

**THE SMALL BUSINESS CREDIT MARKET
IN THE TRANSITION COUNTRIES – THE CASE STUDY OF SERBIA**

***TRŽIŠTE KREDITA I MALI BIZNIS U ZEMLJAMA U TRANZICIJI -
STUDIJA SLUČAJA ZA SRBIJU***

SOFIJA ADZIC,

Faculty of Economics, Subotica, Republic of Serbia

Abstract: *The paper discusses the specific aspects of development of the small business credit market in the transition economies, through case study of Serbia. Topics elaborated in the present paper are focused on the problem: “How to create an efficient social and economic environment, which would secure collection of credits from small businesses?” The institutional solutions in Serbia are enabling the small businesses to obtain credits pursuant to three sorts of guarantees: real estate property, movable property and their own reputation. However, implementation of such solutions encounters significant difficulties. The records on ownership over the real estate property are to a large extent inadequate and incomplete. It shall take a relatively long period of time that the appropriate records, harmonized with the European regulations, are formed. The area of collateralized credits for small business is relatively new and faces the problem of a difficult realization of a lawful and timely judicial protection of creditors’ interests. However, the basic impediment to establishment of an efficient credit market is the low business reputation of the small businesses. The basic characteristic of small businesses in Serbia is works in the transitional area between the official and the “shadow” economy, which assumes furtherance of a large portion of economy and monetary transactions through unofficial markets. The author’s ground thesis is that solutions should be sought not in strict regulations, stern laws and all-inclusive state interventionism, but in self regulation, based upon the development of the culture of mutual trust. It is therefore, in the author’s opinion, that the issue of development of the small business credit market in Serbia should be discussed within the chain of three phenomena: creation, improvement and security of the mutual interest of banks and small businesses in course of realization of the following activities: (1) promotion and development of business culture, wherein performance of all financial obligations in a timely fashion plays a key role, (2) completion of the legal and institutional infrastructure for implementation of the infrastructure for implementation of collateralized credits for equipment and reproduction material, (3) promotion and development of new techniques for evaluation of creditworthiness of small businesses pursuant to precise and clear standards, (4) identification of new solutions for (high risk) financing of export projects, pursuant to generating and implementation of high technologies and (5) promotion of new forms of credits for transfer of private property.*

Key words: *Transition, Small business, Credit market, Self regulation, Trust.*

Apstrakt: *U radu se razmatraju specifični aspekti razvoja tržišta kredita u funkciji finansiranja poslovanja i razvoja malog biznisa u privredama u tranziciji na studiji slučaja za Srbiju. Izlaganje u ovom radu je koncentrisano na problem: “Kako stvoriti efikasno društveno-ekonomsko okruženje koje će obezbediti naplatu kredita od malog biznisa?”. Institucionalna rešenja u Srbiji omogućavaju da mali biznis može dobiti kredit na osnovu tri vrste garancija: nekretnina, pokretne imovine i sopstvene reputacije. Međutim njihova implementacija se suočava sa brojnim teškoćama. Dokumentacija o vlasništvu nekretnina je u velikom delu neadekvatna i nekompletna i trebaće relativno dugi period da se izvrši formiranje odgovarajućih registara prema evropskim normativima. Područje kolateralnog kreditiranja malog biznisa je relativno novo i suočava se sa problemom teške realizacije regularne i blagovremene sudske zaštite interesa poverilaca. Međutim, osnovni problem za uspostavljanje efikasnog tržišta kredita je niska poslovna reputacija subjekata malog biznisa. Osnovno obeležje malog biznisa u Srbiji je poslovanje u prelaznom području između oficijelne i “sive” privrede, pa se veliki deo robno-novčanih transakcija odvija neoficijelnim ka-*

