



# **Prospects and Constraints of the SMEs Sector from the East-Planning Region in the Republic of Macedonia: A SWOT Analysis Survey of the Entrepreneurial Environment**

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## **Abstract**

This article reveals some major prospects and constraints of the Small and Medium Enterprises Sector from the East-Planning Region of the Republic of Macedonia. The economic profile presented here, only reaffirms its great significance for the overall condition of the regional economy as the numbers show that over 99% of all active enterprises from this region fall into this category. The analysis of the prospects and constraints is designed as a comparative study of the strengths, weaknesses, opportunities and threats gathered from the interviews conducted and the documents examined. It will provide further indication and a starting point for the following series of additional researches within the project named "Forms of finance of the growth of the small and medium-sized enterprises with a focus of the East-Planning Region in the Republic of Macedonia". Specifically, the intention of the ongoing project which is internally funded by the "Goce-Delchev" University from Stip, is to identify the most dominant sources of finance, detect if they pose limitations for the SMEs, and promote some alternative and modern forms of finance. Also, the project will produce a proposal of a possible framework of enterprise policy intended for the policy makers and the other interested parties in this sector. During the assessment of the standard elements of this framework, a set of interacting measures will be recommended also, for the



purpose of enhancement of the entrepreneurial environment. Nevertheless, the survey reveals that indeed, the financial problems are real and present for the small and medium firms, and that the traditional sources such as bank loans, do not match the growing needs for finance of these firms, not in a quantitative nor in a qualitative sense irrespectively. This gives only a further justification of the researching efforts we plan to accomplish amid the continuing project we are involved in.

**Key words:** Small and Medium Enterprises, The Republic of Macedonia, SWOT Analysis, East-Planning Region, Project, Source of Finance.

## Introduction

There is a great awareness among the academics as well as the business community about the significance of the SMEs sector and its contribution to the overall economic development. Nevertheless, the small and medium enterprises are not important only from the national perspective, but also from the local and regional perspective too. Considering the status of the Republic of Macedonia as a developing South-Eastern European country, the previous statement might be of a much greater importance. Acknowledging the relevance of the small and medium-sized enterprises, our research team from the Faculty of Economics has decided to participate in the project named “Forms of finance of the growth of the small and medium-sized enterprises with a focus of the East-Planning Region of the Republic of Macedonia”, funded by “Goce-Delchev” University from Stip. A series of individual researches are going to be conducted on a sample of enterprises from the East-Administrative Region. The goal of the project is to detect the current and most dominant (traditional) forms of finance for which is thought that sometimes are being problematic to acquire sufficiently. At the same time, the project will describe and propose some alternative and modern forms widely used in the developed countries that could complement the common traditional sources of finance. This is very important as the availability of additional resources will be increased and the access to them lessened. In order to complete the goals of the research, a specialized questionnaires will be constructed accordingly to the different tasks and purposes. Another intention of the project is to propose an adequate general enterprise policy framework that could serve as a potential guide for the policy makers and the other interested parties in this sector. The framework will shortly assess all the standard elements included in the average policy frameworks such as the institutional framework for SMEs policy, the rule of law and regulatory environment, the tax policy for SMEs businesses and the implementation of advisory services to new and small businesses [1]. Though, more emphasis will be put on the elements such as the implementation of the (standard) financial instruments and the alternative sources of finance which include business angels and incubators, innovation and venture capital etc [2]. After the assessment of the current situation concerning these elements, additional acts and measures will be proposed aimed for the improvement of the entrepreneurial environment.



But first, as an introduction to the more complex researching themes and problems of the project, in this article we analyze the possibilities and limitations of the SMEs sector from the East-Planning Region in Macedonia. After presentation of the economic profile of the East-Planning Region, all the strengths, weaknesses, opportunities and threats are listed and explained. This is a result of the interviews done according to the representative sample of small and medium-sized firms situated in this region. Besides the original sources of information, the survey includes our own subjective opinion based on the reviews of the available studies and documents. From the analysis, we will conclude that one of the major obstacles to run a business in the East-Planning Region and in the country more generally spoken, is the lack of proper and sufficient finance.

### Profile of the East-Planning Region in Macedonia

In the following lines we introduce in short terms the Macedonian SMEs sector with a special emphasis on the East-Planning Region.

Regionally, the whole territory of the Republic of Macedonia is administratively separated in 8 territorial units, which is in accordance to the Nomenclature of Territorial Units for Statistics (NUTS), the EU's geocode standard for statistical purposes [3]. They include: 1. Vardar Region; 2. East Region; 3. Southwest Region; 4. Pelagonia Region; 5. Polog Region; 6. Northeast Region; 7. Skopje Region; and 8. Southeast Region. Each of these regions has its own public service centre, guided by the main body of regulation called Bureau for Regional Development – Biro za Regionalen Razvoj.

