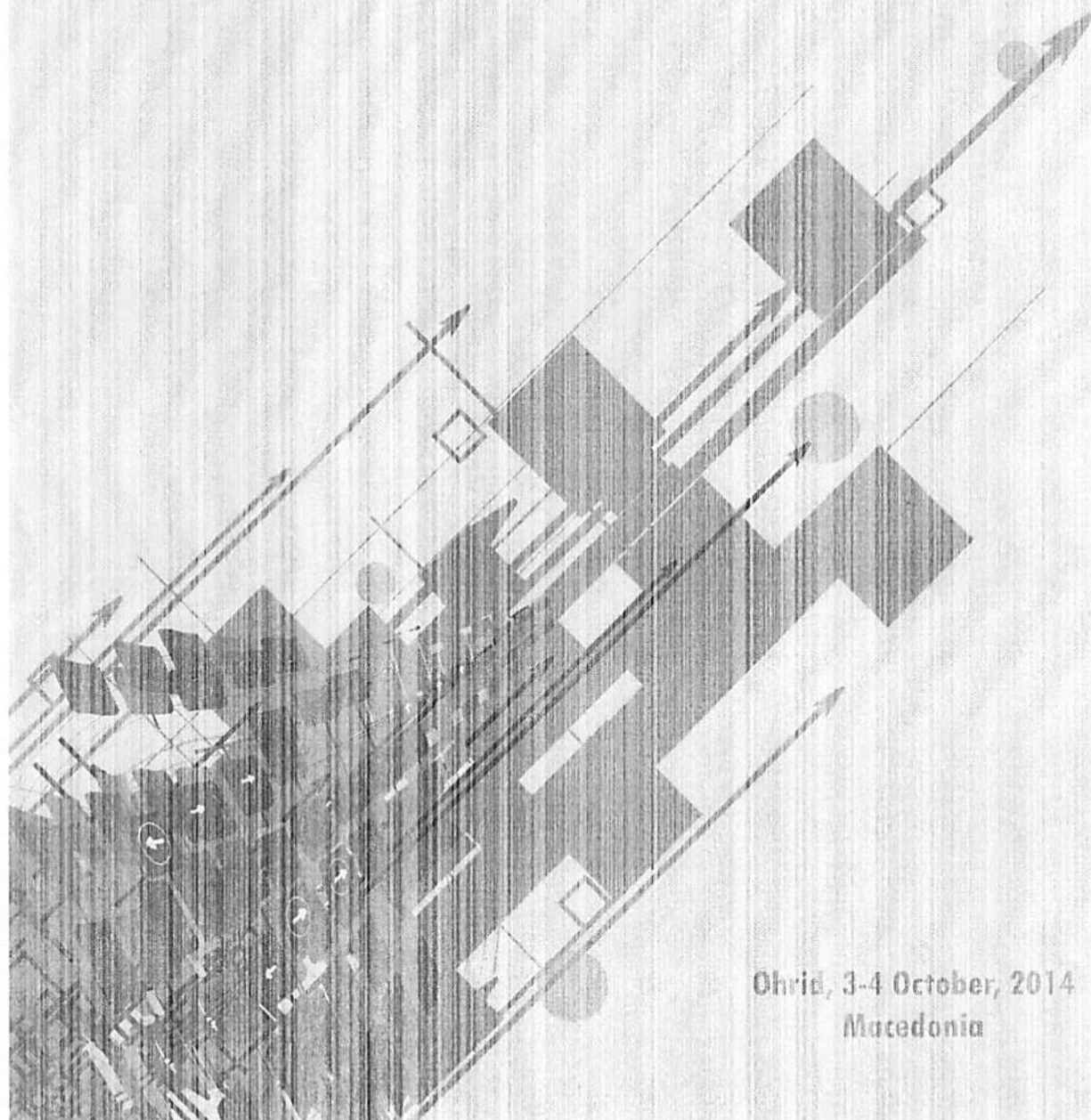


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SMEs DEVELOPMENT AND INNOVATION:
BUILDING COMPETITIVE FUTURE OF SOUTH-EASTERN EUROPE**



