
MOST FAVORABLE FINANCIAL INSTRUMENTS FOR ENTREPRENEURSHIP DEVELOPMENT

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Abstract: Entrepreneurship development as a dynamic factor for economic development throughout the centuries, nowadays in high priority a industrial policies in the countries where the authorities find that is it very important tool for create innovative society and raising the new economy. Entrepreneurs generally have business ideas and difficulties and obstacles to realized them because of lack of financial means for it. The business ideas and question of finance them are most important issues in creation of entrepreneurial society. Developed countries have different sources for financing business ideas of entrepreneurs, which is quite good example for less developed counties how to create favorable financial sources for support small and medium sized enterprises and entrepreneurs. Different sizes of enterprises need different kinds of financial support as micro loans, grants, specialized bank for small business, favorable credits and credit guarantees schemes. Big banks provide commercial credits to large enterprises, because of their financial power to return them under commercial condition. With entrepreneurship and SMEs the situation is rather different and difficult. For that reason, financing of small business development ask wider lists of financial instruments. Lack of tradition and background in running business stop the banks to provide the adequate loans to entrepreneurs and small and medium sized enterprises.

Keywords: entrepreneurship, SMEs, financial instruments, micro crediting, economic development.

INTRODUCTION

Concerning the entrepreneurship development very often is posed the question and doubt at the same time, what is primary in running business activities: to have an idea or to have finance mean. It seems to be a unique action of idea and money for common impact that result in new business activity. However, it can say without doubt that the ideas are primary in this process, but without financial sources they cannot be realized. In contrary, if someone has money, but not idea for business activities, he is not entrepreneur because hasn't creativities. Therefore, entrepreneurship has a driving function in economic growth and development, characterized by creativity and innovation, taking risks which lead society to prosperity.

Ideas and visions for new business activities, for innovation and creation of new values, should be supported by all kinds of help in providing better technical and economic solutions in purpose for development of entrepreneurial society. To provide the adequate sources for financing the entrepreneurial activities in each society is very significant question because of lack of resources for realization of the ideas and innovation at entrepreneurs.

They are very well known the economic functions of small business entities on the market and economic life at all. Entrepreneurship means step forward to create new jobs, new production, more competition and raise the competitiveness that is aim to achieve for each organization. But in these processes the most important issue is the question of funding.

Large companies have tradition in business, history in business operations, guarantees for getting credits under the commercial conditions. The small enterprises, specially start up ones, are very risky and usually are financing from various sources, mainly non banking institutions or specialized banks for this purpose. Commercial banks, finance big capital i.e. corporations, but small enterprises, are new ones on the market without any resources for guarantees in the banks. For that reason, entrepreneurship development and SMEs need different funding for their needs for investment and working capital. Small enterprises have very high risk in their work and investment because of their short existence and work tradition.

In developed countries are present various sources for financing entrepreneurship activities as well as developing countries which follow the economic tendencies on the global market.

1. THE MOST FREQUENT FINANCIAL SUPPORT FOR ENTREPRENEURS

Each entrepreneur usually starts to work with his own money like savings, with borrowed funds from family and close friends or from the banking assets with credit cards.

Many analysis and studies show that about 30% of new enterprises are faced with the question of availability of sources for funding, as the biggest obstacle in realizing the business ideas. It is a question of lack of sources for guarantees at the banks for receive the loan and return them in the future. Also, about 15% of the entrepreneurs can't

Thirteenth International Scientific Conference
THE TEACHER OF THE FUTURE
25-28.5.2017, Budva, Montenegro

find investors, partners or financiers. For that reason, financing of entrepreneurship is a specific model. Existence of high risk of start up businesses especially, are faced with big obstacle for finance their investment and operations. For them the most important is provision of seed capital regardless of the interest rate. Most important for them is to receive funds for their work and operations under favorable, non-commercial conditions. Because they do not have easy access to financial resources, it is essential to get them for working and with their business activities they could be provide the money for repayment of the loans.

