UDC: 338.121:334.72.012.63/.65]:303.71(497.7)"2009/2020"
330.55:334.72.012.63/.65]:303.71(497.7)"2009/2020"
Professional paper

ENTERPRISE' DEVELOPMENT AND INTERNATIONALIZATION AS A MAJOR FACTOR TOWARDS ECONOMIC GROWTH OF NORTH MACEDONIA

Vjollca HASANI-LIMANI[1], Harun TAIRI[2]

[1]*Department of Finance and Accounting, Faculty of Economics, UT*
[2]*Department of Finance and Accounting, Faculty of Economics, UT*
[*]*Corresponding author email: vjollca.hasani@unite.edu.mk*

Abstract

This paper analyses the importance and role of micro, small and medium enterprises (MSMEs) in economic growth of North Macedonia, considering all the parameters and factors involved in this type of correlation. The sectors in which MSMEs operate are included as variables of the econometric model, in order to prove that enhancement of MSMEs activity and internationalization across these sectors will positively affect GDP growth. The results obtained from the Pairwise correlation matrix, confirm a positive correlation between the variables employed in the econometric model. The hypothesis is tested via OLS regression. These results are encouraging future studies, as they show that development of MSMEs concentrated in these sectors have great potential to contribute to the growth of the local economy.

Keywords: Economic growth; MSMEs; Internationalization; Sectorial growth.

1. Introduction

There are many arguments about the importance of the existence and support of MSMEs, while higher international institutions give special importance to them, whether financial or non-financial, alongside the educational institutions, which also support MSMEs. MSMEs are the driving force and one of the main pillars of the European economy, as they promote job creation, economic growth, and ensure social stability. The study of Edinburgh Group (2013), on a sample of several countries confirms that MSMEs create approximately 52% of value added in the private sector, which implies a significant contribution to the economy. However, the contribution of MSMEs to the economic structure varies greatly from country to country: from about 16% of GDP in low-income countries (where the sector is usually large but informal) to 51% of GDP in high-income countries. As noted, MSMEs tend to be more intensive and at the macro level, thus making a significant contribution to employment. However, according to SBA Fact Sheet, (2016) small and medium-sized enterprises in North Macedonia account for almost two-thirds of total added value and almost three-quarters of all jobs, well above the EU average of 58% and 67%. In the years 2008-2014, the added value activity of SMEs has increased by 7%, while employment has increased by 13%. The main challenge for North Macedonia's SMEs is to increase domestic productivity at the levels of European standards. Micro and small enterprises in the country face problems for regular access to financial resources; therefore, alternative non-bank financing activity of the MSMEs shall be considered as an option for enhancing economic growth. This study

tends to analyse what are the links between the developments of MSMEs on the one hand, which occupy the largest share in the demographics of enterprises in Northern Macedonia, as well as the most developed sectors of the country on the other hand. While the goal is to provide answers to how this correlation affects economic development.

The results will serve as a contribution based on scientific facts about the importance of growth and development of small enterprises in some of the local sectors with potential for internationalization, which have proven their contribution to economic growth.

2. Literature review

Micro small and medium enterprises are one of the most discussed topics among researchers and policy makers. Their contribution in economy is widely recognized and appreciated. Relying on these facts, research tend to analyse MSMEs in different aspects in order to contribute in the development1 and growth of these enterprises.

Hu M. (2010) conducted a study related to the impact of MSMEs to the growth level of the local economy in the north part of Taiwan and found enhancement effect of MSMEs development on economic growth. Based on this study developed economies are more likely to end up with persistent growth due to positive developments in the entrepreneurship inherited from the MSME sector, while, in less developed economies, the main contribution to economic growth is the positive development of the MSME sector, in terms of job creation.

Gebremariam et.al, (2004) says that there is a strong, positive relationship between the relative size of small business and economic growth, in a study of the sample of 221 small businesses derived from firm-level studies in West Virginia. The study supports the anti-poverty impact of small business development. Thus, MSMEs play an important role in the industrial development of a country, because of the benefits they create in terms of employment opportunities, income generation and poverty reduction, but their roles in economic development of developing countries like Mexico are not realized effectively highlights.

