

Transition Effects on the Development of Dynamic Entrepreneurship - The Case of Serbia

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"We are in the midst of a quiet revolution when creativity and the entrepreneurial spirit in people win in the entire world. I believe their impact on the 21st century will be equal or greater to that of the industrial revolution of the 19th and 20th century. The so-called E-generation (entrepreneurial generation) will replace the ancient, dinosaur type of capitalism"

Jeffrey Timmons (1999)

Introduction

Propulsive enterprises present the backbone of future development of any economy. The drivers of development are most propulsive enterprises (gazelles), i.e. small and medium-sized enterprises that make use of their resources in a market environment most efficiently; they raise employment continually and improve their balance positions. Global processes bring to the fore the speed of gazelles' response to market signals and, accordingly, the speed of making business decisions ("think global, act local"). Dynamic entrepreneurs are entrepreneurs with features such as: creativity and originality, long-term orientation to the market and buyers, morality and business culture, the ambition for long-lasting success and capital profit, the ability to predict risk and adjust, and pronounced problem-solving orientation.

Some of the most important achievements of Serbia's transition economy are a faster development of the sector of small and medium-sized enterprises and entrepreneurship and its evolution into a relevant segment of economy. In 2010 the entrepreneurial sector accounted for 99.8% of the total number of enterprises, which was around 320,000; the entrepreneurial sector accounted for 45% of the structure of overall employment, total exports and total investments, 2/3 of total turnover, 56% of newly created value (GVA) in economy, and around 33% of GDP of the Republic.

However, recession tide hit the entrepreneurial sector in the entire territory of SEE hardest and underscored the need to accelerate and complete transition reforms. Stimulating the development of dynamic entrepreneurship and gazelles is a development chance of Serbia. Primary tasks are to continually create a stimulating environment and resolve key problems of development of enterprises in the stage of growth and development. It takes special stimulation of dynamic entrepreneurship as it leads to high growth.

1. How Recession Impacts on Economic Growth of SEE Transition Economies

In 2012 the global economy is in the danger zone again. As different from 2009, this time the heart of the problem lies in the euro area. Economic growth of many developed European economies is hampered by immense public deficits and debts, heightening tensions on the market, intensifying financial turbulences and ever weaker trust in the financial system, which all has an impact on investment and consumption and calls for urgent fiscal consolidation actions that burden domestic demand and export activities.

Growth of domestic demand lags behind growth of GDP of most developed economies in Europe. External demand is in decline throughout most of Europe and probably will continue to develop in line with global slowdown. Global financial markets are contaminated by expanding debt crises that originate from European countries. Therefore the global economy is moving toward the part of low economic growth.

The European Union is the largest economy in the world (with GDP of more than 16 billion dollars), larger than both the American and the Chinese. However, the problem is of structural nature – namely, 77% of GDP is accounted for by services and only 20% by industry. In addition, recession blows are caused by the problem of deficit of the balance of payment current account that is deteriorating by day due to ever greater trade deficit. The EU has a huge trade deficit with China, a consequence of the EU's strategy to turn to the economy of knowledge and to export knowledge, the strategy that failed to bear fruit and, moreover, meant the loss of industry(1).

Within the EU a group of economies is practically out of recession, owing to a substantial growth of manufacturing industry (Denmark, Germany, Poland, The Netherlands, Sweden, and Switzerland), the second group is in a deep debt crisis (Greece, Ireland, and Portugal), while in the third group of countries in 2011 growth was lower than average growth before the crisis. Some of these economies face problems of rising market instability and rising liabilities (Italy and Spain).

The economic recovery from effects of the global crisis in 2008/2009 in SEE countries started in 2010 and continued into early 2011 (Figure 1).

