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Paper for the Development of the SME Sector**

REVISED NATIONAL DEVELOPMENT STRATEGY FOR SMALL AND MEDIUM SIZED ENTERPRISES 2006-2012

Small and Medium Size Enterprise Development-
(Technical Assistance to support Ministry of Economy
and SME support infrastructure)

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The views and proposition expressed herein are those of the Experts and do not necessarily represent any official view of the Commission or the EAR or any other organisations mentioned in the Report



List of Abbreviations:

| | |
|---------|---|
| APPRM - | Agency for Promotion of Entrepreneurship of the Republic of Macedonia |
| BAS - | Business Advisory Service |
| BDS - | Business Development Services |
| BSO - | Business Support Organisations |
| DFID - | Department for International Development |
| EAR - | European Agency for Reconstruction |
| EBA - | European Business Association |
| EBRD - | European Bank for Reconstruction and Development |
| EICC - | Euro-Info Correspondence Centre |
| ESA - | Enterprise Support Agency |
| ENSR - | European Network for SME Research |
| FDI - | Foreign Direct Investment |
| GDP - | Gross Domestic Product |
| GTZ - | Deutsche Gesellschaft für Technische Zusammenarbeit |
| JICA | Japanese International Cooperation Aid |
| IFC - | International Finance Corporation |
| IMF - | International Monetary Fund |
| ISEC - | International Executive Services Corps |
| KHF - | Know How Fund |
| LEDO - | Local Economic Development Offices |
| MACC - | Macedonian Association of Chambers of Commerce |
| MASIT - | Macedonian Association for Information Technology |
| MBDP - | Macedonian Bank for Development Promotion |
| MBRC - | Macedonian Business Resource Centre |
| MCA - | Macedonian Competitiveness Activity |
| MCIC | Macedonian Centre for International Co-operation |
| MCL - | Micro Credit Line |
| MDW - | Make Decentralization Work |
| MEDF - | Macedonian Enterprise Development Foundation |
| MoE | Ministry of Economy of the Republic of Macedonia |
| NBRM - | National Bank of the Republic of Macedonia |
| NECC - | National Council for Competitiveness and Entrepreneurship |
| NGO - | Non Government Organisation |
| PREDA - | Prilep Regional Enterprise Agency |
| PSP - | "Policy Support to Ministry of Economy" project |
| RESC - | Regional Enterprise Support Centres |
| RM - | Former Yugoslav Republic of Macedonia |
| SDC - | Swiss Development Corporation |
| SEAF - | Small Enterprise Assistance Fund |
| SEED - | Southeast Europe Enterprise Development |
| SIPPO - | Swiss Import Promotion Program |
| SME - | Small and Medium Enterprise |
| SOFI - | Swiss Organisation for Facilitating Investments |
| Soros - | Open Society (Soros Foundation) |
| TA - | Technical Assistance |
| USAID - | US Agency for International Development |
| VAT - | Value Added Tax |
| VSO - | Voluntary Service Overseas |
| WB - | World Bank |
| WTO - | World Trade Organisation |

INTERIM REVIEW

of the

**NATIONAL DEVELOPMENT STRATEGY FOR SMEs
OF THE REPUBLIC OF MACEDONIA 2002 -2012**

1. BACKGROUND AND INTRODUCTION

The "National Development Strategy for SMEs" was elaborated and approved in the summer of 2002, and was adopted for a 10 year period, through to the year 2012. Since 2002 it is this document which provides the justification, in political terms, for the programmes and policies which the Department for the Support to Entrepreneurship (of the Ministry of Economy).

The purpose of this exercise is to assess the continued relevance of the Strategy, as set out in the document "National Development Strategy for Small and Medium Enterprises". The continued relevance of the strategy, which was elaborated in 2002 depends upon:

- the nature of the problems which beset the SME sector in the Republic of Macedonia (RM) at **the end of 2005 and beginning of 2006**
- the appropriateness of the priorities which were set out in the 2002 Strategy to the problems of the sector in 2005/2006
- the suitability of the approach advocated in the 2002 Strategy vis-à-vis the problems of the SME sector in 2005/2006 and the priorities which now present themselves.

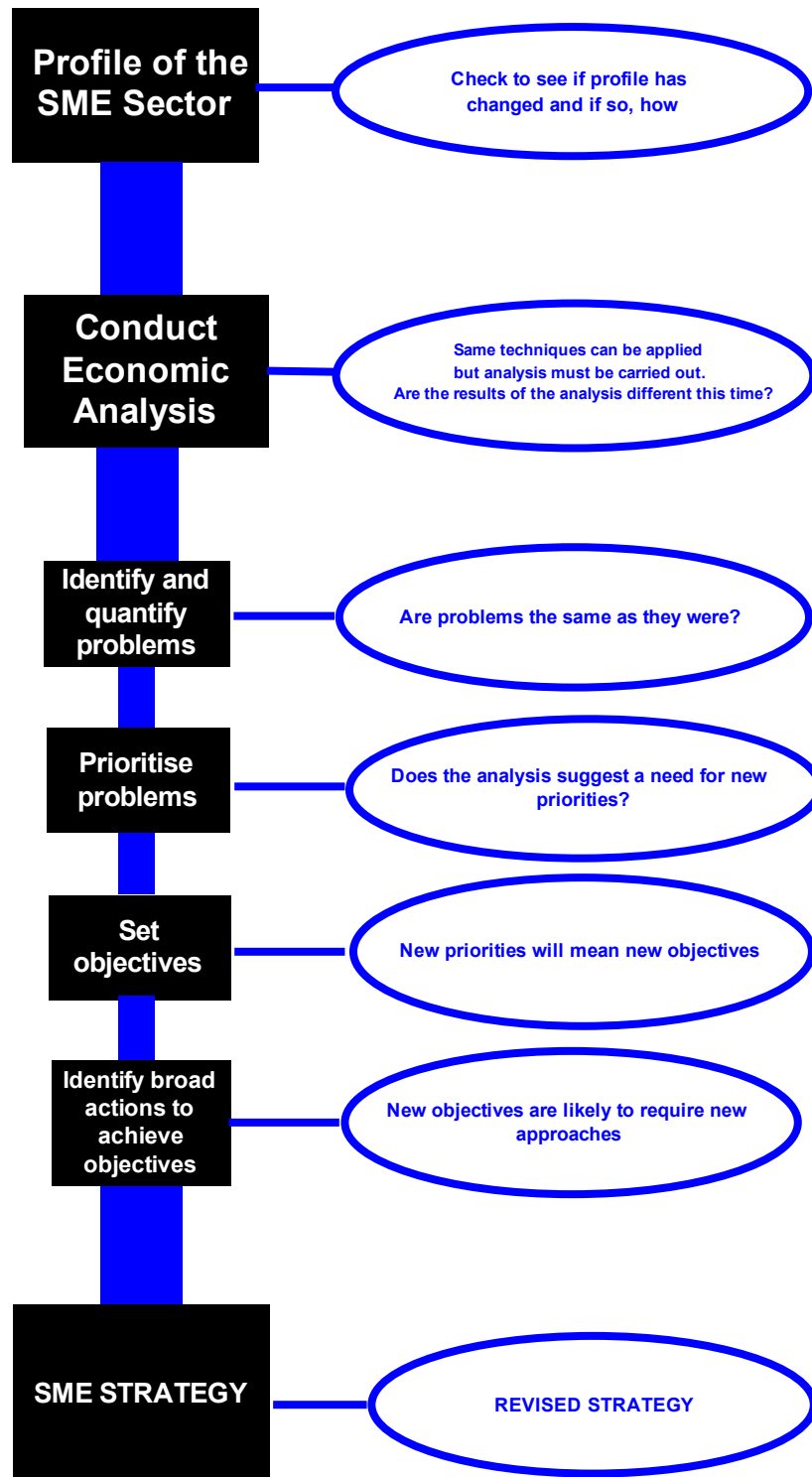
The outcome of this assessment will determine whether new priorities need to be assigned for the SME sector and whether the broad approach to the support of the sector requires to be modified.