Hashi & Krasniqi (2011) on the study regarding the role of SMEs in transition economies in European countries using the data from World Bank and EBRD, found that MSMEs play a vital role in the redistribution of work between firms, industries and sectors in transition economies and the recovery of these economies from the transformational recession, which followed the systemic change.

Kruja (2013) on the study regarding to the contribution of SMEs to the economic growth in Albania using analysis and synthesis of scientific literature verifies that business environment stimulates enterprises to be more innovative, as well as to increase their productivity and efficiency. This will result in increased employment and contribution to taxes. While the increase of taxes gives an increase of public investments, this means that a favourable business environment is essential for sustainable economic development. From the studies above mentioned, who have studied the role, impact and importance of MSMEs development in relation to economic growth, employment and poverty reduction, it is confirmed that this category of enterprises deserves support and encouragement.

3. Stylized facts

Following the abovementioned facts regarding the topic of this article, in addition we present some factual data about North Macedonia. The figure below, which includes the period after the financial crisis, shows that Northern Macedonia is in a better position than the European Union in terms of the number of employees and productivity of MSMEs. The increase in the number of MSMEs, from year to year has brought a positive trend, in increasing employment and productivity.
Figure 1 shows the contribution to GDP in terms of added value of each major sector. As viewed from figure 1, there is a large difference in terms of the values added activity between sectors. This difference indicates that the most developed sector, with the highest benefit is the trade sector, followed by the services sector

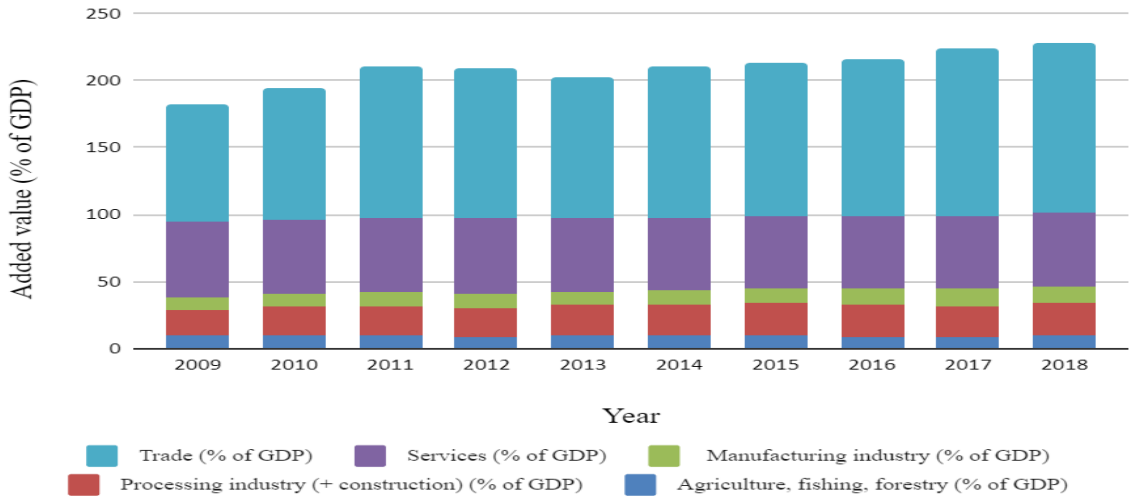

Fig 1. Added value of private sector in GDP
Source: World Bank, 2021 and author's calculations

Unfortunately, the manufacturing sectors have large differences from the values of the sectors. According to their size, the following most developed sector is the processing industry and finally the production and agriculture sector. More detailed data, on the concrete amounts with which each sector contributes to GDP are presented in the table below.

