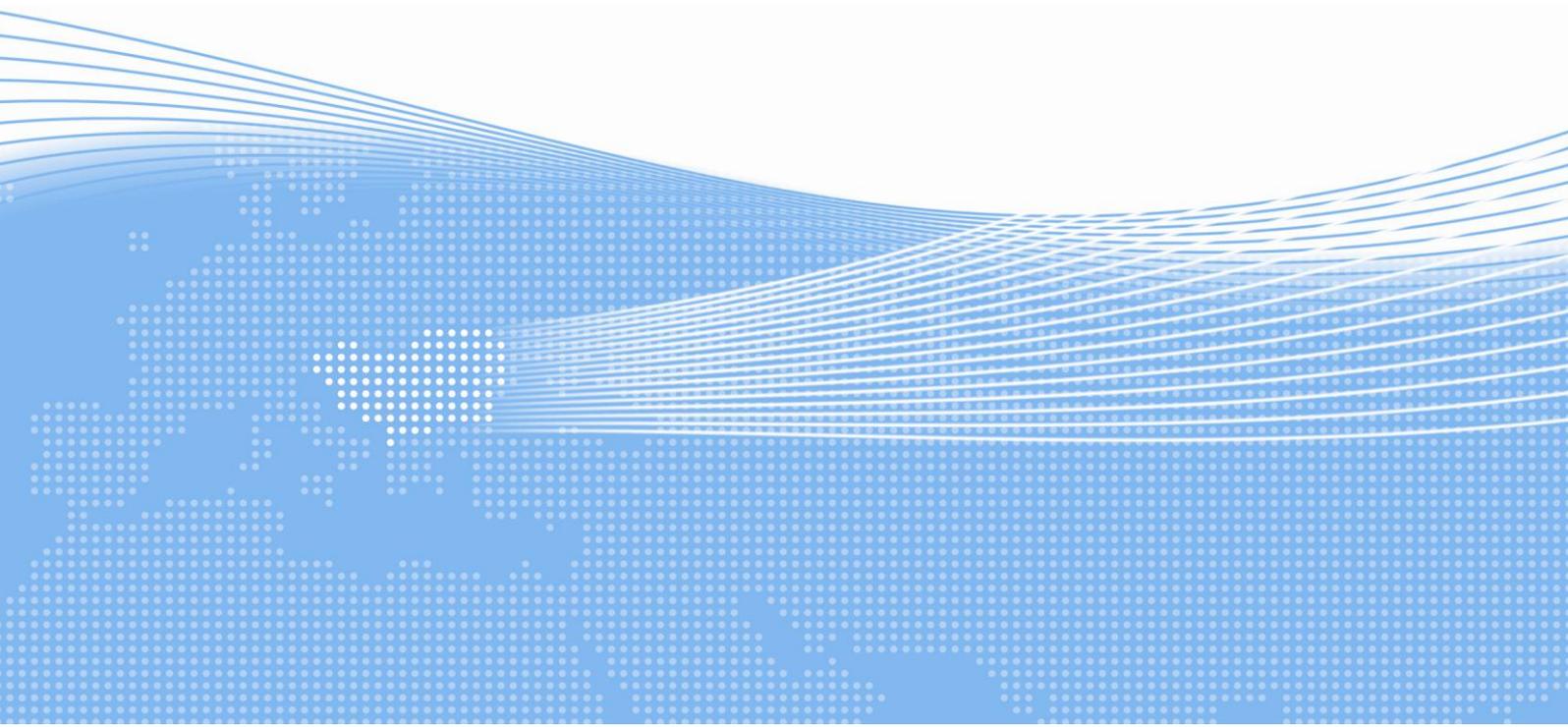




# National and Regional Small and Medium- Sized Enterprise Policy Linkage in Serbia

OECD INVESTMENT COMPACT FOR  
SOUTH EAST EUROPE IN CO-OPERATION WITH THE OECD  
LOCAL ECONOMIC AND EMPLOYMENT DEVELOPMENT  
(LEED) PROGRAMME





# **National and Regional Small and Medium-Sized Enterprise Policy Linkage in Serbia**

2010



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The views expressed in this report are those of the OECD IC and LEED project team only, and do not in any way reflect the position of any of the partners involved in this project, this includes the MoERD and the regional development agencies in Banat and Zlatibor.

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## ABBREVIATIONS

BDS	Business Development Services
CBC	Cross Border Cooperation
CET	Continued Educational Training
DF	Development Fund of Serbia
EIB	European Investment Bank
EFTA	European Free Trade Association
EBRD	European Bank for Reconstruction and Development
ESPI	Economic and Social Policy Institute
EU	European Union
IRI	Investment Reform Index
IPA	Instrument for Pre-Accession
LED	Local Economic Development Units
OECD-LEED	Organisation for Economic Cooperation and Development's Local Economic and Employment Development Programme at the Trento Centre
MoERD	Ministry of Economy and Regional Development of Serbia
NIP	National Investment Plan for Serbia
NUTS	Nomenclature of Units for Territorial Statistics
OECD-IC	Organisation for Economic Cooperation and Development Investment Compact for South East Europe
PPC	Public Private Consultations
RASMEE	Republican Agency for Small and Medium-Sized Enterprises and Entrepreneurs
R&D	Research and Development
RD	Regional Development
RDA	Regional Development Agency
SIEPA	Serbian Investment and Export Promotion Agency
SME	Small and Medium-sized Enterprises
SMECA	Serbia and Montenegro Export Credit Agency
SSPI	Subnational SME Policy Index
VET	Vocational and Educational Training

## KEY FINDINGS AND RECOMMENDATIONS

The importance of entrepreneurship, small and medium sized enterprises (SMEs) and innovation to economic growth and job creation is recognised by all Organisation for Economic Cooperation and Development (OECD) members. Particularly, it is well documented that the SME sector is the largest provider of employment in most countries, especially for new jobs. On average across the OECD area, SMEs represent a major share of all firms (99%), all employment (approximately two-thirds) and all value added (over one-half) (OECD, 2010)<sup>1</sup>.

The OECD works closely with member and non-member countries both at national and at local level to develop policies aimed at strengthening entrepreneurship, SMEs and innovation. The presence of a local component in such policies makes the intervention often more effective, by enabling them to provide more targeted responses in relation to different realities on the ground. The OECD Investment Compact for South East Europe (OECD-IC) in cooperation with the OECD Local Economic and Employment Development (OECD-LEED) programme have begun piloting a new analytic tool called the Sub-national SME Policy Index (SSPI) to assess gaps between national SME policy and programmes and activities implemented at the sub-national level.

The OECD IC and LEED programme undertook the “National and Regional Small and Medium-sized Enterprise (SME) Policy Linkage in Serbia” project to examine policies supporting SMEs at the national and sub-national level in Serbia. As this is a pilot project, the OECD (IC-LEED) did not cover the entire territory of Serbia but rather two regions: Banat (in the northern province of Vojvodina) and Zlatibor district in the south-west. The choice of the two regions came as a result of consultations between the OECD (IC-LEED) and the Serbian Ministry of Economy and Regional Development (MoERD). It was decided that one region should be in relative proximity to Belgrade (i.e., Banat) while the other would be located farther away (i.e., Zlatibor). An additional consideration was that each region had established development agencies with staff that could work alongside the OECD. The project identifies key barriers to SME development in these regions and explores the relationship between central government policy and actions supporting SME development at the local level.

The recommendations developed in this report are of two types: I) general SME policy orientation; and II) issues arising from first application of the OECD IC-LEED analytical tool – the SSPI - to measure gaps between national and sub-national SME policy development and programmes. Recommendations linked to the first type focus on general issues arising from financial support for SMEs in Serbia. Recommendations of the second type are based on an analysis of gaps between SME policies found at the national level and those implemented in the regions covered by this project.

In addition, the results of this project serve as the OECD (IC-LEED) contribution to the discussion surrounding the implementation of the new *Law on Regional Development* (No. 51-2009) in Serbia, which will have implications for future SME policy in Serbia. The law envisages the establishment of several statistical regions in Serbia, each composed of one or more

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<sup>1</sup> OECD (forthcoming), SME, Entrepreneurship and Innovation, OECD, Paris.

districts<sup>2</sup>. These new regions are defined as statistical functional territorial units comprised of one or more districts, in accordance with the *Nomenclature of Territorial Units for Statistics* (NUTS) level II. The new law will also see a restructuring of the existing national SME agency into a new “regional development agency” which will have a mandate to develop Serbian SMEs.

## **General SME policy orientation in Serbia**

### ***National issues***

Serbia has a large number of programmes focusing on SME development at national, provincial, and local authority levels. This has the potential to lead to complexity and overlap. With such a large number of programmes and activities, public officials must ensure that financial resources are being used effectively and that administrative costs do not escalate needlessly.

- The OECD (IC-LEED) encourages Serbian public authorities at national and sub-national levels to carefully monitor and evaluate all systems of SME support, especially state aid, to ensure SMEs and entrepreneurs are getting sufficient and effective support. Evaluation is critical to assessing whether SME programmes are having their intended effect.

The existing set of national SME support programmes distributes resources based on national priorities. The end result may be that the resources are going to high performing enterprises with the most potential; however, this system may also contribute to reinforcing national and regional differences.

- The OECD (IC-LEED) encourages policy makers in Serbia to consider how regional differences can be incorporated in national SME schemes in order to support SMEs in less-developed areas in Serbia and ensure they are not left behind.
- The OECD (IC-LEED) encourages the Serbian government to consider whether the existing national system of SME support should introduce corrective measures to help poorer regions or, alternatively, whether elements of regionalisation policy should be introduced in national schemes. This consideration should be informed by public-private consultations between national officials, local administrations, and SME representatives in all regions.

Although Serbia’s national SME Strategy and Annual Plans represent the overall framework for state support, Serbian SMEs could benefit from clear and consistent targeting of subsidies, consistent with the new regional development law with a two-fold focus.

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<sup>2</sup> Districts in Serbia are defined as statistical functional territorial units, which do not represent administrative units, set at level 3 of the nomenclature of statistical territorial units (NUTS-III). The situation during the last OECD IC-LEED mission to Serbia in late September 2009 was that seven regions composed of existing districts would be formed. However, as of 7 April 2010 the government has proposed amending the law to create five regions.

The OECD (IC-LEED) suggests that this be based on:

- Geographical development: certain regions, sub-regions, municipalities.
- Improving SME functional capabilities: innovation, R&D, export development, technology absorption

Serbia's state-run Development Fund (DF) is a major player in supporting SME development as it provides funds in the form of favourable loans to SMEs in Serbia.

- Given the amount of resources it directs to SME support, the OECD (IC-LEED) encourages the DF to maintain a high degree of transparency and ensure easy public access to information on its programmes, projects, application processes, qualification and evaluation processes.
- Serbia has begun accessing EU funds such as the instrument for pre-accession (IPA) and other resources that could be used for SME development. The DF should consider reviewing its priorities and allocation mechanisms to ensure its resources are allocated in a manner that complements EU financial resources to Serbia. The OECD (IC-LEED) cannot be more precise as these channelling mechanisms and priorities are being defined by the EU for the IPA funding period 2011-2013.

### ***Regional issues***

The available data on SME support indicates that the Banat and Zlatibor regions underperform in terms of drawing-down SME financial support compared with the national average, as well as their share of SMEs and entrepreneurs. Furthermore, the performance of the three districts in the Banat region is highly uneven, both in terms of number of applications made for support and the success rate (i.e., South Banat is much more active and successful than Central and North Banat).

- The OECD (IC-LEED) encourages officials from Central and North Banat and the RDA to assess why SMEs from those areas are underperforming and develop strategies for securing higher levels of financial support for their local SMEs and entrepreneurs.
- To better coordinate donor activities, it is advisable for individual local authorities, or the regional development agencies (RDAs), to develop and maintain databases of project activities, including their impact, strengths and weaknesses. This would enable these authorities to be better positioned to maximise the benefits arising from future financial support.

### **Serbia SME Sub-National Policy Index**

The identification of SME policy barriers in Banat and Zlatibor was undertaken by applying modified versions of the SME Policy Index 2009 and the Investment Reform Index (IRI) 2010. For the purpose of this pilot project, the new assessment tool employed by the OECD (IC-LEED) is referred to as the SME Sub-national Policy Index (SSPI). In conjunction with the SSPI, the OECD-ID relied on focus group discussions with municipal officials and private sector participants located in the two regions to better understand the challenges facing SMEs in Banat and Zlatibor.

On the basis of the SSPI and focus group discussions, the following gaps between national and regional SME policy arose:

**Representation of SME interests.** This dimension is one of the weakest. At the national level, the situation is fairly good (e.g., Serbian Chamber of Commerce operates an SME Forum and on-line consultation tool). However, none of the interlocutors at the regional level were aware of the existence of these mechanisms. The SSPI shows that the situation is far weaker at the municipal and regional levels. The RDAs struggle to involve SMEs in a meaningful manner, though some progress is being made in their latest strategic documents. Whilst recognising the weaknesses of existing SME associations and other representatives of the SME sector, it is essential to ensure effective, two-way consultation between public officials responsible for SME policy and representatives of the SME sector.

In this regard the OECD (IC-LEED) recommends:

- Where possible, officials at the national-level should promote awareness of the SME Forum operated by the Chamber of Commerce and its corresponding on-line consultation tool.
- Where national-level consultative bodies are created for SME policy development, care should be taken to ensure balanced geographical representation by including RDA representatives and local authorities.
- Where new regional consultative structures (i.e., NUTS-II level) for economic development are created by the new Law on Regional Development (e.g., Regional Development Councils), SME representatives should be included. For example, in any such structure a region-specific SME development working group could be established to ensure effective coordination of enterprise-related priorities and perspectives.
- Similarly, where new local authority consultative structures (i.e., NUTS-III level) for economic development are created by the new Law on Regional Development, SME representatives should be included. For example, in any such structures an SME-enterprise development working group could be established to ensure effective coordination of enterprise-related priorities and perspectives. This would assist local-level bodies to feed information and perspectives on local SME issues up to regional-level structures.
- Local authorities should establish mechanisms for regular public private consultations (PPC) with SMEs (e.g. four times per annum) combined with ad hoc meetings on specific strategies, programmes, projects, etc. affecting the business sector. It is only when SMEs see the value of their involvement (e.g. consultation around specific projects) that PPC can become effective.

**SME strategy development.** The existing RDAs in both Banat and Zlatibor have undertaken efforts to develop strategies to support SME development. However, not all local authorities located within these regions have developed their individual SME strategies. A gap, therefore, emerges between what is being developed regionally and what is planned locally.

The OECD (IC-LEED) recommends that:

- Existing RDAs should have the mandate and capacity to implement the SME-related aspects of such strategies more effectively than hitherto as many local authorities simply do not have the resources or expertise to implement SME activities. The importance of this role will grow once the future RDAs are created as foreseen by the new Law on Regional Development. It will be necessary for the existing RDAs in Banat and Zlatibor to act as coordinators and catalysts for projects in support of SME development in their respective regions vis-à-vis the wider spatial area to be covered by the new NUTS II-level statistical regional units.

