

How to Overcome (SME) Crisis: Serbian Case

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Abstract: In the period of transition (2000-2009) Serbia established institutions and developed a legal framework for SME support. The number of SMEs increased from year to year and, more importantly, from 2005 the number of new working places became in excess to those which disappeared in companies in restructuring. The global economic crisis influenced the Serbian economy negatively and the SME sector, as well. However, one has to bear in mind that even before the crisis the Serbian development model has faced its limits. Namely, it was not sustainable in the medium term. A set of measures were introduced by the government and the national bank of Serbia in an attempt to curb recession, but were partially late and slightly weak. Modest signs of economic recovery appeared in Serbia in 2010. Considering that the growth rate is positive, but low and insufficient, the SME sector has to be recognized as more important factor for the recovery. As the first phase of SME support has ended it is important to change the policy emphasis to more intensive one. The point regarding SME support in the future is to introduce measures especially for fast growing small companies and gazelles, in an aim to overcome recession and make whole economy more competitive on international market.

Keywords: entrepreneurship; small and medium scale enterprises; transition

Introduction

During the transitory period in Serbia (2000-2010) a great deal of supportive measures toward SMEs development were realized, but one has to bear in mind that extensive phase of this support is almost ended. Therefore, the character of policy support for SME development must be changed.

Starting after political changes in October 2000 improvements were made especially regarding the institutional and legal framework. Serbia has started to narrow discrepancies in SME development to other countries in transition, and

even in some elements have become better off in comparison to some of the EU members.

During late 2008 a negative influence of the global economic crisis could be recognized in the Serbian economy: enterprises faced liquidity problems, foreign demand decreased, banks were not ready to lend as readily as before. The government and the national bank of Serbia introduced measures in order to help economy financially and to prevent recession. However, employees and economic experts consider that those measures were partly late and, more importantly, weak. Recognizing that the problems were more serious than first thought the government signed a stand-by arrangement with the IMF by which financial support of €2.9 billion would be realized by April 2011.

During the 1990s in circumstances of overall crisis in Serbia, SMEs were in some ways companies better adapted, and suffered less, although without any governmental support. In the period of transition the Serbian fast GDP growth was based mainly on excessive public and personal consumption, with increasing regional discrepancies and a deindustrialization trend. So, this growth became unsustainable in the medium term. In circumstances of Global economic crisis and facing growth limits, the role of SMEs in economic development became even more important than before.

The evidence clearly pointed out that small and medium scale enterprises faced serious problems in 2009, as in spite of stronger (especially financial) support results were worse than before. One can see that it is very important now to change the targets of support measures towards more intensive ones. This means that knowledge-based companies and fast growth ones – so-called gazelles - must be priorities in the future. At the same time, those measures are in line with Serbia's wish to join the EU, as they are part of "EU 2020 Agenda".

The aim of the paper is threefold: firstly, to illuminate the main characteristics of SME development in transition period; secondly, to consider the negative outcomes of the global economic crisis on Serbian SMEs; and thirdly, to highlight the need for more qualitative SME support in the future.

1 The First Phase of SME Support – Quantitative One

After political changes in the late 2000s Serbia started the transition toward a market economy with great expectations. During the period 2001-2007, Serbia realized a number of market reforms, achieved macroeconomic stability and a high rate of economic growth, privatized prevailing number of companies, and started the process of joining EU, with the harmonization of a number of laws and other adjustments. GDP increased in the period by 5.4% on average, with the peak

in 2004 (9.3%) and industrial production by 1.3% per year (see Table 1). Macroeconomic stability improved considerably, as retail price index decreased from 92% in 2001 to 6.8% in 2008, with exchange rate stability and increasing foreign exchange reserves¹. It was partially due to public finance reforms and introduction of hard budget constraints, as the public finance deficit in the period 2001-2003 was transformed into surplus (of 2% of GDP), for the first time in years. Although unemployment was still very high (more than 20%), employment started to rise in 2004 (0.5%) and 2005 (0.9%). Free formation of wages resulted in their high increase – over 10% per year in real terms. At the same time average monthly wage per employee increased from EUR 102 in 2001 to EUR 320 in 2008.

Table 1
Serbia - Key Macroeconomic Indicators (Increase %)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP	5.1	4.5	2.5	8.4	6.2	5.7	7.5	5.5	-2.8
Industry	0.1	1.8	-3.0	7.1	0.8	4.7	4.6	1.1	-12.6
Trade	19.8	23.9	13.8	18.0	26.5	7.7	22.8	6.6	-11.7
Traffic	9.6	6.9	5.0	4.8	4.4	10.4	1.7	0.4	-14.9
Export	10.5	20.6	32.8	27.8	27.2	43.4	38.1	24.3	-26
Import	28.0	31.8	33.2	43.8	-2.7	25.9	41.5	23.3	-34.7
Inflation	40.7	14.8	7.8	13.7	17.7	6.6	10.1	6.8	6.6

Source: Ministry of Finance of Serbia

The SME sector was very important for overall economic growth and development. In 2008, as the last year before World economic crisis, the SME share in total turnover was 66.6%, 59.1% in total added value of the non-financial sector and 58.7% in total profit realized².

