

THE IMPACT OF ECONOMIC CRISIS ON UNEMPLOYMENT, EMPLOYMENT AND SMEs DEVELOPMENT IN SERBIA

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ABSTRACT: *The establishment of macroeconomic stability, the conducted reforms and the institutional changes in the past years resulted into the improvement in the business conditions in Serbia. Significant advances were made in 2008 as regards the formulation and implementation of the policy of development of SMEs, and in the implementation of the European chart on small enterprises. Despite the improvements achieved, the business environment in Serbia is still ranked as insufficiently stimulative for the development of SMEs. In 2009 ,Serbia ranked 93th out of 133 countries in the World Economic Forum's Index of Business Competitiveness .This country ranks is lower than in any other country in the region. In this context, the importance of the state support to the development and stability of this sector is invaluable, especially because the entrepreneurship sector was most severely hit by the economic crisis in Serbia. In addition, the economic has also resulted into the fall in the employment rate and the rise in the unemployment trend, which will be especially analyzed in this paper.*

KEY WORDS: *Economic crisis; employment; unemployment; corruption; business environment; SME; Serbia*

JEL CLASSIFICATION: *M13, O11, O10*

1. INTRODUCTION

Until the 2002 to 2008 period, Serbia's economy experienced a relatively high growth rate, (over 6% per annum). In the second half of 2008, the global economic crisis affected negatively the dynamics of the economic activity in Serbia. It hit Serbia harder than has been expected; although not so hard as other economies in the region.

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The estimations are that the GDP growth, as an effect of the global economic crisis, decreased in 2009 by 2.9% in comparison to 2008. The FDI also decreased in 2009 (1 112.5 million EUR) in comparison to 2008 (1 812.1 million EUR) mainly as a result of the economic crisis.

The European Committee report titled “The SME Policy Index” points out that Serbia succeeded in passing from the policy formulating and strategic goals definition stage to the policy execution stage, especially in the areas such as the support to the innovative and start-up firms, delivery of business services and dissemination of information via on-line services, as well as general social climate improvement. In 2008 the number of actively operating firms in Serbia amounted to 304,017, of which 303,449 (99.8%) operated in the SME private sector. According to the latest official reports, the SME sector employed 940,000 workers, which is around 43.2 per cent of the total number of employees in Serbia. It is important to point out that this sector played a crucial role in creating new jobs in the 2004-2008 periods, when, due to the restructuring of economy, the number of work posts was reduced by 163,620; however, in the same period the SME sector employed 187,419 people. In 2009 however, Serbia ranked 93th out of 133 countries in the World Economic Forum’s Index of Business Competitiveness. It is therefore necessary that the business environment supportive to creating an efficient and competitive economy be improved, especially in view of the fact that this country ranks lower than any other country in the region, hence its position is worsened in comparison to that of 2008.

2. UNEMPLOYMENT

From the beginning of the world economic crisis, October 2008, until January 2010, the number of unemployed in Serbia rose by 34,182. In January 2010, the National Employment Agency recorded 751,590 unemployed, 2.9 per cent more than in December 2009. The unemployment growth rate¹, according to the October 2009 Workforce questionnaire, was 16.6%, which is by 2.3 percentage points higher compared to the same period 2008. In the analysis of the factors that have the greatest impact upon unemployment, the following ones are identified: qualification, gender, age.

The average period the unemployed person in Serbia wait in line to get a job exceeds three years. Women wait longer than men, and by an unwritten rule, in case of economic, social, or political crises they are the first to lose their jobs. In many ways this further aggravates their already unfavourable economic and social position. In 2009, the unemployment rate among women in Serbia amounted to 18.4%, whereas the unemployment rate among men was 3.1% lower and amounted to 15.3%. During 2009, 161,190 people older than 50 was unemployed (20% in the total structure of unemployed). The unemployment rate among the 15-24 year olds in 2009 ranged around 40.7%.

¹ The unemployment rate shows the number of unemployed in the total number of working age population.

