Business Climate for SMEE in Serbia is still not Very Favorable – Is Belgrade an Exception?

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Abstract: During transition, which in Serbia started belatedly, SME developed fast and became an important economic agent owing to their number, their share in GDP formation, and their share in total employment. The global economic crisis and general recession hampered their doing business. The slowdown of market reform was also an important factor in deterioration of the business climate.

Business demography relates to the number of established and closed enterprises and shops, and presents a very important indicator of SME development. In 2010 and 2011 business demography was unfortunately negative as there were more closed companies and shops than established ones. This produced a fall in SME employment and, consequently, a rise in the total unemployment as the SME sector was significant in neutralizing a decline in the number of the employed in large companies undergoing restructuring. It will be important to see whether such an adverse trend continued in 2012 or not.

Over the last several years there have been signs that small companies largely managed to recover owing to their flexibility. Fast growing companies and gazelles have also been pretty resistant to deteriorating circumstances. It will also be important to see if this is still the case.

Entrepreneurs' perception of the business climate is crucial for their plans and activities. Therefore it is relevant to see whether they are optimists or pessimists in their expectations about the future.

Belgrade, as the capital of Serbia, participates in GDP formation with almost 40%; as a university center it represents a source of highly skilled labour and knowledge. One could expect that owing to its comparative advantages Belgrade is able to overcome the crisis more easily. Should this be the case, it is an important positive signal that entire Serbia can expect better results regarding SMEE development soon. It would be interesting to analyze the SME position in Belgrade and this sector's future prospects in order to detect chances for overcoming the crisis.

The aim of the paper is twofold: firstly, to examine the current situation, problems and limitations to SME development, and, secondly, to propose an adequate support policy mix by exemplifying the current situation in Belgrade.

Keywords: SMEE, crisis, business climate, support policy

1 Introduction

Serbia started its market-oriented reforms in late 2000. The changes, among other things, entailed comprehensive macroeconomic restructuring, the opening up to the global market, restructuring of existent companies, and introduction of incentive measures for the development of small and medium-sized enterprises and entrepreneurship (SMEE). Owing to a more favorable business climate and support measures, SME have become an important economic agent. Their share in the total number of companies exceeded 90%. Shares of SME in GDP formation and the overall employment have also become substantial.

The global economic crisis has undermined SME's business performance and spoiled their prospects for a bright future. At the same time, market reform unfortunately lost its momentum. All in all, the result was a poorer business climate for all economic entities including SMEE.

Business demography relates both to the number of newly established and the number of closed enterprises and shops, and, as such, presents an important indicator both for decision makers and analysts. In the transition period business demography was for the first time negative - the number of closed enterprises and shops in 2010 and 2011 was larger than the number of newly established ones. These figures serve as evidence that the business climate in Serbia has been in decline over the last few years. Thus it would be very important to ascertain whether this negative trend continued in 2012 or not, particularly when it comes to assessing employment as the SMEE sector is seen as an important factor in neutralizing rising unemployment brought about by the restructuring of large companies.

It is also important to study the structure of business demography in terms of types of companies. One could imagine that small companies easily and swiftly adjust to altered (worsened) business conditions. In reality small companies did successfully adapt and start to recover in 2010. However, medium-sized companies did not manage to recover, which ruined overall figures relating to the SMEE sector. Finally, it is important to look at the business demography of fast growing enterprises and gazelles as well, given that Serbia modified its measures of support for the SMEE development in an effort to prop up these enterprises in particular, and not all the SME.

The entrepreneurs' perception of the business climate and its outlook is critical to their planning and putting plans into practice. If entrepreneurs are pessimistic, they will leave the business or slow down their activities. Should they be optimistic, they will invest and be more active.

