ALTERNATIVE FORMS OF FINANCING OF SMALL AND MEDIUM SIZED ENTERPRISES FOR THE PURPOSE OF STRENGTHENING COMPETITIVENESS AT THE INTERNATIONAL LEVEL[1]

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Abstract

The goal of this research is to indicate the importance and function that the alternative sources of funding SMEs have in the process of strengthening the competitiveness at the international level. The subject of the research is the analysis and the evaluation of the most frequently used sources of funding in SME sector in Serbia and possibilities of using their alternative forms such as Business angels (BA), Venture Capital (VC) and Private Equity Funds (PEF). The results of the research indicate that the alternative to the insufficiently intense efforts for ensuring conditions of using BA, VC and PEF, is the bankruptcy of SMEs, as in the prevailing market conditions they are financing the majority of their activities from the commercial banks loans.

Key words: *debt, maintaining real value of total equity, solvency, Business Angels, Venture Capital, Private Equity Funds, competitiveness*

INTRODUCTION

Small and medium sized enterprises represent an important factor as the Serbian economy is in the process of approaching to the developed market economies and due to this their development has been defined as one of the priority goals of the national economy economic policy. Through expressive entrepreneurial initiative, creativity, innovativeness and tendency to risk activities small and medium sized enterprises are given an opportunity to adapt more quickly than the big entities to the changes in the dynamic business environment. High level of flexibility and adaptability to changes gives opportunity for the small and medium sized enterprises to respond to the consumers needs in short time and by that participate in the strengthening the competitive edge of the country.

In Serbia since year 2000, the SME sector has to the greatest extent contributed to the economic development. Its role and importance in the development of the national economy, due to the effects of the global economic crises, have decreased since 2009. Apart from the weakened intensity of its participation in the most important indicators of the national economy, from 2009 the SME sector represents the pillar of the economic growth and development of the Republic of Serbia. In the period 2000-2008 the SME sector has achieved the dynamic growth of employment. For this period, it has largely contributed to the GVA and total export of the country. In spite of the negative effects of the global economic crisis in the period following 2009 and as the significant factor of the recovery of the national economy, SMEs have generated approximately the 2/3 of employment, trade and GVA and about ½ of import, export, profit and investment of the nonfinancial sector.

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Apart from the significant role they have in the process of the national economy development, survival, growth and development of SMEs is unpredictable due to the limited possibilities of funding the business activities from more favourable sources. Limited access to the funding resources, principally as to the price and conditions of their utilisation, poses the greatest problem for SMEs. With the very limited possibilities of obtaining the necessary funds, the SMEs strive for the optimal structure of the capital that will fulfil their needs in the different phases of the life cycle.

On the basis of the analysis of the existing state, the goal of the research is to indicate the dominant and present the alternative forms of financing SMEs that would to a great extent contribute to the strengthening of the national competitiveness through the growth and development of this sector.

DATA AND METHODOLOGY

The need for the alternative sources of financing has been explained on the basis of the results gained by analysing the SME sector entities' debt. In the aim of evaluating the level of debt of SME sector enterprises, the following methods have been used – qualitative and quantitative financial analysis methods, classical methods of data collection and analysis, methods of description and synthesis (Đuricin, S., and Beraha, I., 2012, p. 495; Đuricin, S., and Beraha, I., 2013, p. 124). The debt analysis has been carried out for the ten randomly selected entities from SME sector. The sample contains the equal number of small and medium sized enterprises.

The subject of analysis is examining the level of debt on the basis of data published in the financial reports in the period 2006-2012. In concerns the financial reports of manufacturing enterprises and services taken from the Serbian Business Registers Agency – SBRA.

Justifiability of changing the structure of funding sources has been examined for the enterprises with the established growth of loan participation in the total sources of financing. The justifiability of debt growth has been analysed from the aspect of organic composition of capital and inflation ratio. Organic composition of capital has been established on the basis of the participation of the fixed assets in the total assets. By 2009 the inflation rate has been monitored on the basis of the retail price index. Since January 2009 the rate of inflation has been established on the basis of consumer price index (Consumer price index by COICOP). For the purpose of research the annual consumer price index that monitors the change of price in the current month (December) in comparison to the same month in the previous year (m/m-12) has been used.

