



COMMENT



On the measures for economic growth published by the Government of the Republic of Macedonia

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The Government of the Republic of Macedonia announced economic measures in the framework of the plan for economic growth. The purpose of the measures is to increase the competitiveness of the private sector, to accelerate economic growth and improve the well-being of the citizens. The measures are structured in three categories: measures for new “Greenfield” investments and increasing the competitiveness of economic entities, measures to support exports and measures to support small and medium-sized enterprises.

Finance Think believes that the measures will give a positive financial impulse to the companies in the short term. The Export Orientation Strategy, i.e. creating a new value in the economy through exports - would provide long-term stability of the business sector. But consideration should also be given to improving the capacities of domestic companies in terms of identifying the need and awareness of technological development, innovation and soft skills to bring the capacities closer to those of foreign companies. This is important in order for small and medium-sized companies to become more competitive and self-sustaining in the medium term.

However, in order to maximize the effects of these measures, Finance Think gives the following recommendations to the policy makers:

- **The financial support for exports should be directly related to the export of final products and products with the highest domestic added value.** The domestic added value would be calculated as a ratio of the value of inputs purchased on the domestic market and the total income of the companies. Accordingly, several groups companies should be differentiated, and the amount of subsidies should be the highest to the companies with the highest domestic added value. Differences in benefits between two consecutive groups should be significant in financial terms, to create an incentive for a firms to pursue to be a part of the higher group. Finance Think gives a detailed overview of the benefits of the measure to encourage domestic added value in the [Policy Brief No. 1 of March 2013](#).
- The design of the measures targets successful companies, which are probably the easiest to meet the criteria (to increase revenue, to buy new technology, to invest in new plants, or to invest in research centres). But at the same time it is

necessary to increase the support for **"opportunities" of small and medium enterprises.**

For this group the support would be: building soft skills, building awareness of the need for new technologies and investing in technology through networking with domestic and foreign companies that are at a more advanced technological level. One way would be, financial support for mentoring and transferring knowledge from foreign companies in the country to domestic and /or from more developed domestic companies to less developed ones.

- The encouragement of foreign factories to procure domestic inputs complements the identified shortcomings in the lack of links between foreign direct investments and domestic companies. Encouraging the linking of foreign investments and domestic companies will intensify the benefits of transfer of knowledge and technological progress on the one hand, and on the other, will increase the production of domestic companies. **However, it is also necessary to consider targeting sectors in which foreign companies will operate, in order to attract companies that are most compatible with the operating domains of domestic companies and the skills of the free labour force, to make the connection simpler, and with greater effects.**
- The measure for establishing development centres and research departments should also be enabled

for domestic companies. Or, the measure should provide for the possibility of investing in universal research centres, which can be simultaneously used by more companies.

- In the implementation process of the financial support measure for a newly created high-paying job occupation, **the salary should be determined based on the systematization of jobs and salaries for that place.** This is in order to avoid abuse and discrimination in the salary of two people with the same characteristics and position, but with different salaries due to subsidies.
- One of the objectives of the measures is to promote the well-being of the citizens. Hence, it should be **taken into account the dispersion of investments by regions and especially less developed places and/or places with high unemployment,** to make the benefits of improving the well-being of the citizens as balanced as possible.
- The analysis/es under which the measures are designed should be publicly announced. Also, **just prior to the implementation of the measures, an analysis of the benefits and effects of the measures should be implemented, and accordingly the schedule of funds should be prioritized depending on the results.** This is in order to avoid past experience of blind implementation of the measures, which subsequently resulted in small or no effects.