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Organization of
Employers of
Macedonia



Business
Confederation of
Macedonia

► The impact of the COVID-19 pandemic on enterprises in North Macedonia



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May, 2020

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First published 2020

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ISBN 9789220325742 pdf

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This report was developed within the framework of the project Strengthening Social Dialogue, funded by the European Union and implemented by the International Labour Organization.

This document was produced with the financial support of the European Union. Its contents are the sole responsibility of the author and do not necessarily reflect the views of the European Union and of the International Labour Organization.



Contents

List of abbreviations	4
Executive summary	5
1. Introduction.....	7
2. Background and descriptive analysis	9
3. Impact of the COVID-19 crisis on enterprises	13
4. Government support to enterprises	23
5. Policy recommendations.....	26
Annex : Policy measures adopted in North Macedonia.....	28



List of abbreviations

BCM – Business Confederation of Macedonia

ILO – International Labour Organization

MSMEs – Micro, small and medium-sized enterprises

EBRD – European Bank for Reconstruction and Development

OEM – Organization of Employers of Macedonia



Executive summary

In an environment of uncertainty with little official data on the extent of business losses and disruptions to Macedonian enterprises, a joint survey was launched by the Organisation of Employers of Macedonia (OEM) and Business Confederation of Macedonia (BCM) with support from the International Labour Organization (ILO), and in collaboration with the European Bank for Reconstruction and Development (EBRD). The aim was to collect evidence on the effects of the pandemic on enterprises' operations and viability, as well as to identify relevant support measures that would be most beneficial for enterprises to overcome the crisis.

The COVID-19 crisis has severely affected an overwhelming 82 per cent of surveyed enterprises, which reported significant financial losses and temporary suspension of business operations. About 43 per cent of surveyed enterprises experienced a sharp decline in revenues by more than 50 per cent and 11 per cent reported a complete shutdown of their operations. Microenterprises portrayed the highest vulnerability with 50 per cent reporting that their revenues halved and 19 per cent citing business closure. Although large companies show more resilience (none reported temporary closure), a large proportion (48 per cent) nevertheless experienced revenue falls of more than 50 per cent. The highest share of enterprises reporting a drop in revenues operate in sectors affected by the Government ban on business operations and curfew restrictions, specifically transportation, storage, accommodation and food services; construction; trade; and professional, scientific and technical services. Enterprises identified several common challenges affecting their business operations, including declining demand for products and services (45 per cent), weaker confidence in supply chain partners (38 per cent), and disruptions in the sourcing of raw materials (35 per cent). These challenges impacted mainly the enterprises' profitability and turnover (90 per cent), followed by a decrease in productivity and failure to achieve the financial performance targets for 2020 (78 per cent).

To alleviate the consequences of the pandemic and maintain the workforce, all surveyed enterprises made adjustments to their business operations. The most widespread adjustment measures applied were the reduction of working hours (69 per cent), providing paid annual leave to employees (43 per cent), changes in work organisation (28 per cent) and access arrangements for customers and/or suppliers (28 per cent), and implementation of innovative solutions (for instance, e-commerce). An analysis by sector shows that 80 per cent of enterprises in construction and trade reported that they reduced the working hours due to curfew restrictions and decline in demand for services/ products. In spite of all measures taken to preserve the workforce, some 9 per cent of surveyed enterprises had to lay off some workers. Large and small sized enterprises were at the forefront of dismissing workers (both at 11 per cent), whereas micro and medium-sized enterprises dismissed a smaller share of their workforce (7 per cent and 8 per cent respectively). Of these enterprises, 10 per cent dismissed 1-10 per cent of their workers, whereas 4 per cent dismissed a significant share of workers (more than 40 per cent).

A considerable number of enterprises are at risk of closing in the near future. Around 15 per cent of enterprises surveyed were not in operation at the time of the survey, whereas 41 per cent were operating at a lower capacity. Another 44 per cent were in operation, either on site (29 per cent) or remotely (15 per cent). However, if the current situation persists, around 50 per cent of surveyed enterprises indicated that their enterprise would not survive beyond the third quarter of 2020. Micro and small enterprises portrayed the weakest durability with

more than 50 per cent of microenterprises and 57 per cent of small enterprises indicating that their business would not survive more than three months. By sector, enterprises operating in construction, transportation, accommodation and food, and professional, scientific and technical activities are least resilient to the crisis, with some 60 per cent of respondents anticipating that their business continuity would be cut after 3 months. Less than half (47 per cent) of the surveyed enterprises have their own funding or access to external funding to help them recover. There is a large difference by enterprise size though, with only 37 per cent of micro and small enterprises having access to external funding, compared to 70 per cent of medium-sized and 78 per cent of large enterprises.

While government support schemes are timely, the eligibility criteria for applying for such support need to be more inclusive. On average, 46 per cent of enterprises surveyed had applied for government support. When asked to indicate the three most beneficial forms of government support within the packages already approved, around 48 per cent of enterprises noted the deferral and/or relief of tax payments; another 49 per cent pointed to the access to loans at favorable conditions. Access to subsidized loans is popular among micro and small enterprises (50 per cent). Both small and medium-sized enterprises consider tax relief extremely beneficial in the current situation. A significant share (over 40 per cent) of medium-sized and large enterprises indicated the need for greater flexibility in labor relations. Surveyed enterprises disputed some of the eligibility criteria for government support, specifically the requirement to maintain the current level of employment until September 2020 (45 per cent), the obligation to refrain from decreasing wages and the requirement to have a revenue loss of at least 30 per cent compared with the average in 2019 (both at 36 per cent). The last criterion may exclude companies that invested heavily in 2019 and expected revenue increases in 2020.

Enterprises need further government support schemes aligned with their specific needs and functional state institutions to enable them to navigate the crisis and accelerate recovery. Survey findings provide a solid basis for proposing government measures and actions to support enterprises. Main recommendations include: further increase in available liquidity loans; expansion of and increased inclusion in wage subsidy schemes; acceleration of the return to normalcy in terms of administrative functions and services needed to support enterprises (which may also require investments in digital solutions); as well as more diverse and decisive government measures to support the economy. Finally, enterprises reiterated the relevance of their pre-pandemic needs for an overall improved business environment. Examples include fair and functional systems with effective public administration, strengthened rule of law, and further lowering and reassessment of the need for many parafiscal charges.



1. Introduction

It began as a health crisis, far from Europe and North Macedonia, but COVID-19 led rapidly to a global economic crisis. Stock markets crashed, oil prices dropped sharply, production stopped, factories and shops began to close, and labour markets were disrupted. The crisis has hit enterprises, although at different rates and to varying extents. Some sectors in particular have suffered most because of the containment measures leading to lockdown and travel restrictions, namely restaurants, educational institutions, tourism and transport. Moreover, the great uncertainty about the future is exacerbating the situation. World trade is declining, many countries have closed their borders to foreign nationals, and significant efforts have had to be made to avoid major delays in flows of goods.

While it is still difficult to assess the effects of the crisis on the economy, it is clear that major government intervention will continue to be necessary to maintain at least a minimum level of economic activity, avoiding mass layoffs and shoring up social security systems. In common with other countries around the world, the Government of the Republic of North Macedonia has taken anti-crisis measures in response to the shocks to the Macedonian economy and enterprises, focusing on the sectors most immediately and directly affected by the crisis (hospitality, tourism, transport and so on).

The Government established an “Economic Council”, consisting of representatives of major employers’ organizations, chambers of commerce, academics and a few large companies (including foreign investors), as well as government representatives, including the prime minister, the deputy prime minister for economic affairs and the minister of finance. The Council did not have decision-making power, but played more an advisory role. Moreover, the Council did not exert much influence over the design of the first and second packages of measures. The Economic and Social Council also held a session at which the Covid-19 situation was discussed.

The government has so far announced two packages of anti-crisis measures. Whereas the first was targeted specifically at the hardest hit sectors (mainly because of the lockdown or travel restrictions), the second package was more inclusive and open to all companies that had suffered revenue losses of more than 30 per cent. The support (from both packages) is structured in terms of 25 measures, some of which contain sub-measures. The Government website offers detailed descriptions of each measure and sub-measure.¹ The present measures can be classified into four groups (see Annex):

1. economic support packages to stimulate the economy (fiscal and monetary policy);
2. support for specific sectors, enterprises and employment retention;
3. workers’ protection measures;
4. other measures.

Although this anti-crisis package was welcomed by everyone, there have been some criticisms of particular points:

1. The financial support and subsidies offered to companies were for the months of April and May, whereas some sectors already suffered damage at the beginning of March.
2. No compensation has been provided for losses enterprises incurred from the Government’s decision to allow some workers (those with chronic diseases and those with children aged 10 years of age or below) to stay at home. While the Government

1 <https://koronavirus.gov.mk/en/governments-measures/economic-measures-of-the-government>.

gave those workers the right to stay home, companies still had to pay their full wages.

