



**Republic of Serbia**  
**The Government of Serbia**

**A Strategy for the Development of Small and Medium-  
sized Enterprises and Entrepreneurship in the Republic  
of Serbia**  
**2003 - 2008**

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## **CONTENTS**

1. The strategic priority objectives in the next five-year period	3
2. The main points of the Strategy for the development of SMEs and Entrepreneurship	3
3. SME sector – European Union comparisons	4
4. The inescapable economic challenges for the Republic of Serbia	5
5. The main strategic points in the development of SMEs and Entrepreneurship in the Republic of Serbia	5
5.1. Support for development of SMEs and entrepreneurship in priority economic sectors	5
5.2. Institutional support and advocacy for SME sector	6
5.3. Removing the legal and regulatory barriers	8
5.4. Public sector and SMEs	9
5.5. Financial resources for SME sector	10
5.6. SME sector competitiveness	10
5.7. New knowledge and skills for SME sector – education and training	11
5.8. Export promotion for SMEs	11
5.9. SME performance on the domestic market	12
5.10. Preparing SME sector for the Digital Age	12
5.11. The “grey” economy	13
5.12. Analysis of SME sector performance	13
5.13. Public awareness and promotion of the Strategy for the Development of SMEs and Entrepreneurship in the Republic of Serbia	13
5.14. Implementing the Strategy for Development of SMEs and Entrepreneurship in Republic of Serbia and reviewing progress	14
5.15. International Support and Technical Assistance	14

## **1. The strategic priority objectives in the next five-year period**

The priority objective of the Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia is to create a framework for the development of a sustainable, internationally competitive and export oriented SME sector (hereinafter referred to as: SME<sup>1</sup> sector) in the following five years and subsequently to secure economic and social growth in the Republic of Serbia, which will be reflected in:

- An increase in the standard of living and a reduction in the gap between average incomes in Serbia and EU member states,
- Significant employment increase,
- Stronger and steadier regional development,
- Strengthening of international trading links, especially with EU member states, and
- An increase in available resources for other sectors, such as education, health and pension funds

The Government has set two priority targets for development of the SME sector by the end of 2007:

- (1) increase the total number of SMEs (sole traders and limited companies) from 270 000 (2002 total) to 400 000 and
- (2) the creation of over one million net new jobs in the SME sector.

There are sufficient international indicators obtained by the analysis of comparative experience, which support the attainability of the defined strategic targets. Their achievement will bring the ratio of SMEs to the overall population and employment per enterprise in the Republic of Serbia fairly close to EU averages.

## **2. The main points of the Strategy for the development of SMEs and Entrepreneurship**

The main points of the Strategy for Development of SMEs and Entrepreneurship are:

- Focus on priority sectors capable of generating economic growth, more employment and increased foreign earnings: food processing, manufacturing, tourism and e-business.
- Strengthen institutional support and advocacy at all levels for SMEs: Ministry of Economy and Privatisation, Republic Agency for the Development of Small Medium-sized Enterprises and Entrepreneurship, Regional Agencies and Centres for SME Development etc.
- Remove legal and regulatory barriers to enterprises and sole traders. The new legal and regulatory environment will facilitate rather than obstruct SME development.
- Implement public service reforms, which will result in efficient delivery of services and significantly reduced bureaucratic problems for SMEs.
- Introduce more measures to improve SME sector access to financial resources.
- Boost SME competitiveness through programmes for the development of management capabilities within enterprises, and introduce quality assurance and innovation.

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<sup>1</sup> The abbreviation MSPP in the original version of SME strategy means (SME and Entrepreneurship).