Since the purpose of a strategy is to set out the framework within which policy decisions are to be taken, it is important that the framework, itself, does not proscribe certain courses of action which would be capable of securing significant improvements to the performance of SMEs. This would be the case if the strategy no longer related to the underlying conditions to be found in the SME sector, hence the need for regular reviews of development strategies.

This is the process which forms the basis for the review of the Strategy for the Development of Small and Medium Sized Enterprises in the RM and which will generate a Strategy for the Development of Small and Medium Sized Enterprises in the RM 2006 to 2012.

The process can be represented, as shown in figure 1 over page:

Figure 1 : The Strategy Revision Process



There are a number of important aspects of strategy development work which figure 1 helps illustrate:

- i. the importance of basing strategy on **current** information (i.e. the profile of the SME sector in the RM at the end of 2005, beginning of 2006)
- ii. the need to base strategy on economic analysis (an understanding of the underlying factors which can help us understand why the profile of the sector is as it is)

- iii. the necessity of using economic analysis to identify the key problems which the SME sector currently faces
- iv. (since there will always be more problems than we have the time and resources to be able to solve) it is essential that the key problems are **prioritised**
- v. the importance of **priorities** when it comes to setting **objectives** for the strategy
- vi. the linkage between **objectives** and **broad approaches to intervention** in the SME sector.

It is essential, for those reading the remainder of this document that points i. to vi. are fully understood and taken on board, as what follows is structured on this basis and around the important concepts in strategy development: current problems, priority problems, objectives and broad approaches to intervention.

In the section which follows, we profile the SME sector in the RM, as it exists at the end of 2005 / beginning of 2006. This is done in terms of size and structure, mainly in quantitative terms but also in qualitative terms in relation to the problems being experienced by small and medium sized enterprises. On the basis of this profiling, the principal problems besetting the sector are highlighted, and these are then prioritised.

Having articulated the priority problems, in section 3 we assess the extent to which the strategy (as it was set out in 2002) can serve as a basis for action needed 2006-2012. This will involve consideration of the extent to which the policies, programmes and projects which have been implemented 2002-2006 have succeeded in meeting the objectives which were set out in 2002. On the basis of this analysis we will be in a position to determine the extent to which the existing strategy requires modification, in terms of the broad areas of intervention which it is able to support.

Finally, in section 4 we present the revised Strategy for the Development of Small and Medium Sized Enterprises in the RM 2006-2012.

2. KEY CURRENT CHARACTERISTICS OF THE SME SECTOR IN THE REPUBLIC OF MACEDONIA

The critical macroeconomic objective is to reduce the rate of unemployment in the RM. The official rate of unemployment in the RM is 37.2%.¹ Furthermore, the employment to population ratio in the RM is 35%, which is unacceptably low. This figure of 35% is not only well below equivalent figures for the EU member states but is also below the figures achieved in other transitional economies.²

There is an over-riding need to significantly increase the numbers of persons employed in enterprises in the RM, and in this context it is absolutely necessary that all opportunities to provide employment in the SME sector are exploited to the full.

PRINCIPAL PROBLEM (to be addressed by the Revised Strategy):

The current rate of unemployment in the RM is unacceptably high and the SME sector has not, as yet, been able to generate sufficient employment opportunities, to be able to bring the unemployment rate down to internationally, acceptable levels.

2. (a) The Size of the Sector : Output, Numbers of Enterprises and Employment

Small and medium sized enterprises are the dominant type of enterprise in all market economies. The RM is no different in this respect. In 2004, 99.7% of all enterprises in the RM were either small or medium sized. The equivalent EU figure was 99.8% for 2003. The importance of the SME sector is mirrored in the employment figures, where in 2004 over 80% of the total employment is accounted for by SMEs. In 2004, an average of 6 persons was employed by each SME in the RM

The percentage figures, however, mask the extent to which the RM suffers from a limited SME sector. In absolute numbers, the limited nature of the SME sector is more apparent. In 2004 there were only 49,552³ SMEs active in the RM. This represents a figure of 24.49 SMEs per 1000 inhabitants⁴, which compares very unfavourably with the equivalent figure for the EU – 19 of 52.8.

The number of active SMEs in the RM has been growing steadily over the last 5 years at rates between 3.8% and 7.5% p.a., with an average annual growth rate of 5.7%. The specific figures are as follows:

| Year | %age change in the number of active SMEs |
|------|--|
| 2000 | 7.2 |
| 2001 | 3.8 |
| 2002 | 7.5 |
| 2003 | 6.1 |
| 2004 | 4.0 ⁵ |

This dynamic is much less impressive when changes in the numbers of registered enterprises is considered:

| Year | Number of registered SMEs |
|------|---------------------------|
| 2000 | 123,072 |
| 2001 | 123,696 |
| 2002 | 149,386 |
| 2003 | 158,091 |
| 2004 | 165,977 |
| 2005 | 172,297 |

Specific Problem N° 1:

The number of SMEs in the RM is proportionately low (in comparative terms, internationally) in the RM. While the year on year growth in the numbers of SMEs (2000-2005) has been relatively steady, it has not been sufficient to make significant inroads to the numbers unemployed in the RM.

Total value added of SMEs in the RM in 2003 amounted to 141.2 billion MKD⁶. Based upon the figures taken from table 1-2 in the Observatory Report for 2004⁷, value added in small enterprises is, on average, more than 25 times higher in the EU than it is in the RM. In the case of medium sized enterprises, the gulf is not so large, the EU average being 5 times the RM average!

Specific Problem N° 2:

Value added in the SME sector in the RM is low. Until the value added of this sector can be significantly increased it will not be possible to secure complementary increases in employment.

Facing a limited domestic market, SMEs in the RM should look to international markets as a means to increase their sales turnover and profitability. In this respect, it is important that Macedonian SMEs are well informed about market opportunities and are capable of producing goods and services which satisfy foreign customers' expectations in terms of quality standards, delivery times and price levels.

It is very difficult to assess the performance of Macedonian SMEs in these respects as, the information which, so far, has been available⁸ on exporting and importing does not allow for an analysis by the size of the enterprise involved. However, the "Enterprise Policy Performance Assessment, conducted by the OECD in 2003 pointed to the views on entrepreneurs in relation to the difficulty of obtaining assistance with issues such as strategic management, globalisation, enhancing competitiveness, industrial clusters, technology parks, etc. and a range of other more sophisticated or specialist services. The report goes on to state that "In addition, entrepreneurs highlight the following areas as being in demand: human resource management; access to international markets, distribution channels, management skills and quality (e.g. ISO) certification, etc..

