

4 Circular business models for small and medium-sized enterprises in North Macedonia

This chapter introduces a set of policy recommendations to facilitate the shift of the Macedonian economy towards circular business models, with an emphasis on small and medium-sized enterprises. The chapter assesses the current situation and policy framework in place, identifies possible areas for improvement, and makes a number of specific policy recommendations, which are supported by international best practices.

What are circular business models?

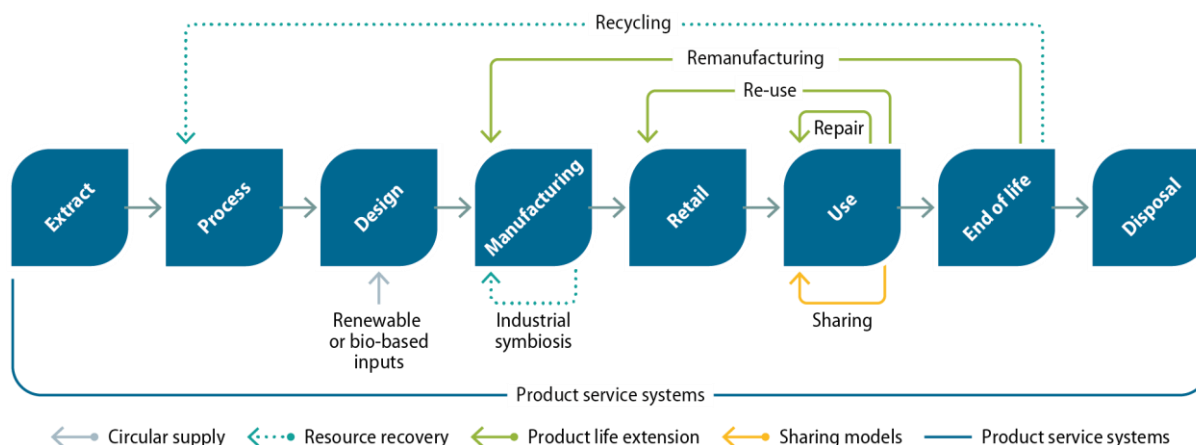
Circular business models represent fundamentally different ways of producing and consuming goods and services than the traditional linear business models. They aim to reduce the extraction and use of materials, minimise waste generation, and use existing materials and products as inputs to production through reuse and recycling. By doing so they help reduce the negative environmental impacts of materials consumption.

Circular business models can be classified into five main types (Figure 4.1) (OECD, 2019^[1]):

1. **Circular supply models** involve replacing traditional production inputs with bio-based, renewable or recovered materials. This reduces demand for virgin materials in the long run. These models target the design phase of production and sourcing of materials.
2. **Resource recovery models** involve the production of secondary raw materials from waste streams. They thereby divert waste from final disposal and reduce the extraction and processing of virgin materials. There are three main components for the model to work: 1) waste collection; 2) sorting; and 3) production of secondary materials from waste.
3. **Product life extension models** involve extending the lifetime of products. This can be achieved by designing products in a way that increases durability, by reuse and repair activities, or remanufacturing.
4. **Sharing models** facilitate the sharing of underutilised products through, for example, online platforms through co-ownership or co-access. This can reduce demand for new products and materials.
5. **Product service systems models** involve selling services rather than products. Since the service provider remains the owner of the product that provides the “service”, this increases incentives for circular product design that increases durability and reparability as well as more efficient product use.

The distinction between the different types of circular business models is less clear-cut in reality, as in some cases businesses adopt a combination of business models. Different types of companies, from small to large, can implement circular business models. Certain circular business models also tend to be implemented by social enterprises with public goals, for example those involved in the collection and resale of used items.

Figure 4.1. Typology of circular business models



Source: Adapted from Lacy and Rutqvist (2015^[2]).

Motivation for the selection of circular business models with a focus on small and medium-sized enterprises as a key priority area of the Roadmap

Circular business models for small and medium-sized enterprises (SMEs) have been selected because of their high economic importance, high policy relevance, high circularity potential as well as possibly important decarbonisation potential for North Macedonia. SMEs are the backbone of North Macedonia's economy. They account for 99.9% of enterprises, contribute to roughly 67% of value added to gross domestic product (GDP) and 73.9% of employment; 69% of them work in services (OECD, 2022^[3]). North Macedonia also implements a number of policies that target and support SMEs, for example, the SME Strategy (2018-2023) had a special focus on environmental policies. It included a set of measures on providing advice and guidance to SMEs, improving resource efficiency, and introducing financial incentives for SME greening. While the strategy did not specifically target the circular economy, the different instruments support the development of green SMEs. The development of the revised strategy for the upcoming period started in 2024. The Ministry of Economy has also continuously implemented sectoral programmes targeting SMEs, such as the Programme for Supporting the Competitiveness of the Manufacturing Industry and Corporate Social Responsibility and the Programme for the Development of Entrepreneurship and Competitiveness of SMEs, implemented annually.

Since SMEs, in aggregate, have a significant environmental footprint (small firms account for 50% of the world's greenhouse gas emissions (ICT, 2021^[4])), it is essential that North Macedonia considers them in its environmental policy making. Like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. They can also be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve performance by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as they face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021^[5]).

