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UNIVERSITY OF BELGRADE
FACULTY OF AGRICULTURE

Book of Proceedings

The Seminar

AGRICULTURE AND RURAL DEVELOPMENT - CHALLENGES OF TRANSITION AND INTEGRATION PROCESSES

50th Anniversary
DEPARTMENT OF AGRICULTURAL ECONOMICS

Belgrade-Zemun, 2013.

Book of Proceedings

The Seminar
Agriculture and Rural Development -
Challenges of Transition and Integration Processes

Published by Department of Agricultural Economics, Faculty of Agriculture, University of Belgrade

For the Publisher Prof Milica Petrović, dean
Faculty of Agriculture, University of Belgrade

Edited by Prof Natalija Bogdanov
Prof Simo Stevanović

Prepress Prof Simo Stevanović

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ISBN: 978-86-7834-181-6

SMEs IN FUNCTION OF DEVELOPMENT OF ORGANIC AGRICULTURE IN SERBIA[1]

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Abstract

Agricultural production is very diverse and gives the great opportunities for various activities of small and medium enterprises. There is a great competition for placement of agricultural and food products, on both, domestic and international food markets. In a situation where there is a hyper production of agricultural products in the European market, the export of agricultural and food products is possible only if it offers organic products, for which there is a great demand. Organic production in Serbia is more popular and economically more important. Thanks to potentials that are reflected primarily in the fragmented property and land that is not contaminated with harmful substances, this type of agriculture can contribute significantly to development of rural areas and agriculture in general. Therefore, organic farming is set as one of the priorities for development of agriculture, and an integral part of the strategy for rural and agricultural development in the Republic of Serbia. Development level of organic production in Serbia is low, and the reasons are as follows: a low level of environmental awareness, lack of state support to the agricultural sector, the decline in living standards of the population, and therefore the reduced purchasing power. Organic products are becoming increasingly important goods in world terms, and there is a growing participation of these products in global trade flows. It is evident that the presence of organic food in the growing number of consumers around the world is not just a fashion fad, but the constant striving to eat better quality products, and

[1] Work is the result of research funded by the Ministry of Science and Technological Development: "Development and application of new and traditional technologies in the production of competitive food products with added value for domestic and world markets – Create wealth from the wealth of Serbia" and "Rural Labour Market and Rural Economy of Serbia - Income Diversification as a Toll to Overcome Rural Poverty".

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thus contribute to the preservation of the environment and our health. These products represent a great opportunity for the promotion of small and medium enterprises in domestic and especially in foreign markets.

Keywords: Organic farming, SMEs, SWOT analysis.

JEL classification: *C10, Q13.*

1. Introduction

The previous practice of giving priority to the economic aspects of agricultural production compared to other aspects, has led to the fact that today most of the food products that are used in animal and human nutrition, contains materials harmful to health. Excessive, uncontrollable and often unprofessional use of fertilizers and pesticides in order to achieve higher yields and profits cause a decrease in quality and soil fertility, as well as the neglect of quality and food safety on human and animal health (Popovic and Paunovic, 2008). In many market-developed countries, where the negative effects of such a development of agricultural production are the most evident, the demand for organic agricultural products is constantly increasing. Turnover on this kind of products on the global level is about $ 40 billion, whereas the rate of demand and consumption is constantly increasing (eg. in the USA for the last 6 years, the rate is at about 15% per year) while common food products are not growing. Most countries of the European Union, in the field of agricultural policy aim to increase land area for organic agricultural production over the next 5-10 years.

Modern organic farming is being developed on ecological principles, which also means more efficient production while preserving ecosystems and agro ecosystems. It means production of high-quality, health-safe, controlled and certified food that meets the needs of modern consumers, contributing to the rational use of resources and environmental conservation. Today, organic agriculture is developing very fast worldwide, as a response to the environment, which is clearly disturbed, and especially as a response to consumer needs for quality and safe food. Serbia fulfills all conditions for organized development of organic, high quality, healthy and safe, certified food for consumers, and all the conditions to increase exports, to achieve ecological and economic profit, while preserving the environment. That is why organic farming is a controlled way of production from "farm to fork", as prevention of a possible disruption of ecosystems but also a human health (Lazic, Babovic, 2008).