**Supporting SME access to business services.** Programmes to support SME exports and promotion are performed best at the national level in Serbia, but not so well in the regions covered by this project. The province of Vojvodina offers an additional layer of support to SMEs exporting to the EU. However, this support is limited to SMEs located within the province, such as those in the Banat region. SMEs from Zlatibor, or elsewhere in Serbia, do not have access to this additional form of support.

Neither Banat nor Zlatibor provides training for SMEs to adopt new technology. In addition, there was a lack of activities to promote inter-firm collaboration such as networking. The situation is slightly better in terms of clusters and networks in the Banat region due mainly to support programmes for cluster development offered by the province of Vojvodina.

The existing RDAs in Banat and Zlatibor provide information, signposting and advice, including coaching and mentoring for start-ups and potential SMEs. However, the RDAs are neither designed nor able to provide a more sophisticated level of support in relation to business development services (BDS). In particular, the existing RDAs do not have the capacity to provide sophisticated business services targeted at established and growing SMEs. These services include training, consultancy services, certification of quality standards (industrial, agricultural, service, etc.), research, marketing, promotion, etc. BDS can help SMEs become more productive and eventually export their goods and services to EU markets. To raise the accessibility of BDS to SMEs in the regions, the OECD (IC-LEED) recommends:

- RDAs undertake collection of information on business consultants and consultancies and the services they provide (both in the region and nationally, especially in cities like Belgrade, Novi Sad, Kragujevac, etc.) and make them available to interested local enterprises.

In addition, to raise the quality of existing BDS consultants in Serbia which would provide support for SME development on a commercial basis, the OECD (IC-LEED) encourages national and sub-national officials:

- To prepare programmes and activities designed to raise standards of existing business consultants (such as the Certified Management Consultants (CMC) certification, which is internationally recognised).

**Investment promotion activities.** Local authorities in the Banat and Zlatibor regions recognise the importance of investment promotion and many have developed promotional material for their localities, however, this function is *ad hoc* and under-resourced. The existing RDAs could perform this function more effectively but at the moment, investment promotion is

highly underdeveloped across-the-board in both Banat and Zlatibor compared with the situation at the national level.

The issue of investment promotion is a priority for local authorities interviewed for this project, many of which have created their own promotion materials and have sought to develop industrial/science parks and free zones to attract new investment and support local SME growth. However, the SSPI reveals that neither the local authorities nor the existing RDAs are in a position to undertake investment promotion in a structured and proactive manner individually. Local authorities would be better served by coordinating their efforts and resources (at the NUTS-III level) to achieve more effective investment promotion.

In this regard the OECD (IC-LEED) recommends:

- A formal mandate be given to the existing RDAs in Banat and Zlatibor to perform this function on the behalf of the local authorities they represent;
- Establishment of an investment promotion capability in the RDAs (e.g. 2 staff to begin with);
- Provision of resources for RDAs to perform this function (through local authority and project funds or international donor support) focusing on capacity building, investment promotion plans, client relationship management systems, policy advocacy and aftercare services;
- Development of close linkages and cooperation with the Serbian Investment and Export Promotion Agency (SIEPA), together with an up-to-date and comprehensive database of land, building and infrastructure (“greenfield” and “brownfield”) of interest to potential domestic and foreign investors.

***Human capital development.*** The SSPI shows that the vocational education and training (VET) and continuing education and training (CET) systems in support of SMEs are at a relatively early stage of development at the national level in Serbia and the two regions in question. However, the process is relatively new and improvements are anticipated. The OECD (IC-LEED) will defer providing recommendations in this field until a better sense of how existing reforms will unfold.

## 1. BACKGROUND

### 1.1 Objectives

The “National & Regional SME Policy Linkage in Serbia” pilot project examines policies supporting small and medium enterprises (SMEs) at the national and sub-national level in Serbia. As this is a pilot project, the OECD (IC-LEED) did not cover the entire territory of Serbia but rather two regions: Banat (in the northern province of Vojvodina) and Zlatibor district in the south-west. The project identifies key barriers to SME development in these regions and explores the relationship between central government policy and actions supporting SME development at the local level.

The Banat region, located in northern Serbia, consists of 19 municipalities with approximately 700,000 inhabitants. The region is divided into three statistical districts: Northern Banat, Central Banat, and Southern Banat. For the purposes of this project, the three districts were grouped together as a single region called “Banat.” The key economic sectors in the region include pharmaceuticals, petrochemicals, agrifood, dairy and food processing.

The Zlatibor region is located in south-western Serbia and contains 10 municipalities with a population of approximately 300,000. The key economic sectors in the region include metal and metallurgy, textiles, food production and tourism.

The choice of the two regions came as a result of consultations between the OECD (IC-LEED) and the Ministry of Economy and Regional Development (MoERD). It was decided that one region should be in relative proximity to Belgrade (i.e., Banat) while the other would be located farther away (i.e., Zlatibor). An additional consideration was that each region had established development agencies with staff who could work alongside the OECD.

The analytic approach taken for this pilot project centred on addressing three components:

- Summary of statistical data on SME activity and performance in the Banat and Zlatibor regions.
- Stocktaking of national, sub-national and international donor schemes to support SME growth in Serbia and assessment of the extent to which the regions in question benefit from these.
- Identification of the main barriers to SME development in Banat and Zlatibor compared to the overall situation found nationally.

The implementation of the project consisted of three distinct phases, as described in sections 1.2 to 1.4.

## 1.2 Phase I: Diagnostic analysis

A summary of statistical data on SME performance in Serbia and in the Banat and Zlatibor regions was provided by the Economic and Social Policy Institute (ESPI) in Belgrade.<sup>3</sup> In addition ESPI provided the OECD (IC-LEED) with an indicative list of SME support programmes provided at the national and sub-national levels in Serbia. This list was complemented with information on SME support provided by international donors.

The identification of SME policy barriers in Banat and Zlatibor was undertaken by applying modified versions of the SME Policy Index 2009 and the Investment Reform Index (IRI) 2010.<sup>4</sup> For the purpose of this pilot project, the new assessment tool employed by the OECD (IC-LEED) is referred to as the SME Sub-national Policy Index (SSPI). The SSPI was developed in consultation with officials from the MoERD and the Regional Development Agencies (RDAs) in Zlatibor and Banat. A detailed description of how the SSPI is completed can be found in section 4.1 of this report. The data necessary for the SSPI were provided by the two RDAs and ESPI.

Once preliminary results of the SSPI were developed, a series of focus group meetings were held in Banat and Zlatibor with representatives from local authorities and the SME community. The purpose of the focus group meetings was to verify the results emerging from the SSPI and to learn first-hand of the barriers facing SMEs in the regions.

By the conclusion of the diagnostic phase the following elements of this report were completed:

- Assessment of the performance of national SME programmes at the local level.
- Assessment of the interaction between national policies and local activities promoting SME development.
- Review of the role of donor funded SME programmes in the two regions and integration with national and local SME programmes.

## 1.3 Phase II: Identification of policy priorities

Following completion of the diagnostic phase, the OECD IC and LEED representatives worked with the RDAs and MoERD officials to identify priority areas for reform. In addition, preliminary recommendations were discussed surrounding potential measures to improve co-

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<sup>3</sup> ESPI is the OECD-ICs local contractor for this project.

<sup>4</sup> The SME Policy Index 2009 is an instrument used to monitor the implementation of the European Charter for Small Enterprises in the Western Balkans. The results of the most recent monitoring exercise can be found in the publication "SME Policy Index 2009: Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans" at [www.oecd.org](http://www.oecd.org).

The Investment Reform Index 2010 is an instrument developed by the OECD-IC using elements from the OECD Policy Framework for Investment. The IRI 2010 is a qualitative assessment of policy settings and institutional conditions that shape the environment for direct investment. Eight dimensions of public policy are examined. These are: investment policy and promotion, human capital development, trade policy and facilitation, access to finance, regulatory reform and parliamentary processes, tax policy analysis, infrastructure for investment and SME policy. For this project only the indicators for investment promotion were modified and applied. [www.oecd.org](http://www.oecd.org)

ordination of SME programmes and activities between the Serbian central government and regional development agencies.

Based on the analysis from step 1, the OECD (IC-LEED) identified key barriers to SME development in the Banat and Zlatibor regions of Serbia. These policy barriers were identified on the basis of the SSPI; focus group interviews with municipal officials and local entrepreneurs; and assessments conducted by the OECD (IC-LEED)'s local consultant in Serbia.

#### **1.4 Phase III: Development of recommendations**

The final phase of the project involved development and compilation of practical policy recommendations for both the Serbian central government and the RDAs on how better to align national and regional programmes so as to stimulate more effective SME development throughout Serbia.

The OECD (IC-LEED) prepared a draft report containing the statistical, programme analyses as well as the identification of the barriers and policy recommendations for change. This report was circulated for discussion and feedback to the MoERD and RDAs in December 2009.

The OECD (IC-LEED) commissioned Dr. Ricardo Pinto of Pinto Consulting GmbH, to prepare this report in close collaboration with the OECD (IC-LEED) and OECD LEED as well as the Serbian partners in this project.

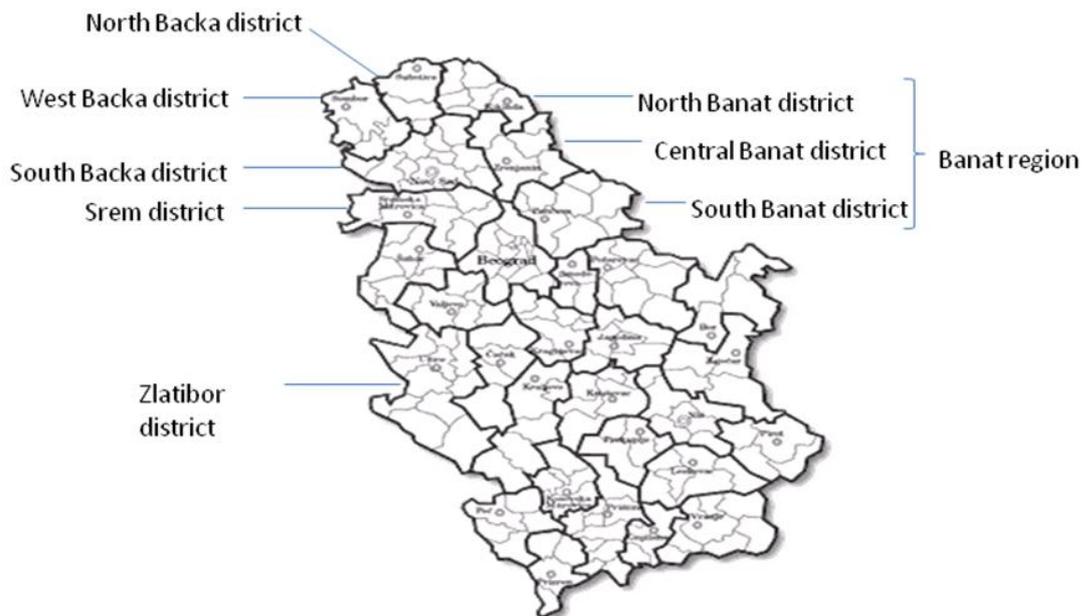


## 2. SMES IN SERBIA, BANAT AND ZLATIBOR

### 2.1 Introduction

In order to present an overview of the nature of the Banat and Zlatibor regions, the following section provides an economic comparison of the two areas with the national (Serbian) situation. As noted previously, Zlatibor is a district comprising 10 municipalities located in the south-west of Serbia. Banat is a region located in the north-east portion of the province of Vojvodina consisting of three separate districts (North, South and Central Banat) and comprising 19 municipalities in all (see Figure 1).

**Figure 1. Republic of Serbia by statistical districts (including Banat and Zlatibor)**



Note: The province of Vojvodina covers the following districts: North, Central and South Banat, North, West and South Backa, and Srem.

The data presented in sections 2.2.-2.3 are derived from the “Municipalities in Serbia 2008” publication produced by the Statistical Office of Serbia, unless otherwise indicated. The analysis focuses on two main sets of issues, as far as Banat and Zlatibor are concerned, namely:

- General demographic data.
- Enterprise data for SMEs and large firms.

## 2.2 General Demographics

Based on the last available population Census of 2002, there were 688,274 people living in the Banat region and 313,396 in Zlatibor out of the 7,5 million inhabitants of the country. The economically active portion of the population in the two regions broadly reflects the national situation, based on the share of the labour force.

**Table 1. Demography (Census 2002)**

	total	children < 7 years	children 7-14 years	labour force (15-64)			older than 65	share of labour force	share of older than 65
				total	male	female			
				Serbia	7.498.001	495.327			
Banat	688.274	45.030	63.737	465.515	233.630	231.885	110.918	68%	16%
Zlatibor	313.396	21.300	30.850	211.636	106.578	105.058	47.555	68%	15%

Source: "Municipalities in Serbia 2008", Statistical Office of Serbia.

In terms of the gender balance, 44% of those in employment are women (these data do not take into account entrepreneurs and freelance professions and those employed by them), a similar situation as in the two regions (43% in Banat and Zlatibor). Turning to the unemployment situation, Table 1 shows that women experience a slightly higher level of unemployment than men, though the situation is marginally better in the two regions than at the national level. According to the Table below, a significantly higher proportion of those in Zlatibor are looking for a job for the first time (57.1%). Yet the region has a slightly lower proportion of unemployed with no qualifications compared with the situation in Banat (43.5%) and nationally (37.2%).

As shown in table 2, there are more unemployed per capita in Banat (115 per 1,000) than the national situation (106 per 1,000) and still more in the Zlatibor region (125 per 1,000). Banat's unemployment rate (14.6%), adjusted for the ILO methodology and based on the Labour Force Survey in 2008, is slightly above the national average (13.6%) However, that of Zlatibor is below the corresponding national figure (11%). The combination of a lower recorded unemployment rate and higher per capita unemployment in Zlatibor may reflect the fact that relatively fewer individuals in the Zlatibor region are officially searching for unemployment.

**Table 2. Unemployment, December 31st 2007**

	Total	Seeking work for the first time	No qualification	Female	Per 1000 inhabitants	Unemployment rate (2008)
Serbia	785 099	48,6%	37,2%	53,8%	106	13,6%
Banat	76 172	49,7%	43,5%	52,0%	115	14,6%
Zlatibor	37 822	57,1%	36,0%	51,9%	125	11,0%

Source: "Municipalities in Serbia 2008", Statistical Office of Serbia; and Labour Force Survey (2008) for the unemployment rate.

Table 3 shows that Banat has double the number of elementary and secondary school pupils as well as secondary schools relative to Zlatibor. However, a much higher proportion of those from Zlatibor progress to college education (1.424 in Banat Vs 1,817 in Zlatibor). The situation reverses in relation to students at faculties (2.720 Vs 596), probably reflecting the fact that three such facilities exist in Banat compared with only one in Zlatibor.

