

セルビア メンター制度組織化計画 事前評価調査報告書

収集資料編

平成 20 年 3 月
(2008 年)

独立行政法人国際協力機構
経済開発部

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付 属 資 料

1. Report on SMEE 2006 (英語、SADSMEE、2007年)
2. Strategy for Competitive and Innovative SME (英語、SADSMEE、2007年)
3. Law on the SADSMEE (英語、Official Gazette of the Republic、2001年)
4. Founders support to regional agencies (英語、SADSMEE、2008年)
5. Municipalities of Serbia 2006 (英語、Statistical Office of Republic of Serbia、2007年)
6. Regional Statistics (2007) : 計画対象地域4件の抜粋 (英語、SADSMEE、2008年)
- 7-1 Projektni zadatak za reg agencije 2006 (セルビア語、SADSMEE、2006年)
- 7-2 2006年度地方センター事業への支援(7-1の和訳) (日本語、SADSMEE、2006年)
- 8-1 Mentoring nac sluzba projektni zadatak (セルビア語、SADSMEE、2006年)
- 8-2 2005年度雇用庁支援企業向け活動報告(8-1の和訳) (日本語、SADSMEE、2006年)
9. Brief report on design and implementation of mentoring (英語、SADSMEE、2008年)
10. PLAN OF ACTIVITIES FOR 2008 (抜粋) (英語、SADSMEE、2008年)
- 11-1 Mentoring Izvestaj konacno 2005 (セルビア語、SADSMEE、発行年不明)
- 11-2 2005年メンタリング実績表(11-1の抜粋和訳) (日本語、SADSMEE、発行年不明)
12. Report on mentoring (英語、SADSMEE、2007年)
13. BAS Leaflet (英語、BAS-Serbia、2007年)
14. Regional agencies (地域センター8箇所に係る情報) (英語、SADSMEE、発行年不明)

1 . Report on SMEE 2006 (英語、SADSMEE、2007 年)

**Ministry of Economy and Regional Development
Republic Development Bureau
Republic Agency for Development of SME and Entrepreneurship**

**REPORT ON
SMALL AND MEDIUM-SIZED ENTERPRISES AND
ENTREPRENEURSHIP 2006**

Belgrade, November 2007

REPORT ON SMEE 2006

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INTRODUCTORY WORD

Serbia faces challenges in the form of global economic trends and integrating processes, both on the European and global markets. Thus its priority is indubitably the accession to the European Union, along with the development of competitive economy based on knowledge and innovativeness.

Technological development and a growing share of services in economic activities put restructuring of the economy into focus, where the processes of mega associations and an increasing role of small and medium-sized enterprises, as the most prominent expression of new entrepreneurship, are simultaneously underway. Entrepreneurship is expected to contribute significantly to the economic and social development, for the purpose of which it is becoming an important element of the development strategy of every country, developed or a country in transition, such as Serbia.

The process of fast technological changes, a characteristic of modern economy, mostly results from new entrepreneurial ideas. The variety of new technologies could not exist without innovative entrepreneurs who found their place in numerous market niches. Entrepreneurship is, therefore, an opportunity for Serbia as entrepreneurs can contribute to a higher degree of utilization of available resources and faster economic growth by means of which it could be possible to achieve the level of developed countries.

Most countries expect entrepreneurship to solve one of the greatest problems of today – high unemployment. Serbia is one of the countries with the highest unemployment rate, and that is why the development of entrepreneurship is its great opportunity.

The sector of small and medium-sized enterprises already has a significant influence on the overall economic development. This sector accounts for 99.7% of business entities (268,515), and with 870,979 employees it accounts for 2/3 of overall employed population, generates over 2/3 of aggregate profits, around 60% of GVA, over 40% of exports and 60% of imports of the Serbian economy.

Enforcement of this sector results from the improvement of general conditions for doing business and creation of stimulating business environment. In the following period, the target of incentive measures will be fostering the setting up of new enterprises and more substantial boosting of innovativeness and competitiveness of the SME sector, the agent of accelerated economic development.

Report on Small and Medium-Sized Enterprises and Entrepreneurship 2006 summarizes the effects of previous activities for building the environment for the SME development as well as the achieved results of the doing business in this sector. At the same time, it is a starting point for the formulation of the development policy in the upcoming period, for the purpose of Serbia developing a knowledge-based entrepreneurial economy.

Belgrade, November 2007

Igor Brkanovic, Assistant Minister



CONTENTS

INTRODUCTORY WORD

INTRODUCTORY REMARKS

SUMMARY

1-6

I MACROECONOMIC ENVIRONMENT

1

1. Macroeconomic and Business Environment

1

1.1. *Tendencies of Basic Macroeconomic Indicators*

1

1.2. *Population and Employment*

3

1.3. *Unemployment*

6

1.4. *Gross Domestic Product*

7

1.5. *External trade*

9

2. Investments

11

II DEVELOPMENT OF SMEE SECTOR

15

1. International Reflexion

16

2. Comparative Analysis of SMEE Development

17

3. Importance of the SMEE Sector in Serbian Economy

19

4. Structure of the SMEE Sector in Serbia

21

5. Employment

23

6. Total Turnover

25

6.1. *Total Turnover according to Size of Enterprise*

25

6.2. *Total Turnover according to Size of Enterprise*

26

6.3. *Regional Breakdown of Turnover*

28

7. Gross Value Added

29

7.1. *GVA of Serbia by Size of Enterprise*

29

7.2. *Sector Breakdown of Gross Value Added*

30

7.3. *Regional Breakdown of Gross Value Added*

31

8. External Trade

33

8.1. *Export by Size of Enterprises*

35

8.1.1. *Export of SME by sectors*

36

8.1.2. *Export of SME by districts*

37

8.2. *Import by Size of Enterprises*

38

8.2.1. *Import of SME by sectors*

38

8.2.2. *Import of SME by districts*

39

8.3. *External Trade Balance*

40

8.3.1. *Sectoral external trade balance of SME*

40

8.3.2. *Regional external trade balance of SME*

41

9. Efficiency of SME Operations

42

9.1. *Effectiveness and Profitability of the SME Sector*

42

9.2. *Effectiveness and Profitability of SME by Sectors*

43

9.3. *Effectiveness and Profitability of SME by Districts*

44

III	COMPETITIVENESS OF SME	45
1.	National Competitiveness according to WEF	46
2.	Labour Productivity of SME	48
2.1.	<i>SME in Overall Economy</i>	48
2.2.	<i>Economic Sectors</i>	48
3.	Labour Costs of SME	50
3.1.	<i>Structure of Cost Competitiveness</i>	50
3.2.	<i>Economic Sectors</i>	51
3.3.	<i>Comparative Analysis</i>	53
4.	Competitiveness and Utilization of Information and Communication Technology	54
IV	INNOVATIVE POTENTIAL OF SERBIAN ECONOMY	57
1.	Characteristics of Innovations in Serbia	58
2.	Financial Funds for Innovations	60
3.	Human Capital and Innovations	61
4.	Innovation Support System in Serbia	62
V	IMPLEMENTATION OF SME DEVELOPMENT POLICY	63
1.	Operating Problems of SMEE	64
2.	Establishment of Efficient Process of Creation and Implementation of the SMEE Policy	67
3.	Achieved Results in the Realization of Support to SMEE	68
3.1.	<i>Legal Environment and Institutional Infrastructure</i>	68
3.2.	<i>Support to Start-ups</i>	71
3.3.	<i>Upgrading Knowledge and Skills in SME</i>	72
3.4.	<i>Financing of SME</i>	75
3.5.	<i>Promotion of the System of Analytical Monitoring and Researching of the SMEE Sector in Serbia</i>	76
4.	Regional Agencies/ Centres for SMEE Development – Activities and Problems on the Basis of the RDB Survey	77
VI	EXAMPLES OF GOOD PRACTICES	81
	<i>ANNEX</i>	1-28

INTRODUCTORY REMARKS

A Report on SME and Entrepreneurship 2006 forms the initial basis for assessing the dynamics of the implementation of goals contained in all strategic documents of the Serbian Government and the *European Charter on Small Enterprises* related to the improvement of measures and activities for stimulating the development of the SMEE sector as one of the key segments of the economic development of Serbia. The results of the Report represent a conceptual framework for the implementation of the new strategy for the development of SME and entrepreneurship. The Report was worked out by the Ministry of Economy and Regional Development and the Republic Development Bureau in cooperation with the Republic Statistics Office and the Republic Agency for SMEE Development.

The Report is continued research of the SMEE sector development in Serbia based on the integrated data (number of enterprises, number of employees, total turnover, and gross value added), according to the Eurostat methodology. The introduction of a external trade balance of enterprises into the analysis is a significant improvement in the structural and methodological approach of the SMEE reporting concept of the European Commission.

Particular emphasis should be given to the importance of activities carried out in improving the statistical monitoring system and the SMEE research according to the Eurostat standards – the initial results in some segments imply the necessity of continuation of activities related to the establishment of connections and harmonization of methodology of all authorities and organizations that dispose of data relevant for the assessment of the SMEE sector along with providing adequate resources (material, staff, technical, etc.). Previous activities on the harmonization and inter-connecting of data of the Republic Statistics Office, NBS – Solvency Centre, Tax Administration and Customs Administration, enabled the Republic Development Bureau to create, for the first time in Serbia, on the basis of conducted research, integrated statistical databases for the period 2004-2006 – the number of enterprises, number of employees, total turnover and gross value added for the SMEE sector and the data on external trade activity of enterprises (excluding entrepreneurs) in 2005 and 2006. For the purpose of a more realistic perception of the existing situation, the Report contains the results of the conducted survey of Republic and regional agencies/centre for SMEE development on key operating problems of the SMEE sector (administrative and legal barriers, access to sources of finance, technical and technological improvements and human resources) and the Republic Development Bureau on main activities, problems and possible orientations of the expansion of activities of agencies/centres for the purpose of better understanding of their importance and influence on the development of the SMEE sector, as well as on the activities of local governments (examples of good practice) for the creation of conditions for the stimulation of foundation and growth of enterprises and the application of business ideas.

In accordance with Eurostat standards, the number of employees serves as the main criterion for the classification of enterprises by size, so that **the SMEE sector is comprised of the following legal entities:**

- Micro enterprises – number of employees up to 9;
- Small enterprises – number of employees 10-49;
- Medium-sized enterprises – number of employees 50-249;

The SMEE sector also contains entrepreneurs (physical persons doing business independently – shops) **who are included in the category of micro enterprises.**

A Report on SME and Entrepreneurship 2006 consists of six basic parts with a summary:

I Macroeconomic Environment – contains a brief overview of Serbia's development level and main results of transition and structural reforms. Apart from the analysis of macroeconomic environment (the basic structure of GDP, population trends, employment and unemployment and external trade) and the investment climate, a comparative analysis with the surrounding countries and EU members is provided as well.

II Development of the SMEE Sector– the analysis of development and influence of the SMEE sector on the overall country's economic development is methodologically consolidated with Eurostat standards – the SMEE data are integrated (2004-2006 period – the number of enterprises, number of employees, total turnover and gross value added), while external trade activity and performance results (in 2005 and 2006) consist of data on enterprises (without entrepreneurs). Furthermore, the Report of the World Bank and International Financial Organization on doing business with the assessment of previous activities of Serbia on the implementation of regulatory reforms was provided, while the comprehensive SMEE Development Index was applied in the comparative analysis of the SMEE development level.

III Competitiveness of the SME Sector – includes a comparative analysis of national competitiveness on both macro and micro level according to the research of the World Economic Forum (WEF), the use of computers and the Internet as indicators of application of modern IC technology and a detailed analysis of labour productivity and labour costs in the SMEE sector in the economy, with sector approach and international comparison.

IV Innovative Potential of Serbian Economy – the level of innovation activity of the Serbian economy in the period 2002-2004 is presented, alongside key aspects of innovativeness of the economy and enterprises as the foundation of faster development and improvement of competitiveness. Apart from key characteristics of innovations, education potential of population, financial support and the existing system of innovative support in Serbia, the analysis contains the most important effects and factors that restrict faster development and the application of innovations as well as research results of the World Economic Forum.

V Implementation of SMEE Development Policy – this part of the analysis contains key activities for the foundation of an efficient process of creation and implementation of the policy and the achieved results in the realization of support to the development of SME and entrepreneurship (creation of a stimulatory legal environment, upgrading knowledge and skills in SME, building institutions for non-financial support to SMEE, financial support to SMEE etc.) The analysis contains the results of conducted surveys on key operation problems of SME, including main activities, problems and possible orientations of activities of agencies/centres.

VI Examples of good practice – contains the most important activities of local governments of the municipalities of *Sombor, Zrenjanin, Lazarevac, Medvedja and the City of Kragujevac* aimed at the improvement of conditions for doing business in the SMEE sector, the achieved results and their effects on the overall development of municipalities, as well as the *Regional Chamber of Commerce of Valjevo* – the institution which stimulates, through its activities, favourable environment for the development of the SMEE sector in the districts of Kolubara and Macva. Different social and economic conditions and heterogeneous development problems on one side, and the applied methods of stimulation of the SMEE sector on the other side, were the main criteria for the selection of examples of good practice.

The data of the Republic Statistics Office, NBS – Solvency Centre, Tax Administration and Customs Administration, alongside the databases of the Republic Development Bureau and relevant EU institutions were used in the formulation of the Report.

SUMMARY

Macroeconomic Environment

Numerous *reforms pursued in the period 2001-2006*, the achievement of macroeconomic stability, restructuring and privatization of enterprises, consolidation and privatization of the banking sector, liberalization of prices and external trade operation and regulated relations with international financial organizations resulted in dynamic economic growth, growth of export and inflow of foreign direct investments. Positive macroeconomic tendencies were accompanied with: high unemployment, internal and external debt, high external trade deficit, growth of salaries above labour productivity, and low competitiveness of the economy – problems of transitional countries. Gross Domestic Product grew at an average annual rate of 5.3% in real terms; net salaries grew at an average annual rate of 14.4% in real terms, while the number of employees was declining by 0.5% on average. The structure of GVA changed in 2006 with regards to 2001 – the share of the Services sector increased from 56.3% to 63.1%, while the share of industry fell from 24.5% to 20.8%. Inflation, as measured by retail prices, fell to 6.6% in 2006 after high growth of 40.7% in 2001.

Gross Domestic Product increased by 5.7% in 2006 with regards to 2001 primarily owing to the Services sector. The highest contribution was made by the following sectors: Traffic (2.7 percentage points), Trade and Financial Mediation (1 percentage point each) and Manufacturing (0.8 percentage points). Although this growth was higher than the achieved growth in the EU-25 (2.9%), it was lower than the growth achieved in Bulgaria (6.1%) and Romania (7.7%). According to GDP at PPS, the standard of living in Serbia is among the lowest in Europe (better than in Macedonia and Turkey).

The aggregate number of employees according to the Labour Survey in 2006 amounted to 2.630.691, being 3.8% lower (102.721) with regards to the previous year. *The aggregate number of unemployed persons* was 693,024, while the surveyed unemployment rate amounted to 20.9%, being far above the EU-27's average (7.9%). The highest unemployment rates were marked in Poland 14.0%, Slovakia 13.3% and Bulgaria 8.9%. Serbia has the highest long-term unemployment rate of 16.8% compared to the European Union and the surrounding countries. Compared to other countries where the long-term unemployment rate records a declining tendency, Serbia's rate is growing year in year out.

High deficit of the current account of the balance of payment is a key macroeconomic misbalance (the share of GDP in 2006 was 12.3%) and is a consequence of high *external trade deficit* (USD 6.7 billion) which increased by 11% with regards to 2005. External trade is characterized by: higher coverage of imports by exports (by 6 percentage points compared to 2005), unfavourable export structure, low diversification of exports and low competitiveness.

Investment activity with regards to development needs is on a low level. The growth of investments into economic infrastructure and new technologies and equipment are basic presumptions for increasing higher GDP growth rates, increasing competitiveness and growth of export. In order to overcome technological backwardness and economic development the investments of around 25% of GDP are necessary. It is estimated that the share of gross investments in 2006 was around 18% which was far below the EU-10's average (around 25%) and the surrounding countries (Bulgaria – 26.2%, Romania – 24.6%, Croatia – 30.8%). The attraction of foreign direct investments has an important role in the improvement of the overall production and economic growth, considering the role of FDI in the creation of new jobs, export promotion, the transfer of new technology, and the improvement of corporate management.

The investment climate has greatly improved over the past two years in Serbia which resulted in higher inflow of FDI. Foreign direct investments reached USD 1.5 billion in 2005 and

its peak value of USD 4.4 billion in 2006. A larger part of these investments refers to the purchase of a part of state and social enterprises and banks in the process of tender and auction privatization.

Development of SME Sector

International comparison. Compared to the countries in the region, Serbia achieved the greatest improvement of conditions for doing business in the period 2005-2006, with a recorded decline in 2007. Owing to initial improvements of conditions for doing business Serbia was announced a leader in the implementation of reforms in 2005; in 2006 according to conditions for doing business, Serbia approached the new EU member states, while in 2007 the rank of the Serbian economy worsened. The results of the analysis of doing business of the World Bank – Doing Business Report 2008 – reveal that in Serbia, with regards to the previous year, the procedure of starting a business was prolonged (23 days compared to 18 days in 2006), the process of obtaining customs declarations for exports was also prolonged from 11 to 12 days, import procedure from 12 to 14 days, the flexibility of labour legislation was reduced (the rigidity index increased from 38 to 46) – the number of procedures of registering new employees, determining working hours, and laying off employees was increased.

A comparative analysis of development of SMEE. *The SMEE Development Index* reveals significant improvement of the SMEE sector classifying Serbia among countries with fast progress from the beginning of 2005 (in 2002 Serbia was among the countries with slow progress in transition). According to the SMEE Development Index in 2006 (US\$ 1,221 per capita) Serbia achieved the 2003 SMEE development level of Poland, Hungary and Slovakia, but is still lagging far behind Croatia (US\$ 1,821 per capita) and Slovenia (US\$ 2,535 per capita). A comparative analysis of the dynamics of growth of SMEE and GDP indices per capita reveals faster progress of this sector in relation to the growth of the total GDP/per capita, i.e. growing contribution of SMEE to GDP growth. With regards to 2002, the SMEE index grew five times faster with regards to GDP/per capita.

The importance of the SMEE sector in the economy of Serbia. A dynamic analysis of the SMEE development level shows its growing importance in pursuing of structural reforms. In relation to 2004, the number of employees, realized turnover, GVA and exports are continuously growing. A decline in the number of small and medium-sized enterprises and entrepreneurs results from re-registration and closing down of inactive enterprises. The influence of the SMEE sector on the achieved value of basic indicators of development of the Serbian economy is continuously growing. Oscillations in the turnover of the economy recorded in SME result from increased business activity of large restructured systems.

Development of the SMEE Sector

	SMEE			The share of SMEE in economy		
	2004	2005	2006	2004	2005	2006
Number of business entities	285,139	276,695	268,515	99.7	99.7	99.8
Number of employees	752,740	810,862	870,979	54.7	59.0	63.1
Turnover (bill. din.)	2,497	2,772	3,589	68.2	65.5	67.5
GVA (bill. din.)	357	467	592	51.8	54.1	56.9

Micro enterprises are the most numerous within the SMEE sector¹ accounting for 95.7% (256,988 enterprises). Micro enterprises account for the highest number of **employees** (416,593 persons), while medium-sized enterprises employ 268,858 persons. In the period 2004-2006, the highest growth of employees was recorded in these enterprises (32.4%). Over 70% (619,616) of the totally employed in SME are concentrated in the following sectors: *Wholesale and retail trade, Manufacturing, and Construction*, and more than a half of this number (462,824) on the territories of the following five districts: *(The City of Belgrade, the South Backa District, Nisava District, Srem District, and South Banat District)*.

The growth of turnover and GVA reflects the development of the SMEE sector. Around 2/3 of the aggregate turnover of the economy is achieved in this sector (67.5%), whereas with regards to 2005 the turnover increased by around 30% (large enterprises achieved growth of around 18%). SME account for 57% in the creation of GVA of the economy, with their share constantly growing (52% in 2004, 54% in 2005). Compared to the previous year, the real GVA growth in the SMEE sector achieved 12.5% (the highest growth was recorded in small enterprises – 25%) and 0.8% in large enterprises.

External trade activity of the SMEE sector is characterized by high deficit of current transactions – around 3/4 of the aggregate deficit. Around 10,000 exporting SME (96% of the total number of exporters) realized 182.4 billion dinars of export (44% of the total value of exports), while 17,300 importing SME (97% of all importers) realized almost three times higher import (503.2 billion dinars – 59.2% of the total value of imports).

The achieved operation results of the SME sector had a significant influence on the improvement of **business efficiency** of the overall Serbian economy – in 2006 the Serbian economy was net profit maker for the first time since the beginning of the 1990s (over 50% of profit was generated in the SME sector). The SME sector is the most profitable and the most competitive part of the economy. The SME sector is the most profitable of large enterprises: the profitability rate of the SME sector is 38.9%, and 33.2% of large enterprises. Profitability of the SME sectors was reduced only by social enterprises – loss makers in which the process of financial consolidation and privatization has not been completed.

General conclusions. Apart from obvious progress, the SMEE sector is still not the mainstay of economic and overall development of the Republic. A more dynamic process of economic and financial improvement of this sector is missing – an insufficient number and economic weakness of medium-sized enterprises, slow dynamics of turning of micro into small and medium-sized enterprises as driving force of the development of the whole sector, unequal status of entrepreneurs and legal entities with all negative consequences on the development of entrepreneurship and more efficient valorization of development potentials of this important economic sector. Insufficient horizontal and vertical connection (inter-connection with large systems and scientific-research institutions) is seen in weak and inefficient internationalization (3/4 of external trade deficit in 2006 was realized in the SME sector). High regional (*the City of Belgrade and South Backa District*) and sector (*Wholesale and retail trade and Manufacturing*) concentration, with low concentration of high technology sectors, the inability to take the initiative in the area of innovations and technical and technological progress, boosting productivity and competitiveness of the country's economy reveal its insufficient influence on the alleviation of regional disproportions and change of the country's economic structure.

¹ Micro enterprises also include entrepreneurs.

Competitiveness of SME

The analysis of the World Economic Forum (WEF) by means of the Global Competitiveness Index over the past three years (96th ranking in 2004; 85th in 2005; 87th in 2006) indicates a low level of competitiveness of the Serbian economy, due to worsening of the sub-index of basic market conditions – the Serbian economy is facing problems in the area of institutions, infrastructure, macroeconomics, health care, and primary education. In 2006 small and medium-sized enterprises were the most competitive, while medium-sized and large enterprises were the least productive part of the economy, albeit moderate growth of productivity with regards to 2005 (mostly as a result of a reduced number of employees) which implies the necessity of the termination of restructuring and privatization of this part of the economy. Privatization of medium-sized enterprises and strengthening of their economic and financial position will increase the competitiveness of the SME sector and the overall economy as well. Micro and small enterprises are the most competitive and most efficient enterprises of the SME sector.

A low level of utilization of information and communication technology also indicates non-competitiveness of the Serbian economy. Albeit a large number of enterprises with computers (97.7% compared to 96% in the EU-27 in 2006), the utilization of IT systems for business management is low (only 30.4% of enterprises) as well as the utilization of modern software systems (ERP, CRM, LINUX). Below-average use of the Internet (90.6% compared to 92% in the EU-27) and the dominance of modem access to the Internet (broadband access is dominant in EU) indicates hampered and insufficient use of the Internet for business purposes – e-business, e-payments, monitoring of market, using the electronic service of public administration – e-government, Web Site etc. Another problem that needs a special approach is an insufficient number of experts with IT expert qualification and adequate working experience.

Innovative Potential of Serbian Economy

A low level of innovative activities of the Serbian economy in the period 2002-2004 was a key obstacle to the economic development of the modern international market where factor conditions based on knowledge and high technology are given the highest ranking. At the same time, it makes the economy unrecognizable and jeopardizes the national competitiveness with all negative effects on the domestic market and the future development. The aspiration to introduce technology intensive production processes and the production of technology intensive products requires high investments and educated labour force. According to internationally valid criteria, the Serbian economy is in the process of foundation of initial conditions of that system and without organized systems and final solutions within innovative activities². The Serbian economy is characterized by weak activity and lack of business innovations, the absence of innovative network and research, bad reputation of domestic products, insufficient financial and infrastructural support, an insufficient number of laboratories and research capacities, as well as the absence of the key factor – a developed innovation network.

Implementation of SME Development Policy

In the previous period, progress in the implementation of the development policy of the SMEE sector has been made, especially regarding conditions for starting business and through stronger financial state support. Significant incentives for financing business start-ups, unemployed

² Following the model of the European Innovation Scoreboard (EIS), the Ministry of Science and Environment Protection in cooperation with ECORYS conducted a survey on innovations in Serbia for the first time, within the National Innovation Systems. This overview consists of important data on key aspects of innovative activities of the Serbian economy, in enterprises and economy, being the basis for more competitive and developed economy.

persons, undeveloped municipalities, innovators, as well as for financing the programme of internationalization of the SME operation, cluster development and infrastructural support to business incubators were provided.

However, numerous barriers to faster development of this sector have still not been removed. It primarily refers to the grey economy, total fiscal liabilities, inaccessible public purchases, monopolies, difficult collection of outstanding debts, excessive administration and inadequate operation of tax administration, complicated and expensive administrative procedures. The development of risk capital funds and other favourable sources of finance for SMEE are missing. Constant dialogue between the representatives of SMEE and relevant institutions on the national and local level on problems, needs and adequate measures and instruments of support has not been established. The development programmes of this sector were not harmonized with the privatization and restructuring process and the development of business cooperation between small and large companies have been neglected.

In the research conducted over 2005 and 2006, the representatives of SME recognized the absence of adequate sources of finance and unadjusted legal procedures as the most serious problems, including lack of information on markets, lack of staff, lack of standards and information on new technologies. It is obvious that in order to overcome the problems of the SMEE sector, a wide range of measures and synchronized engagement of public institutions are required. The Plan for Stimulation of the Development of Small end Medium-Sized Enterprises and Entrepreneurship in the period 2005-2007 of the Serbian Government contains a comprehensive system of stimulatory measures for overcoming of problems and faster development of this sector, but is not supported with adequate budget. Also, the available capacities of relevant institutions, especially referring to human resources, are not sufficient for efficient and fast realization of the planned system of measures. The newly established Council for the development of SME, as an inter-department Governmental body, should contribute to better harmonization and coordination of operation of state institutions and the improvement of the dialogue with SMEE representatives.

Consolidation of multiple economic functions and aspects within the Ministry of Economy and Regional Development contributed to better synchronization of incentive programmes in the area of economy, employment, tourism, regional development, and foreign economic relations. Furthermore, this Ministry established the Business Council composed of representatives of enterprises of different types and scope of activities aimed at accelerating the process of reform of the legal system in Serbia, as well as rationalization of the legal framework and eliminating unnecessary and outdated regulations.

The Republic Agency with the network of regional agencies for the development of SMEE and Business Centres of the National Employment Agency increased the scope, assortment and quality of services. The new Agency for the territories of Kolubara and Macva districts, with head office in Sabac, was joined to the network, with six districts now remaining uncovered. International projects continued with donor aid: the European Union (EAR), the Government of the Kingdom of Norway, the Government of the Kingdom of Spain, Japanese Government, Italian Government, UNIDO ITPO, ATA, GTZ, and others.

The programmes of the Ministry of Economy and Regional Development for financing business start-ups and unemployed persons under very favourable conditions, with decentralized approach in promotion, education and collection of loan applications were implemented. Funds amounting to 3 billion dinars were approved for this purpose which enabled the foundation of 2,190 enterprises with around 8,000 new employees.

The state support for the establishment of business incubators in 14 municipalities, realized within the Government's Programme for the development of business incubators and clusters in the Republic of Serbia 2007-2010 also enables more favourable and faster start-up. Also, the Executive Council of AP Vojvodina, within the Strategy for development, implements the programme of

support to the establishment of business incubators in three municipalities of Vojvodina. The Republic Agency also created the Centre for support to the establishment of business incubators.

The level of knowledge and skills of entrepreneurs is still unable to satisfy the necessities of building a competitive and export oriented SMEE sector. The reform processes oriented towards overcoming of this situation have been initiated, but they require a long period of time. The greatest improvement was made in terms of preparation for studying entrepreneurship within secondary education and an increased number of private secondary and post-secondary schools and faculties focusing on entrepreneurial education. Some initial results are being achieved in non-formal education that needs to provide the implementation of a life long learning principle and compensate for the lack of formal education; however the situation is generally unsatisfactory.

The access of SMEE to sources of finance is still rather restricted. The Development Fund of the Republic of Serbia is still the framework for financing the SMEE sector, through which stimulatory credit lines of the Ministry of Economy and Regional Development are realized under special programmes.

Bank loans are still very expensive and unavailable to the majority of interested SME. The implementation of adequate regulation in the area of risk capital is missing, thereby restricting the development of micro credit and guarantee funds on the regional and local level, but other sources of finance adjusted to real possibilities of this sector as well.

Examples of Good Practices

Stimulation of development of SMEE at a local level understands activities of local authorities aimed at creating conditions that foster application of business ideas and facilitate foundation and growth of companies. Production and other infrastructure, business services, certain financial assets, continual work at attracting additional external resources (investment, staff) are elements which, when combined, provide optimal utilization of local resources.

An increasing number of towns and municipalities in Serbia launch initiatives in the field of local economic development, especially in building up a more favourable environment for doing business of SMEE and providing some sorts of support to their development. As examples of good practice local self-governments have been chosen (*Sombor, Zrenjanin, Lazarevac, Medvedja and City of Kragujevac*), which with their efficient interventions created conditions for development of SMEE and which, owing to that, managed to improve their development degree and accelerate the rate of founding new small economic entities and *Regional Economic Chamber 'Valjevo'*, an institution that owing to its active approach fosters more favourable climate for development of the SMEE sector in the Kolubara and Macva District.

I MACROECONOMIC ENVIRONMENT

In 2006, the following important results were achieved: dynamic economic growth, macroeconomic stability, high export growth, significant inflow of foreign direct investments, the improvement of economic efficiency (generated profit is higher than loss), high growth of foreign currency reserves, and budgetary surplus. Positive macroeconomic tendencies were recorded alongside high external trade deficit, high unemployment, and the growth of salaries above labour productivity.

In the period 2001-2006 significant growth of GDP at an average annual rate of 5.3% was achieved. In 2006, the recorded growth was somewhat above the average of 5.7%. The structure of gross value added changed in 2006 with regards to 2001: the share of the service sector grew from 56.3% to 63.1%, while the share of industry fell from 24.5% to 20.8%.

Inflation, as measured by retail prices, after high growth of 40.7% in 2001 was reduced to 17.7% in 2005 and 6.6% in 2006.

The registered unemployment rate (persons seeking employment) rose from 26.8% in 2001 to 33.1% in 2006 (1,005,427 persons 913,239 of which were active unemployed persons). According to the Labour Survey 2006, the unemployment rate was 20.9%. Average net salaries grew from EUR 102 in 2001 to EUR 210 in 2005, i.e. EUR 260 in 2006.

High deficit of the current account of the balance of payments is the key macroeconomic discrepancy (the share of GDP in 2006 was 12.3%) resulting from high external trade deficit (6.7 billion dinars).

Although the real growth of investment activity was seen in the period 2004-2006, the national economy was characterized by insufficient scope of investments (the share of GDP in 2006 was 18%), considering technological backwardness of the production capacities and necessary dynamic economic growth. Investments into infrastructure have recorded notable growth.

Over the past two years the investment climate greatly improved resulting in increased inflow of FDI that reached USD 1.5 billion in 2005, and USD 4.4 billion in 2006.

1. Macroeconomic and Business Environment

1.1. Tendencies of Basic Macroeconomic Indicators

The period 2001-2006 was noted for pursuing of numerous reforms, the establishment of macroeconomic stability and sustainable and stable economic growth, restructuring of large systems and privatization of enterprises as well as the beginning of the EU accession, including numerous legal adjustments in all areas of the economy and society. The main objectives of the economic policy were **maintaining of macroeconomic stability along with the achievement of a relatively high economic growth rate**. The production activity, in the period after 2000, was accompanied with positive processes of economic transition and the reform of the tax system, labour market and the social sector; the dinar exchange rate was stable with continual growth of foreign reserves, important deregulation and liberalization of prices and external trade activities took place, and the relations with international financial institutions were regulated.

However, numerous restrictions to economic development still exist: relatively low overall economic activity (it is estimated that real GDP in 2006 was around 65% of the 1990 level), low investment activity, high unemployment, external and internal debts, high external trade deficit, deep social tensions, and low competitiveness of the economy.

The Serbian economy in the period 2000-2006 was characterized by dynamic growth of GDP at an average annual rate of 5.3%, with the highest GDP growth rate of 8.4% being recorded in 2004.

Industrial production in 2006 reached 47.3% of the 1990 level, being 11.6% higher in relation to 2000. The physical volume of the overall industrial production in 2006 with regards to 2005 recorded growth of 4.7%. Manufacturing accounted for the highest share in the growth of the overall industrial activity in 2006, as the most important sector of the overall industrial production (75.4% share in the overall industrial production) with recorded growth of 5.3%. Also, the following sectors recorded growth as well: Mining and Quarrying (4.1%) and Electricity, gas and water supply (2.2%).

Price stability was achieved due to the stability of the foreign currency exchange rate and continual growth of foreign currency reserves. Inflation, as measured by retail prices, after high growth of 40.7% in 2001, was reduced to 6.6% in 2006. The main factors that led to growth of prices were prices of oil and base metals at the world market, the growth of administratively controlled prices, higher real effective demand and structural problems of the economy.

The **public finance** reform made the tax system transparent, simple and harmonized with international standards. The implementation of fiscal reforms resulted in the establishment of macroeconomic stability and favourable conditions for investments and economic growth. In the period 2001-2003 fiscal deficit was reduced and for the first time in the history of the modern finance in Serbia, consolidated budgetary surplus of the Republic of Serbia was achieved during 2005 and 2006 (30.3 billion dinars in 2006).

The **labour market** in Serbia recorded high unemployment, high hidden unemployment, a low share of employment in the private sector and insufficient mobility of the labour force. Employment fell at an average annual rate of 0.5%, while unemployment grew at an average annual rate of 5.7% in the period 2001-2006, as a consequence of transitional processes.

High deficit of the current account of the balance of payments is the key macroeconomic balance (the share of GDP in 2006 was 12.3%) being the consequence of high external trade deficit (USD 6.7 billion).

Free calculation of **salaries** influenced their real growth in the period 2001-2006 at an average annual rate of 14.4%, being far above the growth of the overall economic activity and labour productivity. Average net salaries were increased from EUR 102 in 2001 to EUR 210 in 2005, i.e. EUR 260 in 2006.

Table 1: Basic indicators of economic trends (growth rates, %)

	2001	2002	2003	2004	2005	2006	2001-2006
GDP, real growth	4.8	4.2	2.5	8.4	6.2	5.7	5.3
Retail prices	40.7	14.8	7.8	13.7	17.7	6.6	16.4
Number of employed persons	0.2	-1.7	-1.2	0.5	0.9	-1.9	-0.5
Net salaries, real growth	16.5	29.9	13.6	10.1	6.4	11.4	14.4
Labour productivity	4.6	6.0	3.7	7.9	5.3	7.8	5.8

Source: RDB and RSO

In 2006, important results were achieved: dynamic economic growth, macroeconomic stability, high export growth, significant inflow of foreign direct investments, the improvement of economic efficiency (generated profit higher than loss), high growth of foreign currency reserves, and budgetary surplus. Positive macroeconomic tendencies were recorded alongside high external trade deficit, high unemployment, and the growth of salaries above labour productivity.

The Republic of Serbia completed the first stage of reforms over the previous five years of transition when macroeconomic stability was established and the foundation was laid for the second stage of reforms that will be focused on economic growth and structural changes. Legal safety of economic entities and conditions for doing business were improved. The average annual transition index rose from 1.6 in 2000 to 2.7 in 2006. In 2006, the average annual transition index was 3.8 in the Czech Republic, 4.0 in Hungary, 3.7 in Poland, 3.7 in Slovakia, 3.4 in Slovenia, 3.4 in Bulgaria, 3.3 in Romania, and 3.5 in Croatia.

The economic policy in 2006 paid special attention to the improvement of business and investment climate. 30 laws of essential importance for the functioning of the country's economic and legal system were passed: the Law on External trade Operations, Law on Free Zones, Law on Financing Local Governments, Law on Financial Market, Law on Takeover of Joint Stock Companies, and the Law on Agricultural Land. The improvement of the business climate resulted from the regulation of the three-year financial arrangement with IMF in March, regulation of relations with Montenegro in May, the proclamation of the Constitution of Serbia in November and Serbia's accession to the Partnership for Peace in December 2006.

1.2. Population and Employment

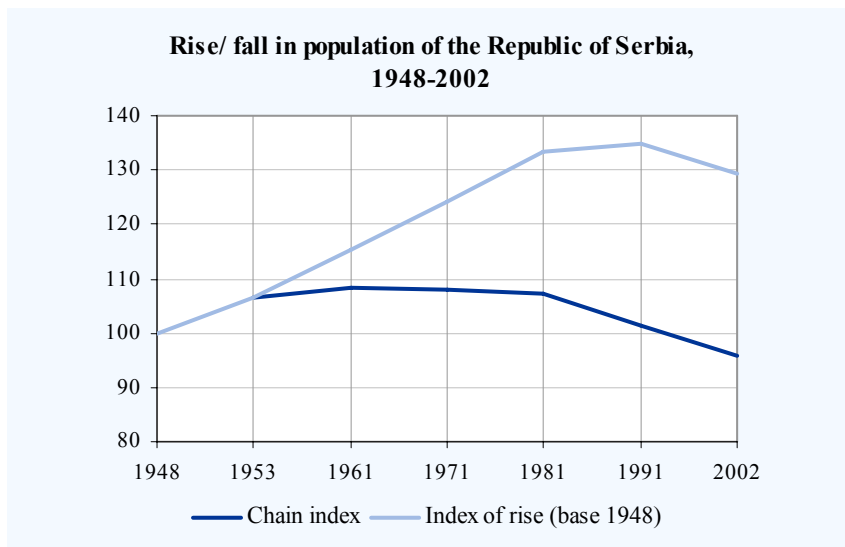
Population growth in Serbia has been in line with the tendencies of the population transition in Western Europe characterized by extremely low birth rates.

The data of the last Census in 2002 reveal negative tendencies of the overall population of the Republic of Serbia (7,498,001 inhabitants), showing a decline in the number of inhabitants with regards to the previous Census – a negative population growth rate (-1%).

A population tendency, i.e. the growth of the Serbian population is determined by the natural component (birth and death rate) which exceeds a negative migration balance.

The increasingly unfavourable age structure is one of the most important negative effects of the population development of Serbia. The age structure in the period 1971-2002 changed towards a decline in the share of young population (0-14) with a simultaneous increase in the share of the elderly population (60 years and more), implying that an extreme tendency of depopulation has been noticed in a longish period of time in the region. With the average population age of 40 years, Serbia is among the oldest ten countries in the world, i.e. among five of them in Europe.

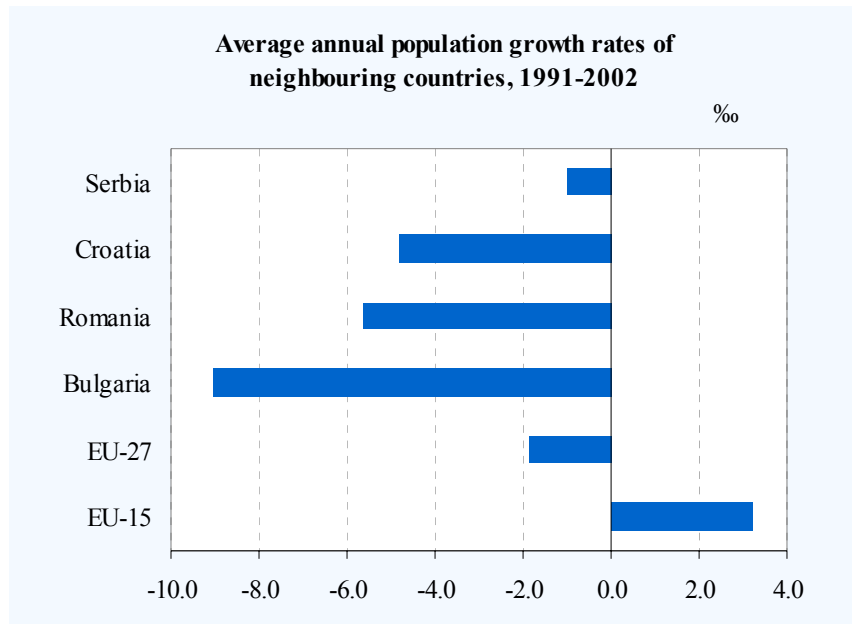
Chart 1



Demographic implications of ageing of the Serbian population are very complex, long-term and difficult. Population ageing in the future period will result in the ageing of the fertile contingent which directly results in a decline in the general fertility rate, thereby accelerating the process of population ageing and determining a restrictive demographic framework of the creation of the working contingent, and active population at the same time.

Changes in the population trends of the European Union, even with a positive migration balance, have been approaching zero growth over the past decades with extreme pessimistic forecast for the future trends. Ten new EU members (since 2004) recorded more moderate population growth with regards to the developed EU-15 countries, which was recorded as the world trend. Namely, less developed countries are characterized by high natural increase and a higher share of younger population, unlike EU countries. Similarly, even more unfavourable tendencies of the overall population were seen in Bulgaria and Romania as the new EU members and Croatia as a potential EU member state, which leads us to conclude that all modern economies simultaneously face the new challenge – population ageing and globalization³.