Different types of circular business models (Figure 4.1) can contribute significantly to the transition to a circular economy. By closing resource loops and slowing and narrowing resource flows, they can reduce the environmental impacts of production and consumption. For example, in the case of resource recovery business models, producing materials via recycling rather than from virgin materials can significantly reduce greenhouse gas emissions. Remanufacturing products that have reached their end of life can reduce the extraction of natural resources and generation of waste by up to 80% relative to manufacturing new products (OECD, 2019^[1]). However, the extent of the environmental benefits depends on the uptake of such models in the economy. In general, the market penetration of these models is currently limited. Recycling, remanufacturing and repair; the sharing of spare capacity (i.e. sharing models); and the provision of services rather than products typically only account for up to 15% of production in any given sector (OECD, 2019^[1]). In recent years, some circular business models have been on the rise, largely due to the emergence of new technologies and platforms (e.g. sharing platforms such as Airbnb and car renting/sharing services). Some other business models, for example recycling and repair, are relatively mature. Circular business models have recently penetrated the market in North Macedonia, although it remains difficult to map all the actors concerned, as the vast majority of businesses are still not familiar with circular concepts. The main circular businesses in North Macedonia are based on resource recovery models, mainly focusing on recycling waste to use as input material in production (particularly textile, paper, agriculture and construction waste) (see Annex C).

Countries need to implement an enabling framework in the economic sectors that would support the adoption of such models to increase the market penetration of these business models and make them more competitive with the more traditional, linear business models.

Overview and approach for selecting the proposed policy recommendations

The approach for selecting the proposed policy recommendations for this area is a bit different from the approach for the four sectoral priorities. The overall aim of the recommendations for this area is to provide an enabling framework for SMEs to scale up the adoption of the five types of circular business models. The business models themselves cover the different stages of the life cycle, where, for example, the circular supplies model aims at increasing the use of secondary, bio-based or alternative materials in production, while resource recovery models focus on the end-of-life and recycling. The recommendations thus aim to provide policy measures that can be applied across the five business model types and economic sectors to support SMEs' activities in this area (Table 4.1).

Table 4.1. Overview of the proposed policy recommendations in the priority area circular business models for small and medium-sized enterprises for North Macedonia

Short term	Medium term	Long term
Provide awareness-raising campaigns and training programmes on the circular economy for small and medium-sized enterprises (SMEs), including showcasing of good practices and access to finance	Implement supporting legislation and economic instruments for resource recovery and circular supply of materials models	Implement supporting legislation and economic instruments for product life extension, sharing and product service models
Introduce calls for circular business models projects within existing funding programmes, including technical support for the public administration for the development and implementation of such programmes	Consider establishing a dedicated funding programme for SMEs to scale up circular business models	Organise investor-entrepreneur matchmaking events
Provide financial and technical assistance to SMEs (business support, access-to-finance support)	Support capacity building and entrepreneurship skills, vocational training as well as acceleration and mentoring programmes	
Support collaboration between SMEs and academia, as well as regional and international collaboration on research and development and innovation	Establish a circular economy stakeholder/business platform to strengthen collaboration within and across value chains	

However, besides these more general measures, it will be important, in parallel, to put in place sectoral policy frameworks that provide sufficient economic and other incentives for the uptake of these circular business models. Such incentives could be mainstreamed as part of green industrial zones, in line with the Law on Industrial and Green Zones, currently being amended to include new provisions for regulating the benefits and opportunities for zone users. Incentives for the uptake of circular business models could also be integrated as part of funding planned by the Strategic Green Investment Fund, which will aim to facilitate private sector financing for the green transition and accelerate economic growth by attracting foreign and domestic investment in green industries, including as part of technological industrial development zones. These are included in the four selected sectoral priorities (construction, biomass and food, textile, and mining/metallurgy).

The proposed policy recommendations primarily target the supply side of circular business models, namely SMEs, as it is very relevant to boost their economic growth without it coming at an environmental cost. Recent economic crises have put additional pressure on Macedonian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well co-ordinated and targeted financial and technical support is thus required to overcome challenges in adopting sustainable practices and circular business models. To date, incentives and instruments to encourage SMEs to engage in greener practices have remained rather scarce in North Macedonia. While SMEs' greening efforts have been encouraged by easier access to finance in recent years, notably through government programmes, newly established funds and increased lending from the Development Bank of North Macedonia, non-financial tools to

support environmental practices have rarely targeted SMEs, despite being envisaged in the legislation (OECD, 2022^[3]).

In parallel to targeting SMEs, the consumer side also needs to be addressed to increase demand for green products and services. Targeted communication and education initiatives are, therefore, necessary to further support the scaling up of circular business models. More extensive use of economic instruments in the sectoral priorities can also help to scale up these business models, as economic instruments change the relative price of different products and services, and hence can make circular business models more price-competitive compared to the more linear business models.

Key proposed policy recommendations

The key proposed recommendations are structured according to the type of policy instrument:

1. awareness-raising initiatives, education and other information tools
2. multi-stakeholder co-operation within and across value chains
3. financial support measures
4. supporting legislation and economic instruments.

1. Raising SMEs' awareness and education on the circular economy

In North Macedonia, only 15% of enterprises believe that their business models allow for a shift towards a circular model, with 38% rejecting the model, the highest share in the Western Balkans (RCC, 2022^[6]). In 2022, the *OECD SME Policy Index* found that a few activities had been conducted to raise awareness on the benefits of green policies, but rarely as part of a co-ordinated government approach (OECD, 2022^[3]). Occasional awareness-raising campaigns have been undertaken with the support of international partners and non-governmental organisations as well as capacity-building workshops with local governments and the private sector. For example, the National Corporate Social Responsibility Award, organised annually by the Ministry of Economy, raises awareness on green policies for SMEs, as it includes the environment as one of its categories. North Macedonia's first Aarhus Centre, set up in 2019, acts as a platform to engage citizens, governments and the private sector in a dialogue on environmental challenges and facilitates access to environmental information (OECD, 2022^[3]). Some international development co-operation partners also offer these activities in their project portfolios. Moreover, academia and research institutes have been developing courses and conducting analyses to increase the uptake of circular economy practices among researchers and students. Nevertheless, there is limited co-ordination among these initiatives, and they are rarely part of strategic government approaches towards a circular transition. To further support the scaling up of circular business models, North Macedonia will need to continuously implement targeted communication and education initiatives. This could also be done through private sector organisations, including chambers of commerce.