**Figure No.1. Map of Territorial Units of the Republic of Macedonia**



Source: Bureau for Regional Development

The East (Eastern) Region – Istocen Planski Region, which is located in the far east of the country, includes 11 municipalities: Berovo, Vinica, Delcevo, Zrnovci, Carbinci, Kocani, Makedonska Kamenica, Pehcevo, Probistip, Cesinovo-Oblesevo and the largest one, municipality of Stip. It is mainly a mountainous region, but also It spreads along the



Bregalnica River, over the basins of Stip, Maleshevo and Pijanec and the field of Kocani. The region comprises 14.2% of the total area of the Republic of Macedonia (approximately 3.651 km<sup>2</sup>), with 8.5% of the total population (which translates to 181.858 inhabitants according to the 2002 Population Census), and 49.9 citizens per km<sup>2</sup>. The natural, geographical, climate and hydrological characteristics give the potential for production of rice, especially in the Kochani Field, which is well renowned for its rice. The basins of Pijanec and Maleshevo are favorable for growing fruits and vegetables. Due to the specific geological characteristics of mountain ranges, the region has a developed lead and zinc mining industry. Another important industry is the textile industry and a large number of textile manufacturing plants are located in this region. The mountainous terrains in the region have great potential for development of winter and alternative tourism even though they are still in the early stages of development [4]. Stip is the largest town in this Region and the main economic, administrative and educational center. The second largest university in Macedonia, "Goce Delcev" University, is located there also.

In addition we present the basic statistical data for the East-Planning Region of the Republic of Macedonia.

**Table No.1. Basic Statistical Data of the East Region**

Number of municipalities	11
Number of settlements	217
Total population, Population Census, 2002	181.858
Estimated population, 2016	176.568
Population density, 2016	49.9
Number of dwellings, Population Census, 2002	72.248
Average number of persons per household, Population Census, 2002	3.1
Live births, 2016	1.549
Deaths, 2016	1.956
Natural increase, 2016	-407
Immigrants from abroad, 2016	135
Emigrants to abroad, 2016	27
Literacy rate of population over the age of 10, Population Census, 2002	96,1
Activity rate, 2016	62.3
Employment rate, 2016	52,0
Unemployment rate, 2016	16.4
Average gross wage per employee, 2016	24.423
Average net wage per employee, 2016	16.701
Number of primary and lower secondary schools, 2016/2017	62
Number of upper secondary schools, 2016/2017	14
Number of students in primary and lower secondary education, 2016/2017	13.644



Number of students in upper secondary education, 2016/2017	5.939
Number of graduated students from universities, 2016	579
Number of active business entities, 2016	5.713
Number of enterprise births, 2015	572
Number of enterprise deaths, 2013	693
Number of enterprise deaths, 2014	534
Number of enterprise deaths, 2015	474
GDP per capita, 2014	3.971 €
Number of beds, 2016	1.985
Number of tourists, 2016	30.568
Number of nights spent, 2016	66.515
Number of completed dwellings, 2016	438
Value of completed construction works, 2016	71.859.122 €
Number of issued building permits, 2016	356

Source: State statistical office of the RM

The following Table No.2 presents the distribution of active business entities on a regional level. As it can be seen, the total number of active enterprises in the county counts for 71.419 business entities, from which 5.615 (or 8%) are located in the East Region. From this it can be stated that the relative participation of the East Region in the total number of active enterprises is average, as it is illustrated on Figure No. 2.

**Table No.2. Regional Distribution of Active Business Entities in the Republic of Macedonia According to the Number of Employees and Their Size in 2017 (Definition According to the EU's law)**

Enterprises	<i>Micro</i>			<i>Small</i>	<i>Medium</i>	<i>Big</i>	<i>Total</i>
	<i>0 employees</i>	<i>1-9 employees</i>	<i>Total no. of micro enterp.</i>	<i>10-49 employees</i>	<i>50-249 employees</i>	<i>+250 employees</i>	
<b>Republic of Macedonia</b>	7.888	56.658	64.546	5.255	1.382	236	71.419
<b>Vardar Region</b>	507	4.406	4.913	352	106	12	5.383
<b>East Region</b>	475	4.475	4.950	464	180	21	5.615
<b>Southwest Region</b>	651	6.060	6.711	408	109	10	7.238
<b>Southeast Region</b>	645	4.720	5.365	483	110	12	5.970

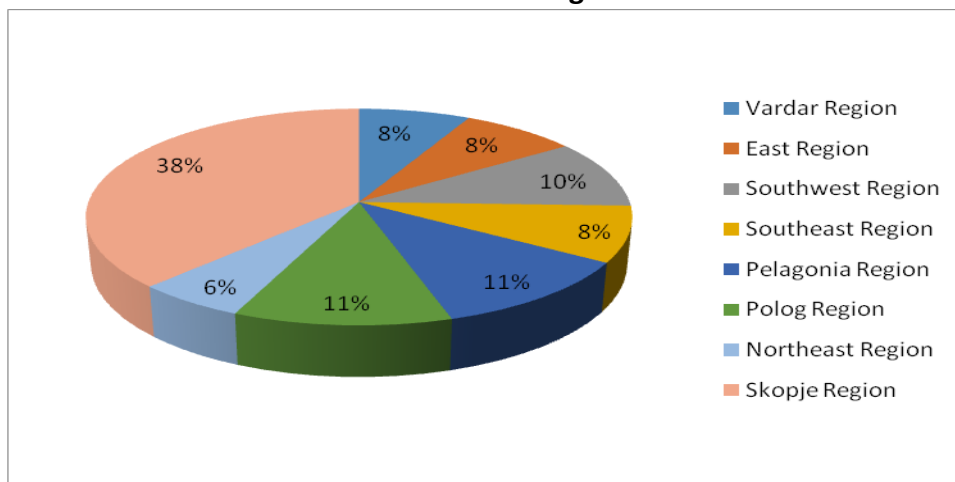


<b>Pelagonia Region</b>	613	6.779	7.392	515	131	26	8.064
<b>Polog Region</b>	398	7.214	7.612	398	100	8	8.118
<b>Northeast Region</b>	308	3.387	3.695	302	82	5	4.084
<b>Skopje Region</b>	4.291	19.617	23.908	2.333	564	142	26.947

Source: State statistical office of the RM;

Legend: micro-from 0-9 employees (including the enterprises with unascertained number of employees); small-from 10-50 employees; medium-form 50-250 employees and big-above 250 employees.