In 2004, some 133 enterprises received ISO 9000 certification in the RM. Only 5 companies were awarded ISO 14,000 certification. However, in Slovenia (a country of a similar population size), the respective numbers were 1,811 and 338!

Specific Problem N° 3:

The number of SMEs in the RM which have attained the standards which are required in terms of management, production and sales and distribution to be successful in international markets remains too low, with the result that possibilities to expand production and employment have yet to be exploited to any significant effect.

2. (b) Industrial Sectors and SMEs

In sectoral terms, the retail and wholesale sector dominates SME activity and this is especially true with regard to the smaller enterprises. In 2004, 50% of all active small enterprises in the RM were engaged in either retail or wholesale activity. Next in importance to retail and wholesale was the manufacturing sector in which 16% of all active small enterprises were to be found.

It is important that the manufacturing sector, as a whole, retains its importance as an employer as significant job reductions in this sector will make the attainment of the objectives of the Revised Strategy more difficult to achieve. Currently, there are a number of sectors and sub-sectors which are very important in employment terms (textiles, food processing, construction materials, for example).

It is important to safeguard jobs in these sectors and, indeed, to support employment creation in the manufacturing sector, as a whole, as firms in this sector which are the biggest customers of the business and financial services sector. This latter sector is underdeveloped in the RM. Between them the "financial intermediation" and "real estate, renting and business activities" sectors as they are defined⁹, contain only 6% of all small enterprises.

Specific Problem N° 4

The business and financial services sector has yet to significantly develop in the RM. These industries, which are in themselves heavily dependent upon the manufacturing sector, as consumer, will be important in helping manufacturing firms reach the quality levels which are increasingly required to be successful in modern markets.

Looking to the future, employment growth can be anticipated across a number of "sunrise" sectors"¹⁰. Equally, little employment growth is to be expected from what are referred to as the "sunset" sectors (traditional manufacturing sectors for which demand, globally, has been falling).

Generally, speaking, the RM is not currently well endowed enterprises from such industries, although with 250 active enterprises, and a strong industry association, the IT industry represents an important exception to the general situation.

Specific Problem N° 5

The SME sector in the RM does not possess a strong representation of firms which are active in these sunrise sectors and starved of this the RM will find it more difficult to benefit from future employment growth within the SME sector.

2. (c) SMEs and the Regions

An analysis of the spatial distribution of SME activity indicates a lower level of activity in the east of the country than elsewhere. The analysis of 30 former municipalities, for which data exists¹¹, in terms of the number of small enterprises per thousand of population shows that 5 out of the 10 poorest performing towns, in 2004, were in the eastern part of the country.

Specific Problem N° 6

The level of SME activity in the east of the country lags behind the other parts of the RM.

Drawing together this review of the key characteristics of the SME sector in the RM at the end of 2005/beginning of 2006, we can conclude that the following problems need to be addressed in this revision of the National Development Strategy for Small and Medium Sized Enterprises:

1. the number of SMEs in the RM is proportionately low (in comparative terms, internationally) in the RM. While the year on year growth in the numbers of SMEs (2000-2005) has been relatively steady, it has not been sufficient to make significant inroads to the numbers unemployed in the RM.
2. value added in the SME sector in the RM is low. Until the value added of this sector can be significantly increased it will not be possible to secure complementary increases in employment.
3. the number of SMEs in the RM which have attained the standards which are required in terms of management, production and sales and distribution to be successful in international markets remains too low, with the result that possibilities to expand production and employment have yet to be exploited to any significant effect.
4. the business and financial services sector has yet to significantly develop in the RM. These industries, which are in themselves heavily dependent upon the manufacturing sector, as consumer, will be important in helping manufacturing firms reach the quality levels which are increasingly required to be successful in modern markets.
5. the SME sector in the RM does not possess a strong representation of firms which are active in these sunrise sectors and starved of this the RM will find it more difficult to benefit from future employment growth within the SME sector.
6. the level of SME activity in the east of the country lags behind the other parts of the RM.

3. THE SME INFRASTRUCTURE IN THE RM IN 2005

¹¹ Graph 3-3, "SME Observatory of the Republic of Macedonia", 2004 Report

The main concern in this section will be to examine changes which occurred in the SME sector during the years 2002 to 2005 in terms of the legal and regulatory framework; taxation and financial conditions; support to entrepreneurs; advice, training and finance; support to SMEs; general advice and counselling; and, additional specific forms of assistance in order to be able to establish whether there is a case for a change in the approaches which can be sustained by the National Development Strategy for the SME Sector..

3.(a) The Legal and Regulatory Framework

Years 2004 and 2005 serve as years in which there were significant interventions in the legislative framework for SMEs. A number of new laws were adopted, and amendments to other existing legislation were introduced. Specifically, 8 laws and one regulation were replaced thanks to the adoption of new laws, and 9 existing laws were amended. The new laws which were adopted in 2004 were:

- the Law on Trade Companies
- the Law on Craftsmen activities
- the Law on Trade
- the Law on Customer Protection
- the Law on Catering
- the Law on Tourism
- the Law on Public Procurement
- the Law on the Establishment of the Agency for Foreign Investment
- the Law on Labour relations.

Furthermore a new regulation on the minimum acceptable technical conditions for business and commercial premises was introduced.

The existing legislation which saw amendment involved:

- the Law on Bankruptcy
- the Law on the National Bank of the Republic of Macedonia
- the Law on the Registration of Cash Payments
- the Law on Value Added Tax
- the Law on Administrative Taxes
- the Law on the Promotion of Competitiveness
- the Law on Communal Activities
- the Law on Intellectual Property Rights.

One of the main reasons for frequent changes of laws and regulations, is the process of legal approximation to EU, which has become a major priority for the country. An effect of multiple changes to existing legislation is that it can be difficult to determine which laws remain applicable, which continue to exist but in modified form and which simply no longer exist.

The new Law on Trade Companies introduced changes that simplify the forms and steps necessary for the formal registration process. It introduces greater transparency (e.g. by enabling access of the members and shareholders to the company's data and documents, by setting forth the uniqueness and transparency of

the Commercial Register and by setting the requirements for publishing general business information as well as financial information on the firm and the remuneration of managers), increased protection of shareholders, particularly minority shareholders, and an easier registration procedure.

Almost all registration steps still require personal presence of the actual founder(s), but in order to accelerate the registration process, companies usually use authorised persons adding at least 50 EUR to the registration cost of 150-200 EUR.

The Law requires the court to answer the application to register a company within eight days. In essence, the procedure can be performed as quickly as three days if the application is complete and correct, but due to the number of the required documents and their complexity, the applicants are often required to make changes to the information which they have supplied. In addition, poor quality advice, especially outside Skopje, means that many new businesses take much longer to register than the minimum mentioned.

In the framework of this Law, a "one-stop-shop" concept for company registration is proposed, however, as yet, this is not operational. The Central Register is to be the one-stop-shop and this is expected to operate from the beginning of 2006. The Equally, other proposed initiatives for simplifying administrative procedures, such as on-line registration and e-signature are not, as yet, available.