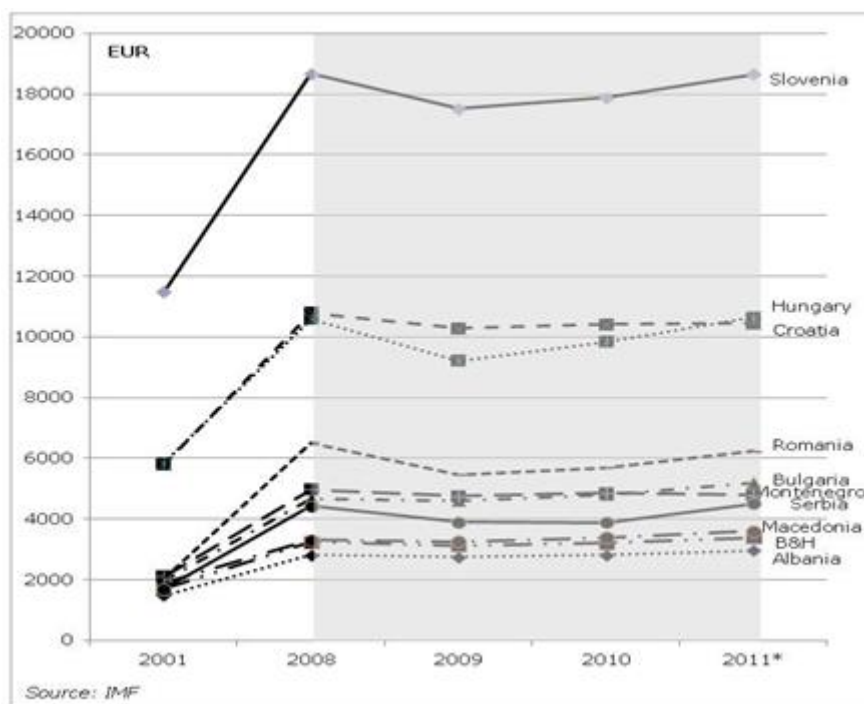


Figure 1: Crisis impact on economic growth – GDP/pc

However, since the second quarter of 2011 the economic situation has worsened and the recovery is brought into question due to turbulences in the euro area that create huge risks in SEE countries. The main risk for SEE countries lies in the fact that the crisis in the euro area might deepen and have an adverse effect on exports and capital flows given that humble growth in 2010 was realized mainly owing to the export of countries to the euro area. The crisis in the European banking sector and a considerable drop in the inflow of capital could strongly hit economies that are highly dependent on the import of capital, such as Serbia.

Negative effects on the debt crisis in the euro area could be felt in SEE economies through:

- Trade with the EU (and thus exports and economic growth)
- Foreign direct investments (investors from the EU are the largest source of FDI)
- The presence of foreign banks (almost all foreign banks are from the EU, whereby the weight of banks from Greece and Italy is most marked)
- Remittances (euro-zone countries are a major source of remittances).

2. Serbia's Development Gap

Economic growth and development in the previous decade had the aim of creating institutional and material prerequisites for a stable development. Given the 'development gap' that emerged in the last decade of the 20th century, an average growth rate of GDP achieved in 2001-2010 (of 3.7%) was not sufficient to help eliminate the lag – the development gap (Table 1). During the pre-crisis period (by 2008) the problem of an unfavourable structure of

creation and usage of GDP had not been resolved as domestic demand had constantly been rising faster than output.

Table 1: Macroeconomic transition balance

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP, EUR m	12.8	16.0	17.3	19.0	20.3	23.3	28.5	32.7	28.9	29.0	33.0
GDP, real rise in %	5.3	4.3	2.5	9.3	5.4	3.6	5.4	3.8	-3.5	1.0	1.9
Inflation, end period	40.7	14.8	7.8	13.7	17.7	6.6	10.1	6.8	6.6	10.3	7.0
Current account deficit, % GDP	2.2	-4.2	-7.8	-13.8	-8.8	-10.1	-17.7	-21.6	-7.2	-7.2	-9.2
FDI, % GDP	1.4	3.1	6.9	4.1	6.2	14.3	6.4	5.6	4.8	3.0	5.5
NBS forex reserves, EUR bn	1.33	2.21	2.85	3.13	4.95	9.04	9.66	8.19	10.6	10.0	12.1
Fiscal deficit, % GDP	0.0	-3.3	-1.1	0.9	1.1	-1.6	-2.0	-2.6	-4.5	-4.5	-4.7
Public debt, % GDP	105.2	72.9	66.9	55.3	52.2	37.7	30.9	29.2	34.8	42.9	45.1
External debt, % GDP	85.5	58.7	55.9	49.8	60.1	60.9	60.2	64.6	77.9	82.1	75.6
Private external debt, % GDP	5.5	4.8	6.7	11.5	21.2	32.6	38.1	44.6	51.0	50.8	40.5

