

THE PARTICIPATION AND CRICE IN THE MACEDONIAN ECONOMY

I part ENTREPRENEURSHIP

II part NEW FORMS OF CO-OPERATION WITH ENTREPRENEURSHIP FOR POVERTY DECREASMENT

CONCLUSIONS AND POSSIBLE SOLUTIONS

Entrepreneurship in the Republic of Macedonia and in the other countries in transition is in its early stage. Therefore, the relatively equal conditions to start, enhance and develop the entrepreneurial sector in the Republic of Macedonia offer possibilities to develop one of the fundamental prerequisites for enhancing the potential growth, competition and creation of new jobs. During the initial period after the independence of the Republic of Macedonia, there was an “explosion” in the development of entrepreneurship. However, during the later period, the development of the entrepreneurial sector started losing its “breath”. Under conditions of dynamically variable global market, the citizens, entrepreneurs and businessmen are in a need of a legally regulated and economic environment that is comprehensible, simple and efficient. Measures are required for promoting efficiency in the public sector and determining the “red line” in order to reduce the problems in the entrepreneurial sector.

As never before, there is a need of complete freedom for further activities. Despite the progress made in many areas, compared with the European Union the Republic of Macedonia is significantly lagging behind especially in areas such as research and development, investments in new technologies, Internet – penetration and etc. Therefore, the economic reforms have to be speeded up in order that competitive markets and capital markets are introduced for supporting the innovative environment and undertaking the risk, and consequently encourage entrepreneurship and investments.

The entrepreneurship does not only mean start-up of new businesses and companies. It also means redirecting businesses and creating new market possibilities. Therefore, an ENTREPRENIURIAL PLOICY should be created to meet the challenges of globalization and new economy managed by knowledge. The general GOAL is to have “entrepreneurial Macedonia”, respectively sustainable economy based on knowledge and innovations.

To what the papers and deliberations at both scientific gathering refer?

First, in the Republic of Macedonia there is a need of developing a positive attitude towards the entrepreneurs and towards the start-up of new businesses. According to the opinion shared among the entrepreneurs in the Republic of Macedonia, the development of an entrepreneurial economy should be in the field of developing ability to identify business opportunities, develop entrepreneurial education and entrepreneurial culture. A special emphasis is given to the role and participation of women, especially during the start-up of new businesses.

It is also useful to point out the need of developing framework programs about:

- Education and training of entrepreneurship;
- Identification of missing skills;
- Assessment of the impact of entrepreneurship, micro and small businesses on the economic growth and development;
- Indicators for starting-up businesses;
- Indicators for incubator management;
- Promotion of entrepreneurship among women;
- Transfer of micro and small businesses.

Second, big enterprises in the Republic of Macedonia are faced with the challenges as a result of their complexity. The people in big organizations are required to think and act more than before. If, for example, some new forms of competition come to light, the computer systems would eliminate the need of management at all levels, which implies that the human resources and major undertakings should be modernized in order to survive. In this respect the best method and solution suggested is to encourage the creative people to become entrepreneurs within the structure of the major undertakings (intra-entrepreneurs) letting them win over the freedom and resources (intra-capital) that would make them accomplish their visions (establishment of intra-entrepreneurship).

Third, the uncompleted economic system and organization of power in the Republic of Macedonia prevent the economic entities to operate in a specific market environment. The outcome of this is vagueness for expected effects resulting from short-term, and especially long-term activities, which are rather vague and consequently less present. The absence of favorable climate for entrepreneurship is contributing to look for effects only on short run.

Services that entrepreneurs receive from the state bodies and services are limited, respectively not wide-ranging both in respect of institutional infrastructure and in respect of the measures they undertake to satisfy the rights of the business sector. Therefore, besides transformation of the economic system it is also necessary to transform institutions, respectively the state administration in order that required decisions are adopted. In the absence of all this, transition and accession to the "entrepreneurial Europe" would not be simple and easy.