In comparison to the fluctuation of the inflation rate, the analysis and evaluation of maintaining the real value of total equity has been carried out for the enterprises which have been registered with the growth of debt. The analysis and evaluation of maintaining the real value of total equity has been carried out by comparison of the net equity index value and inflation rate. The net equity index has been calculated from the ratio of net capital expressed in balance sheet of the current year and net capital expressed in balance sheet of the previous year. The value of accumulated net profit of the current year has been taken into consideration for calculating the value of net equity index. By mutual comparison of the values of net equity index and inflation rate, the ability of maintaining the real value of total equity has been assessed on the basis of the effects of revalorisation and accumulated net profit.

For the purpose of assessing the ability of settling due liabilities within a period, the quick ratio was calculated and secondary liquidity was determined. Quick ratio or acid test ratio measures the liquidity within the period of one year and is calculated from the ratio of the sum of cash on hand and on deposit accounts at sight and term deposits up to one year, securities cashable within one year and short-term receivables with maturity of one year all on one side, and short-term liabilities with maturity of up to one year, on other side. As a desirable value of quick ratio was the value ≥ 1 taking into account that the companies included in the analysis do not have seasonal inventory.

For the purpose of assessing specifics of obtaining funding in the SME sector some of the results of research conducted in 2012 were used for the needs of publishing monograph entitled Financing of Small and Medium Sized Enterprises (Erić D., et al., 2012). The study involved more than 600 companies from the SME sector that responded to 31 questions.

Using the qualitative analysis of financial statements a breakdown has been performed, and using the quantitative analysis a measurement of the subject of analysis. Data obtained in the analysis of indebtedness are temporally and spatially compared with each other. Within a range of traditional methods of collecting and analyzing data the content analysis was used and in such a way, based on collected relevant literature, the necessary data were obtained for testing the hypotheses (Đuričin and Beraha, 2012, p. 497; Đuričin, S., and Beraha, I., 2013, p. 125).

Descriptive method was used to highlight the role and importance of small and medium enterprises in the modern market economies, the specifics in providing their funding sources as well as in the discussion of the research results. Synthesis method is used in the final phase of the research. By connecting facts, obtained using the above methods, into a single logical unit, the conclusions were made regarding the need for alternative forms of financing of small and medium enterprises.

RESULTS AND DISCUSSION

Decisions on funding of current business operations and investment projects are the two main areas of financial decision making. Security of creditors, profitability and autonomy of the debtor depend from the selection of sources that will be used to finance current business activities and investment projects. Following the traditional financial rule the SME owners need to make financial decisions that will bring end result containing an equal share of own and borrowed sources of funding or on the basis of which the total assets will be two times higher than the debt. Such a structure of sources of funding provides security to creditors who believe that there is little likelihood that the borrower loses more than 50% of invested assets. At the same time, funding structure determined by the traditional financial rule provides a certain degree of autonomy to the borrower whose borrowed sources are partially operating liabilities i.e. spontaneous resources typically without interest to be paid. Safe business financing provides constant yields involved in the assessment of earning power of the company and its profitability.

Decisions on the use of short-term and long term sources of financing are made depending on the type of business activity. The short-term funding sources used to finance current assets usually include short-term liabilities, which are primarily related to accounts payable, borrowings that fall due for payment up to one year, short-term securities, etc. Long-term sources of financing that determine a capital structure of the company, are mainly divided into own and borrowed funds. While the long-term borrowed sources are borrowings with maturities longer than one year and long-term securities debt instruments, company's own internal and external sources fall into own long-term sources. Own internal long-term assets represent the portion of the profit which is retained in the company in the form of retained earnings which are available to profitable entities in the later stages of their life cycle. Own external long-term assets are collected in the market by issuing new stakes (LLC) or equity securities or shares (JSC).

