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**SELF EMPLOYMENT PROGRAM VIA CREDITING AS  
AN INCENTIVE FOR INCREASING ENTREPRENEURIAL  
ACTIVITY IN REPUBLIC OF MACEDONIA**

**Abstract**

In recent years, entrepreneurial activity has been the focus of the governments of the world's advanced economies. Policy makers increasingly recognize the importance of the presence of entrepreneurs in economies that open new markets, innovate products, services, technologies and organizational processes, thereby spreading consumer choice, deepen consumer possibilities and improve their well being. Therefore, there are numerous activities undertaken by the governments for stimulating new and potential entrepreneurs to enter the markets and take advantage of their entrepreneurial capabilities.

Self employment program via crediting is one of the activities undertaken by the government of the Republic of Macedonia which would facilitate market entry for the new entrepreneurs in the economy. The purpose of this paper is to present the research which was conducted on users of the self employment program via crediting and also to prove the effectiveness of this program in the creation of new entrepreneurial capital, which is the

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paper hypothesis. The survey results confirm the hypothesis and suggest that self employment program via crediting is an incentive for potential entrepreneurs to enter Republic of Macedonia's markets.

**Key words:** self-employment program via crediting, entrepreneurship, business venture, innovation, entrepreneurial capital

**JEL Classification:** L 26, O, O3.

## **Introduction**

Entrepreneurship enters the domain of the most actual fields of economy, business and social life because entrepreneurs through their creativity, innovation, imagination, fantasies, aspirations and willingness to enter into risky ventures, are changing the world we live in. Worldwide, the entrepreneurs are everyday starting a new enterprise. By exploiting their knowledge, talents and skills, entrepreneurs are trying to make profit, to achieve their vision and mission or to change the society they live in. Therefore, entrepreneurship is associated with small and medium sized enterprises, which represent a way of articulating ideas, vision and mission of the entrepreneurs.

There are numerous examples of entrepreneurs worldwide, who have influenced social life with their innovations, in a way of expanding people's choice and their opportunities. A major challenge in modern capitalistic societies is the creation of conditions for easier articulation of the ideas and aspirations of potential entrepreneurs. Difficult access to the markets for new entrepreneurs who wants to run their innovative ventures is caused by the lack of resources and by the fact that markets are well developed and occupied by the competitors. Therefore, the focus of the governments is to create appropriate policies which would ease market entry of new entrepreneurs, and thus will increase entrepreneurial capital in the economy.

There are many potential entrepreneurs in the Republic of Macedonia who have knowledge, skills and ideas, but they cannot find a way to put them in the markets because they face limited resources, needed for starting a new business venture. It is very important to support those

entrepreneurs because with each lost idea, the economy is losing entrepreneurial capital which is important for increasing the value of the economy.

Self employment programs are one of the measures implemented by the Government of the Republic of Macedonia as a part of the plan to reduce unemployment in the country, but also to give incentive for new entrepreneurs to enter markets through forming small enterprise. It is important to note that there are two self employment programs - self employment program via receiving grant and self employment via crediting. This paper will analyze the influence of self employment program via crediting on new entrepreneurs to form small enterprises and enter in markets and the extent of entrepreneurial capital they form with their presence. Not all small enterprises are entrepreneurial-minded and hence the need to measure the influence of the program on the creation of entrepreneurial capital.

## **1. ENTREPRENEURSHIP AND SMALL AND MEDIUM SIZED ENTERPRISES**

The term entrepreneurship is becoming more popular in modern societies. Entrepreneur originates from the French word “ENTREPRENEUR”, meaning something to be done or be undertaken. Therefore, entrepreneurs are defined as people who create innovative ventures with a dose of risk and uncertainty in order to make profit by exploiting perceived opportunities and efficient utilization of resources required. Thus, they create additional value in the societies.

