

## **ENHANCING ACCESS TO FINANCE OF SME'S: ROLE OF THE GOVERNMENT**

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### **ABSTRACT**

There is wide accepted evidence that the SME sector is one of the most important drivers of the economy in each country. The SMEs possibility to develop and to create new jobs becomes a crucial prerequisite for economic growth and development. In addition, many studies and research have concluded that access to finance remains to be a major concern and main obstacle for SMEs growth and development in countries like RN Macedonia. This situation has been deteriorated in past few years by the global economic and energy crises. Therefore, many governments have acknowledged the importance of implementing various policies and programs aimed to support SMEs and their development. Yet, evaluation and impact assessment of implemented government programs in general is lacking and the effectiveness of such credit schemes has not been demonstrated. The paper will examine the efficiency of subsidized credit lines implemented by Development Bank of North Macedonia with a main goal to promote bank lending to SMEs. It will attempt to assess the cost of the Government and the impact on the "supply side" in providing financing for SME sector. The method used for the research is a questionnaire based survey, composed of multiple choice questions and on-site interviews with bank's officials.

**Key words:** access to finance, SMEs, government intervention.

### **INTRODUCTION**

The term "SME" involve various definitions, which differs from country to country. In situation when there is no universally accepted definition, the most common classification criteria used by different organizations and countries are the number of employees, sales or assets. In the case of European Union (EU), in May 2003 European Commission has adopted the Recommendation 2003/361/EC, according to which enterprises are classified as micro, small and medium. The main goal of this definition is to make a clear distinction between independent and affiliated enterprises for the purpose of appropriate allocation of state aid funds for SME's. (European Commission, 2003) Most of the countries in the region have applied the EU SME definition, but only for the criteria "number of employees", while each country has its own specific criteria concerning the annual turnover and balance sheet, in compliance with their economic condition.

The classification of enterprises in the RN Macedonia is regulated with the Company Law, according to the number of employees, annual turnover and total assets. (Official Journal of the RM, 2004) Yet, taking in consideration the aspiration of the RN Macedonia for EU integration and the ongoing process of approximation of the national legislative to the EU regulation, RN Macedonia applied the EU classification criteria within the Law on state aid control (Official Journal of the RM, 2010), which gives a wider area for state aid allocation.

Table 1. Classification of enterprises in EU and RN Macedonia

|                         | Category of enterprises | Number of employees | Annual Turnover  | Total Assets  |
|-------------------------|-------------------------|---------------------|------------------|---|
| European Union          | Micro                   | < 10                | ≤ 2 million EUR  | ≤ 2 million EUR   |
|                         | Small                   | < 50                | ≤ 10 million EUR | ≤ 10 million EUR  |
|                         | Medium                  | < 250               | ≤ 50 million EUR | ≤ 43 million EUR  |
| Macedonia (Company Law) | Micro                   | < 10                | < 50.000 EUR     | Maximum 80% of gross income to be from one client/buyer |
|                         | Small                   | < 50                | < 2 million EUR  | < 2 million EUR   |
|                         | Medium                  | < 250               | < 10 million EUR | < 11 million EUR  |

Source: European Commission; Company Law of the RM

SMEs play an important role in a country’s economy. They are crucial for economic development, particularly in emerging markets. The evidence shows that over 95% of all registered companies across the world are SMEs. This number is even higher in the European Union, where SMEs represent 99, 8% of all businesses, out of which 92, 1% are micro businesses with less than 10 employees. (Wymenga, Spanikova, Derbyshire, Barker, 2011)

SME sector makes a critical contribution to GDP and employment in both developed and developing countries. In terms of employment, 65% of all job places in the European private sector are within the SME sector. European Commission has published a study regarding the SME role in creation of new job places. (Kok, Vroonhof, Verhoeven, Timmermans, Kwaak, Sniijders, Zoetermeer, 2011) The results of the analysis shows that in the period 2002-2010, 85% of the newly created jobs where in the SME sector, which is a higher figure comparing to the a.m. SMEs share of 65% of all jobs in EU. Regarding the SME contribution to the GDP creation, their importance is not lesser, achieving nearly 53%. (Eurostat, 2023)

The position of the SME sector in the RN Macedonia is similar to EU. The biggest part of the active enterprises in the RN Macedonia, or 99.8%, is the SMEs, out of which 91.5% are micro enterprises with under 10 employees.

SME sector in RN Macedonia participate with 73.5% of total employments, while 26, 7% of employments are in the big companies. Contribution of SMEs to the creation of the GDP in Macedonia in 2023 is around 67.6%. (State Statistic Office, 2023) These data provide evidence of the SMEs importance for the entire Macedonian economy.