3. The liquidity loans provided were too small for some companies (the average amount was 16,500 euros (€) and total support is €5.7 million, which means that the allocated funds benefit around 345 companies).
4. Some had concerns about transparency and information flow. There was a substantial time-lapse between the announcement of the measures and the issuance of the government decision on the measures specifying details of the eligibility criteria and rules or requirements for each measure. This created uncertainty. Furthermore, some requirements changed overnight, seemingly on an ad hoc basis.²

At the time this report was being finalized, the Government issued a third package of measures. While the expectation was that it would focus on additional support to businesses (mainly for the recovery phase), the announced package (€355 million in case of full implementation and take-up) focuses on providing additional income support, mainly for poorer citizens.³ The measures include: vouchers for the unemployed and low income earners that can be used to buy Macedonian products; support for students and young people in the form of education grants, covering accommodation expenses in student dormitories; a 20 per cent wage increase for two months for the medical personnel involved in the fight against the pandemic; VAT-free weekends to stimulate consumption;⁴ support for MSMEs in the agriculture sector to boost production and exports, as well as land consolidation grants. At the time this report was being prepared, however, no details were available on how these measures would be implemented.

2 For instance, the Government initially laid down that employers would have to retain the employees they had on the day they received support (wage subsidies) for four months after the end of support (that is, until September 2020). This was subsequently changed to two months.

3 <https://vlada.mk/node/21431>

4 https://vlada.mk/sites/default/files/dokumenti/covid/18052020_prezentacija_3_set_merki_mk.pdf



2. Background and descriptive analysis

In an environment of uncertainty and a lack of official data on the extent of business losses because of the pandemic, a joint survey was launched by the Macedonian employers' organizations, with support from the ILO, with two main goals:

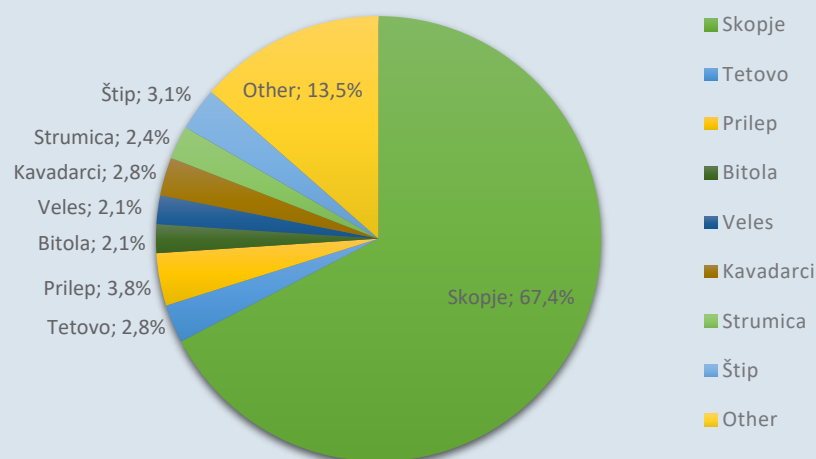
- i. to collect evidence on the effects of the COVID-19 pandemic on enterprises' operations and viability;
- ii. to identify support measures that would be most beneficial for enterprises to overcome the crisis (along with an assessment of the Government's anti-crisis packages).

The survey was carried out between 8 April 2020 and 11 May 2020. The goal was to collect about 300 responses (approximately 0.4 per cent of all active enterprises). A total of 315 answers were submitted, 288 of which were complete. The analysis is based on the complete responses; the other responses mainly covered only the questions concerning the description of the enterprise. The survey was not intended to be representative in a purely statistical sense, but rather to collect as many responses as possible. The survey was administered electronically through a number of channels. The Employers' Organization of Macedonia, a representative employers' organization and part of the Economic and Social Council, and the Business Confederation of Macedonia, which are the main beneficiaries of the analysis, distributed the survey to their members. The EBRD partnered the ILO in this initiative in North Macedonia, as well as on a regional level. The online survey was also published on social media by the implementing collaborator (Macedonia 2025).

This report provides the main findings of the survey, based on the 288 complete responses. The analysis starts with descriptive data about the companies that responded to the survey. It then examines in detail the impact of the COVID-19 pandemic on these companies and ends with an assessment of the Government's support measures and recommendations on which measures would be most beneficial. Although the survey collected quantitative data through closed-end questions, it also provided employers/companies with an opportunity to add comments or suggestions and explain their situation in more detail.

Figure 1 shows that the majority of the enterprises included in the study are from Skopje (67.4 per cent), which is to be expected, given the large concentration of business activity in the capital city. The cut value for towns and cities was set at 2 per cent, meaning that only those towns or cities accounting for more than 2 per cent of the overall sample are presented individually. The distribution of respondent companies by location seems reasonable, showing a higher frequency of answers from the major towns and cities and the major industrial towns and cities (such as Kavadarci, in which a few larger manufacturing companies are concentrated). This gives a certain confidence concerning the "suitability" of the sample of respondents.

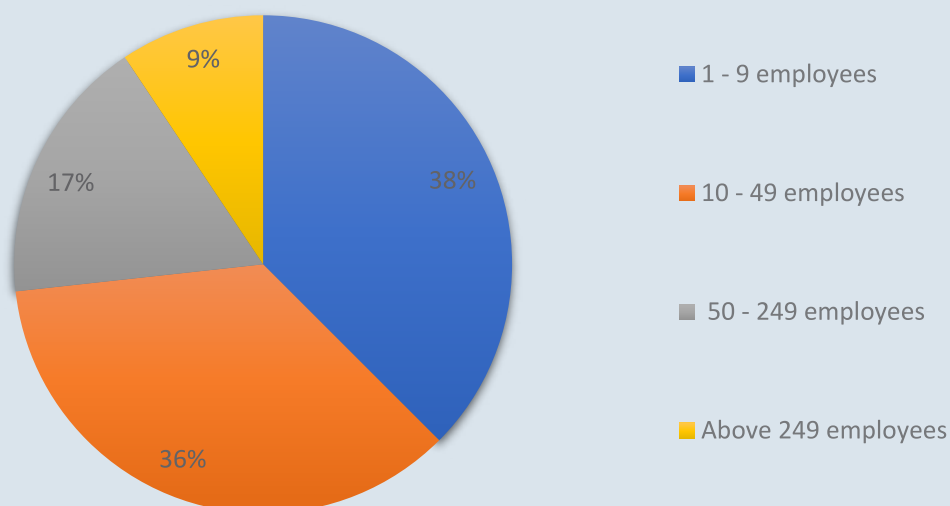
Figure 1 Distribution of enterprises by location (city)



Source: Enterprise survey.

The majority of the respondent enterprises (38 per cent) are micro enterprises with 1–9 employees (Figure 2). MSMEs account for 91 per cent of all responses. This is similar to the overall distribution of enterprises in the country by size. Large enterprises are overrepresented in this survey, however, as their share in total enterprises in 2018 was 0.3 per cent. As the findings presented below show, the degree of impact of the crisis differs slightly by enterprise size.

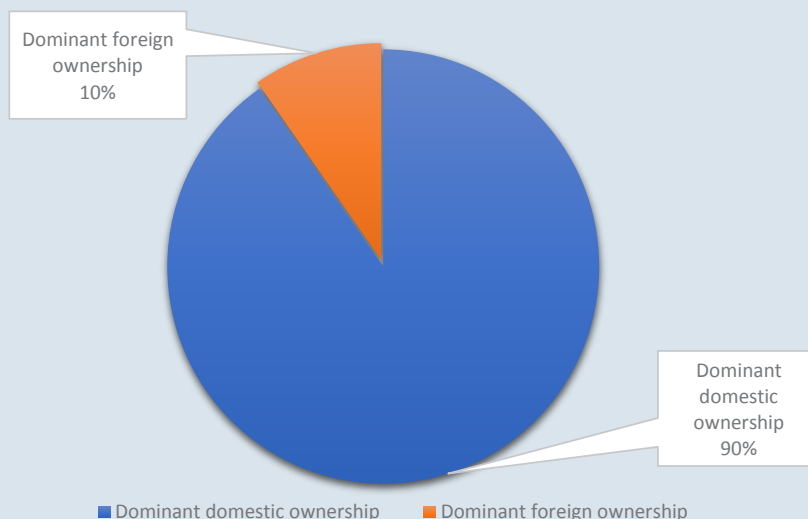
Figure 2 Distribution of enterprises by size



Source: Enterprise survey.

Domestically owned companies dominate among the respondents with 90 per cent (Figure 3).

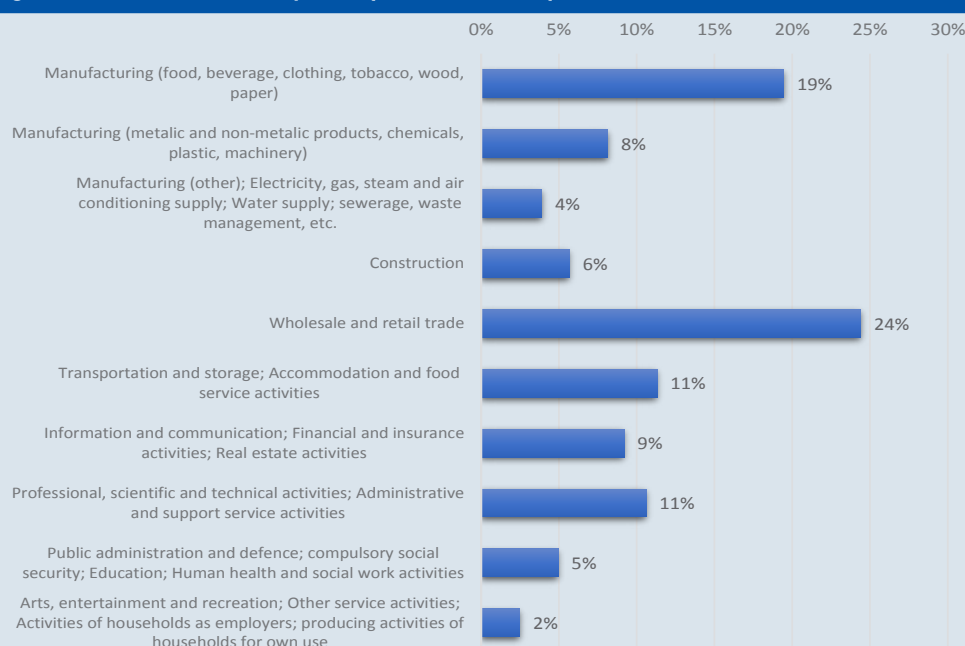
Figure 3 Distribution of enterprises by ownership structure



Source: Enterprise survey.