There are many definitions of organic agriculture, and one of them is the FAO definition (http://www.fao.org/organicag/oa) which states that "Organic agriculture is an integrated system of high-quality food production based on best environmental practices, which is socially acceptable and economically profitable". Production conditions are based on the IFOAM regulations, (The International

Federation of Organic Agriculture Movements*)* but they must be legally regulated and adapted to the specific conditions of each country in which production takes place. In order to establish organic farming in an area, precisely defined conditions have to be fulfilled: the isolation of land parcels, livestock farms and processing capacities from possible sources of pollution, the appropriate water quality for irrigation, the coordinated development of crop and livestock production, and the ability of experts and manufacturers of organic agriculture with the obligation of continuous knowledge innovation (www.ef.uns.ac.rs). Organic food is free of any artificial substances, including pesticides, and furthermore, has more nutritional value than food from conventional production.

Organic agriculture should be based on the principles of organic production, but also on the goals to sufficiently reduce the human impact on the environment. At the same time, it should be ensured that agricultural production is functioning properly.

What are the goals of organic farming?

- Organic agriculture should sustain and enhance the health of soil, plant, animal and human as one and indivisible, to maintain a balance among them, to establish a healthy and stable system;
- It should contribute to a high level of biological diversity;
- It should provide a high awareness of energy use and natural resources, such as water, soil, organic matter and air;
- It should produce high quality products;
- It should satisfy the needs of consumers for products that are produced by processes that do not harm the environment, human health, plant health or animal health.

From these objectives, it can clearly be concluded that organic agriculture is a kind of life philosophy.

What are the main characteristics of organic farming?

- Compliance with the requirements of crop rotation as a prerequisite for the best use of natural conditions;
- Controlled and restricted use of pesticides and mineral fertilizers;
- A complete ban on the use of genetically modified organisms;
- The use of manure as fertilizer;
- Selection of plant species those are resistant to diseases and adapted to local conditions.

However, organic farming is not only the production without mineral fertilizers and pesticides! It actually takes a comprehensive approach in an attempt to establish a production system that includes plants, animals, microorganisms, insects, natural resources, land. This is so called a holistic approach (www.polj.savetodavstvo.vojvodina.gov.rs).

Moreover, this type of farming involves a series of measures and process control, storage, packaging, transport, processing, certification and labeling of the products, where small and medium-sized enterprises, because of their flexibility and rapid adjustment to the market conditions, have a great opportunity for their affirmation.

Due to high demand and inability to produce because of the high soil and air pollution, but also because of broken relationships in nature, there is a lack of organic products on the market of developed countries. Therefore, the less developed countries where the agro-ecosystem is still intact (due to poverty, expensive agrochemicals are not being used), have a chance to increase their export through organic products.

Organic production is fully controlled production. Legislation is a basis for sustainable development of organic production. Application of standards in organic production guarantees a fair competition, and it aims to protect the consumer interests. Compliance with standards and legally prescribed conditions of: production, processing, storage, transport, labeling of organic products etc. is under the supervision of the state authorities.

Control system on organic products in Serbia was established in accordance with EU regulations - Council Regulation (EC) no. 834/2007 and Commission Regulation (EC) no. 889/2008.

Organic production in Republic of Serbia is regulated by:

- Law on Organic Production ("Official Gazette of the Republic of Serbia", No 30/10, 7.5.2010.), which came into force on 1 January 2011.
- Rulebook on control and certification of organic production and methods of organic production (published in the Official Gazette of the Republic of Serbia no. 48/11)
- Regulations Amendments on control and certification of organic production and methods of organic production (published in the Official Gazette of the Republic of Serbia no. 40/12)

This law, as well as the by-laws, regulates all issues related to methods of organic production, control and certification, processing, storage, transport, marketing and labeling of organic products.

2. Organic farming in the world and in Serbia

Organic agriculture is now practiced in more than 120 countries around the world, nearly 31 million hectares of agricultural land are managed organically (representing about 1% of agricultural land on the planet), by at least 634 000 farms. Currently, the countries with the greatest organic areas are Australia (12.1 million hectares), followed by Europe (7.8 million hectares), South America (with 6.4 million hectares), while much smaller areas in Asia (2.9 million hectares), North America (2.2 million hectares) and Africa, with only 0.9 million hectares.