Generally speaking, there are no exceptions from legal obligations for SMEs concerning work concessions, registration, tax, etc. The most favourable conditions apply to the handicraft sector. With the new Handicraft Law the Handicraft Chamber overtook the management of registration process, and in comparison to the procedures for registration of companies, faster and more affordable registration procedures were achieved, including the "silent consent" principle. This is convenient for many of the small businesses since virtually all entrepreneurs in the country can opt to operate as handicrafts if they employ less than ten people.

Examination of registration figures, shows that in the RM in 2004, less than one third of the registered enterprises were trading/were active. Individuals are registering enterprises with no intention to use the enterprises in the immediate future. In terms of the changes to registration procedures which have been implemented and those which are planned, it is difficult to see measures which focus on the legal framework for the creation of business occupying a significant position within the broad approaches to be supported under the Revised SME Strategy, 2006-2012.

The new Law on Trade Companies introduced new definition of SMEs in addition to already existing one from the Accounting Law (2002). Classification was elaborated according to the EU definition, with slight adaptations. In order to make it applicable in Macedonian conditions, the values used for annual turnover and size of the balance sheet were lowered four times in comparison to EU definition.

Bankruptcy is covered by the Bankruptcy Law, which in many ways is similar to its German counterpart. According to this Law, the court appointed managers have to pass professional exams organized on regular basis. The bankruptcy procedure should in theory be urgent and fast, but in many cases it is slowed by the lawsuits started by the various claimants and these lawsuits determine the actual duration of the main bankruptcy case. Macedonia has not yet adopted the relevant European

Convention nor has it has initiated the appropriate procedures to do so. No part of the bankruptcy procedure can be undertaken on-line, nor are the forms available online. Further action is required to accelerate bankruptcy procedures, enhance creditor rights, and to clarify the role and qualifications of bankruptcy trustees.

The indebtedness of SMEs as a consequence of late payment presents a serious obstacle to the development of the SME sector in the RM, negatively influencing their liquidity, profitability, competitiveness, and, especially their growth. Even after 15 years of transition this issue has not been resolved or even addressed with attention that it deserves,. According to information which is available the short-term liabilities of the SMEs have risen by over 20%¹² in the period 2001 to 2003. Furthermore, the short-term liabilities of large enterprises are 27% higher than the liabilities of the SMEs. It is, therefore, no surprise that entrepreneurs identify late payment and the difficulty of recovering debt as a major barrier to business.

3. (b) Taxation and Financial Conditions

SMEs gain no special tax incentives or privileges. Profit tax at 15% applies to all enterprises.

Changes were introduced over the last 3 years. The major ones being: (i) a 50% tax deduction on profit in the first year of registered trading, (ii) accelerated depreciation of fixed assets in relation to investment for environmental protection, and (iii) investment tax benefits. Macedonia gives preferable rates to foreign investors (tax exemption in the first three years of operation of enterprises with more than 20% foreign ownership).

A new lower rate of VAT at 18% was introduced. The area that was most significantly influenced by this was residential construction .

Social insurance and other payroll taxes have remained constant in recent years so that contributions that employers are paying on the employees' salaries are approximately 47.0% of the total cost of employment.

So the tax system has not been used as a mechanism to induce persons to get into business. The absence of any positive incentive to start-up, through the tax system is all the more obvious given the magnitude of the black economy in the RM.

One of the most serious obstacles to SME development expressed by SMEs is limited access to finance. This problem has received increased attention in the recent years; both from the national government as well as from international donors. These efforts resulted in: establishment of a number of new micro-credit institutions (Proceeded Bank); the expansion of the operations of existing operations (FULM, Moznosti); and, the creation of new SME lending activities at a number of commercial banks (IK banka).

The expansion of local credit activities and the easing of conditions has resulted in an improvement in the utilisation of financing sources, however interest rates have not been significantly reduced.

¹² Macedonian SME Observatory 2003

An additional issue, in terms of access to finance is the collateral which the lenders require. The concept of a State Guarantee Fund has been approved by the Government but has failed to gain the support of the international donor community. Two guarantee funds have been operating, one financed by the Swedish International Cooperation Development Agency (SIDA), and the other by the Macedonian Enterprise Development Foundation (MEDF). The volume of business which can be supported by these two funds means that most SMEs still have problems with collateral.

Although the SMEs are increasingly considered as an attractive lending target by the commercial banks, risk aversion is still prevalent among the banking community and there remains insufficient lending on the basis of submitted business plans.

3. (c) General Support to Entrepreneurs

3.(c).i Institutional Structure

The institutional framework for SME support received an important boost with the establishment and start of operation of the Agency for Promotion of Entrepreneurship-APPRM in May 2004. The Agency is funded by the MoE, and this is a constraint on its effectiveness if it is to have a major impact on the SME landscape.

Regular communication with the private sector is essential for the MoE and the APPRM, if they are to understand the standpoint of the enterprises, their problems, needs and interests. Experience has shown that the participation of the private sector in the process of elaboration and adaptation of new legislation, helps alleviate problems and obstacles that will trouble enterprises after implementation.

Recently a SME Forum, bringing together business associations, the MoE, and the APPRM, has been established. Furthermore, the National Council on Entrepreneurship and Competitiveness acts as an advisory body, on economic matters, to the Government.

These initiatives, so far, have not allowed the interests of SMEs to be adequately represented to policy makers. Systematic communication between policy makers and the SMEs does not exist in the RM and this is an issue which must be addressed with some urgency.

3. (c).ii Advice and Training

A Voucher Scheme has been developed in the hope that this will facilitate the delivery of quality consultancy services to SMEs, however its operation awaits the allocation of an appropriate budget.

A large number of training programmes have been offered in the RM, however attitudes towards training are still disappointingly negative, with few enterprises seeing expenditure on training as an investment. Training programmes must continue to be developed and offered to entrepreneurs and SME owners.

Management training is critical if existing SMEs in the RM are to develop further and prosper. Much activity in this field has been implemented in recent years, mainly with the support of international donors, the CARDS supported Human Resources

Development Fund, the former SEED programme which continued as PEPSEE, a number of USAID projects, and GTZ-PSP to name but a few. These programmes and projects all aimed to close the gap between the existing professional experience of Macedonian entrepreneurs and the management skills which are required to produce the development and growth of their enterprises. This removal of this gap will require extended effort over the long-term, due to the limited entrepreneurship and management experience of Macedonian businesses.

There is a number of business support organizations which exist to provide advice, counselling and other services to local enterprises, in the RM (5 RESCs and 3 ESAs, and PREDA). In addition, 7 business incubators have been established, with World Bank support. Recently, following the adoption of the Law on Decentralisation and the establishment of 84 "new" municipalities a number of Local Economic Development Offices have been set up, with donor support.

This mosaic of organisations does not constitute a national network for the coherent delivery of support and services to "would be" entrepreneurs and the owners and managers of small business throughout the country. As it stands this amalgam of organisations not nearly sufficient to meet the needs of potential clients. For example, it is known that there is no dedicated business advisory body in the eastern part of the RM. Furthermore, the existing organisations need to be supported to be able to deliver their services in a more professional way and, to become more market oriented.

Based on the research conducted on the SME sector in 2005¹³, it is apparent that Macedonian entrepreneurs and small business persons are using the services of consultants on an increased basis. However, the consultancy market is not fully developed in the RM and more diversification and specialization is needed.