The total number of economic agents reached 303.5 thousand in 2008, due to constant increase in number of SMEs. As more than 7 thousand entities were established in this year one can see slowing tendency of new company establishment (22% in 2006 and 18% in 2008), while at the same time number of closed companies increased (from 10% to 13% respectively).

Although the total number of SMEs is increasing, the structure is not improving very much. Micro enterprises are still dominant with a share of 95.7% in the total number of companies. At the same time, SMEs have high concentration by industry: two industries, mostly, trade and processing industry; and regionally in two regions, only Belgrade and the South Backa region.

¹ Foreign Direct Investment reached maximum of 4.4 billion EUR in 2006, mainly due to privatization.

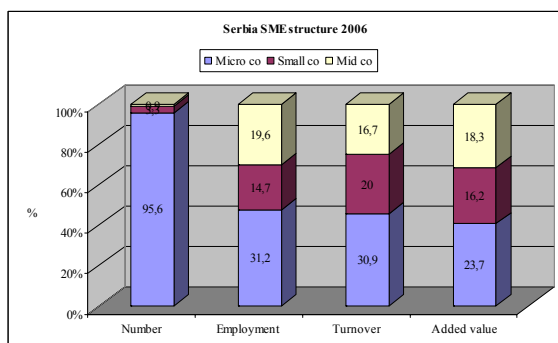
² Ministry of Economy and Regional development, Republican Development Bureau, Republican Agency for SME Development, Report on SME Development in 2008, Belgrade, 2009

The SME sector was very important in opening new working places. In the period 2004-2008 the number of working places increased 24.9% (or 187.5 thousand), which offset the number of employees who left big companies under restructuring.

The SME sector was also important for investment activity. Its share in total investment was 48.1% and the share in the non-financial sector even more, at 58.7%. The share of its investment in GDP increased from 29% in 2006 to 40% in 2007. If we consider the investment structure, then one can see that almost ½ of investments is in equipment, but the share of investments in construction is still too high at 43%.

The SME sector is more competitive due to the less than average cost of employees and cost of wages per hour. It is interesting to note that after deterioration in the period 2004-2006 the ratio of cost of wages/value added improved in the period 2007-2008, and now it is on average for the non-financial sector.

The comparative analysis between the Serbian SME sector and EU³ showed that Serbian SMEs are on the EU average according to number of enterprises and employment and according to share of turnover in total GDP. However, Serbian SMEs are well below the EU average according to turnover per employee, added value per employee and profit per employee. The same situation is due to investments, as investments per employee in Serbian SME sector was €4,100, while in the EU it was €7,400 and investments per company €12,200 in Serbia and €31.700 in the EU.



Source: Republican Development Bureau

In the period under consideration institutional conditions for SME and entrepreneurship development and their strengthening were considerably improved. The growth in the number of SMEs and small shops was result of

³ Ibid

improvement in the overall business climate and stimulation measures from governmental to local level, as well. The main activities were oriented toward⁴:

- Improvement in the overall business climate,
- The establishment of institutions responsible for SME support,
- Strengthening of the legal infrastructure for SMEs,
- Tax, custom and investment incentives,
- Financial support.

According to World Bank and International Financial Corporation analyses, Serbia was labeled as the leader of reforms in 2005 and improved its place from 95th to 68th position in 2006⁵. According to the report, the Serbian improvement in business climate was encouraging: the time necessary for founding an enterprise was 7 days, for registration 13 days, for licenses issuing 279 days, and for tax payment 279 hours per year. At the same time, the period for custom declaration issuance was shortened to 12 days for export and 14 days for import. The investment climate improved as well; the index of credit reporting was 6 and index of investor preservation was 5.3. The liquidation of enterprises became easier then earlier, as for court disputes it was necessary 635 days and 2.7 years for regular liquidation. In comparison to other surrounding countries in transition, Serbia was well positioned, even in some segments better positioned than some new EU members. All in all, realization of “SME Development Strategy 2003-2008” pushed Serbia from the group of countries with modest market reforms into the group of countries with fast reforms.

The encouraging results mentioned above were not achieved overnight, but with persistent and overall efforts. The Serbian government enacted the “Strategy for SME and entrepreneur support in the period 2003-2008”⁶, in line with the European Charter for SME Development, which was realized especially through the “Operational Plan for SME support in the period 2005 – 2007”⁷.

Firstly, an extensive and complex network of supportive institutions was founded: the Ministry for the Economy, as the responsible agency for SME and entrepreneur development with broad network of local and regional agencies, and the Council for SME and Entrepreneurs, as an inter-ministerial body responsible for dialog with representatives of the SME sector.

Secondly, the growth and development of SMEs were achieved through an improvement in the general conditions for business, but also through supportive

⁴ Ministry of Economy and Regional development, Republican Development Bureau, Republican Agency for SME Development, Report on SME Development in 2007, Belgrade, 2008

⁵ In 2005 155 countries were included and 175 in 2006, Doing Business 2007, World Bank

⁶ Ministry of Economy and Regional development, Belgrade, 2002

⁷ Ministry of Economy and Regional development, Belgrade, 2004

measures and activities from the national government to the local level as well, such as, law changes and the legal harmonization with transition good practice, which were encouraging for business.

