

INSTITUTIONAL AND FINANCIAL STRUCTURE OF SUPPORT TO SMALL AND MEDIUM-SIZED ENTERPRISES IN ORDER TO INCREASE THEIR RESILIENCE

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ABSTRACT

The main goal of this paper is to provide an overview and analysis of the institutional and financial structure of support to small and medium enterprises and their resilience and overcoming the problems they face. The paper gives an overview of institutional support to small and medium enterprises in the world and Serbia, the structure of the financial system of Serbia to support small and medium enterprises, donor and credit lines of international financial institutions, ways of financing by public institutions, local support agencies in Serbia, financing instruments. Financial instruments and institutional support, tailored to the needs of small and medium enterprises, are the basis for improving the financing and development opportunities of small and medium enterprises. The authors analysed the support that small and medium enterprises have in the world and in Serbia for their development, the problems they face in obtaining that support, as well as the possibility of obtaining adequate institutional and financial support that will contribute to balanced development and survival of small and medium enterprises.

Key words: *small and medium enterprises, institutional and financial support, resilience*

JEL Classification: *L44, G00*

INTRODUCTION

The beginning of the third millennium is characterized by constant changes in the business environment. The challenges faced by modern companies today are increasing, and the complexity and dynamics of change are becoming more pronounced. The pace of change in the business world is very fast, and modern business conditions are more complex today than ever before.

New knowledge enables the development of innovations (new products, services, processes, etc.), and innovations as the most significant source of change enable the development of a knowledge-based economy.

The essential factor, i.e., the condition for the creation, functioning and development of small and medium enterprises (hereinafter: SMEs) is the relationship of society, i.e., state and public opinion according to the role, importance and problems of small and medium enterprises. This relationship was and remains different from country to country, but it is beginning to be universalized. Thus, an increasing number of countries are creating special institutions to support SMEs, recognizing their importance for economic and general prosperity.

Bearing in mind that institutions are an important factor of economic growth and development, the construction of institutional infrastructure is one of the priorities of the state, which manifests its responsible attitude towards social, economic, political, social, developmental and institutional issues. On the other hand, given the existence of certain decisions that can be made and implemented only at the national level, the state, as an entity that has the potential and ability to represent national interests, should formulate a clear vision and strategy for the future of the economy as a whole so that the right decisions will be made, which will give the state the status of an entrepreneur. If there is a clear vision at the national level, the state is obliged to build institutions that will enable it to be realized. However, the process of building institutions is not simple and can result in numerous conflicts, and the role of the state is to mitigate and manage these conflicts [1].

A state that wants to successfully implement reforms and build strong and efficient institutions needs to be subordinated to achieving long-term and very complex goals. SME support is an important part of the state's incentive policy for the development of this important segment of the economy. SMEs, given the relatively low value of assets and insufficient resources and staff, have an inferior position in the market, so they must be protected and supported in their growth and development, especially in the initial phase of realization of an entrepreneurial idea, i.e., starting a business [2].

In this context, the aim of the support is to help SMEs to start their business and to provide them with all the necessary infrastructure, i.e., knowledge and resources that will enable them to survive, grow and develop, in order to provide conditions for normal business within stimulating and competitive business environments. The fact that SMEs are a pillar of the development of any economy has led to the development of institutional frameworks so that companies have the best possible conditions for

growth and development. SME support includes a large number of stakeholders in each sector of the state and the economy [3].

1. INSTITUTIONAL SUPPORT IN THE WORLD

There are several types of standard institutions. The first part of these institutions is of public or semi-public character, depending on whether the state organizes them independently and for its own needs, or does it with other bodies (institutes, banks, foundations, etc.). These institutions are centralized or decentralized. However, as a rule, they are non-profit. An increasing number of countries have ministries for SMEs, special sectors within economic departments, commissions, advisory and consultative bodies.

The second most common part of these institutions is related to the achievement of specialized goals such as education and training, scientific and technological research. They are also not for-profit and are subsidized (permanently or occasionally) by the state, banks or SMEs and their associations. This is sometimes done by large companies, their foundations and endowments.

The third part of the institutions arose from the daily needs of SMEs. These institutions function as national, regional and local associations with their own work programs or as specialized bodies within existing chambers of commerce, industry and commerce. In recent times, some institutions are internationalized either by creating committees (and other bodies) for SMEs in already existing international organizations, or by forming a bilateral, trilateral or multilateral association.

In the EU and the USA, Governments promote a wide range of support services for start-ups. The services can be provided directly by the government, or indirectly through subsidized SMEs and private sector consultants. The scope of services includes: information on the legal and regulatory environment, tailored to the type of business under consideration; information or guidelines for access to finance; grants or cheap funding for disadvantaged groups; marketing guidelines and available sources of information for planned business, advising on the decision when and how to establish a company, referral to specific training to acquire the necessary qualifications before starting a business [4], [5].