Source: RSO, MF

The problem further caused a rising external trade deficit (a lower supply of goods designed for exports and higher demand for imported goods) and, consequently, the deficit of the balance of payments current account. Deficits were covered from the inflow of foreign capital (surplus in the financial section of the balance of payments). Over the past decade external debt of the country has been rising continually.

The development ‘transition gap’ of Serbia is characterized by the following macroeconomic misbalances:

- A high share of domestic consumption in GDP
- An inadequate volume and an unfavourable structure of gross fixed capital formation, as well as the share in GDP (around 20%)
- Rising budget deficit
- High foreign trade deficit with an insufficient volume and an inadequate structure of exports, as well as an inadequate share in GDP (around 30%)
- Constant deficit of the current account of the balance of payments
- High share of public debt in GDP (around 45%)
- A constant rise and a high share of external debt in GDP (73.6%). According to the World Bank’s methodology, the country is over-indebted if the share of external debt in GDP is larger than 80%.

2.1. The gap: output – domestic demand

The main characteristic of the structure of GDP usage is a high share of final consumption and an inadequate share of gross fixed capital formation. During the pre-crisis period final consumption was rising faster than economic growth and its share in GDP stood at as much as 98%, while the share of investments was at about 20%, i.e. domestic demand surpassed total output by about 20% (Figure 2). High-level final consumption led to an increase in imports.

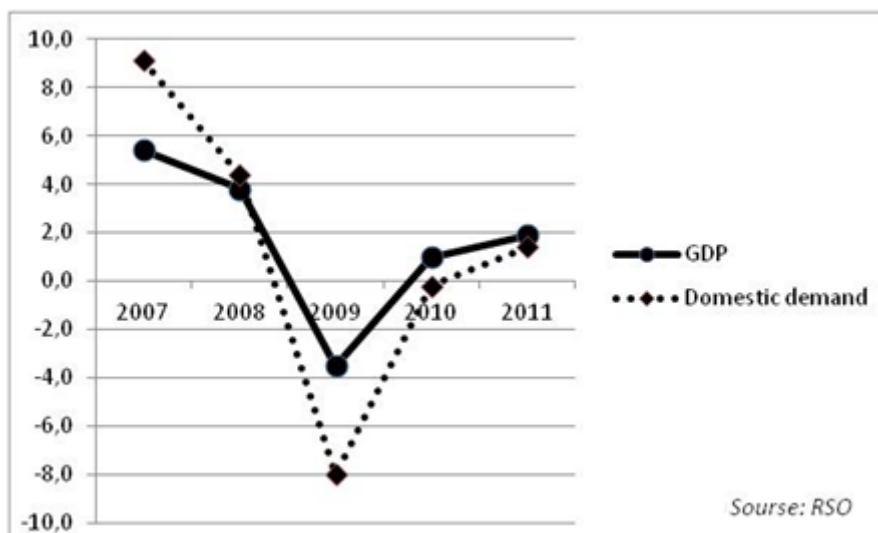


Figure 2: Growth rates of GDP and domestic demand

Due to an inadequate share of the export of goods and services in GDP (around 30%) external trade deficit rose, and so did deficit of the current account of the balance of payments. In the period of crisis a change to the relation between output and domestic demand occurred. In 2010 investment consumption and export demand increased, while final consumption was still in the negative zone. Despite the recovery of investment activity, their share in GDP (19%) was still inadequate for a faster recovery of the country.