**Table 3. Education System (2007)**

	Pupils of elementary schools	Pupils of secondary schools	Number of secondary schools	Students of colleges	Number of colleges	Students of faculties	Number of faculties
Serbia	619.771	299.194	504	64.500	70	174.210	126
Banat	55.462	22.951	42	1.424	3	2.720	3
Zlatibor	26.219	13.680	24	1.817	1	596	1

Source: "Municipalities in Serbia 2008", Statistical Office of Serbia.

### 2.3 Enterprise Data

In common with other European countries, the SME sector represents over 99% of all enterprises (99.8%) and 84,109 enterprises operated in the non-financial sector in 2007 (see Table 4). In relation to registration issues, the preferred legal form in Serbia is the Limited Liability Company (Ltd). In 2007, 24.4% out of the 28.3% legal entities were registered as Ltd companies; in all, 86.2% of legal entities have chosen this legal form.

**Table 4. Organisational type of enterprise (non financial sector, 2007)**

	micro		small		medium		large		total	
	No.	%	No.	%	No.	%	No.	%	No.	%
<i>Enterprises</i>	71.065	24,0	9.874	3,3	2572	0,9	598	0,2	84.109	28,3
Joint stock companies	938	0,3	820	0,3	804	0,3	303	0,1	2.865	1,0
Ltd companies	62.502	21,1	8.221	2,8	1382	0,5	217	0,1	72.322	24,4
Other companies	7625	2,6	833	0,3	386	0,1	78	0,0	8.922	3,0
<i>Entrepreneurs</i>	212.575	71,7	-	-	-	-	-	-	212.575	71,7
<i>Total</i>	283.640	95,6	-	-	-	-	-	-	296.684	100,0

Source: "Report on SMEs for 2007", Statistical Office of Serbia.

The SME sector makes an important contribution to employment in Serbia. Table 5 shows that the various legal forms contribute 79.3% of all employment: micro (10.6%); small (14.7%) and medium (19.6%). However, the continuing importance of the 0.2% of large enterprises should not be minimised since it still contributes 34.5% of employment in Serbia. Entrepreneurs also contribute 20.7% of all employment. In Serbia micro-enterprises and entrepreneurs employ 31.2% of the labour force.

**Table 5. Structure of employment (non-financial sector, 2007) by organizational type**

	micro		small		medium		large		total	
	No.	%	No.	%	No.	%	No.	%	No.	%
<i>Enterprises</i>	146.307	10,6	203.091	14,7	271.543	19,6	476.972	34,5	1.097.913	79,3
Joint stock companies	2.838	0,2	20.587	1,5	94.482	6,8	216.012	15,6	333.919	24,1
Ltd companies	131.043	9,5	164.286	11,9	133.606	9,7	163.700	11,8	592.635	42,8
Other companies	12.426	0,9	18.218	1,3	43.455	3,1	97.260	7,0	171.359	12,4
<i>Entrepreneurs</i>	285.728	20,7							285.728	20,7
<i>Total</i>	432.035	31,2							1.383.641	100,0

Source: "Report on SMEs for 2007", Statistical Office of Serbia.

Table 6 shows that the number of SMEs has been increasing in recent years. But a key trend is the increasing employment offered by the SME sector (increasing from 59% to 65.5% over a three-year period). The increasing role of the SME sector is evident across-the-board, including in terms of turnover, Gross Value Added (GVA), imports and, noticeably, the volume of exports (from 39,6 bn RSD to 50,2 bn RSD in 2007). The data underline the growing importance of the SME sector to the Serbian economy.

**Table 6. Level of SME development (non financial sector, 2005-2007)**

	SMEs			Large Enterprises			Share of SMEs in non-financial sector (%)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
No of enterprises	276.695	268.515	296.086	694	638	598	99,7	99,8	99,8
No of employees	810.862	870.979	906.669	563.094	508.776	476.972	59,0	63,1	65,5
Turnover, bn RSD	2.772	3.589	4.107	1.463	1.729	1.965	65,5	67,5	67,6
GVA, bn RSD	467	592	720	395	449	516	54,1	56,9	58,3
Export, bn RSD	115	182	226	175	236	225	39,6	43,6	50,2
Import, bn RSD	391	503	651	220	346	366	64,0	59,2	64,0
Investment bn RSD		197			187			51,2	

Source: "Report on SMEs for 2007", Statistical Office of Serbia.

Note: the slower rise in employment during 2006/2005 is primarily due to methodological changes in registration of employed entrepreneurs. Due to an underestimate the number of employees in 2005, the tax administration corrected the number of employed entrepreneurs in 2006 and 2007.

Table 7 shows that the trend previously highlighted is actually uneven across the various sizes of enterprise in Serbia and the two regions under consideration. While the turnover of micro enterprises has declined over the three year period (from 53.8% to 45.8%); the medium-sized enterprises have experienced some increase in turnover. However, it is the small firms that have experienced consistent, year-on-year growth in turnover at the national level. This is broadly the case in Banat region, though the tendency is not even. Micro firms have experienced an uneven reduction in turnover in Zlatibor, but the small and medium firms have either stagnated or experienced weak growth in turnover.

**Table 7. Regional breakdown of turnover in the SME sector, by enterprise size**

	2005			2006			2007		
	<i>micro</i>	<i>small</i>	<i>medium</i>	<i>micro</i>	<i>small</i>	<i>medium</i>	<i>micro</i>	<i>small</i>	<i>medium</i>
<b>Serbia</b>									
million RSD	1491.626	681.218	598.663	1.878.233	939.564	770.750	1.879.279	1.213.891	1.013.667
%	53,8	24,6	21,6	52,3	26,2	21,5	45,8	29,6	24,7
<b>Banat</b>									
million RSD	118.117	29.972	47.311	141.261	51.037	59.489	139.337	64.130	73.033
% share	60,4	15,3	24,2	56,1	20,3	23,6	50,4	23,2	26,4
<b>Zlatibor</b>									
million RSD	42.131	15.115	11.038	62.348	19.356	14.478	58.301	21.424	17.187
% share	61,7	22,1	16,2	64,8	20,1	15,1	60,2	22,1	17,7

Source: Source: "Report on SMEs for 2007", Statistical Office of Serbia.

There is a geographical concentration to SMEs, as is often the case in other countries; many SMEs are located in the City of Belgrade (29,5% in 2007). The two regions that are the focus of this study comprise respectively 8% (Banat) and 3,9% (Zlatibor) of all SMEs. Their national share of employees, turnover and Gross Value Added (GVA), exports and imports is slightly lower than might be anticipated, given the share of all SMEs accounted for by the two regions.

**Table 8. Key SME indicators (2008)**

	<b>SMEs</b>	<b>Entrepreneurs</b>	<b>No. employees</b>	<b>Turnover</b>	<b>Gross Value Added</b>	<b>Export</b>	<b>Import</b>
Serbia	100,0%	100%	100,0%	100,0%	100,0%	100,0%	100,0%
Central Banat district	2,1%	2,3%	2,2%	1,7%	1,8%	2,0%	0,7%
North Banat district	1,6%	1,6%	2,0%	1,5%	1,8%	2,8%	0,9%
South Banat district	4,3%	4,8%	3,7%	3,4%	3,1%	2,5%	1,6%
Banat total	8,0%	8,7%	7,9%	6,6%	6,7%	7,3%	3,2%
Zlatibor district	3,9%	4,4%	3,4%	2,3%	2,5%	3,6%	1,2%

Source: "Report on SMEs for 2008", Statistical Office of Serbia.

Table 9 examines SMEs and large enterprises based on their sectoral structure. It shows that 17% of SMEs are industrial in nature, 7.6% are in the construction sector and the overwhelming majority are found in the services sector. Within this diverse sector, the most significant sector is trade, with 37.5% of all SMEs, partly because entry barriers, such as start-up finance, tend to be relatively low.

The manufacturing, wholesale and retail trade sectors together generate around two-thirds of the total turnover and over 70% of turnover of the SMEs in Serbia. Micro enterprises comprise 52% of the turnover of the wholesale and retail trade, while medium-sized enterprises have a dominant share in manufacturing (41% of turnover). Medium-sized enterprises are dominant in most manufacturing sub-sectors, except for other machinery and equipment (small enterprises dominate with 40.5% of the turnover), and textile and textile products, wood products, rubber and plastic products, and other minerals, where micro enterprises dominate.

**Table 9. Sectoral structure of enterprises in 2007 (non-financial sector total = 100)**

	No of enterprises		No of employees		Total turnover		GVA	
	SME	large	SME	large	SME	large	SME	large
<i>Industry:</i>	17,00	0,11	20,81	18,64	15,14	20,06	16,20	23,12
Mining and quarrying	0,13	0,00	0,23	2,31	0,15	4,74	0,24	4,18
Manufacturing	16,77	0,10	19,50	14,01	14,56	10,66	15,13	13,45
Electricity, gas supply and water supply	0,10	0,01	1,08	2,32	0,43	4,66	0,83	5,49
<i>Construction</i>	7,59	0,02	6,01	2,38	4,86	1,62	5,63	2,78
<i>Services:</i>	75,21	0,06	38,71	13,44	47,63	10,68	36,44	15,84
Trade	37,46	0,02	20,76	3,18	33,86	5,54	18,59	2,70
Hotels and restaurants	6,48	0,00	3,47	0,38	1,26	0,12	1,80	0,30
Transport, storage, and com	10,71	0,01	3,03	5,86	4,12	3,93	3,56	9,84
Real estate	11,66	0,01	5,21	1,46	4,67	0,35	7,65	0,99
Other activities	8,90	0,02	6,24	2,56	3,72	0,74	4,84	2,01
<b>TOTAL</b>	<b>99,80</b>	<b>0,19</b>	<b>65,53</b>	<b>34,46</b>	<b>67,63</b>	<b>32,36</b>	<b>58,27</b>	<b>41,74</b>

Source: "Report on SMEs for 2007", Statistical Office of Serbia.

Table 10 provides a regional description of the sectors that SMEs are active in. It illustrates that, compared with the situation for Serbia overall, Banat has a concentration of SMEs active in "Wholesale and retail trade, repair" (42.1% Vs 37.8%), whereas Zlatibor has a disproportionate sectoral focus on "Manufacturing" (22.4% Vs 17.7%).

**Table 10. Sectoral breakdown of SMEs Serbia, Banat and Zlatibor (2007)**

Sector	Serbia		Banat		Zlatibor	
	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%
Manufacturing	53,634	17.7%	3,513	15.4%	2,730	22.4%
Wholesale and retail trade, repair	114,725	37.8%	9,598	42.1%	4,132	33.9%
Transport, storage and communication	32,189	10.6%	2,535	11.1%	1,550	12.7%
Real estate, renting and business activities	31,262	10.3%	1,804	7.9%	786	6.4%
Other	71,351	23.5%	5,345	23.4%	3,001	24.6%
<b>Total</b>	<b>303,161</b>	<b>100.0%</b>	<b>22,795</b>	<b>100.0%</b>	<b>12,199</b>	<b>100.0%</b>

Source: Serbian BRA; ESPI calculations.

The SME sector is also important in terms of investment; its share of investment in fixed assets is slightly greater (51.2%) than that of large enterprises. However, the ratio of investment of the SME sector to turnover was significantly lower (5.5%) than that of the large enterprises (10.8%) in 2006.

**Table 11. Investment in fixed assets (non-financial sector) in 2006**

	micro	small	medium	SME	large
Investments of the non-financial sector (000 RSD)	102.871.705	49.727.355	44.256.691	196.855.751	18.7462.867
in % (non-financial sector=100)	26,8	12,9	11,5	51,2	48,8
Investments and turnover ratio (%)	5,5	5,3	5,7	5,5	10,8

Source: "Report on SMEs for 2007", Statistical Office of Serbia.

The Serbian data allow a glimpse into the expenditure on R&D by SMEs as compared with large enterprises. Although the levels of R&D to turnover and operating costs are similar for large and small firms, the R&D expenditure by SMEs per employee is somewhat higher. This applies both in the medium and high tech sectors: the SMEs' share of investment in R&D is higher than that of large Serbian firms.

**Table 12.R&D expenditures of SMEs in 2007**

	micro	small	medium	SME	large
R&D expenditures, 000 RSD	700 422	586 214	803 274	2 089 910	1 152 648
No of enterprises with R&D investments	763	525	256	1544	114
R&D expenditures per employee, 00 RSD	4,8	2,9	3	3,4	2,4
R&D operating costs ratio, %	0,08	0,05	0,08	0,07	0,06
R&D turnover ratio, %	0,09	0,06	0,1	0,08	0,07
Medium-tech sectors:					
- R&D expenditures, 000 RSD	32 156	57 436	204 612	294 204	224 301
- % (share in total R&D)	4,6	9,8	25,5	14,1	19,5
High tech sectors:					
- R&D expenditures, 000 RSD	8 283	61 985	45 475	115 743	38 548
- % (share in total R&D)	1,2	10,6	5,7	5,5	3,3
Exports of medium-tech products as a share of total exports	2,8	5,1	11,3	19,1	33,2
Exports of high tech products as share of total exports	0,7	1,1	2,5	4,2	8,1

Source: "Report on SMEs for 2007", Statistical Office of Serbia.

## 2.4 New Law on Regional Development

On 8 July 2009, the Law on Regional Development (No. 51-2009) was adopted by the Serbian Parliament. The new law envisages the establishment of seven regions in Serbia, each composed of one or more districts<sup>5</sup>. These new regions are defined as statistical functional territorial units comprised of one or more districts, in accordance with the *Nomenclature of Territorial Units for Statistics* (NUTS)<sup>6</sup> level II. The Law will also see a restructuring of the existing Republic Agency for SMEs (RASMEE) into a new "regional development agency" which will have a mandate to develop Serbian SMEs.

This law may have a significant impact on the issues assessed by this report since it covers the following themes:

- Establishment of a National Council for Regional Development (RD).

<sup>5</sup> Districts in Serbia are defined as statistical functional territorial units, which do not represent administrative units, set at level 3 of the nomenclature of statistical territorial units (NUTS-III).

<sup>6</sup> The Nomenclature of Territorial Units for Statistics (NUTS) was established by Eurostat more than 30 years ago in order to provide a single uniform breakdown of territorial units for the production of regional statistics for the European Union. A NUTS-II unit would broadly correspond to a territorial unit at the level of a region with a population base between 800,000 to 3 million inhabitants. A NUTS-III unit would correspond to a territorial unit at the level of county or municipality with a population base between 150,000 to 800,000 inhabitants.

- Establishment of a National Agency for RD (covering enterprise & infrastructure matters).
- Preparation of a National Plan, as well as strategies and finance for RD.
- Establishment of 7 regions in Serbia at NUTS II level.
- Establishment of 7 new regional development Councils at NUTS II level.
- Establishment of accredited “areal associations” at NUTS III level (e.g. current Banat / Zlatibor RDAs).
- Measures and incentives for RD including competitiveness, innovation, R&D, entrepreneurship, etc.