In the short term, North Macedonia should focus on raising awareness on the circular economy and circular business models for SMEs through additional communication campaigns and training programmes, including showcasing of good practices and access-to-finance possibilities. Such activities could be conducted by the Agency for Promotion of Entrepreneurship of the Republic of North Macedonia (APPRM), which is responsible for the public provision of business support services, ranging from training, education initiatives, vouchers and co-financing to consulting services and tailored mentoring; or the Fund for Innovation and Technological Development (FITD), which introduced its own support mechanism for SMEs, providing both financial support and technical assistance. Given the novelty of the topic, both institutions might need to receive capacity-building support. The Development Bank of North Macedonia, which already provides credit relief in the form of subsidised SME credit lines, including support from international co-operation development partners, could also step-up awareness campaigns

on available access-to-finance opportunities (OECD, 2022^[3]). Since 2023, the Ministry of Economy supports the Eco-En Cert verification for environmental, social and organisational practices with a subsidy through the social responsibility support programme, thereby indirectly contributing to the establishment of sustainable green co-operatives with the support of the verified companies. Support for the preparation of sustainability reports according to the new European Sustainability Reporting Standards could also help companies raise private finance, though this may be less relevant for SMEs at the moment.

Awareness-raising and educational activities could focus on circular business models in general or target specific sectors. For example, dedicated stakeholder events and campaigns could be organised on waste prevention in selected sectors or advising on setting up product life extension business models, such as repair cafés. Government authorities could also collaborate with the food industry and the non-governmental sector on promoting food waste reduction strategies directed at consumers, in line with the Law on Donating Surplus Food Waste currently undergoing final consultations. A best practices inventory or (online) resource database accessible to consumers and professionals could also be developed, as well as support training and education for food industry professionals and employees (see Chapter 6 for more on awareness raising in this sector).

In collaboration with the Hungarian Prime Minister's Office, the OECD organised a training event in Hungary as part of a project to support the development of the National Circular Economy Strategy. The event aimed to raise awareness and provide training on circular business models, particularly for SMEs. It introduced the Circular Economy Technology Platform, outlined circular economy principles for key priority areas (construction, biomass and food, and plastics), and highlighted successful examples of circular business models in Hungary. The session concluded with a presentation on public funding opportunities for transitioning to a circular economy in Hungary. North Macedonia could consider organising a similar event, focusing on specific economic sectors and value chains, such as construction, agriculture, textiles, or even plastics.

In the medium term, North Macedonia could also support capacity building and entrepreneurship skills, vocational training as well as acceleration and mentoring programmes on the circular economy. Education and capacity-building instruments include tailored training courses for companies, formal and informal associations of citizens, co-operatives, social entrepreneurs and civil organisations. They also include advice/consulting support for start-ups, companies and entrepreneurs that can be provided by a variety of institutions in the country or within international projects funded by development co-operation partners. The creation of an eco-system of creators and innovations in communities, regions and at the national level could also be supported. Local authorities and/or waste management organisations can also facilitate the education activities by sending representatives to schools or inviting children to facility tours. Producers that have extended producer responsibility (EPR) obligations sometimes contribute to financing such educational activities. In some countries, compulsory minimum producer responsibility organisation expenditures spent on awareness have also been introduced. In Austria these amount to 0.3% of income and in Poland, 5% (Drab, Engel and Kristofory, 2020^[7]).

International projects relevant to the circular economy and waste could have a component dedicated to the provision of training to local SMEs as well as financial institutions to raise awareness and knowledge among entrepreneurs about circular business models and educate investors about the risks and opportunities of such projects, hence increasing the likelihood of financing for such projects. The Circular Economy Regional Initiative funded by the European Bank for Reconstruction and Development and the Global Environmental Facility seeks to drive a circular economy expansion in the Western Balkans and the Republic of Türkiye focusing efforts on decreasing the barriers to investments in circular business models, technologies and processes. As one of its main components, the project contributes to active knowledge sharing between relevant stakeholders and offers the technical assistance necessary for developing bankable projects (GEF, 2021^[8]). This is one example for common practice in programmes funded by international development co-operation partners, though most are aimed at increasing energy efficiency and renewable energies. Awareness-raising initiatives and education activities are especially relevant for SMEs and start-ups which, besides their already lesser exposure to domestic research and

development (R&D) and innovation activities, might also not be fully aware of the opportunities offered by circular business models and might lack skills in accessing and using existing data, information and knowledge.

2. Improving multi-stakeholder co-operation within and across value chains

Strengthening collaboration among the relevant stakeholders and partnerships between public and private organisations are key for transitioning to a circular economy, which requires a change across the entire economy. Promoting inter-sectoral, cross-agency and interdepartmental collaboration in North Macedonia would help scale up innovative circular business models, as the circular economy concept cuts across economic sectors and value chains as well as the competencies of public authorities. Currently, the lack of an overarching body responsible for co-ordinating SME greening policies and corresponding funds is hampering the proper implementation and monitoring of activities undertaken by different institutions (OECD, 2022^[3]). To improve multi-stakeholder co-operation within and across value chains, North Macedonia could focus on three key actions.