**Figure No.2. Relative Participation of Active Enterprises in the RM according to the Administrative Region**



Source: Author's illustration based on the official data.

The next Table No.3 represents the sectorial distribution of enterprises among the existing municipalities from the East Region in year 2017. As it is expected, the leading



sector in this region is Wholesale and Retail Trade, followed by Manufacturing and Transportation and Storage. We must notice that great number of textile enterprises are founded in this region especially around the towns of Stip and Kocani. As we can see, manufacturing is the second largest sector in this region, regarded to the large participation of the local textile industry. The greatest municipality of Stip participates with 32% in the total number of enterprises, the second largest Kocani with 24%, while Delcevo and Vinica consist around 9% of the total number of entities separately.

**Table No.3. Distribution of Active Enterprises in the East Region according to the Sector and Municipality in 2017**

	Rep. of Macedonia	Berovo	Vinica	Delcevo	Zrnovci	Carbinici	Kocani	Maked. Kamen.	Pehcevo	Probit.	Cesina - Obles.	Stip	East Region
A	2.603	44	32	37	14	27	63	6	31	25	31	72	382
B	201	1	2	1	1	-	4	3	-	4	1	1	18
C	7.885	67	83	92	14	13	225	15	35	46	19	283	892
D	172	-	-	1	-	-	3	2	-	-	1	4	11
E	255	1	3	3	1	1	8	1	1	3	1	7	30
F	4.814	11	39	27	3	2	61	9	3	9	4	81	249
G	23.337	121	162	160	11	17	476	67	40	147	48	587	1.836
H	5.732	35	31	38	4	8	80	37	11	39	11	160	454
I	4.559	36	38	33	3	1	63	25	10	32	2	102	345
J	1.689	3	8	4	-	-	15	2	2	3	-	27	64
K	427	-	1	1	-	-	6	-	-	-	-	3	11
L	566	-	-	2	-	-	8	-	-	-	-	26	36
M	6.948	25	31	41	2	2	117	7	4	24	3	177	433
N	1.698	7	4	9	-	-	16	2	3	-	-	18	59
O	268	3	2	3	1	1	3	1	1	1	1	6	23
P	1.184	6	6	10	1	1	28	3	1	7	2	30	95
Q	3.319	21	30	32	2	1	71	6	9	22	2	88	284
R	1.335	4	9	8	-	-	19	9	3	4	-	27	83
S	4.427	21	21	14	2	-	103	10	6	21	5	107	310
T	...	...	...	...	...	...	...	...	...	...	...	...	...
U	...	...	...	...	...	...	...	...	...	...	...	...	...
Total	71.419	406	502	516	59	74	1.369	205	160	387	131	1.806	5.615

Source: State statistical office of the RM

Legend: A-Agriculture, forestry and fishing; B-Mining and quarrying; C-Manufacturing; D-Electricity, gas, steam and air conditioning supply; E-Water supply, sewerage, waste management and remediation activities; F-Construction; G-Wholesale and retail trade; repair of motor vehicles and motorcycles; H-Transportation and storage; I-Accommodation and food service activities; J-Information and communication; K-Financial and insurance activities; L-Real estate activities; M-Professional, scientific and technical activities; N-Administrative and support service activities; O-Public administration and defense; compulsory social security; P-Education;



Q-Human health and social work activities; R-Arts, entertainment and recreation; S-Other service activities; T-Activities of households as employers; and U-Activities of extraterritorial organizations and bodies.

And Table No.4 demonstrates the allocation of enterprises across the established municipalities in the East Region defined by their size, corresponding to the ruling mandatory laws. Clearly, micro entities take 68% of the total number of active enterprises, small 30%, medium 1%, and only 30 business entities (or less than 1%) are considered as big as defined by the corresponding law. The distribution among the municipalities is similar as shown before.

From this we must point to the great significance of the SMEs sector for the regional and the local economy having in mind the fact that over 99% of the existing enterprises fall into this sector (see Figure No.3).

