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FINANCING OF THE SME SECTOR IN SERBIA - OPPORTUNITIES AND LIMITATIONS

Abstract

Small and medium-sized enterprise (SME) sector has become a highly significant segment of the modern economy in both developed and developing countries. This sector is a major creator of new jobs, innovations and technological advancements, earning its place in the development strategies of individual countries and regional associations, including the EU. In its economic policy, the Republic of Serbia assigns considerable importance to this sector to enhance the competitiveness of its economy and to access developed international markets. However, due to their small size, enterprises in this sector face significant challenges, primarily limited opportunities for financing their growth and development. This paper addresses the financing possibilities for the SME sector, exploring options such as commercial bank loans, capital market financing and access to investment loans and credits. The research presents findings based on a sample of 127 small and medium-sized enterprises, focusing on the opportunities and challenges these businesses encounter in securing funding for their operations.

Keywords: *small and medium enterprises, economic growth and development, enterprise financing, competitiveness.*

JEL: G 32

ФИНАНСИРАЊЕ СЕКТОРА МСП У СРБИЈИ - МОГУЋНОСТИ И ОГРАНИЧЕЊА

Апстракт

Сектор малих и средњих предузећа је постао веома значајан сегмент савремене привреде у високо развијеним земљама као и земљама у развоју. Овај сектор је креатор великог броја нових радних места, иновација и

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технолошког напретка па је у добио своје место и у стратегијама развоја појединачних земаља као и регионалних асоцијација, од ЕУ па даље. Република Србија у својој економској политици даје значајно место овом сектору у циљу подизања конкурентности своје привреде и изласку на развијена међународна тржишта. Ипак, због своје мале величине предузећа из овог сектора имају велике тежкоће у свом пословању, а оне се првенствено огледају у ограниченим могућностима финансирања раста и развоја ових предузећа. У том смислу, овај рад се бави питањима могућности финансирања сектора малих и средњих предузећа како путем комерцијалних банкарских кредита, тако и њиховим финансирањем са тржишта капитала или добијањем инвестиционих зајмова и кредита. У раду су приказани резултати истраживања на узорку од 127 предузећа из реда малих и средњих предузећа која се тичу могућности и проблема са којима се овај сектор сусреће у финансирању свог пословања.

Кључне речи: *мала и средња предузећа, привредни раст и развој, финансирање предузећа, конкурентност*

Introduction

For a long time, small and medium-sized enterprise (SME) sector was regarded in economic literature as inferior to large enterprises regarding its contribution to economic growth, productivity and technological advancement. However, the dynamic development of this sector in recent decades has been driven by various social and economic factors, primarily the failure of the corporatist concept, alongside a growing understanding of the problems related to economies of scale and other disadvantages of large enterprises. Practice has shown that the effects of economies of scale are not always as economic theory suggests, that the size of enterprises can have its downsides and that large enterprises are not necessarily more innovative, efficient or socially responsible than SMEs.

Serbia's economic development during the transition period was based on a neoliberal development model and inefficient privatization, which led to negative changes in the economic structure. While certain years witnessed relatively high GDP growth rates, these were primarily driven by service industries closely tied to high import levels, whereas the development of the real economy lagged behind. This pattern of development has resulted in low international competitiveness, high national debt, a negative trade balance, unequal regional development, high unemployment, unfavorable migration trends marked by the emigration of young people and a low standard of living for the population.

In such an economic environment, the performance of small and medium-sized enterprises (SMEs) often hovers on the edge of profitability. This sector typically lacks sufficient internal resources to finance its development, while the conditions for obtaining external funding are highly unfavorable. In Serbia, commercial bank loans dominate as the primary source of external financing, yet the credit terms often fail to meet the needs of SMEs in terms of loan maturity, interest rates, collateral requirements,

currency clauses and similar factors. Government financing is minimal and the country lacks a domestic development bank to support larger investment projects undertaken by enterprises.

The aim of this paper is to explore the financing options available to SMEs in both domestic and international financial markets, to analyze the conditions under which such funding can be secured and to identify the barriers these enterprises face in financing their operations, with the ultimate goal of enhancing their long-term competitiveness in the market.

Global Perspective on Entrepreneurship and SMEs Development

Over the past three decades, entrepreneurial culture has evolved into a global phenomenon, signifying a shift in how economies and societies view and integrate entrepreneurship. This transformation has not been straightforward; the development of entrepreneurship did not always enjoy unanimous support from policymakers, economic leaders or the professional community. The dominant economic governance model of the 1960s, referred to as corporatism, emphasized the necessity of direct and active state involvement in managing economic activities. This model underlined the importance of economies of scale for enhancing national competitiveness and promoted collaboration between “big business” and trade unions in addressing critical economic and social challenges (Paunović, 2021).

Within the corporatist framework, there was little room for the small and medium-sized enterprises (SMEs) sector. SMEs were perceived as technologically inferior to large corporations and, therefore, less significant for economic growth and national wealth creation. Entrepreneurial ventures were often considered remnants of an outdated economy, characterized by obsolete technology, inefficiency and archaic work processes (Marchesnay, 2011).

Development of entrepreneurial culture and entrepreneurial intentions (Ognjenović, 2024) in recent decades has been influenced by various social and economic factors, most notably the failure of the corporatism concept and an increased understanding of the limitations of economies of scale and the drawbacks of large enterprises (Scase, 2000). Practice has shown that the effects of economies of scale may not always align with economic theory. The size of an enterprise can also bring disadvantages and large companies are not necessarily more innovative or socially responsible than smaller businesses.

Additionally, experience has demonstrated that growth rates of large enterprises do not necessarily surpass those of small and medium-sized enterprises (SMEs). Moreover, large enterprises are not the primary creators of new jobs within an economy. Frequent strikes and tensions between employers and trade unions further highlighted the shortcomings of the corporatism model.