Table 1. Contribution of MSMEs to GDP (by sectors)

Years / Sector	Agriculture, fishery, forestry (% of GDP)	Manufacturing industry (+ construction) (% of GDP)	Production industry (% of GDP)	Services (% of GDP)	Trade (% of GDP)	GDP (%)
2009	10.37	18.97	8.82	57.08	87.17	0.35
2010	10.12	21.04	9.86	55.09	97.88	3.35
2011	9.35	21.59	11.41	55.09	113.19	2.33
2012	9.10	21.08	10.23	56.31	112.21	0.45
2013	10.02	22.14	9.91	54.84	104.85	2.92
2014	10.17	22.82	10.95	53.82	112.53	3.62

2015	9.72	23.92	11.760	53.72	113.69	3.85
2016	9.17	23.96	12.28	53.54	116.18	2.84
2017	7.88	24.13	12.67	54.61	124.57	0.24
2018	9.75	24.15	12.89	54.99	126.11	2.77
2019	9.91	24.17	12.96	55.17	127.02	3.9
2020	7.84	22.1	11.15	54.6	128.15	-5.2

Source: World Bank, 2021 and author's calculations

In the meantime, from these data, it is not mentioned; in which category of enterprises belong the activities, which are performed by the sectors. Further, the study analyses the demographics of enterprises and the size of the enterprises. From the data processed according to the State Statistical Office, (2021), the largest share of the enterprises among the total number of active enterprises is occupied by micro enterprises. The number of micro enterprises is increasing from one year to another, while more precisely it can be noted that in 2020 out of 73,061 active enterprises, about 59,977 are micro enterprises. In second place are small enterprises. These enterprises have experienced growth in number within their category, and in 2020, there are 5,405 small Enterprises. Medium-sized enterprises are in a smaller number than the first two categories. This category of enterprises is growing, while in 2020 there were 1,410 medium-sized enterprises. Although it is not the focus of the study, this table also presents the category of large enterprises, in order to compare with other categories. Therefore, large enterprises make up the smallest number of enterprises, which in 2018 has reached 240. Based on the latest Doing Business reports, North Macedonia is considered as one of the most suitable countries to start a business, considering the conditions offered and the ease of procedures, declared by the relevant institutions of the country. This comparison is done in order to emphasize the hypothesis of the study that many active MSMEs are positively associated to the growth level of GDP of a country. The data presented in the above figure, outlines the great importance of the enhancement effect of MSMEs on real GDP in North Macedonia. However, the study explores the distribution of these enterprises across sectors.

Table 2. Number of MSMEs by size and concentration across sectors, by activity.

Year	Enterprise activity	Agriculture, forestry, fishery	Manufacturing industry	Construction	Wholesale and retail trade. Repairing	Transportation and storage	Accommodation facilities and food service activities	Professional, scientific and technical activities	Health and social care activities	Total
2018	Micro	2200	5914	3975	19597	4740	3637	5848	3009	64187
	Small	77	1063	486	1232	441	462	232	172	4961
	Medium	26	331	59	146	56	41	13	121	1305
2019	Micro	2305	6535	4341	20488	5064	3992	5996	2980	63590
	Small	90	1084	498	1263	467	471	250	184	4979
	Medium	26	326	58	152	54	39	12	126	1339

2020	Micro	2155	6267	4395	19845	4946	4067	6341	2961	64782
	Small	87	1062	519	1233	476	457	264	184	5141
	Medium	21	306	57	164	54	36	11	131	1363

Source: World Bank, 2021 and author's calculations

Based on the data in this table, we can conclude that MSMEs are distributed in several different sectors. Apparently, the three sectors with the most active MSMEs are wholesale and retail trade, followed by manufacturing industry and transportation and storage. If we look over the years, we can say that the wholesale and retail trade sector and the processing industry sector have the largest number of enterprises in all the three categories: micro, small and medium enterprises. However, we have a significantly higher number of micro enterprises in three sectors. From the data, we conclude that micro enterprises have a much higher concentration than small and medium enterprises. Therefore, in North Macedonia, the largest number of active enterprises are micro enterprises.