**Table No.4. Distribution of Active Business Entities in the East Administrative Region according to their size in 2017 (Definition Corresponding to the Domestic Law)**

	<i>Rep. of Macedonia</i>	<i>Berovo</i>	<i>Vinica</i>	<i>Delchevo</i>	<i>Zrnovci</i>	<i>Carbinici</i>	<i>Koocani</i>	<i>Maked. Kamen.</i>	<i>Pehcevo</i>	<i>Probit.</i>	<i>Cesina - Obles.</i>	<i>Stip</i>	<i>East Region</i>
micro	48.577	296	326	368	45	44	972	151	113	283	90	1.131	3.819
small	21.543	105	166	143	14	28	382	52	45	100	38	628	1.701
medium	776	4	7	4	-	2	11	1	2	3	3	28	65
big	523	1	3	1	-	-	4	1	-	1	-	19	30
Total	71.419	406	502	516	59	74	1.369	205	160	387	131	1.806	5.615

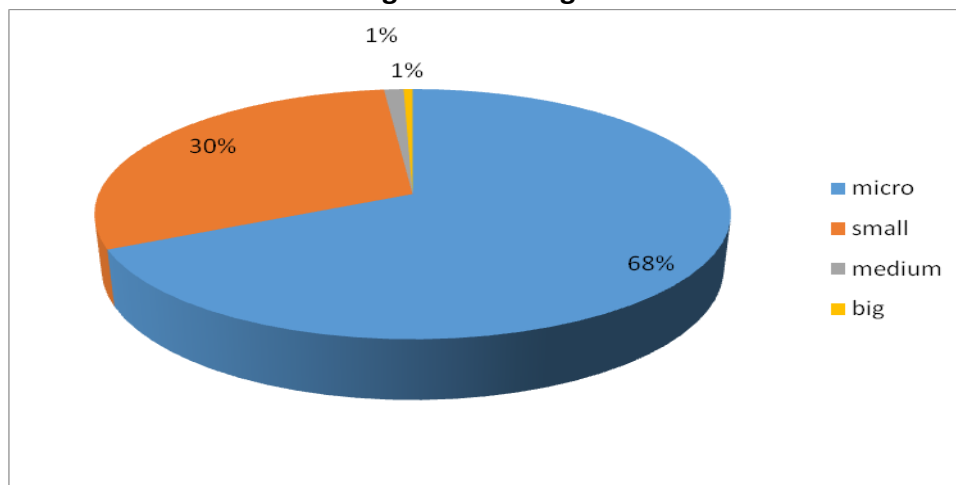
Source: State statistical office of the RM;

Legend: micro-from 0-9 employees (including the enterprises with unascertained number of employees); small-from 10-30 employees; medium-form 30-250 employees and big-above 250 employees.





**Figure No.3. Relative Participation of Active Enterprises in the East Region according to their Size**



Source: Author's illustration based on the official data.

### **Prospects and Constraints of the SMEs Sector in the East-Planning Region**

Diversity is one unique feature of the SMEs sector. It is not a single homogenous sector, but rather it is made up of many different sub-sectors with many different characteristics and needs. The universal key rule that must be followed during the creation of a certain policy framework is that all guidelines should arise from and be intended for the entrepreneurs, so they should be first consulted for their needs. Therefore, the available policy frameworks have to be flexible and adaptable to the continually changing entrepreneurial demands.

A good practice to support such a responsive policy guide is the approach in which all the potentials and limitations of the SMEs sector are identified first. The traditional SWOT analysis represents an appropriate method intended to achieve such a common task. In order to detect all the possible strengths and opportunities, as well as to identify the treats and weaknesses of the observed sector, we made a broad list of them, as a survey from the reviewed studies, and interviews, as well as the internal documents of the Economic Chamber of Macedonia, The Bureau for Regional Development and The Center for Development of the East-Planning Region. In addition, we shortly analyze them.

**Strengths.** The survey has identified the following strengths of the SMEs sector: Relatively good quality of products and services. The technical level of equipment used and the qualified workforce engaged enables realization of an output that satisfies the standards of quality on an average level. Flexible production of goods and services. This is in correlation with the previous. The enterprises state that are capable to adopt quickly to the client's demands.



Export oriented enterprises. The majority of manufacturing firms, especially the ones from the textile industry are export oriented. It is referred that the foreign partners are traditional and they originate mostly from the European countries.

**Implementation of good organizational and managerial practices.** The organizational methods and skills are mostly subjective and intuitive, built through the long-term experience and practice. Formally, there is a significant absence in use of the available contemporary and the other objective methods. The managerial capacity is closely and personally related. It is inherited from knee to knee within the family tree [5].

**Tight relation and cooperation with domestic and foreign partners.** Irrelevantly, weather the partners are in the role of buyers or suppliers, the owners of the small and medium enterprises raise strong bonds with their traditional partners, respecting the principal of mutual cooperation.

**Good labor productivity.** Most of the entrepreneurs are satisfied from the relatively good productivity of labor force, of course, expressed in physical terms of output units. Ability to work under pressure and close deadline term is another positive feature of the regional employees. Also, flexibility and adaptation to new working tasks are an additional attributes to the list. These are correlated with the capacities of human force to pre-qualify and learn fast.

**Relatively cheap price of labor.** Although most of the owners don't agree about this statement, objectively, the average and minimum wage in Macedonia are among the lowest, if not the lowest compared to the countries from the EU and Southeast Europe. Approximately, this is true for the gross wage too. Specifically for the East Region, the situation with the price of labor is much more favorable in contrast to the other alternative regions speaking in terms of cost. Here, the average gross and net wage registered in 2016 were 24.423 denars (397 €) and 16.701 denars (271 €) consequently, which is well below the national average of 32.822 denars (534 €) and 22.342 denars (363 €). Thus, the East Region has the lowest absolute and relative cost of labor, a fact that could be considered as an advantage especially for the industries from the labor-intensive sector.