First, in the short term, North Macedonia should strengthen collaboration between SMEs and academia, as well as regional and international collaboration on R&D and innovation. Collaboration between SMEs and academia could be improved, for example, through introducing grants for collaborative R&D, innovation vouchers, or supporting the establishment of collaborative research centres and accelerator programmes. While the FITD piloted an innovation voucher scheme in 2020 to facilitate research projects between higher research institutes and SMEs, uptake remained limited and did not specifically focus on green or circular projects (OECD, 2022^[3]). Examples of international practices in this area include the United Kingdom's funding available through the TSB Collaborative R&D Scheme to encourage collaboration between business and researchers. The Czech Republic implements a government programme for applied research and experimental development administered by the Technology Agency of the Czech Republic. In particular, its ZETA programme supports co-operation between academia and industry (Technology Agency of the Czech Republic, n.d.^[9]). To further encourage inter-firm linkages and co-ordination, the formulation and implementation of clusters could be supported. In addition, the Circle Economy (2020^[10]) published a guide on setting up collaborations for a circular economy.

North Macedonia could also promote more regional and international collaboration, for example by sharing examples of regional and international projects and helping SMEs to establish partnerships with other businesses or academia. This could be done through their national contact points for the EU programmes (e.g. Horizon Europe, European Open Science Cloud or LIFE programme – for which an association agreement was signed in July 2023).

Second, to strengthen collaboration, information exchange and exchange of good practices, North Macedonia will also need to establish a circular economy stakeholder/business platform in the medium term. Research of the conditions that such a platform will need to fulfil and its potential for networking and dispersing circular business practices will need to be established prior to its creation. Besides enabling collaborations and networking opportunities between the public and private sectors, such platforms (whether virtual or physical) may also facilitate synergies and knowledge sharing across the different parts of the value chain. A circular economy stakeholders' platform, established as part of the OECD Supporting Green Transition through Circular Economy Roadmaps project, can provide a solid foundation for such efforts (see Annex A for more information). Most European countries have established national circular economy stakeholder platforms or hubs, which serve as fora for information exchange; peer learning; multi-stakeholder co-operation; and a depository of information, data and other relevant material (see Box 4.1 for a few examples). Some have set up working groups on specific topics. North Macedonia could, for example, set up specific working groups for the selected sectors in this roadmap, where SMEs could discuss and exchange practices.

A circular economy business platform could also be used to promote industrial symbiosis within the green industrial zones in North Macedonia. Ongoing amendments to the Law on Industrial and Green Zones could incorporate provisions that would enable the zone environment to promote resource recovery and recycling, thereby creating an environment conducive to strengthening business partnerships and collaboration. In addition to ensuring efficient waste management practices, the amendments could introduce incentives to promote industrial symbiosis, where one firm's waste output or by-product serves as another's input. These strategic measures not only contribute to sustainable practices but also enhance the potential for businesses to collaborate and thrive in a mutually beneficial ecosystem. This aligns with North Macedonia's commitment to foster a more sustainable and collaborative economic landscape, providing a solid foundation for strengthened business partnerships and co-operative endeavours. The Turkey Materials Marketplace outlined in Box 4.1 serves as an excellent example for encouraging collaboration in green zones in North Macedonia by providing a secure online platform for companies to share data on materials and identify material reuse opportunities.

Box 4.1. Examples of circular economy platforms/hubs

- **Slovak Circular Economy Platform (Circular Slovakia)** – established in the form of a public-private partnership by the Slovak Ministry of Environment, the Embassy of the Kingdom of the Netherlands, the Institute for Circular Economy, PwC Slovakia, the Slovak Business Agency and the Slovak Environment Agency in 2019. Its main goals are to: promote the circular economy to businesses as an approach that provides economic benefits and opportunities, exchange information and experience, help build business partnerships and new projects, inform businesses about the latest legislation in the area, and support their participation in the policy-making process. The platform also helps increase discussion between the public and private sectors as well as among businesses themselves.
- **Circular Glasgow** – hosted since 2015 by the Glasgow Chamber of Commerce, Zero Waste Scotland and the Glasgow City Council (United Kingdom). Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas. This is done by: workshops and events – a series of knowledge-sharing business-to-business networking events; Circle Assessment – a tool which helps businesses understand opportunities to become more circular; and the Circle Lab – an online hackathon event to find a circular solution to local challenges.
- **The Italian Circular Economy Stakeholder Platform** – established in 2018 by the National Agency for New Technologies, Energy and Sustainable Economic Development as a mirror initiative of the European Circular Economy Stakeholder Platform. It acts through six working groups: 1) Research and Eco-innovation; 2) Policy and Governance; 3) Measuring the Circular Economy; 4) Sustainable and Circular Design, Production, Distribution and Consumption; 5) Cities and Territory; and 6) Good Practices. The platform aims to foster synergies between relevant stakeholders, overcome the fragmentation of initiatives at the national level, map good practices, and promote the Italian way for a circular economy at the national and international levels.
- **Turkey Circular Economy Platform** – established in 2020 by the Business Council for Sustainable Development of Türkiye. The platform aims to provide practical solutions, incentives, news and opportunities in the field of the circular economy. It includes a knowledge hub and measurement tools and offers training, financial opportunities and consultancy services for companies looking to accelerate their transition to a circular economy. Another integral part of the platform is the Turkey Materials Marketplace (TMM) established in 2016, an e-commerce platform for industrial symbiosis. In particular, TMM offers economic benefits for buyers and

sellers by reducing storage costs and contributing to improved waste management and environmental performance.

- Other examples of platforms connecting experts and organisations, engaging stakeholders within different working groups, and promoting projects that integrate the principles of a circular economy include the **Holland Circular Hotspot** and the newly established **Czech Circular Hotspot**.

Sources: OECD (2021^[11]); ICESP (n.d.^[12]); Business Council for Sustainable Development of Türkiye (2020^[13]); Holland Circular Hotspot (n.d.^[14]); INCIEN (n.d.^[15])

Third, in the long term, and once circular business models are more well-known and widespread in North Macedonia, it could also organise investor-entrepreneur matchmaking events. The aim of these events would be to gather investors and innovators in North Macedonia, present the pipeline of potential projects that support circular business models, pitch investors' ideas, and try to match investors with project developers. This is more common for technological innovations in the energy sector, but the same concept has been expanded to circular innovations as well (for example, in Germany and the Netherlands). Public authorities can be involved in setting up such business support networks, as is the case in the Netherlands, for example, where the Ministry of Infrastructure and Water has jointly created with other partners the Netherlands Circular Accelerator business platform that helps match entrepreneurs across regions and value chains. Such events could also be organised regionally (in the Western Balkans), with the aim to establish new connections and joint investments across the region.