- Improve links between the education, scientific and research system and SME sector. The education and scientific and research system must be more receptive to the needs of the market economy.
- Increase exports by SMEs.
- Encourage more sales by SMEs in the domestic market: improved linkages between large-scale enterprises and SMEs in activities such as subcontracting, better public procurement opportunities for SMEs and increased penetration by SMEs at consumer level.
- Prepare Serbia's SMEs for the digital age through the development of a modern and competitive telecommunications infrastructure, support for application of information and communication technologies in business, support for development of software industry and e-business as well as the gradual implementation of e-government to facilitate on-line compliance with administrative formalities by SMEs and provide improved access to public procurement opportunities.
- Reduce the size of the "informal" economy through a combination of an improved environment for registered enterprises and sole traders and more effective coordination of inspections.
- Develop improved databases and statistical mechanisms to provide policy makers, SMEs, sole traders and the general public with more accurate information in relation to the SME sector and its contribution to economic development.
- Promote activities regarding development of SME sector through continuous communications campaigns.
- Provide for a regular SME strategy review and update and the creation of annual programmes which will define priority activities and means for the realisation of the Strategy in the following year; and
- Seek financial and technical assistance from foreign donors in support of Government designated SME priorities: creation of a stimulatory regulatory and administrative business environment, introduction of micro-credit lines and training for bank staff in developing services for SMEs, increase in the number of regional agencies and centres for the support of SMEs and development of enterprise competitiveness programmes.

### **3. SME sector – European Union comparisons**

The development of the SME sector is in line with the endeavours of the Government of the Republic of Serbia to adapt the structure of the domestic economy to the market economies of EU Member States, and elements and measures of the Strategy are based on the positive experience of EU and transition countries.

There are twenty million enterprises in the European Union and 99% of them are small and medium-sized enterprises. In fact, 93% of all EU businesses employ fewer than ten people. Small and medium-sized enterprises are the main source of employment and wealth creation within the EU:

- They provide over eighty million jobs or two thirds of total EU private sector employment
- They account for 70% of total EU turnover
- They represent 60% of total EU GDP.

The Lisbon Summit of EU Heads of Government, March 2002, identified the SME sector as one of the pillars for achieving the objective of making the European Union “the most competitive and dynamic knowledge-based economy in the world by 2010”. In June 2002, the EU leaders approved the European Charter for Small Enterprises, which called on Member States and the European Commission to support and encourage small enterprises in a number of key areas including education and training for entrepreneurship, better legislation and regulation and taxation and financial matters. They expressed full recognition of the importance of small firms and entrepreneurs for growth, competitiveness and employment in the EU.

#### **4. The inescapable economic challenges for the Republic of Serbia**

The economy of the Republic of Serbia is still in an unfavourable position caused by the break up of former SFRY, the disruption of commercial links and market loss, the consequences of serious macro-economic mismanagement during the 1990s, the isolation resulting from international sanctions imposed until late 2000 and the failure to embark on the transition process until ten years after other former socialist countries.

Although the political changes since October 2000 have led to the reintegration of FR Yugoslavia and Serbia, as well, into international institutions, renewed economic growth, restored trade links, much lower inflation and foreign aid and technical assistance, there are major economic and social problems to be resolved, mainly:

- Economic output is only half that of 1989.
- Average EU GDP per capita on a purchasing power parity basis at approximately ten times that of Serbia.

Although the process of privatisation has commenced, the Serbian economy is still dominated by large-scale and inefficient socially owned enterprises. Much of Serbia’s industrial plant is obsolete. Unemployment in Serbia is nearly 30% and there are approximately a further 600 000 people formally on the payrolls of socially owned enterprises who are effectively unemployed. Serbia has an enormous balance of trade deficit with imports exceeding exports by a factor of two and a half.

In order to achieve a significant reduction in the gap between Serbian and EU standards of living in the shortest possible time, substantial changes will need to be made in the entire business environment for SMEs and sole traders. In Serbia, as elsewhere, SMEs comprise some 99% of all enterprises and they have the potential to make a significant contribution to the economic revival that is so badly needed.

Implementation of the measures proposed in this strategy document offers the most effective means of maximizing the potential contribution of SMEs to development of the Republic of Serbia, which means to create more new jobs, to realise higher incomes and improve regional development. All of the proposed measures are capable of implementation, have been undertaken successfully in other countries, are in the mainstream of EU SME policy and predominantly will involve more reorganisation of existing resources and changes in the way things are done rather than introducing costly new programmes.

