SMEs, ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT IN NORTH MACEDONIA: INSIGHTS FROM THE 'NEVER-ENDING' TRANSITION PERIOD

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INTRODUCTION

This chapter focuses on entrepreneurship and small and medium-sized enterprises (SMEs) in the Republic of North Macedonia, one of the successor states of the former Yugoslavia. Located in the Central Balkan Peninsula in South-Eastern Europe, North Macedonia declared its independence on September 8, 1991. The country is a member of the United Nations, where it was initially recognized under the provisional name "Former Yugoslav Republic of Macedonia" (FYROM) due to a naming dispute with Greece (United Nations, 1993).

Covering an area of 25,713 square kilometers (9,928 square miles), North Macedonia shares borders with Albania to the west, Bulgaria to the east, Greece to the south, and Kosovo and Serbia to the north. Skopje, the capital city and the birthplace of Mother Teresa, is the largest urban center in the country, home to about 30% of the total population.

Though landlocked, North Macedonia is renowned for its stunning landscapes, including mountains, valleys, lakes, and rivers. Popular landmarks like the Sharr Mountains, Lake Ohrid, and the vibrant Vardar River offer breathtaking views. Tourists often visit these sites and enjoy the local culture, including a cup of coffee along the Vardar River. Skopje's Old Bazaar, with its historical landmarks such as Kale Fortress, Bezisten, Stone Bridge, Çifte Hamam, Clock Tower, Daut Pasha Hamam, Kurşumli Han, Mustafa Pasha Mosque, and the Church of the

Holy Salvation, has evolved into a major tourist attraction, drawing visitors with its rich heritage dating back to at least the 12th century (Ramadani et al., 2018).

Picture 1. Skopje’s Old Bazaar. Photo © Veland Ramadani

Based on the State Statistical Office of the Republic of North Macedonia (2023), the last Census of 2021 shows that the total enumerated population is 2,097,319 individuals. Among them, the resident population totals 1,836,713 persons. The non-resident population, which comprises citizens of the Republic of North Macedonia absent abroad for over 12 months and foreigners temporarily present in the country for less than 12 months, amounts to 260,606 individuals included in the census. Data from administrative sources cover 132,260 persons, constituting 7.20% of the resident population. In terms of self-declared ethnicity among the enumerated population, 54.21% identified as Macedonians, 29.52% as Albanians, 3.98% as Turks, 2.34% as Roma, 1.18% as Serbs, 0.87% as Bosniaks, and 0.44% as Vlachs. Within the resident population of North Macedonia, 58.44% identified as Macedonians, 24.30% as Albanians, 3.86% as Turks, 2.53% as Roma, 1.30% as Serbs, 0.87% as Bosniaks, and 0.47% as Vlachs. Among the non-resident population included in the census, which includes citizens absent abroad for over 12 months and temporary foreigners, 24.45% identified as Macedonians, 66.36% as Albanians, 4.79% as Turks, 1.02% as Roma, 0.81% as Bosniaks, 0.35% as Serbs, 0.19% as Vlachs, and others.

Entrepreneurship is a cornerstone of economic development in North Macedonia, providing a pathway to job creation, innovation, and overall economic resilience. In the context of North Macedonia, entrepreneurship is essential for stimulating economic growth, fostering competitiveness, and enhancing societal welfare. The vibrant ecosystem of small and medium-sized enterprises (SMEs) serves as a catalyst for economic dynamism, driving both local and regional markets (Ramadani et al., 2022).

The entrepreneurial landscape in North Macedonia, however, is marked by a mix of opportunities and challenges. On one hand, the country boasts a pool of creative and motivated individuals eager to start their own businesses. This entrepreneurial spirit is reflected in various sectors, from technology and agriculture to tourism and manufacturing. On the other hand, numerous systemic barriers impede the growth of entrepreneurial ventures. These include cumbersome administrative processes, limited access to financing, and a lack of supportive infrastructure, which collectively stifle innovation and economic progress (OECD, 2022; World Bank, 2021). Moreover, the informal economy remains a significant concern, as many entrepreneurs operate outside the regulatory framework. This informality not only reduces potential tax revenues for the state but also limits the growth opportunities for businesses that could thrive if they had access to formal support systems, including credit and training (International Finance Corporation, 2021).

