

**UDK**  
**332.146.2:338.22(497.7)**  
**334.72.012.63/.64.055.2:332.146.2(497.7)**  
**(Original scientific paper)**

**KATERINA HADZI NAUMOVA-MIHAILOVSKA \***  
**MILENA BOSHKOSKA KLISAROSKI \*\***  
**TEA JOSIMOVSKA \*\*\***

## **GOVERNMENT POLICIES FOR GREEN ECONOMY DEVELOPMENT IN SME's**

### **Abstract**

The concept of green economy is new approach, dedicated to the principles of environmental sustainability, especially minimizing the negative impact on the environment. This approach stimulates the functioning of SMEs and economic growth and development, ensuring nature to continue providing resources and services in the environment on which the well-being of national economies depends.

The areas of operation of the green economy are economics and ecology, and the three pillars of sustainability are economy, ecology and society, therefore the general agreement is that the concept of green economy is closely related to sustainable development. Given that in the Republic of North Macedonia, the green economy is a relatively new concept and there is no single document - strategy or program for development of the green economy, the purpose of the paper is by analyzing all documents and programs relating to sustainable development, specifically, the policies that indirectly encourage and/or stimulate the development of the concept of green economy in the operation and functioning of SMEs, to see the institutional support for promotion and development of the concept of green economy in the Republic of North Macedonia.

### **JEL classification: Q50, Q58**

---

\* Associate professor, PhD, Institute of Economics - Skopje, Ss. Cyril and Methodius University in Skopje, Republic of North Macedonia, e-mail: katerina@ek-inst.ukim.edu.mk

\*\* Assistant professor, PhD, Institute of Economics – Skopje, Ss. Cyril and Methodius University in Skopje, Republic of North Macedonia, e-mail: milena.boskoska-klisaroski@ek-inst.ukim.edu.mk

\*\*\* Assistant, MSc, Institute of Economics – Skopje, Ss. Cyril and Methodius University in Skopje, Republic of North Macedonia, e-mail: tea.josimovska@ek-inst.ukim.edu.mk

**Key words:** green economy, SME's development, environmental policy, Republic of North Macedonia

## **Introduction**

SMEs play a significant role in the national economy in the Republic of North Macedonia, and they should use the opportunities offered by the concept of green economy in order to improve the environmental activity and energy efficiency of the company, reduce costs, new approach to operation and access to market. The Republic of North Macedonia has ratified international conventions in the field of environmental protection and climate change in order to harmonize policies and strategies aimed, inter alia, towards sustainable development. In recent decades, special attention has been paid to policies that promote sustainable development and support the concept of a green economy. Some of the set goals are to increase the percentage of renewable energy in the final energy consumption by 20% and to increase the energy efficiency by 20%.

The purpose of the paper is by analyzing all documents and programs relating to sustainable development, specifically, the policies that indirectly encourage and / or stimulate the development of the concept of green economy in the operation and functioning of SMEs to see the institutional support for the promotion and development of the concept of green economy in the Republic of North Macedonia.