#### **5. The main strategic points in the development of SMEs and entrepreneurship in the Republic of Serbia**

The main components of the proposed strategy for development of SMEs and entrepreneurship in the Republic of Serbia in the next five-year period are:

### **5.1 Support for development of SMEs and entrepreneurship in priority economic sectors**

Each and every SME is of value to the Republic of Serbia. However, there are certain business sectors, which are of particular strategic interest due to their potential for adding value to our natural resources, generating foreign earnings, providing significantly increased employment, spreading benefits to the regions and ensuring that Serbia gains full advantage from advances in information and communications technologies. The Government has identified four sectors, which have major economic potential: food processing, manufacture, tourism and e-business:

#### **Food Processing**

Agriculture is of major importance to Serbia and accounts for 20% of total GDP. There is considerable scope for increasing the range and output of the food processing industry but major investment will be required in quality and marketing.

#### **Manufacture**

Although its share of GDP will decline, industry will always play an important role in economy of the Republic of Serbia. Part of the economic legacy is the heavy concentration on machine building and metallurgy. These industrial sectors will face major restructuring but there is also a considerable reservoir of industrial skills, which offers potential for SME development in engineering and subcontracting. Moreover, SMEs in the Republic of Serbia have particular strengths in other sectors, including new sectors such as audio-visual production of cultural events. A strong manufacturing sector, in which SMEs have a significant role, is crucial to the economic success of the Republic of Serbia.

#### **Tourism**

Due to the difficult circumstances surrounding the “break-up” of SFRY, the Republic of Serbia does not have a significantly developed tourism industry. Tourism brings widespread employment and improvement of living standards and its restoration and growth are a priority for the Government of the Republic of Serbia. A country’s tourism “product” comprises both the natural and man-made environment and a range of commercial services, which include hotels and other forms of accommodation, restaurants and other catering outlets, shops, transport and sport activities which are provided mostly by SME sector.

#### **E-Business or E-Commerce**

A simple definition of e-business is “all commercial transactions undertaken electronically, i.e. most frequently through the Internet”. E-business is one of the fastest growing international economic sectors and offers major opportunities for economic growth. The technologies that support e-business continue to increase their impact on all sectors of economic activity. The Republic of Serbia cannot afford to stand aside from these developments and must make considerable efforts to achieve a substantial e-business capability. In this regard, a heavy emphasis should be put on software industry development in SME sector, as the Republic of Serbia has at its disposal young, experienced and educated cadres in this area, which also has an export potential.

- ***The Republic Agency for Development of SMEs and Entrepreneurship will prepare during 2003 in cooperation with the Ministry of Economy and Privatisation, Ministry of Trade, Tourism and Services, Ministry of Science, Technology and Development and Ministry of Agriculture and Waterpower, SME development programmes in the sectors of food processing, manufacture, tourism and e-business in line with strategic targets of these ministries. The relevant ministries will prepare and recommend to the Government of the Republic of Serbia necessary measures for realisation of these programmes.***

### **5.2 Institutional support and advocacy for SME sector**

Although much has been done to improve the level of institutional support for SMEs through refocusing the activities of ministries and the establishment of new support agencies, centres and offices at national and regional level, the activities with regard to making the public institutions of Serbia as responsive as possible to the needs of the SME sector will be continued.

The principal institutions and agencies that have responsibility for SME development in the Republic of Serbia are:

#### Ministry of Economy and Privatisation

The Ministry of Economy and Privatisation has responsibility for defining and implementing the SME development strategy. In line with its responsibility, the Ministry is progressively strengthening its activities through its two departments: Department for Development of SMEs and Department for Private Entrepreneurship.

