

The situation with the development of small and medium-sized enterprises in Macedonia in relation to the sources for their financing

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The impact of small and medium-sized enterprises (SMEs) in employment and value added in the Republic of Macedonia registered a slight increase in the period from 2009 to 2013. Just like in other economies in the region, most SMEs work in the wholesale and retail trade sector (44.0%), followed by the manufacturing sector (13.0%) (OECD 2016). Based on the importance of SMEs in the Macedonian economy in general, this paper aims to point out the gap that exists between the well-identified weakness of the Macedonian economy towards stimulating the life expectancy of SMEs on the one hand and their development on the other, emphasized in the forms of the sources of funding available to them. For that purpose are used statistical analyzes and comparisons, and are accepted conclusions about the current situation with the SMEs environment and the forms of financing of SMEs in Macedonia.

Keywords

Small and medium enterprises (SMEs), SME funding sources, SME development strategies.

1. Introduction

Economies like the Macedonian, which are not characterize by size, autonomy and closeness, are usually associated with an anchor. This anchor is usually an economy that would be a leader for key economic events. The Macedonian economy definitely wants to follow the European economic guidelines, most of the time because of the fact that it is territorially closest to them, and the belief that "you act like those with who you are". In such an environment, not only the definitions of micro, small and medium-sized enterprises, but also the overall strategy for their development is based on the standards of the European Union (EU). The desire of Macedonia to stimulate, activate and revive this sector is confirmed by a series of instruments offered by various institutions, but still managers from

small and medium-sized businesses are finding financing in the banking sector as the safest one.

2. Defining small businesses and the situation with them in the Republic of Macedonia

The data in this paper have been taken over by the Statistical Office of the Republic of Macedonia and the National Strategy for the Development of Small and Medium Enterprises. For that purpose, the calculated data were used to draw conclusions about the current situation in this sector. In this paper, we use the method of comparison, research, analysis and synthesis.

Table 1 Definition for micro, small and medium enterprises

Size of the enterprise	EU definition	Law on Trade Companies 2004 (Amended 2013)
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees ≤EUR 50.000 gross annual income, expressed in MKD
Small	10-50 employees EUR 2-10 million turnover or balance sheet	≤50 employees, and ≥EUR 2 million annual income, expressed in MKD, or < EUR 2 million annual income (total assets in assets), expressed in MKD
Medium	< 250 employees ≤ 50 million turnover ≤ 43 million balance sheet	≤ 250 employees, and ≥ 10 million EUR annual income, expressed in MKD, or < EUR 11 million annual income (total assets in assets), expressed in MKD

Source: Ministry of Economy (2004) Law on Trade Companies (Amended 2013).

For the Republic of Macedonia, according to the Law on Trade Companies, it can be summarized that small business (retailer, small enterprise) is defined as a business in which ownership and management are independent, which is not dominant in the area where it operates and employs from 10 to 49 workers, and the table above indicates the additional norms that need to be filled in for the appropriate definition.

From the fact that SMEs activity in national economies like the Macedonian one has a big influence, especially on the labor market, financing of small businesses is a significant economic area. This activity is challenging by the fact that there are several sources of financing for (SMEs). Knowledge about and access to them can play a significant role in the development of these businesses and their strengthening.

In the Republic of Macedonia, the financing situation for these businesses is predominantly based on bank loans, but there are also alternative ways of financing whose offer is described in the text below.

2.1 State and structure of enterprises and business indicators in the Republic of Macedonia

According to the Statistical Office in the Republic of Macedonia, the situation with and around the SMEs is presented through tables and graphs, below in the text.

