

EVALUATION OF MUNICIPAL PROGRAMS FOR SUPPORT TO ENTREPRENEURSHIP IN REPUBLIC OF MACEDONIA

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Abstract: The role of the small and medium size enterprises as providers of employment and contributors to the well-being of the local communities is not questioned in the in the today's globally changing society. As the small entrepreneurs usually start serving local markets, their close social environment is deciding influencer to their establishment, survivability and growth. Knowing that and having in mind that the unemployment is especially high among the young population in the larger urban communities, many municipalities are designing and implement various entrepreneurship business nurturing initiatives such as business development centers, incubators, job clubs, training centers and even some of them establish local funding vehicles.

The purpose of our research is to explore the small business promotion social policies and interventions at local municipal level in case of Republic of Macedonia. We survey the perception of usefulness of the entrepreneurship training program for young population offered by one large urban municipality in Skopje as well as its general awareness about the various entrepreneurship promotion programs in the country and the availability of seed financing. Results from our survey show that the training programs are perceived as successful in in encouraging the participants to at least consider startingown venture in due course. However, the results show low awarenessof the availability of other such programs and financing opportunities for start-ups. We believe that our research could help in the design of the future similar interventions in the urban communities, including training, business advice and funding opportunities. **Keywords:** Entrepreneurship, Entrepreneurship Training, Small Business, Unemployment

1. INTRODUCTION

To be “small business-friendly” is a kind of mainstream trend in the European countries in case of their administration units at all levels of power. The objective is creation of policies based on the “*Think Small First for Europe*” principle of the European Commission, Enterprise and Industry Directorate General (2009). Consequently, the institutional and the financial support to the small business and to the entrepreneurship in general, is not just a duty for the local self-governments. It is a necessity, since the small business is an important factor for fighting the unemployment and for desired sustained economic growth of their communities. However, the adequacy or the frequency of that support provided by the local authorities is often questioned.

2. LITERATURE REVIEW

Entrepreneurship is one of the most complex and intriguing concepts in the economic science. The roots of entrepreneurship had been found in the works of the ancient Greek philosopher Xenophon who described the citizens not only as the heads of the households but also proprietors of a small businesses who have managerial duties of adventurous and opportunity seeking nature (Peneder, 2009). The theoretical use of entrepreneurial concept can be traced in the work of the Irish-French economist Richard Cantillon. According to him, the entrepreneur would buy goods at certain prices at present and would sell at uncertain prices in the future, stressing the risk taking dimension of his personality. On the other hand, the Schumpeterian point of view on the entrepreneurship is focused on its innovativeness as the main driver of the activities of the entrepreneurs, and even further, for the economic development of the entire nations (McDaniel, 2011). The entrepreneurial effort is not about ownership, management or financing, but rather about the creation new products and processes, new goods and new methods that increase the welfare, believed Schumpeter. His conceptualization of the entrepreneurship as driver and the economic development of the capitalist society is accepted by many researchers who also perceived the entrepreneurship the main contributor to the industrial growth and the overall economic development of entire nations (Steward and Boyd, 1988). The engine of the economic growth was the entrepreneur (Holcombe, 1998) and as the more entrepreneurs are in the economy, the faster would be its growth (Dejardin, 2000). Local entrepreneurs are not only the backbones of their local economies, but they are the strongest source of new jobs and sustaining growth (Adams, 2002). Naude (2008) noticed that the start-up rates significantly differ between different regions in

a given country, too. Audretsch and Fritsch (2002) discovered a positive relationship between the new firm formation and the latter employment growth in a given region. According to their research of the regions in Germany that had high startup rates during the 1980's, the latter had higher employment growth in 1990's.

The general desire to be entrepreneur and to start business is higher in the developing countries, such as Algeria and Guatemala, than in the developed such as Sweden and Finland (Wennekers et al., 2005). However, they also found a U-shaped relationship between the rate of starting businesses and the level of the development of a country, measured by its per capita income. The drop of the startup rate once the country reaches certain level of development is due to the abundance of employment opportunities that normally emerge as the country progresses in its development. However, once a certain threshold is reached, the startup rate in the developed countries starts to grow again. Consumers start to demand much more individualized goods and services where the economies of scale do not apply, stress Wennekers et al. On the other hand, it seems that the level of the entrepreneurship activities is inversely correlated with higher unemployment. It is proved by Foti and Vivarelli (1994) who measured a negative relationship in case of Italy. Carree et al., (2002) found little evidence for the so called unemployment push theory of entrepreneurship. On the contrary, if in a given country high unemployment prevails, the potential entrepreneurs face reduced demand for their products and services and projections of the revenue accruing from the entrepreneurship ventures are weak. However, the inverse relationship between the entrepreneurship and the unemployment can also be partly explained with the lack of necessary knowledge and expertise for entering into business (Jovanovic, 1982).