In recent years, organic farming in Europe has achieved significant growth of 5 - 10% per year (http://siepa.gov.rs), as confirmed by Eurostat data on the participation of organic products in total food trade in the amount of 1.5 - 2.7%, primarily thanks to a stable market for their products, and growing consumption of organic products in the last 20 years. In the last ten years, the share of area under organic farming (Table 1) in the European Union is constantly growing. The highest share is registered in Austria (18.9%), while Malta is a country where only 0.2% of the agricultural area is under organic agriculture. According to available Eurostat data (Table 2), largest areas used for organic farming in year 2011 were recorded in Spain (1 221 890 ha) and Italy (837 107 ha), while Malta had only 16 hectares of organic land in 2010.

Table 1: Land under organic farming in percent in the EU countries

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU (27 countries)	:	:	:	3.6	3.7	4	4.4	4.7	5.1	:
Belgium	2.1	1.7	1.7	1.7	2.1	2.4	2.6	3	3.6	:
Bulgaria	:	:	:	0.2	0.1	0.3	0.3	0.2	0.5	0.5
Czech Republic	:	7	7.2	7.1	7.2	8.2	9	10.6	12.4	13.1
Denmark	6.5	6.3	5.8	4.9	5.1	5	5.6	5.9	6.1	6.1
Germany	4.1	4.3	4.5	4.7	4.9	5.1	5.4	5.6	5.9	6.1
Estonia	:	:	7.2	7.2	9.6	8.7	9.6	11	12.8	14.1
Ireland	0.7	0.7	0.7	0.8	0.9	1	1	1.1	1.1	:
Greece	2	6.4	6.5	7.6	7.6	7	7.8	8.5	8.4	:
Spain	2.6	2.9	2.9	3.1	3.7	4	5.3	6.6	6.7	7.5
France	1.7	1.9	1.8	1.9	1.7	1.9	2	1.9	2.9	:
Italy	7.6	7	6.4	7.3	7.9	7.9	7.5	8.1	8.6	8.5
Cyprus	:	:	0.6	1	1.2	1.5	1.6	2.6	2.8	:
Latvia	:	:	1.6	6.8	9.4	8.1	8.9	8.7	9.2	10.1
Lithuania	:	:	1.4	2.3	3.5	4.5	4.6	4.8	5.2	5.4
Luxembourg	2.2	2.3	2.5	2.4	2.4	2.6	2.7	2.7	2.8	:
Hungary	1.6	2	2.3	2.2	2.1	1.8	2.1	2.4	2.4	2.3
Malta	:	:	0	0.1	0.2	0.3	0.4	0.5	0.2	0.2
Netherlands	2.2	2.2	2.5	2.5	2.5	2.5	2.6	2.6	2.5	2.5
Austria	14.5	15.5	16	16.7	16.7	17.1	17.5	18.5	17.2	18.9
Poland	:	0.2	0.5	1	1	1.8	2	2.3	3.3	4.1
Portugal	2.1	3.2	5.6	6.2	7.2	6.3	5.7	4.3	5.8	:
Romania	:	:	:	0.7	0.8	1	1	1.2	1.3	1.6
Slovenia	:	:	4.6	4.6	5.5	5.9	6.1	6.3	6.4	7
Slovakia	:	2.2	2.6	4.6	6.2	6.1	7.3	7.5	9.1	8.6
Finland	7.6	7.1	7.2	6.5	6.3	6.6	6.5	7.2	7.4	8.2
Sweden	6.8	7.2	7	7	7.2	9.9	10.9	12.8	14.3	15.7
United Kingdom	4.2	3.9	3.9	3.5	3.4	3.7	4.1	4.2	4.1	3.7