**Ohrid, 3-4 October, 2014
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FINANCING SMEs IN MACEDONIA

Petrevska Biljana¹

Abstract

Entrepreneurship is closely related to the small and medium sized enterprises (SMEs). Regardless the country's level of economic development, the SMEs encompass over 98% of business entities in the contemporary economy. They are particularly important for the job creation, GDP, value added, as well as innovation, local and regional development and so forth. The objective of this research is two-folded: firstly, to describe the sources of financial support to the SMEs, and secondly, to identify and address the most applied sources of financing. For the purpose of that, the research is elaborating the case of Macedonia. It poses comparative analyses based on stylized facts obtained from desk-research and available sources of secondary data. In this line, the paper elaborates the significance of the Macedonian Bank for Development Promotion (MBDP) in providing financial support to the SMEs in Macedonia. The data set covers the period 1999-2011. Since the quantitative analyses do not always disentangle key facts necessary for pointing out concluding remarks regarding particular issues, analyses based on qualitative approach are additionally introduced. This empirical investigation underlined that the role of the MBDP is additionally important since it gave support in the period when the interest rates (nominal and real) of the commercial banks were extremely high and when the SMEs were practically excluded from the financing of the banking sector. Finally, the research findings point to fact that the MBDP has substantial role in terms of financing and development of the SMEs, as well as the entrepreneurship in Macedonia.

Keywords: Financing, SMEs, Macedonian Bank for Development Promotion, Macedonia.

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INTRODUCTION

In the contemporary society, the economics defines the entrepreneurship as one of the most profound factor for growth and development. Generally, the entrepreneurship is defined as usage of new possibilities, which results due to introduction of innovation in the economic activity – in the production, exchange and consumption of goods and services. In this line, an entrepreneur is a person who innovates and introduces innovations in the economic activity.

There is an inevitable relationship between the entrepreneurship and small and medium-sized enterprises (SMEs). They have dominancy of approximately 98% of the total number of enterprises in a country, regardless the level of its economic development. Among the SMEs, it is noticeable the share of the micro-firms (up to 10 employees), as well as the share of the small firms (between 10-50 employees). On the other hand, the share of the medium-sized enterprises (between 50-150 employees) and the big companies (over 250 employees) is by far lower. In this line, the SMEs participate even by 99.8% of total number of enterprises active in the nonfinancial sector in the EU-27 countries, while the micro-firms participate with 91.8% (Eurostat, 2008). Moreover, the SMEs contribute to the job-creation within the business, particularly in the nonfinancial sector by creating 67% of total employment in the EU-27 countries and by 58% in the creation of the value added.

In Macedonia, the SMEs, as well as the entrepreneurship started to develop significantly after the country's independency. Out of 75,497 active business entities in Macedonia, 75,294 or 99.7% are SMEs (State Statistical Office, 2010). Consequently, the SMEs have predominant role in employment and value-added, as well as in the creation of the GDP in Macedonia.

Concerning the other aspects of SMEs development, one may note their importance in supporting and introducing innovation, using entrepreneurial skills of employees, support to local and regional development etc. Consequently, one may conclude that the SMEs and the entrepreneurship are factor that enhances stable and sustainable development of modern economies. Therefore, it is not surprising the fact why the governments pay much attention to the policy of supporting SMEs. In this line are the institutional, educational as well as the consultancy measures for the SMEs support. Furthermore, there are established national agencies for SMEs, regional centers, business-incubators, technological parks, clusters, local economic development offices, and so forth. Yet, the financial support to the SMEs is still important measure particularly in the case of establishment and development due to numerous limitations and risks, mainly from financial aspect. The variety of risks derive from the fact that the SMEs have lack of: economies of scale, diversified assortment, skilled and educated management, limited options for bank loans etc. resulting with limited access to finance. Accordingly, the governments assess the possibilities to establish mechanisms at central and local level in the line of providing financial support to the SMEs. In many countries worldwide there are governmental specialized financial institutions, like state development banks, guarantee funds etc.

In the early phase of the transition, the SMEs in Macedonia developed rapidly and evoked the issue for ensuring financial support under favorable conditions. Namely, the financial problems at the time being were namely present due to two reasons: (i) the nominal interest rates were extremely high; and (ii) there were no alternative approaches and sources for SMEs financing. Therefore, the Government of Macedonia decided to establish the Macedonian Bank for Development Promotion (MBDP) with two sectors: (a) sector for SMEs support; and (b) sector for export support. Up-to-day, the MBDP succeeded to ensure important credit lines from

international and domestic sources for SMEs development, and to launch them in accordance with bank's mission and strategic priorities.