The business support organizations are not yet capable of exploiting the opportunities which this demand creates, lacking capacity and the ability to deliver high quality consulting services. There is a desperate need for the provision of information and advice in relation to all quality issues (TQM), and the attainment of production and trading standards. This, of course, is most critical for enterprises seeking to establish themselves in foreign markets. It is the intention of the APPRM to implement relevant assistance programmes through the network of business support organisations (RESCs, ESAs, other local SME support bodies, municipal LED offices, and Technology Transfer Centres), however these institutions will require substantial support, for some time to be effective in these terms, before they will be able to form a key part of the general SME support landscape on the RM.

The Economic Chamber and the Macedonian Association of Chambers of Commerce are the most important business associations offering general advice and counselling to their members, which are, predominately, SMEs. The abolition of compulsory membership of the Economic Chamber resulted in a fall in membership, and the establishment of additional new Chambers, bringing competition among chambers for members. A new SME centre has been set up within the Economic Chamber to provide SMEs with information and to offer other specialised services in financial, quality and general management areas. The changes which have taken place, in this

¹³ The relevance of the latest EU Developments in SME support for SME's in Macedonia, Activity 2.i

sector, have, however, as yet, to produce significant and practical improvements in the services which are available to SMEs.

Business incubators are regarded as being more concerned with employment generation and/or "poverty reduction" issues rather than the promotion of viable privately owned businesses. Incubators need to focus on "business and wealth creation" and to attract ambitious people with the initiative and skills to build sustainable growth companies but who have difficulties in finding suitable premises to start up. Incubators are a useful solution in localities where "would be" entrepreneurs require support to overcome premises related start up problems. However to contribute significantly to the growth of the SME sector this type of initiative has its limitations. Firstly, the number of incubators would have to greatly increased beyond the 7 that currently exist. Such an expansion could only be supported if it was clearly established that significant numbers of SMEs are inhibited by premises related problems. Secondly, to be successful in terms of business development and wealth creation incubator managers have to put in place a policy to limit the period of tenancy of enterprises and this has yet to happen to any significant degree in the RM.

3. (c).iii Entrepreneurship in Education

There is a mandatory "management and business course" in the schools' curriculum and reforms in VET establishments have introduced entrepreneurship into the curriculum. The High Schools contain a number of Career Centres and virtual school companies have been established, bringing the children closer to the real life of an entrepreneur. The programmes which have been implemented in the elementary and high school education require improved and more systematic implementation especially of the programmes which have focused on younger generation (Junior achievement program). Practical education programmes are needed, directed towards youth (14-18) on issues how to establish and manage a firm (enhancement of entrepreneurial capabilities).

To date almost all of this activity has been focused in Skopje, and there is a desperate need to roll the programmes and projects out from the capital to become nationally applicable. It is also important to assess the impact which these programmes are having in terms of students who, subsequently set up their own businesses and/or go on to work in SMEs in a managerial capacity. This assessment should form the basis for the national roll-out of the programmes and projects.

In the university sector there are some courses on entrepreneurship, however, these mainly come from foreign and/or privately funded institutions. In recent years, the number of higher education institutions has increased significantly with the establishment of a number of private institutions. Most of these new institutions offer specialised courses in economics and business and, all of them have included entrepreneurship as a separate subject into their under-graduate degrees. However, there is no specific undergraduate course in entrepreneurship and there is only one possibility for post-graduate studies in entrepreneurship.

In view of the size of the black economy and the overall number of SMEs in the RM, there is a desperate need to change views about self-employment and small business. However, it is fair to say that until now the initiatives which have promoted entrepreneurship in the RM have had limited impact. Since a fundamental change in

thinking about legal opportunities to go into business is required, it is imperative that future action in this area involves a national approach which is comprehensive in its coverage.

The education system will play a critical role in this respect, as it allows for the youth of the country to be targeted. However, measures to change the attitudes of adults must also be developed in the numbers who are prepared to go into business for themselves is to be significantly increased.

3. (d) Targeted Support to SMEs

The Ministry of Economy has provided support to enterprises in the form of the co-financing: of participation at international fairs; the introduction and certification of quality management systems (ISO 9000, HACCP, GAAP etc); the production and utilisation of marketing materials (web sites, CD-ROMs, commercials in international TV and radio stations etc.); and, improvements in production activities. This programme has been regarded very positively by participating enterprises. Unfortunately, the programme which has operated since 2001 will not be continued after 2005.

The ending of this programme removes an instrument which has acted to assist enterprises to improve their competitiveness, and in this sense makes the realization of the strategy more difficult.

Technological improvement offers SMEs a route to increased efficiency, higher productivity and/or better quality of products or services. Four technology transfer centres have been created in the RM to promote the adoption of appropriate technologies in SMEs. These centres exist in Skopje (3), and Bitola, and have been established with support under bilateral programmes, aimed at raising awareness of the importance of new technologies and their transfer. There is no common management model being applied in these centres with the consequence that operational difficulties have been experienced which have made it difficult for all of them to be able to effectively support the actual transfer of technology into SMEs. The outcome is that these centres have yet to produce significant results.

In addition, diverse activities within other bilateral projects have been used to support technology transfer either by means of supporting the placement of Macedonian experts in international institutions or by establishing direct links between enterprises in the RM and enterprises from abroad.

Within the Ministry of Education and Science, the Department for Technology Development and Technical Culture provides support to enterprises. The Ministry provides its support through a series of annual and multi-annual programmes, which seek to encourage innovation and the development of the technological infrastructure of enterprises. This assistance is very limited in terms of its impact on the business community. Of 400 annual R&D projects financed by the Ministry of Education and Science under these programmes only around 5-10% of the projects are implemented in private sector enterprises.

Achieving improvements in the competitiveness of SMEs through the increased use of appropriate technology is not an easy task. In addition to the high costs which are often associated with the new technology, a high degree of expertise and experience

is required among those working on such programmes. The technological base of Macedonian SMEs is also affected by the low level of Direct Foreign Investment in the country and the absence of : guaranty schemes; an agency for credit rating; business angels; and dedicated credit lines for enterprises seeking to introduce new technology.

The Agency for Foreign Investment in the Republic of Macedonia (MacInvest) was created in 2004. More time is required to asses the impact which this Agency is having, especially in view of the long term nature of such investment decisions.

The level of cooperation and collaboration among SMEs in the RM is low. Policy makers and international donors are trying to address this (EAR, EBRD, USAID and other bilateral projects) targeting the development of industrial clusters, export promotion and the strengthening of branch/industry wide associations. These approaches need to be continued and extended if any significant impact in terms of improved SME competitiveness is to result.

3. (e) Conclusions

Over the initial period when the National Strategy for the SME Sector has applied (2002 to 2006) a large number of instruments have been used to try to bring about improvements to the performance of the SME sector in the RM. The objective here is to examine the effects which these instruments have had, on the problems experienced in the sector, in order to determine whether the problems have been significantly alleviated or even eradicated. That being the case, a radical revision of the strategy would be required.