On the other hand, the growing awareness of the significance of the SME sector has significantly contributed to the development of entrepreneurial culture. SMEs play a critical role in addressing unemployment, fostering economic growth, diversifying economic structures and solving other economic and social challenges. Their capacity to

adapt quickly, innovate, and provide solutions to local and global needs underscores their importance in modern economies.

In transition economies, the development of small and medium-sized enterprises (SMEs) emerged as a result of privatization processes. These processes allowed state-owned assets to be acquired by private owners, facilitating their reallocation from inefficient state enterprises to a dynamic private sector. This transition has been supported by governments in many countries, which have adopted numerous national SME development strategies over the past decades. Among the most significant documents in this regard on the European continent are the European Charter for Small Enterprises and the Small Business Act.

Various factors driving entrepreneurship can be broadly divided into two main groups (Stoner, Freeman, 1989). The first group includes economic factors, ranging from market incentives to the availability of capital, such as the development of capital markets and their supporting institutions. The second group comprises a wide array of non-economic factors, including cultural values that promote entrepreneurship, general legal and societal frameworks for economic activity, and systemic economic measures and policies aimed at supporting the establishment and growth of new businesses. These factors collectively create an environment that fosters entrepreneurial activity (Matić, et.al. 2023), emphasizing the significance of both financial infrastructure and the broader social and cultural context in supporting SMEs.

Small and medium-sized enterprises (SMEs) play a crucial role in fostering economic progress in a country and society by creating numerous jobs for the community and increasing income in the areas where they operate. This is particularly reliant on the ability to make sound business decisions (Kovjanić, Vukadinović, 2020). The global economic crisis also posed a significant threat to the national economies of many countries, given that SMEs have been the driving force of their economies and the largest absorber of labor over the last decade. For SMEs to achieve a strong competitive edge and sustain growth as science and technology evolve, they must transition to scientifically grounded business strategies.

Diversity of SME sectors is vast and as a result, there is no universally accepted definition. Instead, each country establishes its own criteria for defining and classifying SMEs (Margaretha, Supartika, 2016). While there is no globally unified definition, the most commonly used criteria for identifying SMEs include the number of employees, total sales and total assets (Osei et al., 1993; Teal, 2002; Terziovski, 2010; Abor & Quartey, 2010). This variety in definitions reflects the unique economic structures and development priorities of different regions, underscoring the need for tailored approaches to SME policy and support.

Economic globalization and the internationalization of SMEs represent two key trends in global economic development. The contribution of SMEs to industrialization can be viewed within the context of dynamic environment shaped by globalization (Mutalemwa, 2015). At the beginning of the new millennium, SMEs were heralded as engines of economic growth, incubators of innovation and solutions to unemployment challenges. They are critical for socio-economic development due to their role in creating new jobs, boosting gross domestic product, fostering innovation and promoting entrepreneurship (Karadag, 2017).

Globally oriented SMEs adopt specific tools and methodologies to enhance quality (Zhussipova et al., 2021). Increasingly, attention is directed toward market demands

and customer satisfaction, prioritizing product quality while reducing costs and lead times. Maljugić et al. (2021) emphasize that implementing quality systems in SMEs should not be perceived as a cost but rather as an investment in improvements that yield better results. Often, SMEs require certain transformations, prompted by unresolved longstanding issues, emerging market challenges, or evolving trends in the external environment. Such transformations may encompass changes in company strategies, organizational structure, or business processes. These shifts typically lead to new approaches in business management, employee relations, attitudes and the innovative potential of the company (Litvaj et al., 2023).

Miletić and Ćurčić (2021) emphasize that various factors influence the productivity of different businesses, such as the acquisition of modern technological solutions and equipment, the standardization of business quality, continuous employee skill improvement and investing in the development of domestic brands. With the help of quality standards, businesses can secure additional support. These standards help predict potential mistakes or wrong moves and provide significant benefits in understanding customer desires and identifying market demands. As a result, organizations can focus on making secure and profitable decisions (Tadić et al., 2022). These factors highlight the need for SMEs to adapt continuously to global trends and leverage opportunities for innovation and efficiency to maintain their competitive edge in an interconnected economy.

SMEs are widely spread across the European Union and their numbers are continually increasing. However, “the number of newly established SMEs significantly exceeds the actual growth of the SME population due to the high mortality rate of SMEs, especially among young businesses” (European Commission, 2018). According to Knight (2000), SMEs operate in a hostile, risky and uncertain business environment. Entrepreneurial competencies are an overarching concept that refers to the expertise, skills and attitudes required to create, coordinate, and manage business ventures, as well as the risks involved (Novojen, Birnaz, 2019). Such competencies help entrepreneurs build profitable and sustainable businesses by combining them to gain a competitive advantage (Vu, Nwachukwu, 2021). Entrepreneurial expertise identifies business opportunities, formulates entrepreneurial visions, develops business models, creates business strategies and launches firms (Amini et al., 2021). These insights underscore the importance of developing a robust skill set and knowledge base for entrepreneurs in order to navigate the challenges and complexities of the modern business landscape. By focusing on quality standards, technological advancement, and strategic planning, SMEs can achieve growth and sustainability in competitive environments.

In modern economy, SMEs face significant challenges and threats to their survival in a competitive environment. Disruptive changes, such as those caused by the COVID-19 pandemic, force businesses to develop resilience to unstable conditions if they are to remain competitive. Innovation is a critical driver of business competitiveness and it must be integrated into the organizational structures, procedures, products and services of the company. Moreover, it has been found that innovation mediates the relationship between customer orientation and performance, as well as the connection between interfunctional orientations and performance. Consequently, innovative capability mediates the relationship between access to resources and the sustainability of SMEs, as well as strengthening the links between access to information and the sustainability of SMEs.

