

## **ANALYSIS OF STATE AND DEVELOPMENT FACTORS OF SMALL AND MEDIUM ENTERPRISE SECTOR IN SERBIA \***

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**Abstract.** *The dynamism and flexibility of small and medium enterprises (SMEs) and their high share in basic macroeconomic indicators determine the role of this sector in the economic development of countries. In order to make satisfactory business results of SMEs, it is necessary to generate and provide a stimulating business environment. This paper stresses, in addition to consideration of the current situation in the SME sector in Serbia, a critical review of business conditions. The used methods of scientific observation and testing, as well as the method of comparative analysis, are important in determining the current position and understanding the potential for further development of small and medium enterprises in Serbia. The purpose of this research is systemizing the advantages and disadvantages of SMEs on the territory of Serbia, and accordingly, the formulation of valid recommendations for policymakers and potential investors, in order to continually improve performances of this sector.*

**Key Words:** *SMEs, performance, business conditions, development.*

### INTRODUCTION

SMEs are recognized as engines of economic development of countries in modern conditions. Creating new jobs, raising living standards and balanced regional development depend on the number and success of small and medium enterprises, but also on their uniform distribution in all parts of the country. This sector plays an important role in the dynamics of national economy development (Krstić 2011, 2). There are a large number of factors that generate a significant contribution of SMEs to economic development.

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"SMEs tend to employ more labor-intensive production processes than large enterprises. Also, there is empirical evidence that countries with a high share of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. SMEs are a key to the transition of agriculture-led to industrial economies, significant source of innovation and seedbed for entrepreneurship development and risk-taking behavior (Raynard, Forstater 2002, 3)." The analysis of the development level of SMEs and entrepreneurship in Serbia shows that this sector is the most vital and the most efficient part of the economy and that it plays a significant role in the implementation of structural reforms (National Strategy on Economic Development of the Republic of Serbia for period 2006-2012, 2006, 6).

According to the mentioned importance of SMEs, conditions and the overall environment in which existing companies perform and in which they will perform their activities are essential. For obtaining better results in the overall economic development of a country, the improvement of general business conditions on its territory is imposed as an imperative. Their improvement sends a positive signal to investors and creates conditions which allow that the coordinated influences of both domestic and foreign investments, realized in the form of small and medium-sized enterprises as the most efficient shape, revive the overall economic activity, make positive progress in changing the economic structure as the assumption of faster growth and closing of key macroeconomic imbalances and make domestic industry more competitive.

#### THE CONDITION IN THE SECTOR OF SMALL AND MEDIUM-SIZED ENTERPRISES IN SERBIA

SMEs have a basic role in the development of modern economies. "For developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part (Raynard, Forstater 2002, 2)." According to the level of participation of small and medium enterprises in the main macroeconomic aggregates (employment, gross domestic product, and foreign trade activities) their major role in the economy of Serbia is undisputed. Basic information about the situation in the sector of small and medium enterprises in Serbia (their participation in the total number of enterprises, employment and value added) are presented in Table 1. In order to grade the level of development and

**Table 1.** SMEs in Serbia and EU-27 – basic figure (2010/2011)

	Enterprises		Employment		Value added	
	Serbia	EU-27	Serbia	EU-27	Serbia	EU-27
	share	share	share	share	share	share
Micro	95.9%	92.1%	31.6%	29.8%	22.3%	21.9%
Small	2.1%	6.9%	15.2%	20.4%	15.7%	19.0%
Medium-sized	1.4%	1.1%	19.1%	16.8%	18.3%	17.7%
SMEs	99.4%	99.8%	65.9%	67.0%	56.3%	58.7%
Large	0.6%	0.2%	34.1%	33.0%	43.7%	41.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: European Commission – Enterprise and Industry, SBA Fact Sheet 2010/11, <http://ec.europa.eu/>, (20.03.2012)