In 2017, the situation with the enterprises in the non-financial sector is the following:

Table 2 Business entities

Enterprises	Micro (0-9 employees)	Small (10-49 employees)	Medium (50-249 employees)	Great enterprise (250+ employees)
number of enterprises 55.203	90%	8,3%	1,4%	0,3%
number of employees 385.728	31,9%	22,7%	20,2%	25,2%
turnover in millions of denars 1.192.284	22,4%	23,6%	19,6%	34,4%
added value in millions of denars 260.285	20,8%	22,5%	20,4%	36,3%

Source: http://www.stat.gov.mk/Publikacii/MakStat_IZBOR_2018.pdf)

This situation of enterprises comparing with 2016 for certain business indicators is the following:

Table 3 Basic structural business indicators

	2016	2017
number of enterprises	55.469	55.203
number of employees	378.737	385.728
turnover, in millions of denars	1.121.017	1.192.284
added value per factor cost, in millions of denars	248.289	260.285
costs for employees, in millions of denars	118.377	126.371
gross business surplus, in millions of denars	129.911	133.915

Source: http://www.stat.gov.mk/Publikacii/MakStat_IZBOR_2018.pdf).

and it can be concluded that in 2017, with an almost unchanged number of enterprises and an increased number of employees by 1.8%, greater turnover was realized by 6,4% and added value by 4,8 compared to 2016.

According to the same source, the processing industry with the greatest share in the total added value has the highest share of 26,6% and the trade with 23,5%. According to the size, largest income have the middle and large entities from the processing industry 20,7%, and micro and small entities from the field of trade 11,1%.

According to the data of the Statistical Office of the Republic of Macedonia more than two thirds of the total turnover was realized in the trade and industry - 77.8%.

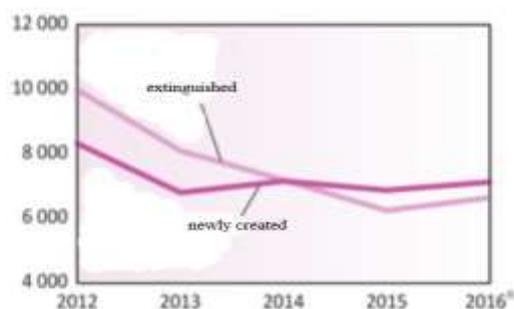
Table 4 Structure of turnover

	%
Wholesale and retail trade, repair of motor vehicles	41,6
industry	36,2
services	14,9
construction	7,2

Source: www.stat.mk

7132 newly created enterprises were registered in 2016, which is 3,7% more than 2015. In 2016, 6648 enterprises were extinguished, ie 6,4% more compared to 2015. 68,6% of the newly created, ie 74,1% of the extinguished business entities are limited liability companies and joint stock companies. 37,1% of the total number of newly created enterprises in 2011 survived in 2016. Again, the data refer to active business entities from the non-financial sector.

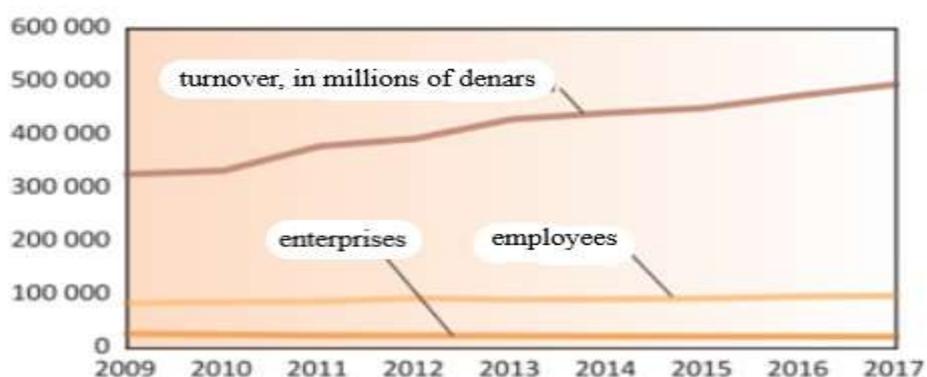
Table 5 Demography of enterprises (newly emerged and extinguished)



Source: www.stat.mk

In such an arrangement, one in 4 persons in the Republic of Macedonia work in the trade sector, ie in 2017 41% of the business entities had activity in this sector. Compared to 2016, in 2017 the number of companies in the trade sector decreased by 2%, the number of employees increased by 1.5% and the turnover increased by 4.4%.

