



R e p u b l i c o f S e r b i a

Ministry of Economy

**THE PLAN
OF THE GOVERNMENT OF THE REPUBLIC OF SERBIA
FOR STIMULATING
SMALL AND MEDIUM-SIZED ENTERPRISES AND
ENTREPRENEURSHIP DEVELOPMENT
2005-2007**

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INTRODUCTION

Small and medium sized enterprises are the focus of the economic policy in developed countries, members of the European Union and OECD. Small and medium-sized enterprises play a central role in the economic structure of the EU – 25 million SMEs comprise 99% of all enterprises, employing 95 million people which account for 55% of total employment in the private sector. Small enterprises play vital role in the implementation of entrepreneurship, research and development, and the creation of new jobs, which are development priorities. Apart from that, small and medium-sized enterprises face great challenges in the world of market globalization where large enterprises dominate due to the resources they have control over.

Governments of the leading countries with developed market economies pay special attention to the measures to encourage development of the small and medium-sized enterprises sector, intending to maintain dynamism of their economic growth, and to provide enough jobs which create high level of value added and facilitate application and expansion of innovation in economy – in order to reach and maintain a high level of competitiveness, the only guarantee in the fight for survival on the world market.

The Plan of the Government of the Republic of Serbia for Stimulating the Small and Medium-sized Enterprises and Entrepreneurship Development (hereinafter: SMEE) is intended to:

- Improve conditions in which small enterprises and businesses operate, and
- Encourage entrepreneurship – understood as readiness of people to take risks and start their own business, providing employment for themselves and others.

Small and medium-sized enterprises are the key to sustainable growth. The Government's policy in the area of SMEE development has as its objective the creation of healthy small and medium-sized enterprises and businesses, which shall be capable of:

- doing business effectively and making profits,
- expanding their activities and creating new jobs, and some even growing into large enterprises
- being competent and ready to accept the international market competitions.

Dynamic economic development and balanced growth shall be based on new business entities and new investments. Implementation of the measures recommended in the Plan for Stimulating the SMEE Development creates favorable environment conducive to the establishment of new enterprises and businesses and the encouragement of investors to invest their capital in our economy.

From 2000 to 2003, the number of active enterprises has increased for about 10%, which is encouraging, but not even close to enough to provide sufficient mass of healthy business entities which could spur the development.

The Small and Medium-Sized Enterprises Development Strategy was inherited from the former Government and it conforms to the principles of the European Charter for Small Enterprises. Following the adoption of the Strategy the Operational Measures Program has not been designed to efficiently put into action the general principles and objectives laid out in the Strategy. Encouragement of SMEE

development is a process that has a multi-sectoral nature and requires clear definition of instruments for the creation and implementation of SMEE policy.

In addition, meanwhile, a number of strategic documents have been passed; whose implementation will significantly affect the change of environment in which SMEE operate. As the guidelines of the Poverty Reduction Strategy, Employment Strategy, and Vocational Education Reform Program were unknown whilst preparing and passing the SMEE Development Strategy, they have not been taken into consideration in designing the SMEE Strategy. Moreover, by signing the Thessaloniki Declaration, in June 2003, the Republic of Serbia committed to the implementation of the principles enshrined in the European Charter for Small Enterprises, thus recognizing the principles of the so-called Lisbon Process – a broad action of the EU focused on the creation of efficient economy capable of effective business activity in the face of growing sharp competition in the world market.

All these issues imposed the need for designing a Plan for Stimulating the SMEE Development.

The Ministry of Economy of the Government of the Republic of Serbia has designed the **Plan for Stimulating the SMEE Development**, which proposes measures for the following period, until 2007, with which the state should support the development of small and medium-sized enterprises and businesses sector.

This Plan sets tasks, goals and activities, which shall significantly improve the situation of the SME sector. Moreover, time frames and necessary resources for the SME development policy implementation have been set.

The Plan defines instruments necessary for the implementation of proposed measures for SMEE policy implementation. The Plan envisages formation of the SMEE Council and the SMEE Forum in 2005. The Council, acting as inter-ministerial body, will have as its task to monitor and coordinate the creation and implementation of SMEE policy, while working through the Forum should enable the establishment of direct communication between the Government and SMEE. The Forum should be tasked with raising and discussing issues of interest for the improvement of the conditions of operations and the status of SMEE, and with considering Government policy in this area and giving appropriate opinions and recommendations, and also initiatives and proposals for the improvement and implementation of that policy.

Instead of specifying quantitative sizes, which were more suitable to the growth programs of the past times, **the goal of the proposed measures is to remove hindrances to growth and development of the SMEE sector**, identified in:

- institutional environment and relevant regulations,
- insufficient knowledge and skills of entrepreneurs themselves and staff in this sector,
- undeveloped business services market to meet SMEE needs,
- unfavorable financing conditions and insufficient financial support to SMEE,
- insufficient scale of innovations, and insufficient and slow application of modern technologies without which there is no development of export oriented enterprises nor equal participation in the world market competition.

This set of proposed measures aims at more efficient business activity in the entire life cycle of an enterprise: from its creation, via growth and development, to its closure.

However, in 2005, the first year of the implementation of the Plan, the priority is given to:

- individuals and firms which are starting business, and
- conditions of their funding.

Namely, we started off from the fact that in this stage of transition it is necessary to create a significant number of new enterprises which would be drivers of growth and development.

As mentioned earlier, in the period from 2000 to the end of 2003 (for which relevant data are available) the growth in the number of active enterprises has not, for instance, doubled – which would be the result that would significantly affect the economic growth and development.

Besides, the fact is that normal development and growth of the existing shops and small enterprises has not been recorded. Business activities do not expand so an entrepreneur who started his own business, due to the existence of numerous barriers in business activity, cannot expect that with fair and hard work his business would grow into a small, then medium-sized, and eventually large enterprise.

Therefore, the measures proposed for 2005 in **the Plan for Stimulating the SME Development**, focus, to a great extent, on the support for development of small business entities which is what they usually are upon their establishment.

The Plan systematically incorporates goals and activities for the implementation of the policy defined in the SME Strategy and the EU Charter for Small Enterprises. However, it is necessary to mention that the Plan is to implement the policy defined in the documents which identify entrepreneurship growth and development as one of the key levers of Serbian economic development, such as the Poverty Reduction Strategy, Employment Strategy, the Vocational Education Reform Program and National Strategy of the Republic of Serbia for the Accession of Serbia and Montenegro to the European Union.

THE PLAN OF THE GOVERNMENT OF THE REPUBLIC OF SERBIA FOR STIMULATING SMALL AND MEDIUM-SIZED ENTERPRISES AND ENTREPRENEURSHIP DEVELOPMENT 2005-2007

1. DOCUMENTS DEFINING SMEE POLICIES

Along with privatization and restructuring of large enterprises, the priority of the Serbian economic development policy is to encourage growth and development of small and medium-sized enterprises and entrepreneurship (hereinafter: SMEE sector). The significance of privatization and restructuring enabling changes in ownership and production structures is unquestionable. However, it is of vital importance for the success of the transition process to create a sufficient number of small and medium-sized private enterprises and independent stores. The main goal of the stimulative economic policy is to build favorable framework for a sustainable, internationally competitive and export-oriented sector of small and medium-sized enterprises and stores.

Over the period of time up to 2002, SMEE sector did not have the status nor did it receive the attention as the implementer of economic development. Also, no adequate statistical monitoring of development and performances of this sector existed nor was analysis made of available data; therefore, it was impossible to have an adequate stimulative economic policy, which would provide conditions for an accelerated growth of this sector.

The treatment of the SMEE sector was formally modified in 2001, when for the purpose of encouraging development an outline of policy development was made in order to bring about positive changes in the environment in which SMEE operate. Those changes were to be implemented on the national, regional and local level. They included beginning of institutional and legal framework reform, developing necessary knowledge and skills for SMEE, capacity development of institutions providing non-financial support and development of non-financial services, financing and financial support measures, innovation, and application of contemporary technologies through partnerships between public, private and NGO sectors, as well as cooperation with donors.

Strategic Documents Defining the SMEE Development Policy

For that purpose, line ministries and the Serbian Government of that time defined the policy to support SMEE sector development by adopting particular strategic documents: "Strategy for the Development of Small and Medium-Sized Enterprises and Entrepreneurship in the Republic of Serbia from 2003 to 2008" and "European Charter for Small Enterprises – Report on the Small Enterprises in the Republic of Serbia".

"Poverty Reduction Strategy" sees development of entrepreneurship and SMEE sector as one of the essential levers of Serbian economic growth, and a way to deal with the problem of poverty.

Development documents drafted under the present Government also stress the importance of SMEE sector, understood as an active approach where an individual is ready to accept the risk which independent business activity brings, and to open a store or start a business employing himself/herself and others. "National Employment Strategy 2005-2010" and "Vocational Education Reform Program" which are

undergoing the adoption procedure, also see entrepreneurship development as one of the drivers of accelerated economic growth, and of creation of new jobs and reducing unemployment in Serbia.

These documents identify the barriers in economic system environment and also the main directions for support to development of SMEE sector which would make business environment of this sector more favorable.

1.1. Strategy for the Development of Small and Medium-Sized Enterprises and Entrepreneurship in the Republic of Serbia 2003-2008

The Strategy was adopted by the Government of the Republic of Serbia in January 2003. The main goal of the Strategy was to define strategic directions for support in order to create sustainable, internationally competitive and export-oriented SMEE sector, which will greatly contribute to and improve the standard of living, increase employment, and enable more even regional development in Serbia. Basic quantifying goals defined in the Strategy are the increase in the number of SMEE from the present 270 thousand to 400 thousand and the creation of a million new jobs in this sector.

The Strategy does not define the Action Plan, neither the instruments for its implementation.

1.2. European Charter for Small Enterprises - Report on Small Enterprises in the Republic of Serbia

In June 2003, the Republic of Serbia endorsed the European Charter for Small Enterprises at the European Union - Western Balkans Summit of Thessaloniki (Greece), thus accepting the principles of the so called Lisbon Process. The Lisbon process is a broad action undertaken by the European Union focused on the creation of efficient economy capable of effective business activity in the face of growing sharp competition in the world market. Monitoring the implementation of the abovementioned principles enables economic policy makers to meet with the best practice, that is, with measures used by other countries to handle similar problems.

This Document also defines policy priorities for development of SMEE sector, which stem from the 10 principles defined in the abovementioned Lisbon Process. As opposed to the Strategy, the Charter consists of two parts. The first part reports what was done in the previous year regarding particular areas of encouraging SMEE development. The second ranks priorities of SMEE development policy and sets clear tasks and timeframes about what the Government should do in the following year regarding the creation of a more favorable environment for the establishment and growth of SMEE.