The contribution of small and medium-sized enterprises (SMEs) to the economic development of most developing countries is substantial. Providing employment for nearly two-thirds of the working-age population, contributing to state revenues through income/profit taxes and providing earnings in the form of profits, dividends and wages to households are just some of the key indicators that represent the hallmark of SMEs in developing countries (Amoako, 2013). During the COVID-19 pandemic, the main causes of financial difficulties for SMEs were delayed resumption of operations, declining market demand and restrictions in logistics and the movement of people.

This illustrates that SMEs not only contribute to economic stability and growth but also face unique challenges, particularly in times of global crises. The pandemic underscored the vulnerability of SMEs but also highlighted their potential to adapt and innovate in order to maintain their role in the economy. Ensuring their resilience through innovation and strategic adaptation is crucial for their long-term sustainability.

Many factors have been recognized as decisive for the business success of SMEs, most of which relate to internal rather than external conditions of the company (Feindt et al., 2021). Resources that SMEs possess (both tangible and intangible) play a crucial role in creating and managing competitive advantage and achieving superior performance. Unlike large companies, SMEs with limited financial resources and insufficient managerial infrastructure tend to rely less on expensive investments in research and development for innovation activities (Jones, Craven, 2000; Lim, Klobas, 2000; Nootboom, 1993). Therefore, in order to introduce innovations and gain a competitive advantage in the market, SMEs must leverage their internal factors, such as human capital.

In sum, while SMEs face resource constraints, their potential to drive economic growth and contribute to national prosperity cannot be overstated. Their role in job creation and wealth generation, especially in developing economies, positions them as crucial players in fostering economic resilience and innovation.

In developing countries, both public and private sectors recognize the importance of small and medium-sized enterprises (SMEs) for their contribution to economic growth, employment and social collaboration. At the same time, SMEs often face significant challenges. Compared to larger companies, SMEs are less likely to benefit from economies of scale and fewer of them have access to a broad base of resources. Due to the typically low capital levels of SMEs, they are relatively more vulnerable to external events compared to larger firms. This further implies that not only larger enterprises face different risks, but also small and medium-sized businesses, whose survival is more easily threatened due to their smaller pool of both financial and non-financial resources.

Like large organizations, small and medium-sized enterprises also face complex sustainability issues, which arise as a result of factors such as globalization, company size, technological advances, increased market competition, management changes, and limitations in capital financing.

Risk management can assist SME managers in identifying significant risks that could threaten the success or existence of the company in time to address them effectively. A wrong assessment or failure to recognize risks can, in the worst case, have catastrophic consequences, ranging from the loss of customers to environmental harm and possibly even bankruptcy (Hollman & Mohammad-Zadeh, 1984). However, many SMEs do not implement - or do not do so adequately - risk management practices, mainly because they cannot afford to dedicate resources to this due to their limitations.

It seems that SMEs are more focused on internal and short-term planning, while giving less attention to long-term planning. Main challenge for more effective performance management practices lies in the appropriate, balanced use of strategic and operational practices and relevant measures. Therefore, managerial activities such as developing vision, mission, and values, internal and external communication, change management and horizon scanning are recommended areas for improvement (Espinosa-Méndez & Inostroza Correa, 2022).

Small and medium-sized enterprises (SMEs) are undoubtedly important for maintaining strong economic growth; however, a major challenge lies in how to sustain their performance in the long term. Sustainable and consistently high performance reflects healthy performance management practices. For SMEs, adopting advanced management practices in key business processes is crucial for successfully improving their operations and competitiveness (Cagliano et al., 2001). However, it is well-known from the literature that SMEs face difficulties in adopting new and innovative management practices (Cagliano et al., 2001). Therefore, there is a clear need to stimulate the development of management capabilities in SMEs.

Changes in the global business environment have led to the transformation of SMEs towards sustainability, with a focus on cost efficiency. Despite the vast array of information available to SMEs, managers make decisions related to competitiveness based on their own synthesis of available information (asymptomatic information) and their understanding and judgment of the situation (bounded rationality). High-quality information is one of the competitive advantages for SMEs (Xu, 2010).

Sources and Issues of Financing the SME Sector in Serbia

Securing financial resources is one of the biggest challenges faced by SMEs. Most SMEs do not have access to all financing sources and the funds they secure from available financing sources are often obtained under less favorable conditions than those applied to larger enterprises. This is primarily due to the higher financing risk associated with these businesses compared to the risks faced by financiers of larger companies. In this sense, SME sector often finds itself in a kind of vicious circle of financing — under-capitalization is one of the most common causes of their high failure rates. High failure rates of small businesses increase the financing risk, which is why financial organizations approach lending and investing in these companies with caution (Paunović, 2021).

The process of globalization forces businesses from all sectors, regardless of their size or developmental stage, to adopt business practices imposed by leading multinational companies. In the international business environment, financial management is significantly more complex due to the influence of the following factors (Besley, Brigham, 2015): different currency denominations, differences in economic and legal environments, language and cultural differences, government roles, and political risks. Business decisions are harder to adapt or change when the rules, regulations, and business cultures differ significantly from one business environment to another.

Opportunities for securing financial resources for SMEs are in sharp contrast to the needs these businesses have for such resources. Without financial capital, even the best business ideas cannot be realized, nor can potentially the most dynamic enterprises

achieve growth and development. Mismatch between businesses with good business prospects and their inability to finance them due to a lack of financial resources is called the financial gap. There are two types of financial gaps: the soft financial gap, which occurs when companies impose their own restrictions on spending financial resources and the hard financial gap, which results from a mismatch in the supply and demand for financial resources.