Analysed by sector of activity, most of the responding enterprises are from the wholesale and retail trade (24 per cent), followed by manufacturing (food, beverages, clothing, tobacco, wood and paper) (see Figure 4). The manufacturing sector, overall, accounts for 31 per cent of the respondent enterprises. The report provides some further differentiation of sub-sectors within manufacturing to capture the potentially different effects of the COVID-19 crisis on different manufacturing subsectors.

Figure 4 Distribution of enterprises by sector of activity



Source: Enterprise survey.

The report presents the data disaggregated by sector, but only for those with more than 15 responding companies.⁵ This excludes three sectors: manufacturing (other), public administration, and arts and entertainment. The analysis of the construction sector should also be treated with caution for this reason.

Enterprises in the survey were asked to report on the three main challenges that they experienced before the crisis, to show whether the reported negative effects of COVID-19 were related only to the pandemic or were present even before its onset. The major problem reported by about 49 per cent of companies was the unavailability of skilled staff or experienced managers. This was followed by the grey economy/unfair competition (38 per cent) and finding customers (27 per cent). Costs of production – including labour, access to finance and low quality of public services – were among the other main challenges.

Figure 5 Most pressing challenges faced by enterprises before the COVID-19 outbreak



Source: Enterprise survey.

Besides the predetermined answers, the enterprises presented some of the challenges faced prior to the crisis, including high banking costs, issues with accounting legislation (unwillingness of the Ministry of Finance to implement suggestions from the accountants' organization), payment arrears (which are widespread) and a lack of proper monitoring and inspections for legislative compliance.

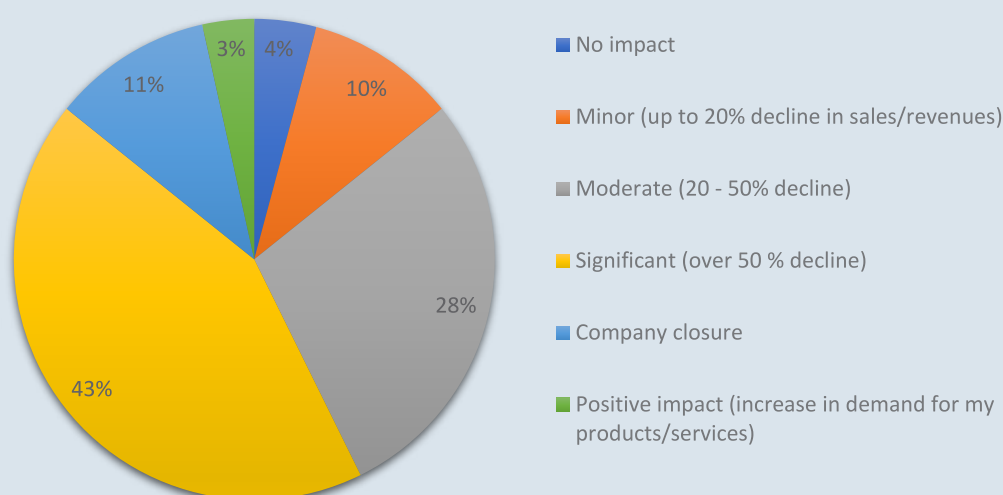
⁵ This was an arbitrary decision by the research team. We believe that this is the minimum number of firms that can guarantee at least some level of representativeness for a sector.

3. Impact of the COVID-19 crisis on enterprises

This section explores the degree of the impact and the channels through which the present health and economic crisis has affected enterprises in North Macedonia.

A majority of the enterprises (82 per cent) have been significantly hurt by the pandemic, with revenue losses of more than 20 per cent. A substantial proportion of the respondent companies (43 per cent) reported that the pandemic had reduced their revenues dramatically, by 50 per cent or more (Figure 6). For an additional 28 per cent, revenues had declined between 20 and 50 per cent, while 11 per cent had closed down their company temporarily. Some 3 per cent of the surveyed companies, by contrast, reported revenue increases, while for another 10 per cent the revenue decline was very small. In-depth interviews with the companies showed the varying impact of the crisis on different sectors or companies: while for some it was a combination of demand and supply shock, for others it was either a demand or a supply shock. The supply shock came mainly from China (and was felt already in early March), whereas the demand shock is both domestic (reduced consumption of certain products/industries) and from lower consumption in Western Europe. Moreover, while for some industries/companies the crisis was felt immediately and would probably fade away in the short to medium term, for others it will linger a little longer, while a new negative demand shock is expected in the autumn (for instance, in the textile industry for the Autumn/Winter fashion season), and certainly for durable goods. Worldwide, there is uncertainty concerning how deep and long the recession will be, but also what the recovery would look like. The rate of recovery will probably differ by industry and take different “shapes” (V shape, W shape, L shape, U shape). The few enterprises (3 per cent) that reported a revenue increase are present in different sectors of the economy, and differ in size (but are dominantly medium-sized companies). In-depth interviews showed that some of these companies are exporters.

Figure 6 Impact of COVID-19 on enterprise revenues

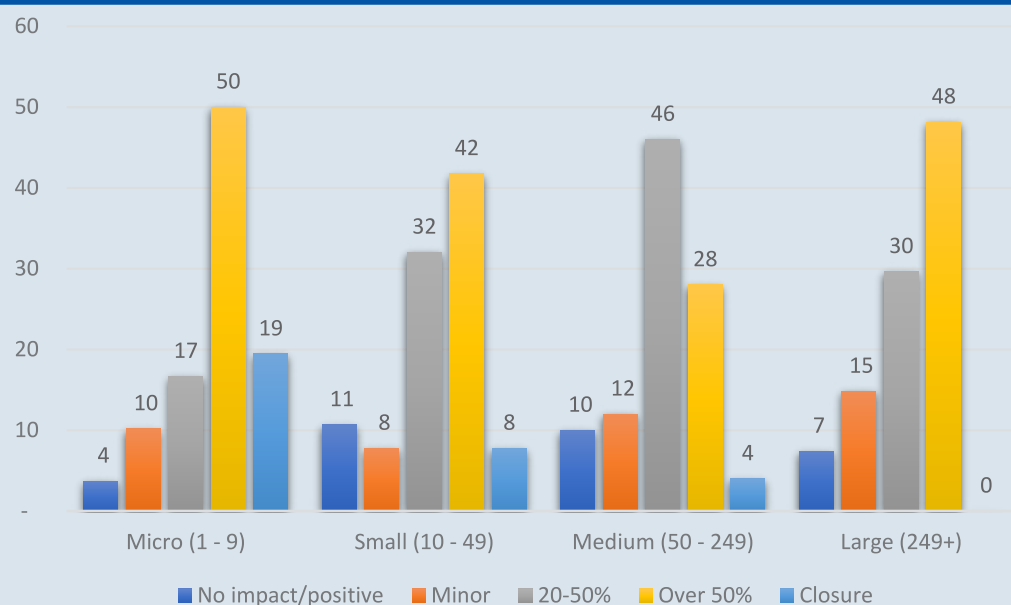


Source: Enterprise survey.

The decline in revenues differs by enterprise size. As shown in Figure 7, micro companies have been hardest hit by the crisis: 19 per cent of them report closure of their business. Similarly, a substantial share of micro companies (50 per cent) experienced a dramatic fall in revenues of more

than half compared with the pre-Covid period. Although large companies show more resilience (none of them closed temporarily), nevertheless a large proportion (48 per cent) experienced revenue falls of over 50 per cent.

Figure 7 Impact of COVID-19 on revenues, by enterprise size (%)



Source: Enterprise survey.

