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Microfinance and sustainable development of MSMEs and entrepreneurs in Serbia

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Abstract: *The focus of the study is the analysis of the potential benefits for the growth and sustainable development of micro, small and medium enterprises (MSMEs) and entrepreneurs that would arise from the improvement of the domestic financial system through the introduction and representation of microfinance institutions. The study has been conducted on a sample of 150 respondents from the banking and private sector. Data analysis has been performed by a non-parametric method, the chi-square χ^2 test of independence. Statistical data processing is performed using the statistical software package IBM SPSS Statistics 21. Results of the study indicate that the domestic financial system is banking-centric, undeveloped, poor and does not encourage sustainable development and growth of micro, small and medium enterprises and entrepreneurs. Also, the research confirmed that the introduction of microfinance institutions would contribute to the improvement of the domestic financial system, the establishment of micro, small and medium enterprises and entrepreneurs, as well as their positive business performance results and sustainable development.*

Keywords: *microfinance, micro, small and medium enterprises, entrepreneurs, sustainability, bank-centric financial system, Serbia.*

Mikrofinansiranje i održivi razvoj MMSP i preduzetnika u Srbiji

Apstrakt: *U fokusu istraživanja je analiza potencijalnih koristi koje se ogledaju u rastu i održivom razvoju sektora mikro, malih i srednjih preduzeća (MMSP) i*

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preduzetnika koji bi bili ostvareni uvođenjem mikrofinansiranja i ujedno unapređenjem domaćeg finansijskog sistema. Istraživanje je sprovedeno na uzorku od 150 ispitanika iz bankarskog i privatnog sektora. Analiza podataka je izvršena primenom neparametarskog metoda, χ^2 testa (Test o nezavisnosti obeležja). Statistička obrada podataka je izvršena uz pomoć statističkog softverskog paketa IBM SPSS Statistics 21. Analiza rezultata sprovedenog istraživanja potvrdila je da je domaći finansijski sistem bankocentričan, nerazvijen, siromašan i da ne podstiče održivi razvoj i rast mikro, malih i srednjih preduzeća i preduzetnika. Takođe, istraživanje je potvrdilo da bi uvođenje mikrofinansijskih institucija unapredilo domaći finansijski sistem, podstaklo osnivanje mikro, malih i srednjih preduzeća i preduzetnika, unapredilo njihove poslovne rezultate i podstaklo održivi razvoj.

Ključne reči: mikrofinansiranje, mikro, mala i srednja preduzeća, preduzetnici, održivost, bankocentričan finansijski sistem, Srbija.

1. Introduction

The private sector plays a key role in fostering economic development. The sector of small and medium enterprises (SMEs) contributes to the creation of new jobs and the growth of employment. This sector influences the growth of tax revenues, promoting economic growth and well-being. Small and medium-sized enterprises are carriers of creativity and innovation and due to their flexibility can easily adapt to market changes. Their development encourages the productivity and efficiency of the entire economy and strengthens the entrepreneurial spirit and competition (Erić et al., 2012).

Niaz and Khan (2021) emphasize that from the very beginning, the primary objective of microfinance has been financial development through the development of entrepreneurship. Jain (2019) points out that microfinancing began to appear in the nineties of the twentieth century. The author conducted research that confirmed that the sector of micro, small, and medium enterprises can become unsustainable due to the lack of access to microfinance institutions and funding sources. As the main obstacles to the development of microfinancing, the author cites high operating costs and the unavailability of collateral and appeals to the importance of microfinancing for the sustainability of micro, small, and medium enterprises.

Lash and Batavia (2021) also examine the relationship between the regulatory and legal environment for SMEs and lending by microfinance institutions. A study of 51 developing countries confirms that excessive regulation and weak legal institutions are associated with lower lending by microfinance institutions.

Kimmit and Munoz (2017) also emphasize the importance of instrumental freedom in achieving financial inclusion, as well as entrepreneurship development. For the successful development of entrepreneurship, in addition to a micro-entrepreneurial environment, strong instrumental freedom is also necessary.

Microfinance has proven to be an important prerequisite for entrepreneurs to achieve greater market share and growth through the introduction of innovation in business processes (Bagudu et al., 2016). As Ojong and Simba (2019) point out microfinance is not only important for entrepreneurs for the reason to start business activity, but also to improve their structural and relational social capital. This social capital enables greater mobility of resources, diversification of business activities, as well as the expansion of size.

