	25 640	37 928	24 527	43 553	25 906	55 075	31 545	58 099	34 219
Electricity, gas and water supply	476	1 363	541	1 442	620	2 354	883	1 486	910	1 427
Construction	27 409	12 655	29 632	3 735	34 420	5 177	38 763	8 611	42 265	9 197
Wholesale and retail trade	41 069	9 552	43 189	10 796	47 035	13 685	51 965	14 768	59 255	16 723
Hotels and restaurants	5 364	1 131	5 338	1 331	6 199	1 320	6 361	1 876	7 600	2 168
Transport, storage and communication	15 751	15 608	20 570	3 657	23 693	3 439	27 880	4 811	33 416	3 691
Financial intermediation	502	116	479	65	1 123	6	1 484	-	649	1
Real estate, renting and business activities	13 855	2 814	13 433	1 695	15 743	1 834	20 754	3 253	27 231	4 999
Public administration and defence	3 920	14 633	8 292	4 352	9 469	4 559	12 218	2 219	8 957	7 452

<sup>1</sup> Gross Domestic Product, 3.4.10.01/649. State Statistical Office, Skopje 2009

Education	10 218	2 333	11 552	2 039	12 466	2 263	13 095	2 241	13 918	4 173
Health and social work	4 111	5 946	8 381	2 750	10 419	2 319	8 855	6 388	12 876	8 934
Social and personal services	6 862	2 138	7 410	2 121	8 587	2 560	8 679	2 418	13 930	2 866
Total	224 081	96 689	246 387	61 586	276 235	71 227	308 880	84 453	354 200	101 676

Source: State Statistical Office

Table 1-2 represents GVP of small and medium enterprises (SME) by sector for the period 2004 - 2008. Small enterprises from the agriculture, hunting and forestry sector contributed the most to GVP. For 2008, this sector amounted to 73 221 million denars, which represents 20.67% of the total value of GVP of small enterprises. Other sectors that made a significant contribution<sup>2</sup> to GVP were: manufacturing (16.40%), wholesale and retail trade (16.72%), and construction (11.93%).

For medium-sized enterprises the greatest contribution to GVP had the manufacturing sector with a value of 34 219 million MKD or 33.65% of the total GVP value of medium-sized enterprises. It represents an increase of 8.47% compared to 2007. Other sectors that significantly contributed to GVP in 2007 were wholesale and retail trade (16.44%), and construction (9.045%).

The growth of GVP value in different sectors throughout the years has shown a constant growth; in a particular year, one can have a greater GVP from the previous year, and in general from year to year there is more positive trend of increasing of GVP in SMEs.

**Table 1-3 Gross Value of Production by Type of Enterprises**

	2003	2004	2005	2006	2007	2008
<i>(Basic prices, million MKD)</i>						
Small	206 368	224 081	246 387	276 235	308 880	354 200
Medium	77 890	96 689	61 586	71 227	84 453	101 676
Large	146 809	147 653	197 391	220 095	249 302	287 917
Total	431 067	468 423	505 364	567 557	642 635	743 793
<i>(%)</i>						
Small	47.87	47.84	48.75	48.67	48.06	47.62
Medium	18.07	20.64	12.19	12.55	13.15	13.66

<sup>2</sup> Higher than 10% participation in total GVP value

Large	34.06	31.52	39.06	38.78	38.79	38.70
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: State Statistical Office

The GVP for small, medium, and large enterprises and their contribution in 2008 amounted to 743 793 million MKD, which was an increase of 62.97% compared to 2004, and 15.74% compared to 2007. From the table above it can be stated that during the whole period (2003 – 2008) the value of GVP has increased. Depending on the period, in some years the increase was higher compared to the previous year, or the reverse, however, in general there was a constant increase. However, this was not the case for medium-sized enterprises in 2005, where the value of GVP decreased from 57.00% (or 35 103 million MKD). The participation of SMEs in GVP in the period 2003 – 2008 does not go upwards. A constant increase can be noticed until 2004, when the contribution of SME sector in the value of GVP was 68.48%. However, in the following years due to a large drop in the GVP value for medium-sized enterprises, the contribution of SMEs to the total value also decreased. For 2008 the contribution of SMEs was 61.28%, which was similar to the 2007 contribution of 61.22%.

### 1.3 Gross Value Added at Basic Prices

The Gross Value Added (GVA) is an indicator of the economic prosperity of a country. GVA measures the contribution of each producer, sector, or industry that contributes to the economy. Usually, value added at basic prices is measured as gross value, because the settings (e.g. deflation) are not deducted. GVA represents a balance between gross output and intermediate consumption. It is the basic category of GDP<sup>3</sup>.

**Table 1-4 Gross Value Added by Sectors**

	2004		2005		2006		2007		2008	
<i>(Basic prices, million MKD)</i>										
Sector	small	medium	small	medium	small	medium	small	medium	small	medium
Agriculture, hunting and forestry	28 303	394	29 190	881	31 200	1 200	30 915	1 217	38 147	1 664
Fishing	21	-	28	0	47	0	56	0	74	0
Mining	317	175	745	157	265	883	481	765	627	144

<sup>3</sup> Gross Domestic Product, 3.4.9.02/613. State Statistical Office



Manufacturing	17 195	7 139	15 885	7 843	18 742	8 111	22 586	10 440	26 119	13 137
Electricity, gas and water supply	252	922	218	972	261	949	475	1 035	454	953
Construction	10 025	3 535	11 087	1 375	12 990	1 709	15 458	3 163	15 715	2 742
Wholesale and retail trade	24 457	6 277	25 827	6 342	28 861	8 452	31 478	9 938	33 582	10 500
Hotels and restaurants	3 252	578	3 124	721	3 681	602	3 164	954	3 471	1 069
Transport, storage and communication	4 636	7 388	6 732	798	7 811	839	8 059	1 986	11 311	2 066
Financial intermediation	272	35	202	45	591	0	766	1	339	0
Real estate, renting and business activities	6 796	1 801	6 238	974	7 771	935	10 248	1 885	14 405	2 236
Public administration and defence	2 198	9 695	4 951	2 621	4 727	2 961	6 621	1 328	4 678	3 480
Education	8 533	1 380	9 120	1 133	9 432	1 388	9 836	981	10 260	1 908
Health and social work	2 385	3 470	5 014	1 643	6 563	1 322	5 959	3 713	7 479	5 225
Social and personal services	3 522	1 372	3 793	1 373	4 762	1 625	4 842	1 479	8 010	1 551
Total	112 164	44 161	122 154	26 878	137 704	30 976	150 944	38 885	176 671	46 467

Source: State Statistical Office

Table 1-4 represents the value of GVA of SMEs by sectors for the period 2004 – 2008. The total value of GVA of small enterprises in 2008 was 176 671 million MKD, which is an increase of 17.04% compared to 2007. With an exception of last year, the sector of agriculture, hunting and forestry contributed the most in GVA. The value of GVA from the small enterprises amounted to 38 147 million MKD. Compared to 2007, this was an increase of 23.39%. Each year the value of GVA for small enterprises has increased compared to the previous period.

In 2008, agriculture, hunting and forestry sector contributed with 21.59% of the total value of GVA for small enterprises. Apart from this sector, other sectors that accounted a significant contribution<sup>4</sup> in the value of GVA for small enterprises are the following: wholesale and retail trade (19.00%), and manufacturing (14.78%).

For medium enterprises the total value of GVA was 46 467 million MKD, which represents an increase of 19.49% compared to 2007. The sector with highest contribution in GVA for 2008 was the manufacturing sector with 13 137 million MKD 28.27%. Compared to small enterprises where two sectors have the highest contribution in the value of GVA for medium enterprises, the situation is quite different because depending on the year, particularly in the past few years different sectors showed largest contribution in the total value of GVA. In fact, in 2003 it was the transport, storage and

<sup>4</sup> More than 10% participation in total GVA value

communication sector, contributed mostly in medium enterprises in the total value of GVA with 23.54%. In 2004 it was the sector of public administration and defense (21.95%), in 2005 manufacturing (21.95%), in 2006 wholesale and retail trade (27.28%), and in 2007 manufacturing (26.84%).

Apart from the manufacturing sector, other sectors that contributed with more than 10% in 2007 of the total value of GVA were wholesale and retail trade (22.59%), and health sector and social work (11.24%).

**Table 1-5 Gross Value Added by Type of Enterprises**

	2003	2004	2005	2006	2007	2008
<i>(Basic prices, million denars)</i>						
Small	100 298	112 164	122 154	137 704	150 944	176 671
Medium	37 858	44 161	26 878	30 976	38 885	46 467
Large	63 764	60 889	84 346	89 579	103 929	107 658
Total	201 920	217 214	233 378	258 259	293 758	330 796
<i>(%)</i>						
Small	49.67	51.64	52.34	53.32	51.38	53.40
Medium	18.75	20.33	11.52	11.99	13.25	14.04
Large	31.58	28.03	36.14	34.69	35.37	32.54
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: State Statistical Office

For 2008, the total value of GVA was 330 796 million MKD, which was an increase of 63.82% compared to 2003, and an increase of 12.60% compared to 2007. The contribution of the SME sector to the value of GVA throughout the years increased continuously. However, due to the huge fall in the contribution of medium enterprises to the total value of GVA, for 2005 and 2006, to almost half the level for 2004, the contribution of the SME sector decreased to 63.86% for 2005, 65.31% for 2006, 64.63% for 2007, and 67.44% for 2008.

## 2. Legal Framework

### 2.1 Opening a business

The most frequent form of legalization of the business activities in the Republic of Macedonia is Trade Company, or a Company. More specifically, Trade Company is a legal entity in which one or several entities invest monetary resources, objects or property rights that are used for business operation mutually, and mutually share profit or loss from such business operation. Trade Company can be established by domestic and foreign natural and legal entities.

