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FINANCING THE DAIRY SECTOR IN RURAL AREAS OF THE REPUBLIC OF SERBIA: PEŠTER REGION EXAMPLE

SUMMARY

Milk shortage is a major problem of the dairy industry, both in Serbia and in neighboring countries. Although there is evidence of a growing demand for these products, there are still a number of limitations that make these resources largely untapped in Serbia. The lack of processing facilities of companies further reduces the economic effect, which could be realized with a greater degree of product finalization. This situation as a result has inefficiency in operations and weak competitiveness in exports.

This paper analyses the problems of financing the dairy sector in rural areas of the Republic of Serbia in Pešter region and respectively three administrative units belonging to Raška and Zlatibor district. Most enterprises in dairy sector of Pešter are small and family ones, which are often classified as micro-enterprises. Survival, growth and development of micro, small and medium enterprises and entrepreneurs, that are the most effective segment of the economy in all world countries, primarily is determined by funding opportunities from favorable sources. The number of available funding sources in Serbia for these companies is small, so the financing is one of the most painful issues. The importance of these businesses for local communities reflects in the creation of employment opportunities, primarily low-skilled workers, women and the young. This contributes to rural development and poverty reduction in national economies.

Keywords: financing, milk, Pešter, rural development

INTRODUCTION

This study includes the dairy sector in the three administrative units belonging to Raška and Zlatibor districts. Statistics on the production and marketing of milk are usually incomplete, so it is difficult to gain an insight into the real production and marketing of these products. The lack of accurate data on produced and purchased quantities of milk and milk products is explained by

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their placement through the channels of the grey economy. Lack of processing capacity greatly reduces the sector economic potential, which could be much higher with a higher level of product finalization. The low percentage of use of existing capacity, results in inefficiencies in operations and weak competitiveness in exports. A producer with small volume of production does not generate enough profit due to weak bargaining opportunities in the supply chain, and as a result he/she cannot invest in enhancing his/her competitiveness. In relation to foreign producers, who are taking advantage of economies of scale, modern equipment and infrastructure, the Pešter region has exceptional natural resources and relatively low labor costs, and it creates a competitive advantage in the EU market and other international markets in terms of milk and dairy products.

Development of small and medium enterprises and entrepreneurs are of great importance for local communities. Growth of small and medium enterprises is seen as a main factor in creation of new jobs and poverty reduction in local communities. Growth and development of small and medium enterprises is primarily determined by funding opportunities from favorable financing sources. As the sources of funding for small and medium enterprises are limited this is the most challenging issue.

Socially marginalized part of the population is mostly engaged in primary production of milk in the analyzed region where milk production is a major source of income. For this reason, it was important to analyze the existing ways of funding the dairy sector, in order to indicate the possibility of improvements in this area.

MATERIAL AND METHODS

In this study different scientific research methods were used. The data were collected in 2012, by questionnaire filled up by six companies involved in the purchase, processing and marketing of milk and milk products and 30 entrepreneurs who are engaged in the primary production of milk. All respondents were from the territory Pešter. The questionnaire included questions relevant for understanding the problems of financing the dairy sector in the studied region. The method of description was used in order to highlight the role and importance of the dairy sector for development of the analyzed region, which sought to achieve the confirmation of the basic hypothesis that animal husbandry and production of milk and dairy products represent a significant potential for the development of economy in the analyzed region. The description method is used in the analysis of existing financing models. Inductive-deductive method made possible to draw conclusions and suggesting basic recommendations and guidelines for the dairy owners and entrepreneurs in the choice of adequate funding. Statistical and mathematical methods are used for analysis of data obtained by the survey, which later served as the information based on the conclusions and realized the main objectives of the research. Through the method of "desk research" it was provided a detailed overview of the funding program from the state and state agencies/organizations as well as from international

organizations and foreign institutions, which is available to finance the dairy sector.

RESULTS AND DISCUSSION

The largest percentage of the dairy companies in the Pešter region are micro-enterprises, employing up to five people, often family members. With high degree of specialization and lack of diversification of business activities, lack of adequate sources of funding, frequently is leading to the closure of the companies.

