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## Article

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# ENTREPRENEURSHIP DEVELOPMENT IN SERBIA: THE CHANCE FOR A WAY OUT OF ECONOMIC CRISIS

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## **Abstract**

Neoliberal concept of serbian economic policy generated extremely poor results in all domains of economic and social trends, starting from low competitiveness on a world scale, high foreign indebtedness, deindustrialization of the country, all the way to the staggering unemployment. Enterprises' functioning is characterized by low competitiveness and chronic illiquidity. In those conditions, a new economic policy is argued, the one that will lead to a sustainable growth and development of economy, eliminate regional disparities, enable a necessary level of investments and ensure favourable environment for small and medium enterprises (SME) development. The assertion of entrepreneurship as a whole, production in the first place, can be a good start of progressive and, certainly, pragmatic transformation and transition of our society towards the developed world.

**Keywords:** economic policy, economic crisis, economic development, entrepreneurship.

*Jel Classification:* L26

## **INTRODUCTION**

The basic macroeconomic indicators of serbian economy at the end of 2013 are extremely unfavourable: the unemployment rate is 22,1%, according to the Workforce survey, foreign debt is 25.788,8 million of euros, gross domestic product (GDP) per

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capita is only 5.293,8 US \$, an average salary - 388,6 euros, etc. These results are among the lowest in Europe and they are a consequence of the wrong economic policy in the transition period. At the same time, service activity was developed, while the development of the real sector, particularly industrial production, was neglected. As a result, there are disproportions, both internal, that can be seen through consumption/production and savings/investments relations, and foreign, visible through foreign trade and the balance of payments.

The whole transition period, economic system of Serbia is burdened with structural discords, backward technology, high production costs, low level of investments and small export. The weaknesses of serbian economy, present in the last period, were additionally emphasized by the economic crisis appearance. The problems that serbian economy is facing, which are particularly significant, are chronic illiquidity and doing business in the zone of high indebtedness, whose consequence is disordered financial balance. The participation of equity in the structure of fund sources is insufficient, alongside with domination of bank loans, which have extremely high interest rates and other expenses of finance, that come along.

One of the ways to reach sustainable economic growth is entrepreneurship, which generated positive results in the developed world. But, the business environment for entrepreneurship development in Serbia is still unfavourable, with almost the same obstacles as at the beginning of the transition period, despite declarative support of the economic policy creators. The unemployment problem solving, stopping the migrations of young workforce, increasing labour productivity, innovations adoption, are just some of the positive effects of entrepreneurship development. Entrepreneurs associations, The Association of SME and entrepreneurs, as well as public and private universities, international and local organizations and unions, alongside the government institutions, must have an important role in the process of creating a favourable environment for entrepreneurship development.

## **MACROECONOMIC ENVIRONMENT**

Macroeconomic conditions for doing business in the Republic of Serbia have been strongly determined by the inherited economic structure from the period before transition, economic policy after 2000 and consequences caused by the world financial crisis. After the second strike of the crisis, which happened during 2012, the dynamics of serbian economy was growing, although a large part of industry stayed in recession. Export became a key generator for setting the industry going, alongside with stable exchange rate of the domestic currency and low inflationary pressures. But still, those positive trends stayed shadowed by high unemployment rate and further fall of the aggregate demand. Industry's limited capabilities to confront numerous risks and threats have shown its vulnerability and dependence on the influences from abroad.

There was a growth of 2,5% of the GDP in 2013, which partially compensated its reduction of 1,5% in the previous year (Table 1). The biggest contribution to the growth of GDP came from the following sectors: agriculture, gas and energy supply, as well as informing and communication sectors. On the other hand, there were some tendencies towards recession in some of the sectors, especially in construction industries.

GDP's structure is unfavourable because of the dominant participation of the sector that is not interchangeable (almost 2/3), while the interchangeable sector's participation (agriculture, processing industry, electric energy supply, gas supply, etc.) is far from developmental needs.