The concept of entrepreneurship is known since the twelfth century, but its academic learning begins in the eighteenth century with french economist Richard Cantillon. In his essay “Essay on the nature of trade in general” published in 1755, the term entrepreneurship was mentioned for the first time. Cantillon sees entrepreneurs as risk takers through the purchase of goods at a predetermined price and then selling them at a price that is uncertain.

Another significant author is Frenchman Nicolas Baudeau who inherited the position of Cantillon that taking risk is primary feature of entrepreneur and that he must be an innovator to reduce the levels of risk. His idea refers to the entrepreneur who finds and uses new technologies in order to cut operating costs and make more profit.

Furthermore, the European theorist Jean-Baptist Say describes entrepreneurs as people who possess scientific knowledge which they link

with consumer needs, taking into account the cost of production. English theorist's like Adam Smith, David Ricardo and John Stuart Mill see entrepreneurs as capitalists whose main objective is to maximize profit.

Joseph Alois Schumpeter is an American theorist despite his Austrian origin. He is considered to be the greatest theorist of entrepreneurial thought in the twentieth century. His entrepreneur is an innovator who brings change through implementing new technological processes and products. Entrepreneur is a dynamic force that undermines economic "status quo" by taking innovative actions as implementing new products or services that require new raw materials, which can get operative by using new organization methods. Schumpeter is the first theorist who made a distinction between entrepreneur, manager and business owner.

While American theorists base their concepts on the Schumpeter theory, prominent university professors like Kirzner sees the entrepreneur as a creative person who has to imagine the opportunities. Uncertain and asymmetric information create opportunities for some individuals to imagine possibilities for profit. He considered that only entrepreneurs are capable of recognizing the opportunities quickly and adequately and to react appropriately to them.

All these aspects of economic theories from various schools defined the concept of entrepreneurship. These definitions can set the framework and assess whether participants in the self employment program via crediting possess part of the listed characteristics of entrepreneurs.

Because entrepreneurs are related to small and medium sized enterprises, this section provides a brief overview of the situation of SME's in Republic of Macedonia

Defining small business in the Republic of Macedonia started in transitional years with implementing the "Law of accounting" in 1993, which differed only small and large companies through one characteristic – number of employees in an enterprise. Thus, enterprises employing up to 250 persons were classified as small, and those with over 250 persons were classified as large enterprises. This definition remained until 2004 when the "Law of business ventures" was adopted. The law accepted European criteria for definition of enterprises by number of employees, annual turnover and value of operating asset.

In 2015, in Republic of Macedonia were registered 70.139 enterprises, of which 63.590 were micro enterprises, 4.979 were small ventures, 1.339 were medium sized, and 231 were large companies. Almost

99.7% of the Macedonian economy consist small and medium sized businesses. This figures show the importance of small and medium sized enterprises for the creation of value in the economy and opening new job opportunities.

Small and medium sized enterprises represent a pillar of the economy because of their ability to innovate, to increase market competition and expand product range, and thus, producing economic growth. They represent a form of expression of entrepreneurs. Therefore there must be incentives and proper policies for supporting small and medium sized enterprises.

## **2. SELF-EMPLOYMENT PROGRAM VIA CREDITING**

Self employment program via crediting is project of the government of the Republic of Macedonia whose implementation started in 2008. The purpose of this project is to enable favorable loans to interested unemployed persons who wish to legalize their informal business or to start their own business, which will create new jobs through self employment. Participants in the program receive 3.000 euros for each new created job position. The program determinates funding projects up to 15.000 euros and 5 new job positions. In 2014, the program has changed in order to provide better conditions for young people up to 29 years. Thus, for one newly opened job position the loan is up to 7.000 euros, and for each additional job position the loan is up to 4.000 euros ( maximum financing 5 job positions). This means that program could fund projects up to 23.000 euros.

As terms specified for credit approval are:

- Repayment of the loan to be in 3 years time period;
- Annual interest rate of 1%;
- Grace period of 1 year;
- Owners assets of at least 25% of the total project value (in the form of equipment, items or money)
- User must provide a guarantee of return on assets in ratio 1:1 via mortgage, with approved credit or warranty with at least one guarantor
- Additional 1.000 euros for employment of persons declared redundant, unemployed on the basis of bankruptcy and liquidation or persons unemployed more than 3 years.