Theoretically, the optimal capital structure is the point at which the costs of capital are the lowest (Erić, D., et al., 2012, p. 52). It is the weighted average costs of capital *(weighted average cost of capital - WACC)* whose level is determined by the following formula:

$$WACC = (Pd \times D) + (Pe \times E) \qquad (1)$$

Meaning of symbols:

Pd - the share of debt in total long-term sources of financing,
D - the costs of borrowed funds,
Pe - the share of own funds in total long-term sources of financing
E - the costs of own resources

While the costs of borrowed funds are determined by the amount of interest rate to be paid on loans and issued securities debt instruments, the costs of own resources depend on the amount of dividend rate, or required rate of return of the owner (Ibid).

Table 1. Debt analysis of small and medium sized enterprises

Enterprise	**1**							**2**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Own Capital	42,91	54,97	45,08	36,73	26,65	0,00	0,00	72,57	74,28	68,39	72,60	78,74	85,10	91,13
Total liabilities	57,09	45,03	54,92	63,27	73,35	100,00	100,00	27,43	25,72	31,61	27,40	21,26	14,90	8,87
Liabilities from business	25,59	14,39	11,27	26,41	17,97	11,12	13,62	8,36	4,64	3,23	2,84	4,54	5,02	5,41
Financial liabilities	31,51	30,64	43,65	36,85	55,38	88,88	86,38	19,07	21,08	28,38	24,56	16,72	9,87	3,46
Total sources of financing	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Enterprise	**3**							**4**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Own Capital	39,97	39,36	31,79	32,07	32,50	32,61	33,12	77,39	70,21	60,57	60,76	49,08	32,22	0,00
Total liabilities	60,03	60,64	68,21	67,93	67,50	67,39	66,88	22,61	29,79	39,43	39,24	50,92	67,78	100,00
Liabilities from business	50,84	37,86	41,91	23,30	29,81	28,89	36,13	13,71	17,16	22,29	26,76	42,25	49,82	83,80
Financial liabilities	9,19	22,77	26,30	44,63	37,70	38,50	30,75	8,90	12,63	17,15	12,48	8,67	17,96	16,20
Total sources of financing	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Enterprise	**5**							**6**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Own Capital	99,35	99,12	99,05	99,14	98,21	97,25	95,14	0,00	8,06	19,70	29,11	15,83	20,01	18,70
Total liabilities	0,65	0,88	0,95	0,86	1,79	2,75	4,86	100,00	91,94	80,30	70,89	84,17	79,99	81,30
Liabilities from business	0,65	0,88	0,95	0,86	1,51	2,75	2,84	100,00	91,94	80,30	70,89	45,76	48,13	44,04
Financial liabilities	0,00	0,00	0,00	0,00	0,28	0,00	2,02	0,00	0,00	0,00	0,00	38,40	31,86	37,26
Total sources of financing	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Enterprise	**7**							**8**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Own Capital	33,03	39,68	36,96	36,84	53,91	53,91	53,91	6,73	4,79	3,80	4,46	4,25	3,62	11,80
Total liabilities	66,97	60,32	63,04	63,16	46,09	46,09	46,09	93,27	95,21	96,20	95,54	95,75	96,38	88,20
Liabilities from business	53,44	47,83	42,73	54,73	46,09	46,09	46,09	89,06	85,26	84,87	77,99	79,35	84,73	70,18
Financial liabilities	13,53	12,49	20,32	8,43	0,00	0,00	0,00	4,21	9,94	11,33	17,56	16,40	11,65	18,02
Total sources of financing	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Enterprise	**9**							**10**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Own Capital	74,21	78,10	65,89	67,20	73,08	71,18	70,62	4,95	4,19	4,27	1,60	0,00	1,60	0,00
Total liabilities	25,79	21,90	34,11	32,80	26,92	28,82	29,38	95,05	95,81	95,73	98,40	100,00	98,40	100,00
Liabilities from business	12,74	14,88	27,31	24,18	20,87	25,53	19,26	82,98	85,40	88,00	89,20	90,26	89,20	90,26
Financial liabilities	13,05	7,02	6,80	8,62	6,04	3,29	10,12	12,07	10,41	7,73	9,19	9,74	9,19	9,74
Total sources of financing	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Source: Independent research by the authors