In many countries, entrepreneurs and small and medium sized enterprises (SMEs) pay higher nominal and real interest rate (1-2%) than large ones¹⁶⁷. Even is considered that to SMEs have discrimination from the banks in relations with large companies and corporations that is not far from the truth. But the banks have private ownership and they sell money, they don't like to have bad placement of their loans.

The authorities of the countries are responsible for find adequate solution for funding small business especially start up businesses with various programs and measures for support their businesses and directly supporting economic growth and development.

It is obviously that it different groups of SMEs need different funding related to their needs. Micro enterprises and start up business need seed capital; medium sized enterprises need capital for stabilization and export activities. So, government programs and industrial policy should have in consideration specific needs for every group of this sector.

The main sources for SMEs sector and entrepreneurship in theory and practice could be listed:

- Micro financing, Seed Capital Funds, Micro and Small Loans Funds, Small Business Banks, Risk Capital Funds, Credit Guarantee Funds, Investment Funds, Business Angels, Leasing, franchising, Factoring, Credit Saving Unions, Programs for different social groups of people

1.1 Micro Financing

UN declared 2005 as International Year for Microfinance as an important tool for reducing the poverty, raising the creativity of the people through the small loans and strengthening the trust between the people and expectations in social benefits as Millennium goals of UN.

The modern term "**microfinance**" has its roots in the 1983, when organizations such as Grameen Bank in Bangladesh with pioneer of microfinance Professor Muhammad Yunus, launched and financed million people (approximately 7 million women), with small loans . In 2006, Bank and professor Yunus received the Nobel Prize for economics, especially for this important Project. The Bank offers to the people opportunity to take initiatives in business in agriculture, which provide earnings and enable them to pay off the debt. Grameen bank is called women bank because a lot of women from the rural areas are clients

The history of microfinance shows that for it there was interest from the beginning of the 19th century, when theorist Lisander Spooner wrote about the benefits of small loans to entrepreneurs and farmers, as a way of getting out of the cycle of poverty. Friedrich Wilhelm Raiffeisen¹⁶⁸ has founded the first union for lending money of the banks for their support of farmers in rural Germany.

Usually these small loans are given to the individuals or groups- citizens-group loans, where each other guarantee to return the credit. Thus, is developing mutual trust of entrepreneurs. Microfinance is a way to come over the poverty in marginalized social group, but also for entrepreneurs who need small amounts of money to start the business activities.

Microfinance analyst David Rudman argues that, in mature markets, the average interest rate on microfinance institutions tend to fall over time. However, the overall average interest rates on loans for microfinance are still well above 30%.¹⁶⁹

Examples of microfinance

a) **USA**, start to develop the institutions of microfinance in 2007. Nowadays have about 500. They are primary intended for disadvantaged groups of people, immigrants, people with low incomes in order to increase employment, improve the living standards of the population.

¹⁶⁷ EIM Small Business Research and Consulting: "The State of Small Business in the Netherlands 1993", December 1993, p. 55, and : "Small Business Advisor, The Entrepreneur Magazine", John Wiley and Sons, New York, 1995, r. 27.

¹⁶⁸ Helms, Brigit (2006). *Access for All: Building Inclusive Financial Systems*. [Washington, D.C.: The World Bank](#)

¹⁶⁹ Roodman, David. "Due Diligence: An Impertinent Inquiry Into Microfinance." Center for Global Development, 2011

Thirteenth International Scientific Conference
THE TEACHER OF THE FUTURE
25-28.5.2017, Budva, Montenegro

b) In **Canada** providing microfinance through the development of credit unions, where citizens receive various financial services that cannot get from traditional sources of funds (banks).

c) Microfinance in **India** is particularly important because is given to the large number of population, which is mostly in the poverty and access to traditional sources of funds is limited and the role of the informal sector is large. NABARD also advocates for microfinance along with self-help groups (SHGs) and NGOs create Inn India.

d) **European Microfinance Platform** (MFP) was founded in 2006 as a network of over 140 organizations and individuals active in the field of microfinance.

e) In **Macedonia** actively is working *Microcredit Foundation Horizons* that such Program began operating in 2000, and since 2005 has this form of organization with 8 branch offices.