In order to achieve program objectives and measures, the project contains dozen activities. The program starts when the Employment Agency of the Republic of Macedonia publishes public announcement, calling target groups to apply and participate in the program. Users apply to the program and the application includes sample application for granting the loan and mini business plan, which must be filled and submitted by each applicant to over 30 employment centers in the country. In order to move to the next phase, applicants must meet certain criteria. One loan application means establishing one start-up business. Once the participants undergo to the process of registration of the business, they will be deleted from the records of unemployed persons in the Employment Agency. If the participant shut down his business, he cannot be registered as unemployed until he fully repay the loan.

The selection of candidates is carried out in several phases according to predetermined criteria by Project Steering Committee. In the first phase, the applications are reviewed, evaluated and distributed through developed software in terms of target groups selecting. Secondly, Commission of the Employment agency assesses actual situation regarding the completed mini business plan. If the assessment is positive, the Agency of promotion of entrepreneurship of the Republic of Macedonia evaluates and ranks the business according to its preferences which are consisted in the mini business plan. The Central Committee summarizes evaluation of the business ideas and is consisted of nine members, who submit them to the board for final approval. The Managing Board is composed of five members and makes the final decision for business that will be financially supported.

### **3. METHODOLOGY OF RESEARCH**

In order to determine the importance of self employment program via crediting for entrepreneurship development in the Republic of Macedonia, a research was conducted on users of funds from the self employment program via crediting in 2008 in the region of the city of Skopje. Applicant's group from 2008 is particularly interesting to be analyzed because of elapsed time of minimum 5 years of granting loan. The results were obtained between the period of 2013-2016, thus there is enough elapsed time to recognize the effects of the program and the creation of entrepreneurial capital of each applicant of the program. The research was

completed by conducting a questionnaire consisting of 24 questions and is structured in two parts:

- Questions related to self employment program via crediting
- Questions related to entrepreneurial activity

In order to complete the research, contact details of 90 applicants in the self employment program via crediting from 2008 were obtained from the Employment Agency of Republic of Macedonia. Of these 90 contacted applicants, 47 weren't available for interview and 5 applicants denied to answer the questionnaire. Thus a number of 38 applicants gave their response to the questionnaire. The survey was conducted through telephone calls and interview with applicants of the program. Most of the respondents were man or 73.7%, while 26.3% were woman. The majority of respondents (71%) were with secondary vocational education and 73% were aged 40-60, while 21% were aged 20-40. The selected group consisted of members of different ethnic groups, but most of the participants were Macedonians 86%, while 10% were Albanians.

#### **4. ANALYSIS OF SURVEY RESULTS**

Results from the questionnaire confirm that self employment program via crediting is a significant incentive in the creation of new entrepreneurial capital. Presentation of questions that were crucial to form the conclusions which confirm the influence of self-employment program via crediting for enhancing entrepreneurial activity in the Republic of Macedonia will follow in the text bellow. Before the presentation, general information about realization and success of the program will follow.

During 2008, 2009, 2010 and 2011, 8.129 applications were filed for employment of 9.599 persons, out of which 5.217 applications for employment of 6.177 persons were approved. There were 4.716 contracts for employment of 5.514 persons which were signed and sent to the banks. In this period for 3.653 applicants was approved a credit for employment of 4.257 persons. The average of 1.16 persons were employed in the newly formed enterprises or every 6<sup>th</sup> enterprise consisted of 2 employees who were partners in the enterprise.

Of the total of 3.653 credit approvals from the program in the Republic of Macedonia, 3.573 applicants have registered activity in the following fields:

- 45% - agriculture, forestry and fisheries
- 20% - wholesale and retail
- 11% - industry of processing
- 8% - accomodation and food services
- 6% - transport and storage
- 3% - construction
- 1% - financial and insurance activities

Out of total 3.573 newly formed enterprises, still active are 3.216 (90%), while 357 (10%) are inactive because of liquidation or bankruptcy.

