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3.10 DEVELOPMENT OF SMEs AND SMALL FARMS IN AGRIBUSINESS IN SERBIA

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ABSTRACT

Small and medium enterprises and small farms are recognized as important factors in the development of agribusinesses in the Republic of Serbia. The wealth of natural, human and material resources which have not been effectively exploited in agribusiness, as well as agribusiness' significance in the economic development of Serbia are opportunities for SME development. Due to their national importance, this paper is about SMEs and small farms in agribusiness in the Republic of Serbia. Long-term inadequate agrarian policies in the agricultural sector have led to uncompetitive and inefficient agrarian production, decrease in the number of entities in agribusiness, small households, and insufficient government support in agribusiness development.

This paper will present the current situation of SMEs in agribusiness and outline the problems threatening their development through a SWOT analysis. The SWOT analysis will showcase the strengths, weaknesses, opportunities and threats faced by agribusiness in the Republic of Serbia. In accordance with the results of the SWOT analysis, this paper will conclude with recommendations and suggestions to the government. Adopting these recommendations and suggestions would ensure that some opportunities in the agribusiness sector are transformed into strengths, and some existing weaknesses and threats are reduced or eliminated.

Keywords: agribusiness, SMEs, small farms, development, SWOT analysis
JEL Classification: Q13, O13, R28

3.10.1 ROLE AND SIZE OF AGRIBUSINESS IN THE COUNTRY'S OVERALL ECONOMY

Structural adjustments that occur as a result of the transition process in most developing countries can cause changes in overall GDP, domestic and foreign investment, employment and public finances. Entities, whose level of economic activity vary in accordance with their capacity to absorb transition effects and adapt to changes, are experiencing the effects of structural changes as well. An analysis of the developing countries that have successfully undergone the transition process indicates that small and medium-sized enterprises are a stable source of job creation. They perform an important social function because they absorb the labour surpluses resulting from the state-owned enterprises' transition to socially-owned ones (Erić, Beraha, Đurićin et al. 2012, 9). In the Serbian economy's transition process, it is vital that the agro-industry sector is developed. As the only sector with surpluses in foreign trade, agribusiness contributed to 30% of GDP in 2013 and is recognized as a generator of Serbian economic development. This demonstrates that adequate development of the SME sector can lead to positive economic progress.

The concept of agribusiness in the Republic of Serbia was used for the first time in 1960. At the time, agribusiness was understood as a modern system of food production and distribution. The Law on Agriculture and Rural Development (Službeni glasnik RS br. 41/2009 i 10/2013) defines two aspects of agriculture:

- Primary agricultural production – is defined as the area where pri-

many plant and animal products are produced, finished or processed for specific human needs.

- Modern agriculture or agribusiness – is the sum of all operations related to the production and distribution of agricultural inputs, and production operations at the farms including the processing and distribution of agricultural raw materials and products (Zakić and Stojanović 2010, 110).

In modern agriculture, there are four main sectors related to the production and distribution of food and agricultural products:

- sector of agricultural inputs (also known as the pre-farm sector),
- sector of agricultural production (also known as the farm sector),
- manufacturing sector (production of agri-food products), and
- service sector.

The modern concept of agrarian production implies cooperation and coherence between the different agrarian activities and participants. This ensures efficiency in production and distribution of products, more efficient use of available resources, and the increase in satisfied customers of agri-products. Apart from the development of primary agricultural production, which is the basis for improving the quality of food products, it is necessary to develop distribution of products and improve the quality of the labour force responsible for the production and service processes in agribusiness. The main actors and subjects in agribusiness, who should establish adequate cooperation with one another, can be divided into the following categories:

- 1) Activities of agribusiness – The modern agriculture sector consists of basic activities such as production, distribution, exchange and consumption of goods. Financial activities that occur as a result of interaction with banks and other financial institutions are also considered part of agribusiness activities.
- 2) Agrarian subjects – Agrarian subjects are individuals or organized groups of individuals who make their own decisions to use available resources in agribusiness and carry out the risk of failure. They can be divided into three categories: (i) governmental institutions, (ii) public agricultural enterprises in state ownership, and (iii) SMEs and small farms in agribusiness. As preferences and goals of agrarian subjects are not similar, governmental institutions creating programmes for agribusiness development should take into account the different interests of each participant.