3. Providing financial support for scaling up circular business models

The transition to a circular economy needs resources to drive the uptake of new business models, support the development of innovative technologies and motivate behavioural change within society. Governments can support the transition by using specific legislative and economic instruments (see the next sub-section). Another way for governments to help reorient market forces towards a circular economy is through financial support for projects and initiatives in the form of grants and loans. These instruments help decrease the cost of capital for circular investments and overcome financial and information barriers. Public funding can thereby stimulate the development of new circular business models, innovative technologies and strategic partnerships. Besides public funding, companies will need to raise private finance to support and scale up their circular activities. To do so, sustainable reporting standards, including the EU Taxonomy Regulation for sustainable financing may have an important role to play.

The diagnostics of the circular economy in North Macedonia showed that multiple funding programmes support green investments in North Macedonia. For example, North Macedonia has launched the new Green Finance Facility, allocating EUR 30 million to provide performance-based incentives for SMEs, a programme considered among the top 10 Sustainable Development Goal blended finance instruments in the world (Joint SDG Fund, 2022^[16]). In addition, the newly adopted Plan for Accelerated Growth (2022-2026) is expected to provide a stronger impulse to greening and circular measures in the post-COVID economic recovery with the introduction of several instruments to promote and finance green projects. The proposed financing instruments have yet to be established and include, among other elements, green bonds, a Hybrid National Green and Digital Fund for SMEs, Start-ups and Innovative Enterprises to invest in green and digital SMEs (with a total portfolio of EUR 27 million). The FITD, which encourages innovation by providing additional resources for financing innovative activities, will include a Green Business Facility. The facility will stimulate investments in the areas of industrial innovation and the circular economy, green buildings, clean energy resources, sustainable mobility, and sustainable land use and nature. The facility is expected to be established at the beginning of 2024 and the grant to the FITD to financially support SMEs is expected in 2025. Moreover, the FITD was designated in 2022 to be accredited to access

the Green Climate Fund; in 2023, it submitted its application (results are expected in 2025). Both sources of funding will be incorporated into the implementation of the Smart Specialisation Strategy.

International development co-operation partners are also conducting several projects relevant for the circular economy in North Macedonia, providing financial and technical support to the government in different areas. Nevertheless, for those initiatives that include grants and subsidies, buy-in from the private sector has remained limited and phase-out processes often lack.

While financial incentives for green investments for SMEs in North Macedonia have steadily increased in recent years, they predominantly focus on energy efficiency and renewables. Existing funding programmes and incentives lack specific measures directed towards promoting circularity in SME practices. Additionally, North Macedonia has not established sufficient national mechanisms to provide adequate financial incentives for SME greening (OECD, 2022^[3]). Presently, no co-ordinating body monitors and provides data on SMEs benefitting from financial initiatives for green practices.

Therefore, North Macedonia will need to further capitalise on current positive developments by actively providing targeted financial support for scaling up circular business models and increasing stakeholder awareness about the availability of performance-based incentives. In the context of this roadmap, this can be done in three ways.

First, in the short term, North Macedonia could introduce calls for circular business models projects within existing funding programmes that provide grants and soft loans. Such projects could be integrated, for example, as part of the green finance envisaged by the Programme for Supporting the Competitiveness of the Manufacturing Industry and Corporate Social Responsibility and the Programme for the Development of Entrepreneurship and Competitiveness of SMEs, implemented annually. The programmes provide financial support for technical feasibility studies to selected companies pursuing green projects as well as for the training, implementation and certification of various horizontal standards, including environment and energy management systems (ISO 14001 and ISO 50001). The programmes will need to clearly define what is considered to be green finance.¹ In addition to SMEs, academia should be able to participate in those projects together with businesses. A specific amount of total financing could be dedicated to circular projects. These calls should specify the priorities and the allocation of funds dedicated to circular economy projects. The focus of supported projects could be: the introduction of new business models and pilot projects; and knowledge dissemination in the areas of the circular economy. The call could also specify preference for projects with a focus on construction, biomass and food, textiles, and mining/metallurgy as key priorities for the transition to a circular economy in North Macedonia. To successfully develop and implement calls for circular business models projects, technical support may be needed for the public administration to familiarise itself with the different types of circular projects.

Box 4.2 provides an example of how this was done recently in Hungary. Hungary used the process of developing a national circular economy strategy to identify the circular economy priorities that would be included in the existing funding programme (funded by the EU Structural and Cohesion Funds) in its next programming period (2021-27). It then organised an awareness-raising and training event for SMEs in the country to instigate applications for this programme, and the circular economy priority in particular.

Box 4.2. Introducing calls for projects focused on circular business models within existing funding programmes

Hungary's Operational Programme for 2021-2027

Environmental and Energy Efficiency Operational Programme (EEEOP) Plus in Hungary

The EEEOP Plus is the continuation of the previous EEEOP under the new framework for the period 2021-27 (as illustrated in Figure 4.2). The programme is implemented by the Deputy State Secretariat for the Implementation of Transport, Environmental and Energy Efficiency Development Programmes of the Ministry of Public Administration and Spatial Development, and funded by the EU Structural and Cohesion Funds. Its priorities include:

- water management and disaster risk reduction
- circular economy systems and sustainability
- protection of the environment and nature
- a renewable energy economy
- a just transition.

