

**INTERNATIONAL PROGRAMS: CATALYZING ACCESS TO FINANCE AND
SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN THE REPUBLIC
OF NORTH MACEDONIA**

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Abstract: This abstract explores the pivotal role of international programs in enhancing access to finance and fostering support mechanisms for small and medium-sized enterprises (SMEs) in the Republic of North Macedonia. Against the backdrop of a dynamic global economy, SMEs serve as engines of growth and innovation, yet often face significant hurdles in accessing financial resources and support networks. In North Macedonia, these challenges are compounded by factors such as limited access to capital, inadequate infrastructure, and regulatory complexities. International programs offer a multifaceted approach to address these obstacles, providing avenues for financial assistance, technical expertise, and networking opportunities. By leveraging partnerships with international organizations, development agencies, and financial institutions, North Macedonia has been able to bolster its SME sector and create an enabling environment for entrepreneurship and economic development. Key initiatives such as grants, loans, capacity-building workshops, and mentorship programs have facilitated SME growth and sustainability. Moreover, initiatives focusing on digitalization, market access, and innovation have empowered SMEs to compete in the global marketplace. However, while international programs have yielded significant benefits, challenges remain in ensuring equitable access and sustainability. Addressing issues of bureaucratic inefficiencies, enhancing coordination among stakeholders, and promoting inclusivity are critical for maximizing the impact of these programs. Through a comprehensive analysis of the landscape of international programs and their impact on SMEs in North Macedonia, this abstract underscores the importance of continued collaboration, innovation, and policy coherence in fostering a vibrant ecosystem for SME development. Ultimately, by harnessing the potential of international programs, North Macedonia can unlock new opportunities for growth, prosperity, and socio-economic advancement. The main purpose of this research is to explain and present other possible sources of financing that are available to small and medium-sized enterprises, as well as access to them, that is, an analysis of the national development programs to support the financing of SMEs and international financial support programs of SMEs, those support and development programs that are available to small businesses in the Republic of North Macedonia, as well as their effects and utilization, will be developed. However, there is a necessity in implementing further activities to support the SME sector in terms of strengthening the institutional, regulatory and operational environment in which they operate. Overall, the SME sector still has room to be supported and encouraged to increase their overall contribution to the economy. In this research, a survey was conducted in a number of bank branches in the period from February 10, 2024 to March 20, 2024 and presented results from the same.

Keywords: SMEs, access to finance, sustainability, international programs

1. INTRODUCTION

Access to finance remains a persistent challenge for SMEs in developing countries, including North Macedonia. Studies by Beck et al. (2008) and Masurel (2019) highlight the barriers faced by SMEs, such as limited collateral, high transaction costs, and risk aversion among lenders. Microfinance institutions have emerged as key players in addressing the financing gap for SMEs, with research by Morduch (1999) and Armendáriz de Aghion and Morduch (2010) demonstrating their positive impact on SMEs' access to credit and financial inclusion. International programs play a crucial role in supporting SME development in transitioning economies like North Macedonia. Research by Chaminade and Lundvall (2011) and OECD (2019) highlights the effectiveness of international partnerships and multilateral organizations in providing technical assistance, capacity-building, and market access opportunities for SMEs. Case studies from countries such as Estonia and Poland (European Commission, 2018) showcase the transformative impact of international programs on SME competitiveness, innovation, and internationalization. The regulatory environment significantly influences SME operations and growth prospects in North Macedonia. Studies by Djankov et al. (2002) and World Bank (2020) shed light on the ease of doing business indicators, regulatory compliance costs, and administrative burdens faced by SMEs. Regulatory reforms, as evidenced by the Doing Business reports, have aimed to streamline procedures, reduce bureaucratic hurdles, and enhance the business

climate for SMEs in North Macedonia (World Bank, 2019). The entrepreneurship ecosystem in North Macedonia plays a critical role in fostering SME development and innovation. Research by Stam and Spigel (2016) and Isenberg (2010) underscores the importance of supportive institutions, networks, and infrastructure in nurturing entrepreneurial ventures. Initiatives such as startup incubators, accelerators, and co-working spaces have proliferated in North Macedonia, facilitating knowledge exchange, access to mentors, and funding opportunities for aspiring entrepreneurs (USAID, 2019). Evaluative studies provide insights into the impact of international programs on SMEs in North Macedonia. Research by ILO (2021) and European Commission (2020) assesses the effectiveness of programs such as the European Structural and Investment Funds (ESIF) in promoting SME growth, job creation, and regional development. Case studies and impact evaluations offer valuable lessons on program design, implementation challenges, and policy recommendations to enhance the efficacy of international interventions for SME development in North Macedonia.