The Ministry is active in the promotion and implementation of legal and regulatory reform for SMEs and its activities in this regard are set out under Heading 5.3: **Removing the legal and regulatory barriers.**

- ***The Ministry of Economy and Privatisation has the major task of leading the creation of a whole new, stimulatory business environment for SME sector of the Republic of Serbia and has the greatest responsibility for the development of this sector. The future focus of the Ministry will be on development of the whole SME sector, irrespective of SME legal personalities - SMEs or sole traders.***

#### The Republic Agency for Development of Small and Medium Enterprises (Central Agency)

The SME Central Agency, established under the Law on the Republic Agency for SMEs in 2001 (Official Gazette of the Republic of Serbia, No. 65/2001) is the executive agency responsible for implementing SME strategy, informing Government on SME issues, promoting the SME sector and supporting Regional SME Agencies and coordinating their activities.

- ***The priority activities of the Republic Agency for SMEs for 2003 are:***
  - ***Preparation, in co-operation with the Ministry of Economy and Privatisation, Ministry of Trade, Tourism and Services, Ministry of Science, Technology and Development and Ministry of Agriculture and Waterpower, of supporting programmes for SME development in designated key sectors: food processing, manufacture, tourism and e-business in line with the strategic objectives of the ministries;***
  - ***Develop proposals for support programmes to implement SME quality assurance systems, innovation support for SMEs, stronger links between the scientific research system and SME sector and improved performance by SMEs in the domestic market in line with the strategic objectives of the relevant ministries;***
  - ***Co-ordination of and support for the activities of Regional SME Agencies and Centres;***
  - ***Promotion and PR activities in support of the SME sector;***
  - ***Plan and implement information systems and services that would assist the SME sector.***

#### Regional SME Agencies, Centres and Offices for Development of SMEs and Entrepreneurship

The Government of the Republic of Serbia is working with foreign donors in supporting the establishment of a network of Regional SME Agencies throughout the Republic of Serbia. The Regional Agencies, Centres and Offices will provide a range of information, advisory and training

services for SMEs, both directly and through qualified business consultants. Ten of these Agencies have been opened by the end of 2002: Belgrade, Kragujevac, Krusevac, Nis, Novi Pazar, Novi Sad, Subotica, Uzice, Zajecar, and Zrenjanin. Several of the Regional Agencies have local sub-offices. At this stage, the Regional Agency network covers approximately 60% of the territory of Serbia, excluding the autonomous province of Kosovo and Metohija.

- ***The Regional Agencies and Centres will play a major role in SME development as the catalyst and implementers for practical support services to enterprises, at the start-up stage and as they expand. The Government of the Republic of Serbia priority is to extend and strengthen the network so that a full range of business advisory services is available throughout the Republic of Serbia, as well as to improve the quality and diversity of services, which are provided by Regional Agencies and Centres.***

#### Advocacy for SMEs

Established in 2001, the SME Advisory Board (SMEAB) is the new national forum where Government and SME representatives work together to resolve the issues that need to be tackled so that the SME sector can forge ahead. Together with associations of entrepreneurs and chambers of commerce and associations of entrepreneurs, SMEAB will advocate the interests of SME sector.

- ***The relevant ministries will cooperate with the SMEAB and other business associations and give full consideration to all their proposals and recommendations.***

#### **5.3 Removing the legal and regulatory barriers**

The SME sector, both sole proprietors and companies, faces many complex procedures and regulations at the start-up stage, in day-to-day operations and in the event of the cessation of the enterprise. Compliance with rules is imposing a heavy burden and costs on the restricted financial, management and personnel resources of SMEs.

Increasingly, throughout the EU and in other market economies, entrepreneurs and SMEs are perceived by the governments as an important economic resource to be encouraged and to be regulated only where necessary.