Source: Eurostat *: - Not available*

Table 2: Areas under organic farming in the EU countries (ha)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU (27)	:	:	:	:	:	3997440 (s)	4487798(s)	3761884(s)	:	:
Belgium	24820	16176	19853	19764	21754	23842	27376	29778	30410	:
Bulgaria	:	:	:	:	2728	8387	4236	4955	12691	8902
Czech Republic	:	195216	208000	226209	216319	224373	232939	267483	296379	354649
Denmark	148279 (p)	149106 (p)	149219	132283	133048	:	139021	139539	145638	151362
Germany	:	:	:	:	:	:	:	:	:	:
Estonia	:	:	:	36487	44878	55445	71848	76200	82391	101906
Ireland	:	:	24568	23533	:	:	:	37662	:	:
Greece	65555	192190	202799	206205	182848	174724	266745	293644	292584	:
Spain	314640	374001	430900	470832	605296	640536	691196 (p)	605366	1084589	1221890
France	342406	406338	468476	:	499589	497314	502234	525638	571815	:
Italy	746511	751860	708043	731537	801350	903254	812139	735327	821921 (p)	837107
Cyprus	:	:	111	230	665	1398	:	1890 (s)	:	:
Latvia	:	:	12142	20691	51213	62321	141524	141070	140946	130059
Lithuania	:	:	18395	13905	30498	56542	89890	106060	103225	99410
Luxembourg	1019	2130	2741	:	:	2721	:	3245	:	:
Hungary	54264	70514	75834	84765	92167	98243	108578	110916	97584	101801
Malta	:	:	0	0	0	:	:	16 (s)	16	:
Netherlands	38340	40681	46137	46877	47045	45463	46895	47450	43659	:
Austria	:	:	:	:	:	:	:	:	:	:
Poland	:	:	37724	38609(s)	47570(s)	135815(s)	178670	222022	309219	375086
Portugal	35364	54480	75143	110370	:	:	:	:	:	:
Romania	:	:	:	:	65111	84590	71597	83862	82981	96606
Slovenia	:	:	14354	15985	20151	23560	26125	25816	25056	27448
Slovakia	:	35302(s)	25590(s)	27247(s)	40085(s)	80268 (s)	113132(s)	111466	112314(p)	123272
Finland	135434	142054	148183	135223	130940	133543	134820	143033	142012	161162
Sweden	186695	207328	206631	200638	201298	234429	246628	303298	329319	385243
United Kingd.	536866	629482	635495	527836	489108	510673	582205	607940	651930	605582

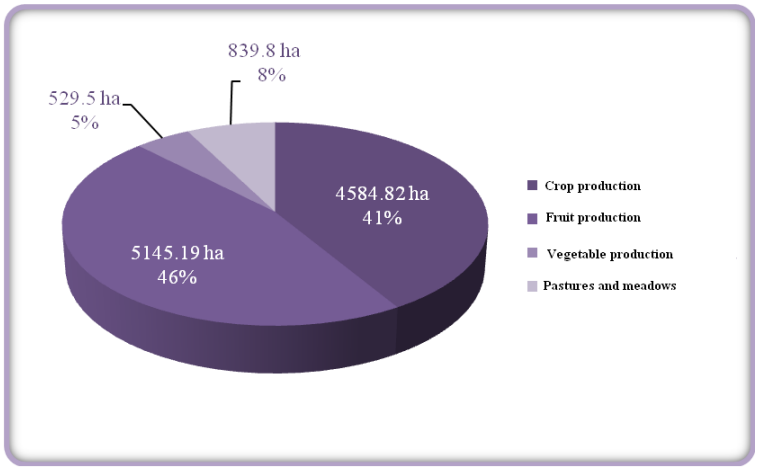
Source: Eurostat Not available; s - estimate of Eurostat; p - temporary

In the European Union the overall development of organic market is estimated at about 10% per year, and 50 million people (or 10%) said that they want to consume food that is organic and contains no GMO ingredients. Germans, Italians and French are the biggest consumers of organic food, while in Switzerland consumption per capita and the market share of organic products compared to overall market is the largest. Thanks to the government's stimulus measures, which allocate 30% of its budget for development of organic agriculture, Hungary exports about 80% of its products from organic agriculture, making it the most successful country in terms of exports to Europe.

The area of the Republic of Serbia is characterized by favorable conditions for development of organic agriculture. Traditional relationship of population and agriculture, small farm size, favorable agro-ecological conditions, the ban on growing genetically modified organisms, established institutions in the field of organic farming as well as access to large markets (Germany and Russia) are very good preconditions for development of organic agriculture in Serbia.

The offer of organic agricultural products in Serbia is characterized by a relatively small total area in relation to total agricultural land, as well as a small number of agricultural crops, ie. crops that are produced. The current state of organic agriculture in Serbia is characterized by the production on approximately 11 000 ha, of which 65.07% of the land in the organic status, and 34.93% in conversion. In addition, there are 250 000 ha of certified production area for collecting herbs, berry fruit and mushrooms. In Serbia, there are 4000 registered producers dealing with organic agriculture.