Lacking alternative forms of informal economies otherwise present in their rural counterparts, the urban communities are much more affected with the unemployment. In order to assist the growth and the survival of the new enterprises, the creators of the local policies in urban areas must design assistance suitable for the circumstances of the big cities. Glas (2001) defined two forms of such assistance: "hard" - business information, premises and incubators, legal and financial support, and "soft" that includes, advice, counseling, education and training. According to McFarland, McConnel and Geary (2011), the lack of the soft support in terms of management and marketing is the main common culprit for small business failure, argue they. Consequently, the programs for small business development should typically include general management training, financial advising, and assistance with formulating business plan. The aim is to achieve increased number of new ventures that will (1) increase the employment which results with bigger revenues in the municipal cash box, start-ups and small ventures probably would employ staff from the local citizenship, self-employment would increase and the increased cash flow from taxes would open new opportunities for the local authorities; (2) better services to the public and improved quality of living, and (3) positively influence the motivation for new entrepreneurial attempts of the unemployed people in the community. Entrepreneurship education and training have influence not only on the development of particular business skills, but also on the motivation of the participants to strive for something that otherwise seems impossible or too risky. It should create a positive perception and a desire among the individuals to start own business (Kelley et al., 2012). This can be part of the formal education programs, whether as compulsory or as elective, and informal courses and seminars offered by the local government agencies, private or private-public providers of business development services (Kelley et al., 2011). For the people looking for such skills and knowledge it is rather irrelevant shall they get it as formal (university) studies or informal i.e. with different kinds of training and seminars (Remeikiene and Startiene, 2014).

One of the common problems for the new ventures, particularly those in the urban areas is how to obtain sufficient funding to to operate successfully. Finances have been cited as one of the major constraints for entrepreneurship. In the World Bank's Enterprise Survey of 123 countries, undertaken by Chavis et al. (2010), 31 percent of firm owners report the access to finance as major constraint to current operations of their firms. This percent, in case of the firms up to three years of existence reaches 40 percent. Consequently, it is fully understandable the concern of the potential startups in the urban areas in relation with their access to finance for survival and growth.

The successful implementations of policies and measures for promotion of entrepreneurship in the region of the Former Yugoslavia, follow the major concerns as indicated by the scholars. For example, Republic of Slovenia has very elaborated business support system based on the measures which are undertaken by the government and the network of public and private institutions, universities, research centers and private investors. However, the cities (municipalities) in Slovenia have little responsibility or budget for small business support, since the support schemes are funded and implemented solely at the national level. There are several institutions in charge for small business promotion and development on the national level, such as the Ministry of Economy, with its agency JAPTI, Ministry of Labor, Family and Social Affairs with the National Employment Office and the Slovenian Enterprise Fund, a public financial institution for the purpose of improvement of access to finance for micro, small and medium-sized companies. The Fund provides guarantees for technology projects, for new businesses, micro guarantees and counter guarantees for regional guarantee schemes; grant lines for start-ups and equity financing for small businesses

registered in less than 42 months period. Loan sealing is set to 1.5 million euro, while the repayment period is up to 10 years. Four technology parks and ten incubators are operational (Rangus, Drnovshek, 2014). All of them are established as public-private partnerships, where municipalities are founders or owners. These bodies offer business support services for all phases of the venture growth, from business idea to global expansion and growth. They offer wide spectrum of specialized business consultancy services, coaching, business networking, platform for accessing capital and human resources, web-based platform for global growth. Also, they offer infrastructure such as office space, R&D facilities and utilities. Business Angels of Slovenia is association (club) founded in June 2007. It is consisted of 25 successful high net worth individuals who have already built one or more successful companies. Their target is seed or startup companies but with high growth potential, excellent management and viable exit strategy.

In the case of Croatia, the institutional infrastructure of the national small business support system is initiated by the Ministry of Economy Labor and Entrepreneurship, and the local authorities and covers 23 business incubators; 44 entrepreneurial centers; 27 development agencies; 13 free trade zones; 108 entrepreneurial zones, 3 technology and one industrial park. The Croatian Agency for Small Business is funded by the state, the EU funds and other sources. In contrast to Slovenia, in the Republic of Croatia, the local authorities are giving state aid in form of loans and grants to their micro and small ventures. For example, the Karlovac County has own micro credit program for micro and small ventures for procurement of equipment, reconstruction and expansion of buildings and for working capital. The Croatian Bank for Reconstruction and Development has loan programs for start-ups and small enterprises, youth entrepreneurship, woman entrepreneurship and small and medium entrepreneurship, in general. Business angels in Croatia, operate within CRANE Association (Croatian Angel Network).