In 2012, a total of 850 persons applied in the program for employment of 970 persons, and 179 applicants received credit approval and signed contract for employment of 225 persons.

In 2013, a total of 1.062 persons applied in the program, and 455 applicants received credit approval and signed contract for employment of 455 persons.

In 2014, a total of 1.936 persons submitted applications in the program of which 597 were young people up to 29 years. Approved applications for credit recieval were 917 for employment of 929 persons of which 284 were young people up to 29 years.

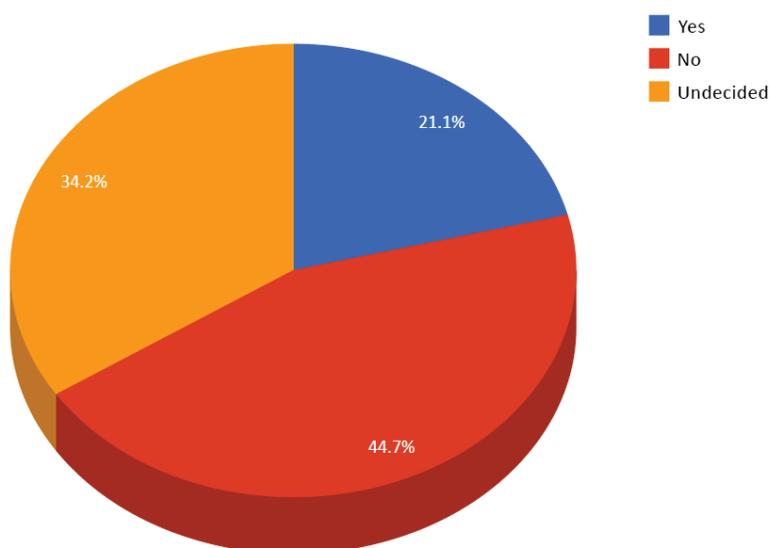
In 2015, a total of 1.723 persons submitted applications in the program of which 723 were young people up to 29 years. Approved applications for credit recieval were 1.058 for employment of 1.192 persons of which 555 were young people up to 29 years

Obtained results suggest that with the changes in the program in 2014, the number of applications for credit approval drastically increased (82% more than 2013). This increase is due to the increased number of young applicants up to 29 years because of the new measuers for this target group. Also, there is an increase in 2015 for 95% more young applicants up to 29 years than 2014. Thus, opportunities of young pepole who have new ideas, creativity and desire for success is increased for starting new entrepreneurial business ventures.

Regarding the question: Would you have started a small business venture without participating in self-employment program via crediting?, 44.7% of respondents said that they wouldn't have formed a start-up, 34.2% answered "I don't know" and 21.1% would've started a small business anyway. The large proportion of respondents who answered positively on this question indicates that the program is incentive for potential

entrepreneurs and unemployed persons to form small business enterprise. Respondents who were indecisive on this question cannot assess whether they would form a business without participating in this program, but also they didn't dispute the incentive which the program gave to them in forming their enterprise. As addition to this question, 84.2% of the respondents answered that the program completely or partly influenced to their decision on forming small business venture.