Discussions with MoERD and RASMEE revealed uncertainty regarding when this structure will be in place and whether the law will need to be further revised. The process of converting RASMEE into the National Agency for Regional Development had begun at the time of the OECD team’s visit in September 2009. The existing RDAs are uncertain as to how they might be “accredited” as new “areal associations” at the NUTS-III level.<sup>7</sup> As of 7 April 2010 the government proposed amendments to the law which would reduce the initial number of regions from seven to five.

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<sup>7</sup> Discussions with MoERD, RASMEE, and the existing RDAs noted in this report reflect the situation in September 2009 at the time of the last OECD (IC-LEED) mission to Serbia.

## **3. SME PROGRAMMES**

### **3.1 Introduction**

This chapter provides an indicative stocktaking of national, sub-national and international schemes that support SME growth in Serbia. The focus is primarily on financial support to SMEs at national and region level. Non-financial support and local government initiatives are not covered. This analysis is used to identify possible gaps between Serbia's national SME policy framework and sub-national SME needs. More specifically, it seeks to:

- Assess the performance of national SME programmes at the local level.
- Assess the interaction between national policies and local activities promoting SME development, highlighting synergies and inconsistencies between the two.
- Review the role of donor funded SME programmes in the two regions and integration with national and local SME programmes.

### **3.2 Stocktaking: SME programmes and initiatives**

#### ***3.2.1 National SME Support***

Serbian national-level programmes of support to SMEs are basically of three sorts: subsidised loans provided by state bodies or co-financed loans by commercial banks or grants designed to strengthen the competitiveness and innovativeness of the SME sector. The numerous national schemes to support the development of SMEs and entrepreneurs in Serbia are presented below.

##### ***3.2.1.1. Loans provided by the Development Fund for 2009***

There are several credit lines for legal entities and entrepreneurs provided by the Serbian Development Fund (DF), as set out in its 2009 Programme. For credit activities focusing on the needs of legal entities and entrepreneurs, the DF foresees an allocation of EUR 116 million in all. Ineligible activities include primary agricultural production, infrastructure, production of military equipment and weapons and gambling. In addition, long-term and the short-term credits are available for legal entities amounting to EU 21,000 per company. Under a third group of credit lines, the DF facilitates loans for the development of entrepreneurship amounting to EUR 5,300 – 31,600 per company.

##### ***3.2.1.2. Loans for business beginners and start-ups for legal entities and entrepreneurs***

EUR 32.6 million has been set aside for non-collateralised start-up credits to support the development of legal entities and entrepreneurs. This programme is implemented by the DF and the Republic Agency for the Development of SMEs and Entrepreneurship (RASMEE), with the support of the national network of the RDAs and local economic development offices (who act as intermediaries or facilitators between the SMEs applying for credits and the DF who ultimately approves the credits). EUR 5,300 – 25,300 is available as start-up credits for legal entities and EUR 5.300 – 13 700 for entrepreneurs.

### ***3.2.1.3. Loans to strengthen legal entities & entrepreneurship in underdeveloped municipalities***

EUR 26.3 million has been earmarked in the state budget for this programme, to be implemented by MoERD and the DF. In the two observed regions, only business entities from two municipalities are eligible, namely Prijepolje and Sjenica, both located in the Zlatibor district. The loans available for legal entities and entrepreneurs are respectively EUR 21.100 – 2.6 million per entity and EUR 5.300 – 31.600 per entrepreneur.

### ***3.2.1.4. Credit to overcome the impact of the global economic crisis***

This year, MoERD has developed several credit lines for SMEs and entrepreneurs in response to the exigencies of the global economic crisis. These measures represent direct support to the business sector through credit provision under favourable loan conditions. The budget lines are disbursed to SMEs by the DF in combination with commercial bank loans. Several loans exist for the business sector:

- Long-term credits (EUR 21.100) as subsidised interest rates for loans to sustain liquidity and finance fixed assets.
- Long-term credits (EUR 10.500) as subsidised interest rates for consumer loans and leasing targeted at cars, agricultural machinery, furniture, carpets, floor coverings and household equipment.
- Co-financing loans for investment with guarantees issued by the Guarantee Fund:
  - a) up to EUR 200.000 for small companies and up to EUR 1.5 million for medium-sized companies (firms operating in the gambling sector are excluded);
  - b) up to EUR 30.000 for entrepreneurs / sole traders (entrepreneurs operating in the gambling sector are excluded).

### ***3.2.1.5. Financial support to exporters by SIEPA***

The Serbia Investment and Export Promotion Agency (SIEPA) will implement the Programme of Financial Support for Export-oriented Activity to the tune of EUR 716.500. The Programme is principally targeted at SMEs.

### ***3.2.1.6. Financial support to exporters by SMECA***

The Serbia and Montenegro Export Credit Agency (SMECA) supports export-oriented companies with short-term loans to finance working capital for contracted foreign trade operations. During 2009, the loans will be in the EUR 50,000 - 1 million range. The loans are for financing inputs (intermediate goods and work) and material costs for contracted foreign trade operations. In 2009, SMECA merged with the Serbian Export Insurance and Financing Agency (AOFI), resulting in a broader scope of work than was previously the case.

### ***3.2.1.7. Support for cluster development***

A number of programmes exist to support SME development under the broader objective of improving competitiveness and innovation. Several schemes, for example, support the development of clusters in 2009. These include:

- Grant project to Stimulate SMEs to Invest in Strengthening Innovation (EUR 468.000): implemented by MoERD and RASMEE.
- Grant project for the Development of Clusters (EUR 312.000): implemented by MoERD and the RASMEE. This is a project of the European Commission's General Directorate for Enterprises and Industry in the area of eco-innovations. Apart from the private and public companies established in EU and EFTA countries, it is also open to companies from the potential candidates for accession to the EU. EUR 30 million will support 40 regional projects.
- Programme of Support for the Development of Competitiveness and Innovativeness of SMEs, Business Incubators and Clusters (EUR 632.200): implemented by RASMEE.
- Credit to Stimulate the Supply of the Private Entities and SMEs in the Area of Tourism (EUR 3.4 million): announced by MoERD in order to improve the quality of tourism supply.
- Grant supporting projects to develop the tourism industry: MoERD subsidises the development of tourism infrastructure in Serbia.

### ***3.2.1.8. Foreign sources of financing for SMEs and entrepreneurs***

There are several additional sources of financing of the development of SMEs and entrepreneurs. This is an indicative list for the purposes of this project:

- The European Investment Bank (EIB) supports private SMEs and entrepreneurs via the third "Apex Loan for Serbian SMEs" (EUR 250 million). SMEs in the manufacturing, tourism and services sectors can apply for credit to be invested in local infrastructure: 70% is destined for the SME sector and 30% for public enterprises. The finance will be disseminated to local government through the National Bank of Serbia once the contract is ratified by the National Assembly in autumn 2009.
- The Italian Government has donated over EUR 200 million since 2000 and a new credit line for private SMEs, entrepreneurs and public communal companies for EUR 30 million. The contract is expected to be ratified by the Serbian National Assembly during autumn 2009.
- The European Bank for Reconstruction and Development (EBRD) is making investments worth a total of EUR 432.4 million to UniCredit bank subsidiaries across eight eastern European countries, including Serbia, as part of a joint effort to tackle the impact of the global economic crisis on the region. The aim is to provide medium and long-term debt financing through Unicredit subsidiaries in support of SMEs, lease finance and energy efficiency projects. The EBRD investments are part of the joint pledge by the EBRD, the World Bank Group and the EIB to provide over EUR 24 billion in support of the banking sectors in the region and to fund lending to businesses hit by the global crisis.

### ***3.2.2 Provincial SME Support***

The province of Vojvodina through its autonomous status provides additional resources to support SME development. In this regard SME schemes are financed by the Executive Council of the Province of Vojvodina, through its various secretariats and bodies. Examples of support

include: the *Guarantee Fund of Vojvodina* created in 2003 with a mission to provide additional credit lines via commercial banks for private entrepreneurs, individual agriculture producers, and SMEs; the *Development Fund of Vojvodina* created in 2002 to develop agricultural and food manufacturing industry, SMEs and entrepreneurs; and, *Vojvodina Investment Promotion*, the province's investment promotion agency which assists SMEs by partnering them with foreign investors as potential suppliers. The Executive Council also supports SMEs by providing grants to firms that hire additional unemployed workers, trainees, single mothers, disadvantaged minority groups, etc. A list of such programmes can be found in Annex 2 of this report.

Only SMEs located in the province of Vojvodina may benefit from these support programmes and schemes. This provides an advantage to SMEs located in the Banat region over those located in Zlatibor.

### **3.2.3 National Investment Plan (NIP) Support**

The NIP was created by the government of Serbia with the aim of more effectively using privatization proceeds as well as of loans provided by international financial institutions (World Bank, EBRD, EIB) and pre-accession funds of the European Union. The NIP's strategic priorities are infrastructure development, improvement of living standards, more efficiency in public administration and improvement of human resources. In 2009 roughly RSD 20.5 billion or approximately EUR 250 million was allocated through the NIP.

#### **3.2.3.1. Zlatibor district**

In the Zlatibor district, the following projects are financed by NIP:

- Business Incubator Project in the industrial zone of Sevojno: ca. 20 incubator nests were partly financed from the NIP. The project started in 2007 and cost EUR 738.000-843.000. It helps develop SMEs and entrepreneurs at the local level and is a partnership between the local authority of Užice and NIP. Užice invested ca. EUR 400.000 (e.g. communal equipment for the Incubator, including road construction, water supply, electricity, construction of the power transformer station with support provided by USAID, etc.); NIP invested an additional EUR 389.000. Užice has applied for an additional EUR 36.000 from NIP for the business incubator heating supply but only EUR 1.900 was approved. The Business Incubator opened in September 2009.
- In 2007 Pozega and Prijepolje started construction of industrial zones and parks. In 2009, MoERD invested EUR 15.400 via the NIP. In 2008, EUR 6.100 was spent in Pozega.
- Užice is applying for additional funds for construction of local roads. The total value of the project is EUR 2 million and funds from the European Investment Bank (EIB) will be disseminated through NIP. The entrepreneurs of the Zlatibor district will benefit indirectly from this project.

#### **3.2.3.2. Banat region**

In 2007, 10 municipalities and cities of the Banat region participated in the construction of the following industrial zones / parks: Ada, Bela Crkva, Vrsac, Zitiste, Kanjiza, Kikinda, Kovin, Novi Becej, Senta and Coka. A total of EUR 974.000 was spent on these projects by NIP. However, in 2008 the NIP programmes were scaled back significantly. For example, the NIP planned to invest EUR 2.5 million in industrial zones in the Banat region. However, in 2009 no new projects

will be financed. Capital investments in the province will be supported by the Capital Investments Fund of Vojvodina Province.

The construction and equipment of the industrial zones and parks in Serbia was also supported by local authorities, the Delegation of the European Commission and other donors. MoERD is spending ca. EUR 8 million on 30 industrial zones in Serbia based on NIP financial support.

### **3.2.4 Cross Border Cooperation (CBC) Support**

The final element of support programmes for the SME sector is the Cross Border Cooperation (CBC) covering four international borders, as set out below.

#### **3.2.4.1. Serbia - Montenegro**

The first call for projects was open until 23 September 2009. EC funding worth EUR 900.000 is available for 50-85% of the total eligible costs of actions with a minimum of 15% of the costs covered by local stakeholders. Non-profit organizations/institutions from the Zlatibor region are eligible to participate. The priority of this call was:

- Social and economic cohesion through joint actions to improve physical business, social and institutional infrastructure and capacity:
  - Improving the productivity and competitiveness of the area's economic, rural, cultural and environmental resources: EUR 50.000-200.000 per contract;
  - Cross-border initiatives targeting the exchange of people and ideas to enhance professional and civic society cooperation: EUR 15.000-50.000 per contract.

#### **3.2.4.2. Serbia - Bosnia and Herzegovina**

The first call for proposals was open until October 2009. EUR 1.9 million worth of EC funding was available for 50-83.6% of the total eligible costs of actions. At least 16.4% of the costs must be covered by local stakeholders. Non-profit organizations/institutions from the Zlatibor region are eligible to participate. The priority was:

- Social and economic cohesion through joint actions to improve physical business, social and institutional infrastructure and capacity:
  - Social and economic cohesion via actions to improve physical business, social and institutional infrastructure and capacity: EUR 50.000-300.000 per contract;
  - Cross-border initiatives targeting the exchange of people and ideas to enhance professional and civic society cooperation: EUR 20.000-50.000 per contract.

#### **3.2.4.3. Serbia - Romania**

The first call for proposals was open until 29 July 2009. EC funding amounted to 50-85% of the total eligible costs of actions with a minimum of 15% of the costs covered by local stakeholders. Non-profit organizations/institutions from the Banat region were eligible to participate. The priorities financed were:

- Priority 1: Economic and Social Development: projects of 250.000-1.000.000 EUR:
  - Support for local/regional economic and social infrastructure;
  - Develop the tourism sector, including the strengthening of the regional identity of the border region as a tourist destination;
  - Promote SME development;
  - Support increased levels of R&D and innovation in the border region.
- Priority 2: Environment and Emergency Preparedness: projects of 250.000-1.000.000 EUR:
  - Improve systems and approaches to address cross-border environmental challenges, protection and management;
  - Develop and implement effective strategies for waste and waste water management;
  - More effective systems and approaches to emergency preparedness.
- Priority 3: Promoting “people to people” exchanges: projects of 30.000-20.,000 EUR:
  - Support the development of civil society and local communities;
  - Improve local governance / local services to communities in the border areas;
  - Increase educational, cultural and sport exchanges;
  - Enhance social and cultural integration of border areas.

#### **3.2.4.4. Serbia - Hungary**

The third call for the projects was open until 25 July 2008. Out of six successful applications, two came from the Banat region:

- Vršac was granted EUR 85.488 for “Save our mountains from forest wildfires”.
- Čoka was granted EUR 78.345 for “Food Innovation Center Čoka – Feasibility study and project documents”.

The set of SME programmes highlighted above amount to a substantiated, albeit fragmented, amount of support for the small business sector in Serbia.

### **3.3 Assessment of SME programmes**

In order to identify whether gaps exist between Serbia’s national SME policy framework and sub-national SME needs, an assessment of the performance of the SME programmes and initiatives was undertaken. It was based on discussions held during the OECD mission to Serbia (in September 2009), as well as focus group discussions with entrepreneurs, RDAs and local authorities in the two regions. Programme data were obtained from both MoERD and RASMEE

for 2009 to support the analysis. However, it did not prove possible to involve the DF in the research, a notable omission. Therefore, the information sources presented below are partial in nature and principally cover the year 2009. In this context, the assessment is meant to be indicative rather than conclusive in nature, reflecting the sources of information available.

### ***3.3.1 Performance of national SME programmes at the local level***

The performance of the national SME programmes at the local level, and more specifically at the level of the Banat area (covering the Central, North and South Banat districts) and Zlatibor area (covering the Zlatibor district) was assessed through the following means:

- Data obtained from MoERD's SME support programmes for 2009.
- Data obtained from RASMEE (various programmes, including some involving cooperation with the Serbian Development Fund).
- Focus group discussions with local authorities and entrepreneurs.
- Discussions with RDAs and others.