Favourable institutional infrastructure to encourage the development of SMEs should:

1) provide stable macroeconomic conditions that will support the entrepreneurial environment;

2) provide reduction and simplification of administration and costs related to the start-up and operation of SMEs;

3) promote entrepreneurial society and culture through various forms of education and training, ensure the integration of development directions at the local and national level;

4) ensure that programs are realistic in terms of costs and implementation time so that their results are measurable,

- 5) provide a developed statistical base on developments in the SME sector, which will be available and relevant for the needs of decision makers [6].

One of the most current tendencies is the creation of an institution of the European Union, within which is the creation, functioning and expansion of specialized bodies for SMEs. Now there is no developed European country in which SMEs are not accompanied by appropriate, even specialized ministries, chamber and local institutions, associations, agencies, etc. The activity of these institutions to support SMEs is very broad and starts from solving the daily problems of SMEs and through promotion, coordination, recommendations and initiatives - to unification and strategic direction at the highest levels [7].

In the European Union, good awareness and simple administration are in the forefront. Further activities are aimed at strengthening the connection with financial institutions so that financial assistance would be purposeful and timely and communication with banks as good as possible.

Provision of financial services is performed by:

- *European Investment Bank (EIB)* - which is owned by the member states of the European Union and approves long-term funds for good investment projects in accordance with the objectives and

- *European Investment Fund (EIF)* - established in 1994 to facilitate access to credit for the SME sector. The European Investment Fund has three main sources of financing, namely own funds, funds of the European Investment Bank and funds from the budget of the European Union. It functions through a number of financial institutions that are intermediaries in providing financial resources. The Fund approves guarantees and thus assumes part of the risk for the placed funds.

From the institutional point of view, we will cite examples from the most developed countries about the great importance of SMEs. Thus, for example: the United States Small Business Administration (SBA) was formed in the United States in 1953, founded with the aim of helping, protecting and promoting small business, while today the White House also has a Committee (Government) for small businesses whose task is to monitor the development and success of SMEs in America, and former US President Ronald Reagan also established a "small business week" [8].

Further, in 1948, the Japanese Agency for Small and Medium-sized Enterprises (METI) was established in Tokyo directly on behalf of the Central Government in charge of implementing state policy and development strategy, and today the Japanese state helps SMEs through institutions such as: Institute of Public Corporation for Small Enterprises, Advisory Centres for Small Enterprises, Information Centres for Small Enterprises, Agency for Small and Medium Enterprises, Public Research Institutions and Universities and a network of schools offering education in the field of SME management.

As an example of institutional support for SMEs in the world, we will mention the Republic of Korea and their Association of Small and Medium Business, founded in 1996. Korea has achieved significant economic development in the last 20 years and its experience shows how great the environment and the creation of a climate in which

SME assistance is provided in every way can give excellent results. In addition to the Agency, there have been six organizations under the auspices of the Ministry of Trade and Industry in the Republic of Korea since 1980, which deal with the promotion of SMEs: Korean Small Business Federation (KFSB), Bank for Small and Medium Industry (CNB), Korean Credit Guarantee Fund. KCGF) and the Corporation for the Promotion of Small and Medium Enterprises (SMIPC).

1. INSTITUTIONAL SUPPORT FOR SMES IN SERBIA

In Serbia, after the political changes in 2000, the process of institutional changes began, which resulted in the improvement of the business environment and significant progress in building a system to encourage and support the development of SMEs [9]. The SME sector has made a significant contribution to the economic growth of the Serbian economy in previous years; however, the effects of the global financial crisis have halted positive development trends and further deepened the problems of the entire Serbian economy, especially the SME sector [10], [11]. Today, the creators of economic policy in Serbia are facing numerous challenges related to the fuller use of the potential of these companies and the intensification of their role in the process of overcoming the economy from the crisis.

The basic institutional infrastructure for SME development in Serbia consists of: The Government, the Ministry of Economy, the Development Agency of Serbia (RAS) and a network of accredited regional agencies.

The institutions that are in the function of supporting the SME sector are: the Serbian Chamber of Commerce, the National Employment Service, the National Bank of Serbia, financial institutions, universities, associations of entrepreneurs, etc. [9].

1) The Ministry of Economy - is the hierarchically highest level to support the development of SMEs and as such has the greatest responsibility for the development of SMEs in Serbia and the creation of a stimulating business environment for this sector. The strategic commitment of the ministry must be to offer each target group from the SME sector an appropriate funding instrument [12].

The Ministry was also in charge of coordinating the activities of the COSME¹ program. COSME (Program for the Competitiveness of Enterprises and SME) is a European Union program for the competitiveness of enterprises and SMEs with a budget of 2.3 billion euros in the period 2014-2020. The COSME program provides support to SMEs in the following business segments: facilitated access to funding sources; support for internationalization and access to foreign markets; opening a favourable business environment for the development of competitiveness; fostering an

¹ The agreement between the European Union and Serbia, which was signed on November 10, 2015 in Brussels, confirmed the participation of our country in the SME Competitiveness Program, COSME until 2020. The agreement establishes the possibility of financing activities aimed at raising competitiveness and the establishment and growth of SMEs in Serbia. The program came into force on January 1, 2016.

entrepreneurial culture. "One of the main goals of the COSME program is to improve access to finance at different stages of the enterprise's life cycle: establishment, growth or change of ownership." [13].

