



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

**THE DEVELOPMENT OF SME – KEY FACTOR IN THE PROCESS OF
EUROPEAN INTEGRATION REPUBLIC OF SERBIA IN THE FIELD
OF AGROBUSINESS**

Snežana Trmčić, Ozrislava Milinković, Marko Trmčić

**Prof. Dr Snežana Trmčić - University for management of small and medium enterprises
snezanatrmcic@gmail.com**

**PhD student Ozrislava Milinković - University for management of small and medium
enterprises**

Master Marko Trmčić - University for management of small and medium enterprises



Paper prepared for presentation at the 132nd Seminar of the EAAE

(European Association of Agricultural Economists),

“Is transition in European agriculture really over?”

*New dimensions and challenges of transition and post-transition processes in agriculture
and food sectors in the European Union and EU acceding and neighbouring countries*

Skopje, October 25-27, 2012

Copyright 2012 by [AUTHORS]. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.

Abstract

Small and Medium Enterprise (SME) development is one of the key factors in the process of European Integration of Serbia. SMEs are significant source of business relations with other European countries and significantly help the process of integration of Serbia into the broader European economic framework. The European Union (EU) pays particular attention to the development of SMEs and the European Commission in the June 2008 adopted a special document entitled “Small Business Act for Europe” which establishes the principles and actions for the activities in the SME sector in EU countries.

Purpose of this essay is to stress on the importance of SME development in Serbia as the engine of economic development with special emphasis on agribusiness in transition period in the process of European integration of Serbia.

Keywords: SME development, agriculture / organic farming, European Integration, Republic of Serbia.

Methodology

Using relevant literature following methods were applied: induction deduction, synthesis and analysis of content

Results of research and discussion

Having in mind that it represents part of „Acquis communautaire“, „Small Business Act” is very important for the EU candidate countries (The European Commission,2012). In addition to the fields whose importance has been recognized in the “European Charter for Small Enterprises”, “The Small Business Act” emphasizes on the importance of supporting family firms, creating the conditions for providing second chance for those entrepreneurs whose previous business venture failed; facilitating the participations of SME in public procurement, better use of government assistance and support for eco-innovations. The Republic of Serbia has accepted the European Charter for Small Enterprises at the Thessaloniki Summit in 2003. Thus the European Charter for Small Enterprises has become a main reference framework for the development of SME support policies.

Taking in consideration that SMEs are generating employment, creating economic activity and contribute to the export, trade and are basic factors of development competitive economy as well as the fact that they stimulate private properties and they contribute to the increase in gross domestic product (GDP), export they are flexible and can adapt quickly to the changes in the market.

According to the internationally recognized criteria, the Serbian economy is characterized by the absence of an organized system for encouraging innovative activities. In terms of standards and quality assurance, the Republic of Serbia generally lags behind the EU at the expense of export development. The consequences are lack of innovation, research, the bad reputation of local products, insufficient support in financial terms as well as in infrastructure. In the process of joining the EU, it is necessary to carry out the harmonization of laws, technical regulations, introduce standardization, metrology, and conformity assessment procedures to strengthen the infrastructure to ensure the quality that will enhance the competitiveness of products and services on the European and world markets. For this purpose, Standards ISO 9000 have been accepted in the SMEs.

Also it is very important to raise awareness of the importance of cultural innovation, the creation of innovative developments, particularly through mutual connection SMEs with

knowledge centers, the establishment of financial support instruments, forming a critical mass of innovative SMEs, international standards and the creation of conditions for the internationalization of business innovation.

Creating new jobs, raising living standards and balanced regional development in Serbia is very dependent on the number and success of small and medium-sized enterprises (SMEs) and uniform distribution in all our regions. The Government of the Republic of Serbia strategy contributes to further strengthening and effective use of the development potential of the SME sector, which will have a positive effect on economic growth in the Republic of Serbia.

Instruments used for the development of SMEs are: support to cluster development, business incubator programs and incentives for businesses to invest in enhancing innovation. This direction should contribute to increase the competitiveness and exports, further strengthening the innovation capacity of enterprises, employment growth dynamic and balanced regional development especially in agriculture.

The development of the SME sector in agriculture - one of the key factors of Serbia's integration in the EU

Agriculture is of great importance for the development of Serbian economy as it accounts for 20% of GDP. The full capacity of agricultural resources is not used. This branch of the economy has significant potential to increase the volume of production and the ability to contribute to reducing unemployment (Popovic, B. 2009).