Ruslan et al (2019) advocate the view that small enterprises are not always desirable clients for banks and the inability to obtain financial support from banks can be a limiting factor for the growth of SMEs. This led the authors to define the key determinants of microcredit availability among SMEs: financial training, household income, age of enterprise, ownership, networking with nongovernmental organizations, networking with microfinance institutions, networking with business associations, and distance of business premises to the nearest microcredit provider. Musau (2015) also argues that credit conditions and access to financial resources have a significant impact on the development of entrepreneurship. The author cites the size of the loan, the requirement of collateral, terms of lending, and loan processing time as the main limiting factors for the development of entrepreneurship.

The focus of the paper is on the domestic financial system, which is highly bank-centric. That raises the question of whether the structure of an insufficiently diversified and poor financial system dominated by banks can represent an adequate direction of development for a country in transition that wants to progress. The sources of financing available to the sector of micro, small and medium-sized enterprises and entrepreneurs as drivers of employment, innovation and economic growth will be analyzed, as well as the extent to which the currently represented financial institutions in the financial system support them in utilizing the potential for growth and development. In addition, the subject of the research is the analysis of potential benefits that would be brought by the improvement of the domestic financial system based on the introduction and representation of microcredit financial institutions.

2. Literature review

The sector of small and medium-sized enterprises and entrepreneurs, according to its influence, constitutes the most important part and the growth engine of the Serbian economy. According to the latest data, more than 400000 active medium-sized enterprises and entrepreneurs make up 99.9% of all companies, employ 65,1% of the workforce, achieve 66.4% of turnover, generate 59,2% of GDP and participate with 39,5% in exports and 54,7% in imports of the non-financial sector of the Serbian economy (Nikolić & Filipović, 2022). Since they often do not meet the criteria for obtaining loans from banks, owners of small and medium-sized enterprises and entrepreneurs are limited to private funds - cash, funds from retained earnings or property sales. However, banks grant loans to this sector with a degree of caution, requiring the fulfillment of certain conditions such as a good credit history, a sufficient capital, a satisfactory volume of business turnover, a low level of debt burden, etc. (PricewaterhouseCoopers, 2017).

Micro, small, and medium-sized enterprises and entrepreneurs use short-term bank loans as the most common form of financing, while in certain situations they even resort to credit card borrowing and overdrafts, which is an extremely unfavorable financial option (Behrens, 2021). In the neighboring countries, microfinance is, first of all, available option and significantly more developed than in the domestic financial system. Microfinance would lead to the diversification of the offer of financial instruments and the introduction of alternative sources of financing in Serbia. That would also contribute to the reduction of the financial exclusion of MSMEs and entrepreneurs from the flows of the financial system. The importance of the representation of microcredit financial institutions is also discussed in the European Commission's Report on microfinance in the European Union until 2027, which emphasizes the strong potential of strengthening the role of microfinance as an effective tool in supporting economic growth, employment, social inclusion and sustainable development (Drexler et al., 2020).

A developed financial system is an important factor in economic growth, poverty reduction, and, consequently, the achievement of sustainable development goals, especially for underdeveloped countries. By savings mobilization, the efficient allocation of resources, facilitating payments, and improving trade in goods and services, the financial sector plays a key role in generating economic growth. Efficient capital allocation enables the transfer of financial resources for investments to the economic sector and facilitates and encourages the growth of the economy, which stimulates the growth of the gross domestic product (Rousseau & Wachtel, 2017).

Adnan and Kumar (2021) explore the role of microcredit financial institutions in developing countries. The authors conclude that microcrediting of small enterprises is very important not only for the financial stability of these enterprises but also for their fight against poverty. This study concludes that an increase in the level of provision of micro-financing will increase the performance of micro-enterprises.

Yusufu, Olusegun and Hakeem (2020) examine the relation between a SMEs' growth and microcredit bank and establish the existence of a positive relationship. The authors conclude that microcredit banks are crucial for the SMEs' development since they provide them with short-term relief, which makes it easier for them to do business, especially in conditions of an uncertain and unfavorable business environment. Ideba et al (2023) also point out that loans from microfinance banks have a positive effect on economic growth. Therefore, the role of microfinance banks in providing the necessary loans to small and medium-sized enterprises is very important and emphasized. Also, one of the requirements is that such loans have minimal collateral.