The programme's overall budget is HUF 1 612.56 billion (EUR 4.3 billion), with HUF 411.97 billion (EUR 1.1 billion) allocated to the priority covering circular economy systems and sustainability, among others, such as:

- Under the **waste management objective**, the programme funds projects that focus on: improving the existing separate waste collection system; supporting waste recycling and the production of high-quality secondary raw materials; developing new waste management centres and upgrading existing ones; optimising municipal waste collection and transport; supporting residual waste facilities; rehabilitating abandoned landfills; and active, experience-based, community-building awareness-raising activities.
- The **circular economy-related objective** is a new topic of the EEEOP Plus. Its aim is to pave the way for a circular transition through small-scale investments targeting mainly small and medium-sized enterprises. The funding focuses on: service provision; promoting decoupling of raw material consumption and gross domestic product growth; building value chains/circles; and developing new business sectors and business models. It targets a diverse range of projects, translating circular economy principles into practice (from both upstream and downstream perspectives), and awareness-raising activities and small demonstration/pilot projects.

Figure 4.2. EEEOP Plus and its precursor EEEOP

EEEOP 2014-2020				EEEOP Plus 2021-2027			
Priority	Action	Alloc. EUR M	Main responsible	Priority	Action	Alloc. EUR M	Main responsible
1	Water management	891	MoI	1	Water management	702	MoI
	Disaster management/Climate	154			Disaster risk reduction	121	
2	Drinking water	183	MTI	2	Sustainable water utility systems	652	MTI
	Waste water	1 031			Green and blue infrastructure	190	
3	Waste management	300	MTI	2	Circular waste management	208	MTI
	Remediation	100			Circular economy	52	
4	Nature protection	100	MoA	3	Remediation/Environmental protection	45	MoA
5	Renewable energy	314	MTI		Nature protection	112	
	Energy efficiency	600		4	Promoting energy efficiency measures	883	MTI
	District heating	106			Promoting renewable energy	535	
	Awareness raising	6		Smart energy systems, -networks and -storage	518		
TOTAL		3 785		5	Just Transition Fund	295	MTI
TOTAL						4 313	

Note: MoI: Ministry of Interior; MTI: Ministry of Technology and Innovation; MoA: Ministry of Agriculture.

Source: Prime Minister's Office, Hungary.

Table 4.2 summarises the indicators and targets for these two objectives.

Table 4.2. Indicators and targets of waste and circular economy-related actions within the EEEOP Plus

Specific objective	Action	Indicator		Unit	Baseline		Milestone 2024	Target 2029
		Code	Name		Value	Year		
2.3. Transition to a circular economy	Circular waste management	RCO34	Additional capacity for waste recycling	tonnes/year	n.r.	n.r.	50 000	250 000
		RCR47	Waste recycled	tonnes/year	0	2021	n.r.	300 000
	Circular economy	RC001	Enterprises supported	number	n.r.	n.r.	16	160
		RCR04	Small and medium-sized enterprises introducing marketing or organisational innovation	number	0	2021	n.r.	143

Note: n.r.: not reported.

Sources: Government of Hungary (2022_[17]); OECD (2023_[18]).

Second, the financial support in the form of grants and loans should be combined with technical and other assistance to SMEs. This non-financial support could consist of more general business support (e.g. writing a good business plan and accessing finance) as well as of technical support through consultancy services in the area of circular business models and could be implemented by the APPRM, in charge of business development services. It is common practice in some programmes funded by international development co-operation partners to provide more general business as well as technical support in addition to a grant and/or soft loan. For example, the FITD will include a Green Business Facility, which will provide direct subsidies and grants to SMEs, along with awareness-raising and advisory

assistance for green projects. Its total budget is EUR 27 million. The Green Finance Facility also provides technical co-operation support from the government, in addition to incentives/grants. Also, the European Bank for Reconstruction and Development administers energy efficiency programmes that provide a small non-reimbursable grant, a soft loan and consulting services to successful applicants, and training to financial institutions that administer those loans locally. Scotland has set up the Circular Economy Business Support Service to provide one-on-one consultancy for SMEs across all sectors (Zero Waste Scotland, 2020^[19]) while Luxembourg has set up a decision-making tool (Fit 4 Circularity) through which it helps companies identify and assess their growth potential, and adopt circular economy approaches and innovative business models (Luxinnovation, 2020^[20]).

Third, in the medium term, North Macedonia could consider establishing a dedicated funding programme for SMEs to scale up circular business models. No such programme exists at the moment in North Macedonia. One example of such a programme is within the RE: Source innovation programme in Sweden. The Swedish government has appointed two agencies to invest in a strategic innovation programme that focuses on developing a circular economy and resource efficiency innovations (RE: SOURCE, n.d.^[21]). The programme brings together companies, universities and authorities to collaborate in strategically important areas, and provides specific funding for projects under this programme and five platforms to develop solutions for its priority areas. In North Macedonia, the focus could be, for example, on launching circular construction and renovation pilots, or on launching circular business models aimed at food waste prevention. Another example is from Scotland, which has set up a Circular Economy Investment Fund offering grant support to SMEs and non-governmental organisations for innovative circular economy projects resulting from the Circular Economy Business Support Service and nearing commercialisation (Zero Waste Scotland, n.d.^[22]). To implement such a programme in North Macedonia would probably require that the programme be funded and administered by international development co-operation partners. However, ensuring the sustainability of the programmes will be crucial, and collaboration with government institutions, such as the APPRM or the FITD, is essential. Also, Macedonian SMEs will need to have attained a certain level of knowledge and experience to ensure that the programme generates a pipeline of circular economy projects with good business plans that are economically and financially sustainable.