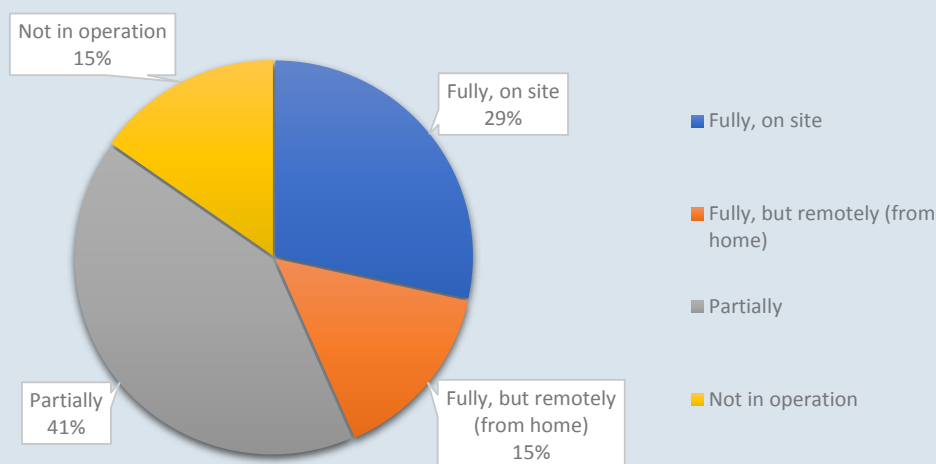
In general, all sectors reported a decrease in revenues averaging more than 36 per cent. The sectoral analysis shows that transport, storage, accommodation and food services were hardest hit by the crisis, which was to be expected, given that most of the activities in this sector were severely affected by the lockdown, starting in mid-March. Some 59 per cent of the respondent companies from this sector reported a decline in revenues of more than 50 per cent and 25 per cent closed completely. Furthermore, 76.6 per cent of companies in professional, scientific and technical services reported a large revenue loss of more than 50 per cent (53.3 per cent) or that they had closed operations (23.3 per cent). The crisis also negatively affected the manufacturing of metal products. After transport and accommodation, construction reported the most closures, with 13 per cent stating they were not operating at the time of the survey. Only in two sectors – manufacturing of food, beverages, clothes, tobacco and wood and paper, and wholesale and retail trade – were companies reporting increased revenues (9 and 7 per cent, respectively). This is in line with expectations as most people increased their consumption of necessities (mainly food) and in the first weeks of the crisis, retailers saw an increase in sales (limited to certain products). This was confirmed in the interviews, but also some early statistical data prove this point. For example, March data document a decline in retail trade of 4.6 per cent (y-o-y), and decline of retail sales of non-food items of 12.7 per cent, while the retail sales of food, beverages and tobacco grew by 3.5 per cent.

The open-ended question, giving companies the opportunity to elaborate on the previous question, provides additional insights (most were also supported by the in-depth interviews). Companies reported that they felt the crisis starting from early March (10 March). Initially, there were supply problems, mainly for raw materials from China, which soon also involved all raw materials and other goods ordered from northern Italy (for instance, textiles and manufacturing in general). Transport and logistics also soon slowed down and enterprises experienced some problems, but fortunately the situation improved rapidly, partly due to government efforts (and

the regional initiative) to speed up cross-border transport. On the other hand, some respondents praised the customs service and how it handled the overall situation. For those companies that continued to operate normally or close to normally, the main problem was contacts with the public administration at both central and local level. For almost all companies, major disruptions in the production process or in the provision of services was caused by the Government's decision to allow parents of small children (up to 10 years of age) and those with chronic diseases to stay at home (the cost of the leave being covered by the employers). Some companies reported more than a 30 per cent absence of workers due to this government measure, as well as some abuses (such as workers reporting chronic diseases such as asthma for first time since being employed). The curfew, which at times was very restrictive (extending to four days), also posed some operational problems for companies, especially those in construction. Companies also reported declining payment discipline and growing arrears both from the private sector and from the Government. The Government alleviated some restrictions in early May, with strictly prescribed protocols. While this was accepted by companies, some of the rules were difficult to follow. For instance, companies were allowed to organize transport for their workers to the factories, but on condition that the vehicles were only half full to maintain a two-metre space between passengers. The Government loosened this requirement because it is almost impossible to follow.

Some 29 per cent of the companies have continued to operate as usual (see Figure 8). Another 15 per cent were still operating (at the time of the survey), but had introduced new arrangements (including teleworking); 41 per cent of the companies were working partially and 15 per cent were not operating. Data by company size show that micro enterprises are the most likely to have closed down their business (25 per cent).

Figure 8 Current mode of enterprise operation



Source: Enterprise survey.

The key challenges Macedonian enterprises experienced due to COVID-19 are the decrease in enterprises' ability to offer their normal range of goods or services (reported by 45 per cent of enterprises); weaker confidence in supply chain partners (38 per cent); and disruptions in the sourcing of raw materials, stated by 35 per cent of enterprises (Figure 9). A relatively large share of companies reported a decrease in their ability to source skills/expertise and training (including attendance at training, workshops and seminars). About a quarter of companies declared there had been an increase in backlogs or stockpiling of goods (although an equal share reported a decrease). While the range of goods and services is the major single type of impact on MSMEs, for large companies the main challenge was raw materials sourcing.

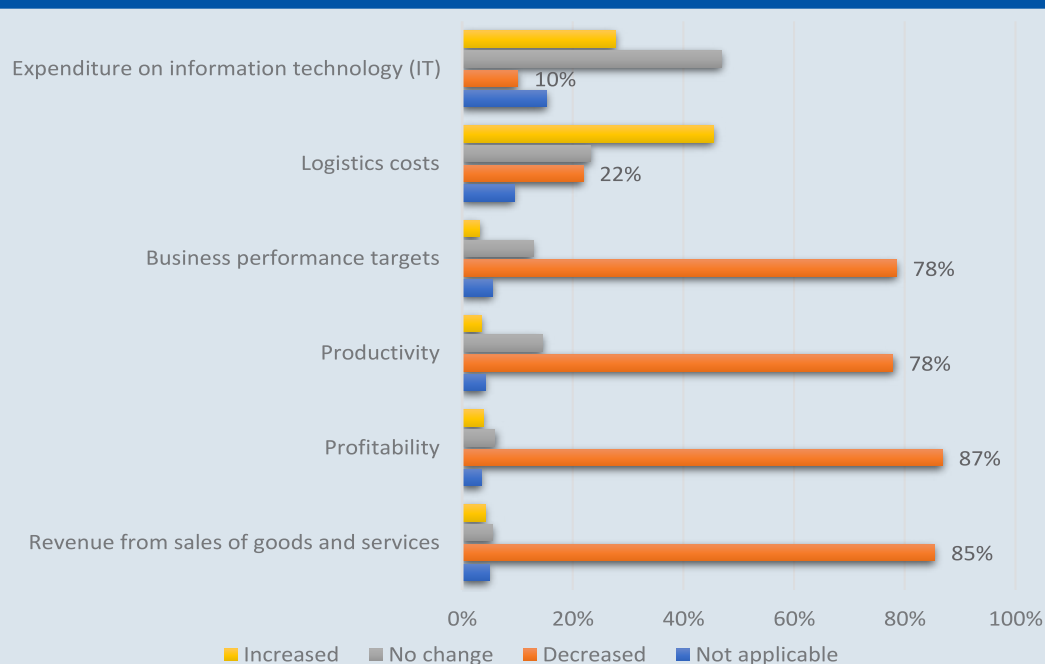
Figure 9 Expected impact of COVID-19 and the resulting prevention and control measures on different elements of business operations



Source: Enterprise survey.

In relation to the impact of COVID-19 on the financial performance of enterprises, 87 per cent of enterprises reported cuts to profit, followed by 85 per cent of enterprises that lost revenues. Some 78 per cent of companies reported a decline in productivity and failure to meet 2020 business performance targets (Figure 10), while 47 per cent of companies reported no change in IT expenditure, although many companies experienced a decline in logistics costs (45 per cent of respondents).

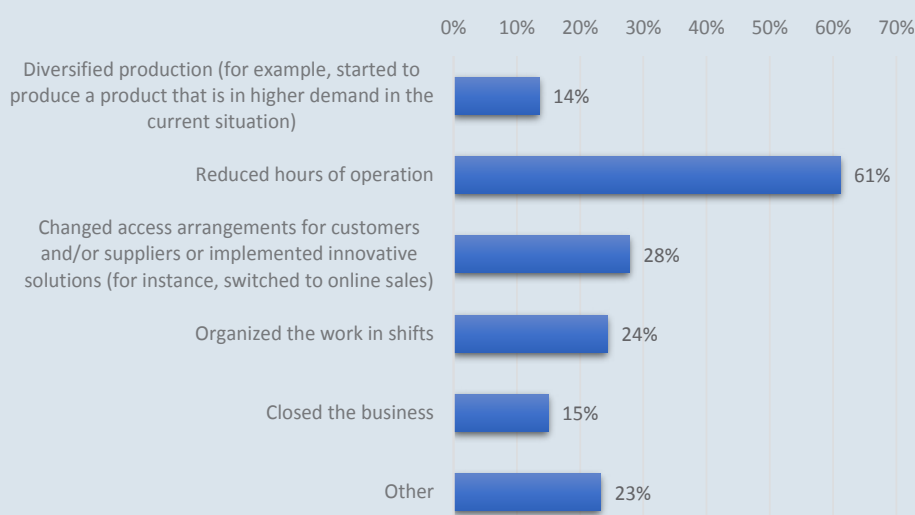
Figure 10 Impact of COVID-19 on enterprises' financial performance, relative to 2019



Source: Enterprise survey.

