

## **SMALL AND MEDIUM SIZE ENTERPRISES AS SUPPORT TO DEVELOPMENT OF AGRIBUSINESS OF REPUBLIC OF SERBIA**

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# **SMALL AND MEDIUM SIZE ENTERPRISES AS SUPPORT TO DEVELOPMENT OF AGRIBUSINESS OF REPUBLIC OF SERBIA <sup>1</sup>**

## **Abstract**

Development of strong and competitive sector of small and medium enterprises has very important role in process of total transition in Republic of Serbia. This sector should be one of the guidelines of economical development in the future, like in developed countries. Within the "Strategy of development of SME and entrepreneurship in Republic of Serbia from 2003 to 2008" government of the Republic of Serbia, not accidentally, placed, among many other sectors (which are expected to contribute and boost economical development, increase the employment rate, and realize increased foreign export earnings), the sector of agricultural products processing. It can be concluded that significant contribution from agriculture to improvement of overall economic status is expected. Accession to EU should be considered not only as the opportunity, but also as a serious task in agriculture restructuring. However, aggravating circumstance, in regard to export of agricultural and food products, first of all to EU countries, is the fact that this market is under strict protective measures within the policy of agriculture and measures of agrarian protectionism. In such conditions, it is very difficult for producers and food processors to enter such closed markets.

Considering the flexibility of small and medium enterprises with regard to production programs, as well as their capability to adjust to economical trends, it can be expected that they become one of the most important subjects of support of agribusiness development in Republic of Serbia.

**Key words:** SME, agribusiness development, transition, market.

## **1. Introduction**

The use of term agribusiness should be explained at the very beginning. Literature offers many terms such as agro-complex, agro-industrial complex, food industry complex, agribusiness, etc. In this paper we will use the term agribusiness, considering definition presented by American economists Goldberg and Davis, (Ceranic, 2004) stating that agribusiness represents " the sum of all production operations and services

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for agricultural production, productive operations on farms, operations relating to storage, processing and sale of products produced from agricultural raw materials".

Agribusiness represents a complex business system with great variety of organizational forms, but the most important is classification into following three segments:

- first, *pre-farm* – which includes production of organic inputs;
- second, *farm* – which includes agricultural production; and
- third, *post-farm* – which includes processing (industrial and crafts industry) and trade of agricultural and food products.

Importance of agribusiness in the economical development of Republic of Serbia or in any other observation area is evaluated through numerous parameters on demographic changes and other macro economical indices. Primarily, it is evaluated through contribution of this sector of economy in forming of social product and national income, in establishing and improvement of external trade balance, etc.

In order to represent the position of Republic of Serbia, in this paper we will represent commonly used parameters which demonstrate that size of the agricultural household in EU varies from 4 ha in Greece to 69 ha in Great Britain, and size of landed property in Serbia is 3,28 ha. Average size of herd of dairy cows in Portugal is between 3 and 5, up to 69 in Denmark, average for EU is 24 heads of cattle, and in Serbia that average is 1 to 2 cows per household. Number of persons employed in agriculture is also very different in EU countries, so the highest share of population employed in agriculture is recorded in Greece – 17% of labor force, and the lowest in Belgium – only 2 to 3%, average for EU is 47%. In Serbia, situation is also very unfavorable - over 20% of population is engaged in agriculture. In addition, some other parameters show no good picture of the condition of agriculture. For instance, plant production makes 60% of total agricultural production, approximately 750.000 private owned farms are engaged in agricultural production, size of farms of 3 ha is predominant (58,1%), while farms of over 20 ha are presented with only 0,5%.

Of course, it is very important to give some main elements and information on implemented privatization, which is ongoing process in Serbia for over 18 years, according to different models and laws. The fact that should be pointed out is that despite the relatively long period of privatization, it is still not finished. Numerous controversies followed the previous process of privatization, and they are relating to the mode of privatization that was carried out, results of privatization and post privatization effect, but still, there are certain dilemmas on how to bring this process to the end. This is especially important since this is one of the leading sectors of domestic economy, which

participates in gross added value of Serbia with approximately 15%, whereas in EU the respective value is 3,5%.