- 3) Agrarian institutions – Agrarian institutions have a duty to provide a legal framework for agribusinesses. They also have to implement a system of checks and penalties to ensure that all agriculture-related subjects and activities are in accordance with the law. Since agrarian governmental institutions are confronted with the dichotomy between different subjects and their preferences, their main goal should be the management of agribusiness so as to ensure that agribusinesses maintain an acceptable self-sufficiency in the production of healthy food, make optimal use of natural resources, and maintain a balance between different areas of interests. The most important agrarian institutions in Serbia are the Ministry of Agriculture and Environmental Protection, Directorate for Agrarian Payments, Directorate for Agricultural Land, Directorate for Agricultural Inspection, Agricultural Extension Service, the Serbian Environmental Protection Agency (SEPA), etc.
- 4) Resources – Renewable and non-renewable sources are used when different tasks are performed. They can be divided into natural, human and material resources. Natural resources are critical to agribusinesses. The availability and quality of natural resources affect food production and determine the success of the food in the market. Production activities cannot be carried out without human resources with appropriate knowledge and skills. Less labour would be employed in agricultural production if the material resources were of better quality.

Agricultural land is highly utilized in the Republic of Serbia. Quality land is very important to the development of primary agricultural activities like farming and vegetable growing. Table 1 provides an overview of the utilized agricultural land in Serbia, as presented in the "Census of Agriculture 2012" by the Statistical Office of the Republic of Serbia.

Land	Total ha	%
Arable land	2,513,154	73.1
Meadows and pastures	713,242	20.7
Fruit plantations	163,310	4.8
Vineyards	22,150	0.6
Kitchen gardens and nurseries	25,055	0.7
Other permanent crops	512	0.1
Total	3,437,423	100.00

Table 1. Utilized agricultural land in the Republic of Serbia, 2012

Source: "Census of Agriculture 2012," Statistical Office of the Republic of Serbia.

The total land area used for agricultural activities is 3,437,423 ha. Agricultural land makes up 70% of total utilized land, while 30% remains forested. Arable land makes up the largest share of agricultural land at 73.1%. Cereals are produced on 68% of land, while wheat takes up of 24% of land. Meadows and pastures occupy 20.7% of utilized land. Fruits are produced on 4.8% of land. Vineyards take up only 0.6% of land. Due to the weather conditions in Serbia and the consequences of drought, irrigation is very important to the development of agriculture. Only 3% of total agricultural land in Serbia is irrigated, and the structure is given in the following table.

Land	Total ha	%
Arable land	84,858	85.05
Meadows and pastures	602	0.60
Fruit plantations	13,344	13.37
Vineyards	215	0.22
Other permanent crops	754	0.76
Total	99,773	100.00

Table 2. Irrigation of total utilized agricultural land in the Republic of Serbia, 2012.

Source: "Census of Agriculture 2012," Statistical Office of the Republic of Serbia.

Table 2 presents the irrigation of agricultural areas in Serbia. According to "Census of Agriculture 2012", 85.05% or 84,858 ha of arable land is irrigated, while only 0.6% of meadows and pastures are irrigated. These findings are shocking when Serbia's water resources are taken into account. More than 250 square kilometres of Serbian territory is occupied by lakes with areas larger than 4 square kilometres. Flowing rivers take up 4,338 kilometres in Serbia, and some of them have international watercourses vital to the development of river transport. Channels flow through more than 939 kilometres of Serbia. These water resources represent tremendous potential for the development of an irrigation system in the future, which would improve the quality of agricultural production and ensure the protection of crops during periods of drought.

Another important resource in agriculture is human resource or labour. The use of available resources cannot be effective without an adequate labour force to deploy them to their full potential. In numerous educa-

tional institutions in Serbia, students learn about the different aspects of agribusiness such as the fact that modern methods of production can improve both yields and financial results. The Republic of Serbia has 5 faculties of agricultural studies, 3 agricultural high schools, 10 institutes of agriculture, and more than 30,000 agricultural engineering graduates with different specialties. These agricultural institutes and faculty members are involved in numerous scientific research projects, including research with a large number of regional research institutions and educational organizations. Almost every region in Serbia has its own chamber of commerce monitoring and enforcing national agricultural legislation, as well as offering advisory services and assistance to farmers.