Table 2
SME Development Index

		Share of private sector in GDP %	Share of SME in GDP %	Share of SME in total employment %	GDP PER CAPITA (US\$/capita)	SME Development Index	
						-	(US\$/capita)
Croatia	2003	65,0	57,0	55,7	7.402	0,21	1.527,5
	2005	65,0	56,3	56,5	8.925	0,21	1.845,3
	2007	70,0	56,6	64,2	13.120	0,25	3.337,2
Romania	2000	60,0	65,6	46,9	1.674	0,18	309,0
	2007	70,0	72,2	64,4	7.636	0,33	2.485,3
	2008	70,0	70,8	76,7	8.185	0,38	3.111,3
Bulgaria	2001	70,0	16,2	46,1	1.723	0,05	90,1
	2007	75,0	39,0	48,9	5.176	0,14	740,3
Slovakia	2001	80,0	40,8	59,1	3.907	0,19	753,7
	2007	80,0	45,5	71,9	13.887	0,26	3.634,5
	2008	80,0	48,1	72,4	22.081	0,28	6.151,7
Serbia	2001	40,0	40,0	45,1	1.536	0,07	110,8
	2007	55,0	58,3	65,5	5.387	0,21	1.131,4
	2008	60,0	59,1	67,2	6.782	0,24	1616,1

Source: Szabo A. *et al.* - *The impact of the economic crises on SMEs in selected CEE countries*, ERENET Profile Vol. V, No. 3, June 2010

Thirdly, an increase in knowledge and capabilities within small and medium scale enterprises and craftworks was realized.

Fourthly, different non-financial support measures were involved, and financial ones, as well.

Fifthly, a number of measures were developed to implement innovation and high technology.

Sixthly, donor help and support to SMEs from different foreign governmental and non-governmental institutions were important, especially if one takes into account the overall lack of sources.

In recent years, the Serbian situation regarding SME has deteriorated, as overall market reforms have lost momentum. The World Bank investigation for 2008⁸ pointed to a worsening business climate in Serbia. Serbia was ranked as 86th, while it was 84th in 2006. Compared to other countries in the region it is better ranked than Croatia (97), B&H (105) and Albania (136), but worse than Hungary (45), Romania (48), Slovenia (55), Macedonia (75) and Montenegro (81).

⁸ World Bank, *Doing Business 2008*, Washington DC, 2009

According to the Report, in 2008⁹ 23 days were necessary for company establishment. Companies faced 20 procedures in order to get different kind of approval for construction, for electricity, for telephone etc., for which even 204 days were necessary. For a new employee, the company has to spend 18% of wages. Considering the credit procedure within banks, Serbia has improved its position 8 places and now is ranked as 13th. Regarding tax and other duties, procedures are still very complex – 66 payments per year. For import procedures a company needs 14 days to finish. Severe problem in Serbia is collecting of dubious claims for which even 635 days are necessary and 28% of total claims have to be spent. The similar situation is regarding procedure for closing business - 2.7 years.

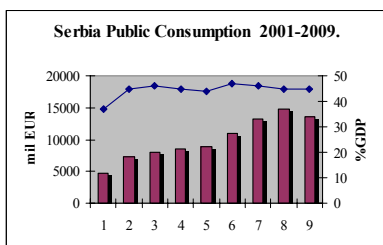
2 Serbian Development Model was Non-Sustainable

In the period of 2001-2008 Serbia achieved a high rate of growth of GDP. However, one has to bear in mind several negative developmental factors. Firstly, the statistical basis was very low, as during the 1990s GDP was more than halved, due to break-up of the single market of the former SFR Yugoslavia and because of overall sanctions introduced by the international community. Secondly, this high growth was based mainly on an increase in public and personal consumption. Thirdly, as fiscal policy was expansive and monetary policy too restrictive at the same time, although a high rate of growth was achieved, it was in fact suboptimal, from the point of view of potential and, more importantly, from the point of view of the needs and expectations of citizens. Fourthly, the structure of GDP formation was not useful, as the growth of industry and agriculture were lower than average, considering that they produce tradable goods.

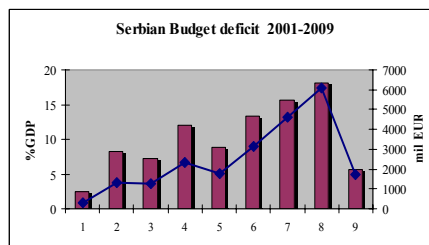
Therefore, one can conclude that this kind of growth became unsustainable in the medium term, even before world economic crisis started. As public consumption during the second half of the decade became of the expansive sort, monetary policy was restrictive more than necessary, in order to control overall macroeconomic stability. For instance the share of public consumption in GDP was 45-50% and the increase in indirect tax duties was 9.8% p.a.¹⁰. The more-than-restrictive monetary policy, together with not-well-coordinated macro policies produced a less than potentially possible rate of growth of GDP. Although inflation was lowered considerably and controlled better than before, it is still higher than in neighborhood and especially in comparison to inflation level in Euro zone (between 6.6-40.7% in the period 2001-2009, see Table 1).