However, GDP per capita in Serbia is exceptionally low. According to World bank data for 2012, GDP per capita was only 5.293,9 US \$, that is far smaller than in Slovenia (22.058,8 US \$) and Croatia (13.158,8 US \$). Other ex-Yugoslav countries (Macedonia, Montenegro, Bosnia and Hercegovina) have similar level of this indicator. This indicator gives a real picture of living standard and economic strength of the country, so it's easy to see how far Serbia is when compared to developed countries, some of which have GDP per capita cca 100.000 US \$ (Luxembourg – 103.858,9 US \$, Norway – 99.635,9 US \$). (World Bank 2014)

**Table 1.** Basic macroeconomic indicators 2012–2013<sup>2</sup>

| DESCRIPTION                                  | 2013      | 2012      |
|--|-----------|-----------|
| GDP (in millions of dinars - current prices) | 3.618.167 | 3.348.689 |
| GDP growth rate                              | 2,5       | -1,5      |
| Industrial production                        | 105,5     | 97,8      |
| Annual inflation rate (consumer price index) | 2,2       | 12,2      |
| Export (in millions of euros)                | 10.999,0  | 8.740,1   |
| Import (in millions of euros)                | 15.463,1  | 14.713,6  |
| Foreign trade deficit (in millions of euros) | 4.464,1   | 5.973,5   |
| Number of the employed (in thousands)        | 1.715     | 1.723     |
| Net salaries (in dinars)                     | 49.932    | 41.377    |
| Exchange rate - dinar/euro (December 31)     | 114,64    | 113,72    |

It is encouraging that the industrial production had bigger growth (5,5%) than economy as a whole, although its output is at much lower level than in the period before transition. Export in 2013 was increased by 1/4, while import was growing at the rate of 5,1% which contributed to significant reduction of the foreign trade deficit of 1.509,4 million euros, when compared to previous year.

But, the leading structural problems of serbian economy, which are significantly diminishing the effects of economic growth, are mostly concentrated on the workforce market and shown through unemployment growth and constant increase of the foreign debt. According to the National Bank of Serbia data (Table 2), foreign debt, at the end of 2013, was 25.787,8 million euros, while at the end of 2005, it was 12.520,1 million euros, which means that foreign debt was doubled in this period. At the same time, there was no unemployment reduction, according to Statistics Office of the Republic of Serbia (Workforce survey), and the average salary of less than 400 euros at the end of 2013, speaks enough about standard of living of the employed.

**Table 2.** Serbia's foreign debt fluctuation 2005–2013<sup>3</sup>

| Year | <i>(in millions of euros)</i> |        |        |        |        |        |        |        |        |
|------|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
|      | 2005                          | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   |
| Debt | 12.520                        | 14.290 | 17.382 | 20.981 | 22.272 | 23.508 | 24.123 | 25.645 | 25.787 |

<sup>2</sup> Source: Statistics Office of the Republic of Serbia, The National Bank of Serbia (2014).

<sup>3</sup> Source: The National Bank of Serbia (2014).

The trend of the increase of foreign debt in Serbia has alarming proportion, because country could face debtor crisis. In order to avoid that scenario, a strategy for foreign debt management is needed. The most significant foreign debt indicators had very high values at the end of 2013 and they were at the verge of viability, according to the World Bank criteria. For example, foreign debt/GDP=80,60%, and foreign debt/export of the goods and services=179,8%. (The National Bank of Serbia 2014)

**Table 3.** Unemployment and salaries 2005–2013<sup>4</sup>

| Year                   | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Unemployment           | 20.8  | 20.9  | 18.1  | 13.6  | 16.1  | 19.2  | 23.0  | 23.9  | 22.1  |
| Salaries<br>(in euros) | 209.7 | 260.0 | 347.1 | 400.5 | 337.4 | 330.1 | 372.5 | 364.5 | 388.6 |

According to Statistics Office data (Workforce survey) at the end of the second quarter of 2014, unemployment rate is 20,3%, being 21,3% among women and 19,5% among men. Unemployment rate in the region of Belgrade is 18,3%, Vojvodina – 21,6%, Sumadija and Western Serbia – 18,3%, Southern and Eastern Serbia – 23,3%.