	Total	1-2 persons	3-4 persons	5-6 persons	7 and more persons
Share in %	100.00	68.62	27.06	3.97	0.35

Table 3. Total labour force in agricultural holdings in Serbia in 2012, in %

Source: "Census of Agriculture 2012," Statistical Office of the Republic of Serbia.

Table 3 shows the total labour force in agricultural holdings in the Republic of Serbia, according to "Census of Agriculture 2012". 69% of agricultural holdings have one or two employees, while 27% of agricultural holdings have three or four employees. Females make up 43% of all employees in agricultural holdings, while 17% of family holdings are owned by women. 94% of agricultural holdings are managed by their owners, while few employees are hired as managers.

Next to human resources, material resources are also very important for the quality of agricultural products. Mechanization is the main material resource in modern agricultural production. Mechanization is used for the production of cereals, fruits and vegetables. The tractor is the main machine used for agricultural production. In the Republic of Serbia, 50% of all holdings own a tractor. As 95% of all tractors in the country have been in use for more than 10 years, it can be concluded that mechanization in the Serbian agricultural sector needs updating. Inadequate mechanization is often due to the lack of financial funds for investment.

3.10.2 BUSINESS INDICATORS OF SMES AND SMALL FARMS IN AGRIBUSINESS

The Statistical Office of the Republic of Serbia uses several indicators to measure the development of SMEs in agribusiness. It takes into consideration the number of enterprises, number of employees, total turnover, and gross value added (GVA). The most recent available data is for 2013, and it is published in reports by the Statistical Office of Republic of Serbia

Entities	2013
Micro	5,525
Small	917
Medium	307
Σ SMEs	6,749
Entrepreneurs	9,490
Total	16,239

Table 4. Number of SMEs in the agribusiness sector in 2013

Source: "Report on SMEs and Entrepreneurs in 2013," Ministry of Economy and Regional Development, and National Agency for Regional Development

There are 6,749 SMEs in the agribusiness sector. Entrepreneurs make up 9,490 of all agribusiness entities. These SMEs and entrepreneurs come together to make a strong agricultural sector, as they form a total of 16,239 companies in 2013. SMEs comprise 7.24% of the agribusiness sector. Entrepreneurs in agribusiness make up 4.27% of the total number of entrepreneurs in Serbia. Together, they form 5.15% of the total number of SMEs and entrepreneurs in Serbia. Table 5 presents the main development indicators of small and medium enterprises and entrepreneurs (SMEEs) in agribusiness in Serbia.

CHARACTERISTICS	SHARE in %
Share of SMEEs in the agribusiness sector against total number of SMEEs in Serbia	5.15
Share of SMEE employees in the agribusiness sector against total number of employees in SMEEs in Serbia	8.2
Share of total turnover of SMEEs in the agribusiness sector against total turnover of SMEEs in Serbia	12.22
Share of gross value added in SMEEs in the agribusiness sector against total amount of created gross value added in SMEEs in Serbia	10.47

Table 5. Characteristics of SMEEs in the agribusiness sector in Serbia in 2013, in %

Source: "Report on SMEs and Entrepreneurs in 2013," Ministry of Economy

and Regional Development, and National Agency for Regional Development

Small and medium enterprises and entrepreneurs (SMEEs) employed 85,915 persons in 2013. Individually, entrepreneurs employed 20,908 people and SMEs employed 65,007 workers. Employees of agribusiness SMEEs in 2013 made up 8.2% of the total number of employees in SMEEs in Serbia. This means a significant number of SMEE employees work in the Serbian agribusiness sector. Total turnover also shows the development of the agribusiness sector. The total turnover of SMEEs in agribusiness was EUR 6,093 million; EUR 5,443 m of which came from SMEs and EUR 650 m came from entrepreneurs. SMEEs in the agribusiness sector made 12.22% of the total SMEE turnover in Serbia in 2013. Agribusiness SMEEs' contribution to gross value added (GVA) in Serbia can be calculated from existing national GVA. In 2013, SMEs in agribusiness created EUR 755 m of GVA, while entrepreneurs created EUR 125 m of GVA. Agribusiness SMEEs contributed to 10.47% of GVA made by all SMEEs in Serbia in 2013.