Financial management is a business function that involves acquiring financial resources and allocating them to uses that most effectively achieve company's goals. Additionally, the function of financial management creates and distributes information about the company's financial activities. The goal of financial management is to maximize the profitability of business investments while maintaining an adequate level of current liquidity. Essentially, financial management should provide answers to the following three questions (Solomon, 1963): a) What should total investments in the company be? b) What should the structure of investments be? c) How should investments in the company be financed, i.e., what should the financial structure of the company be?

The limited capacity of SMEs to generate cash flow from operations, difficulties in securing credit to maintain liquidity, a less favorable position in the procurement market and shorter payment terms to suppliers are some of the reasons why cash flow management is of greater importance for SMEs than for larger enterprises. For the vast majority of small firms, capital markets and financial markets are inaccessible, imperfect or unorganized. The usual relationship between risk and return, established in perfect capital markets (where higher returns compensate for accepting higher risks, and vice versa), does not necessarily apply in small firms.

Standard indicators of liquidity, financial structure, and profitability can be unreliable indicators of the financial situation of small firms due to the lower reliability of accounting data on which these indicators are calculated. The lower reliability of accounting data in small firms is a consequence of the reduced level of social control over their operations compared to larger companies, particularly those whose shares are listed on the stock exchange (Pety, 1994). The actual value of small firms often depends on elements of intangible assets and human capital, whose value cannot be adequately expressed in the company's balance sheets. Additionally, many SMEs are not required to audit their financial statements, which further contributes to the lower reliability of their data.

Financial resources of a company can be either own or borrowed. Own funds are resources that the company permanently uses and is not obliged to repay to investors. Through invested funds, investors acquire ownership rights, the most significant of which are the right to manage and the right to participate in the profits earned by the company. Borrowed funds are resources that the company must repay to lenders within a certain period, including interest. These funds are obtained through debt financing, i.e., financing from credit sources. The obligation to pay interest is a particularly significant issue for SMEs, as creditors perceive them as risky borrowers. As a result, the cost of credit for SMEs includes a risk premium, leading to higher interest rates compared to larger companies.

Depending on whether they originate from sources formed within the company or external sources, a company's financial resources are divided into internal and external sources of financing. Internal sources of financing for a company can include: profit, asset

sales, reduction of working capital, extension of deferred payment terms and shortening of receivables collection periods (Hisrich, Peters, 1998). The second general group of financial resources for a company consists of external sources, including funds from founders, family and friends, commercial banks, private investors, government funds and others.

Of all credit resources, the most significant for financing SMEs are loans from commercial banks. In order for commercial banks to approve a loan to the SME sector, it is necessary for companies to provide a guarantee that they will repay the loan under the agreed terms. These guarantees can be in the form of business assets (land, business buildings, equipment, inventory, receivables, etc.) or personal assets of the owner. In addition, guarantees can be financial, where another financial organization (such as a bank, guarantee fund, etc.) guarantees the lender the repayment of the loan if the company itself is unable to repay it.

Commercial banks approve a wide variety of loans to businesses, which differ in terms of repayment period, purpose, collateral, approval conditions and other factors. Banks are primarily short-term capital lenders to businesses, although they also play a significant role in meeting medium-term and long-term financing needs of companies. Medium-term or long-term loans are granted by banks for periods longer than one year, intended for financing fixed assets such as equipment, real estate and other investments. These loans are repaid in multiple installments, either monthly or quarterly. They may also include a grace period or repayment moratorium, especially if the loan amount is large (Paunović, Zipovski, 2022).

Issuing bonds is one of the possible ways for SMEs to secure financing. Similar to issuing shares through an initial public offering (IPO), issuing bonds for SMEs is not feasible for many businesses due to high issuance costs, complex procedures and the market reputation that the issuer must have. Bonds can be placed privately, directly to financial organizations such as banks, insurance companies, etc., or they can be sold to the broader public through specialized intermediaries. There are various types of bonds, including secured and unsecured, with fixed or variable interest rates.

To address the issue of financing due to the lack of collateral that SMEs can offer, guarantee funds have been established. Guarantee funds are organizations that, by providing guarantees to creditors (banks and other financial organizations) that the loans will be repaid, facilitate SMEs' access to credit sources and enable financing under more favorable conditions. For a guarantee fund to function successfully, a number of prerequisites must be met. Most important external success factors for a guarantee fund include the existence of good projects, significant experience of lenders in evaluating credit applications, the demand for loans and other factors.

Financial market is the most important element of the financial system for financing the economy and businesses. Financial system in Serbia is highly bank-centric, as banks play the leading role in the growth of the Serbian financial system. Due to the shallowness of the capital market, companies primarily use bank loans as their main external source of financing. The bond market and other debt securities markets are virtually nonexistent. It is crucial for the financial market to be liquid in order to positively influence the potential for external financing of companies that plan to operate as publicly traded corporations. The strategic goal of the financial market in Serbia is to enable its capacity to finance the corporate sector, which is the main driver of economic growth.

The stock exchange is the organizer of the capital market, i.e., a place where securities of companies are traded. It is a place where companies need to secure additional financing, which is its most important function. The Belgrade Stock Exchange is still in transition, as it mainly trades shares from privatization processes and has not yet reached a level where domestic companies can raise capital, providing alternative sources of financing. Capital owners in Serbia who do not wish to save in banks invest in securities outside the country, which puts their savings directly into the growth and development of foreign companies and foreign capital markets. Without a developed capital market, it is impossible to achieve above-average economic growth rates or GDP growth. Domestic stock exchange is completely marginalized and lacks support from domestic economic policy makers.

For the long-term and sustainable development of the small and medium-sized enterprises (SMEs) sector, investment loans are necessary, provided under favorable conditions in terms of repayment terms, interest rates and lower associated costs such as collateral requirements, property mortgages, fixed fees for loan approval, unfavorable currency clauses, etc.