Development of SMEs in agribusiness should be directed to: production of specialized high quality products for export, such as meat and dairy products, dried fruits and grapes, alcoholic beverages, and more. Organic food production according to strict EU regulations such as: exclusive use of manure, production on the land which has not been treated with manure for three years and soil isolation from waste water or pollen of genetically modified crops.

In Serbia, the first forms of organic production began in 1986, as a part of in the agro biological system "Natura Vita "Cooperative Union of Serbia and the holding company" Power of Nature " holding company Agroeconomic, and the year 1989., the work is extended to the association" Terra's "Subotica" and "Vrelo" Novi Sad. In the world demand for organic products on the market is annually increasing by an average of 20%.

The difference between the cost price and the selling price differs for each product depending on the growing methods used. Thus, for example for organic cereals, the sales price is up to 80% greater than for those conventional produced, for fruit and grapes up to 50% and 20% for vegetables. The fact is that countries that dictate such a growing demand, from its production can cover only half of its own needs. Education of educators and manufacturers led to the development of organic farms and the first law in 2001 which was then innovated in 2006, and already in 2007 national symbol for organic products was adopted. Organizations in Serbia authorized to issue certificates for organic products are:

- 1) «SGS - Belgrade» d.o.o.
- 2) «EVROCERT»d.o.o.
- 3) "Organic Control System", Subotica
- 4) Bioagricert d.o.o.

As a confirmation that the production is certified, meaning that methods of organic production were applied, the producer receives a certificate and license to label a product with

"organic product" mark and with national character, as well as consent to place on the package a "code" and "icon" of the organization that controlled and certified a production. Agricultural products manufactured at the production units which are in conversion period, can be put on the market if their production is controlled by the certification organization and shall be marked with the label "product from the conversion period" and the name and logo of the certification organizations, but not with the national mark. Mark / stamp of the authorized inspection organization Organic Control System (OCS) on the label guarantees the origin of organic products from Serbia.

Labels are just one form of labeling environmental and product information, it is necessary to establish links between the labels and other information sources such as government policies and pro-environmental / agricultural methods and development policies such as IP / IPM.

Choice of criteria and standards for supporting integrated production and integrated pest control (IP / IPM) agricultural methods. IP and IPM are used to describe the form of the Integrated Agrarian Standard where success is tied to natural cycles and investment in effective and economic production of food products primarily in the unspoiled environment and processes. These methods may help in the development of organic farming with a minimal but positive impact on the environment (FAO, 2012).

A significant first step is to describe the compilation of generic standards which show a list of good agrarian practice and in this context farmers can accept them as real and manageable. For example, when converting from conventional to organic production of grapes its necessary:

- ◆ Improving the ecological balance of the production unit
- ◆ commitment and dedication to organic farming production
- ◆ professional training for manufacturers
- ◆ minimization of economic losses in the event of a temporary loss of yield

It is widely known that the agro ecological conditions for the organic cultivation on the example of wine growing in Serbia are very favorable. At the beginning of planting on the planned soil, it is important to choose a suitable base and sort of grapes, for the appropriate application of methods for organic farming and exploitation.

Grape production represents highly intensive production, which in addition to the high involvement of human labor per unit of capacity requires significant capital, which can be fertilized through a series of activities (Sredojević.Z, Milić.D, Trmčić.S, 2010).

Economic feasibility of SMEs growing grapes in Serbia

Successful development and economic power of farms, depends on a number of external and internal factors, the size and the degree of utilization of seedlings as a production capacity and the application of agricultural technology and the sale price of organic grapes. Farms maximal overall economic result usually is expressed through margin of coverage, which is the difference between the amount of materialized cash proceeds from grape yields and produced external variable expenses.

Economic efficiency of farms oriented to organic production of grapes, in comparison to conventional, is not reduced, in order to achieve much higher selling price of grapes. However how much will, selling price of grapes be higher than the cost depends on competitiveness, supply, demand, parity, etc.. These products are more expensive in the U.S. over 70%, and even 2-3 times. In addition to favorable selling prices in the U.S. and EU countries, farmers are stimulated with certain subventions.

New seedlings planted following the principles of organic production special attention should be paid to the selection of varieties of sorts and locations for establishing vineyards,

soil preparation, planting care, pest and control. Areas under organic grapes and organic grape commerce are moving upward and form a significant proportion of the total wine production.