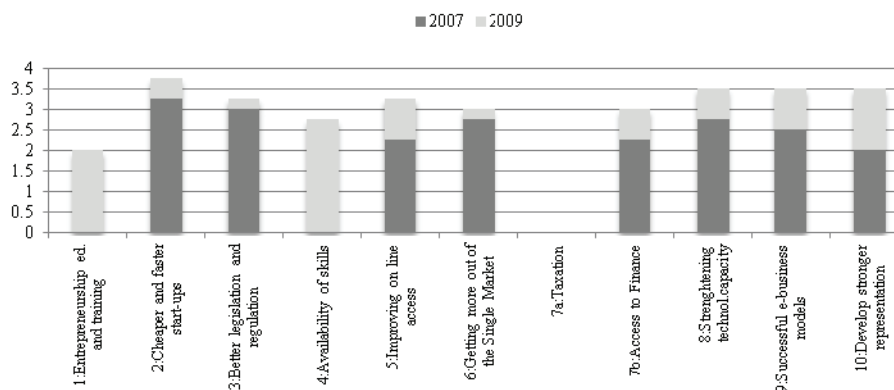
efficiency of small and medium-sized enterprises, and given the desire and Serbia's aspiration for convergence to European Union (EU) standards, we conducted a comparison of basic data with the average in this economic integration.

Significant positive results, in the sense of participation of small and medium enterprises in the total number of companies, are reported in Serbia, with a slight slowness of percentage of participation (99.4%) in relation to the participation in the developed countries. However, according to the participation of small and medium enterprises in total employment and value added, the data indicate a much lower level of activity and efficiency of small and medium enterprises in Serbia. Namely, with the participation in the value added of 56.3%, Serbian small and medium enterprises lag behind the EU average (58.7%). A lower level of activity of small and medium enterprises is attributed to the following problems: insufficient level of knowledge and skills, the gap between financial needs and existing financial instruments, regional disparities in development, insufficient use of new technology and innovation, inadequate representation of the interests of SMEs (Competitive and Innovative Small and Medium Enterprises' Development Strategy for period 2008-2013, 2008, 6).

Serbia, in parallel with the development of conscience of the importance of SMEs, accepted to act in accordance with the methods that are valid in the European Union, while respecting the needs of small and medium enterprises, and by signing "European Charter for Small Enterprises" (now improved into "Small Business Act for Europe") (European Commission 2002). "Small Business Act (SBA) reflects the European Commission's political will to recognize the central role of SMEs in the EU economy and for the first time puts into place a comprehensive SME policy framework for the EU and its Member States, as well as potential candidate countries (Bošković, Jovanović 2009, 182)." For these reasons, the results in the improvement of business conditions and creation of environment for the development of efficient and innovative small and medium enterprises might be desirably seen through the prism of the fulfillment of ten key principles of the Charter in a particular country:

- "Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;
- Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance;
- Design rules according to the "Think Small First" principle;
- Make public administrations responsive to the needs of SMEs;
- Adapt public policy tools to SME needs: facilitate SME participation in public procurement and better use State Aid possibilities for SMEs;
- Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions;
- Help SMEs to benefit more from the opportunities offered by the Single Market
- Promote the upgrading of skills in SMEs and all forms of innovation;
- Enable SMEs to turn environmental challenges into opportunities;
- Encourage and support SMEs to benefit from the growth of markets (European Commission 2008)."

The results of the Report on the implementation of the European Charter (Figure 1), which includes evaluation of achieved results (1 to 5), and comparison of results in 2007 and 2009 point to their overall improvement (OECD 2009).



**Fig. 1.** SME Policy Index scores for Serbia

Source: OECD (2009) *Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans: 2009 SME Policy Index*, [www.oecd.org](http://www.oecd.org)

However, while Serbia recorded significant progress in some areas (on-line access, more effective promotion of SMEs), the Report enables the identification of areas with slight improvement (legislation, the benefits of the single market), which require the need for immediate action and enhancement.

The benefits which conduce to creation of providential environment for the development and establishment of small and medium-sized enterprises in Serbia, as well as remaining limitations, through comparison with the countries in the region, which should be resolved in the future in order to create a favorable business climate and business conditions, will be presented in the continuation of the paper.