Addressing these challenges necessitates a multifaceted approach involving collaboration among various stakeholders, including government agencies, financial institutions, and non-governmental organizations. Initiatives aimed at fostering entrepreneurship must prioritize creating a supportive regulatory environment, enhancing access to capital, and promoting entrepreneurial education and training programs. International organizations are also crucial in this regard, providing funding, expertise, and guidance to help strengthen the entrepreneurial ecosystem.

As North Macedonia aspires to integrate further into the European Union, fostering a robust entrepreneurial environment becomes even more critical. The alignment of local policies with EU standards, particularly in areas such as business regulation, access to finance, and support for innovation, can facilitate smoother integration and enhance the country's competitiveness on a broader scale. Promoting entrepreneurship not only serves as a vehicle for economic growth but also as a means to achieve sustainable development goals and improve living standards for all citizens.

HISTORICAL OVERVIEW

Despite losing Serbia and Montenegro in 1878, the Ottoman Empire retained control over Macedonia, a region under Turkish dominion since 1371. Unlike Slovenia, Croatia, and Bosnia & Herzegovina, which were administered by the Austro-Hungarian Empire, Macedonia remained free from Western rule until the Balkan Wars of 1912-1913, when it was divided into three regions: Aegean Macedonia, which was governed by Greece; Pirin Macedonia, which was controlled by Bulgaria; and Vardar Macedonia, which became part of the Kingdom of Serbs, Croats, and Slovenes (later known as Yugoslavia from 1929). Even though the Yugoslav monarchy officially joined the Axis powers in 1941, much of the population opposed this alliance. In response to the widespread resistance, the Nazis occupied the majority of Yugoslavia until 1943.

As previously mentioned, the Republic of North Macedonia declared its independence on September 8, 1991, and gained international recognition on December 19 of the same year. On February 6, 1992, Turkey officially recognized Macedonia's independence. However, Greece strongly opposed the recognition, asserting that the entire region should be a Greek province. Greece was particularly incensed by Macedonia's use of the name, which is also associated with a region in northern Greece, and by the inclusion of the 16-point sun symbol (Vergina Sun) on Macedonia's flag, a symbol of Greek origin.

In response, Greece imposed an embargo on Macedonia in 1992, which significantly slowed down the Macedonian economy. Despite this, Macedonians continued to access a wide range of Greek products through smuggling, with items like empty Pepsi cans and wrappers from Greece's "Kiss" brand chocolate bars commonly found on the streets of Skopje, the Macedonian capital. The embargo was eventually lifted in September 1995, when the United States mediated an agreement in which Macedonia agreed to change its flag and modify its name to avoid any implications of territorial claims.

After the Republic of Macedonia agreed to adopt the name FYROM (Former Yugoslav Republic of Macedonia), the embargo was lifted. This name change legitimized international trade, creating new opportunities for entrepreneurship. Many of those who demonstrate entrepreneurial behavior are Macedonians who have previously worked abroad. Meanwhile, within Macedonia, the removal of subsidies has led to a sharp rise in prices and a significant increase in unemployment, with the elderly being particularly hard hit. Especially among retired people who cannot compete in the new system, there is still nostalgia for the good old days of unity under Tito, whose portrait is admired across the country. His name comes up often in discussions.

North Macedonia has embarked on a challenging journey towards EU integration, becoming an official candidate in 2005. Despite initial optimism, progress has been marred by significant hurdles. One of the most notable obstacles has been the name dispute with Greece, which lasted for decades until the Prespa Agreement in 2018 resolved the issue, paving the way for North Macedonia's accession to NATO in 2020 (Marusic, 2020). However, tensions with Bulgaria over historical and cultural issues persist, complicating EU integration efforts (RFE/RL, 2021).

The path to EU accession has been fraught with delays, primarily due to bilateral disputes and internal political challenges. These issues have slowed down reforms necessary for meeting EU standards, particularly in areas such as the rule of law, corruption, and judicial independence (European Commission, 2020). Despite these setbacks, North Macedonia has made strides in aligning its policies with EU norms and has received positive assessments from the European Commission (European Commission, 2020).

As of now, North Macedonia continues to work towards fulfilling the EU's membership criteria, bolstered by its NATO membership which has enhanced regional security cooperation. The resolution of outstanding bilateral issues with neighboring countries remains pivotal for advancing its European integration agenda and securing a stable future within the European Union.