3.10.3 CHANGING AGRIBUSINESS IN THE REPUBLIC OF SERBIA

The characteristics of agribusinesses in Serbia have been changing over time, in line with the transition to the market economy and new market demands. Prior to the transition period, the so-called Soviet model of industrialization dominated in the Republic of Serbia and economic development was based on this model (Zakić and Stojanović 2010, 237). The Soviet model involved intensive development of industries, at the expense of agricultural development. Policymakers of the time believed that it was better to invest more intensively in the development of industry because of higher investment in this sector and their desire to stimulate national productivity growth and employment. The effects of higher investments in agriculture were insufficiently explored at that time. This pro-industry development model has left a lasting impact on domestic agriculture, which still faces problems such as an uncontrolled exodus of people from the rural areas to the cities, primary agriculture that lags behind modern technological trends, and the lack of a common production strategy encompassing all aspects of agribusiness. Given that the number of agribusiness companies has varied over time according to changing business conditions, the number of SMEEs and small farms in Serbia in 1953-2012 are presented in the following table.

Year	SMEs, entrepreneurs and cooperatives	Small farms
1953	7,586	1,260,553
1969	1,066	1,149,021
1981	1,774	1,198,433
1991	1,550	1,175,706
2002	1,059	778,891
2012	3,000	628,552

Table 6. Structure of the agrarian sector in Yugoslavia, 1953-2012

Source: "Statistical Yearbook of the Republic of Serbia 2013," Statistical Office of the Republic of Serbia

Inadequate agricultural policy and population migration from rural areas to urban ones have led to a reduction in the number of enterprises and small farms in agribusiness. A significant decrease occurred in the last decade of the twentieth century, when the number of small farms fell to 778,891. According to "Census for Agriculture 2012", their numbers continue to decrease.

When Serbia began the transition towards a market economy, there were different entities in the agricultural sector – small farms that are traditionally oriented, SMEEs and cooperatives in primary agricultural production that are entrepreneurially oriented, and SMEEs in agro-industrial production that are industrially organized. Their characteristics are gradually adapting to new structural changes in the country. Modern primary agricultural production is the main activity of small farms, which is one part of agribusiness SMEEs and cooperatives in Serbia. Unlike other agribusiness enterprises in the EU, Serbia agribusiness SMEEs and cooperatives are less efficient due to underutilization of natural and human resources. The average size of owned land in the EU is 17.7 ha, while it is 3.5 ha in Serbia. This indicates the excessive fragmentation of land in Serbia as well as its inadequate use, which has resulted in uncompetitive production and more expensive products. The number of residents who are fed by an active farmer in EU is 26, while this number is 6 in Serbia. Countries in the region like Romania, Bulgaria and Hungary have more residents who are fed by an active farmer, as these figures are at 8, 16 and 9 respectively. Because of low productivity in primary agricultural production and small agricultural farms, Serbia has fewer competitive products in international markets. SMEEs in agro-industry also have problems in production, especially in the utilization of installed capacities. Less than 20% of installed capacity is used in the agro-industry, compared to the 80% usage in the

tobacco industry, and the over 50% usage in the alcohol and oil industries. Poor utilization of capacity utilization can increase the production costs of products, and lead to more expensive and less competitive products.

Changes in agriculture in Serbia primarily stem from new trends in the market. The current market trend is the demand for healthy and environmentally friendly food. These changes are related in the structure of the product range and the mode of production. Intensive development of organic production in Serbia would enable the country to meet this trend. Thus, the production of organic produce is an opportunity for Serbia's agribusiness sector. Serbia should exploit this opportunity because 80% of its land is uncontaminated. With so much unspoiled land, Serbia can potentially make a significant contribution to the supply of organic agricultural produce. The "Law on Organic Production" was adopted in 2011 to encourage the development of organic produce in the country. Most of the land in Serbia is dedicated to organic vegetables. Also, there have been recent developments in organic livestock production.