Opportunities Savings House is actively working for 18 years in the country and has 10 branches offices outside Skopje. It is part of a global network of microfinance International Opportunities and has received a series of awards for success at home and abroad.¹⁷⁰

FULM Savings House (Financial services for people in Macedonia) is established in 1999, first as a Program of the World Savings and Credit Cooperatives / unions and nowadays as a savings house with six branches outside Skopje.

Unfortunately, in Macedonia where is still high rate of unemployment (24%), the authorities haven't established any micro crediting institution, governmental or private-public partnership that shows lack of awareness for benefits of it in reducing unemployment, poverty and leaving a lot of young people the country. The serious question of Macedonian entrepreneurs is lack of micro credit institution which could be useful for much new, start up businesses. Lack of seed capital for entrepreneurship development is main problem in Macedonian entrepreneurship growth and economic development. Young and educated people, skilled people without capital are out of economic flows because of shortage of money for initial activities.

1.2. Seed Capital Funds

These funds provide start-up capital or initial financing to entrepreneurs. Investors are actually friends, business angels or more funds, government programs and funds, with investor invests in the company or buy a share of it (such as equity). The financing involves higher risk than normal capital funding because it is the new company and there is not anything guarantees of success. Therefore, investment is small in volume. Typically, these funds are financing 50% of the investment, as their own share.

Government funds can be directed towards youth self-employment, for summer seasonal jobs, saving energy, subsidies in a clean environment, to treat certain diseases and in general in all activities.

The EU has adopted a Program for Competitiveness of Enterprises and SMEs (COSME) 2014-2020. It outlined the main directions of the planned economic growth and development of the EU, including various measures for financial support of enterprises specially start up ones. In the Republic of Macedonia do not exist any of it. For that reason is still very difficult to start up new business.

1.3. Micro and Small Loans Funds

These funds and other funds established by various investors, government bodies and others bodies, have a duty to provide small loans to entrepreneurs. These funds have the same purpose and way of approving loans, as well as foundations and other forms of non-bank microfinance.

1.4 Small Business Banks

Banks for small enterprises are specialized banks for small business entities (SMEs) with the task to finance the growth and development of SMEs. They are established from various sources including government financial support. For most start up businesses commercial banks have no interest for financing their projects, but small businesses are target for financing of specialized banks.

Good example of this type of banks is Bank for development of SMEs in Paris, founded in 1996 as holding company consisting of two companies: Bank for financing the equipment for SMEs from 1981 which co-finance by take over the risk of investment with other banks and Company for guarantees (up to 70%) for SMEs, established 1982. The Bank is unique in EU with this manner of supporting of entrepreneurs and SMEs. It is in ownership of the government. Annual average interest rate is 5, 5-6%.

In Macedonia was established in 1998 Macedonian Bank for Support and the Development as a bank for promotion, not as a special bank for directly financing SMEs. The Bank is founded like German Fund KfW. Concerning SMEs and credit for them, the Bank is only mediator between the creditors from abroad and commercial bank. Bank has financial products as loans, insurance of domestic and export debts, as well as factoring in debts, as a unique service

¹⁷⁰ In 2006 in EEC/UN is declared as a "best practice" for micro crediting in Macedonia.

Thirteenth International Scientific Conference
THE TEACHER OF THE FUTURE
25-28.5.2017, Budva, Montenegro

to the financial market in the country. Unfortunately, it is not financial institution that directly support entrepreneurs and SMEs, which is very important in the country where is a lot unemployed people, where there is no easy access to the loans and credits for entrepreneurship development., but only for most developed companies.

1.5. Risk Capital Funds

Risk capital funds are funds for venture capital investment in certain areas, which are considered particularly as a risky investment because it can reliably plan and forecast to return the invested capital. Namely, it is for projects in high technology, biotechnology, mining and energy, primarily research, without any clear vision that would be successful. These investments can be fruitful and with high profit, but may be have not any success. Therefore, it is considered that these funds have speculative character. The risk capital can be equity of the new enterprise it means the lenders invest and then they have received the shares.