nalima. Osnovna teza autora je da rešenja treba potražiti umesto u strogoj regulaciji, krutom zakonskom okviru i sveobuhvatnom državnom intervencionizmu, u samoregulaciji zasnovanoj na razvoju kulture poverenja. Zbog toga, po mišljenju autora, problem razvoja tržišta kredita za finansiranje malog biznisa u Srbiji treba razmatrati u lancu tri fenomena: stvaranja, usavršavanja i odbrane zajedničkog interesa banaka i malog biznisa u realizaciji sledećih aktivnosti: (1) promocije i razvoja poslovne kulture u kojoj blagovremeno ispunjavanje svih finansijskih obaveza ima ključno mesto, (2) zaokruživanja pravno-institucionalne infrastrukture za implementaciju tehnike kolateralnog kreditiranja opreme i reproducionog materijala, (3) promocije i razvoja novih tehnika za procenu kreditne sposobnosti malog biznisa na osnovu preciznih i jasnih standarda, (4) nalaženja novih rešenja za (veoma rizično) finansiranja izvoznih projekata na osnovu generisanja i implementacije visokih tehnologija i (5) promocije novih oblika kreditiranja prava prenosa privatnog vlasništva.

Ključne reči: tranzicija, mali biznis, tržište kredita, samoregulacija, poverenje.

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1. Introduction

Economic recovery and development of Serbian economy shall be to a large extent dependant upon the dynamics of development of small business¹. In view of that, and within the scope of economic preparation of Serbia for European integrations, very ambitious goals in development of small business have been set². Special attention has been dedicated to overcoming of the problem that arises in all other countries, and which stems from the fact that entrepreneurs rarely dispose of sufficient savings for autonomous financing of dynamic works and development of their own businesses, and that the subjects of savings rarely have sufficient (individual) investment projects of good quality to absorb it. The basic solution lies with a good credit market, which successfully circumvents such gap and allocates savings to the most productive business and investment projects. The current state of this market assumes high interest rates and low supply of credits for financing of small businesses and their investment activities. What is the source of the low small business credit supply in Serbia? One may offer an

array of explanations – high macroeconomic uncertainty, great differences between the active and passive interests, insufficient savings (in terms of accumulation, i.e. productive engagement of capital, since the Serbian population disposes with a relatively high treasured savings), and the inability to offer appropriate guarantees to lenders. Analyses show that one may not expect these problems to be overcome once the macroeconomic problems are adequately resolved. Therefore, solutions for improvement of the small business credits market should be sought in joint activities of banks and small businesses aimed at development, sustainability and regulation of the market. The key issue that arises in this issue is: “How is an efficient social and economic environment to be created, in order to secure collection of credits from small businesses, and bring the pertinent risks down to an acceptable level?”

Small business in Serbia may obtain credits pursuant to three sorts of guarantees: real estate property, movable property and one's own reputation. However, implementation of such solutions encounters significant difficulties. The records on ownership over the real estate property are to a large extent inadequate and incomplete. It shall take a relatively long period of time that the appropriate records, harmonized with the European regulations, are formed. The area of collateralized credits for small business is relatively new and faces the problem of a difficult realization of a lawful and timely judicial protection of creditors' interests. Such a situation prevents formation of strong business ties between the banks, as the predominant financial institutions in Serbia, and the potential non-banking credit sources. Thereby the development of such ties is blocked, which

¹ Serbia belongs to the category of the post socialist countries in which development and constituting of market economy according to the contemporary European concept progresses with great difficulties, and temporary stalemates and retrograde occurrences. It is due to this fact that even seventeen years upon restoration of capitalism that the scope of gross national product amounts to about 65%, and the actual scope of industrial production only about 43%, as compared to the pre-transition maximum (achieved over the long passed year of 1986). One must state that evaluations show that also the production within the small business sector, which was then privately owned, is basically lower than at the end of the socialism period (some 90% of the pre-transition maximum).

² The official national strategy of economy development envisaged for the period from 2006 to 2012, dedicates to the issue of entrepreneurship and small business, either separately, or in terms of development of individual sectors, about 10% from the total solutions.

further prevents creation of one of the key channels for small business financing and development. The third and fundamental problem is a low business reputation of small business enterprises. Namely, the key feature of small business in Serbia is work in the transitional area between the official and the “shadow” economy, which results in furtherance of a large portion of trade and monetary transactions through unofficial channels. Due to such fact, data on business results of small businesses are bad (small turnover and employment, works on the very edge of feasibility, low salaries of employees etc.).