⁹ Ibid

¹⁰ Source: Ministry of Finance RS

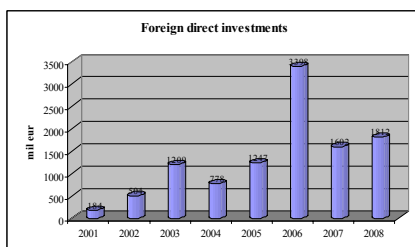


Source: Ministry of Finance RS

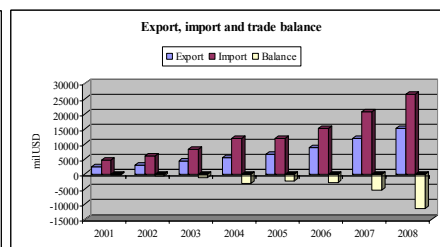


Source: Ministry of Finance RS

The deindustrialization trend during whole transition period has not been useful to the Serbian economy. It has resulted in important changes in the structure of GDP formation, as now 2/3 of GDP is formed by services. The main problem regarding deindustrialization is the decreasing volume of tradable products for foreign markets. Consequently the foreign trade deficit - high and increasing – has appeared. The foreign trade deficit reached the maximal level of US\$ 12 billion in 2008¹¹. It was partially offset by foreign direct investments (FDI), (green field partially and privatization mainly). The national bank of Serbia introduced from September 2006 the policy of appreciation of the Serbian dinar, similarly to the policy in Romania and Croatia, and unlike the policy of depreciation which was pursued for decades in fast growing economies, the so-called Asian tigers. The policy of appreciation favored companies who imported and discouraged those who exported. Inevitably it could not lead to restructuring of Serbian economy in order to become more competitive on the international market. So the Serbian economy became highly dependent on FDI inflow.



Source: National Bank of Serbia



Source: National Bank of Serbia

In the last quart of 2008 the global economic crisis started to impact negatively the Serbian economy: foreign investments inflow shrank; instead an outflow of capital started, saving deposits within banks decreased considerably, credit conditions worsened (for companies it was very difficult to collect claims, especially from government and public companies) and lastly, foreign demand weakened. The institutions responsible for macroeconomic policy, the government and the national bank of Serbia, were surprised when the world financial crisis started to influence the Serbian economy, and they were late and weak in reaction, and more

¹¹ National Bank of Serbia

dangerously, they underestimated consequences. The national bank reacted promptly, which was positive, but the measures were weak and partially in the wrong direction, unfortunately on the back of companies.

The national bank of Serbia in October 2008 started to improve overall liquidity in the banking sector by decreasing the compulsory reserves requirement, while at the same time increasing the interest rate on governmental bonds up to 17.5% (explaining that the idea was to curb inflation expectations). The interest rate was extremely high and in contrast to all other central banks (all other central banks put down the interest rate in order to prevent a recession). The so-called Wiener agreement between NBS and foreign banks (foreign banks represent $\frac{3}{4}$ of the Serbian banking sector) was achieved by which Serbian exposure would stay the same as before, during the whole of 2009¹².

The government reacted late (at the beginning of 2009) introducing weak stimulation measures, insufficient to prevent the recession. The Serbian government in October 2008 firstly promised only measures which were involved at the beginning of 2009: increasing the amount of insured deposits of citizens from 3 to 50 thousand Euros, annulling tax duties on saving deposits (capital gains) and tax duties related to securities transfers. In order to prevent a recession, the government supported a credit lines (subsidized interest) for companies with liquidity problems and for investments and credit lines for citizens for consumption and mortgage credits¹³.

In the first half of 2009, the country's budget suffered from the low collection of taxes and other duties. The stand-by arrangement with the IMF was revised into financial support of 2.9 billion Euros (March), mainly to overcome the budget deficit, which was firstly estimated at 3% of GDP and drop of GDP estimated to 2%. The new revision of the arrangement with IMF in November 2009 showed modest improvements in the economic climate during the year and in collecting budget revenues as well, but the budget deficit problem remained, as the estimation of the deficit increased to 4.5% of GDP¹⁴. This means that the problem was postponed to the medium term period.

During 2009 saving deposits recovered fully (for more than €1 billion) within banks and reached more than Euro 6 billion¹⁵. At the same time, credit expansion, which was very high for several years, slowed considerably (11% p.a.) and, more importantly, credit portfolio of banks has changed structure in favor of government and public companies, which is more secure for banks, but it is not useful for economic recovery. Foreign currency reserves increased to more than 12 billion Euros, mainly due to financial support related to the stand-by arrangement with the IMF. Interest rates on state bonds (the referent interest rate

¹² Source: National Bank of Serbia

¹³ Source: Ministry of Finance RS

¹⁴ Source: Ministry of Finance RS

¹⁵ Source: National Bank of Serbia

of the national bank) was down by that time to 9.5% at the end of 2009, but it was still too high, considering that it was at the same time the minimal active interest rate for banks. The foreign exchange rate at the beginning of the crisis dropped by 20%, but stabilized during the year and again started to decrease at the end of 2009 (7%), in spite of NBS intervention on FX market by more than 600 million Euros (with a 12% further drop in 2010).