2.2. Two key macroeconomic deficits

The transition period is marked with a rising deficit of the consolidated balance of the state sector (the share of deficit in GDP in 2006 was 1.6% and in 2011 it was at 4.5%), which was financed through borrowing on the domestic and international capital market. Because of recession blows in 2009 we had the deepening of the deficit of the government sector induced by economic downturn (a drop in tax revenues), which was to some extent alleviated in the second half of 2010 (4.4%). Current public consumption was lower, which gave room for fiscal incentives, i.e. subsidies and 'soft' budget loans for the corporate sector and households.

Throughout the entire transition period after 2001 the economy has been faced with external misbalance caused by rising external trade deficit that was financed through loans from abroad. The inflow of foreign direct investments was also partially funded through the rising deficit of the current balance. In 2009 deficit of the current account considerably decrease in comparison with the previous period due to a decrease in external trade deficit. The inflow of foreign direct investments significantly decreased in 2010 because of the economic crisis. A low level of the inflow of foreign direct investments led to deterioration of balance of payments developments given that their inflow partially covers the balance of payments current account deficit.

3. Degree of Development of Dynamic Entrepreneurship in Serbia

The entrepreneurial sector in Serbia accounts for 99.8% of the number of enterprises, in the structure of economy employs 2/3 of employees, generates 2/3 of turnover and 56% of the newly created value; it accounts for 45% of exports and 1/3 of GDP (Tables 2 and 3). However, compared to large enterprises the entrepreneurial sector is less productive and less profitable (the profitability rate is 36.1% vs. 43.0% in large companies). Sector concentration of entrepreneurship is in manufacturing industry and trade, and the regional is in the capital.

Table 2: Weight of the entrepreneurial sector in economy (%)

Indicators	2009	2010
No of enterprises	99.8	99.8
No of employees	66.7	66.4
Turnover	67.8	65.3
GVA	57.1	55.9
Export	50.5	46.4
Import	60.9	54.3
Balance of goods	72.8	65.4
Investments	52.6	52.1

Source: MF

Table 3: Structure of the entrepreneurial sector (%)

	Micro	Small	Medium
No of enterprises	96.3	3.0	0.7
No of employees	47.3	23.9	28.8
Turnover	40.1	29.9	30.0
GVA	39.4	28.6	32.0
Exports	26.4	28.0	45.7
Imports	25.0	36.3	38.6
Balance of goods	23.7	44.7	31.6
Ratio export/import	52.5	38.4	59.1

Source: MF

Despite a significant impact of the SMEE sector on overall economic development, main indicators of the doing business in 2010 by the size of enterprises suggest there are major development problems, most important ones being an unfavourable structure with an insufficient number and a low level of development of medium-sized enterprises that drive the sector development.

Viewed by the size, in the structure of the entrepreneurial sector of SMEE micro enterprises are most numerous, while small and medium-sized enterprises dominate all the indicators of reference. However, in 2010 the number of medium-sized enterprises, which should take over the role of drivers of development of the entire sector, fell by 8.6%.

3.1. How recession affects the entrepreneurial sector

Recession effects (reduction of external and internal demand, investments, higher risks and costs of investment, as well as a fear of failure) adversely impacted on the doing business of economic entities.

The healthy entrepreneurial dynamics of previous years is undermined (slower establishment, growth, and development, and faster closing), and so the number of shops fell and the number of enterprises is stagnating. Results of GEM research (Global Entrepreneurship Monitor) into various aspects of the entrepreneurial activity in 2009 underline negative effects of the crisis on the entrepreneurial climate in Serbia – the number of start-ups as well as new entrepreneurs decreased, which heavily limited opportunities for the creation of new jobs and productivity growth. In the course of 2010 each month around 3,700 individuals established new business entities, much less than 5,000 individuals (an average number of people that set up businesses each month in 2007). The environment in Serbia in which entrepreneurship is to develop has worsened since the start of the economic crisis. Consumer demand declined and the loss of business trust has made an adverse impact on the availability of financial support; this put a serious limit to the opening of new and development of existing enterprises and shops. The rate of the opening of new enterprises has slowed down substantially. Namely, in 2007 per each 6 newly established enterprises one was closed down, and per three newly

opened shops two were closed. In 2010 the number of newly established and closed enterprises almost equaled, while the number of opened shops was by 10% lower than the number of closed. Prospects of newly established companies to survive on the market diminished, and so the share of companies that live through the first two years of operating went down from 92.0% (2007) to 90.6% (2010), while the rate of survival of shops fell from 66.2% to 54.1%. At the same time, unemployment increased a lot, which leads to prolonged forced emigration, particularly of the young and educated. The global economic crisis has made an adverse impact both on economic entities in the early stage of operating and on already established companies – there are fewer business opportunities and it is more difficult to start a business.