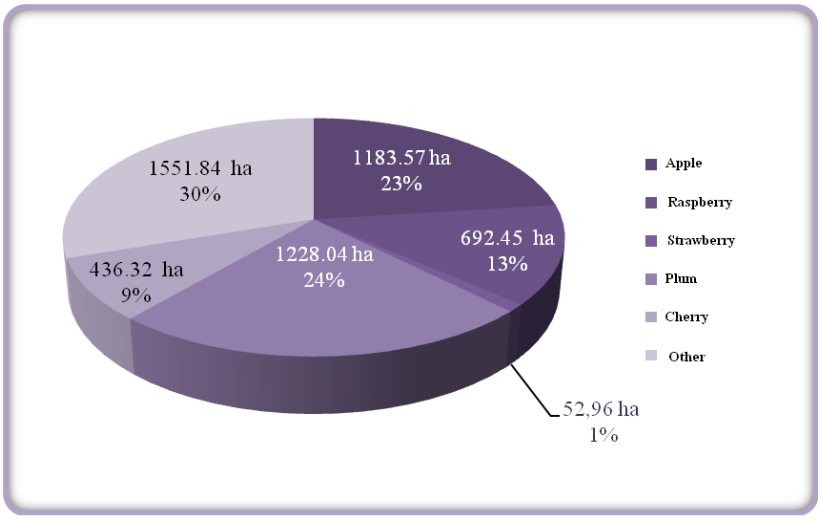
In organic plant production, fruit production is the most common, followed by crop and vegetable production, while meadows and pastures are the least represented (Figure 1).



Source: Organic Agriculture in Serbia 2013

Figure 1 Land area under organic plant production in Serbia in 2012

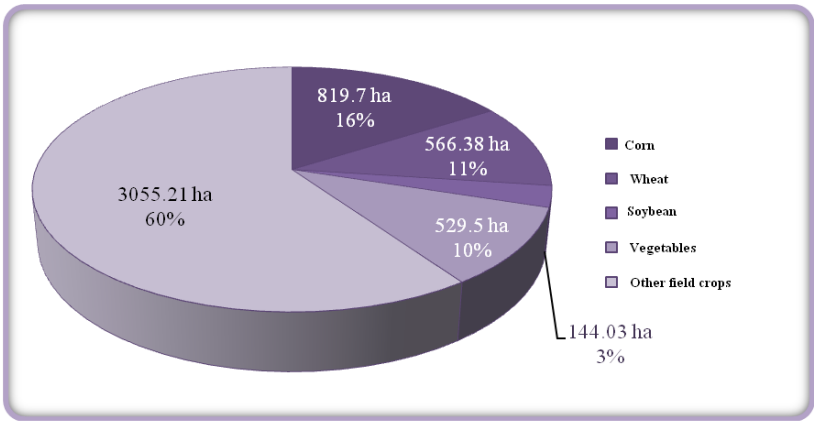
Regarding the structure of the organic plant production, perennial plant species of plum, apple and raspberry are dominant (Figure 2).



Source: Organic Agriculture in Serbia 2013

Figure 2 Land area under organic fruit production in Serbia in 2012

The most represented annual plant species are corn, wheat, soybeans, and various vegetables (Figure 3).

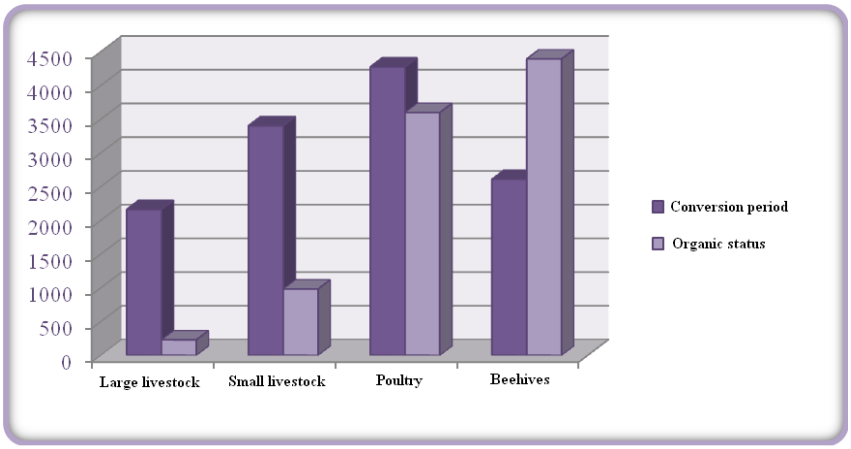


Source: Organic Agriculture in Serbia 2013

Figure 3 Land area under organic crop production in Serbia in 2012

Organic farming is at the very beginning, because it was faced with a lack of certified feed, with the specific growing conditions and the low profitability of