This analysis of events in the SME sector 2002 to 2006 leads us to conclude, as follows:

1. frequent changes in laws create uncertainty as to which laws are applicable, information provision is needed to overcome this
2. although the concept of "one-stop-shop" for company registration is included in the Law it hasn't been implemented yet.
3. bankruptcy procedures need to speeded up to make fresh start up more possible and to restrict the time taken by court dealings.
4. existing problems of late payment have not been addressed, and there have been no initiatives implemented to deal with this problem.
5. although the SMEs are increasingly considered as an attractive lending target by the commercial banks, risk aversion is still prevalent among the banking community and there remains insufficient lending on the basis of submitted business plans.
6. no mechanism exists to allow the interests of SMEs to be adequately represented to policy makers. Systematic communication between policy makers and the SMEs does not exist in the RM and this is an issue which must be addressed with some urgency.
7. the availability of start-up financing remains problematic
8. co-financing of projects to improve the competitiveness of SMEs is being withdrawn despite the desperate need for such support to enterprises to be available in the RM.
9. the amalgam of organisations which exists in the country to assist entrepreneurs and SMEs is not sufficient to meet the needs of potential clients

10. in view of the size of the black economy and the overall number of SMEs in the RM, there is a desperate need to change views about self-employment and small business
11. it is essential to promote entrepreneurial activity and to build a positive attitude towards entrepreneurship and private business in order to overcome stereotypes and encourage potential entrepreneurs, especially among youth.
12. there is a yawning gap between the existing professional experience of Macedonian entrepreneurs and business persons and abilities and skills which are needed to run businesses which are competitive in international terms. Weak management of SMEs in the RM means that improved performance of the SME sector can only be achieved by considerable, extended effort on the part of a wide range of stakeholders.

Tax exemptions for the start-ups?

4. THE EVALUATION OF THE 10 YEAR NATIONAL DEVELOPMENT STRATEGY AS A STRATEGY

In this section, we state whether the strategic approach which was adopted in 2002 remains valid.

In so doing, we face 2 immediate methodological problems:

- i. as a strategy the 2002 document offers very little in the way of prioritization. For example, 12 problems are identified at macro, meso and micro levels, however no guidance is given as to which of these problems the Government considers to be the most pressing. This makes it difficult to ask ourselves the question "do the priorities which were set out in 2002 remain valid for 2006 to 2012?"
- ii. the 2002 document specifies measures and instruments and in so doing provides more information than it is usual to see in strategy documents. The Revised Strategy which is presented in section 5, identifies and prioritises the key problems which face the SME sector in the RM at the end of 2005/beginning of 2006 and presents a number of development axes or pillars which form the Strategy but it does not extend to the specification of measures or instruments.

Nevertheless, we need to try to see if the weight and importance which the 2002 document gives to certain problems matches that which we feel is necessary now (2005), and we need to consider if the argument for certain measures has been weakened by the success which has been achieved since 2002.

The 2002 Strategy identified growth of GDP and an increase in employment as the "primary targets of the National Development Strategy for SME". Earlier, the priority problem for the SME sector in the RM at the end of 2005/beginning of 2006 was thus stated:

PRINCIPAL PROBLEM (to be addressed by the Revised Strategy):

The current rate of unemployment in the RM is unacceptably high and the SME sector has not, as yet, been able to generate sufficient employment opportunities, to be able to bring the unemployment rate down to internationally, acceptable levels.

On this basis, rather than seeing two targets for the Revised Strategy, as the 2002 document did the overall objective or the goal of the strategy should be :

Overall Objective (of the Revised Strategy):

To increase employment in the SME sector by 100,000 jobs over the period 2006 to 2012 as a result of the strategy to be implemented by the Ministry of Economy.

The creation of these additional 100,000 jobs will, of course, produce an increase in GDP since it is not proposed that persons are employed not to produce! In this respect it is not necessary to propose an increase in GDP as a second separate objective.

The 2002 Strategy document then proposes 8 development axes or development pillars, these being:

- "development of transparent and fair business environment
- development of private ownership, competitiveness and entrepreneurship activities
- development of management capacity
- increase of export activities of small-sized enterprises
- introduction and transfer of new technology
- stimulation of investments in SME
- integration of SME in the European Union business flows
- greater Public-Private Dialogue".

It is difficult to be critical of these axes individually. However collectively they are too numerous, it being the norm within strategies to specify a small number of development axes (3 or 4). Furthermore, this listing of 8 development axes contains no information on how the Government regards one against another in importance.

In section 2 of this document, the priority problems facing the SME sector in the RM were elaborated:

Specific Problem N° 1:

The number of SMEs in the RM is proportionately low (in comparative terms, internationally) in the RM. While the year on year growth in the numbers of SMEs (2000-2005) has been relatively steady, it has not been sufficient to make significant inroads to the numbers unemployed

Earlier the changes which have taken place and which are proposed in terms of registration were discussed. Despite such improvements and efforts to promote entrepreneurship in the education system, a substantial increase in the number of start-ups has not yet been achieved. Indeed, there was next to no new firms formed in the year following the security problems of 2001.

To achieve an increase in the rate of new firm formation the Authorities will be required to:

- implement the proposed changes to registration procedures
- consider the use of tax incentives to encourage start-ups
- continue and intensify efforts to train would be entrepreneurs and to inculcate entrepreneurial virtues in the youth through the introduction of appropriate courses in the school curriculum
- support local authorities and other stakeholders to establish incubators on a wide scale where they can be clearly seen to eradicate barriers to start-up
- work with the commercial banks and international donors to establish start-up capital funds.

In section 2 of the this document, the problem of an uneven spatial distribution of SME activity in the RM was noted, in the following terms:

Specific Problem N° 6

The level of SME activity in the east of the country lags behind the other parts of the RM.

Where possible the Authorities must address this situation, and seek to promote increased SME activity in areas and localities which have been lagging.

A specific objective of the Revised Strategy is required to address the need to produce a dramatic increase in the number of new businesses being created in the RM:

Specific Objective N°1:

Specific Problem N° 2:

Value added in the SME sector in the RM is low. Until the value added of this sector can be significantly increased it will not be possible to secure complementary increases in employment.

Specific Problem N° 3:

The number of SMEs in the RM which have attained the standards which are required in terms of management, production and sales and distribution to be successful in international markets remains too low, with the result that possibilities to expand production and employment have yet to be exploited to any significant effect.

Specific Problem N° 4

The business and financial services sector has yet to significantly develop in the RM. These industries, which are in themselves heavily dependent upon the manufacturing sector, as consumer, will be important in helping manufacturing firms reach the quality levels which are increasingly required to be successful in modern markets.

Specific Problem N° 5

The SME sector in the RM does not possess a strong representation of firms which are active in these sunrise sectors and starved of this the RM will find it more difficult to benefit from future employment growth within the SME sector.

To overcome these difficulties the following specific objective is proposed for the Revised Strategy. The objective has been framed to address Specific Problem N° 6 which was outlined in section 2:

Specific Objective N° 2:

To increase employment in existing SMEs in the country by at least 40,000 between 2006 and 2012, and to ensure that all regions benefit from these new employment opportunities, as a result of support provided to enterprises in keeping with the Revised Strategy for the SME Sector of the Ministry of Economy.

the Authorities in the RM, to deliver policies, programmes and projects which target management of existing SMEs and which will improve the effectiveness of managers across all key aspects of the business (production and production technology, the establishment of TQM in the enterprise, marketing, attainment of international standards for exporting, and human resource management). Concentrated effort is required in order to achieve the significant improvements to the competitiveness of Macedonian SMEs, which so far have not been achieved as a result of the measures and instruments utilized 2002-2006.