Founders of a trade company cannot be:

1. A natural entity for whom by a final judicial decision (there must be a court decision, not solely a suspicion) was concluded that deliberately caused bankruptcy, thus the creditors could not collect their claims. This prohibition lasts until the prohibition set forth with the court decision exists;
2. Entities for which a bankruptcy procedure is initiated at the time of the procedure (solely for the period of the bankruptcy procedure);
3. Entities who has not paid taxes and social benefits set forth in the Laws, i.e. members of the managing bodies, i.e. manager of these entities, including the entities from the companies that ceased to exist;
4. Entities, i.e. stakeholders or shareholders in companies whose accounts are blocked, i.e. members of the managing bodies, i.e. manager of these entities for the period of the blockage of the account.

Any person may be a founder of several companies, unless the Law on trade companies prohibits it. A natural person may, at the same time, be a stakeholder with unlimited liabilities only in one company. In addition to the application for foundation of a company in the Trade Register, the founders also submit a written statement verified by a notary that there are no obstacles for them to found a company as set forth in the Law on trade companies. The founder does not need to be employed into the company founded by him.

## 2.2. One-stop-shop registration system

By the Law for one-stop-shop registration system adopted by the Parliament of the Republic of Macedonia (official gazette of RM no. 84/2005), fast and efficient registration of trade companies took place. One-stop-shop system represents a single electronic register on the territory of the Republic of Macedonia. This facilitates easier access to information to the public. By visiting only one counter, accurate information about business partners, financial reports, credit worthiness, balance, current condition and many other information can be obtained. Business entities obtained many advantages with the implementation of the one-stop-shop system: cheaper registration, visiting only one counter reduces the time needed for the registration process to only 3 days, accurate information for the business partners. Foreign investors can easily obtain information about potential partners through their domestic registers (European Business Register), reduction of administrative barriers to entry into the Republic of Macedonia, obtaining accurate and complete information about the operations of the companies that can be invested in. The process of control of subjects got easier for the State authorities, a simpler procedure for issuing licenses, saving budget funds for multiplication of administrative registers, more efficient data management. The banking and business sector through the one-stop-shop system also got an easier and faster access to financial and credit information for their clients.

**Table 2-1 Expenses related to registration of enterprises (in MKD):**

Trades register and register of other legal entities

Registration in registers	Register	WEB	One-stop-shop	TOTAL
Establishment				
Sole proprietor	1 100,00	99,00	753,00	1 552,00
Limited Liability Company	1 700,00	99,00	753,00	2 552,00
Share companies	3 000,00	99,00	753,00	3 852,00
Others	1 600,00	99,00	753,00	2 452,00

Source: Central Registry

Apart of these expenses related to the services of the one-stop-system and the services of the Central Registry, there are additional expenses that need to be taken into account:

- Preparing a stamp 350 MKD;

-Notary verification of the documents 620 MKD;

Because of that the minimum expenses for acquiring a certificate of company registration are amounted to around 3522 MKD (57 EUR).

### 2.3 Classification of Enterprises

According to the Law on Trading Companies enacted in 2004, enterprises in the Republic of Macedonia must take one of the following legal forms:

- General Partnership Company
- Limited Partnership Company
- Limited liability company
- Joint-stock company
- Limited Partnership by shares

Most of the companies in the Republic of Macedonia are registered as limited liability company, which that they are founded by one person (LLC)<sup>5</sup> or more natural or legal entities (DOO). The Law on Trade Companies defines the value of minimal capital requirements of an enterprise. This value may not be less than 5 000 EUR in convertible MKD. In accordance to the amendments to the Law, however, there is a possibility that minimum capital requirements may comprise the company assets during the first year of operation, which means that during the registration procedures the minimum capital requirements may equal to zero MKD.

**Table 2-2. Classification of enterprises**

	EU Definition of Enterprises <sup>6</sup>	Law on Trade Companies (2004)
Micro	Up to 10 employees	Up to 10 employees
	Annual turnover ≤ 2 million EUR	Annual turnover < 50.000EUR

<sup>5</sup> Limited Liability Company One Person

<sup>6</sup> [http://europa.eu.int/comm/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm)

	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
Medium	Balance sheet total ≤ 10 million EUR	Annual turnover < 2 million EUR
	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: Law on Trade Companies

The classification of enterprises in the Law on Trade Companies was prepared in accordance to the definition used in EU. However, in order to accept the EU definition as a national one, some minor adjustments are made in terms of values compared to the EU definition.

### 3. Enterprises in the Republic of Macedonia – Size and Structure

Private enterprises contribute considerably to the economy of every country. They play an important role in terms of their contribution to GDP, creation of employment, increasing the exports, improved promotion of the domestic products to foreign markets, creation of innovative products and services etc. In all countries worldwide the number of SME s represent between 95% and 99% of the total number of private enterprises.

#### 3.1 Enterprises in the Republic of Macedonia

The number of registered enterprises in Republic of Macedonia is continually increasing, and so is their contribution to the economy. Most of the enterprises belong to the category of small enterprises. They represented 98.84% of the total number of active enterprises<sup>7</sup> in 2009, reflecting the importance of these enterprises for the economy of the country.

**Table 3-1 Number of registered subjects**

Year	Number of subjects
2006	91 104
2007	94 112
2008	98 270
2009	101 323

##### 3.1.1 Active enterprises by Sectors

In 2009, the number of active enterprises in the Republic of Macedonia was 61 454. The number of small enterprises was 60 746, the number of medium-sized was 496, and the number of large enterprises was 117. The table below shows the number of active enterprises by sectors for 2009.

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<sup>7</sup> Registered by the law on Trade Companies

**Табела 3-2 Number of active enterprises by sectors**

Year 2009				
Sector	small	medium	large	total
A – AGRICULTURE, FORESTRY AND FISHING	1743	22	4	1769
B – MINING AND QUARRYING	131	6	4	141
C – PROCESSING INDUSTRY	6780	166	45	6991
D - ELECTRICITY, GAS AND WATER SUPPLY	53	2	5	60
E – CONSTRUCTION	3806	44	6	3856
F – WATER SUPPLY; WASTE WATER DISPOSAL, WASTE MANAGEMENT AND ACTIVITIES FOR ENVIRONMENTAL RESTORATION	222	14	6	242
G – WHOLESALE AND RETAIL TRADE; REPAIRING MOTOR VEHICLES AND MOTORCYCLES	26506	163	27	26696
H – TRANSPORT AND STORAGE	5962	22	6	5990
I – ACCOMODATION AND FOOD SERVICE ACTIVITIES	3998	10	1	4009
J – INFORMATION AND COMMUNICATION	1225	18	7	1250
K – FINANCIAL AND INSURANCE ACTIVITIES	313	2	79	394
L – ACTIVITIES RELATED TO REAL ESTATE	383	3	1	387
M - PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	3179	9	0	3188
N – ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1032	13	0	1045
O – PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL INSURANCE	11	4	0	15
P – EDUCATION	475	4	0	479
Q – ACTIVITIES ON HEALTH AND SOCIAL PROTECTION	2829	14	0	2843
R - ART, ENTERTAINMENT AND RECREATION	483	0	1	484
S – OTHER SERVICE ACTIVITIES	1612	0	0	1612
T – ACTIVITIES OF HOUSEHOLDS AS EMPLOYER; ACTIVITIES OF HOUSEHOLDS PRODUCING VARIOUS GOODS AND PERFORM VARIOUS SERVICES FOR PERSONAL NEEDS	2	0	0	2
U – ACTIVITIES OF EXTRATERRITORIAL ORGANIZATIONS AND BODIES	1	0	0	1
<b>TOTAL :</b>	<b>60746</b>	<b>516</b>	<b>192</b>	<b>61454</b>

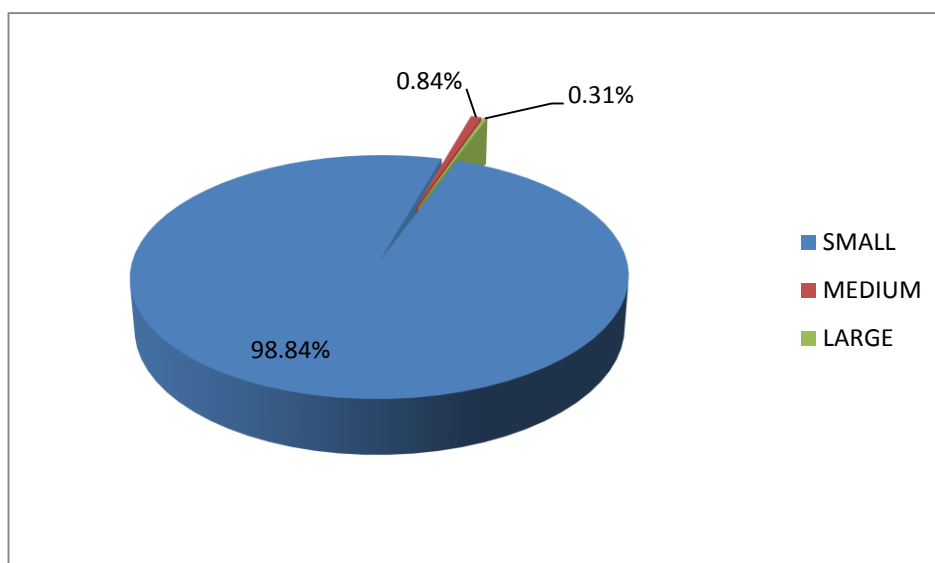
Source: Central Registry

Similar to previous years, in 2009 the largest number of enterprises was located in the wholesale and retail trade sector - 26 506 or 43.63% of the total number of active enterprises. Although significantly smaller, other sectors with at least or approximately 10% of the total number of the active enterprises were manufacturing industry with 6 991



or 11.37%, as well as transport and storage with 5 990 enterprises or 9.74% share. In order to get a clearer picture for the sectors from the previous year, a new national classification of activities is applied that now consists of 21 sectors unlike the old, which consisted of 15 sectors.