Moderate economic growth in 2010 did not help the improvement of business conditions of the entrepreneurial sector, nor the achievement of better business results (Table 4).

Table 4: Rates of growth/fall of business indicators

	SMEE		Large		Economy	
	2009	2010	2009	2010	2009	2010
No of enterprises	3.7	1.2	-6.9	-4.7	3.7	1.2
No of employees	-7.2	-6.6	-5.0	-5.2	-6.5	-6.2
Turnover	-14.7	0.3	-19.4	12.2	-16.2	4.1
GVA	-15.7	-1.4	-8.5	3.6	-12.7	0.8
Exports	-8.9	15.9	-24.2	36.5	-17.2	26.1
Imports	-24.2	1.9	-25.1	33.9	-24.7	14.4
Balance of goods	-33.1	-9.1	-28.1	28.5	-31.8	1.2
Profit	-15.6	8.6	1.8	14.5	-8.4	11.4
Profitability rate	-5.3	-0.1	0.3	1.7	-2.9	0.9

Source: MF

The crisis and worsening of business conditions in the SMEE sector had a particularly severe effect on employment (around 58,000 employees were made jobless). The trend of rapid opening of new jobs of the period 2004-2008 when, owing to an improved business climate and incentives undertaken by the Government, the number of employees in the sector of SMEE increased by about 187,000, through which the adverse transition effect of a decrease in the number of jobs in large enterprises that was a part of the restructuring process was neutralized (164,000 employees), thus minimizing consequences that go hand in hand with the process of establishing an optimal level of the number of employees in privatized economic entities. Section and regional breakdown of entrepreneurship in recession has not changed much.

However, the recession tide has led to a decrease in the value of output and an increase in liabilities of economic entities, which resulted in a weaker inclination for investment. In 2009 the share of the SMEE sector in the structure of economic investment was at 52.6%, while the share of investment in GVA slightly rose to 33%, primarily owing to higher investments of small enterprises. The trend of declining investment efficiency continues, and it is manifested as an ever larger sum of investment needed to generate a unit of GVA increase. The comparative analysis of investment with neighbouring countries and EU-27 suggests a much lower level of these indicators in Serbia.

Assessments are that small enterprises started to recover in 2010 by channeling their activities to other, less risky areas owing to a higher degree of flexibility. Because of slower adjustment to new conditions, medium-sized companies only in 2010 felt the real impact of the crisis, which had a key impact on overall realized results of the SMEE sector. As earnings in the

SMEE sector account for almost 2/3 of GVA, enterprises do not have much left to improve and modernize the work process, without which there is no efficient adjustment.

Poorer conditions for the doing business, primarily for borrowing, particularly hit the SMEE sector that, as in countries of the region, has become more indebted and dependant on external sources of funding.

3.2. Comparative analysis of entrepreneurship development

The comparative analysis of development of the SMEE sector in Serbia and EU countries suggests that by the share in the number of companies and employment, as well as by generated turnover and GVA, the sector of Serbian SMEE is at the level of the EU average. However, there is a huge lag of the Serbia's SMEE sector in relation to the EU average if one analyzes turnover per employee, GVA per employee, and profit per employee. The comparative analysis of investment per employee and investment per enterprise in neighbouring countries and EU-27 suggests a considerably lower level of these indicators in Serbia, both for the SMEE sector and for overall economy. Investments per employee in the SMEE sector amount to EUR 3,400 (the EU average is EUR 7,400), and investments per enterprise amount to EUR 8,700 (EUR 33,400).