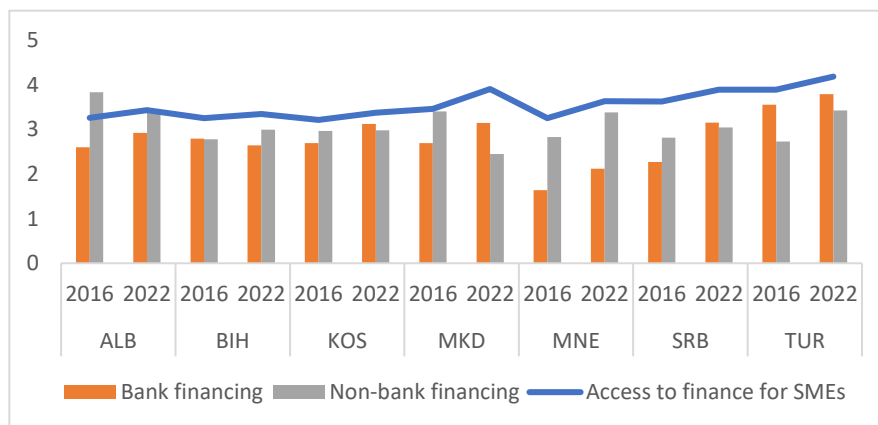
The Eurointeractive processes of the Republic of North Macedonia and the financing of small and medium enterprises

Ever since independence, the most important strategic goal of the Republic of North Macedonia has been membership in the European Union. By acquiring the status of a candidate for EU membership in 2005, the country started the process for European integration, so from here all the established goals have been translated into programs and plans and they are aimed at meeting European standards, as well as assuming the obligations that stem from EU membership. During the entire pre-accession process, the European Union provides continuous financial support for the successful implementation of the necessary reforms, with the aim of bringing the candidate countries and potential members into compliance with EU standards.

The basic principle that governs the policy in the EU is "think small first", taking into account the fact that SMEs are a key factor for economic development and main creators of jobs and the best way to materialize business ideas. By adopting the charter, the member states of the European Union undertake to work towards achieving constant progress in the areas covered by the Charter, through mutual cooperation and through the use of positive experiences and practices, in the direction of achieving the set goals. The progress in the realization of the goals is monitored through regular annual reports in which the current progress is evaluated and recommendations for future development are given. The Charter covers the most important key areas in the support of SMEs, and as far as improving the access of SMEs to financial services

Access to financing – Analysis of the Policy Index for the countries of the Western Balkans and Turkey

Graph 1: Weighted average score for Western Balkan countries and Turkey in 2016 and 2022



Source: SME Policy Index Western Balkans and Turkey 2022

Considering the subject of interest of this research, and still not neglecting the importance and significance of the other principles, below are shown the results of the last evaluation from 2022 in relation to the principle:

"Access to SME financing", according to which progress is measured in access to SME financing and improvement of the legal and to say that financial stability has been maintained, so thanks to pre- and post-Covid-19 activities, access to credit remains stable, through subsidized credit lines, increased state-backed credit, guarantee schemes in response to the pandemic. Also, the participation of non-bank financial instruments has increased, especially micro financing. Access to finance remains an important area for economic growth and inclusive development, enabling SMEs to expand their operations and increase investment to ensure efficiency and productivity.