It is necessary to create favourable conditions for the SME sector in the Republic of Serbia to operate in a simplified and safer legal environment, relying on the basic premise that laws and regulations serve to facilitate sole traders and companies and not to obstruct their work. Important first steps have been made to date regarding regulatory reform in regard to creating a better environment for the establishment and operations of SMEs and sole traders. In 2002, an amendment to the Federal Law on enterprises was initiated ("Off. Gazette FRY" No. 36/2002) and the Law on private entrepreneurs was changed ("Off. Gazette RS" No. 35/2002) which provides for, inter alia, a simplified registration procedure through cancellation of previous mandatory inspection controls for the majority of activities, and work on the creation of completely new, unique registration system has been launched which will significantly simplify and facilitate establishment procedures for enterprises and sole traders. Moreover, regulatory procedure regarding labour law was amended and a group of taxation regulations was adopted to stimulate investments and employment of new employees. There are several other important laws in the final phases of creation or adoption, such as the Law on construction and planning, Law on secured transactions, Law on leasing, Bankruptcy Law and Law on guarantee fund. Also, a publication "Entrepreneur in new legal environment" has been prepared for the needs of inspection and registration offices in cooperation with relevant republic institutions and with the assistance of European Agency for Reconstruction.

An important first step in regulatory reform has been the "**Improving the Regulatory and Administrative Environment for Private Sector Development in Serbia**" report, commissioned by the Ministry of Economy and Privatisation and prepared by Jacobs and Associates, international consultants on regulatory reform, and financed by the World Bank.



The central position in the process of creating a favourable legal and SME-friendly environment is held by the **Inter-Ministerial Working Group for creation of proposals for simplified terms and procedures for establishment and development of small and medium-sized enterprises and private entrepreneurship (Inter-Ministerial Working Group on Deregulation)** which has a mandate to co-ordinate deregulation measures by relevant ministries.

- ***The Inter-ministerial Working Group on Deregulation will initiate, review and make recommendations on:***

- ***All proposed laws and regulations which impact on the SME sector, taking into account internationally accepted norms of good laws and regulations,***
- ***Preparation and implementation of simplified registration procedures, and***
- ***Specific measures designed to strengthen the private sector.***

A **Centre for Reform of Economic Legislation** in the Ministry of International Economic Relations plans and promotes an agenda of economic legal reforms at Republic and Federal levels. Although the work of the Centre for Legal Reform affects all branches of the economy, it has considerable relevance for SMEs.

- ***The Inter-ministerial Working Group on Deregulation will co-operate with the relevant ministries and the Centre for Reform of Economic Legislation in advancing legislation that will contribute to an improved business environment for SMEs.***

#### **5.4 Public sector and SMEs**

The prevailing view in market economy countries is that SME legal and regulatory reform alone is not enough, but should be accompanied by the constant upgrading of the quality and effectiveness of the public service. The conduct of public administration influences international competitiveness of the economy of every country through its impact on the business environment in which the enterprise sector of the economy operates. The potential benefits of public sector reform through, inter alia, lowering business costs, streamlining the government sector in the economy, (and hence the overall tax burden), and improving the quality and efficiency of public administration are now recognised internationally. An efficient and responsive public administration is essential for the future economic competitiveness of the Republic of Serbia and the greatest responsibility for achieving that objective lies with:

The **Ministry of Public Administration and Local Self Government**, a new ministry established in 2002 with responsibility for modernisation and reform of public administration in the Republic of Serbia;

The **Agency for Public Administration Development of Government of the Republic of Serbia (APAD)**, established in 2001 with the purpose of providing expertise and operational support to the implementation of public service reform.

- ***These new institutions will ensure that the Republic of Serbia develops a cost-effective, efficient and responsive public service and that SMEs will be significant beneficiaries of the planned reforms. The Ministry of Public Administration and Local Self Government, Agency for Public Administration Development and relevant ministries will produce reform proposals and initiatives for improvement in the work of the public services that impact most on the SME sectors, especially customs, taxation, courts administration and inspections.***

## **5.5 Financial resources for SME sector**

Access to capital for SMEs is one of the major problems for SME sector in the Republic of Serbia. During the 1990s, personal savings held in banks were largely wiped out and consequently the trust of citizens in state banks was lost. Much of the personal capital that now exists in Serbia is held in cash by way of "mattress" money and channelling these resources into direct investment or to the banking system will not be easy. Although confidence in the banking system is now being restored and domestic deposits have risen to euro 666 million (October 2002), it will take time to restore public confidence in the commercial banks.