The objective of this research is two-folded: firstly, to describe the sources of financial support to the SMEs, and secondly, to identify and address the most applied sources of financing in Macedonia. In this line, the paper is structured in several sections. After the introductory part, Section one provides a snapshot on some background materials presenting stylized facts regarding sources of financing for SMEs. Section two poses the applied methodology and research frame. Section three presents the main sources of financing SMEs in terms of formal and informal sources, as well as the sources of equity and debt capital. At the same time, this section briefly explains the role of commercial banks for SMEs development. The evolution and development of the SMEs in Macedonia is elaborated in section four, while section five puts an accent on the main aim of the Macedonian Bank for Development Promotion. The final part of the paper includes main conclusions and recommendations.

LITERATURE REVIEW

There is a large body of literature referring the financing sources of SMEs. Some authors pay attention to the importance of the informal financing sources, particularly in the early phases of their business development. According to Birch (1987), there were approximately 800,000 small businesses in the USA in the middle of the 80s, seeking for 25,000 US\$ for an individual start-up, or approximately 20 billion US\$ in total. In case that out of those 800,000 newly established enterprises, 300,000 continues rapidly to develop, it provokes a need for 25,000 US\$ each, so the total amount for financing the SMEs is estimated around 27-28 billion US\$ per year. 80% of the total amount (around 22 billion US\$) derives from the informal sources of financing (Birch, 1987, p. 79). In this line, one may note the findings from another interesting research in which on the sample of 500 the fastest growing businesses in the USA, almost 70% refer that the start-up financing come from the founders' savings, 20% is from relatives and friends, while only 8% are bank loans (Filipovski, 2007, p. 205).

The role of the informal sources of financing of the SMEs in the developing countries, whereas the financial markets are still undeveloped, is substantial. That addresses the transition countries as Macedonia is as well. Moreover, in the early stage of the transition period in Macedonia, the informal sources of financing of the SMEs (3F money) were dominant over the formal sources i.e. bank loans. That was a time when due to high interest rates, the SMEs actually did not have an access to finance (Fiti et al, 2007, p. 247-248). Furthermore, one may note the importance of sources of equity and debt capital for SMEs. Baron and Shane (2007) as well as Filipovski (2007) point out the following sources of equity financing: Personal savings by the entrepreneur; Sources from family and friends; Sources from the business partners; and Risk capital.

In this line, the banks are the main source of debt capital, supplemented by the leasing and factoring. The leasing of the SMEs brings two very important advantages: (i) by hiring an equipment from a leasing-firm, they are protected from the out-of-date; and (ii) it enables the costs to be spread over longer period (Filipovski, 2007, 209; Ros et al, 2010, p. 620). Furthermore, one may note that the banks contribute even up to 70% in the financing of the SMEs, the second-ranked is the leasing with 24%, the public financial institutions with 11%, business-angels with 4%, official venture funds with 2% etc. (Jekkel, 2006, p. 5).

METHODOLOGY AND RESEARCH FRAME

The research encompasses the usual methods applied by the economics in the first line the methods of induction and deduction, which are particularly used to investigate the size of loans granted by the MBDP. Furthermore, the paper poses comparative analyses based on stylized facts obtained from desk-research and available sources of secondary data (Yearly Reports and Financial Reports of the MBDP). The data set covers the period 1999-2011. Since the quantitative analyses do not always disentangle key facts necessary for pointing out concluding remarks regarding particular issues, analyses based on qualitative approach are additionally introduced. The idea is to evaluate the effects of the MBDP's work in terms of financial support to the SMEs in Macedonia.

SOURCES OF FINANCING

This section gives a snapshot on the most significant sources of financing of the SMEs, in terms of formal and informal sources, as well as sources of equity and debt capital. The role of commercial banks for SMEs development is additionally addressed.

Formal and Informal Sources of Financing of SMEs. The formal sources of financing refer to the official financial institutions relevant for the financial systems in different countries – commercial banks, public banks, international banks (like the International Bank for Reconstruction and Development i.e. the World Bank and its agencies the European Bank for Reconstruction and Development, the European Investment Bank etc.), stock exchanges and venture funds. The informal sources of financing the SMEs refer generally to the 3F money (founders, family and friends). Furthermore, the business-angels are within this group, which belong to the risk capital family.