Anande-kur and Faajir (2020) also found that microfinance has a positive effect on sales revenue, profitability and non-current assets. The results of the research conducted by Odoom and Dzisi (2015) show that microfinancing of SMEs not only helps in increasing the income level of SMEs but also helps in improving the managerial competencies of SME owners, as well as the development of innovative products and services. Rotich, Lagat and Kogei (2015) showed that access to savings schemes, manager training and loan grace periods are statistically significant in determining the performance of MSMEs. They conclude that an increase in the level of provision of micro-financing will increase the financial performance of micro-enterprises.

Soldátková and Černý (2022) study two types of efficiency associated with microfinance banking. The first relates to social efficiency, which measures the extent to which micro-capital becomes available to entrepreneurs without prior access to external financing. The second is financial efficiency, which measures the sustainability of microfinance operations. The analysis confirmed that microfinance institutions that focus on providing financial resources to owners of small and medium-sized enterprises achieve growth in social and financial efficiency.

In addition to the aforementioned positive effects of microfinancing on the performance of micro, small, and medium-sized enterprises and entrepreneurs, some studies do not confirm this positive relationship. Sommer (2021) confirmed in his research that increasing competition between microcredit financial institutions significantly reduces access to loans by small and medium-sized enterprises. As the main reason for this relationship, the author finds that

"small firms outgrowing microfinance struggle to find financing as conventional financial institutions abstain from downscaling and developing suitable lending instruments for smaller firms if these market segments are narrowed down by upscaling microfinance institutions." Babajide (2012) investigates the effects of microfinance on the growth of micro and small enterprises and also concludes that access to microfinance does not improve the growth of micro and small enterprises.

3. Research methodology

Empirical research was carried out by collecting and processing data through a questionnaire that examines the views of banking experts, private sector representatives and experts in the field of economics and finance. The questions in the questionnaire refer to the bank-centricity of the domestic financial system, the existing structure of the domestic financial system, recommendations for its improvement through microcredit financial institutions, and financial support of micro, small, and medium enterprises and entrepreneurs by banks. A standardized questionnaire with close-ended questions was used. Cross-Sectional Study enabled the collection of data from respondents from different organizations - banks, companies, and scientific institutions in one period.

Data collection is performed using an online survey and face-to-face interviewing. The total number of respondents is 150. The response rate is high (96.8%). The number of participants in the research who are employed in the banking sector is 30, the number of entrepreneurs and employees in micro, small, and medium enterprises is 65, while the number of respondents from the group of economic experts is 55. A 5-point Likert scale was used to collect the respondents' attitudes: 1) Strongly agree; 2) Agree; 3) Undecided; 4) Disagree and 5) Strongly disagree. Statistical data processing is performed using the statistical software package IBM SPSS Statistics 21 (The Statistical Package for the Social Sciences). A semi-structured interview of banking experts and company representatives was used as a research method to deepen the research and arouse the interest of the respondents. The research was conducted based on the model of Taiwo and Benson (2016) with claims adapted to the structure and level of development of the financial system of Serbia.

To connect the views of respondents on the necessity of introducing microcredit financial institutions into the domestic financial system with the views related to the bank-centric structure of the domestic financial system and to calculate the share of respondents who agree with the view on the necessity of introducing

microcredit financial institutions, while also agreeing with the view on bank-centricity of the financial system, a non-parametric method, the chi-square χ^2 test of independence was applied. Before forming the scales, a reliability analysis was conducted. Based on the obtained values of Cronbach's Alpha, it was determined whether a reliable measuring instrument was formed. Based on the value of the association measure (Gamma), it was investigated whether is a relationship between the two features.

4. Results and discussion

Banks in Serbia represent over 90% of all sources of financing for micro, small, and medium enterprises and entrepreneurs (United States Agency for International Development, 2017). The banking sector of Serbia is highly concentrated since the concentration ratio of the first 5 banks is over 50% in all categories: total assets, total loans, total deposits, and total income (National Bank of Serbia, 2020). The participation of banks in financial services is 92%.

