Strengthening Entrepreneurship and Local Economic Development (LED) in Macedonia

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Abstract: A domain within the promotion of the competitiveness of businesses in the local economy is strongly linked to the growing role of micro, small and medium sized enterprises, or to stimulating the development of SMEs and entrepreneurship. In order to promote small and medium-sized businesses and provide terms for real growth of the Macedonian economy through new investment and creating new jobs, despite the key economic policies for reducing the overall tax burden and structural reforms to improve the business climate, development of SMEs has become one of the key competencies for the municipalities in Macedonia.

Key words: SME, municipalities, entrepreneurship

JEL Classification: A13, N84, P2

I. Introduction

A first and most necessary step in measuring entrepreneurial activity, performance and aspirations is defining what entrepreneurship and an entrepreneur are, for which there is startlingly little consensus
in literature (Sorensen and Chang, 2006). While the problem of defining the words “entrepreneur” and “entrepreneurship” and establishing the boundaries of the field of entrepreneurship has not yet been solved (Bruyat, 2000) the question raised more than 20 years ago still remains relevant: “Is the field of entrepreneurship growing, or just getting bigger?” (Sexton, 1988, p.4).

For this research, it is important to choose which definition suits best our society and level of economic development, because the definitions and the differences are mostly due to the period when they were created, the level of economic development and the governmental organization. Macedonia is at the end stage of transition economies, which are economies that generally try to form market economies. The concept of transition economies is used for countries that had socialist economic system before and are now trying to form market economies. In a more general definition, the process of adaptation of socialist and mixed economies to market economies in the globalization era and in the conditions of open economy (Klisarovska, 2011).

Transition economies are trying to decrease the weight of the government in the economy. On the other hand, they are giving very important tasks to the government in an effort to harmonize the economic entities and regulations of the market system (Yavuz, 2005) which places us at the very beginning of the axis of entrepreneurship - anyone who wants to work for himself is considered an entrepreneur.

II. Methodology

A contemporary approach, based on recent scientific knowledge and contemporary relevant literature in the scientific field, has been used while working on this paper. The basic approach to it has been the method of positive analysis, and the descriptive method, which led to the key findings and statements of the research field. Using the historical method, the roots and the origin of the development of the researched phenomenon were studied.
The microeconomic and macroeconomic analyses have studied the main economic indicators of the local entrepreneurial development.

Additionally, in certain segments, the comparative economic method of analysis was used in order to compare the condition of this phenomenon in our country with the condition of more developed countries in the region and Europe. Information was taken from electronic data bases and the basic information source was the statistical data available provided by the Statistical Bureau, Ministry of Local Government, ESA, some publications of relevant domestic and foreign institutions (OSCE, OECD, UNDP, USAID and etc.) that have already studied the matter.

III. Results

The entrepreneurship environment is important for the economy and that is why it is linked to the phase of economic development. There are three stages of economic development according to the Global Competitiveness Report (Porter & Schwab, 2008): factor-driven, efficiency-driven and innovation-driven which are all present in all economies and the thing that varies is the prevalence of each and thus the entrepreneurial climate basis. For these reasons, having different combinations and prevalence of different phases of economic development in different countries, experts agree that one model or approach to entrepreneurship cannot be valid, although it used to be so (Easterly, 2001).

In GEM’s reports (“Entrepreneurship in Macedonia,” 2008) the importance of environment for support to entrepreneurship is emphasized, while the GEM consortium defined 10 requirements – areas which comprise environment. The experts were asked to assess the environment in Macedonia that influences entrepreneurship (previously defined in questionnaire equally applied in all countries included in GEM) with rankings from 1 to 5.

The results represent the overview of different fields influential to or influenced by entrepreneurship in Macedonia and the economic indicators on the local entrepreneurial phase of development.