4. Implementing supportive legislation and economic instruments

Besides awareness raising, education, multi-stakeholder collaboration and funding programmes providing grants, loans and technical assistance, legislation and economic instruments also support the uptake of circular business models and are often a necessary prerequisite for other measures to be effective.

In the medium term, North Macedonia could strengthen legislation and economic instruments to support resource recovery and a circular supply of materials business models. This could be done by effectively implementing the new Law on Waste Management and EPR as well as green public procurement (GPP). The new Law on Waste Management is expected to enable the establishment of a functional system for regional waste management, such as regional collection, transport, sorting and recycling of waste; the construction of new regional landfills; and the closure of all non-standard landfills – in accordance with circular economy principles (EEA, 2021^[23]). Once this law is effectively implemented, it should provide a good enabling framework for recovering and recycling waste, and therefore for resource recovery business models that require waste collection, sorting and production of secondary materials from waste.

The Law on Extended Producer Responsibility in North Macedonia establishes obligations, targets and economic incentives for businesses that should lead to increased recycling and material recovery. EPR take-back schemes require firms to bear the costs of waste management for their products post-consumer stage, including responsibility for collecting and treating the products. Currently, a total of seven EPR schemes have been set up in North Macedonia: three for waste electrical and electronic equipment, one

for batteries, and three for packaging waste. The obligation to organise EPR schemes for other waste streams came into effect on 1 January 2024, in accordance with the 2021 Law on Waste. Nevertheless, it has been reported that deficiencies, largely in the infrastructure for separate collection and recycling of waste streams and the lack of awareness among producers, hamper the implementation of EPR schemes (European Commission, 2021^[24]).

Effective EPR schemes help collect, sort and recycle waste that can be used as secondary materials; they, therefore, facilitate the uptake of resource recovery business models. To facilitate the adoption of general good practices and OECD guidance on EPR (OECD, 2016^[25]), authorities and other actors covered by the new EPR Law in North Macedonia could make use of the EPR Toolbox (PREVENT Waste Alliance, n.d.^[26]) to consult other international practices and participate in the knowledge exchange to enhance the functioning of the domestic EPR system. The EPR Toolbox contains three modules that span more general aspects of an EPR, including the monitoring of financial flows. It also focuses on concrete actions, such as the integration of the informal sector or the creation of a market for recycled plastics (PREVENT Waste Alliance, n.d.^[26]). For example, as waste collection and sorting are labour-intensive, EPR schemes offer a great opportunity to integrate the informal waste sector into more formalised types of employment. Producer responsibility organisations can offer attractive and formalised employment, thus encouraging waste collectors who have been working informally to apply for jobs (PREVENT Waste Alliance, n.d.^[26]).

GPP can provide industry with incentives to innovate and develop environmentally friendly works, products and services with potentially lower waste disposal. It is also said to increase the supply of products and services that are more circular. GPP refers to public purchasing of products and services that are less environmentally damaging when taking into account their whole life cycle. As public procurement accounted for about 8.6% of the GDP in North Macedonia in 2022 (European Commission, 2023^[27]), it can facilitate the supply of green products and services if it works to foster environmentally sound developments. The Law on Public Procurement (2019) includes relevant provisions on GPP, including on life cycle costs. Application of life cycle costs as a criterion for tender is optional and the data to be provided by the tenderers and the method for determining life cycle costs should be indicated in the tender documentation. The Strategy for Improving the Public Procurement System (2022-2026) incorporates measures moving towards sustainability, though it does not exclusively focus on GPP. Looking ahead, efforts will be directed towards addressing remaining gaps in the legal framework, ensuring full compliance with EU Directives and facilitating the effective implementation of the 2019 Law on Public Procurement. Strategic issues, including “green”, social and innovative procurement, are given increased emphasis. The corresponding Action Plan 2022 successfully achieved its measure to create a GPP manual including a catalogue of good practices for potential suppliers, completed by the Public Procurement Bureau in June 2022. Moreover, the National Plan for Waste Management (2021-2031) includes the introduction of the mandatory GPP criteria in procurement bids. The government banned single-use packaging and plastics in public procurement as of 2020. However, the introduction of GPP measures in tenders has remained limited since the adoption of these laws.

To expand the use of GPP, North Macedonia will need to implement a number of measures. This could include:

- A national GPP strategy and an action plan that include green criteria and targets for selected product groups, supported by sector- or product-specific methodological guidelines and capacity-building programmes for public authorities as well as other stakeholders. It is crucial for North Macedonia to prioritise and ensure effective implementation, supported by a robust monitoring framework. To assess concrete advancements in GPP, the Strategy for Improving the Public Procurement System suggests establishing indicators for data collection and result measurement.

- Stronger promotion of GPP among public authorities at all levels of government, by introducing a mandatory element into GPP, for example mandatory green award criteria which would ensure that companies are competing on green criteria and not only on price.
- Support for the use of secondary raw materials by introducing minimum recycled content requirements within GPP (see Box 4.3).

Box 4.3. Example of introducing minimum recycled content requirements within green public procurement in Japan

The Japanese Act on Promoting Green Procurement and its related Basic Policy on Green Procurement specifies environmental criteria to be considered when purchasing goods and services by the government or its administrative agencies. The environmental criteria include, among other things, recycled content criteria for pulp and plastics used in the products designated for procurement. For example, the higher the recycled content share in an evaluated good, the higher the evaluation score for that good. For some of the goods, the policy requires minimum recycled content requirements. This is the case, for example, for coated inkjet colour printer paper, where at least 70% recycled pulp content is required, or for stationery products where items containing plastics contain at least 40% recycled plastics in weight of the total plastics and items containing paper contain at least 50% recycled pulp. Green public procurement is mandatory for government agencies across a wide array of product categories.

Source: OECD (2024^[29]); Ministry of the Environment of Japan (2000^[30]).