Venture capital funds are companies founded by professional investment managers and institutional investors, such as pension funds, insurance companies, investment banks and others. And "business angels" often can act as investors in risky activities and projects. Because of very high cost for production and using the high technology, these funds are private enterprises, development banks, with their own funds they finance though the buying shares and directly manage in the enterprises.

Financing the entrepreneurs and SMEs, with buying the shares has stimulated the mechanisms for incentive the entrepreneurship and support it. This kind of financing is relives from paying taxis in USA, Great Britain and other countries that have very high technology development. In our country these funds are not present.

. In the **UK** in 2001 was established "Risk Capital Partners" as an independent organization. They work with a series of partners, and invest in the projects that they consider viable in the long term or innovative projects. At the same time, the organization whose founders are also entrepreneurs, helping management teams to build valuable companies.

2. **In Switzerland** was founded venture capital fund for SMEs (SVC-ltd.) including start-up businesses with a maximum amount of investment to CHF 100 million.

3. **Silicon Valley** in the USA is characterized by its innovative enterprises, helped by such funds.

4. In Great Britain exist a lot of local funds hat finance more than 1.000 new enterprises with high potential for growth.

5. In **Germany** exist regional funds/ banks (Landes Kredit bank) for such purpose, which finance between 30-50% of seed capital of new enterprises.

1.6. Credit Guarantee Funds

Credit guarantee loan funds or Guarantee Funds are usually institutions which are established to guarantee repayment of the taken loans that cannot be return to the banks for many reasons. Usually they guarantee from 60-80% of total amount of the loans, in cases where borrower is unable to return the credit taken from the banks. These Credit Guarantee Funds give guarantee to commercial banks that loans will be returned up to 80%. It is very significant instrument for support entrepreneurs without any collateral for receive the loans from the banks.

In developed countries, this system of guarantees exists and is particularly developed, and it gets more important in less developed countries like Balkans and other at South –East Europe. Even in Africa exists Africa Guarantee Fund. In Macedonia does not exist any Guarantees Fund as state own property, except some small ones n the banks established in framework of some EU projects for SMEs. It is very unfavorable situation for entrepreneurship development. The authorities should take more care about this serious obstacle on the path for entrepreneurship growth and economic development. Lack of knowledge, lack of awareness for importance of entrepreneurship development as a dynamic economic factor and generator for new jobs and creation of innovation society should be overcome as soon as possible for the better future.

The small overview of some of them is:

1. The Credit-Guarantee System in **Japan** consists of 52 credit guarantee associations, behind them is stated government's Corporation for insurance of loans for the small business. Financing of SMEs in Japan is realized through three government institutions as follows:

a). *Japan Finance Corporation for Small Business*, founded in 1953, with the government's capital for favorable finance the entrepreneurs, who are unable to obtain loans in the commercial banks. In 1949 is established *Corporation for financing the Persons* with the same task.

b) Even from 1936 is active *Shoko Chukin Bank* for support public-private institutions.

c) In 1980 is founded *System of Financial Aid* for strengthening the small businesses.

Thirteenth International Scientific Conference
THE TEACHER OF THE FUTURE
25-28.5.2017, Budva, Montenegro

2. In USA, *Small Business Administration* has various programs for the development of small businesses and the three main types of financial support are:

a) Direct loans, are intended to special groups of entrepreneurs - handicapped people, the disabled, military veterans etc. They are provided from state own funds .indicated by US Congress.

b). *Guarantees Funds*, which is guaranteed to commercial banks return of the loans from 75-90% of the amount of the i loans.

c). *Programs of Micro Crediting* for start up businesses.

3. In **Turkey**, *Credit-Guarantee Fund* is founded in 1993, like German funds. Itt guarantees 80% of the credit.

4. *Czechs- Moravian Bank for Guarantees and development* from 1992 has 33 commercial banks in scope of interest for SMEs support and collateral for them.

