STRENGTHENING SME COMPETITIVENESS THROUGH FINANCIAL SUPPORT

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ABSTRACT

Serbian SMEs after 2000 experienced high growth rate and become an important economic subject. During the economic crisis SMEs faced with severe problems. With economic recovery from 2015 on SMEs again have positive business demography. If look in SME's business performances one cannot be satisfied. SMEs have experienced low level of profitability and competitiveness. Low efficiency, namely low gross value added, GVA made no room for savings and investments into development. The share of gross savings and investments into gross domestic product, GDP has for long time been less than 1/5. Thanking to high and increasing foreign direct investments total investments are on the level that made room for increase in rate of growth. The average rate of growth, 2-3% p.y. is insufficient to catch up other transitory economies. External sources of financing SMEs are limited and the discrepancy between demand for financial sources and supply is more than one billion euros. The difficult access to finance by SMEs can be explained by biased approach of banks toward large companies, problem of bank's non - performing loans, high interest rates and high requirements of banks.

The paper examines low efficiency of SMEs, especially problem of access to finance and try to recommend measures to overcome them.

Keywords: transition, SME, entrepreneurship

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INTRODUCTION

Last five years Serbian economy recovered after six years of stagnation. The most severe economic problems, the budget deficit and foreign debt, were put under control, and macroeconomic stability was achieved. Transition process continued. Along with economic recovery SMEs have fast growth rate with a positive business demography.

In the period 2001-2008 investments volume grew, but during the crisis investments activities were mostly hampered, and are still below the level before the crisis. Total savings and investments are below 1/5 of the Gross Domestic Product, GDP. This is partially overcome by Foreign Direct Investments, FDI inflow between 2-3 billion euros p.y. Investments per company and per employee are also low and the structure of investments is not favourable. The efficiency of investments is low and SMEs are well behind large companies.

SMEs are facing with limits of growth, as follows: non finished market reforms, too high fiscal duties, difficult access to finance. Higher rate of economic growth asks for fastening SMEs growth and development.

RECENT TRENDS IN SMES DEVELOPMENT AND THEIR COMPETITIVENESS

Serbian SME became an important economic subject, due to the fast growth and development during the first phase of transition (GDP growth rate 2001-2008 was 5.4%). It was due to fast growth, economic reforms, favourable business environment and supportive measures. SMEs form 99.9 % out of total economic agents by number (360 thousand entities), engage 44% of total employees and created 1/3 of total Gross Value Added, GVA and 28% of total Gross Domestic product, GDP [1].

During the economic crisis the number of new established companies and shops declined, while the number of closed increased. Small and micro companies and shops were mostly hampered. A negative trend of decreasing total number of economic subjects occurred, with maximum in 2011. With economic recovery from 2015 the number of new established companies and shops became again higher than the number of closed, with a tendency of increasing the difference.

In spite of fast growth and development SME didn't improve their efficiency. The number of employees per company is still too small and also the number of fast development companies. During the crisis due to decreasing number of employees, the overall efficiency was improved. SME are oriented toward domestic market mainly.

Comparing figures in 2012 and 2016 the growth was the fastest among small and micro companies – 1,5 p.p. p.y. The growth in GVA per employee is slow, as it increased 2.4% only and reached 13.856€ in non - financial sector, out of which 11.8856 € in SMEs. It says that efficiency is lower for 14% in comparison to the average, or 33% in comparison to large companies [1] The low level of productivity firstly, cannot open enough room for investments and secondly, it points low level of the competitiveness.

The average employment per SME in Serbia is 2.5 while in EU is 4. The productivity is lower 3.7 times than in EU, and it is higher in comparison to Bulgarian SMEs only [1].

World Bank Doing Business Report [2] ranked Serbia as the 48th. It is better placed than majority of neighbouring countries, except North Macedonia and Slovenia. The main reform steps were related to construction permit, the cadastre of immovable, while administration of foreign trade was at the same level [2].

Innovation Report labelled Serbia together with 17 countries as a “modest innovator” [3]. Serbia was ranked as the 55th. Its Innovation Index is 0.33, while the EU average is 0.5 and it is better placed than Bosnia and Herzegovina and Albania, only [3].

INVESTMENT ACTIVITY

Investment activity until 2008 grew fast [4]. Investment activity, although increased during the economic recovery, is still under the level before the crisis. The share of aggregate saving and investments in GDP is under 20% only, and compensated by foreign direct investments, FDI in recent years [5]. The volume of investments per employee is low in comparison to other transitory economies. The structure of investments is not favourable and the efficiency of investments is not favourable [1].

There are several factors behind low investments activity: low level of the macroeconomic stability, the lack of supportive measures for increase in savings, poor structure of financial system and under developed financial market.

Low volume of investments is the most serious limit for growth and development, restructuring and strengthening competitiveness. The sole economic subjects who succeed to recover investments to the level before the crisis were large companies and sole entrepreneurs (Graph 1).

Graph 1, Serbia, Investments 2008=100

Source: Republican Statistical Office

Investments per employees is increasing for large and medium scale companies and entrepreneurs, but not for small and micro companies (Graph 2).