Table 2. Share of SME’s in EU and Macedonian corporate sector, employments and added value

|              | Number of enterprises | Number of employees | Value added |
|--------------|-----------------------|---------------------|-------------|
| EU           | 99.8%                 | 65%                 | 53%         |
| RN Macedonia | 99.8%                 | 73,5                | 67,6        |

Source: State Statistic Office, 2023; Eurostat, 2023

## METHODS AND MATERIALS

Despite the importance of SMEs for the economic growth and jobs creation, their formation, survival and development is often troubled by several obstacles. Various researches around the developing world provide evidence that SMEs face greater financing obstacles than

large firms. (Beck, Demirgüç-Kunt & Maksimovic 2005; Beck & Demirgüç-Kunt 2006; and Beck, Demirgüç-Kunt, Laeven, Maksimovic 2006)

In different countries they have different financing possibilities, depending on countries' specific characteristics of the financial system and the business environment. The structure of SMEs' financing is depending on both demand and supply side factors. The reasons for a market failure relate to insufficient supply of capital and inadequacies on the demand side. In the presence of market imperfections, any financing limitations will reflect on SMEs' investments and external sources of financing are critical component for the enterprise growth. The lack of external financing limits the capacity of firm to expand their operation, to improve technology and productivity and even question its continued existence.

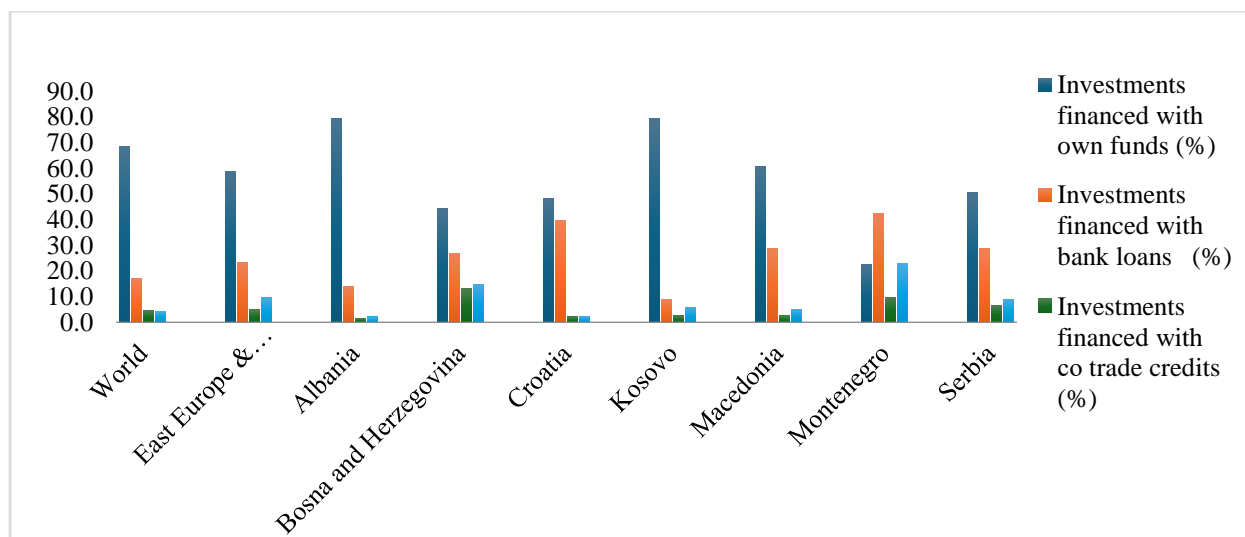
The research done by Beck, Demirgüç-Kunt and Martinez Peria, represent an effort to determine the SME financing from supply side. (Beck *et al.*, 2010) The results of the survey carried out in 45 countries, involving 91 banks, show that banks are observing the SME sector as highly profitable and they have developed organizational structure and appropriate credit evaluation techniques in accordance to the SME main characteristics. In addition, the research confirmed that there are significant differences between the developed and developing economies, and the general conclusion is that macroeconomic environment is more important for the banks, than the size of the enterprise.

De la Torre, Martinez Peria and Schmukler conducted similar survey in 48 banks and 1 leasing company across 12 countries. (De la Torre *et al.*, 2010) The results are very comparable, i.e. the banks stated that they are interested for the SME sector, they have established separate organizational units, they offer variety of products designed for SME needs, and they apply various methods for credit and risk analysis. The conclusion of this research is that the statement that banks are not interested in SME lending is not confirmed in the practice.

Bank loans are the main source of external financing of SMEs in RN Macedonia and in many other developing and developed countries. External sources of financing are critical component for the enterprise growth. Different analysis conducted in the Western Balkan countries demonstrates the domination of the banking sector comparing to other external sources.

Regardless of the evident importance, there are only few researches conducted to analyze the banking sector participation in SME lending. The existing studies demonstrate that above and beyond the conventional view that financial institutions are reluctant in SME financing, banks are considering the SME sector as one of the strategic market segment.