Categories	Share of organic land in total land	Categories	Number of livestock and poultry (organic)
Crop production	41.31%	Large livestock (cattle, horses, donkeys)	230
Fruit production	46.36%	Small livestock (sheep, goats, pigs)	983
Vegetable production	4.77%	Poultry (chickens, ducks, geese, turkeys)	3,600
Pastures and meadows	7.57%	Beehives	4,394

Table 7. Organic production in Serbia, 2012

Source: Serbian Chamber of Commerce, and National Association for Organic Production (Serbia Organica)

Although SMEs in organic production receive grants and support under the country's legal framework, lack of cooperation among small producers and poor development of agricultural cooperatives have resulted in Serbia's inability to offer competitive agricultural products to the international market. These problems are the consequences of unresolved property and legal issues related to the grey economy, inadequate access to capital markets (SMEs vs. large companies), and inadequate agrarian policies in previous years. Lack of support for the development of cooperatives, small farms and SMEs in agribusiness has rendered them incapable of competing

with large production and distribution chains. This, in turn, has negatively impacted the competitiveness of agribusiness in Serbia.

3.10.4 COMPETITIVENESS OF AGRIBUSINESS AND SMALL FARMS

Although Serbia has significant natural and human resources, quality land for agricultural production and rich water resources, agribusinesses in the country are not competitive. The intensive development of industry in past years has led to the agribusiness sector's low competitiveness. The competitiveness of agribusinesses is further hampered by inadequate agricultural policies, low productivity and low efficiency in use of resources. The agricultural sector is significant for Serbia's foreign trade balance, as the country is a net exporter of agricultural and food products. The volume of foreign trade activities indicates the competitiveness of the sector (Pantić, Filimonović 2013, 582). Agribusinesses have contributed 23% more to Serbia's exports than imports in recent years. The country exports 80% of primary agricultural products and imports 65% of primary agricultural products. A lot of raw materials are exported, with wheat making up 21% of exports and fruits making up 17%. As Serbia does not produce many expensive products, the country's agricultural sector exports much of its raw produce. Grains, fruits and nuts, sugar, fats and oils, and beverages have been Serbia's major export products for years. They form 60% of all agribusiness exports. Serbia has a varied structure of agricultural imports. Fresh fruits, various food products, tobacco and tobacco products, animal feed, coffee, tea, spices, chocolate and cocoa are Serbia's main imported products. These goods make up 40% of all agricultural products imported.

Entities	Export	Import
Micro	89,623	43,009
Small	210,173	93,053
Medium	462,781	237,405
Entrepreneurs	7,628	14,442
Total	770,205	387,909

Table 8. Export and Import Indicators of SMEs in the agribusiness sector in 2013, EUR

Source: "Report on SMEs and Entrepreneurs in 2013," Ministry of Economy and Regional Development, and National Agency for Regional Development

Exports of SMEEs in agribusiness total EUR 770,205. Medium enterprises export 60% of SMEE agro-products, while entrepreneurs export only 1%. SMEEs in agribusiness imported materials totalling EUR 387,909. Medium enterprises imported 62% of agriculture-related materials, while entrepreneurs imported 4%.

While agro-exports are important in the international market, it is not the only indicator of competitiveness in the economy. To show the competitiveness of agribusinesses in Serbia, we conducted a SWOT analysis. This SWOT analysis presents the strengths and weaknesses of agribusinesses, outlines potential opportunities for the development of agriculture-related industries, and identifies the threats hindering the achievement of better results in domestic and foreign markets.

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"> • Natural resources • Educated labour force • 80% of land is uncontaminated • Processing capacities are installed • Geostrategic position 	<ul style="list-style-type: none"> ❖ Coarsening of farms ❖ Improving production ❖ Development of multifunctional production ❖ Development of cooperatives ❖ More extensive organic production ❖ Better use of land
WEAKNESSES	THREATS
<ul style="list-style-type: none"> • Small agricultural households and holdings • Poor demographic structure of the rural population • Poor use of water resources 	<ul style="list-style-type: none"> • Export restrictions • Insufficient government support to agribusinesses and agricultural holdings