Chart 2



The total number of employed population according to the Labour Survey was 2,630,691 in 2006, or 35.3% of population, being 3.8% smaller (102,721) with regards to the previous year. Also, parallel to the reduction in the number of employed persons with legal entities (4.8% - 74,721), the number of private entrepreneurs and their employees was rising (6.6% - 34,611). The number of employed persons in public enterprises fell by 7.9% (12.0% - 14,000 in state-owned public enterprises), while the number of employed persons financed from the budget fell by 3.7% (12,000, of which 8,000 in healthcare, 3,000 in administration and 1,000 in education and culture). Constant growth of private entrepreneurs and their employees was not sufficient to absorb the total surplus of labour. The share of private entrepreneurs was increased from 19.1% in 2005 to 21.2% in 2006, in the structure of registered employees.

³ Annex: Table 1: Basic population indicators and employment in 2006

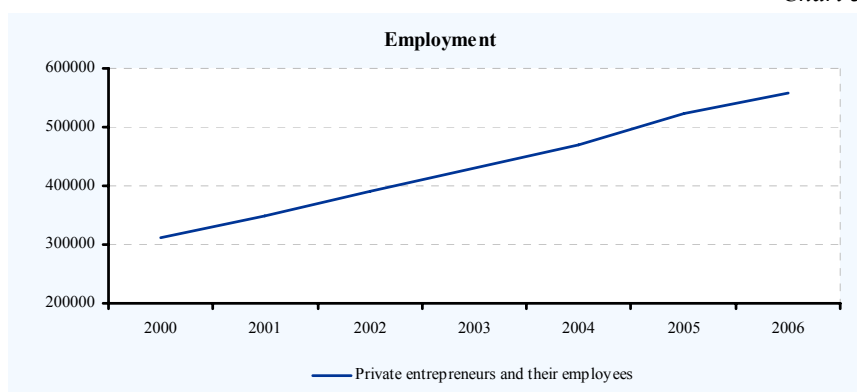
Table 2: Total number of employed persons 2005-2006

		2005	2006	Structure (%)		Index 2006/2005
				2005	2006	
	Total⁴ (1+2+3)	2,733,412	2,630,691	100.0	100.0	96.2
1.	Agricultural and family workers ⁵	586,708	501,937	21.5	19.1	85.6
2.	Other- unregistered	77,740	99,900	2.8	3.8	128.5
3.	Registered employees⁵	2,068,964	2,028,854	75.7	77.1	98.1
3.1.	Employees with legal entities	1,546,471	1,471,750	56.6	55.9	95.2
3.1.1.	Budget	328,000	316,000	12.0	12.0	96.3
	Administration-all levels	62,000	59,000	2.3	2.2	95.2
	Education and culture	118,000	117,000	4.3	4.4	99.2
	Health and social work	148,000	140,000	5.4	5.3	94.6
3.1.2.	Public enterprises	178,000	164,000	6.5	6.2	92.1
	Public state enterprises	117,000	103,000	4.3	3.9	88.0
	Public local enterprises	61,000	61,000	2.2	2.3	100.0
3.1.3.	Real sector ⁶	1,040,471	991,750	38.1	37.7	95.3
3.2.	Private entrepreneurs and their employees	522,493	557,104	19.1	21.2	106.6
	Private entrepreneurs	229,000	235,000	8.4	8.9	102.6
	Employees	293,493	322,104	10.7	12.2	109.7

Source: RDB

The structure of the total number of employed persons in 2006 was as follows: agriculturists and accompanying members – 19.1%, employed persons financed from the budget – 12.0%, public enterprises – 6.2%, the real sector – 37.7%, entrepreneurs and their employees – 21.2% and other non-registered persons – 3.8%.

Chart 3



The employment rate in Serbia in 2006 (according to the Labour Survey) of the working-age population amounting to 49.9% was low compared to the European Union, some of its member states, as well as the surrounding countries (only Turkey had a lower employment rate – 45.9%). In 27 countries of the European Union, the average employment rate amounted to 64.3%. Employment rates below 60% were recorded in: Poland 54.5%, Malta 54.8%, Croatia 55.0%, Hungary 57.3%, Italy 58.4%, Bulgaria 58.6%, Romania 58.8%, and Slovakia 59.4%⁷.

Similar tendencies are noticed in male and female employment rates. **The share of employed men in the working-age population of Serbia, according to Labour Survey of 2006**

⁴ Source: RSO-Labour Force Survey

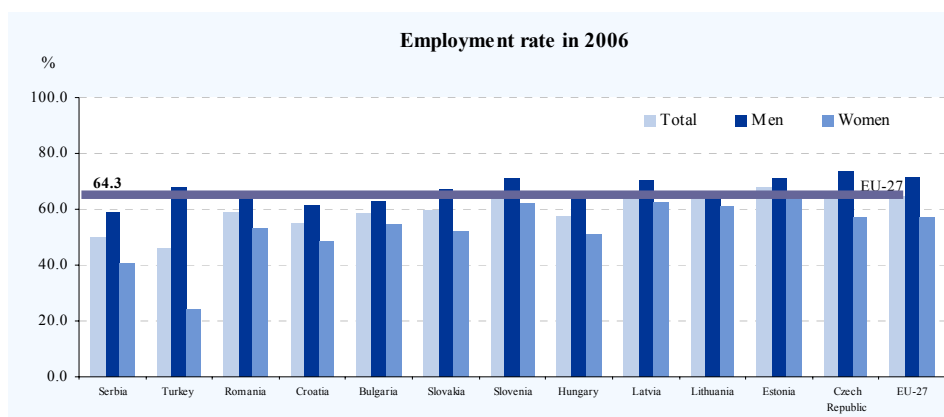
⁵ Source: RSO-Semi-annual report on employees and earnings RAD-1; Survey on extension of Semi-annual report RAD-1, Semi-annual report on entrepreneurs and their employees RAD-15.

⁶ Includes: private, social and mixed-owned enterprises.

⁷ Annex: Table 2: Employment rate

was **59.2%**, being the lowest value among the observed countries. **The female employment rate was low amounting to 40.6%**, higher than Malta (34.9%) and Turkey (23.9%) which recorded the lowest rates.

Chart 4



1.3. Unemployment

Serbia had relatively high unemployment in the past decade that was manifested in two forms: (1) registered unemployment, persons who seek employment registered at the National Employment Agency and (2) hidden unemployment or surplus of labour.

Registered unemployment, i.e. persons who sought employment in the period 1996-2000 went up by 98,709, being the average annual growth of 3%. In the period 2001-2006, unemployment rose by 39.3% being the average annual growth of 5.7%. The total number of persons who sought employment in 2006 was 1,005,427, of which 913,239 were active unemployed persons⁸. Also, the unemployment rate of persons who seek employment rose from 26.8% in 2001 to 33.1% in 2006. The unemployment rate (active unemployed persons) in 2004 was 26.4%, 30.0% in 2005 and in 31.0% in 2006. The structure of registered unemployed persons is unfavourable: long-term unemployed persons, young population, unskilled persons and women account for the highest share in the total unemployment.

The aggregate number of unemployed persons according to the Labour Survey fell by 3.7% in 2006 with regards to 2005 (from 719,881 persons in 2005 to 693,024 in 2006). The aggregate number of active population fell also by 3.7% in 2006 compared to 2005. **The surveyed unemployment grew slightly from 20.8% in 2005 to 20.9% in 2006.** The unemployment rate is the highest with regards to European Union countries, the Euro-zone and some Eastern European countries. **In 27 countries of the European Union, the average unemployment rate was 7.9% in 2006.** The above average unemployment rate was noticed in: Serbia (20.9%), Poland (14.0%), Slovakia (13.3%), Croatia (12.6%), France (9.0%), Bulgaria (8.9%) etc. Similar trends were noticed in male and female unemployment rates. The share of unemployed men in the active population of Serbia, according to the Labour Survey, was 17.9% in 2006, being far above the European Union average (7.1%). The female unemployment rate was high reaching 24.7%, exceeding the rates of all observed countries⁹.

Unemployment is one the greatest economic and social problems that Serbia faces today. For the purpose of stimulating employment through active investment and development policy, the

⁸ Active unemployed persons are persons who are ready to work, not including: temporarily disabled or unprepared persons for work, persons whose rights are reposed according to the law and persons who work half time or want to change their employment.

⁹ Annex: Table3: Unemployment rate

National Employment Strategy 2005-2008 was adopted in April 2005. The National Action Plan for Employment 2006-2008 was adopted towards the end of May 2006, envisaging measures and activities for the realization of the National Employment Strategy and for the purpose of increasing the employment rate, providing support to employment and alleviating unemployment.

Chart 5



Serbia has the highest long-term unemployment rate of 16.8% compared to the European Union, Euro-zone countries and the surrounding countries. In 27 countries of the European Union, the average long-term unemployment rate is 3.6%. The above average long-term unemployment rate is recorded in: Slovakia (10.2%), Poland (7.8%), Croatia (7.4%), Bulgaria (5.0%), Greece (4.8%), Germany (4.7%), Romania (4.3%), Belgium (4.2%), France (4.0%) and the Czech Republic (3.9%). While the long-term unemployment rate in almost all countries has a declining tendency, Serbia has a growing tendency year in year out¹⁰.

1.4. Gross Domestic Product

In the period 2001 to 2006 the Republic of Serbia achieved dynamic real growth of GDP at an average annual rate of 5.3%, with the highest growth rate of 8.4% recorded in 2004. GDP in 2006 went up by 5.7% in 2006 compared to the previous year. The following sectors accounted for the highest share in growth: Transportation and Traffic (2.7 percentage points), Trade (1 percentage point), as well as Financial Mediation (1 percentage point) and Manufacturing (0.8 percentage points).

GDP growth is primarily based on the growth of the service sector. In 2006 with regards to 2001, the growth of the share of the service sector from 56.3% in 2001 to 63.1% in 2006 in the GVA structure was recorded. In the structure of services, Wholesale and retail trade accounted for the highest growth of share from 7.1% to 11.5%, Transport, storage and communications from 7.9% to 13.1%, as well as Financial Mediation from 5.1% to 7.5%. The same period recorded a decline in the share of industry from 24.5% to 20.8%, of which Manufacturing decreased its share from 19.2% to 16.1%, Mining and quarrying from 1.7% to 1.6%, and Electricity, gas and water supply from 3.6% to 3.1%. The share of Agriculture was high, although it was reduced from 15.5% in 2001 to 12.6% in 2006.

¹⁰ Annex: Table 4: Long-term unemployment rate

Chart 6

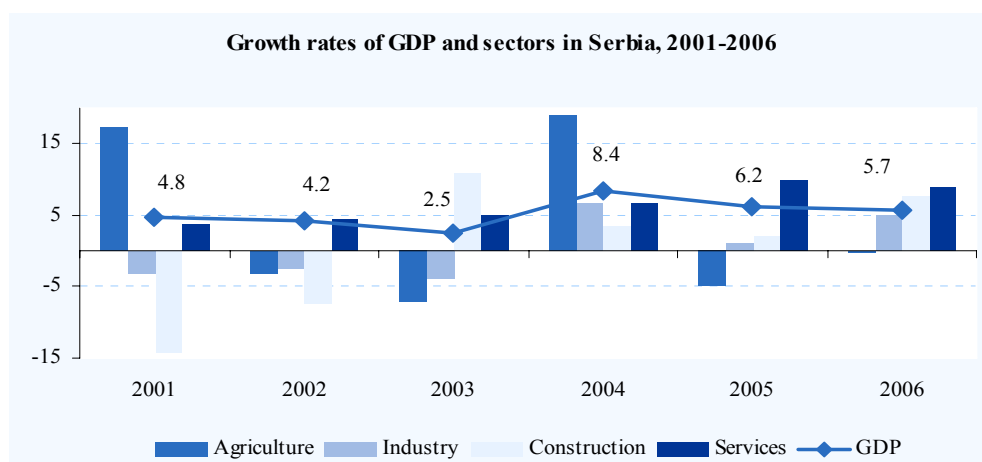


Table 3: Structure of Gross Value Added, 2001-2006

	2001	2002	2003	2004	2005	2006
Agriculture, hunting, forestry and fishery	15.5	14.9	13.6	15.0	13.5	12.6
Industry	24.5	23.7	22.4	22.1	21.2	20.8
Mining and quarrying	1.7	1.7	1.7	1.6	1.6	1.6
Manufacturing	19.2	18.5	17.1	17.2	16.3	16.1
Electricity, gas and water supply	3.6	3.5	3.6	3.3	3.3	3.1
Construction	3.7	3.4	3.7	3.6	3.4	3.5
Services	56.3	58.1	60.2	59.3	61.9	63.1
Wholesale and retail trade, repairs	7.1	8.1	8.9	9.6	11.1	11.5
Hotels and restaurants	1.1	1.1	1.0	1.0	0.9	0.8
Transport, storage and communications	7.9	8.0	8.6	9.2	10.8	13.1
Financial intermediation	5.1	5.6	6.0	6.1	6.8	7.5
Real estate activities, renting	15.6	15.7	15.9	14.9	14.6	14.2
Other services	19.5	19.7	19.7	18.5	17.6	16.1
Gross value added	100.0	100.0	100.0	100.0	100.0	100.0

Source: RDB

According to activities, the following sectors recorded growth in 2006: Transport, storage and communications (29.3%), Wholesale and retail trade (10.3%), Financial intermediation (17.2%), Construction (7.7%), Manufacturing (5.6%), while a decline was seen in the sector of Hotels and restaurants (- 8.1%), Agricultural production (- 0.2%) and other services (- 2.8%).

International comparisons reveal that Serbia realized a higher economic growth rate in 2006 compared to the EU-25 average. Although the achieved GDP growth of 5.7% in 2006 appears to be high, observed in the context of economic growth of the countries in the region, the mentioned growth is smaller than the growth achieved in Bulgaria (6.1%) and Romania (7.7%, the new EU members).

Table 4: GDP growth rates of new EU members and candidate countries

	2002	2003	2004	2005	2006	2007 ¹¹
EU-25	1.2	1.3	2.4	1.7	2.9	2.8
Czech Republic	1.9	3.6	4.2	6.1	6.1	4.9
Estonia	8.0	7.1	8.1	10.5	11.4	8.7
Cyprus	2.0	1.8	4.2	3.9	3.8	3.8
Latvia	6.5	7.2	8.7	10.6	11.9	9.6
Lithuania	6.9	10.3	7.3	7.6	7.5	7.3
Hungary	4.4	4.2	4.8	4.1	4.0	2.4
Malta	1.9	-2.3	0.4	3.0	2.9	3.0
Poland	1.4	3.8	5.3	3.5	5.8	6.1
Slovenia	3.5	2.7	4.4	4.0	5.2	4.3
Slovakia	4.1	4.2	5.4	6.0	8.3	8.5
Bulgaria	5.6	5.0	6.6	6.2	6.1	6.1
Croatia	5.6	5.3	3.8	4.3	4.8	4.8
Romania	5.1	5.2	8.5	4.1	7.7	6.7
Turkey	7.9	5.8	8.9	7.4	6.1	4.9
Serbia	4.2	2.5	8.4	6.2	5.7	7.0

Source: Eurostat, data on Serbia 2001-2006 by RSO

GDP per purchasing power (expresses by PPS index) is a preliminary analysis of purchasing power, based on the Eurostat estimates, with the exception of the data for Serbia which are provided by the Republic Development Bureau. Countries with the highest standard in 2006, expressed by PPS index (EU-27=100) were the following: Luxemburg (279), Norway (187), Ireland (144), Island (134) and Holland (132). Countries that were around the EU-27's average were: Spain (102), Italy (104) and Cyprus (93). The lowest standard per capita was recorded in Macedonia (27), Turkey (29), Bulgaria (37), and Romania (38). Serbia (33) is on a lower level than Romania and Bulgaria and a higher level than Turkey and Macedonia. Albeit moderate growth of Serbia's PPS (Purchasing Power Standard) index with regards to 2005, the main conclusion is that the standard of living in Serbia is among the lowest in Europe. Compared to 2002, Serbia reduced the difference between the values of PPS indices with regards to Croatia (by 8%), Slovenia (5%) and Bulgaria (4%), while compared to Romania the differences between PPS indices were increased (by around 8%). In the period 2002-2006, the highest PPS index growth was recorded in Romania (29.2%), Serbia (25.6%), Bulgaria (19.8%), Croatia (10.3%), Macedonia (10%) and Slovenia (9.4%).

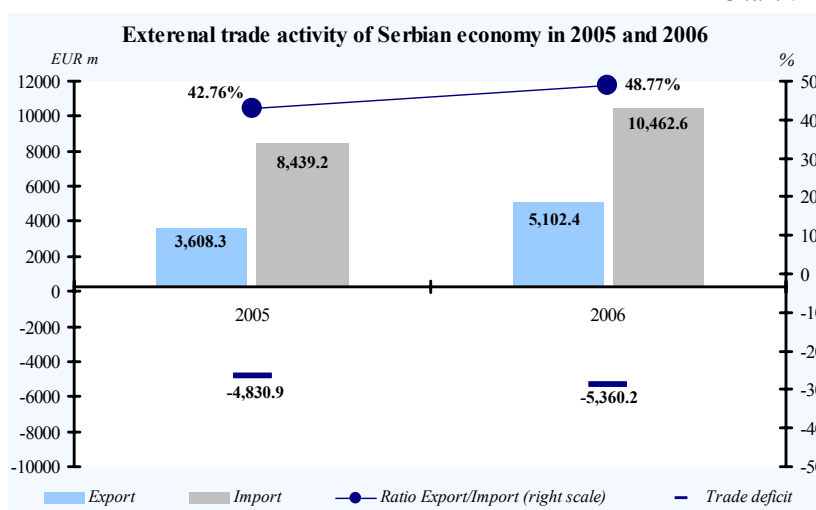
1.5. External trade

The transition process, structural changes in the economy and market liberalization during 2001 led to external trade misbalance in the coming years. High **balance of trade deficit** resulted from high import dependency of the *Serbian economy*.

External trade activity over 2006 marked growth compared to 2005 (from 11454,9 to 15565,0 million euros) with negative effects on the trade balance, due to the growth of the **balance of trade deficit** of around 11%. The result of the above trends is 24.4% import growth and 41.0% export growth.

¹¹ Forecast of GDP for Serbia based on the analysis of the RDB, other data taken from the Eurostat 2007

Chart 7



In 2006, Serbia traded mostly with EU (55.9%) and the surrounding countries (*Bosnia and Herzegovina* 5.6% and *Croatia* 3.0%). Trade deficit was realized with Russia (a traditionally high share in the overall imports – 16.3%). In the structure of external exchange, the following group of products accounted for the highest share in exports: *Rolled products; Copper; Automobile Tyres; Corn and Aluminum*, while the following products dominate in imports: *Oil; Gas; Passenger vehicles; Petroleum and mineral oil and Medicines*. The existing structure of import of goods for special purposes is unfavourable as the share of consumer goods records the highest increase, while the share of equipment and reproduction material is growing in exports.

The **balance of services** has been in continual surplus, as well as **net transfers** (private and state), however insufficient to annul the high **trade deficit** resulting in the **balance of payment deficit**. The total balance of payment position did not show misbalance owing to surplus of the principal amount of the balance of payments.

Table 5: External trade indicators in 2006

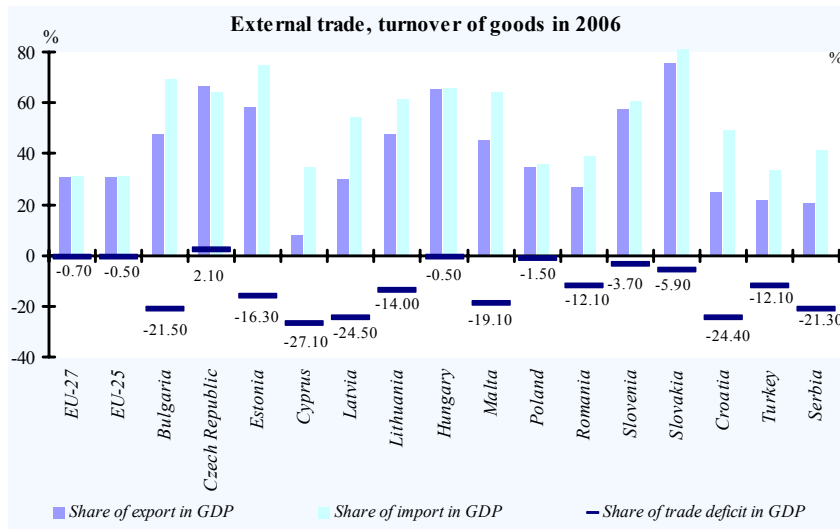
	Export of goods (EUR m)	Import of goods (EUR m)	Trade balance (EUR m)	Coverage of import by export %	Share of export in GDP (%)	Share of import in GDP (%)
EU-27	3,518,579.3	3,594,093.2	-75,513.9	97.90	30.4	31.1
EU-25	3,480,652.9	3,538,999.6	-58,346.7	98.35	30.4	30.9
Bulgaria	11,982.8	17,373.0	-5,390.2	68.97	47.7	69.2
Czech Republic	75,647.3	73,241.1	2,406.2	103.29	66.4	64.3
Estonia	7,643.8	9,783.6	-2,139.8	78.13	58.5	74.8
Cyprus	1,091.7	5,022.9	-3,931.2	21.73	7.5	34.6
Latvia	4,858.3	8,811.6	-3,953.3	55.14	30	54.5
Lithuania	11,240.4	14,546.1	-3,305.7	77.27	47.3	61.3
Hungary	58,580.6	59,028.9	-448.3	99.24	65.2	65.7
Malta	2,302.4	3,275.3	-972.9	70.30	45.2	64.3
Poland	93,240.6	97,134.4	-3,893.8	95.99	34.3	35.8
Romania	25,943.6	37,720.6	-11,777	68.78	26.7	38.8
Slovenia	17,013.8	18,124.7	-1,110.9	93.87	57.2	60.9
Slovakia	33,281.6	35,878.6	-2,597.0	92.76	75.7	81.6
Croatia	8,443.8	16,788.4	-8,344.6	50.30	24.7	49.1
Turkey	67,448.9	106,187.7	-38,738.8	63.52	21.2	33.3
Serbia	5,102.4	10,462.6	-5,360.2	48.77	20.2	41.5

Note: Source RSO and EUROSTAT

In 2006, the external sector accounted for 61.7% of the overall economic activity, indicating still insufficient openness of the Serbian economy. Although the coverage of imports by exports was increased (by 6 percentage points with regards to 2005), the Serbian economy still has an unfavourable export structure, low diversification of exports and low competitiveness.

According to the Eurostat data, the growth of the share of external trade activities in GDP in 2006 with regards to 2005 was noticed in almost all countries. All countries still have high balance of trade deficits, considering high import dependency of the production process. Serbia increased its trade deficit, measured by the share of the balance of trade in GDP in 2006 (21.3%) with regards to 2005 (19.1%), and with regards to the candidate countries, Bulgaria and Croatia.

Chart 8



2. Investments

Compared to the development needs, the investment activity is low. In the period 1991-2000, investments into fixed assets were declining at an average annual rate of -13.0%, whereas in the period 2001-2003 that rate was -0.6%. A sharp decline in the investment activity indicates technical and technological backwardness of the production capacities. In the period 2004-2006, the real growth of the investment activity was recorded. Increased investments into economic infrastructure and new technologies and equipment are basic presumptions for achieving higher GDP growth rates, improved competitiveness and export growth. In order to overcome technological backwardness and to achieve economic development, the investments of around 25% of GDP are necessary.

It is estimated that the share of gross investments into fixed assets was 18% in 2006, being far below compared to the EU-10's average (around 25%) and the surrounding countries (Bulgaria – 26.2%, Romania – 24.6%, Croatia – 30.8%).

Table 6: Share of investments in fixed assets in GDP, %

	2001	2002	2003	2004	2005	2006
EU-27	20.1	19.5	19.4	19.6	19.9	20.6
EU -15	20.0	19.4	19.3	19.4	19.8	20.4
Belgium	20.4	19.2	18.8	19.4	19.8	20.4
Czech Republic	28.0	27.5	26.7	25.8	24.9	25.0
Denmark	19.8	19.6	19.3	19.4	20.4	22.4
Germany	20.0	18.3	17.8	17.4	17.3	17.8
Estonia	26.7	29.8	29.3	31.5	31.1	33.8
Greece	23.5	23.5	25.3	25.2	23.7	25.7
Spain	26.0	26.3	27.2	28.1	29.3	30.3
France	19.5	18.8	18.8	19.3	19.8	20.4
Ireland	23.2	22.3	23.0	24.6	27.0	27.3
Italy	20.3	20.9	20.4	20.5	20.6	20.8
Cyprus	16.7	18.1	17.6	18.8	18.9	19.3
Latvia	24.9	23.8	24.4	27.5	30.6	34.4
Lithuania	20.1	20.3	21.2	22.3	22.4	23.1
Luxembourg	22.6	22.3	21.5	20.6	19.7	18.3
Hungary	23.0	23.0	22.1	22.4	22.7	21.8
Malta	20.6	16.3	19.6	19.6	19.8	19.3
Netherlands	21.1	20.0	19.5	18.8	19.0	19.7
Austria	22.1	20.4	21.3	20.7	20.4	20.6
Poland	20.7	18.7	18.2	18.1	18.2	19.9
Portugal	26.5	25.0	22.9	22.6	21.9	21.2
Slovenia	24.1	22.6	23.3	24.5	24.4	25.8
Slovakia	28.5	27.3	25.0	24.1	26.8	26.4
Finland	19.5	17.9	18.1	18.2	18.9	19.1
Sweden	17.3	16.5	16.0	16.3	17.2	17.9
United Kingdom	16.5	16.4	16.0	16.4	16.7	17.2
Bulgaria	18.2	18.2	19.3	20.5	24.2	26.2
Croatian	22.3	24.3	28.6	29.1	29.0	30.8
Romania	20.7	21.3	21.4	21.8	23.1	24.6
Turkey	18.2	16.6	15.5	17.8	19.6	21.0
Iceland	21.6	18.1	20.0	23.6	28.2	32.0
Norway	18.1	17.9	17.3	18.0	18.5	18.6
Serbia	10.4	11.8	16.1	17.7	17.3	17.9

Source: Eurostat; and for Serbia RSO and RDB

Table 7: Sector structure of total investments, in %

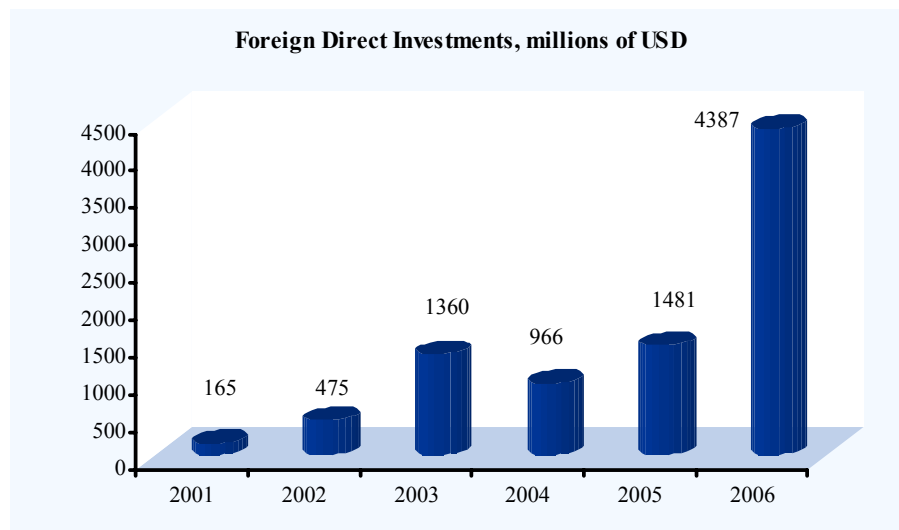
	2001	2002	2003	2004	2005
Total investments	100.0	100.0	100.0	100.0	100.0
Agriculture, hunting and forestry	7.6	5.3	4.1	3.7	3.4
Fishery	0.1	0.1	-	-	-
Mining and quarrying	2.4	1.8	1.5	1.9	2.1
Manufacturing	15.5	13.5	16.9	21.7	21.3
Electricity, gas and water supply	11.4	10.4	10.1	7.2	6.6
Construction	7.7	12.7	9.6	9.8	5.7
Wholesale and retail trade, repairs	3.1	3.2	2.9	19.0	16.1
Hotels and restaurants	0.8	0.7	1.0	0.8	1.1
Transport, storage and communications	13.7	16.5	18.1	14.9	13.3
Financial intermediation	4.3	3.0	3.2	2.3	3.8
Real estate activities, renting	19.0	16.7	19.5	9.6	13.7
Public administration and social security	7.3	9.5	4.9	3.2	7.5
Education	2.0	1.5	1.9	1.1	1.2
Health and social work	2.7	2.6	1.9	2.2	1.6
Other community, social and personal services	2.4	2.6	4.3	2.6	2.6

Source: RDB, based on the RSO data

According to the latest RDB data, total investments into fixed assets in 2005 amounted to 327.5 billion dinars. In the structure of total investments, a significant increase in the share of investments of the private sector from 20.3% in 2000 to 45.5% in 2004, i.e. 50.1% in 2005, was recorded. It can be concluded that the increase in private investments occurred mostly due to the privatization process. Observed by the sector structure of investments, in 2005 with regards to 2001, the share of investments into Manufacturing and Trade was increased, amounting to 38% on the total investments.

During the previous transition period, the institutional framework related to investments was mostly rounded by passing a set of laws (The Law on Planning and Construction, Law on Concessions, Law on Lien on Movables Inscribed in the Register, Guarantee Fund Law, and the adoption of the Action Plan for removing administrative barriers to foreign investments). Significant improvement in the creation of a stimulatory environment for doing business and investing was made, legal security of business entities and conditions for doing business were improved. The laws protecting private property, agreements, creditors and investors were passed: laws on enterprises, bankruptcy, registration of legal entities, executive and civil procedure, mortgage, external trade, protection of competition etc. The corporate profit tax was reduced from 14% to 10% being one of the lowest among the transition countries. In infrastructural sectors, basic laws on telecommunications, energy, railway and postal services were adopted. The privatization concept is both market and investment oriented and enables foreign capital inflow through direct investments into enterprises. The Law on Business Enterprises envisages the foundation of business entities and entrepreneurs, management of enterprises, rights and obligations of founders, partners, members and shareholders, affiliation and reorganization. At the beginning of March 2006, the Government of Serbia adopted the **Strategy for Stimulation and Development of Foreign Investments**. After the adoption of the Strategy, the laws stipulating the areas of importance for foreign investors were passed, such as the Law on Foreign Currency Operation, Law on Free Zones, Law on Financing Local Governments, Arbitration Law, Law on Investment Funds, amendments of and supplements to the Law on Planning and Construction and a set of laws regulating the protection of intellectual property rights. The new draft of the Law on Foreign Investments was prepared, introducing “one-stop-shop” principle that will provide the efficient realization of investments.

Chart 9



The attraction of foreign direct investments has an important role in improving the overall production and alleviation of poverty through economic growth and development, considering the role of FDI in the creation of new jobs, boosting of exports, transfer of new technology, and the improvement of corporate management. Over the last two years the investment climate in Serbia improved considerably resulting in higher inflow of FDI. **Foreign direct investments amounted to USD 1.5 billion in 2005 (USD 4.5 billion in the period 2001-2005).** A large part of these investments refers to the purchase of a part of domestic state and socially-owned enterprises and banks in the process of tender and auction privatization. **In 2006, FDI reached their peak value of USD 4.4 billion.** According to activities, in 2006 the highest share of FDI referred to postal activities and telecommunications (28.3%), Manufacturing (18.2%), and Financial mediation (36.8%).

II DEVELOPMENT OF SMEE SECTOR

Strengthening of the SMEE sector in the period 2001-2006 is a result of the improvement of general conditions for doing business and undertaken stimulatory measures and activities from the state to the local level of Government. Special attention was given to creating of stimulatory environment for doing business and providing financial support to the SMEE development. By passing a set of laws in the area of registration, stimulatory tax environment and the system of financing, the initial positive results in the operation of this sector were achieved – closing down of inactive business entities and faster foundation of new entities (in 2006 28,106 new economic entities were established), profitable operation of small and medium-sized enterprises (in 2006 these enterprises accounted for over 50% of profit in the economy, the profitability rate was 38.9%, being above the average of the economy - 36.0% and large enterprises - 33.2%). With a dominant share in the number of business entities – 268,515 or 99.7% in 2006, this sector accounted for 2/3 of the totally employed persons (870,979), generated over 2/3 of the aggregate turnover (3.588 billion dinars), around 60% of GDP (592.0 billion dinars), over 40% of exports (182.4 billion dinars) and 60% of imports (503.2 billion dinars) of the Serbian economy. Activities of pursuing regulatory reforms in Serbia were included in the research of the *World Bank* and the *International Financial Corporation* – in 2005 Serbia was proclaimed a leader in pursuing reforms, and in 2006 according to conditions for doing business Serbia approached the new EU member states. Worsening of the rank of the Serbian economy in 2007 (86th ranking compared to 68th ranking in 2006) is a result of slow improvement of business environment with regards to the observed countries. Also, annual reports of the *European Commission* on the progress of Serbia in the development of the SMEE sector and application of the principles of the European Charter for Small Enterprises reveal a positive development tendency and the effects of SMEs on the alleviation of initial negative transition effects. The *SME Development Index* shows that Serbia managed to make significant improvement in the previous period – in 2005 it was ranked among countries with faster progress, and in 2006 it reached the 2003 development level of the SMEE sector in Poland, Hungary and Slovakia (but still far below Slovenia and Croatia).

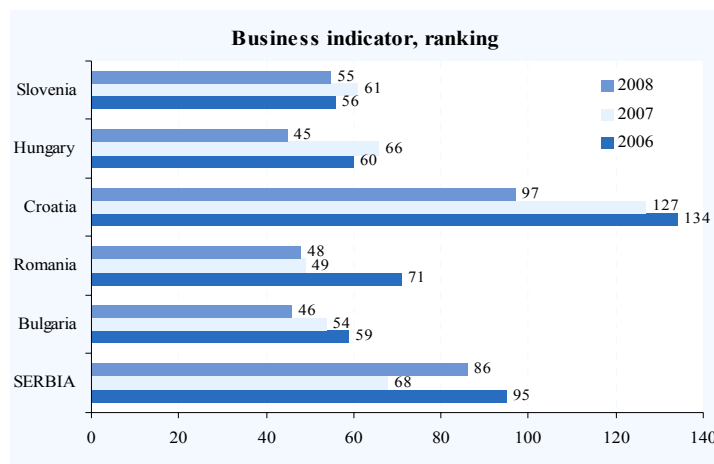
Apart from obvious progress, the SMEE sector is still not the mainstay of economic and overall development of the Republic. A more dynamic process of economic and financial improvement of this sector is missing – an insufficient number and economic weakness of medium-sized enterprises, slow dynamics of turning of micro into small and medium-sized enterprises as driving force of the development of the whole sector, unequal status of entrepreneurs and legal entities with all negative consequences on the development of entrepreneurship and more efficient valorization of development potentials of this important economic sector (entrepreneurs account for over 70% of business entities and 1/5 of the total number of employees, realized turnover and GVA of the Serbian economy in 2006). Insufficient horizontal and vertical connection (inter-connection with large systems and scientific-research institutions) is seen in weak and inefficient internationalization (3/4 of external trade deficit in 2006 was realized in the SME sector). High regional (*the City of Belgrade and South-Backa District*) and sector (*Wholesale and retail trade and Manufacturing*) concentration, with low concentration of high technology sectors, the inability to take the initiative in the area of innovations and technical and technological progress, boosting productivity and competitiveness of the country's economy reveal its insufficient influence on the alleviation of regional disproportions and change of the country's economic structure.

1. International Reflexion

Serbian activities in the implementation of regulatory reforms are included in the research of the *World Bank* and *International Financial Corporation* – annual reports reveal the analysis of operation within the economy based on the improvement of conditions for doing business i.e. the evolution of enterprises (starting a business, adherence to legal regulations and regulatory measures, the possibility of crediting business operation, protection of investors, termination of business operation and closing of enterprises).

Compared to the countries in the region, Serbia made the greatest improvement of conditions for doing business in the period 20005-2006, while a decline was recorded in 2007. The initial improvement of conditions for doing business made Serbia a leader in pursuing reforms, while in 2006, according to conditions for doing business, Serbia approached the new EU member states. However in 2007, the ranking of the Serbian economy worsened with the most unfavourable conditions for doing business with regards to the observed countries. Worsening of regulatory measures of business operation indicates slower dynamics of improvement of business environment with regards to the observed countries.

Chart 10



The results of the analysis of the World Bank show unfavourable and discouraging information for inflow and safety of foreign direct investments into Serbia with all negative effects on the overall economic growth and development and the international competitive position of Serbia.

The results of the analysis of doing business of the World Bank – Doing Business Report 2008 – reveal that in Serbia, with regards to the previous year, the procedure of starting a business was prolonged (23 days compared to 18 days in 2006), the process of obtaining customs declarations for exports was also prolonged from 11 to 12 days, import procedure from 12 to 14 days, the flexibility of labour legislation was reduced (the rigidity index increased from 38 to 46) – the number of procedures of registering new employees, determining working hours, and laying off employees was increased. The investment climate has remained unchanged from the perspective of both easier access to loans (the credit reporting index is 5) and protection of investors (The index of protection of investors is 5.3). Therefore, the level of information on credit financing is unchanged (0-6 interval), i.e. the level of protection of investors (0-10 interval) of the previous year. Furthermore, the procedure of registering property (111 days) and termination of business operations has not changed as well, either by means of settling agreement disputes (635 days) or in the regular way (2.7 years). The improvement was made only in the area of issuing permits (reduced from 211 to 204 days).

Development of SMEE Sector

Table 8: Business Indicators 2008

	Serbia	Bulgaria	Romania	Croatia	Hungary	Slovenia	
Doing Business	86	46	48	97	45	55	ranking
Starting a Business	23	32	14	40	16	60	days
Dealing with Licenses	204	131	243	255	211	208	days
Employing Workers	46	29	66	50	30	63	Rigidity of Employment Index
Registering Property	111	19	150	174	63	391	days
Getting Credit	5	6	5	3	5	2	Credit Information Index
Protecting Investors	5,3	6,0	6,0	4,0	4,3	6,3	Investor Protection Index
Paying Taxes	279	616	202	196	340	260	hours
Trading Across Borders	12; 14	23; 21	12; 13	22; 16	18; 17	20; 21	days for export i.e. import
Enforcing Contracts	635	564	537	561	335	1350	days
Closing a Business	2,7	3,3	3,3	3,1	2,0	2,0	years

Source: RDB according to the World Bank data

2. Comparative Analysis of SMEE Development

The newly established data base enabled a comparative analysis with EU countries and the surrounding countries. **The Index of SME Development**¹² was used to determine the development level of the SMEE sector in Serbia.

Table 9: Index of SMEE Development

		Share of the private sector in GDP, in %	Share of SMEE in GDP, in %	Share of employees in SMEE in total employment, in %	GDP per capita (US\$/capita)	Index of SMEE Development	
						-	(US\$/capita)
Hungary	2002	80.0	57.0	49.5	4,552	0.23	1,027.0
	2003	80.0	36.9	56.8	6,581	0.17	1,103.5
Croatia	2002	60.0	50.0	67.0	4,179	0.20	840.0
	2003	99.0	56.0	65.0	5,053	0.36	1,820.9
Romania	2002	60.0	55.0	20.8	1,644	0.07	113.0
	2003	65.0	55.0	20.8	2,091	0.07	155.5
Bulgaria	2002	70.0	30.0	64.7	1,476	0.14	200.0
	2003	75.0	30.0	42.2	1,984	0.10	188.4
Slovenia	2002	65.0	56.6	64.4	9,073	0.24	2,150.0
	2003	65.0	56.5	62.6	11,026	0.23	2,534.9
Serbia	2002	40.0	46.6	32.4	942	0.06	57.0
	2003	55.0	46.6	32.4	1,879	0.08	156.0
	2004	46.4	51.8	54.7	3,285	0.17	550.1
	2005	64.4	54.1	59.0	3,525	0.21	735.3
	2006	86.9	56.9	63.1	4,207	0.29	1,220.6

Source: www.unece.org/indust/sme/sme-role.htm

Note: Index of SMEE Development of Serbia in 2004, 2005 and 2006 calculated in the RDB on the basis of GVA of Serbia.

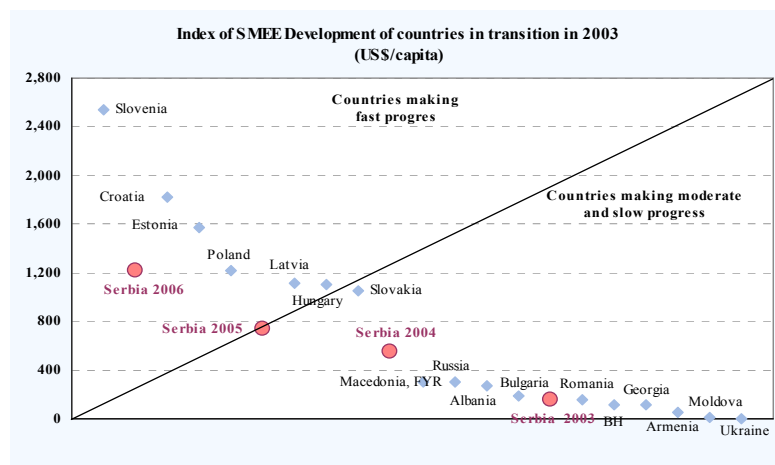
¹² UNECE: *Small and Medium-Sized Enterprises in Countries in Transition 2003, 2006*; On the basis of this indicator, transition countries in 2003 were classified into three groups:

- I countries with fast progress approaching the market economy, whose index of SME development is 500–2.200 US\$/capita;
- II countries with a medium level of development – index of SME development 100–500 US\$/capita;
- III countries with slow progress in transition – index of SME development below 100 US\$/capita.