Sources of Equity and Debt Capital for SMEs. Concerning the financing of the SMEs, one must note the sources of equity and debt capital. The equity capital is extremely important source of business financing since it is a capital that is permanently invested in the firm without an obligation to be returned to the investor. In this line, the following sources of equity capital may be noted:

- Personal savings by the entrepreneur (founder) – it incorporates relatively small amounts in terms of bank deposits, demand deposits, credit cards etc. Furthermore, this category of sources encompasses the property in securities (shares, state or business bonds etc.) and real estate (land, house, buildings etc.);
- Sources of relatives and friends – this potential source of financing the SMEs has a form of equity capital only if it includes invested money in exchange of shares. In case when relatives and friends give a loan, it is a matter of debt capital;
- Sources of business partners – an individual firm may be transformed in a partnership in a case when a business partner invests money in the firm instead of shares. Yet, the partnership is a type of rigid business form since the partners undertake full (unlimited) responsibility for the firm, regardless the size of individual participation in the firm's capital (Samuelson & Nordhaus, 2005, p. 105);
- Risk capital – this incorporates sources from the informal risk capital (business-angels) and from formal risk capital (venture funds). In both cases, it is a matter of

investing money in exchange of shares, but in time and expertise as well (Mason, 2005, p. 4).

Concerning the sources of debt capital, it is known that the banks are the main source. They lend financial funds to the SMEs and get interest in return. Besides them, the leasing and factoring are other important sources of debt capital. In the case of leasing, the SMEs lend an equipment and pay to the leasing-firm for the time of usage of the equipment in terms of rent and interest. After the leasing period, the firm returns the equipment or buys it. In the case of factoring, the SMEs actually sell its demand to the factoring-firm, usually for lower prices than the nominal amount of the demand, while the factoring-firm attempts to charge it.

The Role of Commercial Banks for SMEs Development. The commercial banks play the most important role in the financing of the SMEs. Even in the countries with developed financial market with variety of financial sources, the banks have the profound part enabling external financing to the SMEs. In Macedonia, the banks are highly interested for SMEs financing, particularly if they are characterized with dynamic growth and flexibility. The major part of the credit lines for the SMEs comes from foreign governments and public agencies, or by the international banks and agencies (Petrevski, 2005, p. 16).

The banks may endorse different types of loans, starting with overdrafts, revolving, long-term loans, mortgage etc. Before the banks reach final decision for providing a loan, they undertake a detailed credit analysis of the client. In this line, one of the most applied methods for evaluation of the credit capability of the SMEs is the 5C-method (Character, Capacity, Capital, Collateral and Conditions) (Hisrich and Peters, 1998, p. 367-368; Kolari and Gup, 2004, p. 263-264). Recently the commercial banks put an accent to the advisory and consultancy role through its experts, which is extremely useful for the SMEs particularly in their starting years of business and limited experience. Even more, the banks may give crucial recommendations during the entire lifecycle of the SMEs, particularly important during their expansion and internationalization (Fiti et al, 2007, p. 143).

DEVELOPMENT OF SMEs IN MACEDONIA

Macedonia, as many other former socialist countries, started with the development of SMEs in the transition process. Based on various changes in the economic and political system of the country, the process of spontaneous entrepreneurship was initiated. On the other hand, the establishment of large number of new SMEs was expected reaction of the citizens due interrupted social and economic security caused by transition, privatization and growing unemployment (Fiti et al, 2007, p. 224). The dynamic of registering new SMEs was particularly intensive in the period from 1990 until the end of 1993, followed latter on by smaller intensity (due to embargo) and gaining in force once again in 1996. The Kosovo crisis in 1999 did not have any meaningful influence on the establishment of new SMEs. The registration almost stopped in 2001 when the war conflict in Macedonia started, but continued in 2002 again. At the end of 2004, there were more than 172,000 SMEs in Macedonia (APPRM, 2005). However, soon after, it was detected that large portion of the newly created SMEs are inactive entities, so only 49,123 (29%) were active. According to the sector structure, in the early transition period, the largest number of SMEs belonged to the trade sector (even 67% of the SMEs in 1993). Later on, the firms gradually shifted from trade to manufacturing, construction and other services out of trade. Until 2004, the share of SMEs in the trade sector was substantially reduced compared to 1993, getting to 54% (APPRM, 2005). Concerning the regional aspect, the largest part of the SMEs is concentrated in Skopje, Bitola, Kumanovo, Prilep, Ohrid, Strumica and Tetovo.

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In 2004, based on the changes within the Company Law, Macedonia adopted the methodology for classification of the enterprises based on the size, proposed by the EU Commission. According to this methodology, the enterprises are classified upon three criteria. The first criteria (number of employees) is accepted in Macedonia and consequently there are micro, small, medium and big enterprises. The other two criteria (size of the turnover and total amount of the assets) are adjusted to fit Macedonia's conditions. Hence, small enterprise in EU is an entity with yearly turnover of 10 million EUR, while in Macedonia it should have only 2 million EUR.