**Graph 3-1 Percentage Share of Active Enterprises in 2009**



Source: Central Registry

The situation of the small enterprises is similar to the global. Actually, these enterprises are mostly active in the wholesale and retail sector. Their number in 2009 was 26 506, which represents 43.63% of the total number of active small enterprises. Other important sectors in respect to the number of small enterprises were manufacturing industry with 6 780 enterprises, transport and storage with 5 962, објекти за сместување and service food activities with 3 998 enterprises.

The number of medium sized enterprises in 2009 was 516. The sector of manufacturing industry is the most abundant with 166 enterprises, or 32.17% of the total number of medium-sized active enterprises. Other sectors that contributed with 10% or more percent are the whole sale and retail trade sector with 163 enterprises or 31.59%, and construction sector with 44 enterprises or 8.52% of the total number of active medium enterprises.

Regarding large enterprises sector, the financial sector and insurance activities sector had biggest number of enterprises, or 41.14% of the total number of large enterprises. Other sectors with significant contribution were manufacturing industry with 23.43%, wholesale and retail trade with 14.06% of the total number of active large enterprises.

**Table 3-3 Number of newly registered enterprises through the one-stop-shop system (2006-2008) NACE rev 1.1**

		2006	2007	2008
<b>SECTOR</b>				
A	A – AGRICULTURE, HUNTING AND FORESTRY	327	636	910
B	B - FISHING	7	10	19
C	C - MINING AND QUARRYING	28	29	24
D	D - PROCESSING INDUSTRY	1156	1324	1233
E	E – ELECTRICITY, GAS AND WATER SUPPLY	12	21	31
F	F - CONSTRUCTION	607	593	731
G	G - WHOLESALE AND RETAIL TRADE	3885	4499	4268
H	H – HOTELS AND RESTAURANTS	730	864	980
I	I - СООБРАКАЈ, СКЛАДИРАЊЕ И ВРСКИ	1069	1072	1008
J	J – FINANCIAL INTERMEDIATION	35	41	39
K	K - ACTIVITIES RELATED TO REAL ESTATE, RENTING AND BUSINESS ACTIVITIES	573	769	821
L	L – EDUCATION	34	72	70
M	M – HEALTH AND SOCIAL WORK	3	3	2
N	N - OTHER COMMUNITY, CULTURAL, SOCIAL OR PERSONAL SERVICES	262	346	509
O	O – PRIVATE HOUSEHOLDS WITH EMPLOYED PERSONS			1
	<b>TOTAL</b>	<b>8728</b>	<b>10279</b>	<b>10646</b>

Source: Central Registry

**Table 3-4 Number of newly registered enterprises through the one-stop-shop system (2009) NACE rev 2.0**

		2009
<b>SECTOR</b>		
A	A – AGRICULTURE, FORESTRY AND FISHING	469
B	B – MINING AND QUARRYING	20
C	C – PROCESSING INDUSTRY	933

D	D - ELECTRICITY, GAS, STEAM AND CLIMATIZATION SUPPLY	35
E	E - WATER SUPPLY; WASTE WATER DISPOSAL, WASTE MANAGEMENT AND ACTIVITIES FOR ENVIRONMENTAL RESTORATION	33
F	F - CONSTRUCTION	627
G	G - WHOLESALE AND RETAIL TRADE; REPAIRING MOTOR VEHICLES AND MOTORCYCLES	3290
H	H - TRANSPORT AND STORAGE	964
I	I – ACCOMODATION AND FOOD SERVICES ACTIVITIES	924
J	J - INFORMATION AND COMMUNICATION	230
K	K - FINANCIAL AND INSURANCE ACTIVITIES	28
L	L - ACTIVITIES RELATED TO REAL ESTATE	44
M	M - PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	447
N	N - ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	163
O	O - EDUCATION	59
P	P – HEALTH AND SOCIAL INSURANCE ACTIVITIES	1
Q	Q - ART, ENTERTAINMENT AND RECREATION	144
R	R – OTHER SERVICE ACTIVITIES	314
	<b>TOTAL</b>	<b>8725</b>

Source: Central Registry

In order to get a clearer picture for the sectors from the previous year, a new national classification of activities is applied that now consists of 21 sectors unlike the old, which consisted of 15 sectors.

With effect from 01.01.2006, following the adoption of the Law on the one-stop-shop system and for the maintenance of the trade register and the register of other legal entities<sup>8</sup>, the one-stop-shop system has been in operation as an integral part of the Central registry. According to the data from the one-stop-shop system, the number of newly registered companies for 2006, 2007, 2008 and 2009 was 8728, 10279, 10646 and 8725 respectively. Out of this number, for 2006, 8725 were SMEs, whereas in 2007, 2008 and 2009 all newly registered enterprises were SMEs. In 2009 the three sectors with highest employment among newly registered enterprises were wholesale and retail trade (3290), manufacturing industry (933), and transport and storage sector with (964) enterprises

<sup>8</sup> Official Gazette of the RM 84/05

**Table 3.5 Number of active enterprises by years**

year	small	medium	large	total
2005	43 887	462	84	44 433
2006	47 740	440	88	48 268
2007	50 541	424	95	51 060
2008	62 624	496	117	63 237
2009	60 746	516	192	61 454

Source: Central Registry

Table 3-4 shows that the number of active enterprises continually increases from year to year up to 2008. Due to the global economic crisis the total number of active companies decreased in 2009 and amounted to 61 454. The number of active small enterprises in 2008 was 62 624, and 60 746 in 2009 that is a decrease of 2.99 %. The situation with medium and large enterprises shifts forward compared to 2008. In 2008, there were 496 medium enterprises, and 516 in 2009, which is an increase of 3.87%. The situation with large enterprises is similar; their number in 2008 was 117, and 192 in 2009, which is an increase of 39.06%.

## 4. SMEs and Foreign Trade<sup>9</sup>

In 2009, the Republic of Macedonia noticed significant increase in the foreign trade exchange. Adverse economic conditions globally had significant effects on foreign trade in 2009. Due to the fact that more than 60% of the foreign trade accounts to the countries of the European Union and other developed countries hit by the financial crisis, the current account deficit widened to 2.1 times compared to 2008. The total exchange of goods with foreign countries reduced to 83.5% of GDP versus 112.7% of GDP in the previous year. Slowed down international trade brought the exchange of goods with foreign countries almost to the average level from 2001 to 2004 година. The fall of the demand globally was reflected by a significant decline in exports of goods, which reduced to 29% of GDP versus the average share of 40% of GDP in the last three years. In 2009 the import of goods reduced to 54.5% of GDP versus the average share of 65% of GDP in recent years.

### 4.1 Exports from the Republic of Macedonia

The decline in exports of industrial products contributed the largest portion or about 78% of the total decline in exports in 2009, while a smaller part is explained by reduced private consumption in the economies of our trading partners, and the large decline in exports of oil. In addition, two thirds of the decline in exports are result from the annual decline of the export of iron and steel, or 56%, which showed the sensitivity of the domestic economy to the high competition. Reduced demand for iron and steel, and the decline of prices of metals on the global markets reflected the value of this important export segment. The rest of the decline in exports is due to decreased export of oil and oil products, clothing and metal ores, and metal scrap. Exports of oil and oil products reduced by 33% on annual basis, in lower export price and smaller quantity. Exports of clothing which is the second most important export category, recorded an annual decrease of 13.4% conditioned by lower consumption in economies of our trading partners. Exports of metal ores and metal scrap decreased by 38.7% compared to the previous year.

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<sup>9</sup> Since data on SMEs is missing, this chapter considers all sizes of enterprises together.

**Table 4-1 Countries to which Macedonian Enterprises Export**

	2006		2007		2008		2009	
Country	Export (in million \$)	%	Export (in million \$)	%	Export (in million \$)	%	Export (in million \$)	%
Serbia	557.85	23.24	672.69	19.8	973.29	24.47	632.47	23.50
Germany	375.48	15.64	501.78	14.77	563.25	14.16	450.38	16.73
Greece	361.16	15.04	424.65	12.5	535.00	13.45	290.01	10.78
Italy	236.85	9.87	349.89	10.3	321.00	8.07	217.97	8.10
Bulgaria	130.14	5.42	243.91	7.18	376.64	9.47	216.95	8.06
Belgium	83.15	3.46	178.08	5.24	109.21	2.75	36.13	1.34
Spain	50.40	2.10	172.95	5.09	76.90	1.93	38.71	1.44
Croatia	124.23	5.17	165.13	4.86	228.96	5.76	152.72	5.67
Bosnia and Herzegovina	64.70	2.70	88.97	2.62	104.84	2.64	86.64	3.22
United Kingdom	36.46	1.52	75.96	2.24	69.94	1.76	42.89	1.59
Albania	40.56	1.69	73.11	2.15	106.77	2.68	83.95	3.12
Holland	55.39	2.31	73.15	2.15	70.61	1.77	61.53	2.29
Slovenia	41.18	1.72	69.06	2.03	65.11	1.64	34.27	1.27
Turkey	55.18	2.30	53.78	1.58	31.56	0.79	40.76	1.51
USA	22.42	0.93	52.74	1.55	11.09	0.28	9.49	0.35
Russia	25.48	1.06	23.60	0.69	32.68	0.82	22.54	0.84
Austria	14.99	0.62	19.97	0.59	22.49	0.57	19.08	0.71
France	10.29	0.43	16.06	0.47	24.27	0.61	12.60	0.47
Sweden	50.40	2.10	15.23	0.45	9.43	0.24	9.46	0.35
Switzerland	10.19	0.42	10.75	0.32	16.14	0.41	17.38	0.65
Denmark	1.56	0.06	3.73	0.11	13.83	0.35	2.23	0.08
Czech Republic	10.66	0.44	11.33	0.33	14.33	0.36	9.32	0.35
Japan	1.23	0.05	0.67	0.02	1.29	0.03	3.16	0.12
China	1.47	0.06	0.58	0.02	1.61	0.04	3.24	0.12
Other countries	50.98	2.13	100.50	2.96	197.99	4.98	197.62	7.34
Total:	2400.71	100.00	3398.27	100.00	3978.23	100.00	2691.53	100.00

As illustrated in table 4-1, in 2009 the value of exports from the Republic of Macedonia was 2691 million USD. Compared to 2008, the export volume decreased by 32.34%, or 1286 million USD.