In the long run, North Macedonia could focus on strengthening legislation and economic instruments that support product life extension, sharing and product service models. This can be done primarily by implementing ecodesign requirements for increased durability and reparability of products; green certification/standardisation and environmental labelling; and fiscal incentives that support reuse, repair and waste reduction. North Macedonia implemented a Decree on Eco-design of Products (2011), which is further complemented by the integration of ecodesign considerations for the construction sector, as highlighted in the first National Waste Prevention Plan (2022-2028) (see Chapter 5). As part of the Sustainable Products Initiative, the European Commission proposed a Regulation on Ecodesign for Sustainable Products to make products placed on the EU market more sustainable, extending ecodesign requirements to new design principles and aligning materials properties with the circular economy (European Commission, 2022^[28]). This also implies that if the regulation is adopted, ecodesign criteria related to longevity, reparability and recyclability might become mandatory in EU member states.

Regarding green certification and environmental labelling, environment management systems, green certification (of business practices) and eco-labels (of products) that support the private sector in their greening efforts have been introduced in North Macedonia's legislative framework, for example in the Law on Environment (2011) and the Law on Management of Electrical and Electronic Equipment and Waste from Electrical and Electronic Equipment (2021). In addition to contributing to an increased demand for green business practices, certification of green practices could be useful for companies when dealing with business licensing and administrative requirements as well as in GPP.

However, programmes promoting the certification of SMEs remain limited. There are almost no data on how many SMEs have adopted energy management system or eco-labels in North Macedonia or if they have benefitted from such schemes. North Macedonia will need to increase awareness of the benefits of these certificates and eco-labels among businesses and consumers, including recognition of the logos. On the other hand, it will need to streamline the processes for obtaining such certification/eco-labels, as this may be too costly for SMEs. For example, the German Blue Angel Ecolabel has a one-off cost of EUR 400

(plus value-added tax [VAT]) and an annual fee charged according to the company's annual sales, ranging from EUR 320 to EUR 10 500 per year (Blue Angel Ecolabel, 2023^[31]). The certification/labelling should apply to the extent possible to environmentally friendly products and services that are commonly used by consumers rather than, for instance, products relevant for business-to-business transactions. GPP is another tool that can support eco-labelling and green certification.

North Macedonia may also want to consider introducing a quality standard for reused or recycled products. Quality standards for products also provide consumers with valuable information on the products that they buy. Introducing quality standards for recycled materials and/or reused products (furniture, toys, bicycles and even industrial equipment, but in particular electronics) could boost the market for second-hand, refurbished and remanufactured consumer goods. An example of such a quality standard is the Scottish Revolve Reuse Quality Standard (Box 4.4). Social enterprises, charity shops and other businesses that sell used products could be tested to be certified by using those standards. Authorised organisations, by displaying the certification logo, could inform customers that their products have been through appropriate safety and quality checks. The Scottish Revolve Reuse Quality Standard has been developed on behalf of Zero Waste Scotland, a not-for-profit environmental organisation supported by the Scottish government. The standard was first used by non-governmental organisations, then later rolled out across a wide range of organisations. Roll-out of such standards requires a lot of outreach to businesses. A recent study for the European Commission found that increasing consumers' confidence about the quality and safety of reused products, and improving information about durability and reparability at the point of sale through labels, information or educational campaigns, was key to shifting consumer preferences towards more circular products (European Commission et al., 2018^[32]).

Box 4.4. Revolve Reuse Quality Standard in Scotland

Since 2011, Zero Waste Scotland, a not-for-profit environmental organisation supported by the Scottish government, has been conducting a programme for increasing customer confidence in reused products. The Revolve Reuse Quality Standard, an externally validated tool, was designed and piloted in 2011 for Scottish reuse businesses to increase the purchasing of reused goods. According to the UK Statistics Authority, confidence in the quality and safety of reused products is a barrier to reuse, as only 27% of the national population purchases in second-hand shops, even if 77% declares a willingness to do so. The introduction of this quality standard is both increasing consumers' confidence and helping the accredited businesses to increase their turnover by selling second-hand products. Businesses that sell reused products and want to be certified are tested by using those standards related to the quality of the goods, shopping experience and trust. In 2018, there were 122 accredited stores across Scotland. In a sample of ten stores, revenue has increased by just under GBP 45 000 since 2011. As well as increasing the purchase of second-hand over new products and supporting second-hand stores to reach a wider audience and sell more, another important objective of this initiative is opening a discussion around legislation, perception and barriers for the reuse of goods.

Source: OECD (2022^[33]); Zero Waste Scotland (2020^[34]); Moir (2018^[35]).

Lastly, while currently fiscal incentives that support reuse, repair and waste reduction are, in general, less well-established in the European Union, they could provide economic incentives to businesses (and consumers) to change their practices. The most common examples in EU member states include reduced (or exempt) VAT on repair services and food donations (see Chapter 6). While introducing such fiscal incentives in North Macedonia may not be an immediate priority, the country is actively considering such measures, specifically for food waste prevention. In the long run, as the country converges towards its European peers and the wealth and standard of living of its population increases, such measures are likely to become increasingly suitable. However, these instruments should be implemented as part of a broader

policy mix, where additional policy measures, such as ecodesign requirements and promoting waste prevention through targeted communication and information tools, would help achieve the desired outcome.

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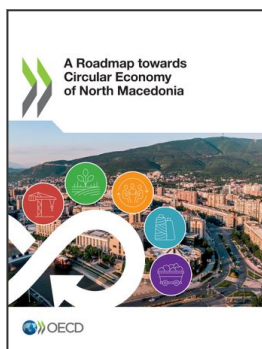
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Note

¹ Various definitions of green/sustainable finance exist. For an overview of the most commonly used ones, see OECD (2020_[37]).



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