The level of competitiveness of the entrepreneurial sector of Serbia significantly lags behind the European average and most transition economies. Qualitative indicators of the level of development of the entrepreneurial sector are lower in comparison with the EU average and most countries of reference (employment per enterprise, turnover, GVA, and profit per employee). An average rate of profitability is above the average, a consequence of a low starting basis and not of the expansion or a higher level of internationalization of this sector.

A relative delay of Serbia in implementation of structural reforms leads to a high share of the SMEE sector in major indicators of the doing business of the economy. The global economic crisis only additionally deepened existing development problems, in the first place of large economic systems in restructuring.

In comparison with 2009, the number of SMEE rose and business activity, profit, and the value of external trade increased moderately. A relatively small number of SMEE per 1,000 citizens (43.3) was above the level of the EU average, but it was insufficient vis-à-vis the country's needs (Table 5). Before the outburst of the global economic crisis the SMEE sector had been the most vital segment of the economy and a major generator of new jobs. Due to general deterioration of business conditions, there was a considerable decrease in the volume of employed labour and thus a relative improvement of business performances in relation to the number of employees.

Table 5: Comparative indicators of entrepreneurship development

	EU	Bulgaria	Czech	Hungary	Romania	Slovenia	Serbia	
	2008						2009	2010
No of SMEE per 1,000 citizens	41.6	41.4	86.6	53.0	20.4	50.7	43.0	43.5
No of employees per enterprise	4.3	3.1	2.8	3.3	6.0	4.2	2.8	2.6
Turnover per employees in EUR 000	158.7	62.0	97.8	92.2	101.8	120.3	53.7	55.7
GVA per employee in EUR 000	40.3	11.1	19.6	14.1	14.1	25.9	9.5	9.7
Profit per employee in EUR 000	10.9	4.2	3.6	0.6	7.2	2.4	3.1	3.5
Profitability rate	27.0	38.1	19	2.0	52.0	9.0	32.8	36.1
SHARE OF SME IN ECONOMY								
No of enterprises	99.8	99.7	99.8	99.8	99.6	99.7	99.8	99.8
No of employees	67.4	74.1	67.6	71.1	63.6	67.0	66.7	66.4
Turnover	57.7	65.1	58.8	58.8	58.7	63.2	67.8	65.3
GVA	57.7	54.1	54.8	51.9	42.2	59.8	57.4	55.9
Profit	49.4	45.4	31.5	-	34.8	29.1	54.1	51.6

Source: MF, RSO, EUROSTAT, DG Enterprise and Industry

3.3. Sustainability of Serbian gazelles

Even in the most developed economies gazelles account for not more than five per cent in the total number of enterprises. As early as in the 1970s Professor David Birch (the author of the very term gazelles) while studying the boom of the Silicone valley concluded that only three per cent of enterprises (most dynamic ones – gazelles) would survive and continue to develop. Conclusions entitled Europe's 500 indicate new trends of dynamic entrepreneurship and state that their sustainability is based on a clear entrepreneurial vision and an innovative approach. "The entrepreneurial generation of the day is creative, innovative, and strives to be true to its environment...it is very different from the capitalists of the 19th and mid 20th century we know of. Entrepreneurs create and in the first place bring to life new technologies, new products, new industrial branches; they generate new value and new jobs." (Timmons, A. Jeffrey) Recession impacts have clearly showed what the economic role of entrepreneurship is. Most jobs are, namely, created in the companies that employ up to twenty people. Small and medium-sized enterprises were the fastest rising enterprises in the 1990s, they created more jobs than large enterprises lost, and they realized the highest increase in revenues and profit.

In transition countries there is a great mistrust of dynamic entrepreneurs (that many American authors dub heroes). In these countries some twenty years ago it was dangerous and illegal to talk about entrepreneurship and profit. Therefore it takes some time to change the attitude to entrepreneurship as a whole and for the state to initiate permanent building of a favorable climate for dynamic entrepreneurship. Stimulation of entrepreneurship development in Serbia is one of the development focal points and a priority strategic objective of overall development of the country. Intensive development of modern entrepreneurship in Serbia started in 2001 as part of structural reforms but global recession heavily undermined transition results. Still, nowadays the entrepreneurial sector employs around 2/3 of economy, generates 56% of value added, 45% of exports, and accounts for 1/3 in GDP of the Republic.