The ground thesis of this paper is that the small business credit market may not function without trust. Such thesis has been deduced in the context of responding to a very complex question: “Should the mechanisms for overcoming of failures in development of the small business credit market be sought in enactment of new statutes, regulations, restrictions and administration, or would that cause new expenditures to be borne by debtors, which would alienate the latter from the credit market to an even larger extent; and should the solutions be sought in self regulation, where the state should undertake certain actions so as to create a favorable environment for development of small business and the culture of trust?”. In conformity with such thesis, authors are of the opinion that the issue of development of the small business credit market in Serbia should be discussed in the context of three related phenomena: creation, improvement and securing of the joint interest of banks and small business in performance of the following activities: (1) promotion and development of business culture, wherein performance of all financial obligations in a timely fashion plays a key role, (2) completion of the legal and institutional infrastructure for implementation of the infrastructure for granting of collateralized credits for equipment and reproduction material, (3) promotion and development of new techniques for evaluation of creditworthiness of small businesses pursuant to precise and clear standards, (4) identification of new solutions for (high risk) financing of export projects, pursuant to generating and implementation of high technologies and (5) promotion of new forms of credits for transfer of private property.

Given all the aforesaid, the emphasis in this paper has been put to research of the following - “How can one include in development of the small business credits market the elements of its spontaneous development?” In conformity therewith, the first part of the paper analyses the basic characteristics of credit disbursements, from the perspective

of specifics of development and work of small businesses in Serbia. The second part analyses the need for different forms of credit financing. The third part elaborates in more detail the issue of expansion of the collateralized credit system, as a prerequisite for the system of outsource financing of small businesses. The fourth part elaborates the problem of implementation of small business creditworthiness evaluation mechanisms. Finally, the fifth part discusses the issue: “What are the impediments to development of the culture of trust in Serbia?”

2. Specifics of work and development of small business and the effects thereof to outsource financing

The issue of disbursement of credits for work and development of small businesses in Serbia should be discussed within the broader context of historical heritage, restoration of capitalism and transformation of the economic system, i.e. the so-called post-socialist transition. One of the basic tools thereof is privatization, which assumes transfer of the state property³ to individuals. In Serbia, as in many other countries in transition, this process approaches its final phase. However, Serbia is marked by certain specifics in this respect. While the majority of former socialist countries were characterized by the absence of private property, Serbian economy system always nurtured, save over one short period – from 1948 to 1952 – a strong presence of private sector. However, private property was institutionally and in all other respects restricted to, what is known in the contemporary economic terminology as small business. Private property was permitted in agriculture, small industry and services (handicrafts), traffic, catering, tourism and some category of intellectual services, although subject to severe restrictions in terms of entry into certain sectors and areas of business, title over agricultural land and engagement of works force. Such institutional restrictions imposed on the private sector were rooted primarily in the presocialist heritage, and not in the principles of functioning of

³ Upon the completion of transfer of entire property into state ownership (by means of confiscation and nationalization, with and without compensation), which took place immediately after the World War 2, over the period from 1950 to 1952 such state ownership was replaced by the so-called social ownership. Without any discussion on the core features of such form of ownership, we shall say that it assumed a special form of group ownership, which did not assume the right of an individual to transfer it to third parties. Upon restoration of capitalism, the socially owned property was confiscated and turned into the state owned property, subject to approximately determined reimbursement of its creators, through distribution of the so-called “gratis shares”. In cases of small, mid-size and in particular large enterprises, which could not adjust to market conditions, such shares have had none practical economic significance in terms of management and distribution rights.

the so-called administrative socialism. Such heritage encompasses primarily the social and economic bases upon which the bourgeois revolution was effected, simultaneously with the national liberation movement, aimed at ousting the government of the Ottoman Empire in the early 19th Century⁴.

Restoration of capitalism and abolishing of the institutional restrictions over the period from 1990 to 1994 resulted in large expansion of small business in Serbia, primarily through establishment of micro enterprises within the sector of services. Significant part of new businesses was created by transfer of entrepreneurial staff, business connections and proceeds from the socially owned sector in the process of spontaneous privatization, mostly by delayed payment to suppliers in the period of hyperinflation. Unfortunately, it soon turned out that new enterprises were engaged in provision of services that provided and still provide no significant potential for a dynamic development and growth within the regular course of economy. The production-related part of small business was primarily based upon the traditional activities with low technical and technological level of processing and quality. There was no development of export clusters, or network with complementary small businesses, while the productions cooperation with large enterprises was practically nonexistent, since such enterprises simply disappeared from the Serbian economy scene due to inefficient transitional macro management. Generally speaking, only a small number of small business units display proneness to a dynamic development, according to the criteria of open market economy.