Table 3
Serbia - Financial Supports during Crisis

Sort of credit	Financing structure	Conditions	Total volume
Liquidity	Government 2 bill RSD for interest subsidies Total support 80 bill RSD	l' 5.5%p.a. Forex clouse Period 12 months	Shops 20 th.€ Small ent. 50 th. € Medium ent. 0.5m € Big ent. 2 m €
Investments Republican Development Fund	RDF 5 bill RSD share 30% credit Total support 17 bill RSD	l' Euribor +4%p.a. Forex clouse Period 5 years	Shops 30 th.€ Small ent. 200 th. € Medium ent. 1.5m € Big ent. 4 m €
Consumer credit and leasing	Government 1 bill RSD for interest subsidies Total support 20 bill RSD	l' 4.5%p.a. Forex clouse Period 7 years	
International	EIB 250 mil € KFW 100 mil € EBRD 100 mil € Italian Gov 30 mil € IMF 1.46 mlrd €		

Source: Ministry of Finance RS

The NBS and governmental measures were in the right direction, but late and weak. From the third quarter of 2009 there were the first signals of recovery, or rather a stop of the recessionary trend. During the crisis the export sectors of the economy suffered mainly from lowered demand; the chemical industry, iron and metal processing and domestic-oriented sectors with high rates of growth in previous years, such construction, traffic and trade. The financial sector was facing two problems: –an underdeveloped financial market and a weak economy – of both companies and employees – which implied the limit for further rapid development of the kind achieved in the first phase of transition¹⁶.

From the third quart of 2010, the main economic problem became an increasing inflation rate. It was mainly due to the increase in agricultural prices and as a consequence of the Dinar depreciation. With a monthly increase higher than 1% in August and September, 2010 ended with an inflation rate of 10.3%¹⁷.

At the same time there were signals of (modest) economic recovery. Industrial production in 2010 was higher by 3% in comparison to the year before. Retail trade had also increased from July for the first time since the end of 2008,

¹⁶ National Bank of Serbia, Inflation Report

¹⁷ Republican Statistical Office

although it was still lower than a year earlier (-0.4%). According to estimates, the GDP increased in the first and second quart (0.9 and 1.8% respectively) and for the whole of 2010, with an estimated increase of 1.5%¹⁸.

Due to the Dinar depreciation, for more than one year the export volume increased more than imports (21% and 7% respectively). It is encouraging sign that in import structure, raw materials and equipment increased the most, which might produce a further increase in industrial production. For 2010, one can expect a current balance deficit € 2.7 billion and FDI inflows of €1.1 billion.

3 Serbian SMEs Suffered During the Crisis

During 2009 the development of the Serbian SME sector slowed considerably, after the period of 2004-08 in which the sector had become an important factor in the economy in market reforms and in revitalization. In 2008, SMEs accounted for 35% of GDP and 43.2% of total employment. More importantly, the SME share in total foreign trade was 45.5% of total export and 59.3% of total Serbian import¹⁹.

Two important questions arise if one looks at the relationship between the economic crisis and entrepreneurship:

- How recession influences entrepreneurial activities?
- How entrepreneurship can change the trend from decreasing into increasing?

One can see that recessions can make room in old markets and sources, as some inventive people can see business opportunities as circumstances change. There are no straightforward answers when looking at start-ups only, but rather one must look at all types and phases of entrepreneurial activities. The results of the GEM 2009 Report highlighted this question differently by type and phase of activity²⁰.

More theories are related to the second question. The best innovations started during the great recession in the 1930s. The study, which used data from GEM reports pointed out the positive correlation between innovative start up based, on the one hand, and GDP cycles with a two-year time lag, on the other hand²¹. They concluded that entrepreneurship is not independent from cycle. Baumol argued that there is constant rate of entrepreneurship among different societies, while

¹⁸ Republican Statistical Office

¹⁹ Estimation of Republican Development Bureau

²⁰ GEM Report 2009

²¹ Koellinger P. and R. Thurik - Entrepreneurship and the Business Cycle, Tinbergen Institute Discussion Paper, TI 2009-032/3, Erasmus School of Economics, Erasmus University Rotterdam, EIM Business and Policy Research, Zoetermeer, The Netherlands, Tinbergen Institute, 2009

institutions, rules and norms influence the linkage between entrepreneurship and development²².

In the GEM Report for 2009 two new ratios were added in order to envisage the climate for start-ups and their development in comparison to year earlier. Not surprisingly, more than a half of entrepreneurs found that it was more difficult to start, although in transitory economies especially, they are driven by their own needs and are not closely linked to global circumstances. Generally speaking, entrepreneurs are more positive about business development than about start-up, but those already matured are more pessimistic.

In the GEM Report for 2009 the questions were raised regarding the relationship between the global recession and business opportunities, both for start-ups and for the development of already established business. From the table below one can conclude:

- Firstly, the majority of entrepreneurs were expecting fewer opportunities, especially within those economies which are factors and efficiency driven;
- Secondly, 1/4 of entrepreneurs in the early phase in innovation-driven economies expected more opportunities;
- Thirdly, entrepreneurs in more matured businesses are more pessimistic.