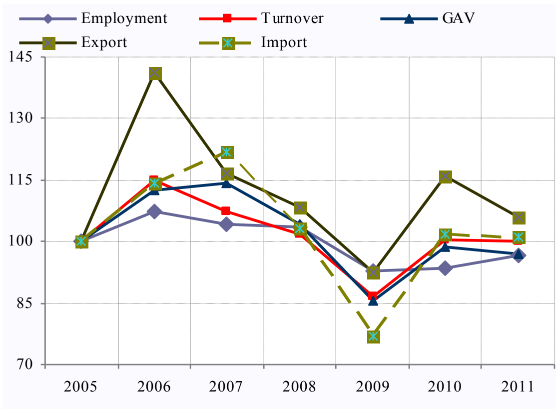
As the capital of Serbia, Belgrade generates 40% of the national GDP. Taking into account a large number of highly skilled people, good infrastructure, and a large market, it seems that the environment for SMEE development in Belgrade is better than average. Thus it would be important to examine the current state-of-affairs with SMEE, since a signal of recovery in Belgrade might be a signal of a forthcoming national recovery. Therefore the main hypothesis of the paper is that the recovery of SMEE in Belgrade has already started.

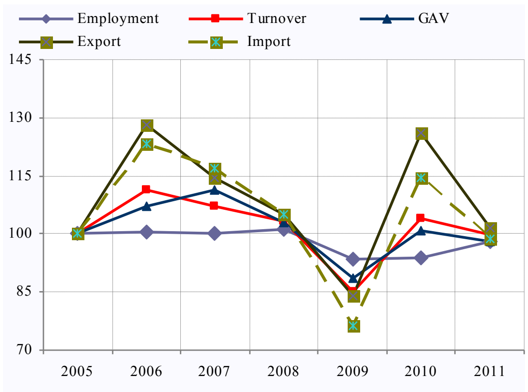
The aim of the paper is twofold: firstly, to study the current situation, problems, and limitations to SMEE development on the national and, particularly, the level of Belgrade and, secondly, to propose an adequate policy mix of support measures for the SMEE development.

2 Some positive signals in business demography

As an integral part of the overall transition process, *development of SME has been fast* over the last decade. *SME have become an important segment of the national economy* taking into account their shares in the total number of economic entities, the total employment, the total turnover of the economy, the total value added, and export and import volumes. Before the outbreak of the economic crisis they had been more dynamic than the average of the non-financial sector. After a downturn registered in 2009 the recovery of SME has been weak due to the global economic recession and worsened economic circumstances that adversely affected the entrepreneurial attitude.

The entrepreneurial sector, still underdeveloped, has no strength to mobilize internal resources and achieve more dynamic growth. Therefore the SMEE sector has not become a leading segment of the national economy. Figure 1 shows that if one compares SMEE performance in 2011 with that of 2005, several achievements will stand out, such as: double the import volume (while the non-financial sector raised its import volume by 65.8%), investments (17.2% and 0.4%, respectively), and a below average decrease in the import volume (of 13.9% and 30.7%, respectively) [1].





SMEE sector Non-financial sector

Figure 1
SMEE indices 2005-2011 (growth % p.a.)
Source: Statistical Office of the RS

By 2009 the rise in employment in the SMEE sector had been rapid enough to offset the rise in unemployment induced by restructuring of large social-owned companies. In crisis years employment decreased in the SMEE sector as well. Compared with 2005, in 2011 the number of the employed was down by 3% or 23,989 workers (14.2% of all the job cuts in the non-financial sector).

In 2011 the share of the SMEE sector in total employment was at 45.1%; it was at 51.7% in total investments, 46.5% in the total export volume, 52.7% in the import volume, while the sector contributed with 33% to GDP formation. It also generated 65.5% of the total turnover of the national economy and 55.2% of the total value added [1].