Pešter area, in which the survey was conducted, belongs administratively to the Zlatibor and Raška districts. According to the last census done in 2011, this region has 157,957 inhabitants or 2.18% of the total country population. The average population density in the region is 62.13 inhabitants per km². The surveyed region is one of the economically most undeveloped in Serbia. The age structure of the population is much more favorable than the average of the Republic of Serbia (41.24 years). Unemployment is extremely high, and the number of unemployed is higher than the number of employees. There are a significant number of households engaged in agriculture, and they are registered in the Register of Agricultural Holdings. Agricultural production in the region is mixed type and extensive. The average land holding (5.48 ha) is significantly higher than the average of Serbia (4.50 ha), but there is lower percentage of arable land as pastures, meadows and forests are prevailing. Land consolidation is not done in the past, so that the land property of individual farms is cut-up into a number of smaller plots that are more or less distant from each other.

The region's livestock production primarily involves cattle and sheep. Most households have one to three cows, and the largest sheep farms are located in Sjenica commune mostly owned by the legal entities. Substantial part of the production of dairy products is for the market. The region has six active registered dairy plants. Number of dairy plants in the region, as well as in Serbia, is not constant. The processing capacities for production and processing of milk are quite small. Only two dairy plants are processing more than 1,000 t/year, while the purchase of all other dairy plants is less than 1,000 t/year. Milk collection is characterized by large seasonal variations. Seasonal variations in milk production and the obstacles in collection are significant limiting factor in the operation of these dairy plants. The most common problems are price variations, difficult terrain conditions, extensive grey market and the lack of funding and logistics. The greatest burden of operating income consists of variable material costs (the costs of materials, fuel and energy costs, costs of production services and costs of sold goods).

Financing of dairy sector in Pešter region

In the modern theory of finance, the term financing means managing of cash flows, or cash flows of the company with the aim of obtaining (binding) the capital. In the broadest sense, the term financing includes the overall financial

activity of the company, which covers all fields of money and capital, and thus obtaining capital and its investment in various types of assets in the company. In the narrow sense, the financing means obtaining - providing the necessary capital for the purpose of investing (Andrić *et al.*, 2005)

According to the origin, the capital can be external and internal one. The outer (external) financing occurs when the sources of capital are coming from outside of the company. Internal financing occurs when the necessary funding is provided within the company. Typically, these funds are obtained from the results of enterprises business and collected funds for depreciation of fixed assets or by the other ways such as selling assets, securities, etc. Internal financing method is the safest, most stable and easily accessible, without being required guarantees or insurance, used capitals is not tied to a specific purpose and time and does not require the payment of interest. However, funds from own resources are often limited and this is the main constraint of this method of financing.

According to research of the Agency for Development of SMEs, the use of external sources of funding is increasing from year to year. This clearly indicates the deterioration of funding opportunities with its own resources and the depletion of the resources. Research shows that there has been an increase in the share of funding from external sources to finance fixed assets and working capital. These studies also indicate that in the current circumstances, the bank loans are not too favorable source of financing. The main reason is the high interest rates that are 10-12% higher than the interest rates available in developed market economies. The EU member states have clearly established rules and principles to be followed in case of government's financial support to the small and medium enterprises and entrepreneurs, some of which are the principles of necessity, justification of costs, monitoring of projects, etc.

The institution of the Republic of Serbia in the field of providing financial support to the sector of public funds through grants or through loans under favorable conditions are the Ministry of Economy and Regional Development (MERR), RS Development Fund (Guarantee Fund since 2009), the Fund of the Vojvodina Development Agency for Export Insurance and Financing (AOFI), the Agency for Foreign Investments and export Promotion Agency (SIEPA) and the National Employment Service (NES). Providing financial support to small and medium enterprises and entrepreneurs through the aforementioned institutions is regulated by the following laws and regulations: the Budget Law, the Law on Public Agencies Act, the Republic Agency for SME Development Act, the Fund for the Development of the Law on the Guarantee Fund.