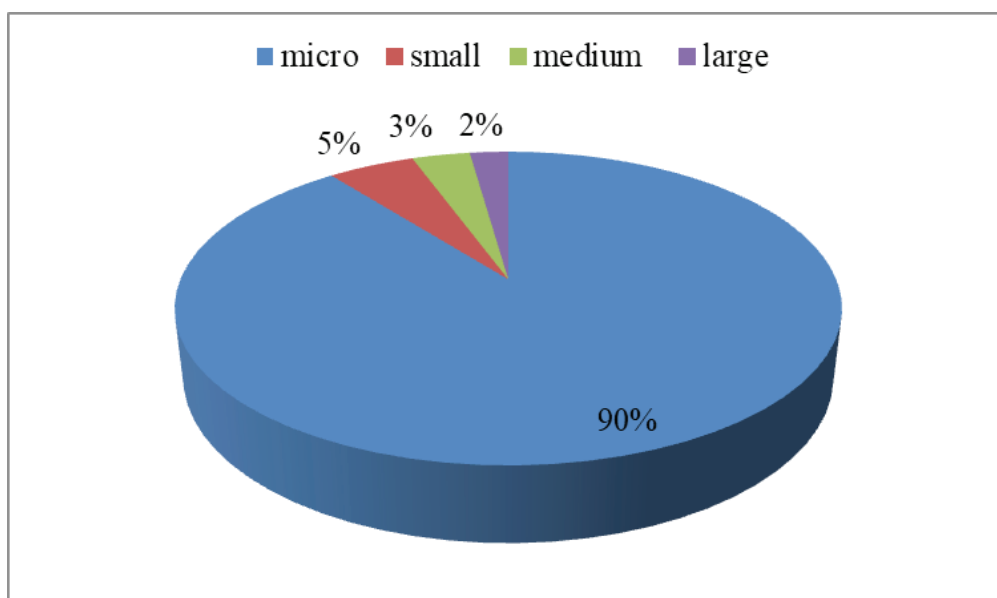
In the country there is no single document - a strategy or program development for green economy. Given that there is general agreement that the concept green economy is closely linked to sustainable development, the analysis uses documents and programs related to sustainable development policies. So, it comes to analyzing the Strategy for Sustainable Development, Strategy for Energy Development, Medium-term Strategy for Social Responsibility, National Strategy for SMEs, Industrial strategy, Strategy for use of renewable energy sources, Strategy for Agriculture and Rural Development, National Plan for Organic Production and Environmental Law which covers common issues regulated by sectorial laws such as the Law on Waters, Law on Waste Management, Law on nature protection and Law on Ambient Air Quality.

### **1. SMEs in the national economy in Republic of North Macedonia**

SMEs development in Republic of North Macedonia is one of the key factors for achieving accelerated economic growth, increasing employment and growth in production. They represent 99% of the total number of active companies, which is an important indicator for participation in the national economy. (State Statistical Office, 2020)

According to the latest data from the State Statistical Office, SMEs have a dominant place in the economy of the Republic of North Macedonia (Chart 1). The structure of enterprises is dominated by micro enterprises (82%), while 2% to 5% of Macedonian enterprises are in the other category of SMEs. The high participation rate of micro-companies is a potential limitation to growth, as these companies are unlikely to grow into small or medium-sized enterprises and create a significant number of jobs. Hence, it is very important to create favorable conditions for these companies to grow and create formal jobs.

**Graph 1 Percentage share of enterprises in the Republic of North Macedonia by size, 2020**



**Source:** State Statistical Office, Active Enterprises, [https://www.stat.gov.mk/pdf/2023/6.1.23.15\\_mk.pdf](https://www.stat.gov.mk/pdf/2023/6.1.23.15_mk.pdf), (Access: February 2024)

In the last decade it was implemented a number of reforms aimed at creating a more favorable business environment, which indirectly would have influenced the creation of new, quality jobs in the formal economy. The basic principles of the implemented economic reforms are: relaxing the conditions for doing business in the country, establishing a high degree of economic freedom and equal working conditions for economic entities, supporting entrepreneurship and increasing the competitiveness and innovation of the Macedonian economy.

## 2. Analysis of Government policies that indirectly stimulate green economy development in SMEs

With the accession, Republic of North Macedonia is committed to harmonize national legislation with that of the EU - to ensure the integration of environmental protection, rational use of resources and energy efficiency in all sectors of the national economy and life. The country has no specific policy document for green economy, but there are strategic documents that state the goals of sustainable development that ensure the transition to a green economy. In order to perceive the institutional support for the promotion and development of the concept of green economy in the country, the following documents are analyzed:

**The Strategy for Sustainable Development** clearly indicates that in order to achieve sustainable development in the Republic of North Macedonia, it's necessary to integrate tourism, forestry, agriculture and industrial sector with the support of the energy sector, infrastructure and transport sector under the “umbrella” of the environment sector. Based on this, seven (7) strategic commitments are proposed for achieving sustainable development in the country, as follows (National Strategy for Sustainable Development, p.25):

- 1) Ensuring EU membership and compliance with the EU Sustainable Development Strategy;
- 2) Increasing awareness and commitment to sustainable development, covering all spheres of life in the country;
- 3) Introduction of E-governance as a strong tool for support and implementation of sustainable development;
- 4) Directing the public sector through organizational development and institutional strengthening, based on the concepts and principles of sustainable development, as well as cross-sectorial and integrated strategic and participatory work;
- 5) Directing the banking and financial sector to provide funds for financing projects and activities for sustainable development;
- 6) Streamlining the private sector to development that is based on the principles of sustainable development;
- 7) Realization of demonstration and pilot projects in the early phase of implementation of the Strategy (NSSD).

The Strategy for Sustainable Development states that the basic precondition for changes in a country and society towards sustainable development is the understanding and acceptance of the concept and principles of sustainable development.

**The Energy Development Strategy** in Republic of North Macedonia integrates the climatic and environmental aspects of the energy sector, at the same time proposing available, safe and sustainable energy for the future. In line with the five-dimensional framework of the EU Energy Union, the Strategy defines six strategic goals for Macedonia, mapped into five (5) energy pillars (Energy Development Strategy, p. 5):

- 1) Energy efficiency - a pillar for which the Strategy recommends maximizing policies and measures for energy efficiency in the sectors, reducing coal consumption and improving electricity in energy production which would contribute most primary energy savings in the scenario of a moderate transition and green scenario; continuous reduction of losses in the distribution network and improvement of the efficiency of the central heating systems as well as monitoring of the planned electricity measures and greater stimulation of those that have the greatest impact on energy consumption.
- 2) Integration and security of energy markets - a pillar that recommends a policy of continuous investment in the transmission and distribution network for greater integration of sustainable energy sources (RES) for electricity production, especially from wind and solar and enabling the producer-consumer mechanism (“prosumer”), greater penetration of electric vehicles, meeting the increased demand for electricity in the region and to participate in the initiatives for the establishment of a regional market.
- 3) Decarbonization - a pillar that envisages policies related to promoting the use of RES in a way that ensures sustainable development, a share of 35-45% in the total final energy consumption in 2040.
- 4) Research, innovation and competitiveness - these policies recommend the inclusion of energy transition technologies in the national priorities for research and development and stimulate the cooperation of research centers (institutes, universities, development departments, etc.) with policy makers, industry, utilities, municipalities and associations. It is also recommended to stimulate new services and jobs, especially for small and medium enterprises (SMEs) in the field of RES and EE.
- 5) Legal and regulatory aspects - it is recommended: Adoption of the Energy Efficiency Act and all laws derived from it, Implementing Regulation monitoring mechanism, incorporating commitments related to climate change in relevant sectors, integrated national energy and climate plans, and setting targets for 2030 and Implementation of the Energy Community Environmental acquis.

**The Medium Term Strategy for Social Responsibility** follows and affirms the recommendations of the European Commission from the renewed

strategy for social responsibility of 2011-2014, as well as the complementary activities for promotion of sustainable development and integration of social responsibility in the process of achieving Sustainable Development Goals, adopted by the United Nations. In the chapter, policy framework of corporate social responsibility, special attention is paid to the environment and climate change or the role of businesses in this area. (Medium-term Strategy for Social Responsibility p. 53) It is concluded that it is necessary to involve the business community in achieving the Sustainable Development Goals. In that regard, the coordination of the initiatives for sustainable development and social responsibility should be by the Economic and Social Council and the National Council for Sustainable Development.