All enterprises in the sample had undertaken some measures in response to COVID-19. Most reduced working hours (61 per cent), which is to be expected, given the reduced workload and orders, but also because of the curfew (Figure 11). Around 28 per cent of companies changed access arrangements for customers and/or suppliers or implemented innovative solutions (for instance, switched to online sales) and 24 per cent changed work organization (in shifts). These changes were strongly affected by the containment measures. In the most restrictive period, which lasted two weeks in April, the curfew was from 4 pm to 5 am next day, and the longest curfew weekend was 84 hours long. Similarly, in accordance with either government decisions or company contingency plans only a limited number of workers may share same working space, with a prescribed distance between two workers of 2 metres (this should be applied wherever possible).⁶ In the in-depth interviews, retailers reported that they had to change the way they display the goods around their shops to allow more space for customers and avoid having them get too close to each other while shopping. Government measures and restrictions, as well as companies' internal contingency plans, also led to increased costs for business operations. The frequent professional disinfections of production or display facilities also caused additional costs for many businesses. Similarly, companies had to procure protective masks for their employees, which were in short supply in some periods and/or with rising prices.⁷

Figure 11 Measures taken by enterprises in response to the pandemic



Source: Enterprise survey.

Enterprises took a range of actions related to their staff in response to the pandemic. Many arranged working from home and teleworking, or implemented changes in work organization by shifting employees to work two weeks on, two weeks off. Some enterprises had their workers use up their annual paid holiday when they had to remain at home (also promoted by the government, through a decree). Some also acknowledged that, although they had not fired workers so far, that seemed the only viable option for the future.

Figure 12 shows that the most widespread measure concerning staff was the reduction of working

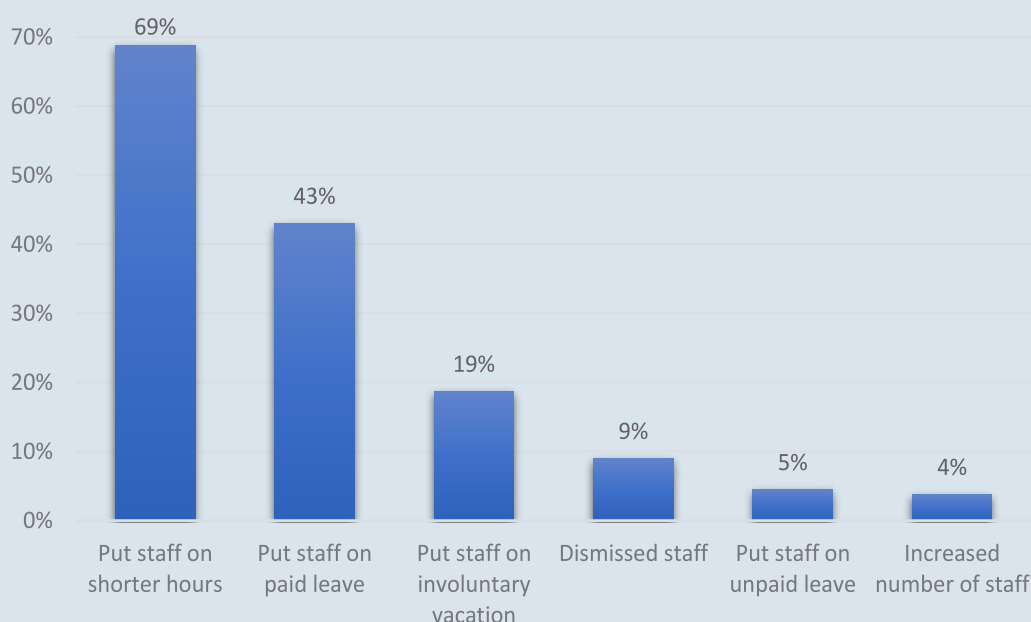
⁶ Some manufacturing companies reported that they had to organize work to ensure that the temperature of every worker entering the company was checked.

⁷ The price of the cheapest protective masks increased more than tenfold during the pandemic, as in other countries.

hours, implemented by 69 per cent of companies. This is followed by paid leave (43 per cent). Some 9 per cent of companies reported that they had simply dismissed staff. Small and large companies are more likely to have dismissed staff (11 per cent of both categories), whereas only 7 per cent of micro companies dismissed staff and 8 per cent of medium-sized companies. This may be slightly counterintuitive as micro companies reported the largest decline in revenues, but it may be explained by the fact that own-account workers dominate among micro firms, so that there is in effect no one to fire.

Sectoral analysis shows that construction and trade were most likely to shorten working hours: 80 per cent of companies from these sectors reported using that option. This is influenced by two major factors: (i) curfew hours prohibiting companies to work in the afternoons (hence they had to organize work in one shift⁸), and (ii) reduced workload/sales due to lower consumption and demand for certain products.

Figure 12 Measures taken by enterprises in relation to their staff

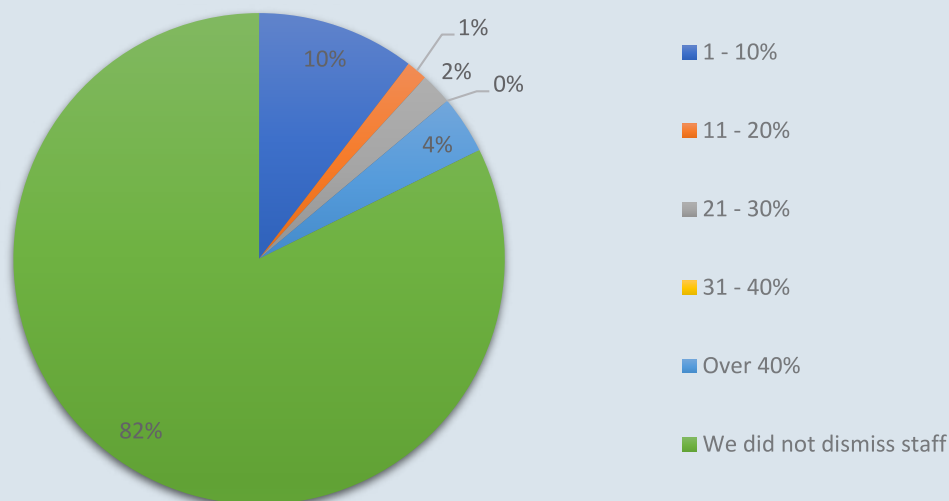


Source: Enterprise survey.

8 Some production facilities could work during the curfew with special permits, although even for them there were problems with workers' transportation and similar.

Of enterprises that dismissed staff, the largest share (10 per cent) reported dismissing 1-10 per cent of its workforce and another 4 per cent cited dismissing over 40 per cent (Figure 13).

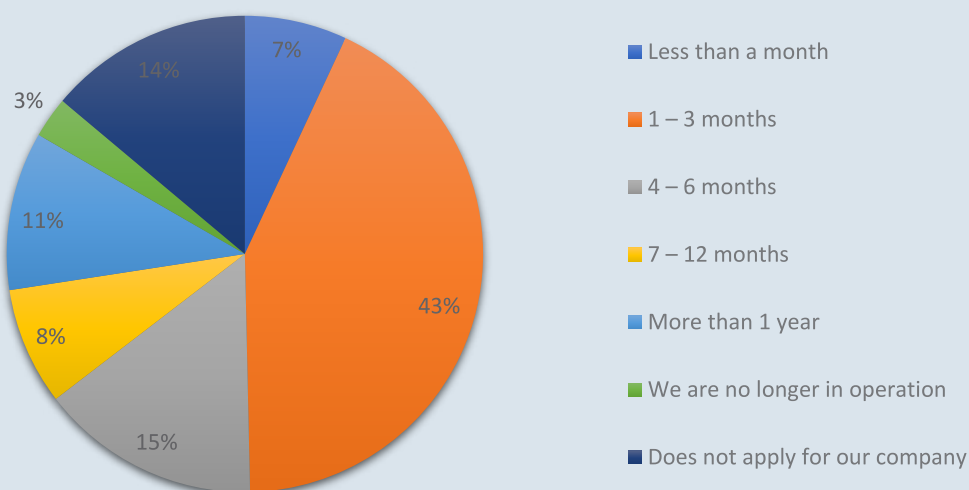
Figure 13 Enterprises that dismissed some staff, by percentage of workforce dismissed



Source: Enterprise survey.

Some 43 per cent of respondents stated that if the current situation persists they would probably have to close their business within three months at the latest and an additional 7 per cent stated that they could survive less than a month (Figure 14).

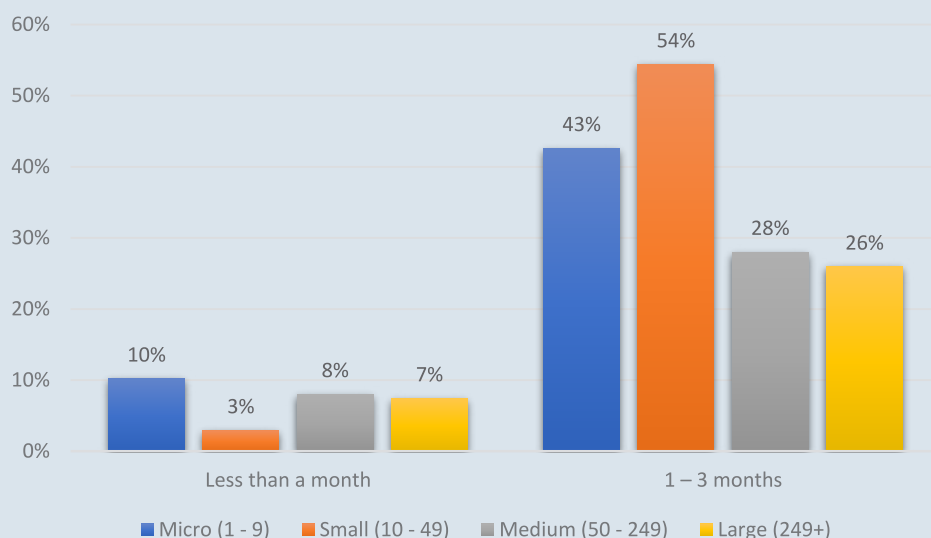
Figure 14 Resilience of enterprises



Source: Enterprise survey.