Considering stated facts, in this paper results realized so far, in support to small and medium enterprises in agribusiness development in Republic of Serbia are analyzed in more details. These are economical subjects who are of great importance because of their linkage and influence on other sectors, and because they represent great potential for employment, they can also have considerable share in export, provide food safety of the population and contribute to rural development.

## **2. Major elements of the development strategy of small and medium enterprises**

Agriculture as a branch of economy represents very important factor of total economical development of Serbia and important segment of the economical structure. Serbia has agricultural resources that are not used enough and therefore, they represent significant economical potential for further development. Maximal utilization of available resources is conditioned by both natural and socio-economic conditions that dictate the development of certain branches of production. Prerequisite for more stable and harmonized development of Serbia is in overcoming the problem of under developed regions. Small and medium enterprises represent main source of employment and driving force of most developed countries in the World, and therefore, they should have such importance and role in the development of our agriculture (Ceranić and Maletić, 2005; Popović 2008).

All stated here indicates the necessity of establishing of small and medium enterprises in agribusiness of Serbia. Small and medium enterprises, by definition, represent family business. In these enterprises there is one or few owners, employees are mainly family members and also, several permanently employed workers (Ceranić, et al., 2006).

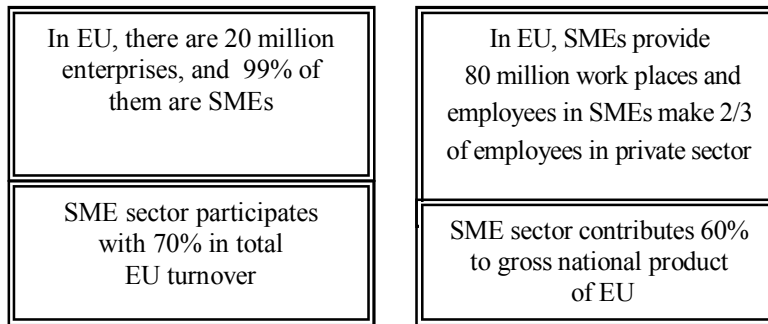
Concerning the origin of small and medium enterprises in agribusiness, it should be said that they derive partially from rural farms that underwent restructuring and gained new direction in processing of agricultural and food products (Novković, 1999).

Advantage of small and medium enterprises is reflected in the following facts:

- In certain cases, there is a need for products whose volume should be smaller. Accordingly, in such cases, large enterprises do not have interest to be engaged in production, which leaves space for small and medium enterprises.
- Today, market, with its dynamic changes sets certain demands for enterprises to react to changes in a very short time. Only small and medium enterprises can respond

to these challenges since their organizational structure gives them the possibility to react sooner and faster than large enterprises.

- Level of utilization of production machines, transportation means and other resources is significantly higher than in large enterprises, since entrepreneur is constantly looking for new businesses to activate existing equipment.
- In small and medium enterprises, there is no strict division of labor; employees are trained for several operations, which enable them to adjust faster to changes in work process.
- Entrepreneur in small and medium enterprise has to know very well what are the sources of procurement and to maintain stocks at an optimal level in order to provide security of his business, and, on the other hand, not to bind financial means if it is not necessary.
- From previous text, it could be concluded that there is great rivalry between SME and large enterprises. This statement is not correct, since all the countries of the world force such a form of cooperation between these two subjects, and therefore it is more realistic to talk about their complementary relations. That can be seen from Figure 1.



**Figure 1 - SME sector in European Union**

Further more, in order to illustrate a big importance of SMEs, comparative analysis of certain parameters is shown in table 1, and it refers to Serbia and nearby countries.