5. *Slovak Bank for guarantees*, from 1992, assists the start up the businesses.

6. *Hungarian credit-guarantee Company* has the same purpose as other ones in different countries.

1.7. Investment Funds

Company for management of investment funds with head office in Macedonia, according to the Macedonian Law¹⁷¹ which was licensed by the Commission for Value Securities, carries on the establishment and management of investment funds or investment funds in its own behalf and on behalf of stakeholders of shares in the open investment funds in the name and on behalf of shareholders of closed-end investment funds. They usually are established as a public-private partnership.

Usually, these funds provide SMEs and entrepreneurs with fixed assets (property) and for that favor receive shares. Investment fund provides a wider choice of investment opportunities and management of professionals. There are several types of investment funds, mutual funds, money market etc.

Here are some examples of successful SME Funds:

a) *European Investment Fund*, established in 1994 in Luxembourg, is an agency for the provision of finance for SMEs. The Fund does not borrow money directly to entrepreneurs and SMEs, but indirectly through private commercial banks and funds. Its main activities are investment capital and guarantees for loans. Main shareholders are: EU, EIB and private financial institutions.

2. *SEAF (Small Enterprise Assistance Funds)* is fund for assistance of small enterprise. It was established in 1989 in Washington. Today there are 27 branches throughout the world and in Macedonia. SEAF provides assistance to emerging SMEs, which are not supported by traditional sources (banks).

1.8. Business Angels

The existence of the concept of business angels has newer roots. In 1978 it used for art single investor in theater on Broadway, by William Wetzel. Then, they are appeared in other activities.

Business angels or angels investor are investors who invest in an initial enterprise or start-up business and provide capital and then get shares in it. They arise as a form of financing that fill out the gap between the initial capital requirement obtained from family, savings, credit cards and funds and bank loans. Mostly business angels are linked together in associations to network in order to be better used resources. Active in Europe is the European network for business angels as well as USA business angels' network.

However, they cannot be rich sources of money for entrepreneurs.

1.9. Leasing, Franchising and Licensing

Leasing, franchising and licensing systems are very helpful instruments for financial support of entrepreneurs and SMEs, but in the same time they are very important for transferring the new technology.

Leasing especially of equipment, has a very great importance to encouraging the development of entrepreneurship because of its advantages: the user of the leasing does not need for the new equipment that engaged assets in cash, then, the rent can be paid later. But negative side is that it is quite expensive, more expensive than bank credits.

At *licensing* as the main obstacle of this form of financing in entrepreneurship and as a form of transfer of technology is obsolescence of equipment, especially in underdeveloped countries, some territorial restrictions and domestic obstacles like protection of rights of industrial poverty, absence of control etc.

Franchising in fact is business model. It is agreement between the two enterprises for take over the same methods of work. Franchising agreement shows a high regulatory system of distribution of goods and services under protected mark of franchisor, its marketing plan and system, which is useful for franchisee too.

¹⁷¹ Law for Investment funds: Official Gazette 12/2009

Thirteenth International Scientific Conference
THE TEACHER OF THE FUTURE
25-28.5.2017, Budva, Montenegro

In 1863 in the USA the famous Singer, Coca Cola (1882) and General Motors (1896) first started with such agreement and franchise system is spread over the world, as a system for financing and meantime as a system for transfer of technology very important for entrepreneurship system development. In Europe exist Franchising Federation as well as British Association for Franchising. In Far East counties franchising system is well known as a system of social and economic policy.

1.10. Credit Saving Unions

Credit Saving Unions provides an opportunity for development of small busines through the mobilization of resources at the local level and their reinvestment through productive loans to farmers and to businessmen in rural areas, to strengthening the savings, for residential and loans for scholarship and so on.