Покрај тоа, во одредени сегменти, комаративниот економски метод на анализа се користеше со цел да се спореди состојбата на овој феномен во нашата земја со поразвиениите земји во регионот и Европа. Информација се добива од електронски бази на податоци и од Заводот за статистика, Министерство за локална самоуправа, Агенцијата за вработување, некои публикации на релевантни домашни и странски институции (ОБСЕ, ОЕЦД, УНДП, УСАИД и др) кои веќе го изчувале предметот.

III. Резултати

Претприемачката средина е важна за економијата, а тоа е зошто тоа е поврзано со фазата на економското развој. Има три фази на економското развој во согласност со Извештајот за глобалната конкурентност (Porter & Schwab, 2008): управувано од фактор, ефикасност и иновации кои се присутни во сите економии. Поради тоа, различни комбинации и распространетост на различните фази на економското развој во различни земји, експерти се согласуваат дека еден модел или пристап кон претприемничкото не може да биде валиден, иако тоа се користи така (Easterly, 2001).

Во извештајите на ГПМ (“Претприемничкото во Македонија”, 2008) важноста на животната средина за поддршка на претприемничкото е нагласена, додека конзорциумот на ГПМ ги дефинираше 10 барања - области на претприемачката средина. Експерти беа замолени да ја проценат претприемачката средина во Македонија, која влијае на претприемничкото (претходно дефинирани во прашалник спроведен во сите земји включени во ГПМ) со вредности 1-5.

Резултатите претставуваат преглед на различни полења влијателен врз или под влијание на претприемничкото во Македонија и во земјите во овој регион. Таа исто така дава просек за споредба меѓу земјите. Според експертите, Македонија има највисок ранг за: обработување и обука - потреба за надворешна поддршка во започнување бизнис и интерес за иновации - вреднување на
countries in this region. It also gives the GEM average for comparison between the countries. According to the experts, Macedonia has highest ranking for: education and training – need for external support in planning to start business and interest for innovation – valuing innovations from view of consumers. The first is much higher than the GEM average. The lowest score was given to research and development and is lower than most of the countries in the region. At the same time, the experts feel that women have the necessary support for starting business.

In comparison to other countries, Macedonia has the highest rank for existence of government policies for support and regulations. Furthermore, the score is high for interest for innovations – from view of enterprises. With reference to education and training – elementary and secondary education, commercial services and infrastructure, and capacities for starting business, Macedonia only comes second, after Slovenia. This research also indicates that only Bosnia and Herzegovina is behind us in the overall impression. Surprisingly enough, protection of intellectual property is ranked second, after Slovenia and is higher than the GEM average.

For further analysis of the present situation it is important to know that in 2008 was the first time Macedonia was a part of the Global Entrepreneurship Monitor project ("Entrepreneurship in Macedonia," 2008), meaning that it was the first time the entrepreneurial climate was assessed, and there was no possibility to make comparisons with previous years. However, statistical data available for 2007 show the increase of entrepreneurial activities in Macedonia. The number of entrepreneurs in the country was 90,104; including 10,262 newly registered, that is an increase of 11%. Increase of number of entrepreneurs of 10% in 2007 compared to 2006 indicates rising of entrepreneurial activities of small businesses.

A domain within the promotion of the competitiveness of businesses in the local economy is strongly linked with the innovativeness of the products on the market. The key factor is the diversity of local businesses, the complexity of their products, and the development of new markets. Macedonia has high ranking for: education and training – need for external support in planning to start business and interest for innovation – valuing innovations from view of consumers. The first is much higher than the GEM average.

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growing role of micro, small and medium enterprises, or by stimulating the development of SMEs and entrepreneurship. In order to promote small and medium businesses and provide terms for real growth of the Macedonian economy through new investment and creating new jobs, despite the key economic policies for reducing the overall tax burden and structural reforms to improve the business climate, development of SMEs has become one of the key competencies for the municipalities in Macedonia.

