



Proposed measures for accelerated growth of the macedonian startup ecosystem

Prepared by: The National Startup Council
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Introduction

In the last few years, the Macedonian startup community is developing at an accelerated pace, and the experience on a global scale shows that for the successful creation of an innovative economy, improvement of old ideas and creation of new ones, the essential support of startup companies is crucial.

Support for the development of the startup community is support for new solutions in the economy and the creation of new markets, opportunities, jobs and better quality of life for people.

Over 70 percent of startups in the country, in the business development phase need additional funding and then receive the greatest support from the Fund for Innovation and Technological Development, according to a survey conducted by Startup Macedonia under the auspices of FITD.

The analysis, which covered over 80 startups from North Macedonia and more than 28 support organizations and investors, shows that as many as 62.7% domestic startups applied to the calls for co-financing, and 60% of them received financial assistance from FITD.

In the last six months, FITD, in cooperation with all stakeholders in the ecosystem, has made serious changes by providing an easier way for financial support, quality mentoring, access to additional funds from the most successful banks in the country and a series of other activities. But for quality development of startups, apart from finances, changes are needed at several levels in the country.

This was the main incentive for the Fund, with the support of the Government of the Republic of North Macedonia, to establish the Startup Council for the first time in the country, with the main goal of representing the startup community and representing its interests in the process of creating and adopting policies to contribute to the further growth and development of the Macedonian startup ecosystem.

The Council is an active participant in the creation of future policies concerning these companies, proposes measures aimed at improving the organization of the work of the public sector and institutions that will result in simplified procedures and better public services, as well as recommendations to reduce the burden and cost on startups with interventions in the legislation and the legal framework, in order to facilitate access to capital and its mobilization. The purpose of these activities is to increase the number of startups and position the country as a regional startup hub.

Members of the National Startup Council



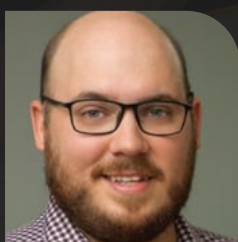
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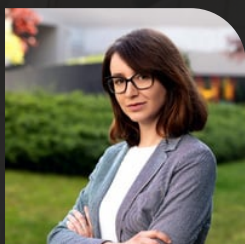


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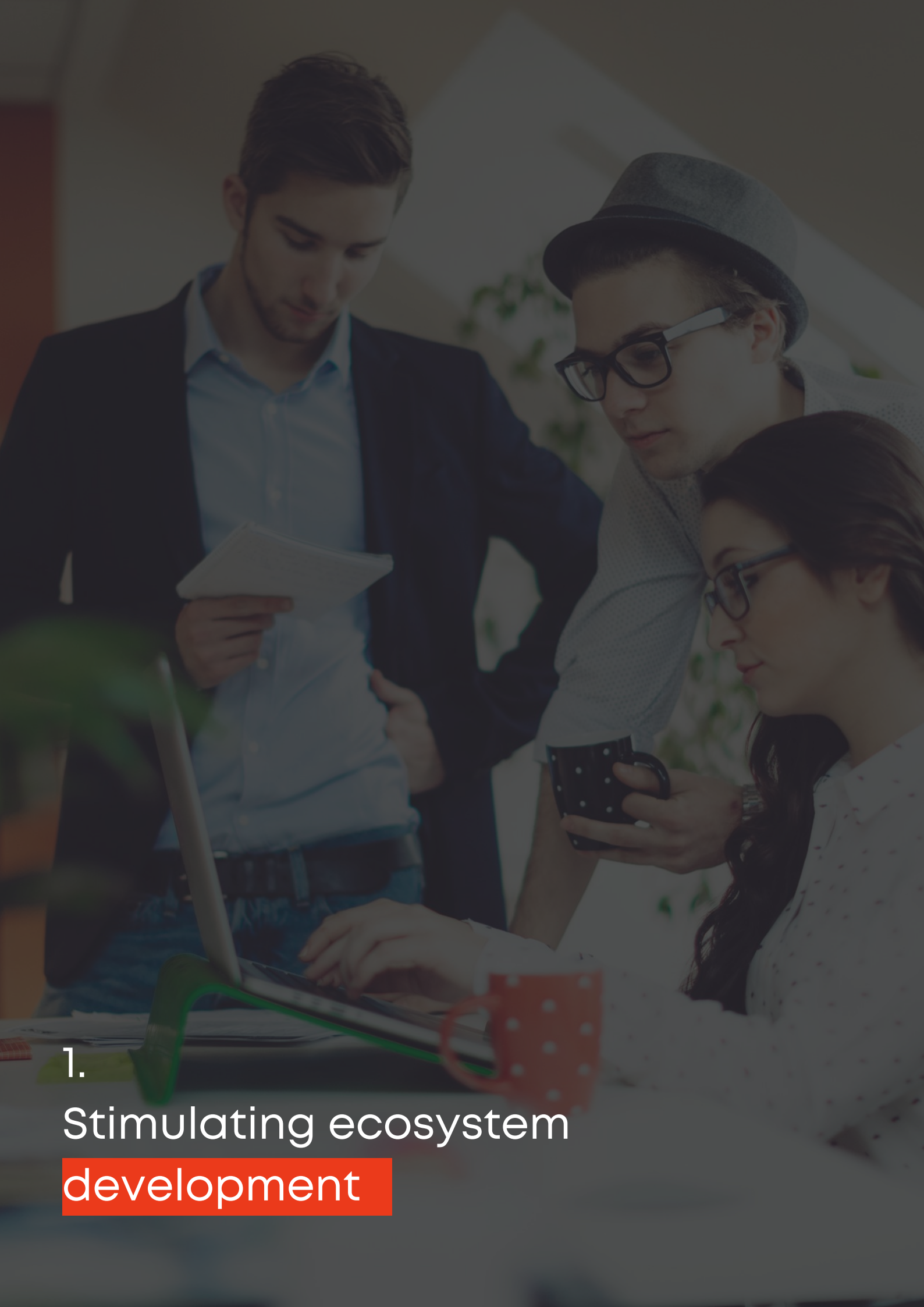


