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DEVELOPMENT OF SMEs SECTOR IN THE WESTERN BALKAN COUNTRIES

ABSTRACT

The shortage of large markets caused further fragmentation of markets to which SMEs entered successfully with their innovative and entrepreneurial abilities. The large enterprises faced stagnations, while the small and medium (SMEs) enterprises experienced a real economic boom. The fact is that, due to their features, SMEs are finding profitable business in the quickest way, organizing the necessary activities, making their profit and taking into account the experience of the countries, which were in transition from the economic undevelopment phase to the middle development phase. That means that the most rational solution of the problem with which the Western Balkan Countries are faced is to provide organized support for establishing and development of SMEs which will be in private ownership. Through this work the authors are trying to indicate the possibilities and ways of SMEs development in the Western Balkan Countries, recalling the experience of the other countries in which the economic growth is mainly the results of the development of SMEs.

Key words: *Small and Medium Enterprises (SMEs), Entrepreneurship, Financial Support, Transition, Economic Growth.*

1. INTRODUCTION

A special interest in the role of SMEs has been demonstrated in the Western Balkan Countries during the last decade, when it was realised that SMEs can have a important role in the transition process. Blanchard (1997) considers that the base of the transition process is reallocation of resources from the state-owned to the private sector, along with restructuring the enterprises. Establishing the new enterprises, whether by creating the new SMEs or restructuring the existing big systems, is a key mechanism through which it is possible to perform reallocation of funds, which will produce real results.

All World Bank's reports related to possible ways of development of the economies in the Western Balkan Countries, express that the small and medium-sized enterprises (SMEs) have an important role in the transition process of these countries from command to market economy. It is also expressed that the economies of the 20th and 21st century perform on different premises than the "Smith economy" of the 19th century. The new ideology of neo-liberalism stressed the role of small and medium sized enterprises as promoters of a "healthy" business climate, economic efficiency and strength for the economic growth, especially in the

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developing and transition countries. These statements and theories prove that the government as well as business people in these countries are more conscious regarding the crucial role of SMEs for the economic development in this region. A special interest in the role of SMEs has been demonstrated in the Western Balkan Countries in the last decade, when it was realised that SMEs can have a important role in the transition process.

2. SMEs SECTOR IN THE WESTERN BALKAN COUNTRIES

2.1. A Comparative Analysis of the Development level of SMEs in the Western Developing Countries

In all transition countries, among which we also include Western Balkan Countries, the process of political and economic transition is based on development of the private sector and entrepreneurship, as well as on creating a favourable business environment for the development of SMEs. Some countries have reached a significant progress in these activities, while the others were less successful. That is why in almost all economic analyses the countries in transition are divided into two groups. In the first group are the developed countries in transition, and in the second group are the less developed countries in transition. All of the countries in the first group, except Croatia, became a full member country of the European Union in 2004. The other countries of the Western Balkan belong to the second group. The following data refer to the period before the EU extension. The following picture presents the share of the private sector in the total economy, the share of SMEs Sector in GDP and employment share, GDP amount, as well as the index of development of SMEs in the analysed countries.

Table 1.

Index of development of SMEs in the transition countries (in 2003.)