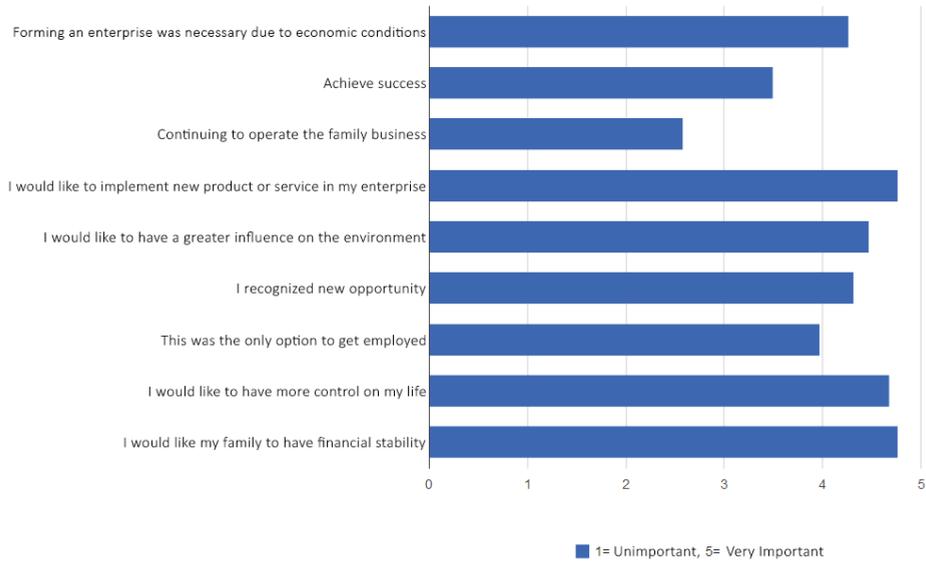
**Chart 1: Would you have started a small business venture without participating in self-employment program via crediting?**



Source: Authors research

Regarding the question: Which of below mentioned reasons were important for establishing the enterprise?, there were nine reasons listed for starting small business venture and for each reason the respondents gave a score from 1 to 5, where 1 is the smallest grade and 5 is the highest grade. Top rated reasons for establishing new business ventures were providing material security for the family and excitement to develop new idea for a product or service, with average score of 4.76. These results indicate the existence of entrepreneurial aspirations and reasons to form an enterprise, as, despite meeting of the needs of the family, a reason for market entry of applicants is utilization of skills and knowledge in order to make profit. Least favored reason is continuing family tradition with average grade of 2.57.

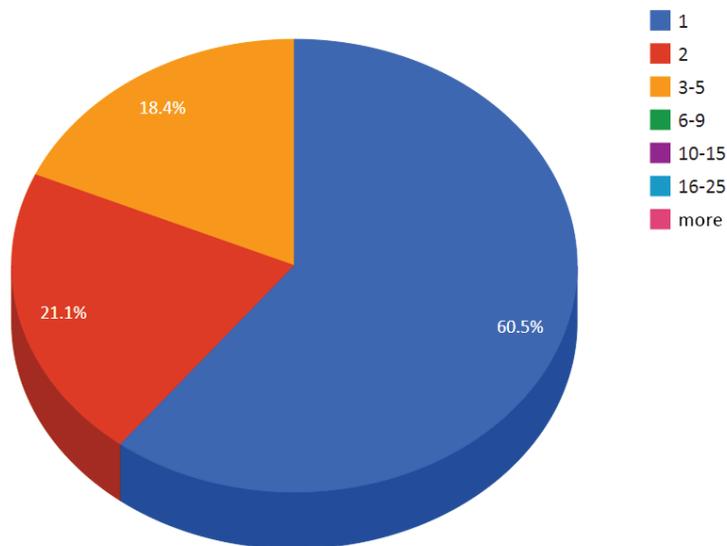
## Chart 2: Which of below mentioned reasons were important for establishing the enterprise?



Source: Authors research

Regarding the question: How many employees are currently working in your enterprise?, 60.5% of the respondents have a total number of 1 employed staff in their enterprise, or they are self-employed and didn't made new employments. Those who employed extra worker, or the percentage of enterprises which have two employees is 21.1% and 18.4% of the enterprises have 3-5 employees. None of the respondents answered that they employed more than 5 workers in their enterprise.