If one tried to summarize recent trends in SMEE development in 2011, they will be the following: a slight increase in the number of entities, a humble increase in turnover (0.2% real growth), a productivity increase of 0.2% (in medium high-tech of 8.3% and in high-tech of 2.6%), an increase in export (2.9%) and import volumes (6%), the coverage of the import value by the export value of 52.3%, and a higher competitiveness (a real export growth of 9.6%, an export per employee growth of 10.7%, and an increase in the share of export in total turnover of 1 percentage point, to 12.1%) [1]. However, there were negative signals as well, such as: a decelerating trend of establishment of economic entities while their closing got momentum, decreasing employment (3.5%), a fall in gross value added (3.2%) while there were no industrial or regional changes (as for industry, the concentration is still greatest in trade, while regional concentration is still the largest in several urban centers, namely Belgrade, Nis, Novi Sad, and Kragujevac).

Business demography provides useful information on tendencies in the opening and closing of businesses and shops. These data are used for assessing the national SMEE development, the dynamism of new economic agents, and growth of small and medium-sized enterprises.

One of the consequences of the economic crisis and worsened economic climate is that since 2008 the number of newly established shops and businesses has been decreasing while the number of closed ones has been increasing. Before the crisis the number of opened and closed shops had been higher than the number of opened and closed companies. As a seasonal feature, shops and companies used to be established mainly at the beginning of the year, while the closing would take place at the end of the year. However, this seasonal characteristic disappeared after the crisis outbreak.

	No of companies		**No of shops**		**Net effect**	
	Established	**Closed**	**Established**	**Closed**	**Companies**	**Shops**
2007	11,902	2,027	47,951	31,619	5.9	1.5
2008	11,248	3,068	43,375	34,572	3.7	1.3
2009	10,014	3,597	39,365	36,441	2.8	1.1
2010	9,470	9,389	36,337	37,162	1.0	0.9
2011	8,471	13,593	33,070	35,285	0.6	0.9
2012	8,648	7,355	30,200	32,853	1.2	0.9

Table 1
Serbia – the number of newly established and closed SME
Source: Business Register of the RS

In 2010 and 2011 the tendencies of an increasing number of closed entities and a decreasing number of established shops and enterprises got momentum. As can be seen in Table 1, *there are some encouraging signs that in 2012 the trend of a decreasing total number of shops and companies slowed down*. In 2012 compared to the year before the number of newly established companies was up by 2.1%, while the number of closed businesses was down by as much as 45.8%. At the same time, figures relating to newly established and closed shops were falling (-6.3% and -6.9%, respectively). Consequently, the total number of active entities in 2012 was down by 888 than the year before or by 12.5%, with different tendencies registered with companies and shops (the number of companies was up by 1,293, while the total number of shops was down by 2,653). At the end of 2012 there was 323,232 active entities, of which 105,105 companies and 218,127 shops. *In sum, an increasing number of enterprises posed a very important positive signal in 2012.*

Another encouraging fact is that the ratio of the number of established and the number of closed enterprises (net effect) in 2012 was much better than in 2011 (1.2 vs. 0.6). At the same time the net effect for shops remained unchanged (at 0.9). This again serves to show that shops still suffer most.

3 Market reforms and business expectations

In October 2008 the Government of the Republic of Serbia adopted the *Strategy for Regulatory Reform* as a part of the transition process and the process of legal harmonization with legislation of the EU. The main objective of this move was to reduce administrative costs and improve the legal environment for doing business.

Status of recommendation	Number	Estimated cost cut in million €
Implemented	212	**128.5**
In the process	27	**18.4**
Not implemented	65	**36.2**
Canceled	36	
Total	**340**	**183.1**

Table 2

Serbia – the status of recommendations relating to overall legal reform

Source: Office for Legal Reform and Analysis of Effects of the RS

In December 2009 the Government created 340 proposals for amendments to regulations marked as the ones that complicate the business environment. Made on the basis of the Report released by the Office for Legal Reform and Analysis of Effects for the first three quarters of 2012, Table 2 shows that 212 recommendations were implemented and 27 are being implemented [2]. In addition, all these changes to the regulatory system could mean annual savings of 183 million euros for the Serbian economy. *Unfortunately, it has to be noted that the so-called guillotine of surplus laws and by-law regulations was very weak, which further reinforced a widespread notion that market reforms lost their momentum over the last several years*.