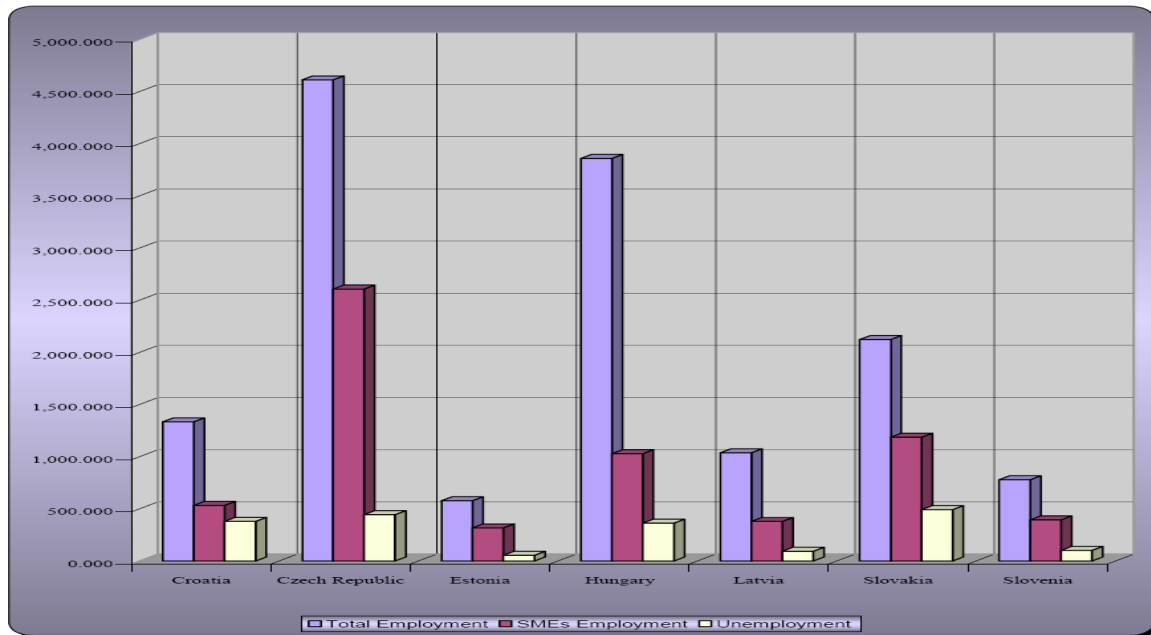
| State | Participation of private sector in economy % | Participation of SMEs sector in GDP % | Employment SMEs sector % | GDP USD / capita | Index of SMEs development |
|--------------------------------|--|---------------------------------------|--------------------------|------------------|---------------------------|
| Albania | 75 | 75 | 75 | 1.094 | 462 |
| Armenia | 80 | 30 | 25,8 | 503 | 31 |
| Azerbaijan | 71 | 41,3 | 2,7 | 652 | 31 |
| Belarus | 20 | | | 1.257 | |
| Bosnia and Herzegovina | 56 | 36 | 53 | 996 | 106 |
| Bulgaria | 70 | 30 | 64,7 | 1.476 | 200 |
| Croatia | 60 | 50 | 67 | 4.179 | 840 |
| Czech Republic | 80 | 33,5 | 56,2 | 4.797 | 723 |
| Estonia | 75 | 52 | 55,5 | 3.508 | 759 |
| Georgia | 60 | 24,4 | 12 | 682 | 12 |
| Hungary | 80 | 57 | 49,5 | 4.552 | 1027 |
| Kazakhstan | 60 | | | 1.225 | |
| Kyrgyzstan | 60 | 42,7 | 59 | 275 | 42 |
| Latvia | 65 | 63,2 | 69,9 | 3.019 | 867 |
| Lithuania | 70 | 32 | 31,6 | 3.064 | 217 |
| Poland | 70 | 49,4 | 65,4 | 4.108 | 929 |
| Republic of Moldova | 50 | | | 326 | |
| Romania | 60 | 55 | 20,8 | 1.644 | 113 |
| Russian Federation | 70 | 12 | 20 | 1.697 | 29 |
| Slovakia | 80 | 46 | 57,7 | 3.556 | 755 |
| Slovenia | 65 | 56,6 | 64,4 | 9.073 | 2150 |
| The FYR of Macedonia | 55 | 42 | 64,3 | 1.686 | 250 |
| Turkmenistan | 25 | 45 | 60 | 553 | 37 |
| Ukraine | 60 | 6,8 | 10,8 | 645 | 28 |
| Uzbekistan | 45 | 31 | 49,7 | 252 | 17 |
| Federal Republic of Yugoslavia | 40 | 46,6 | 32,4 | 942 | 57 |

Source: UNECE (2003)

The above presented table shows that BiH has quite a small share of the private sector in the total economy amounting to only 56 percent of GDP. A lower share part of the private sector, comparing to the total economy, has been recorded only in Belarus, 20 percent, Republic of Moldova, 50 percent, FYR Macedonia, 55 percent, Turkmenistan, 25 percent, Uzbekistan, 45 percent and Serbia and Montenegro with 40 percent. Two following pictures show the Index of development of SMEs in developed and less developed countries in transition:

Picture 1.