ENVIRONMENT FOR SMES AND ENTREPRENEURSHIP DEVELOPMENT

Current State of Entrepreneurship and SMEs

The broad economic literature confirms that entrepreneurship and small and medium-sized enterprises (SMEs) represent the backbone of all economies. They represent a vital segment of the economic structure of each country. The role of entrepreneurship and small and medium-sized enterprises is reflected in the possibility of opening new jobs, using resources at the local level, introducing innovations, increasing competition, and thus the quality of products and services, contributing to a better life of the population (Hisrich and Ramadani, 2017).

Following the adoption of the European Charter for Small Enterprises in June 2000 by the European Council, there was a need for a better definition and regulation of micro-enterprises. As a result, the European Commission has introduced this new category of enterprises (European Commission, 2005) among other changes. The criteria used by the European Union to determine the type of enterprises are number of employees, turnover, and balance sheet. The new European Union (EU) definition, which is applicable from 1 January 2005, according to the above-mentioned criteria, divides the enterprises as indicated in Table 4.1.

Table 1. EU enterprise classification criteria

Enterprise category	No. of employees	Turnover	Balance sheet
Micro	< 10	≤ 2 million €	≤ 2 million €
Small	< 50	≤ 10 million €	≤ 10 million €
Medium	< 250	≤ 50 million €	≤ 43 million €

Source: European Commission (2005:14).

In the Republic of North Macedonia, small and medium-sized enterprises are defined according to the Law on Trade Companies, in which the above-mentioned EU criteria for the classification of enterprises were accepted and incorporated, normally adapted to the country's economic conditions. The Law on Trade Companies introduced the term micro-trader for the first time. Therefore, according to the provisions of the Law (Article 470), enterprises are classified as micro, small, medium, and large enterprises, i.e. traders (Official Gazette of the Republic of Macedonia, 2004), as indicated in Table 4.2.

Table 2. Classification of Enterprises in the Republic of Macedonia

Enterprise category	No. of employees	Turnover	Balance sheet
Micro	< 10	≤ 50,000 €	-
Small	< 50	≤ 2 million €	≤ 2 million €
Medium	< 250	≤ 10 million €	≤ 11 million €

According to the data of the State Statistical Office of the Republic of North Macedonia (2024), in 2022, there were 71,228 active enterprises in North Macedonia. Among these, wholesale and retail trade and repair of motor vehicles and motorcycles accounted for the largest share at 30.4% of the total. Regarding the number of employees, the majority of enterprises (84.2%) employed 1-9 persons. Enterprises with no employees and those with an unspecified number accounted for 5.9%, while those employing 10-19 persons comprised 4.6%. Enterprises with 20-49 employees represented 3.0%, those with 50-249 employees were at 2.0%, and only 0.3% of enterprises had 250 or more employees.

The Global Entrepreneurship Monitor (GEM) provides a valuable and irreplaceable base of information about entrepreneurs across different countries. The entrepreneurial activity of a particular country is measured through the Total Early-Stage Entrepreneurial Activity (TEA) index - the percentage of people aged 18-64 who are in the process of starting a new business or already are running a new business (not older than 42 months). The TEA index involves two groups of individuals:

- Individuals who enter into business by establishing their own business due to *necessity (necessity-driven entrepreneurs),* respectively, because they weren't able to find a better employment opportunity; and
- Individuals who enter into business because of perceiving an *opportunity (opportunity-driven entrepreneurs),* through which they will achieve greater income and greater independence.

For the Republic of North Macedonia, the TEA index has seen fluctuations over the years. According to the latest GEM report, North Macedonia's TEA rate in 2021 stood at 10.4%, reflecting a growing interest in entrepreneurship but still lower than many EU countries (Global Entrepreneurship Monitor, 2022). This indicates that while a notable portion of the population is engaged in early-stage entrepreneurial activity, challenges such as access to finance, regulatory hurdles, and market opportunities remain barriers.

When compared to neighboring countries, North Macedonia's TEA rate is moderate. For instance, Albania had a TEA rate of 12.3%, while Serbia stood at 9.1% in 2021 (GEM, 2022). In contrast, EU countries generally have lower TEA rates, with countries like Germany and Italy averaging around 6-7%, reflecting more established business environments where entrepreneurship tends to be more opportunity-driven rather than necessity-driven (European Commission, 2021).