Fourth, while the big undertakings should introduce intra-entrepreneurship, development of entrepreneurship in agriculture and servicing sector is a possible precondition for faster economic development of the Republic of Macedonia. The economic development, for example, of Taiwan that started from the agriculture, and later through industry and big companies, today is maintained assisted by the strong

service sector that, through the active role of SMSs participated in the GDP with approximately 60%.

Fifth, according to the existing information, presently 56 countries in the world have in place types of “banks for poor – micro credit programs”. Micro-credit programs brought the so much needed revolution for anti-poverty since the micro-credits go directly to the underprivileged (for example, it is evident that micro-funding in the Republic of Macedonia has neglected the rural funding). Micro funding is of fundamental importance in mobilizing local recourses for: 1. micro-entrepreneurs as a capacity and object for self-funding and 2. Institutions in respect of their self-reliance. The Republic of Macedonia should speed up development of micro-funding programs for which development of special type of entrepreneurship and entrepreneurs is required.

Sixth, development of entrepreneurship, and within this framework development of female entrepreneurship, has an important role and importance for the future development of the Republic of Macedonia. Encouraging women to become involved in entrepreneurial activities is indeed one of the priorities that should be exercised by ongoing information, training and different forms of financing under favorable conditions. The competent bodies and institutions in the Republic of Macedonia should put in place their own model for female entrepreneurship development and support, all this within the national policy for assistance and support of entrepreneurship, micro and macro businesses. Consideration and organization for the purpose of encouraging entrepreneurs, and within those frameworks women, would contribute in increasing employment, reducing poverty, and consequently making dynamic the growth and development of the economy and society.

Seventh, it is necessary to put in place a development strategy and specific systemic measures for institutionalized stimulation of entrepreneurship of micro and small undertakings, establish funds for stimulating micro investments, and especially for entrepreneurial activities in new technologies and to generate entrepreneurship as a social culture and requirement. It should be given a priority having in mind the effects that entrepreneurship could have in alleviating poverty and increasing employment.

Eight, the role of the state in the development of entrepreneurship is rather important. The state first of all should provide free and equal access to markets, and especially to market capital for all potential stakeholders of economic activities. It is also important that the banking institutions, respectively capital markets be developed and is friendly towards the “small entrepreneurs”. The state should stimulate entrepreneurship through relevant macro-economic policy since by doing this it would also indirectly influence on decreasing inequality in the area of income distribution, respectively decreasing poverty. The state should also stimulate economic participation of people through training potential entrepreneurs, and it should create an environment for linking macro and small businesses with big corporations from the private and public sector.

III part
PARTICIPATION IN CREATION OF NEW BUISNESSES AND
EMPLOYMENT

IV part
REPUBLIC OF MACEDONIA ECONOMY IN WAR CONDITIONS

SUMMARY

The military activities and the crisis in 2001 had significant impact on the Macedonian economy. These activities to a great extent changed the conditions and prerequisites of the micro-economic policy for the year 2002 and the years to come. The internal conditions for economic activities were changed both for enterprises working on the domestic market and those export oriented. The extraordinary circumstances involved unplanned and additional costs, while direct and indirect damages have not fully been assessed and are still on the rise.

The losses in physical capital (buildings, equipment, objects necessary for operation, different types of products, livestock) are considerable. To a great extent these losses were in the areas of military activities. For their upgrading and construction of new facilities, as well as for procurement of equipment and other capital lost during the war, significant funds would be needed. Due to the fact that these requirements are of priority, it means that the funds for investment and modernization of the Macedonian enterprises would be smaller for that amount.

The military activities and the crises resulted in increased poverty in the Republic of Macedonia. To the existing number of underprivileged people, the figure of over 100.000 inhabitants from the northwest part of the country should be added who felt the most consequences of the warfare activities. . All this resulted not only in increased number of persons using transfers from the social funds, but also created preconditions for intensified social tensions. In addition, a climate of insecurity and anxiety was created that discouraged investment activities and stimulated young and educated people to migrate in the developed countries.