For the practice of the more developed and with wider experience from the transition to free trade, we explored the case of Wandsworth Borough, a highly developed residential area of central London with population of approximately 300,000 people. This sister municipality of Aerodrom, has healthy local economy with growing number of successful businesses, with employment and self-employment rates well above the national average thanks to many successful actions and economic development policies implemented by its Economic Development Office (EDO). The mission of this institution is to help Wandsworth businesses, especially the small ones to grow using the potentials of the Borough's five town centers, regenerated deprived areas, to help the Wandsworth residents get jobs and to encourage development of a strong voluntary sector. EDO contributes to making the Borough safer and more prosperous, particularly through working with partner organizations under the Long Term Community development strategy.

3. THE SURVEY

A detailed questioner was given to a representative sample of individuals who were part of the training organized by the local community in Aerodrom, large urban municipality of Skopje, the national capital. Under the current legislation on the local self-administration, Aerodrom is responsible *inter alia* for its own economic development, own local infrastructure and conditions for business. Approximately 100,000 people live in this urban community. The economy is mostly based on small and medium enterprises (app. 6,000) in services, trade and light industry. Aerodrome is relatively well developed urban municipality in which reside people that work in city of Skopje and in the surrounding neighboring municipalities that held the largest manufacturing facilities in Skopje. The overall unemployment is thus well below the national average. However, the unemployment among the young population is high as well as among the women, especially in its rural parts. Moreover, the education and skills profile of the unemployed people is in apparent mismatch with the needs of the businesses. Most of the unpeopled have general high school education with no or weak specific skills. That is why, the Municipality Council designed and implemented a broad training program in how to start own business and in various demanded skills like computers programming, business English, and project management. The number of participants that attended some of these courses reached 4,000. As the aim of the Survey was to explore and to evaluate the past activities order to help future actions, the questionnaire was sent to 126 participants who finished some training and received certificate. The questionnaire was answered by 90 of them. Their gender structure is 46% males, 54% females. Regarding their age, 49% were in the group 30 to 39; 22% in the age from 40 to 49; 18% in the age from 18 to 29; 6% in the age from 50 to 59 and 5% were in the group from 60 and more. The largest number of participants had university degree (63%), 26% have even graduate degree, while 11% have finished high school. Most of them were with work experience more than 5 years (74%); 24%, less than 5 years and without working experience were 2%. The questionnaire had also several open questions to allow qualitative insight into the fine nuances of the process and about how it is perceived by the participants, not only in terms of numbers, but also based on some notable details combined with their overall impressions from the training experience. The results are then compared with the best practice in the region (Slovenia, Croatia), Wentworth (Central London) in order to generate valuable conclusions

and latter to propose potential government actions for the future.

The first task of the Survey was to assess the impact of the training on the attitude towards the entrepreneurship among the participants. That the training positively influenced their attitude regarding the entrepreneurship in general 35% replied yes. On the question of starting own business at some point in the future, 24 % answered yes. This percent plus 11% of those that already started own business gives 35%. Almost one third of participants (31%) do not developed any intention to start own business and continued to search for employment. In the group of those who planned to start own business, 70% have some business idea. The majority (63%) of the respondents thought that their previous working experience and skills are enough for starting their new business. About the small business incentive programs available in the Country, 22% answered that are well informed, 52% are only partially informed and 26% were not informed at all.

On the question what kind of business support services they would like their municipality to offer, 74% replied that it would be helpful to gain free services from accountants, layers, marketing experts, web page developers, information about calls for proposals and procurements. Centre for Support of Small Business and free incubator space were indicated as useful by 68% of the participants. On the question how they plan (prefer) to finance their business, 52% of the respondents replied that they would not take a loan or other external financing for their business activities, opposite to 48% participants who replied with yes. Participants estimated conditions for taking loans as unfavorable. However only 8% of them answered that they are familiar with the microcredit lines offered by the Macedonian Bank for Development, 44% were only partly familiar and almost half of them (47%) were not familiar at all.

4. CONCLUSIONS

There is almost consensus among the scholars that the state policies can influence the entrepreneurial attitude of the people by supporting the opportunities and the availability of resources needed to startups. However, they call these measures to be careful blend between the soft (training and advice) and hard measures like free or subsidized access to the business advice, services and business space. Activities on the promotion of the financial and non-financial opportunities offered by the state at all level of government should be adequately promoted. The situation now, when nearly half of the participants have not heard about the state programs for promotion of entrepreneurship and small business as well as for the funding offered almost in every commercial bank in the country should be avoided in the future. In these terms, further guidance and training of the target population of unemployed on the advantages of various forms of finance startups should be provided. Finally, the perception of the participants that they have sufficient level of knowledge and skills for starting own business most probably stems from their lack of information about the challenges that the new globalized business environment imposes. For those that prefer to stay at the labor market, a better insight into the level of the mismatch between the demand and the supply for skills and knowledge in the Country would definitely foster their interest for additional education and training. Compared with the best practices in the region (Slovenia, Croatia), Republic of Macedonia has similar structure for supporting the small business. However, the awareness about the possibilities and the consequently, the demand for suitable business development services and especially the finance and guaranty schemes is below that in the counterpart Countries, not to mention that in the case of Wentworth.

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