In order to identify the need to use alternative sources of financing in the SME sector, the analysis of their debts was made i.e. the percentage of the debt share (Pd) and own resources (Pe) in the total long-term sources of financing. The analysis included ten companies that have been using RSD and foreign currency long term loans for seven years under a variety of conditions and in varying degrees. Taking into account that in the Notes to the financial statements of each of the analyzed companies, the price at which they used their long-term borrowed sources of financing was not indicated, the calculation of the weighted average costs of capital is lacking.

It is generally accepted view that SMEs due to the low values of the company, or low initial investments have very limited possibilities to use the borrowed resources. Borrowed funds that are in most cases used in the form of bank loans are hard to get and still under the unprivileged conditions. The answer to the question received from 10 banks selected according to their market share in the 2012, supports the above statement: *„What is the average interest rate on loans given to entrepreneurs and SMEs?˝*

Table 2. Answer to the question: „What is the average interest rate on loans given to entrepreneurs and SMEs?˝

Entrepreneurs		**SME**	
In dinars	With foreign currency clause EUR	In dinars	With foreign currency clause EUR
22,25 – 24,62%	9,55 – 16,67%	14,68 – 17,75%	6,69 – 7,97%

Source: Erić, D., et al., 2012, page 101

Results of research conducted for publishing of monograph Financing SMEs in Serbia, covering more than 600 entities, indicate that the total borrowed sources of financing used by SMEs are mostly commercial bank loans (58%), leasing (18%), loans of state funds and institutions (15%) and others (Ibid, p.71). For these reasons, in this paper, special attention is paid to the analysis and evaluation of increase in indebtedness in the SME sector.

The analysis of indebtedness of ten randomly selected companies showed that 60% of them are characterized by a higher portion of borrowed sources within the total sources of financing. The companies that are mainly financed from its own funds are characterized by limited opportunity for growth and development. Such enterprises finance its operations primarily from the initial investment, borrowings from family members, compensation made through lower wages given to employees in the initial stage and from retained earnings in the later stages of development. Enterprises whose business operations are financed from loans mostly use loans from commercial banks. Survival, growth and development of enterprises that use borrowed funding sources are at stake in those cases where there is a decrease of spontaneous liabilities and increase in financial liabilities over the observed period.

Enterprises under numbers 1, 3, 4, 6, 8 and 10 have a dominant share of borrowings within the total sources of financing. For most of them an increase in the share of liabilities from interest payments is characteristic. Due to the very difficult conditions under which these enterprises obtain loans from banks and with respect to the organic composition of their assets and the rate of inflation, justifiability for the dominant share of borrowings in total funding has been examined.

Unlike enterprises under numbers 3, 8 and 10 in which current assets dominate over fixed assets in the enterprises under numbers 1, 4 and 6 the situation is reversed. The enterprise under number 4 during the whole period has a dominant share of fixed assets in total assets, while the entities under numbers 1 and 6 have gradual increase in their share. Enterprises that are subject to constant growth in the share of fixed assets in total assets, or those in which such share is dominant, unjustifiably increase their borrowed funding sources. For this reason and due to the increase in fixed assets in the total assets, the depreciation costs are also getting higher increasing the overall operating expenses. On the other hand, an increase in share of borrowed sources in total sources of financing has resulted in increase in financial expenses through interest expenses. By burdening of income with higher business and finance expenses increases the risk of achieving a positive financial result.