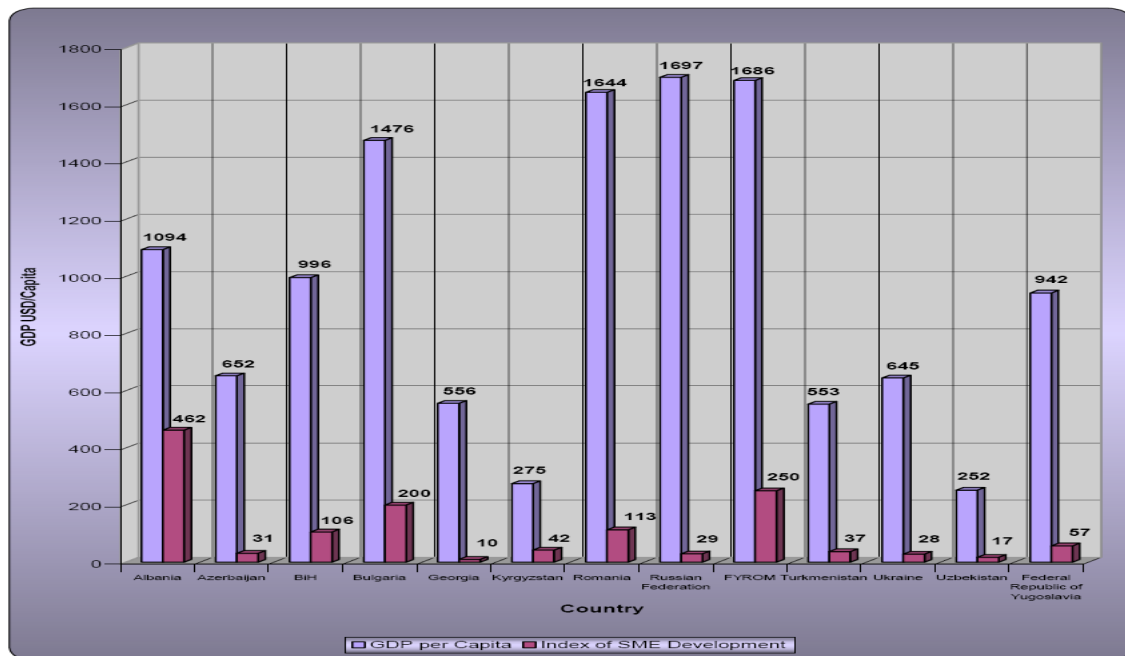
Index of development of SMEs (advanced transition countries)



Source: UNECE (2003)

Picture 2.

Index of development of SMEs (other transition countries)



Source: UNECE (2003)