According to World economic forum report for 2014, Serbia is ranked on the 94th place in the list covering 144 countries, when the global competitiveness index is concerned. In comparison to previous year, the position is improved by seven places. Global competitiveness index can be roughly defined as the whole of institutions, policies and factors that determine productivity level of a country. National economy's capacity to generate sustainable economic growth in the medium-term period, on the current stage of development, is expressed through its competitiveness level. Taking into consideration surrounding countries, only Albania has lower ranking (97), while the rest of the countries are ahead of Serbia (Croatia – 77, Slovenia – 70, Montenegro – 67, Macedonia – 63, Hungary – 60, Romania – 59).

### **ENTERPRISES' BUSINESS ACTIVITY RESULTS IN 2013**

In conditions of certain recovery of global economic trends and gradual revival of european economies in 2013, serbian economy is also modestly growing. But, besetting disadvantages of business environment in the Republic of Serbia and, still present, consequences of recession, are making significant recovery impossible and business activities difficult. Enterprises, faced with numerous difficulties, have kept their capacities on almost last year's level. Investments, as the basic originator of economic growth and development, are missing.

Unequal development of business environment during the crisis, as well as in previous years, is one of dominant characteristics of serbian economy. Uneven economic placement is a consequence of expressive sector and territory concentration of enterprises' financial performance, and the asymmetry is also instigated by high concentration of capital in big companies. At the same time, regional disparities point out long-term absence of developmental regional policy, with all the consequences that are now becoming prominent.

<sup>4</sup> Source: The National Bank of Serbia (2014).

In the conditions of low level of economic activity, the trend of further fall of the number of employed in enterprises is continued. For years now, serbian economy is characterized by the fact that more than 25% of enterprises are the ones that function without any employees. More than 75% of enterprises are doing business in the sectors that are not interchangeable, and those enterprises employ 55% of total number of workers. The highest concentration of enterprises is in these sectors: wholesale and retail trade, processing industry and professional, scientific and innovation field. (Serbian Business Registers Agency 2014)

**Table 4.** Selected indicators for enterprises in Serbia at the end of 2013<sup>5</sup>

| Indicator             | Total     | Micro        | Small          | Medium          | Large              |
|-----------------------|-----------|--------------|----------------|-----------------|--------------------|
|                       |           | 0-9 employed | 10-49 employed | 50-249 employed | More than 250 emp. |
| Number of enterprises | 93.754    | 81.775       | 9.353          | 2.132           | 494                |
| Number of employed    | 981.647   | 153.087      | 189.172        | 222.994         | 416.394            |
| Turnover (mil. din)   | 7.977.468 | 1.327.994    | 1.745.887      | 1.735.609       | 3.167.978          |
| GAV (mil. din)        | 1.562.097 | 158.265      | 269.095        | 317.088         | 817.649            |

Data in Table 4 point out that participation of micro, small and medium enterprises in total employment is 57,58% (in 2012 - 57,76%), in total turnover 60,29% (in 2012 - 61,48%), and participation in gross added value (GAV) of 47,66% is also smaller than in 2012 (49,71%). The total number of employed in enterprises in 2013 is smaller than in 2012 for 12.832 people. It is especially noticeable that small number of employees work in the category of micro enterprises, where, in average, less than two people are employed per enterprise (153.087 of employed in 81.775 micro enterprises).

According to data in Table 5, enterprises' share in total foreign debt of the Republic of Serbia on June 30, 2014 is 37,51%, which is very high when current economic structure is concerned. Due to actual economic crisis in Serbia, there is no development of investment funds and of other financial insitutions, so banking sector is enabled to lay down conditions of financing, by imposing extremely high interest rates and other expenses of approving loans, unfavourable conditions and terms for credits, mortgage and other ways of loans insurance, etc. The only convenient circumstance of enterprises' foreign debt is its term of payment structure, because the participation of long-term debt is over 99%.