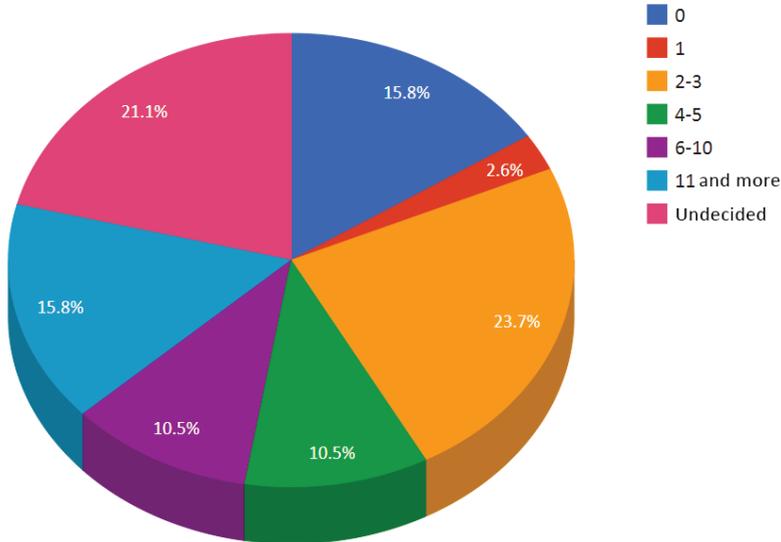
**Chart 3: How many employees are currently working in your enterprise??**



Source: Authors research

Regarding the question: How many new products or services have you implemented in your enterprise since its foundation?, there is no answer that prevails. The highest percentage of responses given is 23.7% and applies to entrepreneurs who have implemented 2-3 new products or services which are their innovation. Results indicate innovation of respondents as only 15.8% said that they have not introduced a product or service in the enterprise they formed. This percent is equal to the result of 15.8% of respondents who said that they have launched 11 new products or services in their enterprises. The percentage of those who do not know how many products or services they launched in their business is 21.1%, but is important to note that these are people who have launched new products or services but can't determine their exact number. Therefore, we can draw a conclusion that users of funds of this program do not have only skills and knowledge to operate their enterprise, but are sufficiently creative to produce their own ideas, which they launch in the market in form of new products or services.

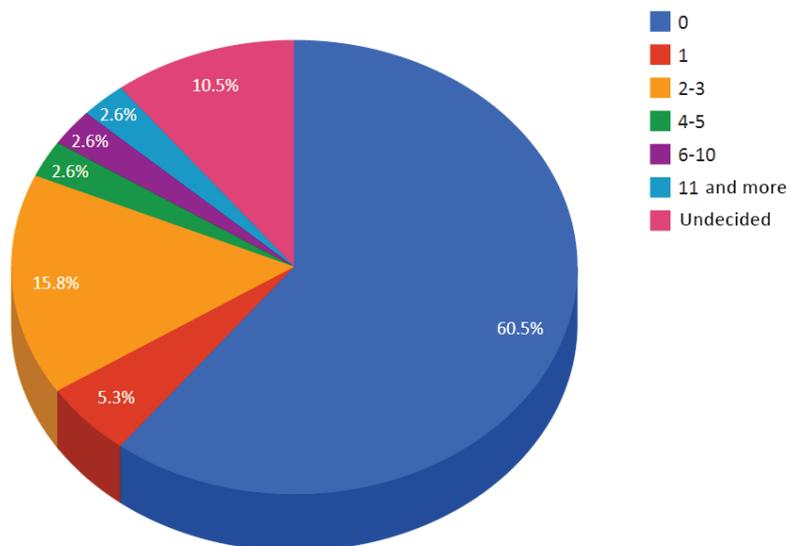
**Chart 4: How many new products or services have you implemented in your enterprise since its foundation?**



Source: Authors research

Regarding the question: **How many new technological solutions have you introduced in your enterprise?**, the results that have been obtained were expected, but also surprising. About 60.5% of the entrepreneurs said that they have never applied new technological solution. The result was expected because micro enterprises rarely have the resources to apply new technological solution. However, 15.8% of the entrepreneurs said that they introduced 2-3 new technological solutions in their enterprise and 2.6% said that they introduced 4-5, 6-10 and 11 or more new technological solutions.. Most prevalent technological solutions are knowledge transfer, technological solutions related to manufacturing processes and modification of equipment. Entrepreneurs who applied this solutions regularly attend conferences, business fairs and workshops in the country and abroad in order to perceive the new technological solutions in their fields and put a lot of effort to implement them in their enterprises.