In the area of promotion, the development of small and medium businesses, support from the central government is also very necessary and important, and efforts by the Government of the Republic of Macedonia come down to providing positive externalities of the following activities: updating legislation and policy strategies and programs for SME development, providing assistance to SMEs to develop their business activities, organizing a campaign to develop awareness of the importance of information technology which is associated with the development of enterprises, providing services for the introduction of standards for quality and internationalization of their products, support the channeling of loans from foreign funds, lobbying, development of new programs and models for “best practices”, training trainers, consultants, etc.. Moreover, as the basis for government support of small and medium enterprises (SMEs) the first National Strategy for SME Development 2002-2012 was introduced in 2002, which resulted in the Program of measures and activities to promote entrepreneurship, competitiveness and innovation SMEs 2007-2010 (“Official gazette” 48).

At the local level, the establishment or strengthening of institutions and agencies to support small and medium enterprises should enable SMEs certain advantages, which will reduce operating costs, such as joint appearances at fairs, legal assistance, financial consulting, etc., with which these companies in their initial development period will receive assistance.

Furthermore, a business incubator is of-
fered where start-ups are incubated for a period not exceeding five years, where they have office space that is much cheaper than market values, accounting services, legal assistance, etc., which are also at prices that are much lower than on the market.

Generally, in the case of Macedonia, SMEs are a very beneficial way of hiring labor, increasing efficiency and productivity of large business, and a way of creation and diffusion of technological innovations. This conclusion confirms its basis with the following arguments: (1) 99 percent of the total number of enterprises in Macedonia are small and medium enterprises employing about 80 percent of the total number of workers and participate with about 50 percent in foreign trade and creation of the GDP; (2) 84% of Macedonian companies have 1-9 employees, 8.8% of the companies have 10-19 employees, 2.1% from 20 to 49 employees and only 5% of companies have more than 50 employees, according to the State Statistical Office. In fact, small and medium businesses are the backbone of the Macedonian economy.

At the same time, except in few municipalities (Center, Bitola, Gazi Baba) SMEs dominate and the majority of employments in the economy are in small and medium businesses, which further confirms the thesis that the conditions in this development stage need the local government to reformulate the current development strategies to encourage resources and take advantage of these circumstances. Central to future strategies should be to strengthen SMEs and encourage entrepreneurship.

Development of SMEs and entrepreneurship gets its intensified promotion on a local level not only as a means to promote entrepreneurial spirit, but also in the direction of changes and reforms in our economy as one of the main priorities of the Government. In the modern era, only with an economy based on knowledge that will lead to growth and prosperity such outcomes are possible, and it seems that SMEs are by far most capable to turn knowledge into growth.

no кои исто така се по ценi кои се многу пониски од пазарните.

Воопшто, во случајот со Република Македонија, МСП претставуваат многу благотворен начин на вработување на работната сила, начин на зголемување на ефикасноста и продуктивноста на големите бизниси, начин на создавање и дифузија на технологоци иновации. Оваа констатација ја потврдува својата заснованост со следниве аргументи: (1) 99 процент од вкупниот број на претпријатија во Македонија отпаѓа на малите и средни претпријатија во кои се вработени околу 80 процент од вкупниот број на работници во и учествуваат со около 50 проценти во надворешната трговија и создавањето на Бруто домашниот производ (2) 84% од македонските компании имаат од 1-9 вработени, 8,8% од компаниите од 10-19 вработени, 2,1% од 20-49 вработени, а само 5% од компаниите имаат повеке од 50 вработени според податоците на Државен завод за статистика. Всушност, малиот и среден бизнис е 'рбетот на македонската економија.

Во исто време, освен во неколку општини (Центр, Битола, Гази Баба), во сите останати доминираат МСП и токуто најголем дел од постојните вработувања во економијата се реализираат токуто во малите и средни бизниси, што уште посилно ја потврдува тезата дека во услови на една ваква развивања средина, еднините на локалната самоуправа мора да ги преформулираат своите тековни развивања стратегии за да ги поттикнат ресурсите и да ги искористат овие околности. Централно место во идните стратегии треба да има зајакнувањето на МСП и поттикнувањето на претприемништвото. Развојот на малите и средните претпријатија и на претприемништвото ја добива својата засилена афирмација на локално ниво не само како средство за унапредување на претприемачкиот дух, туку и во насока на конзистентната потреба од промени и реформи во правите на нашата економија како еден од главните приоритети и на Владата. Во современата епоха, само со економија базирана на знаење кое ќе води кон раст и просперитет, се возможни резултатите, а се чини дека малите и средните претпријатија се далеку најспособни знаењето да го претворат во раст.
IV. Discussion