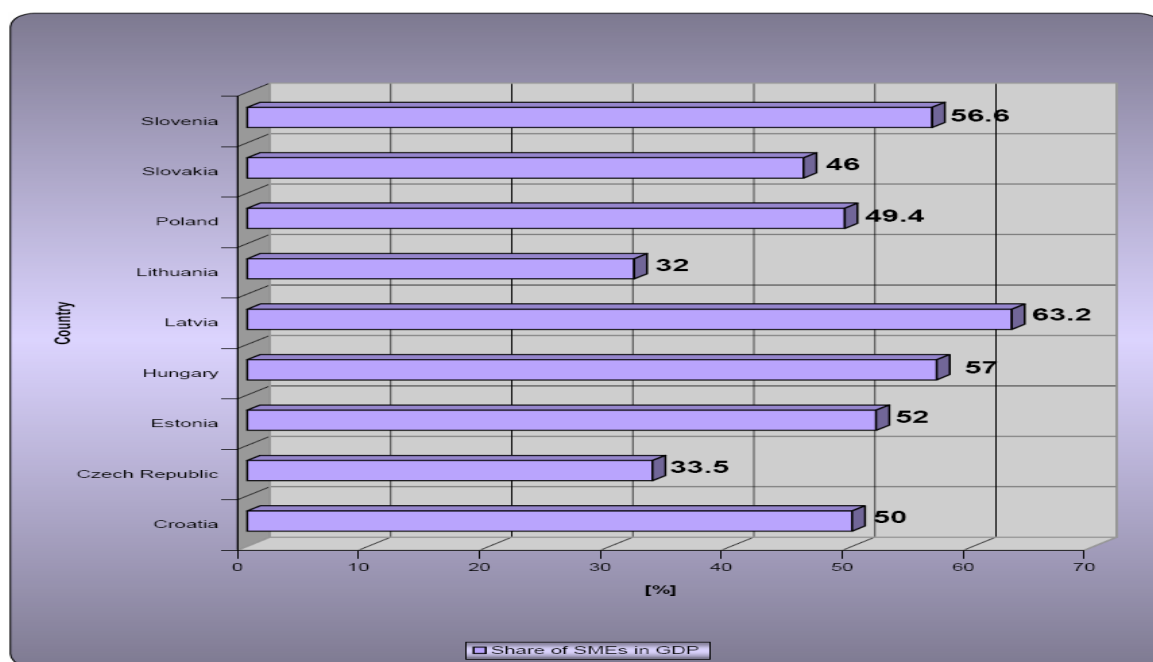
The index of development of SMEs in Bosnia and Herzegovina is quite low and it is only 106, while in Croatia it is 840. Slovenia has a higher Index of SMEs comparing to former and current countries in transition, and it amounts to 2150. A lower Index of development of SMEs than BiH is recorded only in former countries of the Soviet Union and Serbia and Montenegro. It is outstanding that Albania has a quite higher Index of development of SMEs than many less developed countries in transition.

The following pictures show the share of SMEs Sector in GDP in developed and less developed countries in transition.

Also obvious is a low share in SMEs Sector in GDP in BiH, which in total amounts to 36%. These confirm that in our economy large companies, mainly state-owned, are still dominating¹.

Picture 3.

Share of SMEs in GDP (advanced transition countries)