However, the availability of financial support is strongly correlated with the size of the company, so the smaller the company, the more difficult it is to access financing. The Covid-19 pandemic has significantly increased the pressure on SME finances, which has led to access to credit that is short-term in order to strengthen the financial situation, while losing sight of long-term measures to ensure sustainable financing opportunities for SMEs. According to the weighted average score for the area "Access to Finance" for the countries of the Western Balkans and Turkey in 2016 and 2022, with the latest assessment, North Macedonia is making progress in facilitating SMEs' access to finance. The average grade from 3.46 in 2016, through 3.63 in 2019, then 3.90 in 2022. According to that, North Macedonia has the highest performance among the economies of the Western Balkans, although Turkey is ahead of it. In terms of bank financing, Turkey is rated the highest, and Kosovo, Serbia, North Macedonia receive a rating of 3.12, that is, 3.15 and 3.14 respectively, so that bank financing has increased in all of them. In terms of non-bank financing, North Macedonia has a score of 3.40 in 2016 and 2.45 in 2022, which indicates a regression of these sources of financing, i.e. they are either in an initial stage of development or there are still no specific state policies in direction of enabling their development.

International programs for financing and supporting small and medium enterprises

• Competitiveness and Innovation framework program (CIP)

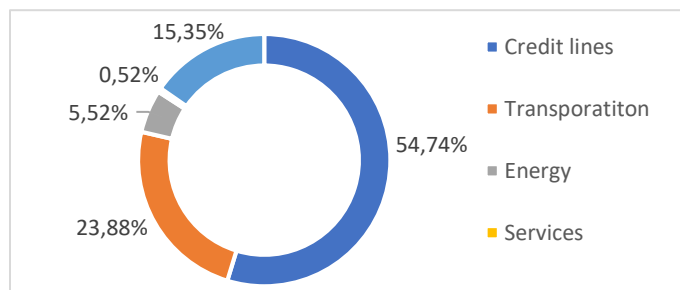
The first program of the European Commission as a response to the European policy in accordance with the new goals determined by the Lisbon Strategy is the Competitiveness and Innovation Framework Program (CIP) which was implemented in the period from 2007 to 2013 and has a budget of 3,621 million euros. Such a program is one of the largest activities carried out by the Union with the aim of increased growth and employment, increased productivity, provision of innovative capacity and support of competitiveness. This program includes: (1) entrepreneurship and innovation program; (2) information technology support program; (3) European Intelligent Energy Programme. Each of these programs has its own specific objectives and each of them provides separate annual reports to the steering committee in the respective country.

• Seventh framework program (Seventh framework program – FP7)

This program covers research and development in all scientific fields and covers the period from 2007 to 2013. The main one is strengthening the so-called knowledge-based economy in the EU. The total budget is 54 billion euros and this program supports the following components: (1) cooperation, (2) ideas, (3) people, (4) capacity. Within the framework of this program, a total of 347 projects were submitted in the Republic of North Macedonia, of which only 48 were approved. Most of the participants are universities and research centers, while there are 8 participating companies, of which only two belong to private companies, SME sector. The Republic of North Macedonia is a participant in the FP6 and FP5 programs, and thus has gained experience, and therefore the successful participation in the seventh framework program compared to the countries of the Western Balkans is 15% higher. Most of the approved projects relate to cooperation and capacities, and not a single project has been received from the people component in Macedonia. This indicates a low mobility of researchers and scientists and seeing the research profession as unattractive, as well as a lack of basic research infrastructure. The weak participation of the business sector indicates the fact that the networking of companies with higher education institutions and scientific research centers is at a very low level. And on the other hand, the number of rejected applications indicates a poor understanding of the procedure.

• European Investment Bank in the Republic of North Macedonia

Graph 3: Activity of the EIB in the Republic of North Macedonia by sector



The European Investment Bank (EIB) has been active in the territory of North Macedonia since independence in 1991 and its main goal is to support the socioeconomic development of the process of accession to the European Union through the financing of small and medium-sized enterprises as the driver of every economy. The EIB has provided EUR 1.1 billion in financing to SMEs.

Source: <https://www.eib.org/en/projects/country/north-macedonia.htm>

The most significant project for our country was signed in 2009 between the EIB and then the Macedonian Bank for development support, in the amount of 100 million euros, with the main goal of supporting SMEs. The projects are co-financed by 50% with domestic commercial banks. Currently, for the period from 2021 to 2023, a project aimed at financing SMEs and mid-market capitalized enterprises is active, and it aims to provide capital for SMEs in

support of new projects, new employment, increased liquidity of the economy and increased exports. All subsequent EIB projects in the Republic of North Macedonia are aimed at supporting Macedonian small and medium-sized enterprises towards EU integration.