Nina Nikolic



In the last seven months, the National Startup Council, in cooperation with representatives from the Government of the Republic of North Macedonia, chambers of commerce, foreign donors and organizations, as well as investors and entrepreneurs from the startup ecosystem, made a detailed analysis of the current situation and needs for faster transformation of the Macedonian startup ecosystem, with a single goal – positioning the Republic of North Macedonia as a regional startup hub in the region.

From that analysis emerge the following measures through whose implementation Macedonian entrepreneurs and innovators will have greater opportunities for regional and international success, and at the same time, our country will become a more attractive destination for global innovators, investors and entrepreneurs.



1.

Stimulating ecosystem development

1.1 Improving the regulation for development of the innovation activity

The Law on Innovation Activity regulates the innovation activity, principles, goals and organization of the application of the innovation activity results, scientific research activity, technical and technological knowledge, inventions and innovations, as well as the establishment, status, competencies, management and governance, financing, supervision of work, and other issues related to the work of the Fund for Innovation and Technological Development.

Considering that the law was drafted eight years ago, it does not correspond to the current global market trends. The proposed legal amendments envisage new types of innovations that have not been covered by the existing law so far, expand the existing instruments and introduce new instruments and other measures through which the Fund implements its activities. As part of the proposed changes, the Fund, as one of the key institutions that provides financial support for startups, is expected to provide additional funding through which the established instruments and measures will influence innovation and technological development, and thus provide faster development of innovative companies in the country.

Social Innovation

Eight years ago, when the first Law on Innovation Activity was drafted, the innovation policies were slightly different. The current types of innovation are not covered at all by this law, nor does the law provide a definition of "social innovation" that will contain the new trends in innovation. Social innovation is a new practice that aims to meet existing social needs (working conditions, education, health or community development) in a better and different way than existing solutions.

The council recommends that "social innovation" be defined according to the definition of the European Commission, i.e. that social innovation means the development of new ideas, services and models in order to better address social problems. As a concept, social innovation can refer to a product, production process, idea, social movement or a combination of the above.

Taking into account the importance of social entrepreneurship in today's global economy, and in the absence of substantive legislation governing it, the council points to the need to prepare and adopt guidelines for alignment with the social entrepreneurship strategy, for which a working group has been established in the MLSP, and which is essential given that it also has a representative from the Startup Council, i.e. the Vice President of the Council.

Startups

Regarding the term startup, the legal changes should imply a new, adapted definition of the same. The current legal definition is restrictive because it stipulates that a newly established micro, small and medium trade company "start-up" is a trade company, established by one or more natural and/or legal entities, whose establishment has not been longer than six months up until the moment of the application for funding from the Budget of the state. Given the limitations and global trends, changes are needed in defining the term, i.e. Startup company to be considered a company not older than 5 years and founded by an entrepreneur (or a group of them) in order to bring a new product or service to market, which will be unique or better than existing ones, and has the potential for rapid growth.