The State Statistical Office of the Republic of Macedonia is entitled to follow the development of the SMEs in terms of growth, sector and regional structure, demography etc.

Table 1. Number of active business entities in Macedonia in 2012

Sectors of activity	Total	Number of active business entities by number of persons employed					
		0*	1-9	10-19	20-49	50-249	250+
Total	74,424	7,158	61,053	2,937	1,795	1,280	201
Agriculture, forestry and fishing	3,072	290	2,678	38	31	33	2
Mining and quarrying	184	24	103	27	15	9	4
Manufacturing	8,251	607	6,059	658	518	352	57
Electricity, gas, steam and air conditioning supply	134	58	61	3	4	5	3
Water supply, sewerage, waste management and recommendation activities	321	39	200	25	23	27	7
Construction	4,541	465	3,564	277	161	67	7
Wholesale and retail trade; repair of motor vehicles and motorcycles	27,307	1,879	24,140	826	342	107	13
Transport and storage	6,445	299	5,795	208	99	37	7
Accommodation and food service activities	4,611	278	3,922	311	78	20	2
Information and communication	1,515	338	1,037	73	35	25	7
Financial and insurance activities	413	69	287	13	15	18	11
Real estate activities	493	119	331	21	16	5	1
Professional, scientific and technical activities	5,707	531	4,956	152	48	18	2
Administrative and support service activities	1,438	428	872	55	47	22	14
Public administration and defence; compulsory social security	268	10	31	41	74	80	32
Education	1,020	67	453	41	158	296	5
Human health and social work activities	3,298	49	2,965	70	73	120	21
Arts, entertainment and recreation	1,176	416	629	47	45	33	6
Other service activities	4,232	1,192	2,970	51	13	6	0

Note: *Including enterprises with unascertained number of employees
Source: State Statistical Office of the Republic of Macedonia (2014)

Table 1 presents data on active business entities in Macedonia in 2012. It is noticeable that out of 74,424 enterprises, 99.7% or 74,223 are SMEs. In this line it should be noted that the SMEs are significant not only for having the dominant share of total entities in Macedonia, but for their contribution to the GDP (over 55%) and to employment in the business sector (over 75%). Additional conclusion arises in the line of sectorial changes in the SMEs in Macedonia. Namely, based on Table 1, one may find that the trade has decreased its share for additional 17% compared to 2004. Moreover, the manufacturing, construction and transport have a common

share of 26%, while the Information and communication, Financial and insurance activities, as well as Professional, scientific and technical activities contribute with 10%.

In the first years of the transition period, the SMEs sector was developing spontaneous, without any substantial governmental support or planned policy measures. Yet, as the number of the SMEs grew and their contribution to the country's development became more meaningful, special institutions for support to the SMEs and the entrepreneurial process were established. The following institutions are among the most important:

- National Enterprise Promotion Agency (NEPA) – it is established by the Government in 1997, with the support of the PHARE Program and the EU Commission. The main aim of NEPA was to support the development of SMEs, particularly those active in the field of production, innovation and export; to train the current and potential entrepreneurs; to establish a system of consultancy; to coordinate entrepreneurial ideas at national level and to contribute in the creation of policy for support of the SMEs and the entrepreneurship. At the beginning, NEPA was active within the frames of the Agency for privatization, and in 1998 was independent legal entity. The financial support of its activities was mainly from the PHARE Program, while the funds of the state budget were very modest. NEPA was active until 2002 when it was transformed into the Agency for promotion of entrepreneurship of the Republic of Macedonia. Yet, one may conclude that NEPA had profound role in the institutional support of the SMEs in Macedonia (NEPA, 1998);

- Regional Centers for SMEs and entrepreneurship. These centers were established with PHARE Program support, and later on, part of them were self-sustainable. At the early stage of their creation, they were established in Skopje, Veles, Bitola, Kumanovo and Strumica, and later on in other cities in Macedonia (Ohrid, Tetovo, Gostivar etc.). Their main aim was very similar to NEPA's but limited at local and regional level;

- Business-incubators. The idea of their establishment started in 1993-94 within the Project for social reforms and technical assistance, undertaken by the Government with financial support of the World Bank (IDA loan) (Fiti et al, 2007, p. 235-243). The first business-incubators were established in 1997 in Prilep, Krusevo, Stip, Makedonska Kamenica and Delcevo. Later on, based on the initial experiences, the Government developed a Manuscript for establishing incubators in Macedonia (APPRM, 2005). In the meantime, newly established business-incubators were active, like "Yes" incubator in Skopje, The Center for development of new businesses in the frames of "St. Cyril and Methodius" University - Skopje etc.