In 2003, the observed countries were ready for joining the European Union, according to the adjustment to the market economy. At the same time, Serbia was not only among the countries with slow progress in transition, but had the worst ranking, after Bosnia and Herzegovina. This is the period when restructuring of large economic systems began, with all initial negative consequences inherent to this process the most negative effects of which were noticed in the SMEE sector. Due to insufficient economic and transition potential of the SMEE sector and underdeveloped financial market and market institutions in general, the SMEE sector could not modernize exploited equipment, grasp new technologies and take on the leading position in economic reforms. This is one of the key reasons why ambitious goals of the *SMEE Development Strategy 2003-2008* have not been met: an increase in the number of SMEs from 270,000 to 400,000 and the creation of one million new jobs.

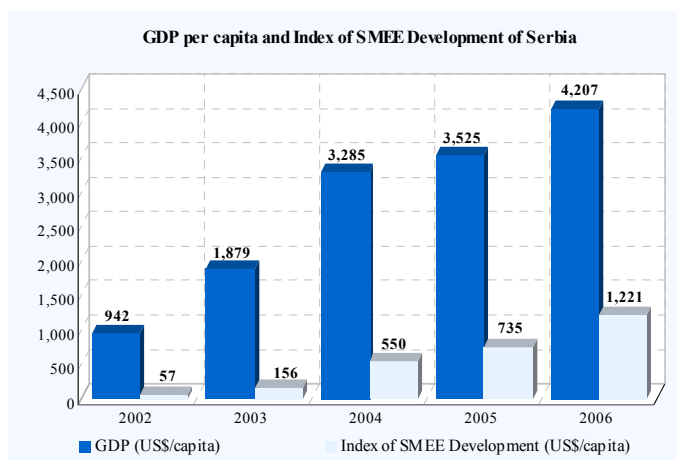
Beginning 2007, the transition process was either completed or approaching completion, with only Croatia not becoming an EU member.

Chart 11



The Index of SME Development reveals that Serbia managed to make significant progress over the past period, primarily due to the improvement of business environment and to classify itself among countries with fast progress in transition starting from 2005. According to the Index of SME Development in 2006 (1.221 US\$/capita), Serbia reached the 2003 development level of the SMEE sector in Poland (1.222 US\$/capita), Latvia (1.115 US\$/capita), Hungary (1.104 US\$/capita) and Slovakia (1.053 US\$/capita), however still far below Slovenia (2.535 US\$/capita), Croatia (1.821 US\$/capita) and Estonia (1.572 US\$/capita).

Chart 12



On the basis of annual reports of the European Commission on the progress of Serbia in the development of the SME sector and the application of the principles of the European Charter for Small Enterprises, it can be concluded that a positive tendency of development and influence of the SMEE sector on the alleviation of initial negative effects of transition is noticed and that the continuation of reforms in the area of legal regulations will make the SMEE sector the mainstay of structural changes and the overall economic development of Serbia.

3. Importance of the SMEE Sector in Serbian Economy

Strengthening of the SMEE sector in the period 2001-2006 is a result of the improvement of general conditions for doing business and undertaken stimulatory measures and activities from the state to local level of Government. The application of the *Law on Registration of Business Entities* and the foundation of the *Business Registers Agency* are of utmost importance for spreading and strengthening of SMEs and entrepreneurship – a facilitated, faster and cheaper procedure of foundation of enterprises was regulated.

The focus of activities is oriented towards the improvement of the following:

- General macroeconomic conditions for doing business and the development of entrepreneurship;
- Institutional infrastructure for the development of SMEs and entrepreneurship;
- Legal regulations;
- Tax and investment policy;
- System of financing.

A dynamic analysis of the SMEE development level shows its growing importance in pursuing structural reforms. In relation to 2004, the number of employees, realized turnover, GVA and exports are continuously growing. A decline in the number of small and medium-sized enterprises and entrepreneurs results from re-registration and closing down of inactive enterprises. The influence of the SMEE sector on the achieved value of basic indicators of development of the Serbian economy is continuously growing. Oscillations in the turnover of the economy recorded in SMEs result from increased business activity of large restructured systems. The achieved operation results of the SME sector had a significant influence on the improvement of business efficiency of the overall Serbian economy – in 2006 the Serbian economy was net profit maker for the first time since the beginning of the 1990s (over 50% of profit was generated in the SME sector). The SME sector is the most profitable and the most competitive part of the economy.

Table 10: SMEE development level

	SMEE			Large			Economy			Share of SMEE in economy		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
Number of enterprises	285,139	276,695	268,515	769	694	638	285,908	277,389	269,153	99.7	99.7	99.8
Number of employees	752,740	810,862	870,979	622,182	563,094	508,776	1,374,922	1,373,956	1,379,755	54.7	59.0	63.1
Turnover (RSD bn)	2,497	2,772	3,589	1,165	1,463	1,729	3,662	4,234	5,317	68.2	65.5	67.5
GVA (RSD bn)	357	467	592	332	395	449	688	862	1,041	51.8	54.1	56.9
Export (RSD bn)		115	182		175	236		290	418	-	39.6	43.6
Import (RSD bn)		391	503		220	346		611	849	-	64.0	59.2

Source: RDB

Although obvious progress has been made, the SMEE sector is still not the mainstay of economic and overall development of the Republic. A more dynamic process of economic and financial improvement of this sector is missing as well as the possibility of taking the initiative in the area of development and the application of innovations and technical-technological advancement, increasing country's productivity and competitiveness at the same time. Insufficient horizontal and vertical connection (inter-connection with large systems and scientific-research institutions) is seen in weak and inefficient internationalization (3/4 of external trade deficit in 2006 was realized in the SME sector). High regional (*the City of Belgrade and South-Backa District*) and sector (*Wholesale and retail trade and Manufacturing*) concentration, with low concentration of high technology sectors, the inability to take the initiative in the area of innovations and technical and technological progress, boosting productivity and competitiveness of the country's economy reveal its insufficient influence on the alleviation of regional disproportions and change of the country's economic structure.

Table 11: Structure of economy of Serbia in 2006

	Micro		Small		Medium		Large		Total economy	
	Value	%	Value	%	Value	%	Value	%	Value	%
Number of enterprises	256,988	95.5	9,027	3.4	2,500	0.9	638	0.2	269,153	100
Number of employees	416,593	30.2	185,528	13.4	268,858	19.5	508,776	36.9	1,379,755	100
Total turnover*	1,878,233	35.3	939,564	17.7	770,750	14.5	1,728,751	32.5	5,317,299	100
GVA*	263,215	25.3	155,248	14.9	173,520	16.7	449,270	43.1	1,041,253	100
Employment per enterprise	2		21		107		797		5	
Turnover per enterprise *	7.3		104.1		308.3		2,709.6		19.8	
GVA per enterprise *	1.0		17.2		69.4		704.2		3.9	

*in RSDm

Source: RDB

Main restrictions to dynamic development of SMEE:

- Incomplete process of improvement of stimulatory business environment and the creation of the market of financial and non-financial services adjusted to the development needs of this sector.
- Lack of unique legal regulation of the SMEE sector– a problem of special importance is an unequal status of entrepreneurs and legal entities with all negative consequences on the development of entrepreneurship and more efficient valorization of development potentials of this important economic sector. (Entrepreneurs - over 70% of business entities; they account for 1/5 of the totally employed persons, realized turnover and GDP of the Serbian economy in 2006).
- Lack of more dynamic development of medium-sized enterprises as driving force of the development of the whole SMEE sector. Operating problems of medium-sized enterprises are the consequence of the incomplete privatization process (unprofitable operation of non-privatized medium-sized enterprises) and transferring of a part of operating problems of large systems (reorganization of large enterprises with separated medium-sized enterprises). Furthermore, a more dynamic process of economic and financial strengthening of micro and small enterprises and their growing into medium-sized enterprises did not take place.

Key support measures for the stimulation of the development of the SMEE sector are the following:

- *The improvement of business environment* – termination of the privatization process, controlled inflation, tax and loan policy that stimulate business investments, curbing of the so-called ‘black economy’ etc.
- *Upgrading quality and efficiency of state administration and the establishment of dialogue between the private and public sector* – continuation and intensifying of the reform of state administration and the establishment of adequate advisory bodies for the purpose of providing high quality services to this sector.
- *The establishment of the institutional mechanism for support to the foundation of new and the development of the existing SMEs (medium-sized enterprises first of all), especially in established priority target groups, activities and regions.*
- *Boosting competitiveness and export efficiency* (providing funds for the development and application of innovations, the use of IT system for business management, creation of clusters, upgrading the level of production capacities, marketing activity – redesign of products and packaging, introduction of the quality system, international legal protection, product testing, participation at international fairs etc.).
- *Introduction of domestic enterprises into production chains of multinational companies* – stimulation of vertical investments by connecting domestic and foreign enterprises, where the production and delivery of parts, assemblies and sub-assemblies would be an important form of integration of domestic into the world economy.
- *Stimulation and introduction of the SMEE sector into high-technology development* – a part of chemical and electronic industry, pharmaceuticals, information and communication technology, food industry etc.
- *Efficient implementation of measures for the stimulation of development of SMEs and entrepreneurship*: the development of start-up programmes and instruments of micro financing, establishment of new business incubators, formal and non-formal education and more attractive promotion of the SMEE sector.

4. Structure of the SMEE Sector in Serbia

- In 2006, 269,153 business entities operated in Serbia (277,389 in 2005).
- The SMEE sector includes 268,515 business entities (99.8% of the total number).
- Micro enterprises are dominant in the SMEE sector (256,988)¹³ accounting for 95.7%¹⁴.

Table 12: Enterprises of economy of Serbia in 2004-2006

		SMEE	Large	Economy
2004	Number	285,139	769	285,908
	<i>% share in economy</i>	99.7	0.3	100.0
2005	Number	276,695	694	277,389
	<i>% share in economy</i>	99.7	0.3	100.0
2006	Number	268,515	638	269,153
	<i>% share in economy</i>	99.8	0.2	100.0

Source: RDB

¹³ Micro enterprises also include entrepreneurs.

¹⁴ Annex: Table 5: SMEE sector in economy of Serbia 2004-2006

Development of SMEE Sector

Table 13: Structure of enterprises in economy of Serbia in 2006, by organization type

Organization type	Micro		Small		Medium		Large		Total	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Enterprises	64,069	23.8	9,027	3.4	2,500	0.9	638	0.2	76,234	28.3
Stock company	771	0.3	711	0.3	741	0.3	287	0.1	2,510	0.9
Limited liability company	54,116	20.1	7,200	2.7	1,204	0.4	214	0.1	62,734	23.3
Others	9,182	3.4	1,116	0.4	555	0.2	137	0.1	10,990	4.1
Entrepreneurs	192,919	71.7	-	-	-	-	-	-	192,919	71.7
Total	256,988	95.5	9,027	3.4	2,500	0.9	638	0.2	269,153	100.0

Source: RDB

A continual decline in the number of business entities since 2004¹⁵ results primarily from the process of re-registration and establishment of an updated register – deletion of inactive business entities. The process of free re-registration of entrepreneurs was finished in 2006 - in 2006 188,740 entrepreneurs were registered in the Business Registers Agency, 45,439 of which were newly registered, 168,634 re-registered, and 25,333 were deleted from the register. The foundation of 8,000 new enterprises in 2006 is the result of faster and cheaper procedure of foundation of enterprises.

Table 14: Change in the number of enterprises in 2004-2006

		SMEE	Large	Economy
2006-2004	Change in the number	-16,624	-131	-16,755
	Growth rate	-5.8	-17	-5.9
2006-2005	Change in the number	-8,180	-56	-8,236
	Growth rate	-3	-8.1	-3
2005-2004	Change in the number	-8,444	-75	-8,519
	Growth rate	-3	-9.8	-3

Source: RDB

Sector and regional concentration of SMEs is visible. Almost 80% of SMEs (208,963) operate in the following four sectors: *Wholesale and retail trade, Manufacturing, Transportation, storage and communications* and *Real estate business, renting*, with over 50% (140,360) operating in the *City of Belgrade, and the districts of South Backa, Nisava, South Banat and Zlatibor*.

Chart 13

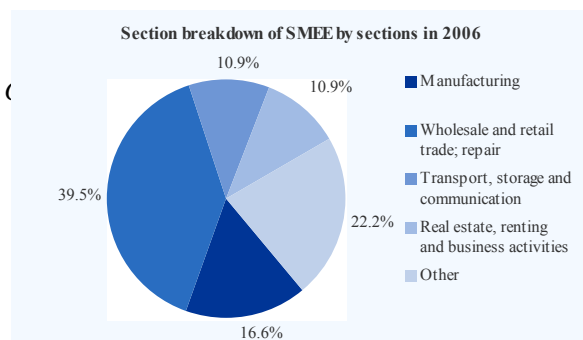
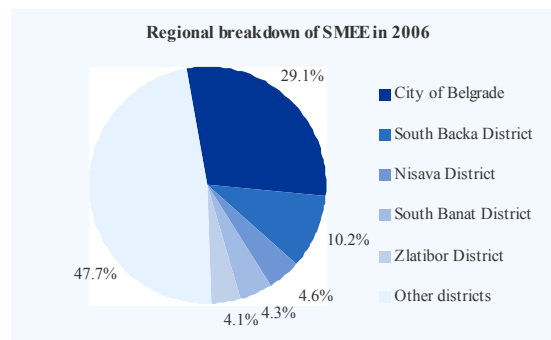


Chart 14



¹⁵ Annex: Table 6: Change in the number of SMEs in the period 2004-2006

5. Employment

- 1,379,755 persons were employed in the Serbian economy in 2006 – 2/3 or 870,979 of them were employed in the SMEE sector¹⁶.
- With 416,593 employees micro enterprises accounted for almost 50% of employment in SME¹⁷.

Table 15: Number of employees of economy in Serbia in 2004-2006

		SMEE	Large	Economy
2004	Number of employees	752,740	622,182	1,374,922
	% share in economy	54.7	45.3	100.0
2005	Number of employees	810,862	563,094	1,373,956
	% share in economy	59	41	100.0
2006	Number of employees	870,979	508,776	1,379,755
	% share in economy	63.1	36.9	100.0

Source: RDB

Table 16: Structure of employment in economy of Serbia in 2006, by organization type

Organization type	Micro		Small		Medium		Large		Total	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Enterprises	133,420	9.7	185,528	13.4	268,858	19.5	508,776	36.9	1,096,582	79.5
Stock company	2,406	0.2	17,760	1.3	87,004	6.3	218,545	15.8	325,715	23.6
Limited liability company	115,303	8.4	142,456	10.3	118,521	8.6	148,036	10.7	524,316	38.0
Others	15,711	1.1	25,312	1.8	63,333	4.6	142,195	10.3	246,551	17.9
Entrepreneurs	283,173	20.5	-	-	-	-	-	-	283,173	20.5
Total	416,593	30.2	185,528	13.4	268,858	19.5	508,776	36.9	1,379,755	100.0

Source: RDB

An increase in employment from the beginning of 2004 (by 0.4% or 4,834 employees) is a result of revival of business activity of the Serbian economy. Surplus of labour in large economic systems (113,406 employees) was directed towards the SMEE sector mostly towards micro enterprises (32.0%). Newly employed persons in micro enterprises (100,984) account for 85.4% of the increase in employment of the SMEE sector¹⁸.

Table 17: Change in the number of employees in 2004-2006

		SMEE	Large	Economy
2006-2004	Change in the number	118,240	-113,406	4,834
	Growth rate	15.7	-18.2	0.4
2006-2005	Change in the number	60,117	-54,318	5,799
	Growth rate	7.4	-9.6	0.4
2005-2004	Change in the number	58,122	-59,088	-966

¹⁶ The number of employees with legal entities on the basis of data of the NBS – Solvency Centre, and of entrepreneurs on the basis of the Tax Authority data.

¹⁷ Annex: Table 7: Employment in the SMEE sector in the period 2004-2006.

¹⁸ Annex: Table 8: Change in the number of employees of the SMEE sector in the period 2004-2006

Development of SMEE Sector

	<i>Growth rate</i>	7.7	-9.5	-0.1
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Source: RDB

Sector and regional concentration of employees in the SMEE sector is obvious. Over 70% (619,616) of the totally employed in SMEs are concentrated in the sectors of *Wholesale and retail trade, Manufacturing and Construction*, whereas more than a half of them (462,824) on the territories of the following five districts: (*the City of Belgrade, South Backa, Nisava, Srem and South Banat*), with the *City of Belgrade* accounting for 257,293 employees (29.5% of the totally employed in SMEs).

Chart 15

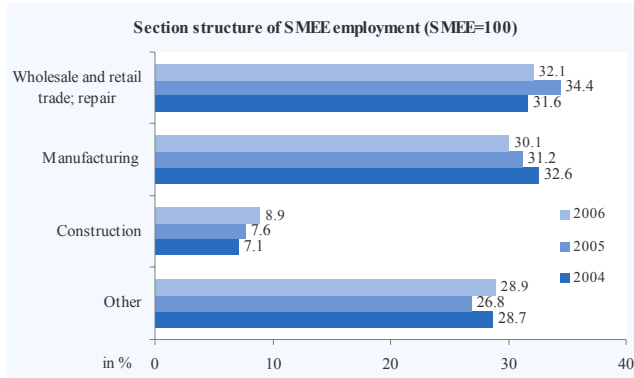
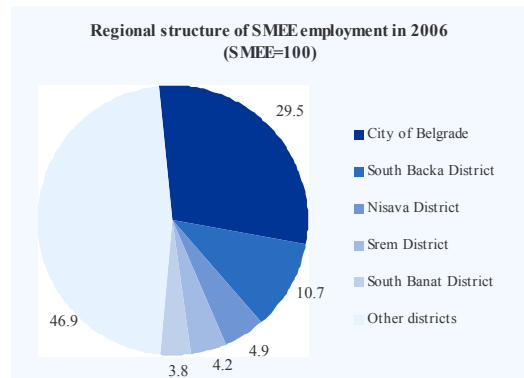
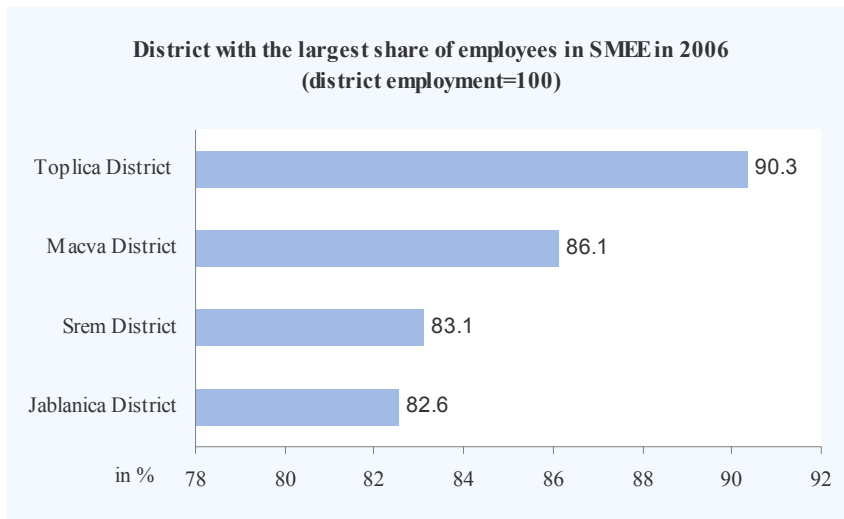


Chart 16



The SMEE sector accounts for the highest share in the total employment in all districts (over 50%), with the highest contribution of the four districts (over 80%).

Chart 17



6. Total Turnover

The analysis of realized turnover¹⁹ of SMEs reveals that faster development of this sector started to have a positive influence on the overall economic tendencies. In 2006, the SMEE generated 3.588 billion dinars of turnover.

- With regards to 2005, the share of SMEE in the turnover of the economy increased from 65.5% to 67.5% indicating growth of activities of SMEs;
- The highest contribution to realized turnover of SMEs in the period 2004-2006, albeit declining tendencies, was recorded in micro enterprises which realized more than a half of the turnover of SMEs (58.9% in 2004; 53.8% in 2005; 52.3% in 2006).
- More than 70% of turnover of SMEs was marked in two sectors: Wholesale and retail trade (52.0%) and Manufacturing (21.6%);
- SMEs on the territories of the City of Belgrade and the South-Backa District realized 50.8% of turnover of SMEs.

6.1. Total Turnover according to the Size of Enterprise

In 2006, the SMEE sector realized 3.588 billion dinars of turnover. In relation to 2005, SMEs increased their share in the turnover of the Republic of Serbia (from 65.5% to 67.5%). Micro enterprises, albeit their declining tendencies, realized more than a half of turnover of SMEs²⁰ in all given years (58.9% in 2004; 53.8% in 2005; 52.3% in 2006).

Table 18: Total turnover in economy of Serbia in 2004-2006

		SMEE	Large	Economy
2004	In RSDbn	2,496.80	1,165.40	3,662.20
	% share in economy	68.2	31.8	100
2005	In RSDbn	2,771.50	1,462.90	4,234.40
	% share in economy	65.5	34.5	100
2006	In RSDbn	3,588.50	1,728.80	5,317.30
	% share in economy	67.5	32.5	100

Source: RDB

Table 19: Structure of total turnover in economy of Serbia in 2006, by organization type

Organization type	Micro		Small		Medium		Large		Total	
	in RSDm	in %	in RSDm	in %	in RSDm	in %	in RSDm	in %	in RSDm	in %
Enterprises	768,966	14.5	939,564	17.7	770,751	14.5	1,728,751	32.5	4,208,032	79.1
Stock company	14,575	0.3	44,009	0.8	188,614	3.5	810,503	15.2	1,057,701	19.9
Limited liability company	692,731	13.0	853,241	16.0	516,305	9.7	599,218	11.3	2,661,495	50.1
Others	61,66	1.2	42,313	0.8	65,832	1.2	319,031	6.0	488,836	9.2
Entrepreneurs	1,109,267	20.9							1,109,267	20.9
Total	1,878,233	35.3	939,564	17.7	770,751	14.5	1,728,751	32.5	5,317,299	100.0

Source: RDB

¹⁹ Turnover according to Eurostat standards includes invoiced value of realized goods and services to third persons (except VAT, and taxes and fees not directly related to the production process) observed in a particular period of time. Turnover can be considered as an indicator of activities and market growth, and as it shows future cash inflow based on rendered services and sold goods it is an indicator of future investments.

²⁰ Annex: Table 9: Total turnover of the SMEE sector 2004-2006

In 2006, the overall business activity greatly improved, especially the activity of the SMEE sector. The most dynamic growth of business activity was seen in small enterprises (22.4% real growth rate of the total turnover).

Table 20: Rates of increase/decrease in SMEE turnover 2004-2006

	2005/2004		2006/2005	
	nominal	real	nominal	real
Micro	1.4	-12.9	25.9	11.7
Small	24	6.5	37.9	22.4
Medium	25.5	7.8	28.7	14.2
SMEE	11	-4.7	29.5	14.9
Large	25.5	7.7	18.2	4.9
Economy total	15.6	-0.8	25.6	11.4

Source: RDB

Above-average business activity was accompanied by increased labour productivity. Turnover of SMEs by enterprise grew at a higher rate compared to large enterprises and the average of the economy (33.4% compared to 28.5% and 29.4% respectively). Realized turnover by enterprise in small and medium-sized enterprises is five times higher than the average of the economy, i.e. sixteen times higher respectively. Although the number of employees in SMEs increased by 7.4% and 0.4% in the economy in 2006, with a recorded decline of 9.6% in large enterprises, SMEs are more productive than large systems and the economy in general (turnover per employee).

Table 21: Indicators of productivity by enterprise size 2004-2006

	Turnover per enterprise in RSD 000			Turnover per employee in RSD 000		
	2004	2005	2006	2004	2005	2006
Micro	5,350	5,603	7,309	4,660	3,952	4,509
Small	70,941	84,834	104,084	3,431	4,120	5,064
Medium	191,287	244,153	308,300	1,721	2,233	2,867
SMEE	8,756	10,016	13,364	3,317	3,418	4,120
Large	1,515,539	2,107,879	2,709,642	1,873	2,598	3,398
Economy total	12,809	15,265	19,756	2,664	3,082	3,854

Source: RDB

6.2. Sector Breakdown of Total Turnover

Leading sectors in the economy of Serbia which realized around 2/3 of the total turnover (3.479 billion dinars) are *Manufacturing* (25.2%) and *Wholesale trade* (40.2%). SMEE dominates in the realized turnover of all sectors of the economy of Serbia except in: *Mining and Quarrying, Electricity, gas and water supply and Transportation, storage and communications*²¹.

Over 70% of turnover of SMEs was recorded in enterprises of the sectors of *Wholesale and retail trade* (1.867 billion dinars or 50%) and *Manufacturing* (773 billion dinars or 21.6%).

The structure of turnover of SMEs of the two most dominant sectors, viewed by size of enterprise, indicates a dominant share of micro enterprises in the sector of *Wholesale and retail trade* (59.9%), and medium-sized enterprises in the sector of *Manufacturing* (37.7% in 2006.).

²¹ Annex: Table 10: Total turnover of the Serbian economy, by sectors

Chart 18

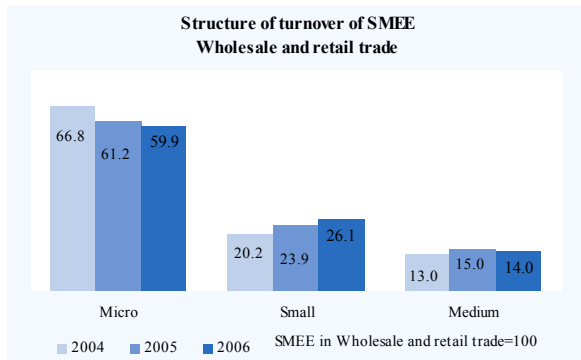
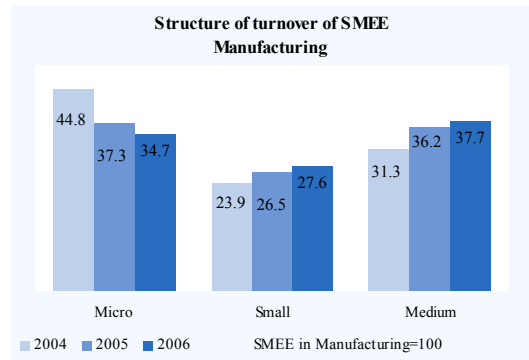
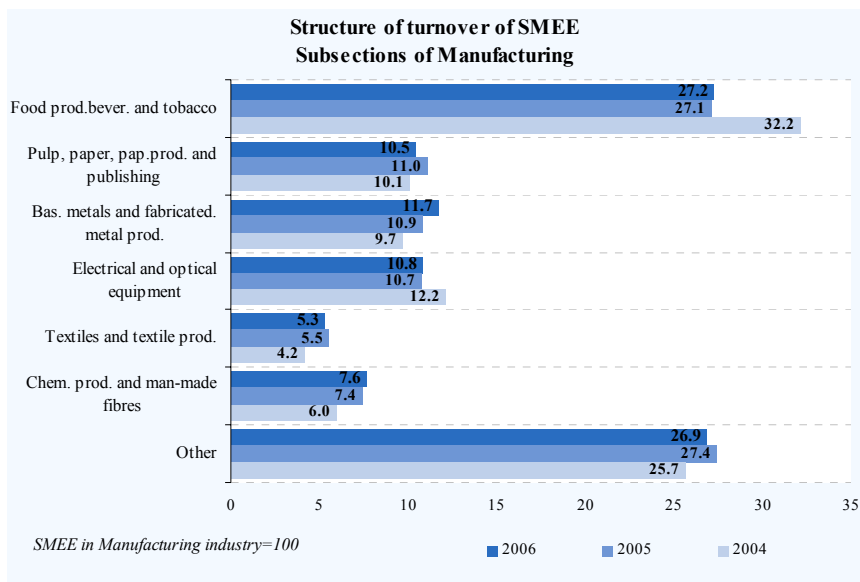


Chart 19



Enterprises in the sub-sector of *Manufacture of food products, beverages and tobacco* had a prevailing influence on the creation of turnover of the SMEE sector within *Manufacturing*, having realized 27.2% of turnover of this Sector in 2006.

Chart 20



Medium-sized enterprises have a prevailing influence on the turnover of the following sub-sectors: *Manufacture of food products, beverages and tobacco, Manufacture of paper, publishing and printing activity, Manufacture of chemical products and fibres, Manufacture of metals and metal products, Manufacture of other machines and equipment and Manufacture of traffic equipment.*²²

Sector arrangement of the total turnover of SMEs²³ and tendencies of growth of the share of small and medium-sized enterprises in the turnover of SMEs in 2006 with regards to 2005 and 2004 in all sectors confirms that small and medium-sized enterprises are entering the stage of more dynamic development, therefore it is expected that they will be initiators of faster economic development.

²² Annex: Table 11: Total turnover of Manufacturing in SMEE of Serbia

²³ Annex: Table 12: Sector arrangement of the total turnover of SMEE in Serbia

6.3 Regional Breakdown of Turnover

Viewed by regions, enterprises on the territories of the *City of Belgrade* and the *South-Backa District* had the most significant influence on the turnover of the economy having realized 3.013 billion dinars of turnover, i.e. 56.7% of the total turnover of the Republic²⁴, (SMEE – 34.3%). Also, the observed two districts had a prevailing influence (50.8%) on the realized turnover of SMEs: the *City of Belgrade* – 39.9% or 1.433 billion dinars and the *South-Backa District* – 10.8% or 388 billion dinars.

Table 22: Regional breakdown of total turnover in SMEE of Serbia in 2006

	Micro	Small	Medium	Micro	Small	Medium
	Turnover in RSDm			SMEE total=100		
Total	1,878,233	939,564	770,750	52.3	26.2	21.5
City of Belgrade	629,155	462,764	341,441	17.5	12.9	9.5
North Backa District	57,098	23,277	32,141	1.6	0.6	0.9
Central Banat District	26,769	11,372	18,977	0.7	0.3	0.5
North Banat District	28,661	10,212	17,061	0.8	0.3	0.5
South Banat District	85,831	29,453	23,451	2.4	0.8	0.7
West Backa District	38,565	14,046	21,883	1.1	0.4	0.6
South Backa District	182,072	120,775	85,582	5.1	3.4	2.4
Srem District	78,874	30,020	23,942	2.2	0.8	0.7
Macva District	67,343	18,567	17,384	1.9	0.5	0.5
Kolubara District	38,636	12,608	13,572	1.1	0.4	0.4
Podunavlje District	35,186	10,438	7,357	1.0	0.3	0.2
Branicevo District	36,360	8,634	8,500	1.0	0.2	0.2
Sumadija District	75,614	17,733	18,623	2.1	0.5	0.5
Pomoravlje District	49,982	16,956	11,828	1.4	0.5	0.3
Bor District	21,038	9,542	11,313	0.6	0.3	0.3
Zajecar District	25,014	4,126	3,351	0.7	0.1	0.1
Zlatibor District	62,348	19,356	14,478	1.7	0.5	0.4
Moravica District	55,436	31,502	30,046	1.5	0.9	0.8
Raska District	56,473	19,805	13,603	1.6	0.6	0.4
Rasina District	51,647	13,926	9,228	1.4	0.4	0.3
Nisava District	82,898	30,152	22,682	2.3	0.8	0.6
Toplica District	14,107	2,465	2,279	0.4	0.1	0.1
Pirot District	15,633	2,925	3,120	0.4	0.1	0.1
Jablanica District	40,149	12,572	13,096	1.1	0.4	0.4
Pcinja District	23,346	6,339	5,812	0.7	0.2	0.2

Source: RDB

The SMEE sector has a dominant influence on the total turnover in all districts, except the *South-Backa* and *Podunavlje* districts where large enterprises realized 54.2% i.e. 60.7% of turnover, respectively.

Viewed by size²⁵, more than 1/2 of turnover of SMEs of all districts was recorded in micro enterprises, except in the *City of Belgrade*, *South-Backa*, *Central-Banat*, and *Moravica* districts.

²⁴ Annex: Table 13: Regional arrangement of realized turnover in the economy of Serbia in 2006

²⁵ Annex: Table 14: Regional arrangement of realized turnover of SMEE in Serbia

7. Gross Value Added

GVA²⁶ reveals the tendency of the overall business activity and the development level of market economy:

- **The newly created value in SMEs continued to increase** (the achieved GVA of the sector increased from 356.7 billion dinars in 2004 – 51.8% of GVA of the economy to 592.0 billion dinars in 2006 – 56.9%).
- SMEs in the sectors of *Manufacturing* and *Wholesale and retail trade* generate 1/3 of GVA of the Serbian economy.
- The analysis of GVA by districts reveals extremely **unbalanced regional development of Serbia**. Restructuring of large economic systems in some districts resulted in higher engagement of SMEs (which became their suppliers and associates), and higher efficiency of the whole district at the same time.

7.1. GVA of Serbia by Size of Enterprise

In 2006, the Serbian economy realized 1.041.3 billion dinars of gross value added. SMEE accounted for the highest share in realized GVA (56.9%), the same as in the previous years. The highest GVA in the SMEE sector was marked in micro (44.5%) and medium-sized enterprises²⁷ (29.3%).

Table 23: GVA of economy of Serbia in 2004-2006

		SMEE	Large	Economy
2004	in RSDbn	356.7	331.8	688.5
	in %	51.8	48.2	100.0
2005	in RSDbn	466.7	395.5	862.2
	in %	54.1	45.9	100.0
2006	in RSDbn	592.0	449.3	1.041.3
	in %	56.9	43.1	100.0

Source: RDB

Table 24: Structure of GVA in economy of Serbia in 2006, by organization type

Organization type	Micro		Small		Medium		Large		Total	
	RSDbn	%	RSDbn	%	RSDbn	%	RSDbn	%	RSDbn	%
Enterprises	96.7	9.3	155.2	14.9	173.5	16.7	449.3	43.1	874.8	84.0
Stock company	0.9	0.1	10.3	1.0	49.6	4.8	205.8	19.8	266.5	25.6
Limited liability company	85.4	8.2	134	12.9	95.4	9.2	140.7	13.5	455.5	43.7
Others	10.4	1.0	11	1.1	28.5	2.7	102.8	9.9	152.7	14.7
Entrepreneurs	166.5	16.0							166.5	16.0
Total	263.2	25.3	155.2	14.9	173.5	16.7	449.3	43.1	1,041.30	100.0

Source: RDB

²⁶ *Gross value added* is the difference in base prices among final products (the value of produced goods and services resulting from the production process) and inter-stage consumption in purchasing prices (the value of all goods and services spent in the production process in a particular counting period). After consolidation with Eurostat methodology and standards and practice of EU member states, the Republic Statistics Office prepared the database of GVA for 2004, 2005, and 2006.

²⁷ Annex: Table 15: Gross value added of SMEE of Serbia in 2004-2006

Above average GVA growth rates reveal the tendency of an increasing influence of the SMEE sector. Small enterprises accounted for the highest GVA growth rate, while medium-sized enterprises accounted for the lowest growth rate.

Table 25: Growth rates GVA of SMEE in 2004-2006

	2005/2004		2006/2005	
	<i>nominal</i>	<i>real</i>	<i>nominal</i>	<i>real</i>
Micro	24.9	7.2	22.8	8.9
Small	40.7	20.7	40.9	25.0
Medium	33.3	14.4	22.1	8.3
SMEE	30.8	12.3	26.8	12.5
Large	19.2	2.3	13.6	0.8
Economy total	25.2	7.5	20.8	7.2

Source: RDB

Albeit a dominant influence of the SMEE sector on the creation of GVA of Serbia, the economic activity, productivity and efficiency of business operation of Serbia is determined by large economic systems (638 large enterprises or 0.2% of the total number of business entities realize over 40% of GVA).

Table 26: Generated indicators of GVA in 2004-2006

	GVA per enterprise, RSD 000			GVA per employee, RSD 000			GVA / turnover, in %		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Micro	624.6	805.3	1,024.2	544.0	568.0	631.8	11.7	14.4	14.0
Small	10,117.2	13,720.6	17,198.2	489.3	666.3	836.8	14.3	16.2	16.5
Medium	42,793.3	57,980.9	69,408.0	385.1	530.4	645.4	22.4	23.7	22.5
SMEE	1,251.0	1,686.8	2,204.7	473.9	575.6	679.7	14.3	16.8	16.5
Large	431,437.6	569,881.7	704,185.5	533.2	702.4	883.0	28.5	27.0	26.0
Economy	2,408.1	3,108.3	3,868.6	500.7	627.5	754.7	18.8	20.4	19.6

Source: RDB

A comparative analysis of indicators in 2005 and 2006 provides a more detailed insight into the efficiency of operation of the SMEE sector:

- **Growth of realized GVA by enterprise of all business entities:** the highest growth in micro enterprises (27.2%); medium-sized enterprises achieved the lowest growth (19.7%);
- **Growth of realized GVA per employee of all business entities:** small enterprises are the most productive (836.8 thousand dinars – 25.6% growth), while micro enterprises recorded the lowest growth (631.8 thousand dinars – 11.2% growth);
- **Increased production and market activity (as measured through the share of GVA in turnover) of all business entities, except in medium-sized enterprises.**

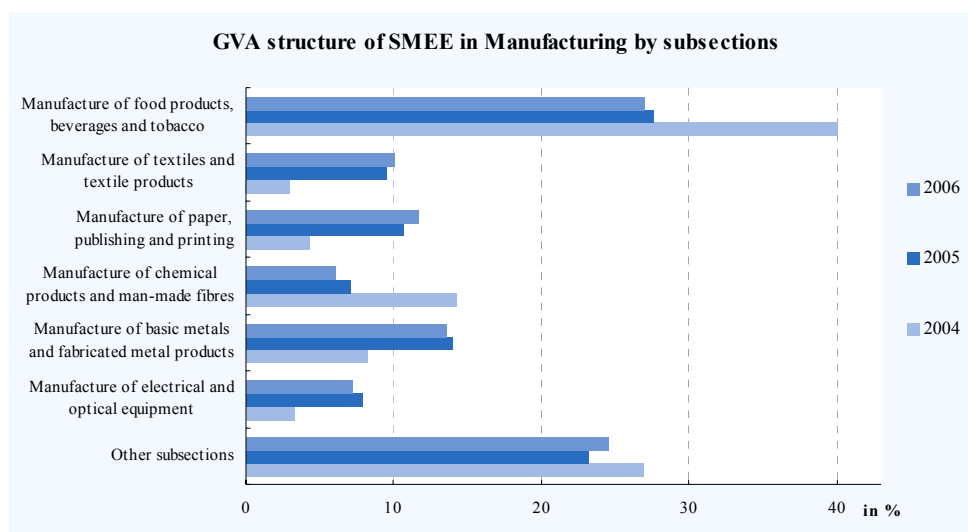
7.2 Sector Breakdown of Gross Value Added

The most efficient enterprises (realizing 1/2 of the value of GVA of the Serbian economy) operate in the sectors of *Manufacturing* 29.5% and *Wholesale and retail trade* 20.6%²⁸. The efficiency of these sectors results from the operation of SMEs (1/3 of GVA of the economy).

The sectors of *Wholesale and retail trade* (31.4%; 17.8% micro), *Manufacturing* (26.7%; 11.8% medium-sized), *Real estate activities* (12.0%; 3.3% small) and *Construction* (9.1%; 3.0% medium-sized) realize almost the total **GVA of the SMEE sector** (80%).

²⁸ Annex: Table 16: Sector structure of GVA of Serbian economy (economy = 100)

Chart 21



Medium-sized enterprises have a dominant influence on and make the highest contribution to the creation of GVA of SMEE in all sub-sectors of Manufacturing except in: *Manufacture of textile and textile products, Manufacture of wood and wood products, Manufacture of coke and oil derivatives* and *Manufacture of rubber products and plastics* where **micro enterprises**²⁹ dominate.

7.3. Regional Breakdown of Gross Value Added

The SMEE sector has a prevailing influence on the creation of GVA in almost all districts with the exception of four districts (*South Backa, Podunavlje, Branicevo* and *Bor*) where large enterprises³⁰ account for the highest share in the creation of GVA.

SMEs on the territory of *the City of Belgrade, South Backa, Nisava* and *Srem* districts achieved over 60% of gross value added of the whole SME sector in 2006.