Table 9. SWOT analysis of agribusinesses in the Republic of Serbia

Source: Independent authors' research

Agribusinesses in Serbia have many strengths that could be used to improve competitiveness. The most important strength is the abundance of available resources that has yet to be effectively utilized. First of all, the wealth of natural resources and educated labour force are potentials that can improve the competitiveness of agrarian products. As 80% of usable land is uncontaminated in Serbia, organic production can further develop in the country. At the same time, the technological capacity of small farms and SMEEs ensures economical use of limited natural resources. Also, the geographical position of Serbia in the middle of the Balkans is of strategic importance. Situated at the crossroads between East and West, Serbia's infrastructural character is significantly shaped by both Eastern and Eastern influences and market demands. Despite these potential factors of development, agribusinesses in Serbia are weak because land fragmenta-

tion has resulted in agricultural farms possessing only an average of 3.5 ha of arable land. As these small farms are unable to make use of economies of scale, their products are more expensive. Long-standing industrial development at the expense of agriculture and agricultural policy has led to the migration of the young away from the rural areas into the urban centres. The upshot is that the rural population is now mostly composed of ageing or aged persons. It is necessary to protect crops from climatic conditions and recurrent dry periods with improved irrigation. However, the significant water resources in Serbia are inadequately utilized as only 4% of arable land is irrigated.

Development of cooperatives in Serbia has been lacking in recent years. Although they can contribute much to the development of agriculture by consolidating the structure of small farms and improving the methods of production, the government has yet to adopt the document to determine the directions for their further development. The development of cooperatives is an opportunity because cooperatives can improve the competitiveness of agribusinesses by making them more efficient. Organic production can be significantly developed through better utilization of available land, farming of quality land and employing the educated labour force. Despite numerous strengths and opportunities with the potential to improve the competitiveness of domestic agribusinesses, there are many threats facing the sector as well. These threats can endanger the development of agribusiness growth opportunities in Serbia. The lack of adequate state support casts doubt on the ability of very small SMEs and farms to survive, as they already face financial difficulties in the market. Serbia is also unable to meet international quality standards. This leads to export restrictions and means that the country will find it hard to export to the international market.

3.10.5 GOVERNMENT SUPPORT TO SMEs AND SMALL FARMS IN AGRIBUSINESS. SUGGESTIONS TO GOVERNMENT AND LOCAL AUTHORITIES

Based on the SWOT analysis, it is clear that a great deal can be improved in the agribusiness sector if existing government support programmes are adequately implemented. However, existing state support programmes are not enough. There is still much to do if the Serbian government and local authorities are to transform opportunities into strengths and elimi-

nate weaknesses and threats. To facilitate the growth of the agribusiness sector in the country and reduce its weaknesses, we have conceptualized a few suggestions for the government and local authorities.

The government of the Republic of Serbia has formulated special programmes to support the development of entrepreneurship and the SME sector in all segments of the economy, including agribusiness. These programmes include financial support through short-term loans under favourable conditions, subsidies, consultation, and employee training and marketing. We will cover these programmes one by one.

- National Agency For Regional Development. This agency has come up with an SMEE Competitiveness Programme designed to provide support to SMEEs' implementation of international quality standards so that their business process, products and services are improved. To make the most of opportunities, production and development of multifunctional production should be improved. Once production is improved, the produce will be of better quality. This will, in turn, reduce the export restrictions on Serbian agro-products.
- Fund for the Development of the Republic of Serbia. Several programmes have been created in this fund, and all of them aim to improve agribusiness SMEEs' access to funds. These include credit for beginners who are new to the idea of starting and running their own business, start-up credit for entrepreneurs, and credit for the development of entrepreneurship. Better use of land will improve both product yield and productivity. Something also must be done to attract young people back to the rural areas so that they work in agribusinesses. To do that, SMEEs should draw on the Fund's many programmes to invest in technology and achieve economies of scale that will lead to greater efficiency in agricultural production.
- The Ministry of Economy in association with the European Bank for Reconstruction and Development (EBRD). The Programme Supporting SMEs in Serbia is funded by the Instrument for Pre-Accession Assistance (IPA) and EBRD, in conjunction with the Serbian Ministry of Economy. Support offered consists of business counselling, mentoring, various types of training for employees, organization of study tours and visits to companies. Through this support programme, agricultural production can be improved, land will be put to better use, and the poor demographic structure of the rural population can be attenuated.

- Ministry of Agriculture and Environmental Protection. The Ministry of Agriculture and Environmental Protection (MAEP) is the main state authority with the ability to improve the competitiveness of SMEEs and small farms in agribusiness. MAEP offers support through two programmes. The first programme aims to develop the planting of cherries, strawberries, raspberries, blackberries and blueberries by investing in the purchase of new machinery and equipment for irrigation and protection of plants from weather conditions and pests. The second programme implements international standards for farms, cooperatives and SMEEs. Implementation of international standards in agribusiness can reduce or eliminate export restrictions, which will, in turn, strengthen international cooperation and improve Serbia's economic position. Both programmes can do this, as they aim to improve production.