From the same table it can be concluded that enterprises from the Republic of Macedonia export mostly to the EU countries (Germany, Greece, Italy, and Bulgaria), and to the countries in the region (Serbia, Croatia, and Bosnia and Herzegovina).

The major importer of Macedonian products was Serbia with 23.50% of the total export. With the exception of this year exports in this country continuously increased from year to year, although exports is decreased compared to the previous year, Serbia still remains the major importer of our products. Value indicators show a rather positive picture regarding the export to other countries as well, such as Germany, Greece, Bulgaria, Albania, Croatia, etc.

More than half of the value of export in 2009 (or 59.11%) goes to only four countries Serbia, Germany, Italy, and Greece.

There are countries to which Macedonia in 2009 did not export as much as in the previous years. More significant decrease in exports are Spain, Belgium, Italy, USA, Slovenia, Croatia, and other.

#### **4.2 Import into the Republic of Macedonia**

The value of the total imports of goods in 2009 was 5043 million USD. Compared to 2008 the total import decreased by 1808 million USD, or 26.39%.

The decrease of imports, in contrast to the decrease of exports was distributed in several sectors. The effects of the crisis, which reflected to the export in very short delay, resulted to a decrease of raw materials. Thus, half of the decrease of the value of imported goods is due to the reduced import of industrial supplies needed for production, or reduced import-export component. Import of iron and steel recorded almost identical decline, and the exports by 57.4% on annual basis while imports of iron ore and metal scrap decreased with the same intensity, or 54% on annual basis. The rest of decrease of imports, or about one-third is due to the decline of imported energy component. The reduction of economic activity and lower degree of utilization of industrial capacities resulted in decrease of imports of electricity and gas by 62% and 46% on annual basis. At the same time the sudden decrease of price of oil and oil products had a downward

effect on their import value, dropped by 29% compared to the previous year. Also, adjustment of household consumption reflected in lower imports of consumer goods.

Observed by regions, largest import in 2009 was observed in the developed countries, and in that context of imports from the EU countries accounted for 50% of the total import into the Republic of Macedonia.

**Table 4-2 Import into the Republic of Macedonia**

2006		2007		2008		2009		
Country	Export (in million \$)	%	Export (in million \$)	%	Export (in million \$)	%	Export (in million \$)	%
Russia	569,58	15,58	638,18	12.09	930,89	13.59	495.02	9.82
Germany	369,27	10,10	533,13	10.1	650,33	9.49	517.49	10.26
Serbia	282,85	7,74	455,89	8.63	538,45	7.86	398.81	7.91
Greece	319,88	8,75	416,24	7.88	510,83	7.46	439.17	8.71
Italy	226,92	6,21	313,28	5.93	382,91	5.59	361.71	7.17
Bulgaria	250,17	6,84	271,13	5.13	327,07	4.77	242.63	4.81
China	139,39	3,81	245,65	4.65	314,77	4.59	289.41	5.74
Turkey	123,92	3,39	198,46	3.76	268,75	3.92	250.75	4.97
Poland	117,68	3,22	162,67	3.08	265,29	3.87	83.22	1.65
Slovenia	129,41	3,54	156,08	2.96	203,36	2.97	190.88	3.78
Switzerland	59,08	1,62	114,67	2.17	292,69	4.27	123.15	2.44
Croatia	78,96	2,16	110,85	2.1	137,71	2.01	118.34	2.35
Austria	80,56	2,20	102,75	1.95	119,83	1.75	100.30	1.99
Romania	91,87	2,51	96,66	1.83	117,51	1.72	107.82	2.14
France	66,25	1,81	90,77	1.72	121,25	1.77	91.41	1.81
USA	41,00	1,12	77,47	1.47	99,18	1.45	110.73	2.20
Brasil	39,64	1,08	75,36	1.43	121,65	1.78	62.91	1.25
Holland	59,77	1,63	75,31	1.43	93,72	1.37	70.42	1.40
Czech Republic	32,79	0,90	64,61	1.22	65,40	0.95	51.89	1.03
Hungary	38,06	1,04	55,24	1.05	80,56	1.18	50.90	1.01
Sweden	29,15	0,80	55,03	1.04	53,54	0.78	31.63	0.63
Korea	41,24	1,13	55,09	1.04	57,44	0.84	38.38	0.76
Spain	51,73	1,41	52,09	0.99	54,80	0.8	48.35	0.96
United Kingdom	37,17	1,02	52,88	1.00	67,08	0.98	62.51	1.24
Japan	26,96	0,74	41,24	0.78	57,87	0.84	54.36	1.08
Bosnia and Herzegovina	26,53	0,73	34,94	0.66	52,60	0.77	46.53	0.92



Belgium	26,22	0,72	32,41	0.61	42,10	0.61	33.53	0.66
Canada	36,04	0,99	15,77	0.3	17,35	0.25	23.22	0.46
Other countries	264,63	7,24	686,55	13	806,64	11.77	547.66	10.86
Total	3656,72	100,00	5280,58	100,00	6851,57	100,00	5043,11	100.00

Source: State Statistical Office, National Bank of the Republic of Macedonia

## **5. SMEs and Employment**

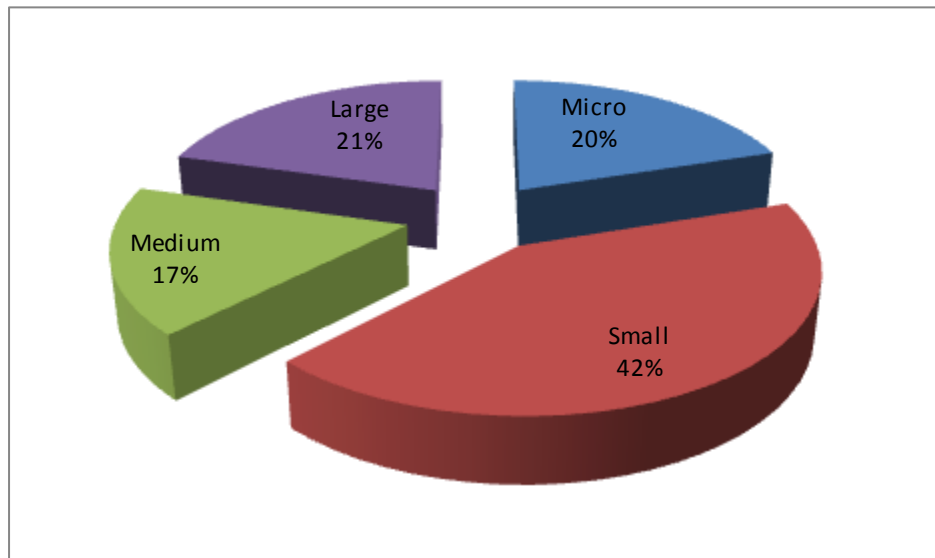
Employment is an important element because it provides means to satisfy personal needs, and the needs of the household. In order to utilize the advantages of today's economy that are based on knowledge, it is important that employees continually educate themselves, to upgrade their skills, to follow the trends of technological development, and to adapt to changes without having to confront difficulties – as one of the most important precondition for their adaptation to the labor market. To make use of new technologies and opportunities provided by the information and communication technologies, companies need educated and highly trained staff. Therefore, improving education, skills and quality of the employees should be a priority for every country.

### **5.1 Employment in the Republic of Macedonia**

Employment in the Republic of Macedonia is increasing over time. However, unemployment is one of the biggest problems which Republic of Macedonia is facing in recent years. According to the data from the State Statistical Office and Employment Agency, the number of active population in Republic of Macedonia in 2009 was 928 775 persons, where 629 901 persons are employed, or 67.8%, while the number of unemployed is 298 873, or 32.2%. The number of employed compared to the previous year has increased by 3.4%. Compared to 2008, the number of unemployed persons decreased by 3.7%. The rate of active population in 2009 was 56.7%, the rate of employment 38.4%, while the rate of unemployment was 32.2% and compared to 2008 has decreased.

The number of employed in small, medium, and large enterprises in 2009 was 343 059. Thereof 62% were employed by small enterprises, 17% by medium-sized, and 20% in large enterprises. This illustrates the importance of the SME sector, which employs more than  $\frac{3}{4}$ , or almost  $\frac{4}{5}$  of the total number of employees in the Republic of Macedonia, or 79%. In 2009, 213 789 persons were employed in small enterprises, 58 960 in medium-sized, and 70310 in large enterprises.

**Graph 5-1 Percentage distribution of the employees by enterprises for 2009**



Source: Central Registry

## **5.2 Self-employment**

Long term goal of the self-employment program is to reduce the unemployment and poverty by starting new businesses. The program is implemented through training of unemployed persons interested in learning about entrepreneurship, preparing solid and sustainable business plans, assistance with registration and business grant for starting new business.

For accomplishment of each self-employment, grants will be provided in the amount of 201,897.00 Denars, of which 185,000.00 Denars in the form of direct support for procurement of equipment and materials, while the other 16,897.00 as a support in form of basic training for business, voucher system for making a business plan, and support during registration of the businesses.