2) The Development Agency of Serbia (RAS) was established to perform development, professional and operational activities to encourage and realize direct investments, promote and increase exports, develop and improve the competitiveness of economic entities, reputation and development of the Republic of Serbia in the field of economy and regional development.

Accordingly, the main objectives of the establishment of the RAS are²: providing reliable service to domestic and foreign investors, with the highest level of reliability, trust and predictability; providing support to activities that will materially contribute to the capabilities of Serbian companies, especially in the field of increasing number of local suppliers for multinational companies (MNCs), internationalization of Serbian private business and attracting investment projects with greater impact on the economy of Serbia; support for exports and new investments; providing professional support to SMEs [14], entrepreneurs, craftsmen and other economic entities for the needs of their and regional development; performing activities of coordinating the work of regional development agencies; institution and capacity building, as well as international and interregional cooperation, strengthening partnerships with all relevant factors in the country and the world; providing conditions for access and implementation of projects financed from European funds, donations and other forms of development assistance; continuous staff training and building competent human resources; customer satisfaction, through continuous improvement of service and work quality [15].

3) Accredited Regional Development Agencies (ARRA) is organizations established for the purpose of providing services to individuals and legal entities in the creation and development of SMEs and ensuring their successful functioning. The number of these services determines the level of development of ARRA and can include practically all forms of assistance to SMEs, from providing information, legal advice to direct participation in investments. ARRAs are institutions that fully specialize in SME development in a specific territory. The result of specialization is high quality services. ARRAs do not aim to make large profits, which is why their services are far cheaper than the services of other organizations that provide them [16].

ARRA are professional institutions for the development of SMEs through the identification and promotion of local investment opportunities, in order to create appropriate sustainable jobs, generate income and integrate the most vulnerable social groups into the labour market. By focusing on building institutions to support SMEs, and not just on individual ad hoc actions, long-term effects can be achieved from which the entire local economy of the region can benefit." [17].

² The National Agency for Regional Development (successor of the Republic Agency for Development of Small and Medium Enterprises and Entrepreneurs since 2009) was established in 2009 by the Decision of the Government of the Republic of Serbia as a public agency for development, professional and regulatory affairs of regional development.

ARRAs act as a catalyst for local and regional needs and resources, participate in the implementation of relevant national policies, programs and projects in their jurisdiction, thus practically representing a bridge for communication and coordination of development policies and programs between national and local authorities in Serbia. The scope of ARRA is very wide, from socio-economic development to infrastructure, and most of the projects implemented so far have been funded through various EU programs [9].

Table no. 1 shows a view of the portfolio of services provided by ARRA dominated by two areas of services, namely: Support to the development of entrepreneurship and support to the development of the public sector.

Table 1: Area and types of services provided by ARRA

Area	Types of services
Support for entrepreneurship development	Business information
	Tips
	Business networking
	Training
Support to public sector development	Strategy/Analysis/Study Development
	Tips
	Project development and management
	Support for vulnerable groups
	Training
	Project development and management

So far, 16 regional development agencies have been accredited in the Republic of Serbia, with their headquarters in the following cities in Serbia: Novi Sad, Subotica, Zrenjanin, Pančevo, Ruma, Požarevac, Loznica, Kragujevac, Zaječar, Užice, Kraljevo, Kruševac, Niš, Novi Pazar, Leskovac and Belgrade.