There are large differences in this response by enterprise size: the least resilience is exhibited by micro and small companies, more than 50 per cent of which (53 per cent of micro companies, and 57 per cent of small ones) could not survive more than three months if the situation continues (Figure 15).

Figure 15 Least resilient enterprises , by size

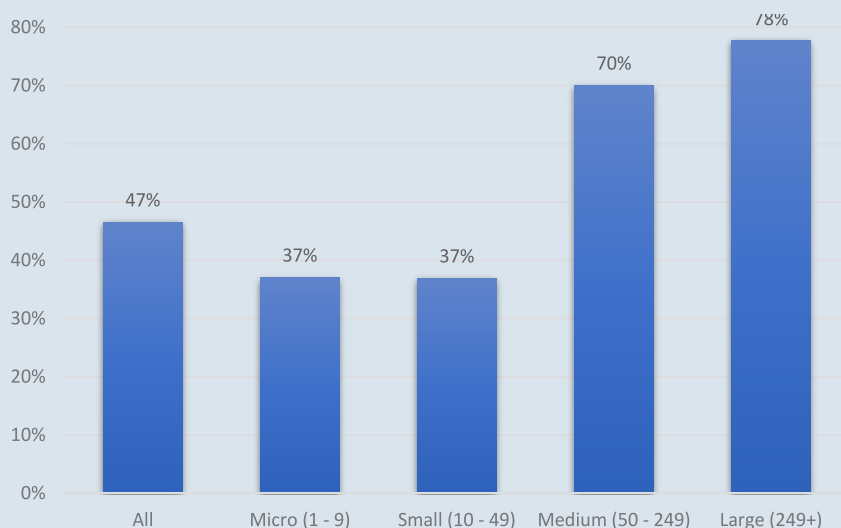


Source: Enterprise survey.

Companies from the construction sector, transport, accommodation and food, and professional, scientific and technical activities are least resilient to the crisis. As many as 62.5 per cent of the companies in the first two sectors reported that they could not survive more than three months if the current situation prevails, which was also the case for 56.7 per cent of the companies from the professional, scientific and technical activities.

Some 47 per cent of the surveyed companies have own funding or access to external funding to help the business recover (Figure 16). However, there is a substantial difference by size of company, with only 37 per cent of both micro and small companies having access to external funding, whereas 70 per cent of medium and 78 per cent of large companies have it. This information is useful for policymakers in designing optimal policies for all companies (differentiated by size). Construction and trade companies are least likely to have own funds or access to external financing: below 40 per cent of companies in these sectors reported being able to access funds or have own funds to overcome the current crisis.

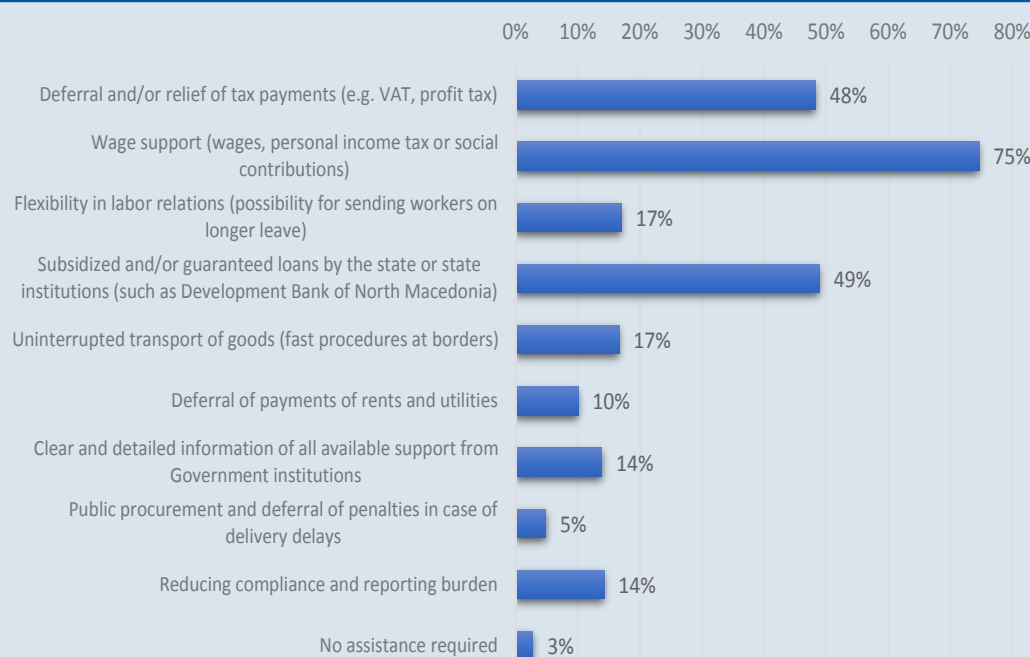
Figure 16 Enterprises with own funds or access to external funding, by size



Source: Enterprise survey.

For three-quarters of all companies wage subsidies are very beneficial as a form of government support (Figure 17). The other two most beneficial types of support are deferral of tax payments and/or tax relief (for 48 per cent of the surveyed companies) and cheap loans from state institutions (49 per cent). The importance of wage support is almost the same for all sizes of companies, and the most important type of support. There are, however, slight differences for the other types of support by size of company. In particular, access to subsidized loans is much more important for micro and small companies (for about half of them) than for medium-sized and large companies. Tax relief is much more important for medium-sized companies. A substantial share (44 per cent) of large companies reported the need for greater flexibility in labour relations. These findings are important inputs to policy recommendations.

Figure 17 Priority government support measures identified by enterprises (up to three possible answers)



Source: Enterprise survey.

Enterprises were also given a chance to provide some additional comments on the type of support needed or expected from the government. Their main comments included the following:

- There is a need for more low-cost or interest-free loans to support liquidity and supplement company cash-flow.
- Support should also be provided for March, as the problems started in early March (government measures currently are effective from April and May 2020).
- Companies are asking for more understanding and support from the banks, in the form of loan moratoriums.
- Restrictions on employees who were allowed to stay at home should be loosened and normal functioning of institutions restored, which may recover the costs companies incurred for these employees.
- There should be more transparency concerning the criteria used and decisions made by government institutions with regard to anti-crisis measures (equal opportunities

for every business applying).

- There is a need for specific measures targeting large companies, which are major exporters; their needs differ from those of micro and small businesses, which operate mainly domestically (such as coffee bars and betting businesses).
- Companies reported a number of measures that can be very beneficial to them, although they are not pandemic-related. These include reduction of parafiscal charges (including licences, various permissions and so on), equal treatment of all businesses and the rule of law, and better and more efficient public administration.



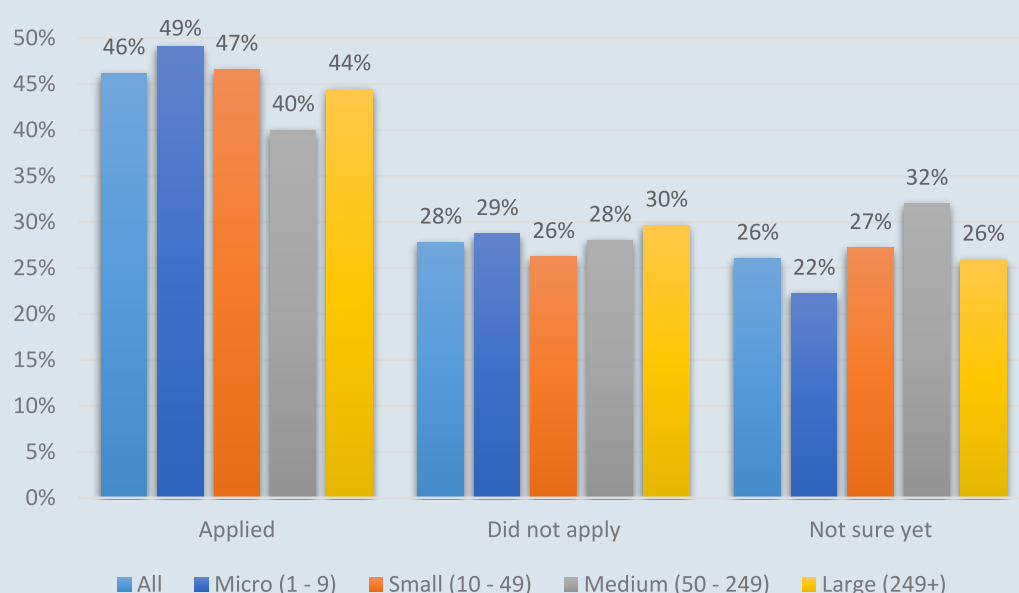
4. Government support to enterprises

According to the Government's forecasts,⁹ about 87 per cent of companies in North Macedonia will be eligible to apply for wage subsidies in the form of a minimum net wage, which will cover around 250,000 employees. Enterprises are excluded from the wage subsidy if they experienced a revenue decline in April of less than 30 per cent compared to 2019, as are the enterprises at which the average wage of the highest paid 10 per cent of workers exceeds €2,000 (see Annex). The somewhat narrow eligibility criteria (especially related to the wage subsidy programme) excluded some companies from the much-needed support.