**Table 1 - Comparative analysis**

Parameter	EU-27	Czech Rep.	Poland	Slovenia	Hungary	Romania	Bulgaria	Serbia
Number of enterprises in 000	19602	878	1405	88	556	410	240	277
Number of employees in 000	85000	3461	5289	371	1783	2463	1318	811
GAV in billion EUR	3060	30	59	8	20	13	5	6
Number of employees per enterprise	4,3	2,8	3,8	4,2	3,2	6	5,5	2,9
GAV per employee in 000 EUR	36,4	12,1	11,2	22,4	11,3	5,4	4,0	6,9

Source: EUROSTAT – Statistics in focus, 31/2008.

The focus of the development of small and medium enterprises can be defined in the following way:

- Development of a sector which is capable to significantly boost economical development, increase employment and flow of foreign currency - that can be realized by agricultural and food products processing;
- Strengthening of international support and respecting of the interest of small and medium enterprises' interests at all levels: Ministry of Agriculture, Ministry of Economy and Privatization, Republic agency for development of small and medium enterprises and entrepreneurship;
- Creation of new legal environment which would alleviate development of small and medium enterprises in agribusiness;
- Realization of reforms of public services in order to provide assistance in establishing of small and medium enterprises, and at the same time to reduce administrative and bureaucracy obstacles which are present for this sector;
- Carrying out of measures with aim to alleviate the access to sources of financing to small and medium enterprises considering that food production is very sensitive;
- Connecting educational institutions and scientific research systems with small and medium enterprises in agribusiness, especially because of the fact that this is the field with low qualification structure.

### 3. Proposals for establishing of small and medium enterprises in agribusiness

Low level of utilization of food industry capacities of Serbia is a consequence of narrow foreign market, significant decrease of demand on the domestic market because of diminished paying capacity and inadequate production structure. Lower level of utilization of processing capacities had reflected negatively also on level and structure of primary agricultural production in Serbia. In development of *small and medium enterprises* in the field of agribusiness, starting point was assumption that small and medium enterprises with their *special production programs* will have *secure market, economically efficient and effective production* and, in that way, they will contribute and *induce increased use and technological improvement* of existing food industry, through cooperation programs, but also through establishing of objective competition.

Development of small and medium enterprises in the field of agribusiness in Serbia should be directed to development of the following types of production programs:

1. *Production of high quality products with protected trade mark, based on modern or traditional technologies, its own raw material base, and intended primarily for export to developed countries* (products of meat industry – ham, sausages, fermented dry sausage, smoked tenderloin and other high quality products manufactured from pork; dried and in another way processed sheep products, high quality products made of turkey, duck or goose meat, goose liver; *production and processing of high quality fish* - catfish, perch, sturgeon; *fruit products* – wall nuts, hazelnuts, almonds in small packages, stewed fruits, candied fruits, fruit teas, natural fruit juices, special fruit brandies (mulberry brandy, apricot brandy, apple brandy, sour cherry brandy, cherry brandy, etc.); *products from grapes* – special and autochthonous wines, grape juices with supplement of natural fruit aromas; *vegetable products* – warm and cold processing of different types of vegetables, tomato and beet juices, ketchups, vacuum packaged sour vegetables (cabbage, cauliflower, carrot, peppers, pickles, onion, etc.), *mixed dry vegetables* (carrot, parsnip), *processing and small packages of horseradish, baby food based on vegetables*.

2. *Production and processing of «ecological» products, i.e. «healthy» food and other products made of natural raw materials* – integral flours and baked goods made on their basis, grainy «instant» food made of cereals with different supplements (dry fruits, honey, walnuts, hazelnuts, almonds, etc.), natural honey and honey products (honey with beebread, pollen, vitamins, medicinal herbs, minerals), teas and other preparations made of medicinal herbs (chamomile, Klamath weed, mint, elder, linden, nettles, black locust, black mulberry, rose hip, hawthorn berry, valerian, etc.),

cosmetics preparations based on medicinal herbs and other natural raw materials, ecological packaging made of harvest remains, etc.

3. *Production intended to satisfy needs of domestic market and substitute import of products, which from natural, agro-ecological and economical aspect, can be produced in our country* – production of fresh water fish (carp, bighead carp), production of poultry eggs, production of broilers, production of wide-leaf tobacco «Virginia», production of yeast, production of dairy products, meat products, early fruits and vegetables grown in protected space, products of food industry which are currently imported (special types of cheeses, dry meat products, candy, etc.), production and processing of table mushrooms.