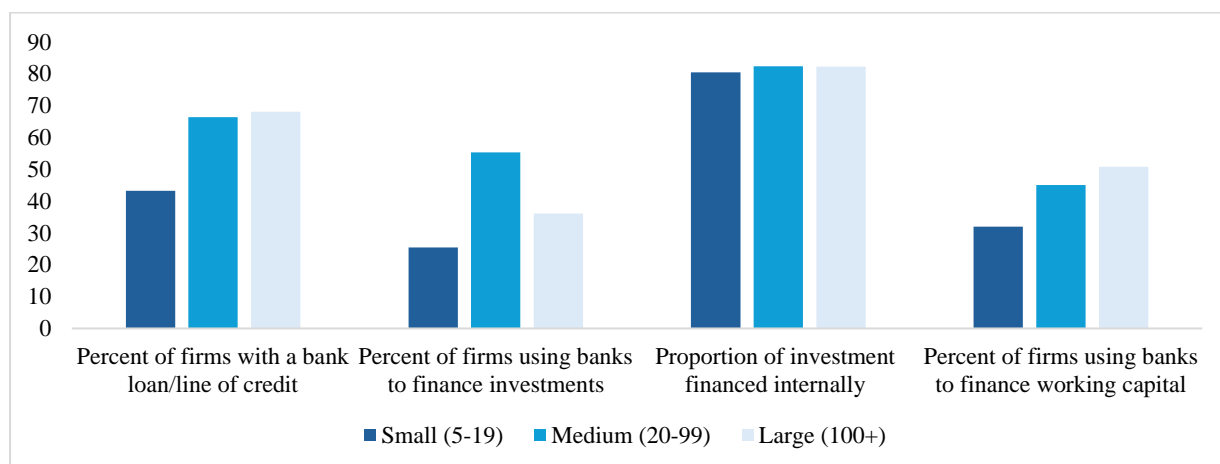
The analysis carried out by World Bank, in cooperation with EBRD, (World Bank, 2010) shows that the most frequently used source for the planned investments of SMEs in Western Balkan countries are internal funds (71.8%). As a second source are banking loans (15.4%), while the percentage of investments financed by equity funds, leasing and other alternative sources of financing is very low, comparing to the developed market economies. This survey shows that bank loans represent 40% to nearly 80% of external funds obtained by SMEs in SEE. This situation is mainly due to the growing banking sector in the past several years and undeveloped capital markets and equity finance.



Source: BEEPS, 2010

Figure 1. Structure of financing sources (%)

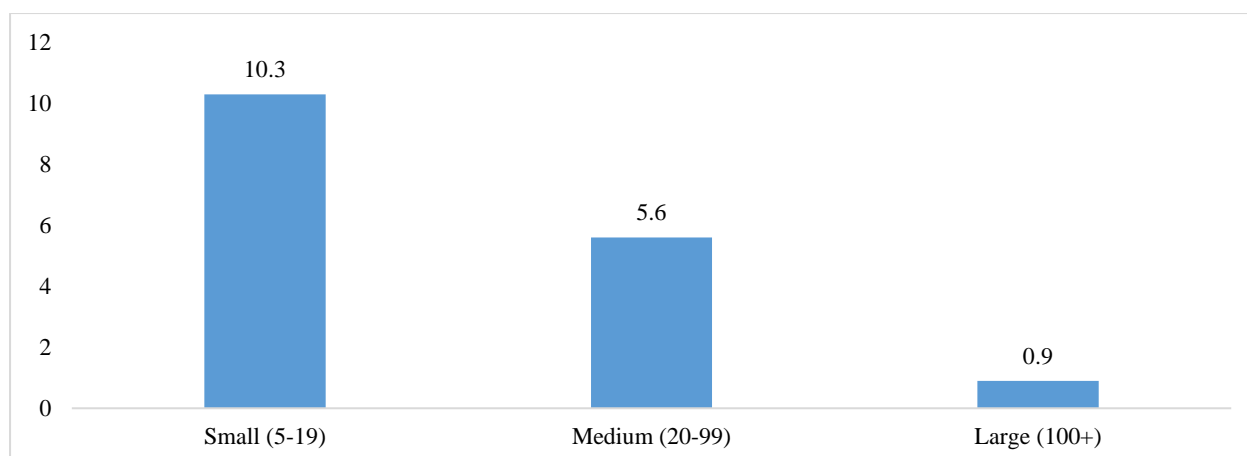
The results from the World Bank Enterprise Survey, conducted in 2023 on a sample of 354 enterprises in RN Macedonia shows almost the same results as in 2010 regarding source of financing. The proportion of investments financed internally is above 80% at all companies despite their size.



Source: World Bank Enterprise Survey, 2023

Figure 2. Source of financing by company size (%)

Only 9.5% of the firms have identified access to finance as a major or very severe constraint. That is much lower comparing to the survey results in 2009 when access to finance was identified as a major concern for business operations by 27.7% of the firms. Yet, there is an evident variance among firms with different size regarding the perception of this obstacle. While companies with more than 100 employees have no difficulties in obtaining financial resources for their operations, small firms have stated that they have faced problems with getting a loan, which is more likely since they are considered by the banks as more riskier and usually don't fulfil banks strict criteria (collateral, financial data etc.)