Table 6 Business entities in the Trade sector



Source: www.stat.mk

The data on the structure of active business entities according to the number of employees show that the largest share of 79,3% has business entities with 1 to 9 employees. Then, business entities without employees or entities with unspecified number of employees (without data for employees) with 11,0%, followed by subjects with 10 to 19 employees with 4,5%, followed by entities with 20 to 49 employees, whose share is 2,9%, with 1,9% the entities with 50 to 249 employees participate and only 0,3% of the active business entities have over 250 employees.

The fact that active business entities with 1 to 9 employees participate with 79,3% points to the previously stated attitude that this activity for the Republic of Macedonia and its budget has a significant impact .

2.3 Sources of financing of small businesses in the Republic of Macedonia

This type of business has a range of funding instruments that can be divided into formal and informal. Our research shown that in the Republic of Macedonia, the situation with the sources for financing small and medium business in Macedonia can be officially divided into programs, funds and financial institutions, as follows:

1. Banks - Halk Bank www.halkbank.mk, NLB Tutunska Banka www.nlbtb.com.mk, Alpha Bank www.alphabank.com.mk, Eurostandard Bank www.eurostandard.com.mk, Capital Bank www.capitalbank.com.mk, Commercial Bank www.kb.com.mk, Ohridska banka www.ob.com.mk, Post Bank www.postbank.com.mk, ProCredit Bank www.procreditbank.com.mk, Stopanska Banka www.stb.com.mk, TTK Bank www.ttk.com.mk, UNI Bank - Universal Investment Bank www.unibank.com.mk, Central Cooperative Bank www.ccbank.mk, Ziraat Bank www.ziraatbank.com.mk, Sparkasse Bank Macedonia www.sparkasse.mk , The Macedonian Bank for Development Promotion www.mbdp.com.mk

2. Government program - Employment Agency of the Republic of Macedonia, Project self-employment - Ministry of Economy, Competitiveness, Innovation and Entrepreneurship Program - Unit for cooperation with non-governmental organizations within the General Secretariat of the Government of the Republic of Macedonia

3. Donor programs - European Bank for Reconstruction and Development - Small Business Support Program, - Financial products (loans, equity instruments, guarantees) - Announcements for purchases - Business advice (local and international consultants) - Trade Finance (Trade Facilitation Program) - Macedonian Bank for Development Promotion - Credit line for small and medium enterprises

3.1 Loans

- export support loan - working capital for preparation of production intended for export and working capital for bridging the period from the export made to the collection of funds from

the foreign buyer; - loan for small and medium-sized enterprises - permanent working capital and investments from different sources: IKL revolving, MBDP, EIB, EIB revolving; - loan for support of agriculture and agroindustry - primary production, processing and export - through commercial banks or directly through MBDP; - loan for micro companies - micro and small trade companies, individual entrepreneurs, craft stores, private traders, market stalls and other micro and small business entities; - loan for energy - energy efficiency and renewable energy sources; - loan for reducing unemployment - creation and maintenance of jobs and self-employment with crediting; - loan with a guarantee scheme - micro, small and medium-sized companies that do not have enough security when applying with commercial banks; - loan for accommodation facilities - investments for micro, small and medium-sized businesses with a seat in the Republic of Macedonia for the purchase, construction and adaptation of small accommodation capacities up to 70 beds with a standard not exceeding three stars; - Credit for nursing homes and kindergartens - micro, small and medium-sized enterprises with headquarters in the Republic of Macedonia for construction and equipping of institutions for the elderly and kindergartens; - loan for the municipalities in the Republic of Macedonia - for realization of projects from the IPA component for cross-border cooperation.

