

4.2. Policy measures supporting SMEs in North Macedonia during the COVID-19 pandemic

The first COVID-19 cases in North Macedonia were registered in the first half of March 2020. A general state of emergency was declared by the President on March 18 and it was extended several times throughout the following one-year period. In a state of emergency and as the Assembly was dissolved, the Government initiated the adoption of decrees with legal force.

The first introduced measures included a ban on movement from March 21 onwards, which, depending on the development of the pandemic in North Macedonia, covered different time intervals throughout 2020. A complete ban on movement on weekends was introduced during the contagion peaks. The border crossings and the airports were closed, except for strictly defined categories of passengers, for transit and freight vehicles. Besides that, additional occupational safety measures were introduced which demand the maintenance of distance between workers, wearing personal protective equipment – disposable masks and gloves, providing higher hygiene standards (access to water, soap, waste management, disinfectants, etc.) Given that schools and childcare facilities were closed between March and the end of the school year in June 2020, companies had to allow to some of their employees who had children at a young age to either stay at home or work from home whenever possible, in order to be able to take care of their children.

On one hand, the measures contained in the decrees introduced restrictions related to the movement of people and the operations of different non-essential businesses. On the other hand, they introduced different types of assistance targeting the most affected businesses and citizens in order to mitigate the economic repercussions of the restrictions. A total of 6 emergency assistance packages have been adopted so far amounting to around 1.2 billion EUR.¹⁷

The first set of measures announced at the end of March targeted the tourism, hospitality and transport sectors since those companies were ordered to cease all their economic activities. An interest-free credit line amounting to a total of EUR 5.7 million was put at the disposal of SMEs through North Macedonia's Development Bank. The loans ranged between EUR 3,000 and 30,000, depending on the number of employees, with a grace period of 6 months and repayment over 2 years. Subsidies were offered for the most affected companies, in the amount of up to 50% of the average salary paid in 2019 (or around EUR 240 net), provided that the company does not lay off staff at least until September 2020, does not pay dividend or bonuses. The Central Bank reduced the basic interest rate to 1.75% and the mandatory interest rate on late payments was halved. Additional measures were taken related to freezing the prices and the reduction of custom duties for certain important commodities and products (flour, oil, dairy, eggs, some medicines, medical products and equipment).

The second set of measures extended the assistance and other measures until May 2020 and introduced several novelties. Some liberal professions and freelancing activities (sports, arts etc.) were included in the most affected categories eligible for assistance, as well as the media. As an alternative to salary subsidies, companies were allowed to ask for subsidies only to cover

¹⁷ This report focuses only on the most important measures targeting companies on the basis of the financial implications and outreach (number of SMEs concerned).

fringe benefits in the amount of up to 50%. Monthly unemployment fee of 50% of their average salary in the past 2 years was introduced for people who lost their jobs as a result of COVID-19, during a period contingent upon their paid work experience. The Law on forceful execution of payments was suspended until the end of June 2020.

With a landmark decision, the Central Bank amended its methodology on loan risk management in order to allow the banks and other financial enterprises to postpone or extend the maturity of the loans issued to physical and moral persons and to introduce more favorable terms for loan reprogramming, lowering interest rates and extending grace periods of the loans issued to companies. Additional EUR 8 million were put at the disposal of the most affected SMEs in the form of interest-free loans and EUR 50 million were disbursed through the commercial banks at an interest rate of around 1.5%, targeting SMEs willing to launch new projects, open new jobs or increase exports. The Government also banned the initiation of bankruptcy procedures during the state of emergency and 6 months after its end (announced for 31 December 2021).

The third set of measures (May 2020) directly targeted natural persons in socially disadvantaged categories. However, indirectly, it was supposed to help domestic companies by stimulating the consumption of their products and services. It provided citizens with EUR 100 vouchers they could use in hotels in North Macedonia and EUR 50 debit cards which could only be used to purchase domestic products. Moreover, a VAT-free weekend was organized during which all citizens were able to buy domestic products exempt of VAT charges in pre-determined sectors.

The fourth set of measures (September 2020) re-introduced the option for subsidizing salaries (which applied between March and May), for additional three months October–December 2020. This time, the amount of the subsidy was contingent upon the decrease of the company's turnover and could reach up to EUR 350. The estimate was that a total of 250,000 employees would benefit and 83,000 jobs would be saved, given that the condition was for companies not to lay off staff until 31 July 2021. The European Investment Bank supplied the Government with EUR 100 million in low-interest rates loans to be disbursed through the commercial banks. The grace period for the previously issued interest-free loans was extended for additional 3 months. The state also issued a guarantee of EUR 10 million as collateral aimed to help the companies secure additional EUR 65 million in loans from the commercial banks.

Additional support was provided to the tourism, hospitality and transport sectors through grants for the travel agencies amounting between EUR 3000–7000, return of the tourist tax paid by accommodation capacities for 2019, 3 months of minimum wage for the tour guides, grants for specialized wedding reception facilities, extension of the operating licenses for night clubs and transport companies. VAT of artisans' products was reduced from 18% to 5% in order to strengthen their competitiveness, and VAT for restaurant services was reduced from 18% to 10%. VAT exemption was also announced for donations of public character. SMEs were also able to use exemption from payment of profit tax advance payment for a period of 3 months, deferral of VAT payment by 1 week and an increase of the threshold to enter the regime of total income taxation from EUR 50,000 to 80,000.