Source: World Bank Enterprise Survey, 2023

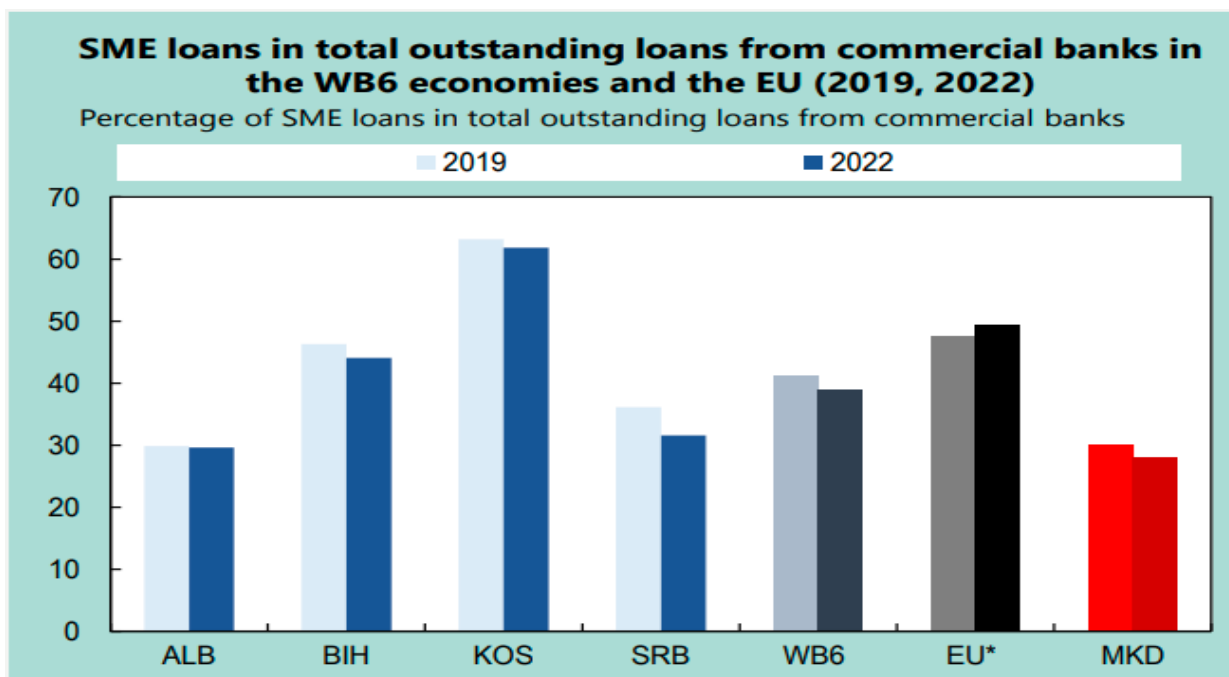
Figure 3. Firms identifying access to finance as a major or very severe constraint (%)

Therefore, the further analysis concerning the financing issue of SMEs should be focused on banking sector. However, there are many factors that reduce banks' willingness to lend to SMEs. The economic literature on enterprise financing has identified few main reasons why banks are often reluctant and avoid lending to an SME: (Zavatta, 2008)

1. The information asymmetry that exists between small businesses and lenders, or outside investors i.e. lack of relevant financial information, credit history etc.
2. The high risks involved in lending to the SME, associated with small scale activities, high failure rates, low capitalization and exposure to market risks, because they operate in a more competitive environment.
3. The high transaction costs in administrating SME loans.
4. The lack of collateral that usually characterizes SMEs, which may have little or no assets that can be used as collateral.
5. The lack of bank's capacity and skills to conduct a credit determine whether the borrower possesses the technical, managerial and marketing skills to generate adequate cash.

In developing countries, such as RN Macedonia, these problems are often worsened by institutional factors, such weak creditors' rights and protection, weak judicial system and bankruptcy procedures, lack of information infrastructure, etc. Although credit as a financial option is always more readily available to well established medium enterprises with enough collateral for loan options, other segments of SMEs still face significant difficulties in accessing finance. Transaction costs are particularly high for micro-enterprises and young SMEs, innovative firms and businesses located in remote and / or rural areas, potentially excluding them from any sources of formal external funding. At the same time, the financial needs of these firms tend to be high compared to their turnover and assets, and usually do not have adequate assets to provide as collateral. Many SMEs lack strong corporate reporting and financial management skills. This is a challenge reported by banks and other financial intermediaries. Thus, improving those skills will not only be necessary for the SMEs' business operations but may likely positively impact access to finance.

The general results of OECD and IMF survey confirm the financing obstacles for Macedonian SMEs and it can be concluded that Macedonian enterprise have bigger financial problems, comparing to the other analyzed countries. Macedonian SMEs face challenges accessing bank finance, accounting for 28.0% of loans from commercial banks in 2022 compared to 39.0% in the Western Balkans region.



Source: IMF 2023; OECD, 2024

Figure 4. SME loans share in total bank loans (%)

A significant access-to-finance gap continue challenging the business environment in RN Macedonia. Bank loans are the main source of external financing of SMEs in RN Macedonia and in many other developing and developed countries. However, there are many factors as higher administrative costs and risks involved in lending to SMEs that reduce banks' willingness to lend to them. Also, lack of collateral and borrower information is frequently reason for credit rejection.