The gap between North Macedonia and some EU countries is reflective of differences in economic structures and entrepreneurial ecosystems. While the TEA index in the region tends to be higher due to necessity-driven entrepreneurship, EU countries often see lower TEA rates due to stronger labor markets and more stable employment opportunities (Bosma et al., 2021). North Macedonia, like other countries in the region, faces the challenge of improving conditions for opportunity-driven entrepreneurship, which is more sustainable and growth-oriented.

In North Macedonia, small and medium-sized enterprises (SMEs) continue to play a significant role in employment and economic value. As of 2020, SMEs accounted for 73.5% of employment and contributed 65.7% to the country's total value added. These figures are notably higher than the EU average, demonstrating the importance of SMEs in North Macedonia's economy (European Commission, 2021; MAKStat, 2021).

However, the challenges for SMEs have been exacerbated by the COVID-19 pandemic. Issues such as high informality in the labor market and heavy administrative burdens continue to hinder SME growth. The pandemic highlighted the need for policies that better address the specific needs of SMEs, particularly through reducing red tape and formalizing more of the economy. To support long-term growth, it is crucial for policymakers to adopt a "think small first" approach, ensuring that SME-friendly policies are prioritized in economic recovery plans (European Commission, 2021).

Women's entrepreneurship in North Macedonia has seen notable growth, with women representing around 30% of business owners as of 2021. However, women-led enterprises generally face significant challenges, including smaller business sizes, lower profitability, and greater barriers to financing compared to male-led firms (OECD, 2022). Social norms, limited access to entrepreneurial networks, and underrepresentation in high-growth sectors further impede their progress. In the broader Western Balkans region, female entrepreneurs constitute approximately 25% to 35% of all entrepreneurs. While countries like Serbia and Albania have made strides through supportive policies, women across the region still encounter barriers related to capital access, education, and necessary support systems (European Commission, 2021; Palalić et al. 2017). According to Global Entrepreneurship Monitor (GEM) data, the Total Entrepreneurial Activity (TEA) rate for women in North Macedonia is about 7.5%, significantly lower than that of men. This disparity underscores the need for targeted policy interventions to improve access to resources, training, and mentorship for women entrepreneurs. Addressing these issues is crucial, as many women engage in necessity-driven rather than opportunity-driven entrepreneurship, limiting their growth potential and economic contributions (GEM, 2022; Ratten et al., 2017).

The Association of Women Organizations in Macedonia is one of the few initiatives actively working to raise awareness about the economic and societal roles of women in the country. In addition to this association, several non-governmental organizations (NGOs) are taking proactive steps to motivate and engage women in both economic and political spheres. However, governmental support remains crucial for enhancing women's involvement in these areas, given the significant human potential and capabilities available for the successful development of women entrepreneurs. Despite several efforts, North Macedonia still faces challenges in fully adopting supportive policies for women entrepreneurs. The establishment of the Association of Women Entrepreneurs APNA in June 1999 and the formation of NIZA in Skopje marked significant steps forward in promoting women's entrepreneurship. These organizations help empower women to assert their rights to work and improve their quality of life by supporting their entrepreneurial ideas. Moreover, recent initiatives such as the "Women in Business" program and the "Women's Entrepreneurship Fund" have emerged, aiming to provide financial support and training to women entrepreneurs, enhancing their skills and access to markets. As awareness continues to grow and with ongoing governmental support—both material and immaterial—women are gradually finding their place and role within the Macedonian economy (Ramadani et al., 2022).

Business environment

North Macedonia has achieved improvements in its overall business environment, ranking 17th out of 189 countries in the Doing Business 2021 Report (World Bank, 2021). However, significant reforms are still necessary in various aspects of the business landscape. While some areas have improved, others are experiencing a slowdown. Ongoing efforts to refine these areas are crucial for fostering a supportive environment for entrepreneurship and economic growth. By addressing these challenges, North Macedonia can enhance its competitive position and create a more favorable climate for local and foreign investments.