Graph 2, Serbia, Investments per employee (thousand RSD)

Source: Republican Statistical Office

Low share of investments in the gross value added, GVA (under 30%), means that the productive capacity of domestic firms is modest to make room for development. In recent years the share of investments in GVA for large companies was stable around 30% and for SMEs still under 30%.

Low level of domestic savings is partially compensated with high volume of FDI, 2-3 billion € per year. However firstly, the Government subsidies foreign investors and secondly, foreign investments policy is not adequate, as those investments are mainly based on the low technological level and oriented toward domestic market [6].

Large companies only had investments per company more than 4 million €, while SMEs 7.6 thousand € per company (Table 1). Investments per employee are low. It is additionally proved by data related to the share of investments in turnover and the share of investments in GVA.

Graph 3, Serbia, Investments/GVA (%)

Source: Republican Statistical Office

Table 1. Serbia, Investment Ratios (€, %)

	Entrepreneurs	Micro	Small	Medium	SME	Large
Invest./company €	2.776	3.157	4.976	509.214	7.652	4.083.404
Inv./employee €	2.735	1.677	2.487	4.975	3.099	4.818
Inv./turnover %	7,5	2,3	3,2	6,3	4,8	7,6
Invest./ GVA %	29,9	17,9	19,5	36,3	27,4	30,3

Source: Republican Statistical Office

The marginal capital coefficient was decreasing during last several years, which points that for each dinar of the increase in GVA is necessary to invest more and more.

Table 2. Serbia, The Structure of Investments (2016, million RSD)

	Total	Construction	Equipment	Rest
Total	617.966	245.640	314.042	58.284
Entrepreneurs	97.502	42.315	46.719	8.468
Micro	33.313	11.021	19.262	3.030
Small	55.929	18.391	32.181	5.357
Medium	145.179	74.362	62.240	8.577
SME	331.924	146.089	160.402	25.432
Large	286.043	99.550	153.640	32.853

Source: Republican Statistical Office

The structure of investments is not favourable (Table 2). The share of investments into equipment in total investments was 48% and even 44% for investments into immovable. The worst structure was recognised for medium scale companies.

SOURCES FOR FINANCING

Entrepreneurs point the lack of financial sources available as the most important limit for their starts and business development [11]. Entrepreneurs are not welcomed in banks, because of serious drawbacks, like: low financial results, lack of knowledge for business plan creation and short period of operation [7]. So, entrepreneurs are oriented to their own, family source for financing. Serbian financial systems is of banco-centric character, where banks offer more than 90% of total financial services [12]. There are no developed micro financing institutions, business angels, etc. [8]

For banks additional problem was high level of non-performing loans, NPLs more than 20% of total portfolio for years. Banking sector has experienced a credit boom before the crisis and after credit activity almost halted, as foreign sources almost disappeared [13] [9]. Demand for finances is still pretty higher than its supply, which is assessed to more than 1 billion € (Table 4) [10].

Table 3. Serbia, Potential financial gap (million €)

	Potential demand	Supply assessed	Financial gap
Short term	429-474	196-217	233-257
Medium term	1.293-1.904	589-651	705-779
Total	1.722-1.904	785-668	938-1.036

Source: [10]

STRENGTHENING INVESTMENT ACTIVITY OF SMES

The economic recovery fostering SME-s dynamism and development. It is necessary to push up the rate of growth by supporting companies whose rate of growth and development is fast.

The main limits for investments growth [14,15] can be overcome with adequate measures of macro-economic and development policies. There are still not restructured banks. The strengthening concentration of the banking sector is also important, as well as, to disperse structure of financial system [14].

Supporting entrepreneurial initiative is possible by quantitative supportive measures, with an aim to reach the critical number of SMEs and by qualitative measures, by which SMES would become more profitable and more competitive [16].

Regarding savings and investments, the aim is to push up the share of investments into GDP to $\frac{1}{4}$, by measures: putting down tax and other related duties mainly on the production and savings and to strengthen domestic savings; halting FDI subsidization and canalizing FDI to the production with higher technological level and better involvement of domestic suppliers [17].

It is very important to safe recently reached macroeconomic stability [18]. For better access of entrepreneurs to finances it would be useful to start with creation and development of non - banking financial institutions, like micro-credit institutions, strengthening insurances, leasing, private pension funds, private equity funds and financial market as well [19].

CONCLUSIONS

Serbian SMEs prior to the economic crisis became an important economic subject. During the crisis small and micro companies were mostly hampered. The investments activity went down. During last several years the economic recovery is secured and again the business demography is positive.

In spite of positive trends, one cannot be satisfied with low efficiency and competitiveness of SMEs. Investment activity is also low. It is necessary to secure faster growth and share of investments into GDP.

The analysis pointed that SMEs are inefficient because of: high tax duties, non – finished market reforms and difficult access to finances. SMEs ought to be transformed into more efficient and competitive, making room for higher volume of investments. Macroeconomic measures ought to support fast growing entities. It is also important to secure better access to finance for SMEs, by transformation of financial system into less bank-centric one and by development of financial market.

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