On the demand side, there are many obstacles such as high collateral requirements, high interest rates, difficult and expensive administrative procedures. High collateral requirements is one of the significant barrier for new, smaller and riskier SME's for getting a bank loan. That is particularly a case when they cannot offer real estate or land as a pledge, because movable collateral is not widely accepted by the banks. Collateral requirements applied by Macedonian banks are in average 172% of the loan value, which is higher than the EU average of 148 % and the ECA countries average of 164%. High collateral requirements are correlated with high credit risks perceived by the banks for the SME sector. (World Bank Enterprise Survey, 2019) Therefore, many governments have acknowledged the importance of implementing various policies and programs aimed to support SMEs access to finance and their development, particularly in the time of global economic crises.

### **Role of the Government**

The question is whether the Government should undertake measures to mitigate the problem that SMEs are facing in obtaining finances for their activities? In the economic literature there are different theories and opinions. (See Stiglitz, 1994; Klapper and Zaidi, 2005) Public intervention may be considered justified where market is failing to provide the required financing necessary for the less-favored sectors, regions or clients. In addition intervention by the public authorities is needed to mitigate the effects from certain external shocks, i.e. to assists a certain sector affected by this negative impact. As already mentioned, there is market imperfection due to which Macedonian SMEs have problems in access to finance. Furthermore, the world economic and financial crisis is certainly that kind of external shock, causing

negative effects to the Macedonian SMEs. This gives good reason for the Government to intervene.

The other question is what form such intervention should take: interest-rate subsidies, guarantees, loans, equity financing or something different?

In practice, there are several forms of state intervention that differ in terms of their effects and costs. For this purpose, the choice of the appropriate instrument of state intervention should be a function of the objectives to be achieved in the current conditions. The measures with which the state can intervene to overcome the problem faced by SMEs in providing financial resources can be divided into several groups:

- a) Legal and institutional environment, in terms of improving the conditions for the functioning of the banking sector and improving the business environment of SMEs;
- b) Legal environment, in the direction of protection of creditor rights and efficient and effective collateral use;
- c) Credit information systems, as a means of facilitating the process of evaluating credit requests and reducing costs;
- d) Guarantee schemes, in the direction of overcoming the problem with the collateral; and
- e) Subsidized credit lines with the aim of increasing the supply of loans for SMEs and reducing interest rates.

Interventions by the government in the area of providing favorable loans for SMEs consist in providing additional sources for banks to finance loans for SMEs and in reducing the price of loans for SMEs. The practice in other countries also shows that the reduction of the price of bank loans through intervention by the state can be in the form of direct or indirect subsidies.

The direct subsidization of interest on loans as a form of support by the government in the RN Macedonia was carried out until the end of 2007, that is, it was abolished with the entry into force of the Law on balanced regional development on 01.01.2008.

Increase of the loan supply and reduction of the loans price for SMEs through indirect subsidization in the RN Macedonia is implemented as a government measure within the framework of the Development Bank of North Macedonia (DBNM).

## **RESULTS AND DISCUSSION**

DBNM is the only development bank in the RN Macedonia that was established in 1998 with a special Law on the establishment of a Macedonian bank to support development and an initial founding capital in the amount of 30 million DM, which ensured a credit potential in the amount of 100 million DM. The model of the German development bank Kreditanstalt für Wiederaufbau (KfW) was used to establish the foundations of DBNM's operation, which ensures operational independence despite the fact that it is state-owned.

In 2009, a new Law on the DBNM was adopted, which reformed the Bank's organization and operations with the aim of improving its position as a development bank, that is, advancing its specific role in the banking sector and the national economy.

The Bank's strategic determination is to support and encourage the development of SMEs by offering a wide range of financial products (loans, guarantees, export insurance, factoring) in accordance with the government strategic policies, goals and priorities. DBNM carries out credit placements through the commercial banks with which it has concluded cooperation agreements, and the main innovation in the operation of DBNM is that the new law enables direct lending with subsidization of the interest rate by the state, but respecting the principle of non-competition of commercial banks and non-discrimination of economic entities.