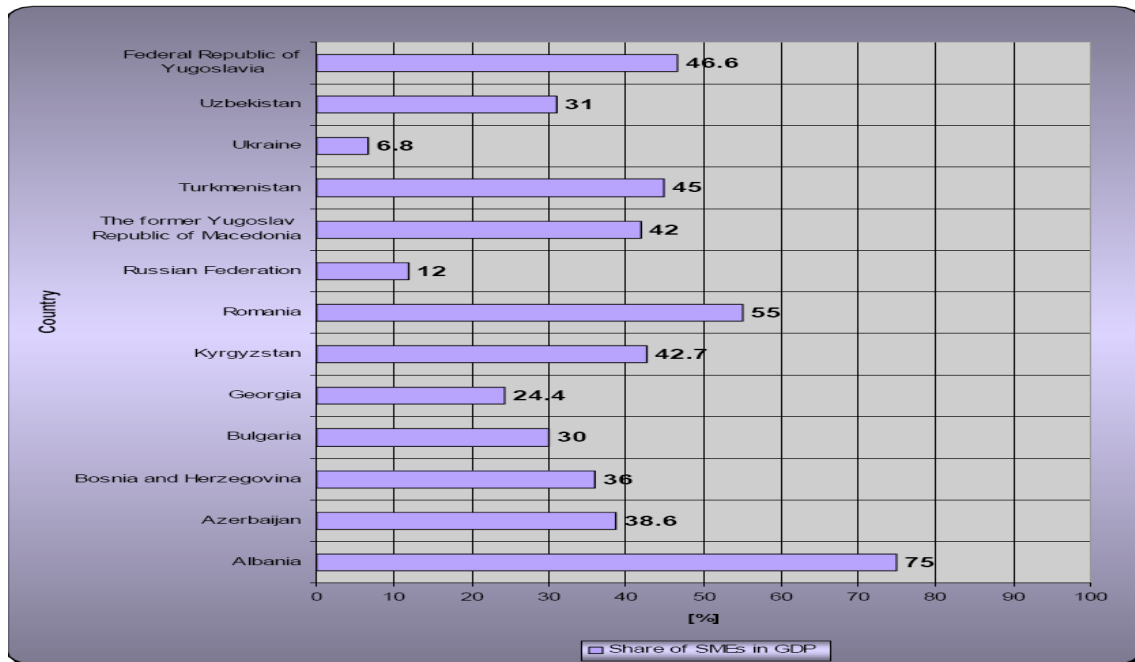


Source: UNECE (2003)

Picture 4.

¹See more data in: Bašić, M.: Economy of BiH, School of Economy of the University in Sarajevo, Sarajevo, 2005

Share in GDP (other transition countries)



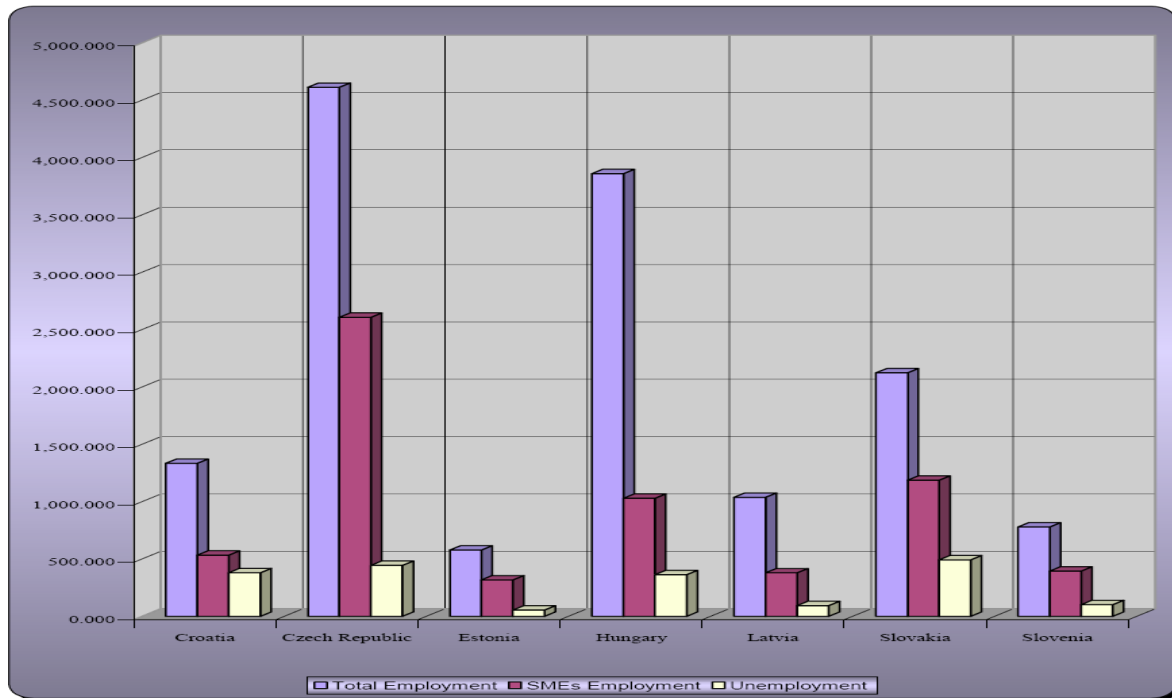
Source: UNECE (2003)

The following two pictures (5. and 6.) show the employment share in the SMEs Sector in developed and less developed countries in transition.