1.3. Poverty Reduction Strategy of the Republic of Serbia

In January 2003, the Government of the Republic of Serbia adopted the Poverty Reduction Strategy. This Document defines the causes of poverty in Serbia and the framework for reform implementation, as well as strategic actions for poverty reduction. Besides privatization and restructuring of large enterprises, growth and development of SMEE has been identified as one of the important conditions for the start of economic growth. With a view to reducing poverty, a special stress is placed

on providing necessary support to entrepreneurs who just started their business, in the context of creating a more favorable legal environment and providing microfinance support instruments.

1.4. National Employment Strategy 2005-2010

At its session, held on 14 April 2005, the Government of the Republic of Serbia adopted the National Employment Strategy. While designing the SME Development Strategy it was born in mind that it should be complimentary with the Poverty Reduction Strategy and SME Development Strategy. The Strategy adopts the three comprehensive goals of the Lisbon Strategy from 2000, which assume full employment, labor quality and productivity, social cohesion and involvement in the labor market. One of the key guidelines in the implementation of these goals is to support entrepreneurship and improve climate for starting business, especially through legal and institutional support, improved work of administration and expanding possibilities for SMEs funding. A special kind of support should be provided to entrepreneurship and to the creation of new SMEs in the area of high technology and innovation.

After the adoption of the Strategy the Action Plan and the budget for its implementation shall also be defined.

1.5. Vocational Education Reform Program

Focus on small and medium-sized enterprises within the overall reforms reflects in particular on the reform of secondary vocational schools. In August 2003, the Ministry of Education and Sports of the Republic of Serbia, in cooperation with EU (through the European Agency for Reconstruction), started the implementation of the Vocational Education Reform Program. This pilot program represents a test reform before its final introduction into the secondary vocational education system which is planned for 2007. These changes relate to the methods of work of schools, development of new educational profiles, and introduction of new curricula with different structure of subjects.

Education represents one of the important elements for achieving faster economic development. The development process of the comprehensive Strategy for vocational education needs to be aligned with the employment procedures and the entire economic development of the country. For this purpose, this Document provides basic directions for the vocational education reform pursuant to the needs for contemporary economic development. Also, development of vocational education is intended to be one of the foundations in defining and development of the National Employment Strategy and relevant economic strategies.

2. PROBLEMS IN THE IMPLEMENTATION OF THE SMEE POLICY

The period after 2001 has been characterized by the change of the way SMEE sector is treated. The attention was focused on defining the development policy, that is, on defining ***what is necessary*** to be done in order to bring about positive changes in the environment in which SMEE operate. However, definition of the system for implementation of the development policy for this sector was omitted in this period. Namely, the implementation instruments and measures which would allow positive changes to take place in the environment of SMEE sector were not defined.

Without clearly defined implementation system of the adopted development policy, the effects of the undertaken measures to support growth and development of SMEE sector were restricted and did not produce desired results. The policy implementation proved to be insufficiently efficient, with uncoordinated actions initiated by certain ministries and institutions.

In the previous period, the implementation of the SMEE development policy has been characterized by:

- absence of the identification of responsibility and insufficient coordination of relevant public institutions;
- lack of clearly defined instruments and mechanisms necessary for the implementation of the set measures and activities;
- absence of the identification of resources and ways to provide the necessary financial resources;
- absence of relevant managerial potential necessary for SMEE policy implementation;
- absence of a direct effective dialogue between the Government and SMEE.

Identified deficiencies in the implementation of SMEE development policy had direct negative effects on the results of the implementation of the entirety of the SMEE development policy as well as on its individual segments.

2.1. Defining Responsibilities and Ensuring Coordination of Relevant Institutions

Following the adoption of the SMEE Strategy, the former Government did not develop the program for its implementation. The Strategy ambitiously defined goals and measures and activities for support to the development of SMEE sector. However, no relevant institutions had been identified that should be responsible to carry out some of the activities.

Moreover, instruments, budget, timeframes for implementation were not defined, nor the expected effects of the undertaken measures and activities. Joint work of the line ministries on the activities for support to SMEE development was also missing.

For example, one of the priorities defined in the Strategy is to establish a reliable system for statistical monitoring of SMEE. Within the activities of the project “Non-financial Assistance to SMEs” a Report on Statistical Monitoring of the SMEE Sector was prepared providing specific recommendations about what needs to be done

in that area. The findings from the Report were confirmed on the workshop, attended by representatives of all relevant ministries and institutions. The implementation of defined activities was not continued afterwards nor was the necessary communication established between the relevant institutions.

Second example relates to the lack of coordination of non-financial and financial assistance for SME, and in particular the lack of support to the creation of new SME, which is reflected in the small number of newly-formed SME. Namely, activities greatly overlap; there is not enough cooperation between different institutions and public sector services (Network of regional SME development agencies and centers, National Employment Service, Serbian Development Fund, Development Fund of the Province of Vojvodina and the Guarantee Fund).

2.2. Clear Definition of Instruments and Mechanisms for Implementation of Fixed Measures and Activities

Comprehensive definition of instruments for policy implementation and their putting into operation is essential.

Upon the adoption of the Strategy in 2003, the Government planned that the Working Group should be the main lever for operational projects of the SME Development Strategy. Members of the Working Group should be representatives of the relevant ministries and certain Government institutions. Besides the formation of this comprehensive Working Group, it was planned to form other Working Groups for specific priority areas of SME development policy.

Only preparatory meeting was held of the Working Group for operational projects, and preparatory meetings of certain specialized Working Groups.

In those preparatory activities human resources were not adequately defined. Present representatives in the abovementioned Working Groups had a small jurisdiction and vague authority to undertake specific activities. The highest representatives of the Government and the line ministries failed to commit themselves to the policy implementation. There was absence of clear organizational structure and the necessary logistical assistance. In such conditions, the policy implementation activities often boiled down to giving recommendations to other ministries and institutions to do something, but those institutions often did not recognize their responsibility and the need to implement the recommended activities. In fact, there was absence of joint work and cooperation between different relevant ministries and institutions in the implementation of defined activities necessary to foster the growth of SME. This in itself caused the absence of synergy of effects, which would have been achieved by involving all key factors which could have a positive influence on the policy implementation process.

It can be concluded that, in that period, no efficient system was established to implement SME development policy. All other activities for policy implementation were reduced to individual actions by line ministries and to available donor assistance.

The Ministry of Economy, supported by donors, prepared special reports on some of the priority sectors (finances, tourism, E-business) defined in the SME Development Strategy, organized theme workshops and formed special working groups. Based on the Strategy, the Republic Agency for SME Development, supported by donors, prepared the Draft Operational Programs for SME sector development in the following areas: agricultural products processing industry, tourism and e-business, support for the introduction of quality system, support to innovations

in SMEE, strengthening the links between education and scientific and research system and the SMEE sector, and improving the position of SMEE at domestic market. Operational programs have been prepared in cooperation and in line with strategic goals of the related ministries. However, necessary measures and activities were not specifically defined, nor implemented.

2.3. Identifying Sources and Methods for the Provision of the necessary Financial Resources

Financial support to SMEE development has been hindered due to the lack of resources and unfavorable conditions on financial markets so SMEE have mainly been focused on their own sources. Lack of qualitative sources of finance, and also incomplete regulation regarding financial markets and lack of a developed financial system were primarily the reasons of absence of a more significant financial support to SMEE development.

Capacity building of institutional infrastructure for providing non-financial support to SMEE development was provided by the donors. After cessation of direct donation by the European Agency for Reconstruction and other donors, the problem of providing sources of finance and the sustainability of the network of Regional SMEE development agencies and centers - as a basic institutional infrastructure for providing non-financial support to SMEE - has especially become relevant.

Necessary financial resources have not been provided for financing development of SMEE sector which would be sufficient to accomplish tasks which have been set out. Also, there is absence of clearly defined roles, methods and models for establishing partnerships between public and private sectors for financing the needs of SMEE.

Simultaneously, the budget of the Government of the Republic of Serbia for 2005 does not provide for specific resources for financing operational implementation of SMEE policy (working groups, logistics, and the like). Within the budget of the Ministry of Economy, under Appropriation No.424, Specialized services, the sum amounting to 202 million dinars is earmarked for the Republic Agency for SMEE Development and the Privatization Agency.

2.4. Providing the Human Resources necessary for the Implementation of SMEE Development Policy

The Ministry of Economy is responsible for the creation and implementation of SMEE development policy. Until 2001, this Ministry did not have an organizational unit in its structure which would cover the activity of SMEE sector. By establishing the Department for SMEs within the Ministry of Economy and forming the Republic Agency for SMEE Development a process has commenced of establishing necessary institutional structure within the Government, which should take the responsibility for the creation and implementation of SMEE policy. The process of making these institutions fully operational has not been finalized, primarily due to the lack of adequate personnel. Also, deficiency of adequate structures and necessary human resources for establishing cooperation within the Government administration has been identified in other ministries and institutions. In such conditions, activities targeted at capacity development, especially those implemented within donor projects, have produced limited results.

2.5. Achieving Efficient Dialogue between the Government and SME

One of important instruments for the creation and implementation of development policy is a direct dialogue between the Government and SME sector. That dialogue will make the Government more aware of barriers which SME encounter in their daily business activity, but also of the recommendations for the removal of those barriers. In this way, the dialogue becomes a direct means to check the policy which the Government defined and its implementation methods.

Such dialogue has not been established due to inadequate organizational models and mechanisms or vague authority and representative structure. For example, the experience with SME Advisory Board and Competitiveness Council whose work and activities did not meet the expectations, and were, thus, abandoned as models for dialogue.

3. SUPPORT TO SMEE DEVELOPMENT IN SERBIA

Support to SMEE development policy has been defined in several already mentioned documents. For the purpose of critical analysis of SMEE development policy projections and provision of an efficient, comprehensive approach to its implementation, the Ministry of Economy prepared a Report on SMEE 2003. The Report defined problems which had been identified in the policy implementation, and also the necessity for the continued support to SMEE sector by the Government, in line with the available resources.

The scope of SMEE policy actions include:

- Creating a stimulative institutional and legal environment;
- Raising the level of knowledge and skills in SMEE;
- Building non-financial SMEE support institutions and developing non-financial services;
- Finance and financial measures to support SMEE;
- Innovation and application of modern technologies for SMEE support;
- Donors and development assistance.