3.2 Credit insurance of domestic claims (before and after delivery) and export claims (before and after delivery) from commercial and political risks.

3.3 Factoring - is the latest product that is unique on the financial market in the Republic of Macedonia.

- Macedonian Enterprise Development Foundation

- Financial Services Program, - Promotion of Entrepreneurship - Research and Global Monitor - Entrepreneurship Development - Entrepreneur of the Year and Entrepreneurial Events - Partnerships for small business development

- Support to strategic plans
- Promotion of women entrepreneurship
- A career path
- Towards alternative tourism
- Social responsibility of enterprises
- Organizations:

The World Association for Research on Entrepreneurship (HERA) Union of microfinance organizations (MFIs) Civic Platform of Macedonia (GPM)

- Global Monitoring of Entrepreneurship

- Corporate Social Responsibility

- NCRPRU - National Center for Innovation and Entrepreneurial Learning Development - designed as a Center open to innovative, technologically based and profit-oriented ideas - CEED Macedonia - part of an international network of entrepreneurial centers operating in Southeast Europe. It deals with investment management - CEFE Macedonia - CEFE Macedonia- Youth Organization, Business Services, Adult Education - ERASMUS for young entrepreneurs - European business network, financial support, knowledge exchange. A cross-border exchange program that gives new or potential entrepreneurs the opportunity to learn from experienced entrepreneurs in running small businesses in other participating countries. - YES - Strategy for Young Entrepreneurs - European Entrepreneurship Foundation - Accelerators, seminars, competitions - EIP- Entrepreneurship and Innovation Program- Access to Finance, Business Services for SMEs, Support to International Networking and Exchange of Best Practices - Financing - European Union grants and loans.

4. Funds for startup companies

- JEREMI - EU initiative to support small and medium-sized enterprises - ELEVEN - a fund that offers training and a mentoring program in exchange for a stake in the companies it supports - LAUNCHUB - Sofia-BG Fund, which invests in digital startup companies in Southeast Europe - START LABS - A fund that offers funds up to 50,000 usd and connects companies with mentors and investors from Western Europe and the United States - TERES

- Investing in non-EU countries and pre-accession countries; Investing in companies with high potential from different sectors and technology. Current interest in investing in gas services, internet and mobile telephony, software, games, education and energy efficiency; Building a single financial platform for business development in underdeveloped yet promising regions.

5. Networks of sale institutions

There are several institutions to support beginners in business at national, regional and local level like:

Agencies for support of entrepreneurship and small businesses- Agency for Promotion of Entrepreneurship in the Republic of Macedonia, Building a favorable economic environment and legislation, Creation and development of institutional infrastructure for support and development of entrepreneurship and competitiveness in the small business, Implementation and coordination of state and international support for micro, small and medium-sized businesses, Promotion of entrepreneurship through non-financial and financial forms of support, Implementation of the Program for measures and activities for support of entrepreneurship and creation of competitiveness in the small business of the Republic of Macedonia.

Such a structure of financing of small and medium-sized enterprises in the Republic of Macedonia can theoretically be divided into informal and formal financing as shown below in the text:

6. Informal sources of funding

This type of funding is very important for small business, especially at the beginning of its operation. They have always been the most important resource for small businesses. Recent research shows that on average about 70% of start-up start-up funding are provided by the founders' savings, 20% comes from loans from relatives and friends, while only about 8% are bank loans. They are divided into: Personal Finance, Family and Friends Loans, Partners' Funds, Business Angels (Business Angels in Macedonia are still not popular as a form of financing for small businesses).

7. The formal sources of funding are:

- Official funds

The general principles of work of risk funds are similar to business angels, but those of business angels differ in four basic characteristics: • risky funds in businesses invest foreign money (business angels invest their own); • risky funds invest large sums of money (business angels invest small); • When choosing a business, for the official risk capital, the quality and professionalism of the management team are the most important (business angels pay more attention to the personality of the entrepreneur); • The motives of the risk funds are purely commercial (business angels also have humane, philanthropic motives).