The largest portion of small business is financed from two sources. The first encompasses individual assets (personal savings and other property, as well as proceeds credited from relatives and friends). The second is provided by deferral of payments towards suppliers and the state, but in the first place by evasion of fiscal obligations (acquisition and sale of products on the "shadow" market and employment of "black" work market). We indicated in Introduction certain phenomena that have not been favorable to development of small business credit market, but

we indicated that the largest restricting factors are the actual performances of average national entrepreneurs. Much is said, although indirectly, about low ethical performances of entrepreneurs, which is the basic prerequisite for existence of credibility, by the very fact that partnerships do not exist, and that even the scarce one fall apart quickly, mostly after the first larger business success or failure. On the other hand, there are many difficulties in implementation of business plans mechanisms, being the basic formal prerequisites for provision of regular outsource financing. One is particularly concerned by the fact that small businesses are poorly self-organized. Namely, the largest development of small business in contemporary market economies is spotted in the areas of concentration of complementary (i.e. production, economy, financial, research, designer and educational) and competitive small and medium enterprises, public institutions, which have been formed pursuant to individual or group initiative of the entrepreneurs themselves, within the narrow local or regional communities. As opposed to that, the social and economic space of Serbia is characterized by small, unorganized and sporadic activities in creation of a good local and regional business climate, and of a good regulation frame for work of small businesses⁵.

The government in Serbia, in particular after the year 2000, has undertaken significant efforts to improve the general social and economic regulatory frame, in order to entice development of small business. Week results show the course of changes, which are partly already in progress. Primarily, state intervention may be applied only to export clusters. Secondly, public proceeds may be used solely for financing of technical assistance in: (1) elaboration of business plans and (2) additional training for obtaining the practical knowledge on international marketing, total quality management, application of contemporary information technologies etc. On the other hand, the strategy should be decentralized to a larger extent, by transfer of responsibility for its realization to the local level and associations of entrepreneurs.

⁴ In late seventies of the previous century, under the pressure of the non-cyclic economic crisis caused by hardships of adjustment of the socialist economy system to the challenges of globalization (which was ascribed in the national economic terminology by the term "New World Economic Order"), an ambitious project for development of propulsive areas of small business was initiated. Such area was, due to ideological reasons, signified by a pleonasm "small economy", especially in case of the section of non-core and maintenance industry, and it also pertained to development of the market of credits for financing thereof. Causes of failure of this experiment have not been adequately elaborated in the national economic literature. However, from this point in time, it is clear that some of those failures still impede further expansion.

⁵ It is particularly indicative that over the period from 1990 to 2000 Serbia experienced establishment of numerous small private banks. Such banks were supposed to play a key role in formation and development of the small business credit market, due to their size and ability to establish and create direct contacts with clients. Nevertheless, bearing in mind the actual activities of such banks, which fall beyond the scope of this work, one might ask were those enterprises really banks, or something completely different, given in particular their swift and painless disappearance from the financial market upon announcement of a stricter regulation of their operations.

3. Which credit forms do the small businesses in Serbia need?

It is important to emphasize in the beginning that the notion of small business credits used herein, assumes any loan of cash, goods (equipment, transportation units, reproductive materials, raw materials) and services. The emphasis is put on the word "loan". A beneficiary of any form of outsource financing must be creditworthy. The credit must be repaid within the envisaged terms and with the interest as regularly applied on the financial market. This criterion is mentioned, due to the fact that even seventeen years upon restoration of capitalism in Serbia there are certain views according to which the state has an obligation to subsidize development of small business without any reimbursement in many cases. What is more, there are certain public funds designated for such purposes. Works of such funds are scarcely revealed to the public, maybe in order to cover their insignificant results from the taxpayers, or due to the fact that selection of funded projects has been performed according to the criteria that rank the economic efficiency as the least of priorities. At any rate, there is a need that the public legislature provides the following: (1) a general frame of regulatory, which would enable a clearer and more precise determination of the real credit rating, based upon economic performances and indebtedness of the entrepreneur in question, his company and other property; and (2) amount of the interest rate, deprived of the effects of soft budget limits and expenses of artificial maintenance of macroeconomic stability by means of depreciation of foreign currencies and monetary restrictions. Given all the abovementioned broad statements, a solution must be found to establish four subsystems within the credit market, which would be harmonized with the actual needs of small business in Serbia.

