

SMALL AND MEDIUM ENTERPRISES AS DEVELOPMENT FACTOR OF AGRIBUSINESS IN REPUBLIC OF SERBIA

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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 and 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 sectors which are expected to contribute and boost economical development, increase the employment rate, and realize increased influx of means deriving from export, the priority is on sector of processing of agricultural products. It can be concluded that significant contribution from agriculture to improvement of total economical situation is expected. Accession to EU should be considered primarily not only as the opportunity but serious task in regard to restructuring of the agriculture.

However, impeding circumstance, in regard to export of agricultural-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 processors of food to enter such closed markets. Small and medium enterprises are facing the choice of the business strategy:

- to place the existing product on current market;
- to place the existing product on new markets, including export;
- to sell the new product on existing market;
- to place the new product on new markets, including export.

Therefore, based on analysis of domestic market, volume and structure of import and export of agricultural and food products, as well as analysis of food industry and agricultural production in Serbia, it is necessary to define potential programs for small and medium enterprises with production which could be economically efficient and profitable from the aspect of investment.

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, 2009) stating that agribusiness represents "the sum of all production operations and services for agricultural production, productive operations on farms, operations relating to storage, processing and sale of products produced from agricultural raw materials".

Agribusiness represents very complex business system with great variety and richness of organizational forms, and most important is division 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 craft) and sale of agricultural-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 a better way, often used parameters will be used which demonstrate that size of the agricultural household/holding in EU varies from 4 ha in Greece to 69 ha in Great Britain, and size of farms/holdings in Serbia is 3,28 ha. Average size of herd of dairy cows is between 3 and 5 in Portugal to 69 in Denmark, and average for EU is 24 heads of cattle, and in Serbia 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 in this regard very unfavorable since over 20% of population is

engaged in agriculture. Also, 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%), whereas farms of over 20 ha are 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%.

In efforts to improve the agriculture of Serbia, privatization has a special position. Issue is privatization of certain number of business systems in the field of food industry which dispose with approximately 15% of cultivable land (Ceranic et.al., 2009). These business systems in average dispose with 1.600 hectares of land and represented very important segment of market for agricultural-food products, in spite of their relatively low share in total agricultural land. They were the carriers of market supply with pork and eggs, have approximately the same share as family households in crop cultures, beef and mutton, as well as grapes. The single predominant role of private agricultural sector is in supply of the market with fruits, vegetables and milk.

In this paper, results realized so far in support to small and medium enterprises in development of agro business in Republic of Serbia are analyzed in more details. These are economical subjects who are of great importance because of their connection and effect on other sectors, and because they are potential for employment, can have considerable share in export, provide nutritional safety and security of the population and contribute to rural development.

Considering the flexibility of small and medium enterprises in 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 agro business development in Republic of Serbia. This will be even more evident after ownership transition, since relatively few companies will be competitive with their production programs in development of economy of Republic of Serbia.

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 (Ceranic and Maletic, 2005; Popovic, 2008).

Ceranić et al. (2009) state that increasing globalization process divides scientists into two groups, the first one being of opinion that in newly created conditions small and medium enterprises will disappear, whereas the other group is of opinion that due to specific advantages small and medium enterprises will be able to recognize and conquer easily parts of unutilized market which would guarantee them perspective and survival in the future. Agro business is especially interesting field for small and medium enterprises, since this is very wide field which includes production and processing of agricultural and food stuff products, as well as numerous inputs for agricultural production.

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 (Ceranic 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 (Ceranic and Popovic, 2009).

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 don't have interest to be engaged in production, which leaves space for small and medium enterprises.
- Market, presently, with its dynamic changes sets certain demands, challenges for enterprises to react in 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 enables 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 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 (Ceranić and Popović, 2009).
- 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 production of food is very sensitive;
- Connecting educational institutions and scientific research systems with small and medium enterprises in agribusiness, especially considering the fact that this is field with low qualification structure.

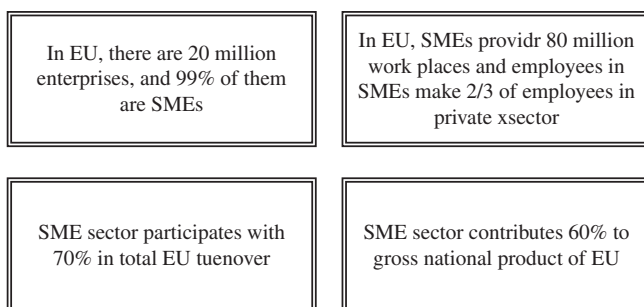


Figure 1. SME sector in European Union

- 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.

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;

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.

3. Proposals for establishing of small and medium enterprises in agro business

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 (Ceranic et al., 2009; Popovic, 2008).

Development of small and medium enterprises in the field of agri business in Serbia should be directed to development of 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 confectionery 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, also, that *considerable part of turnover/current 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 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 totally clear. Namely, although Republic of Serbia has officially accepted the European Charter for Small Enterprises on the summit in Thessalonica, 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 firmer and more efficient representation of the small enterprises' interests.

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 causes of such condition should be identified, then we 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

Changes of the political and economical concept have been initiated in the eighties of the last century, and are still ongoing, have changed significantly the strategy of agro business development. The concept of development of agro industrial complexes directed towards socializing of the agriculture and creating of corporations and big economical systems, changed into completely contrary concept, i.e. privatization and development of small and medium enterprises.

Small and medium enterprises in agro business were created partly due to the process of production restructuring of rural households by focusing on processing of agricultural

products, and partly due to the initiative of entrepreneurs or certain group with common goal.

Practice of most developed world economies confirms the fact that in the process of increasing globalization small and medium enterprises survive successfully, because they are in the position to recognize more rapidly and conquer parts of the market which have not been covered. However, it should be pointed out that size of the enterprise is not always guarantee for success, and according to some assertions the big don't eat the small, but the fastest eat the slowest.

There is no need to emphasize the importance of agriculture for Serbia, since it participates with 20% in GNP. And based on this, it is logical that small and medium enterprises should be important carrier of the development of agribusiness.

Republic of Serbia, as country in transition, is characterized by initiated reforms, unfinished privatization, high unemployment rate and many problems which reflect on development of small and medium enterprises.

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