Investment loans for the SME sector make up a very small portion of the total loans provided by commercial banks. Although these loans are granted for long-term periods, they contain numerous unfavorable conditions for these enterprises. These loans are primarily indexed in euros, with interest rates being variable and tied to the movement of three-month, six-month or twelve-month Euribor, plus the bank's margin. As a result, the interest rates that our enterprises pay are much higher than those paid by businesses in neighboring countries, particularly those in EU member states, and thus, their business performance is burdened by high financial expenses and unfavorable cash flows.

In order to obtain investment loans, enterprises must meet numerous requirements, such as having a certain period of operation in their core business, achieving positive financial results over the previous years, and having the business owner be below a certain age, among others. Enterprises face various types of costs related to loan approval, including property insurance and the assignment of the insurance policy to the bank's benefit, property valuation fees, costs of obtaining credit bureau reports, one-time loan approval fees that can reach up to 1% of the approved amount and various other administrative costs.

Furthermore, grace period for loan repayment is not adapted to the specific needs and characteristics of the enterprise's activity. All of this indicates that, in the current conditions, small and medium-sized enterprise (SME) sector in Serbia cannot realistically rely on significant amounts of investment loans, which are necessary for the growth and development of their business, expansion of operations, introduction of new products and technologies and entry into international markets.

In the Republic of Serbia, financing and support for the SME sector primarily takes place through the banking sector, as well as through government institutions such as the Ministry of Economy, Development Fund and other administrative institutions at the provincial and local levels, such as regional development agencies, science and technology parks, business incubators, startup and smart city centers and others.

Ministry of Economy launched the Entrepreneurship Portal in 2018, in collaboration with the economy and international partners. The portal provides up-to-date information on various programs, including financial support for investment in SMEs,

business improvement, export support, business startup assistance, new employment, as well as non-financial support in the form of free advisory services. For example, in 2024, the Ministry of Economy is implementing 10 support programs for SMEs and entrepreneurship, through which it will allocate 2 billion dinars in non-refundable grants to domestic businesses and carry out projects worth over 4 billion dinars (<https://www.privreda.gov.rs>).

Among the Ministry's programs is the Equipment Procurement Program, in collaboration with banks and leasing companies, which provides 50% in non-refundable grants, 5% from the enterprise's own contribution and 45% as a loan from the bank/leasing company. Other significant programs include the Development Opportunity Program—a line for the manufacturing industry in collaboration with Post Savings Bank, a line for the development of women and single-parent entrepreneurship, support for business startups and support for businesses in Kosovo and Metohija, among others.

Development Fund, among other things, provides investment loans for micro, small, medium, and large legal entities, for financing the procurement of equipment, machinery, plants, or the construction or purchase of production or business premises. These loans have an interest rate of 1,5% annually if secured by a business bank guarantee, and 2,5% annually otherwise. The repayment period is up to 10 years, with a grace period of up to 1 year, and repayment is either monthly or quarterly. In addition to these loans, the Fund also approves loans for startups and youth, loans for women's entrepreneurship and loans for hunting, fishing, production of wine, beer and strong alcoholic beverages (<https://fondzarazvoj.co.rs>).

Methodology

For the purposes of this paper, a primary survey was created to examine certain financial aspects of the operations of small and medium-sized enterprises (SMEs), related to the availability of financing sources from the capital market, the possibilities of obtaining investment loans for the SME sector, as well as bank loans for their growth and development and enhancement of competitiveness, both on domestic and international markets. In line with the above, the following hypotheses were formulated:

H1. The SME sector lacks access to financing sources from the capital market.

H2. Investment loans are insufficient for the growth and development of SMEs.

H3. Bank loans are unfavorable for the growth and development of SMEs.

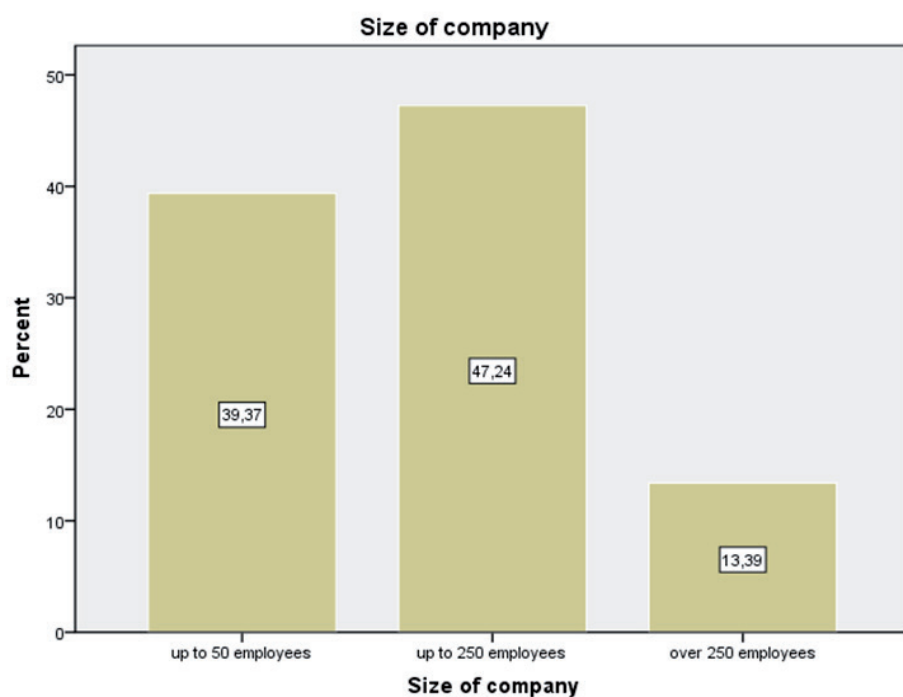
The data was collected using a survey method using Google Forms. The research sample is a non-random sample, a purposive sample of employees in small and medium-sized enterprises on the territory of the Republic of Serbia. The pilot survey included 25 respondents. After the analysis of the pilot research (which involved checking the content validity of all aspects measured in this research), the final version of the survey was compiled and the research was conducted on a new group of 127 respondents (n=127). Time of data collection from March 2024 to June 2024.