**Low effective tax burden (until lately).** Recently, Macedonia was regional even European leader considering the effective tax burden on corporate income. Couple of years ago, the effective tax rate was only 7.4% (the mandatory was established at 10%, while the rate on reinvested income was abolished or 0%) [6]. Also micro entities with annual turnover less than 3.000.000 denars or 50.000 € were exempt from taxation. This is very important for micro and small entities since high taxes in initial stage of the life cycle truly could impose a real (financial) obstacle for the firm. The implementation of the flat tax system with a single proportional tax rate on corporate and personal income and the broad comprehensive tax base, simplified the administration of tax liabilities and in that context, was positively perceived by the firms. The announcements made by the actual government for the intention to raise the tax rates in the future



echoed very unpleasantly across the business community, finishing in that context the era of low tax rates.

**Cost effective advantage.** All of the presented strengths, the closeness of the leading Skopje Region on one side and the Republic of Bulgaria (EU) from the other side, and the near access to the main transportation corridors and arteries, according to the entrepreneurs, makes the East Region as an attractive destination to establish and run a business. Perhaps the biggest potential refers to its low overall costs of production, particularly on the side of labor. High unemployment rates of younger people in constellation with a relatively effective educational and training systems involved, produce a competent human potential that is productive and qualified and at the same time competitive on the market.

**Weaknesses.** Here are the detected weaknesses of the SMEs sector from this region:

**Low profit margins.** Although the enterprises manage to keep the production costs in control, whether through application of the individual managerial practices or through substitution of the factors of production, according to the consulted owners, the actual market prices of output are not high enough to generate sufficient profit margin. Particularly, the quality they offer to their partners is not adequately compensated through the price paid, forcing them to work overtime or to accept lower profit margin [7].

**Old equipment.** Generally, most of the enterprises rely on old, already used equipment in the production process of goods and services. Transportation vehicles share the same picture too. So, the technical level of production and labor are not satisfactory to enforce competition on an international level. The entrepreneurs blame the scarcity of capital and financial resources for the described condition.

Insufficient technology use. Partly, this is connected with the previous. Only a small number of SMEs from the East Region use advanced technology which puts the rest inferior in front of the competition. This means that only a fraction of them work in the technologically propulsive branches or in the capital intensive sector.

Small economies of scale. It is frequently repeated that small businesses have less opportunity to apply economies of scale for the simple reason that they are small and unlikely to be engaged in mass production. The generalization is true enough if economies of scale are viewed narrowly. In effect economies of scale are also available to small businesses and increasingly so as a consequence of modern developments in the services sectors and in electronics [8]. Unfortunately, these are not the dominant branches in the SMEs sector, but instead, the ones that require labor-intensive activities.

**Chronic deficit of capital and finance.** One of the most important disadvantages of the SMEs sector is the long-lasting condition of capital deficiency [9]. The companies from this sector do not generate enough internal accumulation to support their investment, so they must seek exit from this situation mostly through the traditional financial sector such as the bank industry and less through the other external sources. It



was mentioned that, domestic banks usually undertake precautionary measures when they intend to lend money to the SMEs sector, restricting them the access to the financial market. On the other side, the inability to provide short-term finance creates repercussion on their liquidity performance. According to the entrepreneurs, much of the available short term funds are “locked-up” by the official authorities through the prolonged payments of the state’s liabilities to the business sector. One great example for the previous is the VAT tax refund delays, a practice which was recently abused by the officials on a large scale.

**Lack of investment.** Although investment plays a key role for the growth of the small firm, it seems that the process of capital accumulation is stagnant during the last few years. Owners of the firms state that this stationary condition of the level of investment greatly corresponds to the investment environment that has been depressed lately due to the overlapping political crises and the lack of political cohesion. The strategic failure on the field of Euro-Atlantic integration process creates even greater insecurity among entrepreneurs, eventually possessing much worse danger for the investment environment.

**Lack of planning in business cycle.** The insecure environment, small capacities of SMEs, frequent substitution of business partners and small quantities of order result in poor application of planning within the production cycle. The entrepreneurs agree that many of them work without serious planning, only on a short-time horizon scale, for example, quarterly, or monthly, in rare cases semiannually or annually. Some of the micro firms confirm that they operate even on an occasional basis, taking the orders incidentally.

**Unmotivated employees.** Regardless that many of the remarked strengths were related to labor force, the loss of motivation to work of employees could present a serious lapse concerning the SMEs sector. Low wages, working overtime and the absence of efficient compensatory payments and rewards are some of the factors influencing this weakness. As a result, many of them cycle between the local firms in pursuit of a better working environment, or alternatively, migrate to the capital Skopje or eventually, abroad to foreign countries. If we add to the top the prevailing social surrounding among youngsters concerning to their future careers, the lack of perspective of working in homeland, almost certainly exaggerates the will to work abroad. At the end of the line, if this condition continues in the nearest future, the SMEs could be faced with shortage of reliable working force, generating at the same time imbalance on the regional labor market.