1. The credit system for financing of the production of small business. This system is supposed to provide credits over the period of one reproductive cycle, in order to create preconditions for increase of production. The purpose of these credits, combined with the assets of the entrepreneur, to enable a small business unit to procure the appropriate raw materials, reproductive materials and other inputs, in a manner which would lead to increase in productivity, as compared to the situation in which there would be no credit. In other words, the issue comes down to maintenance of leverage between the credit, production costs and productivity growth.

2. The credit system for overcome of the current work problems in small business. Any invest-

ment activity of a small business unit from private proceeds and current revenues represents a serious threat for its sensitive financial balance. In case of onset of unforeseen problems in cash flow, such as belated collection of receivables, occurrence of unforeseen conjuncture variations in consumption, delays in current reproduction cycle caused by problems in supply of reproductive and raw materials, onset of large damages on equipment, one needs urgent and additional financing.

3. The investment credit system for small business. This system encompasses long-term and midterm multi purpose credits. Long-term credits should be designated solely for additional financing of construction of real estate property and the accompanying infrastructure, or for planting of long term plantations. Midterm credits should be used for procurement of equipment and transportation units.

4. The credit system for finance transfer of ownership in small business. One should differentiate between two characteristic cases. The first is the issue of transfer of ownership rights in case of takeover of key resources of small business by creditors, due to inability of the owner/entrepreneur to settle the undertaken obligations. The second arises with the owner/entrepreneur becomes unable, due to objective reasons, such as old age, illness etc., to run his business, and there is no identified individual interest for a direct transfer of ownership.

Once the issue of development of small business credit market has been defined in the above manner, the further course of this paper shall discuss the following: (1) basic aspects of introduction of the minimum institutional support for introduction of the collateralized credit system, (2) contents of the activities on promotion of certain untypical lending forms for transfer of ownership rights, (3) promotion and development of new techniques for evaluation of credit rating of a small business, pursuant to precise and clear standards, based upon the criterion requiring that the implementation thereof must be founded on selfregulation and strengthening of trust between the lender and the debtor and (4) problem of formation of market for risky lending to export projects, based upon generating and implementation of high technologies.

A. Options for reform of the collateralized transaction system

Introduction and implementation of the collateralized credit models should play a key role in disbursement of credits and mid-term financing of investments in small businesses. This, primarily, per-

tains to dealers of equipment, raw and reproductive materials and transportation units. Introduction of dealers, as intermediaries in these transactions, represents actually the only real involvement of the currently existing bank driven economy into small business credit system. Let us discuss the issue of credit for procurement of equipment. Dealers, as opposed to banks, by the very nature of their work have frequent contacts with their clients – through maintenance of equipment, sale of spare parts etc. They are therefore much better acquainted with the debtor and his real capability to repay the credit within the contracted terms, and are able to monitor the whereabouts of the collateral in possession of the debtor.

In order for the system of collateralized credit to be introduced into the national small business outsource financing system, it shall be necessary to establish a national registry of collaterals in the first place. Instead of waiting for the state to resolve the problem, banks and entrepreneurs should initiate, together with the Bar Association of Serbia, the creation of a network of authorized law offices, which would be linked into a single information system through the Internet. Introduction of the collateralized credit system requires also furtherance of significant changes within the insurance system. Institutions that undertake to deal with insurance of property that serves as collateral must render compensation of damages due to partial or full destruction, or alienation of such collateral. Terms of compensation should be clearly, precisely and transparently defined, and it should assume the shortest practicable periods of time. State intervention should not be required in these cases either. The banks, dealers and insurance companies must find the appropriate solutions on their own instead. Finally, it is of an utmost importance that the legal practice in Serbia be enriched by an efficient system of protection of collateral interests. Given that the national judicial system may not fully meet all of the above obligations, it is necessary to enable that the collaterals be seized and sold directly in case of failure to meet the credit obligations, under terms that are strictly and precisely governed by the law.