Open-ended questions where respondents were supposed to write their attitude/opinion, expectations will be handled qualitatively. Closed-ended questions in the questionnaire from the point of view of measurement are scale, ordinal and nominal. Attitudes and opinions were rated by the interviewees on a scale from 1 to 5, where 1

is I don't agree at all, and 5 is I totally agree. In order to obtain answers to the research questions, measures of central tendency, measures of dispersion, measures of symmetry and correlation analysis were calculated. Nonparametric techniques were used for hypothesis testing.

Research results

The research results are based on the survey "Financing Conditions for SMEs in the Economy of the Republic of Serbia." The survey involved 127 SMEs from four regions in the Republic of Serbia, with the following distribution: 39.37% of companies had up to 50 employees, 47.24% had up to 250 employees, and 13.39% had over 250 employees.

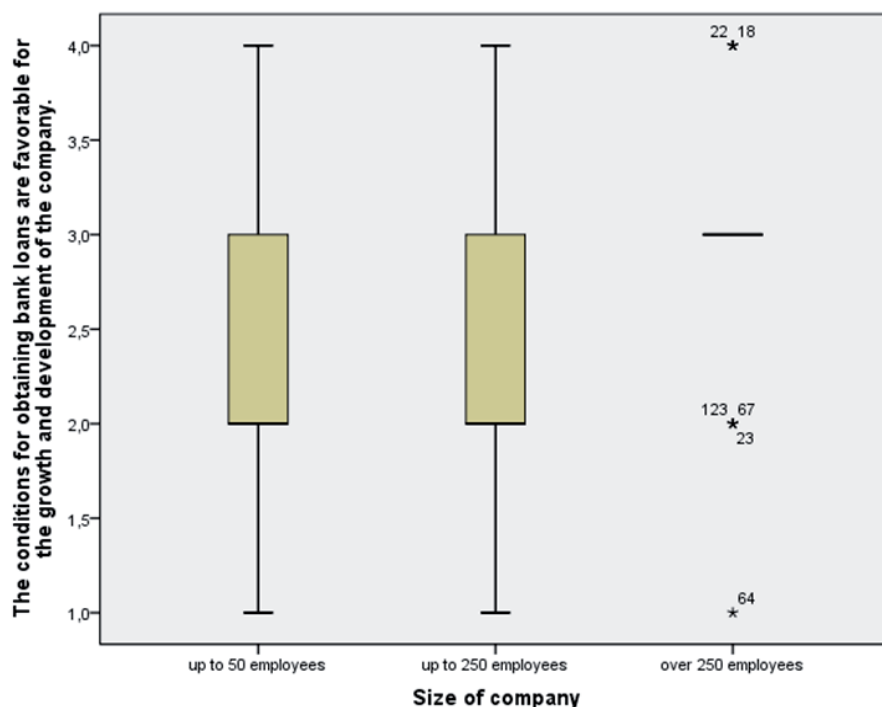


Graph 1. Structure of companies by size

Source: Authors' calculation

The conditions for obtaining bank loans favorable for business growth and development were rated by companies with a low average score of 2.30. The median score is 2, indicating that 50% of businesses rated the conditions as 2 or 1. The mode, or most frequent score, is also 2, highlighting this as the typical rating. The coefficient of variation is 33.91%, which indicates moderate variability in the responses. Additionally, the data shows a slight positive skewness (Skewness = 0.235), suggesting that a small proportion of businesses rated the conditions slightly higher than the majority.

The Kruskal-Wallis Test revealed a statistically significant difference in the perceived favorability and conditions for obtaining bank loans based on the size of the companies (Gp1, n = 50: Up to 50 employees; Gp2, n = 60: Up to 250 employees; Gp3, n = 17: Over 250 employees), $\chi^2(2, n = 127) = 11.433$, $p = 0.003$. The results indicate that companies with Over 250 employees rated the conditions for obtaining bank loans as most favorable for business growth and development, as reflected by their highest mean rank.



Graph 2. Conditions for obtaining bank loans in relation to the size of the company
Source: Authors' calculation

When analyzing the favorability and availability of bank loans for business growth and development only between companies with Up to 50 employees and Up to 250 employees, the Mann-Whitney U test did not identify a statistically significant difference in their assessments.

Regarding the availability of financing sources for SMEs from the capital market, companies rated it very poorly, with an average score of 1.73. Both the Median and Mode are 2, indicating that the majority of responses are clustered around this low value. The coefficient of variation is 39.54%, showing moderate variability in responses. The data also exhibits a moderate positive skewness (Skewness = 0.549), meaning that a small number of companies gave slightly higher ratings compared to the majority.