Table 1. Unemployment rates in April and October 2008 and 2009 – comparative review

	April 2008	October 2008	April 2009	October 2009
Unemployment rate	13.3	14.0	15.6	16.6

Source: Workforce questionnaire, Statistical Office of the RS, 31th Dec, 2009

According to the data provided by the Statistical Office of Serbia (RZS), towards the end of December 2009, women prevailed in the structure of unemployed population, which by then amounted to 52.87%. The data also show that 55.41% women were unemployed on a long-term basis. In 2009, the unemployment rate of women amounted to 17.3%, compared to 14.3% for men. Unemployment is especially a serious problem in the population of women older than 50, who find it really difficult to get a new job.

Table 2. Unemployment rates according to gender for the period 2005- 2009

	2005	2006	2007	2008	2009
Unemployment rate	20.8	20.9	18.1	13.3	16.6
men	16.8	17.9	15.8	11.7	14.3
women	26.2	24.7	21	15.2	17.3

Source: Adjusted according to Workforce questionnaires (October, April 2004, 2005, 2006, 2007, 2008, 2009), <http://webrzs.statserb.sr.gov.rs>, accessed on 18.03.2010.



Figure 1. Unemployment growth rate in Serbia, 2000-2009

3. EMPLOYMENT

The labour market indicators in Serbia are significantly lower compared to the EU average. The total number of the employed in Serbia at the end of 2009 was 1,889,085, indicating the 5.1% fall in employment compared to the previous year. The number of employed men fell by 4.8%, whereas the total number of employed women fell by 5.6%.

3.1. Employment rates in the formal and informal sectors

The employment rate of 40.8% in Serbia (October 2009) is significantly below the goals set by the Lisbon strategy of 2000, the employment rate of 70%. In 2009, the employment rate fell by 3.1% compared to 2008. In comparison with the previous year, the employment rate in October 2009 was 48.5% for men, 33.7% for women. The highest employment rate for the period was recorded in central Serbia (42.0%), followed by Belgrade (41.0%). The lowest rate was recorded in Voivodina (38.3%).

Table 3. Employment rates in April and October 2008 and 2009 – comparative review

	April 2008	October 2008	April 2009	October 2009
Employment rate	44.7	44.2	41.6	40.8
Employment rate in informal sector	23.6	23.0	22.2	20.6

Source: Workforce questionnaire, Statistical Office of the Republic of Serbia, 31 Dec, 2009

3.2. Employment in the informal sector

The definition of employed in the informal sector that we used in this paper is the same as the definition used in the AWS analysis of 2002. According to this definition, employed in informal sector are all the individuals without a formally and legally regulated employment status, i.e., those not employed in registered firms or estates, are not owners of a registered firm or estate/farm and are entitled to no insurance on the basis of their work. According to the AWS data, nearly 35% employees were engaged in the informal sector in 2007, which is approximately 4% more compared to 2002, however, the number is equal to that for the year 2003. The informal employment rate fell by 1.4% in April 2009, in comparison to April 2008, and it further fell by 2.4% in October 2009, compared to October 2008.

Although the rise in the number of employed in the informal sector included all the levels of education, in comparison to 2002, the number of employees with the lower educational background was by far the largest. Whereas in 2002 the informal sector employed about 49% of those with primary education, the percentage rose up to 70% in 2007. Out of the total of employed work force with secondary education, slightly less than 28% work in the informal sector and the number of people with higher or university education working in the informal sector is the lowest. There were important changes in the socio-economic position of the employed in both formal and informal sectors in comparison to the year 2002. While in 2002 a larger number of employed in the formal (58%) than in the informal (42%) sectors lived below the poverty line, the 2007 data reveal a totally opposite situation. Out of the total of employed living below the poverty line, more than 72% are employed in the informal sector. Viewed by the consumption quantal, among the employed that make up the category of 20% poorest citizens, 40% are engaged in the formal and 60% work in the informal sectors, whereas among the 20% richest citizens, as many as 82% work in the formal and only 18% work in the informal sectors.