The voucher scheme can play a significant role in this respect, however, so far the scheme has been piloted in Skopje and Strumica and full national implementation is for the future. If the voucher scheme is to contribute to the attainment of strategic objective n° 2, then it is imperative that:

- the experience of the pilot experience is fully evaluated and aspects of good practice incorporated in the roll out of the scheme nationally (equally bad practice should be addressed)
- participating enterprises are capable of benefiting from the consultancy covered by the voucher and can translate outcomes from consultancy assignments into sustained improvements in the competitiveness of their businesses
- the full value of the voucher is channelled into consultancy services and other examples of mal-practice are minimised
- funding for full scale implementation of the voucher scheme at the national level (2006-2012) is guaranteed.

The voucher scheme has the potential to contribute positively to the competitiveness of the existing SMEs in the RM. However should any difficulties arise in relation to the 4 points outlined above, its effectiveness will be compromised. In this case, it will be prudent for the Government to pursue other means to improve the competitiveness of SMEs. Indeed given the scale of the task, in question, a multifaceted approach, involving the support from programmes and projects of the donors, in addition to the voucher scheme should be adopted.

In the immediate future the effectiveness of the voucher scheme and of other programmes and projects which seek to deliver quality services and advice to existing SMEs will be affected by the paucity of Macedonian business and financial service providers. This was addressed earlier in this document:

It will be essential to upgrade, over time, the quality of the advice and support which can be accessed by "cashing in" vouchers as the competitive landscape is constantly evolving. This calls for a significant strengthening of the consultancy and advisory services available to SMEs in the RM. This must involve:

- increases in the numbers of SME development agencies and business advice centres (business support organisations)
- the development of new client oriented services by the business support organisations and a deepening of their existing services
- increases in the number of private sector consultancies and business service providers
- a strengthening of the quality of the private sector consultancy services available.

These problems clearly establish the need to provide support to existing SMEs, as well as encouraging start-ups.

Specific Objective N° 3:

Across all regions of the country, to increase the number of private sector consultancies and business service providers by at least 6,000 between 2006 and 2012, and, over the same period, to secure an increase of 5000 in the number of private sector consultants and business service providers which are certificated in. ISO 9001 2000, or a related international certificate, as a result of support provided to enterprises in keeping with the Revised Strategy for the SME Sector of the Ministry of Economy.

The National Development Strategy for Small and Medium Sized Enterprises (2002-2012) was elaborated by the Department for the Support of Enterprise of the Ministry of **Industry**. Equally, the revision of the strategy is undertaken by the Department for the Support of Enterprise of the Ministry of **Industry**.

It is to the Department for the Support of Enterprise of the Ministry of **Industry** that the responsibility for the implementation of the Revised National Development Strategy for Small and Medium Sized Enterprises (2006-2012) will fall. It is therefore imperative that this institution is committed to the Revised Strategy and that it has the capacity and the expertise to see through the realisation of the Revised Strategy.

Concerns arise in two respects. These relate to the way in which the Department has operated 2002-2006 and to its resourcing, the two being inter-related.

Specific Problem N° 7:

The Authorities charged with the responsibilities for policy development and implementation have not been sufficiently proactive in their contacts with SMEs. This problem has been exacerbated by serious staff and resource constraints.

In its "Enterprise Policy Performance Assessment", 2003, the OECD stated that: ---"The regularity and quality of consultation between Government and the private sector on SME policy obtained almost the lowest rating possible, equating to "very poor". Good practice elsewhere suggests that this is both relatively easy to develop and can be effective in ensuring that business views are incorporated into the policy-making process."

In their 2004 report, the OECD returned to this issue, stating that: ---"The SME Department and the Agency for Enterprise Promotion will need to raise entrepreneurs' awareness of their activities and ensure that they are able to contribute to the policy making process. In this context, there is a need to clarify the role of the Council for Entrepreneurship and Competitiveness in relation to SMEs".

The newly created SME Forum is a step in the right direction, however, at the time of writing, it is in the throes of establishment, and despite the goodwill evident at its first two meetings it is not possible to predict how significant this body will be, in terms of providing a role for SMEs in the policy making process.

The SME Forum brings together the Department for the Support of Enterprise, the Agency for the Promotion and Support of Entrepreneurship with membership based business association (chambers of commerce and industry, and industry and sector wide bodies). Lacking the direct involvement of SMEs, the effectiveness of the Forum will rest with the business associations and, more specifically, their performance in terms of the dissemination of information to SMEs and the extent to which they are used as a conduit to the Authorities by the entrepreneurs.

Notwithstanding the creation of the Forum, the Department for the Support of Enterprise, the Agency for the Promotion and Support of Entrepreneurship will have to become more proactive vis-à-vis the SME sector and this may involve the creation and development of new structures and forms of dialogue.

In so doing the Department for the Support of Enterprise and the Agency for the Promotion and Support of Entrepreneurship will be constrained by the resources which they have at their disposal.

The Department for the Support of Enterprise, at the time of writing has 4 staff and an Advisor to the Ministry. This has not improved since the OECD commented negatively upon it. Indeed, recently the Department lost a member of staff, who has yet to be replaced. The Agency for the Promotion and Support of Entrepreneurship currently has 7 staff.

The number of staff is not adequate in terms of the challenges ahead (2006-2012), and without an increase in staffing on both the Department and the Agency, the objectives, set out in this document, to be achieved by the Revised Strategy will not be achieved.

Specific Objective N° 4:

To strengthen the dialogue between the policymakers and the SMEs new structures and mechanisms will require to be created, and to be able to make full use of the opportunities, thereby, created the Department for the Support of Enterprise and the APPRM will require to be strengthened.

On 9th November 2005 the Commission of the EU took the decision to recommend candidate status for the RM. Prior to this over the last 3 years, the Government of the RM has supported the preparation of a Charter for small Enterprises, which adhered to the approaches set out in the European Charter for Small Enterprises. This approach will continue for the immediate future. However, as we look to the longer term the need to bring SME policy into line with EU practice will intensify and at some future stage the National Programme for the Adoption of the Aquis will have to contain proposals in relation chapter 16 on SMEs.

Specific Problem N° 8:

The decision of the Commission of the EU to recommend the RM for candidate country status will change the environment in which SME policy is set. SME policies in the RM will, not only have to address the practical situation in the SME sector of the RM but also adhere to the revised Lisbon Agenda and must also comply with the Aquis Communautaire in relation to enacted SME legislation.

The Department for the Support of Enterprise in regular contact with the relevant services of the EU Commission, and is committed to play a full and constructive role in the negotiations which will take place during the Accession process.

Specific Objective N° 5:

The Revised Strategy, to be implemented by the Department for the Support of Enterprise, 200-2012, will prioritise the need to ensure that SME actions in the RM are consistent with the relevant EU directives and that SME legislation is fully compliant with the Aquis Communautaire

5. THE REVISED NATIONAL DEVELOPMENT STRATEGY FOR SMEs 2006 – 2012

We can now lay out the Revised National Development Strategy for Small and Medium Sized Enterprises. It is a strategy which is built upon:

- one key problem relating to the SME sector in the RM
- one goal or overall objective for the Revised Strategy
- 8 specific priority problems which need to be addressed for the Revised Strategy to be successful
- 5 specific objectives relating to the resolution of the specified priority problems.

and which consists of:

- one general, or over-arching development principle, and
- 3 development axes or pillars.