#### THE ADVANTAGES OF STARTING AND DOING BUSINESS IN SERBIA

Doing business in Serbia includes a set of benefits that are the result of the efforts made in the previous period. The acute problem of unemployment in Serbia refers clearly to the greater supply than demand for labor, which is a clear signal for domestic and foreign investors that exceptionally important factor in business process, the human factor, can be provided easily and with low costs. In context of business conditions analysis, an advantage is certainly *the availability of cheap and skilled labor force*. The average salary in Serbia is lower in comparison to the countries of the region. According to the Statistical Office of The Republic of Serbia, the average monthly net salary amounted to 325 Euros in 2010 (Statistical Office of The Republic of Serbia). According to the Statistical Office of Montenegro, the salaries in the country amounted to 479 Euros in 2010 (Statistical Office of Montenegro). According to the National Bureau of Statistics of Croatia, the average wage was 743 Euros (National Bureau of Statistics of Croatia). The above mentioned data indicate that the workforce is cheaper in Serbia, and therefore may be more attractive from the point of investment.

The existence of large regional disparities in terms of average net salary in Serbia, on the other hand, refers to the fact which regions, in terms of investors, may be attractive due to low labor costs. Since it is also the case of underdeveloped regions, absorbing a large quantity of investment can trigger positive processes to reduce regional imbalances in development. Municipalities with lowest salary, about sixteen thousand RSD a month, are in southern Serbia (Kursumlija, Blace), while the situation is dramatically different in the municipalities on the territory of Belgrade, where the average monthly salary ranges up to 52.654 thousand RSD in 2010 (about 500 Euros) (Statistical Office of The Republic of Serbia).

The data about the structure of the unemployed indicate that the potential investors, domestic and foreign, have available significant contingent of young educated people primarily. According to the Serbian National Employment Service the highest percentage of people (17.86%) wait 1 to 2 years for employment, among unemployed the highest percentage are young people between 25 and 29 (13.19%), and there is a high percentage of unemployed with high education (9.73%) also (National Employment Service of the Republic of Serbia 2010). Given that some of the key objectives of the European Charter for Small Enterprises are "Education and Training for Entrepreneurship" and "The availability of skills", it is clear that there is a great potential in the initial human resources in Serbia (European Commission 2002). It is necessary to have clearly focused entrepreneurial training that will put this potential to function of further progress holder and holder of the efficiency improvement of small and medium enterprises. On the other hand, "small and medium-sized enterprise sector is a crucial player in the economy in employment, establishment of jobs and, in this context, in increase of social welfare. Their role in employment must not be left out (Némethné 2010, 9)." This role gets full verification especially with the latest global economic crisis. The activities of recovery from the crisis consisted of, among other things, the urgent creation of new jobs in certain countries. "In this respect, creation and growth of SMEs is an important item on the policy agenda due to evidence that points to significant contributions by SMEs to employment (Pinar, Mylenko, Saltane 2011, 2)." Therefore, the link between employment/unemployment and SMEs is very strong, so what we need is a skillful action which will draw positive effects from this relationship in both fields.

A clearly visible advantage of Serbia which arises from its favorable geographical location is the *nearness of the EU market*. Serbia borders up with existing and potential members of this integration. At the beginning it should be noted that, among other things, the nearness of the EU market is important because this integration is Serbian priority export market. Over 50% of our export is realized on the EU market. With a market of 500 million people and unweighted rate of growth of 3.9% in the period 2000-2007 (which is slightly below the average world economic growth of 4.4%) and the positive outlook for further growth (especially new members), the EU provides a chance to improve the results of doing business in Serbia.

There is a clear commitment and a desire for integration into European and the world economic trends in Serbia. Although there are still open pending issues in this field, positive developments have been made in terms of *signing the important international agreements*. The Stabilization and Association Agreement was signed in 2008, with continuous efforts to harmonize Serbian legislation with the European justification. The Central European Free Trade Agreement (CEFTA) that provides Serbia access to a wider

market and the surplus in trade with the other countries which are parties of this contract is very important.

Successful moves in *the reform of the tax system* contribute to increasing the attractiveness of Serbia as a location for starting a business. An important thing in the future could be a follow-up of many developed countries' practice, which have lower tax rates for SMEs. "These measures are often motivated by both efficiency and equity objectives. The efficiency objectives are based on the notion of failure, for example, due to higher compliance costs with regulations associated with diseconomies of scale and reduced access to financing, necessitating government policy. The equity objectives are in part motivated by lower profits earned by SMEs (OECD 2002)." The reduction of tax rates on corporate income in the recent past from 14% to 10%, making this the lowest tax rate among ex-transition countries, was a positive signal and encouragement for the domestic and foreign investors or business starters. Efforts made in this field have resulted in increasing the transparency of the tax system and compliance with international standards.