Table 4

Entrepreneurial Tendencies in selected countries 2008/09 compared to 2006/07

	GDP p.c. change		Attitudes A				Activity B				Aspiration C			
	2008	2009	1	2	3	4	1	2	3	4	1	2	3	4
Croatia	2,5	-5,2	-	+	-	-	-	-	-	-	-	-	-	-
Hungary	0,6	-6,7	-	+	+	-	+	+	+	-	+	+	-	+
Romania	7,1	-8,5	-	+	+	-	-	+	-	+	-	-	-	-
Slovenia	3,5	-4,7	-	+	-	-	+	+	-	-	-	-	-	-
Serbia	5,4	-4,0	-	-	-	-	-	-	-	-	-	+	-	-

Note: A1 Perceived opportunities, A2 Fear of failure, A3 Intentions, A4 Good career choice
 B1 Nascent entrepreneurship, B2 Owner manager new firm, B3 Discontinuation rate B4 Necessity
 C1 Job expectation, C2 New product, C3 new market, C4 International orientation

Until the first quart of 2009 the tendency continued of a slowing in the number of new establishments and, at the same time, the considerable increase in the number of closed companies and shops from the fourth quart of 2008²³, due to the negative expectations of entrepreneurs regarding expansion of the global economic crisis. It happened in spite of habit that companies and shops are usually established at the beginning of the year and closed in the second half of the year.

²² Baumol, W. J. (1990) - Entrepreneurship: Productive, Unproductive and Destructive, Journal of Political Economy, 98(5), 893-921

²³ Data from Republican Agency for economic registries RS

The number of SMEs and shops in Serbia in 2009 increased by 9,337 (45% less than in 2008) – 6,417 companies and 2,920 shops (21.6% and 66.8% fewer, respectively, in comparison to the year before). The total number of companies in Serbia in 2009 increased by 10,014 and shops by 39,365 (11% and 9.2% fewer, respectively, in comparison to the year earlier) and closed 3,597 companies and 36,445 shops (17.2% and 5.4% more, respectively, than the year earlier)²¹.

Table 5
SME Indicators selective EU countries and Serbia

	EU	Bulgaria	Czech	Hungary	Poland	Romania	Slovenia	Serbia	
	2008							2008	2009
Number of companies 000	20.727	303	899	532	1.563	440	102	303,4	314,8
Number of employees 000	90.006	940	2.505	1.767	5.880	2.633	424	940,2	872,5
Turnover bill €	14.284	58	245	163	421	268	51	58,3	46,6
GDP bill €	3.626	11	49	25	81	37	11	10,5	8,7
Profit bill €	977	4	9	1	19	19	1	4,0	3,2
SME/000 Citizens	41,6	41,4	86,6	53,0	41,0	20,4	50,7	41,4	43,0
Number empl./comp.	4,3	3,1	2,8	3,3	3,8	6,0	4,2	3,1	3,1
Turn./empl. 000 €	158,7	62,0	97,8	92,2	71,6	101,8	120,3	62,0	53,4
GDP/empl. 000 €	40,3	11,1	19,6	14,1	13,8	14,1	25,9	11,1	10,0
Pf/empl. 000€	10,9	4,2	3,6	0,6	3,2	7,2	2,4	4,2	3,6
Profit rate	27	38,1	19	2	23	52	9	38,1	36,2
SME share in non financial sector									
Number comp.	99,8	99,7	99,8	99,8	99,8	99,6	99,7	99,8	99,8
No empl.	67,4	74,1	67,6	71,1	68,9	63,6	67,0	67,2	66,7
Turnover	57,7	65,1	58,8	58,8	59,2	58,7	63,2	66,6	67,8
GDP	57,7	54,1	54,8	51,9	51,7	42,2	59,8	59,1	57,4
Profit	49,4	45,4	31,5		33,6	34,8	29,1	58,7	54,1

Source: DG Enterprise and Industry, Serbia Republican Development Bureau

An important fact, from the point of view of SME sector's contribution to the increase in employment, is that in the period 2004-08 every year SMEs created more work places than places which were closed at the same time in big companies. In the period 2004-08, the number of employees in SMEs increased by 187.4 thousand (from 752.7 to 940.2 thousand), while the number of working places in big companies decreased by 163.6 thousand (from 622.2 to 458.6 thousand).

SME distribution by industry is still very concentrated, namely: 73.9% by number of companies, 78.6% by employees, 85.3% by trade and 80.1% by GDP contribution was related in 2008 to four sectors only: trade, processing industry, real estate related activities and construction.

The TEA index (the measurement of the early phase of entrepreneurial activity) for Serbia in 2009 was 4.9²⁴, pointing to a worsening of the climate for starting business (8.6), which was the result of influences of the global economic crisis. The number of those who starting businesses was decreasing (indicator TEA beginners fell from 4.8 to 2.2) and new entrepreneurs, as well (indicator TEA new entrepreneurs fell from 4.0 to 2.8). Inevitably, GDP growth and new working places were limited.

The share of mature enterprises increased (the share of existing enterprises increased from 5.3 to 10.1), which points to the fact that new measures for improving the climate for fast growth companies and so-called gazelles is desirable, as well as are those measures for start-ups. The index of motivation increased (from 29% to 46% in 2009), which means that there were more entrepreneurs who saw their chance. However, at the same time, the number of potential entrepreneurs decreased absolutely, pointing to the worsening conditions for start-ups and continuing businesses.

The country lags behind the conflict period of development, but still a relatively small number of entrepreneurs legalized their activities. Weak financial and non-financial support show also that a supportive climate for entrepreneurship is far from fully satisfied. The global economic crisis has simply emphasized those drawbacks: weak and decreasing foreign and domestic demand, narrowing investment opportunities, increasing risks and costs and fear of failures. Although there is clear idea about the need for new working places and state activities toward SME support, those negative factors prevailed, which altogether produced a decreasing number of entrepreneurs and newcomers.