The SWOT analysis and different support programmes for agribusiness SMEEs and small farms show that government support is not uniform and that some areas receive more support than others; this must be eliminated if the overall state of agribusinesses in the country is to improve (USAID 2013, 40). Why do some areas receive more support than others? This is because local authorities in Serbia also have a certain degree of autonomy in providing support. To make sure that support in other fields related to agribusiness is given, we suggest that agricultural and SMEE policies should be adapted according to the needs of the region. Our recommendations and suggestions to government and local authorities are based on the SWOT analysis in Table 9. These recommendations and suggestions can be divided in two groups:

- Recommendations and suggestions related to improving the legal framework for agribusiness. Implementation of these recommendations and suggestions can transform some opportunities into strengths, and reduce or eliminate some existing weaknesses and threats.
- Recommendations and suggestions related to improving the formulation of agrarian policies. Implementation of these recommendations and suggestions can remedy the threats of insufficient government support to agribusiness and agricultural holdings.

The legal framework for agribusiness SMEEs and small farms in Serbia is complex. On the one hand, it consists of laws and strategies regulating

activities in agriculture. On the other, it aims to direct the development of future agribusiness SMEs and farm activities. In 2010-2015, a number of laws and strategies were adopted. The laws and strategies complying with EU regulations are:

- Law on Agriculture and Rural Development (adopted in 2010),
- Law on Livestock (adopted in 2010),
- Law on Food Safety (adopted in 2010),
- Law on Organic Production (adopted in 2011),
- Strategy for Agriculture and Rural Development in Serbia 2014-2024 (adopted in 2014)

Although the legal framework seeks to improve the lot of agribusiness SMEs and small farms, the SWOT analysis shows that many significant opportunities remain unused. As a result, agribusiness development is slow and uneven. To reduce potential threats and weaknesses, a more modern legal framework should be applied to agribusinesses. Our recommendations and suggestions related to the improvement of the legal framework for agribusiness are:

- Law on Agricultural Cooperatives. Agricultural cooperatives can improve the business activities of SMEs and small farms in Serbia. Cooperatives would be able to increase the negotiation position and market power of their members. Cooperative members would have better direct and indirect access to finance, which can lead to improved conditions for business activities in the market. Cooperatives will also coarsen farms, and improve the efficiency and productivity of small agricultural households and holdings.
- Improve leasing regulations. Leasing has numerous advantages for agricultural SMEs and small farms that lack collateral for credit. As many farmers have limited or no collateral and credit history, leasing is the best way to ensure that they acquire the funds for new machines. With new leasing regulations for farmers in agribusiness, their production will improve and they will make better use of land. Since small farms have an average area of 3.5 ha utilized land, better machinery can improve productivity and ensure the efficient use of resources.
- Improve banking regulations. Banking regulation is one important change that can be made in the near future. Most small farms do not have collateral that can be used to secure a loan. Houses and facilities in rural areas are unattractive and unacceptable properties for

creditors because the sale of these rural properties would not allow them to collect their debts. We propose a new programme of loans to small farms and SMEEs in agribusiness that is based on warehouse receipts and stored products. The lack of financial funds could also be eliminated with the development of microfinance, a modern way of financing businesses (Erić, Đuričin, Pantić 2015, 316). Through better access to funds, organic production can be improved and land will be put to better use. New banking regulations would also increase investment in agribusinesses and lead to the development of rural areas. Once there is investment in rural-based enterprises and the rural areas are developed, young educated people would be more likely to live there and start their own businesses. This would, in turn, reduce the poor demographic structure of the rural population.

