



Weekly Briefing

Macedonia Economy briefing:
Innovation, technological development and controversies on the road
to Macedonia's economic renewal
Anastas Vangeli

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

Innovation, technological development and controversies on the road to Macedonia's economic renewal

Introduction

In 2016/17, the Government of SDSM and DUI has come in power running on a platform of economic renewal. In their second year in power, all of their proclaimed economic successes have been overshadowed by the slowing down of the economy (0% growth in 2017, 0.1% in Q1 2018, as discussed in previous papers on Macedonia's economy). To this, they responded by emphasizing that they are steering Macedonia towards a systematic transformation and upgrade from the era of VMRO-DPMNE and DUI, where economic growth was allegedly artificially pumped through massive construction project. This upgrade was meant to be first reflected in Macedonia's production capacity; as the government of SDSM and DUI push Macedonia to pursue technological advancement, an area in which their predecessors failed. A main promoter of the ideas and policies aimed at the upgrading of Macedonia's economy is played by the Vice Prime Minister Kocho Angjushev. One of the landmark efforts by Angjushev and his associates has been the issuing of the National Plan for Economic Growth (covered in previous papers on Macedonia's economy), endorsed by the Government and Prime Minister Zoran Zaev himself, which among other measures, foresees targeted allocation of state funds to the private sector and other measures that will help inspire innovation and technological development (the third pillar of the Plan). Instrumental in the implementation of the third pillar is the Fund for Innovation and Technological Development. In July 2018, the Fund has announced the first round of 80 winning companies that have been allocated financial resources, selected through a competitive procedure with more than 200 participants, framed as an important milestone in the fulfillment of the National Plan for Economic Growth. The results have been initially met with enthusiasm; the winners were presented as game-changing

actors in Macedonia's economy in pro-government media. However, soon after, the decisions by the Fund have been contested by the opposition, the media and Macedonian netizens, as some of the winning companies turned out to be linked to powerful figures from the Government, including the Vice Prime Minister Angjushev himself. These issues raised the discussion on the challenges and limits to state assistance to the private sector. This report overviews the role of the Fund in the context of Macedonia's National Plan for Economic Growth, and then turns to analysis of the results of the first call and the subsequent controversies.

The Fund for Innovation and Technological Development

With the National Innovation Strategy 2012-2020, Macedonia's Government (then comprised by VMRO-DPMNE and DUI and led by Nikola Gruevski) envisioned the establishment of the national Fund for Innovation and Technology Development (FITD). The main task of the Fund was to encourage innovation mainly through providing financial support to Macedonian micro, small and medium-size enterprises in information and communication technology and related industries who have the desire to research and innovate (officially, its priorities are “improved access to financial support for innovation and technological development” and “promoting and encouraging innovation activities in Macedonia”), all with the goal of turning Macedonia into a globally competitive, knowledge-based economy with improved business environment for those who want to develop advanced technology, which would overall lead to Macedonia becoming a hub of knowledge transfer, innovative research and development, which would also translate into jobs creation and economic growth.

The Fund was formally founded in December 2013. Much of its work and in general, the field of innovation and technological research and development were regulated with the newly enacted Law on Innovation. However, in its first years of existence, under the VMRO-DPMNE government, the FITD was not

well known in the Macedonian public. Initially, the Fund focused predominantly on the information and communication sector, and prioritized the support for start-ups and micro-companies. In the first years of existence, the Fund however allocated only a fraction of the planned financial resources, and only in 2017/18, after the change of government it started to become more proactive and to distribute larger amounts of funding.

Under the new government of SDSM and DUI, the Fund has expanded to also work with other sectors in the economy (for example trade, construction and so on), and to also work with larger companies. In 2017, the government appointed Jovan Despotovski, a long-time cadre of SDSM to be an acting director. The FITD has since gained more significant presence in the public debates and became a significant part of the National Plan for Economic Growth issued by Angjushev.

According to the official documents and representatives of FITD, in the last two years, it has expanded and deepened its focus, primarily working in three areas, that is co-financing Macedonian medium, small and micro enterprises in order to encourage innovation and knowledge transfer, as well as to support companies with high growth potential; financing newly established Macedonian small and micro enterprises, as well as foundations and business accelerators who collaborate with scientific institutions, in order to convert scientific research into commercial activities (or as the Fund puts it, supporting so called “spin- off companies”); and undertaking a variety of activities that relate to improving the technological and management capacities of Macedonian companies, the creation of jobs, the establishment of new companies, and in general fostering entrepreneurial spirit; in addition to funding, the Fund also has programs that provide logistical support and helps in building up human capital.

The work of FITD, according to its representatives, is based on the idea that the public sector should actively participate and contribute to innovation, and help improve the quality of products and services, which will benefit both the companies and the consumers. The FITD therefore also looks to create

opportunities for companies to innovate and apply advanced technological solutions in the modernization of the public administration and in general the public services. The FITD lobbies for government bodies spend more money on innovation as part of their procurement spending. The FITD also has a public education mission: it aims to promote creative and entrepreneurial spirit among the young people, and therefore works together with education institutions. The public officials representing the FITD have drawn parallels with the work of similar institutions in the European Union; they look up to the innovation strategies in some of the EU member states. In its work, the Fund actively cooperates with national governments, as well as international organizations such as the World Bank Group.