• **Development Bank of the Republic of North Macedonia**

The main activity of the Development Bank of the Republic of North Macedonia (RBSM) is crediting the start-up and development of small and medium-sized enterprises by providing medium- and long-term loans, financing exports, as well as export and domestic credit insurance of claims. One of the key problems is the provision of the necessary financial resources for the co-financing of the projects, considering the way of their implementation, that is, 100% financing of the investment in advance, and 50% refund of funds after realization. A recommendation on how to overcome this real and biggest challenge for SMEs is to create a special credit line through secured budget funds within one of the EU programs, so that such a credit line would be established through the Development Bank of North Macedonia, with much more favorable conditions. On the other hand, the institutions that offer assistance and support to SMEs are characterized by unpredictability due to their functioning with financial resources from foreign donors and the constant continuation of the practice of receiving only such support. Also, insufficient networking of institutions contributes to low utilization of the facilities offered. What can be given as a recommendation for a greater degree of utilization of European funds to Macedonian intermediaries is greater information to interested parties through various promotional campaigns, with the aim of their greater affirmation, and thus increasing public awareness of the availability of EU funds, greater education through trainings and seminars are aimed at getting to know the possibilities that EU funds offer, subsidized consultative support during application, greater coordination of EU funds in the country and constant contact and consultation with all involved parties when bringing strategic documents.

2. METODOLOGY

In the period from February 10, 2024 to March 20, 2024, a survey was conducted on the financing of small and medium enterprises in the Republic of North Macedonia by banks. The research was conducted through a survey questionnaire containing several questions regarding the relationship with the development bank for development support AD Skopje and the relationship of the banks with the financing of European projects and was delivered to the branches of the following banks: (1) Sparkase Bank AD Skopje, (2) Komercijalna banka AD Skopje, (3) Stopanska banka AD Skopje, (4) Stopanska bank AD Bitola, (5) NLB Bank AD Skopje, (6) Procredit Bank AD Skopje, (7) Halk Bank AD Skopje, (8) Universal Investment Bank AD Skopje, (9) Central cooperative bank AD Skopje.

3. RESULTS

The number of participating banks in the survey questionnaire is 69.2% of the total number of existing banks in the Republic of North Macedonia. All the employees who filled out the questionnaire are in the department of lending to legal entities and employees in the sector for lending to small and medium enterprises if they have a sector for lending to small and medium enterprises and all are in the low level of management of the bank itself. More than half of the surveyed banks, ie 55.6%, have a separate organizational unit that refers to small and medium enterprises, while the rest do not, that is, small and medium enterprises are placed in a group of legal entities. All surveyed bankers answered that the share of SME loans in the total loan portfolio of the Bank is more than 40%. To the question regarding the classification of enterprises according to size, 33.3% answered that their classification is in accordance with the Law on Commercial Companies, and the remaining 66.7% have their own criteria by which they classify enterprises according to size. The credit philosophy and culture of the bank is translated into its formal credit policy, which each bank independently determines, and yet it is in accordance with the principles dictated by the NBRM. Each credit policy of the banks is in accordance with the long-term goals and strategic plan of the bank, while respecting regulatory provisions in the lending process, that is, to set the basic goals, principles and rules of the overall lending process. 55.6% say that their bank's credit policy is moderately restrictive, 22.2% believe that they have a restrictive credit policy, and the same 22.2% believe that their bank has an aggressive credit policy. 44.4% consider that small and medium-sized enterprises are a small market segment with the possibility of development and prosperity, and the remaining respondents 55.6% consider that small and medium-sized enterprises are still a large market segment.