The analysis of the results of the conducted research confirmed that 78% of respondents expressed their agreement with the view that the domestic financial system is bank-centric. Almost 56% of respondents agreed with the statement that the financial system of Serbia is insufficiently developed, poor and is not distinguished by the diversity of financial institutions. In addition, 68% of the respondents agree with the statement that the insufficiently dispersed structure of the financial system inhibits the development of micro, small and medium enterprises and entrepreneurs.

A majority of respondents (86%) expressed the opinion that the introduction of microcredit financial institutions would contribute to the improvement of the domestic financial system, 76% of respondents believe that microfinance would have a positive impact on employment growth, 88% of respondents believe that the presence of microfinance institutions would promote the establishment of micro, small and medium-sized enterprises, while 80% expressed the view that the microfinance would contribute to the improvement of business results, growth and development of micro, small and medium-sized enterprises and entrepreneurs. This research confirms the results of similar research conducted in developing countries on the importance of microfinance for the growth and sustainable development of MSMEs and entrepreneurs (Jain, 2019; Adnan & Kumar, 2021; Yusufu et al., 2020; Ideba et al., 2023; Anande-kur & Faajir, 2020; Rotich et al., 2015).

However, the research contradicts the findings of prior study (Babajide, 2012). Namely, according to a survey of 502 companies financed by microfinance

banks in Nigeria, the author concludes that none of the microfinance variables have a significant impact on the growth of small enterprises. On the other hand, the research confirmed that the following variables are statistically significant for the growth of small enterprises: technology-related training received by the entrepreneur, business location, business age and business registration. Although microfinance is present in Nigeria, microfinance banks are characterized by limited financial capacity. These banks cannot provide loans to small enterprises that would enable their growth and sustainable development. Therefore, recapitalization of the microfinance banks is necessary to support the growth of small enterprises through the improvement of technology and the acquisition of capital equipment.

The research confirmed that due to the demanding criteria of commercial banks, micro, small and medium enterprises and entrepreneurs are often discouraged from borrowing from them. The domestic banking sector has been burdened with non-performing loans for many years, and this is the reason behind the decision to tighten the conditions for lending to small and medium-sized enterprises. However, due to the lack of managerial skills, micro-enterprises and entrepreneurs may have a problem with assessing the necessary funds and writing business plans. Also, these enterprises often do not achieve significant business results because they do not operate long enough to build significant market positions. Also, insufficient collateral is one of the problems. These results are also confirmed by previous studies (Ruslan et al., 2019; Musau, 2015).

Table 1. Statements from the questionnaire related to the scale of Bank-centricity (B) and the scale of Microfinance institutions (MI)

Bank-centricity (B)	Microfinance institutions (MI)
The financial system of Serbia is bank-centric	Representation of microfinance institutions in the domestic financial system would contribute to the employment growth
Bank-centricity of the financial system has a limiting effect on sustainable development	Representation of microfinance institutions in the domestic financial system would facilitate the establishment of MSMEs
Bank-centricity of the financial system does not stimulate the development of micro, small and medium-sized enterprises and entrepreneurs	Representation of microfinance institutions in the domestic financial system would promote the growth and development of MSMEs

Source: Author's research

Table 2. Cronbach's Alpha values for the Bank-centricity scale (B) and the Microfinance institution scale (MI)

Scale	Cronbach's Alpha	Cronbach's Alpha based on standardized items	Number of units
Bank-centricity (B)	0,705	0,704	3
Microfinance institutions (MI)	0,922	0,922	3

Source: Author's research

The subject of further research was based on connecting the respondents' views on the necessity of introducing microcredit financial institutions with views related to the bank-centric structure of the domestic financial system. Namely, the subject of interest is the calculation of the share of respondents who agree with the statement on the necessity of introducing microcredit financial institutions and also agree with the statement on the bank-centricity of the financial system. Two scales related to the following statements from the questionnaire were formed: 1) bank-centricity and 2) microfinance institutions (Table 1).