The main findings of the above processes are set out below, leading to a set of preliminary recommendations at the end of the report. It should be noted that this is only a partial analysis, based on information available. We are not in a position, for example, to assess the reasons for the number of successful applications since this information is not available.

#### ***3.3.1.1. Programme of Support for Development of Competitiveness and Innovation of SMEs, Entrepreneurs, Business Incubators and Clusters***

It is possible to analyse the extent to which the two regions benefit from RASMEE's Programme of Support for Development of Competitiveness and Innovation of SMEs, Entrepreneurs, Business Incubators and Clusters, both in terms of the number of entrepreneurs and legal entities applying for Programme support.

Table 3.1 illustrates the number of requests for funding, successful applications, funds allocated and distribution of funds to the regions. It shows that although the overall success rate in obtaining Programme funds is 25%, Banat does slightly better than average (28%) and Zlatibor slightly worse (23%).

While Table 13 does not illustrate this point, not all the three districts that make up the Banat region are equally successful. South Banat makes the greatest number of applications for Programme funding and has by far the highest success rate (41% Vs 14% in North and 24% in Central Banat). The success of the South Banat district increases the overall success rate of the Banat area, which would otherwise lie below the national average.

**Table 13. Distribution of Programme of Support (2009)**

Region	Requests	Approvals	Success	Funds (EUR)	Funds	Percent of SMEs in Serbia
Banat	83	23	28%	47,000	7,4%	8,0%
Zlatibor	75	17	23%	32,000	5%	3,9%
Other	1,012	256	25%	553,000	87,6%	88,1%
Serbia	1,170	296	25%	632,000	100%	100%

Source: MoERD (2009)

Table 13 also shows that the two regions receive respectively 7.4% and 5% of the Programme of support for development of competitiveness and innovation of SMEs, entrepreneurs, business incubators and clusters. An assessment of performance requires indicators that enable the relative effectiveness of Banat and Zlatibor to be assessed. For this reason, Table 13 includes the share of population and SMEs in those two regions. Relative to its share of SMEs, Banat performs slightly less well than might be expected, given its share of SMEs, but Zlatibor performs better.

### 3.3.1.2. MoERD Start-up Credits

The second set of issues concerns the allocation of start-up credits for both entrepreneurs and legal entities. Table 14 shows that entrepreneurs in both Banat (72%) and Zlatibor (75%) were slightly less successful in obtaining start-up credits compared with the national situation (80%). Table 14 also shows that Banat-based entrepreneurs accessed 5.1% of the funds available while Zlatibor entrepreneurs accessed 2.3%. In both cases, these are notably lower rates than implied by the proportion of entrepreneurs located in the two regions.

**Table 14. Distribution of Start-up Credits for Entrepreneurs (2009)**

Region	Requests	Approvals	Success	Funds (EUR)	Participation	Entrepreneurs
Banat	138	99	72%	1,0 million	5,1%	8,7%
Zlatibor	61	46	75%	5,4 million	2,3%	4,4%
Other	2,266	1,821	80%	219 million	92,6%	86,9%
Serbia	2,465	1,966	80%	225.4 million	100%	100%

Source: MoERD (2009)

When it comes to legal entities, the data show that Banat under-performs very slightly compared with the national average (87%). But Zlatibor over-performs in terms of the success rate of the applications for start-up credits. Banat's legal entities obtained 6% of the funds available and legal entities in Zlatibor obtained 2.4%. In both cases, this is a lower rate than implied by the share of SMEs in these regions.

**Table 15. Distribution of Start-up Credits for Legal Entities (2009)**

Region	Requests	Approvals	Success	Funds (EUR)	Participation	SMEs
Banat	71	60	85%	2,6 million	6%	8,0%

<b>Zlatibor</b>	22	20	91%	1,0 million	2,4%	3,9%
<b>Other</b>	896	776	87%	39,5 million	91,6%	88,1%
<b>Serbia</b>	989	856	87%	43,1 million	100%	100%

Source: MoERD (2009)

Although these data are not available in Table 15, the performance of the three districts that make up the Banat region is uneven. South Banat accounted for the highest number of applications (84 versus 4 in North Banat and 11 in Central Banat) and also had a significantly higher success rate (43% versus 9% in Central and 50% in North Banat albeit with only 2 successful applications out of 4). One observation to be drawn from these figures is that national funds of this sort appear to favour SMEs from more developed regions or those in closer proximity to Belgrade.

### **3.3.1.3. MoERD Clusters activity**

According to MoERD data, in 2009 there were 28 clusters in Serbia, including four national clusters (see Table 16). In all, EUR 1.2 million has been spent on the clusters development programme since 2005, with EUR 270.000 allocated for this year. The Vojvodina Province has eight clusters. It is not surprising that the Vojvodina Province is home to a relatively large number of clusters: the SSPI (see Chapter 4) illustrates that the province has developed programmes as well as securing resources specifically for this purpose.

However, it is not possible to assess whether the two regions are over/under-performing relative to the rest of the country. When discussing location of clusters, it is necessary to distinguish between the location of the headquarters of a cluster and location of its individual members. While 8 clusters<sup>8</sup> are headquartered in Vojvodina, their membership is not necessarily strictly limited to participants from Vojvodina. Conversely, companies located in Vojvodina (or Zlatibor for that matter) may participate or even be founding members of clusters that are registered in locations outside Vojvodina.

<sup>8</sup> These are clusters registered by the Serbian Ministry of Economy and Regional Development.

**Table 16. Distribution of clusters by region (MoERD, 2009)**

<b>Region</b>	<b>Cluster</b>
<b>Belgrade (6)</b>	Organization for the promotion of hotels and restaurants (HGS)
	Eco Circle Fund - Cluster download, packaging, processing and permanent disposal of electronic, industrial and hazardous waste
	Development Fund Competitiveness industry electronic integrated systems cluster
	Serbian film association
	Medical cluster of Serbia
	Serbian software cluster
<b>Vojvodina (8)</b>	The First Cluster of Plastic and Packaging (JATO)
	Fund for tourist cluster in micro-regions, Subotica
	Sombor farms
	Tourist cluster, Srem
	Istar 21 - Association for cooperation and development of tourism in the Danube region
	Association for Business Development M.I.C.E. Tourism
<b>West (2)</b>	MEMOS - The Association for Competitiveness Promotion of Metal Producers
	PEKOS - Producers of Baked Goods Cluster
	Association of young farmers, Koceljeva
<b>East (1)</b>	Citizens Association of Textile Association "Asstex, Novi Pazar
	Cluster shoemaker, Knjaževac
<b>Central (4)</b>	Cluster flower producers - Šumadijski flower, Kragujevac
	Cluster furniture - Netwood, Kragujevac
	Association of citizens "Sumadija textiles", Kragujevac
	Cluster Royal Tourist Home
<b>South Region (2)</b>	South Serbian Alko Cluster – Grape, Fruit and Wine and Brandy Producers Cluster from Jablanica and Pcinja districts
	Construction cluster DUNĐER, Nis
<b>National clusters (5)</b>	Automobile cluster of Serbia
	Galena - cluster for the collection and recycling of spent batteries and accumulators
	Agency for Wood, Wood Processors Cluster
	Cluster Bipom, small agricultural machinery
	Phoenix-cluster Serbian aviation industry Ltd.

Clusters registered by MoERD can be locally-oriented (participants from one or several surrounding municipalities), regionally-oriented (participants from several municipalities, from several regions) and nation-wide clusters (usually based on a type of industry and location of their members does not matter). While none of the MoERD clusters are headquartered in either Banat or Zlatibor, companies from these regions do participate in MoERD-recognised clusters:

- Automotive cluster of Serbia (Belgrade) - 2 members from Banat and 2 from Zlatibor;
- BIPOM - Balkan-Black Sea industry of agricultural machines (Belgrade) - 1 member from Banat and 1 from Zlatibor;

- Agency for Wood (Belgrade) - a number of members from both regions;
- Galenit - Cluster for collection and recycling of batteries (Belgrade) - 1 member from Banat;
- ISTAR21 - Association for cooperation and development of tourism in the Danube region (Novi Sad) - a number of members from Banat;
- The first cluster of plastic and packaging JATO (Subotica) - 1 member from Banat;
- FENIKS - Cluster of the aviation industry of Serbia (Belgrade) - 1 member from Banat;

According to MoERD information, no clusters from either the Zlatibor or Banat region received financial support from the national cluster programme in 2009, despite the availability of funds.

#### **3.3.1.4. MoERD Competition for Innovation**

Table 17 shows the companies that have been supported by MoERD's competition for innovation in 2009 based on the region of origin. Belgrade-based companies perform disproportionately well. This is not entirely surprising since a large proportion of all Serbian companies are also located in the region. The data show that 29.5% of SMEs were located in Belgrade (2007) but 36% of the resources from this particular MoERD programme were gained by this region. Companies in Vojvodina province obtained 18% of the funds, as did those located in the Western region (18%). Since both Banat and Zlatibor are of a lower geographical scale, it is not possible to discern their performance in this programme.

**Table 17. Distribution of companies by region (2009)**

<b>Regions</b>	<b>Supported innovative companies</b>
Belgrade	36%
Vojvodina	18%
West	18%
East	2%
Central	15%
South	11%
<b>Total companies</b>	<b>85</b>

Source: MoERD (2009)

#### **3.3.1.5. SIEPA Programme of Internationalisation of companies (grant funding for exports)**

According to Table 18, EUR 302.200 was allocated from the SIEPA funding for internationalisation of companies to 107 successful local authorities out of 144 applicants (74% success rate). The Table illustrates how this was allocated at the regional level.

**Table 18. Distribution of Successful Regions for grant funding for export (2009)**

Region	Requests	Approvals	Success	Funds (EUR)	Funds	SMEs
Banat	14	9	64%	18,000	6%	8,0%
Zlatibor	3	3	100%	7,800	2,6%	3,9%
Other	127	95	75%	25,900	91,4%	88,1%
Serbia	144	107	74%	302,200	100%	100%

Source: SIEPA (2009)

Relative to their share of SMEs, neither the local authorities in Zlatibor nor the ones in Banat were able to draw-down a share of these particular SIEPA funds commensurate with their share of SMEs.

### ***3.3.2 Interaction between national policies and local SME activities***

The interaction between national SME policies and local activities can be improved in Serbia. A national SME Strategy and Action Plan have been created, clearly charting the Government's strategic framework for enterprise development for a period of 6 years. Whilst the SME Strategy was still in draft form, MoERD undertook extensive visits to Serbian cities and regions so as to ensure that the regional and local stakeholders understood the strategy and had an opportunity to comment on it. The qualitative feedback obtained from the regions covered by this project revealed a perception that local entrepreneurs and the SME community were neither meaningfully involved in the process nor have they made an effective contribution to the finalisation of the SME strategy. This is not to criticise MoERD and its efforts in relation to the SME strategy. It is merely an indication that the interaction between national and local SME activities, whilst improving in recent years, still has some way to go.

Consultation with, and involvement of, SMEs in local economic activities can be significantly improved. Moreover, local government programmes do not appear to target the role and potential of the SME sector in terms of its potential contribution to strengthening local economies. The feedback obtained indicates that municipalities have minimal financial capacity to support SME development. In this sense too, there is clearly a lack of linkage between national and local SME activities.

Nevertheless, two important developments are underway that may improve the interaction between national policies and local SME activities:

- The new Regional Development Law (see description in section 2.4) foresees a number of developments in the seven proposed statistical regions, these include: creation of new RDAs (at NUTS II level), RD councils (at NUTS II level), RD strategies and cooperation with NUTS III level RDAs, etc. Moreover, the new law prioritises infrastructure development (the single most important new source of economic development in the Zlatibor region could be the construction of a motorway to Belgrade) and enterprise support. Given the volume of resources that will flow through EU-financed IPA programmes (and structural funds in the medium term), the gap between national SME policies and regional actions will need to be bridged more effectively. Indeed, MoERD is already preparing various Operational Programmes, and these will include competitiveness and regional development matters.

- In both Banat and Zlatibor, the existing RDAs are finalising regional development strategies at the NUTS III level that will have a broad focus, including an investment and enterprise development component. This is an important development, which creates scope for greater linkage between national policies and local SME activities. Since these existing RDAs are expected to become accredited implementation partners of the future RDAs to be established at NUTS II level, there is strong likelihood (but by no means certainty) that SME policy linkage will be improved. This would require NUTS III RDAs to recognise and prioritise this issue accordingly.

### ***3.3.3 Role of donor funded SME programmes***

The main SME programmes available are those funded by the EC via instruments such as IPA (CBC, competitiveness and regional development, etc). Various projects have been funded, many of which have a bearing on the two regions in question. The EC is also providing financial support through the European Investment Bank (EIB). However, the OECD team did not find data on the extent to which the two regions have benefited from this support. A number of other international donors are engaged in Banat and Zlatibor, such as the Italian Government and Swiss Development Corporation. However, there is no basis for either assessing the extent to which Banat and Zlatibor have benefited from the presence of these donors or whether the interaction between national SME policies and local actions have improved as a result of donor efforts.

The issue of donor funding was not at the forefront of either the ESPI work or the OECD (IC-LEED) mission to Banat and Zlatibor in September 2009. Therefore, relatively little can be concluded in relation to this theme. However, to maximise the benefits from donor resources in the future, the new RDAs (NUTS II level), to be established under law 51/2009, and existing RDAs (at NUTS III level) need to coordinate their activities closely to ensure international donors are aware of their regional strategies for enterprise development. This would be essential in ensuring that potential donors respond to local priorities for development, rather than the other way around.

### ***3.3.4 Qualitative Feedback from Banat and Zlatibor***

Focus group discussions were organised in Banat and Zlatibor in mid-July 2009 and in late September 2009. The participants included officials from local authorities and SME representatives and entrepreneurs. The focus group discussions explored the nature of the interaction between national policies and local SME activities. The most salient issues discussed are presented below.

#### ***Municipalities***

##### *Identification of local needs for entrepreneurship and SME policy support*

Representatives of municipalities in both Banat and Zlatibor believe that local entrepreneurship and SME policy support needs are not adequately identified in existing strategies. This is partly because most municipalities are incapable of identifying those needs due to lack of skills and capacity. This problem is reinforced by the lack of involvement of SMEs in preparation of these strategies.

### *Appropriateness of national entrepreneurship and SME policy support to local needs*

There is common agreement that the national entrepreneurship and SME policy support does not adequately meet local needs. This is viewed primarily through the lens of financial support, which is perceived to be incommensurate with needs at the local level. There is also a perception that the degree of participation of local stakeholders in the preparation of the national SME strategy could have been better. For example, in December 2007, MoERD organized a meeting in Zrenjanin to present the draft SME strategy, but few local business representatives participated.