B. How can the problem of credit for transfer of ownership in small business be resolved?

Avenues to be pursued in activation of the credit market towards development of small business should be sought also in creation of new financial instruments, aimed at transfer of ownership within

the national banking system. It is necessary that the very banks, which are unable to collect their receivables from small businesses, initiate creation of the ESOP credits, which would be available for repurchase to employees; or to introduce specific long-term mortgage covered credits for repurchase of the entire small business unit; or to enable takeover of business premises and equipment. Introduction of such credit forms would make room for inclusion of banks into the ownership transfer process in case of onset of uneconomical events that might jeopardize existence of a small business unit. On the other hand, such situation would worsen the problem of technical ability of the national banks for credit to small businesses to a great extent. Namely, that would open the debate on the issue: "How will a bank, that has once made a wrong decision in credit to reproduction project, avoid mistakes in credit to sale of an entire enterprise?" Thus, banks must do much more in terms of promotion of practicalities for elaboration and verification of trueness of business plans. The basis for furtherance of such actions would be that the banks themselves or their appropriate departments do more in promotion of business plan elaboration techniques, and to provide services of continued education and professional counseling of entrepreneurs for elaboration thereof. It is particularly necessary to put an emphasis to the principle of trueness, wherein both parties must find an interest - the banks to find a reliable client, and the clients to recognize the banks as business partners that builds its interest on distribution of newly created value, arising from the respective credit transactions.

C. Why is it important to have a business plan of good quality in development of the small business credit market?

Great efforts were invested in Serbia in the years 2001 and 2002 into a thorough implementation of business plan elaboration techniques and their unification per regions and activities. However, end results of this action turned out to be unclear and represent only one of numerous examples of murky and manipulating transition. We will limit our discussion only to the details defining the needs of users thereof (in this case the banks), and we shall disregard what are the views of entrepreneurs, according to their needs. Let us therefore look for an answer to the question: "What does a banker expect to see in a business plan?" Obviously, the answer is not simple, but we shall strive to determine how an

entrepreneurowner should respond to such question

*Table No 1.):

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<i>Banker's goals:</i>	<i>Basic fields of interest are:</i>
<ul style="list-style-type: none"> • Financial security • Actual profit within a short term • Long-term business cooperation 	<ul style="list-style-type: none"> • A plausible business plan, based upon the following: <ul style="list-style-type: none"> - Entrepreneur-owner, who possesses high ethical and business performances and a positive financial attitude, - Conjuncture material and immaterial products (goods and services), - Cash flow projects that display how would the credit be revolved under a growing dynamics, - Realistically evaluated future financial needs. • Other factors for risk minimization: <ul style="list-style-type: none"> - Insurance of security pledges (mortgage, collaterals) - Counter signatories for the credit - Inclusion of financial professionals as members of the board that was assigned to determination of the contents of the financial construction, - Information that point to occurrence of possible losses, - Information that provide knowledge on largest commitments and the dynamics of their timely performance • Other relevant information necessary for rendering of the decision on the credit

D. Why is there a need for the market of risk-bearing credit to small business export projects based upon generation and implementation of high technologies?

What is seen as one of the largest uncertainties is the formation of risk-bearing credits for financing of small business reproduction projects based upon generation and implementation of high technologies. It is primarily important to point out that this phenomenon does not assume credit to small and mid-size enterprises with a high profit generating potential, based on generating and economic valorization of high technologies. In Serbia there is almost none enterprise, or undertakings, having high profit potentials in hightech industries. However, if the notion is modified and determined as the business initiative for enhancement of development of small and mid-size enterprises by export based upon implementation of high technologies, there is a public interest for their inclusion into the small business credit market. Namely, in the context of the aggregate national restrictions, any export-oriented production represents a high risk commercial undertaking. On the other hand, orientation towards export is actually the only realistic guaranty that a production

enterprise would provide cash flow necessary for timely maintenance of investment credits in a middle and long term. In any event, it is a challenge that requires appropriate solutions, especially in view of the fact that development of such enterprises should play a key role in creation of prerequisites for an efficient functioning of market economy in Serbia in the future.