With respect to economic principles, this production is economically viable. In times of crisis, such production can be a big challenge for farmers, for the following reasons: it is suitable for use on sloped terrain, does not require large external inputs while nursing and rearing (except engagement of the workforce), and demand for organic grapes is on the rise. Although organic grape production at first glance looks like a demanding job and requires significant commitment of human labor,(in the present conditions of unemployment its quite favorable), in the future, this production will be a real possibility that manufacturers will be able to take for the appearance on the quite competitive and demanding international market.

Manufacturers of organic grapes in Serbia should have adequate financial, legal, and marketing support to achieve successful results and performance in foreign markets. Food and Agricultural Organization (FAO) proposal that the practical application of Good Agricultural Standards would be more effective and fulfilled by the establishment of the Rules of individual manufacturing systems for SMEs. To be safe, appropriate and acceptable sets of indicators should be establish by a group of local representatives of SMEs, including farmers, industry, regulators and consumers. So far there are no such laws so their development and implementation are challenge and one form of test of the proposed system in Serbia.

We need to prepare draft of IP / IPM guidelines for each seedling, crops (tomato, fruits, peppers), for the next development period. Legislation will be developed for each individual crop on specific production terrain. Transition towards supported environmentally friendly and functional farming of SMEs, is the responsibility of all the constituent elements in the production, marketing and consumption chain.

The transition to a supported agriculture will be increased when the community (including farmers) supports the imposed regulations and when consumers are able to differentiate between products, not as before on the basis of quality and price, but also on the basis of acceptable methods of production. This reinforces the role of marketing as a tool for public education. Consumers who buy organic, green or natural foods that are mainly for health reasons and the benefits of healthy foods (e.g. low levels of pesticides). There is a need for information to support the purchase of such production systems that often contribute more to the environment and ecology than the old conventional systems (Scofield, A. M., 1986).

The following FAO list is an example of the essential criteria that stand in the good agriculture practice (G.A.P), a small list that can be mastered as a list of practical criteria to be adopted by farmers to obtain certification or approval from the IP / IPM. Certainly should simplify, improved and coordinated with local conditions. For example:

1. Fertile / healthy soil .The soil is fundamental to agricultural systems and the rich ecosystem of the soil contributes to related crop and livestock performance. This agricultural activity can enhance favorable components of soil ecosystems.

- 1.1. Effective number of organisms (e.g. number of worms I the land),
- 1.2. Number of small predatory animals,
- 1.3. Number of beneficial micro-organisms (e.g. rhizobia),
- 1.4. Organic carbon (a measure of healthy structure of the soil).

2. Loss of soil. Erosion of soil due to the, water and wind contribute to the loss and the structure of organic elements, with reduction of benefits of the agricultural system. Supported agricultural activity can reduce erosion of the soil.

2.1.Land cover index (the proportion of time that the country is covered with crops; protects against flooding and erosion, and promotes water binding),

2.2. Soil erosion (loss of the surface layer in% / and or t / ha) .

3. Nutrition Crops and livestock need a balance of nutrients. Some of them can be produced locally (e.g. nitrogen (N)) and some must be bound. Nutritive are lost through harvest, with erosion and evaporation into the air. Supported agriculture can enhance locally produced nutritive and reduce losses.

3.1. The amount of inorganic elements like nitrogen phosphor and potassium (N / P / K) used (/ ha or / t product).

3.2. Proportion of N determines the location / imported,

3.3. Balance of N / P / K element on the crop rotation,

3.4. Emission of N-compounds in the air.

4. Pest management .When pesticides are used on crops or livestock, a small but important amount can be poured into the water or air, and it can accumulate in the food, so they can affect human health and the ecosystems. Supported agriculture can substitute natural controls for some pesticides with reduction of dependency on the substances used externally.

4.1. Quantity of pesticides (active ingredient) applied (/ ha or / t product),

4.2. Applied type (profiling, positive list, the weight factor).

5. Biodiversity. Agriculture has formed many ecosystems in the world and Biodiversity can be enhanced or reduced through agricultural work. Some of biodiversity are of great benefit for agriculture. Supported agricultural activities can enhance biodiversity - rejuvenating the middle of the field and rejuvenation edge.