Table 3. Organic composition of assets, in % -

Enterprise	**1**							**3**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Organic composition of assets	45,76	61,28	54,40	52,88	58,05	88,31	48,18	24,54	18,02	20,36	21,84	17,56	17,00	17,21
Enterprise	**4**							**6**						

Year	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Organic composition of assets	78,10	76,42	72,59	80,50	81,57	85,32	79,44	35,62	34,03	28,05	57,96	50,00	45,04	59,03
Enterprise	**8**							**10**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Organic composition of assets	12,10	6,96	5,43	1,77	1,63	1,20	1,13	14,78	9,67	7,60	7,01	10,47	7,01	10,47

Source: Independent research by the authors

The increase in inflation rate requires greater share of own sources in total sources of financing. This is because the creditors are reluctant to lend capital at lower interest rates than the rate of inflation, because they suffer inflationary losses on receivables. If interest rates are above the rate of inflation, both financing expenses and the risk to achievement of gross financial result are high, which in turn leads the enterprises to strengthen the share of its own equity in total liabilities.

Table 4. Inflation rate

Year	2007	2008	2009	2010	2011	2012
Inflation rate	111,0	108,6	106,6	110,2	107,0	112,2

Source: Statistical Office of the Republic of Serbia

For example, the enterprise under number 6 in 2012 experienced the increase in indebtedness by 1.31% in comparison to 2011. The increase in indebtedness in the that period is not justified in case of this company because the increase in the inflation rate from 107 to 112.2 and the growth of the organic composition of assets from 45.04 to 59.03% require straightening of its own sources in the borrowed sources of financing. In the same period the company under number 4 experienced the increase in indebtedness by 32.22%. In 2012 the overall business activity of the company was financed from loans. In this case the indebtedness is not justified taking into account both the organic composition of assets and the rate of inflation. As a mitigating circumstance is the fact that a larger share of borrowed sources in total sources is the result of the increase in spontaneous sources of financing which are generally free of interest payments.

Table 5. Maintaining the real capital value

Enterprise	1							3						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Net equity index	-	125,45	71,04	88,99	63,17	0,00	0,00	-	113,09	98,85	101,55	101,80	103,33	102,01
Enterprise	**4**							**6**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Net equity index	-	105,65	89,95	89,68	78,44	60,28	0,00	-	250,98	170,48	106,94	140,35	119,19	117,03
Enterprise	**8**							**10**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Net equity index	-	103,79	94,13	153,53	98,54	120,36	385,26	-	85,36	107,47	36,54	0,00	0,00	0,00

Source: Independent research by the authors

Enterprises in which a dominant or growing share of borrowed sources in total sources of financing was recorded, are subject to the analysis of maintenance of the real value of their equity. Maintenance of the real value of equity in inflationary conditions provides the ability to maintain business activity at current level (Đuričin, S., 2012, p. 107). In the case of reducing the real value of equity, the company would not be able to buy the quantity of items and means of work, which would be able to buy if the real value of the equity was maintained. In this case, the possibility of funding of elementary reproduction from its own funds would be lost and the company would be forced to select one of two possible alternatives (Rodic, J., et al., 2007, p. 299):

- decrease in production volume, which leads to a negative impact of fixed costs (expenses) which reduce the financial result, or
- increase in indebtedness

The enterprises included in the analysis have decided to increase their debts and in such a way endangered their safety, profitability and autonomy. Only with the company under number 6, which was found to unjustifiably increases the share of borrowed sources in total sources of financing, during the monitoring period was observed not only the maintenance but also growth in the real value of the equity. The growth in the real value of equity can be partly justified by additional borrowings due to the current composition of organic resources and prevailing inflation rate. This is due to the increase in the real value of own equity from the aspect of revaluation and accumulated net profit. In the event that the maintenance of the real value of own equity is determined only on the basis of a revaluation, increase in indebtedness could not be justified. Maintaining the real value of own equity exclusively on the basis of revaluation means that the financial result is higher than a result shown in the income statement. The difference resulting in the amount that is higher than the financial result recorded in the balance sheet is exactly equal to the amount by which the real value of own equity increases from revaluation. The omitted portion of financial result is not taxed which means that such balancing represents a legal tax evasion that reduces the final demand based on distribution of financial result.