**Table 5.** The participation of enterprises in Serbia's foreign debt<sup>6</sup>

| <i>(in millions of euros)</i>      |          |            |
|------------------------------------|----------|------------|
| Total foreign debt (June 30, 2014) | 25.383,9 | Share in % |
| 1. Public sector                   | 12.794,8 | 50,40      |
| 2. Private sector                  | 12.589,1 | 49,60      |
| 2.1. Banks                         | 3.066,4  | 12,08      |
| 2.2. Enterprises                   | 9.521,0  | 37,51      |
| 2.3. Individuals                   | 1,7      | 0,66       |

In the structure of total funds sources (Table 6) at the end of 2013, short-term liabilities have high participation (40,48%), while the participation of capital is slightly

<sup>5</sup> Source: Statistics Office of the Republic of Serbia (2014).

<sup>6</sup> Source: Statistics bulletin of the National Bank of Serbia (2014).

higher (42,13%), with long-term liabilities' share of 17,9%; that is a very unfavourable structure of sources which got worse in comparison to previous year - short-term liabilities are higher when compared to its level in 2012, while the long-term liabilities are reduced by 5,2%. Possibilities for collecting fresh capital are still limited due to underdeveloped capital market, so the enterprises, for its functioning in 2013, were using loans for finance (bank credits). (Serbian Business Registers Agency 2014)

The financial situation of enterprises kept getting worse in 2013. So, according to Serbian Business Registers Agency data, the participation of equity in total funds sources was reduced from 34,3% in 2012, to 33,4% in 2013. That shows that high indebtedness keeps on having a trend of increase. Deterioration of relation between loans and equity is also affecting depressed financial capacities and increased risks in functioning of the enterprises. In 2013, 1 dinar of loaned capital was covered with only 0,58 dinars of equity (in previous year – 0,59).

**Table 6.** Funds sources of enterprises on December 31, 2013<sup>7</sup>

| Description              | <i>(in 000 of dinars)</i> |           |
|--------------------------|---------------------------|-----------|
|                          | Amount                    | Share (%) |
| Capital                  | 5.663.848.869             | 42,13     |
| Long-term reserve        | 116.366.089               | 0,86      |
| Long-term liabilities    | 2.057.108.637             | 15,30     |
| Short-term liabilities   | 5.441.128.009             | 40,48     |
| Deferred tax liabilities | 163.786.060               | 1,23      |
| Total                    | 13.442.237.664            | 100,00    |

The tendencies of selected indicators of enterprises' performance (Table 7), clearly confirm unprofitable functioning and unfavourable financial structure, which was described in the previous part of the text. Although some of the indicators are slightly improving, negative rate of return on equity of enterprises shows that the price of loaned capital still exceeds the return on that capital, as well as the fact that enterprises still do not use loaned capital efficiently.

Doing business with losses and increasing indebtedness of enterprises have been putting a lot of pressure on Serbian economy for years now, causing the reduction of equity's participation in total funds sources which imperils further improvement of enterprises' functioning. At the same time, the trend lasting for several years of low current (liquidity) ratio points out that enterprises, in order to service short-term liabilities, have to get into debts, which consequently leads to further accumulation of liabilities and generating of illiquidity increase.

**Table 7.** Selected indicators of business performance<sup>8</sup>

| Description                       | 2013  | 2012  |
|-----------------------------------|-------|-------|
| 1. Rate of return on assets (ROA) | 0,9 % | 0,4%  |
| 2. Rate of return on equity (ROE) | -0,5% | -1,9% |
| 3. Equity ratio                   | 36,6% | 37,3% |
| 4. Current (liquidity) ratio      | 0,89  | 0,95  |
| 5. Interest coverage ratio        | 1,21  | 0,39  |

<sup>7</sup> Source: Serbian Business Registers Agency, Announcement of the economy results in the Republic of Serbia in 2013.

<sup>8</sup> Source: Serbian Business Registers Agency, Announcement of economy results in the Republic of Serbia in 2013.

The quoted indicators of economy performance in 2013 point out that, in our economy, the basic finance rules are violated, both vertical (relation between equity and loaned capital, relation between long-term and short-term sources), and horizontal (financial balance and stability), which is aspiring to negative cash flows in enterprises, in other words - chronic illiquidity. In such situation, the enterprises' level of financial stability is low, as well as the degree of their autarky and independence in decision making process.