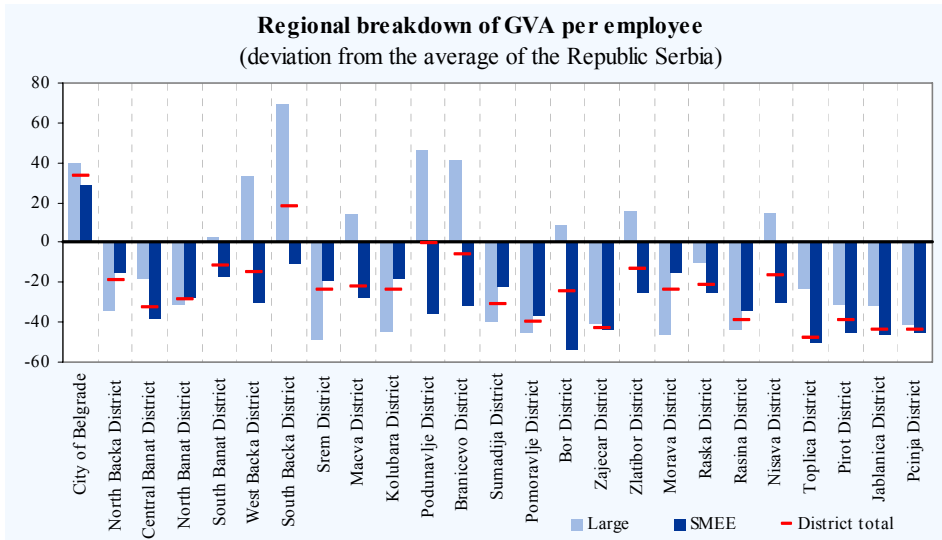
Visible disproportions in regional development levels show the following:

1) Influence of Employment on GVA – The realized GVA per employee is the highest in developed districts (*the City of Belgrade* and *the South-Backa District*). However, the achieved GVA is significantly different within districts with a similar employment structure: higher efficiency is recorded in districts with at least one large successful company. Above-average values of GVA per employee are noticed in enterprises on the territories of *the City of Belgrade* (irrespective of size of enterprise), *South-Backa District* (large enterprises) and *Podunavlje District* (large enterprises). **Except the City of Belgrade, GVA of SMEE per employee is below the average of the economy in all districts** (within the SMEE sector, SMEs in the City of Belgrade, small enterprises in South-Backa and Moravica districts and micro enterprises in the Zlatibor District are above the Republic's average). **A regression analysis by districts shows that transition in the Serbian economy is still underway (undeveloped market) and that changes in employment influence the level of GVA as in developed market economies.**

²⁹ Annex: Table 17: Structure of GVA of SMEE of Manufacturing (million dinars)

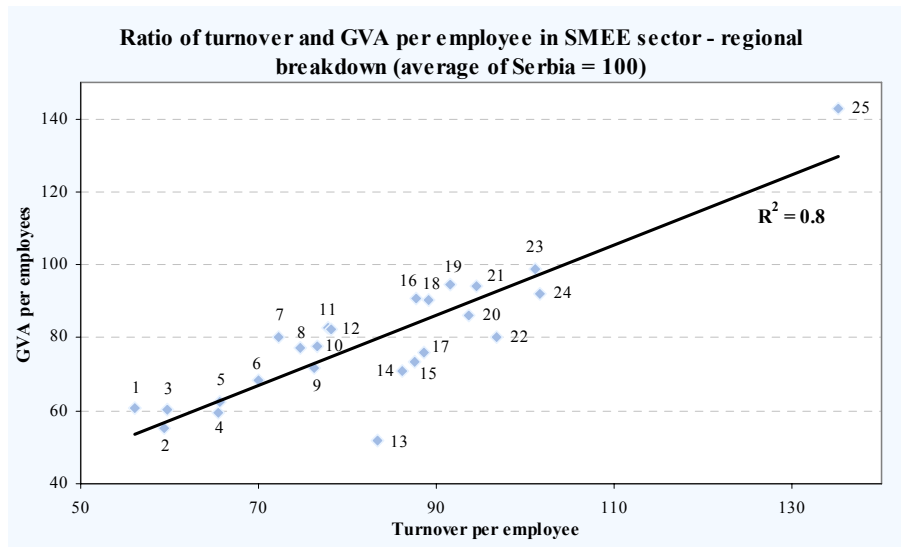
³⁰ Annex: Table 18: Regional arrangement of GVA of Serbia in 2006

Chart 22



2) *Inter-dependency of turnover and GVA per employee*– the regional analysis reveals high inter-dependency (0.8). All districts above the regression line achieve more efficient business operation. The analysis proves that the *City of Belgrade* with the highest turnover and GVA per employee is the most developed part of Serbia.

Chart 23



- | | | | |
|-----------------|--------------|----------------|---------------------|
| 1 Pirot | 8 West Backa | 14 Pomoravlje | 20 Sumadija |
| 2 Toplica | 9 Podunavlje | 15 Rasina | 21 Morava |
| 3 Peinja | 10 Nisava | 16 Kolubara | 22 Macva |
| 4 Jablanica | 11 Raska | 17 Branicevo | 23 South Backa |
| 5 Zajecar | 12 Zlatibor | 18 Srem | 24 South Banat |
| 6 Central Banat | 13 Bor | 19 North Backa | 25 City of Belgrade |
| 7 North Banat | | | |

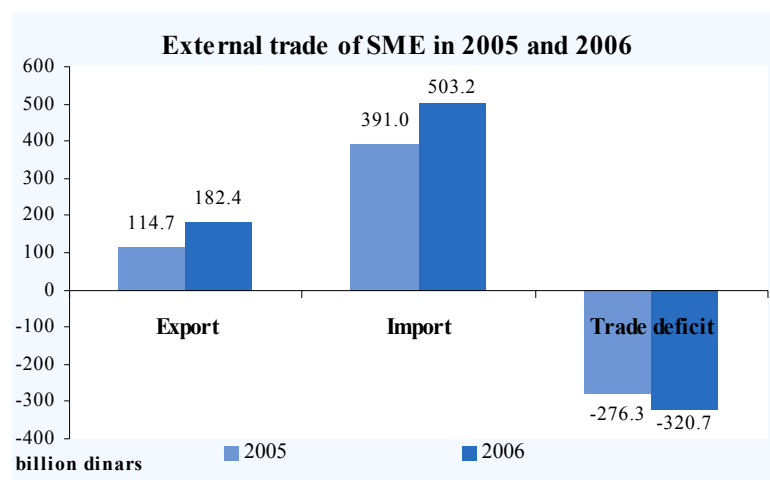
8. External Trade

Macroeconomic stability in the first line depends on the balance-of-payment balance. High current transactions deficit in 2006 has been a consequence of high external trade imbalance in goods. The greatest part (3/4) has been recorded in SME sector. Methodological analysis is focused only on the enterprises³¹, due to which the given results indicate the sharpness and clarity of the problem.

Summed up analysis of external trade activity of SME sector in the Serbian economy shows the following:

- Exports capacities of SME are, despite significant increase in 2006, insufficiently used: around 10,000 exporters (96% of total number of exporters), has recorded only 182.4 billion dinars of export (44% of total value of export).
- On the other side, 17,300 SME importers (97% of total number of importers) have recorded almost three times higher import (503.2 billion dinars – 59.2% of total value of import).
- External trade deficit of SME at the level of 320.7 billion dinars represents $\frac{3}{4}$ of economy deficit.
- Above average import dependency of SME (7.4% share of export and 20.3% of import in the turnover relative to 9.9% and 20.2% in the economy, respectively). High import dependency is visible in all sectors of SME business.³²
- Low presence of high-technology industrial branches in total exports (only 11% of imports of economy; 8.9% of SME export).
- High branch and regional concentration. External trade activity in 2006 is focused on two sectors: *Manufacturing industry* and *Wholesale and retail trade* (88.6% of export value and 91.5% of import value of SME) and two districts: *City of Belgrade* and *South Backi District* (46.9% of the value of export and 70.4% of the value of import of SME).

Chart 24



Increase of export activity of SME (in comparison to 2005, the number of SME exporters increased for 2,395, and importers for 1,367, whereas the value of exports increased from 114.7 billion dinars to 182.4 billion dinars), has been a result of ever wider implementation of the

³¹ Source: RSO; Notice RSO: in the data procession by size of enterprises, entrepreneurs and physical persons have not been included.

³² Annex: *Chart 1*: Share of exports and imports of SME in turnover in 2006; *Graph 2*: Share of exports and imports of SME Manufacturing industry in 2006.

principle of modern business philosophy – high quality and attractive product design, risk taking and properly oriented promotion activity. Innovativeness and flexibility of SME sector is in a position to rapidly increase the level of competitiveness in accordance with the global market developments. Manufacturers of automobile components, foodstuff, pharmaceutical and textile products have long tradition of cooperation with Western European companies, qualified and relatively affordable labour force and competitive products, whereas in tertiary sector, manufacturers of software solutions and atypically export-oriented activity – tourism (ethno tourism, congress tourism and the like) has been more and more significant owing to their innovativeness and flexibility.

Stimulation of export potential of SME sector, besides continual advancement of business climate, has been best achieved via **organization and participation at international fairs and shows** (in 2006, at eight international food fairs, the value of agreed businesses of small and medium entrepreneurs has exceeded 20 million EUR, whereas at the biggest world ICT trade show *CEBIT*, around 70 contacts with potential partners from over 30 countries have been made) as well as through **business meetings with multinational companies (*Coca-Cola, Ball Packaging, Siemens, British American Tobacco, Telenor etc*) and representatives of SME sector** (business connections with all positive effects on the increase of employment, investment, exchange of know-how, skills, technologies and the like).

Low presence of high technology industrial branches is one of the main limiting factors of external trade activity of Serbian economy and SME sector – they generate only 11.0% of exports and 9.8% of imports of economy (8.9% of exports and 8.0% of import of SME). Also, these branches account for the smallest share in the export (11.0%) and import (16.5%) of **Manufacturing industry of Serbia.**

Chart 25

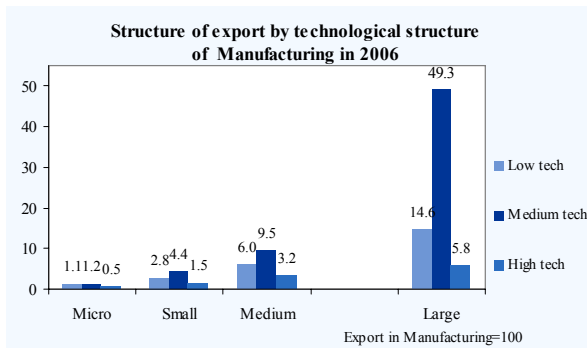
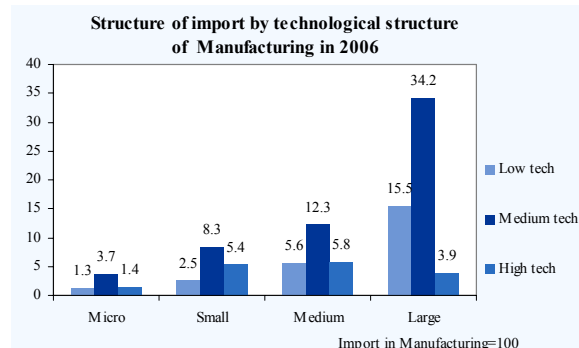


Chart 26



Similar relations also exist in the structure of **SME Manufacturing industry**³³ - high technology subsectors account for 17.3% of export and 27.3% of import (with dominant share of subsector *Manufacturing of electronic and optical instruments*). The highest share in the SME Manufacturing industry exports and the highest external trade surplus has been recorded in the *subsector Manufacturing of foodstuff, beverages and tobacco*, that belongs to the low technology intensity group, whereas all three subsectors belonging to the high technology intensity: *Manufacturing of other machines and devices, Manufacturing of electronic and optical instruments and Manufacturing of transportation means*, account for less than 10% each in export, and are import dependent (export covers 40.6% of import, whereas deficit stands at 23.8 billion dinars).

Medium enterprises have the greatest share in the external trade activity of SME Manufacturing sector in all three groups of technological level of development.

³³ Annex: Table 19: External trade activity of sub-sectors of SME Manufacturing industry in 2006 – technological level

Development of SMEE Sector

Table 27: External trade of SME in Manufacturing in 2006 - technological level-

	Export in RSDm				Import in RSDm			
	Micro	Small	Medium	SME	Micro	Small	Medium	SME
Low tech.	3,354	8,782	18,591	30,726	4,078	7,928	17,679	29,685
in %, SME in Manufacturing=100	10.9	28.6	60.5	100.0	13.7	26.7	59.6	100.0
Medium tech.	3,729	13,698	29,548	46,976	11,656	26,305	38,859	76,819
in %, SME in Manufacturing=100	7.9	29.2	62.9	100.0	15.2	34.2	50.6	100.0
High tech.	1,592	4,584	10,080	16,256	4,468	17,163	18,425	40,056
in %, SME in Manufacturing=100	9.8	28.2	62.0	100.0	11.2	42.8	46.0	100.0

Source: RDB

Main measures supportive to the SME sector export are the following:

- *Providing resources for financing export activities* (increasing the level of production capacity, marketing activity – redesign of products and packages, quality system introduction, international legal protection, product testing, participation at international fairs etc),
- *Including domestic enterprises in production chains of multinational companies* – stimulating vertical investments through linking domestic and foreign enterprises, where production and delivery of spare parts, assemblies and sub-assemblies would represent an important sign of domestic economy integration into global flows.
- *Improving engagement in the creation of export clusters* – export costs are reduced and assumptions for increasing the level of product procession created, opening up possibilities for increasing export prices, and therefore value of export in general.
- *Stimulating and including SME sector in the high technologies development* – in the field of chemical and electronic industry, pharmacy, information-communication industry, foodstuff industry and the like...
- *Efficient implementation of incentive measures for the development of small and medium enterprises and entrepreneurship*: development of start-up programs and instruments of microfinancing, creation of new business incubators, formal and non-formal education and more attractive promotion of SME sector.

8.1. Export by Size of Enterprises

More intensive export activity of the Serbian economy in 2006, relative to 2005, viewed through an increase in the number of exporters, value of export and its impact on total turnover, has been a result of improved export activities of SME sector. Even though large enterprises are pillars of total value of export activity (they account for 56.4% of total export value), growth of export value of SME by all types of enterprises in sense of size, is higher than the growth of export of large systems (34.9%) and economy in total (44.5%). Also, one should not neglect the fact that SME supply large export companies with goods and services, so that indirectly the export of SME sector becomes more significant in value.

Table 28: Export by an enterprise size in 2005 and 2006

	No. of enterprises			Export (in RSDm)			Export/Turnover in %	
	2005	2006	Absolute growth	2005	2006	Index 2006/2005	2005	2006
Micro	4,460	5,989	1,529	31,111	48,589	156.2	5.1	6.3
Small	2,197	2,902	705	38,428	58,784	153.0	5.6	6.3
Medium	884	1,045	161	45,115	75,065	166.4	7.5	9.7
SMEE	7,541	9,936	2,395	114,654	182,439	159.1	6.1	7.4
Large	400	406	6	174,982	235,992	134.9	12.0	13.7
Economy	7,941	10,342	2,401	289,636	418,430	144.5	8.7	9.9

Source: RDB

Export of SME sector in 2006 of 182.4 billion dinars (43.6% of value of total export in the Republic) has increased for 59.1% in comparison to 2005. Within SME sector, medium enterprises had recorded the highest growth index of the export value (166.4%) and the highest growth of the export-orientation, for 2.2 percent points (export in 2005 accounted for 7.5% of turnover of medium enterprises, and 9.7% in 2006).

8.1.1. Export of SME by sectors

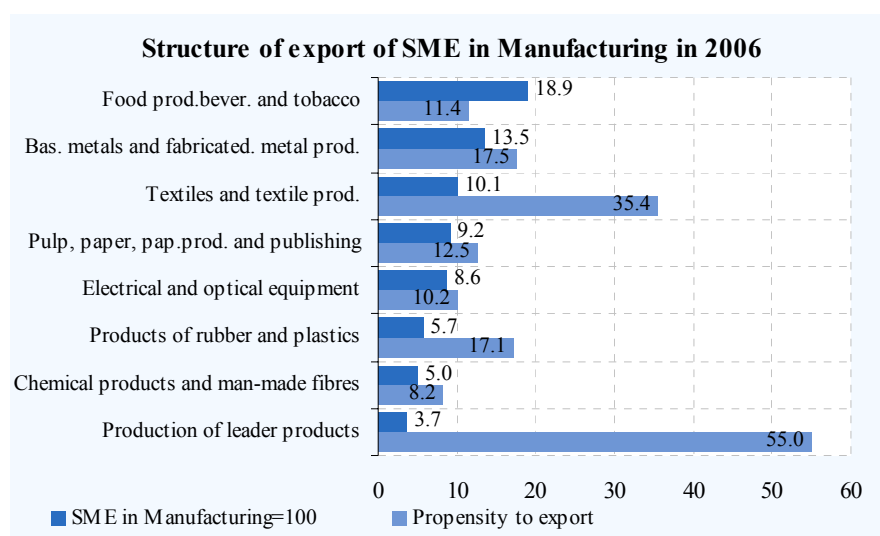
Exporters of Serbian economy³⁴ (8,662 enterprises or 83.8%) in 2006 are concentrated in two sectors: *Manufacturing industry* and *Wholesale and retail trade*. These enterprises recorded 384.4 billion dinars of export (91.9% of total export). SME dominate in terms of number of exporters in both given sectors, and with recorded export of 161.7 billion dinars participate with 38.6% in the export of economy. However, the most decisive impact on the total export of Serbian economy in 2006 have been left by 284 large enterprises from *Manufacturing industry* (51.7% of total value of export in the Republic), mostly from the subsectors: *Manufacturing of metals and metal products* (20.7% of export of economy), *Manufacturing of chemical products and fibres* (8.1%), *Foodstuff, beverages and tobacco* (6.8%) and *Manufacturing of rubber and plastic products* (5.4%).

SME are, in terms of export, more successful than large enterprises in sectors *Agriculture, forestry and water management, Real estate activities, renting and Wholesale and retail trade, repair*, accounting for 1.7%, 1.9% and 16.2% of total economy export, respectively (large 0.3%, 0.5%, 1.5% respectively).

As regards the structure of export of SME sector, *Manufacturing industry* and *Wholesale and retail trade* dominate – 88.6% of SME export. In comparison with 2005, export activity of these sector has been growing - *Manufacturing industry* (an increase of exporters from 3,129 to 4,036 enterprises or for 29%, and value of export from 58.1 billion dinars to 93.9 billion dinars or for 61.6%); *Wholesale and retail trade, repair* (an increase of exporters from 3,276 to 4,308 enterprises, or for 31.5%, and export from 45.7 billion dinars to 67.7 billion dinars or for 48.1%).

The biggest exporters in almost all sectors are medium term enterprises, *Construction, Transport, storage and communications, Real estate activities* (small enterprises) and *Wholesale and retail trade and Other community services* (micro enterprises).

Chart 27



³⁴ Annex: Table 20: Export of Serbian economy by sectors

Viewed by *subsectors Manufacturing industry*, 1/5 of sector export has been achieved through SME in subsector *Manufacturing of foodstuff, beverages and tobacco*, whereas in subsectors *Manufacturing of leather products* and *Manufacturing of textile and textile products* export has accounted for 55.0%, that is, 35.4% of subsector turnover. Also, operation of small and medium enterprises in all subsectors of Manufacturing industry is characterized by an increasing number of exporters and value of export.

8.1.2. Export of SME by districts

The majority number of SME exporters³⁵ operate on the territory of *City of Belgrade* (4,231 enterprises) and *South-Backi District* (1,171). The value of export of these two districts (85.6 billion dinars) makes up 20.5% of total and 46.9% of export value of SME sector.

The decisive impact on the level of export in almost all districts comes from medium enterprises, except in *South-Backi Districts* and *Macva District* (small enterprises) and *Borski District* (micro enterprises).

The highest share in the export of district *City of Belgrade* has sector *Wholesale and retail trade* (51.3% of district export) and *Manufacturing industry* (42.0%) within which dominate subsector *Manufacturing of paper, publishing and printing* (11.2% of total district export). In *South-Backi District* the highest export is recorded in *Manufacturing sector* (41.2% of district export), mainly in subsectors *Manufacturing of foodstuff, beverages and tobacco* and *Manufacturing of textile and textile products* (9.6% and 6.4% of district export).

Chart 28

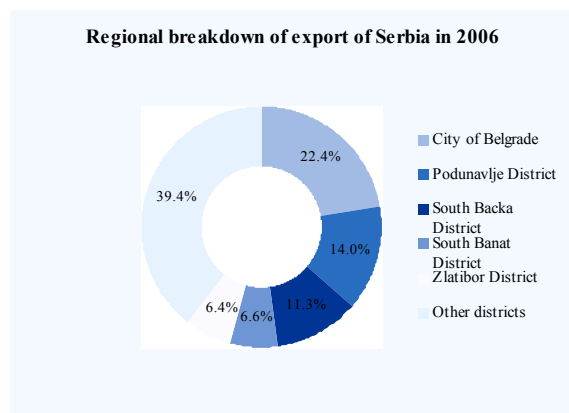
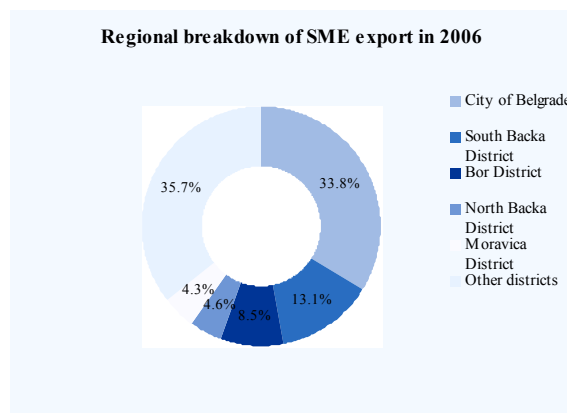


Chart 29



The value of export in 2006 increased in all districts in comparison to 2005. The highest growth was recorded in *Borski District* (index 264.1) from 5.9 billion dinars in 2005 to 15.6 billion dinars in 2006. Also, export of SME in *Borski District* accounted for 28.3% of turnover of district, while most decisive impact on the export value of this district comes from SME in sector *Wholesale and retail trade* (81.1%), and as regards size, micro enterprises.

³⁵ Annex: Table 21: Export by districts in Serbia

8.2. Import by Size of Enterprises

In 2006, in the Republic of Serbia 17,815 enterprises, that is, 23.4% of total number of enterprises were importers. Import characterized operating of 17,331 enterprises of SME sector (97.3% of total number of importers). In comparison to 2005, the number of small and medium importers has increased for 1,367 enterprises.

Table 29: Import by an enterprise size in 2005 and 2006

	No. of enterprises			Import (in RSDm)			Import/Turnover in %	
	2005	2006	Absolute growth	2005	2006	Index 2006/2005	2005	2006
Micro	11,320	12,026	706	124,248	156,515	126.0	20.5	20.4
Small	3,488	4,037	549	154,410	197,283	127.8	22.7	21.0
Medium	1,156	1,268	112	112,301	149,359	133.0	18.8	19.4
SMEE	15,964	17,331	1,367	390,959	503,158	128.7	20.7	20.3
Large	508	484	-24	219,884	346,122	157.4	15.0	20.0
Economy	16,472	17,815	1,343	610,843	849,280	139.0	18.2	20.2

Source: RDB

Import of SME sector in 2006 (503.2 billion dinars), makes up 59.2% of the total import value of the Republic. Despite an increase in export activity of SME (relative to 2005, export of SME has increased for 59.1%, and import for 28.7%), this sector has still high import dependency (import of SME participate with 20.3% in turnover, whereas export account for 7.4% of turnover of SME sector). Within SME sector, medium enterprises have recorded the highest growth index of the export value (133.0%), while small enterprises greatest import orientation (import in 2006 accounted for 21.0% of small enterprises' turnover).

8.2.1. Import of SME by sectors

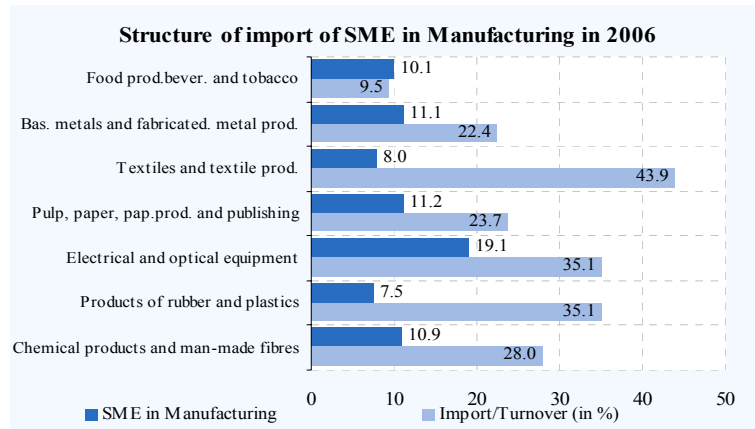
Importers of Serbian economy³⁶ (14,078 enterprises or 79.0%) in 2006 are concentrated in two sectors: *Manufacturing industry* and *Wholesale and retail trade*. These enterprises recorded 676.9 billion dinars of import (79.7% of total import). SME dominate in the number of importers in both given sectors, and with the recorded import of 460.7 billion dinars participate with 54.2% of total import of the economy.

The largest importers of SME (13,740 enterprises or 79.3% of SME importers, recorded 91.5% of SME import in 2006) operate in sectors *Manufacturing industry* and *Wholesale and retail trade*. In 2006, in comparison to 2005, the number of SME importers from *Manufacturing industry* increased for 7.5% (from 4,400 to 4,732 enterprises), and the value of import for 34.5% (from 108.9 billion dinars to 146.6 billion dinars). In the sector *Wholesale and retail trade, repair*, in 2006 relative to 2005, 476 more enterprises imported and the value of import increased for 62.4% (from 245.4 billion dinars to 314.1 billion dinars).

The most decisive impact on the level of import in the majority of sectors comes from medium sectors, except in sectors *Agriculture, forestry and water management, Mining and quarrying, Construction, Wholesale and retail trade, Hotels and restaurants, Transport, storage and communications* and *Other community services* (small enterprises) and *Retail estate activities* and *Financial intermediation* (micro enterprises).

³⁶ Annex: Table 22: Import of Serbian economy by sectors

Chart 30



Viewed by *subsectors Manufacturing industry*, almost 1/5 or 19.1% of sector import was recorded in SME in subsector *Manufacturing of electrical and optical devices*. The highest import dependency, viewed through the share of import in the turnover of subsector, is seen in the subsectors *Manufacturing of textile and textile products*, *Manufacturing of electrical and optical devices* and *Manufacturing of rubber and plastic products*.

8.2.2. Import of SME by districts

The majority of SME importers³⁷ operate on the territory of the *City of Belgrade (8,125 enterprises)* and *South-Backi District (2,080)*. Enterprises on the territory of these two districts recorded import of 354.1 billion dinars (41.7% of import of economy and 70.4% of import of SME sector), with dominant share of the sector *Wholesale and retail trade*. Trading enterprises accounted for 59.2% of import of *South-Backi District*, and 51.3% of import of the *City of Belgrade*.

Chart 31

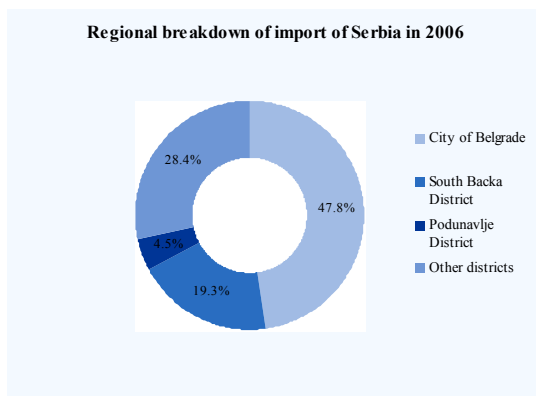
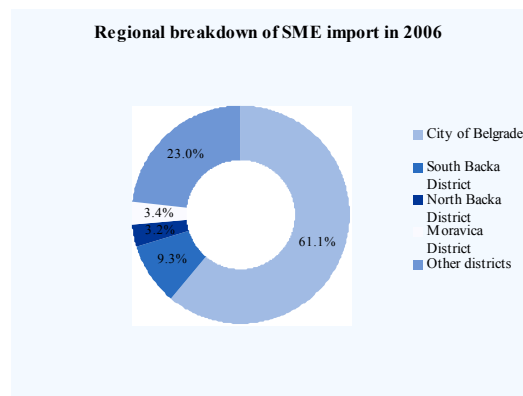


Chart 32



The value of import in 2006 increased in all districts in comparison to 2005, and the highest growth was recorded in *Borski District* - index 202.3 (from 5.8 billion dinars in 2005 to 11.7 billion dinars in 2006) and *Kolubarski District* - index 190.6 (from 2.9 billion dinars to 5.6 billion dinars respectively). The most decisive impact on the value of import of *Borski District* comes from SME in the sector *Wholesale and retail trade* (71.4%), by size micro enterprises, whereas in *Kolubarski District* the highest import is recorded in *Manufacturing industry* (83.4%), by size medium enterprises.

³⁷ Annex: Table 23: Import by districts in Serbia

8.3. External Trade Balance

The external trade activity of the economy has recorded deficit of 430.8 billion dinars, which is 34.1% more than in 2005 (321.2 billion dinars).

SME have recorded deficit of 320.7 billion dinars (74.4% of deficit of economy). In comparison to 2005, deficit of SME increased for 16.1% (in the economy for 34.1%, in case of large systems for 145.3%). The most decisive impact on the level of deficit of SME came from small enterprises which recorded, as a result of external trade activity, deficit of 138.5 billion dinars (43.2% of SME deficit).

Besides higher growth of imports related to exports in comparison to 2005 (59.1% relative to 28.7%), SME in 2006 have recorded above average cover of export over import (36.3% relative to 49.3% in economy and 68.2% in large enterprises).

Table 30: External trade balance in 2005 and 2006, by an enterprise size

	Trade balance (in RSDm)		Coverage of import by export (y %)	
	2005	2006	2005	2006
Total economy	-321,207	-430,849	47.4	49.3
Micro	-93,137	-107,926	25.0	31.0
Small	-115,982	-138,499	24.9	29.8
Medium	-67,186	-74,294	40.2	50.3
SME	-276,305	-320,719	29.3	36.3
Large	-44,902	-110,130	79.6	68.2

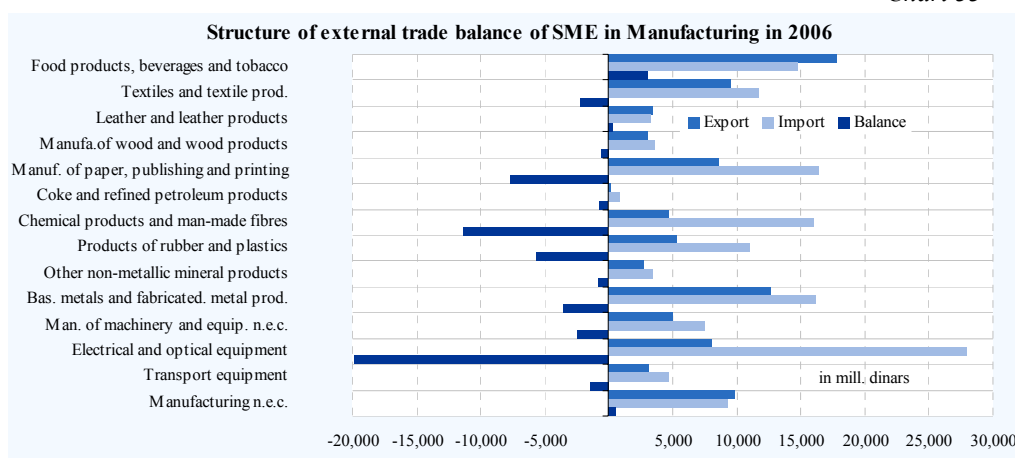
Source: RDB

8.3.1. Sectoral external trade balance of SME

Viewed by sectors³⁸, SME have recorded surplus in external trade activity only in the following sectors: *Agriculture, forestry and water management* (1.6 billion dinars – micro and medium enterprises) and *Manufacturing of electricity, gas and water* (1.9 billion dinars – medium enterprises) and in three subsectors of Manufacturing industry: *Manufacturing of foodstuff, beverages and tobacco* (3.0 billion dinars – micro, small, medium), *Processing of leather and manufacturing of leather products* (246 million dinars – micro and medium) and *Other manufacturing industry* (458 million dinars – medium enterprises).

The highest deficit was recorded in the sector *Wholesale and retail trade; repair* (246.4 billion dinars – 76.8% of deficit of SME sector) and *Manufacturing industry* (52.6 billion dinars – 16.4%). Deficit in these two sectors was recorded by enterprises of all sizes.

Chart 33

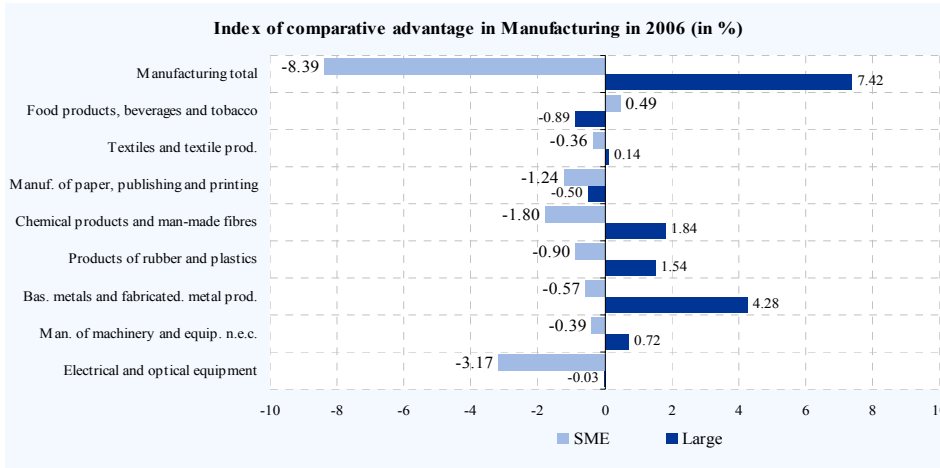


³⁸ Annex: Table 24: External trade turnover in goods – sectoral distribution in 2005; Table 25: External trade turnover in goods – sectoral distribution in 2006.

*Index of comparative advantage*³⁹ shows that SME sector had a decisive impact on Manufacturing sector in general (6.1 billion dinars). Large enterprises recorded surplus in all subsectors, except in *Manufacturing of paper, publishing and printing* and *Manufacturing of coke and oil derivatives*.

Surplus that large systems from the following subsectors recorded *Manufacturing of metal and metal products*, *Manufacturing of rubber and plastic products* and *Manufacturing of chemical products and fibres* account for 7.7% of the values of external trade activity of Manufacturing industry, whereas surplus recorded in the export and import of small and medium enterprises in subsector *Manufacturing of foodstuff, beverages and tobacco* account for 0.45% and *Manufacturing of leather and production of leather products* with only 0.04%.

Chart 34

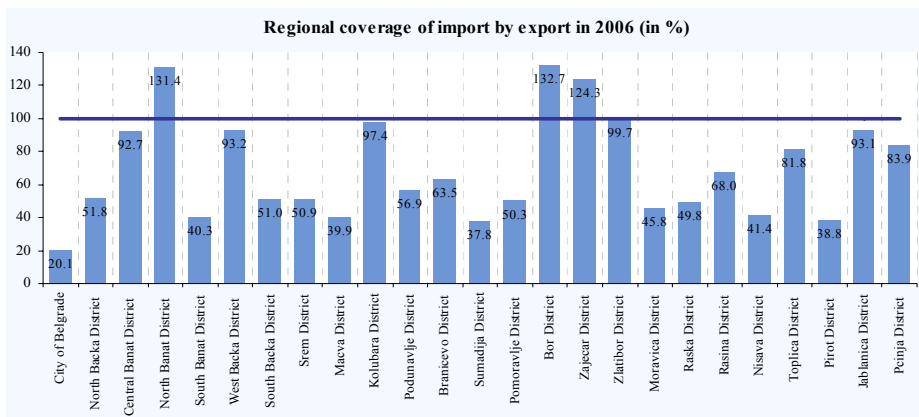


8.3.2. *Regional external trade balance of SME*

Viewed from the regional aspect⁴⁰, deficit was recorded in all districts, except in *North-Banat District* (medium enterprises), *Zajecarski* (small and medium enterprises) and *Borski District* (micro enterprises).

The highest deficit – 245.6 billion dinars was recorded in external trade activity of SME on the territory of the *City of Belgrade* (76.6% of total deficit).

Chart 35



³⁹ Index of comparative advantage is calculated as a difference between export and import of subsectors in external trade activity of Manufacturing sector – (export-import) of subsector/(export+import) of Manufacturing

⁴⁰ Annex: Table 26: External trade turnover in goods – regional distribution in 2005; Table 27: External trade turnover in goods – regional distribution in 2006

9. Efficiency of SME Operations

More favourable general conditions for business operation have left impact on the increase of effectiveness and profitability of SME sector – net gainer, recorded over 50% of profit of Serbian economy in 2006.

Profitability of SME sector analysed on the basis of the share in generating gross operative surplus as a measure of profitability of economy - profit⁴¹, indicates the following:

- Continual increase of profitability – SME sector in 2006 recorded 165.6 billion dinars of profit (52.6% of profit of total economy; 50.4% in 2005, 47.1% in 2004);
- Small enterprises recorded 42.5% of SME profit;
- The biggest problems are concentrated in medium enterprises (society-owned enterprises as losers, insufficient number, absence of more dynamic process of transition of micro and small enterprises in medium enterprises);
- High branch and regional concentration - over 2/3 of SME sector profit was generated in the sectors *Wholesale and retail trade* and *Manufacturing industry* and on the territory of *City of Belgrade and South-Backi District*.

Profitability of SME sector analysed on the recorded profitability rates⁴² of enterprises indicates the following:

- SME sector is the most profitable part of the Serbian economy - profitability rate (38.9%) is above average of economy (36.0%) and large enterprises (33.2%);
- The most profitable are Ltd (by all sizes) and partner SME (micro and small);
- Non-profitable enterprises are all society-owned SME.

9.1. Effectiveness and Profitability of SME Sector

SME in general have effectively operated in all enterprises, except in society-owned sector – in 2006 recorded 165.6 billion dinars of profit⁴³ (52.6% of profit of economy). An increase in effectiveness of SME sector is expressed through continual increase of its impact on the generating of total profit of economy (47.1% in 2004; 50.4% in 2005). The greatest impact on the recorded profit of SME sector in 2006 was left by small enterprises (42.5%, that is 23.8% of the profit of economy), and as for the structure Ltd⁴⁴ (91.5%, that is 48.2% of the profit of economy).

Chart 36

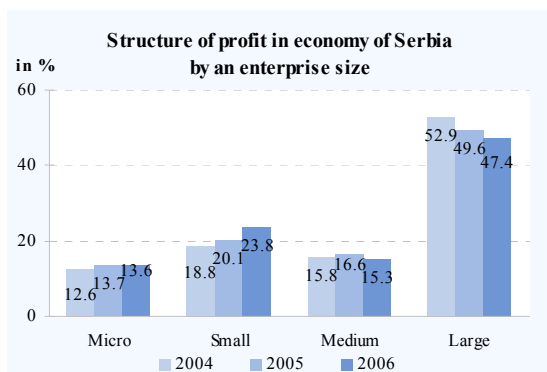
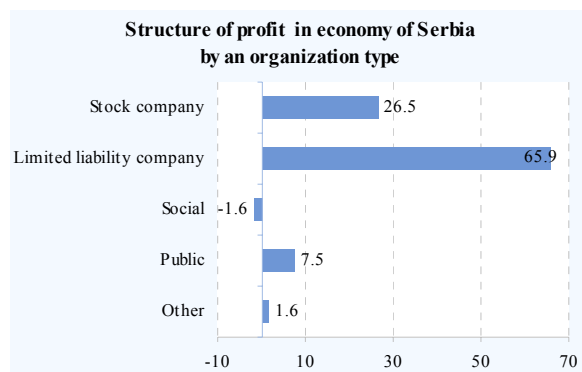


Chart 37



⁴¹ Profit = GVA – labour costs

⁴² Profitability rates = Profit / GVA*100

⁴³ Annex: Table 28: Recorded profit of Serbian economy

⁴⁴ Annex: Table 29: Profit of Serbian economy by the organization structure

The most decisive impact of SME sector on the generation of total profit of Serbia is exclusively a result of recorded high GVA (gross value added) and not of reduced labour costs. In comparison to 2005, this sector, beside reduced number of employees for 4.5% (in economy for 2.1%), has recorded above average increase in labour costs (31.9% relative to 20.9% in economy). However, SME sector is still not the pillar of structural changes and a key sector of the increase of total employment, above all, due to weak economic strength and insufficient number of medium enterprises. Problems in the operation of medium enterprises are consequence of incomplete privatization process (non-profitable operation of non-privatized medium enterprises), but also of reallocation of a part of problems in operating of large system (reorganization of large enterprises out of which medium enterprises were mostly separated). Beside that, more dynamic process of economic and financial strengthening of micro and small enterprises and their transition into medium enterprises that would leave impact on more dynamic development of the whole SME sector is missing.

SME sector is the most profitable part of Serbian economy – total profitability rate of SME in 2006 stands at 38.9% (in economy 36.0%, in large enterprises 33.2%). According to the size and organization structure, the most profitable are small Ltd.

Chart 38

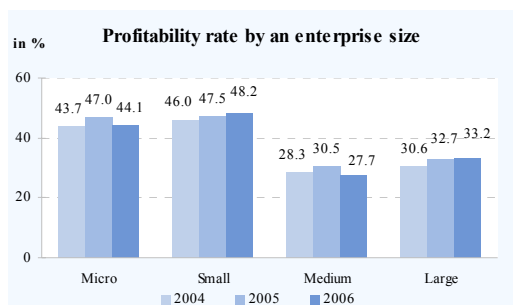
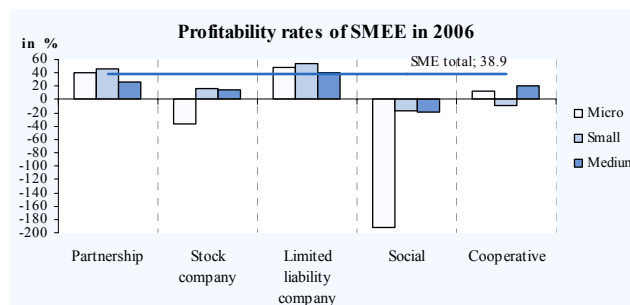


Chart 39



9.2. Effectiveness and Profitability of SME by Sectors

SME has the most decisive impact on the level of the recorded profit in all fields of operation in economy, except in capital intensive sectors (*Mining and quarrying, Manufacturing of electricity, gas and water, Transport, storage and communications*) and in sectors *Hotels and restaurants and Other community, social and personal services*, where large enterprises recorded majority of profit⁴⁵.