In order to establish an analytical basis for defining support measures for SMEE development, around mid-2012 TNS Media Gallup conducted *a survey* funded by the National Agency for Regional Development on a stratus of more than 3,000 entrepreneurs [3]. *The survey focused on business problems, technical and technological as well as financial and market aspects of doing business, the need for non-financial services, the use of innovations and information technologies, and human resources*. Results said a lot about the worsening of business environment and pessimistic expectations of entrepreneurs.

As for market-related aspects, entrepreneurs are mainly national market oriented, which comes as no surprise given that 11% of them are exporters/importers. The target of exporters is the market of former Yugoslav republics, while importers target markets of Italy and Germany. When it comes to the access to the global market, what matters is the size of a company – exporters/importers are mainly medium-sized companies (25% of importers and 26% of exporters), small companies (15% and 16%, respectively), while shops and micro enterprises are oriented predominantly to the national market. When asked about factors of competitiveness on external markets, entrepreneurs ranked them as follows: price and quality (rank 1.9), while least important ones are the brand (rank 4.1) and product design (rank 3.9).

As for the technical and technological aspects of doing business, a half of entrepreneurs operate with equipment that is 5-10 years old. Almost a quarter of surveyed entrepreneurs possess equipment that is more than 10 years old, while a fifth of them possess adequate equipment. Outdated equipment is found mainly in medium-sized companies involved in construction, manufacturing industry, and graphic and medical services, while modern equipment can be found in cosmetic and recreation services, and intellectual services. Despite the difficult circumstances and expensive borrowing, 42% of surveyed entrepreneurs have invested in equipment build-up over the last three years. In the next three years 48% of them plan to invest in business, whereby more funds will go into equipment (56%) and less into real estate (36%). *It is important to note that results in general are less optimistic than the year before* (48% vs. 63%, respectively).

Innovations and the use of IT technologies are two very important factors for enhancing competitiveness on the global market, but they are not widely present. Only 1/5 of surveyed entrepreneurs placed a new product/service or applied an innovative process. Approximately 1/7 of these have some sort of inter-company cooperation in the field of innovations. What encourages, though, is the fact that the majority of these entrepreneurs use PCs, less than 1/2 use PCs for bookkeeping, and around 40% have Internet presentations.

Human resources are essential for the success of SMEE. On average, surveyed companies and shops have 8 employees who possess a secondary school degree and are 38 years old.

Business problems and limits to growth are multiplying. Major problems are related to the lack of financial support (rank 2.5), legal environment (rank 2.5), standardization (3.7), and a lack of market information (3.8). The least worrisome are a dearth of human resources (4) and IT (4.5). *Entrepreneurs are dissatisfied mainly with their tax obligations and procedures, and the work of different inspectorates.*