The Government of the Republic of Serbia and relevant ministries have undertaken numerous initiatives to improve access to capital for SMEs including the Republic Labour Market Bureau's Self-employment Programme and the Development Fund of the Republic of Serbia. The Republic Guaranty Fund is a new initiative by the Ministry of Economy and Privatisation designed to facilitate approval of bank loans to SMEs. The establishment of the Fund for innovation development will represent substantial assistance to SMEs in the development of innovative products.

Although the Government initiatives are significant and helpful, they can only provide a fraction of the capital resources that will be required to achieve the National SME Strategy objectives. In every market economy, the private sector is the source of the great majority of SME funding and the Republic of Serbia is not an exception. Therefore, new mechanisms to facilitate private investment in enterprises and sole traders are needed.

Although their deposits are increasing again, the Serbian banks lack tradition of SME lending. Intensifying the operations of the commercial banks with SMEs will require both more financial resources and changes in bank attitudes to SMEs.

- ***In the next period, the conditions will be met for establishment of private investment funds for SMEs.***
- ***Availability of credit for SMEs will also be addressed through initiatives such as the new Loan Guaranty Fund activities and through donor support for providing micro-credit lines accompanied by technical assistance for training bank staff in assessing loan applications from SMEs.***

## **5.6 SME sector competitiveness**

Poor competitiveness of many domestic companies and their products and services on international, and even on the local, market represents one of the major problems in the economy of the Republic of Serbia.

There are many external and internal factors, which influence the competitiveness of enterprises but three are crucial:

### **Management capabilities**

If the Republic of Serbia wants strong, competitive and efficient enterprises, it must have effective and well-trained managers. Developing management capabilities and skills within enterprises is a SME strategy priority. A full range of services based on delivery of information, business advice and training programmes for management development will be provided through the Regional Agencies and Centres for the Development of the SME Sector. However, the Regional Agencies alone will not be in a position to provide all of these services directly, as the range can be very extensive. In most countries, specialist business consultants are the main vehicles for the delivery of these services, such as financial management and planning, marketing, quality assurance etc. Private consultancy services for SMEs are not widely available in the Republic of Serbia at present, particularly outside of Belgrade, and it will be a major function of the Regional Agencies and Centres to act as a catalyst for their development.

### Quality assurance

It is virtually a standard requirement for exporting SMEs in EU Member States to have quality assurance certification. The quality assurance issue is very important for SME sector in the Republic of Serbia and an effective certification scheme accessible to all interested parties in SME sector is a priority.

### Innovation

Innovation should be taken to mean continuous improvement to products, services and processes within enterprises. In recent years, survival has been the main issue for many of the enterprises in the Republic of Serbia and resources have not been generally available for reinvestment in product and services development and upgrading. Existing facilities for assisting enterprises in developing and testing new products or improving current products will be identified and assessed in the next period as inputs for preparing the programme for support to the development and implementation of innovations.

The Ministry for Science, Technology and Development will create a legal framework for the development of the Republic of Serbia as an innovative society. This framework will regulate the establishment and work of innovation centres, business and technological incubators and scientific and technological parks, knowledge transfer and transfer of results from R&D (research and development) projects into enterprises in order to develop innovative and internationally competitive products and intellectual property protection. The Ministry of Culture and Public Information and the Committee against "pirating" will be heavily involved in the battle against "pirating", a specific problem of intellectual property protection.