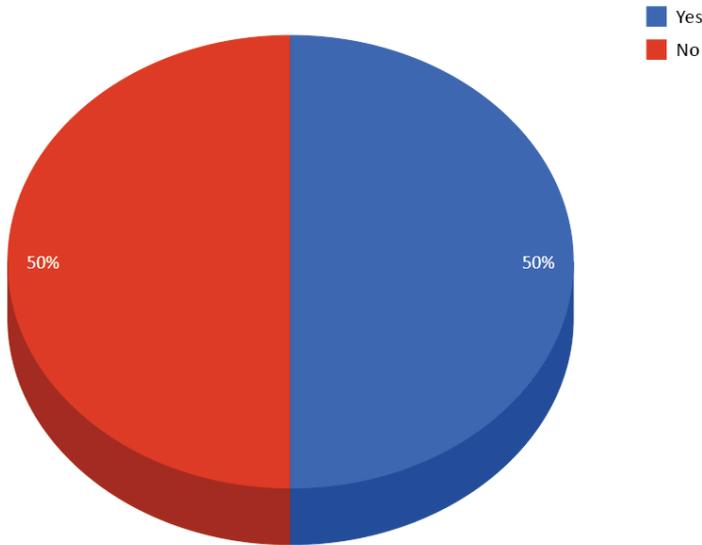
**Chart 5: How many new technological solutions have you introduced in your enterprise?**



Source: Authors research

Regarding the question: **Have you made new investments during the operation of the enterprise?**, the obtained results are half divided, 50% of the entrepreneurs made new investments and 50% didn't made new investments in their enterprise. Despite the difficulties they faced, entrepreneurs found strength and resources to expand their business venture. The most common type of investments are investments in new equipment, new capital investments and modernizing the premises of the enterprises. This results are indicator that gives us a picture of the faith that entrepreneurs have in their ventures, as well as their ambition and perseverance to succeed.

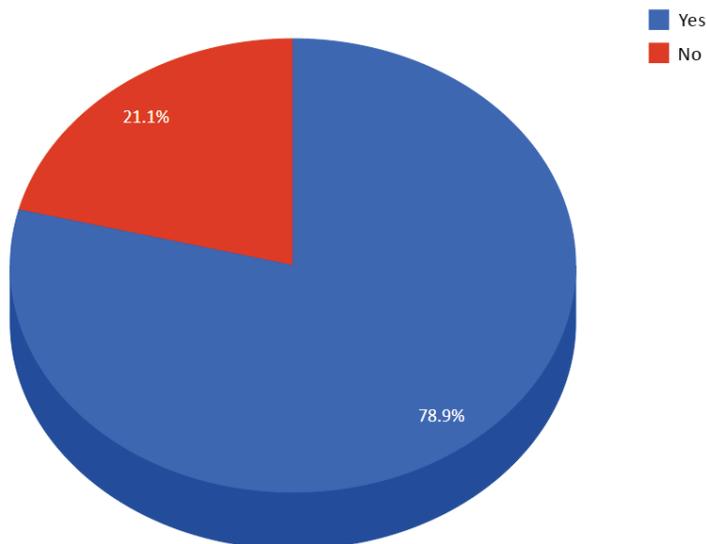
**Chart 6: Have you made new investments during the operation of the enterprise?**



Source: Authors research

Regarding the question: **Do you recommend to the unemployed persons who have ideas and desire to form their own business venture to participate in the program of “self employment via crediting”?** 78.9% of the entrepreneurs recommend to the ambitious people who have ideas and desire to form their own ventures to participate in the program. Yet, they also recommended to carefully asses their business ideas, to analyze the market, to calculate the risk and to form their enterprise only if they have faith in their abilities. A small proportion of 21.1% of the respondents didn’t recommended taking part in this program. The results indicate that although respondents confront many problems, they appreciate the program, have entrepreneurial mind set and are willing to confront new challenges.