5.1. **The level of biodiversity on the ground:**

5.1.1. Number of forms (n./a.- birds, butterflies),

5.1.2. Landscape of the farms,

5.1.3. Habitat for natural system predatory animals (e.g. hedges, ponds and lakes),

5.2. The level of biodiversity,

5.2.1. Over the average effects.

6. Value of a product. Product value is a measure of the desired effects of an agricultural system. Supported agriculture works can maintain or improve the value of the product.

6.1. The total value of product per hectare,

6.2. The yield of the target product (t / ha),

6.3. Adjust the quality according to specifications:

6.3.1. Nutritional value, including minerals,

6.3.2. Traces of pesticides,

6.3.3. Foreign bodies,

6.3.4. Etc.

6.4. Ratio of the hard waste, reusable / recycled, one that is placed in landfills.

7. Energy. Although solar energy is a fundamental input for agriculture, the energy balance of agricultural systems depends on the additional energy provided by non-renewable sources. Supported agriculture activity can improve the energy balance and to ensure t its conservation - greater amounts energy input than output.

7.1. Balance: total investment of energy / total energy impact, includes transport where necessary,

7.2. The relationship between investment in renewable and non-renewable energy,

7.3 Emission in the air (the green house effect, pollutant gasses).

8. Water. Oriented agricultural systems use water for irrigation while others pollutes or contaminating soil or water surface with pesticides nutrients and soil. Supported agricultural activities may constitute a beneficial targeted use of all investments and thus we reduce biodiversity loss.

8.1. Water use / ha or / t product (irrigation)

8.2. Pesticide submersion and their leakage to surface water and underground,

8.3. Submersion and swelling of the N / P / K to surface and groundwater (nutrients).

9. Social / human capital.

The challenge is to use natural resources. There is a need of collective action, sharing and transfer of knowledge and continuous innovation. Supported agricultural works can improve social and human capital in order to ensure normal production. Main responsibilities for these effects remain within the community, leading to a real and targeted action.

9.1. Group dynamics / organizational concentrations (group of farmers),

9.2. (Rural) Awareness of the importance of community supported utility works / broader relationship with the society,

9.3. Degree of innovations.

10. The local economy SMEs. Agricultural investments (goods, work, and services) can be provided from different places, but when they come from the local economy, a cost helps support local businesses and earnings. Supported agrarian work can help you in the best use of available local resources and to increase efficiency,

10.1. The sum of money / profit spent on local reinvestments,

10.2. Percentage of goods / work / of local services,

10.3. The level of employment in the local community (Paull.J, 2006).

Conclusion

Development of small and medium-sized enterprises (SMEs) in the area of agribusiness in Serbia can accelerate regional development, in an effective and efficient manner; it is essential to increase competitiveness and foster exports to the European Union.

The biggest effect is particularly significant in the sector of organic production, in many cultures, what we emphasized in this paper including the timely preparation for this type of production, as well as the application of laws and standards laid down by internationally recognized FAO.

Especially when consumers start to differentiate between products, not only on the basis of quality and price, but also on the basis of acceptable methods of production. Consumers who buy organic, green or natural foods are doing this mainly for health reasons and the benefits of healthy foods (e.g. low levels of pesticides). This reinforces the role of marketing as a tool for public education, and "opens the door" to the world-recognized market.

Literature

1. FAO Food and agriculture organization (2012) Retrieved from http://www.fao.org/index_en.htm
2. John, Paull (2006). "The Farm as Organism: The Foundational Idea of Organic Agriculture". *Elementals: Journal of Bio-Dynamics Tasmania* **80**: 14–18. Shepherd, A.,
3. Popović, B. (2009). Contribution of small and medium enterprises in development of agro business in Republic of Serbia *Journal of Agricultural Science, vol. 54, br. 1, str. 63-80*).
4. Scofield, A. M., 1986, **Organic farming - the origin of the name, Biological Agriculture and Horticulture, 4, 1-5.**
5. The European Commission. (2012). *Small and medium sized enterprises*. Retrieved from <http://ec.europa.eu/enterprise/policies/sme/best-practices/charter/>
6. Zorica Sredojević, Dušan Milić, Snežana Trmčić (2010): ORGANSKA PROIZVODNJA GROŽĐA – MOGUĆNOST POVEĆANJA KONKURENTNOSTI GAZDINSTVA U USLOVIMA GLOBALNE EKONOMSKE KRIZE, Međunarodna naučna konferencija, Biotehnički fakultet, Podgorica,