It seems that the Government is operating on the basis of about 40,000 companies, which is much lower than the official figure on total active companies and probably excludes agriculture and public enterprises, among others. In addition, the Government estimates that another 53,000 workers (jobs) will be supported by the wage subsidy in the form of 50 per cent of social contributions. The support is not in the form of a grant: companies are required to pay back the support they receive if certain conditions are not met (see Annex, measure II.c).

Of the surveyed companies, 46 per cent applied for government support. Regarding size of company, there is no specific pattern. Micro companies (with 49 per cent positive answers) and medium-sized companies (47 per cent) stated that they had applied or considered applying for the state support measures. The incidence is much smaller for medium-sized companies (40 per cent). Regarding sectors, companies from transport, accommodation and food service activities were most likely to apply for support (63 per cent reported doing so), whereas IT companies and financial services companies were least likely to apply. These findings are in line with expectations and the severity of the impact of the crisis on different sectors.

Figure 18 Share of enterprises applying for government support measures, by size

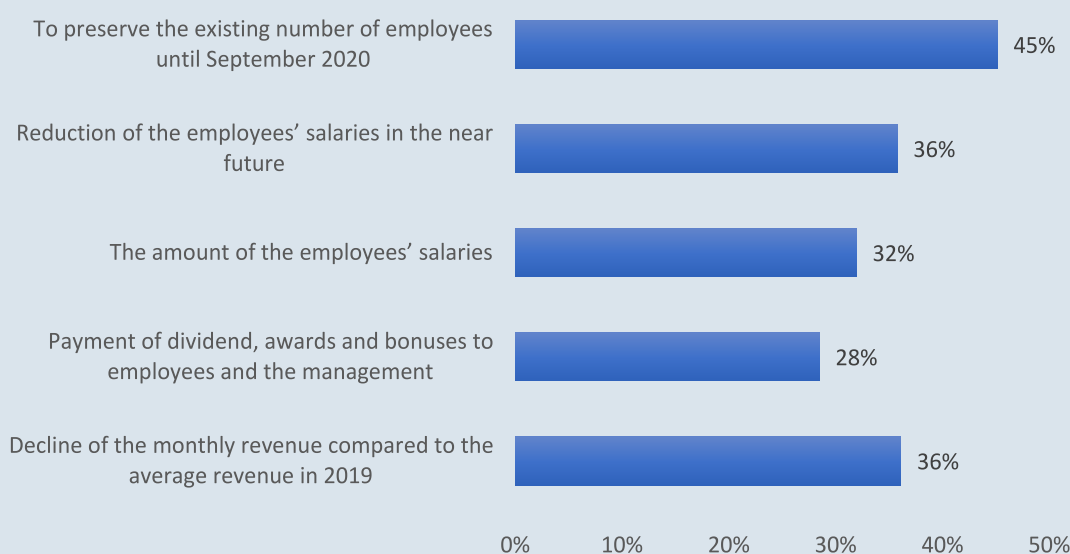


Source: Enterprise survey.

⁹ Published on the official site: <https://koronavirus.gov.mk/en>.

Figure 19 examines the respondents' views on the eligibility criteria for government support programmes. It is important to point out, that some criteria have changed, since the launch of this survey such as duration (number of months) that employers applying for wage subsidies are required to keep the workers on the job (reduced from four to two months) and the requirement that they may not lay off workers.¹⁰ Employers complain mainly about the requirement to preserve the same number of employees until September 2020 (as reported by 45 per cent of companies). This is followed by the obligation that workers' wages should not be reduced (36 per cent) and that the support is offered only to companies that recorded a decline in revenues in 2020 of at least 30 per cent compared with average revenues in 2019 (36 per cent). This last criteria may have excluded from the scheme companies that invested substantially in 2019 and expected a corresponding increase in revenues in 2020 (so that they have not experienced a decline in revenues compared with 2019, but rather compared with expected revenues). These mainly include the rapidly growing high-tech sector and technologically-advanced exporters, that is, companies that are not yet fully developed. Data by the size of enterprise show that large enterprises (with a share of 70 per cent), medium-sized (58 per cent) and small companies (50 per cent) disagree most about having to retain the same number of employees. For microenterprises, however, the most problematic criterion is freezing wage levels.

Figure 19 Enterprise dissatisfaction with eligibility criteria for government support programmes

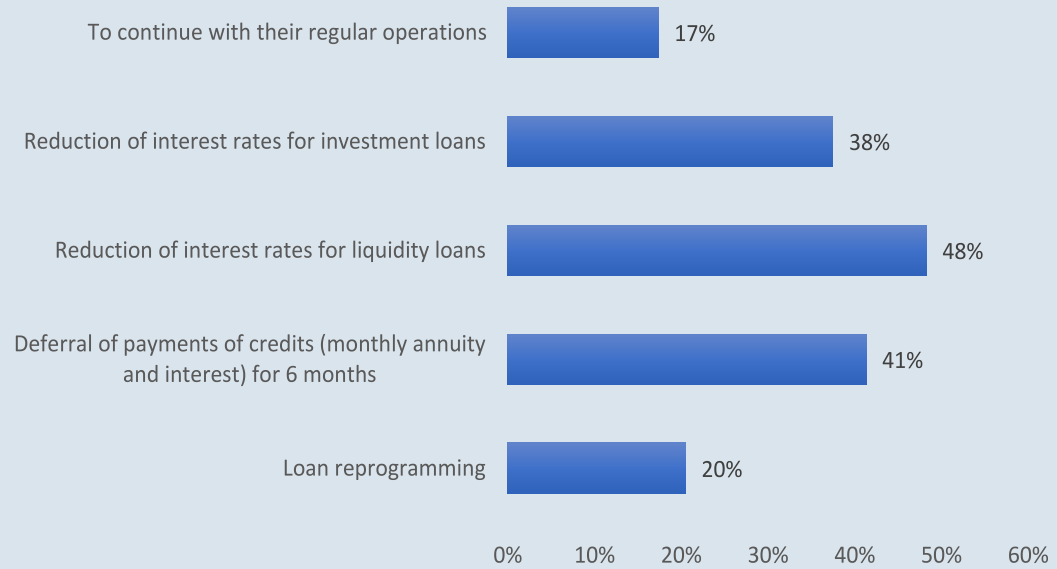


Source: Enterprise survey.

Enterprises would benefit most from the support of banks and other financial institutions in the form of interest rate reductions on liquidity loans. This was stated by 48 per cent of respondents (Figure 20). Companies would also strongly welcome deferral of loan payments for six months, and interest rate reductions on investment loans. While there is no pattern in responses to this question by company size, large companies (48 per cent of respondents) and small companies (40 per cent) stand out in suggesting a need for lower interest rates on investment loans. This may indicate their willingness to invest in future growth at this difficult time. For micro and medium-sized companies, the most beneficial support from commercial banks would be lower interest rates on liquidity loans.

¹⁰ This was changed several times, the time period for which the number of workers was compared was changed (giving opportunity for companies to bring back to work the fired workers and then using the measures, criteria of how many workers can be laid off and for which reasons was also changed, i.e. added afterwards.

Figure 20 Type of support from banks and other financial institutions that would be most beneficial for companies



Source: Enterprise survey.

► 5. Policy recommendations

Policy recommendations

Findings from the enterprise survey provide systematic evidence on the extent and the ways in which the pandemic has impacted Macedonian enterprises. The government should consider the following measures to support enterprises:

- **Expanding financing options for enterprises by increasing their access to (subsidized) liquidity loans**
 - More liquidity loans to companies are needed. Companies declared that they desperately need liquidity loans (low-interest or interest-free) from the Government in order to maintain their operations in this difficult period, and to keep their employees in work. Micro companies have shown the lowest resilience to the crisis: they have been most significantly harmed (measured by revenue losses), and they are also least likely to have their own funds to survive the period of reduced activity. Hence, they are in greatest need of (subsidized) liquidity funds. Companies also complained that payment discipline has declined (both from the public and private sectors, which is an additional drain on their finances).
- **Facilitating enterprises' access to wage subsidies and other type of government support through more inclusive and transparent eligibility criteria**
 - Wage subsidies are the most beneficial type of government support. However, companies generally need less stringent criteria for accessing wage subsidies (and any other government support measure). The somewhat narrow eligibility criteria have excluded many companies from the much-needed support, such as the high-tech sector (start-ups) and technologically-advanced companies, which are substantial exporters.
 - Good experiences from other countries show that it is beneficial (in terms of higher penetration of companies in the scheme) to broaden eligibility and make the criteria more practical. For instance, revenue losses could be compared to a “reasonably equivalent month/period” instead of to the 2019 average. It could also be based on predicted revenue losses (of 15–30 per cent), which could be confirmed by cancelled orders or by being forced to close down for four weeks or so, which would extend eligibility to companies that have not yet experienced actual losses, compared with the previous year. Companies are also demanding that subsidies should compensate for the second part of March, and be extended beyond June, which is in line with international practice. Companies are also asking for transparent criteria for support measures and equal opportunities for all companies looking to obtain support.
- **Accelerating the return to normalcy of state institutions in terms of the administrative functions and services needed to support enterprises**
 - This may require investments in digital solutions to facilitate efficiency and quick turnaround times that would not impose additional burdens on enterprises. The main challenges for businesses are not pandemic-related but concern the “regular” environment. Even in this difficult period, companies are demanding a fair, functional system, with effective public administration, “normal” functioning of state institutions, rule of law and so on.