3.1. Creating a Stimulative Institutional and Legal Environment

Contemporary approach to small and medium-sized enterprise development is based, above all, on improving most important elements of their business environment. International political platforms in this area, such as European Charter for Small Enterprises and OECD's Bologna Charter on SME Policies are witnesses of that fact. In this context, great importance is attached to improving legal business environment, which would show more consideration for particularities and interests of entrepreneurs, and to improving administrative procedures including increased application of E-government principles, in order to facilitate the implementation of envisaged responsibilities. In a nutshell, main recommendations are to:

- Monitor and analyze new regulations in order to assess their impact on small enterprises and entrepreneurs and, when possible, to simplify specific provisions in conformity with interests of SMEE sector;
- Establish easy to use administrative procedures and documents;
- Envisage, where possible, stimulative measures for a faster "start-up" and faster development and remove legal barriers hindering that;
- Develop social dialogue and a more efficient presentation of interests of this sector, which should be taken into consideration when preparing regulations and application procedures.

a) *Measures undertaken and current situation*

Small and medium-sized enterprises and entrepreneurs, as well as cooperatives, which are in most countries also taken for an integral part of the SMEE sector, operate in the environment regulated by unified legal framework for business, which is common to other business entities also. Therefore, with the exception of laws regulating the status issues related to individual business entities which emerge only in SMEE sector (such as private entrepreneurs in our country) and special laws

defining state aid targeted at this sector's development, it is not customary for developed market economies to have systemic regulations which particularly relate to SMEE sector. Particularities of this sector are usually dealt with in such a way that, where possible, laws regulating individual areas of business provide for a more favorable position, privileged treatment towards, or an exemption of SMEE sector from the obligation to observe some provisions of the law.

SMEE sector is very sensitive to the quality of regulations in certain business areas, particularly those directly affecting access to market, fixed charges for business operations, charges for obtaining information, transaction efficiency and risk. Inadequate business environment for small and new enterprises is characterized by:

- Expensive and lengthy procedures for obtaining different approvals, permits, licenses;
- Barriers to entering and free competition on the markets where these enterprises are potentially competitive;
- High taxes and other obligatory charges, without envisaged incentives for small and new enterprises, discouraging entrepreneurs to officially register their business or develop the existing one;
- Still inadequate enforcement of the Law on Executive Procedures which relates to business transactions in order to provide fast, professional and impartial settlement of disputes arising from their business activity;
- Unsettled conditions for utilization of movable and immovable property as security resources;
- Hampered possibility for leasing and utilization of other financial instruments favorable for SMEE sector;
- Public procurement procedures, which do not encourage participation of small, medium-sized, as well as new enterprises;
- Hampered and expensive employment and dismissal of laborers which limits flexibility and mobility of labor force;
- Strict and rigid regulations of environment protection and workplace safety policies, which increase fixed costs of operations of small and new enterprises.

Legal regulation related to the establishment and operations of financial institutions has indirect but very intensive impact on the SMEE sector, particularly in the countries at the beginning of the transition process. Namely, undeveloped financial market is a bottleneck which hampers economic development as a whole, including entrepreneurship.

Main role of the state in contemporary market economies is to create, with minimum interventions, a stable and secure legal framework for business in conformity with the needs of economy. The principle is that the objective of laws and regulations is to enable enterprises and entrepreneurs to operate rather than to set obstacles. Apart from appropriate laws which should regulate most important issues related to the operation of business entities, decrees and administrative procedures through which the laws are enforced are of great importance as they determine the ultimate effects that affect entrepreneurs.

In accordance with the needs of economy and changing society, regulatory reform comprises amendments to a number of regulations in the national legislation, abolition of some and enactment of new regulations, and it is an integral part of the transition toward market economy and drawing closer to the European Union. The speed of amending existing and enacting new regulations at this stage is great, and

certain regulations have been amended several times in a short period of time. What makes domestic situation unique is a large number of former federal regulations which were automatically taken over during the transformation of FRY into the State Union of Serbia and Montenegro. In such circumstances, absence of registers of important current regulations creates real difficulty when attempting to identify which of the heap of different regulations published in various papers, and amended several times, are still valid. Discordance between specific regulations, incompleteness of decrees and insufficient attention paid to administrative procedures and applicability of specific provisions in practice also contribute to poor adherence to and implementation of regulations. Adhering to such regulations and procedures significantly burdens limited financial, management and staffing resources in SMEE sector.

Considering the necessity to continue and accelerate the pace of the regulatory reform, special attention should be paid to the adoption of Regulatory Reform Strategy and innovation of the process of drafting new laws and regulations, acknowledging practical experiences and recommendations of other countries. Reformed and strengthened Regulatory Reform Council makes great contribution to improvement of regulatory reform. The Council has already been formed as an inter-ministerial operating body authorized to coordinate legislative activities of different ministries in the areas of significance for economic development.

Involving representatives from small and medium-sized enterprises and other relevant interest groups, such as foreign investors, domestic exporters, etc, in the work of Regulatory Reform Council would show acknowledgment of their interests. Introduction of social dialogue, wider consultation processes, and partnerships between private, public and NGO sectors in various areas is a significant heritage from developed democracies and modern society. Implementation of those principles would require setting up of mechanisms and institutions which have not existed here before. A big problem in this case is to identify competence of the representatives from different interest groups. Lack of tradition of interest-based associations, earlier on institutionalized only within the chamber system, which has always been tied to the state apparatus and more under the influence of political than economic interests, was the reason that first initiatives, such as those to set up Entrepreneurial SMEE Advisory Board and Competitiveness Council, failed.

Although a lot needs to be done in the future in order to create conditions in the Republic of Serbia in which SMEE sector could operate in simplified and safer legal environment, first steps, such as individual initiatives and projects which have already been taken, should not be underestimated.

Business registration reform will accomplish set objectives – to simplify and speed up the procedures. Legal regulation in the area of labor law has been improved; a number of tax laws have been enacted for the purpose of reforming tax system and stamping out grey economy, new Bankruptcy Law has been adopted, and the Law on Construction and Planning, Law on Financial Leasing, Law on Pledges on Movable Property, Company Law. New Mortgage Law and some other laws are being prepared. Finally, privatization laws and the privatization process itself, although short term, have great significance in the process of transition of national economy into modern market economy.

b) Development support measures

For the purpose of creating a stimulative legal environment for business operations of SMEE in the period 2005-2007, it is necessary to take the following development support measures:

- Establish continually updated register of current regulations;
- Accelerate the regulatory reform activities;
- With a view to coordinating activities on the regulatory reform in the areas of importance for operation of business entities, including small and medium-sized enterprises, it is necessary to continue building up on the Regulatory Reform Council, as an efficient and influential inter-ministerial operating body in the Government;
- Improve the process of preparing regulations in order to make it transparent, ensure that this process provides information and involves representatives from interested parties, incorporates analysis of potential effects of new regulations and focuses more attention on harmonization of regulations and timely preparation of adequate implementation procedures;
- Continue activities of line ministries and Government institutions on establishing a reliable and valid system for statistical monitoring of SMEE sector. Also, it is necessary to align that system with the EU standards;
- More attention needs to be paid to analysis of potential effects that draft of and amendments to the existing regulations have on SMEE sector. Taking initiatives for amending certain regulatory provisions, introducing incentives for SMEE and removing administrative barriers wherever possible are important tasks which representatives from the Ministry of Economy and Republic SME Agency should work on together, as in charged institutions for the creation and implementation of SMEE policy. In this light, it is necessary to establish a Government structure (national SMEE Council) which would be composed of representatives from all relevant ministries and institutions, in order to establish an efficient system of coordinated inter-ministerial activities for creating and implementing SMEE development policy;
- Support initiatives and develop mechanisms for presenting SMEE interests in the process of preparing the regulations and in implementing the support programs for SMEE sector development;
- Start essential transformation of the chamber system for the purpose of democratization of relations within the economy and accomplishing increased representation in advocating interests of economy in communication with the Government in the process of defining and implementing development and economic policies.

3.2. Raising the Level of Knowledge and Skills in SMEE

Within the overall social and economic reform in the Republic of Serbia, focus on small and medium-sized enterprises take prominent position and private sector is taken for one of the pillars of sustainable economic development. Development of SMEs and entrepreneurs is not achieved only through entrepreneurial practice and

economic policy measures, but also through systemic effort to achieve direct, structural changes in the area of education. In future, more and more young people will tie their professional development to SME sector. Therefore, education has to meet the requirements for new knowledge and skills considered necessary for achieving successful work performance in this sector. This means that new educational profiles and qualifications need to be introduced, which would enable higher flexibility in overcoming variable requirements in labor world and greater mobility of labor force.

Studying entrepreneurship has not yet been fully integrated into the formal education. Nevertheless, some progress can be detected within the reform of education system and individual initiatives in this area. Ministry of Education and Sports of the Republic of Serbia undertook a set of reform activities aiming at adapting education system to the needs of market economy and, in particular to the needs of SME. This is in conformity with the *Strategy for Development of Small and Medium-sized Enterprise and Entrepreneurship in the Republic of Serbia 2003-2008*, which stresses, *inter alia*, the necessity to redefine the links between economy and educational institutions. It is necessary to continue the education reform which would include entrepreneurship learning at all levels of formal education – from elementary, through secondary, higher and university education to the level of postgraduate studies, and also within informal education and in the context of lifelong education and learning.

a) *Measures undertaken and current situation*

Elementary Education

At elementary education level in the Republic of Serbia, there are no special programs or educational contents specifically directed towards introduction of entrepreneurship.

Secondary Education

Within secondary education, in schools of economics, business and related subjects, students acquire knowledge which is important for doing business, and indirectly develop entrepreneurial abilities. Basic knowledge about entrepreneurship is acquired through subjects such as Enterprise Economics or Work Organization., Entrepreneurial knowledge and abilities are also developed through extracurricular activities, experimental and pilot programs which are planned to grow into regular professionally-oriented training programs:

- Business Innovation Programs (BIP), not-for-profit organization from Norway and an NGO Civic Initiatives, in cooperation with the Ministry of Education and Sports, have started the implementation of *Youth Enterprises Project* in 5 schools in Serbia. This extracurricular program includes training young people to create, start and implement their own business through specific students' enterprises.
- Junior Achievement Youth Enterprise in Serbia (JAS), an organization with many years of experience in entrepreneurship trainings for youth and NGO European Movement, in cooperation with the Ministry of Education

and Sports, have started the implementation of three extracurricular programs in 50 Serbian schools. These programs include: Applied Economics Program, Company Program (student entrepreneurial organizations) and MESE Program (Management & Economics Simulation Exercise).

- A new educational profile “Business Administrator” has been introduced and implemented in 18 secondary schools of economics and is funded by Deutsche Gesellschaft für Technische Zusammenarbeit (GmbH). Experimental classes have been introduced in schools throughout Serbia and educational materials are targeted at training students to be able to work in SME sector.