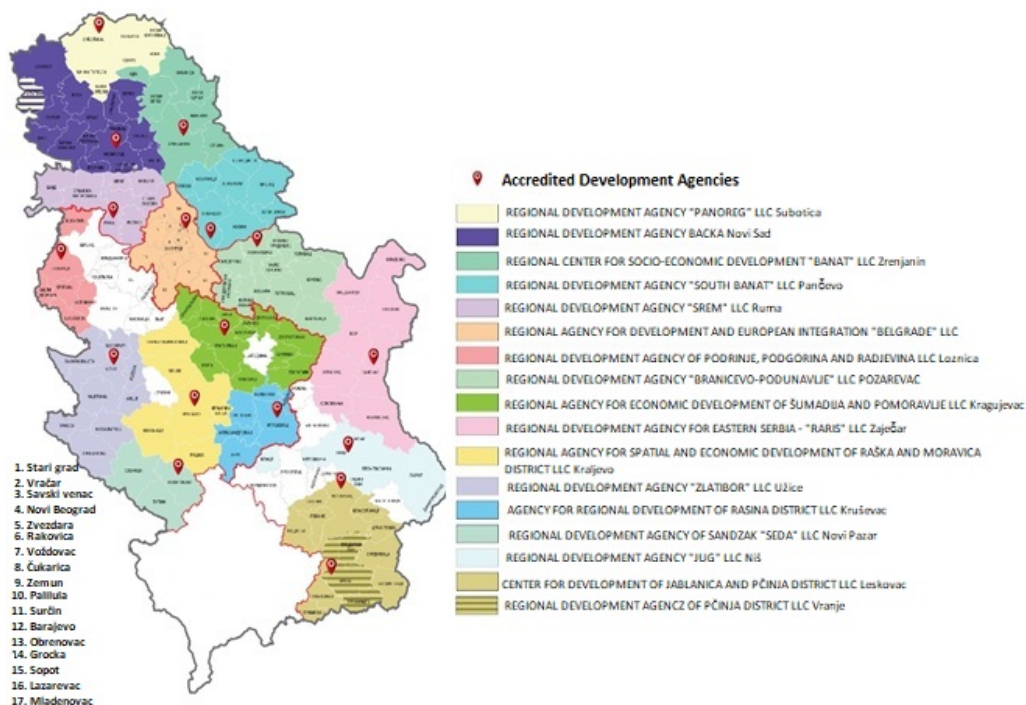


Figure 1. Map of Accredited Regional Development Agencies of Serbia

4) Business Registers Agency (APR) - established in 2004 by the Law. The establishment of the Agency was assisted by the Swedish Government (Swedish International Development Cooperation Agency - SIDA), the World Bank (World Bank), Microsoft Serbia and Montenegro (Microsoft SCG) and United States Agency for International Development - USAID [18].

APR allows you to easily start a business through the principle of "All in one place" (One-stop Shop). Established with the aim of keeping business registers as unique, central and public electronic databases.

The goals of APR are: reduction of administrative barriers to starting a business, reduction of time and costs for closing a business entity, increasing the degree of legal certainty in the field of financial crediting [17].

5) The Chamber of Commerce of Serbia (SCC) is an organization of economic entities defined by law. It is independent, non-governmental, and business-professional and interest association of legal and natural persons who perform registered economic activity. The members of PKS are: companies from all economic areas and branches in all forms of ownership; banks and other financial organizations; insurance organizations; agricultural cooperatives as collective members through their union; craft and other shops as collective members through their associations [19].

PKS is independent in its activities, and businessmen participate in the work of its administrative management and bodies. It represents the interests and views of

members by participating in the creation of laws and other regulations important to the business community; promotes economic cooperation with foreign countries; provides information and analytical support to the economy; encourages export activity and the involvement of domestic companies in international supply chains. Within the network of 16 regional chambers of commerce and the chamber of the capital, professional support and efficient representation of the interests of the economy by regions is provided. Through the work of representative offices in several European countries, the main foreign trade partners, special importance is given to the internationalization of business and the international connection of the domestic economy.

SCC is continuously working on the promotion of entrepreneurship, its advancement and better networking of our entrepreneurs.

3. STRUCTURE OF THE FINANCIAL SYSTEM OF SERBIA FOR SME SUPPORT

The existence of a healthy and dynamic SME sector is a stable source of new jobs, increasing employment, innovation and tax revenues through and contributing to the reduction of the informal and gray economy [20].

An important factor that determines the survival and growth of SMEs is financing, i.e., establishing a company, expanding business activities, developing new products and investing in plants, equipment and human resources is directly conditioned by the ability of the company to meet capital needs [21], [22]. If the company is successful, the need for business expansion and innovation will arise very soon.

With the growth of business volume, SMEs in Serbia have a growing need (demand) for financing (EY Entrepreneurial Barometer).

However, a major obstacle to economic development, which can lead to illiquidity of the banking system, is the absence and underdevelopment of the financial system.

The financial system in a country is considered successful: if by collecting domestic savings it encourages stable economic growth and development; increases the mobility and efficiency of resources in the economy; provides a sufficient level of liquidity and stability of the system [23].

One of the main reasons why many countries in transition are developing more slowly is precisely the underdevelopment of their financial systems [24].

The financial system in Serbia consists of the National Bank of Serbia, commercial banks and other financial organizations.

1) The National Bank of Serbia (NBS) - is independent in performing the functions determined by the Law on the NBS and other laws, and is responsible for its work to the National Assembly of the Republic of Serbia. The main goal of the NBS is to achieve and preserve price stability. In addition, without compromising the achievement of its basic goal, the NBS contributes to preserving and strengthening the stability of the financial system [25]. The role of the NBS, for the development of the

SME sector, since 2001. was especially intensified in 2006, since it became very important in lending to SMEs from foreign credit lines.

2) Commercial banks - form the basis of the banking system, because they are related to the system of financing reproduction, i.e., financing of companies, through funds and loans.