Enterprises under numbers 1, 4 and 10 in which there has been an increase in indebtedness due to the impossibility of maintaining the real value of own equity in recent observed years are completely losing their own sources of financing.

The company analyzed under number 1 can serve as a typical example of the weakening financial strength and transition from liquid to insolvent business due to the impossibility of timely servicing of its matured liabilities. The company number 1 was observed over the period of seven years, gradually coming to an increase in the ratio of borrowed sources in total sources of financing. The borrowed resources were largely accounted for short-term and long-term loans. Inability to service debts from short-term and long-term financial liabilities resulted in an overall loss of equity and bankruptcy proceedings.

Table 6. Liquidity of the second degree

Enterprise	**1**							**3**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Liquidity of the second degree	1,39	1,47	0,91	0,88	0,52	0,08	0,39	0,73	0,64	0,64	0,62	0,67	2,06	1,72
Enterprise	**4**							**6**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Liquidity of the second degree	0,42	0,50	0,58	0,51	0,36	0,18	0,19	0,32	0,34	0,54	0,40	0,52	0,48	0,30
Enterprise	**8**							**10**						
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Liquidity of the second degree	0,72	0,85	0,86	0,88	0,93	0,96	1,02	0,75	0,35	0,42	0,46	0,41	0,37	0,30

Source: Independent research by the authors

Only the companies under the number 3 and 8 increase their liquidity ratios and this can be attributed to the low and decreasing share of fixed assets in the total assets. Greater percentage of share in the current assets within total assets in these companies in the recent observed years offers the possibility of its easy conversion into cash and timely settlement of maturing liabilities. In the remaining business years with these two companies and other entities the insolvent operations were reported during the whole observed period.

Additional borrowings by which they tried to maintain the real value of own equity did not give the desired results. The fact that the financial liabilities of enterprises increased in low organic composition of resources and increasing inflation rate resulted in the insolvent operations for a long time that led the majority of the observed entities in the bankruptcy proceedings. The bankruptcy proceedings may result in reorganization or bankruptcy and closing of business. As the reorganization process involves rehabilitation of business during the bankruptcy proceedings and its strengthening in order to perform further operations continually, the question is how realistic are such solutions considering the state of the analyzed companies. In all the companies analyzed in this paper, which saw a decline in the real value of its equity, the rehabilitation through further reduction of equity was impossible. The impossibility of rehabilitation by reducing equity opens up the possibility of implementing this process through:

- additions to the equity from the personal assets of the owner,
- capital increase or issuance and selling of equity securities (JSC) or, which is more common case in the SME sector mainly consisted of limited liability companies, the sale of new stakes,
- restructuring of assets that usually leads to the sale of fixed assets that do not condition the functioning of the company as a whole, or sale of long-term investments and obtaining the cash that would ensure the settlement of liabilities due within the period, and
- restructuring of liabilities that, if possible, include converting of the short-term liabilities to equity and long term liabilities.

The rehabilitation through additions to equity and capital increase is unlikely due to the fact that SMEs mostly use its initial investments from its own funds, borrowings from family members and retained earnings which in this case are either small or non-existent. The restructuring of assets is a realistic option given that most of the analyzed companies are heavily indebted and have a dominant share of fixed assets in total assets but the question is what kind of results such option brings in the long run. On the other hand, the rehabilitation through restructuring liabilities largely depends on the financial power of the creditors and their ability and willingness to allow the conversion of short-to long-term financing. Since none of the above options is an ideal solution that would allow the survival of the company there is a need to analyze the possibility of using alternative forms of financing.