The FITD is thus envisioned as an important actor in Macedonia's overall economic development and renewal. The implementation of the so called “third pillar” of the National Plan for Economic Growth was supposed to be one of the major steps forward for FITD, with the July 2018 award ceremony and the announcement of the winning companies being an important milestone in the process. However, in the aftermath of the announcement, a number of (unexpected) problems arose – related to questions of conflict of interest and potentially nepotism – topics that have plagued Macedonia's politics since its independence.

Results and controversies

According to the official information, there was a total of 236 applications by Macedonian companies for the Call that was part of the National Plan for Economic Growth, most of them requesting support for innovation, with several also request support for technological development. While most companies that submitted an application came from the ICT sector, there have been few in the energy, machinery, trade and construction, and other industries. On the day of July 13, 2018 the director of FITD, accompanied by Vice Prime Minister Angjushev and Prime Minister Zaev announced the awards of a total of 10.5

million EUR for 80 companies. These were companies considered to have high growth potential, and proposed promising projects based on research and innovation.

However, soon after the announcement of the results, the decisions by FITD faced public scrutiny which then revealed at least four cases where there is a potential conflict of interests, as some of the (co)owners of the winning companies turned out to be high-ranking SDSM officials, or members of their family. One of the winners of a 160.000 EUR grant by the FITD was a company co-owned by the Vice Prime Minister Kocho Angjushev. Another company that was awarded 160.000 EUR by the FITD was a printing house associated to Hari Lokvenec, a Member of the Parliament and a powerful figure in SDSM. Similar to the case of Lokvenec is the one of Aleksander Semenpeev, a president of a local committee of SDSM and a director of another printing house that won 17.000 EUR. Finally, the company that won one of the largest grants (more than 300.000 EUR) turned out to be associated with the daughter-in-law of Cvetanka Laskova, an adviser to the Prime Minister.

These cases were picked up by VMRO-DPMNE, which has not only criticized the decisions to allocate state funding to companies close to the SDSM elite, but has also called the Public Prosecutor to initiate an investigation. The cases dominated the news cycle in the weeks following the announcement by FITD. They were further scrutinized by the media and Macedonian netizens. The Public Prosecutor's Office announced that it will open a case to determine whether any law has been broken in awarding the grants. The case gained additional controversy as it overlapped with the announcement and a subsequent public backlash against an unrelated case of dubious public procurement of medical equipment worth 35 million EUR.

In response to the public backlash, the FITD director argued that the winning companies have been selected by a committee comprised of external members, and that neither the Fund or the Government have a say in the process – but that FITD in the future will try to improve its procedures in

determining conflict of interest. Others have argued that among the winning companies there are ones that are owned by people close to VMRO-DPMNE as well. In response to the scandals, Prime Minister Zoran Zaev argued that all procedures will be additionally reviewed to check for potential conflicts of interests or other violations. However Zaev stood in defense of the public officials of SDSM who are associated with companies that won grants, and argued that he will not ask for their resignation, as in his opinion no laws were broken. Angjushev, himself implicated in the scandals, argued that he is only a minority co-owner in one of the companies that won a grant, and this should not be an obstacle for the company to compete and win state funding. However, because of his understanding “for the accumulated mistrust” in the system in the previous decade (alluding to the rule of VMRO-DPMNE and DUI), Angjushev decided to call his business partners to withdraw from the call under the National Plan for Economic Growth. Lokvenec argued that he is only a shareholder in one of the companies that won a grant (a printing house that is believed to have printed promotional material for SDSM), and that his company suffered under the years of VMRO-DPMNE. However, similarly to Angjushev, he called on the company to withdraw from the competition in the name of transparency. On the other hand, Laskova argued that she has not been in any case involved in the awarding of a grant to the company associated with her daughter-in-law.

Concluding remarks

The controversies following the announcement of the results of the first batch of companies that are expected to become innovation champions (re)opened several important topics for discussion in Macedonia. First, they raised a discussion on the issue of conflict of interest, nepotism, and of course, corruption and the responsibility over spending state money – which can be an obstacle even for pro-active and progressive economic policies aimed at technological advancement. Second, they inspired debates on the needed

scrutiny when awarding state funding; as a small country where it is colloquially said that “everyone knows everyone,” Macedonia faces a particular challenge in determining how to ensure transparency and fairness in such situations. Third, and most important, these developments – and in particular the public backlash – demonstrated that the Macedonian public has developed more critical attitude and a lower tolerance of any policy measure that demonstrates even a hint of illicit behavior from the political elites. The readiness of Macedonia's public to challenge these decisions reveals a potential conflict of paradigms – and discrepancy in the priorities between the government and the public; while in the rhetoric of FITD (and the Government) the priority has been advancing an economic platform even at the cost of flexible interpretation of rules and principles of transparency and fairness (for instance by saying that it so happens that some of the most innovative companies and business-people happen to be part of or closely associated with people from the government), the public has greatly prioritized principles of anti-corruption. This means that in case the Macedonian government continues with pro-active economic policies, it will have to take in account the sensitivity of the population more seriously - as even though the public has high needs and expectations in terms of the economic achievements, it still prioritizes the responsibility in spending the public funds.