For the European Commission this issue is crucial because it claims that no matter how much municipalities push for SME development and growth of entrepreneurship, most things are not in their hands and initiatives from the national policies are practically waited upon. SMEs often suffer from lack of resources and knowledge necessary to start business activities, so unlike some other areas in the implementation of competence, where the main goal is neutrality and indirectness of interventions of the national policy, in the case of small and medium business, there is an additional need expressed by the direct involvement of the Government ("Green paper on entrepreneurship"). Unfortunately, this is not the case in Macedonia, because SMEs are marginalized, and almost nonexistent in the current economic and budgetary policy. Facts about the total budgetary support to small and medium enterprises are direr. In 2009, according to the Budget of the Republic of Macedonia, in a program called Support of the development of small and medium enterprises, a total of 51 thousand Euros were realized. In 2010, according to the Ministry of Economy, on the same basis, a total of 62 thousand Euros were realized ("Strategic plan of the Ministry of Economy 2010-2012"). Increased taxes, with expansions of the tax base severely hit micro and small businesses. A rigorous penalty policy, introduced for filling the budget, had the strongest negative effect exactly on smaller businesses. Under such circumstances, it is difficult to talk about the effects of the successful implementation of any local initiatives. In addition, compared with countries in the region, our government invests less in the development of small and medium enterprises than in attracting direct foreign investments. According to estimates by the Fund for Development of Human Resources, the Government has invested 10 times less money in the development of domestic small and medium enterprises in comparison to the Agencies attracting foreign investment directly.

IV. Diskusija

За Европската комисија, ова прашане е кризијално, бидејќи се тврди дека колку и да се залагаат ЕЛС за развојот на МСП и раст на претприемништвото, сепак поголемиот дел од работите не се во нивните раце и практично треба да се чека на иницијативите од националните политики. МСП, често патат од недостаток на средства и знаење неопходни за почеток на деловните активности, така што за разлика од некои други домени во спроведувањето на надлежноста, каде основна цел е неутралност и индиректност на интервенциите на националната политика, во случајот со малите и средни бизнис постои една дополнителна потреба од изразен директен ангажман на Владата ("Green paper on entrepreneurship"). За жал, ова не е воопшто така во Македонија, бидејќи малите и средни претпријатија се маргинализирани, речиси непостоечи во актуелната економска и буџетска политика. Фактите за вкупната буџетска поддршка на малите и средни претпријатија се повеќе од поразителни. Во 2009 година, според завршната сметка на Буџетот на РМ, во програмата наречена Поддршка на развојот на малите и средни претпријатија реализирани се вкупно 51 илјади евра. Во 2010 година, според Извештајот на Министерството за економија, по овој основ, реализирани се вкупно 62 илјади евра ("Стратешки план за работа на министерството за економија 2010-2012"). Зголемените даночни оптоварувања, со проширувањата на даночната основица силно ги погодија микро и малите бизниси. Ригорозната казнена политика, воведена во функција на полнење на буџетската каса најсилно негативно се одрази токму на помалите бизниси. При вакви околности, тешко е да се зборува за ефективите од успешното имплементирање на било какви локални иницијативи. И не само тоа. Во споредба со земјите од регионот нашата Влада многу послабо вложува во развојот на малите и на средните претпријатија, отколку во привлекувањето на СДИ. Според процените на Фондот за развој на човекови ресурси, Владата има инвестирани 10 пати помалку пари во развојот на домашните мали и средни претпријатија во споредба со инвестициите за привлекување странски инвестиции. За Агенцијата за привлекување странски инвестиции, од Буџетот се одвоени околу 2,5 милиони евра.
investment. The agency was allocated 2.5 million euros from the budget. The agency for support of entrepreneurship, however, gets 250 to 300 thousand per year. According to official data, the region invests more in developing small and medium enterprises. Kosovo invest ten times more, separating 2.5 million per year for small and medium enterprises. Serbia invests 250 million Euros (“Finansiska i savетодавна подршка доступна srpskim MSP”, 2009).