The percentage of the employed in the informal sector was reduced by 0.3% in the urban areas. In other areas, more than 52% of the employed are in the informal sector, which is 11.3% more compared to 2002. Since the largest percentage of the employed in the informal sector is made up of the employed in the rural areas, they can be assumed to be the individuals engaged in farming. The high percentage of employed in the informal sector is, among other things, the result of a higher flexibility that allows for such a method of work as regards the schedule and working hours, as well as avoiding costs related to taxation and contribution payment.

The situation since 2002 has shown that the informal sector increasingly absorbs unskilled and unqualified work force. Out of the total of the employed in the informal sector, 53% are those with low education level, 39% are with a secondary education, and 8% are those with higher and university education. The differences in the presence of the informal sector across the region are significant too. The lowest percentage of employed in the informal sector is recorded in Belgrade, 21%, while the highest is in western Serbia, over 47%, where the highest percentage of employed (55%) is recorded simultaneously.

All the above presented data corroborate the fact that the economic position of the employed with formally regulated employment status has significantly improved.

Table 4. Firms with female participation, 2009

Gender	Serbia	Region
% of Firms With Female Participation in Ownership	28.76	36.16
% of Full Time Female Workers	33.93	38.10
% of Female Permanent Full-time Non-production Workers	17.67	12.35
% of Firms With Female Top Manager	15.87	18.66

Source: World Bank Group, 2010

Most widely represented in the structure of informal employment are women. Namely, the women that remained in the work process in the impeding conditions of economic activities, were predominantly engaged in the least profitable industries or in the informal (residual) sector. A modest family budget often prevented women from starting their own business, with their own funds or savings, which women typically use in launching new businesses. The aid from the society was also missing – there were no special - purpose loans nor credits, which further prevented women from implementing their obvious entrepreneurial and managerial potentials. The majority of them, hence, settled to doing marginal jobs in informal economy or working at certain, predominantly non-managerial, work posts in state or public firms. Although the contribution of the informal sector to the country's GNP can be recognized and measured easily, it is rather difficult to measure the extent to which women contribute to the informal sector and the earned GNP in general. There are at least two reasons that the contribution of women to the informal sector is underestimated: they are engaged in those informal activities that are most difficult to track and measure, such as housework; they are engaged in doing secondary and many fold jobs more than men, especially in rural regions.

In transition economies and in developing countries, informal work emerges primarily for existential reasons and the need to survive, while in the developed countries, it is spreads from chances and opportunities, although the contribution of women to the informal sector of economy in all countries is rather marginalized. In the majority of transition economies, in fact, those employed in the informal sector are not protected by the currently ruling laws. Here we have in mind primarily the unfavourable conditions of work and long working hours, as well as the rewarding system and the pay for the job accomplished. In the majority of transition economies evident is the growth in inequality as regards earnings, which is brought into relation to the informal sector share in the economies of these countries. This disparity in earnings is present in both economy sectors; however, it is higher in the informal than in the formal one.

Table 5. Average monthly net earnings in the formal and informal sectors for the period 2002, 2007

Earnings in formal and informal sectors (in RSD)		
Earnings	2002	2007
Formal	9,288.6	24,067.3
Informal sector	9,280.3	16,647.5

Source: (European Bank for Reconstruction and Development, *Earnings Inequality and the Informal economy evidence from Serbia*) <http://www.ebrd.com/pubs.econo/wp0114.pdf>, accessed on 18th March, 2010

3.3. Self-employment

Serbia is, of course, not exempt from the general trend of self-employment growth in the former socialist lager. In the first place, the increased global competition has increasingly pressured the firms to reduce their costs via more flexible forms of work contracts with the employed. This has been made even more serious by the reduced opportunities of formal employment, due to low economic growth rates and the capital intensive economic growth model. The share of the informal sector in the overall employment in Serbia in 2009 was about 30%.