Concentration of SME in labour intensive and service providing activities with faster turnover of capital and shorter production cycles is also expressed in their dominant share in the recorded profit: **2/3 of profit of SME sector was recorded in Wholesale and retail trade (34.7%; small enterprises 18.4%) and Manufacturing industry (28.7%; medium enterprises 13.4%).**

The most prevailing impact on the level of recorded profit of majority sectors is left by small enterprises, whereas medium enterprises dominate in the sectors: *Mining and quarrying, Manufacturing industry, Manufacturing of electricity, gas and water and Other community, social and personal services*⁴⁶.

The profit generated in micro and small enterprises has a dominant impact on the level of recorded profit of SME *Manufacturing industry*⁴⁷ (53.2%), whereas the share of profit of medium enterprises has a growing tendency (42.2% in 2004; 44.1% in 2005; 46.8% in 2006).

⁴⁵ Annex: Table 30: Sectoral structure of profit of Serbian economy

⁴⁶ Annex: Table 31: Sectoral structure of profit of SME

⁴⁷ Annex: Table 32: Structure of profit of SME Manufacturing industry

Medium enterprises are most profitable in subsectors *Foodstuff, beverages and tobacco, Manufacturing of paper, publishing and printing, Manufacturing of chemical products and fibres* (the most decisive impact on the level of total recorded profit of these subsectors), and the biggest development problems are in subsectors *Manufacturing of wood and wooden products, Manufacturing of coke and oil derivatives, Manufacturing of other machines and devices and Manufacturing of transport means* (non-profitable operating).

SME have above average profitability rates in the majority of sectors, except in the sectors *Manufacturing of electricity, gas and water, Hotels and restaurants, Transport, storage and communications and Other community, social and personal services*, where large enterprises⁴⁸ are considered as the most profitable.

Sectoral analysis of profitability rates of SME:

- The most profitable SME in total operate in the sectors: *Mining and quarrying* (54.7%), *Financial intermediation* (50.4%), *Wholesale and retail trade* (47.1%) and *Construction* (44.1%).
- *SME Manufacturing industry*⁴⁹ recorded profitability rates above the average of sector in total and large enterprises (37.4% relative to 21.0% and 28.5%, respectively) – profitable operating of SME in all subsectors.
- The lowest profitability rates in all sectors and subsectors of Manufacturing industry are recorded by medium enterprises⁵⁰.
- The most profitable are small and micro Ltd. (profitability rates 53.7% and 48.3% respectively).

9.3. Effectiveness and Profitability of SME by Districts

The most profitable SME in Serbia⁵¹ that generate 1/5 of profit of the whole economy operate on the *Territory of the City of Belgrade* (15.8%) and *South-Backi Districts* (3.5%).

Structure of profit by districts indicates the level of development of SME sector:

- The most profitable SME (creating total profit of district) operate in *South-Banat, Sumadijski and Pomoravski Districts*.
- The most significant problems in operation and development are recorded in SME in *Borski District* – non-profitable operation. The recorded profit in micro and small enterprises was not sufficient enough to annul non-profitable operation of medium enterprises, so that the recorded profit of the district is a result of profitable operation of large enterprises.

Profitability within SME⁵² shows:

- Micro and small enterprises have the most dominant impact on generation of profit of SME in all districts.
- The most non-profitable medium enterprises in total (without recorded profit) are in *Podunavski, Borski, Rasinski, Toplicki, Jablanicki and Pcinjski Districts*.

Above average profitability (Serbian economy 36.0%) was recorded in SME that operate on the territory of: *Moravicki* (46.4%), *City of Belgrade* (43.5%), *South-Backi* (42.3%), *Kolubarski* (41.4%) and *Raski District* (39.4%), and non-profitable were only SME from *Borski District* (-1.0%)⁵³.

⁴⁸ Annex: *Table 33: Profitability rates by sectors*

⁴⁹ Annex: *Table 34: Profitability rates in Manufacturing industry*

⁵⁰ Annex: *Table 35: Profitability rates of SME by sectors; Table 36: Profitability rates of SMEE in manufacturing industry*

⁵¹ Annex: *Table 37: Structure of profit of Serbian economy by districts*

⁵² Annex: *Table 38: Structure of profit of SME by districts*

⁵³ Annex: *Table 39: Profitability rates by districts, Table 40: Profitability rates of SME by districts*

III COMPETITIVENESS OF SME

Low productivity and high operation costs of the Serbian economy in the period 2005-2006, as synthetic measures of utilization of the existing capacities, indicated a decline in competitiveness with all negative consequences, especially in the area of more efficient access to the international market. The reform processes did not have any significant influence on the change in the economic structure and the introduction of market elements as key measures of the utilization of the production factor, justified investments, planning of the economic policy, pursuing of economic objectives and the overall economic growth and development.

The analysis of the World Economic Forum (WEF) by means of the *Global Competitiveness Index* over the past three years (96th ranking in 2004, 85th in 2005, 87th in 2006) indicates low competitiveness of the Serbian economy due to the worsening of the sub-index of basic market conditions - the Serbian economy faces problems in the area of institutions, infrastructure, macroeconomics, healthcare, and primary education. Also, the Business Competitiveness Index (BCI) reveals that micro competitiveness of the Serbian economy is very low (83rd ranking out of 103 countries in 2004; 86th ranking out of 116 countries in 2005; 86th ranking out of 121 countries in 2006) owing to a still unfavourable business environment.

In 2006, *SME*⁵⁴ were the most competitive enterprises, while albeit moderate growth of productivity with regards to 2005 (mostly as a result of the reduction in the number of employees), *medium-sized and large enterprises were the least productive*, indicating the necessity of completion of the restructuring and privatization process of this part of the economy. Large privatized enterprises that improved their competitive position through more efficient utilization of labour and other available development factors make a positive exception. The competitiveness of the SME sector and the overall economy will enhance with the privatization of medium-sized enterprises and strengthening of their economic and financial position. **Within the SME sector, micro and small enterprises were the most competitive and the most efficient.** However, for the purpose of more objective perception of competitiveness of these enterprises, it is necessary to consider the false presentation of operation costs, the phenomenon which still exists, affecting the improvement of their competitiveness. Namely, albeit the strict control and new surveillance mechanisms at the labour market, the lowest registered salaries per employee are registered in these enterprises having as a consequence smaller funds for contributions. This directly results in the reduction of labour costs, but hidden improvement of competitiveness of these enterprises as well.

The analysis of sector competitiveness reveals that *small* enterprises in the sector of *Services* are the most competitive, while *medium-sized* and *large* enterprises in the sectors of *Industry* and *Construction* are the least competitive.

Low utilization of information and communication technology proves an uncompetitive position of the Serbian economy. Albeit modernly equipped enterprises (97.7% compared to 96% in EU-27 in 2006) the utilization of IT systems for business management (only 30.4% of enterprises) and modern software systems (*ERP*, *CRM*, *LINUX*) is low. Below-average Internet use (90.6% compared to 92% in EU-27) and dominant *modem* Internet access (*broadband* is dominant in EU-27) reveal difficult and insufficient utilization of the Internet for business purposes – e.g. for e-business, electronic payments, monitoring of the market, e-government, Web Site, etc. An insufficient number of experts with IT qualification and suitable working experience is another problem. ICT application is prevailing in large companies, and according to activities in the following sectors: *Transport, storage and communications, Real Estate Business, Banks and insurance companies, Hotels, camp sites and other short-stay accommodation, Cinematographic and video activities, radio and TV activities.*

⁵⁴ Entrepreneurs not included due to methodological limitations.

1. National Competitiveness according to WEF

The World Economic Forum (WEF) is continually adjusting the methodological concept of measuring competitiveness to the changes in the international environment⁵⁵.

According to the WEF data, in 2006 with regards to 2005, albeit moderate improvement of macro competitiveness (the improved ranking of the business competitiveness index) the competitive position of the Serbian economy slackened due to the worsening of the macro competitiveness (the ranking fell albeit the improved business competitiveness index).

Table 31: The structure of Business Competitiveness Index

COUNTRY	GCI		Basic market requirements		Efficiency enhancers		Innovation factors	
	2005	2006	2005	2006	2005	2006	2005	2006
	r/v	r/v	r/v	r/v	r/v	r/v	r/v	r/v
Bulgaria	61/4.04	72/3.96	58/4.54	62/4.50	59/3.78	70/3.67	74/3.39	85/3.26
Croatia	64/4.01	51/4.26	67/4.46	55/4.60	60/3.75	52/4.07	65/3.54	50/3.81
Hungary	35/4.50	41/4.52	49/4.68	52/4.64	30/4.50	32/4.57	39/3.98	39/4.08
FYR Macedonia	75/3.84	80/3.86	69/4.42	70/4.37	81/3.32	80/3.47	81/3.31	87/3.24
Poland	43/4.38	48/4.30	39/4.94	57/4.59	39/4.29	48/4.17	70/3.47	51/3.80
Romania	67/3.98	68/4.02	76/4.32	83/4.19	55/3.84	55/3.99	76/3.37	73/3.52
Russian Federation	53/4.10	62/4.08	60/4.53	66/4.43	53/3.87	60/3.91	66/3.53	71/3.55
Serbia	85/3.67	87/3.69	92/3.98	99/3.87	75/3.43	72/3.63	85/3.19	83/3.27
Slovenia	30/4.62	33/4.64	32/5.14	36/5.17	29/4.52	30/4.58	31/4.20	34/4.18

Source: World Economic Forum

Although it recorded a low ranking of the Global Competitiveness Index, the Serbian economy made improvement from 96th ranking in 2004 to 85th ranking in 2005 i.e. 87th ranking in 2006 over the past three years. Also, the Index's value is growing from year to year (3.38; 3.67; 3.69) – however slowly. The worsening of the sub-index of basic market conditions, from 92nd to 99th position reveals that the Serbian economy is facing problems in the following areas: institutions, infrastructure, macro economy, health care and primary education. The sub-index of the efficiency initiator and the sub-index of innovative factors made slight improvement in the observed years, from 75th to 72nd position, i.e. from 85th to 83rd position, respectively. Serbia recoded good results in higher education and training and technical equipment (the sub-index of efficiency stimulator), as well as in the area of innovations (the sub-index of the innovation factor), whereas bad results were seen in market efficiency (the sub-index of efficiency stimulator) and business sophistication (the sub-index of innovation factor).

The Business Competitiveness Index reveals that micro competitiveness of the Serbian economy was very low in the period 2001-2006 owing to still unfavourable business environment. In the structure of the BCI both sub-indices had low rankings, whereas the sub-index of the company's strategy and operation was ranked lower than the sub-index of the national business environment.

⁵⁵ WEF created a new comprehensive competitiveness index – the Global Competitiveness Index. The analysis of the national competitiveness from the aspect of global and micro competitiveness includes a wide scope of data from the official statistics (hard data) and the survey data. WEF defines competitiveness of the economy as a set of institutional and political factors, as well as factors that provide economic prosperity of the country to guarantee the return rate of the investments made in the economy.

Table 32: BCI ranking of Serbia and reference countries

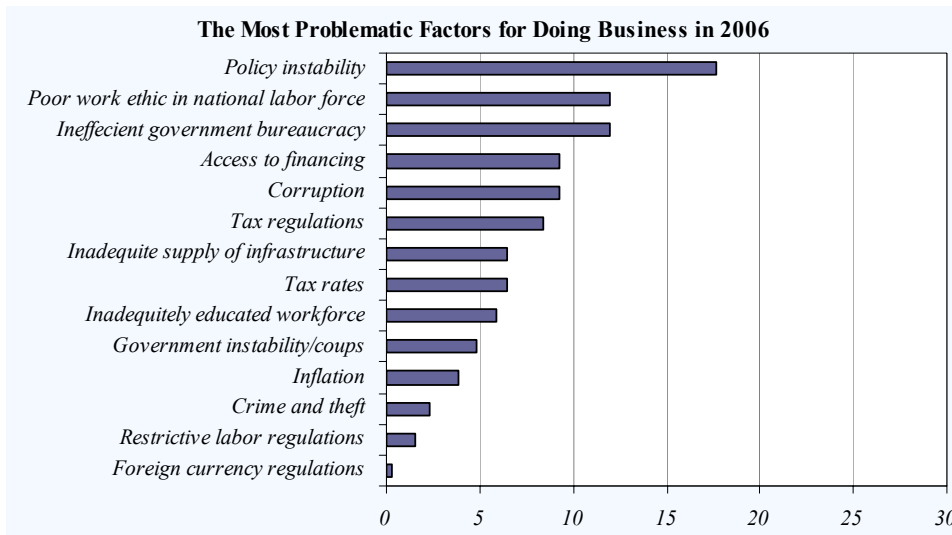
Country\year.	Business Competitiveness Index (BCI)			Company operations and strategy ranking			Quality of the national business environment ranking		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Italy	42	37	38	44	38	42	31	30	32
Bulgaria ^b	68	74	83	65	70	81	86	84	95
Croatia ^b	70	65	56	70	64	54	72	74	56
Hungary ^b	40	38	39	38	37	35	52	43	43
Macedonia, FYR ^b	87	83	87	86	84	87	88	93	90
Poland ^b	63	44	53	56	52	53	56	49	52
Romania ^b	61	71	74	60	71	73	67	68	73
Russian Federation ^b	58	70	79	58	67	77	69	78	78
Serbia^b	83	86	86	83	83	85	87	107	110
Slovenia ^b	32	33	36	34	33	36	28	29	34

Source: WEF Global Competitiveness Report 2006/2007

Note: a – innovative economy, b – non innovative economy

Micro-economic measures that need to be undertaken refer to the following: (1) realization of strategic and operational solutions of certain business entities and SME sectors; (2) facilitated access to financial funds and economic entities; (3) further shortening of administrative procedures; (4) modernization of production processes that will enable higher diversification and specialization of the production process; (5) affiliation of business entities and scientific institutions; (6) introduction of international standards; (7) increasing the efficiency and Government’s incentives for economic growth and development.

Chart 40



Of all the factors that obstructed normal operation in 2005, the most important of them (with the common share of almost 60%) were the following: political instability, the absence of work ethics, inefficiency of administration, hampered access to financial funds and corruption.

2. Labour Productivity of SME

The analysis of *labour productivity* is an important aspect of efficient operation of certain economic enterprises, sectors and the overall economy, and an indicator of the competitive position on the domestic and international market. *Labour productivity* has multiplicative effects as it results in general economic prosperity, acting directly on the technological progress that the future economic growth and development is based on.

The analysis of *labour productivity* starts from the two basic variables: *aggregate income* and the *number of employees*. According to size of enterprise, *large enterprises* account for the highest share in the aggregate income, while *micro* and *small enterprises* account for the smallest share. The basic tendencies in the period 2005-2006: 1) the *SME sector* was increasing its share, while large enterprises were reducing their share in the aggregate income and the number of employees; (2) the *SME sector* had higher productivity compared to *large enterprises*.

2.1. SME in Overall Economy

The *SME sector* had above-average, but declining, **productivity indices** whereas *large enterprises* had below-average but growing **productivity indices**, in the period 2005-2006. Reduced productivity of SME and unproductive operation of some large enterprises resulted in a decline in the productivity of the *overall economy* and worsening of its **competitive position** on the external market.

Chart 41

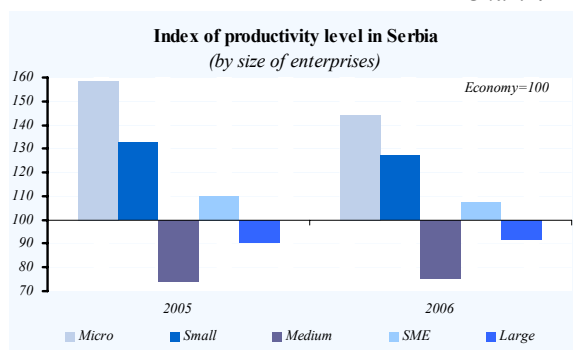
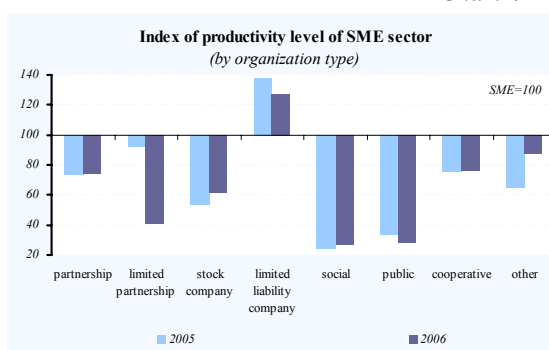


Chart 42



The main tendencies in the productivity of the SME sector in the period 2005-2006:

- The *SME sector* was the most competitive part of the economy albeit worsening of productivity in all enterprises both by size and form of organization;
- *Micro* and *small enterprises* were the most competitive, whereas limited liability companies (*D.O.O.*) were the most competitive by form of organization;
- *Medium-sized enterprises* were the least competitive, whereas *socially-owned* and *public SME* were the least competitive by form of organization.

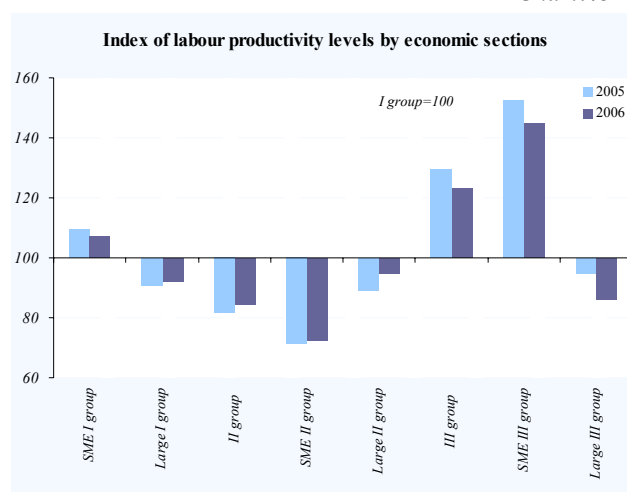
2.2. Economic Sectors

The sector analysis of competitiveness of the Serbian economy confirms the previous conclusion that SME in the sector of *Services* are the most competitive.

Large enterprises in the sector of *Industry, construction and services* and *Industry and construction* and SME in the sector of *Services* had the highest share in the aggregate income and the number of employees in the *economy of Serbia* in 2006.

Chart:43

If, according to the NACE methodology⁵⁶, the first group, *Industry, construction and services* is set as the basis of the analysis (=100), the indices of labour productivity reveal that the second group, *Industry and construction*, is less productive, whereas the third group, *Services*, is more productive than the first group, owing to the productivity of the SME sector.



Also, the level of productivity indicates higher productivity of SME compared to the productivity of the first group. *Large enterprises* in all three groups were less productive with regards to the productivity of the first group. Such analysis of productivity reveals that economic activity needs to be based on faster and more efficient development of SME, especially in the sector of *Services*.

Irrespective of labour productivity growth in all three groups in 2006 with regards to 2005, according to the absolute amount, **productivity indices worsened**. The SME sector (micro and small enterprises) increased the labour productivity in the sectors of *Industry, construction and services*, whereas large and micro enterprises increased the productivity of *Industry and construction* sector.

Irrespective of labour productivity growth in all three groups in 2006 with regards to 2005, according to the absolute amount, **productivity indices worsened**. The SME sector (micro and small enterprises) increased the labour productivity in the sectors of *Industry, construction and services*, whereas large and micro enterprises increased the productivity of *Industry and construction* sector.

Table 33: Productivity of sector activities by size of enterprise, in the period 2005-2006

	2005		2006	
	thousand dinars	level index	thousand dinars	level index
INDUSTRY, CONSTRUCTION AND SERVICES				
<i>Micro</i>	5,489	152.8	6,434	140.3
<i>Small</i>	4,719	131.4	5,792	126.3
<i>Medium</i>	2,675	74.5	3,484	76.0
<i>SME</i>	3,938	109.6	4,912	107.1
<i>Large</i>	3,263	90.8	4,221	92.1
Total	3,592	100.0	4,585	100.0
INDUSTRY AND CONSTRUCTION				
<i>Micro</i>	3,951	134.7	4,704	121.4
<i>Small</i>	3,217	109.7	3,799	98.0
<i>Medium</i>	1,961	66.9	2,742	70.8
<i>SME</i>	2,559	87.2	3,320	85.7
<i>Large</i>	3,201	109.1	4,346	112.1
Total	2,933	100.0	3,875	100.0
SERVICES				
<i>Micro</i>	6,124	131.7	7,164	127.0
<i>Small</i>	6,098	131.1	7,687	136.2
<i>Medium</i>	4,147	89.2	4,941	87.6
<i>SME</i>	5,476	117.8	6,644	117.7
<i>Large</i>	3,408	73.3	3,950	70.0
Total	4,651	100.0	5,643	100.0

Source: RDB, according to NBS data

⁵⁶ The sector analysis of labour productivity which connects the three sector groups (*Industry, construction and services*, the first group, *Industry and construction*, the second group, and *Services*, the third group) with labour productivity according to size of enterprise. According to this classification the sector of *Services* includes: *Wholesale and retail trade, repair; Hotels and Restaurants; Transport, storage and communications and Real Estate business, renting*. For the domestic economy, labour productivity is defined as the ratio of aggregate income (newly added value in EU countries) and the number of employees viewed by *size of enterprise*, within the *SME sector* and some *sectors of economic activities*.

3. Labour Costs of SME

Besides the quality of products, low operation costs are decisive factors of **competitiveness of enterprises and products**. The objective of every enterprise is to improve operation results with the existing available production factors (the existing **costs**) or to achieve the same results with less engagement of production factors (lower **costs**). A comparative analysis of productivity and cost competitiveness (labour costs, labour costs per employee and labour costs per hour) reveals not only the level of economic development but the quality of the standard of living, as gross salaries are a central variable in assessing cost competitiveness. The improvement of the competitive potential of the Serbian economy based on production that will enable higher economic growth in mid and long term, and higher income to citizens is the key objective of the country's development policy.

3.1. Structure of Cost Competitiveness

The analysis of cost competitiveness reveals a decline in the competitiveness of enterprises and the overall economy, the conclusion that was confirmed many times. The analysis directly shows the main reason of non-harmonized growth of gross salaries and labour productivity. Also, it should be emphasized that positive effects of stimulation of the entrepreneurial activity and enhancing of competitiveness owing to the reduced personal income tax are expected in the observed period. Faster growth of real gross salaries than labour productivity indicates that enterprises did not solve the problem of high labour costs through increasing efficiency and effectiveness of operation.

Chart 44

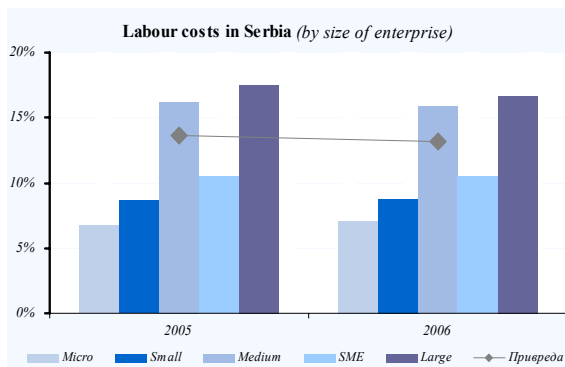


Chart 45

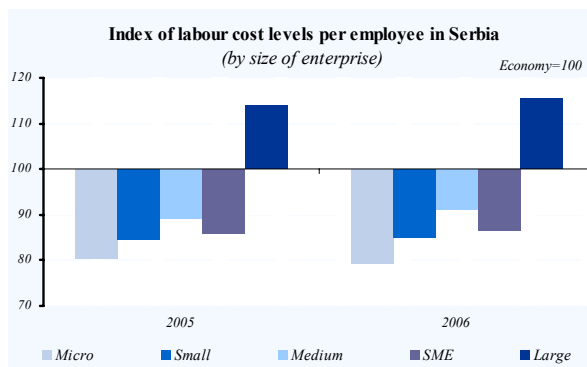


Table 34: Labour costs per hour of the economy and the SME sector

	2005			2006		
	Value in dinars	Level index of economy	Level index of SME sector	Value in dinars	Level index of economy	Level index of SME sector
Economy	198.9	100.0	-	245.5	100.0	-
SME	170.7	85.8	100.0	212.6	86.6	100.0
Micro	159.7	80.3	93.6	194.7	79.3	91.6
Small	168.1	84.5	98.5	208.5	84.9	98.1
Medium	177.3	89.1	103.9	224.3	91.4	105.5
Large	226.6	113.9	-	283.6	115.5	-

Source: RDB, according to NBS data

The analysis of cost competitiveness (*labour costs, labour costs per employee and per hour*) in the period 2005-2006 revealed the following:

- Lower competitiveness of all enterprises due to increased labour costs, labour costs per hour and per employee;
- According to all indicators of cost competitiveness, the SME sector was the most competitive part of the economy and contributed to the improvement of the overall competitiveness;
- Micro and small enterprises were the most efficient within the SME sector;
- High costs of medium-sized enterprises reduced the competitiveness of the SME sector and the overall economy;
- With high and above-average costs, large enterprises seriously jeopardized the competitiveness of the overall economy.

Chart 46

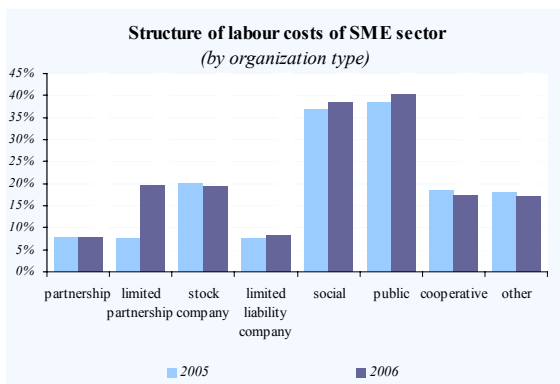
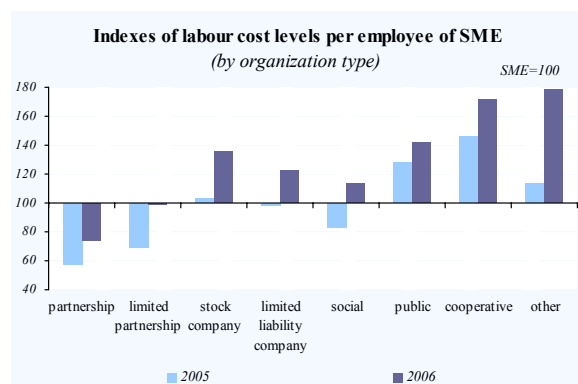


Chart 47



The main results of the analysis of cost competitiveness according to form of organization within the SME sector in the period 2005-2006 were the following:

- Unfavourable trend of cost competitiveness in all forms of organization, except in A.D. companies (Shareholding Company) and cooperatives where the share of labour costs in business expenditure reduced.
- According to the structure of labour costs, D.O.O. (limited liability company) companies and partnerships were the most competitive while social and public SME were the least efficient.

3.2. Economic Sectors

Apart from the analytical overview of labour costs in the country, the sector analysis of labour costs enables a comparative analysis with foreign countries as well. The analysis is based on the *Statistical Classification of Economic Activities of the European Community – NACE*.

The structure of labour costs – In the period 2005-2006, all three groups - *Industry, construction and services, Industry and construction*, and *Services* reduced the shares of labour costs, with the sector of *Services* having the lowest shares as the most competitive sector. The highest labour costs in all three sectors were recorded in *large and medium-sized enterprises (Industry and construction)*.

Chart48

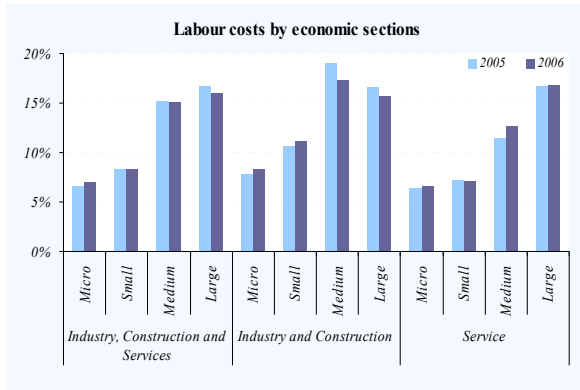
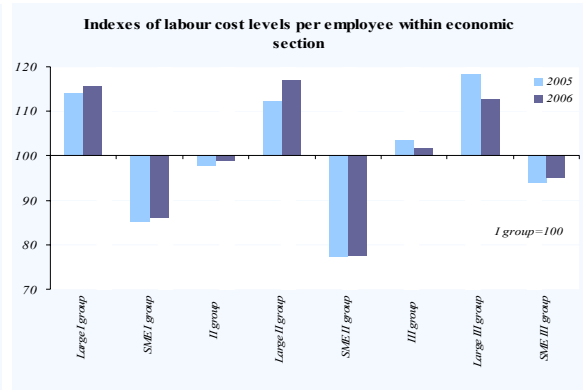


Chart 49



Labour costs per employee. – The absolute level of labour costs per employee in the period 2005-2006 was increased in all enterprises. The group of *Services* had higher growth of costs per employee compared to the group of *Industry and construction* which resulted in the absolute growth of labour costs per employee compared to the first group. High salaries in tertiary activities reduced positive affects of the most productive group – *Services*. Large enterprises in all three groups had significantly higher labour costs per employee and they were uncompetitive. The SME sector was the most competitive in all groups and best amortized the pressure of labour costs per employee.

Labour costs per hour. – By including working hours (2,080 hours in 2006) into the previous analysis of labour costs per employee, the data on labour costs per hour in certain sector activities are revealed. Labour costs per hour were approximately the same in all three groups in 2006 reaching around 250 dinars (200 dinars in 2005). In *large enterprises* in all three groups labour costs per hour were the highest affecting the **competitiveness** of these enterprises. Labour costs per hour in the SME sector in all groups were below the average of labour costs per hour within their respective group indicating high **competitiveness** of the *SME sector*. Indices of labour costs per hour were the highest in *large enterprises* in all three groups, whereas *large enterprises* of *Industry and construction* sector were the least **competitive**. The SME sector in all sector activities had the most favourable position, with SME of *Industry and construction* sector being the most competitive.

Table 35: Indices of labour costs per hour within sector activities

	2005	2006
I group	100.0	100.0
SME I group	85.2	106.5
Large I group	114.1	143.5
II group	97.7	122.6
SME II group	77.3	96.1
Large II group	112.3	145.1
III group	103.7	126.1
SME III group	93.9	117.9
Large III group	118.3	139.9

Source: RDB, according to NBS data

3.3. Comparative Analysis

In the period 2003-2005, labour cost per employee in the Serbian economy revealed its weaker competitive position compared to the surrounding countries, Bulgaria and Romania. Owing to high labour costs per employee, with regards to the surrounding countries, domestic enterprises were less attractive for foreign capital resulting in smaller inflow or even redirection of foreign direct investments and slowing down of the privatization process over 2004 and 2005. In 2006, labour costs per employee were additionally increased in Serbia.

A comparative analysis shows that labour costs per employee grew in all three countries, being the lowest in *small* and *micro* enterprises and highest in *large enterprises* in all observed sector activities. The highest labour costs per employee were recorded in the sectors of *Mining and quarrying* and *Electricity, gas and water supply*. The Serbian economy was competitive only with small enterprises in the sector of *Electricity, gas and water supply*, while the Bulgarian economy was the most competitive in other economic sectors.

Table 36: Labour costs per employee (thousands of euros)

	2003			2004			2005		2006
	Bulgaria	Romania	Serbia	Bulgaria	Romania	Serbia	Romania	Serbia	Serbia
Industry and Construction									
Total	2.5	2.7	4.0	2.6	2.9	4.3	3.8	4.9	5.6
<i>Micro</i>	1.8	1.3	2.5	1.7	1.2	2.6	1.7	3.0	3.7
<i>Small</i>	1.4	1.8	2.8	1.5	1.9	3.3	2.4	3.3	4.1
<i>Medium</i>	2.0	2.1	3.4	2.1	2.3	3.6	3.0	4.0	5.0
<i>Large</i>	3.5	3.3	4.8	3.5	3.5	5.0	4.9	5.8	7.0
Electricity, gas and water supply									
Total	5.2	4.3	5.8	5.6	4.4	5.7	6.3	6.8	8.4
<i>Micro</i>	3.0	2.1	3.5	3.9	1.6	3.6	3.3	3.8	5.0
<i>Small</i>	3.7	2.2	2.1	3.9	3.5	3.5	7.2	4.3	6.7
<i>Medium</i>	3.8	2.3	4.7	4.0	2.6	4.7	3.4	5.3	5.8
<i>Large</i>	5.4	4.6	7.1	5.8	4.7	6.3	6.6	7.5	9.5
Manufacturing									
Total	2.1	2.4	3.6	2.3	2.6	4.0	3.4	4.5	5.5
<i>Micro</i>	1.2	1.3	2.4	1.3	1.3	2.5	1.8	3.0	3.6
<i>Small</i>	1.3	1.7	2.6	1.4	1.8	2.6	2.3	3.2	4.1
<i>Medium</i>	1.8	2.0	3.1	2.0	2.2	3.1	2.9	3.8	4.8
<i>Large</i>	3.0	2.8	4.2	3.2	3.2	5.0	4.2	5.6	6.9
Mining and quarrying									
Total	4.3	5.4	6.3	4.7	5.6	5.6	7.9	7.2	8.7
<i>Micro</i>	2.1	1.1	2.2	1.9	2.0	2.3	2.9	2.4	3.0
<i>Small</i>	2.2	2.5	5.1	2.6	2.4	2.9	3.3	3.2	4.5
<i>Medium</i>	3.1	2.6	3.6	3.3	2.8	4.0	3.7	4.3	6.4
<i>Large</i>	4.6	5.5	6.7	5.1	5.8	5.8	8.3	7.6	9.0
Construction									
Total	2.3	2.4	4.2	2.2	2.4	4.3	3.2	4.8	5.9
<i>Micro</i>	3.0	1.4	3.0	2.5	1.1	2.8	1.5	3.2	3.8
<i>Small</i>	1.7	2.2	3.3	1.8	2.0	3.1	2.5	3.5	4.2
<i>Medium</i>	2.3	2.3	4.5	2.3	2.6	4.5	3.3	4.6	5.9
<i>Large</i>	2.7	2.8	5.1	2.7	3.1	5.7	4.6	6.5	7.8

Source: RDB according to Eurostat and RSO data

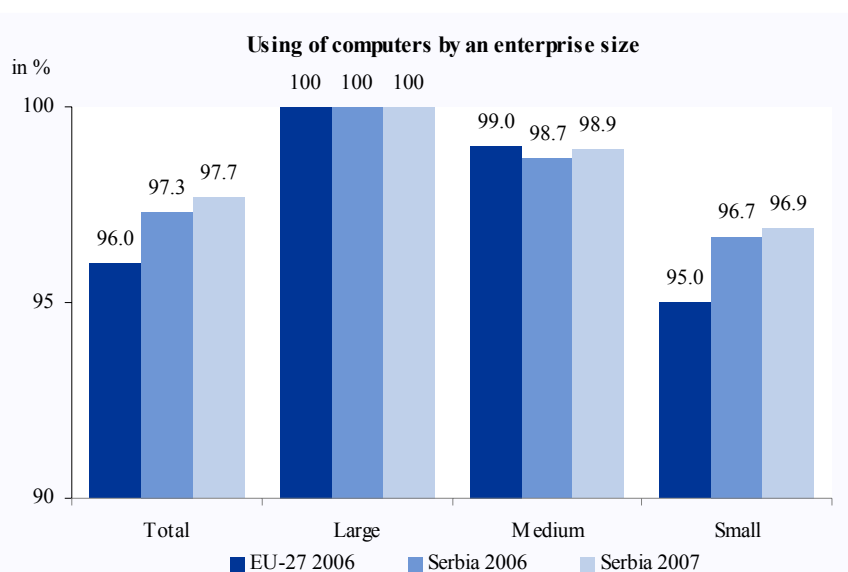
4. Competitiveness and Utilization of Information and Communication Technology

The use of computers and the Internet in doing business are the indicators of modern IC technology and to what extent enterprises follow modern economic trends that have direct effects on the competitiveness of enterprises at the market.

Equipment and use of computers. In 2007, 97.7% of enterprises from Serbia used computers in their operation (97.3% of them in 2006). According to this indicator, Serbia is above the average of EU-27 (96%) approaching highly developed countries (Holland 100%, France 99% and Finland 99%) and is better than Romania (77%), Hungary (89%) and Bulgaria (89%).

According to size of enterprise, large enterprises account for the highest share in the use of computers (100%), while according to activities the following sectors are dominant: *Transport, storage and communications, Real estate activities, Banks and insurance companies, Hotels, camp sites and other short-stay accommodation, Cinematographic and video activities, radio and TV activities.*

Chart 50



In Serbia (as well as in the EU-27) the enterprises mostly use wire based LAN and the Intranet IC technology. With regards to the EU-27's average, enterprises in Serbia rather use the Intranet and Wireless LAN, than WIRE based LAN and Extranet technologies.

Table 37: The use of information and communication technology according to size of enterprise in %

	Small			Medium			Large			Total		
	EU-27	Serbia		EU-27	Serbia		EU-27	Serbia		EU-27	Serbia	
	2006	2006	2007	2006	2006	2007	2006	2006	2007	2006	2006	2007
Wire based LAN	66.0	49.3	53.3	85.0	62.0	71.7	94.0	79.3	77.4	70.0	53.2	58.9
Intranet	31.0	36.0	41.7	57.0	44.5	44.4	80.0	57.9	59.5	36.0	38.7	43.5
Wireless LAN	18.0	24.3	21.0	32.0	20.9	22.9	54.0	32.6	35.6	22.0	24.1	22.3
Extranet	13.0	7.0	8.9	28.0	21.1	18.8	47.0	26.7	30.1	17.0	10.6	12.5

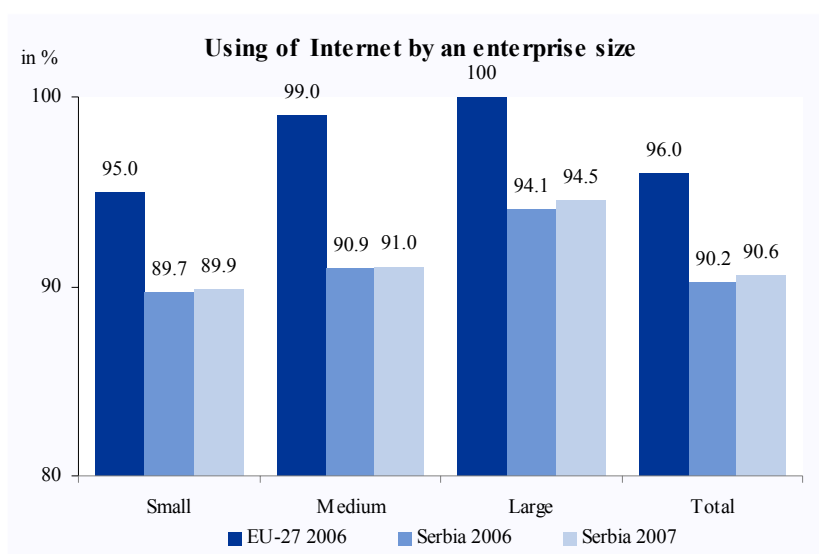
Source: RDB

IT systems for managing business in the area of sending and receiving orders are used by only 30.4% of enterprises. Also, the use of modern software⁵⁷ is low: 1) ERP system is used by only 16.4% of enterprises (32.9% of large enterprises, 20.7% of medium-sized, 13.5% of small enterprises mostly in the sectors of Banks and insurance companies – 39.3% and Transport, storage and communications – 25.1%); 2) CRM system is used by 11.9% of enterprises (26.1% of large enterprises, 12.9% of medium-sized, 8.8% of small mostly in the sector of Banks and insurance companies – 42.1% and Transport, storage and communications – 29.5%); 3) LINUX system is used by 14.3% of enterprises (32.1% of large, 14.1% of medium-sized and 12.7% of small enterprises).

Internet use in enterprises. Of all enterprises that use computers in their operation, 90.6% of them have the Internet connection (90.2% in 2006). According to this indicator, Serbia is below the EU-27's average (92%) and highly-developed countries, but better than Romania (58%), Hungary (80%) and Bulgaria (75%).

All large enterprises and all enterprises in the sector of Cinematographic and video activities, radio and TV activities have the Internet connection.

Chart 51



Serbian enterprises mostly use the *modem access* (the traditional modem and ISDN), while the EU-27 countries use the broadband Internet access. The dominance of the modem access indicates low development of the Internet in our country. A decline in the share of the modem access and an increase in the broadband access in 2007 with regards to 2006 reveals a positive qualitative change that will have direct effect on the improvement of competitiveness of enterprises, first of all by means of high-quality, fast, and safe Internet connection which is the basic precondition for more intensive use of the Internet for business purposes – e.g. electronic business (in 2006, 19.5% of enterprises ordered products/services by the Internet, while orders were received by 16.8% of enterprises, electronic payments (65% of enterprises in 2006), easier market control (54%), using the electronic service of the public administration – e-government (60.5%), and Web Site (61.8%).

⁵⁷ The level of utilization of the following software systems is the main indicator of development of ICT use in enterprises of the European Union in 2007: 1) ERP (integrates production, distribution and finance); 2) CRM (integrates information on consumers, sales, marketing efficiency, and market trends); 3) LINUX “open source”.