Vocational Education

Focus on small and medium-sized enterprises within the overall reforms reflects in particular on the reform of secondary vocational schools. In August 2003, the Ministry of Education and Sports of the Republic of Serbia, in cooperation with EU (through the European Agency for Reconstruction), started the implementation of the Vocational Education Reform Program. This pilot program represents a test reform before its final introduction into the secondary vocational education system, which is planned for 2007. These changes relate to the method of work of schools, development of new educational profiles, and introduction of new curricula with different structure of subjects.

Within these pilot activities, Entrepreneurship has started to be taught as a separate subject in third and fourth years of secondary vocational schools since September 2004. The subject is adapted to each educational profile in the following areas: agriculture, production and food processing, health and social security, mechanical engineering and metal production, electrical engineering, chemistry, non-metals and graphical industry, transportation, forestry and wood processing. Depending on educational profile, the subject is either part of the main or optional courses.

Starting from the fact that few individuals are born with a talent for entrepreneurship, introducing separate subject will enable developing of entrepreneurial mindset and entrepreneurial philosophy. Entrepreneurship education includes not only preparation to start and carry out business activity but also a wider process of developing abilities and other personal characteristics that are not directly related to business. Teaching entrepreneurship should help in raising students' awareness about the importance of taking responsibility for their own career and developing personal qualities, enable acquiring professional knowledge and skills, raise awareness about self-employment as a possible option for their career and promote entrepreneurial qualities in all fields of work.

Higher and University Education

Although higher education in the area of entrepreneurship is of a later date in Serbia, there is a growing number of colleges and universities (public and private) that offer curricula or opportunities for obtaining special academic qualifications in the area of management of small and medium-sized enterprises and entrepreneurship. There is an impression that there is a growing number of programs in the area of

entrepreneurship within higher education institutions in the Republic of Serbia, and that their content is becoming more and more contemporary. There are a number of initiatives related to the area of entrepreneurship in the private sector higher education institutions, which contributes to higher competitiveness and quality of educational contents.

However, in tertiary education sector in the Republic of Serbia links between academic and science and research institutions, on one side, and enterprises, on the other side, have not been developed yet. Those links are particularly important as they enable technology transfer, application of innovation and development of new production programs in enterprises.

Informal Education

Simultaneously with the offer of formal education institutions in the Republic of Serbia in the previous period, both public and private informal education institutions offered educational contents in the area of Entrepreneurship even more intensively and in the form of different trainings, seminars, and workshops, aiming to respond to the needs of small enterprises and entrepreneurs. Important institutions which offer programs of informal education for SME, whether they are related to entrepreneurship or other areas of importance for SME, include: Republic and Regional SME Agencies, National Employment Service, chambers of commerce, professional associations, private consultancy and education institutions, science and research institutes, open universities, foundations, non-government organizations, etc. Some of education services are accessible to users free of charge, or at fees which are lower than those of the market (they are subsidized by the state or donor organizations). Other services are delivered on a commercial basis.

Nevertheless, when it comes to informal education in the Republic of Serbia, there are no adequate data bases or records based on which it would be possible to give accurate information about available capacities and fees of institutions and programs for the development of entrepreneurial abilities. Considering the state of the economy in Serbia, it would be realistic to assume that nowadays, the largest number of enterprises does not deal with education and training of staff. Also, it can be said that entrepreneurs in Serbia are aware of the lack of knowledge and skills to an extent, but they do not particularly have high regard for formal training so that many areas in which there is a need for more knowledge remain neglected. There is an attitude that creation, growth, and development of small enterprises depend more on factors such as fiscal policy, banking systems and the like, than they do on education, although mass re-education of population, in conformity with modern standards that exist in developed countries, has been promoted as a priority.

Furthermore, there is an evident need in the Republic of Serbia for the creation of legal and institutional possibilities to obtain market-relevant qualifications in training and education institutions. Therefore, it is necessary to develop the system of standards for accreditation of education and training programs, as well as standards for certification of acquired knowledge and skills.

Consultancy Services Market

Market of consultancy services for SME has not developed to a significant extent during the past period. Owners and managers of SME still do not feel a need

for external services, which would help them overcome difficulties they face with in their business activity. According to such poor demand, the supply of consultancy services also has not reached the necessary level. This is the reason donor assistance has been largely focused on creating assumptions for development of this market.

Within the EU Project “Non-financial Support to SME Sector Development in Serbia” for the period 2002-2004, important steps were taken in order to create and strengthen the training and consultancy services market in the Republic of Serbia. Project Team designed and implemented, through the network of Republic/Regional SME Agencies, 820 training programs for would-be entrepreneurs and owners of SME in line with recommendations and suggestions from the Training Needs Assessment. In the previous Project phase, available local resources, which are able to provide appropriate training and consultancy services in different areas (basic training for trainers was conducted and also the process of accreditation of service providers), were precisely identified. In this way, about 150 individuals and institutions in Serbia were identified and recommended to Regional Agencies. Based on numerous trainings implemented, attended by 1189 participants, a Training Manual was developed in a CD format incorporating 22 training programs with all training materials (131 in total) that were prepared and presented by national and international experts. The Manual shall be used in further trainings.

Considering undeveloped market of consultancy and training services in the Republic of Serbia, particularly outside Belgrade, *Service Support Scheme* (SSS) has been implemented within this Project. Main goals of SSS, in whose implementation 7 Regional SME Support Agencies/Centers participated, with service providers as subcontractors, were to provide access for existing and potential entrepreneurs to high quality consultancy services (usually in writing business plans) and training at reasonable (subsidized) fees, and also to implement smaller regional projects which are important for SME development. The implementation of SSS was also targeted at strengthening the role of Regional SME Agencies as catalysts for entrepreneurship development, and developing the market for consultancy services for SME in Serbia. Certain resources within SSS were earmarked for enabling the potential and existing entrepreneurs and owners of small businesses to use those services at lower prices than those on the market. Percentage of subsidy was higher with potential entrepreneurs which are to start their business operation. Over the mentioned period, 346 programs have been implemented, with a 110.000 euros value; 217 programs thereof related to trainings, 113 to consulting and 16 to special projects.

b) *Development support measures*

At this point, from the perspective of entrepreneurship education and training, the following issues are relevant in the Republic of Serbia:

- *Reform of Education*, particularly the reform of secondary education – introduction of entrepreneurship at all levels of education; creation of opportunities for formal and informal studying of and training in the area of entrepreneurship; creation of realistic opportunities for developing and renewing entrepreneurial knowledge and skills during the whole life.
- *SME Development Policy* where it relates to education – redefinition of links between economy, businesses and education and science and research system; adaptation of educational and science and research services to the needs of new market economy in which large enterprises do

not play such an important role anymore; intensifying activities focused on adapting education and training programs to the needs of SMEE sector, particularly programs for developing managerial skills and capacities. Note: This issue is dealt with in greater detail in the next section.

- *Create National Adult Education Strategy* which will adequately represent the interests of SMEE sector – redefine goals, organization and structure of the entire adult education system based on the concept of life long learning and accessibility of education to all categories of population; create a network of adult education institutions whose programs are open to the needs of economy; create and implement vocational education programs, training, post-secondary school education, continual professional advancement and informal education with specific purposes.
- Implementation of recommendations given by EU Expert Group in the Entrepreneurship Education Report.

3.3. Building Non-financial SMEE Support Institutions and Developing Non-financial Services

Non-financial support relates to assistance to entrepreneurs to start and develop their own business through providing information, consultancy services, mentoring, and training in different areas important for conducting business. In Serbian community, non-financial support services are usually connected with the assistance in writing business plans for the purpose of applying for loans, or to orientation trainings for potential entrepreneurs. Nevertheless, their spectrum is much wider and incorporates provision of different kinds of services in the area of: management, marketing, export, innovation and technology transfer, human resources management, strategic business development planning, establishing links between businesses, legal advice, etc. Basic goal of providing services for business development is to increase competitiveness of small and medium-size enterprises through human resources development and/or building capacity of owners and managers. Majority of entrepreneurs who start their own business did not have earlier experience with managing enterprise and do not have formal education in this area. Assistance and support in the initial period can significantly increase their chances for success.

Public, private and NGO sectors, in cooperation with donors, will continue to provide different forms of support for the development of consultancy services for SMEE sector.

According to traditional approach, implementation of state aid program in the field of non-financial support to SMEE sector has been taking place through regional and local agencies. Those services are provided to entrepreneurs either free of charge or at subsidized fees. The state intervention is used in the form of organizing services in order to make up for the lack of these services on the local market. They were provided at subsidized fees or free of charge for beneficiaries, but unfortunately, such solution was not viable long-term. Practical experience shows that non-financial support services which are organized this way are too general, not adapted to the real needs, generally of poor quality, more expensive and they are a hindrance to the development of local private supply.

Modern approach to non-financial support to small and medium-sized enterprises is based on the principle of development of private local business services market which will meet the needs and financial abilities of small businesses, with a view to come up with a solution for a sustainable market. Interventions by the state in the form of subsidies in support of the ‘demand party’ in the transition period are used for implementation/privatization of approved programs (which were implemented in the past by local agencies from the public sector) by private consultants, and for capacity development of service providers. In support of the ‘supply party’ grants and vouchers are allocated to entrepreneurs to use them to cover the costs of private consultancy services. The role of local development agencies is gradually shifting from providing specific services to assistance in matching entrepreneurs with private providers of those services, promoting the offer, range and quality of business services on a certain territory, and raising entrepreneurs’ awareness of their own needs and the importance of those services.

The development of business services market for small enterprises is neither simple nor easy task, and it could not be carried out in a short time and with moderate financial contribution from the state for development activities, because, otherwise, local private market of those services would generate itself. Local private consultancy sector often lacks not only interest in this area but also concrete capacities, and entrepreneurs, on the other hand, are ready to spend both their time and money only on services from which they could benefit directly in a very short period of time. In addition, it is unrealistic to expect that the whole range of business development services will be possible to implement on the market principle, without the involvement of the state, because part of the services, primarily those intended for start-up entrepreneurs, are not profitable enough.

a) *Measures undertaken and current situation*

By the year 2001, institutions specialized in providing non-financial support to SME development did not exist in the Republic of Serbia. In chambers of commerce entrepreneurs could receive certain business information and attend seminars and trainings on current economic issues, but there were no systematic approach to creating wider range of service supplies for starting and developing business. Although chambers of commerce still have the ambition to actively participate in development activities and also some funds available which can be used for this type of activity, their periodical engagement in this area, although welcome, can not supersede the existence of specialized development institutions and programs. Main activity of chambers of commerce worldwide is to advocate for interests of their members and we should soon expect chambers in the Republic of Serbia to be reformed in this direction, particularly if long awaited abolishment of mandatory membership finally takes place.