**The SME National Strategy** in Republic of Macedonia recommends SME policies to become more productive and competitive participants in European and other international markets, to introduce development services and development practices through mentoring, training, financial, expert and technical support, and to improve access to financial services, especially development within the green economy. (National Strategy for SMEs, p.25). This includes national policy reforms, such as designing support instruments and services to provide incentives and support to “green SMEs” within markets related to the environment, as well as to support the adoption of environmentally friendly business practices. This is in line with national industrial policy, where one of the key objectives is to support environmentally friendly products and services. This also builds on a joint program of the government and the World Bank for competitive industry and innovation.

**Industrial Strategy** of Republic of North Macedonia aims to promote the industrialization by stimulating the growth and development of the processing industry in order to increase productivity, creating good jobs, increasing incomes and strengthening human capital, while addressing the challenges of circular economy. This strategy focuses specifically on SMEs in the processing industry in eight (8) main ways in which the processing industry will be catalyzed to support green industry, namely (Industrial Strategy, p.52):

- Introduction and implementation of Green regulatory reform, by initiating policy debates to raise awareness among business associations and businesses regarding the various policy options for the manufacturing industry, such as Polluter pays principle, extended producer responsibility and application of EU directives (e.g. energy efficiency).
- Introduction of green public procurement as an important tool that can play a key role in the transition to a circular economy, because it can increase the demand for resource / energy-efficient, durable, recyclable, correctable products and to promote new business models based on

- offering functionalities and services instead of selling products.
- Helping businesses incorporate sustainability into their business plans, by integrating environmental and social aspects (for example, corporate social responsibility) into their business models or activities, which will lead to better business results to drive innovation and improve economic performance.
  - Support of green initiatives in the processing industry led by the industry, i.e. greening of value chains through certification. This measure will support processors, especially SMEs that want to export, through co-financed consulting services, certification costs, grants, know-how and the like., directly by the Ministry of Economy, the Ministry of Environment and Physical Planning, the Energy Agency and other institutions to promote efficiency and environmental improvements.
  - Industrial Green Zone Development (IPZ) with a focus on the processing industry. In cooperation with USAID consultants, the Ministry of Economy visited 21 municipalities in 8 planning regions to assess the scope for establishing IPH and almost all local government spatial planning plans include the possibility of creating green zones. Several municipalities have managed to meet environmental protection requirements to create Green Zones. No green zone has been established and this measure is envisaged to try to reform and direct the Law on Industrial Green Zones and to work on the feasibility of green zones, which would lead to the creation of at least one Green Zone as a pilot project.
  - Stimulating resource and energy efficiency and low carbon efficiency in the processing industry and improved resource use, pollution reduction, waste minimization and zero waste strategies; closed-loop systems and industrial symbiosis. This includes developing a methodology for Energy Efficiency Plans and capacity building through training of the processing industry to prepare Energy Efficiency Plans.
  - Support to SMEs in re-production, i.e. assistance in the process of bringing used products and individual production components into functional “as new” condition, by returning a significant part of the resources embedded in the used product in its original produced condition with low additional costs, thus the price of the newly obtained product is reduced. This measure will study the TIDZs and their potential to support reprocessing activities (the main obstacle is that strategies for extending the usability of manufactured products depend on cooperation with original equipment manufacturers, but there are incentives for them to incorporate obsolescence and replacement in their business model) leading to policy recommendations to be implemented in the



- future, such as support for start-ups and co-financing of equipment.
- Support to SMEs in additive production or 3D printing. This is part of the “digitalization of production” and is a relatively new production process that has the potential to significantly affect traditional production models by reducing or eliminating production lines and supply chains, as “final” products are produced in a single process. While this could potentially lead to job losses in manufacturing, digitalisation of manufacturing is expected to increase the demand for professional services from designers, engineers, technicians, developers and other professions. This diversion of the manufacturing industry to “professional services” has the potential to diversify certain manufacturing processes back to transition economies, requiring countries to partially refocus their manufacturing industries on service delivery and improve the education of skilled workers. This measure will support SMEs in 3D printing / production, especially start-ups, through grants and co-financing.