Table 38: Internet use according to size of enterprise in %

	Small			Medium			Large			Total		
	EU-27	Serbia		EU-27	Serbia		EU-27	Serbia		EU-27	Serbia	
	2006	2006	2007	2006	2006	2007	2006	2006	2007	2006	2006	2007
Traditional modem	17.0	62.2	43.0	17.0	60.4	59.9	21.0	59.1	47.4	17.0	61.7	46.7
ISDN link	28.0	24.1	19.0	28.0	17.2	19.8	33.0	26.9	25.8	28.0	23.0	19.6
DSL (xDSL, ADSL, SDSL, etc.) link	70.0	21.6	29.6	71.0	16.1	32.2	66.0	25.2	37.3	70.0	20.8	30.6
Other fixed Internet links	13.0	20.1	28.6	31.0	22.5	26.3	60.0	27.6	39.0	17.0	20.9	28.8
Mobile links	-	6.9	10.1	-	14.6	10.0	-	17.4	16.1	-	8.8	10.5

Source: RDB

E-skills. In 2007, 8.8% of enterprises employed IT experts. Most IT experts are employed in banks and insurance companies (42.9%). The main problem is an insufficient number of experts with IT qualification and adequate working experience. Besides trainings for IT users and IT experts in enterprises (13.3% and 10.1% of enterprises respectively), in 2006, 53.3% of enterprises outsourced IT experts.

IV INNOVATIVE POTENTIAL OF SERBIAN ECONOMY

A low level of innovative activities of the Serbian economy in the period 2002-2004 was a key obstacle to the economic development of the modern international market where factor conditions based on knowledge and high technology are given the highest ranking. At the same time, it makes the economy unrecognizable and jeopardizes the national competitiveness with all negative effects on the domestic market and the future development. The aspiration to introduce technology intensive production processes and the production of technology intensive products requires high investments and educated labour force. The educational structure of the Serbian labour force is satisfactory (6.7% of graduated students of natural sciences and engineers of 20-29 years). Foreign investments are missing, Greenfield investments first of all, as well as higher budgetary allocation for research and development (in 2004, only 0.32% of GDP).

Enterprises are easily adjusted to innovation activities. From the innovation aspect (44% of enterprises are engaged in innovation activities), large enterprises account for the highest share in goods (60%), while small enterprises dominate in the sector of services (47%).

Innovations, knowledge-based factor conditions and high technology are becoming increasingly important and fundamental elements of economic development. The innovative process is a complex system of interconnected institutions aimed at achieving a high level of innovative activities, distinctiveness of enterprises and competitive economy. It requires a synthesis of large enterprises and SME, based on new technologies, scientific-research institutions, and the institutional system. The economies where these elements dominate in production processes are more competitive than the economies that do not invest sufficient funds into information development, have weak communication between scientific institutions and business entities, do not try to reach a high level of education and apply modern forms of training and labour force improvement.

According to internationally valid criteria, the Serbian economy is in the process of foundation of initial conditions of that system and without organized systems and final solutions within innovative activities⁵⁸. The Serbian economy is characterized by weak activity and lack of business innovations, the absence of innovative network and research, bad reputation of domestic products, insufficient financial and infrastructural support, an insufficient number of laboratories and research capacities, as well as the absence of the key factor – a developed innovation network. The main activities are directed towards the establishment of adequate structure of innovative achievements of enterprises (especially SME), interconnecting (especially with universities), creating of the critical mass of innovative SME, adhering to internationally applicable standards and creating conditions for internationalization of business innovations within the economy.

Compared to developed countries, the innovative potential of the private sector of the Serbian economy is insufficiently developed due to: market access, reputation, financing, investments into research and development and the development of new products. With regards to less developed economies, educational and scientific activities of the Serbian economy still use earlier significant investments into basic elements of the knowledge society.

⁵⁸ Following the model of the European Innovation Scoreboard (EIS), the Ministry of Science and Environment Protection in cooperation with ECORYS conducted a survey on innovations in Serbia for the first time, within the National Innovation Systems. This overview consists of important data on key aspects of innovative activities of the Serbian economy, in enterprises and economy, being the basis for more competitive and developed economy. Entrepreneurs not included due to methodological limitations.

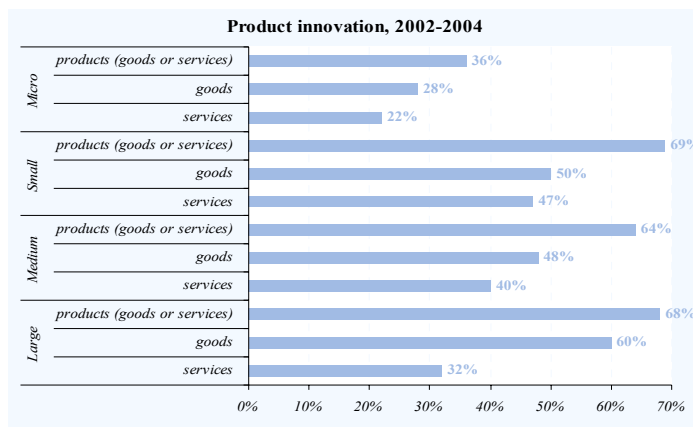
1. Characteristics of Innovations in Serbia

The greatest problem of the Serbian economy, from the aspect of the comparative analysis, is a different scope, defining and characteristics of innovations. The main characteristics of innovations in Serbia are the following:

1) Innovative activities for the purpose of adopting novelties and raising competitiveness. The most dominant activities are the following: adopting machines, equipment and software (57%), trainings (50%) and launch of innovations on the market (46%) indicating the process of modernization, improvement and adjustment of industry;

2) Production innovation is the ability of a company to launch new but greatly improved products (goods and services) on the market. The innovation needs to be new from the aspect of enterprise which launches the product, but it does not have to be new and unknown at the market. In Serbia, 44% of all surveyed enterprises are dealing with innovations. Small, medium-sized and large enterprises almost equally present production innovations, with large enterprises dominating with innovative goods, and small enterprises dominating with innovations in services.

Chart 52

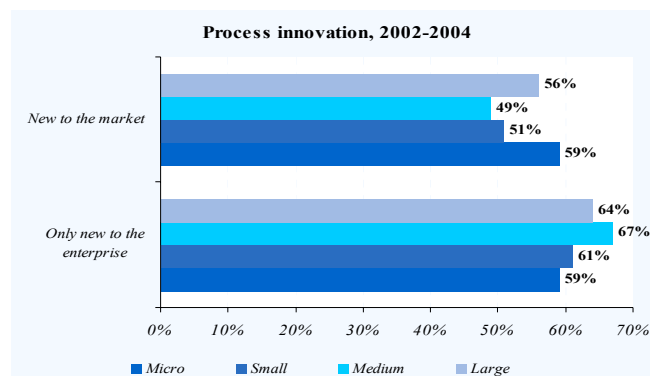


3) New innovative products that have never appeared at the market before – 56% of all enterprises are new production innovators, while 60% of them are imitators. The higher the concentration of new production innovators the more competitive economy is, as it launches completely new products on the market;

4) Utilization of new or greatly improved methods and technologies for production or product offer – 43% of enterprises in Serbia have new and greatly improved production processes and product offer;

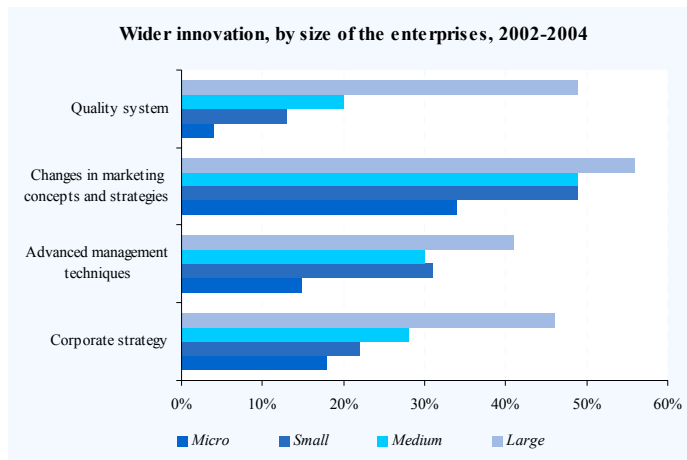
5) New innovative processes – 79% of enterprises launched novelties in industry in the period 2002-2004, with micro enterprises accounting for 94%, large enterprises with 69%, small with 61%, and medium-sized with 48%.

Chart 53



6) A broader concept of innovations includes new and significantly changed forms and formations, the structure of business and practical activities oriented towards the improvement of effectiveness and efficiency of operation, or to market access and consumers. Innovations are here reflected through the importance of non-technological innovations or “software” innovation. Spreading of innovation activities includes different forms of creative improvements activities that refer to: changes in corporate strategy, the introduction of knowledge-based management, changes in the organizational structure, changes in market concepts and strategies and the introduction of the quality system.

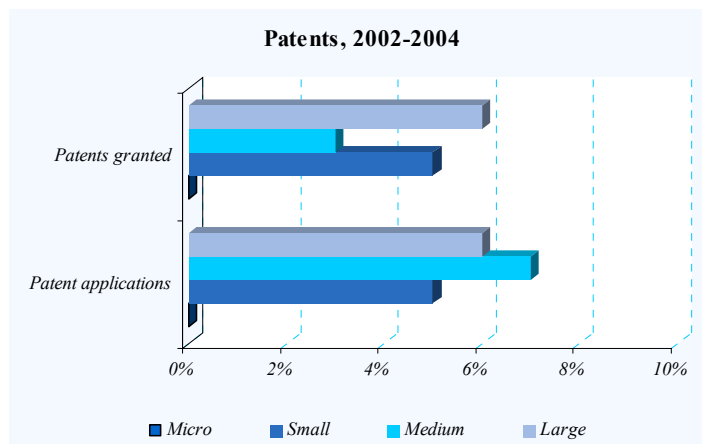
Chart 54



Innovation activities of Serbian enterprises in the period 2002-2004 were mostly directed towards market adjustment for the purpose of enhancing competitiveness – a broader concept of innovations with large enterprises dominating.

7) **Protection of innovations – patents** – of all enterprises that deal with innovative activities only 2.0% of them have one or more patents, and only 1.5% only one approved patent.

Chart 55



Enterprises mostly show rather strategic than formal types of protection. The most dominant are innovation activities in the protection of intellectual property having the advantage with regards to patents, and refer to leadership advantages of competition and confidential agreements and commercial brands.

The ability of enterprises to connect formal networks and channels of their innovation activities with other enterprises in the same group, suppliers of equipment and software, end users, competition, consultants, commercial laboratories, private institutes, universities and research institutions, reveals the development level of innovations. 50% of enterprises have agreements with different partners in the field of innovative activities. Large enterprises dominate in innovative cooperation with 72%, while the share of other enterprises is 50%. The largest number of cooperation agreements exists on the local and the national level. A few international cooperative agreements exist but they are directly related to suppliers. International agreements with foreign universities and research institutions are missing. Large enterprises are mostly engaged abroad, while micro enterprises establish cooperation with suppliers, clients and enterprises within the scope of their activities.

The market presence of Serbian products (goods and services) in 2004 was national (73%) and local (67%). Exports into Europe accounted for 24%, while exports out of Europe were insignificant, especially in micro and small enterprises.

Information and communication technologies are closely connected with innovations. According to the WEF Report, in the field of information and communication technologies, Serbia was ranked 79 out of 104 countries included in the analysis. Serbia holds a very low position with regards to EU and the new member states. This reveals low readiness of the state and municipalities to participate in the development of ICT or to benefit from it.

Innovation effects achieved through the innovation activity of enterprises are reflected through the improvement of quality, capacities and the flexibility of production. In all enterprises, the greatest innovation effects, through innovation activities, refer to: 1) *the improvement of the quality of goods and services*; 2) *adherence to regulatory measures* – prevailing in large enterprises due to their higher share in exports; 3) *environment protection* and 4) *increasing the newly added value*.

Factors preventing innovative potential and innovations: 1) *restricted availability and hampered access to financial funds* directly affect the growth and development of innovative performance of all enterprises; 2) *high costs of innovative activities, high risk and financing costs*; 3) *the market* – information from the market must result from an in-depth market analysis and available production factors in order to satisfy the market demand; 4) *low distribution of the incentive system*, such as interest rates and providing guarantees – these barriers refer to all enterprises (non-innovative and innovative); 5) *the knowledge level* – is not a serious restriction to innovations as it is assumed that the level of knowledge and skills in achieving competitiveness through innovations is underestimated to a very small extent.

2. Financial Funds for Innovations

The greatest investments into business innovations refer to usual innovation activities characteristic for the Serbian economy (purchase of machines, equipment and software), i.e. improvement, modernization, and adjustment. The total business expenditure for research and development, in relation to GDP in the period 2001-2004, albeit moderate growth, was insignificant (0.10%; 0.16%; 0.26%; 0.32%; respectively). From the aspect of support to public finance, investments into innovations in Serbia were also very low. The support of public finance is primarily oriented towards large and medium-sized enterprises.

Financing and stimulation of innovation activities is a very important matter for providing sustainable economic development and enhancing competitiveness of the Serbian economy. Financing and providing guarantees by the Government, stimulation of investments (domestic and foreign) or joint investments are the basic instruments for stimulating the development of innovations. These instruments are important for the economies such as Serbian where the financial market is not sufficiently developed. For that purpose it is necessary to provide a more favourable environment than the existing one, characterized by inadequate protection of intellectual rights and expensive loans for industry which rejects investors and discourages corporate borrowing. These

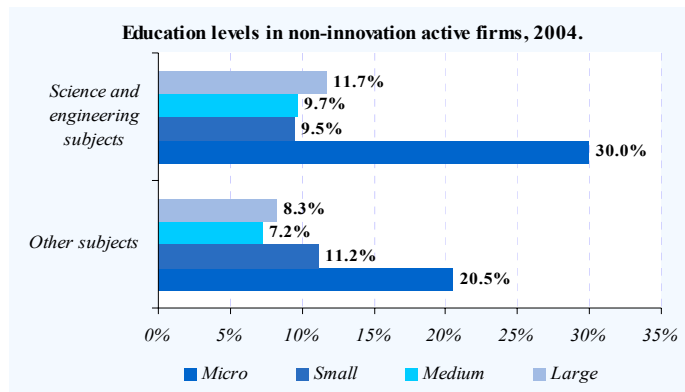
conditions are obstacles to fast growth and development of the economy. Joint investments could be a solution for the Serbian economy, as this is they way to avoid the underdeveloped financial market. The new possibility of financing could be opened through Investment funds and by the adoption of the Law on Investment Funds.

3. Human Capital and Innovations

Knowledge-based economy implies highly educated population, creativity and new ideas. The education system of Serbia must be harmonized with educational and empirical needs required by the modern global market. The greatest disadvantage refers to the weak connection between educational and research institutions, industry and the commercial sector which results in low utilization of this resource.

According to the 2004 Survey, in enterprises that were engaged in innovation activity, scientific and engineering entities accounted for 23.1% of employees with degrees in natural sciences and engineering, while other entities account for 16.8% of the same structure of employees. In enterprises that were not engaged in innovation activity, the number of employees in the same field was smaller (9.6% and 14.5% respectively).

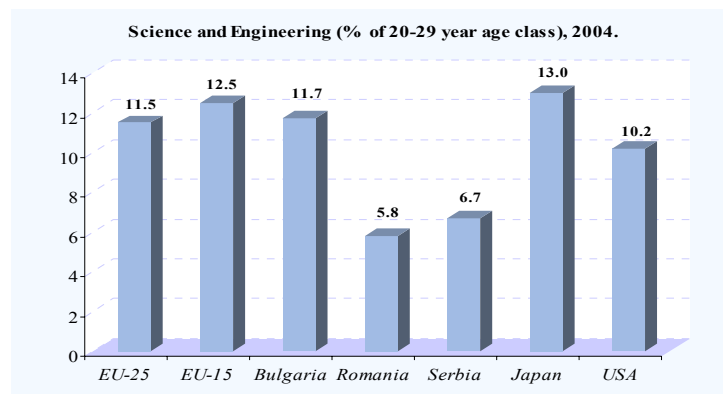
Chart 56



According to size of enterprise engaged in innovation activity, the highest number of employees with degrees in natural sciences and engineering is found in micro enterprises and the smallest number in medium-sized enterprises.

However, the comparative analysis of the share of students of natural sciences and engineers reveals significant lagging of Serbia behind highly developed EU member states.

Chart 57



4. Innovation Support System in Serbia

The establishment of an efficient innovation support system is important for creators of economic policy and organizations providing business support, for the purpose of connecting and solving important issues of demand, supply and the source of information.

There is a great demand for different innovation activities in Serbia. From the aspect of enterprises, even 68% of them have demands for financing of innovation services that are not available at the domestic market. However, in the structure of innovation services, 8% of enterprises are interested in information and product development, whereas the demand for technology transfer is somewhat higher (11%). The standpoint of organizations for support is to satisfy the needs of SME. The technological support for the development of new products, installation of IT equipment and new production processes, as well as export promotion, dominate. Less importance is given to support provided to organization of innovation activities. Due to weak interconnection between enterprises, universities and research institutions, less than 20% of enterprises included in the survey use different sources of knowledge as information for their innovation activities. Organizations that support innovations give advantage to international reviews in order to monitor the world trends.

In order to stimulate the innovation offer, it is necessary to mobilize potential capacities, resources, the strategic position and the future support to innovations for the purpose of improving the innovation activity and the innovation offer.

The innovation support system has shown that the main barriers are finances and lack of trust into the public economic sector, the unsatisfactory (80% of organizations) cooperation between organizations within the innovation system and the management of financial support from public funds.

V IMPLEMENTATION OF SME DEVELOPMENT POLICY

In the previous period, progress in the implementation of the development policy of the SMEE sector has been made, especially regarding conditions for starting business and through stronger financial state support. Significant incentives for financing business start-ups, unemployed persons, undeveloped municipalities, innovators, as well as for financing the programme of internationalization of the SME operation, cluster development and infrastructural support to business incubators were provided.

However, numerous barriers to faster development of this sector have still not been removed. It primarily refers to the grey economy, total fiscal liabilities, inaccessible public purchases, monopolies, difficult collection of outstanding debts, excessive administration and inadequate operation of tax administration, complicated and expensive administrative procedures. The development of risk capital funds and other favourable sources of finance for SMEE are missing. Constant dialogue between the representatives of SMEE and relevant institutions on the national and local level on problems, needs and adequate measures and instruments of support has not been established. The development programmes of this sector were not harmonized with the privatization and restructuring process and the development of business cooperation between small and large companies have been neglected.

In the research conducted over 2005 and 2006, the representatives of SME recognized the absence of adequate sources of finance and unadjusted legal procedures as the most serious problems, including lack of information on markets, lack of staff, lack of standards and information on new technologies. It is obvious that in order to overcome the problems of the SMEE sector, a wide range of measures and synchronized engagement of public institutions are required. The Plan for Stimulation of the Development of Small end Medium-Sized Enterprises and Entrepreneurship in the period 2005-2007 of the Serbian Government contains a comprehensive system of stimulatory measures for overcoming of problems and faster development of this sector, but is not supported with adequate budget. Also, the available capacities of relevant institutions, especially referring to human resources, are not sufficient for efficient and fast realization of the planned system of measures. The newly established Council for the development of SME, as an inter-department Governmental body, should contribute to better harmonization and coordination of operation of state institutions and the improvement of the dialogue with SMEE representatives.

Consolidation of multiple economic functions and aspects within the Ministry of Economy and Regional Development contributed to better synchronization of incentive programmes in the area of economy, employment, tourism, regional development, and foreign economic relations. Furthermore, this Ministry established the Business Council composed of representatives of enterprises of different types and scope of activities aimed at accelerating the process of reform of the legal system in Serbia, as well as rationalization of the legal framework and eliminating unnecessary and outdated regulations.

The Republic Agency with the network of regional agencies for the development of SMEE and Business Centres of the National Employment Agency increased the scope, assortment and quality of services. The new Agency for the territories of Kolubara and Macva districts, with head office in Sabac, was joined to the network, with six districts now remaining uncovered. International projects continued with donor aid: the European Union (EAR), the Government of the Kingdom of Norway, the Government of the Kingdom of Spain, Japanese Government, Italian Government, UNIDO ITPO, ATA, GTZ, and others.

The programmes of the Ministry of Economy and Regional Development for financing business start-ups and unemployed persons under very favourable conditions, with decentralized approach in promotion, education and collection of loan applications were implemented. Funds amounting to 3 billion dinars were approved for this purpose which enabled the foundation of 2,190 enterprises with around 8,000 new employees.

The state support for the establishment of business incubators in 14 municipalities, realized within the Government's '**Programme for Development of Business Incubators and Clusters in the Republic of Serbia 2007-2010**' also enables more favourable and faster start-up. Also, the Executive Council of AP Vojvodina, within the Strategy for development, implements the programme of support to the establishment of business incubators in three municipalities of Vojvodina. The Republic Agency also created the Centre for support to the establishment of business incubators.

The level of knowledge and skills of entrepreneurs is still unable to satisfy the necessities of building a competitive and export oriented SMEE sector. The reform processes oriented towards overcoming of this situation have been initiated, but they require a long period of time. The greatest improvement was made in terms of preparation for studying entrepreneurship within secondary education and an increased number of private secondary and post-secondary schools and faculties focusing on entrepreneurial education. Some initial results are being achieved in non-formal education that needs to provide the implementation of a life long learning principle and compensate for the lack of formal education; however the situation is generally unsatisfactory.

The access of SMEE to sources of finance is still rather restricted. The Development Fund of the Republic of Serbia is still the framework for financing the SMEE sector, through which stimulatory credit lines of the Ministry of Economy and Regional Development are realized under special programmes.

Bank loans are still very expensive and unavailable to the majority of interested SME. The implementation of adequate regulation in the area of risk capital is missing, thereby restricting the development of micro credit and guarantee funds on the regional and local level, but other sources of finance adjusted to real possibilities of this sector as well.

1. Operating Problems of SMEE

Albeit obvious progress in the creation of a stimulatory business environment, all obstacles to intensive development of the SMEE sector, strengthening of its competitiveness and innovativeness have not been removed yet. This primarily refers to high fiscal liabilities, disloyal competition recruited from the grey economy, difficult collection of claims, unavailability of public purchases, monopolies, actions of tax and inspection authorities, complicated, slow and expensive procedures of obtaining building and usage approvals and permits for connecting to the infrastructural network, corruption, municipal fees etc.

Considering the access to sources of finance, significant steps were made, especially in stimulating micro loans for start-ups; however, financing is still the top problem and necessity of the SMEE sector. State incentives are rather restricted, and bank loans are very expensive and unavailable to the majority of SME. Mechanisms for the establishment of risk capital funds have still not been created, the support of the so called business angels is missing, as well as the development of partnership investments with foreign and domestic companies.

The inefficiency of passing new laws, a large number of by-laws and administrative procedures that are usually not harmonized, incomplete and distributed to a large number of mainstays of public office are usually confusing and incur additional debts in time and money in most of small enterprises with restricted human resources.

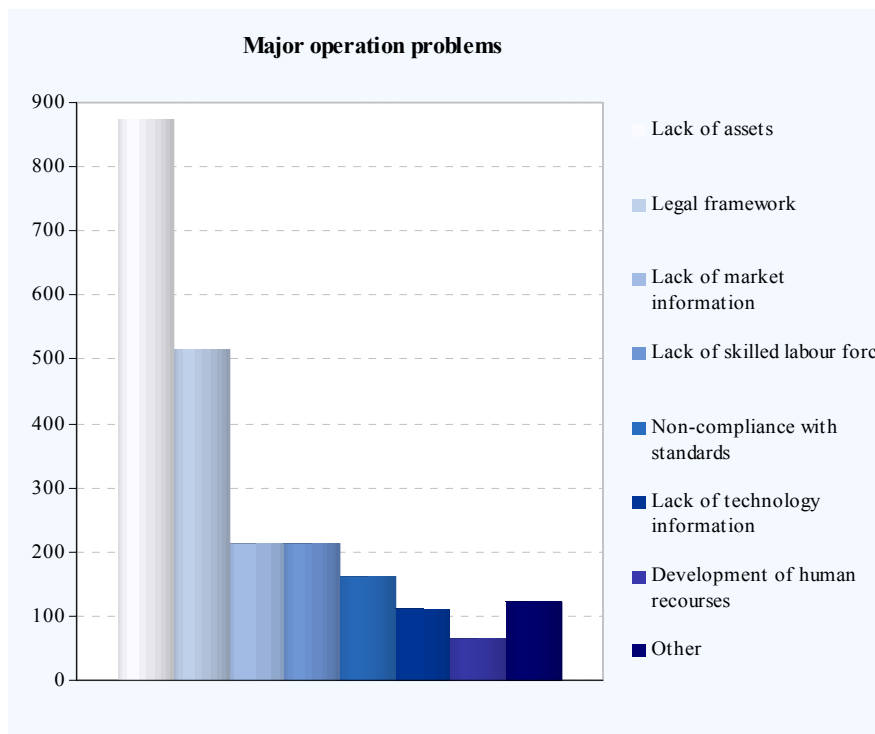
The above assessments were confirmed in the analysis of the survey on the situation, problems and necessities of the SMEE sector carried out in 2006 by 13 regional agencies/centres on the territories they cover, with 1,404 participants, in the organization of the Republic Agency for

the Development of SMEE⁵⁹. Business entities included in the survey employ 14,485 persons or 13 employees per enterprise on average.

The conducted survey comprised all important aspects of the development of this sector: market, financial, technical and technological, innovativeness, the necessity for non-financial support etc.

Major problems of SME included in the survey were lack of funds, laws and the accompanying regulations. Of the total number of answers, of eight given options, the problem of lack of funds accounted for 38.5%, legal regulation 27.5%, being somewhat above the survey carried out in 2005 (36%, i.e. 21%). Less importance was given to the following obstacles: lack of market information and lack of qualified labour (9.4% each), non-harmonized standards (7.1%) and lack of information on technologies (4.1%).

Chart 58

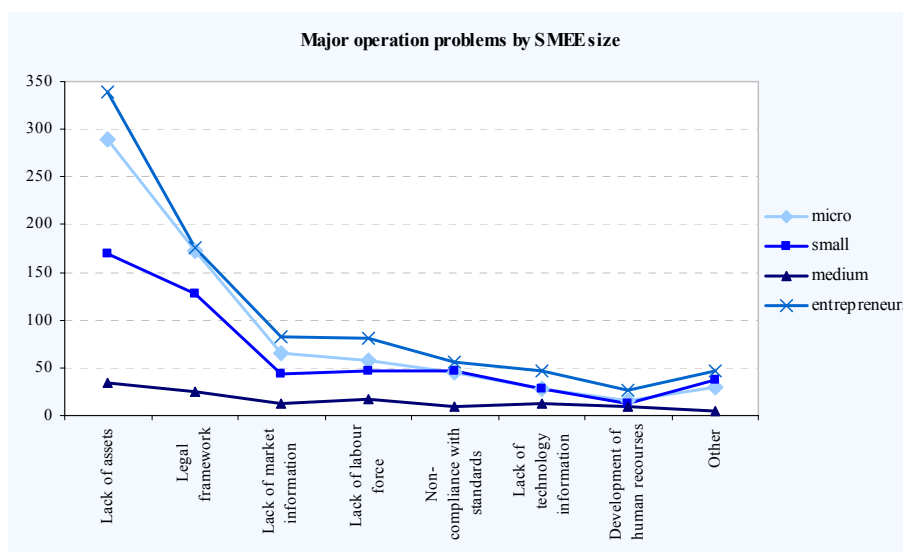


Source: Survey data of the Republic Agency for development of SME and Entrepreneurs

All enterprises included in the survey, irrespective of size, scope of activity and territorial arrangement, determined lack of funds and legal regulation as the most serious among the listed problems. Oscillations mostly occur in low-ranked problems. Financing problems and lack of skilled labour dominate in micro enterprises and entrepreneurs with regards to the average of surveyed enterprises.

⁵⁹ The research results on the activities/services of regional centres/agencies in 2006 were presented in the Report of the Agency for SMEE Development. Similar research was conducted in 2005 by means of comprehensive survey on SME and entrepreneurs including 6,042 participants.

Chart 59



Source: Survey data of the Republic Agency for Development of SME and Entrepreneurs

Lack of skilled labour is emphasized more on the territories covered by regional agencies of Krusevac, Sombor and Leskovac than in other territories, while lack of standard is emphasized in Uzice and Novi Pazar. Manufacturing identified the lack of skilled labour (real estate activities), and lack of information on markets (wholesale and retail trade).

The examinees were offered to rank major legal and procedural restrictions to starting a business. Issuing of building permits and object renovation, followed by the tax policy, the procedures of submitting mandatory financial and tax reports, the operation of inspection authorities, issuing of labour permits, export-import procedures and business registration were given the lowest ranks and described to have the highest intensity of restriction.

The major legal and administrative restrictions were ranked according to the level of their restricting effect on 1-8 scale, where 1 is the highest and 8 the lowest level.

Table 39: Rankings of most frequent legal barriers

Most frequent legal barriers	Micro	Small	Medium	Entrepreneurs	Total
Real estate building and renovation permits	4.29	3.88	4.16	4.28	4.22
Performance of inspection agencies	4.51	4.49	3.69	4.50	4.29
Submission of obligatory financial and fiscal reports and other procedures	4.31	4.20	4.14	4.38	4.31
Fiscal system	4.60	4.59	4.18	4.35	4.50
Import and transit of goods	4.68	4.67	3.50	4.66	4.58
Work permits	4.44	4.11	4.88	4.88	4.63
Export of goods	4.73	4.56	3.94	4.92	4.71
Registry of business	5.21	4.89	4.69	4.94	5.01
Number of SMEE - respondents	305	183	48	322	902
Total number of SMEE in the sample	422	332	74	521	1,414

Source: Survey data of the Republic Agency for Development of SME and Entrepreneurs

The procedures of issuing permits for building and renovation of objects were given the lowest ranks, unlike the previous research when the tax system had the above rank. It was noticed that shops gave the lowest ranks to the operation of inspection authorities, while medium-sized enterprises gave the lowest ranks to the procedures of import and transit of goods. The highest ranks in all categories were given to the procedure of business registration.

The majority of additional comments of examinees refer to the tax policy and tax administration. The problem of multiplication of administrative procedures, and the related costs and time necessary for the preparation and submitting of financial and tax reports was emphasized. Annual financial reports are submitted at three places with mandatory presence of the company's owner. Allocations for contributions are still high. The state does not provide assistance in collection of debts, the return of VAT is prolonged, but the penal policy is strict and with unequal treatment. Deciding in second instance on appeals against tax inspection decisions is also carried out within the Tax Administration. Other mentioned problems were the following: the grey economy, different criteria in the distribution of urban building land, high municipal fees, and lack of support for the introduction of standards.

It is obvious that in order to overcome the problem of the SMEE sector, a wide range of measures and the engagement of a large number of Republic institutions and organizations is necessary, as regulations and procedures of local governments are very important for the SMEE sector.

In the following period, the emphasis should be given to solving of key problems of SME through the establishment of constant dialogue between representatives of the economy and relevant institutions on the national and local level. Special attention should be given to curbing of the grey economy, ensured collection of debts and the problem of the relationship between small and medium-sized enterprise and large companies. Also, the development of SMEE should be harmonized with the privatization and restructuring process, i.e. the foundation of new companies that would be able to take over surplus of labour from the transformed enterprises. The measures of monetary policy should enable lower interest rates for bank loans. The support to the introduction of the quality standard should be more present in stimulating measures for the SMEE sector.

2. Establishment of Efficient Process of Creation and Implementation of the SMEE Policy

Numerous activities oriented towards the creation of a stimulatory environment for SMEE were carried out in the previous period in state institutions. ***The Plan for stimulating the development of small and medium-sized enterprises and entrepreneurship in the period 2005-2007***, adopted by the Serbian Government by the end of 2005 is implemented in some segments. This plan contains a multidimensional system of stimulatory measures for SMEE.

In August 2006, the **Council for small and medium-sized enterprises and entrepreneurship** was created. It is an inter-department Government authority established in order to analyze the situation in this sector, provide expert opinion and explanations, proposes adequate initiatives and measures for the improvement of conditions for the foundation of enterprises and their operation. The Council initiates and monitors the activities related to the cooperation between ministries, i.e. between ministries and other organizations and institutions. These measures are aimed at further acceleration of regulatory reforms whose effects are seen in this sector, harmonization and coordination of numerous actors in the state infrastructure and the establishment of dialogue with the representatives of the SMEE sector. Problems of the SMEE sector were discussed from various aspects at Council's meetings; **the Programme for Development of Business Incubators and Clusters in the Republic of Serbia 2007-2010** was adopted; working groups for the implementation of the Operational plan for the improvement of statistical monitoring

and research of the SMEE sector 2005-2007, as well as for the establishment of a unique, efficient system of creation and implementation of start-up policy were created.

The creation and implementation of the system and the development policy of SMEE is under the authority of the newly formed **Ministry for Economy and Regional Development** that has a special sector for this area, whereas adequate support measures are realized through other sectors of the Ministry as well. Budgetary incentives for financing programmes with SME as end users are directed via this Ministry, whereas based on the partnership relations donor programmes for special purposes are implemented as well. The inclusion of numerous economic functions and aspects within the **Ministry for Economy and Regional Development** contributed to better synchronization of incentive programmes in agriculture, employment, tourism, regional development, and foreign economic relations. This Ministry constituted a **Business Council** for the purpose of accelerating the reform of the legal system in Serbia, as well as rationalization of the legal framework and elimination of unnecessary and outdated regulations. The members of the Business Council are representatives of 32 companies of different range of activities (large companies, small and medium-sized enterprises, exporters, importers). The representatives of domestic and foreign companies doing business in Serbia should, through their engagement, make direct contribution to further progress of the Serbian economy, considering that the experience and advice of businessmen is of essential importance for the improvement of conditions for doing business. The project is implemented by the Council for regulatory reform of the economic system and the Ministry of Economy and Regional Development.

More comprehensive and efficient implementation of the system of stimulatory measures for SMEE under the Programme of the Serbian Government requires precise allocation of budgetary funds and strengthening of capacities of relevant institutions.

3. Achieved Results in the Realization of Support to SMEE

3.1. Legal Environment and Institutional Infrastructure

In the previous period, regulatory reforms oriented towards creating a stable economic environment were continued at a slightly slower pace. Considering the interest of the SMEE sector, the following laws are worth mentioning: the ***Law on amendments of supplements to the law on property tax***, reducing the tax on transfer of absolute rights on real estate from 5% to 2.5%; the ***Law on amendments of supplements to the law on tax procedure and tax administration*** aimed at curbing the grey economy through introducing strict penalties for default and tax evasion; the ***Law on amendments of and supplements to the law on value added tax*** envisaging the reduction of VAT from 18% to 8% for purchase of personal computers. The turnover liable to VAT payment has been changed as well: VAT is payable at two million dinars of turnover instead of one million dinars.

The Central European Free Trade Agreement (CEFTA), ratified by the Serbian Assembly, has great importance in overcoming the problem of a rather limited national market and strengthening of partnership relations with the surrounding countries. The Agreement stipulates the abolishment of customs restrictions for industrial and agricultural products in the countries of the region by 2010. Liberalization of public purchases and the attraction of investments into signatory states are envisaged as well, and it is more likely that preferential conditions will be approved for entering the European market. The CEFTA Agreement was signed by Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldavia, Serbia, Montenegro and UNMIK on 19 December 2006.

The basis of the **institutional infrastructure for non-financial support** to SMEE is the Republic Agency for the development of SMEE with 13 regional agencies/centres and a new regional centre in Sabac joined to the Agency in the reporting period⁶⁰. The joint action of the Republic network is carried out according to the project task approved by the responsible Ministry. The project entitled **‘Support to the Implementation of Activities/Services of Regional Agencies/Centres’** is financed from the budget of the Republic of Serbia, and is realized by the network of regional agencies and centres in coordination with the Republic Agency. Also, supported by EAR, the Association of regional development agencies was established for the purpose of realization of certain donor programmes on regional levels.

In 2006 the Republic network achieved the following results: the number of clients in agencies grew by 24% on average, the number of mentoring activities (195) increased by 50%, promotions (105) by 15%, trainings (385) by 323%, and consulting activities (1560) by 247.8%. 64 stock exchanges were organized with 987 participants. The number of users of the **entrepreneurial service** which provides daily services to interested clients in direct contact, by e-mail and *Help* line, records continual growth. Clients can obtain legal and financial consulting services, guidelines for business plan building, business affiliation, protection of intellectual property and other information of importance for the foundation and operation of enterprises.

Table 40: Performance results of entrepreneurial service of the Republic Agency for Development of SMEE and Republic Network in 2006

Republic Agency and Republic Network	Help telephone	Consulting (financial and legal)	Mentoring	Replies on e-mail	Education	
					No of seminars	No of attendants
	7,200	5,765	272	6,573	441	6,392

Source: Survey of the Republic Agency for Development of SME and entrepreneurship

In accordance with an open competition of the Ministry of Economy and Regional Development for granting incentive loans to business start-ups – entrepreneurs and legal entities, presentations and basic trainings in entrepreneurship and building of business plans for a large number of interested clients were organized. Expert assistance in collecting the necessary documentation and loan applications was provided to all interested persons. 1,125 loan applications requesting funds in a total amount of 1,522 million dinars were collected via the Republic network and municipal offices.

New contents were introduced into **education programmes** (56 programmes were created) prepared in cooperation with the National Employment Agency and domestic and foreign donors, with the engagement of regional agencies for the SMEE development. The programmes are aimed at trainers’ trainings, business starters, strengthening of managerial, marketing and financial skills of entrepreneurs. The cooperation between the Republic Agency and the National Employment Agency in education expanded to mentoring for persons who were given grant aid for self-employment. All planned trainings in 2006, 56 seminars with 1,323 participants, were organized in branches of the National Employment Agency.

⁶⁰ Ten regional agencies and centres were founded in the period December 2001-December 2002, with the support of EAR (Kragujevac, Nis, Krusevac, Zajecar, Zrenjanin, Uzice and Belgrade), GTZ (Novi Sad and Subotica) and SDC (Novi Pazar). In 2003, the Serbian Government founded the Regional Agency ‘Sombor’ (covers the territory of the South Backa District). The Serbian Government is also a co-founder of seven regional centres (Zajecar, Zrenjanin, Uzice, Beograd, Kragujevac, Nis, and Subotica). In 2004, regional agencies (Vranje and Leskovac) were founded with ILO support. Their founders are relevant factors from the territories they cover (local governments, regional chambers of commerce, association of entrepreneurs, business associations, banks, institutes, faculties etc.). In April 2007 Regional Centre d.o.o. Sabac for the territories of Macva and Kolubara districts was founded. This regional centre was founded by eight municipalities from the mentioned districts and the Regional Chamber of Commerce from Valjevo, with the support of UNDP.

Also, the network of **Business Centres of the National Employment Agency** provides information, educational and consulting services for unemployed persons, surplus of labour and entrepreneurs. In 2006, 23,908 persons (the unemployed, surplus of labour) used services of business centres through various group informing and counseling, which is 19.5% more than in the previous year. Business centres provided expert support to 16,994 persons⁶¹ through individual work with unemployed persons and entrepreneurs (mentoring, legal advice, education, etc.). Furthermore, in 2006 387 education programmes for 6,954 persons were organized aimed at those persons who were interested in subsidies for self-employment. During the first half of 2007, services of business centres were used by 11,854 persons. Informative one-day trainings such as “Become an entrepreneur – with the support of Business Centres of the National Employment Agency” were organized in continuity in all branches in the above period. So far, 85.14% of trainings have been organized with regards to the planned volume for 2007.

Promotion programmes of the SMEE sector during 2006 were realized through the promotion of national programmes aimed at the SMEE sector, promotion of good examples from practice, organization of specialized fair manifestations for entrepreneurs (the Fifth International Fair “Business Base 2006” organized at 3000m² of exhibition area with almost 2000 visitors), etc. Workshops and two competitions for the best business plan were organized in the first half of 2007 in cooperation with British American Tobacco Company, i.e. within the project financed by the Government of the Kingdom of Spain. In cooperation with GTZ, the training programme for entrepreneurs in the area of tourism was continued, and the manual for entrepreneurs and instructors was printed.

Activities in the field of **international cooperation**, implying the continuation of initiated projects and finding new areas of cooperation and support to institutional infrastructure dealing with SMEE development, as well as direct connecting between the SMEE sector and programmes and projects of international community are underway. The most important projects are the following: *‘The Development of the Private Sector – the Republic of Serbia’* financed by the Ministry of Foreign Affairs of Norway envisaging the establishment of business incubators and technology parks in the Republic of Serbia; *‘Support to the Republic Agency for SMEE Development’* realized in cooperation with UNIDO ITPO from Italy (refers to internationalization of enterprises and university cooperation, specialized training of employees in the Republic Agency, and introduction of the information system); *‘Strengthening of Capacities of the Republic Agency for SMEE Development’* financed by the Government of Japan. Technical office for cooperation with the Balkans within the Embassy of the Kingdom of Spain finances two projects: *‘Technical Assistance for Improvement of SME Financing’*, the main beneficiary of which is the NBS (Republic Agency and PKS continued to participate as secondary project beneficiaries) and *‘Technical Assistance for the Republic Agency’* (the plan for reorganization of entrepreneurial service was formulated in the Agency; a competition in creating of business plans in the category of small entrepreneurs and women entrepreneurs was organized, a new Agency’s web site was created). EAR’s projects, projects of Holland organization ATA, TAM Programme, UNDP Project entitled *‘Entrepreneurial Serbia’* were continued. The new project entitled *‘Cluster Internationalization in Tuscany Directed to Serbia: Footwear, Furniture, Textile and Clothing’*, financed by the funds envisaged by the Italian Law 84.

It is necessary to increase the capacities of institutions for SMEE support on all levels and complete the network of Republic institutions with new agencies on uncovered territories of Serbia: the districts of Branicevo, Podunavlje, Srem, Bor and Serbian territories in Kosovo and Metohija, in the coming period.