Spin-off companies

Analyses of the current situation show that a complete revision of the law and definitions is needed from the aspect of spin-off companies, in accordance with the news on the global market. Currently, the law provides the following definition: "Newly established spin-off company" is a company established by one or more natural persons employed/engaged or students in the institution that performs higher education, i.e. scientific research activity and/or legal entities established by institutions that perform scientific activities and/or by economic entities, for the purpose of commercial exploitation of the innovation, transferred to the newly established trade company".

The proposal of the Council is to change the existing definition with a new definition which will read: "Spin-off" is a new company created by an existing legal entity or its employee/s through segregation or distribution of part of the business activities, in order for the separate business segment to have greater value as an independent entity.

Opportunity to create new tools to support startups that will be up to date with global trends

At the moment, the Fund provides funds through support instruments: co-financed grants for startups and spin-off companies, co-financed grants and conditional loans for commercialization of innovations, equity and mezzanine investments, co-financed grants for business establishments, operations, co-financed grants for technology extension, co-financed grants for technology transfer, technical assistance and co-investment schemes with investors and investment funds. The Fund allocates funds through announced public competition, based on precisely defined criteria for allocating funds for each instrument. Given the legal restrictions in terms of acting only within these support instruments, we believe that legal changes are needed in order to expand the instruments, as well as the possibility of introducing new instruments and support measures. Moreover, the research and analysis itself confirms the fact that in the phase of development of startups, the companies need to receive the necessary additional funds many times from the Fund for Innovation and Technological Development. Also, the introduction of new instruments and measures is significant because more and more often there is a need to harmonize and follow global trends, necessary to run the business in all its segments. Especially since it would mean providing additional financial resources for the Fund that will influence the innovation and technological development in the ecosystem.

Startup Development Centers

Following the global trends, there is a need to create Startup Development Centers in which potential entrepreneurs and innovators will receive all the necessary information to realize their business ideas. These centers will be of great importance for the development of the ecosystem because in one place they will offer mentoring, financial and legal support.

The Council proposes the creation of regional Startup Development Centers in all eight planning regions in the country, by 2024 at the latest. We propose the way of financing for these Centers to be through partnership support with the private sector, following the example of the already existing functional solutions from the neighboring countries. One of the better examples is that of the Republic of Serbia where the country has developed a financial instrument, with clearly defined goals and criteria, through which municipalities in cooperation with representatives of the private sector develop Startup Development Centers.

Expected benefits (results): Clearly defined categories and frameworks in which it will be easier to create policies and strategies for development of the Macedonian startup ecosystem.

Regulations/policies covering the field: Law on Innovation Activity

Current status/Recommendation: A working group is being established within the Ministry of Education and Science (MES), which is in charge of it. All suggestions from the members of the startup council will be taken into account by the working group.

1.2 Developing a program for Digital Nomads

A survey by MBO Partners found that there were 7.3 million digital nomads in the United States in 2019. Even before the global pandemic, it was shown that millions of people could work remotely. Those millions of people, mostly highly qualified, can choose where to eat, sleep, travel - where to spend their money and share their skills.

After the comparative analysis with the best practices from European countries, such as: Estonia, Croatia, Georgia, Germany, Czech Republic, the Council considers that the model that best suits North Macedonia is that of Estonia.

Proposed solutions

- With the current regulation, the stay is limited to 90 days. It is necessary to allow a stay of up to 12 months, to a targeted group of foreign nationals who will be required to prove that they meet the requirements for a visa for digital nomads, i.e. have the opportunity to work remotely and have secured financial income, during their stay in the country, which will be defined in advance.
- The online application process for this visa should be simple, fast and without administrative hassles, as in other countries that apply this program.
- As part of the initiative, it is planned to develop a program for digital nomads by Startup Macedonia in cooperation with FITD and the Swiss Entrepreneurship Program, with which selected interested digital nomads, with expertise needed in the startup ecosystem, will mentor local entrepreneurs and contribute.

Expected benefits (results):

- Estonia, a country of 1.3 million people, predicts that 1,800 potential digital nomads will apply for a new visa annually. On various grounds, these nomads will contribute tens of millions of euros to the country's economy. In addition, the impact will be felt strongly on the local technology and startup scene, where nomadic knowledge sharing and idea generation are expected to have a significant positive effect. Also, surveys say that 87% of digital nomads say that the simpler visa process will affect their choice of destination.
- The program proposed by the council will enable the attraction of highly qualified workforce that will stimulate the economy through their spending power, sharing skills and networking with representatives of the local startup ecosystem. Given that several countries are already actively developing digital nomadism, it is necessary to take accelerated measures to position our country on the map of these innovators and entrepreneurs.