Building the system of institutions for non-financial support to SME development commenced in February 2001 when the Republic Agency for SME Development and Entrepreneurship was officially formed. The Agency was designed as the main implementer of activities on SME development at national level and the main support to the network of SME agencies in Serbia. After that, with significant assistance from international donors, 10 Regional SME Agencies and Centers (RA/C; with more than 10 sub-centers) were set up in the following towns: Belgrade, Novi Sad, Subotica, Krusevac, Kragujevac, Zajecar, Zrenjanin, Nis, Uzice, and Novi Pazar. Most Regional SME Development Centers (7) were formed with the help of the

European Union through CARDS program, and other donors such as GTZ, SDC and UNOPS. With the assistance from local community, the Government founded 2 Regional SME Agencies in Sombor and Sabac, under the Law on Republic SME Agency. In addition, new offices of the Republic SME Agency were set up in Kragujevac, Majdanpek, Valjevo and Sabac. With the support from the European Union the Euro Info Correspondence Center (EICC) was founded, as part of the international EIC network providing services of business match-making and consultancies on doing business with EU for SMEs. National Employment Service also started developing a parallel network of entrepreneurship development centers with a view to encouraging self-employment. In 2004, the Dutch Government supported the setting up of two Agencies for Local Economic Development, in Vranje and Leskovac, and initiatives coming from other donors to transform existing agencies into regional economic development agencies (Kragujevac) with a different concept of work, started to be implemented.

Numerous institutions - which differ in methods of working and organization and each established on different legal grounds, with different financial resources available and focus of activities (SME development, self-employment, local or regional development) – were set up due to the application of various experiences from donor countries and insufficiently coordinated activities of the public sector. Striving to formally connect these agencies, offices and centers, the Republic SME Agency created a network of institutions providing non-financial support, which those organizations joined (except for the entrepreneurship development centers of the National Employment Service), and the first result was establishment of their mutual communication and exchange of information.

It was clear from the very beginning that donor projects have limited duration and that it was necessary to be ready to continue business activity after the termination of foreign assistance. The Government at the time did not formulate a ‘post-donation’ strategy. Directions of further development of those institutions were not clearly defined, nor were identified the sources of further finance. Since 2004 and the termination of donor projects through which RA/C were financed, donors, as expected, either completely suspended or significantly reduced financial assistance to those institutions. It was necessary that the Government, in collaboration with local self-management and other founders, provides new and solid concept of funding for RA/C so that they would not cease to operate after donations had been suspended, or be forced to change their core activity for the sake of survival.

Projects envisaged RA/C to be sustainable after the withdrawal of donor assistance, and that with the support of founders, primarily the state and local self-government, funding for their operations would be provided through various programs and projects, but also from profit made on the market. International experiences and results which RA/C have achieved so far clearly demonstrate that they are not able to make significant contribution to covering their own expenses. Modern concept of delivering non-financial services chosen by donors when the agencies were established assumes the existence of development programs funded by the state or the European Union (for EU member states), which the RA/C could get involved in and make profit. This is important because they can cover small portion of their expenditures out of the fees they charge clients for their services.

Based on the assessment made by the Government of that time, most of RA/C were founded as limited liability companies in order to enable efficient partner participation of the Government and other organizations (local self-government, chambers of commerce, NGOs, banks, etc). Nevertheless, formal partnership of a

large number of participants in the establishment of RA/C created extensive and inefficient management bodies, and it failed to awaken interest of the majority of founders in the operation of RA/C. With the exception of local self-government which provides office space, most of the founders are not ready or able to contribute either financially or in another way to the operation of those centers.

In the following period, at national level, the existing institutional SMEE support infrastructure needs to be strengthened, as well as the method of implementation of the services for SMEE operations development through this infrastructure.

The following sources of income for funding PA/C can be identified:

- Budget of the Serbian Republic for *certain standard services and for development programs implementation*;
- Income generated from *transfer of public authority*, first of all in registration of business entities;
- Local self-government budgets for *certain standard services and for the implementation of local development projects*;
- Income generated from *implementation of donor projects*
- Income generated on the market through providing services.

In the transition period, financial support from the budget of the Republic of Serbia should be based on the principle of paying for standard services and selected local projects which would be managed by RA/C. The services should represent a combination of low profit services and services in short supply which are intended directly for clients, services which would be carried out by private local consultants and other local services related to monitoring the situation, needs and problems of SMEE. Financial support program for Regional Centers, apart from the part related to services, should also include some funds which Centers could apply for with their development project proposals prepared in line with local needs. Definition of services and the full program, setting quality standards, professional assistance for capacity building centers and developing capacities of local consultants, and operational management and monitoring of the implementation of this program should be entrusted to the Republic SMEE Development Agency, which would be assisted and monitored by the Ministry of Economy, in accordance with Agency's needs. Bearing in mind current capacities in the Republic SMEE Development Agency and Department for SME Development within in the Ministry of Economy, it is necessary to devote attention first to building their capacity and use donor assistance for the implementation of activities which have been set out.

In this national support program, other founders should also get more involved together with the Ministry of Economy and Republic SMEE Agency, first of all, local self-governments in order to strengthen partnerships between private, public and NGO sectors, and other stakeholders. Local self-governments should base their contribution on providing office space and delegating implementation of some projects of local importance to Regional Centers (such as Preparing Local Economic Development Strategy, establishing industrial zones, establishing and managing incubators, etc). RA/C should provide professional assistance in local environment in the form of various local development activities and initiatives, including local donor projects.

Although problem with funding is the result of the current situation, it opens a wider and more important question of concept of work, development and coordination of institutions for support to SMEE development and /or local and regional economic

development which must be dealt with simultaneously. Scope and types of responsibilities, staff and financial resources, connection with certain agencies and institutions at national and local level, and the entire concept of work differs depending on whether the agencies are established as regional or local, and whether they are intended to provide support for general development, economic development, SMEE development or for self-employment. The solution to this problem is connected with the concept of future territorial organization of the country, and with responsibilities at certain levels of authority. In conformity with the current situation, it is realistic to have local economic development agencies along with the Republic Agency for SMEE Development, which would partly support SMEE development, although it is important to avoid wasting resources by duplicating institutions on a single territory. Nevertheless, taking into consideration regional economic development concept which is dominant in the European Union and toward which different funds are adapted, which will be available to our country in the process of accession, it is realistic to envisage adoption of this concept and establishment of regional development agencies. It is necessary to design the system of programming economic development and the system of institutions which will serve as layers in this process.

b) *Development support measures*

Within the period 2005-2007, with a view to building institutions for support to SMEE development and developing non-financial services, the following measures should be taken:

- It is necessary to increase capacities of the Ministry of Economy and the Republic Agency for SMEE Development and provide substantial resources for their operation;
- Ministry of Economy, with the assistance of the Republic Agency for SMEE Development, should take on from donor organizations a leading role in further shaping, extending the network, promoting and financing the system of institutions and services for non-financial support to SMEE development;
- Ministry of Economy and the Republic Agency for SMEE Development should get involved so as to raise awareness about the importance of local initiative for SME and private sector development. The first aim should be to encourage other founders, but above all, local self-government, in order to get them involved in a systematical way into supporting the work of RA/C;
- In the next development phase, financial support to regional agencies and centers should be based on the implementation of a set of agreed standard services and selected local developmental projects, in close collaboration between the Ministry of Economy, Republic SMEE Agency and local self-government;
- In collaboration of the Ministry of Economy and Republic Agency for SMEE Development with Business Registers Agency, define and implement the model for integrating RA/C network into the system of business entities register;
- In medium-term period, the Ministry of Economy, in collaboration with other line ministries, should formulate a new concept of monitoring and

- projecting economic development and the system of development institutions at all levels, which would encourage SMEE development, in line with the EU experience and the situation and needs at national level;
- Through the network of regional agencies and centers, optimum financial and non-financial support to SMEE sector should be established;
 - It is necessary to create conditions for extending the range of necessary consultancy services through partnership between national RA/C network and private and NGO sectors. For that purpose, it is necessary to establish a long term Voucher System Project in order to provide entrepreneurs with subsidized fees for consultancy services related to various areas of business;
 - It is essential to create regulatory conditions for the implementation of projects which involve establishment of industrial zones and parks, business incubators, and establish partnerships between republic authorities, local self-government and private sector,
 - It is essential to continue the implementation of projects on developing business cooperation of SMEE within the market of Southeastern Europe;
 - It is necessary to provide conditions for a more substantial involvement of national consulting companies in the preparation of and writing relevant studies, especially in the area of Renewable Energy Sources and Energy Efficiency Program;
 - Through coordination of relevant institutions, it is necessary to create conditions to unify export potential of SMEE. For the purpose of faster development of export oriented SMEE sector, it is necessary to support clusters development and subcontracting business cooperation. Also, legal regulation and administrative procedures should be simplified, and stimulation in exporting of SMEE should be provided.

3.4. Finance and Financial Measures to Support SMEE Development

The state financial support to the SME sector, according to traditional approach, was based on direct provision of resources for loans allocated through banks from the public sector or through private banks. Subsidized interest rates and guarantee schemes have also been frequently utilized in the traditional approach. More or less, all these instruments are still present in large number of countries, and often, the state manages these instruments in a centralized way, through one development bank in public sector.¹

Common disadvantage of the instruments of such approach is that they do not achieve long term sustainable results because they do not contribute to resolving basic problems - which increase the cost of loans and reduce interest for the allocation of bank loans to this sector – high risks and transaction costs (actual or fictitious) related to commercial lending to small enterprises. Direct state subsidies in this area have

¹ In addition, SMEs can, on the basis of different development programs, apply for earmarked grants (non-repayable grants), awarded by organizations that are involved in implementation of specific programs, and therefore, they are not identified as direct financial support measures.

negative effects on the development of sustainable, private financial institutions aimed at SMEE.

Market oriented concept to improve access of SMEE to capital is directed to reducing risks and costs of transactions, capacity building of financial institutions to handle smaller clients, as well as to increasing competition on financial markets. The purpose of such approach is to increase the number of financial institutions in favor of lending to small and new enterprises. Elements of this strategy include:

- Lower barriers to financial market access, and review the census for banks and other financial institutions targeting small clients;
- Reduce risks of lending to small enterprises through quality laws which ensure efficient payment of loans and utilization of various types of securities;
- Create legislative and regulatory basis and promote development of innovative financial institutions and instruments, including risk capital funds, business angels and leasing;
- Stimulate application of technological innovation in the procedure of allocation of loans to SMEE and monitoring of repayment of loans;
- Training for financial institutions on the introduction of new methodologies for the assessment of their credit worthiness adjusted to this sector, such as how to use credit scoring techniques;
- Improve information on credit worthiness of potential debtors, e.g. by promoting the establishment of loan bureaus, and
- Provide assistance to small and new enterprises to prepare for operating with banks and writing business plans and financial projections.

a) *Measures undertaken and current situation*

Just like in other countries, entrepreneurs in Serbia always stress shortage of loans and unfavorable conditions for lending as the main problem which hinders development of small and medium-sized enterprises. However, as opposed to developed countries, in Serbia there are additional impeding conditions which affect small availability and unfavorable finance conditions burdening SMEE sector.