*The formation of Republic agencies and adoption of appropriate strategies*, create an institutional base to start a business in Serbia. First, the Serbian Agency for Small and Medium Enterprises was established in 2001, and then "Strategy of Small and Medium Enterprises Development 2003-2008" and "Competitive and Innovative Small and Medium Enterprises Development Strategy for period 2008-2013" (Serbian Government) was made. These improvements in the institutional environment, with the activities of the Agency for Foreign Investment and Export Promotion, indicate the existence of awareness that the axis of development may represent only new investments in the form of small and medium enterprises, whether they are made by domestic or foreign investors.

*The improvement of legal acts* is one of the essential conditions for effective business activities. The adopted *Law on Electronic Signatures* and *Law on Electronic Document*, and, more importantly, the first results in the field of their implementation in early 2009, encourage and indicate the intention of simplifying the business and trade, reduce corruption, and, finally, better ranking of our country in terms of business conditions. In the same year the *Law on Business Registration* was adopted (Law on Business Registration 2009).

The outstanding importance of competition as a factor which influences the effectiveness of the company imposes the importance of the *Law on Protection of Competition* (Law on Protection of Competition 2009). "Namely, the ultimate objective of competition is the promotion of economic efficiency. In developing countries, competition policy has greatly assisted in bringing about the desired economic growth by introducing competitive measures and policies, which promote economic efficiency by eliminating business practices which harm economic efficiency (United Nations 2004, 173)." There were optimistic expectations that the new Law, which came into force on 1<sup>st</sup> November, 2009, overlooked the shortcomings of the old, and that its implementation will improve situation in the market and enable actors fair competition to business. Today we can already perceive the effects of the new law. Capacity of the *Commission for Protection of Competition* has been relieved by increasing the threshold for the application of concentration, and, at the same time, its authorization in sentencing the monopolists has been expanded. However, despite the positive innovation, Serbia remains poorly ranked on the global scale (by the World Economic Forum Serbia occupies 137<sup>th</sup> place among 142 countries regarding the efficiency of antitrust policy in 2011) (World Economic Forum 2011, 315). The latest legal decision in this field, *the Company Law* adopted in 2011, will also contribute to the creation of a stimulating business environment (Company Law 2011).

*The private sector in Serbia recorded growth in the last decade.* The private sector, especially the sector of small and medium-sized enterprises, plays an important role in the national economy. In fact, the share of this sector in the total turnover of Serbian economy was 67.8%, in the profit of economy 54.1%, gross value added 57.4%, export 50.5%, import 60.9% in 2009 (Strategy and Policy on Industrial Development of the Republic of Serbia 2011-2020 2011, 115). The share of SME sector in Serbia in the total number of enterprises is 99.4% and in the total number of employees 65.9%. Micro enterprises dominate in Serbia with a share of 95.9% in the total number and over 30% in the total number of employees in the sector of small and medium enterprises (European Commission).

#### FACTORS WITH NEGATIVE INFLUENCE ON THE START OF BUSINESS IN SERBIA – COMPARATIVE ANALYSIS

If the competitiveness level of an economy is seen as one of the parameters which make domestic and foreign investors interested, the negative signals sent by Serbia can be noticed. In fact, one of the key features of the Serbian economy is an extremely *low level of competitiveness*. According to the report of World Economic Forum "Global Competitiveness Report" which, depending on the achieved level of competitiveness, ranks 142 world countries in 2011, Serbia is in an unenviable position (World Economic Forum 2011). The data about "Global Competitiveness Index" and the most important sub-indexes for investors, presented in the report of the World Economic Forum for Serbia and the countries of the region are given in Table 2.