Regulations/policies covering the field: Law on Foreigners

Current status/recommendation: The Council submitted a proposal in February 2021 to the working group in the MIA, prepared on the basis of a comparative analysis of best practices from countries such as: Estonia, Croatia, Georgia, Germany, Czech Republic. The recommendation is aimed at speeding up the process of adopting the draft amendment.

1.3 Creating a register of startups in the Central Register of the Republic of North Macedonia

There is currently no centralized record of the number of start-ups, existing and closed startups in the ecosystem. Accurate records are the basis for creating adequate and real measures for startups, a clear picture of the development of the ecosystem, but also its regular monitoring.

Proposed solutions: From the above comes the need to introduce the possibility of categorization of the legal entity, as a startup, according to the new definition during the registration in the Register of Legal Entities at the Central Register of RNM.

Expected benefits (results): The introduction of categorization will contribute to easier mapping of startups, both for the Innovation Fund and for potential investors and business angels, but also for creating more precise measures and policies for faster ecosystem development.

Regulations/policies covering the field: Law on Innovation Activity and Company Law



2.

Better working conditions
for startups

2.1 Enabling the registration of a new type of company

The Council recognized the existing initiative of the Ministry of Economy for the introduction of a new form of limited liability company, namely the Simplified Limited Liability Company (PDOO), and supports it. The purpose of the Draft-Law is to enable the establishment of a limited liability company with a symbolic minimum amount of initial founding capital of 1 euro, by persons - citizens who have an idea for doing business, but do not have sufficient funds, in the amount of at least 5,000 euros founding capital, to start their own business.

Proposed solutions:

- The Draft-Law introduces a new type of limited liability company, which bears the title "Simplified Limited Liability Company - PDOO". With the Draft-Law, the company can have up to three founders - natural persons, one of whom is a manager, i.e. a member of the management body.
- Given that this is a company with a share capital of 1 euro, it is proposed to introduce a special regime for financial operations in terms of disposal of profits, as well as providing and disposing of the required reserve of the company.

Expected benefits (results): With the application of the provisions of the Draft-Law, in addition to the possibility of establishing a company with minimal costs for young entrepreneurs, a significant impact on the reduction of the grey economy in the country is expected.

Regulations/policies covering the field: Company Law (CL)

Current status/Recommendation: The Draft-Law on changing the Company Law was submitted to the Parliament in September 2020. The members of the startup council are ready to be actively involved in the process for faster adoption of the Draft-Law. It is recommended to speed up the process of adoption of the Draft-Law.

2.2 Facilitation of the liquidation process for startup companies

The process of registering a new company can be done in a few days, but in the case of liquidation the period may vary depending on whether the company being liquidated has debts to creditors or unpaid tax liabilities. If the company has no financial obligations, the procedure takes an average of 30 to 45 days. However, if the company has unpaid financial obligations, this procedure lasts longer, and if it is determined that these liabilities can not be settled, a bankruptcy procedure will be opened for the same company.

There is also liquidation by summary procedure, for example, in associations where the documents are collected only once, but the founder gives a statement to a notary under his own responsibility that the company does not owe money to anyone. Based on that statement, the creditors whose liabilities have not been settled, have the right to sue him for the liabilities of the company to be liable with his own property.

Proposed solutions:

- The proposal refers to the application of a similar model as in the associations by introducing a shortened liquidation procedure, i.e. immediate liquidation for companies with annual gross income up to 2 million denars (companies that are not VAT payers).
- It is recommended establishing an internal communication between CRM and PRO, and it would be ideal to provide an address to one of the institutions (one-stop-shop approach) in order to facilitate and accelerate the process.

Expected benefits (results): Simplifying and shortening the liquidation process for companies that are not VAT payers and have no obligations to creditors, will contribute to a more dynamic environment that stimulates the creation of new businesses and building a culture of rapid failure and collapse, in order to start the process again with lessons learned.

Regulations/policies covering the field: Company Law (CL)

Current status/Recommendation: The Council proposes to make an analysis of the needs for introduction of the change and to insert it in the Draft-Law for change of the Company Law. The members of the startup council would be actively involved in providing support by the concerned institutions in order to accelerate the adoption of the Draft Law.

2.3 Increasing the flexibility of the working conditions

Start-up companies, which are micro or small in size, mostly work digitally and as such need to revise the existing regulations, such as: working hours records, flexible working hours, annual leave, as well as introducing innovations in the area of legal payment of bonuses for employees and introduction and implementation of a mechanism for SOP (stock option pool). These changes will contribute to standards that are globally attractive and will provide better working conditions for entrepreneurs and their employees.