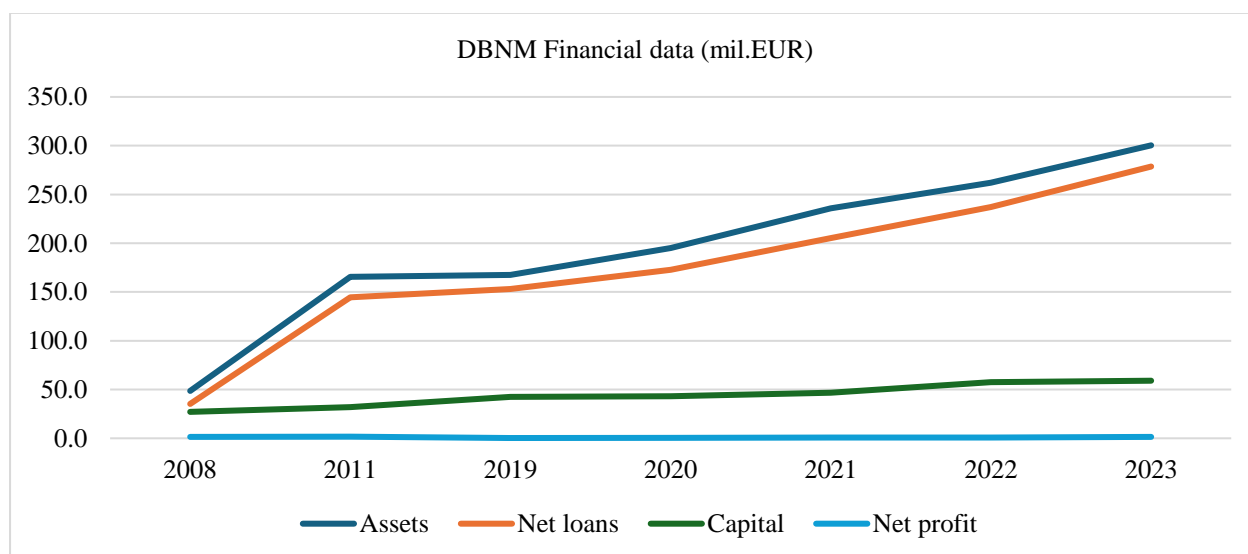
Direct lending should be aimed at financing projects for which commercial banks have no interest due to high credit risks (agriculture, start-up businesses and projects in

underdeveloped areas). The possibility of direct lending will limit the tendency of commercial banks to first offer their own products to business entities, which by definition are more expensive, and the products of DBNM to be of secondary importance.

With these changes, and especially with the realization of EIB credit lines in the past period, the role of DBNM in providing credit support to SMEs increased.

As a response to the economic and financial crises the Government of the Republic of Macedonia in 2009 has decided to apply for a loan from the European Investment Bank to increase the available capital for Macedonian companies, and to mitigate the negative effects of the crisis in the Macedonian banking sector. EIB has provided similar loans for SMEs and priority projects in other SEE countries: Croatia, Serbia, Montenegro, Bosnia and Herzegovina, Turkey and Albania. In the time of crisis banks have become even more conservative in loan approval, which worsen already difficult financial situation of the SME sector. The Financing Agreement for SME credit line in amount of 100 million EUR was signed in June 2009 between the EIB and DBNM. The credit line was disbursed through intermediary banks, contracted by DBNM, which has onlended the funds to the final beneficiaries. The total amount of the credit line was fully disbursed by April 2011. (MBDP, 2011) Following, in 2011 the cooperation continued by signing the contract for the realization of the second phase of this credit line for SME and Priority Projects in the fields of economy, energy, and environmental protection in amount of EUR 50 million EUR. The third phase of the EIB credit line started in 2012 with new contract in amount of 100 million EUR, followed by new 100 million EUR in 2013. EIB fifth, sixth and seventh phase credit lines in total of 300 million EUR were approved in the period between 2018 and 2023, intended for on-lending to both SMEs and mid-market capitalized enterprises (mid-cap companies), as well as green transition . (DBNM, 2025) The total amount of EIB credit lines reached 650 million EUR.

The effect of EIB credit lines on DBNM activities is evident from the basic financial data for DBNM shown in Figure 5. If the net loans at the end of 2011 are compared with the amount of net loans from 2008, before the start of the implementation of the EIB credit arrangements, it can be stated that they have increased fourfold, reaching a value of around 145 million euros. The increasing trend of net loans continues through next years, during which period a several new arrangements with EIB and other creditors were concluded. At the end of 2023 the amount of net loans was considerably 278 million euros.



Source: Annual financial reports of DBNM

Figure 5. Basic financial data for DBNM



The increasing trend continues in 2024 and the total outstanding loan portfolio at the beginning of 2025 rises to 337 million euros.

In the past few years there is an evident trend of significant increase of the loan interest rates applied by commercial banks. The economic crisis caused by the war in Ukraine has put a further strain on businesses and supply chains and worsen the credit conditions. According to the NBRM data in the period from 2021 to the beginning of 2024 there is significant increase of the corporate loans interest rates and banks collateral requirement. (NBRM, 2025) The average interest rate for corporate loans in the banking sector in 2023 was 5.05% p.a, and continue to increase in 2024 to average 5.22% p.a, (NBRM, 2024; 2025) In the same time EIB credit lines provided financing for SME's under much more favorable conditions which resulted in increased interest of target beneficiaries for this subsidized loans. It clearly confirms the theory of justified government intervention where market is failing or where there is a need to mitigate effects from certain external shocks.

Table 3. Structure of outstanding loan portfolio by credit lines

| Credit Line  | Amount in EUR      | %             |
|--|--------------------|---------------|
| EIB 5, 6 and 7 credit line   | 284.183.012        | 84.3%         |
| AFD credit line  | 12.500.000         | 3.7%          |
| Financing Energy Efficiency and Renewable Energy Sources (own sources) | 14.539.100         | 4.3%          |
| Financing Energy Efficiency and Renewable Energy Sources               | 9.229.122          | 2.7%          |
| Agricultural loans - ACDF  | 2.270.763          | 0.7%          |
| DBNM Credit Line for SME's   | 14.517.093         | 4.3%          |
| <b>Total</b>   | <b>337.239.090</b> | <b>100.0%</b> |

Source: DBNM, January 2025

Considering the fact that in the total loan portfolio of DBNM, loans from EIB have the largest share, which on 31.01.2025 participate with a total of 84.3%, in the following, a more detailed analysis of EIB credit lines is presented. The table below presents the structure of the EIB credit lines portfolio by three characteristic: target group, purpose and sector.