**Opportunities.** Off course, there a certain advantages (or opportunities) that could be identified during the survey:

**Possibilities to improve economic efficiency.** It seems that the biggest priority, according to the interviewed entrepreneurs, are the existing opportunities that could improve economic efficiency of the regional factors of production. Most of them agree that the most essential determinant of the local firms to preserve and harden to some extent their ability to compete on international and domestic level, is the firm’s inborn



and everlasting will to thrive and improve the economic performance. The basic actions that foster economic efficiency named by the interviewees are, for example, investment in new technology and equipment, education and training of current workers, employing new educated and qualified workers, implementation of higher quality standards, application of new modern organizational techniques and managerial skills, initiation of better motivational methods, making efforts to empower worker's productivity etc. If we aggregate this, most of these opportunities of the locals are predominantly internal and depended on themselves.

***Integration within NATO alliance and the EU.*** Ever since its independence, this has been the country's highest priority and strategic goal, but unfortunately, history has shown that these goals are very hard to be fully accomplished. The entrepreneurs confirm great number of arising opportunities and benefits from this process when it will be eventually completed. First, they prelude in existential sense, the access in the military alliance of NATO will guarantee the integrity and sovereignty of the country protecting it from any potential external threat. Geo-strategically, this is very important for a small country emerging in a turbulent surrounding such as the Balkan Peninsula and the global constellations of a strongly divided world between the great superpowers. Economically, this act will produce more stability for the country that will be positively perceived by the investors and businessmen. The benefits from the succession in the EU are very similar predominantly in economical sense. Besides the expected surge of private investment, the EU funds will become available for the county, inevitably accelerating the "wheel" of the economic prosperity. But first, the government must conduct the reforms delivered by the EU and NATO alliance. Second, and more difficult, it must back-up and implement the agreement with Greece concerning the solution of the name dispute, a "bitter pill" that must be swallowed for the future of the country.

***Capital migration from the new member countries of the EU.*** This refers especially to the neighboring Bulgaria, Romania and the other countries of the former Eastern Block. In this case, the handicap of not being an EU member country could fortunately turn into advantage. The company's owners think that the price of labor in these countries will unavoidably increase in long-term perspective as a result of the process of convergence of labor market. The average wage will gradually increase, raising the production costs of the firms, and probably, this will initiate sequential chain of inward migration of residential foreign capital. These companies would probably try to exploit the opportunities of the regional labor market, especially the lower prices of labor and the good connections with the EU's and US's partners.

***Lower barriers of trade and customs tariffs.*** The Republic of Macedonia has experienced many beneficial gains in terms of the international trade, ever since it's active membership in the WTO in 2002, through the signing of numerous bilateral and multilateral trade agreements. The expected participation as a full member in the European Union will further deepen the level of the international trade, as most of the entrepreneurs agree. Accordingly, quick and new agreements of trade will be



instantaneously conceived, especially on the EU's market, as trade and tariff barriers will tend to fall. Even the current situation of being a candidate for membership and the assigned Agreement for Stabilization and Association with the EU' is in some way beneficial for the country. Namely, the foreign investors from high tariff countries such as China, Russia, Turkey and others, could use the territory of the RM to launch their products and services on the EU's market with lower tariffs and costs, instead of selling them directly from their own territory.

**Organization of centers and facilities for quality, training and information services.** These basically logistic services are among the most important factors for support, growth and development of the SME's sector. The practitioners involved in this sector alarm that there is a serious shortage of organized logistics for the regional firms. At the same time they urge to the government to create better institutional and regulatory framework for the purpose, as many of the firms are left to handle these problems alone [10].

**Introduction of new modern and more sophisticated industrial brunches.** Statistically, most of the active entities are involved into the so-called "traditional" business sectors such as trade and commerce, manufacturing, transportation and logistics etc. Consulted entrepreneurs agreed that a certain modification of the business's sector profile is more or less needed in the near future. Plausibly, new modern and sophisticated industrial brunches nave to be introduced, that carry higher added value and attract new investors. For example, these would include information services, industrial design and training, consulting etc. In addition, some of the actual firms could transit from their basic economic activity towards the new ones. Nevertheless, this process is time consuming and demanding as the regulatory rules have to be additionally reinforced, financial resources have to be additionally supplied, while at the same time the state should provide logistic, legal and technical support.

**Organization in industrial clusters and chambers.** Accordingly, the level of organization and integration of mutual interests within the individual sectors is insufficient among the enterprises and most of them act individually on the market [11]. Some of the owners think that there is a "switching" tendency of the common, mutual interest for account of the individual, personal interest among the actual clusters and chambers in this region. As a result, these organizations are not considered as e true representatives of the industrial sectors, they are not quite productive and do not attract any attention. So, it is advisable for the authorities to strengthen the legal framework regulating the rights and obligations of these organizations.

**Favorable terms of domestic credit.** As it is mentioned, this is one of the most painful questions for the firms of this region, as many of them rely exclusively on domestic loaning from the local banks. Almost every of the interviewees confirm the existing and very real need for additional resources, preferably with favorable terms. Usually, cautious banks restrict the amount of available funds for the SMEs, demanding higher than normal interest rates with narrow and strict terms of service. Regardless that the reference interest rate is at historically lowest level, the ongoing monetary





policy is not enough “persuasive” for the banks to substantially relieve their credit policy. The experts find the reason for this behavior in the classic phenomenon called “crowding-out”. Accordingly, intensive government borrowing on a regular basis from domestic banks is resulting with an increase of the interest rate on a long term basis. Instead to channelize the credit potential to the private sector and adequately, towards the economic growth, domestic banks favor to lend their free money to the government. The interested parties agree on a couple of things concerning this question. First, there has to be a change in the fiscal policy, in other words, it is presumably that the government should control borrowing and consolidate its public debt. And second, the competition of domestic banks should be increased through excess of new foreign bank capital.