Target group:

250 young unemployed persons up to 27 years, registered in Agency for Employment of the Republic of Macedonia (AERM) for more than six months;

150 unemployed women, registered in ESA for more than one year;

200 long term unemployed persons, registered in ESA for more than one year;

Scope of users:

600 registered unemployed persons

Unemployed persons involved in this program will not be able to return to record in AERM within three years. The competent institutions (MLSP, AERM, APPRM AND UNDP) took all the necessary actions for the implementation of this program.

#### Completed activities

Operational guideline for the project is selected that has an objective to describe in detail the methodology, activities, and steps that will be taken mutually by MLSP, AERM, APPRM, Central Registry, and UNDP for implementation of the current measure.

In order to make popular the active measure for employment, the self-employment program, the responsible persons from the Employment Centers had performed on local televisions, where the program was presented. A promotional material was also prepared (flyers), which included all the necessary information regarding the measure of interest for the unemployed. This material was distributed to all interested persons through the Employment Centers.

According to the operational guidelines, public notice, work plan, application forms, informational sheets, documents for acceptance, criteria for selection, tables for selection, monitoring team, guidelines for the voucher program etc. were prepared.

In each Employment Center a team is put together in order to implement active measures and policies for employment, and dedicated room for accepting interested unemployed persons, in order to specifically inform on the measure.

Based on the announcement, 1517 applications by unemployed persons were filed. By filling the questionnaire for identifying entrepreneurial aspirations of the applicants, drawn from the Economic institute in Skopje, and the scoring of responses from the questionnaire, a unique list of candidates was prepared. Selection Committee made ranking points according to the points won during completing the questionnaire. The final ranking had total of 900 applicants, of whom 836 continued with training "FROM IDEA TO BUSINESS"

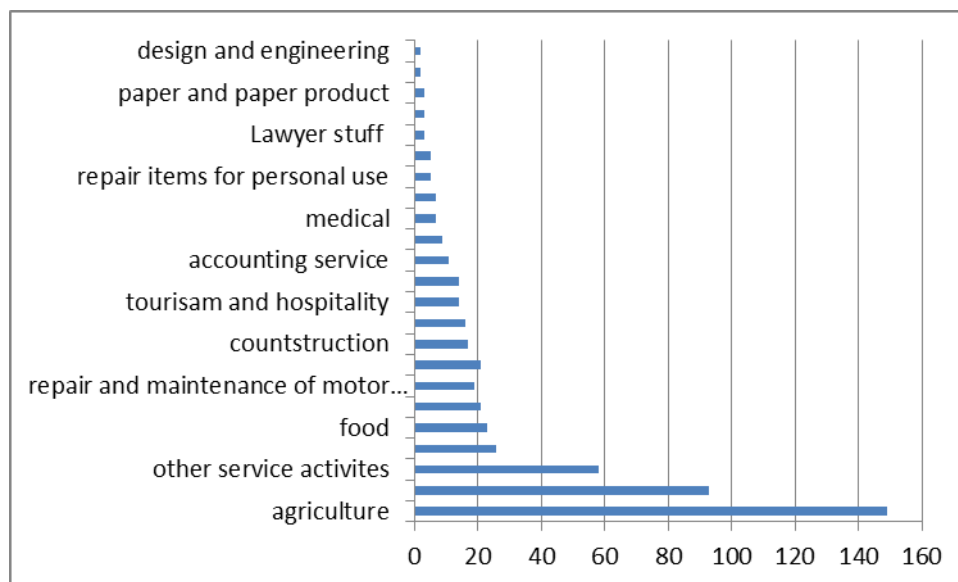
**Table 5-1 Candidates for the project self-employment**

Activity	Total
Registered candidates	1 517
Visited training "From Idea To Business"	836
Completed business plans	704
Final selection (financially supported)	654

The graph below shows that most interest for the self-employment project expressed the persons that decided to register a company for agriculture, trade, and service activities.

Under these three activities belong 57% of the total 22 activities. The remaining 19 are accounted to 43% of all activities, where most common are textile, leather, footwear, food, timber industry, and vehicle maintenance.

**Graph 5.2 Businesses by activity**



Source : APPRM

### 5.3 Employment by Sectors of Economic Activity

Employment by sectors is an important indicator illustrating which sectors of SMEs are most important in creating employment. Table 5-2 represents the number of employees by sectors in 2009.

The total number of employees in active enterprises was 343 059. Sector with the highest number of employees as in recent years was the manufacturing sector, which in 2009 had 100 898 employees, or 29.40% of the total number of employees. Also, the sector wholesale and retail trade had a significant role in the total number of employees with 80 192, or 23.37%.

**Table 5-2 Number of employees by sector of economic activity**

YEAR 2009				
Number of employees				
Sector	Micro	Small	Medium	Large

A – Agriculture, forestry and fishing	1 488	3 008	2 271	4 334
B – Mining and quarrying	75	1 057	373	2 584
C – Manufacturing industry	7 145	51 560	24 245	17 948
D - Construction	3 758	12 232	4 035	6 097
E – Electricity, gas, steam, and climatization supply	18	144	227	7 516
F – Water supply; Waste water disposal waste management and activities related to environmental restoration	201	2 435	2 948	3 633
G – Wholesale and retail trade; Motor vehicles and motorcycles repair	26 737	37 852	7 964	7 640
H – Transport and storage	6 114	9 688	1 973	7 778
I - Accommodation and Food related services	6 746	7 045	1 215	330
J – Information and communication	984	2 925	1 947	3 421
K – Financial and insurance activities	328	228	74	8 054
L – Real estate activities	295	792	363	382
M – Professional, scientific and technical activities	3 625	4 424	662	
N – Administrative and supporting service activities	987	6 590	7 076	
O – Public administration and defense; Compulsory social insurance	6	88		
P - Education	811	809	534	
Q – Activities of health and social care	6 692	1 846	605	
R – Art, entertainment and recreation	480	1 652	2 448	593
S – Other service activities	2 049	875		
T – Activities of households as employers; Activities of households producing various goods and perform various services for personal needs	2			
TOTAL :	68 540	145 249	58 960	70 310

Source: Central Registry

#### 5.4 Employment According to the Ownership Type of Enterprises

In order to increase the rate of employment, as well as to support the employees, it is very important to have knowledge where the employees work according to the ownership type of enterprises. This means how many persons are employed in private, state-owned, public or other types of enterprises.

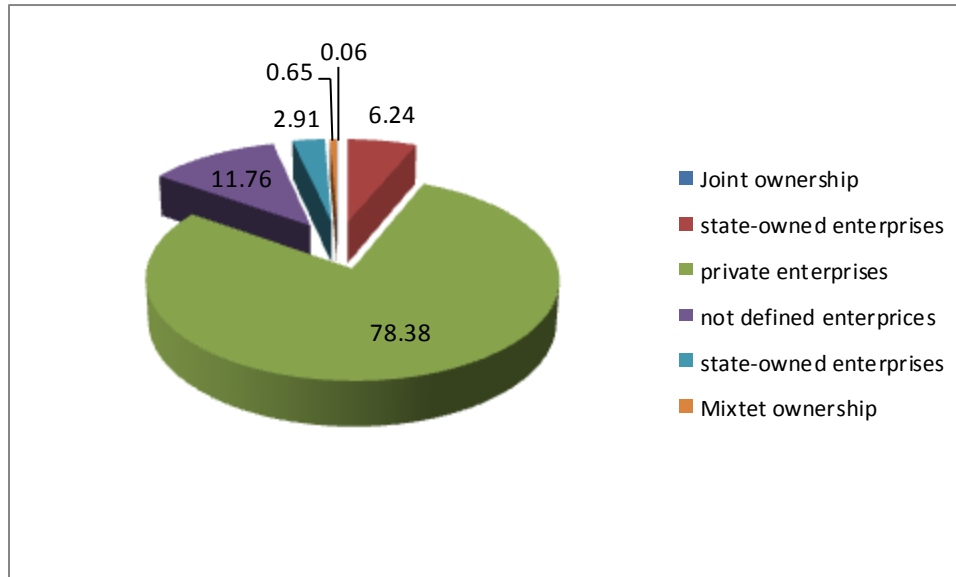
Table 5.2 represents number of employees in 2009 according to the ownership type and size of enterprises. The number of employees that work in private SMEs is highest, reaching 247 237, or 78.38%

**Table 5-3 Number of Employees by the Ownership Type of Enterprises in 2009**

Year 2009					
(Ownership type)	Small	Medium	large	Total	%
Joint Stock	155	0	32	187	0.06
State-owned	1374	1833	16469	19676	6.24
Private	201603	42563	3071	247237	78.38
Not defined	8917	11048	17141	37106	11.76
Public	1614	2837	4722	9173	2.91
Cooperative	126	679	1245	2050	0.65
Total	213789	58960	42680	315429	100,00

Graph 5.2 shows the percentage distribution of the employees in SMEs by the ownership type of enterprises. Out of the total number of employees in 2009, 247 237 or 78.38% were employed by private enterprises, 11.76% of the employees in still not defined type of ownership, 6.24% in state-owned enterprises, and 2.91% in public enterprises.