Regarding the key segments that make up the overall business environment, the situation in this country is as follows:

Property rights. Good protection of property rights, effective execution of contracts and rule of law in general are mostly related to encouragement and development of entrepreneurial activities. Although in the protection of property rights are noted significant improvements, it still remains a real challenge for North Macedonia. The International Property Rights Index (IPRI) assesses the protection of property rights in various countries, measuring aspects like legal and political environments, physical property rights, and intellectual property rights. In the 2023 IPRI report, North Macedonia scored 4.6 out of 10, ranking 78th globally out of 125 countries assessed (Property Rights Alliance, 2024). This score reflects challenges in both physical and intellectual property protections, with particular weaknesses in enforcement and legal frameworks. Despite some improvements in recent years, North Macedonia still grapples with issues such as bureaucratic inefficiencies, corruption, and limited public awareness regarding property rights (OECD, 2022). These challenges hinder investment and entrepreneurship, as businesses and individuals may lack confidence in the protection of their assets. Strengthening property rights is vital for fostering a more robust economic environment and encouraging foreign investment. Efforts are underway to enhance the legal and regulatory framework surrounding property rights, including initiatives supported by international organizations. These measures aim to improve the overall business climate by promoting better enforcement mechanisms and increasing transparency in property transactions (World Bank, 2021).

Corruption. Corruption in the organs of the system, especially in the judiciary and public administration, remains an 'incurable wound' in North Macedonia. According to the Transparency International Perception of Corruption Index for 2023, North Macedonia received a score of 42 out of 100, ranking 76th among 180 countries assessed. This represents a decrease of 2 points from the previous year. The CPI ranks countries on a scale where 100 is considered very clean and 0 signifies highly corrupt. The World Bank and the European Commission have noted that the lack of accountability and transparency in various sectors, particularly public administration, judiciary, and healthcare, continues to impede progress in tackling corruption. Thus, state institutions need to take more concrete and rigorous actions in this direction, which will shorten the lengthy court procedures, simplify the complicated procedures for obtaining different permits facilitate the introduction and transfer of new technologies, consistently protect intellectual property, etc. This may increase the entry rate of high-growth potential small and medium-sized enterprises and the interest of investors.

Administrative-bureaucratic obstacles. Lengthy administrative and bureaucratic processes, as measured by the number of steps and days required to establish a new business, pose significant challenges for entrepreneurs. Research indicates a strong link between bureaucratic procedures and corruption; typically, an increase in procedures correlates with a higher likelihood of corrupt practices (Fiti and Ramadani, 2013). However, North Macedonia has made notable strides in this area. The implementation of a one-stop-shop system in 2006, following the enactment of the relevant law in September 2005, has led to a dramatic decrease in both the time and the number of steps needed to start a business. The registration time for new enterprises was reduced from 48 days to just 1, and the number of procedures was cut down to only one. Consequently, in the Doing Business 2016 Report, North Macedonia was ranked 2nd out of 189 countries analyzed.

However, the latest report from the World Bank in 2021 indicates a regression, with the time for business registration increasing to 15 days and the number of procedures rising to 6, leading to a drop in ranking to 78th position. On a positive note, North Macedonia has significantly improved its ranking in terms of business closure, moving up to 30th place from 115th in 2016. The process now takes approximately 1.5 years (World Bank, 2021).

Tax policy. In 2007, the Republic of North Macedonia introduced the flat tax, which reduced the tax burden on enterprises. Income tax paid by businesses initially decreased from 15 to 12 %, while in the beginning of 2008, it decreased to 10%. The existing three marginal tax rates for personal income tax (15%, 18%, and 24%) were replaced with one rate - 10%. In 2016, all contributions that were directly related to salaries of employees were reduced as follows: pension and disability insurance from 19% to 17.5% (this percentage is shared between state and private pension funds), health insurance from 7.5% to 7.3%, and unemployment insurance from 1.4% to 1.2%. (Law on Compulsory Social Insurance Contributions, 2015). The current rates for compulsory social contributions on gross salaries in North Macedonia are as follows: Pension and disability insurance 18.8%; Health insurance 7.5%; Employment insurance 1.2% and Additional health insurance 0.5% (PwC, 2024).