⁶¹ Data of the National Employment Agency

3.2. Support to Start-ups

Necessary operational measures for support to start-ups were undertaken over the previous period. Competitions for granting loans for special purposes to business start-ups and self-employment were announced, further subsidies through the National Employment Agency were provided, educational programmes were intensified and programmes for the establishment of business incubators were supported. The needs for more favourable and faster start-up programmes as measured by the demands of potential entrepreneurs and the necessity of solving unemployment problems require a continuous and offensive approach of larger scope and intensity, and of different forms of support.

By the end of July 2007, the Ministry of Economy and Regional Development announced a competition for start up loans without mortgage and start up loans for legal entities, as well as the competition for micro loans for self-employment.

The target groups of the Credit line for start-ups are younger persons, with the first priority rank given to persons up to 24 years of age, and the second priority to persons from 25-40 years. Pledge on movable objects is recently approved collateral which aroused great interest of potential entrepreneurs. Of 2,507 applications, 1,507 were approved in the total amount of 1.947.8 million dinars.

Table 41: Breakdown of start-up credits – by age groups

Old age groups	Number of requirements		Approved amount (RSD 000)		Number of newly employed	
	Entrepreneurs	Legal entities	Entrepreneurs	Legal entities	Entrepreneurs	Legal entities
by 25 years	287	118	259,350	257,790	869	515
26 to 40 years	440	251	367,900	516,890	1,254	1,108
41 to 50 years	168	114	139,920	248,070	491	603
over 50 years	85	44	70,860	98,050	280	226
total	980	527	847,030	1,120,800	2,874	2,452

Source: Development Fund of the Republic of Serbia

Micro-credit line for self-employment is realized under similar borrowing conditions via the National Employment Agency. Apart from unemployed persons, laid-off staff investing into severance pay project is entitled to apply for loan funds as well. Loan approval is conditioned by creating jobs for a certain number of persons who are recorded as unemployed in the records of the National Employment Agency. The Managing Board of the Development Fund approved 1,565 micro loans in 2006, i.e. all applications that meet the conditions of the Public Invitation (95% of all applications) providing employment for 6,562 unemployed persons. 2.148 billion dinars were earmarked for this credit line. 683 micro loans out of 2,500 applications were approved at the Competition in 2007, amounting to 1 billion dinars.

The programme of the National Employment Agency aimed at granting **subsidies for self-employment** contributes to small business start-ups as well. Individual amounts of subsidies are rather small ranging from 120 to 150 thousand dinars. The advantage is given to young people to 27 years of age, as well as women and unemployed persons who have long been waiting for employment and have higher school qualifications.

The support to faster development of start-ups is provided through programmes related to **the establishment of business incubators**. In December 2006, the Council for the development of small and medium-sized enterprises of the Serbian Government adopted the 'Programme for the Development of Business Incubators and Clusters in the Republic of Serbia 2007-2010'. The Centre for support to the establishment of business incubators was founded in the Republic Agency defining the types of support for already established and new incubators in the development stage.

The concept of establishment of business incubators was devised in accordance with the development strategies on the national and regional-local level (*Strategy for SMEE Development, Plan of the Government of the Republic of Serbia for Stimulating the Development of SME and Entrepreneurship 2005-2007, Poverty Alleviation Strategy, local development strategies*). Experience and recommendations of the National Programme for the establishment of business incubators and scientific-technology parks in the Republic of Serbia were initiated in 2004 in partnership with the Ministry of Foreign Affairs of the Kingdom of Norway, Ministry of Economy, Republic Agency for SMEE Development, and SINTEF Institute. In order to develop business incubators for the purpose of stimulating entrepreneurship in Serbia, 255.008.000.00 dinars were provided from the funds of the National Investment Plan for the following municipalities: **Bor, Valjevo, Zajecar, Zrenjanin, Kragujevac, Krusevac, Leskovac, Medvedja, Nis, Novi Pazar, Prokuplje, Rakovica, Smederevska Palanka, Uzice**. These funds were earmarked either for infrastructural equipment or building facilities for the establishment of business incubators in selected locations.

The Executive Council of AP Vojvodina implements 14 programmes under the Development Strategy, with one of them referring to the support for the establishment of business incubators in Vojvodina (Zrenjanin, Subotica, and Novi Sad).

The concept of the establishment of business incubators represents support to sustainability of new companies and creation of new jobs; it is a unique system of support relating not only to tenants but to the whole entrepreneurial population on the local level.

The acquired experience shows that there is an undoubtful necessity for constant financial and non-financial support to business start-ups. It is necessary to continue with the realization of initiated programmes, along with certain procedural adjustments. Interested persons should be enabled to apply in the long term, in order to avoid the problem of lack of time for better preparation of potential users, due to rather short competition deadlines. It is also necessary to precisely define all borrowing conditions ahead and forbid changing of the rules during the competition further on.

3.3. Upgrading Knowledge and Skills in SME

Knowledge and skills of entrepreneurs are lagging far behind the needs of creating a competitive, export-oriented SMEE sector. The reform processes oriented towards overcoming of the present situation have been initiated, but they need a longish period of time. The most significant progress was made in preparations for studying entrepreneurship within secondary education and an increased number of private secondary and post-secondary schools and faculties that are focused on acquiring entrepreneurial skills. Certain results are achieved in non-formal education that should enable the implementation of the principle of life-long learning and compensate for disadvantages of formal education, however, the situation is unsatisfactory in general. Material support of the state for the development of institutions for non-financial support is insufficient, while the market of non-formal education is undeveloped.

The most important results achieved under the Project entitled the Reform of vocational education and training– stage 2 (CARDS) are the following: the *Strategy for Vocational Education and Training in the Republic of Serbia* and the *Strategy for Adult Education* adopted by the Government of Serbia in December 2006, as well as the formulation of the *Action Plan for the implementation of the Strategy for Vocational Education and Training*.

The reform of ***secondary vocational education*** implemented by the Ministry of Education with the support of the European Agency for Reconstruction envisages the introduction of entrepreneurship as a subject into the educational system starting from school year 2007/2008. For that purpose, the Ministry in cooperation with the Republic Agency for the Development of SMEE

designed a curriculum in 2003 according to which entrepreneurship is to be studied at the final year as a mandatory or optional subject, depending on the school profile.

The realization of the ***pilot project of entrepreneurial education*** in experimental classes at secondary vocational schools continued. This programme included 30 classes (10 in agricultural and mechanical engineering schools, and 5 in electrical engineering and medical schools each) with 600 students and 64, i.e. 28 planned classes. This marked the finalization of the first stage of the CARDS Programme including 55 schools from 5 fields for which EAR allocated EUR 13 million. The Project realization is monitored by the Centre for Vocational Education. The Innovation Fund was founded as well, as a special form of support to vocational education. The CARDS 2 Project will comprise 23 schools that will introduce entrepreneurship as a subject starting from 2010 in the final year of secondary vocational schools of catering and tourism, electrical and mechanical engineering, forestry and wood processing.

The German Technical Cooperation – GTZ implements an experimental educational programme in 30 secondary economic schools for the following qualifications: business administrator, financial administrator and bank clerk, including practical training. “Learning offices” that simulate enterprise operation and “do business” with nearby enterprises were organized in 18 classes of business administrators. Virtual enterprises for gaining experience in external management were introduced in three schools under EKO NET 3 Project of the Ministry of Education and Sport and Kultural Kontakt from Austria, as a supplement to GTZ learning offices. Bank clerk is a subject realized in 7 schools and it will be introduced as an optional subject starting from 2008. Realization of programmes for the qualifications of insurance officer and sales manager will begin in 2011.

Programmes for stimulation and development of entrepreneurial skills of students are not organized within ***primary education***. A pilot project entitled ‘*Functional Primary Education of the Roma*’ implemented within the global action ‘*Decades of the Roma (2005-2015)*’ with the support of the international Roma Education Fund is a novelty in this area. The Ministry of Education and Sport formulated a programme for the subject ‘*Basics of Entrepreneurship and Employment*’ which was introduced into the 7th and 8th grade of primary schools starting from September 1, 2006.

Reforms in the area of ***tertiary and post-secondary education*** are based on the principles of the Bologna Declaration. There is a growing number of post-secondary schools and faculties where subjects related to gaining of entrepreneurial skills in different areas of business are studied. The present liberal policy in this part of education system enables competition which demands market behaviour and adjustments to the requirements of time and environment that should result in upgrading the quality of institutions of post-secondary and tertiary education.

150 students participated in the advanced training programme for entrepreneurship ‘*From a Student to an Entrepreneur*’ at the Faculty of Electrical Engineering in Belgrade realized through the project finance by EAR. Great interest for entrepreneurship indicates the necessity of introducing this subject into the curriculum of full-time studies.

‘*The Promotion of Entrepreneurial Thinking in the Area of High Technologies*’ is realized at the Faculty of Technical Sciences in Novi Sad. The promotion of entrepreneurship in high technology and training for high-tech entrepreneurs/future entrepreneurs; support to various high-tech competitions through providing education support in the area of doing business and market. Scanning and support of the innovation potential of the SMEE sector is implemented with the support of the Ministry of Science and EAR.

Progress is made in terms of opportunities for gaining additional entrepreneurial knowledge and skills through ***non-formal education***, measured by the scope, quality and content of education programmes; however, the achieved level of these services is still not adjusted to real necessities and possibilities of the existing and potential SME.

The project entitled ‘*Partnership for Entrepreneurial Capacitating*’ initiated and technically supported by the European Training Foundation aimed at promoting entrepreneurial

education and capacitating on all education levels has still not been realized. National partnership for entrepreneurial capacitating with representatives of relevant state institutions, chambers of commerce and non-governmental organizations was established during the first stage. The strategy for the promotion of life-long learning has still not been implemented. Dialogue between social partners on systematic planning of needs for education of SME has not been established. There are certain activities of various institutions and organizations dealing with education of SME. The analysis of needs for education is usually carried out within individual organizations and institutions but the data are not exchanged and not available to everyone. The Education service of the Serbian Chamber of Commerce and Industry makes plans for the purpose of creating a systematic analysis of needs for education in the business environment of SME and sets standards for the collection of data and their analysis for creating types of services and training.

Non-formal education programmes are continually implemented by the official institutions for the development of entrepreneurship, the Republic Agency for the Development of SMEE with the network of regional agencies/centres, the National Employment Agency, Serbian Chamber of Commerce and Industry and its network, SIEPA, with constant adjustment of the programme to new circumstances and users' needs. Educational programmes of state institutions realized independently or with donor support are free of charge for users. In some cases, subsidized price is offered.

The market of educational services is underdeveloped, but the number of its actors is evidently growing: faculties, institutes, non-governmental organizations, open people and workers' universities and private consulting agencies. The quality of educational programmes is inconsistent, owing to the fact that mechanisms for issuing licenses and certificates for lecturers and models for monitoring and assessment of training results that are estimated by direct users have still not been established.

A unique system of statistical monitoring of educational programmes following the principles of the European Union which developed a wide scope of specific indicators for this area within the European Bureau of Statistics has still not been introduced in Serbia. The advancement in non-formal education can be perceived only on the basis of available reports of official institutions in the first place.

According to needs, education was ranked 4th in the survey on the situation and needs of SME, after support in promotion, business affiliation and market research, indicating the level of awareness of the necessity of life-long learning of entrepreneurs.

Table 42: Rankings of responses by degree of need for non-financial services

	Need for non-financial services	Share in total responses (%)
1	Advertising of enterprises/shops	18.7
2	Connecting with business partners	15.7
3	Market research and analysis	12.5
4	Education	10.2
5	Marketing of new products	10.0
6	Consulting	9.7
7	Information on technology	7.2
8	Quality management	4.2
9	Installation and usage of equipment	3.9
10	Technology transfer	3.3
11	Monitoring/assessment of technology	2.4
12	ICT support	1.5
13	Something else	0.4
14	No need for any support	0.3
	No. of SMEE - respondents	100.0

Source: Survey of the Republic Agency for Development of SME and entrepreneurship

With regards to progress assessment indicators in this area and coordinates of the European Charter on Small Enterprises, Serbia was ranked 2nd in 2006 since 20,000 potential and existing entrepreneurs had various trainings. In order to achieve 3rd ranking 11-30% enterprises should be included in educational programmes.

It is necessary to put additional effort and integrate the existing offer in this area in the coming period, so that it becomes more transparent and available to direct users. The database of service providers should be established through mutual projects of relevant institutions, the system of standardization of services should be introduced as well as licencing and certification.

3.4. Financing System of SMEE

The state financial support aimed at the SMEE sector is increasing and becoming versatile in terms of crediting and purpose; however the access of this sector to the financial market is still restricted. Bank loans are very expensive and unavailable to the majority of interested companies. The regulation concerning risk capital is missing, which restricts the development of micro loans and guarantee funds on the regional and local level and other sources of finance adjusted to real possibilities of this sector.

The Development Fund of the Republic of Serbia has a pivotal role in the credit support to SME which is mostly financed from domestic sources and offers more favourable borrowing conditions than market conditions. In 2006, the Fund financed 455 programmes of business entities from own funds in a total amount of 7.6 billion dinars and 643 programmes of entrepreneurs amounting to 681 million dinars. In the current year, the Fund increased credit placements from own funds but from the funds of ERSTE Bank and the National Bank of Greece as well, according to the cooperation agreement. The final stage of realization of the Programme of the Ministry of Economy and Regional Development comprising four credit lines is underway. Apart from the mentioned programmes for business start-ups, the Programme for stimulation and development of enterprises and entrepreneurship in the most undeveloped municipalities of RS in 2007 is underway, as well as the Programme for the distribution and utilization of funds earmarked for turning innovations into ready products for 2007. The Managing Board of the Fund approved 228 programmes for enterprises from undeveloped municipalities in a total amount of 1.449.6 million dinars, including the funds for two innovative programmes amounting to 24 million dinars. Furthermore, a micro credit line for financing quality improvement projects for catering offers of small and medium-sized enterprises in the area of tourism amounting to 200 million dinars was approved by a special Decree of the Serbian Government.

The Development Fund of the AP of Vojvodina provides significant support to small and medium-sized enterprises and entrepreneurs as well as to cooperatives on the Province's territory. In 2006, funds totaling EUR 18.847.358 were invested (in dinar counter value) for 576 loans, 282 of which refer to loans for SME. EUR 2.593.629 were invested into start-up loans through 180 programmes.

The Guarantee Fund of the Republic of Serbia continued to stimulate financing of business entities by providing guarantees for a part of the loan approved by banks and other financial institutions to business entities (small and medium-sized enterprises, entrepreneurs and agriculturists) in the Republic of Serbia.

Exporting SME may provide support via the **Export Insurance and Financing Agency (AOFI)** such as direct short-term financing, co-financing with a client's commercial bank or re-financing and insurance of export activities. New products of this Agency referring to the reduction of the bottom value of export activities to EUR 300,000, introduction of factoring and financing of foreign buyers can be beneficial for certain categories of SME.

The system of state incentives contains a type of providing grant aid to certain activities where small and medium-sized enterprises can also be included. Investment stimulation programmes and cluster development programmes refer to the above mentioned.

SIEPA approves grant aid to potential investors for projects in the area of production and services that can be the subject of international trade and research and development. Funds ranging from EUR 2,000 to EUR 10,000 are approved per newly created job position, with the minimum value of investment from EUR 1-10 million, depending on the unemployment rate in the municipality and the sector where investments are made, and the minimum number of new jobs ranging from 10 to 50. **SIEPA Programme for the internationalization of domestic products** assisting SME in strengthening of their market activities abroad and increasing exports is also being realized. The third public invitation for providing grant aid to Serbian exporters was announced, whose funds are earmarked for partial coverage of costs of promotion of enterprises on foreign markets, introduction of the quality system, development of production for the purpose of enhancing competitiveness of domestic enterprises on the world market.

The Ministry of Economy and Regional Development continued the project of stimulation of *cluster* development in 2007 with co-financing of their establishment. Only groups of enterprises (at least 9) and institutions and/or accompanying organizations (at least 3) can be fund beneficiaries. The amount of grant aid funds for 2007 is 30,800.00 dinars. The highest amount of co-financing for the first stage of the project is up to 800,000 and 6,400.000 dinars for the second stage.

Soft loans of international organizations and institutions realized through the Revolving Fund of the Republic of Serbia, EIB Apex global loans, loans for financing SME of the Government of Italy, the Fund for Serbia of German KFW Bank, Hellenic Plan and others contribute to the amortization of the problem of lack of sources of finance for SME and partly compensate for insufficient and expensive credit offer of commercial banks. In October 2006, the representative office of the European Fund for South-Eastern Europe (EFSE) was opened in Serbia that will finance small and medium-sized enterprises and approve micro loans for households. It is a *revolving* fund, where returned funds are used for new financing. The Fund's assets originate from joint funds of previous donor programmes, international financial institutions and private sources (EAR, the Fund for Serbia etc.). EFSE was founded with the capital of EUR 220 million and it should have reached EUR 250 million at the beginning of the current year. Serbia accounts for 20% of the total portfolio while an increase in its share is expected.

It is necessary to continue with the state support to the SME sector and create a regulatory framework for the foundation of risk capital funds. Monetary policy measures should be oriented towards the improvement of borrowing conditions for the SME sector.

3.5. Promotion of the System of Analytical Monitoring and Researching of the SMEE Sector in Serbia

Somewhat more intensive activities intended to promote the system of statistical monitoring and researching of the SMEE sector in Serbia were first taken in 2005 through employment of key relevant institutions managed by the Sector for SMEE Development of the Ministry of Economy and with technical assistance of the EAR project 'Support to Development of Enterprises and Entrepreneurship Programme'. Among many activities one should particularly emphasize the importance of realized theme workshops that produced recommendations in accordance with which a Working Group was established, an Operative Plan was prepared and adopted and a draft project for SMEE observatory in Serbia was designed. Major action directions in 2006 are based on the realization of an '*Operative Plan of Activities for Promotion of Statistical Monitoring and Researching of the SMEE Sector 2005-2007*'. The plan was designed and adopted by the *Working Group for Promotion of Statistical Monitoring and Researching of the SMEE*

Sector comprising representatives of the Sector for Development of SMEE of the Ministry of Economy and Regional Development, Republic Statistical Office, Solvency Centre of the NBS and Republic Development Bureau. The plan defines specific measures and activities aiming to develop the system of statistical monitoring and researching of the SMEE sector. Its implementation produces a harmonized system of collection and exchange of information on the SMEE sector of all relevant institutions and that enables designing of the SMEE Report with integrated data on legal entities (companies) and natural persons (entrepreneurs) in keeping with EUROSTAT indicators (number, number of employees, total turnover, gross value added, export and import). The so far activities aiming to harmonize and link the data, taken in the first place by the Republic Statistical Office, NBS – Solvency Centre, Tax Administration and Customs Administration, for the first time in Serbia made it possible for the RSO to form, on the basis of researches, integrated statistical databases 2004-2006 – the number of companies, number of employees, total turnover and gross value added for the SMEE sector and the data on external trade of companies (entrepreneurs excluded) in 2005 and 2006.

A significant contribution to development and promotion of the SMEE sector monitoring is made by the establishment of the **SMEE Council** (an inter-ministerial body in charge of monitoring the development of the SMEE sector and proposing measures for its promotion), which in its work coordinates all bodies operating in the field of development and monitoring of the SMEE sector.

A final objective of the process of promoting statistical monitoring and researching of the SMEE sector is coming up with a single methodology of statistical monitoring that will unify sources of data on the SMEE sector (from the local to the republic level), enable continual researching and provide reliability and validity of analytical instruments for monitoring and assessment of development of the SMEE sector in keeping with the EU requirements. Therefore it is necessary to provide any assistance (material, staff, technical, etc.) in order to build up capacities of all bodies and organizations that avail themselves of the data relevant for assessment of development of the SMEE sector.

Undertaken and planned measures and activities in the field of single and unified monitoring and analyzing of the SMEE sector defined directions to follow, i.e. a draft project the realization of which will create conditions necessary for efficient and balanced involvement of Serbia in the network of *EU SME Observatories*.

It was planned that the observatory should be formed in the Republic Development Bureau

4. Regional Agencies/ Centres for SMEE Development – Activities and Problems on the Basis of the RDB Survey

In the wake of 2001 the Republic Network of Institutions in Charge of Entrepreneurship Development was established in Serbia. The Republic Network comprises 15 institutions: the Republic Agency and 14 regional agencies/centres with sub-offices. The Republic Network covers almost 90% of the territory of the Republic of Serbia (Kosovo and Metohija excluded) and through its work it contributes to expansion of entrepreneurial spirit and promotion of an idea of entrepreneurship, as well as to creation of the environment that is stimulating for SMEE development. **The areas of Podunavlje, Branicevo and Srem District are still not included.**

Founders of regional agencies and centres belong to three institutional sectors (state, business and NGO). Through a continual expansion of the range and quality of services, regional agencies/centres acquired major experience in rendering business services to the SMEE sector, as well as specialist services to the public sector – primarily to local self-governments. Some agencies play a role of core regional development institutions.

Since 2001 services of regional agencies have been used by about 50,000 users (about 30,000 of potential entrepreneurs and about 20,000 of existing small and medium-sized enterprises and shops), and with their assistance about 4,500 new businesses and approximately 9,000 new jobs have been registered.

With the view of analyzing the influence of regional agencies/centres for development of the SMEE sector, the Republic Development Bureau conducted a Survey on Core Activities and Problems in Agencies' Operations. The Survey comprised 11 agencies/centres⁶², and the results were grouped by areas: **1) Most significant activities of agencies/centres; 2) Operating problems of agencies/centres, and 3) Targets of expanding activities of agencies/centres.**

1) Most significant activities of agencies/centres:

- ***All agencies render the following services:***
 - **training** (management of small and medium-sized enterprises, book-keeping, innovation management, foreign languages, using computers and users' packages, project cycle management, strategic local economic development planning, team building, etc.).
 - participate in the **realization of regional projects in cooperation with domestic and foreign institutions** (designing strategies, analyses, and studies).
 - provide various information – by phone and e-mail.
- ***Nine agencies render services of:***
 - **mentoring** (assistance to beginners given by experienced and qualified advisers);
 - **expert assistance in establishing and developing new cooperation forms** (clusters, business incubators, etc.).
- ***Eight agencies render services of:***
 - **consulting** (providing specialist assistance in solving certain business problems).
 - **business plan designing** – especially start-up and assistance with obtaining micro-credit lines
- ***Seven agencies*** organize promotion activities when needed by their clients (support when appearing at fairs, designing company profile, making contacts with partners, organization of business meetings).
- Only ***four agencies*** deliver services of managing funds for regional projects.
- Only ***two agencies*** assist in promoting innovativeness.

2) Operating problems of agencies/centres

The RDB made the analysis of the Survey and on the basis of the average ranking value⁶³ major problems and constraints agencies/centres encounter have been highlighted:

1. **A lack of finances for the functioning of agencies** (average rank 2.78) – the largest problem stated in most of the collected reports (Kragujevac, Cacak, Uzice, N.Pazar), and in only (N.Sad) is not among the five greatest problems. A major problem is a lack of steady and stable revenues (in the first place from the budget of the Republic and local self-governments), undeveloped market and an insufficient number of SMEE that use business services of the Network. Assessment of surveyed agencies/centres is that the total funds earmarked for the co-

⁶² RC for SMEE Development Belgrade, RA for Economic Development of Sumadija and Pomoravlje Kragujevac; RC for SMEE Development Krusevac and Sub-centre Cacak; RC for Social and Economic Development Banat; RC for SMEE Development Timok Zajecar and Sub-centre Negotin; RA for SMEE Development ALMA MONS Novi Sad; Agency for Regional Development of Sandzak – SEDA; RC for SMEE Development Subotica; RC for SMEE Development Zlatibor Uzice; RA for Economic Development and Entrepreneurship Leskovac; RA for Economic Development and Entrepreneurship Vranje.

⁶³ The sum of ranks by problems pinpointed by agencies/ the number of agencies

financing of support services for SMME development in Serbia are insufficient and should be increased in accordance with programme targets and strategic objectives of SMEE development.

2. **Institutional constraints** (4.33), because of which regional agencies do not have the status that is adequate for their role and needs (as the greatest problem stated in Subotica).

3. **Inadequate cooperation with financial institutions** (4.56) – inadequate involvement in programmes of linking financial and non-financial support services, especially with granting state subsidies, micro-credits and budget stimulations for SMEE development. This problem was stated as the largest in Leskovac.

4. **Inadequate involvement in development project financed from domestic and international sources** (4.78) – as the largest problem stated in Vranje.

5. **Inadequate and improper vertical cooperation with senior republic institutions, chambers, etc.** (4.89).

6. Other, less significant problems are: **non-development of capacities** (5.67), **inadequate cooperation with local self-government** (6.00), **legal barriers** (6.33), and **a lack of demand for services due to inadequate promotion of entrepreneurship and agencies** (6.56).

Table 43: Performance problems of regional agencies for SMEE development

	Kragujevac	Vranje	Cacak	Novi Sad	Leskovac	Subotica	Zajecar	Uzice	Novi Pazar	Sum	Average rank	Total rank
Legal barriers	6	6	10	1	8	4	7	8	7	57	6.33	8
Institutional barriers	5	5	4	2	5	1	2	8	7	39	4.33	2
Insufficient and inadequate vertically cooperation with competent republic institutions, chambers	3	3	5	3	6	2	7	8	7	44	4.89	5
Inadequate cooperation with local autonomy	7	7	6	4	2	6	7	8	7	54	6.00	7
Insufficient cooperation with financial institutions (funds, banks, etc.)	4	4	7	6	1	3	7	2	7	41	4.56	3
Insufficient engagement in developing projects sponsored from:	2	1	7	5	7	9	2	3	7	43	4.78	4
Lack of demand for your services due to:	9	8	2	9	9	8	7	4	3	59	6.56	9
Lack of financial assets	1	2	1	8	4	5	2	1	1	25	2.78	1
Undeveloped capacities	8	9	3	7	3	7	7	5	2	51	5.67	6
Other	10	10	10	10	10	10	7	8	7	82	9.11	10
Sum of ranks	55	55	55	55	55	55	55	55	55	495	55	

3) Targets of expanding activities of agencies/centres

According to the Survey results, most regional agencies (7) have a prepared development plan – assessed directions of further development of the market of business services and defined development goals, and the analysis of ranks indicates the following activities:

1. **Consulting** (ranked first overall⁶⁴, an average rank 2.67) – most important in three reports (Cacak, Leskovac, Subotica), and in other reports is among the five best ranked opportunities.

2. **Services of business connecting** (3.22) – most important in two reports (Kragujevac, N.Sad), and in other reports is among the six best opportunities.

⁶⁴ The lowest average rank

Implementation of SME Development Policy

3. **Education of entrepreneurs and employees (4.61)** – as the largest opportunity stated in Zajecar.

4. **Services of promoting companies/shops and market research and analyses (5.22).**

5. Less important expansion directions are: **promotion of work (5.44), technological information, ICT support and technology transfer (5.83) and quality management and standardization (7.06).**

Table 44: Activity expansion trends of regional agencies for SMEE development

	Kragujevac	Vranje	Cacak	Novi Sad	Leskovac	Subotica	Zajecar	Uzice	Novi Pazar	Sum	Average rank	Total rank
Promotion of your operations	3	3	3	9	9	9	10	2	1	49	5.44	6
Services of enterprises/shops advertising	6.5	1.5	4	3	4	8	5	8	7	47	5.22	4.5
Services of connecting with business partners	1	6	5	1	5	3	3	3	2	29	3.22	2
Market research and analysis	4	4	6	2	6	6	8	5	6	47	5.22	4.5
Education of entrepreneurs and employees	5	7	2	4	3	2	1	8	9.5	41.5	4.61	3
Marketing support for new products	6.5	1.5	8.5	8	8	5	7	8	4	56.5	6.28	8
Consulting	2	5	1	5	1	1	2	4	3	24	2.67	1
Information on technology, ICT support and technology transfer	8	8	8.5	7	7	4	4	1	5	52.5	5.83	7
Quality management	9	9	8.5	6	2	7	6	8	8	63.5	7.06	9
Other	10	10	8.5	10	10	10	9	8	9.5	85	9.44	10
Sum of ranks	55	55	55	55	55	55	55	55	55	495	55.00	55

VI EXAMPLES OF GOOD PRACTICES

The analysis of examples of good practices is extremely significant for development of entrepreneurship at a micro level and it has been used as a method by all transition countries – application and adjustment of efficient practical solutions and results.

The development of a municipality and SMEE as an efficient source of economic growth, employment and harmonization of business networks of small economic entities, largely depends on the will and readiness of local agents to clearly define development objectives and instruments appropriate for specific potentials of the region and thus achieve set goals through a harmonized activity. Stimulation of development of SMEE at a local level understands activities of local authorities aimed at creating conditions that foster application of business ideas and facilitate foundation and growth of companies. Production and other infrastructure, business services, certain financial assets, continual work at attracting additional external resources (investment, staff) are elements which, when combined, provide optimal utilization of local resources.

Local self-governments are most efficient in the following fields:

- **Enhancement of business environment,**
- **Cooperation of local self-government with partners that participate in local development,**
- **Development of cooperation between the public and the private sector,**
- **Support to development of self-employment and SMEE,**
- **Cooperation of local self-government with donors.**

An increasing number of towns and municipalities in Serbia launch initiatives in the field of local economic development, especially in building up a more favourable environment for doing business of SMEE and providing some sorts of support to their development. **As examples of good practice local self-governments have been chosen (*Sombor, Zrenjanin, Lazarevac, Medvedja and City of Kragujevac*)**, which with their efficient interventions created conditions for development of SMEE and which, owing to that, managed to improve their development degree and accelerate the rate of founding new small economic entities⁶⁵ and ***Regional Economic Chamber ‘Valjevo’***, an institution that owing to its active approach fosters more favourable climate for development of the SMEE sector in the Kolubara and Macva District.

Various social and economic conditions and heterogeneousness of development problems on the one hand, and applied methods of fostering the development of the SMEE sector on the other, are main criteria for selecting examples of good practices. The analysis comprises examples of a traditionally industrial area (*Kragujevac*) and local self-government with mono-industrial structure (*Lazarevac*), which face long-term unemployment, poverty, and social exclusion; *Zrenjanin* – once a developed centre now facing technological obsolescence and non-competitiveness; an extremely undeveloped rural municipality *Medvedja* that is not linked to main roads and faces a shortage of main services, population ageing, poverty health care problems, a low education level and inability to launch modern market-oriented agricultural production; *Sombor* – a developed, close-to-the-border municipality that faces challenges related to EU expansion (immediate neighbourhood), with opportunities to use pre-accession funds for building up internal capacities of close-to-the-border areas, which altogether improves cooperation between inhabitants on both sides of the border and creates an opportunity for development and employment.

⁶⁵ Medvedja is the exception, where the privatization and economic restructuring processes are in their initial phases, but activities of local authorities aiming to initiate local development are significant.

Municipality of Sombor



		Change 2004-2006
Number of inhabitants (2002)	97,263	
Territory (km ²)	1,178	
Number of employees	23,760	-269
Number of unemployed	12,377	-985
Level of development (RS=100)	108.7	4.7
Number of enterprises	663	6
Number of small enterprises	627	12
Number of medium enterprises	28	-1
Number of shops	2,142	23

Activities of local self-government aimed at entrepreneurship development:

- Equipping of Industrial Zone ‘South III’ (400ha) started, with all connections and permits for various business purposes (over 50m dinars from the Budget of the Sombor Municipality invested, 136m dinars from the NIP planned).
- Decreased charges for advertising an SME with small business premises.
- A Pricelist on long-term leasing of building sites was adopted, by criteria for the realization of subsidized leasing prices.
- A Micro-credit line of the Sombor Municipality was launched (in 2005 – 6m dinars for 30 SME; in 2006 – 15m dinars for 100 SME).

Most significant projects in the Municipality:

- The Municipality of Sombor at the first competition for *Cross-border cooperation program HU-SCG* was approved 6 projects, to the amount of over EUR 600,000:
 - Project *‘Bicycle Path – Phase I’*,
 - Project *‘Culture and Nature for a Better Quality of Life’*,
 - Project *‘Strengthening Foreign Direct Investments in West-Backa Region’*,
 - Project *‘Regional Agency Capacity Building Project’* that comprises programmes:
 - ‘Support to new start – up companies’,
 - ‘Promotion of Competitiveness and Efficiency of Existing SMEE’, as well as
 - ‘Promotion of Services for the SMEE Sector.
- The realization of the project *‘Hungarian-Serbian Cross-border Waste Management Programme’* is underway.

Positive effects

- Increased level of development of the municipality in relation to the Republic average.
- Unemployment reduced by 985 persons.
- Growth of entrepreneurship activity – since 2005 on the territory of the municipality 232 companies and 901 shops have been set up.
- Built-up capacities of local self-government for making use of the so-called EU pre-accession funds in developing cross-border cooperation with Hungary and Croatia in non-profit and SMEE sectors.

Municipality of Zrenjanin

Number of inhabitants (2002)	132,051	Change 2004-2006
Territory (km ²)	1,326	
Number of employees	31,725	-1356
Number of unemployed	19,134	359
Level of development (RS=100)	109.8	1.1
Number of enterprises	829	5
Number of small enterprises	779	18
Number of medium enterprises	35	-13
Number of shops	3,243	167



Activities of local self-government aimed at entrepreneurship development:

- Infrastructural equipping of industrial zones *Bagljas (35ha)*, *RTC Port (120ha)*, *South (120ha)* and *BEK (3ha)* started, as well as of *Free Trade Zone Zrenjanin* (2.7m euros planned from the NIP funds for equipping the industrial zone ‘South’), along with providing infrastructural connections at favourable conditions (lower prices and long repayment terms).
- Simplified administrative procedures: shortened time for obtaining all necessary permits to 42 hours; a service centre formed where all required documents can be obtained; a facilitated procedure for land registration.
- Promoted work of inspection bodies (communal and inspection protection of environment) under municipality competence.
- Decreased local charges.
- Involvement of local economy in public procurement for the need of local administration.
- Budget funds in 2006 co-financed long-term credits for SMEE (15m dinars) and for development programmes in agriculture (20m dinars).

Most significant projects in the Municipality:

Projects within the national and EU funds, and funds of the EU member states:

- *‘Promotion of Communication Citizen – Local Self-government in the Municipality’;*
- *‘Introducing Quality System ISO 9001 in PCC Cistoca and Zelenilo Zrenjanin’;*
- *‘Poly-functional Industrial Zone’;*
- Project *‘Expo–Agro Banat’;*
- Project *‘Vojvodina’s Transition Centre’ – Support to the Company ‘Udarnik’;*
- *ADF/CRDA* project organizes an annual municipality credit fair, with the view of better information dissemination on existing credit funds for small and medium enterprises.

Positive effects

- **The first business incubator in Vojvodina** was established (NIP-EUR 63,000, IVAP Vojvodine, international institutions - GTZ, ENTRANSE and OEBS). The Municipality of Zrenjanin provided a business space of 410 m².
- **The Regional Centre for Social and Economic Development ‘Banat’** was formed.
- The level of municipal development in relation to the Republic average rose.
- The growth of entrepreneurial activity – since 2005 on the territory of the municipality 360 new companies and 1,448 new shops have been set up.

City Municipality of Lazarevac

Number of inhabitants (2002)	58,511	Change 2004-2006
Territory (km ²)	384	
Number of employees	22,043	-531
Number of unemployed	5,783	-334
Level of development (RS=100)	168.3	3.1
Number of enterprises	251	-28
Number of small enterprises	240	-29
Number of medium enterprises	5	0
Number of shops	1,399	17



Activities of local self-government aimed at entrepreneurship development:

- **Local Economy Development Study of the Municipality of Lazarevac** adopted - measures envisaged to alter the economic structure, which are stimulating for doing business and development of the SMEE sector.
- Local development institutions founded:
 - **A transition centre of the RB 'Kolubara'**, with the view of facilitating implementation of social programmes under the restructuring process;
 - **Entrepreneurship Support Office in Lazarevac** – RC for development of SMEE 'Belgrade'
 - **Municipal Service Centre** – required documents obtained at one place (one-stop shop);
 - The work of municipal inspection bodies promoted.

Most significant projects in the Municipality:

- Projects assisted by donors (EU, Italy, Norway):
 - **Virtual Company** set up;
 - *'Youth Entrepreneurship'* within Business Innovation Programs, in the Technical School 'Kolubara';
 - *'IMPACT'* – promotion of investment potentials of the municipality of Lazarevac;
 - support to forming clusters in agriculture;
 - support to development of female entrepreneurship;
 - promotion of Lazarevac entrepreneurs (international fairs, media, website).
- Preparing of the following projects is underway:
 - *'Lazarevac – One Step to Job, One Step in Job – II Phase'* – financed by the City of Belgrade,
 - *'Art Crafts to Develop Entrepreneurship and Tourism in Belgrade'*, the programme *SEENET-PONTE* (MIA of Italy and several regions in Italy).

Positive effects

- The level of municipal development in relation to the Republic average rose.
- Unemployment in the municipality reduced by 334 persons.
- Growth of entrepreneurship activity – since 2005 on the territory of the municipality 197 new companies and 738 shops have been set up.
- Partnership between local self-government and local development agents (**RB 'Kolubara' and Regional centre for SMEE Development 'Belgrade'**), to build up capacities for local development management.

City of Kragujevac

		Change 2004-2006
Number of inhabitants (2002)	180,872	
Territory (km ²)	835	
Number of employees	49,015	-7550
Number of unemployed	24,985	-1175
Level of development (RS=100)	95.5	7.1
Number of enterprises	1,112	32
Number of small enterprises	1,057	22
Number of medium enterprises	35	7
Number of shops	5,046	467



Activities of local self-government aimed at entrepreneurship development:

- **Strategy for Local Economic Development until 2011** adopted.
- Infrastructural equipping of locations appealing to investors started: Work Zone ‘Service 2’; ‘Highway Kragujevac-Batocina’; ‘Petrovac’ (10.5ha); ‘Dena’s Hill’ (14ha); ‘Bubanj Lake’ and ‘Sumarice Lake’ – tourist and sport-recreation centre; ‘Highway – Lepenica’ (about 200ha); ‘Meta’s Hill’ (40ha); ‘Grosnica – Ortoteks’ (8.5ha); ‘Horticulture’ (10.6ha); ‘Corner of Sukina and Highway’ (10ha); ‘Rakalj’ – commodity and transport terminal (24.8ha); ‘Passenger Terminal’ (20ha).
- Incentives defined for leasing land intended for the construction of business buildings: reduced auctioned lease sum depending on the number of employees and reduction of the charge for arranging the land for production facilities and export-oriented production.
- **Setting up of the Regional Guarantee Fund** is underway (founders the City of Kragujevac, 12 municipalities of the district, Regional Agency and Italian Government, with the total fund of EUR 1.3m).
- **Regional Development Agency for Sumadija and Pomoravlje** established, as the first regional agency in Serbia, evolving from the Agency for Support to SMEE.

Most significant projects in the Municipality:

- Projects financed from the national and the EU funds and funds of the EU member countries: **‘Non-financial Support to SMEE and Development of Institutional Capacities for Local Planning’** (EU); Training of the unemployed and self-employment programme; creation of a database of enterprises, maps of resources, information on conditions for external trading (UNOPS); training of managers (OSCE); Development Aid of South Morava Region from Czech Republic; **HELP Service Centre**;
- **Cluster of Furniture Producers** (EU) and **Cluster of Florist’s Shops** formed – Ministry of Economy.
- Self-employment programme (USD 827,000 – USAID and AC of Kragujevac), 288 companies registered and 430 new jobs opened in 2006 and 2007.

Positive effects

- The level of municipal development in relation to the Republic average rose.
- Unemployment in the municipality reduced by 1,175 persons.
- Growth of entrepreneurship activity – since 2005 on the territory of the municipality 449 new companies and 2,743 shops have been set up.
- **Business Innovative Centre** formed (EUR 2.4m) – City budget, NIP, MEGA project and ATA/SPARK.
- First fair hall built up (City budget, EAR and USAID).
- **Detailed Regulation Plan for Science and Technological Park** prepared.

Municipality of Medvedja

		Change
Number of inhabitants (2002)	10,760	
Territory (km ²)	524	2004-2006
Number of employees	1,327	-334
Number of unemployed	1,725	649
Level of development (RS=100)	40.2	-1.8
Number of enterprises	15	0
Number of small enterprises	14	-1
Number of medium enterprises	1	1
Number of shops	160	-36



Due to a low development level, the municipality has a first rank status when it comes to granting stimulating funds. During the period 2001-2006 EUR 3m was directed into municipal development (Republic Fund for Development) and EUR 795,000 (donors).

Activities of local self-government aimed at entrepreneurship development:

- **Strategic Plan for Development of the Municipality of Medvedja 2007-2011** adopted.
- **Local SMEE Development Office** formed in Medvedja (as part of the Regional Agency for Economic Development and Entrepreneurship of the Jablanica District, with support of the ILO and funds of the Government of The Netherlands).

Most significant projects in the Municipality:

- The following projects were realized:
 - ***'Support to Local Sustainable Development in Serbia through Business Incubation'*** (Government of Germany, co-financed by the Municipality – 60 users registered their shops or agriculture estates and each received EUR 1,200 as an aid to starting a business);
 - ***'Undiscovered Roads of the South'*** (EU);
 - ***'Enforcing Economic Security Programme' 'SCOPES'*** – USAID (25 users employed, 5 entrepreneurs received a donation of USD 5,000 each to starting a business);
- Setting up of a **'Business Incubator Centre – Medvedja'** is underway, financed from the NIP funds and City budget funds – the programme provides support to 11 start-ups and creation of 45 new jobs.

Positive effects

- Declining of the development level of the municipality in relation to the Republic average stopped.
- Several roads leading to many villages in the municipality of Medvedja asphalted.
- Municipal administration and a local office for SMEE development in Medvedja built up capacities to liaise with a wider community and international organizations, as well as for efficient making use of development aid.
- Since 2005 on the territory of the municipality 6 new companies and 65 new shops have been set up.