Proposed solutions:

-Records of working hours – Article 116 (8)

Existing formulation:

(7) An employer who has more than 25 employees, and where the work process is performed at one or more locations, is obliged to keep electronic recording of full-time and overtime work at each location.

(8) The employer who has up to 25 employees is obliged to keep a record sheet for attendance of the employees, stating data for the beginning and the end of the working hours.

New wording for Line 8:

(8) The employer who has up to 25 employees is obliged to keep a record sheet or electronic record for attendance at work of the employees, stating data on the beginning and end of working hours. The choice of registration method is chosen by the employer, including the software and the registration method.

-Flexible working hours – Article 125

Existing text:

(1) The schedule of working hours is determined by the employer.

(2) The schedule of working hours in the field of traffic and communications, trade of goods, health, social and child protection, education and other public institutions, communal activities, catering, tourism and crafts, is determined by a decision of the state administration body in the respective area.

Proposed addition of 3:

(3) If the job is in the field of software development/digital skills, the employee can work in flexible working hours in accordance with the employer - with a decision on flexible working hours.

-Annual leave - Article 141

Existing formulation:

(2) The annual leave can be used in several parts in agreement with the employer, with one part of the annual leave must last at least two uninterrupted working weeks.

Proposed formulation:

(2) The annual leave can be used in several parts in agreement with the employer, with one part of the annual leave must last at least two uninterrupted working weeks. The part of the annual leave that is uninterrupted can be reduced at the request of the employee.

New proposals:

- Way of introducing and implementing a mechanism for SOP (stock option pool),
- Way to legally pay bonuses to employees,
- All available subsidies/measures for entrepreneurs and their employees to be synchronized on one platform (one website).

Expected benefits (results): The Draft-Legal Amendments will improve the growth and development of startup companies, as well as the competitiveness and flexibility of jobs and conditions, which will contribute to retaining and exploiting the potential of young people.

Regulations/policies covering the field: Labor Law (LL)

Current status/Recommendations: To make an analysis of the needs for introduction of the proposed changes and to prepare a Draft-Law for amendment of the Labor Law. Members of the startup council would be actively involved in providing support by the institutions concerned in order to more quickly adopt the changes to the Labor Law.

2.4 Deregulation of operations outside the company's headquarters (work from home)

Macedonian startups point out the problem of the way of doing work from home, i.e. from any other location outside the premises of the Company, as well as when an employment contract can be concluded by doing things from home, the way of regulating working hours, daily rest, overtime work and other specifics arising from the conclusion of this type of contract. The existing provisions in the Labor Law refer to concluding a special contract for work from home and its reporting to the State Labor Inspectorate.

This problem occurs as a consequence of the rapid development of the technical-technological process, especially as a result of the development of information technologies that enable work outside the workplace, and the existing regulations do not have explicit provisions for all possible situations. This opportunity to work from home stimulated interest among the employees themselves who as a right and privilege seek to be implemented in the new legal solution.

The lack of sufficiently clear and precise provisions in the Labor Law related to doing work from home creates legal uncertainty for employers from the startup ecosystem, which leaves room for different interpretations by the entities involved in this process. There is no possibility for free negotiation between the employee and the employer in organizing and evaluating work from home, use of work tools, working conditions at home, control of working hours, flexibility of working hours and working days without the need for overtime and the like. Due to the legal uncertainty and ambiguity of the Law, there is insufficient interest among employers to conclude such contracts, although the practice requires it, and to a large extent the workers are interested in such work, permanently or occasionally.

New proposals:

Amendments to the Labor Law which will include provisions that will specify the conditions and manner of concluding this type of contract or giving adequate opportunity to employers in the ICT industry to implement provisions in the existing (basic) employment contract for a legal formal regulation of "work from home".

Mandatory elements to be contained in this agreement, which relate in particular to:

- Working hours that are usually flexible, how to record working hours and freely agree on the treatment or elimination of overtime work, night work, day off,
- Machinery, tools and equipment for performing the activity to be provided by the employer,
- The use of the worker's own devices, machines, tools and equipment and the reimbursement of the costs for their use and other specific elements,
- Occupational safety and health - Based on international practices (listed above in this text), employers can only provide some guidance and recommendations for health and safety at the "workplace at home", through which only the minimum safe and healthy conditions for working from home can be established.

The best solution is to allow the greatest possible freedom of negotiation, and to have strict provisions only for the content of the contract.