- Macedonian Bank for Development Promotion

- Other institutions. In this line, in 2002 the Government adopted new Program for measures and activities for support of the entrepreneurship and creation of competitiveness of the SMEs. The PHARE Program cut the funding to NEPA and in 2002, it was transformed into the Agency for promotion of entrepreneurship of the Republic of Macedonia. In the following years, several other institutions were developed generally with a bilateral agreement, like: the Agency for support of the entrepreneurship in the Pelagonia Region (PREDA-Prilep) (financial support of the Swiss Development Agency); many municipalities developed offices for local economic development: Macedonian Business Center (financial support of the north Rayna Westphalia); the saving bank "Moznosti" (financial support of the USAID) etc.

Despite the fact that Macedonia during the transition has increased number of SMEs and meaningful institutional support, yet the conclusion is that there is a lack of SMEs. Namely, today there are approximately 35 active SMEs on 1,000 inhabitants, while the critical point is 50-60. In this line, large number of current SMEs in Macedonia have weak innovative approaches and have modest export results. Additionally, the institutions which general aim is support to the SMEs and the entrepreneurship in Macedonia are with limited capacity (UNDP, 2006).

Limitations of sources for financing SMEs. In the early phase of the transition process, despite the rapid development of newly established SMEs, the sources for financing were very limited. Actually, up to 1996, only two sources for financing SMEs in Macedonia were present: (i) 3F money; and (ii) Bank loans. After 1996, the Government mobilized the foreign credit lines, while the debt capital was not present.

Concerning the Macedonian banking, it should be noted that during the transition it was in a process of rehabilitation and consolidation. After the independence, the banks were faced with huge problems particularly in servicing foreign exchange-denominated deposits and substantial share of bad loans in the banks' portfolio. Consequently, the banks lost their credibility among the citizens and business entities.

Table 2 presents the key findings from perception of the surveyed enterprises towards their general financial limitations (Bartlett and Bukvic, 2002, p. 25). It is noticeable that the financial obstacles for the Macedonian SMEs are by far larger compared to other two investigated countries. In the same line is the conclusion that the financial limits for the growth of the SMEs have the highest rank compared to other potential obstacles (taxation, administrative regulations, legal aspects, lack of institutional support etc.) (Bartlett and Bukvic, 2002, p. 34).

Table 2. Financial limitations for the SMEs in Macedonia, Slovenia and Bosnia and Herzegovina(%)

Types of financial limitations	Macedonia	Slovenia	Bosnia and Herzegovina
<i>High credit costs</i>	63	44	62
High value of mortgages	54	41	54
Indifference of banks for SMEs	55	24	46
Long time to obtain a credit	55	22	45
Very high bank expenses for processing the credit requests	51	29	45
Bank administrative procedures	50	25	44
Reject of financial request	57	13	41
<i>Average</i>	55	28	48

Source: Bartlett and Bukvic. (2002), p. 25.

In the line of overcoming the detected limitations for further development of the SMEs and the entrepreneurship in Macedonia, the Macedonian Bank for Development Promotion is established in 1998.

MACEDONIAN BANK FOR DEVELOPMENT PROMOTION (MBDP)

The MBDP is the only state developmental bank in Macedonia, established in 1998, with a constitutional capital of 15 million EUR and structure upon the concept of the German Development Bank KfW. It is interesting to note that the first idea when establishing the MBDP was to support the export of the Macedonian firms, which was not supported by the International

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Monetary Fund (Trpeski, 2009, p. 473-477). In general, MBDP supports SMEs since in the frames of enterprises, which produce for export, substantial part belongs to SMEs. Table 3 presents the credit lines of the MBDP from own resources. Namely, starting from 1999 until up-to-date, there are four active credit lines for SMEs financing originating from own resources.

Table 3. Credit lines of MBDP from own resources for financing SMEs, 2011

Type of credit line	Amount in EUR	Term of repayment	Interest rate*
Financing small and medium trade enterprises	15,000-500,000	Up to 8 years with 1 year grays period	8%
Financing of production for export	15,000-2,000,000	Up to 2 years	6%
Financing of working capital	30,000-300,000	Up to 3 years	8%
Direct support to the export firms	15,000-1,000,000	Up to 2 years	6%

Source: Various publication of the MBDP (www.mbdp.com.mk)

Furthermore, Table 4 presents the credit lines of MBDP from foreign resources for financing SMEs. It is noticeable that as of 1999, Italy and Germany started to allocate resources for supporting SMEs development.