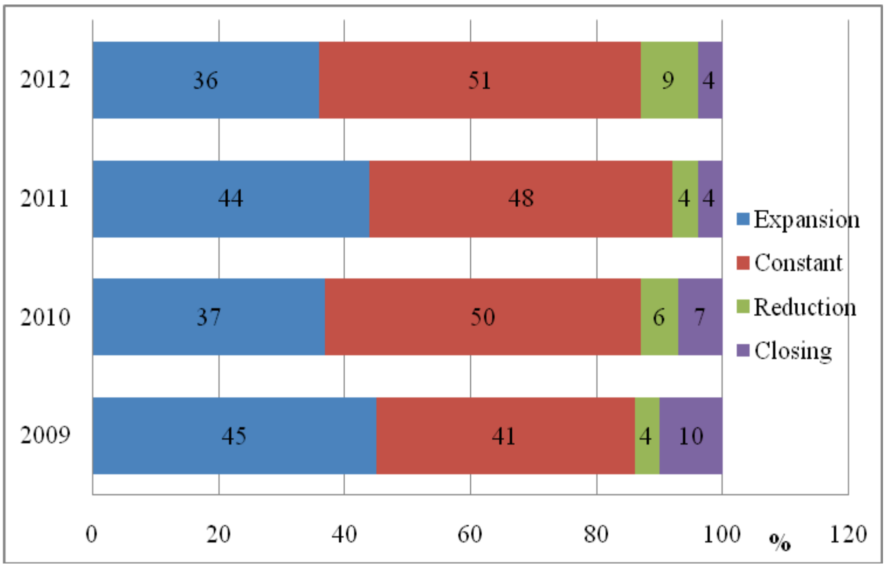


Figure 2

Business plans of entrepreneurs

Source: [2]

As for the impact of the global economic crisis, results look better now. In general, one can conclude that entrepreneurs perceive their problems and limits to growth in rather general terms, linked to exacerbating business climate and weaker SMEE support, and not directly to the crisis. *From Figure 2 it is clear that business pessimism has prevailed: 51% of entrepreneurs do not plan on business* *expansion, 36% of them do, 9% of them have negative plans (reduction), and 4% of them plan to close their business*. There is less optimism and more realism regarding business plans. Entrepreneurs are afraid of a lingering impact of the crisis combined with a deteriorating business climate. *Shops and micro enterprises are faced with most problems.*

4 SMEE development in Belgrade

It will be rather interesting as well as important to consider the level of SMEE development in Belgrade and its trends during the present economic crisis as Belgrade is the administrative and economic center of Serbia. For the purpose of analyzing and testing the starting hypothesis, a particular examination was made in the form of a case study [4].

Not surprisingly, *Belgrade* offers numerous *advantages for SMEE development*. It is the administrative center of the country. Belgrade has a very favorable geostrategic position - it is intersected by the European Corridor Ten, and by the Danube and the Sava. With more than 1.6 million inhabitants, it presents a respectable single market, with higher than average family income. It also boasts a high concentration of educated people and scientific-research institutions, as well as experienced and comparatively well-educated work force. Belgrade has more than 100,000 unemployed people of different educational profiles. Its SME sector is relatively highly developed, at least in terms of numbers – within 100,000 SME there are more than 60,000 companies and 40,000 shops, which altogether employ more than 200,000 people.

As for the business demography, Belgrade has better adapted to worsened business conditions during the global economic crisis. *There are clear signs of a slower dynamism of the SME sector in Belgrade as well as in entire Serbia in recent years, but Belgrade displays slightly better results than the average.* In 2011 in Belgrade 11,934 new entities were established, which equaled 28.7% of the total number of newly established SME in Serbia. At the same time there were more closed entities – 48,878 companies and shops were closed, which accounted for 26.9% of the total number of SME that terminated their activities. Belgrade offers better business opportunities, as proved by the fact that the rate of survival of newly established firms over the first two years of operations in Belgrade was 66%, well above the Serbian average (61.7%).

Number of companies		Micro	Small	Medium	SME	Large	Total
EU-27	Number	19,143,521	1,357,533	226,537	20,727,627	43,654	20,771,281
	%	92.2	6.5	1.1	99.8	0.2	100
Serbia	Number	307,430	9,656	2,218	319,304	498	319,802
	%	96.1	3	0.7	99.8	0.2	100
Belgrade	Number	93,008	3,661	763	97,432	195	97,627
	%	95.3	3.7	0.8	99.8	0.2	100
Employment							
EU-27	Number	38,395,819	26,771,287	22,310,205	87,477,311	42,318,854	129,796,165
	%	29.6	20.6	17.2	67.4	32.6	100
Serbia	Number	358,992	195,602	232,279	786,873	418,404	1,205,277
	%	29.8	16.2	19.3	65.3	34.7	100
Belgrade	Number	107,548	72,894	80,581	261,023	206,692	467,715
	%	23	15.6	17.2	55.8	44.2	100
Gross value added							
EU-27	Value € m	1,307,361	1,143,938	1,136,244	3,587,540	2,591,732	6,179,211
	%	21.2	18.5	18.4	58.1	41.9	100
Serbia	Value € m	3,316	2,497	2,802	8,615	6,987	15,603
	%	21.3	16	18	55.2	44.8	100
Belgrade	Value € m	1,308	1,306	1,211	3,825	3,798	7,663
	%	17.2	17.1	15.9	50.2	49.8	100