**Table 2.** Ranking of Serbia and the countries in the region according to indexes of the World Economic Forum (2011/2012)

Country	"Global Competitiveness Index"	Sub-indexes				
		Institutions	Infrastructure	Macroeconomic stability	Technological readiness	Innovation
Slovenia	57	55	37	35	32	40
Montenegro	60	42	63	94	53	50
Bulgaria	74	110	87	46	50	93
Croatia	76	90	39	70	38	46
Romania	77	99	95	87	60	95
Macedonia	79	81	86	37	67	105
Greece	90	96	45	140	47	88
Serbia	95	121	84	91	71	97
Bosnia	100	109	99	78	73	104

Source: World Economic Forum (2011) *Global Competitiveness Report 2011-2012*, www.weforum.org

In addition to the fact that Serbia does not record a significant progress according to the index "Global Competitiveness Index" (96<sup>th</sup> place in 2011, while Serbia was ranked 95<sup>th</sup> in 2010 and 93<sup>rd</sup> in 2009), Serbia is almost the lowest ranked in comparison to the neighboring countries. Namely, only Bosnia and Herzegovina has worse results in almost all observed indicators. A devastating fact is that, when it comes to macroeconomic environment and macroeconomic stability, Serbia is far inferiorly ranked compared to all

countries in the region, and only about thirty countries in the world have lower ranking than Serbia (ranked 121<sup>st</sup> on the World Economic Forum list).

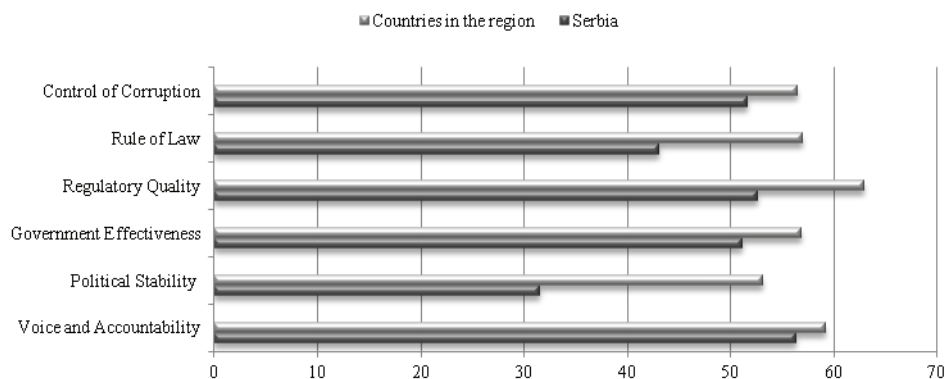
Although investors are not directly interested in the trade deficit, unemployment and other macroeconomic categories, in their decisions about starting a business in the form of small and medium enterprises, but are more interested in the quality of business environment, *weak economic performances* complete the picture of Serbia as a potential area for a new business venture. Foreign trade imbalance is stated as a key macroeconomic imbalance in Serbia. In fact, a key feature of Serbia's balance of payments after 2000 is a constant deficit of the current account, which tends to undermine macroeconomic stability. High foreign trade deficit is generated primarily by insufficient quantity and low share of exports of goods and services in GDP, which were 21% in 2001 at the beginning of the transition and then increased to 29.9% in 2008. However, in the reported period, there was a far more significant increase in imports (from 38.8% of GDP in 2001 to 53.8% of GDP in 2008), so the negative results in the current account balance were inevitable (Bošnjak 2011, 41). Here, it should be noted that reducing the trade deficit in 2009 is not a positive change, but the consequence of global economic crisis and the global decline in economic activity, that contributed to a drastic reduction in import (negative growth rate of -28%) than export (declining in the previous year at the rate of -16.5%). The growth rates of import and export in the relation to previous year in 2010 and 2011 amounted to 9.3% and 18.8%, and 13.4% and 13.9% respectively (National Bank of Serbia).

Gross domestic product per capita amounted to 4546.5 Euros in 2008, with the rate of growth of 5.5% over the previous year ((Statistical Office of the Republic of Serbia). There has been a reduction to 4304, that is to 4528, with a negative growth rate of -3% and a modest positive 1.5% in 2009 and 2010, respectively (Serbian Government 2009). The growth rate of GDP in 2011 was almost unchanged from the previous year (1.6%) (National Bank of Serbia). Given this data, Serbia lags significantly behind the leading countries in the region - Slovenia and Croatia. In this respect, if financial solvency of the market is one of the criteria for the selection of potential markets for investment, the current situation in Serbia does not send positive signals to investors. Finally, in addition to the relative low level of GDP, the problem is the high share of consumption and more, low share of investment in GDP (99.8 and 18.8% in 2009, respectively) (Statistical Office of the Republic of Serbia). For comparison, in Croatia, the share of consumption in GDP in 2009 was 67.3% and the share of investment was 25.5% (Strategy and Policy on Industrial Development of the Republic of Serbia 2011-2020 2011, 25).