- Adoption and implementation of a legal framework for irrigation and drainage. Poor use of water resources in Serbia can be reduced or eliminated through the adoption of a legal framework for irrigation and drainage. Although there are lakes and flowing rivers in Serbia, just 3% of utilized agriculture land is irrigated. Damage from drought is exacerbated by the lack of irrigation. This can be seen in the most recent drought in Serbia in 2012, where the estimated damage was EUR 1.5 bn.
- Adoption and implementation of a legal framework for employment in rural areas. If a legal framework for employment in rural areas is adopted, young people will be encouraged to stay there and engage in agricultural activities. Part of this legal framework should focus on improving road and telecommunication infrastructure, connection with major cities, and availability of adequate and modern living conditions. When these infrastructures are improved, the outflow of young people from the villages will be reduced. This will have the added benefit of preventing the problem of rapidly ageing rural households.
- Adoption and adherence to a legal framework for the better implementation of standards in food production (GAP, ISO, Halal, etc). With adoption of international standards in food production, domestic products can be exported and sold in foreign markets. This will ensure good agricultural practices (GAP) and eliminate export reduction. Implementation of such a new legal framework will not only ensure that Serbian agribusiness products meet all international standards; it will give also rise to many positive effects such as improved agricultural production, development of organic production, and international marketability of Serbian agriculture-related goods.

As the SWOT analysis and USAID Business Enabling Project of 2013 show, it is possible to improve inadequate Serbian agrarian policies through the adoption of recommendations and suggestions. Some of the recommendations and suggestions that Serbia should adopt are:

- Establishment of an Agro Sector Financing Data Initiative. As macroeconomic and microeconomic agribusiness data are not available in Serbia, the formulation and implementation of new agrarian policies and legislation are stymied. All relevant agrarian institutions should cooperate to create a unique database for agribusinesses.
- Putting agribusiness policy in the right context. When agribusiness policy is adopted and implemented, it should be separate and distinct from rural and social policies. This will make it easier to achieve set development goals.
- Establishment of an Agribusiness Council and Intergovernmental Working Group on Agribusiness Development. The Agribusiness Council should provide a sustainable legal framework to facilitate public-private dialogue so that policymakers, lenders, and other participants in agribusinesses can discuss the most efficient ways of improving agribusiness SMEs' competitiveness.
- Increasing the capacities of the Directorate for Agrarian Payments and the Ministry of Agriculture. Cooperation between the Ministry of Agriculture and Directorate for Agrarian Payment should be intensified to enable them to deal with issues like high inflation, extreme illiquidity and high exchange rate volatility. Transparent timing of payment for agribusiness SMEs and small farms is important, especially during periods of macroeconomic instability and bad weather when great damages are often dealt to agribusinesses.
- Increasing the agricultural budget. In the last few years, the agricultural budget in Serbia has been insufficient for the development of agribusinesses. As a result, the agribusiness sector had been unable to reach its potential.

These suggestions and recommendations to the government of the Republic of Serbia seek to reduce and eliminate the threats and weaknesses outlined in the SWOT analysis of Serbian agribusinesses. The main threat to the development of agribusiness SMEs and small farms is insufficient government support. So far, state support to all areas of the agribusiness sector is wanting. If our recommendations and suggestions are followed, the legal framework for agribusinesses will be improved, agrarian policies

will be strengthened, government support for agribusinesses will increase, and threats to the development of agribusinesses will be reduced or eliminated.

CONCLUSION

Although SMEs and small farms in agribusiness are recognized as factors of economic development in Serbia, their current role in the economy is underestimated. Inadequate agrarian policies and poor government support in the past few years have resulted in poor rural development, a population migration from villages to the cities, and indifference towards the importance of cooperatives. This paper investigated the current status of SMEs and small farms in agribusiness by analyzing available data and the main problems they face.

Foreign trade balances indicate both the competitiveness of agribusinesses as well as their significant export potential. The primary agricultural products are in demand in foreign markets, even though small farmers lack the financial resources to invest in production and adequate mechanisms that could influence the prices of these products. Cooperatives can overcome the problems of small farmers by significantly improving their competitiveness. The researchers of this paper conducted a SWOT analysis to determine the strengths, weaknesses, opportunities and threats in the development of Serbian agriculture. Natural and human resources as well as quality of arable land were identified as strengths, while the poor demographic structure of rural areas is a weakness. Although the development of cooperatives and new forms of production (such as organic produce) are opportunities for agribusiness SME expansion, this potential is threatened by insufficient government support. Despite the opportunities and strengths inherent in agriculture, the agricultural sector cannot properly develop without improved government support. Therefore, the authors suggest the improvement of the legal framework and the creation of adequate agrarian politics. With the adoption of these recommendations, opportunities in the agricultural sector can be converted into strengths, and weaknesses and threats could be eliminated or reduced.

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