**Graph 5-3 Employees in SMEs according to the ownership type of enterprises in 2009**



Source: Central Registry

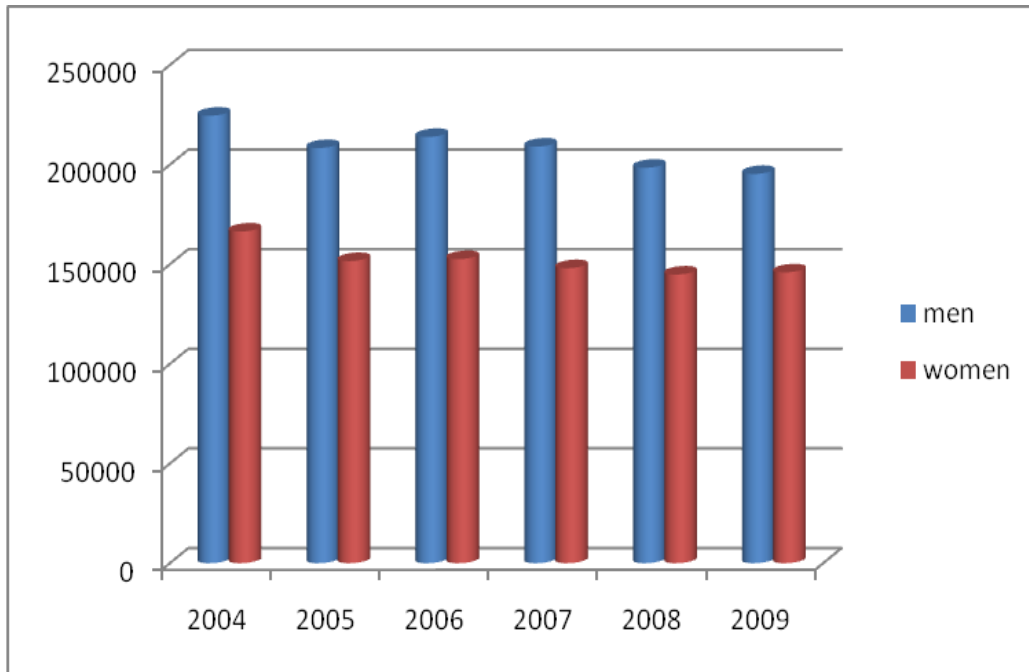
## 5.5 Unemployment in the Republic of Macedonia

Republic of Macedonia has continuously high rate of unemployment, which negatively affects the livelihood of the majority of the population, and increases poverty in the country. Restructuring from central planning to a market economy in the short and medium term had negative repercussions for the labor market. Additional burden for creating new job openings is the opening of the economy towards the EU market. Although the rate of unemployment is unacceptably high, it decreases from year to year.

Graph 5-4 shows the number of unemployed persons by sex during the period 2004 – 2009. As it can be noticed from the graph, the number of unemployed in 2009 was 341 295 persons. Compared to the number in 2004, it represents a decrease of 49 777 persons. This graph also shows that the number of unemployed women is always lower than the number of men. This is due to the fact that fewer women are officially declared as unemployed. The number of unemployed women in 2009 was 145 939, or 43% compared to the number of men, which was 195 356, or 57%

### Graph 5-4 Number of unemployed persons by gender in Republic of Macedonia





Source: Employment Agency

The structure of unemployed persons according to age structure has a significant importance and affects the situation of the SME sector. Unemployed persons are not only a source for future employment within existing SMEs, but also a basis for creating new businesses.

Table 5-3 shows the number of unemployed according to age. As it can be noticed, the number of unemployed among young people decreases. If in 2000 the number of unemployed of population up to 30 years of age was 162 864, or 44.5%, in 2009 this number was 92 933, or 27.2% of the total number of unemployed. Table 5-3 also shows that the number of unemployed up to 40 years of age is decreasing.

However, as the number of unemployed up to 30 years of age and the group of 30 to 40 years is decreasing, the number of unemployed of 40-50 years of age stagnated, and from 50 and above years of age the number increases. If the number of unemployed of 50 and above years of age in 2000 was 45 511, in 2009 this number was 91 970 persons, representing 26.9% of the total number of unemployed.

**Table 5-4 Number of unemployed persons according to their age**

	up to 30	%	30-40	%	40-50	%	50 and above	%
2000	162 864	44,5	95 430	26,1	62 406	17,0	45 511	12,4
2001	152 927	41,8	95 189	26,0	63 896	17,4	48 328	13,2
2002	148 226	40,5	99 822	27,3	71 901	19,6	54 195	14,8
2003	132 895	36,3	105 174	28,7	82 156	22,4	70 136	19,2
2004	133 604	36,5	105 651	28,8	83 008	22,7	71 273	19,5
2005	110 865	30,3	92 103	25,2	79 809	21,8	77 182	21,1
2006	106 882	29,2	91 005	24,8	79 774	21,8	85 890	22,9
2007	104 471	29,3	88 796	24,8	79 962	22,4	83 937	23,5
2008	95 253	27,7	82 777	24,1	77 033	22,4	88 300	25,7
2009	92 933	27,2	80 028	23,4	76 364	22,3	91 970	26,9

Source: Employment Agency

## 6. Financial Situation and Financing of SMEs

The financial situation is the key characteristic of each enterprise. Enterprises need to have knowledge of financial management and enterprise financing. Financial analysis helps to show the financial situation and how it can be changed. Profitability indicators are only one, but not the only indicators for evaluating the financial situation of the enterprises. Others are liquidity indicators, financial stability, or cash flow indicators.

### 6.1 Profit and Loss at the Enterprises

The profit is one of the most important success indicators for each enterprise. In many cases profit and loss are two factors that determine whether the enterprise should continue with its activities or not. Research shows that enterprises, especially from the SME sector, are able to survive in the first three years from their establishment even if they operate with losses are likely to continue operating in the following years so as to make profit.

**Table 6-1 Profit and Loss at the Enterprises**

Financial indicators (000 MKD)	Small			Medium			Large		
	2008	2009	index 2008/2009	2008	2009	index 2008/2009	2008	2009	index 2008/2009
Profit before tax	31,189,908	37,471,394	120%	9,148,187	12,044,287	132%	27,063,305	23,665,663	87%
Loss before tax	10,387,801	11,355,992	109%	2,465,707	5,062,251	205%	10,139,093	11,704,120	115%
Net profit	27,206,558	35,224,651	129%	11,876,011	11,456,477	96%	24,529,354	21,309,032	87%
Loss	9,920,934	11,296,488	114%	2,444,555	5,004,442	205%	9,911,995	11,846,691	120%

Source: Central Registry

Table 6.1 represents profit/loss at the enterprises in the Republic of Macedonia in 2008 and 2009. The total value of profit before tax gained by all types of enterprises was 73 181 million MKD in 2009, which is an increase of 8.57% compared to the previous year (67 401 million MKD). In 2009, SMEs contributed by 67.66% to the value of the total profit gained of enterprises, whereas in 2008 this proportion was 59.84%, which represents an increase of profit gained at SMEs in 2009.

Apart from enterprises that gained profit, there are some enterprises that made loss while working due to various reasons, such as low quality, high prices of products or services they offer, or due to other market reasons, customer satisfaction, etc. In 2009, SMEs faced the problem of shortage of working capital due to deteriorating liquidity of enterprises or their clients, as well as the more conservative approach of commercial banks in financing the SMEs. With the beginning of the global financial crisis, SMEs faced a reduced demand both on domestic and foreign markets.

The value of losses at the enterprises in 2009 was 28 122 million MKD. Compared to 2008, the value of losses in 2009 has increased for 5 129 million MKD, when the value amounted to 22 992 million MKD, which is a result of increased costs, or decreased productivity performance of the enterprises.

In 2009, the value of losses at small enterprises increased by 9.1% compared to 2008. Losses among medium enterprises has increased by 48.7%, while the losses at large enterprises in 2008 compared to the previous year increased by 8.6%. It can be concluded from the presented data that all enterprises decreased their productivity in 2009.

**Table 6-2 Value of Assets and Liabilities**

Financial indicators 000 MKD	Small			Medium			Large		
	2008	2009	index 2008/2009	2008	2009	index 2008/2009	2008	2009	index 2008/2009
<b>Assets</b>									
A. Claims on subscribed unpaid capital	843,221	829,691	98%	328,577	321,557	98%	1,700	1,988	117%
B. Fixed assets	215,181,830	241,457,236	112%	75,336,626	86,026,241	114%	278,647,596	331,490,326	119%
I. Non material assets	5,094,566	5,032,483	99%	2,095,378	2,446,615	117%	8,862,415	16,451,198	186%
II. Material assets	170,986,634	194,639,715	114%	65,116,810	68,500,732	105%	230,476,123	280,085,593	122%
III. Financial investments - long term	39,100,629	41,785,038	107%	8,124,438	15,078,893	186%	39,309,057	34,863,534	89%
C. Current assets	257,729,386	272,485,105	106%	86,702,524	92,779,198	107%	166,135,192	159,011,847	96%
I. Stocks	78,781,959	81,913,340	104%	28,359,851	28,200,351	99%	42,616,796	42,712,503	100%
II. Receivables	135,156,532	145,806,593	108%	47,117,097	51,313,055	109%	93,402,050	88,210,539	94%
III. Financial investments - short	20,726,968	22,169,009	107%	5,310,301	7,785,441	147%	17,971,417	17,124,186	95%

term									
IV Cash and securities	23,063,926	22,596,162	98%	5,915,274	5,691,118	96%	12,144,927	17,529,499	144%
D. Total Assets:	473,754,438	514,772,304	109%	162,042,437	179,126,998	111%	444,784,489	490,502,173	110%
Liabilities:									
A. Capital and Reserves	180,181,228	211,002,170	117%	69,242,025	55,673,116	80%	256,212,464	257,998,144	101%
I. Subscribed capital	139,694,770	147,136,972	105%	48,365,777	55,673,116	115%	202,235,435	257,998,144	128%
II. Premium on issued shares	970,081	888,119	92%	587,813	514,988	88%	1,372,033	1,456,258	106%
III. Revalorated reserves	4,187,977	7,688,550	184%	4,155,757	4,125,042	99%	27,382,714	25,362,547	93%
IV. Reserves	13,819,545	16,257,896	118%	6,204,508	6,725,791	108%	15,576,261	16,324,192	105%
V. Accumulated profit	40,455,079	55,144,785	136%	16,282,983	22,030,711	135%	31,197,091	35,752,783	115%
VI. Transferred loss (-)	36,231,849	40,042,317	111%	11,876,011	14,840,959	125%	36,168,431	40,674,719	112%
VII. Profit from the financial year	27,206,558	35,224,651	129%	7,965,750	11,456,477	144%	24,529,354	21,309,032	87%
VIII. Loss from the financial year	9,920,934	11,296,488	114%	2,444,555	5,004,442	205%	9,911,995	11,846,691	120%
B. Reserves for liabilities and expenses	596,179	1,112,201	187%	71,905	94,681	132%	3,543,145	2,847,091	80%
C. Liabilities to creditors	286,364,137	298,549,326	104%	89,623,114	95,816,777	107%	166,978,265	164,944,343	99%
D. Late payment of costs and incomes in the future periods	6,612,893	4,108,605	62%	3,105,393	2,534,843	82%	18,050,613	17,029,188	94%
Liabilities to creditors (long-term)	59,020,091	71,342,258	121%	24,149,980	26,122,656	108%	52,931,739	47,822,275	90%
Liabilities to creditors (short-term)	227,344,045	227,207,068	100%	65,473,133	69,694,120	106%	114,046,525	117,122,068	103%
E. Total Liabilities	473,754,438	514,772,304	109%	162,042,437	179,126,998	111%	444,784,489	490,502,173	110%