These following results suggest that international programs targeting SMEs should focus primarily on improving access to finance, followed by support for export and international trade, with a smaller emphasis on technology and innovation. The answers of the second question indicate that the Development Bank for Development Support AD Skopje has a significantly positive effect on increasing the total credit portfolio for SMEs in the bank. This suggests that the Development Support Development Bank AD Skopje has a positive effect on increasing the interest of

SMEs in applying for loans from the bank, also suggests that the Development Bank for the Support of Development AD Skopje has a positive effect on credit conditions for SMEs in the bank, potentially by making credits more accessible or favorable in terms of interest rates, terms, and security. The majority of the respondents are familiar with and have experience working with loans for approved projects from EU programs for SMEs, indicating a level of engagement with EU funding mechanisms. Most respondents believe that partnering with other commercial banks to support SMEs from EU funds will be beneficial, either by expanding the range of services offered or by improving the bank's competitive position. In summary, these results highlight the importance of access to finance for SMEs, the positive impact of the Development Bank for Development Support AD Skopje on increasing credit portfolios and SMEs' interest in loans, and the potential for international programs to target areas such as export, trade, and technology innovation to further support SMEs. Overall, these responses indicate a positive inclination towards leveraging partnerships, familiarity with EU funding mechanisms, and the perception of the Development Bank's positive impact on credit conditions for SMEs.

Table 1: Summarized results of a survey conducted across bank branches

What specific areas or sectors do you think should be targeted by international programs to support SMEs effectively?	Technology and Innovation	12.00%	What effect does the development bank for the support of development AD Skopje have on the credit conditions for SMEs in your bank, that is, on the interest rate, terms and security?	Positively by increasing the credits	66.70%
	Export and International Trade:	35.50%		Negative, so we reduced the credits	0.00%
	Access to Finance	52.50%		It had no impact	33.30%
What effect does the Development Bank for Development Support AD Skopje have on the total credit portfolio for SMEs in your bank?	Positively by increasing the credits	88.90%	Does your bank have knowledge or already work with loans for approved projects from EU programs for SMEs?	Yes, we are familiar with and work with such loans	77.80%
	Negative, so we reduced the credits	0.00%		Yes, we are familiar with them, but we have no experience with them	22.20%
	It had no impact	11.10%		no we are not familiar, we have no experience	0.00%
What effect does the Development Support Development Bank AD Skopje have on the interest of SMEs in applying for a loan from your bank?	Positively by increasing the credits	66.70%	Do you think that if there is a partnership between your bank as a provider of services to SMEs and other commercial banks, there will be more space for supporting SMEs from EU funds?	Yes, this will increase the range of services	66.70%
	Negative, so we reduced the credits	0.00%		Yes, because such cooperation will improve our position	11.10%
	It had no impact	33.30%		No, because we do not have enough resources to implement such a project	22.20%

Source: Independent research by the authors

4. CONCLUSION

In conclusion, while international programs present significant opportunities for enhancing access to finance and support for small and medium-sized enterprises (SMEs) in the Republic of North Macedonia, there remains a notable gap in the utilization of EU programs. Despite the availability of various European Union initiatives aimed at fostering SME development, such as grants, loans, and capacity-building schemes, North Macedonia has yet to fully capitalize on these resources. The insufficient utilization of EU programs can be attributed to a range of factors, including bureaucratic hurdles, limited awareness among SMEs, and challenges in accessing information and technical assistance. Moreover, regulatory complexities and administrative bottlenecks may deter SMEs from

actively engaging with EU-funded initiatives. Addressing these barriers requires a concerted effort from policymakers, development agencies, and business support organizations to streamline processes, raise awareness, and provide targeted assistance to SMEs. Enhancing coordination among stakeholders, simplifying application procedures, and improving communication channels are essential steps towards unlocking the full potential of EU programs for SME development in North Macedonia. Furthermore, there is a need for tailored capacity-building initiatives to build the skills and capabilities of SMEs in navigating EU funding opportunities and complying with program requirements. Mentorship programs, networking events, and targeted training sessions can empower SMEs to leverage EU programs effectively and maximize their impact on business growth and sustainability. In light of the evolving economic landscape and the challenges posed by global competition, it is imperative that North Macedonia harnesses the support of EU programs to strengthen its SME sector, drive innovation, and foster inclusive economic development. By overcoming barriers to utilization and fostering a conducive environment for SME participation, North Macedonia can unlock new pathways to prosperity and pave the way for sustainable growth in the years to come.

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