State regulation and infrastructure. In the area of state regulation, it is necessary to strengthen the autonomy of the regulatory bodies, which would ensure fair and predictable regulation of the market failure domains (public goods, asymmetric information, externalities, existence of monopolies, unequal distribution of income, etc.), as well as deregulation, i.e. removing numerous administrative-bureaucratic obstacles, which hinder the faster development of businesses (Fiti and Ramadani, 2013). In the latest Global Competitiveness Report, North Macedonia has shown progress but still faces challenges in various sectors. According to the 2023 report, the country is ranked 81st out of 141 nations, which reflects some improvements from previous years but highlights the need for continued reforms to enhance its competitive edge (World Economic Forum, 2024). Infrastructure, such as roads, railways, airports, telecommunications, energy, etc. has a significant impact on business costs. In the Global Competitiveness Report 2023, North Macedonia ranks 82nd out of 138 countries in terms of infrastructure quality. This reflects ongoing challenges within the nation's infrastructure development, which includes road, rail, and digital connectivity.

The Republic of North Macedonia in order to stimulate the development of entrepreneurship and SMEs should provide a favourable, friendly business environment that implies good protection of property rights, efficient execution of contracts, rule of law, quality and non-arbitral regulation, stable and predictable government policy, corruption, elimination of administrative-bureaucratic barriers, providing favourable tax policy, moreover, providing broad and absorption power on the market, etc.

Problems and Challenges Faced by Entrepreneurs

Many SMEs are extinguished, disappearing every year due to different reasons, for example: the management is not well-trained and does not have enough business experience; owners decide by themselves for all issues, which indicates the absence of specialization in certain functions; product and services assortment is not sufficiently diversified; serious financing problems, etc. All these features make them particularly risky businesses (Ramadani, 2024).

Entrepreneurs usually face various problems and challenges. Some of them appear before and some after starting the business (Ramadani et al., 2022). According to Shuklev and Ramadani (2012), entrepreneurs in the Republic of North Macedonia face these problems and challenges commonly: lack of initial capital, complicated legislation, problems with suppliers, lack of professional staff, etc. Ramadani and Gërguri (2011) in their research with a sample of 119 domestic SMEs found these problems and challenges: confronting with unfair competition (29.96% of respondents), payment problems (21.59%), decline in sales (18.94%), lack of qualitative financial assets (12.78 %), legal regulation (10.13%), lack of adequate human resources (3.52%), other (3.08%).

As can be seen from these two studies, among the major problems and challenges of entrepreneurs in the Republic of Macedonia are those related to lack of professional staff, lack of qualitative funding sources, inability to deal with legal regulation related to doing business and lack of business-related experience and knowledge.

CONCLUDING REMARKS AND NEXT STEPS

Conclusions

Entrepreneurship and small and medium-sized enterprises (SMEs) are crucial to economic growth, contributing to job creation, innovation, and competition (Hisrich & Ramadani, 2017). Following the European Charter for Small Enterprises in 2000, the EU established clear definitions for micro, small, and medium enterprises based on employee count, turnover, and balance sheets. In North Macedonia, the Law on Trade Companies aligns with these EU classifications, recognizing micro-traders for the first time. SMEs significantly impact employment and value added, accounting for 73.5% of employment as of 2020. However, challenges persist, including high informality, bureaucratic obstacles, and access to finance, exacerbated by the COVID-19 pandemic. The Global Entrepreneurship Monitor indicates fluctuations in entrepreneurial activity, with a Total Early-Stage Entrepreneurial Activity (TEA) rate of 10.4% in 2021. Women entrepreneurs face additional barriers, highlighting the need for targeted policies to foster inclusivity and support for sustainable growth in North Macedonia's entrepreneurial landscape.

Fostering and Expanding Venture Capital as an Important Financing Source

Experiences from developed countries illustrate those numerous enterprises, including Ford, Amazon, Microsoft, Bell Telephone, and Apple, have achieved remarkable success largely due to the support of venture capital. Therefore, it is crucial to continuously encourage this form of financing for small and medium-sized enterprises (SMEs) and to involve a greater number of stakeholders who can significantly contribute to its development (Ramadani et al., 2022; Ramadani, 2009).

In the Republic of North Macedonia, however, venture capital remains nearly non-existent, leaving local SMEs deprived of one of the most advantageous and high-quality sources of funding for their growth. Venture capital encompasses financial resources, in the form of equity capital, and managerial know-how, invested by individuals and institutions in unlisted SMEs with high growth potential (Gladstone & Gladstone, 2002; Mason & Botelho, 2016; Ramadani, 2014).