ALTERNATIVE FORMS OF FINANCING FOR SMALL AND MEDIUM ENTERPRISES IN SERBIA

In developed financial systems, there are many forms of alternative financing for SMEs, the most common are Business angels or Angel investor (BA), Venture Capital (VC) and Private Equity Funds (PEF). Common to all alternative forms of financing of SMEs is that they are used in the initial stages of development, that the money invested represents investor's own funds therefore as a consequence of investment there are no debtor-creditor relations but proprietary relations. Unlike Venture Capital and Private Equity Funds which make their investments in SMEs indirectly, Business angels do it directly.

Business angels are companies that invest their own funds in SMEs like real angels. Individually or by grouping more natural or legal persons BA directly invest in SMEs not only their capital but also personal experience, skills and contacts to help the growth and development of a company. Most BA invest in SMEs for financial reasons but it often happens that individuals or group of people interested in investing for quite different reasons. That is the case when BA are successful executives who are currently retired and their motive, along with the financial investment, is a desire to share through mentoring their knowledge, skills and contacts to owners of SMEs and thus actively participate in the business world.

Serbian Business Angels Network - SBAN is the first and only organization of this kind in our region. The main objective of SBAN organization is to bring together business people who want to invest in projects of SMEs and entrepreneurs. BA who are members of the SBAN network have direct access to business ideas and SMEs and entrepreneurs projects that need investments. Projects and business ideas can be searched in line with areas of their interests or by investment capital needed. BA network gives the opportunity of joint investment in an investment project or business idea and in such a way the process of obtaining sufficient amount of required capital is facilitated and a risk of investment failure reduced. SBAN has an active collaboration with regional networks of BA and BA networks in EU, UK and USA. In this way, the local SMEs and entrepreneurs have the possibility to implement projects and business ideas by using foreign capital. On the other hand, to domestic investors have been given the opportunity to invest their capital in projects implemented abroad.

Unlike BA, Venture Capital and Private Equity Funds fall into area of financial intermediation. They collect capital from individual investors and invest in one or more SMEs. VC and PEF invest funds collected from institutional and individual investors. Private capital provided by investors usually is invested in SMEs that are in the initial stage of development. Institutional and individual investors become active co-owners of SMEs in which they invested their capital. As the co-owners, VC and PEF perform the function of management and control. In addition to investing VC and PEF are also involved in monitoring and exit (Erić D., et al, 2012).

Monitoring usually involves monitoring and controlling of business processes which should result in the development of business activities. In most cases, it performs the monitoring and control of deviations from the pre-defined target performances. A predominantly monitored performance is the required rate of return of the owner. The reason for this is the level of required rate of return as one of the main parameters to be taken into account when making decisions to invest in SMEs or in a business idea or project.

Investment and monitoring should result in increase of the company's value and then the potential harvest strategy (harvesting) or exit should be analyzed. The success of implementation of the exit strategy is determined by the level of yield on the investment previously made.

There are a number of strategies for exit from the SMEs in which was invested, as commonly used strategies are sale and issuance of shares and its sale on the stock exchange through the process of IPO (Initial Public Offering - IPO) (Cendrowski, H., et al, 2008; Lerner J., et al., 2005; Erić, D et al, 2012).

A part of the company to be sold may be purchased by the founders, managers, employees and strategic or financial investors. Selling to the founders is a rare situation because in most cases they do not have enough money for the purchase.
The situation is similar when it comes to the internal stakeholders. Namely, in most cases the management and employees do not have the necessary amount of money to buy it, and if they decide to proceed by using the loan the transaction is called Leverage Buy-out. Strategic investors in most cases purchase one part of the company whereby the transaction occurs most commonly in the form of mergers and acquisitions (Mergers & Acquisition - M & A). If a part of the company is sold to the financial investor that investor usually evaluates the future growth of the business. Financial investors aim to further increase the value of the company in order to sell it better or to prepare for the IPO. Issuance of shares and their sale on the stock market through the IPO process is possible if VC and PEF decide that the conditions have been met for SME, in the form of LLC, to be transferred in the form of JSC.