Table 4. Structure of EIB credit lines

|                                  | EIB 5       | EIB 6       | EIB 7      | Total       |
|----------------------------------|-------------|-------------|------------|-------------|
| Number of loans                  | 332         | 272         | 228        | 832         |
| Amount of loans EUR              | 100.000.000 | 100.000.000 | 84.183.012 | 284.183.012 |
| Structure by size of company     |             |             |            |             |
| <i>SME</i>                       | 93%         | 92%         | 86%        | 90%         |
| <i>Mid-cap companies</i>         | 7%          | 8%          | 14%        | 10%         |
| Structure by purpose of loan     |             |             |            |             |
| <i>Investments</i>               | 75%         | 74%         | 70%        | 73%         |
| <i>Permanent working capital</i> | 25%         | 26%         | 30%        | 27%         |
| Structure by Sector              |             |             |            |             |
| <i>Production</i>                | 31%         | 39%         | 48%        | 39%         |
| <i>Construction</i>              | 3%          | 7%          | 5%         | 5%          |
| <i>Trade</i>                     | 35%         | 36%         | 27%        | 33%         |

|                           |      |     |     |       |
|---------------------------|------|-----|-----|-------|
| <i>HORECA</i>             | 8%   | 2%  | 2%  | 4%    |
| <i>Transport</i>          | 10%  | 8%  | 9%  | 9%    |
| <i>Services</i>           | 7%   | 2%  | 3%  | 4%    |
| <i>Health</i>             | 5%   | 2%  | 2%  | 3%    |
| <i>Other</i>              | 2%   | 4%  | 4%  | 3%    |
| Number of new employments | 1089 | 711 | 223 | 2.023 |

Source: DBNM, January 2025

The structure of the EIB loan portfolio in terms of the loan purpose shows that 73% of the disbursed amount is for investments, while 27% is for permanent working capital. Regarding the structure by sector, the biggest percent of the funds (39%) were invested in production companies and almost the same amount (33%) was invested in trade companies.

The total amount of disbursed loans financed with EUR credit lines is 284 million euros, out of which 90% or 255 million euros are for SMEs projects, and only 10% are for mid-cap companies. According to the DBNM data, collected from the final beneficiaries, these credit lines has supported the creation of 2.023 new jobs.

The EIB credit line represents a model of indirect interest rate subsidies on commercial loans extended to SMEs. The interest rate subsidy is technically realized by providing funds to commercial banks at low rates and these low rates are then passed on to SMEs through lower interest rates on the commercial loans approved by these banks.

The intention of the Government with this credit line was to provide additional credit funds under favorable conditions for the final beneficiaries. Therefore, in the agreements signed between DBNM and intermediary banks the interest rate for the borrowers is fixed at 1, 6% p.a. for EIB 5 and 6 credit line, and 3,5% p.a. for EIB 7.

On the other hand, DBNM is obliged to repay this loan to EIB using flexible interest rate based on 3-months Euribor under the Financing Agreement and calculated on the outstanding balance of each tranche. The likely mismatch of the earned interest from the banks and due repayment obligation to the EIB is financed with Government budget funds.

It must be noted that despite the favorable credit conditions, EIB loans are commercially approved loans to beneficiaries with good credit history and good cash flow that ensures timely repayment of the installments. Up to date, there is no systematic data collected from participating banks regarding the repayment rate of the EIB loans, yet it is recommendable for the DBNM to follow the quality of the EIB portfolio and if necessary to adjust credit line criteria, in cooperation with EIB. Banks are expected to become even more reluctant to lend to SMEs if repayment of the loans deteriorates.

In order to explore the supply side factors i.e. banks' experience and policies in lending to SMEs and to evaluate the impact of the EIB credit lines on participating banks, a survey was carried out on six banks that are contracted by DBNM for servicing the EIB credit line. The selected sample represents 31% of the whole population (16 banks) and they account for about 70% of total assets in the banking sector in Macedonia and 82, 6% of the total EIB portfolio. Three out of five banks are large, and two are in the group of middle banks. Four of five banks are with majority of foreign owned capital. The survey was conducted in the period July – September 2012 using a questionnaire of multiple choice questions that was sent by e-mail to responsible managers for SMEs lending in the respective bank. (Dimovska, 2013). The questionnaire was organized in three main groups of questions:

- Main information regarding SME lending;
- Potential and obstacles for SME lending in normal conditions and in the time of crisis;
- Role and intervention of the Government and their effectiveness.