Many agricultural enterprises in Pešter region belong to the group of micro-enterprises and small and medium enterprises. Their biggest problem is financing. Due to weak financial structure, low or no credit ratings and the availability of a smaller number of potential funding sources, these companies are often in position to be closed. The biggest obstacle to the use of bank loans are a lack of documentation about the company or business enterprise, poor presentation of project lenders and low interest of bankers for small enterprises.

Companies and entrepreneurs engaged in the production and processing participated in the questionnaire, in 90% of cases are using internal sources of financing. In some cases, there is a combination of internal and external funding sources. When it comes to external sources of financing, the respondents prefer to opt for the loans from friends and benefits suppliers, while very few have used bank loans. The reasons for this are that they are dominant the loans with high and variable interest rates (adjusted to the market conditions and included all fees and charges - the effective interest rate) and that a number of entrepreneurs are without credit history or adequate collaterals. Only one respondent dairy in the analyzed region has used funds from the Development Fund with granted loan with an interest rate of 1%, while the grant of the Development Fund has not been used by any other respondent dairies. In most cases, the dairy-entities have used grants from the National Employment Service. Milk processors are not export-oriented, so it is logical that dairies in the region did not use measures of state support that are administered through the Agency for Export Insurance and Financing and Agency for Foreign Investments and Export Promotion Agency (SIEPA).

In the previous period, there were various state measures to support directly or indirectly the dairy sector, the most significant are the following:

- Stimulation of at least 7 USD/lit surrendered milk for registered agricultural holdings with quarterly supplied 3,000 l or 1,500 l of milk if the milk is produced in areas with difficult conditions for agricultural production. In the analyzed region a small number of farms applied for these subsidies because of the significant volume of milk processed within households.
- Subsidies for the registering of livestock in amount of 25,000 RSD per head of livestock and the purchase and distribution of heifers in order to increase and improve the livestock heard structure. The measure is implemented in cooperation with the local funds for agricultural development.
- Incentives for quality breeding dairy cows in the minimum amount of 20,000 RSD/head.
- Incentives for suckled cows in the minimum amount of 20,000 RSD/head.
- Incentives for the quality breeding sheep and goats in the minimum amount of 4,000 RSD/head.

The extent of implementation of international funding programs supporting small and medium enterprises and entrepreneurs in Serbia is still modest, as a result of the so-called financial literacy, i.e. extremely low level of awareness of the potential users' availability and terms of use. No matter that the finances of the International program are relatively small, it must be recognized that they are very important. For dairy sector in Pešter, of great importance was the USAID Sustainable Local Development Project. This Project is a five-year initiative of the U.S. Agency for International Development (USAID), worth \$ 22 million, which supports long-term economic and social development of cities and municipalities in Serbia. The project selected municipalities help to overcome the challenges in the development, improve public services and strengthen the local economy through inter municipal cooperation. Key activities of the project are aimed at establishing and strengthening inter-municipal partnerships. Partners

jointly initiate and manage development projects, project support through professional counseling assistance and grants. Two dairy plants in the studied regions (Dairy Zornić Tutin and Beni Commerce Dairy from Sjenica) received grants from USAID for the purchase of equipment in the amount of 50,000 €. Today those dairy plants employ more than 50 workers

CONCLUSIONS

The survey results clearly show that the Pešter region is characterized by excellent natural predisposition for development of animal husbandry. In the milk sector there is a huge variety and number of variations. Dairy plants in most cases were not willing to complete the survey, which disabled a full analysis of the problem of financing the dairy sector in the Pešter Region. What could be concluded, it is a fact that most producers and processors of milk used primarily internal funding sources. The reasons for this are variable and high interest rates on bank loans, as well as most of them are not informed about possible sources of funding. It was also concluded that there is a need for the so-called financial literacy of producers and entrepreneurs in this sector. Next steps of the local governments should be focused on education of this group of farmers and entrepreneurs about the potential funding sources, and then on raising the level of knowledge in the field of finance, insurance, loans, institutional development and networking of all relevant factors involved in the production of milk and dairy products.

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