## **ENTREPRENEURSHIP AS A NECESSARY WAY OF DEVELOPMENT**

In compliance with aspirations in the world, both in serbian scientific public and among economic policy creators, entrepreneurship is recognised as one of the key factors for economic growth and as a generator of employment. The government of the Republic of Serbia adopted the Strategy for poverty reduction (2003), in which entrepreneurship development is marked as an important element for Serbia's economic development and poverty reduction, and self-employment and start up are defined as key segments of entrepreneurship development. In the National strategy for sustainable development (2008), development of competitive market economy and balanced economic growth are seen as priorities, where advancement of small and medium enterprises, innovations stimulation and entrepreneurship promotion are among main activities for their accomplishment.

But, besides widely proclaimed support for entrepreneurship, when compared to other countries in transition, Serbia is not so successful in creating new businesses and new jobs. Entrepreneurship is even now, as at the beginning of transition period, facing numerous problems, like: (Union of Employers of Serbia 2013)

- a shortage of favourable funds sources for development of SME and entrepreneurs;
- high costs (fiscal and parafiscal) which decrease competitiveness of goods and services on foreign markets;
- complicated administrative procedures and corruption as barriers for advancement in many areas (constructing business, trade, etc.);
- a lack of quality managers as a consequence of a gap between educational system and the needs of the workforce market;
- low purchasing power of population;
- country's insufficient support for production development;
- high participation of grey economy in GDP.

The importance of production entrepreneurship should be particularly emphasized, because it can contribute to, not only financial stabilization, but also social, maybe even political, because it opens new work places, releases creative energy of innovators, brings back self-confidence and stops brain drain. Because of that, focus should be, as soon as possible, transferred from the field of financial economy onto the "world" of real economy, material production in the first place. (Pokrajac, Dondur, Grbic, and Savanovic 2011)

Entrepreneurship assertion, production in the first place, can be a good start of one new, progressive, creative, challenging and certainly pragmatic transformation and transition of our society towards the world that has been changing, in a similar way, for



a very long time now, or has done that earlier (developed countries, so called First World) and now capitalizes its advantage, this way or another.

According to the study on youth employment and migrations in Serbia (Vladislavljevic, Krsmanovic, Stojanovic, and Azanjac 2010), entrepreneurship is more recognised as a result of push effect, that is a need for work and survival, and not as much as a result of pull effect (identifying business opportunities on market). Young employed people have bad access to business information and much worse, or none, access to resources, including capital, land and real-estate. The programmes of non-refundable help without guarantee for people who want to start their own businesses, are still at a low level of development in Serbia.

Entrepreneurship could be a key factor for desirable changes in Serbia, some of which are: an increase of labour productivity, improvement of goods and services' quality, strengthening of competitiveness, better use of existing capacities, exports increase, higher employment, public and foreign debt reduction, etc. As a matter of fact, only entrepreneurship can bring that desirable dynamics into our economic life, revive self-confidence of people, stop migrations towards abroad, improve the quality of life of all people and, in general, set the new standards of social stratification based on knowledge and productivity. Learning and knowledge can be recognized as real capital which is fructificated quickly and legally.

Enterprises' functioning in Serbia is burdened with extremely high tax liabilities. The fact that taxes and contributions on wages and salaries are 65% represents an important problem, which is destimulating for starting an own business and, consequently, employment. Even though there are different taxes that are established on the level of republic (value added tax, property tax, profit tax) and locally (tax on firm registration, reimbursement for building site), a large part of economy is unfolding without any control of tax officers, in so-called grey economy. Tax system reform is necessary in order to stimulate activities that create added value and business activities in devastated areas, which contributes to the employment of young people and entrepreneurship development. Unfortunately, during the last year or two, stimulations for investing in equipment and insufficiently developed regions were cancelled through changes of profit tax law, and that, alongside with significant increase of property tax, has a very negative impact on investment activity in the country.