- **Further improving the business environment to enable enterprises to navigate the crisis and accelerate recovery**

- The crisis has amplified the need for an enabling business environment, with low administrative burdens on companies, so that they can cope with the new challenge of the pandemic rather than spending time and energy on regular activities. Criticisms of the inefficient public administration were prevalent among the respondents. Companies are calling for further lowering and reassessments of the need for many parafiscal charges. The Government made a small step in this direction as part of the first package of anti-crisis measures, but companies need more. A review is also required of various licences and forms of authorisation.

- **Strengthening and diversifying government support measures in accordance with enterprises' specific needs**

- Business needs more decisive and more diverse government measures to support the economy. Specific measures are required for large companies, which are substantial exporters, as their needs differ from smaller scale domestic operations (for instance, coffee bars and betting offices). Some take the view that the current government support is useless for many businesses and that new measures are needed. One option is tax deferrals or relief. Companies are asking mainly for VAT deferrals of six months, which is important especially for companies that are unable to access other government support schemes.
- Companies are also asking to ease some of the regulations on employees who were allowed to stay at home, on the grounds that it disrupts the regular operations of some enterprises.

Annex: Policy measures adopted in North Macedonia¹¹

I Economic support packages to stimulate the economy

I.a Fiscal policies¹²

- Reallocation of public agencies' budget surpluses to fund Covid-19 response.
- Reallocation of EU funding for the Covid-19 response.¹³
- All elected and appointed officials were to receive the minimum wage (= USD 260) in April and May 2020. However, the decision was overruled by the Constitutional Court.
- Chairpersons, management and supervisory boards of public institutions do not receive compensation fees during the crisis.
- Public sector employees will not receive a holiday allowance for 2020.
- Temporary ban of new employment in the public sector, except for necessary staff in the health sector and other sectors important to fighting the pandemic.
- State-owned enterprises are supposed to reduce expenditure by 15 per cent in 2020.
- Lowering of legal penalty interest rate by 50 per cent.
- Exemption from advance monthly income tax payments.

I.b Monetary policies

- The National Bank of the Republic of North Macedonia lowered the reference rate for calculating penalty interest to 1.75 per cent (= a 0.25 per cent decrease).
- Mandatory reserves lowered for new or rescheduled loans to the hardest hit companies.
- Regulatory easing in relation to liquidity assessments (credit risk management).
- Fees abolished for withdrawing or returning cash to the central vault.
- Decree that enables banks to postpone loans to their clients so that no physical contact is required.

11 Unless otherwise noted, the information provided in the following four boxes is from: <https://www.ilo.org/global/topics/coronavirus/country-responses/lang-en/index.htm#MK>, accessed on 04 May 2020

12 The government also took a decision that presidents and the members of the management and supervisory boards of public institutions in executive and local government, as well as the presidents and members of the municipal councils, and presidents and members of commissions established by the executive and local government who, at the same time, are employed, will not receive any compensation for the duration of the crisis. This decision will be valid until the government decides to terminate it. This measure does not refer to people who are unemployed and for whom this is the single source of income.

13 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-04-COVID-19-02-April-2020.pdf>, p.1



II Support for specific sectors, enterprises and employment retention

II.a Support for specific sectors

- All customs charges for critical products abolished during Covid-19 pandemic.¹⁴
- Freezing of prices of basic necessities, such as
 - food: bread, salt, oil, milk and dairy products, eggs, flour, meat and pasta
 - medicines
 - disinfectant
 at the price level these products had on the day the WHO declared a pandemic (unless imported at higher prices).
- Export of wheat and flour is suspended for the duration of the state of emergency.
- Farmers exempted from movement restrictions to participate in harvest.¹⁵
- Proposal to transfer USD 1.3 million to the Tourism Fund (to support the tourism sector).¹⁶
- Tobacco growers received subsidies of ~ USD 32.5 million.¹⁷
- Financial support for cabbage growers to stabilize market.¹⁸

II.b Support for enterprises and business continuity

- €13.7 million in loans to micro, small and medium enterprises at 0 per cent interest through the Development Bank.
- Ministry of Finance and Ministry of Information Society and Administration (MISA) are working on fintech solutions to ease administrative processes for MSMEs.¹⁹
- Employers who receive financial support will not have to repay it if they report a loss for 2020.

For others, the return of funds is limited to 50 per cent of pre-tax profit increased by taxable expenses.

- USD 56.5 million for low-interest loans to protect company liquidity.
- Bankruptcy proceedings forbidden during crisis and six months thereafter.
- Cancellation of advance VAT payments for three months (April–June) for the hardest hit companies.
- Cancellation of personal income and profit tax payments for three months for enterprises that report loss of >40 per cent.²⁰

14 <https://un.mk/wp-content/uploads/2020/03/SITREP-UN-MK-1-COVID19-18-Mar-20.pdf>, p.1

15 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-04-COVID-19-02-April-2020.pdf>, p.2

16 <https://un.mk/wp-content/uploads/2020/03/SITREP-Final-2.pdf>, p.2

17 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-07-COVID19-22-April-2020-compressed.pdf>, p.1

18 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-08-COVID19-29-April-2020.pdf>, p.2

19 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-08-COVID19-29-April-2020.pdf>, p.1

20 <https://un.mk/wp-content/uploads/2020/03/SITREP-Final-3.pdf>, p.2

II.c Employment retention measures

- Financial support for private sector to keep employees on payroll:
 - minimum wage of USD 260 per employee for April and May 2020, or
 - subsidizing 50 per cent of mandatory social contributions.

This is conditional on retaining the same number of workers until July (initially the requirement was set for September, but was afterwards amended).

This rule does not apply to those who have received a net monthly salary higher than USD 715 in the past three months.

Companies that experienced revenue losses below 30 per cent and those in which the top paid 10 per cent of workers earn, on average, more than €2,000 are not eligible for support (the latter is not applicable for subsidized social insurance contributions).

The measure also covers own-account workers (sole proprietors), media sector, sport workers and freelance artists.

This support is not in the form of a grant, but companies are required to pay back the received amount of subsidies if certain conditions are not met. Large companies have to pay it back.²¹ Other companies will have to pay back the subsidies if they realize a profit in 2020 (up to the level of 50 per cent of the profit). But if a company does not have any tax debt, was profitable in the previous two years and reinvests the subsidies in improving the work process or workers' skills it does not have to repay support.

Companies from the hardest hit sectors (hospitality, tourism and transport) that have an unblemished tax history and no tax debts can combine these two measures. Other companies can choose which measure they apply for.

21 (<https://koronavirus.gov.mk/wp-content/uploads/2020/05/Finansiska-poddrska-za-rabotodavacite-MF-Update.pdf>)

III Workers protection measures

- Law on Enforcement suspended until end of June 2020.
Enforcement agents obliged to stop taking enforcement actions until then.

Unemployment benefits and social protection

- Unemployment benefit for people who lost their jobs due to Covid-19, amounting to 50 per cent of average wage, and up to 80 per cent of average wage in the country. The eligibility rules and the duration of the benefit are the same as in “normal” times.
- Quick access to social protection for those without work or who form part of the informal economy for April and May 2020.
They will receive an average of USD 125 per household.
- Deferral of rent payment for those who live in social housing.

Access to paid leave (paid by employers)

- Release from work obligations for:
 - one of the parents of children up to age 10
 - people who are chronically ill
 - pregnant women
 - people with disability²²

IV Other measures

Social dialogue

- Second set of measures agreed upon with social partners during session of the Economic and Social Council held on 31 March 2020.
Social partners mutually stated that the main priority now is the health and lives of workers and citizens, but that Covid-19 must not lead to a labour market crisis. Workers must not be left to foot the bill for the measures and consequences of the pandemic.
- Both the Federation of Trade Unions in Macedonia (SSM) and the EBMOs were satisfied with the discussions at the meeting on the second set of measures.

Other measures and funding

- Covid-19 Solidarity Fund²³ to collect donations to tackle the crisis.
- USD 192 million from IMF to tackle Covid-19 crisis and ensure macroeconomic stability.²⁴
- Granted access to European Solidarity Fund to procure equipment from EU member states.²⁵

22 <https://koronavirus.gov.mk/en/governments-measures>

23 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-04-COVID-19-02-April-2020.pdf>, p.2

24 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-06-COVID19-15-April-2020.pdf>, p.1

25 <https://www.covid19healthsystem.org/countries/northmacedonia/livinghit.aspx?Section=4.1%20Health%20financing&Type=Section>