Table 4. Credit lines of MBDP from foreign resources

Type of credit line	Amount in EUR	Term of repayment	Interest rate*
German credit line KfW	50,000-40,000	Up to 5 years with 1 year grays period	App. 11%
German credit line KfW - Revolving Fund	50,000-400,000	Up to 4 years with 6 months grays period	App. 10%
Credit line from Italy	50,000-2,000,000	Up to 7 years with 1.5 years grays period	7%
Credit line from Italy - Revolving Fund	50,000-500,000	Up to 3 years with 6 months grays period	7 and 8%
German-Macedonian Fund DEG	10,000-150,000	Up to 10 years with 2 years grays period	8%
Credit line for developing small and medium trade enterprises from EAR	100,000	Up to 5 years with 1 year grays period	9%
Credit line for financing micro, small and medium trade enterprises from KfW	50,000	Up to 4 years	10-14%
Credit line from the Development Bank of the Council of Europe - CEB	400,000	Up to 7 years with 2 years grays period	App. 9%
Project for sustainable energy	20,000-500,000 US\$	Up to 6 years	variable
Project for sustainable energy (renewable sources)	50,000-4,000,000 US\$	Up to 10 years with 3 years grays period	variable
Project "Self-employment"	variable	Up to 4 years with 1 year grays period	1%
EIB credit line for investment loans	10,000-3,500,000	Up to 5 years with 1 year grays period	5.5%
EIB credit line for TOS	5,000-667.700	Up to 3 years with 6 months grays period	5.5%

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EIB credit line for priority projects	12,500,000	Up to 15 years with 3 years grays period	5.5%
EIB II credit line for investment loans	10,000-3,500,000	Up to 8 years with 1 year grays period	5.5%
EIB II credit line for TOS	5,000-667,700	Up to 3 years with 6 months grays period	5.5%
EIB II credit line for priority loans	6,000,000	Up to 8 years with 2 years grays period	5.5%
OKF (ZKDF)	100,000 for primary agricultural production 300,000 for agricultural products 3,000,000 for export of primary agricultural products	Upon agreement with the financial institution	4-6.5%

Source: Based upon various publications of the MBDP (www.mbdp.com.mk)

During the first starting years from the establishment of the MBDP, only two programs were active: the Investment Lending Program and the Export Production Lending Program for SMEs. Both programs have identified the financing priorities according to the priorities of the macroeconomic policy of Macedonia (MBDP, 2001, p. 12). The brief overview of the main terms of loans from the above noted programs are presented in Table 5.

Table 5. Terms of loans from the Investment Lending Program and the Export Production Lending Program for SMEs

<i>Investment Lending Program</i>	
Purpose	min. 70% equipment max. 30% working capital
Amount	50,000-400,000 EUR
Terms of repayment	Up to 5 years with 1 year grays period
Interest rate	11%
<i>Export Production Lending Program</i>	
Purpose	Financing the export production
Amount	50,000-400,000 EUR
Terms of repayment	Up to 15 months
Interest rate	11%

Source: MBDP (2001, p. 12)

Based on facts posed in Table 6 and 7, it can be concluded that MBDP enlarged its lending activity during 1999-2001.

Table 6. Program for support of investments in SMEs, 1999-2001

Period	1999	2000	2001	Total
Number of loans	11	1	35	47
Amount in million EUR	3.2	0.4	9.3	12.9

Source: MBDP (2002, p. 30)

Table 7. Program for support of export production, 1999-2001

Period	1999	2000	2001	Total
Number of loans	18	24	35	77
Amount in million EUR	6.1	6.6	10.7	23.4
Supported export in million EUR	21.0	52.0	39.0	112.0

Source: MBDP (2002, p. 36)

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After 2006, no substantial change is noted in the sectorial distribution of lending, which can be observed from Table 8.

