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**ENTREPRENEURSHIP, SMALL AND MEDIUM ENTERPRISES
AND OTHER FORMS OF COOPERATION, AS A METHOD
FOR PROMOTION OF REGIONAL DEVELOPMENT
IN THE REPUBLIC OF MACEDONIA**

Abstract

Regional policy is one of the priority policies of the European Union, and it acts as a joint platform of the regions in their efforts to proactively use the benefits of their integration. The impact of EU regional policy in terms of balanced development is recognized by most protagonists of politics. Therefore, and due to the additional fact that Macedonia is striving towards EU integration, the aim of this paper is to provide answers to the question whether regional policy in the country is on the right track or there is a need for some additional interventions and changes in the existing legal framework and its implementation. The paper also discusses the challenges of regional development in Macedonia. The paper will also focus on fostering entrepreneurship and SMEs, cluster associations and PPP in the country, being the key instruments of the regional policy.

Keywords: EU regional policy, regional policy in Macedonia, entrepreneurship and SMEs, PPP and clusters.

JEL classification : R1 General regional economics, L26 Entrepreneurship

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Introduction

The phenomenon of stagflation that hit the industrialized countries in the 70s encouraged the process of economic restructuring, in which the efforts of national policies to revitalize the private sector played a very important role. Ever since then, the key forces that increase productivity and competitiveness are the following: technological progress, research and development, manufacturing, innovation and functions of management, flexibility and adaptability to new conditions.

This reorientation in the economic policy had a significant impact on regional planning. By the mid-70s, regional planning was facing a dilemma in choosing between efficiency and equity. In order to find a compromise between these two conflicting policy objectives, it was decided to favor: the greater investment in fixed capital, the use of unskilled labor, the exploitation of natural resources and the cheap production of high quality products.

The objectives and content of regional policy dramatically changed during the 80s. The first reason is the growing orientation towards knowledge in modern technological production. The need for high quality sophisticated products, that are competitive not only on the local but also the global market, demanded intellectualization of all stages of production.

Therefore, the regional development policy was moving to a different era, driven primarily by new developing technologies in areas such as computer science, telecommunications and informatics. The SME sector and entrepreneurship has been identified as an important strategic objectives of the national, regional and local governments, and they are seen as drivers of change for inclusive regional development and economic growth.

1. ENTREPRENEURSHIP AND SMEs - PILLARS OF REGIONAL DEVELOPMENT

The development potential of the region depends on its access and use of these modern knowledge networks. (Giaoutzi, Nijkamp, Storey, 1988, p. 122-123).

Another reason for reorientation is the changed production structure of economies. Unlike the trend of mass production and

industrial concentration, a new evolution appeared and it is based on small production units. On the one hand, this is due to the fact that economic stagnation was the reason for quick recognition of the need of regional entrepreneurship, and on the other hand, the process of decentralization has become easier with the possible use of modern information technologies.

Regions which are lagging behind are characterized by high unemployment, low-skilled labor, limited access to resources and lack of infrastructure. In these regions, small and medium enterprises (SMEs) have the most important role in their economic revitalization. (MacGregor and Vrazalic, 2007, p. 7)

SMEs are very important for regional development because they are flexible in research and development, marketing, and their leading features are the creation of new jobs, production and innovation. (Mellors and Copperthwaite, 1990, p. 108)

Lack of entrepreneurship in some regions and concentration of the same in others, is considered as one of the reasons for the existence of regional disparities in many countries. (Higgins and Savoie, 2007, p. 33) In this framework, the analysis of the regional profile can be a useful analytical tool for determination which regions are important candidates for stimulating the growth of SMEs (based on: the vitality of regional entrepreneurship, industrial diversity, available infrastructure, etc.).