- ***International competitiveness is a critical issue for the Republic of Serbia and its SMEs. In this regard, a significant contribution will be made by a USAID Serbia Competitiveness and Economic Efficiency Project in the Republic of Serbia. This one-year project (November 2002 – November 2003) will examine the competitiveness issues facing Serbia. The results will signpost what needs to be done to ensure that Serbia develops an efficient and internationally competitive economy, including the SME sector.***
- ***To improve competitiveness, development of the market for private educational and consultancy services for the needs of SMEs in the Republic of Serbia will be supported, relying also on technical assistance from foreign donors.***
- ***The Ministry of Science, Technology and Development in cooperation with the Republic Agency for SMEs will prepare in 2003, programmes of support for innovation development and implementation, implementation of quality assurance systems and e-business in the SME sector. In order to improve the efficiency of SMEs, an integrated approach to quality assurance, computerised business processes and direct linking with partners and consumers via the Internet (through web portals, standardised electronic messages, etc.) will receive special support.***

### **5.7 New knowledge and skills for the SME sector – education and training**

The links between the economy, i.e. enterprises, and education system and the scientific and research system need to be redefined. An important task will be to adapt education and scientific and research services to the needs of a new market economy in which large-scale enterprises no longer play such a significant role. It is important for the full realisation of the economic potential of the SME sector, that education and training systems are geared to SME needs.

- ***The Republic Agency for SMEs will work with the Ministry of Education and Sport and Ministry of Science, Technology and Development in examining ways in which the***

***education and scientific and research systems may be adapted to the needs of a market economy in general, and the SME sector especially.***

### **5.8 Export promotion for SMEs**

The break up of former SFRY and international sanctions had severe effects on the trade of the Republic of Serbia. The imports of the Republic of Serbia are two and a half times as great as exports. The development of exports is a critical necessity for the Republic of Serbia and SMEs can make an important contribution. In February 2001, the Government of the Republic of Serbia established the Serbian Investment and Promotion Agency (SIEPA), which should, inter alia, provide assistance to export oriented SMEs.

- ***The increase in resources being allocated to the SIEPA for export promotion activities and the support of foreign donors, together with the enterprise competitiveness measures outlined elsewhere in this SME strategy document will lead to increased exports by SMEs.***

### **5.9 SME performance on the domestic market**

The aim of the Government of the Republic of Serbia is to achieve an internationally competitive SME sector. In this regard, it is necessary to achieve prior competitiveness of the SME sector on the domestic market but within the letter and spirit of an open market economy. The SME sector in every country has close links with its domestic market and uses local market opportunities. There are three main areas of activity, which can have a major impact on better access to the domestic market by SMEs.

#### **Linkages between large-scale enterprises and SMEs**

The international trend for several decades is that large-scale industrial enterprises tend to concentrate on core activities and subcontract out many of their other requirements to specialist SME suppliers. Subcontracting is considered essential to industrial competitiveness. Moreover, a network of subcontracting SMEs is a positive factor for the encouragement of foreign direct investment. The privatisation and associated restructuring of large-scale enterprises must include development of such business relationships with SMEs.

#### **Involvement of SMEs in public procurement for the supply of products such as uniforms, school furniture, hospital equipment and construction material**

Large scale enterprises have usually a competitive advantage as regards meeting the requirements and regulations of public procurement tendering systems but many governments have taken measures to ensure fairer access by SMEs through improved information and simpler tendering procedures. The National Parliament of Serbia adopted a new Law on Public Procurement in July 2002 ("Official Gazette RS" No. 38/2002) and the Government is in process of establishing a Public Procurement Agency.

#### **Improved market share for SME products at consumer level**

Items offered for sale at retail level in the domestic market come from a wide variety of countries. Although the domestic market is limited in size, Serbia's substantial trade deficit indicates the need for a larger share for domestic SMEs in the domestic market.

- ***The Republic Agency for SMEs will prepare proposals for encouraging better SME sector performance on the domestic market.***

### **5.10 Preparing SME sector for the Digital Age**

Governments of developed countries are relying increasingly on the opportunities provided by the Internet to improve access to information for SMEs and, indeed, to achieve greater equality of opportunity between SMEs and large-scale enterprises in areas such as public procurement. Significant advances in e-government, which will impact significantly on the SME sector, are anticipated in all EU Member States during the next few years and it is planned that SMEs will undertake most of their regulatory and administrative obligations "on-line".