**Chart 7: Do you recommend to the unemployed persons who have ideas and desire to form their own business venture to participate in the program of “self employment via crediting”?**



Source: Authors research

According to the obtained results, self employment program via crediting increases the number of forming new business ventures of unemployed persons who have entrepreneurial aspirations in the markets of Republic of Macedonia, and their actions increase the entrepreneurial capital in the Macedonian economy.

## **5. RECOMMENDATIONS FOR IMPROVING “SELF-EMPLOYMENT PROGRAM VIA CREDITING” PROGRAM**

In order to become more popular among unemployed persons and potential entrepreneurs, the future development of this program should consider following recommendations:

- Individuals who are granted funds under this program and that have formed business ventures through this program, in the first two years of operating to be free of charges to the state. This change

would give the opportunity to the potential entrepreneurs to develop their business ventures and to pay back the loan every month regularly. Two years period is enough to make their business ventures strong. After this period they will start to pay their obligations to the state.

- In order to improve the performances of the newly formed business ventures, it is necessary to establish a continuous contact between the Agency for employment of the Republic of Macedonia as the main institution which implements this government policies and program applicants. It is useful to carry out surveys to assess the performances of the newly formed business ventures, and with maintaining contact on regular basis the Agency for employment will be aware of the problems and challenges that newly formed business ventures face. Analyzing those problems will obtain proposed measures that have to be undertaken by the newly formed enterprises in order to solve their problems.
- Every business venture needs continuous support. Additional support could be received in various forms. Organizing workshops with business consultants could give an answer to entrepreneurs on their questions for finding new financial resources, or how to operate more efficiently, how to expand their brand products on different markets, and other questions that are concerned with their business venture. Networking is also needed by entrepreneurs and can be achieved through these workshops.

## **Conclusion**

Considering the obtained results from the survey, self-employment program via crediting is becoming frequently used source of funds by the potential entrepreneurs in order to start their new business ventures in the markets of Republic of Macedonia. At a time when one of the biggest obstacles for starting innovative ventures, especially for young entrepreneurs, is lack of investment funds, participation in the self-employment program via crediting represents a way of overcoming this obstacle. As program changes in 2014, the number of young people up to 29 years who take participation in the program and use the funds in order to start their business ventures, have more than doubled. The high rate of survival of enterprises suggest high validity of the ideas, their differentiation, suc-

cessfully recognizing opportunities and taking risk that is calculated by the applicants of this program, thus presenting the entrepreneurial characteristic of their business ventures.

Survey results indicate entrepreneurial activity of the newly formed enterprises. Although these enterprises are micro enterprises, entrepreneurs who run them are innovating products, services, organizational processes, communication methods with their customers and distributors, marketing activities and new investment activities. Their ambitions produce exploring spirit and attending on trainings of different business fields in this country and abroad, as well as monitoring new trends in their fields of operating. Thus, entrepreneurs enhance their knowledge and skills which represent the basis for creation of competitive advantage and efficiently running business operations. Also, part of the respondents through the newly gained knowledge, introduce significant new technologies in their ventures which are important for better positioning on the markets they operate. Entrepreneurial activity is confirmed by the new investments of the entrepreneurs which are reflecting their quest for more, taking calculated risk, identification of new opportunities, opening new job positions and success of their products and services.

Certainly, the terms in the self employment program via crediting should keep modifying according to the needs of potential entrepreneurs. Still, with the actual terms, the program represents huge incentive in the creation of new entrepreneurial capital in the Macedonian economy. The approval and positive experience of the participators in the program confirm this hypothesis.

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