The fifth set of measures (February 2021) included subsidies to the salaries for February and March 2021; interest-free loans with a potential grant component of 30–50%, in the total amount of EUR 10 million, targeting sectors such as tourism, event industry, hospitality, transport and private healthcare providers; specific financial support for media and broadcasters, crafts, liberal professions and companies with a reduction in turnover exceeding 50% in the previous

year; state guarantee scheme of EUR 5 million to support the disbursement of EUR 30 million in loans from the commercial banks and another extension of the grace period for the previous interest-free loans. The government also created a EUR 10 million fund to support export-oriented companies, EUR 6 million fund to support the technological development of SMEs and reduced or suspended custom duties on around 100 raw materials.

The sixth set of measures was announced in April 2021 and amounts to EUR 17,8 million. It specifically targets the most affected companies with grants and loans, such as the event industry and the hospitality sector, fitness centers, photo studios and travel agencies.

4.3. Impact of the adopted government measures and recommendations for a successful economic recovery

There seems to be a consensus among national experts that the value of the government's response was adequate compared to the overall size of the budget, represented an important boost and helped many SMEs survive the initial wave of the pandemic. However, there is also a consensus that had the design and implementation of the measures been better, its impact could have been much stronger.

According to university professor Tamara Jovanov,¹⁸ the measures should have been adopted in a timelier manner in order to mitigate the initial and strongest impact of the pandemic. One of the more serious shortcomings is related to the high level of “red tape” (forms and documents) that companies were supposed to collect and submit in order to be eligible for assistance, as well as the often unclear and/or changing procedures and guidelines. This turned out to be a significant administrative burden for SMEs who generally have few employees and often lack the knowledge to prepare complex applications. Furthermore, the criteria for receiving assistance initially excluded companies which had been profitable before the pandemic, leaving some of the most vulnerable sectors ineligible. At the same time, there were also allegations of “informal corruption”, with some companies close to the ruling government coalition receiving government assistance despite the fact that they were profitable throughout the pandemic.

For the president of the Business Confederation of Macedonia,¹⁹ the support measures had predominantly a social component and did not take into full account the longer-term needs of the SMEs. While on the short term the subsidies, loans and tax relief measures served as a way to relieve “the headache” of many entrepreneurs who faced both a decrease in the demand and reduced liquidity, the uncertainty whether, when and how (much) they will need to return the received funds left a strong feeling of bitterness among entrepreneurs who had been paying taxes and sustaining the economy for years, hence expected more support in return. Moreover, the measures did not help to restore the much-needed trust in the economy and stimulate domestic consumption. Instead, faced with the imminent threat to their health and life, consumers prefer to save money and not to purchase non-essential goods and services.

18 Personal interview with professor Tamara Jovanov (PhD), Economic Faculty, University Goce Delchev – Shtip, who is also a member of the advisory board of the National Platform for Women Entrepreneurship, 26.11.2021.

19 Personal interview with Mr. Mile Boshkov, President of the Business Confederation of Macedonia, 25.11.2021

But according to professor Jovanov, the crisis mostly affected the middle and low classes, while the higher-end of the society maintained its purchasing power. Hence, the strong decrease in domestic consumption was partly due to the lack of adaptability of SMEs and their lack of skills and know-how to reinvent their offer and target new consumers and markets. Namely, the specific features of SMEs in North Macedonia as a combination of internal factors (entrepreneurs out of necessity and not out of opportunity, underdeveloped business skillset and digital competences among both managers and staff, not diversified company portfolios) and external factors (highly dependent on both imports and exports, limited access to finance opportunities) acted as an impediment for many of them to swiftly adapt and find a way out of the crisis.

A survey conducted by ILO at the end of 2020²⁰ revealed that slightly more than half of all enterprises (52%) offered new products or services, or modified the existing ones. About a third decreased the price of selected products/services with a view to increasing sales and revenues (assuming customers were highly price sensitive). A quarter of the enterprises reached out to customers by providing delivery and/or online purchasing. According to the same survey, 61% of the enterprises were not satisfied with the government measures and suggest there could have been improvements in terms of their criteria, inclusiveness and targeting.²¹ Around 1/3 of all active companies used the government measures, especially those supporting jobs which benefited a total of 31% of the private sector workforce. In terms of registered companies 44% of all small companies used the government support, 41% of medium, 36% of micro and 31% of large companies, but when it comes to supporting jobs, the statistics go largely in favor of large enterprises where 50% of the jobs were supported, as opposed to 29-32% of the salaries in SMEs.²²

Job subsidies were the most popular support measure among SMEs and largely contributed to prevent an even bigger increase in the unemployment rate, followed by the subsidized loans. However, due to the fact that salaries were paid to the companies, and not to the workers directly, there were 181 cases of abuse when employers received state aid, but did not pay salaries to their employees. Until present day, no sanctions have been undertaken against those employers.

Conclusions and recommendations

- It is important to increase consumers' trust and target domestic consumption as a component which can be easily stimulated by policy makers on the short term. This was done to a certain extent, although it could have been more efficient had the scope of products and the criteria for support to citizen categories been broader.
- The criteria to obtain financial support should have been better designed to ensure that it will go into the hands of those entities which need it most and are unable to secure other funding to overcome the crisis, while taking into account the profitability as well.
- Applications for recovery and long-term support measures should bear in mind the administrative capacity of SMEs and include only the strict minimum of bureaucracy.

20 Mojsoska Blazhevski, Nikica. 2021. "Evolving challenges and expectations facing Macedonian enterprises during the COVID-19 pandemic (Second edition)." International Labour Organization. 19.

21 Mojsoska. 2021. 8.

22 Jovanovik. 2021. 14.