World Council on credit unions (WOCCU) was established in 1971, as International Trading Association and Development Agency for credit unions based in Madison, USA. Members at WOCCU are regional and national credit union, associations, in 97 countries around the world. They are over 54,000 credit unions / cooperatives / savings banks with 186 million members all over the world

In the Republic of Macedonia, saving house FULM was established such an union, due to legal restrictions, which actively works on the principle of these unions, with branch offices.

1.11. Programs for Support the Different Social Groups

For to help different social groups of people, who like to work their self, especially in the developed, but also in underdeveloped countries, through specific projects the authorities support them. Usually there are the projects for young people, for handicapped people, for people of rural environment, women, single parent or other marginalized group. The support is usually in the form of grants or loans with small interest rates, which are particularly acceptable.

1.12. Tax incentives and relieves

In economic policy and practice for support entrepreneurship growth and development are very well known some of the financial support together with tax incentives and relieves .The results is higher and more positive. In Macedonia, for example, from 2008¹⁷² ,according to the Law for profit tax is only 10%, handicraft do not pay profit tax, the same is for foreign companies in TIDZs, and small business with income earned in the year for which the tax is concerning , from any source, not to exceed the amount of 3,000,000 denars annually.

2. SITUATION IN MACEDONIA

In last 25 years of new socio-economic and political system, Macedonian authorities accept quite a lot of document for development of economy and private sector through the sector of entrepreneurs and SMEs, but the serious question is financial aspect of their implementation and final good results.

In the Republic of Macedonia the situation with financing entrepreneurship development is still on low level in spite the fact that commercial banks from abroad, EU and from other countries and institutions are present through distribution of their commercial credits in Macedonian commercial banks with Macedonian Bank for Development as a bank for promotion only.

All these credit lines are under commercial conditions and intended for medium sized and large companies which have capacities for taking credits under commercial conditions. Small and micro enterprises are out of these actions because of their lack of collateral for receive the commercial credits including initial own capital for participation in credits.

Macedonia all these years did not established any micro finance institution or specialized bank for small business financial support as a public-private partnership for the purpose of thousand unemployed people and start up businesses of young and creative people. It exist only some private institutions that were some projects in the past. They operate quite well but the market needs more sustainable ones under the oversight of the Macedonian authorities and save sources of financing them.

Agency for Employment of Macedonia gives some grants for startup businesses, which is important but marginalized sources for financing SMEs development and financing.

In order to obtain financial resources to encourage innovation activity, according to the Law¹⁷³ , is established the *Fund for innovation and development of technology*. This Fund is financed most of the Horizons 20 EU Program. It

¹⁷² Law for profit tax Official Gazette No; 80/93,135/11

¹⁷³ Law for Innovation Activities , Official Gazette No:79/2013; 137/2013; 41/2014; 44/2015; 6/2016; 19/2016; 53/2016;

Thirteenth International Scientific Conference
THE TEACHER OF THE FUTURE
25-28.5.2017, Budva, Montenegro

gives some grants for start-up enterprises and spin-off ones, including enterprises for transfer of technology and provides assistance through business-technology accelerators. The focuses of financing are small and medium sized enterprises (SMEs) that is very good opportunity to support them as a key dynamic factor in economies all around the world.

All these facts point out some dilemmas related to the financing by grants in intention to multiplied effects of finance for future business activities. There is a question of sustainability of this *Fund* on long term.

These questions are imposed by International Monetary Fund and World Bank in the past with their opinions and attitude that the government should not be obliged to create such institutions but only favorable business climate. Private sector should make efforts to find financial support its self which is quite inadequate in country with a lot of unemployed, poor population weak and small enterprises.

CONCLUSION

World practice shows a quite long list of financial kind of support especially for entrepreneurs and start up businesses. Less developed countries like Macedonia with low budget expenditure for SMEs development should take example of experiences in the world that only with common action of private and public sector in the society may have strong and sustainable funds for financing SMEs in order to create innovation community on long term. In the past Macedonian government modest and prudent accepted some suitable projects for financing SMEs and start up businesses but not clearly and determined.

Macedonian authorities have to find more solutions for financial support of entrepreneurship development as a key economic factor of growth and development.

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