**Favorable foreign credit lines.** Another good perspective to accommodate the increased need for additional finance of the regional firms is through application for favorable credit lines offered by foreign private creditors or the international organizations such as the World Bank, particularly the IBRD (the International Bank for Reconstruction and Development), the EBRD (the European Bank for Reconstruction and Development), the EIB (The European Investment Bank) and others. The state and local authorities should take pro-active intermediate role in order to lessen the availability of these international funds to the private sector. For example, the government in coordination with municipalities can finance and co-found an agency for the purpose, in order to facilitate, administrate and organize the distribution of the funds on a competitive and objective basis, it can mediate or represent the private sector during the negotiation process, or even sign as a last instance guarantee.

Other alternative sources of finance. These are predominantly “the non-traditional” sources of finance such as start-ups and business angels, business incubators, venture capital and innovation funds, joint ventures, public-private partnership, international and domestic government funds and grants, higher government participation on the capital market, miscellaneous tax incentives, and other forms of government support [12], [13]. The latest case of the government’s innovation support fund has gone under many critics concerning the nepotism and non-objective practice of distribution based on a political basis.

**Threats.** Here are the possible dangers that could affect the regional enterprises. Bureaucracy, corruption and inefficient judicial system. According to the owners, this is the so called “malignant tissue” of the socio-economic system. Slow and bureaucratic public administration and the corruption in customs and courts are perceived as the biggest socio-economic problem possessing a real danger for the entire national economy. If these problems are left neglected and ignored by the government authorities that should carry the biggest responsibility concerning this fundamental question, the consequences could be enormous, especially from aspect of the EuroAtlantic perspective of the country. Although some progress has been made during the last decade, according to the Transparency International, further reforms in this field are more than essential at the moment [14].



***Tendency of increasing labor and energy costs.*** This situation presents a real and straightforward threat for the fragile SMEs sector and its ability to compete. Some of the owners fear that if the country is destined to become a full member of the EU, it will experience the same outcome of increased costs for labor (many of them think that the improved productivity will outweigh the negative effects described here). Even there is some evidence of inhospitable feelings for the foreign investors operating in the economic zones for the same reason also, as the entrepreneurs feel directly threatened by the foreign competition as it “steals from hosts” the qualified labor. Instead to take advantage of their presence and establish close connections, they view them as unfair (disloyal) competition, build under the “generous” subventions and other tax incentives offered by the state. Another “blow” for the sector is the increase of oil price, which is an objective circumstance influenced by the movements of the global oil market. More concerning is the announcement for liberalization of energy (electricity) market. Namely, the owners forecast and fear that the price of electricity will increase also in the future, as this process will shift the price from the actual “subsidized”, to the new market level.

***Absence of national (regional) strategy for support and development of the entrepreneurial sector.*** This has been viewed as an absolute negligence and disinterest from the reliable authorities. Considering the fact that the majority of firms in the SMEs sector are micro and small enterprises couldn't afford any strategic planning for themselves, the need for this function is more than essential if we recognize its importance especially during the turbulent periods of increased insecurity. There has been a strategy, or more correctly, a policy proposal from the EBRD and OECD a decade and a half ago, but ever since no other such a document has been published. Based on the scanned pros and cons detected here, we as independent authors will propose a general policy framework that could serve as a policy guide for the interested parties. The intention is to publish the assessments into a separate article as a part of the opened project we are participating in.

***Inadequate banking and other financial support.*** This question has already been discussed on a several occasions. If the problem remains status-quo and there is no intention something to be resolved, the threat is real and present. Especially this refers to the short-term capital, because the lack of favorable credit lines could easily distort the operations continuity within the firms.

***Lack of sufficient government support.*** The entrepreneurs think that the current level of government support is not satisfactory. The pressure to secure additional budgetary resources has resulted in gradual narrowing of the available financial and tax incentives. Currently, these instruments are granted on a general (comprehensive) basis or in favor of the bigger and successful legal entities already well established on the market. On the contrary, numerous studies confirm quite the opposite, that the policy of government support should selectively target the small firms, because of the fundamental need for resources in this phase of their life cycle [15], [16], [17].





Threat from the regional and world competition. This is an ever-present threat according to the firms, especially for the labor-intensive sectors such as manufacturing. Despite the evidence of isolated migrations of some firms into the other regions and abroad, the hidden “ace” of this sector, as referred from the owners, is higher quality and qualified labor.

**Deficient marketing promotion.** There is a serious lack of marketing promotion in all forms. For example, the owners confirm that usually, they do not participate regularly on domestic, regional and international fairs and the other available commercial exhibitions. Also, most of them do not take any advantage of the modern forms of advertising and commerce such as internet trade and e-business. Having in mind that these modern commercial techniques offer almost “limitless” possibilities, staying indifferent concerning this question could directly threaten the very existence of the firms, as they will fail to modernize, integrate themselves globally and follow the world trends.

**Increased risk of payment (Insolvency and low liquidity).** This is correlated with the previously explained financial problems of the firms. Indeed, the chronic persistence of these conditions can jeopardize the firm’s ability to regularly pay its obligations, and therefore, increase the payment risk on a long-term basis.