### *Flexibility to adjust national programmes to local needs*

Municipality representatives do not believe there is enough flexibility to adjust national programmes to local needs. Examples include the existence of disused state-owned properties (e.g. bankrupt state enterprises, military buildings, etc.), and the inability of municipalities to administer these assets without approval from the Republican Directorate for State Property. Municipalities believe they could have saved some local companies if they had the right to manage them temporarily, thus also saving jobs and shoring-up the local economy.

The participants acknowledge that the national SME strategy does identify the major problems confronting SMEs, but maintain that problems specific to their region are missing. The respondents conclude that, although the draft version of the national SME strategy was discussed at meetings throughout Serbia, local suggestions have not been sufficiently incorporated into the final document.

## **Entrepreneurs**

### *Access to programmes at the national or local level to support their business*

None of the SMEs in Zlatibor had accessed national or local programmes of support. There was a view that the financial programmes available did not suit them.

The Banat-based respondents, however, were pleased with the programmes they participated in. Examples include:

- The local entrepreneurship association and regional Chamber of Commerce have participated in CBC programmes. These have enabled their members to attend regional fairs, seminars, etc. and generally to contact and access potential international business partners;
- SME development programmes of RASMEE implemented by the existing RDA in Banat.

The most common reasons for enterprises failing to participate in SME programmes include:

- Lack of own capital for programmes requiring co-finance;
- Lack of information about programmes, competitions, funds, etc.;
- Lack of time to prepare business plan / proposal and collect necessary documentation;
- Perception that the terms and conditions for finance were unfavourable;

- Concerns about taking loans because of uncertainty about capacity to repay them.

It should be recognised that no national strategy or programme can hope to take into consideration the specific needs of individual municipalities and this is not advocated here. The above analysis underlines the point that regions and local authorities must work harder to assess and implement programmes that take into consideration their particular specificities.

### **3.4 Policy issues for consideration**

A number of policy issues arise from the analysis in this chapter, though it is necessary to stress that these are preliminary issues, which may require deeper analysis and consideration.

#### ***National issues***

- Serbia has a large number of programmes focusing on SME development at national, provincial, and local authority levels. This has the potential to lead to complexity and overlap.
- The number of SME development programmes raises concerns regarding the amount of resources needed to administer them. Apart from requiring more administration, it is not obvious that this is the most effective way to support enterprises, as opposed to consolidated, but more targeted subsidy programmes.
- It is not clear that there is a structured process of targeting subsidies to SMEs throughout the country. The SME Strategy and associated Annual Plans constitute the overall framework for state support. However, the subsidies should be targeted, consistent with the emerging regional development law and regional policy goals along such lines as:
  - Geographical focus: certain regions, sub-regions, municipalities.
  - Specific functional areas: innovation, R&D, skills enhancement, export development, technology absorption.
- The DF is a major player in relation to the relevant subsidies in Serbia. There is little information available on its programmes, projects, application procedures, qualification and evaluation procedures, regional focus etc. Moreover, it is not clear the extent to which the DF will review its priorities and allocation mechanisms to ensure its financial support to SMEs is maximised in conjunction with EU financial resources provided by instruments such as IPA.
- The Serbian government commits a significant amount of the state budget to subsidise SMEs to overcome their vulnerability to market failures. However, it is not clear to what extent the effectiveness of this state aid is being monitored and evaluated in terms of causality, deadweight loss, displacement and other side-effects.

#### ***Regional issues***

- Based on the performance of Banat and Zlatibor in accessing a sample of national SME programmes in 2009 - such as the Programme to Support Competitiveness and Innovation, Start-up Credits (SMEs and entrepreneurs), cluster development, innovation, internationalisation of companies (exports), etc - the two regions perform

below the national average and less well than their share of SMEs/entrepreneurs would imply.

- The Banat region actually covers three districts, namely Central, North and South Banat. Where there is relevant information, it shows that the performance of the three districts is highly uneven, both in terms of number of applications made and success rate. South Banat is by far the most active and successful of the three districts in Banat.
- While there is little information with which to assess the role and impact of the donors, it will be necessary for the new RDAs (at NUTS II level) and the existing RDAs (NUTS III) to coordinate and consult closely in future so as to ensure that the donor community is aware of their regional strategies, including their enterprise needs. Cooperation will be much more fruitful than competition. Such a process would be essential in ensuring that donors respond to the local/regional agenda and priorities for enterprise development, rather than the other way around.

## 4. SUBNATIONAL SME POLICY INDEX

### 4.1 The modified SME Policy Index

This project builds on the experience of the OECD IC and lessons learned over the last three years of conducting the national SME Policy Index assessments for 2007 and 2009.<sup>9</sup> The assessment of the status of policy implementation was produced by taking into account the findings from detailed policy analysis, review of statistical data and the perceptions of SMEs and municipalities located in the two regions in Serbia.

The SSPI assessment grid covers ten policy dimensions adopted from the SME Policy Index and the Investment Reform Index<sup>10</sup>:

1. Cheaper and faster start-up
2. Better legislation and regulation
3. Improving online access
4. Getting more out of the single EU market
5. Access to finance
6. Strengthening the technological capacity of SMEs
7. Successful e-business models and top class small business support
8. Representation of small business interests
9. Human capital assessment
10. Investment promotion

For each dimension, the OECD IC identified a number of policy sub-dimensions, derived from the scope of the SME Index 2009/IRI 2010, and for each sub-dimension a set of indicators were developed representing key relevant policy features.

For the indicators, the OECD IC identified five levels of policy development ranging from level one, corresponding to the absence of a policy approach, to level five corresponding to international best practices. Level three indicates the presence of basic policy elements (legislative framework completed, relevant institutions established), while level 4 corresponds to greater degrees of implementation enforcement.

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<sup>9</sup> Reports of the SME Index 2007 and 2009 can be found at [www.oecd.org](http://www.oecd.org)

<sup>10</sup> The Investment Reform Index 2010 for South East Europe can be found at [www.oecd.org](http://www.oecd.org).

The objectives of the SSPI are:

- To measure SME policies and programmes on the basis of inputs from government, regional development agencies, the private sector and municipalities.
- To allow a comparative independent evaluation of progress on policies and programmes across the two sub-national regions in Serbia.
- To support Serbian central authorities and regional development agencies in setting targets on SME policy development that are measurable, comparable and relevant.
- To promote exchange of experiences between central government authorities and RDAs.
- To track the progress of SME policy and programme implementation by comparing the results of the regional assessments with those of the national government in the SME Policy Index 2009 and Investment Reform Index 2010.

In addition to developing the indicators, the OECD IC contracted the Economic and Social Policy Institute (ESPI) in Serbia to collect the background information for the SSPI for Banat and Zlatibor. ESPI carried out focus group research to obtain the local perspective from the point of view of the RDAs in Banat and Zlatibor, municipality officials, as well as local entrepreneurs. ESPI also collected background information for the two regions, such as SME / enterprise statistics and background data on national, provincial (Vojvodina) and local SME support programmes.

Each RDA in Banat and Zlatibor performed a self-analysis of its SME environment. In addition, certain local authorities in the Banat and Zlatibor regions also completed the self-assessment. The latter two aspects were not essential to the preparation of the SSPI and were not part of the methodology. The information was used for cross-referencing purposes only.

#### **4.2 Comparison of national / sub-national SME Policy Index**

In September 2009, the OECD (IC-LEED) obtained the necessary background materials, namely: the national SME Index data for Serbia (2009), the regional level analyses prepared by ESPI for Banat and Zlatibor (30 June 2009) and the respective RDAs' own self-assessments and those of municipalities in the two regions (4 out of 19 from Banat and 9 out of 10 from Zlatibor). The OECD (IC-LEED) took the ratings and analysis provided by ESPI, the RDAs and municipalities, cross-referenced the information and modified the assessments following discussions during a mission to Serbia lasting from 21-25 September 2009 (see Annex 1).

The aim was to compare the results of the SME Policy Index for Serbia (2009) at the national and regional level and identify gaps in performance, leading to the preparation of a set of policy recommendations. It should be noted, however, that it is not possible to directly compare the overall Serbia SME Policy Index (2009) with the SSPI for several reasons:

- The regional SME Policy Index is a modified version of the national one: indicators have been finessed, added/removed, transferred from one dimension to another, etc.
- Some of the indicators in the regional SME Policy Index are derived from a separate OECD index, namely the Investment Reform Index (IRI).

- The national SME Policy Index contains weighted information, which is not the case for the regional indexes.

For comparability, individual unweighted information is presented in Table 19. The data presented below are the product of various sources of information:

- SME Policy Index 2009
- Preliminary Investment Reform Index 2010
- Assessment prepared by ESPI
- Self-assessment prepared by RDAs in Banat and Zlatibor
- Discussions between OECD, Pinto Consulting GmbH, ESPI, RDAs and local authorities

**Table 19. SME Policy Index 2009 for Serbia and SSPI results for Banat and Zlatibor  
(un-weighted ratings)**

<b>Dimension 1: Cheaper and faster start-ups</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>3.6</b>	<b>3.6</b>	<b>3.3</b>
<i>1.1</i>	<i>Reduce cost and time for start-up</i>	<i>3.8</i>	<i>4.1</i>	<i>3.6</i>
1.1.1	Number of days for obtaining company registration certificate	4.0	3.5	3.0
1.1.2	Number of administrative steps for obtaining the company registration certificate	4.0	5.0	5.0
1.1.3	Official cost of obtaining the company registration certificate	3.0	3.5	3.5
1.1.4	Administrative identification numbers in dealing with the public administration	4.0	4.0	4.0
1.1.5	Number of days for compulsory company identification number(s)	3.0	4.0	4.0
1.1.4a	Administrative identification numbers in dealing with the public administration	4.0	4.0	4.0
1.1.5a	Number of days for compulsory craft identification number(s)	3.0	4.0	4.0
1.2.6	Silence is consent applied to company registration procedures	5.0	5.0	1.0
<i>1.2</i>	<i>Increase on-line access for registration</i>	<i>3.5</i>	<i>3.0</i>	<i>3.0</i>
1.2.1	Permits and Licenses (companies)	3.5	2.5	2.5
1.2.2	On-line registration	3.5	3.5	3.5
<b>Dimension 2: Better legislation and regulations</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>N/A</b>	<b>3.2</b>	<b>2.0</b>
<i>2.1</i>	<i>Institutional framework</i>			
2.1.1	SME Policy Co-ordination and Elaboration in the region	n/a	3.0	1.5
2.1.2	SME Development Strategy within the region	n/a	3.0	2.0
2.1.3	SME Policy Implementation unit or Equivalent within the region	n/a	3.5	2.5
<b>Dimension 3: Improving on-line access</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>3.2</b>	<b>2.6</b>	<b>1.4</b>
<i>3.1</i>	<i>Interaction with government services</i>	<i>2.3</i>	<i>2.2</i>	<i>1.3</i>
3.1.1	Tax returns on-line	1.5	1.5	1.5
3.1.2	Reporting on enterprise statistics	4.0	4.0	1.0
3.1.3	Extension to other services	1.5	1.0	1.5
<i>3.2</i>	<i>Information</i>	<i>4.0</i>	<i>3.0</i>	<i>1.5</i>
3.2.1	On-line information for SMEs provided by local administration	4.0	3.0	2.0
3.2.2	Quality of on-line portal established by local administration	4.0	3.0	1.0
<b>Dimension 4: Getting more out of the single EU market</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>4.0</b>	<b>3.2</b>	<b>2.0</b>
<i>4.1</i>	<i>Export promotion programmes</i>			
4.1.1	Export Promotion Programmes	4.5	3.0	3.0
4.1.2	Enhancing SME Competitiveness	3.5	3.5	1.0
4.1.3	Local SME Promotion Events	4.0	3.0	2.0
<b>Dimension 5: Access to finance</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>3.9</b>	<b>4.1</b>	<b>3.5</b>
<i>5.1</i>	<i>Finance</i>			
5.1.1	Credit Guarantee Schemes	3.0	3.0	1.0
5.1.2	Commercial Practices and Provisioning Requirements	3.0	3.5	3.5
5.1.3	Cadastre	3.0	4.0	4.0
5.1.4	Leasing Industry	5.0	5.0	5.0
5.1.5	Venture Capital/Equity Funds	3.0	3.0	1.0
5.1.6	Registration systems for moveable assets	5.0	5.0	5.0
5.1.7	Credit Information Services	5.0	5.0	5.0
<b>Dimension 6: Strengthening the technological capacity</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>3.2</b>	<b>2.2</b>	<b>1.0</b>

6.1	<i>Promote technology dissemination</i>			
6.1.1	Support training on technology	2.5	1.0	1.0
6.2.1	Innovation and technology centres/ Co-operation between Universities, R&D centres and SMEs	3.0	2.0	1.0
6.3.1	Inter-firm clusters and networks	4.0	3.5	1.0
<b>Dimension 7: Successful e-business models and business support</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>3.5</b>	<b>2.4</b>	<b>2.0</b>
7.1	<i>SMEs support facilities and services</i>	3.0	2.0	1.7
7.1.1	Business Incubators	3.5	3.0	2.5
7.1.2	Range of Business Services	2.5	2.0	1.5
7.1.3	Quality of business services	3.0	1.0	1.0
7.2	<i>Information for SMEs</i>	4.0	2.8	2.3
7.2.1	Availability and Accessibility of Information	4.0	2.5	2.0
7.2.2	Business information centres	4.0	3.0	2.5
<b>Dimension 8: Develop stronger representation</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>3.6</b>	<b>2.0</b>	<b>1.4</b>
8.1	<i>SME networks</i>	3.8	2.3	1.5
8.1.1	SME network	3.5	2.0	1.5
8.1.2	Chambers of Commerce	4.0	2.5	1.5
8.2	<i>Public private consultations</i>	3.4	1.8	1.3
8.2.1	Frequency of public/private consultation (PPCs)	4.0	2.5	1.0
8.2.2	Formal influence of PPCs	3.5	1.5	1.0
8.2.3	Representativeness of PPCs	3.0	2.0	2.0
8.2.4	How does the PPC meet?	3.0	1.0	1.0
<b>Dimension 9: Human capital assessment</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>N/A</b>	<b>2.5</b>	<b>1.5</b>
9.1	<i>Vocational Education and Training</i>	3.0	2.5	2.0
9.1.1	Development of the VET system	3.0	2.5	2.0
9.1.2	Consultative process in the VET system	3.0	2.5	2.0
9.1.3	VET participation rate (2007)	19.3%	5.4%	8.8%
9.1.4	Participation in work-based VET	n/a	n/a	n/a
9.2	<i>Continuing education and training</i>	2.0	2.5	1.0
9.2.1	Extent of development of work-related system of continuing education and training	2.0	2.5	1.0
9.2.2	Participation in work-related CET (2008)	1.25%	2.0%	0.5%
9.2.4	Strategic skills (2006)	21.5%	n/a	n/a
<b>Dimension 10: Investment promotion</b>		<b>SER</b>	<b>BAN</b>	<b>ZLA</b>
		<b>3.8</b>	<b>1.8</b>	<b>1.3</b>
10.1	<i>Framework</i>	4.0	2.4	1.5
10.1.1	Investment promotion and facilitation (IPF) action plan	4.0	3.0	1.0
10.1.2	Institutional support	5.0	2.0	1.0
10.1.3	Monitoring and Evaluation	4.0	1.0	1.0
10.1.4	Investment Incentives administered by the local administration	n/a	2.5	2.5
10.1.5	Titling and Cadastre	3.0	3.5	2.0
10.2	<i>Facilitation activities</i>	3.6	1.3	1.1
10.2.1	Linkage programme	4.0	1.0	1.0
10.2.2	One stop shop	2.0	1.0	1.0
10.2.3	Client Relationship Management	4.0	1.5	1.0
10.2.4	Policy Advocacy	4.0	1.0	1.0
10.2.5	Aftercare Services	4.0	1.0	1.0
10.2.6	Industrial Parks/Free Zones	n/a	2.0	1.5

### **4.3 Key Barriers to SME Development**

Based on the SME Index 2009 for Serbia and the SSPI for Banat and Zlatibor illustrated in Table 4.1 above, a number of conclusions can be drawn for each of the 10 policy dimensions covered.