Expected benefits: Clearly defined legal rights and obligations for employers will overcome legal uncertainty, eliminate irregularities in concluding these contracts, reduce the possibility of fines by inspection bodies, and reduce the possibility of legal action proceedings against employers due to the legal gap for this type of contract.

On the other hand, this type of agreement can mean optimization of employment costs, which increases the competitiveness of companies. The benefits are evident for both the employee and the employer in terms of reducing the costs of companies for: food, transportation, lease of space, time, utility costs and other duties per employee related to work on the premises of the company. The amendments to the Law will also mean easier negotiation of salary and allowances, flexible working hours, overtime work of the employee's choice, work responsibilities defined by volume and quality per unit time instead of defining a working week through working hours and the like.

Regulations/policies covering the field: Labor Law (LL).

2.5 Additionally determined limiting factors: Absence of international payment services that would allow local startups to make payments from foreign clients.

Currently, many startups are forced to register companies in EU jurisdictions, which means making inflows and profits abroad.

Members of the startup council established contact and meetings (online) with representatives of two of the world's largest payment services, PayPal and Stripe, in order to investigate the reasons for their unavailability in the domestic market and in an attempt to find a way to provide these services to Macedonian startups.

Discussions with their teams responsible for expanding into new markets have indicated that their strategies are geared towards other larger markets and that they do not currently see the opportunity and cost-effectiveness of engaging resources for further penetration in the Balkans, including the Macedonian market, as new market requires appropriate adjustments to local legislation in securing a license to perform the activity.

Proposed solutions: The Council proposes opening a more intensive dialogue of senior government officials with representatives of these payment services, the possibility of offering benefits and subsidies for their entry into the Macedonian market, as well as an integrated approach with other Balkan countries in which these payment services are not present.

Expected benefits (results): Facilitating the process and enabling direct payment for domestic companies from foreign clients, but also contributing to increasing the inflows into the state budget on the basis of taxes.

Regulations/policies covering the field: No legal obstacles

Current status/Recommendation: The Council proposes to use the initiative for improved regional cooperation to initiate an integrated regional approach to international payment services in order to increase the attractiveness of entering our markets. Additionally, the Startup Council is available with the contacts and experiences with PayPal and Stripe.

A woman with short dark hair and glasses, wearing an orange shirt, is pointing at a laptop screen. A man with a beard and glasses, wearing a dark patterned shirt, is smiling and looking at the screen. They are in a bright room with large windows in the background.

3.

Improving the
conditions of access to
finances

3.1 Facilitating the entry of external investors

An initiative has already been submitted by the Ministry of Economy (September 2020) with proposed amendments to the Company Law in order to amend the provisions of the Law regarding the removal of investment barriers by business angels in companies in the state, through the introduction of the convertible loan as a tool that is quite widely used by business angels.

Under our current regulations, a convertible loan is not an available option for business angels. The convertible loan exists in our regulation and is regulated in the part of the Company Law as "Loan that is transformed into an investment in the company in a procedure of increasing the share capital of the company", when the loan is given exclusively by the partner, i.e. by to the sole shareholder of the company which is wholly owned by him.

Proposed solutions: The Draft-Law on Amending the Company Law proposes the adoption of amendments that would enable a convertible loan only in cases of investment (the amendments would not be adapted to a convertible debt that has different bases - debt based on invoices, regular loan, credit, etc.).

Expected benefits (results): Facilitate the possibility for faster entry of external investors, especially at a very early stage of startup development when it is difficult to assess the value of the business.

Regulations/policies covering the field: Company Law (CL)

Current status/Recommendation: The Startup Council recognizes the initiative and its importance for the further development of the investment activity and its role in the development of the startup ecosystem and will strive for faster adoption of the Proposed amendments to the Company Law to enable convertible investment loan by business angels and other investors.

3.2 Tax incentives and exemptions for investors

Countries that have adopted investment incentive measures (for example: tax incentives, tax exemptions) have better results than countries that have not prepared such packages. Bulgaria and Portugal are analyzed, where the goals are far greater than the countries that have just drafted a law on business angels (BA) and have a "hands off approach".

The concept of financing through the networks of business angels in the world, in the country is still not sufficiently developed to the level that will have significant results. The Republic of North Macedonia also lacks a legal framework for regulation, i.e. for encouraging this type of financing. The framework should have an attractive and stimulating package, not just a regulatory package, because even without law and regulation, business angels have so far managed to function somehow in the past 35 years, both in the EU and in our country.