4. *Production intended to satisfy needs of domestic food industry and other branches of economy* – production of high quality fruit raw materials according to modern technology for the needs of conдитory industry, dairy industry (dairy-fruit beverages), drying and grinding of onion and garlic for the meat industry, production of pheasant chicks and rearing of other wild game types (deer) for the needs of hunting tourism, production of protection clothes and hats.

5. *Other production* – production of fuels from harvest remains, production and processing of snails and frogs, collecting and processing of forest fruits, rearing and processing of fattening horses.

The other important presumption of development of small and medium enterprises in agribusiness is that *considerable part of turnover assets will be invested in raw material basis*, i.e. into primary agricultural production and in this way development of these enterprises will stimulate further intensifying and restructuring of agriculture of Serbia. Proposals for priority programs of development of small and medium enterprises in agribusiness are given according to groups of activities.

#### **4. Support measures for development of small and medium enterprises in relation to European Charter**

While European Charter for Small and Medium Enterprises adopted in year 2000 by 15 EU members leaves no doubt about the direction in what way the economy of Europe is going, situation in Serbia is not very clear. Namely, although Republic of Serbia has officially accepted the European Charter for Small Enterprises on the summit in Thessalonici, according to which it has obligation to prepare annual reports on sector of small enterprises, impression is that this has not become practice, yet.



Importance of principles contained in the European Charter should not be pointed out especially, but it will be useful to list them:

1. Education and training for entrepreneurship,
2. More favorable and faster start-up,
3. Better legislation and regulations,
4. Available abilities,
5. Improvement of on-line approach,
6. Improvement of business of small enterprises on domestic and foreign market,
7. Tax obligations and financial issues,
8. Strengthening of technological capacities in small enterprises,
9. Models of successful electronic business and first class support to small business,
10. Development of stronger and more efficient representation of the interests of small enterprises.

It is hard to say that any of these ten listed principles has been completely solved in Serbia. For future development of SME sector in Republic of Serbia, for strengthening its competitiveness and innovative capacities, it is necessary to create precise order in realization of principles contained in European Charter.

In any case, this is an imperative that has been accepted, and the question is how long EU will tolerate incomplete compliance to principles of European Charter.

If, at least, causes of such condition should be roughly identified, then, we primarily need to look for them in the following:

- institutions and legislation,
- poor educational level of entrepreneur and persons employed in this sector,
- unfavorable conditions for functioning of SME,
- insufficient penetration and use of innovations and technological solutions of SME.

## **5. Conclusion**

The EU members and other market economies, consider the owners of SME as relevant economic factors. This attitude is of great importance for the Republic of Serbia, considering it is still in terms of creation of SME. Republic of Serbia is still paying tribute because of economic sanctions and a short war in the year of 1999. This tribute is mainly reflected as the lagging behind with EU countries, and even with some countries that have relatively recently become EU members and, considering socio-economic development, were far behind us.

In the process of growing globalization, small and medium sized enterprises successfully survive because they are in position to quickly identify and conquer the uncovered parts of the market. The size of the enterprise is not always a guarantee for success and, according to recent statements, the big ones will not swallow the small ones, but those that are faster will swallow the slow ones.

The situation in the Serbian economy is relatively poor, relapses from the past are still present, the economic crisis that is now present in this region represent serious threat to nullify results of implemented privatization and restructuring of the economy. Especially sensitive issue is the increasing of unemployment rate and stopping of economical flows.

The government takes a series of measures in order to quickly overcome the barriers in development of SME and small business. However, this process is neither easy nor short. Especially, we should point out the fact that on this the way we have not had so much help, as it was the case with nearby countries.

Agribusiness is one of the most important segments of Serbian economy and it represents the basis for the development of other non-farm activities. Considering the available natural resources, agribusiness is, from the national point of view, not only the basis of economic development of Serbia, but also the basis of the food safety of Serbian population.

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