Three groups of factors contribute to SME development on local/regional level:

1. Creating a favorable investment climate - In this area Macedonia has a certain progress in terms of shortening the length of the registration process, lower taxes, accelerating the procedures for obtaining building permits etc. However, obstacles for creating a favorable business climate in Macedonia still exist: inefficient judicial system, corruption etc. The central government is responsible for overcoming the aforementioned obstacles but local government can also improve the business environment through:

- Development and implementation of projects to improve the local infrastructure by local government units for economic development and the Centers for development of the planning regions (road infrastructure, industrial zones, gasification, regional landfills etc.).
- Employment of high quality personnel in institutions to support entrepreneurship at local and regional level such as department

for local economic development within municipalities, business incubators, regional centers for SMEs, clusters etc. (Фити, Т; Филиповски, В, 2012 p.54-56)

2.Strengthening the capacity to act and the ability of local governments to transform

- In Macedonia, small municipalities have limited manpower to encourage entrepreneurial processes, while in most of the larger municipalities there is no initiative or significant projects for SMEs due to lack of skilled human resources. Units of local government in the near future should explore opportunities for recruiting qualified and competent staff who will be responsible for supporting SMEs and entrepreneurship in a municipality / region with the following tasks:

- Proposing measures to support SMEs
- Preparing and implementing projects to support SMEs
- Creating and supporting initiatives for establishing business incubators, regional centers for SME in cooperation with educational institutions, Chambers of Commerce etc

3.Fiscal decentralization - fiscal decentralization as part of the decentralization process, allows municipalities to generate income from their own tax and non-tax revenues. By issuing municipal bonds, municipalities could mobilize significant amounts of finances. (Фити, Т; Филиповски, В, 2012, p.59-61).

By implementing the abovementioned measures, the number of SMEs can significantly increase and this will contribute towards:

- **Increase in employment rate and income** - The establishment of new companies and expansion of existing enterprises affect the creation of new jobs. Multiplicative effects of income will affect the environment. Small and micro enterprises usually employ more local people. Self-employed are strongly associated with the place, which strongly influence the services offered by the new enterprises, i.e. the type of business. Indirect effects on employment will be seen over time by improving the skills of employees and self-employed persons. The opening of new jobs also encourages individuals to invest in lifelong learning.
- **Increasing the income tax** - The amount of collected income tax increases because of the increases in personal income, corporate profits, consumption, the value of assets and increased payroll.
- **Improved services and retaining local revenues** - The creation of new enterprises will strengthen local services such as retail. The lack of such services is specific to many unstable communities.

The increase in local services can help sustain the income of the community. Broadly speaking, the establishment of enterprises can raise the demand of business services. (OECD, 2003, p. 43-45)

2. FORMS OF COOPERATION AS A FUNDAMENTAL TOOL FOR PROMOTING REGIONAL DEVELOPMENT

What is a constant dilemma regarding the regional policy in Macedonia is the question: "Is the selected approach for implementation of the regional policy the best possible way to reduce disparities between and within the planning regions?" As previously stated, there is no single unified approach of implementation of this policy and it needs to be adapted to the opportunities and needs of each country and even each region.

By adopting the Law on Balanced Regional Development the overall institutional and legal framework necessary for successful implementation of regional policy has been established. Following the trends of western countries, the question which arises is the following: why Macedonia is still more oriented towards attracting foreign and domestic investors in the regions, and less on creating conditions for business environment and the necessary infrastructure for the development of local small and medium enterprises, increasing the number of public private partnerships and the formation of clusters.

The establishment of clusters (business clusters) can be seen as organized grouping and creation of cooperation and competition between individuals and companies within the region and between regions. In theory, there are conflicting opinions on the benefits and advantages of the cluster. "Grape, when it is observed as an object, is a group of grains incorporated in one whole. Cluster, in economic terms is a concentration on a narrower geographic space, a group of interconnected functional and directly related businesses (e.g. suppliers of raw materials, service providers, businesses in related industries, etc.) with other associated institutions (universities, trade associations, chambers of commerce, various agencies ...) within a related field of business "(Uzunov, Utrinski Vesnik, 2006).

