

# Comparative Analysis of the Financing of Small and Medium and Large Non-Financial Enterprises

Svetlana Antonovska  
*State Statistical office of Macedonia*  
4, Dame Gruev  
Skopje, Republic of Macedonia  
Svetlana@stat.gov.mk

Dimitar Bogov  
*State Statistical office of Macedonia*  
4, Dame Gruev  
Skopje, Republic of Macedonia  
bogovd@stat.gov.mk

## 1. Introduction

Medium and large non-financial enterprises have share of less than 2% in the total number of non-financial enterprises, while in same time they employ 63% of all employees in the non-financial sector. Major part of these enterprises existed as state enterprises in the former socialist economic system and was privatized in the transition period.

Contrary to them, the small enterprises are mainly newborn enterprises appeared in the last ten years. On average, they employ 3.4 employees (medium and large enterprises have on average 316 employees), most often being the family enterprises with only one employed person. While, medium and large enterprises created before transition to the market economy are stagnating and even go bankruptcy, the small enterprises are characterized with very dynamic growth. After the first years of transition when their number was growing with geometrical progression, in the last few years the number of small enterprises was stabilized, but still having their assets growing with remarkably high rates. Nevertheless, it is an evidence for the qualitative change. Opposite to the appearance of many small trade enterprises with minimum of capital at the beginning of the transition, in the latest period there are more newly created small enterprises in the manufacturing industry and information technology services where more initial capital is needed.

## 2. Structure of the assets

Although the initial impression is that the medium and large enterprises have on their disposal far more assets than their small counterparts, the structural analysis reveals that 40% of the assets are land, forests and buildings, i.e. not very productive assets. Only 6% are share of machinery and equipment whose rate of depreciation is more than 80% (in manufacturing it is even 90%) contrary to the small enterprises which have relatively new equipment with only 30% depreciation. Thus, it should not be surprising with the fact that small enterprises participate with more than 40% in the total revenues of the non-financial sector.

The largest part, almost two thirds of the assets of the small enterprises are current assets dominated by the inventories. This is normal if we bear in mind that small enterprises are dominated by the trade activity, contrary to the dominant place of the manufacturing among the medium and large enterprises.

In 1999, buildings and equipment of the small enterprises grew with the rate of 35%, that is much more than the 5% growth rate of the same assets of the medium and large enterprises.

## 3. Structure of the liabilities and equity

Shareholders capital is the largest single source of financing the assets of the medium and large

non-financial enterprises. That is why they have a very low coefficient of financial leverage 1.9%. However, such situation is not a result of some specific business policy of the medium and large enterprises for financing of their growth by additional capitalization, but it is a result of the process of privatization. In this process of privatization a large amount of the capital is bought by the employee, management teams or outside purchasers with a large discount, and one part is given without compensation to the State Pension Insurance Fund. A large part of this group enterprises' equity is in the state's hands, waiting for a purchaser. From this a conclusion can be made that there is a large difference between the accounting and the market value of the capital of the medium and large enterprises.

The small enterprises have a far larger coefficient of financial leverage (3.5 in 1998 and 3.2 in 1999) which still has decreasing tendency. In the starting period of the transition the small enterprises were established with a small own capital, and their financing was based on short-term financing from the business partners. Namely, the banking loans during the whole transition period have been extremely expensive, and in the terms of restrictive monetary policy and not restructured banking system, the small enterprises were crowded out from the large enterprises with long-terms business and personal connections with the Macedonian banks. The situation has been changing with the appearance of the numerous foreign credit lines on the banking market, dedicated only for the small enterprises, which enables larger and easier activation of the own capital of the entrepreneurs.

It is very interesting that both groups of enterprises have evidenced negative retained earning. For the middle and large enterprises this is even logical because a great part of them in the transition did not success to restructure themselves according to the new market terms, but for the small enterprises this is surprising and confusing.

We believe that there are two reasons which can explain the negative retained earning of the small enterprises; firstly, because they are mainly family enterprises, the entrepreneurs, use various accounting tricks, to transfer the enterprise's funds as a legal person to themselves as a natural person; and secondly, that is especially expressed at the small enterprises, due to that kind of practice, and in order to avoid the tax payments, they are making up the profit and loss account.

#### **4. Conclusion**

The Republic of Macedonia is experiencing an extremely dynamic development process of the small enterprises, characterized by high increase of the assets. This tendency is expected to lead to growing up of numerous small enterprises into medium and large. It is extremely positive and desired process, because the previous experience has shown that the recovering of the Macedonian economy and the achievement of the sustainable growth can't be initiated from the non-restructured and inefficient medium and large enterprises with obsolete technology and amortized equipment.

The positive experience from the special credit lines for the small enterprises (in terms when the regular bank interest rates are unreasonably high as a consequence of the non-restructured banking sector), it should be continued and enhanced. The State from its side should assist the small enterprise development through the opening of the foreign markets for the Macedonian goods and the creation of favorable information and consulting infrastructure.

#### **REFERENCE**

Handbook of financial analysis, forecasting & modeling / Jae K. Shim, Joel G. Siegel. Prentice-Hall, 1988.

Financial analysis: tools and concepts / Jerry A. Viscione, National Association of Credit Management, 1984.

Intermediate financial management / Eugene F. Brigham, Louis C. Gapenski, Dryden Press, 1996.