Although we still cannot say that dynamic entrepreneurship in Serbia is in line with European standards when it comes to economic robustness, innovativeness or competitiveness, if we modify criteria to some extent, we could identify enterprises that deserve the epithet of dynamic enterprises and most dynamic enterprises – gazelles. In keeping with modified "Europe's 500" criteria of the European Commission, in 2010 in Serbia there were 538 dynamic enterprises and 54 most dynamic ones – gazelles. The research into dynamic entrepreneurship shows that in 2008 the number of dynamic enterprises increased 2.5 times (from 237 in 1998-2002 to 532 in 2003-2007) and that the number of their employees doubled

(from 12,473 to 22,167), while in the period 2006-2010 in 538 dynamic enterprises there were about 47,000 employees.

The main characteristics of 54 Serbian gazelles in 2010 were (Figure 3):

- A constant increase in employment – in 2003-2010 gazelles created about 10,000 new jobs;
- The impact of Serbian gazelles on overall economic developments is still marginal – 54 Serbian gazelles in 2010 accounted for: 1.2% of the number of employees, 1.5% of total revenues, 1.3% of income, and they had at their disposal 0.5% of capital;
- A more dynamic real rise in major indicators than that of economic developments: capital rose 5.8 times (by 17% in economy), total revenues rose 4.4 times (by 50% in economy), and income 4.3 times (by 2.2 times in economy);
- Section breakdown indicates that gazelles are concentrated in Trade (24) and Manufacturing industry (12);
- Pronounced regional concentration – 23 gazelles are registered in the territory of Belgrade, mostly in the service sector.

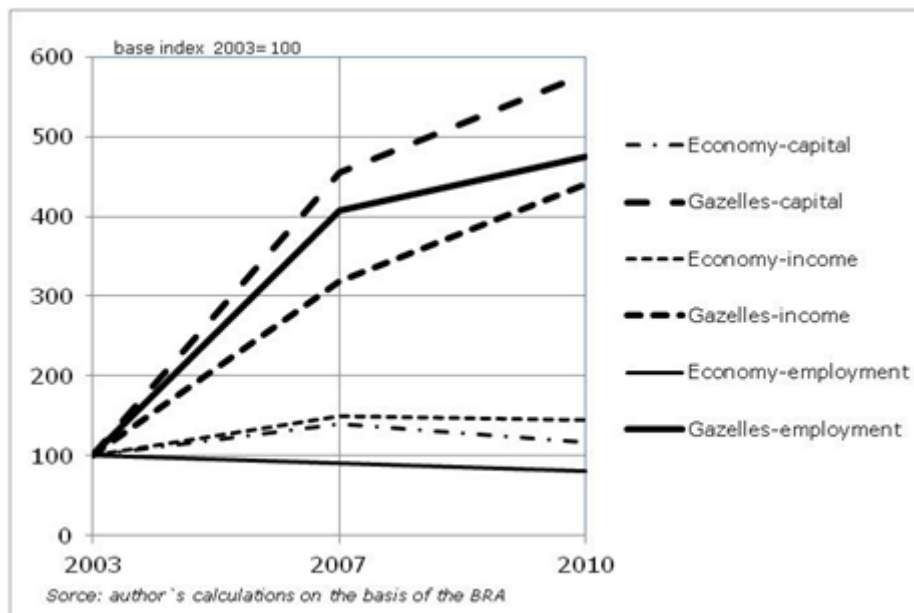


Figure 3: Significance of dynamic entrepreneurship

3.4. Barriers to entrepreneurship development

Key problems that stand in the way of entrepreneurship development in Serbia are:

- incomplete institutional setting and regulations – major problems lie in the domain of high total fiscal liabilities; unfair treatment in public procurement processes; a failure to address to issue of monopoly; problematic claiming of liabilities; red tape and an inadequate taxation system; complicated and costly administrative procedures, particularly when it comes to the issuing of licences; resolving property and legal issues, etc.;