Micro-lending is an important mechanism for smaller investments, up to 20.000 euros, for companies that are starting a business and developing their business, through the establishment of small companies. Although there has been a significant improvement in financial sector reform in the last few years, as recognized in the evaluation of the implementation of the European Charter, as well as in the World Bank report, SMEs continue to face difficulties in financing their operations. Research has shown that the vast majority of SMEs still finance their operations from their own sources, that very few SMEs use bank loans, and that the total available funds in the public sector are minimal compared to the needs of SMEs. Favourable credit lines implemented through public institutions do not meet all needs, while banking products are still expensive, not sufficiently available and require large collateral for SMEs. Other forms of financing, such as venture capital and business angels, are underdeveloped. If we look at the three basic criteria for financing SMEs, availability, affordability and accessibility of funds, we come to the conclusion that SMEs in Serbia have serious difficulties in obtaining capital to maintain, grow and develop their business.

Banks are the leading source of credit for SMEs; their services are not used to the extent that could be expected given their market dominance. Banks are still not prone to be exposed to the risk of lending to small businesses. Many also do not recognize that small portfolios can be high quality and are concerned about transaction costs, as these two factors greatly affect the return on investment in a situation where there are strong pressures to make a profit and preserve capital. In addition to the growing need for additional financing, the domestic banking sector, which in addition to the equity of entrepreneurial companies has primarily a major role in financing their operations, has a moderately conservative policy of financing the domestic economy.

According to the European Bank, "There are 30 banks operating in Serbia, and they are the main source of financing for SMEs. About 10 of these banks compete intensively with each other for SME companies, with the exception of a few foreign banks, most banks in Serbia are ready to offer loans to SMEs [26].

For innovative and fast-growing companies, access to financial instruments based on investments in the company's capital is of particular importance (e.g., capital or mezzanine investments). In the European Union, public mezzanine providers include supranational institutions. For example, the Mezzanine Facility for Growth (MFG) of the European Investment Fund (EIF) is a €1 billion fund approved by the EIB for investments in hybrid debt instruments/equity funds across Europe, acting as a catalyst in this market segment. In Serbia, however, due to the restrictive conditions associated with bank loans, including financial statements for at least one year of operation, business start-ups and smaller companies are often excluded from access to finance.

Most loans are short-term loans, because SMEs have problems accessing long-term loans." [26].

Further, the European Commission expresses the opinion that access to finance is a key issue for SMEs in Serbia, stating: "Widespread measures to improve access to finance for SMEs remain a priority and should be implemented with less delay than has been the case so far. As part of macroeconomic stabilization efforts, the government and the central bank have addressed many issues related to access to finance for SMEs. The main remaining challenges include strengthening investment funds, facilitating access to EU funds, and engaging venture capital to support SMEs and start-ups. The measure addresses these challenges and proposes the development of a regulatory framework for microfinance. However, there is no information on how this new regulation on microfinance could help the market and whether there is interest among financial institutions to get involved in this type of lending. In addition, the regulatory framework for new financial instruments, such as venture capital funds, crowdfunding, etc., also needs to be updated." [27].

4. DONOR AND CREDIT LINES OF INTERNATIONAL FINANCIAL INSTITUTIONS

The presence of numerous foreign funds has been noticeable since 2001 on the territory of the whole of Serbia. Their donations cover financial assistance, as well as providing technical support to the development of the entire country. The availability of capital through its donor credit lines for SME development is made possible by numerous foreign funds and embassies. Here are just a few of them: the European Union Revolving Credit Fund for SMEs; Loans from the German Development Bank KfW; Loans for small and medium enterprises of the Republic of Italy; European Bank for Reconstruction and Development credit line; Donation of the Kingdom of Denmark; European Fund for Southeast Europe (EFSE); USAID; Balkan Fund for Local Initiatives (BCIF); Open Society Foundation, Serbia [28].

The development of SMEs in the Republic of Serbia was supported by numerous countries through their embassies and made a significant contribution in financial means, namely the Dutch Embassy, the Romanian Embassy, the Austrian Embassy, the Norwegian Embassy, the Italian Embassy, the Swiss Embassy, Embassy of Japan, Embassy of Canada, etc. Of the total amount of grants that came to Serbia in the period 2000-2015 dominates the EU with over 70% of total grants (donations), or with 3 billion euros. The following are the United States with nearly 680 million individual and Germany with a little over 350 million euros.

In the context of the support of the European Union, it is important to say that in Serbia today the implementation of the following programs is underway:

- o **COSME program** – the program for the period 2014-2020 intended for SMEs. The main goal of this program is to increase the competitiveness of SMEs, and thus reduce unemployment in the country. Funding: The Program budget is € 2.3 billion [29];

○ **HORIZON 2020 program** is an EU program for the budget period 2014-2020, and is intended for SMEs that have innovative potential. The main goal of Horizon 2020 is to accelerate the realization of the idea from the laboratory to the market. The budget of the Program amounts to 77 billion euros and is above the national character; there is no specific budget for the Republic of Serbia. Horizon 2020 is a European program, which requires cross-border, pan-European cooperation and connection, the results of which shift the scientific and economic achievements at the European level.