The crisis and military activities in the year 2001 stopped the growth of GDP positive real rates that existed for many years. According to the forecasts, by the end of the year 2001, the GDP would have a negative growth rate of – 4%. The biggest influence for such a dynamic of the GDP had the reduction in the industrial production, decreased turnover in trade activities, and decreased production in agriculture and fishery, in the construction industry, tourism and other economic activities.

Military activities and the crises caused reallocation of enormous funds (mainly from the sale of the Telecom and other state enterprises) for the defense of the country. So, for example, the economy of the Republic of Macedonia would have approximately 220 million dollars less investment funds, which is the amount of the direct costs for the defense of the country. The Central Bank increased the interest rates for the treasury bills in order to prevent transfer of the crises in the financial sector. The reduction in supplying bank credits resulted in reduction of sources for funding investments. At the

same time, commercial banks increased their active interest rates, which partly had an impact on the already low investment activity.

Importation of goods in the period – January-September declined for 23% partly as a result of the relatively high level in the previous year before the introduction of the value added tax. As a result of increased risk in the country, the projected use of foreign credits felt behind, as well as the inflow of funds from direct foreign investments, respectively from the sale of Telecom.

The intensity of exportation in the period January-September 2001 was significantly reduces measured up to the intensity of the production, resulting in the absence of anticipated effects on GDP. In the area of exportation of goods, according to their business purpose, most intensive reduction was with the products for reproduction that are continuing to have a dominant position in the exporting structure. Compared to this, the participation of the funds for reproduction in the export structure is kept at a rather low level. The most important place in the consumption of consumer's goods had products with lower processing phase.

The reduced inflow of foreign exchanged for provided services abroad resulted in increased deficit in non-commodity transactions with foreign partners. This had a negative impact on the times import/export ratio and increased negative balance of foreign current transactions. The unstable political and security situation resulted in a rapid fall of net private transfers, so that the expected positive influence in mitigating deficit in current foreign transactions was missing.

Also, the projected use of foreign medium and long-term credits and loans in credit and financial transactions felt behind. The unfavorable movements in the balance of payment current account and in the foreign credit relations in this year were mitigated by the significant level of direct foreign investments, based on inflow of funds from the sale of Telecom. The achieved scope of direct foreign investments in the period January-July 2001 resulted in an increase of 50 million dollars direct foreign investments, even though the foreign exchange reserves were used to protect the denar rate and to intervene on the foreign exchange market.

The implications from the military activities in the Republic of Macedonia are the most evident in the scope and structure of public revenues and expenditures. The funds for goods and services, which with the rebalance were increased for 14.407 million denars (approximately 203 million US dollars), had the highest participation in the structure of budged expenditures, which by itself speaks about the composition of the budget policy untypical under peaceful conditions, and reflecting the need of giving a priority to the national security. Military costs account for approximately 15% of the expenditures (the normal percentage being 2.5%) and about 6% from the GDP. Namely, the aggravated security situation and the need of high degree of mobilization of the security forces imposed such additional current costs for the budget, primarily as costs for materials and travel and per diem costs.

The budget deficit in the year 2001 (after all domestic reserves were exhausted) must be funded from external resources (unless there is an improvement of the economic activity in the country), but also from credits, unless donations are made available. Therefore, the fulfillment of the preconditions for having the publicly announced donor conference is a must.

The military activities created extremely high public revenues, at the same time when public revenues decreased, and created high deficit in the budget. The total implications resulting from the military crisis, measured in relation to the total expenditures, account for 630 million US dollar (established by comparing the de facto participation of total public revenues established with the budget readjustment for the year 2001 in the current GDP, which accounted for 55% and the projected participation of 35% in the fiscal strategy), while only the direct costs accounted for 387 million American dollars.