As shown in picture 5 the employment share in the SMEs Sector is the highest in the Czech Republic, which is a full EU member country, while in BiH it is quite low, lower even than the total unemployment level. This indicator confirms the presence of a high percentage of grey economy in BiH. In a worse position is only Serbia and Montenegro. In all other less developed countries in transition the employment share in SMEs Sector is higher comparing to the total unemployment level, and in Armenia this percent is the highest.

Picture 5.

Employment share in SMEs Sector (advanced transition countries)

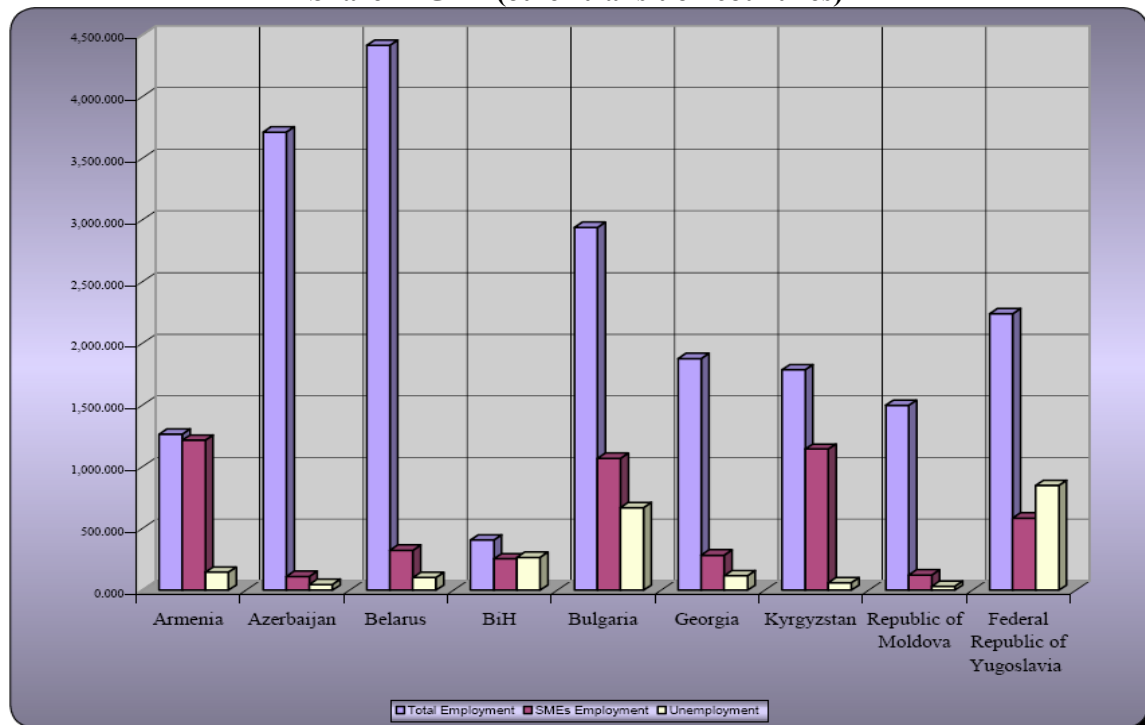


Source: UNECE (2003)

As shown in the next picture the employment share in the SMEs Sector is the highest in the Czech Republic, which is a full EU member country, while in BiH it is quite low, lower even than the total unemployment level. This indicator confirms the presence of a high percentage of grey economy in BiH. In a worse position is only Serbia and Montenegro. In all other less developed countries in transition the employment share in SMEs Sector is higher comparing to the total unemployment level, and in Armenia this percent is the highest.

Picture 6.

Share in GDP (other transition countries)



Source: UNECE (2003)

Global regional distribution of FDI (Foreign Direct Investment) in the Western Balkan Countries, as well as in the other transition countries, is not positive. Data show that in 2001 all countries in transition together received foreign direct investment up to 2% of the total world amount of FDI². Furthermore, BiH has to be more active on attracting the foreign investments. It includes investment of foreign money, introducing new technology and knowledge and stimulating production, employment, and economic activities in general.