The National Development Strategy for Small and Medium Sized Enterprises was elaborated in 2002, when the official rate of unemployment was 31.9%. In 2004 the official rate of unemployment reached 37.2%, giving the RM the second worst problem of unemployment in the whole of the Balkan area.

This problem lies at the heart of the Revised National Development Strategy for Small and Medium Sized Enterprises:

KEY PROBLEM (to be addressed by the Revised Strategy):

The current rate of unemployment in the RM is unacceptably high and the SME sector has not, as yet, been able to generate sufficient employment opportunities, to be able to bring the unemployment rate down to internationally, acceptable levels.

The SME sector will be the engine for employment creation in the RM 2006 to 2012 and the Revised National Development Strategy for Small and Medium Sized Enterprises will be a strategy which, above all, is a job creation strategy.

Goal or Overall Objective (of the Revised Strategy):

To increase employment in the SME sector by 100,000 jobs over the period 2006 to 2012 as a result of the strategy to be implemented by the Ministry of Economy.



To achieve this objective a Revised National Development Strategy for Small and Medium Sized Enterprises is required. This Revised National Development Strategy for Small and Medium Sized Enterprises can now be set out. It is constructed on 3 development axes:

1. support for the establishment of new enterprises in the RM
2. the strengthening the competitiveness of existing enterprises
3. improved coordination and contact with SMEs.

Before considering the 3 development axes, the over-arching development principle which underpins the complete strategy must be considered. The application of this principle will apply to all measures which are introduced 2006 – 2012 in support of the Revised Strategy. To this extent it guides the approach to strategy implementation in all of its facets.

**DEVELOPMENT PRINCIPLE THE DEVELOPMENT OF SME POLICY IN
THE RM WHICH IS COMPLETELY
CONSISTENT WITH EU SME POLICY.**

The decision of the Commission of the EU to recommend the RM for candidate country status will change the environment in which SME policy is set. SME policies in the RM will, not only have to address the practical situation in the SME sector of the RM but also adhere to the revised Lisbon Agenda and, must also comply with the Aquis Communautaire in relation to enacted SME legislation.

The Revised Strategy, to be implemented by the Department for the Support of Enterprise, 2006-2012, will prioritise the need to ensure that SME actions in the RM are consistent with EU best practice, all relevant EU directives, and, that SME legislation is fully compliant with the Aquis Communautaire.

**Development Axis 1 Support for the Establishment of New
Enterprises in the RM**

Priority Enterprise Creation Problem:

The number of SMEs in the RM is proportionately low (in comparative terms, internationally) in the RM. While the year on year growth in the numbers of SMEs (2000-2005) has been relatively steady, it has not been sufficient to make significant inroads to the numbers unemployed in the RM.

The Authorities will gear their efforts to a range of measures which will promote new firm formation and make it easier for would be entrepreneurs to set up in business. This must include measures to create a stronger enterprise culture and change attitudes to small business. It will be critical to develop an enterprise culture among the young, and measures which promote entrepreneurship within the education system will be essential. In addition, more focused help for people who are at some stage of the process of going into business will be supported.

Enterprise Creation Objective:

To increase the number of active SMEs in the RM by assisting the creation of 20,000 new enterprises between 2006 and 2012, and to ensure that these new enterprises are being created in all regions, as a result of the implementation of the Revised Strategy for the Development of the SME Sector.

Once new firms have been established they will require further support if they are to survive, and grow to offer new employment opportunities for unemployed persons. Accordingly, the Revised National Development Strategy for Small and Medium Sized Enterprises must provide such support for existing SMEs.

Development Axis 2 Strengthening the Competitiveness of Existing Enterprises

This **p**axis will cover a wide variety of measures which will help the management of existing SMEs to improve the competitiveness of their enterprises. However, first of all, it is necessary to prioritise the problems to be addressed.

Priority Problems of Existing SMEs:

Value added in the SME sector in the RM is low. Until the value added of this sector can be significantly increased it will not be possible to secure complementary increases in employment.

The SME sector in the RM does not possess a strong representation of firms which are active in these sunrise sectors and starved of this the

The number of SMEs in the RM which have attained the standards which are required in terms of management, production and sales and distribution to be successful in international markets remains too low, with the result that possibilities to expand production and employment have yet to be exploited to any significant effect.

The business and financial services sector has yet to significantly develop in the RM. These industries, which are in themselves heavily dependent upon the manufacturing sector, as consumer, will be important in helping manufacturing firms reach the quality levels which are increasingly required to be successful in modern markets.

In order to address these and other related problems, the Department for the Support of Enterprise will support all measures and activities which seek to help the management of small and medium sized enterprises to improve the competitiveness of their companies.

To achieve this it will be necessary to have, in the RM, sufficient well qualified people and organisations to help support entrepreneurs and small businesses. This calls for the development of the financial and business services sector, as well additional support to create a national network of business support organisations which will be

capable of delivering quality advice, counselling and services to new entrepreneurs and the owners and managers of small enterprises.

The network of business support organisations will be broadened and deepened through support which will: increase the number of such bodies in the RM; extend access of small enterprises and entrepreneurs to these bodies; and, strengthen and improve the quality of the services provided by the network. In this way the Revised Strategy will make a most needed contribution to the quality of advice, counselling and consultancy, in pursuit of the following objectives

Objectives for Existing SMEs:

To increase employment in existing SMEs in the country by at least 40,000 between 2006 and 2012, and to ensure that all regions benefit from these new employment opportunities, as a result of support provided to enterprises in keeping with the Revised Strategy for the SME Sector of the Ministry of Economy.

Across all regions of the country, to increase the number of private sector consultancies and business service providers by at least 6,000 between 2006 and 2012, and, over the same period, to secure an increase of 5000 in the number of private sector consultants and business service providers which are certificated in. ISO 9001 2000, or a related international certificate, as a result of support provided to enterprises as a consequence of the Revised Strategy for the SME Sector of the Ministry of Economy.

To create at least 30 business support organisations, covering the country, to provide quality assistance and services to entrepreneurs and SMEs by 2012 as a result of the Revised Strategy for the SME Sector

Development Axis 3

Improved Coordination and Contact with the SMEs

The practices of the Department for the Support of Enterprise 2002-2005 have been criticised on the grounds that insufficient attention has been given to measures to give a voice to the enterprises in the framing of SME policy.

Priority Institutional Problem:

The Authorities charged with the responsibilities for policy development and implementation have not been sufficiently proactive in their contacts with SMEs. This problem has been exacerbated by the serious staff and resource constraints which the Department for the Support of Enterprise has faced.

A SME Forum has been created and is trying to fill this gap, however it is not yet possible to state whether the SME Forum will satisfy all the needs and further structures and measures may be required. The Revised Strategy commits the relevant Authorities in the RM to.....

Institutional Objective:

strengthen the dialogue between the policymakers and the SMEs, and where necessary to create and support new structures and mechanisms to further the dialogue with the enterprises in order that their view on all key issues can be put before the policy makers.

<http://www.iso.org/iso/en/iso9000-14000/index.html>