Table 8. Loans by sectors from own resources within the Investment Lending Program, 2006

Nr.	Sector	EUR	Number of loans
1	Production of food products, drinks and tobacco	1,484,428	11
2	Production of cellulose, paper, paper products, publishing and printing	180,000	2
3	Production of electrical and optic devices	140,000	2
3	Production of textile	211,500	4
4	Manufacturing of wood	123,000	2
5	Production of machines and devices	385,000	3
6	Hotels and restaurants	417,700	2
7	Construction	200,000	2
8	Health and social care	228,100	2
9	Other communal, cultural, general or personal services	1,050,000	6
10	Traffic and communication	269,839	3
11	Production of chemicals and artificial products	500,000	1
12	Production of basic metals and standard metal products	1,433,560	5
13	Production of leather	500,000	1
14	Agriculture, hunting and forestry	200,000	2
15	Production of other non-metal minerals	720,000	2
	<i>Total</i>	<i>8,043,127</i>	<i>50</i>

Source: MBDP.2011, p. 11-12.

Table 9 presents significant increase in the loan portfolio of the MBDP, which was initiated after 2008.

Table 9. Dynamics of loan portfolio of MBDP (in mil EUR)

Year	2006	2007	2008	2009	2010	2011
Loan portfolio	37	40	41	64	95.6	145.5

Source: Based upon various Yearly Reports of the MBDP.

In the frames of foreign resources, in 2009 the credit line of the European Investment Bank (EIB) is activated for micro, small and medium enterprises with a total amount of 100 million EUR. Table 10 presents the priority investment loans from the EIB in terms of credit programs.

Table 10. Credit line from EIB

Amount	26,700 EUR for micro enterprises 266,700 EUR for small enterprises 2,666,700 EUR for medium enterprises
Terms of repayment	Up to 5 years
Payment	Quarterly
Grays period	Up to 12 months
Participation of Bank-participant in the lending support	Minimum 25% from the amount of credit support and 50% from priority projects

Source: MBDP, 2010, p. 20

During 2010, from the own resources of the credit line for financing SMEs, 14 loans were launched with total amount of 2,337,000 EUR, out of which 44% were for manufacturing, 21%

for services, 15% for furniture production, 9% for food production, 6% for construction and 5% for transport. Furthermore, two loans with a total amount of 60,000 EUR were launched for working capital. It is interesting to note that in 2010, in the frames of the Program for support of export production the interest rates were decreased from 8% to 7% (MBDP, 2010, p. 20). In 2011, from this program four loans were approved with total amount of 1,606,950 EUR, while from the program for working capital only two loans were approved with total amount of 60,000 EUR.

Consequently, concerning the role of the MBDP in the financing SMEs as well as the entrepreneurship, one may conclude that it was important and progressive. This is based on the facts that this institution was active in the period when the interest rates were extremely high (nominal and real) and when the SMEs sector had limited access to finance from the commercial banks. The MBDP enabled the increase in the bank loan supply in the Macedonian economy and decrease of the interest rates.

CONCLUSIONS AND RECOMMENDATIONS

Financing SMEs is among the most important issues and problems with which they are faced during different phases of its life cycle. In this line, the commercial banks are by far the dominant source of financing, by participating even with 70% in the EU countries. On the other hand, the countries with developed financial system have much more diversified resource structure, opposite to the transition countries and countries in development. Namely, the developed countries have large portion of financing by the risk capital (business-angels and official venture funds), while within the debt capital the leasing and factoring have increasing importance. Completely opposite is the situation within transition countries and countries in development whereas the noted financing sources have modest participation.

Due to specifics, the SMEs bear bigger risk for financing which leads to limited access to finance. On the other hand, the governments are fully aware that the SMEs are significant business segment with substantial contribution to sustainable economic development. Therefore, they identify measures and activities for supporting the SMEs development and entrepreneurship in terms of institutions and instruments. Hence, there are many public institutions (developmental banks, funds, etc.) which generally present public financial funds for SMEs financing, special programs for subsidizing interest rates of loans for small businesses, various guarantee schemes etc.

Furthermore, one may conclude that the public financial institutions support the SMEs, which have innovative approaches in their businesses, have high development potential, implement projects for environmental protection, application of renewable sources of energy and improving energy efficiency.

Besides the noted conclusions, the research poses some interesting recommendations in the line of enhancing the SMEs financing, like:

- To increase the lending potential of the MBDP;
- To strengthen capacity of the MBDP, particularly in terms of experts for loan analyses since as of 2011, it started with direct investments in the export oriented businesses;
- To develop furthermore the advisory and consultancy role of the MBDP; and
- There is a lack of risk capital (formal and informal) in Macedonia, as substantial form of support to the SMEs and entrepreneurship. Consequently, attention should be

paid to the idea of establishing a Fund for risk capital that will enable financing of innovative projects with good entrepreneurial ideas.

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