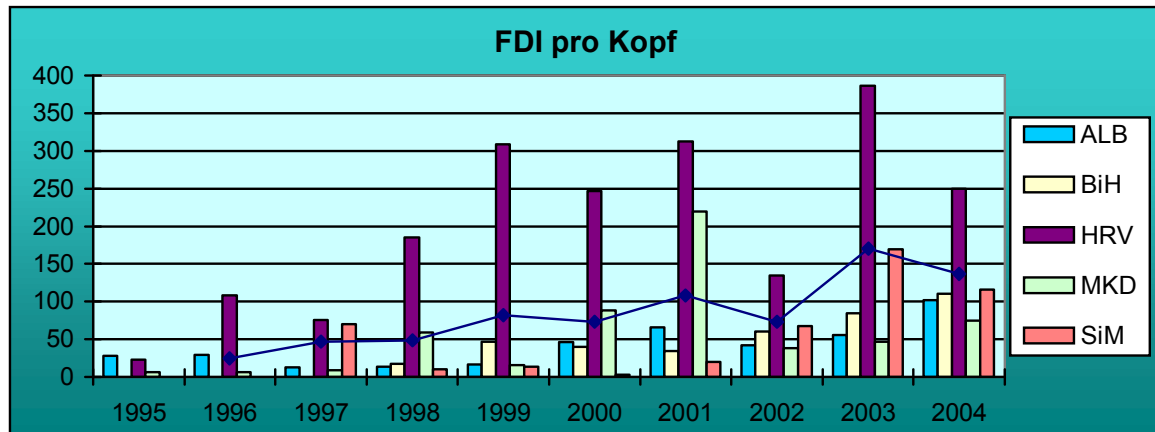
Based on valuation of the rating company Dun & Bradstreet, the credit rating of BiH is too low, that means that risk of investment in BiH is too high with a rate "DB6d". The same credit rates are recorded in: Albania, Belarus, Turkmenistan and Uzbekistan. The first on the list of the 25 countries of the region is Slovenia with a rate of DB2c, while Croatia is on the 11th position with a rate DB4d³. The following picture shows FDI in the Western Balkan Countries:

Picture 7.

² World Investment Report 2002.

³ Daily Newspaper 'Večernji list', Business world, 8/ 06/2005, page 3

Foreign Direct Investment in the Western Balkan Region



Source: Dzafic (2005, p. 36)

3. INDEX OF SMEs DEVELOPMENT IN THE WESTERN BALKAN COUNTRIES

To enable the assessment of SMEs development in the countries in transition, European Commission (UN/ECE) has presented a new term in 1999, i.e. Index of SMEs Development. It is a complex economic indicator that includes:

- share of private sector in the total economy
- share of SMEs in GDP,
- share of employees in SMEs in the total number of employees in the country.

The index of SMEs Development in the former developed transition countries is presented in the next table.

Table 2.

Index of SMEs Development (in 1999.)

| | Czech Republic | Hungary | Poland | Slovakia |
|---|-----------------------|----------------|---------------|-----------------|
| Share of private sector in the total economy (%) | 75 | 75 | 65 | 75 |
| Share of SMEs Sector in GDP (%) | 40 | 56.8 | 40 | 58 |
| Share of employees in SMEs in the total number of employees (%) | 43.6 | 45.9 | 60.6 | 59.4 |
| GDP per capita (USD) | 5.05 | 4.462 | 3.512 | 3.624 |
| Index of SMEs Development | 0.1308 | 0.1955 | 0.1575 | 0.2584 |
| USD per capita | 660 | 872 | 553 | 936 |

Source: UN (1999)

It is obvious that the formerly developed countries in transition recognized in time the importance of SMEs Sector for economic development, as can be seen from the share in GDP, and also from the number of employees comparing to its total number. Based on the previous pictures, we performed a benchmarking of the Western Balkan Countries and calculated their Index of SMEs Sector Development in these countries.