According to the volume of the deficit, the amount is just about the same and accounted for 340 million US dollars (200 million dollars surplus from the year 2000 and 130 million deficit in 2001), but if the projected deficit for 2002, accounting for 115 million US dollars is included, we have an amount of 445 million US dollars damage as a result of the impact of the military crises on the public revenues. The difference between this amount and the one established by the public expenditures, accounting for approximately 58 million US dollars should be considered as a cost for the year 2002.

The industry of specific products in the Republic of Macedonia underwent a number of transformations during the past ten years resulting in aggravated situation. This situation on one had speeded up the process of material reproduction, while in some factories for specific products in the Republic of Macedonia this reproduction was completely stopped. This, on the other hand resulted in a wide range of negative consequences still present today.

It seems that after ten years of transition period, this specific industry is reestablishing its importance, since this is the industry in which Macedonia has the most propulsive engineering and technical staff which is desperately trying to find solution to the problem. The over-sized capacities for supplying a relatively small army and police of Macedonia prevent development and survival of these capacities. The struggle for survival (extensive striving for bare life), the mistakes made during the first years after the independence of our state, such as lack of national development strategy, especially for special capacities, are strong even today.

After the complete collapse of the Macedonian industry of special products and following the terrorist activities on the territory of the Republic of Macedonia, the concept of its protection and defense mechanism was completely changed. The peacetime concept, which corresponded to the small peaceful state, with the smallest police budget, had to be strategically replaced with a new modern form of organization compatible to the conditions and activities to which the Republic of Macedonia was exposed. This protecting mechanism is rather complex both in military and material respect. Repositioning of terrorist activities from other countries on the territory of our country made us aware of the lethargic backwardness, lack of organization and preparedness more than ever before. It was evident that we were unprepared for swift and efficient actions, inadequately armed and with uneducated and unprofessional human resources. Therefore, the logic to act in protecting the state became important and led towards quick and complete professionalism and armament of most sophisticated type.

In this respect one should look upon the stabilization of special capacities in the Republic of Macedonia. Their inclusion in the supply of the army and police through different forms and activities could help towards their consolidation and development.

The program orientation of the Government of the Republic of Macedonia is aimed towards privatization of all companies. Irrespective of this position, there is a need of developing a relevant strategy for the specific capacities. They should be brought, materially and technologically to a stage of revitalization and be able to create conditions for independent development and transformation through their material reproduction. Therefore, a procedure and strategy for their revitalization should be put in place, depending on their activity, and define the state support. This support would primarily be in the area of directing possible orders to capacities producing equipment and food for the army and police. Also, there is a need of determining their production scope and quality, as well as the quantity that could be absorbed by the Macedonian army and the Ministry of Interior. The present situation is such that the capacities of this industry exceed the needs of the Macedonian army and police. The surplus should be exported. Therefore, the state should assist the export strategy for the factories in a form of joint ventures. Any procurement of sophisticated and other military equipment from abroad should be linked to barter arrangements with our products.

As regards to the procurement of products from this specific production for the needs of the Macedonian army and the Ministry of Interior, it is necessary to establish strict legislation. To further develop this industry of specific products it is necessary to do the following:

- The state to develop a strategy for specific production and adopt a law for such specific production;
- Introduce special technical and technological conditions under which the companies dealing with specific production are to operate for the purpose of providing high quality products and maintaining military standards of products and equipment used by the army;
- Simplify administrative procedure regarding the issuance of required documentation and opinion by the competent ministries when granting credits for development of facilities for specific production;
- Put in place special customs regime (customs duty exemptions) during imports and exports of equipment for the capacities producing specific products used exclusively for military purposes;
- The state to provide various contacts in order to directly acquire knowledge regarding the development of specific facilities abroad;
- Provide development of programs for the needs of the Macedonian Army and Ministry of Interior, with direct participation of their human resources.

Presently in the Republic of Macedonia there are 20 companies involved in production of specific products, with a total of 15.000 employees. Undeniably, their capacities are exceeding the needs of the Macedonian army and police. However, with a proper state support they could be export oriented and generate significant positive economic effect.