○ **WB EDIF Program** (Western Balkans Enterprise Development and Innovation Facility) - is a program established by the EU with the aim of providing SMEs in the Western Balkans with easier access to finance. The WB EDIF program is implemented through three funds, which are created according to the type of financial instruments they use (loans and capital investments) and the type of beneficiaries for which they are intended:

- *The Enterprise Innovation Fund* (ENIF) was established to improve the financial position of innovative, highly specialized SMEs operating in the Western Balkans.

- *The Enterprise Expansion Fund* (ENEF) is a fund of venture capital to support SMEs with high development potential, i.e., it provides capital and "quasi-capital" in order to improve their financial position and provide the necessary liquidity in order to realize the development potential of the company.

- *Credit Guarantees* - Guarantees and counter-guarantees to financial intermediaries (primarily banks) for loans to the SME sector in the Western Balkans;

○ **Instrument for Pre-Accession Assistance (IPA)** - is an EU grant program that provides financial and technical support for further development of reforms during the enlargement process to candidate and potential candidate countries, including the Republic of Serbia. The policy areas under the IPA II 2014-2020 instrument are: Reforms that lead to preparations for countries in the accession process to assume the obligations and rights arising from EU membership, which are related to institution building and capacity building; Socio-economic and regional development; Employment, social policy, education, promotion of gender equality and human resources development; Agriculture and rural development; Regional and territorial cooperation.

5. FUNDING BY PUBLIC INSTITUTIONS

1. The Development Fund of the Republic of Serbia - was established on April 15, 1992, and its activity is focused on encouraging the business of legal entities and entrepreneurs in the Republic of Serbia. The Fund is a state institution that finances investment programs, including SMEs, especially those engaged in production. The Fund performs loan approval, issuance of guarantees, deals with the purchase of securities and other activities in the name and for the account of the Republic of Serbia. The source of the Fund is funds from the budget of the Republic of Serbia and funds from the collection of approved loans. The loan amount can be from 40 to 80%

of the value of the total investment. With 80% of the funds, the Fund participates in programs implemented in underdeveloped municipalities. For an even distribution of funds by districts and municipalities, preference is given to investments aimed at: winning a new production program; technical-technological modernization; elimination of bottlenecks in production; economic and financial consolidation, in order to revive production and make fuller use of capacity.

One of the main goals in the work of the Development Fund of Serbia is lending to SMEs, through: *Loans for permanent working capital – i.e.,* funds needed to finance current liabilities arising from the regular business activities of the end user of the loan, and relate to the procurement of raw materials, inventories, as well as other production costs, trade receivables, trade payables, intended for SMEs, *Short-term loans to stimulate competitiveness and liquidity of the domestic economy, Investment loans needed by SMEs.*

The main objections of SMEs are forwarding in the direction of insufficient transparency of procedures and decisions, lengthy procedures and high costs of obtaining a bank guarantee [20]. In addition, the centralization of decisions makes it difficult for companies to contact decision-makers in the Fund.

2. The Development Fund of AP Vojvodina LLC Novi Sad – was founded on 11.02.2013 in Novi Sad and is registered in the form of a limited liability company in ABR. The share in the share capital of the Development Fund is: Autonomous Province of Vojvodina of 78.11% and the Republic of Serbia of 21.89% The Development Fund participates in the implementation of programs and projects based on economic principles for achieving the following goals in APV: Economic Development; Agricultural development; Encouraging the establishment of SMEs and the development of entrepreneurship; Encouraging social entrepreneurship; Encouraging employment; Export promotion; Encouraging balanced regional development and other programs and projects from original or entrusted competencies [30].

3. The Development Agency of Vojvodina - DAV was established under the auspices of the Provincial Government, i.e., the Provincial Assembly decision on the establishment of the Development Agency of Vojvodina LLC Novi Sad [31], with the aim of supporting the implementation of development, agricultural and rural development policy of Vojvodina. The Development Agency of Vojvodina also provides information on available domestic and international funds and programs that provide companies from Vojvodina with access to financial and non-financial support.

4. The National Employment Service is a public institution in charge of providing services to unemployed persons and employers. The NES provides financial resources for the following purposes: new employment; self-employment of war invalids; exercising the rights of workers whose work is no longer needed; exercising the rights of workers to establish employment in another company; exercising the right of workers to vocational training; additional training or retraining to work in the same company.

The users of the services of the Service's business centres are unemployed persons who are interested in starting their own business and potential redundancies, but also the entrepreneurs themselves. The model of entrepreneurship development that is promoted by educational programs for founding and running a business and the formation of entrepreneurship centres is very important for beginners. Entrepreneurship development is carried out by the Service through information and advisory services, educational and mentoring services and one-day seminars for entrepreneurs. [32].