Source: Central Registry

In 2009, the growth of fixed assets was due to the increase of the material assets (real estate, equipment, etc.) of the enterprises compared to 2008. Consequently, the value of companies' assets has increased.

Regarding the working capital (inventory, cash and receivables), records an increase in 2009 compared to 2008. Such development has a positive effect on liquidity at the enterprises, although the global economic crisis has deeply entered into Macedonia's economy.

The increased value of the receivables at small and medium enterprises in 2009 shows that they did not manage to collect their funds from the sales in 2008, and they are faced with more problems in recovering their claims. The increased value of inventories and receivables also has a negative impact on companies' cash flow.

Liabilities (short term and long term) in 2009 compared to 2008 have increased in all types of enterprises. This means that there was a general increase of debts and decrease of liquidity. The reduced liquidity means that the enterprises are unable to pay their liabilities in the given time period.

The increased profit at small and medium enterprises in the financial year is due to the high turnover. Compared to the previous year, large enterprises had less profit.

## 7. Taxation Policy

In 2007, the government of the Republic of Macedonia made a major restructuring of the Macedonian tax system. Until then, progressive rates of personal income tax of 15% 18% and 24% were employed. Profit tax was 15%. In 2007 came into force the new tax system so called "FLAT TAX". The same year, personal income tax and income tax were reduced to 12%, and next in 2008 they amounted to 10%. The purpose of introducing the new taxation system is to reduce the gray economy, and attract domestic and foreign investments.

Opposed to the progressive taxation systems, the flat tax system is simple, fair, and good for the growth of the economy. Compared to the many forms required for calculating the rates in the progressive system, the flat rate system uses only two forms of calculation: one for income tax (tax based on personal income) , and one for taxation of business and capital income. Contrary to the old systems based on source of revenue rate, (use and amount of income), flat tax treats all taxpayers equally, promoting and fulfilling the principle of "equal rights by Law". And contrary to the systems that in a way punished the entities that contribute to the national level of wealth, the flat tax system reduced the final tax rates, and eliminated biases that are present in a given moment at savings and investment, which contributes to a better and safer climate for economic activities in the competitive global system.

In recent years there are few basic suggestions existing globally on ways of introducing a flat tax, all of them based on re-formulation of existing routes developed by the economists at the Hoover Institute (Hoover Institution). There are not only two suggestions for introducing different tax system, and they are not identical, but basically they have a common trait that causes primal shaking of the existing tax systems. The simplicity and correctness are natural characteristics of the tax reform, called the flat tax. There are two basic arguments in favor of flat tax: development and honesty. Many economists are attracted by the idea of flat tax, because the old tax systems with their high rates and discriminatory attitude towards savings and investments decrease, and in certain cases stagnated growth, destroy jobs, and reduce income. Flat tax does not eliminate the tax impact on income in general.

However, the strongest argument and most convincing fact for accepting the flat tax system is its honesty. Complicated tax declarations and procedures, instructions and various troubles of taxpayers in reporting their earnings now are replaced with simple patterns.

The flat tax offers many benefits and advantages for a country, such as:

Faster economic growth. Flat tax supports increase of employment (new job openings) savings and investment. By increasing (stimulation) of the productive economic behavior, also would boost long term increase in the level of economic development.

Honesty. The flat tax treats people equally. Wealthy taxpayer with 1.000 times more income that is subject to taxation by another entity, would pay 1.000 higher tax.

End of micro management and political favoritism. Flat tax exempt use of opportunities for deductions, "loopholes in Laws", tax credits and exemptions, i.e. reductions of the tax base.



## 8. Business Demographics and Business Dynamics

The government of the Republic of Macedonia has already implemented for few years strategies, measures, action plans, and policies in order to provide conditions for business demographic development of the country. Through the implementation of action plans, decrease of social differences on any grounds will be achieved, and creating conditions for development of the human potential and its continuous contribution to the increase of the social unity. Action plans will provide conditions for increasing of the natural population growth and reducing internal and external migration and other social phenomena that negatively affect the demographic conditions in the country.

### 8.1 Active Enterprises by Municipalities

Active enterprises broken down by municipalities are also an important indicator that indicates the density of enterprises in particular regions. Actually, as the number of enterprises increases in particular region, the same region becomes more developed, and the competition among enterprises is increased. Apart from Skopje, where the majority of enterprises are located, there are other regions in the country where the number of enterprises is relatively high in terms of number of inhabitants of that region.

The number of active enterprises in the region of Skopje in 2009 was nearly 39% of the total number of enterprises. Cities where a large number of enterprises also operate are Bitola (3795), Tetovo (3707), Kumanovo (3010), Strumica (2799), Prilep (2567) and Ohrid (2490). The number of enterprises is usually proportional to the number of inhabitants living in the specified region. In larger regions, the number of enterprises is also greater.

**Table 8-1 Number of Active Enterprises by Municipalities**

Municipality	Micro	Small	Medium	Large
AERODROM	1570	642	15	5
ARACINOVO	53	35		
BEROVO	278	72	1	
BITOLA	2583	889	29	6
BOGDANCI	180	79	5	
BOGOVINJE	208	68	3	

BOSILOVO	140	60		
BRVENICA	168	48	1	
BUTEL	774	296	16	4
VALANDOVO	218	82	4	
VASILEVO	92	41	1	
VEVCANI	78	13		
VELES	688	307	18	4
VINICA	318	127	5	1
VRANESTICA	7	3		
VRAPCISTE	181	28		
GAZI BABA	1686	856	57	17
GEVGELIJA	660	319	9	2
GOSTIVAR	1165	346	7	
GRADSKO	39	13	1	
DEBAR	147	40	1	1
DEBARCA	85	25	2	
DELCEVO	289	89	1	
DEMIR KAPIJA	70	21		
DEMIR HISAR	178	50	1	
DOJРАН	63	21		1
DOLNENI	156	14		
DRUGOVO	43	6		
GJORCE PETROV	1020	412	5	1
ZHELINO	171	59	2	
ZAJAS	90	11		
ZELENIKOVO	51	14	2	
ZRNOVCI	27	15		
ILINDEN	302	105	9	2
JEGUNOVCE	82	15	1	1
KAVADARCI	1123	414	7	3
KARBINCI	31	21	1	
KARPOS	2249	1147	47	11
KISELA VODA	2427	1068	34	3
KICEVO	813	156	4	
KONCE	65	13	8	
KOCANI	765	298	1	
KRATOVO	162	48	20	1
KRIVA PALANKA	228	62		
KRIVOGASTANI	81	23		
KRUSEVO	193	26		
KUMANOVO	2120	627		

LIPKOVO	158	40		
LOZOVO	15	4	1	1
MAVROVO I ROSTUSA	92	20	2	
MAKEDONSKA KAMENICA	129	29		1
MAKEDONSKI BROD	126	24	1	
MOGILA	112	14		
NEGOTINO	485	156	7	2
NOVACI	67	6	1	
NOVO SELO	160	53	1	
OSLOMEJ	65	15		
OHRID	1762	611	14	1
PETROVEC	113	37	1	
PEHCEVO	142	30		1
PLASNICA	39	4		
PRILEP	1905	552	12	4
PROBISTIP	177	72		1
RADOVIS	674	193	2	3
RANKOVCE	13	11		
RESEN	304	102	1	1
ROSOMAN	73	22		
SARAJ	306	107	3	
SVETI NIKOLE	299	110	4	1
SOPISTE	78	15		
STARO NAGORICANE	31	4		
STRUGA	1532	287	4	1
STRUMICA	1439	627	17	2
STUDENICANI	127	68	1	
TEARCE	172	29		
TETOVO	1433	527	14	1
CENTAR	3607	2027	92	28
CENTAR ZUPA	26	7		
CAIR	1176	324	2	1
CASKA	43	10		
CESINOVO - OBLESEVO	79	27	1	
CUCER - SANDEVO	90	28	1	
STIP	972	509	17	1
SUTO - ORIZARI	171	25		2
TOTAL	42309	15850	517	115

Source: Central Registry

## 8.2 Craftsmen

The law on Craftsmen activities in Republic of Macedonia was adopted in 2004, replacing the existing Law which dated since 1998. A definition of what is meant by craftsmen and what is considered to be craft activities is provided under the new Law. The new Law defines craftsmen as any physical person registered in the Registry of Craftsmen. Information collected by the Registry of Craftsmen include:

- Name, father's name, family name, and address of residence;
- Person's ID number;
- Activities undertaken and codes of those activities in accordance to NACE; and
- Company name, short name of the company (if possible), location, and address of the premises.