Proposed solutions: There are already (informal/semi-formal) networks of business angels in the country, as follows: a) Association of BA, b) CEED Club of BA, and c) Network of Macedonian BA. The analysis indicates that all recommendations from these organizations, aimed at strengthening and improving this area, can be reduced to the following three key areas:

- 1) Legally permitted and regulated investment of BA
 - In addition to drafting a new law on BA, which will fully define the regulatory framework for the operation of this type of investors following the example of Croatia and Slovenia, it is necessary in the Law on Innovation Activity to define business angels as a separate segment that will regulate their work.
 - The new law would also provide for a BA certification process - In order to avoid individual certification (and regulation) of each BA individually, the proposal is to certify/accredit only the operators, i.e. business angel networks (BAN). This will avoid many administrative and bureaucratic controls of the BA and, instead, will have effective and efficient monitoring of only the organizations.
- 2) Introduction of tax and non-financial incentives
 - The draft law on BA should stipulate that persons who will invest as angel investors in innovators, entrepreneurs, startup companies, as well as in companies that are in a more mature stage, have the right to benefit from state support (tax incentives or other types of incentives and support) when making an investment that will have to be invested exclusively as cash in the company bank account.
 - Introduction of personal income tax exemption, namely income tax on capital gains, can be considered for individual investors if they invest in startups. The capital gains tax exemption can be tied to a certain maximum amount - for example, the limit can be [50,000 Euros], a period of time [12-36 months] or a percentage [no tax of 25% of income if invested in startups] and/or reduced % of tax if there is a profit as a result of investing in a startup. Full exemption is possible if the base amount [minus profit] is reinvested in another startup.
- 3) Creating a co-investment fund
 - A proposal for creation of a co-investment fund was also considered, which could consist of: a) FITD, b) Macedonian companies - legal entities, and c) accredited foreign angel investors and/or funds. Additional funding could be provided on a leverage basis of up to 50% from EU, WB and/or other development funds and international financial institutions.
 - FITD in cooperation with the World Bank is already in the process of developing a model for operating an investment fund to support innovative companies with growth potential.

Expected benefits (results): The draft regulations are expected to have a stimulating effect on attracting foreign investors, as well as to encourage domestic investors in their investment activity, on the one hand. Care should be taken not to allow over-regulation in this area, which may have the opposite effect and discourage the already weak investment activity. On the other hand, it would increase both reliability and reduce the risk for both the investor and the startup by clearly defining the roles and responsibilities.

Regulations/policies covering the field: Law on Innovation Activity, Personal Income Tax Law, and Adoption of a new Law on Business Angels.

Current status/Recommendation: The Council proposes to set up a working group in order to pass a new law on business angels, to insert a segment on business angels in the Law on Innovation Activity and to make analyzes for the introduction of proposed changes in relation to tax exemptions. Additionally, to coordinate with the implementation of the Strategy for Tax Reform 2021-2025 by the Ministry of Finance, which provides for the preparation of analyzes and improvement of profit tax and personal income tax, among others. The members of the startup council would be actively involved in providing support by the institutions concerned in order to speed up the adoption of the Draft Law on Amendments.

3.3 Tax incentives and exemptions for startups

The startup ecosystem in the country is faced with insufficient number of potential entrepreneurs who choose to create their own fast-growing business as the primary way of professional realization, which is not only a local problem and it is also faced by far more developed ecosystems. In addition to measures to facilitate access to direct funding for startups, policymakers can consider and focus their measures on stimulating startup creation and support in the early stages of development through fiscal interventions such as tax incentives and exemptions. Of course, it should be noted that such measures should be appropriately designed to meet local conditions, taking into account the benefits and risks, in order to be effective.

Proposed solutions:

- Startups should have certain privileges in taxation, not so much financial as time. Following the example of Austria, in the first three years the payment of the tax is postponed, so that the startup can reach a certain profitability and stability, and after the third year it starts paying.
- Exemption from tax payment of all newly created private enterprises, formed by young people up to 29 years of age as long as the turnover is below 3 million denars.
- Personal income tax to be reduced to 0% in 2023 for the IT industry.

Expected benefits (results): The proposed measures are expected in the long run to contribute to increasing the number of young entrepreneurs who will more easily decide to enter the business world by creating their own startups, especially in the ICT sector characterized by rapid growth, which will mean greater supply for investors and increased interest in new investors.

Regulations/policies covering the field: Profit Tax Law, Personal Income Tax Law

Current status/Recommendation: The Council proposes that this process be coordinated with the implementation of the Tax System Reform Strategy 2021-2025 by the Ministry of Finance, which provides for the preparation of analyzes and improvement of profit tax and personal income tax, among others. The members of the startup council would be actively involved in providing support by the institutions concerned in order to speed up the adoption of the draft law on amendments.