3. TOURISM CLUSTER OF SOUTHWEST MACEDONIA – CASE STUDY

Southwest Region is one of the eight planning regions within Macedonia, and it includes 9 municipalities: Vevcani, Debar, Debarca, Ohrid, Kichevo, Makedonski Brod, Plasnica, Struga and Centar Zhupa (<http://www.southwestregion.mk/ZaRegionot.aspx>). According to official data of the Centre for Development of the Southwest Planning Region, the total number of registered business entities in the Southwest region is 11,696 out of which only 6,484 are active. GDP per capita in the region is 1,807 €. GVA at the level of the region is 342 million €. The largest share in the creation of GVA in the Southwest region have industry and energy, trade, hotels and restaurants, transport, financial sector, agriculture and fisheries, and other services. Participation of the Southwest Region in the GVA of the state level is 6.9% whereas the Skopje region participates with 48.5%. An important branch of the region is tourism given the fact that from the total number of rooms on national level - 26,503, a total of 16,400 or 61.87% are on the territory of this region. Most of them are located in the two major tourist centers - Ohrid and Struga, which are situated on the shore of one of the oldest lakes in Europe - Ohrid Lake. From the total number of visitors who visit the country each year, 46.6% are visiting Southwest Region. On average Southwest region has 1,300,000 overnight stays/per year by domestic and foreign guests, which is 65% of total nights on national level (<http://www.southwestregion.mk/ZaRegionot.aspx>).

In October 2011, with financial support from GIZ RED Program (Deutsche Gesellschaft für Internationale Zusammenarbeit), the cluster EDEN was established in the Southwest region. It brought together entities from the public, private and civil sector and other independent organizations. The founders are nine actors from different segments of tourism. During its lifetime, this cluster has implemented several important projects for promotion and development of tourism in this region and its significance is undoubtedly important. Today this cluster consists of 40 members active in the tourism sector from all municipalities in the Southwest region of the various sectoral activities (includes 4 medium enterprises and 16 small and is supported by 15 institutions).

Although the capacities for tourism in this region are not sufficiently exploited, every step towards promoting and presenting the tourism inside and outside the borders of the state are very important.

Some of the projects implemented by the Tourism cluster EDEN:

- Active vacation in Southwest Macedonia - (Created and printed brochure in English, German, Dutch and Turkish, created a network of service providers for an active holiday in the region and set up a working group for active tourism within the cluster).
- Come out and experience our region - (Fair of alternative tourism in Ohrid and Struga and international cycling race around Lake Ohrid (Macedonia, Albania).
- Basic training for barmen (issued internationally recognized certification of 28 bartenders and baristas 21)

There is no specific legal framework for clusters in Macedonia. An action plan with measures and activities to improve the situation with clusters in the country is prepared by the Ministry of Economy in cooperation with the National Council for Entrepreneurship and Competitiveness, Ministry of Education, Ministry for Local Self-Government, Fund for Innovation and Technological Development and representatives from the most important cluster associations. The Ministry of Economy has taken a leadership role in the process of supporting the cluster associations in the phase of identification of clusters; defining cluster policies and implementation of cluster policies through the Program for competitiveness, innovation and entrepreneurship. So far, this program has funded the development of the cluster associations in terms of:

- Support of joint projects for linking clusters with universities;
- Support the development of innovation and development of branded products;
- Clusters support for sectoral promotion;
- Support the organization of thematic conferences and fairs
- Support the development of quality standards and adaptation to the requirements of the EU - markets.

The Action Plan for supporting the activities of the clusters in the country contains a number of activities such as:

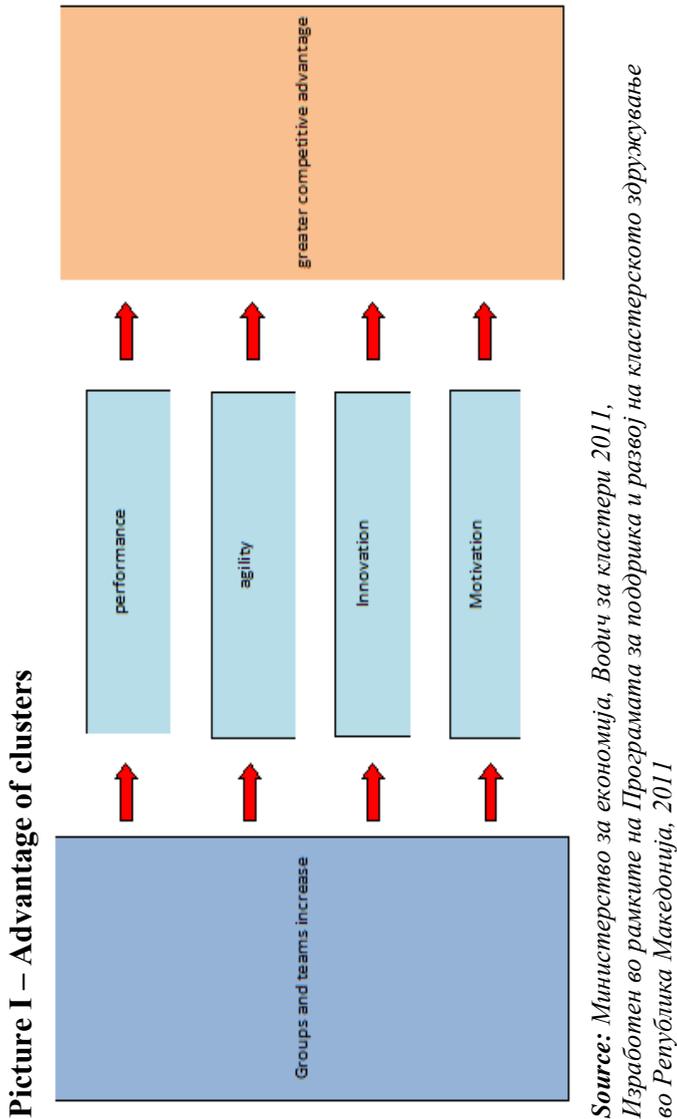
- Mapping of clusters (to become a regular activity) - every other year, check the situation with the number of clusters and their members

- Measuring the performance of clusters (detailed analysis of the number of employees - new jobs created, development of new products, new markets, etc.).
- Presentation of current activities of the various initiatives and project activities in front of cluster associations;
- Inclusion of cluster associations within the Programmes of the Fund for innovation and technological development;
- Presentation of the Erasmus + program for young entrepreneurs in front of the clusters;
- Support training for management of clusters;
- Support the newly formed cluster associations;
- Support for training for development of cluster associations;
- Support promotional activities;
- Support the networking activities of cluster associations on national and international level;
- Evaluation of cluster policies and programs and evaluation of cluster associations;
- Organizing Seventh Balkan Clusters Conference in 2016;
- Organizing a competition for the most innovative cluster / companies - members of the cluster associations and other activities.

It can be concluded that the policy for cluster associations is primarily focusing towards increasing and creating new jobs, increasing competition between clusters but certainly not in a destructive direction, and enabling them to work in several economic areas. In a broader sense, regional policy is focusing on creation of new jobs and strengthening competitiveness within and between regions.

Exploring the reasons for differences in competitiveness, Harvard professor and Nobel laureate Michael Porter, being the most famous author in the field of business strategy and competitiveness, has noted that industrial clusters / spatial concentrations of companies, specialized suppliers, universities and research and development institutions which collaborate closely, can significantly boost the competitiveness of the enterprises, regions and national economies in which they operate.

In addition to flexibility and rapid adaptation to new market conditions, efficiency and synergy, learning and trust, clusters have positive impact on the local and regional development. To be competitive, clusters should have a clear strategic approach.



Exchange of information within the cluster creates opportunities to increase innovation potential of SMEs that are part of it, reduce costs and increase profits. In the process of globalization, clusters could be an opportunity for the survival of SMEs in the sea of competitors. (Picture I).

One of the main goals of the Strategy for regional development of Republic of Macedonia for the period 2009-2019 is to increase the competitiveness of the planning regions by strengthening their innovation capacity, optimal use and valorization of the natural wealth, human capital and economic characteristics the planning regions. Clusters create tangible benefits available for both the business sector and the communities in which they exist.