production. A large number of animals, both large and small livestock, which are in conversion period, represent a step forward in this sector of organic production (Figure 4).



Source: Organic Agriculture in Serbia 2013
Figure 4 Organic livestock production in Serbia in 2012

For the time being, it is possible to find only a small amount of eggs and honey on the market of certified animal products. However, with the inclusion of large companies in the sector of animal production in early 2013, a certified cow's milk and cow's milk products have appeared on the market.

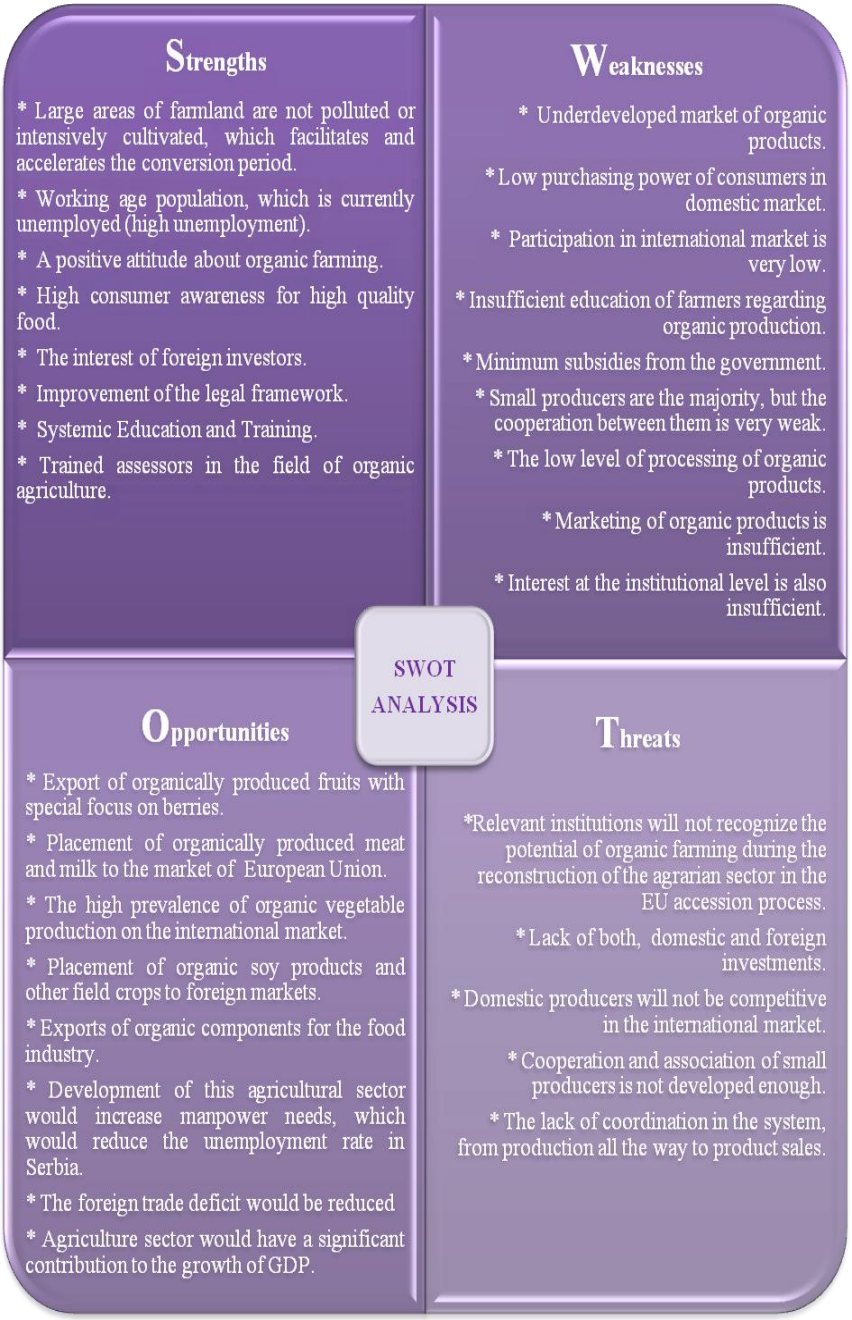
In order to determine the ability to achieve strategic goals important for development of organic agriculture in Serbia, strengths, weaknesses, opportunities and threats were analyzed using a SWOT analysis. It should be pointed out that this analysis is the most commonly used technique in strategic planning and strategic management nowadays. A SWOT analysis encompasses and integrates segments necessary in any strategic research such as: environmental analysis and strategic opportunity or opportunities and threats for the organization, then the organization's competitive position and organizational skills analysis, strategic strengths and weaknesses of the organization, ie. its competitive ability. The possibility of using a SWOT analysis is at the level of the organization, department or product. However, it is possible to use the analysis at the level of geographic areas, where special interest is to estimate the opportunities and threats (Ceranić, 2007). A SWOT analysis of organic production that is presented in this paper is an attempt to identify the critical resources and needs, as well as options, opportunities and advantages on the one hand, and the possible challenges and temptations on the other, in the future development of organic agriculture in Serbia.