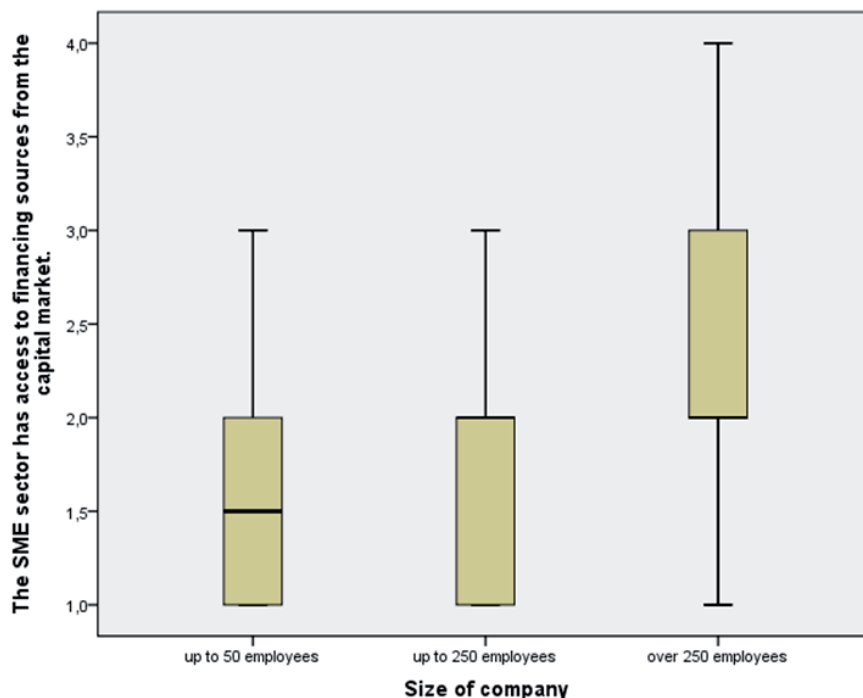
The 1.5*IQR range is from 1 to 3, with a single outlier value of 4, reflecting the overall perception that access to capital market funding is very limited for SMEs.



Graph 3. Availability of financing sources from the capital market
Source: Authors' calculation

The Kruskal-Wallis Test revealed a statistically significant difference in the perceived availability of financing sources from the capital market based on the size of the companies (Gp1, $n = 50$: Up to 50 employees; Gp2, $n = 60$: Up to 250 employees; Gp3, $n = 17$: Over 250 employees), $\chi^2(2, n = 127) = 13.006$, $p = 0.001$. The results indicate that companies with Over 250 employees rated the availability of financing sources from the capital market most favorably, as reflected by their highest mean rank.

From Graph 4, it is evident that the $1.5 \times \text{IQR}$ range for companies with Up to 50 employees and Up to 250 employees spans from 1 to 3. However, for companies with Over 250 employees, the range is broader, from 1 to 4, suggesting a slightly more favorable perception of capital market financing among larger companies. When considering the availability of financing sources from the capital market for companies with Up to 50 employees and Up to 250 employees only, the Mann-Whitney U test did not detect a statistically significant difference in the assessments. However, companies with Up to 250 employees had a slightly higher Mean Rank, which is also evident from Graph 4.



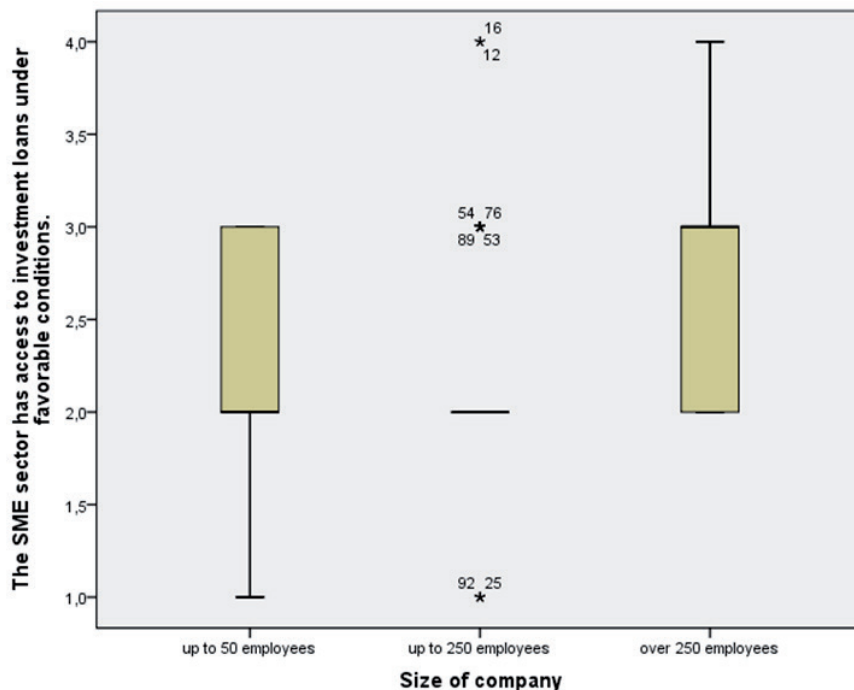
Graph 4. Availability of financing sources from the capital market by company size
Source: Authors' calculation

Regarding the availability of foreign financing sources, companies gave an average score of 2.31. The Median and Mode are both 2, and the coefficient of variation is 29.13%, indicating relatively low variability. The variable demonstrates a very strong positive skewness (Skewness = 1.229), meaning that only a small proportion of companies perceive foreign financing sources as more accessible. The Kruskal-Wallis Test did not reveal a statistically significant difference in the perception of foreign financing availability based on company size. This suggests that companies of all sizes in Serbia face challenges with the lack of access to foreign financing sources.

As for the availability of investment loans under adequate conditions, companies rated it with an average score of 2.27, with Median and Mode also at 2. The coefficient of variation is 29.60%, again indicating relatively low variability. The variable exhibits moderate positive skewness (Skewness = 0.422), reflecting that only a minority of companies view investment loans as more readily available under acceptable terms. These findings highlight ongoing difficulties across company sizes in obtaining adequate financial support.

The Kruskal-Wallis Test identified a statistically significant difference in the assessment of the availability of investment loans under adequate conditions by company size (Gp1, $n=50$: Up to 50 employees, Gp2, $n=60$: Up to 250 employees, and Gp3, $n=17$: Over 250 employees), $\chi^2(2, n=127)=6.593, p=0.037$ $\chi^2(2, n=127)=6.593, p=0.037$. Companies with Over 250 employees rated the availability

of investment loans under adequate conditions most favorably, having the highest Mean Rank.