- o inadequate knowledge and skills of entrepreneurs and their employees – a dearth of staff with particular skills as well as insufficient expert training of the management to resolve strategic and/or operative problems with the view to maintaining continuity of operations;
- o inadequate incentives for improving capacities for managing development of intellectual property in enterprises, including ownership rights – trainings, seminars and lectures, direct subsidies and grants, specialization in intellectual property protection on the international market;
- o unfavourable conditions for funding and inadequate forms and volume of financial support – what dominates are banks that offer expensive loans and short terms of loan repayment. Something that is lacking are developed micro-credit institutions on the national and regional level, but also other financial instruments designed to suit true financial needs of SMEE and their economic strength;
- o undeveloped programme-based access to funds – cooperation with private investors such as business angels; programmes of loans or loan guarantees; mezzanine loans to provide capital for innovative SMEE; capitalization of the funds of venture capital; tax incentives, etc.
- o poor liaison with large enterprises, and, consequently, an untapped chance for dynamic development of the SMEE sector as a partner (supplier, subcontractor) of large business systems, i.e. insufficient exploitation of advantages offered by the SMEE sector in relation to large enterprises in some production segments that require flexibility and a speedy technical and technological/market adjustment;
- o inadequate incentives for introducing modern technologies, innovations, standards, quality control, etc.;
- o insufficient stimulus for internationalization and a lack of information on markets;
- o poor promotion of development of skills in enterprises – management skills, research and development skills and skills related to realizing exports by providing relevant trainings (by granting funds for private services and/or by directly providing trainings by means of training centres and other infrastructure).

Conclusion

Development of entrepreneurship in Serbia is directly dependant on the animation of entire economic activity that can be achieved by applying a new model of growth based on export demand, a rise in employment, investment, a decline in public consumption, strengthening of the industrial sector in parallel with the development of the sector of services, etc. The central focus should be on measures and activities for stimulating the development of dynamic entrepreneurship:

- Establishment of a comprehensive incentive system and addressing key development problems of enterprises in the stage of growth and development, based on practices of highly developed economies of the OECD and the EU that deliberate special actions as part of the process of building a system for stimulating the development of dynamic enterprises and gazelles. In EU states this is a part of a wider process of implementation of the Lisbon strategy for providing growth and employment and creating the entrepreneurial, knowledge-based society.

- A shift from the policy of support for the entire sector of SMEE (by improving the business environment for stimulating the opening of as many new entrepreneurial companies as possible) to the policy of stimulating dynamic entrepreneurship that is dedicated to the creation of an environment conducive to growth of entrepreneurial companies and the one that will encourage gifted people with a clear vision of the future to start their own business.
- An altered way of funding (public sources of funds, various forms of grants, subsidies, and soft loans), relying on the combination of public and private sources, namely loans for research and development and grants for innovations, funding provided by business angels, engagement of venture capital, and the issuing of securities.
- A change to the structure of services delivered by institutions for the non-financial support, and that from basic (standard) counseling for setting up a business, business planning, and the doing business of small companies, to counseling based on experience in risky funding, strategic planning, support for the inclusion into supply chains of large companies, internationalization, and growth and development of enterprises.
- The advantage in ensuring access to resources of dynamic entrepreneurship which enable high growth.

Regulatory reforms that target not only the removal of barriers for the establishment of new companies but also for the creation of favourable conditions for the growth of dynamic enterprises are to be developed. Apart from the lowering of VAT for small companies, it is essential for collection of tax revenues to be brought in line with conditions for the change to the company size and to provide a neutral distribution of shares. The earlier approach was to find opportunities to prevent the loss and bankruptcy, while at the moment losses and bankruptcy are accepted as a natural part of the market mechanism. Still, other ways to reduce their economic and social cost are being devised (i.e. by providing the ‘second chance’).

Even before the outburst of the global economic tsunami in 2008 in Paris the then European Commissioner for Science and Research, Janez Potocnik stressed that ‘entrepreneurship is the DNA of the European economy, the basis for our future growth and progress... Why is that so? Because in Europe the growth and progress must rest on knowledge and entrepreneurs are most competent to turn knowledge into growth... by converting clear ideas into commercial success, by turning research into award.’

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