Table 3.

Benchmarking - Index of SMEs Development⁴ (2003.)

| | Albania | Bosnia and Herzegovina | Croatia | FYR Macedonia | Serbia and Montenegro |
|---|----------------|-------------------------------|----------------|----------------------|------------------------------|
| Share of private sector in the total economy (%) | 75 | 56 | 60 | 55 | 40 |
| Share of SMEs Sector in GDP (%) | 75 | 36 | 50 | 42 | 46,6 |
| Share of employees in SMEs in the total number of employees (%) | 75 | 53 | 67 | 64,3 | 32,4 |
| GDP per capita (In USD) | 1,094 | 996 | 4,179 | 1,686 | 942 |
| INDEX OF SMEs DEVELOPMENT (USD /capita) | 462 | 106 | 840 | 250 | 57 |

Source: UNECE (2003)

⁴ This document is prepared on the basis of the UNECE Questionnaire on Small and Medium - sized Enterprises in Economies in Transition and Emerging Market Economies in 2001. Printed at United Nations, Geneva (Switzerland), 2003.

It is evident that the Western Balkan Countries are still stagnating behind the successful countries and much effort has to be done to increase the private sector in the total economy, eliminating barriers for SMEs Sector Development in order to increase the number of employees in this sector significantly. That would increase employment, GDP would increase, and as a final result, there would be a higher Index SMEs in these countries.

4. CONCLUSION

Economic policies of the developed countries give priority to entrepreneurship and SMEs as a base of fast and stable development. Considering the above analyzed results, it is necessary not only to provide import of capital, but also to use the good experience of highly developed, entrepreneurial countries. This will create a critical mass of entrepreneurs in the Western Balkan Countries, who are needed to launch a new market oriented development cycle that will surely lead to changes in entrepreneurial culture in general. It is, therefore, the shortest and the only real way to an entrepreneurial society. The countries in the region are already on that way and the real results are going to come. Croatia is the leader among those countries in the region and its positive experience has to be followed by the other countries of the region.

Western Balkan Countries recognized the importance of SMEs as the main support for economic growth and development. To that purpose it is necessary to provide a clear strategy of this sector development (in some countries, as it is BiH) and quickly to take steps in order to pull down the many internal and external barriers on the way to development of SMEs. Considering many economic and social problems in these countries, we can conclude that the entrepreneurship and SMEs are the sectors on which we should seriously lean on to solve the economic problems for the future.

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RAZVOJ SEKTORA MALOG I SREDNJEG PODUZETNIŠTVA U ZEMLJAMA ZAPADNOG BALKANA

SAŽETAK

Nedostatak velikih tržišta je doveo do veće fragmentiranosti tržišta na koja su SME uspješno ušle zahvaljujući svojim inovativnim i poduzetničkim sposobnostima. Velike su tvrtke bile suočene sa stagnacijom dok su mala i srednja poduzeća (SME) doživjela pravi ekonomski boom. Činjenica je da SME, radi svojih karakteristika, pronalazi profitabilne poslove na najbrži način, organizirajući potrebne aktivnosti, stvarajući profit i uzimajući u obzir iskustva zemalja koja su prošla tranziciju od ekonomske nerazvijenosti do faze srednje razvijenosti. To znači da je najracionalnije rješenje problema s kojim su suočene zemlje zapadnog Balkana pružiti organiziranu podršku za osnivanje i razvoj SME koje će biti u privatnom vlasništvu. U ovom radu autori pokušavaju ukazati na mogućnosti i načine za razvoj SME u zemljama zapadnog Balkana, koristeći iskustva drugih zemalja u kojima je ekonomski rast uglavnom rezultat razvoja SME.

Ključne riječi: *Mala i srednja poduzeća (SME), poduzetništvo, financijska podrška, tranzicija, ekonomski rast.*