- ***One of the objectives of the Ministry of Science, Technology and Development is materialization of the “information society” vision in the Republic of Serbia. The issue of application of modern information and communications technologies is of crucial importance for development of the SME sector, as it indirectly affects the existing and future competitiveness of this sector, and is the task for the Ministry of Science, Technology and Development. In this regard, the Ministry of Science, Technology and Development will design a programme to support application of information technologies in SME sector.***
- ***The Ministry of Science, Technology and Development will stimulate the establishment of software development companies and Internet-based provision of services as it supports not only the development of the domestic software industry but also existing information systems of local companies through which they improve the quality and efficiency of their operations.***
- ***The new Public Procurement Agency will work with both the Republic Agency for SMEs, Ministry of Science, Technology and Development and Bureau for Internet and Informatics on the development of a public procurement portal that will enhance tendering opportunities for SMEs.***

#### **5.11 The “grey” economy**

The “grey” economy refers to ordinary business activities undertaken outside of the tax system but not criminal activities. It is a fact of life that every country has a “grey” economy, but the scale is particularly significant in the “transition” economies. In the Republic of Serbia, the “grey” economy is estimated to be the equivalent of up to one third of GDP and involve as many as one million workers. The problems that arise from an excessively large “grey” economy range from reduced tax revenue to unfair competition for legitimate businesses, especially for the SME sector. As the “grey” economy provides for many jobs, the aim is not to eliminate these activities completely, but to gradually convert them into formal, legal activities.

- ***Reduction of the “informal” sector will be realised through a combination of a more favourable business environment, introduction of measures such as Value Added Tax, pursuit of unregistered businesses and their conversion into legal businesses. The Government of Serbia is determined to reduce the scope of the “grey” economy and will take all necessary measures for the achievement of this objective.***

#### **5.12 Analysis of SME sector performance**

High quality, accurate and up-to-date data and information on business activity and performance are essential for good future development measures in this sector. Existing available statistical data and ways of measuring SME performance do not represent good grounds for implementation of these activities.

- ***During 2003, the EAR sponsored “Non-financial Assistance to SMEs in Serbia” project will undertake an assessment of all potential sources of data on the SME sector and identify ways in which data might be extracted and converted for the benefit of policy makers and SME interests.***

#### **5.13 Public awareness and promotion of the Strategy for Development of SMEs and Entrepreneurship in Republic of Serbia**

Informing public opinion in relation to SME Strategy is of topmost importance so as to achieve maximum support for a vital economic objective – a flourishing and expanding SME sector. The SME Strategy of the Government is being launched in the situation where the wider public and a

part of public sector in the Republic of Serbia are either insufficiently informed or have a rather negative attitude in relation to private enterprise and entrepreneurs. Effective communication of what the Government is doing in support of the SME sector and why, will be necessary to combat negative attitudes towards private enterprise and entrepreneurs.

- ***The Ministry of Economy and Privatisation and Republic Agency for SME Development will ensure through the media that the general public are informed on a continuous basis in relation to progress in the implementation of the National SME Strategy.***

#### **5.14 Implementing the Strategy for Development of SMEs and Entrepreneurship in Republic of Serbia and reviewing progress**

The Ministry of Economy and Privatisation will co-ordinate the activities of all of the institutions with a role to play in the Strategy implementation.

- ***The Ministry of Economy and Privatisation will inform the Government of the Republic of Serbia on progress in implementing the Strategy and will co-ordinate an annual review about Strategy realisation. At the end of each year, starting with 2003, the Ministry of Economy and Privatisation will set out in its annual programme priority activities and means for realisation of the Strategy in the following year.***

#### **5.15 International Support and Technical Assistance**

The assistance of foreign donors for development of private sector is very welcome, as it provides assistance in revival and development of economy of the Republic of Serbia.

- ***The Government of the Republic of Serbia will make efforts to secure and direct donors' support to priority objectives of SME sector development such as: creating a stimulatory legal and administrative business environment for the SME sector, opening of micro-credit lines and technical assistance for training bank staffs in developing services for SMEs, a wider network of regional SME agencies and centres and implementation of programmes for competitiveness building within SMEs.***