#### ***Dimension 1: Cheaper and faster start-up***

Ten indicators make up the “cheaper and faster start-up” dimension. Overall, there is relatively little variation between the national situation in Serbia and that found in Banat and Zlatibor. In a few cases, such as the number of administrative steps for obtaining the company registration certificate, the regions actually perform better than the national level. However, this principally reflects the time difference between the point when the Serbian Index data was collected (November 2008) and when the regional research was conducted (June 2009), by which time further reforms had been implemented. It is worth highlighting that “silence is consent” does not appear to be applied to company registration procedures in the Zlatibor region, as illustrated in Table 4.1. The Business Registration Agency (BRA) may wish to assess the reason for the local variance it aims to improve efficiency across the country.

#### ***Dimension 2: Better legislation and regulation***

Although no national (Serbia) data exist for the SME institutional framework, the SSPI illustrates that there is a good deal of variation at the subnational level. SME policy coordination and elaboration, as well as SME strategy development and implementation is in the process of being established in both regions, with the active support of the existing RDAs. This process is likely to be spurred by the new Regional Development Law (2009), however, a gap exists between local plans and regional level SME policy making, strategy development and implementation in both Banat and Zlatibor. In both cases, this gap will be partly filled by respectively the Regional Development Strategy in Banat and the Integrated Development Plan in Zlatibor, which are in the process of being finalised. In future, greater emphasis will need to be placed on effective implementation and policy coordination with the future NUTS II regions as per the new Law on Regional Development.

#### ***Dimension 3: Improving on-line access***

Banat and particularly Zlatibor do not perform well in relation to improving on-line access. The quantity, quality, relevance of information and portals need to be examined and made more timely and relevant to the needs of the SME sector. This does not necessarily require significant resources to achieve; but it does require the local authorities, regional chambers of commerce and RDAs to place entrepreneurs (as well as citizens) at the forefront of their information provision systems. Both issues are rated better at the national level and are particularly weak in Zlatibor.

#### ***Dimension 4: Getting more out of the single market***

The SSPI reveals a similar situation as in the preceding policy dimension. In terms of issues such as programmes to support export, competitiveness and SME promotion, this is performed best at the Serbian level but not so well at the regional level, especially in Zlatibor. The autonomous status of Vojvodina means that SMEs located in Banat gain additional advantages by participating in provincial programmes not available to SMEs outside of Vojvodina.

### ***Dimension 5: Access to finance***

The access to finance dimension does not depict much variation between the national and subnational perspective. Indeed, as a result of being within the Vojvodina province, the Banat region actually attains a slightly better rating than the national situation. The Zlatibor region could benefit from access to guarantee schemes and venture capital financing. Although it might be advantageous in some respects, there is no reason why such schemes must necessarily be located within those two regions, as long as enterprises have access to provincial, national or international sources of financing elsewhere in Serbia.

### ***Dimension 6: Strengthening the technological capacity of SMEs***

The situation at the national level is more advanced compared to what exists in Banat and Zlatibor. Neither region provides consistent technology training, while more could be done to promote the benefits networking activities. The situation is slightly better in terms of inter-firm clusters and networks in Banat. At the Vojvodina level, a cluster development team and a Centre for Competitiveness and Development of Clusters and funding exist. The Private Sector Development Project (supported by the Swiss Agency for Development) is supporting value chain development in certain sectors in Zlatibor. Sustainable support for cluster promotion and inter-firm networks would benefit both regions.

### ***Dimension 7: Successful e-business models and top class small business support***

The SSPI shows that the situation is a little better in relation to business support. Banat has three business incubators (including a so-called “mini” incubator), whereas Zlatibor opened its first business incubator in September 2009. Although this mechanism of supporting enterprises, especially start-ups and early growth firms, could be further emphasised, the OECD (IC-LEED) recognises that progress is partly connected with state-owned property, which cannot currently be made available for incubator development. There is a notable lack of business development service (BDS) providers and the quality of provision is low. The RDAs support potential entrepreneurs, start-ups and early growth enterprises, in other words, in those sectors that are not able or willing to pay for business services due to market failure. The lack of business consultants is currently an important inhibiting factor in terms of provision of quality, specialist business services targeted at the further development and competitiveness of SMEs. This is the case especially for medium-sized enterprises with capacity to pay for specialist, quality services focusing on issues such as export market development, quality systems, management, quality control etc.

### ***Dimension 8: Representation of small business interests***

This dimension is one of the weakest areas identified by the SSPI. At the national level, the situation is fairly good: an SME Forum has been established by the Chamber of Commerce, including an on-line tool for consultation with enterprises. Nevertheless, none of the interlocutors in Banat or Zlatibor, including representatives of the regional Chambers of Commerce, Associations of Entrepreneurs as well as entrepreneurs, were aware of the existence of the SME Forum or on-line dialogue mechanism. At the local authority level several problems were noted: public private consultation (PPC) is *ad hoc* and may not involve SMEs at all (public companies or large enterprises might be favoured instead); the local Entrepreneurs' Associations are weak and un-influential; and the existing RDAs struggle to involve SMEs in a meaningful manner, including in their latest strategic documents. As a matter of good practice, public authorities at all levels should foster periodic communication with SMEs at all levels of

government. At the national level, the process for PPC should be reviewed, since it does not appear to have an impact beyond Belgrade.

***Dimension 9: Human capital assessment***

An effective vocational educational training (VET) and continuing education training (CET) system are at a relatively early stage of development at the national level and within Banat and Zlatibor. Some pilot initiatives are underway which are creating greater linkage between educational system and entrepreneurs, such as the greater connection between the educational qualifications and the needs of the labour market. Education Committees are being formed, Education Fairs are being organised, etc. However, the process is relatively new and consultation is not systematic. Regarding adult education, a national strategy and action plan exists but significant efforts are required on funding and implementation.

***Dimension 10: Investment promotion***

All local authorities recognise the importance of investment promotion and many have some form of promotional material for their localities. However, the Local Economic Development Units, in the municipalities where these exist, are under-staffed and under-funded. The existing RDAs could perform this function more effectively on behalf of Banat and Zlatibor. Overall the investment promotion function is underdeveloped across-the-board in both Banat and Zlatibor compared with the national situation. The existing RDAs would benefit from having the mandate, training and tools required to perform some investment promotion activities on behalf of their regions. This could be done by closer cooperation with the Serbian Investment and Export Promotion Agency (SIEPA) and Vojvodina Investment Promotion (VIP).

## 5. POLICY RECOMMENDATIONS

### 5.1 Introduction

Based on the information arising from the SSPI, focus group discussions with local authorities and entrepreneurs, as well as the detailed discussions between OECD (IC-LEED) and the RDAs, a number of policy recommendations emerge. However, it is important to note that the implementation of the new law on regional development will have an impact on how SME policy both nationally and regionally is developed and implemented. The recommendations made in this section take into consideration elements of the new law on regional development.

The recommendations developed fall into two categories: I) general SME policy orientation; and II) issues arising from application of the OECD-ICs new tool – the Sub-national SME Policy Index (SSPI) - to measure gaps between national SME policy and sub-national SME programmes. Recommendations linked to the former are meant to address broader issues arising from analysis concerning SME programmes in Serbia. It should be noted that these are preliminary recommendations based on partial analysis of the relevant institutions and programmes, with a focus primarily on financial support to SMEs. Recommendations of the second type are more concrete and are based on gaps between SME policies and activities found at the national level and those implemented in the regions covered by this study.

The results of this study are intended to act as the OECD (IC-LEED)s contribution to the discussion surrounding the implementation of the *Law on Regional Development* (No. 51-2009) in Serbia, which will have implications for future SME policy in Serbia.

### 5.2 Recommendations based on general SME policy orientation

#### *National issues*

Serbia has a large number of programmes focusing on SME development at national, provincial, and local authority levels. This has the potential to lead to complexity and overlap. With such a large number of programmes and activities, public officials must ensure that financial resources are being used effectively and that administrative costs do not escalate needlessly.

- The OECD (IC-LEED) encourages Serbian public authorities at national and sub-national levels to carefully monitor and evaluate all systems of SME support, especially state aid, to ensure SMEs and entrepreneurs are getting sufficient and effective support. Evaluation is critical to assessing whether SME programmes are having their intended effect.

The existing set of national SME support programmes distributes resources based on national priorities. The end result may be that the resources are going to high performing enterprises with the most potential, however, this system may also contribute to reinforcing national and regional differences.

- The OECD (IC-LEED) encourages policy makers in Serbia to consider how regional differences can be incorporated in national SME schemes in order to support SMEs in less-developed areas in Serbia and ensure they are not left behind.
- The OECD (IC-LEED) encourages the Serbian government to consider whether the existing national system of SME support should introduce corrective measures to help poorer regions or, alternatively, whether elements of regionalisation policy should be introduced in national schemes. This consideration should be informed by public-private consultations between national officials, local administrations, and SME representatives in all regions.

Although Serbia's national SME Strategy and Annual Plans represent the overall framework for state support, Serbian SMEs could benefit from clear targeting of subsidies, consistent with the new regional development law, with a two-fold focus.

- Geographical development: certain regions, sub-regions, municipalities.
- Improving SME functional capabilities: innovation, R&D, export development, technology absorption

Serbia's state-run Development Fund is a major player in supporting SME development, providing funds in the form of favourable loans to SMEs.

- Given the amount of resources the DF directs to SME support, the OECD (IC-LEED) encourages the DF to maintain a high degree of transparency and ensure easy public access to information regarding its programmes, projects, application processes, qualification and evaluation processes.
- As Serbia has begun accessing EU funds such as the instrument for pre-accession (IPA) and other resources that could be used for SME development. The DF should consider reviewing its priorities and allocation mechanisms to ensure its resources are allocated in a manner that complements EU financial resources to Serbia. The OECD (IC-LEED) cannot be more precise as these financial channelling mechanisms and priorities are being defined by the EU for the IPA funding period 2011-2013.

### ***Regional issues***

The available data on SME support indicate that the Banat and Zlatibor regions underperform in terms of drawing-down SME financial support compared with the national average. Furthermore, the performance of the three districts in the Banat region is highly uneven, both in terms of number of applications made and success rate (i.e., South Banat is much more active and successful than Central and North Banat).

- The OECD (IC-LEED) encourages officials from Central and North Banat and the RDA to assess why SMEs from those areas are underperforming and develop strategies for securing higher levels of financial support for their local SMEs and entrepreneurs.
- In order to better coordinate donor activities, it is advisable for individual local authorities to develop and maintain databases of project activities, including their impact, strengths and weaknesses. This would enable the local authorities to be in a

better position to maximise the benefits arising from future financial support. Data development of this sort might also be done through regional development agencies.

### 5.3 Recommendations based on analysis of the Sub-national SME Policy Index (SSPI)

The SSPI provides rich material for selecting possible policy recommendations. Below, the OECD presents five recommendations which we consider to be particularly salient and timely.

**1. Representation of SME interests.** At the national level, the SME Strategy and Action Plan place significant emphasis on the importance of effective public private consultation and dialogue (PPC) on small business matters. The SME Forum, created in April 2008 and run by the Chamber of Commerce,<sup>11</sup> is the principal channel for PPC. The SME Forum uses an on-line dialogue tool as an open platform for dialogue between the public and private sector. In all, 50 firms form part of the SME Forum, which is also geographical in nature (Belgrade, Vojvodina and Central Serbia and Kosovo and Metohija).

The national SME Index rating for PPC matters is 4 (out of 5). However, the level of PPC at regional (NUTS III) and local authority level is at best rudimentary in Banat and Zlatibor. Neither the representative bodies nor enterprises participating in the discussions were aware of the existence of the SME Forum or on-line dialogue tool. At the NUTS III level, there is very limited participation by SMEs in strategies, policies, programmes, etc. and the RDAs acknowledge difficulties in involving enterprises in their work, such as creating regional development strategies. Local authorities do recognise the importance of SMEs to the local economy. Unfortunately they fail to engage them in effective dialogue.

In this regard the OECD (IC-LEED) recommends:

- Where possible, officials at national and sub-national level should promote awareness of the SME Forum operated by the Chamber of Commerce and its corresponding on-line consultation tool.
- Where national level consultative bodies are created for SME policy development, care should be taken to include balanced geographical representation through the presence of RDA representatives and local authorities.
- Where new regional consultative structures (i.e., NUTS-II level) for economic development are created by the new Law on Regional Development (e.g., Regional Development Councils), SME representatives should be included in any such structures. For example, a region-specific SME development working group could be established to ensure effective coordination of enterprise-related priorities and perspectives.
- Similarly, where new local authority consultative structures (i.e., NUTS-III level) for economic development are created by the new Law on Regional Development, SME representatives should be included in such structures. For example, an SME-enterprise development working group could be established to ensure effective coordination of enterprise-related priorities and perspectives. This would assist local-level bodies to feed information on local SME issues up to regional-level structures.

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<sup>11</sup> The Chamber of Commerce will retain its compulsory status until 2013.

- Local authorities should establish mechanisms for regular public private consultations (PPC) with SMEs (e.g., four times per annum) combined with ad hoc meetings on specific strategies, programmes, projects, etc. affecting the business sector. It is only when SMEs see the value of their involvement (e.g. consultation around specific projects) that PPC can become effective.
- If the government decides to pursue a policy of greater regionalisation of SME policy, it should consider empowering the local authorities and NUTS-III level RDAs to undertake PPCs with SMEs. In addition to this, the local authorities and RDAs could be involved in monitoring and evaluating the effectiveness of national level programmes designed to assist SME development.

**2. SME strategy development.** The SSPI suggests that SME strategy development could be significantly improved in the two regions. The SSPI shows that an effective institutional framework supporting SMEs is lacking at the local level. Municipalities refer to the nature and importance of the SME sector in their local plans. However, a gap exists between this and meaningful financial and non-financial support to the sector. The local plans do not demonstrate a firm commitment to the full palette of SME support measures, including coordination and implementation of policies. This gap is also evident at the NUTS III regional level. However, both RDAs in Banat and Zlatibor, as former local SME Agencies supported by RASMEE, have strong SME capabilities.