Ending the craftsman's activity can be performed only if (according to what is stated in the Law):

- The craftsman is employed in another company, if he retires, or begins another business activity;
- The craftsman went to prison for more than 6 months;
- In case of death of a craftsman;
- Other situations stipulated by Law.

Table 2-2 shows the number of craftsmen by municipalities that have submitted annual account report in the Central Registry of Republic of Macedonia.

**Table 8-2 Craftsmen by Municipalities**

Municipality	Number of subjects
AERODROM	34
BEROVO	14
BITOLA	8
BOGDANCI	2
BOGOVINJE	6
BOSILOVO	11
BRVENICA	5
BUTEL	36
VALANDOVO	6
VASILEVO	2
VEVCANI	2
VELES	102
VINICA	21
VRAPCISTE	33
GAZI BABA	70

GEVGELIJA	35
GOSTIVAR	176
GRADSKO	3
DEBAR	21
DELCEVO	2
DOJLAN	2
GJORCE PETROV	45
ZAJAS	1
ИЛИЛИНДЕН	9
JEGUNOVCE	3
KAVADARCI	42
KARPOS	102
KISELA VODA	133
KICEVO	33
KOCANI	55
KRIVA PALANKA	25
KRIVOGASTANI	1
KRUSEVO	4
KUMANOVO	71
MAVROVO I ROSTUSA	1
MAKEDONSKA KAMENICA	1
MAKEDONSKI BROD	4
NEGOTINO	6
NOVO SELO	3
OSLOMEJ	2
OHRID	39
PETROVEC	2
PEHCEVO	2
PLASNICA	1
PRILEP	32
PROBISTIP	22
RADOVIS	10
RANKOVCE	1
RESEN	4
SARAJ	5
SVETI NIKOLE	16
SOPISTE	1
STRUGA	17
STRUMICA	115
STUDENICANI	1
TEARCE	4
TETOVO	148
CENTAR	201
CENTAR ZUPA	3
CAIR	76
CASKA	2
CESINOVO - OBLESEVO	4
CUCER - SANDEVO	3

STIP	38
SUTO ORIZARI	9
TOTAL	1888

Source: Central Registry

### 8.3 Sole proprietor

The work and activities of sole proprietors are regulated under the law on Trade Companies. It is important to emphasize that only a natural person can occur as a sole proprietor. Any business capable person with permanent residence in Republic of Macedonia can enter the Trade Register.

As a sole proprietor cannot be registered a person if:

1. There is a bankruptcy proceedings opened;
2. For whom, with a final court decision, is found to intentionally cause bankruptcy, so creditors could not collect their receivables during the prohibition for any activity determined by the court is on;
3. Where a competent authority, according to a Law, did not allow particular activity determined by the law on trading Companies, during the ban.

A person registered as a sole proprietor cannot, simultaneously, on any grounds, be registered as a sole proprietor in another company.

The sole proprietor is responsible for his obligations personally and unlimited with their property.

This way of conducting commercial activity is fast, simple, without many formalities, etc. In a word, very flexible. But the limitations and weaknesses are numerous: it is difficult to obtain external sources of financing (bank loans or other borrowings); it is related to the good health and the capacity of the person; it is difficult to find business partners that have no sight into the size of the physical property of the sole proprietor; and finally, the sole proprietor is responsible for his obligations personally and unlimited with all of their property.

**Table 8-3 Sole Proprietors by Cities**

2009		
City	Number of SP	(%) of total
Skopje	1758	27.13
Berovo	77	1.19

Bitola	106	1.64
Gevgelija	181	2.79
Strumica	221	3.41
Tetovo	913	14.09
Valandovo	11	0.17
Struga	83	1.28
Veles	591	9.12
Vinica	57	0.88
Kicevo	132	2.04
Gostivar	630	9.72
Debar	254	3.92
Ohrid	98	1.51
Delcevo	75	1.16
Negotino	67	1.03
Krusevo	25	0.39
Kocani	274	4.23
Kavadarci	119	1.84
Stip	147	2.27
Radovis	24	0.37
Kratovo	17	0.26
Kriva Palanka	187	2.89
Prilep	95	1.47
Kumanovo	97	1.50
Sveti Nikole	61	0.94
Makedonski Brod	16	0.25
Probistip	132	2.04
Resen	31	0.48
Total	6479	100.00

Source: Central Registry

## 9. SME Innovation, Research and Development

Innovation is the introduction of new or significantly improved product, process, organizational method, or marketing method of a company. The innovation has to be new to the company, although it can be originally developed by another company.

Regarding the development of the industry, the government of the Republic of Macedonia is in the final stage of adoption of Industrial Policy of Republic of Macedonia 2009-2020, whose main goal is to increase the competitiveness of the domestic industry, based on knowledge, innovation and research, that lead to growth and development, creating a stimulating business and investment climate, and support of enterprises for improving their competitiveness and access to new markets. This policy is in accordance to the industrial policy of the European Union, which follows the recommendations of the Lisbon strategy for creating knowledge-based economy, innovation, and entrepreneurship. There are several areas of intervention defined and specific measures are proposed: international collaboration of key stakeholders in economic development, and encouraging foreign direct investments. Applicable research, development and innovation; environmental technologies, products and services for sustainable development; development of SMEs and entrepreneurship; and cooperation in clusters and networking. Starting from the fact that competitiveness is a complex category, it is necessary to affect with a variety of measures aimed at increasing the capacities of the companies with new knowledge, fostering research and development, enabling easier access to information and measures that encourage collaboration, creativity and development of the entrepreneurial spirit among the companies. The Ministry of Economy through its existing programs: Program to boost the competitiveness of Macedonian products and services; Program for development of entrepreneurship, competitiveness and innovation of small and medium enterprises; and Program for development of cluster association; as well as through new programs and measures of the industrial policy, actively works on creating a favorable climate for work and encouraging development and competitiveness of the enterprises and the economy.

The programs are designed for financial support of the enterprises in creating products and services that will meet the strict criteria and quality standards of foreign markets, as well as their promotion on various international events. This year it involves recovering



part of the expenses for: \*ISO Certification, HACCP. For preparation of design of industrial product, for filing an international patent application. Participation in conferences, exhibitions, workshops, business forums, and other promotional events. Also, production of promotional materials for certain industries.

As one of the 9 priority programs of EU, the Framework Program for competitiveness and innovation 2007- 2013 has a special importance. It is directly aimed at the business-sector, in order to support the opportunities of the potential European partnerships, engage them in joint projects within the CIP-program, coordination of project applications supported by the European Community Programs, which establish direct contacts with companies and institutions interested in the programs of the European Union, where actively is promoted the services of the new European Network of Enterprises (EEN) among domestic companies, through various events in the country. More training and technical assistance enables an increase of human capital and improving the entrepreneurial skills. Practical training in companies is stimulated through the operation of the Human Resource Development Fund (HRDF). So far, more than 300 managers from 100 companies participated in training organized by the Fund, and also training of trainers was also conducted.

## 10. Profitability, Investments and Finances

In 2009, the inflow of capital in less developed economies were significantly reduced, when expressed aversion to risk, insufficient liquidity, reduced confidence, and tendency of the investors to invest the available funds in their own economies.

As a result of the increased interest in investing in Macedonia's potential, many international companies have started operations, as in "Greenfield" projects and by different types of funds for acquisition and privatization. Some of the major foreign investors include Johnson Matthey (Great Britain), Mobilkom Austria (Austria), EVN (Austria), T-Home (Germany), Societe Generale (France), "Johnson Controls" (USA), National Bank of Greece (Greece), Hellenic Bottling Company SA (Greece), QBE Insurance Group Limited (Great Britain), "Mittal Steel" (Netherlands), Duferco (Switzerland), and Titan Group (Greece).

Table 10-1 shows which countries and the percentage invested in the Republic of Macedonia.

**Table 10-1 Foreign Direct Investments**

<b>Country</b>	<b>% Of the total foreign direct investments</b>
Netherlands	16.9
Hungary	16.6
Greece	15.2
Austria	9.4
Switzerland	6.6
Slovenia	6.5
Great Britain	4.0
Germany	3.4
Luxembourg	2.8
Serbia	2.6
Others	16.0

Public investment program 2009-2011 was prepared in accordance with the plan of the government of the Republic of Macedonia. The program addresses the investment projects in public infrastructure, as well as sectoral development policies. It is forecasted

that from 2009 the public investments will increase to about 7% of GDP, which is the average of the new EU members.

Public investment program consists of 90 ongoing investments projects with total estimated cost of 2,492.04 € million Euro. Most projects are in the following sectors: energy, transport, water management, communal services, environment, education and science, health, etc.

In 2009, the financial sector of the Republic of Macedonia has remained with relatively simple structure with strong dominance of the banks. The main characteristic during the year was the slowing growth of assets of the financial sector. In terms of relatively simple market structure, without the presence of complex financial groups and still limited offer of financial instruments and services, the degree of inter-sectoral links between individual institutional segments and opportunities for convey of risks from one to another institutional segment, are kept on a low level. Somewhat more pronounced is the dependence of other segments of the financial system to the banking sector, which represent an important element in the assets in part of them. Slowing growth of the total assets was the main characteristic of the financial sector of the Republic of Macedonia during 2009. No significant changes were noticed in terms of participation of different types of financial institutions in the financial sector overall. At the end of 2009, total assets of the financial sector noted an annual growth of 7.9%, which is twice lower growth rate in compared to the growth in the previous year. Banks kept their role of most important institutional segment, although their share in total assets of the financial sector slightly decreased. The financial sector of the Republic of Macedonia belongs to the group of banks and the stability of the banking system has the most important role in maintaining the stability of the whole financial sector.

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