The Government with its economic and administrative policies should be strongly oriented towards increasing support of the development of micro, small and medium enterprises and creating conditions for municipalities to act in the same direction.

V. Conclusion and recommendation

Today, throughout the world, modern units of self-government are more oriented toward growth and development of SMEs through the application of contemporary methods and instruments in the following aspects (“Promoting Entrepreneurship in South-East Europe: policies and tools ”):

- A special aspect in the implementation of policies to support development of SMEs, especially in less developed countries, is the creation of industrial zones, primarily due to the fact that in them, as important agents of economic development in emerging companies, appear small in size businesses but dynamic in criteria of growth and efficiency. Hence, one of the measures to support small and medium enterprises is the creation and sustainability of industrial zones where interested small and medium enterprises could get land for their business facilities at prices that will be below market prices that are within a municipality.

- Furthermore, local authorities should be one of the promoters of the products of SMEs and the advantages offered by the municipality. The possibility of few municipalities from a certain micro-region to come together

Aгенцијата за поддршка на предпретприем- штвото, пак, добива од 250 до 300 излажи евра годишно. Според официјалните податоци, земјите од регионот инвестираат повеќе во развојот на малите и на средниот претпријатија. Косово инвестира десет пати повеќе, одвојувајќи 2,5 милиони евра годишно за малите и за средните претпријатија. Србија инвестира 250 милиони евра (“Finansiska i savетодавна подршка доступна srpskim MSP”, 2009).

На крајот од овој дел, наместо коментар, ќе предочиме дека доколку се очекува дека само со привлекувањето на инвес- тициите ќе се унапреди конкурентноста и ќе се овозможи економски напредок како на локално, така и национално ниво, тоа е ништо друго освен изузорност. Бидејки развојот на МСП може многу повеќе да генерира работни места, каде што клуч- нитој сектор отпаѓа токум на нив и отта- му може драстично да влијае кон нама- лување на сталната на невработеност, односно зголемување на економската благосостојба на сите граѓани Затоа, Владата на РМ со своите економски и ад- министративни политики треба силно да се ориентира кон зголемена поддршка на развојот на микро, малите и средни прет- пријатија, создавајќи услови за ЕЛС да можат во истиот правец да дејствуваат.

V. Заклучок и препораки

Денес, локалните власти ширум светот, во современиот ЛЕР се повеќе го практикуваат ориентирањето кон растот и развојот на МСП, преку примената на нови современи методи и инструменти и тоа во следните аспекти (“Promoting Entrepreneurship in South-East Europe: policies and tools ”):

- Посебен аспект во спроведувањето на политиката за поддршка на развојот на МСП, особено во помалку развиените земји, претставува создавањето на индустриски зони пред се заради фактот дека во нив како значајни агенси на економскиот раз- вој со појавување нови претпријатија, мали по обем, но динамични по кри- териумите на раст и ефикасност. От- таму, една од мерките за поддршка на малите и средните претпријатија претставува и создавањето на индустриски зони каде што заинтересираните мали и средни претпријатија би можеле да добијат градежно земјиште за нивните сто- панско-деловни објекти, по цени кои
and offer products and advantages of the micro region to the domestic and world public and other interested parties should be exploited in this domain.