Finance through lending is still the only way to finance SMEE sector development because in our country there are still no investment funds, risk capital funds and business angels which would invest capital in individual enterprises in the SME sector. Apart from everything else, the problem is also incomplete legal regulation in this area.

In the situation of underdeveloped competition on the banking market and relatively low level of savings, the largest number of banks does not show particular interest in financing small enterprises, especially those which are in their initial stage of development. Available resources mainly come through donations and foreign credit lines and are often insufficient, while loans from domestic banks' own resources are scarce, generally short-term and are allocated under unfavorable terms.

Major problems related to finance for SMEE sector are as follows:

- (1) Lack of long term sources of finance that could satisfy the requirements of SMEE sector for long-term investment loans;
- (2) Problem with security instruments:
 - (a) Lack of security instruments, primarily immovable property,

- (b) Mortgage cannot be used because of unregistered facilities and confusion in land registers,
- (c) High taxes for the verification of decisions on pledges on movable and immovable property;
- (3) Lengthy procedures of debt enforcement (slow executive procedure);
- (4) Unrealistic balance sheets and accounting statements of enterprises which significantly underestimate outputs and potentials of SMEs;
- (5) Lack of understanding of the importance of business development planning, writing business plans, investment studies and preparation of documentation necessary for applying for loans and as a consequence the quality is poorer and preparation of documents lengthy;
- (6) One part of the regulation of NBS which limits possibilities of banks to approve loans to SMEs; and
- (7) Absence of a register of loan borrowers containing their credit history.

A particular problem when providing loans for SMEs are security instruments. Due to the great risk and lengthy procedure of debt recovery, banks often request security instruments which would be worth three or four times more than the amount of loan claimed. On the other hand, entrepreneurs have modest security instruments, prices of immovable property in small towns are very low, and confusion in land registers in the most of Serbia limit utilization of mortgage even on legally built premises. Positive progress is made by enacting the law, in 2003, allowing for the use of financial leasing and pledges on movable property, preparing the law on mortgages and starting work on sorting out the land registers.

National banks lack experience and methodology in work with small clients and new enterprises. Simultaneously, national entrepreneurs often lack necessary knowledge and experience to present their business ideas in the form of a business plan so that they could apply for a loan. Because of that, preparation of a request for a loan lasts a long time and is quite costly since entrepreneurs have to engage and pay external consultants.

Entrepreneurs who are just starting their business operations have the biggest problems to provide necessary financial resources. Financial system for support to new entrepreneurs does not exist outside restricted activities of the National Employment Service. In Serbia, contrary to other developing countries, regulations do not define the activity of micro-financial institutions that operate outside banking system allocating small loans to micro-enterprises for the purpose of support to self-employment. Although financial resources provided by these institutions cost much more, the procedure and amount of time necessary for their approval are adapted to the needs of entrepreneurs, hence are an acceptable alternative for certain entrepreneurs.

It is encouraging, though, that after the first positive experiences, international financial institutions, such as European Investment Bank, increasingly show interest in the placement of their credit lines. Main foreign sources of credit lines for SMEs at this point include:

- Revolving Credit Fund of the EAR with the initial value of 15 million EURO, with current revolving of over 9 million EURO, awarded as a grant from the EU through the EAR and administrated by the National Bank of Serbia (including Zepter Bank, Eksim Bank, Cacak Bank, Novosadska Bank, Commercial Bank);

- The Apex Global Loan of the European Investment Bank with a value of 20 mil EURO plus the second tranche of 40 mil EURO which is being prepared, also administered by the National Bank of Serbia;
- European Fund for Serbia, with a value of over 24 mil EURO, administered by KfW (Zepter Bank, Eksim Bank, Commercial Bank and Kulska Bank are also included);
- Italian government approved a credit line amounting over 33 mil EURO.

Financial assistance provided by the government for development of business activity is organized in two directions. Serbian Development Fund and Development Fund for AP Vojvodina approve loans, and the Guarantee Fund provides guarantees for part of the approved loans in commercial banks in cases of good projects for which it is impossible to provide enough security instruments. Nevertheless, lending and guarantees for SME represent only one segment of activities of these institutions, where they do not dispose of special start-up funds, and this is where the biggest difficulties lie. Modest resources for self-employment that can be used as initial capital are approved by the National Employment Service.

In 2005, the Government procured a micro-credit line amounting to 600 mil Dinars for physical persons – new entrepreneurs, in order to provide better support to self-employment and entrepreneurship in Serbia. Serbian Development Fund will manage these funds.

ProCredit (Microfinance) Bank and Opportunity International Savings Bank, both established with foreign capital, are the first institutions in the private sector specialized for approving loans especially to SME sector.

The Fund for Development of AP Vojvodina whose status has not yet been fully defined is a relatively new initiative for the financial support to development of agriculture and entrepreneurship at the provincial level. Although there are initiatives of certain local self-governments to use resources from privatization and donor assistance for the establishment of regional development and guarantee funds, the engagement of local authorities in the financial assistance for development of entrepreneurship on their territory is not regulated by law.

b) *Development support measures*

In conformity with contemporary international experience, intervention of the government in the area of finance and financial support to SME development in the upcoming period should be based on the market principles. The Republic SME Agency and the network of Regional Agencies and Centers should monitor signals from the market through regular contacts with entrepreneurs and financial institutions in order to clearly locate problems and suggest solutions thereof.

Main direction should be further work on creating regulation for a faster growth of the financial market. With regard to regulatory barriers, it is necessary to review and, where possible, lower the criteria for entry into the financial market, and review the possibility to lower the census for establishing financial institutions in the area of financing SME. It should be considered to amend regulation in order to make use of the interest in the area of micro-finance and engagement of local self-government and donors in order to start local financial schemes in support to entrepreneurship. It is necessary to define legal framework to establish and enable operation of investment funds, risk capital funds and the work of business angels, and

consider the possibility of the share of government capital in the establishment of the first institution of such kind.

The problem of security instruments requires continued work on sorting out the situation in the land registers, legalization of facilities and further development of efficient procedures and promotion of leasing and pledge on movable property, for which conditions are created. In relation to this problem, it is necessary to finish working on the Law on Mortgage and provide efficient operations of the Guarantee Fund.

It is particularly important to stimulate application of technological innovation in the procedure of considering requests and approving credit lines, and in monitoring repayment of loans by SMEE.

Part of non-financial support to SMEE should be directed toward introducing entrepreneurs with the procedures and operating rules of financial institutions, available resources and conditions of finance, acquiring knowledge necessary for preparation of business plans and financial projections in conformity with requirements from banks, etc. Gradual harmonization of laws should be provided related to methodology of writing business plans which certain financial institutions require, and of regular reporting on available resources, as well as terms of lending to SMEE.

The Ministry of Economy, in cooperation with the Ministry of International Economic Relations, Ministry of Finance and NBS, should get engaged in providing additional sources of capital to finance SMEE sector from international financial institutions, primarily the European Investment Bank and European Bank for Reconstruction and Development, but also through bilateral lending arrangements, considering growing interest and possibilities. Experience and developed capacity to manage such projects make the Department of the National Bank of Serbia for managing revolving fund qualified to continue to perform this function until conditions are created to turn this function into a new financial institution.

It should be continued with directing direct government intervention through the reformed Fund for Development of the Republic of Serbia in order to satisfy the most urgent needs of the private sector, such as provision of investment loans for start-up capital and lending to economic activities in underdeveloped regions.

In medium-term, efforts should be made to incorporate various financial support instruments in a future developmental financial institution through which the government financial incentives should be carried out. Care should always be taken to prevent drop of interest in the development of market-based private initiative in the area of finance for SMEE. Implementation of specific instruments which would be managed by the developmental financial institution intended for that purpose, should more and more be carried out through private commercial banks and under conditions close to market ones.

Optimum financial assistance model in the medium-term should be based on the combination of classic direct government instruments with market-oriented measures. Financial assistance to establishment and entry of start-ups should be supported by direct government instruments through the establishment and operations of the Start-up Fund, while financial support to growth and development of SMEE should be based on market-oriented measures through development of financial markets (besides banking sector and other financial institutions, such as private investment funds, venture capital networks, loan guarantee schemes, etc.).

In order to improve finance and financial measures of support to SMEE development, the following needs to take place:

- Provide conditions and establish mechanisms for financial support to new entrepreneurs. Also, establish the Start-up Fund, with the Ministry of Finance, Ministry of Economy and Ministry of Labour, Employment and Social Affairs as its founders. Also, provide a legal framework for the establishment and operation of micro-credit organizations;
- Establish Start-up Fund for activities of small consulting firms providing services in energy efficiency and new and renewable energy sources programs;
- Accelerate the work on the creation of conditions and removal of barriers for a faster development of financial markets, including the introduction of new financial instruments, strengthening competition on the banking market and establishment of specific institutions for financing SMEE, such as private investment funds;
- Continue endeavors to resolve problems regarding security instruments and reduce risk in financing SMEE through the formulation of legal regulation for the creation and operation of local and mutual loan guarantee schemes, and in conformity with that, transform and develop the Guarantee Fund. Also, it is essential to promote the situation in the Land Register and Cadastre;
- The Ministry of Economy and other line ministries need to get engaged in providing long term and favorable lending arrangements for SMEE through international financial institutions, and also through bilateral arrangements;
- Direct government intervention should be limited to most evident needs being careful not to stifle the interest in the development of market-based private initiative in the area of finance for SMEE;
- Within the medium term, within the future Serbian Development Bank, the management of different financial support measures should be unified. The preparation of the program should be the responsibility of line ministries and agencies, and private business banks should be involved in the implementation of specific programs;
- Link more firmly and coordinate financial and non-financial assistance for SMEE, and direct a part of the non-financial support to the preparation of entrepreneurs for conducting business with banks and other financial organizations;
- The Ministry of Economy and the Republic Agency for SMEE Development should be involved more actively in monitoring the situation in this area through regular contacts with entrepreneurs and financial institutions so that they would be able to locate problems more clearly and propose adequate solutions.