**Strategy for utilization of renewable energy sources** recommends paying special attention to the rational utilization of the existing and planned potential of hydropower and biomass. Hence, promotional activities should include incentives for both consumers and producers. It is recommended to introduce a mechanism for regular subsidies (fund for support of solar heating systems) and appropriate tax incentives to make more mass purchases and installations of these systems. (Strategy for Utilization of Renewable Energy Sources, p. 13)

**The National Strategy for Agriculture and Rural Development** emphasizes the model of sustainable agriculture that takes into account the protection of the environment and biodiversity. Special attention is paid to organic agriculture which is promoted as the best way that leads to sustainable development, directly contributes to the stabilization of ecosystems, conservation of natural resources and development of rural areas. In order to meet the goal, the Action Plan for Organic Agriculture proposes the following measures (National Plan of Organic Production, p.39):

- Identification and support of significant organic products;
- Improving the availability of raw materials allowed in organic agriculture;
- Diversification of the sectors of the processing industry involved in the processing of organic products;
- Market research on the demand for organic products as well as the dissemination of information among stakeholders and consumers of organic products;
- Support in organizing green markets in major consumer centers;



- Continuous updating and harmonization of the legal regulations in the field of organic production with the EU;
- Strengthening the capacities of state administration and improved advisory services;
- Development of models for appropriate distribution of state financial support in organic production and
- Increasing investment projects in organic production for sustainable development in rural areas.

**The Law of Environment** is based on meeting the requirements contained in the Directives of the EU and maintaining traditional values in environmental protection and ensuring sustainable development. The Law is based on the principles “the user pays” and “the polluter pays”, which integrally regulates the financial instruments for environmental protection. (Environmental Law, Official Gazette no. 53 of 5.07.2005). These principles are introduced fees to be used as sources of funds for undertaking measures and activities directly aimed at protecting and improving the environment and nature. Additional funds are obtained from the issuance of environmentally integrated permits based on the concept of BAT (Best Available Technics) which sets out the rules and deadlines for achieving the conditions as required by Directive 96/61 and according to experience of the member states of the European Union. For the green economy, especially important principles contained in the Law are: The principle of sustainable development which obliges to take care of the rational and sustainable use of natural resources, meeting the social and economic needs of current and future generations; The principle of prevention that undertakes measures and actions to be taken before the occurrence of adverse effects and The principle of cleaner production that aims to reduce the risks to life and health of people and the environment, as well as to increase economic and environmental efficiency by supporting the implementation of a comprehensive strategy for the protection of the environment in terms of raw materials, production processes, products and services.

SMEs are critical to the success of the green transition in the EU, since SMEs are currently responsible for around 60 % of all greenhouse gas emissions by enterprises. (Annual Report on European SMEs, p.11) EU policy-based solutions have mainly targeted large businesses over the last few decades, while SMEs have received less attention, especially when it comes to reducing emissions. In recent years, more EU policies have been focused on helping SMEs transition to sustainability, but there’s still a big gap in the number of policies targeting SMEs and in how they can be further optimized. For example, a review of 113 energy efficiency schemes in eight EU Member States found that only two were focused on SME. In general, there is a need for policies which specifically focus on SMEs. (Annual Report on European SMEs, p.91) SME doesn’t have the capacity to monitor policymaking as well as implement

regulations that impose extra requirements. Therefore, SMEs have to be kept well informed of potential new legislation and the complexity of such new legislation has to remain within manageable levels.

The Annual Report on European SMEs recommends that some policies supporting SMEs in the sustainability transition may create win-win scenarios. Namely, by support for energy efficiency measures, green certifications and prizes, and technical assistance SMEs not only accelerate the sustainability transition but also provide benefits in the form of business cost reductions, reputation improvements and capacity building. Also, self-assessment and diagnostic tools help SMEs to understand their environmental footprint and the means available to reduce it. At the same time, these tools establish a much broader database that can serve as a basis for future policy decisions.