Small and medium enterprises are the backbone of economic development in Europe, but also in the Balkans. In Serbia, 99.8% of all enterprises are SMEs, and thereby include two-thirds of employees, 68% of turnover, 58% of gross value added, 50% of export and 51% of investments. These data clearly indicate the importance and the role of SMEs in Serbian economy. Small businesses with a variety of business programs, in rural areas would enable the use of cheaper resources, youth employment, as well as keeping young people in rural areas, which contributes to improved life quality and development of the entire rural area. The advantage of these family and small business is the use of existing natural and human resources. Initiatives to support rehabilitation of rural economy, creating jobs and improving the quality of life, certainly must have a social support (Maletic et al., 2011.).

In countries with a market economy and countries in transition such as Serbia, SMEs are the engine of development, resulting in:

- Increasing the number of business entities
- Reducing the unemployment (job creation)
- Balanced regional development
- The growth of GDP
- Higher export competitiveness of the national economy.
- Since the presence of SMEs in the field of organic farming in Serbia is relatively low, and export potential of organic food is practically unlimited, organic farming represents a great opportunity for development of SMEs in the agricultural sector.

Compared with developed countries, agricultural production in the Republic of Serbia is realized with relatively low inputs, and therefore the soil pollution, water pollution and air pollution is lower. This is particularly characteristic of hilly and mountainous areas, which are economically underdeveloped and where agriculture is the only activity. Prospects of organic agriculture development in such areas are exceptional because of the very favorable natural conditions and a clean environment on the one hand, and the involvement of a large number of unemployed on the other, since this is a labor-intensive production. In addition to the benefits and opportunities for SMEs in the field of organic production there are also problems that slow down development of this agribusiness sector, such as: low consumer awareness, underdeveloped domestic market and a low living standard, high rates of control and certification, high production costs and high accreditation costs.



Organic farming - a chance for SMEs development

Our country, with its agricultural and food products, is a market-oriented mainly to European countries. A large number of countries subsidize these forms of production, and thereby stimulate agricultural producers to accept it. According to the Regulation of the Council of Europe, the European Union subsidizes the transition from conventional to organic production in the amount of EUR 600 per hectare for annual crops, to 900 euros per hectare for perennial agricultural crops over the next five years, as it takes to clear a land of harmful substances.