Table 6. Women and men's self-employment participation in Serbia for the period 2004-2009

2004					
total		men		women	
000	%	000	%	000	%
659	100	496	75.2	163	24.8
2005					
total		men		women	
000	%	000	%	000	%
564	100	429	76	135	24
2006					
total		men		women	

000	%	000	%	000	%
530	100	414	78.1	116	21.9
2007					
total		men		women	
000	%	000	%	000	%
535	100	410	76.6	125	23.4
2008					
total		men		women	
000	%	000	%	000	%
740	100	519	70.1	221	28.9
2009					
total		men		women	
000	%	000	%	000	%
627	100	458	73	169	27

Source: Adjusted according to Workforce questionnaires (October, April 2004, 2005, 2006, 2007, 2008, 2009), <http://webrzs.statserb.sr.gov.rs>, accessed on 18th March, 2010

Table 7. Obstacles to SME Development

Serbia	Region
✘ Permits And Licenses	
✘ Days to Obtain Operating License	
28.00	26.05
✘ Days to Obtain Construction-related Permit	
133.49	79.30
✘ Days to Obtain Import Licenses	
16.11	15.99
✘ Corruption	
% of Firms Expected to Pay Informal Payment to Public Officials (to Get Things Done)	
✘ 17.98	17.42
✘ % of Firms Expected to Give Gifts In Meetings With Tax Officials	
3.62	12.90
✘ % of Firms Expected to Give Gifts to Secure a Government Contract	
15.93	25.95
✘ % of Firms Identifying Corruption as a Major Constraint	
5.62	33.53
Source: World Bank Group ,2010	

4. CORRUPTION

The quality of business environment is a crucial element for the enterprise development. A favourable business environment is an essential prerequisite for long-term competitiveness and growth of any market economy. It is an environment in which the State encourages and protects competition, creates clear and stable rules,

effectively ensures the compliance of all market participants, minimizing administrative burdens and requirements to entrepreneurs. Small and medium-sized enterprises play a significant and essential role in all countries with a market economy. They are also extraordinarily significant in the development of the economy of Serbia, both in creating new jobs and in regional development.

However, small and medium-sized enterprises are to an increased extent sensitive to the quality of the business environment. In the last few years, number of organizations that measure of quality of the business environment set up various indexes to measure the quality of the business environment. In this paper we would like to make a comparison of the four indices – Corruption Perception Index (CPI), Aggregate Governance Indicators (AGI), Capture Index, Opacity index. The Corruption Perception Index (CPI) measures the perceived level of public-sector corruption in 180 countries and territories around the world. It ranks countries on a zero to ten scale, with the score of zero representing a very high corruption. The higher value of the index, the better.

The analysis of the corruption on the territory of Serbia is conducted by the TNS Medium Gallup Agency, on the sample of 1,015 respondents. Serbia was scanned by the Global Barometre in the years 2005, 2006, 2007 (GCB was not composed for 2008), and 2009; only the 2009 analysis differs from the previous ones. Thus, the 2009 Global Corruption Barometre analysed the following questions: What is the citizens' perception of the corruption spread in Serbia and to what extent does it coincide with the foreign businessmen' and risk analysts' opinions? How do the citizens rate the Government's measures in fighting corruption? How often did the citizens offered to pay bribe during 2008 and in which sectors? What is the average value of the bribe?

This year, Serbia was ranked on the basis of the data from 6 independent analyses of the attitudes of risk analysts and business people.

Table 8. Corruption Perceptions Index (CPI) 2009

Rank	Country/Territory	CPI 2009 Score	Surveys Used	Confidence Range
66	Croatia	4.1	8	3.7 - 4.5
69	Montenegro	3.9	5	3.5 - 4.4
71	Bulgaria	3.8	8	3.2 - 4.5
71	FYR Macedonia	3.8	6	3.4 - 4.2
71	Romania	3.8	8	3.2 - 4.3
83	Serbia	3.5	6	3.3 - 3.9
95	Albania	3.2	6	3.0 - 3.3
99	Bosnia and Herzegovina	3.0	7	2.6 - 3.4

Source: http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

The CPI score indicates the perceived level of public-sector corruption in a country/territory. The perceptions Index (CPI) in Serbia in 2009 was 3.5. The confidence range indicates the reliability of the CPI scores and displays it allowing for a margin of error. The score shows an increasing tendency in Serbia in 2009 in comparison to the 3.4 in 2008.