Adequate financial support for entrepreneurship implies a wide range of loans that have flexible conditions, which are adjusted to the needs and business activities of entrepreneurs. Besides interest rates height, one of the necessary conditions is harmonization between a credit period and the duration of business cycle or project. For investment loans, like for buying or constructing business premises and equipment, an appropriate grace period is also needed. Bank loans in Serbia are too expensive for starting an entrepreneurial activity, and the financial support of governmental institutions is insufficient (the Fund for development, incentives for self-employment, local authorities). Therefore, a fear of bankruptcy or losing property due to a lack of initial, own capital, is prominent among the young entrepreneurs.

In the process of environment creation, alongside the government which should be a significant factor for stimulus through its departments, institutions and agencies, entrepreneurs associations. Association of small and medium enterprises and entrepreneurs, as well as public and private universities, non-government organizations,

international organizations, must have an important role, in order to build the system, as efficient as possible, for stimulation of the young to start their own businesses.

**Table 8.** Selected indicators for entrepreneurs in Serbia 2012–2013<sup>9</sup>

| Indicator                                    | 2012    | 2013    |
|--|---------|---------|
| Number of entrepreneurs                      | 226.132 | 222.152 |
| Number of employed                           | 207.566 | 203.297 |
| Effectuated turnover (in millions of dinars) | 882.951 | 904.367 |
| Gross added value (in millions of dinars)    | 211.655 | 219.558 |

Data in Table 8 show that the number of entrepreneurs in 2013, was reduced by 1,79% in comparison to 2012, but also a drop of employment of 2,10%, which is alarming considering the fact that the same trend is present in the sector of small and medium enterprises and big companies. Taking into consideration foreign debt height, GDP's structure (almost 2/3 are realized by the sectors that are not interchangeable), foreign trade deficit, as well as negative consequences from surrounding (catastrophic floods, current international situation), it is clear that economic policy creators in Serbia have a difficult assignment of stopping the negative trends in economy, and hence in the field of entrepreneurship development and unemployment reduction.

It is indispensable to include entrepreneurship into the educational system, which will recruit a bigger number of successful entrepreneurs and alleviate coping with development of their own businesses. The education of entrepreneurs has short-term and long-term effects on a society (Arasti, Kiani Falavarjani, and Imanipour 2011), and high education significantly increases prospects to start an entrepreneurial activity because of business chances and ideas, and not due to economic necessity (Grbovic, Zakic, and Vukotic 2013), which is a common case in Serbia, particularly in recent, crisis years.

## CONCLUSION

The basic indicators of economy performance in this period of transition show that the economic policy hasn't given an adequate answer to the problems that our economy faced with at the beginning of transition period, so, after more than ten years of transition, our country is, by many indicators, on the bottom when compared to european countries, with a low living standard of people and high unemployment, extremely small GDP per capita, large foreign debt, etc. Serbia's rank (94th place), according to Global Competitiveness Report for 2014 drawn up by World Economic Forum, is just another proof for that.

Doing business in the zone of high indebtedness and chronic illiquidity leads to further technological lagging and a fall of serbian economy competitiveness on the international level. The enterprises must remove internal weaknesses and maximally use its reserves, because current conditions for getting into debt, especially with domestic banking sector, create extremely unfavourable financial structure of enterprises, which is unsustainable in the long run. New, developmental economic policy should be used to redirect investments into the enterprises whose activities are production and export of the

<sup>9</sup> Source: Statistics Office of the Republic of Serbia (2014).

products which have a higher degree of modification, with an orientation on strategic sectors that will contribute the most to a stable, dynamic and sustainable economic development.

Even though economic policy creators in Serbia often emphasize the importance of entrepreneurship as one of the key factors for economic growth and as a generator of employment, entrepreneurship is even now facing the same problems as at the beginning of the transition period. In the current economic conditions, only entrepreneurship can enable necessary dynamics of economic life, stop migrations towards abroad, improve the quality of life and, in general, set the new standards of social stratification based on knowledge and productivity. Learning and knowledge, particularly in entrepreneurship, can be recognized as a real capital which is fructificated quickly and legally.

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