4. What are the impediments to development of the culture of trust in Serbia?

When discussing the causes that impede development of the culture of trust, authors have put the issue of development of small business credit market into the context of creation of enticing social and economic framework for restructuring and development of export industry. It is that very field that suffered none core changes. To the contrary, various reforms have taken place, that resulted in downfall of the export industry in Serbia, especially in the field of electronics and metal and consumer goods production, and which essentially diminished the space for development of the most propulsive areas of small business. The state is such that there is none realistic private initiative in Serbia, which wou-

ld be aimed at development of export industry. Experiences from the period over the years 2001-2007 show that not even introduction of institutional reforms, similar to the ones furthered in the European Union, focused on acquisition of trust of foreign investors, has not resulted in an explosive growth of external financing of development programs. It turned out that servicing of import of goods from highly developed countries for foreign capital is a more attractive and less risky alternative than investing into development of export industries. Why hasn't there been any actual private initiative in Serbia over the period of seventeen years aimed at development of the export industries and the most propulsive segments of small business related thereto? In our opinion, the answer should be sought also in one factor that signifies Serbia as a small and underdeveloped country, which so much as two whole centuries after the authentic bourgeois revolution fails to enter the circle of modern European market economies by means of its development performances. We refer here to the aforementioned fact of domination of distribution-oriented coalitions⁶.

Although small and underdeveloped, Serbia is full of distribution-oriented coalitions, which cover all levels of its social and economic being, in the form of a pyramid. The parties in power represent the key distribution-oriented coalitions, to begin with. Such orientation is displayed through party members, as the exclusive criterion for occupation of influential positions in economy and public sector. Such occurrence spreads, pursuant to the principle of concentric circles, in such a scope that virtually all resources, forces and political powers are aimed at distribution of anything that exists, which explains the largest part of the development blockade in Serbia. Naturally, not all distribution-oriented coalitions dispose with the same power in apprehension

of national product and wealth. The ones at the very top of the society are the most powerful and the most inconsiderate. At each following lower level of the social and economic organization are, similarly to the hierarchically organized bureaucratic system, other distribution-oriented coalitions, which serve as a justification or concealment, in the political and any other sense, of the ones at the upper level. Obviously, a large part of small-business players is included in the appropriate distribution-oriented coalitions, since belonging to the appropriate one serves as a prerequisite for unsanctioned furtherance of business within the transitional area between the official and "shadow" economy. Therefore a large part of its transactions in goods and services is furthered through unofficial channels.

One of the most severe consequences of such basic social and economic determinations is the change in the system of value in Serbia. The principal characteristic thereof is that the ability to apprehend more, in whatever way, is appreciated more than the ability to create national product and wealth. Consequently, radical changes took place in the overall goals in life (decline of interest in learning and the production-related professions, and increase of interest in professions related to distribution of the created values, as well as the "inflation" of diplomas in the area of higher education). This even goes to the extent that any obligation to achieve positive results of work and successful completion of tasks is rebutted. It was thereby that work, creativity and trust, which have never occupied a high place in the hierarchy of the national system of value, have been replaced by a model of solving of professional and life problems by speculation, evasion of tax obligations, fraud, usurpation, crime, etc. Obviously, in such a system of value, it does not make sense to speak of the necessity of hard work on development and improvement of international competence of individuals and competitiveness of any social and economic office, be it a commercial or public function (service), an enterprise, or a state.

Existence of distribution-oriented coalitions naturally is not the only, but is quite a sufficient reason for an overall regression, which most apparently appears as a continuous decrease in competitiveness of Serbian economy, and crucially narrows the ability of development of the most propulsive segment of small business and market of credits for its financing. Surely a part of the said system of value and the culture supporting such orientation arises from well back in time, but we are of the opinion that one should be very cautious in terms of validity of state-

⁶ This notion denotes special interest groups, which secure improvement of their positions in distribution of national product and wealth by mutual associations, without an adequate personal contribution to sustainability and increase thereof. The principal social and economic characteristics of such distribution-oriented coalitions are: (1) proneness to development of monopolistic political, social and economic structures, (2) weakening of interest in adaptation to social, economic and cultural changes in the surrounding environment, (3) proneness to (ab)use of administrative and hierarchical mechanisms, instead of the market mechanisms of evaluation and allocation; and (4) proneness to enticement of development of distribution-oriented coalitions on the lower levels of social and economic organization, aimed at concealment of actual intentions of players from the key special interest groups. Causes and effects of development and actions of the distribution-oriented coalitions in Serbia are elaborated in: Adžić, S. i Popović, D. (2005). Fiskalni sistem i fiskalna politika – njihov doprinos unapređenju konkurentnosti privrede: Slučaj Srbije. *Ekonomija/Economics*, br 1, 173 – 200.