One of the goals of the research was to determine the impact on the bank's SME lending as a result of the cooperation with DBNM. The purpose was to conduct simple evaluation of the EIB credit line, which is a main source of SME financing through DBNM. The impact evaluation was performed from three different aspects.

Concerning the problems that banks are facing in providing loans to SMEs, banks were asked to rank given problems and the results shows that the key problem for the banks is lack of adequate and acceptable loan requests, followed by macroeconomic factors and specifics of the SME sector - high risk, no collateral, high transaction cost.

Regarding the necessity and type of public intervention, the opinion of the respondents is that the most positive impact is expected from establishing a public guarantee funds (83%), second are specifically targeted credit lines (to a certain priority sector), while interest rate subsidy is ranked on a third place.

The general conclusion is that participation in DBNM credit lines has positive influence on bank's SME lending. The results from the survey show significant positive impact on the banks' total SME credit portfolio:

- 80% of the banks stated that as a result of the cooperation with DBNM their SME credit portfolio has increased by 4%;
- 80% of the banks emphasized that based on the cooperation with DBNM the number of SME's credit applications has increased by 10%;
- Regarding the impact on credit condition (interest rate, repayment period) the general influence is positive. 60% of the banks answered that based on the cooperation with DBNM, the SME credit conditions, despite of the source of funding, has improved. In this part of the analysis it must be taken in consideration that the EIB credit conditions are defined in advance, within the Financing Agreement between EIB and DBNM or in the Subsidiary Loan Agreement between DBNM and the relevant bank.

According to other similar survey on banks conducted in 2023 (Gockov, Koleva, 2023), 78% of respondent banks believe that the Government should have strong role in providing credit lines for specific purpose for SMEs and 26% consider that the subsidization of interest and guarantee funds should be supported by the Government. 88.9% of the interviewed banks believe that the DBNM has a positive impact on the total credit portfolio for SMEs.

## **CONCLUSION**

Appropriate, tailor made, commercially driven public measures in place will help to mitigate the market imperfections and weaknesses in SMEs' access to finance not only in times of crisis but on an on-going basis as a fundamental structural issue. Design of subsidized financial products, targeting strategic sectors, like agriculture, should be considered as one of the solutions to overcome the problems in obtaining necessary finance. The Government support could make a real difference for the start-ups or to businesses in areas or sectors, where banks are not interested to take credit risks.

Indirect interest subsidies do not violate the WTO Agreement on Subsidies and Countervailing Measures and they are classified as a voluntary compromise by the participating banks in order to expand their outreach. Furthermore, the indirect approach of interest rate subsidy eliminates the negative effects from such Government intervention, in terms of inefficient and nontransparent funds allocation.

Another advantage, which is of great importance, is the low cost for the Government for implementation of such on-lending activities. Even if the reference rate for calculating the interest (Euribor) increases, still the budget participation is not going to increase significantly. While initially offering incentives to participating financial institutions to expand their SME lending, the long-term objective of these interventions should be that banks would increasingly

start to consider SMEs as part of their mainstream clientele that would in the future be served wholly with the banks' own recourses.

Through the financed investment 2.023 job places are created. If we take the minimal gross and net salary in the RN Macedonia as a base for calculation, in that case the monthly inflow in the Government budget from taxes and contributions is in average amount of 12.200 MKD per worker. Consequently, the annual amount for all new created jobs will be approximately 293 million MKD or around 4, 8 million EUR. This indicate that the Government subsidy cost will be repaid in the in budget for very short period of time. In addition the reduction of unemployment, due to the new jobs creation, influences the decrease of the budget costs for social transfers.

Regarding the effect on the economy, the assumption is that the total value of the financed projects is higher than 284 million EUR, taking in consideration the participation of the borrower of at least 20% of the project costs. From the repayments of disbursed loans DBNM builds a revolving fund that is used for financing of new loans for the target group. This implies multiple economic effects of the credit line.

The performed impact evaluation on the "supply-side", regarding the participation of the banks in the DBNM credit lines, indicates positive influence on bank's SME lending (total SME credit portfolio, credit conditions, and SME interest to apply for a loan). In order to complete the impact assessment, monitoring on the loan quality should be established by DBNM/Government and comprehensive survey on beneficiaries should be conducted to evaluate the effects of such credit lines on their potential for growth and financial results. Furthermore, a systematic impact evaluation of Government programs should be established. However, it must be noted that the total loan amount disbursed through DBNM is considerably smaller comparing to the total net credits approved to private sector. Namely, the share of the DBNM net credit portfolio in the total banking sector corporate portfolio at the end of 2024 is only 9%. Moreover with the EIB credit line DBNM has on-lended only 832 loans to SMEs which is 1,2% of active SMEs in RN Macedonia in 2023. This data point to certain situation that needs to be further closely reviewed. DBNM credit lines have influenced intermediary banks to increase lending to SME's and it lower the cost for final beneficiaries. Yet, having in mind the high levels of liquidity in the banking system with the deposit-to-loan ratio of 131% as of September 30,2024 (NBRM, 2024), it seems that the role of DBNM in the future should be focused more on easing collateral requirements and broaden SMEs' access to bank credit, including to smaller and riskier SMEs.

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