3.5. Innovation and Application of Modern Technologies for the Support to SMEs

In modern state of business activity long-term economic competitiveness of a country is founded on development and application of innovation, and on the continual improvement and creation of new products, services and processes. Main, but not the only, driver of innovation is technical and technological progress, which in the last years has been most evident in the area of information and communication technologies. In order to create conditions so that Serbia could catch up on development of knowledge-based competitive economy, it is necessary to prepare National Innovation Strategy that will support innovation development, application of innovation in economy, closer links between businesses and science and research organizations in the area of innovation and their involvement in world trends in this field. This is an important task on which collaboration is required of line ministries – of Science, Technology and Economy, but also Education, Human Resources Development and all other relevant stakeholders.

Small and medium-sized enterprises should be a significant part of innovation system of the country. However, in recent years, many small and medium-sized enterprises in Serbia have had to struggle for their survival on the market and have not had resources to invest in innovation. Therefore, the importance of innovation for their competitiveness is much greater and the support needs to be provided in:

- Raising awareness about the importance of innovation for competitiveness of enterprises;
- Being introduced to new technological achievements and modern concept of business;
- Introducing new equipment, technological processes, products;
- Introducing modern production and quality management, with certification in conformity with international standards (ISO, HASSAP and the like.);
- Connecting with partners who can facilitate access to new technologies, including technology transfer through purchase of licenses, franchises, and joint investments;
- Applying modern information technology in business operation;
- Developing new products and services, patent protection, trade mark protection and other forms of protection.

Special attention and support needs to be drawn to potentially highly innovative small and medium-sized enterprises in areas which are developing fast, such as software industry.

Recognizing the important role which SMEs need to play in the innovative system in Serbia, speaking long-term, within development of the National Innovation System, it is necessary to create enabling conditions that facilitate development and application of innovation in SMEs through:

- Improving the capacity of SMEs to develop and apply innovation by facilitating employment and training of competent staff in SMEs, promoting innovation culture and awareness about the importance of innovation, facilitating access to information about markets and new technologies and provide assistance in connecting enterprises with education and science and technology systems;

- Facilitating finance for innovation activities in SMEE through development of market funding mechanisms based on equity financing and associated services, especially for innovative businesses in the start-up stage, risk sharing programs in development and application of innovation stage (such as financial support and tax incentives for investments in research and development), supporting initiatives for building partnerships among entrepreneurs, development agencies, financiers, etc;
- Facilitating access of SMEE to national and international research and development support programs and participating in international innovation networks.

Special form of innovation is also introduction and greater utilization of modern information and communication technologies and electronic business in SMEE. Hence, it is necessary to raise awareness among SMEE about the possibilities and benefits from application of information technologies and Internet in business operation, but first of all, enabling conditions need to be created for functioning and development of e-business. Wider utilization of electronic business in SMEE can be supported through encouraging initiatives for training in this area, demonstration of new solutions and implementation of pilot projects in the area of application of information and communication technology.

Transition process in Serbia, existence of a large number of small and medium-sized enterprises with increased interest in mutual connections and cooperation with business partners from other countries, especially among the republics of former SFRY on the one hand, and absence of comprehensive data base on SMEE operation on the other, initiated the need to form *Serbian Business Cooperation Network – SBCN*. SBCN is part of an international project called “*Entrepreneurship and SME development in Southeastern Europe*” within *Stability Pact for South-Eastern Europe*. Main idea of establishing the SBCN Network is to enable and facilitate access of enterprises from Serbia to national and international markets and collaborate with national and international partners. The objective is to ensure more efficient business activity through cooperation among enterprises, combination of their capacities, resources and business interests.

In this context, SBCN Network needs to provide information basis about Serbian entrepreneurs (provision of basic data, exchange of information and preparation of business and administrative support services).

Serbian Business Cooperation Network operates within the Republic Development Bureau in Belgrade. SBCN is part of BCN (Business Co-operation Network) which comprise, besides a center in Serbia, centers in Slovenia, Bosnia and Herzegovina, Macedonia, Montenegro and Kosovo and Metohija. Developing and inter-relating these centers enables exchange of business information at local, regional, national and international level, insight into existing systems and entrepreneurship promotion policy, and establishment of business relations for different purchase and sale operations, joint investments, franchise and license operation and purchase of enterprises in the process of privatization.

SBCN Project Implementation incorporates several subprojects:

- Establishment of SBCN enterprise base;
- Organization of fair trades and business meetings among entrepreneurs;
- Organization of seminars and different education programs for entrepreneurs;
- "Twinning Program".

a) Measures undertaken and current situation

Based on the study “Potentials for Developing and Building Capacity of Serbian SMEE for a Digital Age” and a conference held on this theme in 2004, the biggest problems that slow down development in this area were identified as follows: telecommunications infrastructure in Serbia that do not have capacities to meet the needs of a competitive and advanced economy and inadequate legal environment for conducting electronic business. Recommendations from that study were that Serbia needs to adopt stimulative measures in compliance with various EU initiatives in this area: E-Europe, GoDigital and e-Europe+ (for member countries and new member countries).

In the second half of 2003, the Republic SMEE Agency started to carry out the first activities in support of innovation in SMEE by getting started electronic exchange of supply and demand of science and research results accomplished by national science and research institutions. Pilot project “Innovation Vouchers” was designed, and it consisted of providing four days long consultations for SMEE free of charge in one of the relevant science and research organizations in Serbia. Also, two workshops were organized in order to promote the importance of innovation: Innovation and Competitiveness of SMEE in Serbia, and Innovation and Technologies for SMEE.

Special forms of support in the area of innovation have been envisaged bearing in mind that it is recognized as the key factor to developing knowledge-based economy and as main source of competitiveness, and it is in line with the need to develop the National Innovation System in the Serbian Republic as soon as possible, within the Support to Enterprise Development and Entrepreneurship Program funded by the European Union through CARDS Program for 2004.

Application of modern information and communication technologies and e-business in Serbia has developed to date without much support by the state. With international donor assistance, organizations have been created which provide services for SMEE related to business connections, finding business partners, and access to information through electronic networks whose members they are, such as EICC, BSN and GTN. Internet presentations of the Republic SMEE Agency and RA/C enable SMEE easy and fast access to information on overall economic ambiance, legal business framework, available sources of finance, as well as information on services provided by those institutions (training programs, consultations, consulting, etc.) Development of e-banking and also introduction of cash registers which are adapted to fiscal requirements also stimulates increase in the application of information and communication technologies in business.

Numerous benefits from the application of modern technologies can follow from using Internet to speed up and facilitate communication between citizens and economy, including SME sector, and public services, through the implementation of E-government principle.

One of the priority tasks of the Government was to create “computer society” and it initiated the Republic Information System Development Program, and the Republic Institute for Computer Science and Internet is to have the main responsibility for the implementation of the program. However, it is still too early to talk about the results and systematic approach to introducing e-government into public administration. Significant barriers here are incomplete legal regulation for electronic business and underdeveloped telecommunications infrastructure, partly because of the existing monopoly on this market. Under these circumstances, possibilities for on line

communication between small enterprises and public administration are very limited and most often they are reduced to obtaining information from web sites and asking questions via e-mail. At the level of local self-government, there are positive examples from the introduction of e-government, where citizens are able to find out where responsible offices and services are situated, find and read certain regulations and procedures and submit on-line requests for receiving certain identity papers (birth certificate, citizenship certificate), and receive those documents at their home address.

b) *Development support measures*

In the following period the following measures and activities need to be undertaken in order to increase significance of innovation and application of modern technologies:

- In order to create conditions so that our country could catch up with development of competitive knowledge-based economy, it is necessary to develop National Innovation Strategy, where SMEE should take an important place;
- First steps in support of innovation application in SMEE should focus on raising awareness on the importance of innovation for competitiveness of enterprises, introduction to new technological achievements and modern business concepts, assistance for modernization of production and introduction of quality management system, certification according to international standards, connecting with partners which could facilitate access to new technologies, application of contemporary information technologies and development and legal protection of rights on new products and services;
- Special attention and support needs to be given to potentially highly innovative small and medium-sized enterprises in areas which are developing fast, such as software industry;
- Specific form of innovation is also introduction and greater application of modern information and communication technologies and e-business in SMEE, and for that to happen, it is necessary to create legal and other conditions for development in this area and support their popularization and application in SMEE through setting up a special entry within Internet presentation of the Agency for SMEE Development and other relevant programs;
- Great benefit for SMEE is exploiting Internet possibilities to implement e-government principle, which would accelerate and simplify their communication with public services.

3.6. Donors and Development Assistance

Collaboration with international donors on development activities is very important for the countries undergoing transition for the reason it provides knowledge transfer and also financial assistance for the implementation of specific programs and projects. In order to use donor assistance as best as possible, it is necessary to make adequate preparation and consider realistically the possible contributions by donors. Basic rule should be, at this stage, to use donor assistance for carrying out significant

reforms in certain areas (e.g. preparation of new regulations), for laying the foundation for new institutions and systems and for implementation of pilot projects.

a) Measures undertaken and current situation

Recognizing strategic interests of our country, our major multilateral donor is the European Union, which funnels the largest part of its assistance through CARDS program. It is realistic to expect that development assistance which is now being implemented through CARDS will over time be modified into the assistance for preparation for the accession to EU. In that sense, it is very important to continue to develop partnership relationships with the European Agency for Reconstruction and endeavor in designing projects in such a way to support systemic reforms in the sense of drawing closer to EU as regards certain areas. Considering the fact that CARDS projects are implemented according to the regulations applicable to provision of EU assistance, government administration staff who are involved in the implementation of those programs gain knowledge which will be helpful in the following stages of the accession process, and when EU assistance management is transferred from the European Agency for Reconstruction to national institutions.

Next important donor, actually lender, is the World Bank which also supports large, systemic reform projects. Therefore, it is important to carefully coordinate activities of these two organizations to avoid overlaps.

Both these institutions are open for cooperation and development of stable and long-term partnership relationships with national institutions, recognizing mutual interests and priorities and respecting internal procedures for implementation of international projects, which is the reason they are relatively rigid. It is very important to know their process of preparation and implementation of development assistance and take active participation. It is a rule that priorities of future involvement of both those institutions are defined in long-term planning documents for each country, based of which annual plans and programs are made.

USAID and German GTZ are also among major donors whose methods of operation are somewhat different, and are characterized by a greater autonomy in project preparation and implementation. Sweden (through SIDA) and Norway are considered as significant and relatively flexible donors, and UK (DFID), Switzerland (SDC) and Dutch Government have supported significant activities in the development of private sector.

Donor assistance can contribute most if it is clearly defined and aimed at the implementation of national goals and strategies. In that way it complements efforts of national institutions in developing certain area. Unfortunately, one of the biggest problems of developing countries, and also the Republic of Serbia, is absence of consistent and long-term stable development plans in some areas.