6. LOCAL SUPPORT AGENCIES

1. Serbian Association of Small and Medium Enterprises, Crafts and Entrepreneurs - was founded in 2000 as a non-governmental, non-profit and non-partisan organization consisting of the founders of SMEs in Serbia, united by regional and branch principles. The Association was formed in response to the EU Development Strategy adopted in 1999/2000, which is dedicated to regional development, as well as the development of SMEs and entrepreneurship and the improvement of national policy towards this sector. The goals of the Association are: to improve the efficiency and competitiveness of the Serbian SME sector; positioning small and medium-sized businesses in the domestic market and supporting their performance in foreign markets, primarily in the countries of the region and the European Union; directing policies at all levels towards measures that contribute to and ensure growth, prosperity, stability of the SME sector and crafts at the national level, in the region and in the European Union; assistance in the development of the business of both the community and each individual member.

2. The Association of Business Women of Serbia (ABW) - is the largest national organization of women entrepreneurs. ABW has a leading role in organizing business women and providing top support, as well as the promotion of Serbian entrepreneurs. The association is actively advocating for the purpose of improving the business climate and encouraging networking at the local, regional and international levels. The goals of ABW are: to increase the number of women starting their own business; increasing the visibility of women who own businesses; encouraging business owners to expand their business; creating and encouraging a forum where women entrepreneurs can exchange ideas and gain new business contacts; influence on SME development policy making; strengthening ties between women entrepreneurs at the local, regional and international levels, through the exchange of experiences and ideas; promotion of social responsibility and high standards of business ethics.

3. ENECA (EcoNomic Expert Community Association) ENECA is a local non-governmental organization based in Niš, registered in 2005. Since its establishment, ENECA has been active in the field of socio-economic development, with over 1000 small businesses in equipment, business and professional training, direct monitoring and consulting receiving support through direct assistance programs.

7. FUNDING INSTRUMENTS

There are numerous SME financing instruments in developed countries, which is not the case in Serbia [33]. Microcredit is considered to be the most acceptable way to finance the start of SME development. Higher borrowing costs are covered either by the market interest rate level or by subsidies. Overdraft loans are gladly accepted financing instruments by SMEs. Since these are smaller amounts, the conditions of the approval are somewhat more flexible. This is a good type of financing because it also affects the establishment of long-term relationships between the financial institution and the company. Short-term, medium-term and long-term loans are the most sought-after sources of financing by SMEs. Although there are hundreds of sources that allow direct financing of SMEs, commercial banks still play a key role at all levels of SME development, from the establishment to the growth and development of enterprises, either through traditional lending or with the support of the state and guarantee funds.

In order to provide long-term resources, private investment funds are established in developed countries, the support of guarantee funds is unavoidable, there is international support through credit lines as well as state support [34]. In developed countries, various measures support leasing because it is suitable for start-ups that often cannot obtain other sources of financing [35]. Both dynamic and fast-growing SMEs use leasing because they do not engage the funds needed for growth and do not reduce liquidity. A frequently used financing instrument on the European Union market is factoring. In conditions of limited lending and difficult access of SMEs to short-term loans, factoring has gained in importance. Further, credit guarantee schemes are used in many countries to reduce the risk associated with SME lending. In addition to bank loans, an important source of financing for SMEs in developed countries is equity. The most important part of risk capital is venture capital. Business angels should not be neglected either, where the combination of money and business experience contributes to their importance and attractiveness in financing start-up projects [36].

In the Republic of Serbia, financial instruments available to SMEs are: loans from commercial banks, funds and foreign credit lines, guarantees, leasing, to a lesser extent factoring, while funds of investment funds, business angels and venture capital are poorly represented due to underdeveloped capital market. Due to the simpler approval procedure, SMEs most often use short-term working capital loans and current account overdrafts. Loans from commercial banks are the dominant choice for SMEs despite all the difficulties that accompany them. Financial leasing is still not a significant support for SMEs to Serbian entrepreneurs, despite the fact that it can be very important in conditions of difficult access to credit. This requires greater education as well as awareness on the offer of leasing companies and the improvement of the legal framework that would improve the business of leasing companies and thus enable leasing to become more attractive to SMEs. Although in developed countries guarantees are an important instrument for improving access to finance for SMEs, in Serbia the role of guarantee funds is not great. The Development Fund of the Republic

of Serbia has had a small, almost negligible share of guarantees in its portfolio, which were not specifically aimed at SMEs. The Guarantee Fund of Vojvodina is the only one to issue guarantees aimed at the sector of small and medium enterprises and thus encourages their development while providing more favourable lending conditions. Microfinance, although an important alternative for weaker companies, which often cannot meet the requirements for funds or loans from projects co-financed by the European Union, is not easily available in Serbia [27].

Therefore, innovative companies in Serbia are struggling with access to sustainable sources of financing for their business. Domestic investment capacities are weak, there are no developed capital institutions for financing, the banking sector does not develop financial instruments to support fast-growing innovative companies, and direct budget support from state financial programs is insufficient. [37], [38].