Like business angels, risky funds are not too represented as a source of funding for small businesses in our country, although in the developed world countries are gaining momentum.

- Financing of small business through savings houses

Currently, the following loans are available for small businesses by this savings house: Lokum-credit; loan for equipment and means of transport; lager-credit; opportunity + credit; loan for business premises; loan + loan.

- Financing of small business through leasing

After bank loans, leasing is the second most important source of finance for small businesses. In 2012, 11 leasing companies actively worked in Macedonia. According to the latest data, today their number has been reduced to 8. In doing so, they all offer financial leasing.

- State institutions and programs for financing small businesses

In recent years, as the attractiveness of small businesses increases, so does the number of state institutions that offer programs for their financing. Such are: Ministry of Economy of the Republic of Macedonia, Ministry of Labor and Social Policy of the Republic of Macedonia,

Macedonian Bank for Development Promotion (MBDP), Macedonian Enterprise Development Foundation (MEDF), Agency for Support of Entrepreneurship of the Republic of Macedonia (APPRM), The Employment Agency of the Republic of Macedonia (ESA), the Fund for Innovation and Technological Development (FITR), the Business Incubators.

- Other smaller institutions to support small businesses

There are several institutions to support small businesses, some of which are financed by bilateral assistance. An example is the Agency for Support of Entrepreneurship in the Pelagonia Region (PREDA), established in 2000 by the Swiss Agency for Development. This agency offers services and financial assistance to businesses, businesses and professionals in accounting and law in the Pelagonia region. This paper is especially important because the Municipality of Bitola, in which the questionnaire was conducted, the situation with the sources of financing of small businesses is part of the Pelagonia region. Another example is the Macedonian Business Center, set up with financial assistance from North Rhine Westphalia, and in many municipalities there are local economic development offices (LEDs).

- Commercial banks as a source of financing for small businesses in the Republic of Macedonia

Almost all commercial banks in the Republic of Macedonia have an offer of loans for financing small businesses, with different terms, purpose, amount of interest rates and repayment deadlines. These loans can be: • Investment loan • Working capital loan • Automobile business loans • Loan without collateral • Allowed overdraft.

The table below shows the loans for small businesses that are offered by all 15 banks that have a work permit issued by the National Bank of the Republic of Macedonia.

Table 7 Loan amount, repayment period and interest rates in Macedonians banks for 2017

Bank	Loan amount	Repayment period	Interest rate
Alpha Bank AD Skopje	depends on the needs of the client, the creditworthiness and the value of the collateral	depending on the needs of the customer, the amount requested, the business orientation	depending on the value of the collateral, the financial data, the requested amount, the currency, the business orientation, the expected inflows from abroad and other business activities with the bank
Eurostandard Bank AD Skopje	without limitation, in accordance with the creditworthiness	up to 12 months, short-term	- for loans secured only with bill of exchange, existing clients of the bank, 15%, with a credit history greater than 12 months - for firms (new clients of the bank), without a financial history 16%
Halk Bank AD Skopje	5 000 – 666700 euros	2-3 years (including 6 months grace period)	5,5%
Sparkasse Bank Macedonia AD Skopje	3000 000 – 10000000 denars	- up to 120 months for the purchase and construction of business premises and refinancing of previous investments - up to 84 months for the purchase of equipment and refinancing of	- 7.75% for denar loan (variable interest rate) - 6.75% for foreign currency loan (variable interest rate)