3.1. Internationalization of enterprises - share of MSMEs' exports in the country's total exports:
Exports are one of the main factors influencing the economic development of a country, while it includes all the goods and services that companies of a country sell in markets outside its borders. One of the key factors of total exports are the exports of MSMEs, which are the most present and active enterprises in the economy of a country, especially in developing countries. Thus, many researchers have studied the impact of exports of MSME products and services on economic growth and development. The need for internationalization of MSMEs increases due to globalization and increased competition for enterprises that carry out their business activity only in the country of origin. Faced with the competition, an enterprise must be forced to strengthen their capacities through market expansion or go bankrupt, which would be a loss for the enterprise as well as for the local economy. MSMEs that are oriented towards internationalization are obliged to go through a process of standardization of products and processes, from the production process up to sales. Considering technological development, enterprises must include innovations related to processes and products. On the other hand, if we look at the financial situation in which these enterprises are operating, especially for micro and small enterprises, we must consider the fact that innovations and standardizations are a heavy burden for them.
An implication of the research of Senguler and Kunday (2015) says that innovation is an important factor that increases export orientation of SMEs. Policy makers, who are willing to increase the internationalization of SMEs, must introduce support programs to promote SME innovation. Another implication is that the lack of required business skills is a factor, which has a negative impact on the level of internationalization of SMEs. The results of Pickernel et.al, (2016) underline that the SMEs that exported their goods differ from non-exporters, in terms of enterprise characteristics, including sector, size, age characteristics, and owner-manager characteristics, including age and previous experience. Similarly, the effective use of internet technology (e-commerce) was related to the firm's approach to exports. In the European Competitiveness Report Hsia M., (2014) states that SMEs tend to enter foreign markets mainly as exporters, due to lower investment requirements and additional risks. The characteristics of firms such as type of industry, age, and destination, play an important role in the export of SMEs. The intensity of SME exports differs significantly in all types of industries, with the highest percentage of participation in manufacturing, software and business services. According to the results of the study of Boshkov (2016), when SMEs are internationalized i.e., when they start exporting to foreign markets, their

contribution to the domestic economy increases. For this reason, it is necessary to remove the main barriers they face. SMEs face difficulties in financing international activities in their attempts to identify adequate opportunities and contacts in target markets. Veleski (2015), by studying SMEs in North Macedonia, found that SMEs can significantly contribute to the development of the market economy in the country. In this general statement, it should be kept in mind that internationalized SMEs have higher income, are more innovative, employ more people, apply modern business standards and the international environment makes them act more effectively.
In this study, are presented important factual data, which show the importance of MSMEs in the country's exports. These data show a relatively significant share of MSMEs in the country's exports. It is worth noting that in the comparison made based on the number of exporting enterprises, it is noted that micro enterprises have been the most frequent exporters, followed by small and medium enterprises. From the data, we notice that out of 1,804 domestic micro enterprises, which are exporting in the world, 387 of them are medium and 1,037 are small enterprises. In the EU countries, we still have the largest number of exporters in the category of micro enterprises, reaching 983 enterprises. In second place are small enterprises or 632 enterprises. In third place are medium enterprises with 305 exporters. As far as domestic enterprises are concerned, with respect to their export level to the Balkan countries, the number of exporters is dominated by micro enterprises, reaching 951 of them, followed by 652 small enterprises and 310 medium enterprises.