SME policy coordination and elaboration, as well as SME strategy development and implementation capabilities are in the process of being established at the regional level (NUTS III) with the active support of the existing RDAs. Whilst this process will undoubtedly be further spurred by the Regional Development Law (2009), it remains to be seen how quickly and effectively this new law will be implemented. For example, the by-laws are not yet in place and it is possible that new amendments will be made<sup>12</sup>. At the moment there is a gap between local plans and regional-level SME policy-making, strategy development and implementation that needs to be filled in both Banat and Zlatibor. In both cases, this gap will only be partly filled by the regional development strategy in Banat (being finalised) and the Integrated Development Plan in Zlatibor (being finalised). The existing RDAs in Banat and Zlatibor have undertaken efforts to develop strategies to support SME development. However, not all local authorities located within these regions have defined SME strategies. A gap, therefore, emerges between what is being developed regionally and what is planned locally.

The OECD (IC-LEED) recommends that:

- Existing RDAs should have the mandate and capacity to implement the SME-related aspects of regional strategies more effectively than hitherto as many local authorities simply do not have the resources or expertise to implement SME activities. The importance of this role will grow once the future NUTS II level regional development councils are created as foreseen by the new Law on Regional Development. It will be necessary for the existing RDAs in Banat and Zlatibor to act as coordinators and catalysts for projects in support of SME development in their respective regions vis-à-vis the wider spatial area to be covered by the new NUTS II-level statistical regional

<sup>12</sup>

Situation at time of OECD Investment Compact and LEED field mission to Serbia in September 2009

units. The experience of Scottish Enterprise suggests that having a coherent national strategy for regional development complemented by SME service delivery at the local level could be a powerful approach to SME support (see Box 1).

#### **Box 1. Scottish Enterprise's approach to national and regional economic development**

Scottish Enterprise (SE) was established in 1991 to provide a full range of economic development support to lowland Scotland. SE's current annual budget is approximately £450 million, and is responsible for a wide package of economic development interventions: support for new starts and SME growth; attraction of FDI; workforce development; and urban regeneration. Around 70-80% of SE's budget is delivered through a network of 12 Local Enterprise Companies (LECs) covering the main regions of Scotland. These are now subsidiaries of Scottish Enterprise, though were originally established as separate, albeit publicly-funded, companies. Each LEC has its own Board, chaired by a local business person and with a majority of private sector representatives. The overall structure therefore comprises a national agency, SE, which holds the overall budget and is accountable to the Scottish Executive devolved government, and a series of subsidiary companies that draw from the national budget to deliver services in their local areas. SE nationally sets the overall strategy, priorities and targets as well as retaining responsibility for delivering certain activities. The LECs must commit to agreed contributions to national targets, work consistently within nationally agreed priorities and service standards, while tailoring their services to the particular needs of their local area

In the early stages of SE, the LECs were afforded a large degree of autonomy. They prepared their own annual strategies and bid competitively to SE for budget allocations. SE retained responsibility for national strategy, FDI attraction and impact monitoring. But it exercised this responsibility with a relatively light touch. As a result, the LECs were able to build their own reputations, contacts and, in some cases, brands within their regions. This brought a number of benefits: clear identification of local needs and priorities; partnership working with other local agencies; strong visibility within their regions, making contact and access to services relatively easy; and, ability to focus on projects and activities of most relevance to their area. Some disadvantages were also evident, including difficulties in agreeing the right balance between national and regional priorities, development of duplicating and overlapping services in each region, causing confusion for the businesses being supported, inconsistent quality and terms of service, inefficiencies in administration budgets and tensions between national and local management. From around 1999 onwards, more control began to be exercised from SE nationally. The LECs became subsidiaries of SE, rather than separate companies. Their budgets were allocated centrally, rather than negotiated annually. Performance targets and measures were set by SE nationally. Shared administrative services were established. On the positive side, this led to a more strategic, national approach with common standards of service and customer expectations were clearer. Less positively, the change reduced local innovation and sensitivity.

In the early stages of SE and the LECs, it proved difficult to recruit local business people to join their Boards. It also proved challenging to recruit staff of a consistently high quality across all regions, with the larger cities and regions proving more attractive. Building local partnerships also proved difficult in some areas, with many local authorities mistrusting what they perceived to be unelected and unaccountable agencies. In the later years, with the shift to more central control and direction, the process of change was hindered in many regions by political disputes over control and responsibility. The scale of change in itself became a major bureaucratic exercise, and diverted time and resources from service delivery. This demonstrates the risks of allowing too inflexible and entrenched an approach to delivery to become established, as the timescale and cost of change detract from the core purpose of supporting economic growth and can alienate the business community that is seeking support.

The Scottish experience suggests that no single, fixed model is appropriate when determining the correct balance between national, regional and local delivery. It is however advantageous to have a clear national strategy, which each region takes responsibility for making a contribution to. It is also beneficial to design consistent services to business at a national level, so that SMEs and others know what to expect and that wasteful competition across regions is avoided. Actual delivery of SME services tends however to be more effective when driven at the local level. Knowledge of local businesses and their needs will be better, access for SMEs will be easier, and the building of the partnerships needed with other local agencies will be more effective. Combining the best of national strategy and consistency with local delivery and accountability is a challenging objective but a potentially powerful approach to SME support.

Source : OECD LEED (2007) Strengthening entrepreneurship innovation and economic development a local level in Croatia - An active review, OECD Paris

**3. Supporting SME access to business services.** Although both regions are making progress with business incubation (three in Banat and one recently opened in Zlatibor), the range and quality of business services available in the regions are underdeveloped and hinder economic development. The situation at the national level is slightly better. Currently, the existing RDAs provide significant levels of information, signposting and advice, including coaching and mentoring for start-ups. However, the existing RDAs are neither designed (nor are able) to provide a more sophisticated level of support in relation to business development services (BDS), in particular services targeted at established and growing enterprises. This is normally the role performed by BDS providers, on a commercial basis. There is a scarcity of business consultants in the region, with existing RDAs experiencing difficulties finding and utilising more than a handful of competent business consultants in their localities.

Discussions with entrepreneurs confirms that such a gap exists and that the existing RDAs, local authorities, regional Chambers of Commerce and others are not able to provide more sophisticated training, research and consultancy in relation to key areas of business services. These are the types of business services which more established, growing and profitable business are willing and able to pay for, such as quality standards (industrial, agricultural, service, etc.), market research, advertising and promotion, etc.

As EU financial support, such as IPA funds start flowing and, in due course, structural funds become available, more opportunities will arise for BDS providers to gain a market and become established, thereby creating diverse support services that the local economy requires. There is, therefore, a need to raise the quantity, quality and standards of consultants at the NUTS II level. Since Zlatibor covers 10 local authorities and Banat 19, a market exists for such services.

To increase the accessibility of BDS to SMEs in Banat and Zlatibor, the OECD (IC-LEED) recommends:

- RDAs undertake collection of information on business consultants and consultancies and the services they provide (both in the region and nationally, especially in cities like Belgrade, Novi Sad, Kragujevac, etc.) and make them available to interested local enterprises.

In addition, to raise the quality of existing BDS consultants in Serbia which would provide support for SME development on a commercial basis, the OECD (IC-LEED) encourages national and sub-national officials:

- To prepare programmes and activities designed to raise standards of existing business consultants (such as the Certified Management Consultants certification, which is internationally recognised).

**4. Effective investment promotion.** Investment promotion is priority for local authorities interviewed for this project, many of which have created their own promotion materials and have sought to develop industrial/science parks and free zones to attract foreign investors. However, the reality is that the global economic crisis has resulted in FDI plummeting throughout the world, including in the Western Balkans. Competition is becoming ever more intense. Only the best-organised regions can hope to attract meaningful investment in the future, whether domestic or international in nature.

The SSPI reveals that neither the local authorities nor the regions are in a position to undertake investment promotion in a structured and proactive manner. Very few municipalities

have meaningful capabilities in the form of local economic development (LED) units, with the exception of larger municipalities such as the town of Zrenjanin (15 staff) in Banat; for example, even Užice has a complement of 2 staff at the LED unit. The local authorities in the two regions would be better served by joining forces and resources at the regional (NUTS III) level to achieve more effective investment promotion instead of trying to perform such functions individually. The existing RDAs, perhaps not surprisingly because of their origins as SME centres, focus their resources on SME matters: the RDA in Zlatibor has 8 staff in the SME Department (out of 16) and while the RDA in Banat has 4 staff in the SME Department (out of 16). The existing RDAs in Banat and Zlatibor have the potential to perform limited investment promotion activities, provided the right resources.

In this regard the OECD (IC-LEED) recommends:

- A formal mandate be given to the existing RDAs in Banat and Zlatibor to perform investment promotion activities on the behalf of the local authorities they represent;
- Establishment of an investment promotion capability in the RDAs (e.g. 2 staff to begin with);
- Provision of resources for RDAs to perform this function (through local authority and project funds or international donor support) focusing on capacity building, investment promotion plans, client relationship management systems, policy advocacy and aftercare services;
- Development of close linkages and cooperation with the Serbian Investment and Export Promotion Agency (SIEPA), together with an up-to-date and comprehensive database of land, building and infrastructure (“greenfield” and “brownfield”) of interest to potential domestic and foreign investors.

**5. Human capital development.** The SSPI shows that the vocational educational training (VET) and continuing education training (CET) systems in support of SMEs are at a relatively early stage of development at the national level in Serbia and the two regions in question. However, the process is relatively new and improvements are anticipated. The OECD (IC-LEED) will defer providing recommendations in this field until a better sense of how existing reforms will unfold.

## **ANNEX 1: SELECTED SUPPORT PROGRAMMES IN VOJVODINA PROVINCE**

*Secretariat of Work, Employment and Gender Equality: subsidies for self-employment of unemployed persons from the Province of Vojvodina*

The registered unemployed who start new businesses are awarded a subsidy of EUR 1,370 per employee to be used for the following purposes: purchase of fixed assets, inventory, spare parts, adaptation of the premises and other purposes necessary to conduct the business. An additional 25% may be awarded if:

- the business is established in an underdeveloped municipality.
- an unemployed person starts a business that falls into one of the following vulnerable groups in the labour market: younger than 30, older than 50, handicapped, women from rural areas, single parents, Roma, refugees and displaced persons, and other persons in accordance with the decision of the Executive Council.
- the unemployed person is jointly using this subsidy with one-off compensation granted by the National Employment Service.
- the newly established enterprise is registered in the manufacturing, services, crafts or agriculture sectors.

*Secretariat of Work, Employment and Gender Equality: subsidies for new employment of unemployed persons from the Province of Vojvodina*

Employers who create jobs for the registered unemployed on a full-time basis and for an indefinite time period (the employment contract must be valid for at least two years), are granted a subsidy of EUR 1,060 per new employee. An additional 30% may be awarded if:

- 10+ new jobs are generated
- the business is started in an underdeveloped municipality.
- the new employee falls within one of the following vulnerable groups in the labour market: younger than 30, older than 50, handicapped, women from rural areas, single parents, Roma, refugees and displaced persons, and other persons in accordance with the decision of the Executive Council.
- the new employee has been granted compensation from the National Employment Service and there is less than two years until retirement.
- the newly established enterprise is registered in the manufacturing, services, crafts or agriculture sectors.

*Secretariat of Work, Employment and Gender Equality: temporary employment of trainees from the Province of Vojvodina*

Employers are invited to participate in this programme to assist trainees to be employed for a period of 12 months. Salaries are paid by the Secretariat for a period of 10 months, with the employer covering the remaining 2 months. The payments amount to EUR 395 gross for trainees with university education and EUR 293 gross for those with college or secondary education.

*Secretariat of Economy: subsidies for participation at trade fairs*

SMEs in the manufacturing and tourism sectors are eligible this subsidy. Up to 70% of the following costs are covered for:

- rent and preparation of booths up to a maximum of EUR 4,200 per company.
- preparation and printing of promotional material up to EUR 2,100 per company.

*Administrative Service for the implementation of the programme of economic development of the Province of Vojvodina: subsidies for participation at trade fairs*

The “Business Export Promotion Support Fund” (BPF) programme is open to existing and prospective exporters in the manufacturing and tourism sectors. Up to 50% of the following costs are covered:

- rent of booths up to a maximum of EUR 9,500 per company (where a booth is shared by more than one company, the maximum per company is EUR 4,750).
- travel and accommodation for up to two persons.
- prepare and print promotional material (up to EUR 1,400 per company).

*Administrative Service for the implementation of the Programme of economic development of the Province of Vojvodina: subsidies for co-financing of the projects of introduction and certification of HCCP systems*

Subsidies are also available from the “Export Promotion of Agricultural Products” programme. Eligible SMEs are those that produce and trade in agricultural products and have not already been beneficiaries of subsidies offered by the Executive Council for similar purposes. The subsidy depends on the number of employees:

- up to EUR 2,100 if 5-15 staff are employed for an indefinite time period.
- up to EUR 2,630 if 16-25 staff are employed.
- up to EUR 3,160 if more than 25 staff involved.

*Administrative Service for the implementation of the programme of economic development of the Province of Vojvodina: subsidies for self-employment of single mothers from the territory of the Province of Vojvodina*

The "Scheme of Labour Cost Subsidies" offers subsidies for unemployed single mothers registered with the National Employment Service. The subsidies amount to EUR 1,370 per person and there are no constraints regarding the economic sector or category of single mother. In addition, beneficiaries are granted:

- subsidies up to EUR 42 per month during the first 6 months for accountancy costs.
- subsidies up to EUR 42 per month, during the first 12 months, for nursery costs.

*Secretariat of Work, Employment and Gender Equality: subsidies for new employment of single mothers from the territory of the Province of Vojvodina*

Firms employing unemployed single mothers registered with the National Employment Service full-time and for an indefinite period (the employment contract needs to be valid for at least two years), are granted subsidies of up to EUR 1,050 per employee for up to 5 new employees. Nursery costs up to EUR 42 per month may also be covered for a period of 12 months.

*Secretariat of Work, Employment and Gender Equality, in cooperation with the Office for the Roma Inclusion: subsidies for new employment of 20 Roma persons from the territory of the Province of Vojvodina*

This subsidy amounts to EUR 1,050 per employee; due to limited funds, each employer can employ a maximum of 10 persons.

*Secretariat of Work, Employment and Gender Equality, in cooperation with the Office for the Roma Inclusion: subsidies for new employment of 20 Roma persons from the territory of the Province of Vojvodina*

Unemployed Roma who are registered at the National Employment Service and start a new business (except farms, trade, taxi, transport and gambling) are awarded EUR 1,370 per employee. The subsidy can be used for: purchase of fixed assets, inventory, spare parts, adaptation of premises and other activities necessary to conduct business. Beneficiaries may also be granted:

- subsidies up to EUR 42 per month (during the first 6 months) for accountancy costs if the business is founded by a single beneficiary.
- subsidies up to EUR 84 per month (during the first 6 months) for accountancy costs if the business is founded by more than one beneficiary.



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