### **3. Recommendations and conclusion remarks**

Despite the Government's commitment to promote the concept of green economy in Republic of North Macedonia through the multidimensionality of sustainable development, it can be concluded that the concept of green economy involving SMEs is insufficiently defined and the offered activities and measures are not sufficiently coordinated between the institutions and the business community. Significant attention to promote the concept of green economy in SMEs is dedicated to industrial strategy where particular strategic qualifications is dedicated, and the remaining four strategic objectives are focused on developing the green economy in Republic of North Macedonia. Accordingly, the National SME Development Strategy outlines national policy reforms, as well as designing support instruments and services to provide incentives and support to "green SMEs" within related environmental markets, as well as to support the adoption of environmentally friendly business practices. In the Medium-Term Strategy for Corporate Social Responsibility, special attention is paid to the impact of enterprises on the environment, with a recommendation that they be included in the process of protection and renewal of the environment in a way that will manage the natural cycle of resources with efficient use of natural resources, eco-innovations, raw materials, their use in production, resource consumption and quality waste management.

In this regard, the Strategy for Development of Renewable Energy Sources and the Strategy for Energy Development are a platform for the overall modernization and transformation of the energy sector in line with EU energy trends, contributing to increased access, integration and availability of energy services, reducing local and global pollution, and increased participation of the private sector, taking into account the development potential of the Republic of North Macedonia and domestic specifics. Also, the National Strategy for Agricultural Development, especially the plan for organic production,

emphasizes the model of sustainable agriculture that takes into account the protection of the environment and biodiversity and recommends that farmers should implement the concept of “green” agriculture as a logical and natural way to carry out their agricultural activities. Thus, in the acceptance and implementation of the agro-ecological approach in the agricultural activity of the holdings, they will be supported by the state agricultural policies through the measures of the agricultural policies.

The concept of green economy is present in all mentioned documents, but a special document is needed that will clearly determine the policies for development of these concepts and will concisely harmonize them with the growth and development of SMEs in Republic of North Macedonia, i.e. SME activities to be incorporated in the policies for development of the concept of green economy. Basically, adopting the concept of green economy enterprises are open to the achievement of business goals while protecting the environment, enhancing natural capital and energy resource efficiency. In that context, the green economy and green businesses should be a specific part of the long-term sustainability strategy in the Republic of North Macedonia.

## References

1. Annual Report on European SMEs 2021/2022 SMEs and environmental sustainability, [file:///C:/Users/Katerina/Downloads/SME%20AR%202021\\_22\\_Background\\_Document\\_Sustainability.pdf](file:///C:/Users/Katerina/Downloads/SME%20AR%202021_22_Background_Document_Sustainability.pdf)
2. Energy Development Strategy in the Republic of North Macedonia until 2040, Ministry of Economy of the Republic of Northern Macedonia, 2019
3. Law of Environment, Official Gazette no. 53 of 5.07.2005
4. Industrial Strategy of the Republic of Macedonia (2018-2027), Ministry of Economy, 2018
5. Medium-term strategy for social responsibility of the Republic of North Macedonia, Government of the Republic of North Macedonia, 2019
6. National Plan for Organic Production 2013-2020, Ministry of Agriculture Forestry and WE, 2013
7. National Strategy for Small and Medium Enterprises (2018-2023), Ministry of Economy of the Republic of Macedonia, 2018

8. National Strategy for Sustainable Development in the Republic of Macedonia, Ministry of Environment and Physical Planning of the Republic of Macedonia, 2010
9. State Statistical Office, Active Enterprises, [https://www.stat.gov.mk/pdf/2021/6.1.21.15\\_mk.pdf](https://www.stat.gov.mk/pdf/2021/6.1.21.15_mk.pdf), Access: march 2021
10. Strategy for utilization of renewable energy sources in the Republic of Macedonia until 2020, MANU, 2010