Table 3
Companies according to the size - Belgrade, Serbia and EU-27 in 2011
Source: Eurostat, Business Register of the RS

The Table 3 shows the structure of companies by their size in EU-27, Serbia and Belgrade in 2011, in particular their number, employment, and value added. Micro companies prevail in the total number of companies (family businesses with a sole entrepreneur in particular). Their share in the total number is higher in Serbia than in the EU, and slightly higher than in Belgrade (92%, 96% and 95%, respectively). Small companies are weaker in Serbia than in the EU (7%, 3% and 4%, respectively).

As for employment, micro companies have the same share in the EU and in Serbia (30%), while their share in the total employment in Belgrade is lower (23%). This can be accounted for by a higher share of large companies in overall employment in Serbia, especially in Belgrade (33%, 35% and 44%, respectively), which can be ascribed to a specific industrial structure nurtured in the past. Namely, in the decades of the market–plan mix our economy (just like economies of other ex-socialist countries) was dominated by large companies (so-called white elephants) despite their inefficiency. *However, this sends an important message to policy makers that the restructuring process in Serbia is far from being over*.

Considering the value added, large companies are more dominant than the SME sector overall as in 2011 they covered 45% and 50% of the total value added in Serbia and Belgrade, and 42% in EU-27. The significance of SME is greater in the EU than in Serbia as to the share in the total value added, while the share in Belgrade is pretty low (58%, 55%, and 50%, respectively).

If we consider employment dynamism, and the added value during the crisis by comparing Belgrade and the Serbian average (2008=100), we will arrive at interesting conclusions (Figure 3). Firstly, employment dropped dramatically (by 1/5 between 2008 and 2011), while the number of companies increased. Trends of a decreasing employment in the SME sector in Belgrade and the rest of Serbia were similar, suggesting that entrepreneurs in Belgrade and rest of Serbia, faced with a worsening business climate and poor prospects, recognized the need to cut costs seriously. Although a decreasing employment is a positive step from the micro point of view, from a macro perspective it is very negative given a high rate of unemployment in Serbia (as much as 25% in 2012). *The government should recognize high and rising unemployment as a crucial current socio–economic problem and respond quickly in order to create more room for labor, especially in the SME sector*. During the transition period an increasing number of SME and new employment neutralized (partially, and in 2006 and 2007 completely) the number of workers fired in large companies undergoing restructuring or bankruptcy. In other words, *measures of general support for SME development should be reintroduced*; this policy was abandoned after the first phase of SME development which was over before the crisis came. In the meantime measures supporting largely fast growing companies and gazelles were introduced, which is undoubtedly an adequate policy for the second phase of SME development.

Secondly, gross value added dropped at the beginning of the crisis (by 15% in 2009 only). After the initial drop in Belgrade, the SME sector started improving its business performances and in 2011 gross value added of SME was again higher than in 2008. At the same time in the rest of Serbia gross value added of SME continued to decline (slightly) over the last three years and in 2011 it was pretty lower than in 2008 (by 1/5). This cannot be explained on the basis of data considerations only but it seems that the readiness and the will of entrepreneurs in Belgrade was stronger than in the rest of Serbia and, consequently, they cut costs in order to improve their profitability.