Holders of the reform, local entrepreneurs and foreign investors, see state administering as a key element of sustainable economic growth and healthy investment climate (Kovač, Nikolić, Pavlović 2005, 93). Hence, *negative indicators of the state administration* are another problem Serbia is facing. In the report of the World Bank, the control of corruption, rule of law, the quality of regulation, government effectiveness, political stability and democracy and accountability are cited as key indicators of state governance. Serbia is better ranked than half the countries in the world (percentage rank of all indicators, except indicators of political stability and rule of law were slightly above 50% in 2010). The worst rated indicator is the indicator of political stability, so only 31.6% of the countries in the world have a lower value of this indicator in 2010. Serbia is below the average of the countries in the region on all the observed indicators (analyzed countries in the region are: Croatia, Slovenia, Bosnia and Herzegovina, Macedonia, Montenegro and



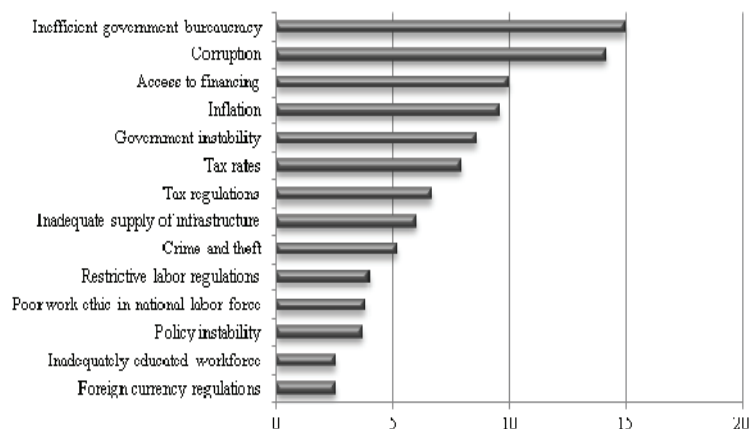
Bulgaria). Figure 2 shows the percentage rank of each indicator for Serbia and the average for the countries in the region. Percentage rank shows the percentage of countries worldwide that have a lower value of indicator in relation to the value in the observed country.



**Fig. 2.** Rank indicators of the state administration in Serbia and the average of countries in the region

Source: World Bank Institute, *Worldwide Governance Indicators 2010*, www.worldbank.org (27.03.2012)

According to a WEF report, "Global Competitiveness Report 2011-2012", the most important problematic factors for starting a business in Serbia are inefficient government bureaucracy and corruption. No matter what efforts are made towards legislation innovation, a far more important issue is the creation of mechanisms for their adequate implementation, which is the only way to repair the negative results in this field and to reduce the potential for corruption. The X axis in Figure 3 shows the percentage of impact of each factor. The factors with significant negative effects on starting business in Serbia are inefficient government bureaucracy, corruption, political instability, sources of financing, and inflation.



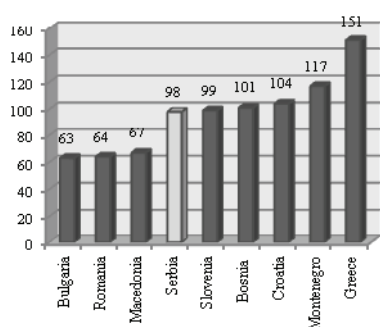
**Fig. 3.** The most problematic factors with an impact on starting business in Serbia

Source: World Economic Forum (2011) *Global Competitiveness Report 2011-2012*, p. 314.