From Table 6, one can see that the TEA index – the measurement of early phase of entrepreneurial process – for Serbia in 2009 was 4,9 (almost 5 persons among 100 elder people were entrepreneurially active) – once again points to a worsening of overall entrepreneurial climate in 2009.

Table 6
Entrepreneurial Activity 2009

	TEA Beginners	TEA New entrep.	TEA Index	Index Existed entr.	Total rate of owners	Rate of Break	% TEA Index	
							TEA need	TEA avail.
BiH	3,1	1,3	4,4	3,9	8,3	3,1	39	20
Croatia	3,5	2,2	5,6	4,8	10,4	3,9	37	39
Hungary	5,4	3,7	9,1	6,7	15,8	3,2	24	45
Romania	2,8	2,3	5,0	3,4	8,4	3,6	34	31
Slovenia	3,2	2,1	5,4	5,6	11,0	1,3	10	69
Serbia								
2009	2,2	2,8	4,9	10,1	15,0	1,9	41	46
2008	4,0	3,6	7,6	9,3	16,9	3,7	-	-
2007	4,8	4,0	8,6	5,3	13,9	-	-	28

Source: Global Entrepreneurship Monitor

²⁴ Near to 5 persons was entrepreneurially active among 100 elder

Mutual relations of partial rate of early entrepreneurial activity (see Table 7) pointed to some important facts. A motivation Index of 1.12 showed that Serbian entrepreneurship is developing more on the basis of chances seen (2.25) than as an alternative to secure existence (2.01). This index is lower than in other European countries, except Romania and BiH. Death index 0.79 pointed that number of beginners was smaller than the number of new entrepreneurs who succeeded in running a business for more than 42 months. The sustainability index, at 3.61, is very unfavorable, as it means that for each 36 existing entrepreneurs there are 10 new entrepreneurs who run their business less than 4 years. The main reasons for this unfavorable rate are the global economic crisis and unfavorable overall economic climate. The stability index of 2.06 reveals that for each 20 existent entrepreneurs who run a business more than 4 years, there are 10 beginners and new entrepreneurs. This index also points to a stagnating trend in new company establishment, and more importantly, it is more unfavorable than in other countries under consideration.

Table 7
Motivation and sustainability of early entrepreneurial activity

	Motivation Index	Death Index	Sustainability Index	Stability Index
Croatia	1,05	1,59	2,18	0,86
Hungary	1,88	1,46	1,81	0,74
Romania	0,91	1,22	1,48	0,68
Slovenia	6,90	1,52	2,67	1,04
Serbia	1,12	0,79	3,61	2,06

Source: *Global Entrepreneurship Monitor*

Considering measurement of business demography in Serbia one can conclude that from 2008 the number of established companies and shops has been decreasing, while the number of companies and shops which stop activities has been increasing²⁵. As a result, the total number of new economic agents is decreasing. In 2009 in Serbia, 44 SMEs or shops were operating for each one thousand citizens (1 more than in 2008), but 7 subjects of new established was less than year before.

Table 8
Serbia Number of newly established and closed companies

	Number of companies		Number of shops		Net effect	
	established	closed	established	closed	Companies	Shops
2006	11.536	1.528	45.693	27.01	7,5	1,7
2007	11.902	2.027	47.951	31.619	5,9	1,5
2008	11.248	3.068	43.375	34.572	3,7	1,3
2009	10.014	3.597	39.365	36.445	2,8	1,1

Source: *Republican Agency for economic registries*

²⁵ Source: *Republican Agency for economic registries*

Table 9
Serbia - Rate of growth and close of companies and shops

	Companies		Shops		Total	
	Rate of Growth	Rate of close	Rate of growth	Rate of close	Rate of growth	Rate of close
2006	13,3	1,8	40,7	24,0	28,8	14,3
2007	12,3	2,1	23,0	15,1	19,6	11,0
2008	10,7	2,9	19,9	15,9	16,9	11,7
2009	9,0	3,2	17,8	16,5	14,9	12,1

Source: Republican Agency for economic registries

The SME Policy Index²⁶ puts Serbia into a group of countries which are fully established legal and institutional framework for supportive policy for SME development, with 3.3 as the average rate: education and training for entrepreneurship -2, cheap and fast start-up -3.8, legal framework - 3.2, availability of skill improvement 2.8, on line appraisal to sources 3.2, greater market appraisal 4, financial support 4, technological capacity strengthening 3.5, successful models of e-business -3.5. At the same time it means that it passed half obligations toward full EU membership requirements.

Financial support for SMEs in Serbia increased in 2009, but was too weak to prevent the recession. SME financial support from public sources in 2009 was in total 29.9 billion RSD (€318.8 million), of which from the national budget €113 million. From the national budget and the local network of SME agencies for consulting and expert support, €2.2 million was planned. The National Employment Service supported SMEs with non-financial services worth €37.2 million. The National Development Fund financed start-ups with a € 41 million credit line, SMEs in under-developed regions with €30.6 million, higher quality of restaurant supply with €1.8 million. Project of support investment in innovations was financed with €401 thousand and Program of development €248 thousand. The National Agency for export insurance (AOFI) subsidized credit lines for exporters with €28.3 million, €14.5 million for factoring financing and €10.7 million for export insurance and export guarantees. The National Export Promoting Agency (SIEPA) placed €439 thousand for export promotion of private enterprises. Additionally, The National Development Fund from its own funds financed SMEs with €151.6 million.