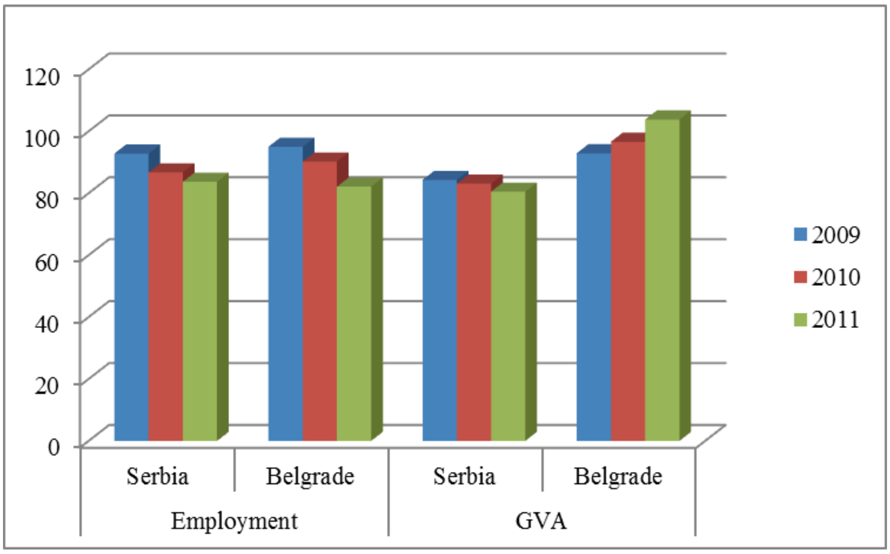


Figure 3
SME Dynamism in times of crisis (2008=100)
Source: Statistical Office RS

It comes as no surprise that *in Belgrade the concentration of dynamic companies is the highest* owing to the concentration of universities, research institutions, and highly skilled human resources as well. Our previous analysis demonstrated that dynamic companies in Serbia have been best adapted to worsened business conditions during the economic crisis, and that their business performance has not deteriorated much [5].

In Belgrade in 2011 there were 1,281 dynamic companies or almost a half of all the dynamic companies in Serbia (49.6%). For these companies various indices were very encouraging. Total employment in these companies was 17,800 employees or 53.8% of total employment in dynamic companies in Serbia. They generated 58.6% of the total revenues of Serbian dynamic companies, 61.1% of the total value added, and 55.5% of the total profit of Serbian dynamic companies.

	Number of companies			Employment		Gross value added	
	EU-27	**Serbia**	**Belgrade**	**Serbia**	**Belgrade**	**Serbia**	**Belgrade**
PROCESSING INDUSTRY		16.8	12.2	29.7	19.1	24.8	15.8
Low tech	5.1	10.6	7.5	17.5	10.3	13.2	7.5
Medium low tech	3.3	4.5	2.9	7.2	4.0	6.2	3.5
High medium high tech	1.1	1.7	1.8	5.0	4.8	5.3	4.8
Medium high tech	0.9	1.1	1.1	3.9	2.9	3.9	2.6
High tech	0.2	0.6	0.7	1.1	2.0	1.5	2.2
SERVICES*		72.4	72.5	14.5	22.8	16.3	24.4
KIS	20.9	17.2	25.0	14.5	22.8	1.6	24.4
KIMS	16.5	11.1	16.2	7.3	12.1	9.4	14.2
HKIS	3.6	2.0	3.6	2.8	5.0	3.7	6.3
OKIS	0.7	3.4	4.5	3.7	4.8	2.6	3.3
LKIS	53.6	55.1	53.6	42.7	46.8	42.6	48.8

Table 4
Structure of SME

Note: KIS – knowledge intensive services, KIMS – knowledge intensive market services, HKIS – High tech knowledge intensive services, OKIS – other knowledge intensive services, LKIS – low knowledge intensive services

Source: Ministry of Regional Development and Local Self–Government, RS on the basis of the Republic Statistical Office data