**Other problems and obstacles.** These include lack of adequate premises and investment ideas, taxes and institutional (regulatory) environment, racketeering and organized crime etc.

Just for comparison purposes, the main obstacles to doing business are presented in the Table below, according to the owner’s perception from the survey conducted by the EBRD in 2002. As no other significant study has been done in meanwhile, the readers can draw conclusions about the evolution of the problems involved. Table no. 05 contains the average score assigned by respondents to each aspect of the business environment, where the scores can be interpreted as follows: 1 = no obstacle; 2 = minor obstacle; 3 = moderate obstacle; 4 = major obstacle.

**Table No.5. Rating of Severity of Obstacles to Doing Business (BEEPS, 2002)**

<i>Macroeconomic instability</i>	3.5
<i>Economic policy uncertainty</i>	3.3
<i>Tax rates</i>	3.2
<i>Tax administration</i>	3.1
<i>Cost of financing</i>	2.9
<i>Corruption</i>	2.6
<i>Business licensing and permits</i>	2.5
<i>Access to financing</i>	2.5
<i>Customs and trade regulation</i>	2.5
<i>Organized crime</i>	2.4
<i>Street crime</i>	2.4
<i>Contract violations by customers and suppliers</i>	2.3
<i>Anti-competitive practices of other producers</i>	2.3
<i>Functioning of the judiciary</i>	2.1



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<i>Skills and education of workers</i>	<b>1.8</b>
<i>Access to land</i>	<b>1.8</b>
<i>Title or leasing of land</i>	<b>1.7</b>
<i>Transportation</i>	<b>1.7</b>
<i>Labour regulations</i>	<b>1.6</b>
<i>Electricity</i>	<b>1.4</b>
<i>Telecommunications</i>	<b>1.3</b>

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Source: EBRD

## Summary

Instead of a summary, we give a systemized table of the strengths, weaknesses, opportunities and threats of the SMEs sector from the East-Planning Region of the Republic of Macedonia. It shows that the most important strengths found during the survey are: good product quality and flexible production, good management and organization, high labor productivity and cheap price of labor, low taxes and low overall cost of production. The weakest points of this sector identified in this study are: low profit margins, old technology and equipment, deficit of capital and finance and workrelated unmotivated labor force. The biggest opportunities for the sector are offered by: the integration in NATO and EU, the favorable terms of domestic credit and favorable foreign credit lines and the alternative, modern sources of finance. As for the most significant treats are found to be: bureaucracy, corruption and inefficient judiciary, the absence of strategy for development, inadequate banking, financial and government support and the deficient use of marketing promotion. As it is seen, all the financially related topics discussed here are noted with a negative reference, drawing the final concluding remark about the limiting influence they pose to the analyzed sector. The last statement only gives a further justification of the researching efforts and goals we are planning to accomplish during the continuing projects we are engaged in.

**Table No.6. Summary of Prospects and Constraints of the SMEs Sector in the East-Planning Region in Macedonia**

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<u>STRENGTHS</u>	<u>WEAKNESSES</u>
➤ <i>Good quality of products and services</i>	➤ <i>Low profit margins</i>
➤ <i>Flexible production</i>	➤ <i>Old equipment</i>
➤ <i>Export orientation</i>	➤ <i>Insufficient technology use</i>
➤ <i>Good management and organization</i>	➤ <i>Deficit of capital and finance</i>
➤ <i>Good relation and cooperation with</i>	➤ <i>Small economies of scale partners</i>
➤ <i>Good labor productivity</i>	➤ <i>Lack of investment</i>
➤ <i>Cheap price of labor</i>	➤ <i>Lack of planning in business cycle</i>
➤ <i>Low taxes</i>	➤ <i>Unmotivated employees</i>



- **Low overall cost of production**

#### **OPPORTUNITIES**

#### **THREATS**

- |   |  |
|---|--|
| ➤ <b>Possible improvement of economic efficiency</b>        | ➤ <b>Bureaucracy, corruption and inefficient judiciary</b> |
| ➤ <b>Integration within NATO alliance and</b>               | ➤ <b>Increasing labor and energy costs the EU</b>          |
| ➤ <b>Inward capital migration</b>                           | ➤ <b>Absence of national and regional strategy</b>         |
| ➤ <b>Lower trade barriers and customs financial support</b> | ➤ <b>Inadequate banking and other tariffs</b>              |
| ➤ <b>Quality and training centers, services</b>             | ➤ <b>Lack of sufficient government support information</b> |
| ➤ <b>New modern industrial branches</b>                     | ➤ <b>Regional and world competition</b>                    |
| ➤ <b>Industrial clusters and chambers</b>                   | ➤ <b>Deficient marketing promotion</b>                     |
| ➤ <b>Favorable terms of domestic credit</b>                 | ➤ <b>Increased risk of payment</b>                         |
| ➤ <b>Favorable foreign credit lines</b>                     | ➤ <b>lack of adequate investment ideas</b>                 |
| ➤ <b>Other alternative sources of finance environment</b>   | ➤ <b>Taxes and institutional (regulatory)</b>              |
| ➤ <b>Racketeering and organized crime</b>                   |  |

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Source: Authors summarizations

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