- Enhanced promotion of non-financial forms of support of entrepreneurship. Non-financial forms include technical assistance (financial administration, assistance in planning and management), information exchange, business incubators, and so on. Financial forms provide financial assistance for the creation and development of small businesses, because of limited opportunities for small businesses that primarily relate to meeting short-term obligations from borrowings, small financial requirements for new business, lack of experience in the capital increase, management and planning with the company and its finances. Therefore, local authorities can help small firms to seek financial aid in two ways: direct and indirect. Indirect is through guarantees for loans that local authorities provide the banks as a way of financing small firms. This allows small firms to easily access loans from banks, and banks have a reliable guarantor—the local government. In fact, these guarantee schemes allow the establishment of partnerships between small firms, local authorities and banks, which further opens the possibility of creating a fund to finance small businesses. On the other hand, there are few ways of direct funding: micro credits, revolving funds and grants. Microcredits are small loans given to start-ups for starting a business. Revolving fund is a fund that operates on the principle of reinvestment, i.e. the return interest and principal will be used again for giving loans. Often the initial capital is public and for a period of time of giving loans it will set up a fund itself. This method is widely developed in the United States. Grants are direct donations and loans that are transferred from the creation and development of small businesses, because of limited opportunities for small businesses that primarily relate to meeting short-term obligations from borrowings, small financial requirements for new business, lack of experience in the capital increase, management and planning with the company and its finances. Therefore, local authorities can help small firms to seek financial aid in two ways: direct and indirect. Indirect is through guarantees for loans that local authorities provide the banks as a way of financing small firms. This allows small firms to easily access loans from banks, and banks have a reliable guarantor—the local government. In fact, these guarantee schemes allow the establishment of partnerships between small firms, local authorities and banks, which further opens the possibility of creating a fund to finance small businesses. On the other hand, there are few ways of direct funding: micro credits, revolving funds and grants. Microcredits are small loans given to start-ups for starting a business. Revolving fund is a fund that operates on the principle of reinvestment, i.e. the return interest and principal will be used again for giving loans. Often the initial capital is public and for a period of time of giving loans it will set up a fund itself. This method is widely developed in the United States. Grants are direct donations and loans that are transferred from
private or public funds to private firms (Dgorcevic, n.d.).

- Raising awareness about the importance of entrepreneurship, improving the skills of entrepreneurs to strengthen the competitiveness of existing enterprises.

- Facilitating access to cheaper funds by extending the range of mortgage instruments and creating opportunities to use the property for the purpose of enabling economic activity which entails employment and social inclusion.

- Providing assistance to entrepreneurs to participate in projects, timely information on tenders within the IPA, FP7 and other programs and funds to which Macedonian companies and institutions have access.

- Supporting the business centers, business incubators and technical and technological parks and strengthening the capacity of existing regional centers, the development of numerous programs that will provide new business connections worldwide. Especially important for market development and capacity is establishing new and supporting existing business incubators, which provide numerous services to small and medium enterprises.

- Support of the operation of centers for technology transfer is also necessary in order to raise awareness of the importance of application of new technology, easier transfer of new technology and development centers for R&D.

- The exchange of experiences in developing and promoting entrepreneurship, management, techniques of conducting negotiations, new marketing strategies, selling methods, modern techniques to conquer new markets and other activities create opportunities for new jobs and greater social inclusion.

- Support the cluster as a geographic concentration of interdependent businesses, an impressive feature of national, provincial and international economic development (Dgorcevic, n.d.).

- Providing assistance to entrepreneurs to participate in projects, timely information on tenders within the IPA, FP7 and other programs and funds to which Macedonian companies and institutions have access.

- Strengthening entrepreneurship and local economic development (LED) in Macedonia.
nations, local, and even urban economies, especially in advanced countries, adequate changes as a result of globalization tendencies (Porter, 2000). Dominance of clusters is very important for promoting the competitiveness of the location and a key component of modern policies of municipalities.

- Поддршката на кластерите, како географска концентрација на меѓу- зависни бизниси, претставуваат импреисивна карактеристика на националните, локални, па дури и урбани економии, особено во напредните држави, адекватно на промените како резултат на тенденциите на глобализацијата (Porter, 2000). Доминацијата на кластерите е исклучително важна за унапредувањето на конкурентнос- та на локацијата и претставува ключ- на компонента на современата политика на ЛЕР.

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