Public - private partnership (hereinafter: PPP) is needed in order to establish closer cooperation between the public and private sector in the process of implementation of activities and services of public importance. PPP can be practiced differently in certain aspects, but the purpose and need of establishing PPP is the same i.e. when some public services are delivered by private entity. PPP has many advantages primarily for increasing efficiency in facilities management, more efficient implementation of projects, increase the quality of public services and improved facilities management if it is under concession to a private partner. This includes greater expertise of the private partner and it is a great possibility to accelerate economic development. Another very important component of this type of partnership is a risk-sharing between the public and private partners.

Conclusion

Successful regional policy focuses on revitalizing domestic regional resources that can contribute to the formation of new entrepreneurial initiatives, especially in the SME sector. At some stage of the industrial cycle, SMEs play an important role in restoring, restructuring and improvement of the regional economy.

One of the key issues for the views of regional and sectoral policy is: which specific regional conditions affect the creation of small and medium enterprises?

Based on several researches the answer to the abovementioned question is: geographic and climate conditions, geographical position of the region, socio - demographics, employment etc. (Giaoutzi, Nijkamp, Storey, 1988, p. 124-125).

SMEs are important regional resources with great potential. As a result, regional policy should be focusing on regional / local conditions

that are favorable for the SME sector, and on regularly finding ways how to improve them.

The assessment of the profile of the regional offer (multidimensional profile of attributes that describe conditions in the region for performing specific activities, such as in the SME sector) requires detailed geographic analysis of regional availability of all existing locational factors while assessing the profile of regional demand request information on existing regional entrepreneurship.

Bearing this in mind, it is normal to make a distinction of the locations profiles in regional industrial structure and regional production environment which is explained below.

The interest for SME sector arises from the new industrial environment which put special emphasis on the capacity for self-employment in the industrial sector. In this context, the SME sector contains many companies that are on the rise as a result of technological development. Also, in recent years SME sector has proved that they are capable of achieving a relative degree of stable employment. Therefore, it can be concluded that the SME sector is the engine for creating jobs, stimulating regional revitalization which is based on the development of domestic resources, achieving flexibility and encouraging industrial innovation.

What is of great importance for this paper is not only the establishment and existence of clusters in the country, but also their location. According to the government well developed cluster policies are powerful tools for fostering the competitiveness and prosperity of the regions (<http://www.konkurentnost.mk/OblastiDetailView.aspx?oblastId=4>).

The awareness of regional policy and its benefits is still on a very low level in local communities. Competition is healthy until it causes real damage to the competitor, then it becomes necessary to emphasize that it has crossed the boundaries of a local government unit and therefore there is a need for networking. The success of a municipality could be multiplied to its neighbors. Successful regional economies are associated economies. Cooperation and coordination increase the value of the region and most importantly in this case, increases institutional flexibility. To stay competitive it is necessary to invest in high quality public services (this would include health and education), local marketing (branding, identity), quality of life and of course infrastructure and accessibility within the municipality. Building partnerships and cooperation is the most important segment of a successful regional development policy.

Regional cooperation through various forms such as cluster association, public private partnerships and other forms of cooperation are crucial especially in regions that aim to become more competitive. The formation of clusters can be seen as an organized way of grouping, cooperation and competition between individuals and companies within the region and between regions. The policy objective of the cluster associations is primarily geared towards creating new jobs, increasing competition between clusters, thus enabling them to simultaneously work in several different economic areas. Generally speaking, clusters could be an opportunity for the survival of many local SMEs in the vast sea of competitors on the global market.

Public - private partnership is necessary in order to establish closer cooperation between the public and private sector within the process of joint implementation of activities and services of public importance. PPP can be practiced differently in certain aspects, but the purpose and need of establishing PPP is the same i.e. when some public services are delivered by private entity. PPP has many advantages primarily for increasing efficiency in facilities management, more efficient implementation of projects, increase the quality of public services and improved facilities management if it is under concession to a private partner. This includes greater expertise of the private partner and it is a great possibility to accelerate economic development. Another very important component of this type of partnership is a risk-sharing between the public and private partners.

Regional economic development occurs in a very competitive environment, guided by the processes of the local and global economy. This is an ever changing process, and its movement is constantly ongoing. This are the reasons why the local authorities should constantly work on improving the competitive advantages, increase the ability to innovate within the SME sector, especially in the less developed regions and areas with specific development needs.

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