5. CONCLUSIONS

In Serbia, potentials had not been completely used for entrepreneurship development. This unusual possibility is especially related to those women who, despite their high education and high participation in labour market, became entrepreneurs to twice an extent as men. In the field of small and medium-sized enterprises development, the initial framework was given by the adoption of the European Charter on Small and Medium Enterprises by the Western Balkan countries, at the EU - Western Balkan Summit, in Thessaloniki, in 2003. The charter presents the pan-European instrument developed within the Lisbon agenda (long-term development vision of the EU). It resulted into changes in the policy towards this sector in the countries of the Western Balkans which adopted it.

Since then, ten policy guidelines defined in the Charter, have become the main references in the SMEs policy development in the region: education and training for entrepreneurship; more favourable and faster start-up (on-line access for enterprise registration); better legislation and regulations; available capacities (the training institutions providing adequate knowledge and skills, adapted to the needs of small enterprises, including the forms of life-long learning); training and consultations; promotion of on-line access (communication between small enterprises and public administration); promotion of activities of small enterprises on domestic and foreign markets (execution of European and national competitiveness rules); taxes and financial issues; strengthening technological capacities of small enterprises; models of successful e-business activities and efficient support to small businesses; development of stronger and more efficient presentation of small enterprises interests on the professional and national levels.

One part of the proclaimed policy is the establishment of the European Fund for South Eastern Europe which was founded by the national and international donors in December 2005. The Fund is expected to provide additional development financing, especially for the sector of small and micro-enterprises and family businesses, through local financial institutions. For the last four years, the fulfilment of tasks presented in the Charter has shown a considerable progress. The improved skills and technologies along with the government supported export promotion, present the new orientation in government policy, which will help small and medium enterprises in Serbia to become competitive. In spite of changing policy, most of entrepreneurs in Serbia encounter numerous problems such as: long delays in securing permits and licenses (Causes of entrepreneurs' problems in the implementation of regulations do not refer to the quality of legal regulations but rather to the procedure of their application; problem with corrupt government officials; lack of Entrepreneurial skills; in Serbia, micro loans are mostly dealt with by the specialised institutions, such as certain banks and the Development Fund. Especially involved in this activity were certain foreign countries which opened the credit lines that were supposed to, if in part only, compensate for major weak points of the banking system of that time. The picture is not that good still, considering that the number and scope of credit lines is not sufficient and that private entrepreneurs still make most of their investments out of their own funds / in 2008, 82% of the financing from internal sources were those of the SMEs and, out of

the total borrowed funds of the loans, 84% were short-term loans/, which is not good for the pace of economic development and development of entrepreneurial activity.

Finally, it could be concluded that Serbia should overcome a lot of obstacles to economic development such as the following: a) Economic and financial crisis, b) Inflation c) Inefficient bureaucracy, d) Policy instability, e) Corruption, f)The informal economy, and g) Unemployment.

The European Accession presents significant opportunities and challenges to Serbia. In the process of European integration Serbia has to fulfil the following economic criteria: 1) building of functional market economy and 2) capacity to meet the competition pressure at the EU market. That is, the pre-accession phase of integration of Serbia into the European Union requires a more intensive work in the harmonization of the reform processes with Union's policies and strategic goals in various spheres of life. One of the most important fields of future reforms is the implementation of content, principles and goals of European Regional Policy, whose basic purpose is to assist less developed regions as well as to diminish regional disparities. The additional advantage for the participants from the countries of the Western Balkans is the new opportunity to participate in tenders which are announced within different programs for pre-accession assistance in all considered countries.

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