A look at the structure of SME by the technological level of their products and services in the EU, Serbia and Belgrade (Table 4) produces interesting results. Not surprisingly, within manufacturing industry by the number of companies in Serbia low technological producers are dominant (11% of the total number of SME), while services are dominated by low knowledge intensive services (55%). It has to be added that a relatively low share of manufacturing SME in the total number of SME points to a deindustrialization trend in Serbia during the transition period. At the same time Belgrade is better positioned than Serbian average as the share of SME involved with low tech products and services was lower (7.5% and 54%, respectively). As for employment and gross value added, the situation is similar.

The SWOT analysis of the Belgrade SMEE sector development has been done (Table 5) as it provides useful information for policymakers. Main advantages of Belgrade regarding the SME development are as follows: Belgrade is the administrative center of Serbia, with a large market, relatively developed traffic infrastructure, and SME tradition. Weaknesses are: the trend of deindustrialization like in the rest of Serbia, a low level of linkages between research and scientific centers and economic agents, and a low technological level. In particular, policy makers have to take care of threats among which major ones are: stronger competition that comes with the EU accession, lower subsidies because of the EU accession, and the slowing down of market reforms and low-level adjustment of legal and institutional infrastructure to the SME need. Finally, chances are great and major ones are as follows: easier penetration of the EU market with an improved EU access, rising attractiveness for FDI (foreign direct investments) with the EU accession, and an easier access to EU financial sources.

Advantages	Weaknesses
• Administrative center • Large single market • Developed traffic infrastructure • High share in the national market • Technical and financial resources • Entrepreneurial tradition • Attractive for investments	• Deindustrialization process • Weak linkage research institutions-companies • High import dependence • Weak business infrastructure • Low technological level • Expensive and rare financing
Chances	**Threats**
• Reindustrialization need • EU market accessing • EU accession – attractive investments • Easier financial access • The end of privatization • Business infrastructure development	• EU accessing – EU competition • Lower SME subsidies • Low financial availability • Worsening business conditions • Slowing reforming processes • Low institutional and legal adjustment to SME

Table 5

SWOT analysis of SME in Belgrade

From the analysis of SME development in Belgrade, several important conclusions can be drawn:

- *Specific policy support for most dynamic companies and shops and knowledge-based production is necessary to continue*, considering a higher than average share of dynamic SME in Belgrade;

- *Sources for SME funding need to be a mix of public and private partnership, credit sources for R&D and subsidies for innovations, business angels, risk capital available and securities*, as well;

- *Dynamic, knowledge-based and innovative SME ought to have an advantage in resource access*;

A kind of shift in institutional support is necessary when it comes to advising about risk capital financing, strategic planning, cooperation with large firms and complex chains of production and trade, internationalization and company's development.

Conclusions

After two years of negative business demography there were positive signals of SME recovery in 2012. Fast growing companies and gazelles were not that affected by a deteriorating business climate and performed well. These findings are supported by findings of the current stage of SME development in Belgrade. Small and medium-sized enterprises and shops have been severely affected by the global economic crisis, for which the slowing down of market reforms has to be blamed as well. Among these, small companies and shops, as the weakest, still suffer a lot. Entrepreneurs are dissatisfied with worsening business conditions, weak and expensive financial support, and higher than necessary fiscal duties and inspection control. These are the main reasons for their pessimism, fear of failure, and modest business plans for the future.

From 2007 onwards Serbia has introduced support policy measures for SME development in line with the second stage of their development, placing an emphasis on measures that support fast growing companies and gazelles. Given that these companies performed well even in bad circumstances and that they are important for improving competitiveness on the global market, these measures will continue but they have to be stronger.

Policy makers also need to realize that the main current socio-economic problem in Serbia is high unemployment. In order for this problem to be tackled, measures of general SME support will probably be reintroduced (as in the first phase of SMEE development) if one wants more and more jobs to be opened in the national economy.

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