Table 3. Distribution of answers according to the Bank-centricity scale (B)

Scale	Frequency	%	Valid %	Cumulative %
Strongly agree	54	36,0	36,0	36,0
Agree	54	36,0	36,0	72,0
Undecided	18	12,0	12,0	84,0
Dissagree	15	10,0	10,0	94,0
Strogly disagree	9	6,0	6,0	100,0
Total	150	100,0	100,0	

Source: Author's research

The statements are in the form of a Likert scale, so lower scores indicate agreement with the statement, and higher scores indicate disagreement. Before forming the scales, to determine that the defined attitudes measure the same category, a reliability analysis was conducted. Table 2 indicates that in the case of both scales, the value of Cronbach's Alpha is greater than 0,7, which confirms that a reliable measuring instrument has been formed (Soldić Aleksić, 2018). To determine in the next step whether respondents who agree with the view that it is necessary to introduce microcredit financial institutions also agree with the view that the domestic financial system is bank-centric, a non-parametric method, the χ^2 test (Test of independence) was applied. It was

confirmed that there is a relationship between the two examined features ($p < 0,05$), and based on the value of the measure association ($\text{Gamma} = 0,508$), it was determined the medium strength of the relationship between the two scales (Soldić Aleksić & Hrnoneos Krasavac, 2009).

Table 4. Distribution of answers according to the Microfinance institutions scale (MI)

Scale	Frequency	%	Valid %	Cumulative %
Strongly agree	33	22,0	22,0	22,0
Agree	78	52,0	52,0	74,0
Undecided	18	12,0	12,0	86,0
Dissagree	9	6,0	6,0	92,0
Strogly disagree	12	8,0	8,0	100,0
Total	150	100,0	100,0	

Source: Author's research

According to the results of the cross-tabulation, it was determined that the share of respondents, who agree with the position that it is necessary to introduce microcredit financial institutions and improve the domestic financial system, which would contribute to achieving better business results of micro, small and medium-sized enterprises and entrepreneurs, also agree with with the view that the domestic financial system is bank-centric is 72,7%.

5. Conclusions

An extremely bank-centric financial system based on banks as the main providers of financial services for an advanced country is not a stimulating factor for development, as indicated by the recommendations of international financial institutions, as well as the practice of developed countries that has proven to be successful. To ensure growth and development, it is necessary to improve the domestic financial system and develop the capital market and trading on the stock exchange, enable the parallel and continuous development of other financial institutions, apart from banks, and introduce microfinance to support the sector of micro, small, medium-sized enterprises and entrepreneurs whose business activities are of key importance for sustainable development.

The Law on non-banking financial institutions in Serbia has not been adopted, which represents a significant obstacle to the development of microcredit financial institutions in Serbia, and therefore an obstacle to the empowerment

of the sector of small and medium-sized enterprises as the main drivers of economic activities, which ultimately does not contribute to sustainable development. By defining the legal framework for microfinance in Serbia, the high demand for microcredits would be met, and the sustainable development of small and medium-sized enterprises would be encouraged, which would consequently affect the creation of new jobs and employment growth, the competitiveness of domestic enterprises, the suppression of poverty and the growth of economic activity.

The analysis of the results of the conducted research confirmed that the domestic financial system is banking-centric, insufficiently developed and poor and, as such, does not stimulate the sustainable development of micro, small, and medium enterprises and entrepreneurs. Likewise, the research confirmed that the introduction of microcredit financial institutions would contribute to the improvement of the domestic financial system, positively affect employment growth, encourage the establishment of micro, small, and medium-sized enterprises, contribute to the improvement of business results, growth and sustainable development of micro, small and medium-sized enterprises and entrepreneurs.

Many micro, small and medium-sized enterprises and entrepreneurs are unable to secure necessary financial resources because, compared to large enterprises, they are not always desirable clients of commercial banks. On the other hand, the insufficiently dispersed structure of the domestic financial system does not provide them with the possibility of securing liquidity by borrowing from microcredit financial institutions. Microfinance is an important factor in the sustainable development of MSMEs and the creation of new jobs because the diversity of financial institutions enriches and improves the financial system.

The conducted research can serve as a basis for further elaboration of these issues concerning the relationship between microfinance and MSMEs' sustainable development. For this purpose, it is necessary to expand the sample and include a larger number of respondents because one of the limitations of the conducted research refers to a relatively small sample. Further research would be based on the analysis of the potential contribution of microfinancing to the growth of market share, product innovation and the growth of the competitive advantage of micro, small and medium enterprises and entrepreneurs.

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