ments that tie the expansion thereof specifically to the attempted experiment with socialism. Namely, one may not disregard the fact that over the period of socialism and within its framework, over a relatively long period of three decades, a very sound rate of economic growth was achieved, and important social and economic changes occurred, much more significant than national independence. It should be also said that Serbia currently is far away from the previously achieved maximum production and standard of living, and that basically nothing has been done over the seventeen years of restored capitalism in terms of renovation of development propulsion and creation of the culture of living and work, in line with the criteria of contemporary market economy where trust plays a key role in transactions between individual players from private sector.

5. Conclusions

The banking sector in Serbia experienced a very fast growth over the past few years. The initiators of changes were the foreign banks, which brought along a new business culture and a mentality that spread to day to day operations. The scope of their influence spreads broadly – from a deep systematization, strict business plans and a strong central control, to a high proneness to risk, aimed at fast seizure of the market, with a large degree of remittance of key decision making to the local management, all in the context of interest for entry into the last unoccupied market of South East Europe, which has a high growth potential. One may expect a new phase in development of banking in Serbia, as a consequence of the fact that takeover of the almost complete national banking system has been completed, and that the period of fast, easy and high return on capital approaches its end, which was available to a group of (foreign) banks that entered the market first. The hard competitive struggle for sustaining and improvement of the market position begins. Naturally, in such an environment, a greater interest of banks for financing of operations and development of small business in Serbia was missing. This statement may be substantiated best by the fact that the majority of these projects has been furthered under the auspices of either the government, or the specialized international financial organizations, the European Bank for Reconstruction and Development in particular, which wanted to expand the very thin social and economic base of capitalism in Serbia by these measures.

The small business credit market in the transition countries, such as Serbia, differs in many as-

pects from the ones of the contemporary market economies. This is so not only due to the fact that it was only in early nineties of the previous century that the basic institutional principles for its functioning were created. The causes thereof are much deeper and complex, and go back to the very foundations of functioning of the overall social and economic system in Serbia, which reflects in a persistent maintenance and development of an array of distribution-oriented coalitions, which in the long run block productive development, and give a totally different actual meaning than the ones predominating in contemporary market economies to phenomena such as economic freedoms – openness, stable currency, low taxes and low regulation. It is therefore that the state failed to move forward the development of small business by its numerous and uncoordinated actions based upon the (unsuccessful) imitations of institutional reforms and application of techniques characteristic for European environment. It is understandable those interests of the lender must be legally defended and applied, and that it is not done quite so in Serbia, but this is not enough. One may draw certain concrete conclusions from this context, which would be applicable to the current social and economic status of Serbia and development of small business credit market.

Primarily, credit to small businesses should be focused exclusively to small and mid-size production enterprises, oriented towards export.

Secondly, the system of credit to small businesses should encompass four subsystems: (1) the system for credit to current reproduction. The principal function of this system would be to enable small or mid-size enterprises to procure the necessary raw and reproductive materials, and other inputs that would lead to increase in productivity and economic efficiency, as compared to the situation where the credit would not be disbursed; (2) the system of credits for circumvention of onset of unforeseen problems in cash flow, which are beyond control of the entrepreneur-small business owner; (3) the system of investment credits, which primarily serve for procurement of new equipment and means of transportation; (4) the system of credits for an efficient, regular and timely transfer of property rights over small and mid-size enterprises.

Thirdly, solutions for development of the small business credit market should be sought on the basis of projects of cooperation between the banks and associations of small businesses, subject to a minimum public intervention and regulation with respect to: (1) development of the necessary institu-

tional support and business culture and ethics for implementation of techniques of collateralized credit for equipment and reproduction material; (2) identification of solutions to enable rational decrease of risk in credit to small and mid-size enterprises, based upon generating and implementation of high technologies (wherein the state should be included, but only upon the joint initiative and proposal of small business players and the banks); (3) promotion of new forms of credit for transfer of property rights in small business.

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