		previous investments	
Kapital Bank AD Skopje	depending on the client's creditworthiness	up to 12 months (with a grace period of up to 6 months)	by agreement, and in accordance with the Decision on interest rates of the Bank
Komercijalna Banka AD Skopje	15 000 – 500 000 euros (up to 3 500 000 euros for loans from EIB)	8 years with a grace period of up to 1 year (7 years with a grace period of up to 2 years for EIB loans)	6.5% - 8% per annum, fixed (5.5% per annum for EIB loans)
Macedonian Bank for Development Promotion AD Skopje	10 000 – 3 500 000 euros	up to 8 years (with a grace period of up to 2 years)	5.5% per annum
NLB Tutunska banka AD Skopje	10 000 – 3 500 000 euros	up to 8 years with a grace period of up to 2 years	5.5% per annum
Ohridska banka AD Skopje	depends on the creditworthiness and creditworthiness of the client, the quality and value of the offered collateral, as well as the needs of the loan applicant	Up to 1 year	3% - 10% per annum
ProCredit Bank AD Skopje	10000 - 500000 euro for fixed assets, 15000 - 300000 euro for working capital	up to 132 months for fixed assets (grace period up to 12 months), up to 36 months for working capital (grace period up to 6 months)	6.5% per annum, fixed
Central Cooperative Bank AD Skopje	Up to 30000 euros	up to 5 years (grace period from 3 to 6 months depending on the loan period)	6% - 8% per annum
Stopanska banka Bitola AD	15000 – 500000 euros	1 to 3 years without a grace period (up to 8 years with a grace period of up to 1 year)	6.5% per annum
Stopanska banka Skopje AD	Up to 200 000 euros	5 years	9% - 11% per annum
TTK Bank AD Skopje	10 000 – 500 000 euros (up to 3 500 000 euros for loans from EIB)	from 3 to 8 years with a grace period of 6 to 12 months (up to 8 years with a grace period of up to 2 years for EIB loans)	6% - 8% per annum (5.5% per annum for EIB loans)

Source: Андреевска Тања. 2017. Анализа на изворите на финансирање на малите бизниси во Република Македонија

Larger banks are also included in the SME Development Program of the Macedonian Bank for Development Promotion, and some of them offer lending through loans from the European Investment Bank.

The range of instruments that serve small businesses as sources of financing in the Republic of Macedonia as the most used source are the loans given by commercial banks. The average interest rate on which loans are offered to this sector according to the data from the table (shown above), as we calculated is 7,18%. Generally speaking, as for a small-sized market, the supply of instruments is not a one-line, yet this sector has the highest reliability in formal financing, amongst the most stable financial institutions. The possibility (although the probability is not large) is not excluded, these businesses also use alternative ways of financing that do not involve lending, but investment activities that would bring adequate earnings.

Activities on capital markets that include investments in stocks, bonds or investment funds and their offer are not considered to be considered as an alternative that has yet to be actualized and promoted as a way for cheaper financing of small businesses in the Republic of Macedonia.

3. Conclusions

From this paper we can see the image of the Macedonian economy for enabling the fertile environment of small and medium-sized businesses that would use it as a source for profit and market maintenance. Strategies for the development of this sector were revised (2018) in order to achieve improvements in policy making; simplification of the legal and regulatory environment; improving access to finance; simplification of taxation; promotion of information and communication technology; Strengthening science, technology and innovation in the function of SME development; promoting entrepreneurship in education and training; encouraging the internationalization of SMEs; improvement of business development services; and strengthening the dialogue between the public and the private sector. This confirms the fact that in Macedonia, the gaps that are an obstacle to the existence and motivation of SMEs are accurately detected, but on the other hand, the fact that the level of employment and trade in this sector does not indicate some significant changes and differences.

In the domain of funding sources, given the fact that it is a small economy, they are varied and there are many, as can be seen from the attached in the paper. However, the question remains why SMEs are still the most reliable source of financing they regard as the classic instrument, the loan, despite the fact that it is not cheap, but ranges with an average price of 7.18%. Such a situation points to new research fields that relate to whether the applied strategies and plans are not implemented in practice, and whether SMEs see alternative forms of financing as a waste of time for something that has been doomed to failure in the face of corruption, bribery, nepotism. Are alternative forms of funding just a beautiful story that is accomplished more difficult than it is written and how such a state and perception should be changed.

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