CONCLUSION

SMEs are the main drivers of the economy and economic growth, and as such they are characterized by efficiency, labour mobility, job creation, innovation, knowledge and technology transfer, income growth, promotion of added value, weakening of monopolies. Improving entrepreneurship in an economy implies a long-term process of improving the entrepreneurship system, which consists not only of business, but also the environment, infrastructure, workforce (education, skills), openness and connectivity, business practice, access to capital and regulations. All this indicates that the importance of SMEs is very great and a serious strategic approach is needed [39].

SMEs have been the focus of the Serbian economy for the last two decades. After decades of trying and experimenting, the state has finally realized that it will hardly get out of the economic impasse in which it finds itself if it no longer relies on energy, creativity, engagement of hundreds of thousands of people who are entrepreneurs today or who would gladly become so if society supported them. In the last two decades, more and more attention has been focused on entrepreneurship and the importance of starting SMEs. It is believed that successful entrepreneurs who are by nature innovators, initiators and creators, are not only important for bringing better financial changes in the society in which they live and the economy in which they operate, but they are also the main carriers of overall progress. Security, stability and reduction of unemployment, results in the competitiveness of all market participants and increased consumer satisfaction. Creating a favourable economic climate and environment are much related factors in the development of each country's economy [40].

In the last two decades, the Government of the Republic of Serbia has adopted several strategic documents and plans, such as the Strategy for the Development of Small and Medium Enterprises and Entrepreneurship in the Republic of Serbia from 2003-2008, the Plan for Encouraging the Development of Small and Medium Enterprises and Entrepreneurship in 2005-2007 and etc., as well as the last strategic documents it adopted, the Strategy for Support to the Development of Small and Medium

Enterprises, Entrepreneurship and Competitiveness for the period 2015-2020 and the Action Plan for its implementation. This last Strategy defines the objectives and support infrastructure. In this regard, important steps have already been taken to create better conditions for the development of micro, small and medium enterprises and entrepreneurship, primarily in terms of amending laws and regulations in order to remove legal and administrative barriers, establish a number of institutions and help resolve funding problems. However, despite the efforts made, the situation in the SME sector still cannot be characterized as satisfactory given that financial support is not adequate, the tax system is not stimulating, and institutional support is still insufficient. The innovative companies in Serbia are struggling with access to sustainable sources of financing for their business. Domestic investment capacities are weak, there are no developed capital institutions for financing, the banking sector does not develop financial instruments to support fast-growing innovative companies, direct budget support from state financial programs is insufficient [8].

Encouraging individuals to opt for entrepreneurship through numerous support programs such as: the program "Decade of Entrepreneurship" launched in 2016 by the Government of the Republic of Serbia and the Ministry of Economy of the Republic of Serbia, the Program of standardized set of services for micro, small and medium enterprises and entrepreneurs in 2020, which is implemented through accredited regional development agencies, SME Support Program for the procurement of equipment in 2020, implemented by the Ministry of Economy in cooperation with the Development Agency of Serbia with selected commercial banks and leasing companies, etc. significantly influences the encouragement of existing and potential entrepreneurs to be more engaged and to achieve success. The stated explanation supports the confirmation of the first (general) hypothesis.

The action and effects of economic policy are reflected in the activities of economic entities of society and the results they achieve [41]. The result of the activities of all micro-economic entities is expressed in the size of the social product, i.e., national income, which is an expression of the realized material wealth and the source of all forms of consumption in society. It follows that certain subjects of society take measures of economic policy in order to ensure the development and prosperity of the economy as a whole.

Entrepreneurship is the main driver of the economy and economic growth, and as such it is characterized by efficiency, labour mobility, job creation, innovation, knowledge and technology transfer, income growth, promotion of added value, weakening of monopolies [41].

Improving entrepreneurship in an economy implies a long-term process of improving the entrepreneurship system, which consists not only of business, but also the environment, infrastructure, workforce (education, skills), openness and connectivity, business practice, access to capital and regulations. The existence of a healthy and dynamic SME sector is a stable source of new jobs, increasing employment, innovation and tax revenues through contributing to the reduction of the informal and gray economy. At the same time, it is a confirmation of the second hypothesis that a

solution to the economic problems that shake our economy should be sought in the direction of SME development.

Confirmation of the third hypothesis, if the survival and development of SMEs is primarily correlated with the possibility of financing from favourable sources, then the most appropriate form of financial support for SMEs is offered by microfinance institutions.

SMEs rely heavily on funding through loan grants, donations and subsidies. Available financial instruments provided by the state, development funds and commercial banks are not adapted to the needs of SMEs, there is a lack of opportunities to use alternative financial sources, which should be addressed as soon as possible. Financial instruments and institutional support, tailored to the needs of SMEs, are the basis for improving the possibilities of financing and development of SMEs in the Republic of Serbia.

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