Financial SME support from foreign sources, such as Fund revolving credit, APEX Global credit II, and Italian Government credit, was in 2009 realized with €50.8 million (although non-realized sources are €201.4 million).

²⁶ SME Policy Index 2009 – Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans, EC DG for Enterprise and Industry, OECD, ETF, EBRD, 2010

4 Change Attitude to More Intensive SME Support

During the transition period, SME support policy in Serbia was oriented toward increasing the number of SMEs. Consequently, the policy could be labeled as a quantitative one and usually was seen as the first phase of SME development. In the future the need is to shift to a policy of the qualitative sort, e.g. the main subject of support would be fast growing SMEs, mainly. It must be defined precisely and, more importantly, it must be implemented.

A policy for the support of dynamic SMEs and gazelles is essentially a policy for entrepreneurial support. Entrepreneurship is the process in which talented persons transform their knowledge into assets through new economic establishments, which produce added value as the basis for the growth of the welfare of the society. Entrepreneurs recognize their business opportunities and make their own choices in order to use them. At the same time, newly established economic actors mature innovations using knowledge and other sources for new products and services. Whole economy introduces all institutions which play important role in economic development and increase in productivity.

It is important to bear in mind that supportive policies for innovative and fast-growing SMEs and gazelles is far from simple. The first issue is how to define and recognize those dynamic companies and gazelles. An especially important issue is how to help those enterprises when they are facing the period of a fall in growth, like they are facing now in circumstances of the global economic crisis. Those negative factors can be related also to un-sustained financial support or problems related to human sources. The aim of the state in modern market economies is to overcome those limits. Case studies have shown the room for supportive policy related to relatively small number of companies as a target (France, Quebec). As with other development or macroeconomic policies, the point is to adjust those policies to certain national circumstances related to specific historical, ecological and social factors. For economies in transition the basic problem is related to the establishment of legal and institutional frameworks for the market economy.

Considering the trend of deindustrialization and the huge and increasing foreign trade deficit for Serbia, in the future the target for SME support policy is to increase economic efficiency and competitive abilities through: a) the development of an economic structure comparable to the EU, which requires faster growth activities with higher-than-average added value, b) an increase in the competitive abilities of companies, primarily through an increase in productivity and c) more regionally-balanced development.

During the transition period, Serbia tended to be closer to the EU, and public opinion showed the prevailing wish of citizens to realize joining the EU. In order to speed up this process Serbia unilaterally started to introduce Agreement of Cooperation and Accession from the beginning of 2009, although it meant strengthening competition on its own market, and at the end of 2009 officially

applied for candidate status. One has to bear in mind that the positive pressure on Serbia to fulfill the requirements for joining the EU are even more important than EU membership itself.

In order to join the EU, Serbia in its future development must respect and implement EU development documents. During the transition Serbia implemented a neo-liberal concept of development, while countries from European family strengthened development cohesion and coordination. Over the last decade, the EU has created and started to implement several development documents in order to achieve sustainable development, such as ESDP, CEMAT, SDS and the Lisbon agenda. It has recently adopted a strategy for overcoming the current economic crisis, EU 2020, which at the same time shows the basis for EU economy in the next decade. The document is especially important for, among others, supportive policies for dynamic SMEs and gazelles, as it stipulates three future development cornerstones: clever growth, sustainable growth and comprehensive development.

Conclusion

Serbia started transition to a market economy in 2000, as the last among the East and Central European countries. During the transition years, a high rate of growth was achieved, macroeconomic stability was considerably improved and a much better business environment was created. It was important especially for the fast growth of SMEs. The business climate improved and a set of supportive measures were realized. The number of SMEs increasing each year, through which SMEs became an important agent of whole economy, with a considerable share in employment, turnover, profit and value added. However, in recent years market reforms have lost momentum and business climate has deteriorated in comparison to other transition economies. One has to bear in mind also that the Serbian “development model” during the period 2001-2009 was based on increasing public and personal consumption and was unsustainable even before world economic crisis started to influence its economy negatively. Unsurprisingly, the business climate deteriorated and SMEs suffered during the end of 2008 and in 2009, and like other companies had worse economic results. This was even in spite of higher financial support from different sources than before. In order to overcome the crisis, the government has to support SMEs as a vital agent of an economy. Considering that Serbia has almost finished the first phase of SME support, in which the main aim was to establish as many new companies as possible, a useful strategic approach in the future should be to change attitudes to more intensive one. It means to support those companies which are fast developing and the most dynamic ones especially, the so-called gazelles. An important fact is that Serbia has already created a strategy for the development of competitive and innovative small and medium size companies 2008-2013, but the point is to implement it. As several analyses have pointed out, Serbian SMEs are not competitive to EU companies if we consider economic ratios per employees. So it is the right time to strengthen their efficiency. It is also important to bear in mind that this shift in SME support policy should be in line with the EU 2020

Agenda, and especially important for Serbia as a future candidate for EU membership.

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