Venture capital typically manifests in two primary forms: informal venture capital, represented by business angels, and formal venture capital. Business angels are private investors who leverage their wealth and experience to support new SMEs, helping young entrepreneurs while also seeking personal profit. Their contributions are particularly valuable during the early stages of business development, as they provide both capital and guidance. Although they invest smaller amounts compared to other funding sources, their role in financing new ventures is increasingly important (Cumming & Zhang, 2016). To enhance their impact, business angels often form groups or networks. These groups consolidate resources, expertise, and knowledge to mitigate risks, evaluate projects more effectively, and pursue larger investment opportunities.

On the other hand, formal venture capital involves capital mobilized from pension funds, insurance companies, corporations, and other institutions through venture capital firms, which manage and invest in SMEs that are not publicly traded. These firms typically establish partnerships where they act as general partners, while the investors serve as limited partners.

In addition to financial investment, venture capitalists contribute time and expertise, drawing on their entrepreneurial and managerial experience to assist in strategic decision-making and address significant challenges, which allows for direct involvement in the enterprises they finance (Ramadani et al., 2022). This dual investment of capital and knowledge has led to venture capitalists being referred to as "smart money".

In the Republic of North Macedonia, there is currently no specific legislation governing venture capital, particularly in relation to business angels, unlike in countries such as the United States, the United Kingdom, and Turkey. However, under a project funded by the European Union titled *Corporate Social Responsibility and Business Angels: Driving Force for Private Sector Development*, an expert team is working on drafting a law concerning business angels. This draft has been submitted to the Ministry of Economy and Labor, which is expected to take the necessary steps to implement it.

Fostering Innovation Through R&D Subsidies and the Creation of Incubators and Technology Parks for SMEs

In today's era of globalization, businesses face heightened levels of competition. Enterprises are under continuous pressure from competitors offering similar products or services, as well as from increasingly demanding consumers who expect enhanced quality and innovation in the products they consume (Ramadani et al., 2017). According to research (*see* Palalić et al., 2018), 39.9% of small enterprises in North Macedonia are considered innovative, with the highest levels of innovation observed in sectors such as finance and insurance (89.1%), followed by information and communication (69.5%), and real estate (59.5%). On the other hand, the least innovative sectors include construction, transportation, and agriculture. However, it's important to note that the majority of innovations are concentrated in organizational and marketing practices, while only 24.7% are related to new or improved products or processes. Furthermore, 91.6% of product or process innovators operate solely within the domestic market. A significant portion of innovation-related funds (59.5%) is allocated toward purchasing equipment, machines, software, and buildings, which do not necessarily lead to the development of innovative products or processes.

This data indicates that many entrepreneurs in North Macedonia have yet to fully recognize the critical role that innovation plays in the growth and development of their enterprises. Moreover, the country's performance in the Global Innovation Index (GII) highlights room for improvement. In the 2022 report, North Macedonia ranked 60th out of 132 economies, reflecting its potential but also signaling the need for better R&D investment and innovation infrastructure.

Entrepreneurs in the Republic of North Macedonia must prioritize increasing the number of innovative products and services to enhance their competitiveness in both domestic and international markets (Rexhepi et al., 2017). The government plays a crucial role in facilitating this process by providing financial support for research and development (R&D) and engaging international experts in innovation. A positive step was the establishment of the Fund for Innovation and Technological Development in 2013, but the allocated funds remain insufficient to make a significant impact on this challenging, yet vital, process (Dzambazovski, 2015).

According to the World Bank, R&D expenditures in North Macedonia in 2022 represented only 0.38% of GDP, a figure that lags behind regional counterparts such as Serbia (0.97%), Croatia (1.24%), and Slovenia (2.10%). To boost innovation, the government could offer additional incentives like tax credits for R&D expenses, a successful policy adopted in developed countries (OECD, 2024).

Moreover, the creation of business incubators and technology parks has proven to be an effective strategy for promoting innovation globally. In North Macedonia, institutions like SEEU TechPark at South East European University and the Business Start-Up Center at the University “St. Cyril and Methodius” in Skopje have successfully established models that could inspire broader efforts. These incubators allow students to transform their business ideas into viable products and services, contributing to the development of both existing businesses and new enterprises.

Additionally, expanding business incubators and technology parks to larger municipalities would further promote entrepreneurship and the growth of small and medium-sized enterprises (SMEs). This would not only create new jobs but also increase government revenues through taxes and fees collected from newly established businesses.

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