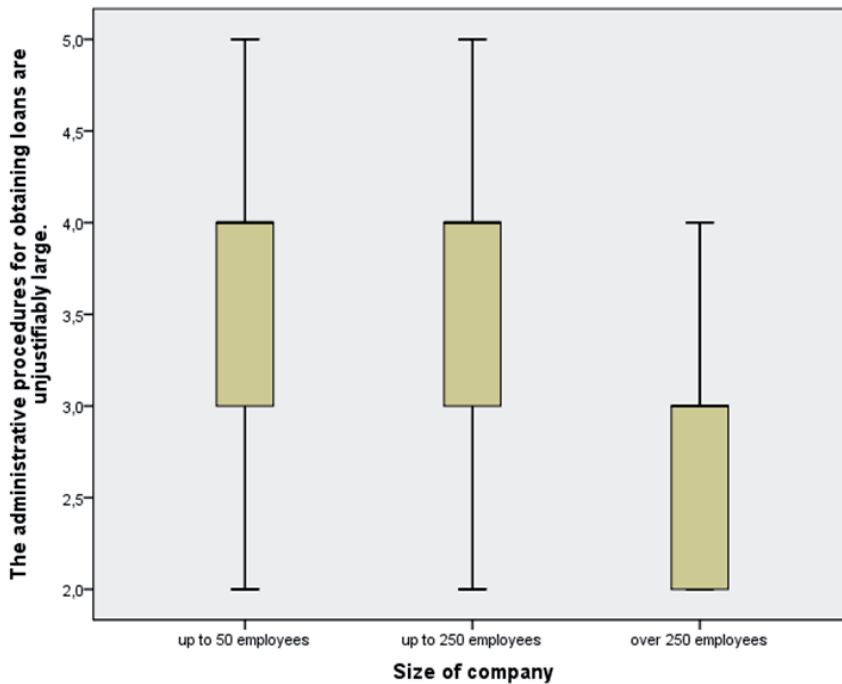


Graph 5. Availability of investment loans under adequate conditions for the size of the company
Source: Authors' calculation

The analysis of the favorability of administrative procedures in the loan application process shows a relatively higher average score compared to previously examined variables (mean = 3.57). The median and mode are 4, the coefficient of variation is 19.52% (indicating relatively low variability), and the variable exhibits a strong negative skewness (Skewness = -0.743), meaning that most respondents gave high ratings.

The Kruskal-Wallis Test revealed a statistically significant difference in the assessment of administrative procedure favorability during the loan process by company size (Gp1, $n=50$: Up to 50 employees, Gp2, $n=60$: Up to 250 employees, and Gp3, $n=17$: Over 250 employees), $\chi^2(2, n=127)=15.701, p<0.001$; $\chi^2(2, n=127)=15.701, p<0.001$.

Interestingly, smaller companies (Up to 50 employees and Up to 250 employees) rated administrative procedures more favorably (higher Mean Rank) compared to larger companies (Over 250 employees). This finding suggests that larger companies perceive the bank loan administrative procedures as more complex and less favorable, potentially due to stricter regulatory scrutiny or more extensive documentation requirements associated with larger loan amounts or complex financing structures.



Graph 6. Favorability of administrative procedures in the process of obtaining loans according to the size of the company

Source: Authors' calculation

From Table 1, it can be observed that a significant linear correlation exists only between the variables: The SME sector has access to foreign sources of financing and The SME sector has access to investment loans under favorable conditions.

Table: 1 Correlations

	1	2	3	4	5
1.The conditions for obtaining bank loans are favorable for the growth and development of the company.	-				
2.The SME sector has access to financing sources from the capital market.	,271**	-			
3.The SME sector has access to foreign sources of financing.	,353**	,491**	-		
4.The SME sector has access to investment loans under favorable conditions.	,300**	,485**	,677**	-	
5.The administrative procedures for obtaining loans are unjustifiably large.	-,300**	-,162	-,324**	-,157	-

**.. Correlation is significant at the 0.01 level (2-tailed)

Source: Authors' calculation

Conclusion

The research in this paper has shown that the SME sector in Serbia faces significant challenges when external sources of financing for growth and development are required. Primarily, bank loans, which are the most common form of external financing, are unfavorable due to high interest rates, loan terms, and collateral requirements. This sector often lacks sufficient business assets to pledge for obtaining credit funds to finance its needs. While government institutions provide some support for financing, it is limited and mostly intended for the initial stages of business operations. Later on, businesses are left entirely at the mercy of market conditions. Enterprises that employ more than 250 people have a slightly better position in the banking sector, as they possess larger assets that can serve as collateral for loan repayment.

In order to obtain investment loans, numerous prerequisites must be met by the company and they face various costs associated with loan approval, such as property insurance and the pledge of the insurance policy in favor of the bank, real estate valuation, costs for obtaining a credit bureau report, one-time fees for loan approval and other administrative costs. Furthermore, the grace period for loan repayment is not tailored to the specific needs and nature of the business activities the company engages in. All of these factors indicate that, under current conditions, SME sector cannot seriously rely on significant amounts of investment loans, which are essential for expanding operations, introducing new products and technologies and entering international markets.

Financial market is the most important element of the financial system for financing the economy and businesses. The financial system in Serbia is highly bank-centric, as banks play the leading role in the growth of Serbia's financial system. Due to the shallowness of the capital market, businesses rely on bank loans as the primary external source of financing. The bond market and other debt securities virtually do not exist. The Belgrade Stock Exchange is still in transition, as it mainly deals with stocks from the privatization process and has not managed to rise to a level where domestic companies can raise capital, thereby securing alternative sources of financing. Without a developed capital market, it is impossible to achieve above-average economic growth rates or a higher gross domestic product. The domestic stock exchange is completely marginalized and lacks support from local economic policymakers.

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