3.4 Introduction of cryptocurrencies and blockchain technologies

Cryptocurrencies and blockchain and distributed ledger technologies have taken a huge swing in recent years, thus in 2021 the market capitalization reached about 2 trillion US dollars. Undoubtedly, cryptocurrencies in a short period of time have become an alternative way of preserving wealth and an increasingly significant class of assets for alternative investments, while still working to increase their role in paying for goods and services. As such, cryptocurrencies have gained the trust of the most advanced and most productive group of professionals in the ICT sector, enabling dynamism, fast transfer of funds in real time without any or with minimal compensation for the transfers made. There are currently 406 active stock exchanges globally that provide services for exchanging, circulating, transferring and storing virtual currencies and cryptocurrencies in digital wallets, as well as their transfer in the traditional banking system using digital channels for information transfer. Many of these stock exchanges are also registered in the EU and operate in accordance with the AML/KYC EU Directives (Anti-Money Laundering and Combating the Financing of Terrorism Act based on the Directive of the European Parliament and Council No. 2015/849).

The seriousness and prospects of blockchain technologies, the advantages of distributed and decentralized encryption technologies are confirmed by the world leaders in cloud services, so among the most popular technologies already available are IBM Blockchain, Microsoft Azure Blockchain, Oracle and others. Also worth mentioning are Ethereum, Corda, Hyperledger, Cardano, Solana, and the like, where these technologies find completely different applications. Reputable financial institutions such as Mastercard are already developing solutions in this field, and we are witnessing large investments in cryptocurrencies by prestigious world banks, but here we are talking about centralized instead of decentralized systems that use the same technological advances. Macedonian citizens, especially the population with the highest incomes according to official statistics, de facto use cryptocurrencies for their services, which is especially true for the group of digital nomads, but it is not just about use, but a significant number of citizens participate in the process of creating/digging cryptocurrencies (mining). Given that the conservative banking system and the state in the past 15 years have not found a way to enable the full operation of digital wallets, citizens were forced to look for alternative ways of their application, so they use the services of international banks and corporations, online banks, friends and relatives for the transfer and exchange of funds and cryptocurrencies. In this way, the Macedonian financial system faces an outflow of money that is not insignificant. The strict existing regulation of the payment system combined with the strong position of the banks prevented the development of fintech solutions and significantly slowed down the economic development in the past two decades.

Proposed solutions

- The implementation of the AML/KYC provision (Anti-Money Laundering and Combating the Financing of Terrorism Act based on the Directive of the European Parliament and Council No. 2015/849) has already created an opportunity to trade cryptocurrencies on the domestic market, but it is still not regulated to participate in the cryptocurrency creation i.e. mining, thus regulation is required in order to minimize the risks for those that are interested in mining.
- Furthermore, in order to encourage the development of the fintech industry, it is proposed to change the current regulations in order to enable liberalization of the financial sector, in order to open the market for entry of more players who would offer their services in the financial sector. This is expected to change with the introduction of the proposed new law on payment services and payment systems.
- One way to achieve liberalization is for the state to take a firm position and restructure the payment system by introducing a single national payment operator (National Payment Switch) through which all domestic and international financial transactions would take place, and not just large payments which are currently settled through MIPS. The introduction of a National Payment Switch would provide a single point of contact with standardized protocols for participation in payment operations. This way, both the citizens and the banks will receive lower prices for the services of international financial institutions, in a way binding them to provide all of the services that are available on the international financial market.

Expected benefits (results): Changing the current regulations and liberalization of the financial sector would enable the development of the fintech industry, would provide citizens with access to much higher-quality and cheaper services and ultimately would accelerate the economic growth and development of the country.

Regulations/policies that regulate the area: Law on Payment Services and Payment Systems (LPSPS), Law on Foreign Currency Operations, Law on Fast Money Transfer Services and other laws regulating the financial system.

Current status/Recommendation: A comparative analysis of countries with success stories such as Switzerland, Malta, Estonia, Ukraine, El Salvador, USA, and United Kingdom is proposed in order to select the most appropriate model. Furthermore, it is proposed to conduct a detailed study of the benefits and risks of market liberalization as well as the advantages and disadvantages of introducing a single national payment provider and how this would affect the further development of the fintech industry and the economy as a whole. The Law on Payment Services and Payment Systems has already been published on ENER and is open for comments, but the text of the law has not yet been finalized and there is an opportunity to consider the recommendations, based on the recommendations from the study.