MASARYK UNIVERSITY, BRNO

Faculty of Economics and Administration

Essay:

Financing of the SMEs in Serbia and special challenges facing women-owned and managed SMEs

Course: Finance (Basics)

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Overview

Small and medium enterprises are businesses whose personnel numbers fall below certain limits.

The European definition of SME follows: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.

Company category	**Staff headcount**	**Turnover**	or	**Balance sheet total**
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

SMEs in Serbia

The Serbian Accounting Law (2013) defines an SME as an enterprise which fulfils at least two out of three conditions: employees up to 250, operating income up to EUR 35 million and total assets up to EUR 17.5 million.

Based on the latest research, ratio of the self- and external funding sources in SMEs is 3:1, this being one of the major obstacles for further economic growth of SMEs. SMEs' share in total number of enterprises in Serbia, as well as their role in economic growth and development, is growing year after year. According to the latest available official data, in 2009 SMEs on average accounted for 99.8% of the total number of economic entities, 42.3% of employment, 33% of GDP.

Debt financing is the most widely used source of external finance by the Serbian SMEs, but is still unreachable for many, especially for innovative enterprises, because of high interest rates, high banking costs and high collateral requirements.

In Serbia, unlike the EU, until recently there were no initiatives to support SMEs with high growth rate even though they were known to contribute significantly to dynamism and innovativeness of the economy. Financing difficulties are even more emphasized in transition economies because of undeveloped financial markets, unfavourable terms of debt financing and insufficient volume and scope of government support programmes.

According to the **SME Development Strategy for 2015 to 2020**, which was adopted by the Serbian government, Serbia will have 350,000 small and medium-sized enterprises employing 950,000 people in 2020. In order to achieve many of the Strategy goals the Government has adopted 6 pillars - improve the business environment, easy access to the sources of finance, development of human resources, strengthening the sustainability and competitiveness of SMEs, improve access to new markets, develop and promote the entrepreneurial spirit, encouraging women's, youth and social entrepreneurship.

Special Challenges Facing Women-Owned and Managed SMEs

There is increasing awareness of the important contribution that women entrepreneurs can make to build and strengthen the SME sector.

In some countries women have been known to create enterprises at rates faster than men, making substantial contributions to job growth along the way, but they also face unique difficulties in getting finance (for example, Ireland, Spain and the Unites States are countries where the number of women-owned SMEs has increased more than men-owned SMEs.)

The typical profile of a female entrepreneur in Serbia is a middle-aged woman from an urban area with high-school education who is married, lives in a medium-sized family and household and has children. Women in Serbia mainly run microenterprises, operating in the service sector and in the local market.

The things that make the situation even more difficult for them are gender bias, socio-economic constraints, and lack of access to business networks. For example, women can have trouble posting adequate collateral because of the way in which their marital property (collateral) is often registered.

They can face negative prejudice from lenders about their capacity and commitment to succeed in the “tough” world of business. They can sometimes have difficulty in building reputational collateral or demonstrating a consistent track record running their business as a result of family obligations, such as having a baby that may cause them to take time off. They also lack access to business networks that are often male-dominated, loosely formed, and conduct as much business in the café as the conference room.

While the participation rate in taking formal finance is very low for all SMEs, it is even lower for women-owned than men-owned SMEs by a divide of nearly 25 percent. Women-owned SMEs rely on friends and family for finance more than they do banks, whereas the opposite is true for men-owned SMEs. When they do borrow, the also borrow less. Women-owned SMEs are also less likely to seek formal enforcement of a credit contract – over 75 percent indicated they have no interest in attempting enforcement.

Gender-related constraints need to be part of the reform agenda for improving SME access to finance.

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