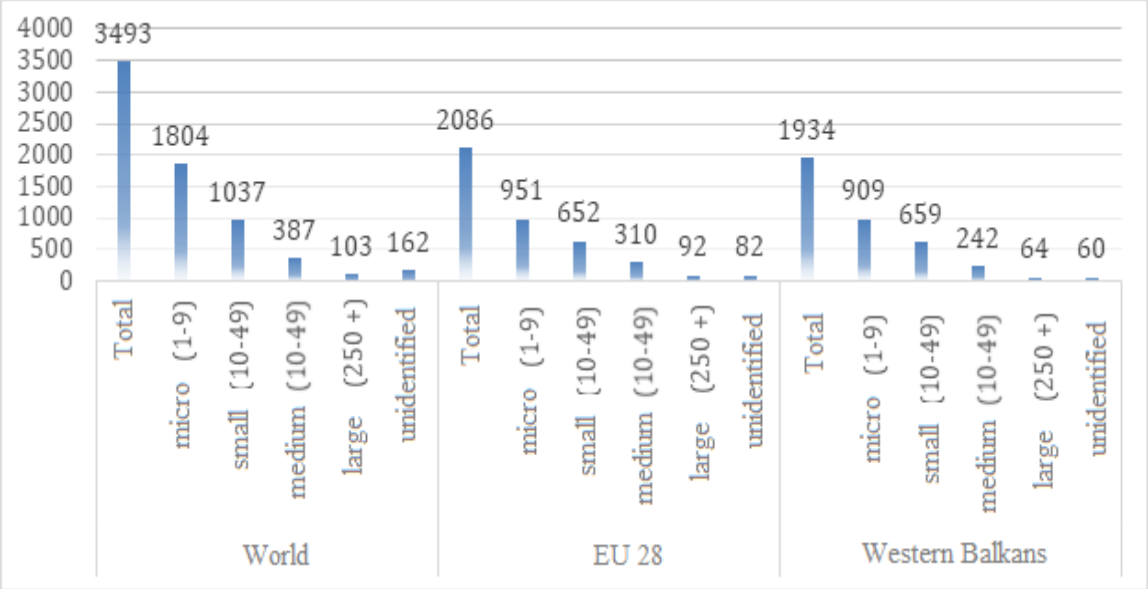

Fig 2. Number of exporting enterprises by size
Source: State Statistical Office, 2021 and author's calculations

If we compare the value of exports, large enterprises have an advantage. When it comes to the exports of North Macedonia's enterprises in the world and in the EU, there is a very huge difference between the exports realized by large enterprises and other categories or MSMEs. As we analyse exports by value, in 2018 large companies have realized 2,996,142 thousand euros of exports in the world, about 2,603,722 thousand euros of exports to the EU, and 20.614 thousand euros of exports to the Western Balkans. Medium-sized enterprises have realized 609,099 thousand euros in exports worldwide, 391,057 thousand euros in exports to the EU and 157,766 thousand euros in the Balkans. Small enterprises have realized exports worth 437,628 thousand

euros in the world, 287,360 thousand euros exports to the EU and 118,407 thousand euros in the Western Balkans. Micro enterprises have realized exports worth 318,459 thousand euros in the world, 216,885 thousand euros in the EU and 49,911 thousand euros in the Western Balkans. Although these value-added export data show the dominance of large enterprises, it is still not a reason to disappoint MSMEs. This for several reasons; First, the data published by the Statistical Office for International Trade, in the exports of large enterprises has included companies which operate in the industrial areas of North Macedonia. Those companies have foreign capital, are branches of multinational corporations, produce for foreign countries, normally in Macedonia use the cheap labour resources, as well as the domestic facilities, which the government has provided in order to attract foreign investment. Secondly, although MSMEs constitute the largest number of exporting enterprises, their production and export capacities are also small in the domestic market, because they are limited by the size and production capacities, as well as the costs of standardizing their products to enter and compete with foreign markets.

4. Methodology

Different authors have used different econometric models, relying on the type of data used in the research, as well as considering the characteristics of dependent and independent variables. The data for this study is sourced from the statistical reports of the Statistical Office of North Macedonia as well as from the World Bank database for North Macedonia, covering mainly the yearly time span: 2009-2018. Based on economic theory, this study analyses one main research question and hypothesis: the development of MSMEs has a positive impact on the growth and economic development of the country. To prove this research question, we rely on following hypothesis, which states: The development of MSMEs has statistically significant positive correlations with economic growth.