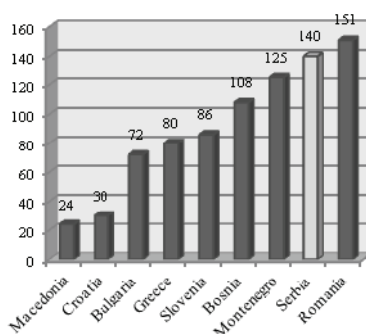
The question of the greatest importance during the establishment of an enterprise is the question of administrative conditions and procedures. Unclear and unstable rules, complicated and lengthy procedures, inefficient and slow administration, cause additional costs which can be expressed in money and time required to meet the requirements of the state, which, of course, reduces the performance of the economy as a whole (Kovač, Nikolić, Pavlović 2005, 90). Hence, the analysis of administrative barriers has great importance in evaluating the conditions for the establishment of small and medium enterprises. In order to increase the attractiveness of countries for new business ventures there is a need to permanently reduce the number of procedures required for the establishment of enterprise, time and cost of these activities. The main issues significant for the establishment of enterprises on the territory of the country, such as ease of establishment, the degree of investor protection, the degree of warranty contracts, etc, are analyzed in the World Bank report "Doing Business" (World Bank Group, 2011). The most important quantitative indicators of business regulation for 183 countries are given in the report for 2011 and, in this way; it allows comparison of countries from the point of attraction for investment. In this paper some of the data will be presented and the position of Serbia will be stated according to the results achieved in the simplification of administration in relation to the countries of the region.

If the ownership, as the most important right from the perspective of investors, is provided with difficulties, the image of the country as a potential place to start a business would not be favorable. Serbia is better ranked according to this criterion than most countries in the region (Figure 4).

Notwithstanding the efforts made in the previous period to improve the tax system, Serbia is still ranked worse than most countries in the region and Spain according to the taxes and fees that companies pay (Figure 5). Taking 140<sup>th</sup> place out of 183 countries analyzed, it can be concluded that Serbia needs a lot more work, including the simplicity and transparency of the tax system and the efficiency of tax administration. "The successful modernization of tax administration in a developing country is a long term process. The opportunities to achieve success are facilitated by an environment which embraces the rule of law, and political commitment to public sector reform, and political commitment to combat corruption, and rational tax policies (Baurer 2005, 45)."

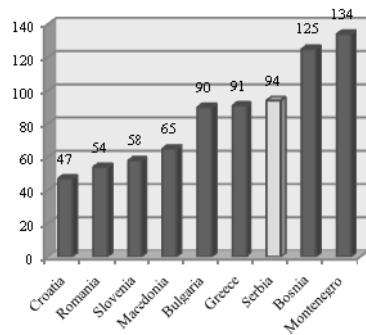


**Fig. 4.** Ranking of Serbia according to easiness of Registering Property  
Source: The World Bank Group, *Doing Business 2011*, www.doingbusiness.org

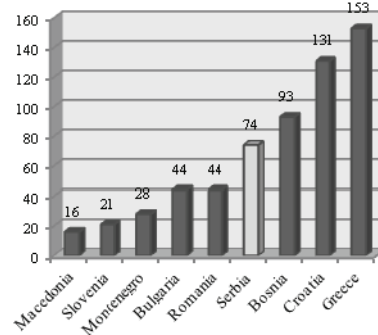


**Fig. 5.** Ranking of Serbia according to Paying Taxes  
Source: The World Bank Group, *Doing Business 2011*, www.doingbusiness.org

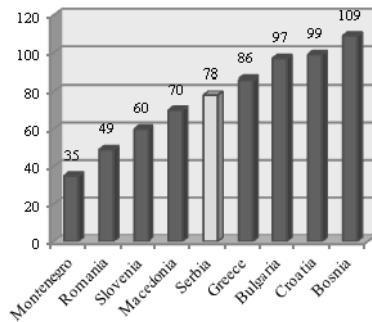
According to the level of contract guarantee, Serbia is ranked 94<sup>th</sup> and is better ranked only in comparison with two countries in the region, Montenegro and Bosnia and Herzegovina (Figure 6). The practice of better ranked countries should be followed, so that this indicator of the business relationship correctness would not discourage those interested in establishing small and medium enterprises. Also, Serbia has a relatively lower index of investor protection compared to most countries in the region (Figure 7). However, there have been significant improvements in this area; the results achieved are relatively low, but not unfavorable.