Major donor in the area of fostering the development of small and medium-sized enterprises is the European Union through CARDS program, within which the following projects have been implemented or launched:

- Program „Non-financial Support to SME Development in Serbia“, worth € 3.6 million, commenced in November 2001 and, after being prolonged, lasted until July 2004. Most important results of this major project in this area are:
 - Establishment and two years long funding for operations of 7 Regional SME Agencies/Centers with 10 Sub-centers (over € 1 million).

Training for RA/C staff and support in their work. Implementation of the Service Support Scheme amounting to over € 110.000 out of which external consultants were funded who held part of their trainings organized by RA/C or provided other services;

- Project Team's assistance to the Ministry of Economy and Privatization and Republic SME Agency in the preparation of SME Development Strategy, starting and monitoring its implementation process, capacity building (trainings), RA/C network coordination, publishing and reporting on the condition of SME sector, etc. Within the support to the Strategy implementation, studies were prepared on statistical monitoring of SME, e-business and SME, SME in tourism, finance for SME sector and taxation system, and also Report on the sub-legal regulation related to SME development;
- Promotional and communication activities focused on the promotion of entrepreneurship (printing materials, visits to Serbian towns, organizing theme workshops, organizing international conference – SME new opportunities in Serbia, and so on);
- Support to establishment and operation of SME Advisory Board, an initiative to institutionalize advocacy of interests and participation of SME in the process of development planning for this area;
- New project in this area commenced in December 2004 and is worth € 4.5 million. Apart from continuing support for development planning in this area, developing institutions and implementation of a pilot program Non-financial Support to SME Development, a very important component of this program relates to development of National Innovation Strategy;
- Formation of EICC
- Other projects are more or less connected to SME development;
 - Export Development Program;
 - TurnAround Management Program;
 - Support Measures Program for human resources development intended for the unemployed and redundant in Serbia;
 - Vocational Education and Training Reform Program;
 - Socio-economic Development Program;
 - New program in the area of employment.

Other donors are also, more or less, active in encouraging SME development or related areas (support to competitiveness development, support to export development, support to regional and local economic development, support to employment and solving redundancy problems, adult education, etc.) and the most important are the following:

- USAID (American International Support Organization):
 - Pilot project on competitiveness and economic efficiency;
 - SEDP project, focused on working with enterprises in wood industry clusters, food industry, fruit and fruit juices industry clusters, etc;
 - Alternative funding and loan mobilization project – capitalization of Opportunity International Savings;

- Within SADA Program which operates at local level, assistance for entrepreneurial activities and entrepreneurial associations were provided, etc;
- GTZ (German organization for technical cooperation):
 - Support to establishment of 2 Regional SMEE Development Agencies, in Subotica and Novi Sad;
 - Project “Promotion of the Private Sector and Employment in Serbia” whose main components are establishment of pilot regional and local development institutions, support for selected textile enterprises, IT/software, tourism and food industries to improve competitiveness and activities on the promotion of private sector (support and cooperation with government bodies, chambers of commerce, agencies, etc).
- Project ENTRANSE, funded by the Government of the Kingdom of Norway, is intended to establish business incubator in Nis and to conduct training program on how to start a business, as well as to build capacities of the Republic SMEE Agency.
- Certain activities are carried out within CEI, Stability Pact, UNDP, SEED and other multilateral organizations, initiatives and programs. Other bilateral donors also had smaller projects or locally situated projects (e.g. SDC-Swiss Development Center supported the establishment of the Regional SMEE Development Center in Novi Pazar, Dutch Government supported, through ILO, the establishment of local economic development agencies in Leskovac and Vranje).

b) *Development support measures*

With a view to promoting donor and development assistance to SMEE, in the next period, it is necessary:

- to achieve consensus and define long term development priorities in certain areas which would serve as a basis for planning donor developmental assistance;
- to build capacities in institutions responsible for SMEE development through education and training of employees to introduce them with procedures about managing EU projects and other donors' projects;
- to pay special attention to and provide resources for developing strong and stable partnership relations with major donors and active involvement in the preparation and implementation of development assistance program, with understanding and recognizing mutual interests and principles of operation;
- to improve coordination and exchange of information on planned and current developmental activities within different government administration bodies and donor organizations and programs;
- to improve the monitoring system for the implementation of developmental assistance in order to create up to date record at national level of donor activities in certain areas (especially in relation to regional and local projects managed by national and international non-government organizations).

4. INSTRUMENTS FOR SUPPORT OF SME DEVELOPMENT

The process of transition which Serbia is currently undergoing is associated with the implementation of so called Second Generation Reforms. The objective of these reforms is to develop existing and build new institutions, and to create preconditions for efficient formulation and implementation of development policies.

Experience gained from implementing SME development policy in the previous period indicates the need for a more operational implementation of SME development policy, with clearly defined responsible implementers, instruments and timeframes, from the national to regional and local levels. Furthermore, in this process, it is necessary to establish partnerships between the Government, public sector, private sector, SME, local self-management and NGO sector.

During the process of recommending and adopting the measures to apply the policy, it is essential to undertake an analysis of effects resulting from the enactment of these measures. The analysis itself of potential effects of the implementation is carried out in several phases:

- Analysis of the current situation with clear identification of problems;
- Definition of goals which need to be achieved;
- Consideration of different options in solving a given problem;
- Consultations with interested parties;
- Definition of arguments in choosing the optimum solution;
- Identification of the impact and positive effects of the recommended solution;
- Analysis of costs of applying the recommended solution.

Furthermore, when choosing the method of policy implementation, it is necessary to identify potential accompanying risks, and ways to remove or reduce them. Pursuant to this, it is necessary to:

- Reach consensus among different institutions within the Government;
- Ensure full commitment of the Ministry of Economy in the implementation of the Support Measures for SME Development;
- Establish dialogue between the Ministry of Economy and other relevant institutions;
- Establish direct dialogue between the Government and the SME sector;
- Provide human resources to implement policy and assess policy effects;
- Provide appropriate financial resources necessary for SME sector development;
- Establish efficient coordination with various donor projects.

In order to implement SME development policy efficiently and reduce the abovementioned risks to a minimum, it is necessary to fill the institutional gaps, and to establish within the Government the necessary instruments for the implementation of SME policy and make them fully functional.

Creation of policy implementation instruments should be carried out in several directions:

- Organize efficient structures within the Government, including formation of inter-ministerial SME Council and Working Groups for the implementation of certain policies;
- Form the SMEE Forum;
- Provide financial resources and identify sources which are necessary to implement policy;
- Provide human resources development and knowledge;
- Cooperate with donors

Establishing the abovementioned instruments will create an efficient system for formulation and implementation of SMEE development policy, which will contribute to a more rapid change in the environment in which SMEE operate.

Pace of SMEE policy implementation is conditioned by necessary human and financial resources. Direct implementation of the Measure Program will be carried out through annual action plans by identification of SMEE policy priorities with provision of necessary resources for the implementation.

4.1. Government Structure for SMEE Policy Formulation and Implementation

The Ministry of Economy is responsible for the creation and implementation of SMEE policy. The Republic SMEE Development Agency, pursuant to the law, takes part in the preparation of SMEE policy and in its direct implementation. Concurrently, pursuant to the Law on the Republic Agency, the Ministry of Economy is responsible to monitor the activity of the Republic Agency. However, taking into consideration the breadth and significance of SMEE development policy, it proved necessary to ensure efficient cooperation between other ministries and government institutions and organizations through the activity of the Government's SMEE Council.

Such inter-ministerial body would be responsible for the process of SMEE policy implementation, and for defining measures and activities, financial and human resources necessary for policy implementation. The Council would appoint Working Groups that would be responsible for more efficient policy implementation in some areas. It is necessary to provide representative members from all relevant institutions both in this body and in working groups.

At the beginning of inter-ministerial SMEE Council operations it is necessary to clearly identify and provide financial resources and logistic support for efficient operation. The Council would develop close cooperation with other coordination bodies, in particular with the Regulatory Reform Council, with newly formed bodies which would advocate for interests of the SMEE sector, and also with certain donor projects.

4.2. Establishment of SMEE Forum

Establishment of SMEE Forum is extremely important for the creation and implementation of optimum support policy for SMEE development. The Forum would consist of representative members from this sector and its responsibility would be to identify barriers to SMEE business activity and give recommendations for their removal. The Forum would be directly connected with the Ministry of Economy. In

addition, Forum representatives would take part in the work of inter-ministerial SMEE Council and also in Working Groups. This would enable the interests of the SMEE sector to be represented in a more efficient way in the process of creation and implementation of SMEE development policy.

4.3. Identification of Sources and Provision of Necessary Financial Resources for Policy Implementation

In the following period, interventions of the state in the area of finance and financial stimulation for SMEE development should be as much as possible based on market principles. However, strong contribution and clearly demonstrated commitment of the Government to the policy of support to SMEE development, as one of the main levers of economic development of Serbia, needs to be confirmed by identifying and earmarking special resources in the Budget of the Republic of Serbia. This particularly relates to the resources which necessarily need to be provided for:

- Financing the network of regional agencies and centers;
- Establishment of Start-up Fund;
- Establishment and financing of the SMEE Forum activities and SMEE Council;
- Financing specific SMEE development projects;
- Establishment of the programmatic revolving funds.

Annex to the Plan sets approximate projection of timeframes for completion and financial resources amounting to about €150 million for the implementation of SMEE development policy. Through the process of identification and creation of the Budget of the Republic of Serbia and the preparation of annual Action Plans for the implementation of the Plan for Stimulating the SMEE Development, priorities will be set and quantification of necessary resources made, and finally, sources will be identified for their implementation

Also, the processes of Plan management and implementation require additional human resources and knowledge, with estimated administrative costs thereof amounting to €1.5 million.

4.4. Human Resource Development

With a view to forming an efficient system of creation and implementation of SMEE development policy, it is necessary to provide substantial human resources. Management and implementation of this program requires provision of additional human resources and specialized knowledge.

Primarily, this relates to the provision of staff which is lacking in the existing institutional infrastructure, in the Ministry of Economy and the Republic SMEE Agency. Nevertheless, it is necessary to establish capacities, with appropriate human resources, for monitoring SMEE sector in other ministries and institutions as well. Due to a constant need to achieve higher-level efficiency of employees in SMEE, it is necessary to provide high quality training and specific capacity development projects.

4.5. Donor Cooperation Development

Recognizing strategic development interests of our country, and needs of SMEE sector, the resources from the Sector itself need to be targeted at its development. Donor support is very important for the implementation of efficient SMEE development policy.

For that purpose, it is essential to continue developing partnership relations with donors and insist on designing projects in such a way to support the systemic reforms in drawing closer to the European Union. Moreover, it is necessary to provide a significantly efficient coordination of different donor projects in order to ensure full efficiency and accomplish expected results.