4.1. Model Specification: The econometric analysis used in this study is like the models, which were used by the authors mentioned above.

$$lnGDP = \beta_0 + \beta_1 lnmicro + \beta_2 lnsmall + \beta_3 lnmedium + \beta_4 lnMN + \beta_5 lnSS + \beta_6 lnTS + \beta_7 lnAS + \beta_8 lnPS + \mu$$

Table 3. Explanation of variables

MNS – Added value of MSMEs in manufacturing sector value added in GDP.	AS – Added value of MSMEs in agricultural sector
SS – Added value of MSMEs in service sector in GDP	NIP – Added value of MSMEs in the processing industry sector
TS – Added value of MSMEs in the wholesale and retail trade sector	μ – stochastic term

4.2. Description of variables - Descriptive statistics: The table shows the variables in terms of the mean added values, as follows: the private sector to GDP, the manufacturing sector to GDP, the service sector to GDP; the trade sector to GDP; the sector of agriculture to GDP, and the sector of heavy industry. Agriculture represents the sector with the lowest contribution to GDP, and trade sector is the greatest contributor.

The results of descriptive statistics for enterprises by size show that micro enterprises have the

highest mean value (56669.8); followed by small enterprises with a mean value of 76602.4, then medium enterprises with 1229 and finally large enterprises with a mean value of 214.1. Enterprises by sectors also have different mean values, starting from the agricultural sector with a mean of 2851, the mining sector with 179, and the processing industry sector with 7997.6. The energy supply sector with 140.7 is the sector with the lowest mean value. The construction sector has a mean value of 4526.9. The wholesale trade sector is the largest sector with 25536.7 mean value and has a very large difference with the mean of other sectors as outlined in the table below.

Table 4. Descriptive statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Gdp	10	4878.502	331.03	4398.774	5299.774
private. secto	10	209.119	13.956	182.437	231.171
manufacturing	10	11.083	1.355	8.827	12.899
services	10	54.916	1.12	53.55	57.09
wholes. trade	10	111.168	12.208	87.177	129.363
agriculture	10	9.57	.733	7.888	10.37
process.ind	10	22.382	1.734	18.973	24.152
micro	10	56669.8	6787.473	38107	61053
small	10	7602.4	8723.195	4051	32406
medium	10	1229	254.098	533	1399
large	10	214.1	19.203	185	240
agriculture	10	2851.5	178.615	2546	3072
mining	10	179.3	15.507	159	205
process.ind	10	7997.6	223.684	7639	8263
construction	10	4526.9	224.144	4322	4938
wholes. trade	10	25536.8	2130.436	22950	28326
transport	10	6071.5	315.181	5667	6445
inform. comun	10	1535.2	146.455	1398	1856
educa. tranini	10	1072.7	86.694	986	1222

Source: Author calculations in STATA

4.3. Results: According to the null hypothesis in this study, we analyse the correlation between the independent variables and the dependent variable. The results were obtained using "Pairwise Correlation". The results are presented in the correlation matrix below. According to the results in this matrix, we say that the added value of productivity in the sectors in which MSMEs operate have a positive correlation with GDP at a 1 percent significance level. Private sector value added has a coefficient of 0.876, the manufacturing sector (0.925), the trade sector (0.858), the industry sector (0.965). The other two sectors; agriculture and services have a negative correlation with GDP. Active enterprises by size also have a positive correlation with GDP.

Table 5. Pairwise correlation – Economic Growth

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) lnGDP	1.000									
(2) lnmicro	0.347	1.000								
(3) lnsmall	0.421*	0.483*	1.000							
(4) lnmedium	0.610*	0.216*	0.451	1.000						
(5) lnlarge	0.621*	0.109	0.212	0.472	1.000					
(6) lnManufaAV	0.519*	0.466	0.538	0.513*	0.720*	1.000				
(7) lnServiceAV	0.430*	0.560	0.330	0.319*	0.538	0.665*	1.000			
(8) lnTradeAV	0.552*	0.626	0.647*	0.512*	0.633*	0.738*	0.563*	1.000		
(9) lnAgriculAv	0.500*	0.275	0.309	0.418	0.395	0.599	0.168	0.607	1.000	
(10) lnProcessin	0.462*	0.561	0.631	0.620*	0.814*	0.318*	0.632*	0.282*	0.472	1.000