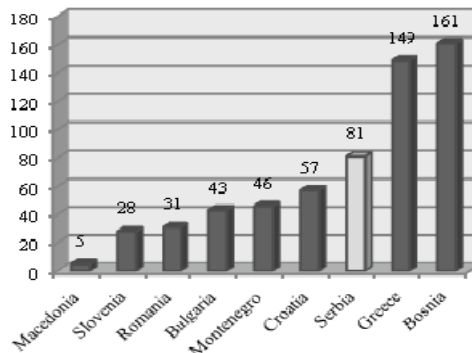
**Fig. 6.** Ranking of Serbia according to Enforcing Contracts  
Source: The World Bank Group, *Doing Business 2011*, www.doingbusiness.org



**Fig. 7.** Index of Protecting Investors  
Source: The World Bank Group, *Doing Business 2011*, www.doingbusiness.org



**Fig. 8.** Ranking of Serbia according to Trading Across Borders  
Source: The World Bank Group, *Doing Business 2011*, www.doingbusiness.org



**Fig. 9.** Ranking of Serbia according to Starting a Business  
Source: The World Bank Group, *Doing Business 2011*, www.doingbusiness.org

Figure 8 shows the ranking of Serbia according to cross-border trade. Serbia, in comparison with countries from the region, engages a mid-position according to this parameter, and is better ranked than more than half the countries in the world. The situation is similar with the rank of Serbia according to ease of establishment (Figure 9). This fact

raises the question whether the analyzed developing countries understood easily the reduction of the number of days and reduction of the number of procedures as an imperative in order to improve business conditions for small and medium enterprises. It appears that efforts in developing countries were targeted to facilitate the establishment of companies, with the neglect of other important factors. But without an effective registration of ownership, without reducing excessive burden of small and medium enterprises with taxes and other spending, contracts compliance, guarantee of the investors' rights, recorded significant success in the competitive struggle on the international market, there will not be efficient small and medium enterprises.

#### CONCLUSION

Potential investments in establishing new companies are primarily motivated by business conditions that exist on the territory of certain countries and business climate and business environment. Serbia has made a lot of effort to promote the benefits of the country in terms of investors and the removal of barriers to start a business in the past period. Signed international agreements and striving for inclusion in the European and world economic trends provide an opportunity for small and medium enterprises to verificate the results of their business in foreign markets. The simulative character of the tax system with the lowest tax rate in the region is also favorable. The adoption of appropriate strategies and innovation of legislation indicate the awareness of the small and medium enterprises importance. The availability of cheap and skilled labor is one of the advantages if the observation criteria are new investments in setting up businesses.

Serbia has recorded progress in almost all the analyzed indicators in relation to the previous year. What has been done and improved should be commended. However, a permanent task of economic policy makers must be continuous monitoring of key indicators, compared with the same ones in the countries of the region. Thus, analogous to the results of this study, it is possible to identify areas that require improvement. Conducted research as a critical area in the development of small and medium businesses in Serbia identify low competitiveness of the economy, unfavorable indicators of governance, corruption, poor economic performance of the Serbian economy and administrative barriers. A critical review of the current situation and problems and awareness of the need for coordinated actions of their resolution is the first step in finding ways to increase the attractiveness of Serbia as a location for new business ventures and creating a business environment that is relatively more desirable from the perspective of investors.

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## **ANALIZA STANJA I FAKTORA RAZVOJA SEKTORA MALIH I SREDNJIH PREDUZEĆA U SRBIJI**

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*Dinamičnost i fleksibilnost malih i srednjih preduzeća (MSP) i njihovo visoko učešće u bazičnim makroekonomskim agregatima determinišu važnu ulogu ovog sektora u ekonomskom razvoju zemalja. Da bi rezultati poslovanja MSP bili zadovoljavajući neophodno je generisanje i obezbeđivanje stimulativnog poslovnog ambijenta. U radu je pored sagledavanja trenutnog stanja u sektoru MSP u Srbiji, učinjen kritički osvrt na uslove poslovanja. Korišćeni metodi naučnog posmatranja i ispitivanja, kao i metod komparativne analize, imaju značaja u determinisanju trenutne pozicije i sagledavanju potencijala za dalji razvoj malih i srednjih preduzeća u Srbiji. Svrha istraživanja jeste sistematizovanje prednosti i nedostataka poslovanja MSP na teritoriji Srbije, i u skladu sa tim, formulisanje validnih preporuka za kreatore ekonomske politike i potencijalne investitore, a sve u cilju kontinuiranog unapređenja performansi ovog sektora.*

*Ključne reči: mala i srednja preduzeća, performanse, uslovi poslovanja, razvoj.*