Alternative forms of obtaining financing for SMEs through BA; VC and PEF have a number of advantages but also a number of disadvantages. One of the main disadvantages is reflected in the difficult acceptance of SME owners that BA, VC and PEF are offering the adequate solutions for the process of obtaining the necessary funding. The aspect that fears the most the SME owners is the loss of 100% ownership. Putting personal bias before the primary goal which is reflected in the maximization of enterprise value is the most common reason explaining why BA; VC and PEF are used to a lesser extent than is realistically possible. Another drawback is related to the fact that BA; VC and PEF are available only to SMEs that operate in the dynamic industries that are characterized by a growing demand and great potential for an internal rate of return. The third drawback could be seen as a lack of harmonized legal framework governing BA, VC and PEF at the EU level. Their operations so far have been regulated indirectly by the large number of regulations. In addition to SBAN Serbia also has one PEF. That is a global investment fund Small Enterprise Assistance Funds (SEAF). SEAF provides funding for the accelerated development of SMEs. Exclusively deals with the investment in SMEs that are locally controlled and which are characterized by a simple ownership structure (2-3 dominant owners). SEAF does not invest in SMEs involved in the production of tobacco, alcoholic beverages containing more than 15% alcohol, weapons and similar.

In order to attract a large number of BA, VC and PEF Serbia primarily should create a favorable institutional and legal framework to ensure the safety of potential investors. An important role also has the adoption of a new tax legislation that would attract potential investors.

Providing opportunities for the development of a number of BA, VC and PEF in our region would open the possibility of easy and unrestricted access to capital. The advantage of acquiring financial assets through BA, VC and PEF lies in the absence of the threat of bankruptcy. Financing business in this way will result in the improvement of the financial and non-financial performance that enables managers to focus on the growth and development, not on the survival of the company. In addition to the funding available to SMEs, consulting services are also available together with knowledge, experience, and professional assistance provided by investors. A change in the ownership relations due to investment, conditions the change in organizational culture that places emphasis on entrepreneurial thinking and innovation activities. Provision of funds by BA, VC and PEF enables the continuous operation which is certainly one of the main objectives in the establishment of SMEs.

CONCLUSION

The analysis of certain parameters regarding financial position based on the data disclosed in the financial statements of the ten SMEs selected randomly indicates that 60% of them recorded the dominant use of borrowed funds. The borrowed funds are predominantly loans given by the commercial banks and their use in the observed period was not justified in terms of inflation and the organic content of funds. Unjustified use of the bank loans as a dominant form of financing, and conditions under which such funds were given, resulted in a permanent insolvency of the companies. A failure to meet the due liabilities within a period is inherent to all companies that financed the most of their business activities from the bank loans. Insolvent business in each of the studied companies has been lasting for years resulting in the initiation of bankruptcy proceedings that, after considering the business conditions and limitations to the implementation of rehabilitation process, will highly likely end up in bankruptcy.

The alternative forms of financing of SMEs are those that stand against the risk carried by the financing mostly made from loans given by the commercial banks. The use of alternative sources of financing such as BA, VC and PEF is characterized by the absence of the threat of bankruptcy. The path leading to easier access to capital that ensures business continuity, growth and development of SMEs can be opened through a series of legislative and institutional reforms at the national level. In the intensive use of alternative sources of financing a crucial role has been assigned to different forms of promotion which should lead to a change in prejudices that exist in the majority of SME owners, concerning the sale of a part of their property to the potential investors.

According to the analysis and the results obtained, it is clear that, in the prevailing market conditions, alternative for avoiding the use of BA, VC and PEF as a form of financing of SMEs, is the bankruptcy, or dissolution and removal from the register.
Strengthening of the SME sector, as a pillar of the national economic development, would greatly enhance the strengthening of national competitiveness by opening access to the alternative forms of financing. This is primarily due to the fact that when making calculations of the Global Competitiveness Index, among others scores that are taken into account, there is also a score given for the sophistication of financial markets whose level is determined by the availability and accessibility of financial services, the level of development of the local capital markets and the availability of loans and venture capital.

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