* Shows significance at the .01 level

Source: Author calculations in STATA

4.4. Linear regression results: The econometric model was defined at the beginning of methodology section, where we identified the variables and chose the model, which we use to test the linear regression between the dependent variable, GDP and the independent variables, as shown in the table below. The results of the 'OLS Regression' generally show a significant contribution and positive impact on GDP growth, implying economic growth, poverty reduction and increasing the standard of living. We must admit that the results are relatively small, but this is a result of a slow economic development of the country. In this model, we consider the most developed industries of the economy. However, we must mention that North Macedonia is a country with limited capacities, in the development of the production sector and the sectors related to industry. From the sectors included in the model, we notice that all the sectors are positively related and with influence on GDP growth. This also is confirmed by the statistical reports published by national and international statistical institutions. This means that an increase by 1% of added value of MSMEs in these sectors can have impact on GDP growth ceteris paribus. The most important fact in which we are interested in this table is the sign of statistical significance. The last column shows that all variables are significant at 1 percent level of significance and confirm that the development of MSMEs has statistically significant positive impact and correlation with economic growth.

Table 6. Linear Regression

lnGDP	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]
lnmicro	0.195	0.272	0.72*	0.604	-3.264	3.654
lnsmall	0.211	0.074	2.85*	0.215	-0.729	1.150
lnmedium	0.441	0.128	3.45*	0.179	-1.181	2.063
lnManufacturAV	0.513	0.226	2.27*	0.264	-2.361	3.387
lnServiceAV	0.352	0.571	0.62*	0.648	-6.901	7.605
lnTradeAV	0.478	0.297	-1.61*	0.355	-4.256	3.301
lnAgricultureAv	0.022	0.036	0.62*	0.647	-0.433	0.477
lnProcessing	0.310	0.283	1.09*	0.471	-3.292	3.912
Constant	14.549	5.350	2.72**	0.224	-53.423	82.521
Mean dependent var	23.036		SD dependent var	0.070		
R-squared	0.999		Number of obs	10.000		
F-test	160.636		Prob > F	0.061		
Akaike crit. (AIC)	-79.496		Bayesian crit. (BIC)	-76.772		

*** p<0.01, ** p<0.05, * p<0.1

Source: Author calculations in STATA

The t-test for variables, lnsmall, lnmedium and lnManufacturAV with values of 2.85, 3.45 and 2.27, respectively, implies that the respective coefficients are statistically significant at 1 percent level of significance. The F-test also shows an important overall significance of the model. The results confirm that small, medium and manufacturing companies are positively related to GDP, contributing to the enhancement of the growth level of GDP in North Macedonia. Hence, 10 percent increase in lnsmall, lnmedium and lnmanufacturAV is associated to average increase of GDP by 2.4, 4.4 and 5.1 percent, respectively, holding other variables constant.

5. Conclusion

This article analyses the relationship between GDP as a dependent variable, and independent variables, which include the number of enterprises by size, the number of enterprises by sectors and the value added in GDP of private sector enterprises. The aim of this research was to validate our assumptions based on economic theory

and practice. This was done by testing the null hypothesis, which included statistical analysis, correlation matrix, and regression analysis of the model with many variables. The obtained results show a significant positive impact on GDP growth, implying economic growth and poverty reduction. We must admit that the magnitude of the coefficients is not at the expected level, due to low elasticity that they possess with respect to the changes in the GDP. Hence, we can reasonably say that the explanatory variables are relatively inelastic about changes in GDP. This implies that GDP is moreover dependent upon other specific institutional related factors and macroeconomic factors, not captured by this undertaken study. Therefore, for a fruitful orientation of future research regarding the impact of SMEs on economic development in North Macedonia, other institutional and macroeconomic related factors, interacted with MSMEs, shall be taken into consideration.
Again, the correlation matrix shows positive correlation between variables and high levels of significance. Analysis of the OLS regression model gives us the expected results, although the coefficients size is small However, the high level of statistical significance of the estimated coefficients gives us the right to conclude that the research hypothesis is acceptable. Based on the results, we recommend intensification of the policies and initiatives, which will support and develop MSMEs in the less developed sectors, in order to increase exports and enable the internationalization of MSMEs, to generate new jobs and additional income.

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