In Serbia, decree on the use of incentives funds for support to development of organic production in 2011, was adopted. The applicants with a plant production that is in the conversion period, are eligible for incentives for support to development of organic production of approximately 36 000 dinars per hectare for crop production (cereals, industrial crops, medicinal and aromatic plants). Subsidies for organic vegetable production amounted to 50 400 dinars per hectare, and for fruit and viticulture production to 64 800 dinars per hectare. Subsidies for organic vegetable production are 50 400 dinars per hectare, and for fruit and viticulture production are up to 64 800 dinars per hectare. The total amount of incentives per applicant cannot be more than 1.2 million dinars. The applicants who are certified for organic plant products, or those with plant production where the conversion period has been completed and are in the process of certification, are eligible for incentives for support to development of organic farming in the amount of 30 000 dinars per hectare for crop production (cereals, industrial crops, medicinal and aromatic plants). These applicants can receive 42 000 dinars per hectare for vegetable production and 54 000 dinars per hectare for fruit and viticulture production, and the total amount of incentives cannot be greater than a million dinars. The applicants with livestock production which is in conversion, are eligible for incentives for support to development of organic farming in the amount of 21 600 dinars per head of cattle (for a minimum of four animals), 7 200 dinars per head of sheep (for at least 10 animals), 720 dinars per head of poultry (at least 100 individuals) and 2 800 dinars per hive (for at least 30 hives). The total amount of incentives per applicant cannot be more than 1.2 million dinars. The applicants who are certified for organic livestock products, or those with livestock production where the conversion period has been completed and are in the process of certification, are eligible for incentives for support to development of organic farming in the amount of 18 000 dinars per head of cattle (for at least four heads). Subsidies are 6,000 dinars per head of small livestock (for a minimum of 10 animals), 600 dinars per head of poultry (at least 100 individuals) and 2 400 dinars per hive (for at least 30 hives). The total amount of incentives per applicant cannot be more than a million dinars.

The incentives should lead to an increase in the volume of organic production in Serbia. If the production of organic products would increase from the current 0.3% of land area to 3%, then it could be exported all that is produced. The entire

production could be exported to the European market, as well as to other markets such as Japan and China, which have become major consumers of organic food in order to improve the living standards of the population.

Ceranić and Paunović (2010) describe the advantages of the SMEs involved in organic production, ie.:

- The state support in the form of grants for the establishment of SMEs,
- New job positions in order to create a competitive SMEs sector,
- Simplified procedures for taxation, financing and lending for SMEs
- SMEs have an outstanding competitive advantages in export markets,
- In Serbia, there is a good business, legal and institutional environment for SMEs.

Education is an essential factor for further development in this area - the SME sector would be introduced to the basic postulates of modern food processing that enables higher quality of products, export, and thus the competitiveness of products on foreign markets. Individual farmers, the management and employees of small and medium enterprises should be trained, through different projects, in food production under the guidance of ISO standards and HACCP system, which will facilitate the next step - obtaining the HACCP certification and certification in the field of organic farming.

Despite the high prices, the demand for organic products in the world is great, and the area under organic agriculture in Serbia is measured per thousand (‰).

That's why healthy food production is our great, but untapped potential, and important role in achieving a higher level of development in this sector should be given to SMEs.

3. Conclusion

The consumption of organic food in developed countries is growing, while supply cannot meet the growing demand. Accordingly, there is a possibility for under-developed countries, where there are optimal environmental conditions in rural areas, to increase the production of organic food, and then to focus on the international market, where it will achieve much greater profits compared to export of conventionally produced food.

It is wrong to expect that organic farming will suppress the conventional form of agriculture, and that there is competition between them. It should be noted that organic agriculture in most countries occupies less than 10% of the area.

According to the National Strategy for Development of Organic Agriculture in Serbia by 2017, it is expected to be a land area of approximately 50 000 ha, which greatly opens up the perspective of small and medium enterprises for the production and processing of organic products.

Development of mini, small and medium enterprises in agribusiness should be the main factor of production restructuring and intensification of agricultural and rural development for a country like Serbia, which should come out of serious economic and social crisis. The establishment and development of such enterprises should be based on the raw materials, on the comparative advantages, on the market opportunities and the possibilities of food industry, with an orientation on production programs that will be economically efficient and profitable; which will enable import substitution and increase in export of high value products at higher processing stages, as well as organic and healthy food for which there is demand in the national and international market (Ilić et al, 2006).

Considering the available natural resources, knowledge and global demand of organic products, organic production should be organized and promote in Serbia. Using the strategy and all the necessary measures for the promotion and encouragement of organic farming, government institutions should contribute to large-scale development of this agribusiness sector.

Significant involvement of SMEs would lead to lower unemployment, better use of natural resources, quantitative and qualitative increase in assortment of organic products, GDP growth and an increase in export of organic products.

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