Regional Chamber of Commerce Valjevo

Regional Chamber of Commerce Valjevo operates on the territory of the Kolubara and Macva District (municipalities: **Sabac, Bogatic, Vladimirci, Koceljeva, Valjevo, Lajkovac, Ljig, Ub, Osecina, Mionica and Loznica, Mali Zvornik, Krupanj and Ljubovija**). By carrying out its core activities, the Chamber is an active participant in the design and implementation of the development strategy, development policy of the region and various projects.



Most significant activities aimed at entrepreneurship development:

- **'Basic Principles of the Strategy for Regional Economic Development'** adopted
- SME chamber renders the following services:
 - Consulting services;
 - Business information;
 - Linking with programmes of financial and non-financial support;
 - Preparing publications;
 - Business connecting;
 - Education.
- Participation in the implementation of the *Linking with Programmes of Financial and Non-financial Support* (**TAM, TAM BAS, CESO, USAID-IRD, PUM, IFC, SIPPO, PSOM I PESP, MIGA-SIPP, PLATO, INTEGRA PARTNER** etc.), which provide experts' assistance in fields of company organization, marketing, technology, finances, human resource management, introduction of the quality management system, ISO standards, and NASSR.
- Preparing regular publications on financing sources and conditions (commercial banks, Fund for Development of the Republic of Serbia, SIEPA, National Employment Service), as well as aid with connecting with sources of financing;
- The project of permanent representation of the economy in the region 'Kolubara-Macva-Podrinje' – organization of district fairs (PRIMA – Sabac, SPREG – Valjevo, Plum Fair – Treasure of Serbia – Osecina), joint performance at fairs in the country and abroad (primarily of the SMEE sector), with minimum costs and making use of donor funds;
- Within inter-chamber cooperation, RPK Valjevo organized numerous meetings of businessmen from the country and other countries: ex-SFRY republics, Greece, Russian Federation, Bulgaria, Germany and Italy;
- In the field of stimulating local and regional development it participates in the realization of trainings in SME operating in cooperation with: GTZ, Hans Zeidel Foundation, Ministry of Foreign Affairs of Germany, ILTIS and INWENT, USAID-CRDA-IRD Programme, CARDS – Euro-chambers, IFC, EAR-TDI (Ireland), CBI (The Netherlands), SECO (Switzerland), Stability Pact of Southeast Europe, FON, SIEPA, republic Agency for SMEE and Regional Centre for SME Belgrade, Integra Prtner, Bonex Inzenjering.
- Cooperation established with all institutions that provide support to the SME sector on the republic, regional and local level;
- Regional Centre for Development of SMEE established in Sabac, after the initiative and with active engagement of the RPK and Prefect.

List of tables

<i>Table name</i>	<i>Table No</i>	<i>Page</i>
Basic indicators of economic trends (growth rates, %)	1.	2
Total number of employed persons 2005-2006	2.	5
Structure of Gross Value Added, 2001-2006	3.	8
GDP growth rates of new EU members and candidate countries	4.	9
External trade indicators in 2006	5.	11
Share of investments in fixed assets in GDP, %	6.	12
Sector structure of total investments, in %	7.	13
Business Indicators 2008	8.	17
Index of SMEE Development	9.	17
SMEE development level	10.	19
Structure of economy of Serbia in 2006	11.	20
Enterprises of economy of Serbia in 2004-2006	12.	21
Structure of enterprises in economy of Serbia in 2006, by organization type	13.	22
Change in the number of enterprises in 2004-2006	14.	22
Number of employees of economy in Serbia in 2004-2006	15.	23
Structure of employment in economy of Serbia in 2006, by organization type	16.	23
Change in the number of employees in 2004-2006	17.	23
Total turnover in economy of Serbia in 2004-2006	18.	25
Structure of total turnover in economy of Serbia in 2006, by organization type	19.	25
Rates of increase/decrease in SMEE turnover 2004-2006	20.	26
Indicators of productivity by an enterprise size 2004-2006	21.	26
Regional breakdown of total turnover in SMEE of Serbia in 2006	22.	28
GVA of economy of Serbia in 2004-2006	23.	29
Structure of GVA in economy of Serbia in 2006, by organization type	24.	29
Growth rates GVA of SMEE in 2004-2006	25.	30
Generated indicators of GVA in 2004-2006	26.	30
External trade of SME in Manufacturing in 2006-technological level-	27.	35
Export by an enterprise size in 2005 and 2006	28.	35
Import by an enterprise size in 2005 and 2006	29.	38
External trade balance in 2005 and 2006, by an enterprise size	30.	40
The structure of Business Competitiveness Index	31.	46
BCI ranking of Serbia and reference countries	32.	47
Productivity of sector activities by size of enterprise, in the period 2005-2006	33.	49
Labour costs per hour of the economy and the SME sector	34.	50
Indices of labour costs per hour within sector activities	35.	52
Labour costs per employee (thousands of euros)	36.	53
The use of information and communication technology according to size of enterprise in %	37.	54
Internet use according to size of enterprise in %	38.	56
Rankings of most frequent legal barriers	39.	66
Performance results of entrepreneurial service of the Republic Agency for Development of SMEE and Republic Network in 2006	40.	69
Breakdown of start-up credits – by age groups	41.	71
Rankings of responses by degree of need for non-financial services	42.	74
Performance problems of regional agencies for SMEE development	43.	79
Activity expansion trends of regional agencies for SMEE development	44.	80

List of charts

<i>Chart name</i>	<i>Chart No</i>	<i>Page</i>
Rise/ fall in population of the Republic of Serbia, 1948-2002	1.	3
Average annual population growth rates of neighbouring countries, 1991-2002	2.	4
Employment	3.	5
Employment rate in 2006	4.	6
Unemployment rate in 2006	5.	7
Growth rates of GDP and sector on Serbia, 2001-2006	6.	8

Exterenal trade activity of Serbian economy in 2005 and 2006	7.	10
External trade, turnover of goods in 2006	8.	11
Foreign Direct Investments, millions of USD	9.	14
Business indicator, ranking	10.	16
Index of SMEE Development of countries in transition in 2003(US\$/capita)	11.	18
GDP per capita and Index of SMEE Development of Serbia	12.	18
Section breakdown of SMEE by sections in 2006	13.	22
Regional breakdown of SMEE in 2006	14.	22
Section structure of SMEE employment (SMEE=100)	15.	24
Regional structure of SMEE employment in 2006 (SMEE=100)	16.	24
District with the largest share of employees in SMEE in 2006 (district employment=100)	17.	24
Structure of turnover of SMEE Wholesale and retail trade	18.	27
Structure of turnover of SMEE Manufacturing	19.	27
Structure of turnover of SMEE Subsections of Manufacturing	20.	27
GVA structure of SMEE in Manufacturing by subsections	21.	31
Regional breakdown of GVA per employee (deviation from the average of the Republic Serbia)	22.	32
Ratio of turnover and GVA per employee in SMEE sector - regional breakdown (average of Serbia = 100)	23.	32
External trade of SME in 2005 and 2006	24.	33
Structure of export by technological structure of Manufacturing in 2006	25.	34
Structure of import by technological structure of Manufacturing in 2006	26.	34
Structure of export of SME in Manufacturing in 2006	27.	36
Regional breakdown of export of Serbia in 2006	28.	37
Regional breakdown of SME export in 2006	29.	37
Structure of import of SME in Manufacturing in 2006	30.	39
Regional breakdown of import of Serbia in 2006	31.	39
Regional breakdown of SME import in 2006	32.	39
Structure of external trade balance of SME in Manufacturing in 2006	33.	40
Index of comparative advantage in Manufacturing in 2006 (in %)	34.	41
Regional coverage of import by export (in %)	35.	41
Structure of profit in economy of Serbia by an enterprise size	36.	42
Structure of profit in economy of Serbia by an organization type	37.	42
Profitability rate by an enterprise size	38.	43
Profitability rates of SME in 2006	39.	43
The Most Problematic Factors for Doing Business in 2006	40.	47
Index of productivity level in Serbia (by size of enterprises)	41.	48
Index of productivity level of SME sector (by organization type)	42.	48
Index of labour productivity levels by economic sections	43.	49
Labour costs in Serbia (by size of enterprise)	44.	50
Index of labour cost levels per employee in Serbia (by size of enterprise)	45.	50
Structure of labour costs of SME sector (by organization type)	46.	51
Indexes of labour cost levels per employee of SME (by organization type)	47.	51
Labour costs by economic sections	48.	52
Indexes of labour cost levels per employee within economic section	49.	52
Computer usage by an enterprise size	50.	54
Internet usage by an enterprise size	51.	55
Product innovation, 2002-2004	52.	58
Process innovation, 2002-2004	53.	58
Wider innovation, by size of the enterprises, 2002-2004	54.	59
Patents, 2002-2004	55.	59
Education levels in non-innovation active firms, 2004.	56.	61
Science and Engineering (% of 20-29 year age class), 2004	57.	62
Major operation problems	58.	65
Major operation problems by SMEE size	59.	66

ANNEX

Table 1: Main demographic indicators and employment in 2006

	Total number of inhabitants (in thousands)	Comparison with EU-27 population	Total number of employees	Share of employees in total number of inhabitants
EU - 27	493,729	100.0	215,228	43.6
Euro-zone - 13	316,857	64.2	140,229	44.3
Belgium	10,495	2.1	4,250	40.5
Czech Republic	10,244	2.1	5,050	49.3
Denmark	5,424	1.1	2,816	51.9
Germany	82,456	16.7	39,106	47.4
Estonia	1,343	0.3	624	46.5
Greece	11,116	2.3	4,091	36.8
Spain	43,911	8.9	19,848	45.2
France	63,047	12.8	25,227	40.0
Ireland	4,238	0.9	2,042	48.2
Italy	58,655	11.9	24,754	42.2
Latvia	2,293	0.5	1,050	45.8
Lithuania	3,407	0.7	1,474	43.3
Luxembourg	459	0.1	319	69.5
Hungary	10,063	2.0	3,879	38.5
Malta	408	0.1	154	37.7
The Netherlands	16,327	3.3	8,306	50.9
Austria	8,267	1.7	3,883	47.0
Poland	38,123	7.7	14,577	38.2
Portugal	10,628	2.2	5,047	47.5
Slovenia	2,004	0.4	924	46.1
Slovakia	5,392	1.1	2,139	39.7
Finland	5,254	1.1	2,432	46.3
Sweden	9,066	1.8	4,406	48.6
United Kingdom	60,441	12.2	28,960	47.9
Bulgaria	7,717	1.6	3,276	42.5
Croatia	4,443	0.9	1,586	35.7
Romania	22,178	4.5	9,147	41.2
Norway	4,650	0.9	2,419	52.0
Republic of Serbia	7,441	1.5	2,630	35.3

Sources: UNECE Statistical Division Database, compiled from national and international (CIS, EUROSTAT, IMF, OECD) official sources: RSO and RDB

Table 2: Employment rate

	Total			Women			Men		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
EU-27	62.9	63.4	64.3	55.4	56.0	57.1	70.3	70.8	71.6
EU-25	63.3	63.8	64.7	55.7	56.3	57.3	70.9	71.3	72.0
EU-15	64.7	65.2	66.0	56.8	57.4	58.4	72.7	72.9	73.5
Euro-zone-13	63.0	63.6	64.5	54.5	55.3	56.5	71.5	71.8	72.6
Belgium	60.3	61.1	61.0	52.6	53.8	54.0	67.9	68.3	67.9
Czech Republic	64.2	64.8	65.3	56.0	56.3	56.8	72.3	73.3	73.7
Denmark	75.7	75.9	77.4	71.6	71.9	73.4	79.7	79.8	81.2
Germany	65.0	65.4	67.2	59.2	59.6	61.5	70.8	71.3	72.8
Estonia	63.0	64.4	68.1	60.0	62.1	65.3	66.4	67.0	71.0
Greece	59.4	60.1	61.0	45.2	46.1	47.4	73.7	74.2	74.6
Spain	61.1	63.3	64.8	48.3	51.2	53.2	73.8	75.2	76.1
France	63.1	63.1	63.0	57.4	57.6	57.7	68.9	68.8	68.5
Ireland	66.3	67.6	68.6	56.5	58.3	59.3	75.9	76.9	77.7
Italy	57.6	57.6	58.4	45.2	45.3	46.3	70.1	69.9	70.5
Cyprus	68.9	68.5	69.6	58.7	58.4	60.3	79.8	79.2	79.4
Latvia	62.3	63.3	66.3	58.5	59.3	62.4	66.4	67.6	70.4
Lithuania	61.2	62.6	63.6	57.8	59.4	61.0	64.7	66.1	66.3
Luxembourg	62.5	63.6	63.6	51.9	53.7	54.6	72.8	73.3	72.6
Hungary	56.8	56.9	57.3	50.7	51.0	51.1	63.1	63.1	63.8
Malta	54.0	53.9	54.8	32.7	33.7	34.9	75.1	73.8	74.5
The Netherlands	73.1	73.2	74.3	65.8	66.4	67.7	80.2	79.9	80.9
Austria	67.8	68.6	70.2	60.7	62.0	63.5	74.9	75.4	76.9
Poland	51.7	52.8	54.5	46.2	46.8	48.2	57.2	58.9	60.9
Portugal	67.8	67.5	67.9	61.7	61.7	62.0	74.2	73.4	73.9
Slovenia	65.3	66.0	66.6	60.5	61.3	61.8	70.0	70.4	71.1
Slovakia	57.0	57.7	59.4	50.9	50.9	51.9	63.2	64.6	67.0
Finland	67.6	68.4	69.3	65.6	66.5	67.3	69.7	70.3	71.4
Sweden	72.1	72.3	73.1	70.5	70.4	70.7	73.6	74.4	75.5
United Kingdom	71.6	71.7	71.5	65.6	65.9	65.8	77.8	77.6	77.3
Bulgaria	54.2	55.8	58.6	50.6	51.7	54.6	57.9	60.0	62.8
Croatia	54.9	55.0	-	47.8	48.6	-	61.8	61.7	-
Romania	57.7	57.6	58.8	52.1	51.5	53.0	63.4	63.7	64.6
Turkey	46.1	46.0	45.9	24.3	23.8	23.9	67.8	68.2	68.1
Iceland	82.3	83.8	-	78.8	80.5	-	85.8	86.9	-
Norway	75.1	74.8	75.4	72.2	71.7	72.2	77.9	77.8	78.4
Serbia	53.4	51.0	49.9	44.0	40.8	40.6	63.1	61.2	59.2

Source: Eurostat (data from Labor Force Survey). for Serbia RDB and RSO

Table 3: Unemployment rate

	<i>Total</i>			<i>Women</i>			<i>Men</i>		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
EU-27	9.1	8.7	7.9	10.1	9.7	8.8	8.2	7.9	7.1
EU-25	9.1	8.7	7.9	10.3	9.8	8.9	8.1	7.9	7.0
EU-15	8.1	7.9	7.3	9.3	8.9	8.4	7.2	7.0	6.5
Euro-zone-13	8.8	8.6	7.8	10.5	10.0	9.2	7.6	7.4	6.7
Belgium	8.4	8.4	8.3	9.5	9.6	9.2	7.5	7.6	7.5
Czech Republic	8.3	7.9	7.2	9.9	9.8	9.0	7.1	6.5	5.8
Denmark	5.5	4.9	3.9	6.0	5.5	4.5	5.1	4.4	3.3
Germany	9.5	9.5	8.4	10.5	10.3	9.1	8.7	8.8	7.7
Estonia	9.7	7.8	5.6	8.9	7.0	5.4	10.4	8.8	5.7
Greece	10.5	10.0	-	16.2	15.5	-	6.6	6.2	-
Spain	11.0	9.2	8.6	14.3	12.2	11.6	8.1	7.1	6.4
France	9.6	9.5	9.0	10.6	10.6	10.0	8.7	8.8	8.2
Ireland	4.5	4.3	4.4	4.1	4.0	4.1	4.9	4.6	4.6
Italy	8.0	7.6	-	10.5	9.8	-	6.4	6.1	-
Latvia	10.4	8.9	6.8	10.2	8.7	6.2	10.6	9.1	7.4
Lithuania	11.4	8.3	5.9	11.8	8.3	5.6	11.0	8.2	6.2
Luxembourg	5.1	4.5	4.8	7.1	5.8	6.4	3.7	3.5	3.6
Hungary	6.1	7.2	7.5	6.1	7.4	7.8	6.1	7.0	7.2
Malta	7.4	7.3	7.4	9.0	9.8	9.2	6.6	6.5	6.5
The Netherlands	4.6	4.7	3.9	4.8	5.1	4.4	4.3	4.4	3.5
Austria	4.8	5.2	4.8	5.3	5.5	5.2	4.4	4.9	4.4
Poland	19.0	17.7	14.0	19.9	19.1	15.1	18.2	16.6	13.1
Portugal	6.7	7.6	7.7	7.6	8.7	9.0	5.9	6.7	6.5
Slovenia	6.3	6.5	6.0	6.8	7.0	7.2	5.8	6.1	5.0
Slovakia	18.2	16.3	13.3	19.2	17.2	14.7	17.4	15.5	12.3
Finland	8.8	8.4	7.7	8.9	8.6	8.1	8.7	8.2	7.4
Sweden	6.3	7.5	7.1	6.1	7.4	7.3	6.5	7.5	6.9
United Kingdom	4.7	4.8	5.3	4.2	4.3	4.9	5.0	5.1	5.7
Bulgaria	12.0	10.1	8.9	11.5	9.8	9.3	12.5	10.3	8.6
Croatia	13.6	12.6	-	15.6	13.8	-	12.0	11.6	-
Romania	8.1	7.2	7.4	6.9	6.4	6.3	9.1	7.8	8.3
Norway	4.4	4.6	3.5	4.0	4.4	3.4	4.8	4.8	3.6
Serbia	18.5	20.8	20.9	22.9	26.2	24.7	15.1	16.8	17.9

Source: Eurostat (data from Labor Force Survey). for Serbia RDB and RSO

Table 4: Long-term unemployment rate

	Total			Women			Men		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
EU-27	4.2	4.0	3.6	4.7	4.7	4.0	3.7	3.6	3.3
EU-25	4.1	3.9	3.6	4.7	4.5	4.0	3.6	3.5	3.2
EU-15	3.4	3.3	3.1	4.0	3.7	3.5	3.0	2.9	2.8
Euro-zone-13	4.0	3.8	3.6	4.9	4.5	4.2	3.4	3.3	3.1
Belgium	4.1	4.4	4.2	4.7	5.0	4.9	3.7	3.8	3.7
Czech Republic	4.2	4.2	3.9	5.3	5.3	4.9	3.4	3.4	3.1
Denmark	1.2	1.1	0.8	1.3	1.2	0.9	1.1	1.1	0.7
Germany	5.4	5.0	4.7	6.0	5.4	5.2	4.8	4.7	4.4
Estonia	5.0	4.2	2.8	4.4	4.2	2.6	5.6	4.2	3.1
Greece	5.6	5.1	4.8	9.4	8.9	8.0	3.0	2.6	2.6
Spain	3.4	2.2	1.9	5.0	3.4	2.8	2.2	1.4	1.2
France	3.9	4.0	4.0	4.3	4.5	4.3	3.5	3.5	3.7
Ireland	1.6	1.5	1.4	1.0	0.8	0.9	2.0	1.9	1.8
Italy	4.0	3.9	3.4	5.5	5.2	4.5	2.9	2.9	2.6
Latvia	4.6	4.2	2.5	4.3	3.7	1.9	4.8	4.4	3.1
Lithuania	5.8	4.3	2.5	6.2	4.5	2.4	5.5	4.2	2.5
Luxembourg	1.1	1.2	1.4	1.4	1.2	1.6	0.8	1.2	1.2
Hungary	2.7	3.2	3.4	2.6	3.2	3.4	2.8	3.3	3.3
Malta	3.4	3.4	2.9	3.0	3.2	2.6	3.7	3.4	3.1
The Netherlands	1.6	1.9	1.7	1.6	1.9	1.8	1.5	1.9	1.6
Austria	1.3	1.3	1.3	1.4	1.4	1.3	1.3	1.2	1.3
Poland	10.3	10.2	7.8	11.0	11.4	8.6	9.6	9.3	7.1
Portugal	2.9	3.7	3.8	3.4	4.2	4.4	2.6	3.2	3.3
Slovenia	3.2	3.1	2.9	3.4	3.3	3.5	3.1	2.9	2.4
Slovakia	11.8	11.7	10.2	12.4	12.3	11.2	11.3	11.2	9.4
Finland	2.1	2.2	1.9	2.0	1.9	1.8	2.3	2.4	2.1
Sweden	1.2	1.2	1.1	1.0	1.0	0.9	1.4	1.4	1.2
United Kingdom	1.0	1.0	1.2	0.6	0.7	0.8	1.2	1.3	1.5
Bulgaria	7.2	6.0	5.0	7.0	6.0	5.2	7.3	6.1	4.8
Croatia	7.3	7.4	-	8.9	8.4	-	6.0	6.5	-
Romania	4.8	4.0	4.3	3.8	3.4	3.7	5.5	4.6	4.8
Iceland	0.3	0.3	-	0.4	0.3	-	0.2	0.3	-
Norway	0.8	0.9	0.8	0.6	0.8	0.7	1.0	0.9	0.9
Serbia	14.3	16.5	16.8	18.0	20.9	20.8	11.4	13.2	13.7

Source: Eurostat (data from Labor Force Survey), for Serbia RDB and RSO

Table 5: SMEE sector in economy of Serbia in 2004-2006

		Micro	Small	Medium	SMEE
2004	Number	274,904	7,742	2,493	285,139
	% share in SMEE	96.4	2.7	0.9	100.0
2005	Number	266,213	8,030	2,452	276,695
	% share in SMEE	96.2	2.9	0.9	100.0
2006	Number	256,988	9,027	2,500	268,515
	% share in SMEE	95.7	3.4	0.9	100.0

Table 6: Change in the number of SMEE in 2004-2006

		Micro	Small	Medium	SMEE
2006-2005	Change in the number	-9,225	997	48	-8,180
	Growth rate	-3.5	12.4	2.0	-3.0
2005-2004	Change in the number	-8,691	288	-41	-8,444
	Growth rate	-3.2	3.7	-1.6	-3.0
2006-2004	Change in the number	-17,916	1,285	7	-16,624
	Growth rate	-8.3	16.6	0.3	-5.8

Table 7: Employment in the SMEE sector in 2004-2006

		Micro	Small	Medium	SMEE
2004	Number of employees	315,610	160,085	277,045	752,740
	% share in SMEE	41.9	21.3	36.8	100.0
2005	Number of employees	377,455	165,346	268,061	810,862
	% share in SMEE	46.5	20.4	33.1	100.0
2006	Number of employees	416,593	185,528	268,858	870,979
	% share in SMEE	47.8	21.3	30.9	100.0

Table 8: Change in the number of employees of SMEE in 2004-2006

		Micro	Small	Medium	SMEE
2006-2005	Change in the number	39,138	20,182	797	60,117
	Growth rate	10.4	12.2	0.3	7.4
2005-2004	Change in the number	61,845	5,261	-8,984	58,122
	Growth rate	19.6	3.3	-3.2	7.7
2006-2004	Change in the number	100,984	25,443	-8,187	118,240
	Growth rate	32.0	15.9	-3.0	15.7

Table 9: Total turnover of the SMEE sector 2004-2006

		Micro	Small	Medium	SMEE
2004	Turnover (RSDm)	1,470,698	549,224	476,879	2,496,801
	% share in SMEE	58.9	22.0	19.1	100.0
2005	Turnover (RSDm)	1,491,626	681,218	598,663	2,771,508
	% share in SMEE	53.8	24.6	21.6	100.0
2006	Turnover (RSDm)	1,878,233	939,564	770,750	3,588,548
	% share in SMEE	52.3	26.2	21.5	100.0

Table 10: Total turnover of Serbian economy by sections

Section	2004		2005		2006	
	SMEE	Large	SMEE	Large	SMEE	Large
Total*	2,496,801	1,165,449	2,771,255	1,462,868	3,588,548	1,728,751
Economy=100	68.2	31.8	65.5	34.5	67.5	32.5
Agriculture*	86,969	23,684	93,583	26,070	125,638	28,377
<i>Sector of economy=100</i>	<i>78.6</i>	<i>21.4</i>	<i>78.2</i>	<i>21.8</i>	<i>81.6</i>	<i>18.4</i>
Fishing*	1,337	147	1,453	220	2,328	
<i>Sector of economy=100</i>	<i>90.1</i>	<i>9.9</i>	<i>86.9</i>	<i>13.1</i>	<i>100.0</i>	<i>0.0</i>
Mining and quarrying*	4,807	214,700	5,525	275,334	8,125	290,167
<i>Sector of economy=100</i>	<i>2.2</i>	<i>97.8</i>	<i>2.0</i>	<i>98.0</i>	<i>2.7</i>	<i>97.3</i>
Manufacturing*	575,018	419,643	602,893	493,411	773,555	566,583
<i>Sector of economy=100</i>	<i>57.8</i>	<i>42.2</i>	<i>55.0</i>	<i>45.0</i>	<i>57.7</i>	<i>42.3</i>
Electricity, gas and water supply*	16,024	182,202	19,627	150,656	28,821	242,548
<i>Sector of economy=100</i>	<i>8.1</i>	<i>91.9</i>	<i>11.5</i>	<i>88.5</i>	<i>10.6</i>	<i>89.4</i>
Construction*	143,592	55,719	150,834	63,892	242,190	91,549
<i>Sector of economy=100</i>	<i>72.0</i>	<i>28.0</i>	<i>70.2</i>	<i>29.8</i>	<i>72.6</i>	<i>27.4</i>
Wholesale and retail trade; rep.*	1,314,061	132,193	1,480,450	256,977	1,866,678	272,484
<i>Sector of economy=100</i>	<i>90.9</i>	<i>9.1</i>	<i>85.2</i>	<i>14.8</i>	<i>87.3</i>	<i>12.7</i>
Hotels and restaurants*	45,046	4,872	49,674	7,206	76,497	6,976
<i>Sector of economy=100</i>	<i>90.2</i>	<i>9.8</i>	<i>87.3</i>	<i>12.7</i>	<i>91.6</i>	<i>8.4</i>
Transport, storage and comm.*	93,180	108,788	146,465	157,967	193,498	199,766
<i>Sector of economy=100</i>	<i>46.1</i>	<i>53.9</i>	<i>48.1</i>	<i>51.9</i>	<i>49.2</i>	<i>50.8</i>
Financial intermediation*	7,973		12,233		5,093	
<i>Sector of economy=100</i>	<i>100.0</i>	<i>0.0</i>	<i>100.0</i>	<i>0.0</i>	<i>100.0</i>	<i>0.0</i>
Real estate activities*	165,040	12,436	160,012	16,602	209,248	17,071
<i>Sector of economy=100</i>	<i>93.0</i>	<i>7.0</i>	<i>90.6</i>	<i>9.4</i>	<i>92.5</i>	<i>7.5</i>
Public adm. and soc. insurance*	39		32		50	
<i>Sector of economy=100</i>	<i>100.0</i>	<i>0.0</i>	<i>100.0</i>	<i>0.0</i>	<i>100.0</i>	<i>0.0</i>
Education*	4,153	3	4,386	5	4,823	4
<i>Sector of economy=100</i>	<i>99.9</i>	<i>0.1</i>	<i>99.9</i>	<i>0.1</i>	<i>99.9</i>	<i>0.1</i>
Health and social work*	9,574	567	10,733	610	11,084	735
<i>Sector of economy=100</i>	<i>94.4</i>	<i>5.6</i>	<i>94.6</i>	<i>5.4</i>	<i>93.8</i>	<i>6.2</i>
Other comm. soc. and pers. act.*	29,988	10,496	33,358	13,918	40,740	12,491
<i>Sector of economy=100</i>	<i>74.1</i>	<i>25.9</i>	<i>70.6</i>	<i>29.4</i>	<i>76.5</i>	<i>23.5</i>

* in RSDm

Table 11: Total turnover in Manufacturing of SMEE of Serbia

Section	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Manufacturing*	257,563	137,254	180,201	225,037	159,605	218,251	268,209	213,610	291,737
<i>Manuf. SMEE =100</i>	<i>44.8</i>	<i>23.9</i>	<i>31.3</i>	<i>37.3</i>	<i>26.5</i>	<i>36.2</i>	<i>34.7</i>	<i>27.6</i>	<i>37.7</i>
Man. of food prod. beverages and tobacco*	99,211	24,269	61,541	58,648	30,281	74,248	73,682	41,209	95,753
<i>Subsector SME=100</i>	<i>53.6</i>	<i>13.1</i>	<i>33.3</i>	<i>35.9</i>	<i>18.6</i>	<i>45.5</i>	<i>35.0</i>	<i>19.6</i>	<i>45.5</i>
Man. of textiles and tex. prod.*	12,017	4,999	6,955	18,927	6,893	7,628	20,134	9,540	11,208
<i>Subsector SME=100</i>	<i>50.1</i>	<i>20.9</i>	<i>29.0</i>	<i>56.5</i>	<i>20.6</i>	<i>22.8</i>	<i>49.2</i>	<i>23.3</i>	<i>27.4</i>
Man. of leather and leather prod.*	2,691	886	3,181	2,687	1,242	3,266	3,613	1,714	3,416
<i>Subsector SME=100</i>	<i>39.8</i>	<i>13.1</i>	<i>47.1</i>	<i>37.3</i>	<i>17.3</i>	<i>45.4</i>	<i>41.4</i>	<i>19.6</i>	<i>39.1</i>
Man. of wood and wood prod.*	14,819	7,342	3,098	16,162	7,160	4,529	17,278	9,390	4,472
<i>Subsector SME=100</i>	<i>58.6</i>	<i>29.1</i>	<i>12.3</i>	<i>58.0</i>	<i>25.7</i>	<i>16.3</i>	<i>55.5</i>	<i>30.2</i>	<i>14.4</i>
Man. of paper, publishing and print.*	20,218	16,337	21,704	20,988	19,646	25,869	26,630	22,704	31,506
<i>Subsector SME=100</i>	<i>34.7</i>	<i>28.0</i>	<i>37.3</i>	<i>31.6</i>	<i>29.5</i>	<i>38.9</i>	<i>33.0</i>	<i>28.1</i>	<i>39.0</i>
Man. of coke and refined petrol. prod.*	327	682	512	604	1,072	721	1,030	919	763
<i>Subsector SME=100</i>	<i>21.5</i>	<i>44.9</i>	<i>33.6</i>	<i>25.2</i>	<i>44.7</i>	<i>30.1</i>	<i>37.9</i>	<i>33.9</i>	<i>28.1</i>
Man. of chemical prod. and man-made fib.*	8,175	9,497	16,709	7,690	12,108	24,670	13,854	15,583	29,715
<i>Subsector SME=100</i>	<i>23.8</i>	<i>27.6</i>	<i>48.6</i>	<i>17.3</i>	<i>27.2</i>	<i>55.5</i>	<i>23.4</i>	<i>26.3</i>	<i>50.2</i>
Man. of rubber and plastic prod.*	18,767	8,734	5,277	16,074	11,852	6,723	17,920	14,103	11,083
<i>Subsector SME=100</i>	<i>57.3</i>	<i>26.6</i>	<i>16.1</i>	<i>46.4</i>	<i>34.2</i>	<i>19.4</i>	<i>41.6</i>	<i>32.7</i>	<i>25.7</i>
Man. of other non-met. mineral prod.*	10,160	4,540	5,790	13,157	4,132	8,618	12,726	6,574	11,347
<i>Subsector SME=100</i>	<i>49.6</i>	<i>22.2</i>	<i>28.3</i>	<i>50.7</i>	<i>15.9</i>	<i>33.3</i>	<i>41.5</i>	<i>21.4</i>	<i>37.0</i>
Man. of basic metals and fab. metal prod..*	27,026	14,482	14,417	28,527	17,469	19,489	31,558	25,480	33,422
<i>Subsector SME=100</i>	<i>48.3</i>	<i>25.9</i>	<i>25.8</i>	<i>43.6</i>	<i>26.7</i>	<i>29.8</i>	<i>34.9</i>	<i>28.2</i>	<i>36.9</i>
Man. of mashinery and equipm. n.e.e*	4,879	5,149	6,175	6,938	5,813	6,086	8,478	8,045	9,130
<i>Subsector SME=100</i>	<i>30.1</i>	<i>31.8</i>	<i>38.1</i>	<i>36.9</i>	<i>30.9</i>	<i>32.3</i>	<i>33.0</i>	<i>31.4</i>	<i>35.6</i>
Man. of electrical and optic. equip.*	22,103	25,950	21,892	16,839	26,381	21,378	20,214	34,765	28,691
<i>Subsector SME=100</i>	<i>31.6</i>	<i>37.1</i>	<i>31.3</i>	<i>26.0</i>	<i>40.8</i>	<i>33.1</i>	<i>24.2</i>	<i>41.6</i>	<i>34.3</i>
Man. of transport equipment.*	1,140	2,603	4,157	2,159	2,353	4,461	2,048	4,403	6,177
<i>Subsector SME=100</i>	<i>14.4</i>	<i>32.9</i>	<i>52.6</i>	<i>24.1</i>	<i>26.2</i>	<i>49.7</i>	<i>16.2</i>	<i>34.9</i>	<i>48.9</i>
Manufacturing n.e.c.*	16,031	11,781	8,792	15,636	13,203	10,565	19,044	19,179	15,053
<i>Subsector SME=100</i>	<i>43.8</i>	<i>32.2</i>	<i>24.0</i>	<i>39.7</i>	<i>33.5</i>	<i>26.8</i>	<i>35.7</i>	<i>36.0</i>	<i>28.3</i>

* in RSDm

Table 12: Section breakdown of total turnover of SMEE in Serbia

Section	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Total*	1,470,698	549,224	476,879	1,491,373	681,218	598,663	1,878,233	939,564	770,750
<i>SMEE Total=100</i>	<i>58.9</i>	<i>22.0</i>	<i>19.1</i>	<i>53.8</i>	<i>24.6</i>	<i>21.6</i>	<i>52.3</i>	<i>26.2</i>	<i>21.5</i>
Agriculture*	31,637	24,380	30,951	32,457	25,979	35,146	39,596	43,209	42,833
<i>Sector SMEE=100</i>	<i>36.4</i>	<i>28.0</i>	<i>35.6</i>	<i>34.7</i>	<i>27.8</i>	<i>37.6</i>	<i>31.5</i>	<i>34.4</i>	<i>34.1</i>
Fishing*	337	423	577	494	358	600	642	823	863
<i>Sector SMEE=100</i>	<i>25.2</i>	<i>31.7</i>	<i>43.1</i>	<i>34.0</i>	<i>24.7</i>	<i>41.3</i>	<i>27.6</i>	<i>35.4</i>	<i>37.1</i>
Mining and quarrying*	1,328	1,118	2,361	1,254	1,404	2,867	1,685	1,807	4,633
<i>Sector SMEE=100</i>	<i>27.6</i>	<i>23.3</i>	<i>49.1</i>	<i>22.7</i>	<i>25.4</i>	<i>51.9</i>	<i>20.8</i>	<i>22.2</i>	<i>57.0</i>
Manufacturing*	257,563	137,254	180,201	225,037	159,605	218,251	268,209	213,610	291,737
<i>Sector SMEE=100</i>	<i>44.8</i>	<i>23.9</i>	<i>31.3</i>	<i>37.3</i>	<i>26.5</i>	<i>36.2</i>	<i>34.7</i>	<i>27.6</i>	<i>37.7</i>
Electricity, gas and water supply *	431	3,079	12,515	388	4,354	14,885	354	6,265	22,201
<i>Sector SMEE=100</i>	<i>2.7</i>	<i>19.2</i>	<i>78.1</i>	<i>2.0</i>	<i>22.2</i>	<i>75.8</i>	<i>1.3</i>	<i>21.7</i>	<i>77.0</i>
Construction*	68,975	43,408	31,208	74,449	41,268	35,117	124,751	59,407	58,033
<i>Sector SMEE=100</i>	<i>48.0</i>	<i>30.2</i>	<i>21.7</i>	<i>49.3</i>	<i>27.4</i>	<i>23.3</i>	<i>51.5</i>	<i>24.5</i>	<i>24.0</i>
Wholesale and retail trade; rep*	877,544	266,060	170,458	905,758	353,166	221,525	1,118,963	486,644	261,071
<i>Sector SMEE=100</i>	<i>66.8</i>	<i>20.2</i>	<i>13.0</i>	<i>61.2</i>	<i>23.9</i>	<i>15.0</i>	<i>60.0</i>	<i>26.1</i>	<i>14.0</i>
Hotels and restaurants*	36,899	2,114	6,033	38,258	3,457	7,959	60,389	5,132	10,977
<i>Sector SMEE=100</i>	<i>81.9</i>	<i>4.7</i>	<i>13.4</i>	<i>77.0</i>	<i>7.0</i>	<i>16.0</i>	<i>79.0</i>	<i>6.7</i>	<i>14.3</i>
Transport, storage and comm.*	60,994	20,652	11,535	98,688	30,868	16,909	119,893	42,582	31,024
<i>Sector SMEE=100</i>	<i>65.5</i>	<i>22.2</i>	<i>12.4</i>	<i>67.3</i>	<i>21.1</i>	<i>11.5</i>	<i>62.0</i>	<i>22.0</i>	<i>16.0</i>
Financial intermediation*	7,247	563	163	4,073	7,843	316	4,029	708	355
<i>Sector SMEE=100</i>	<i>90.9</i>	<i>7.1</i>	<i>2.0</i>	<i>33.3</i>	<i>64.1</i>	<i>2.6</i>	<i>79.2</i>	<i>13.9</i>	<i>7.0</i>
Real estate activities	95,224	44,940	24,876	78,613	46,098	35,302	102,513	69,941	36,793
<i>Sector SMEE=100</i>	<i>57.7</i>	<i>27.2</i>	<i>15.1</i>	<i>49.2</i>	<i>28.8</i>	<i>22.1</i>	<i>49.0</i>	<i>33.4</i>	<i>17.6</i>
Public admin. and soc. insurance*	39			21		11	32	4	14
<i>Sector SMEE=100</i>	<i>100.0</i>	<i>0.0</i>	<i>0.0</i>	<i>63.9</i>	<i>0.0</i>	<i>36.1</i>	<i>64.7</i>	<i>8.0</i>	<i>27.2</i>
Education*	2,403	1,180	570	2,738	717	931	3,615	878	330
<i>Sector SMEE=100</i>	<i>57.9</i>	<i>28.4</i>	<i>13.7</i>	<i>62.5</i>	<i>16.3</i>	<i>21.2</i>	<i>74.9</i>	<i>18.2</i>	<i>6.8</i>
Health and social work*	7,833	866	875	8,690	1,039	1,005	8,843	1,294	946
<i>Sector SMEE=100</i>	<i>81.8</i>	<i>9.0</i>	<i>9.1</i>	<i>81.0</i>	<i>9.7</i>	<i>9.4</i>	<i>79.8</i>	<i>11.7</i>	<i>8.5</i>
Other comm.soc.and pers. service act.*	22,243	3,188	4,557	20,457	5,063	7,838	24,538	7,262	8,940
<i>Sector SMEE=100</i>	<i>74.1</i>	<i>10.6</i>	<i>15.2</i>	<i>61.3</i>	<i>15.2</i>	<i>23.5</i>	<i>60.3</i>	<i>17.8</i>	<i>21.9</i>

* in RSDm

Table 13: Regional breakdown of realized turnover in economy of Serbia in 2006

	Micro	Small	Medium	Large	Micro	Small	Medium	Large
	Total turnover in RSDm				Economy total=100			
<i>Total</i>	1,878,233	939,564	770,750	1,728,751	35.4	17.7	14.5	32.5
City of Belgrade	629,155	462,764	341,441	730,903	11.8	8.7	6.4	13.7
North Backa District	57,098	23,277	32,141	19,477	1.0	0.4	0.6	0.4
Central Banat District	26,769	11,372	18,977	17,649	0.5	0.2	0.4	0.3
North Banat District	28,661	10,212	17,061	19,480	0.6	0.2	0.3	0.4
South Banat District	85,831	29,453	23,451	56,019	1.6	0.6	0.4	1.1
West Backa District	38,565	14,046	21,883	29,758	0.8	0.3	0.4	0.6
South Backa District	182,072	120,775	85,582	460,153	3.4	2.3	1.6	8.7
Srem District	78,874	30,020	23,942	11,067	1.5	0.6	0.5	0.2
Macva District	67,343	18,567	17,384	11,467	1.2	0.3	0.3	0.2
Kolubara District	38,636	12,608	13,572	4,295	0.7	0.2	0.3	0.1
Podunavlje District	35,186	10,438	7,357	81,792	0.6	0.2	0.1	1.5
Branicevo District	36,360	8,634	8,500	16,043	0.7	0.2	0.2	0.3
Sumadija District	75,614	17,733	18,623	33,811	1.4	0.3	0.4	0.6
Pomoravlje District	49,982	16,956	11,828	16,913	1.0	0.3	0.2	0.3
Bor District	21,038	9,542	11,313	24,520	0.4	0.2	0.2	0.5
Zajecar District	25,014	4,126	3,351	4,967	0.5	0.1	0.1	0.1
Zlatibor District	62,348	19,356	14,478	30,285	1.2	0.4	0.3	0.6
Moravica District	55,436	31,502	30,046	12,366	1.0	0.6	0.6	0.2
Raska District	56,473	19,805	13,603	27,197	1.0	0.4	0.3	0.5
Rasina District	51,647	13,926	9,228	26,238	0.9	0.3	0.2	0.5
Nisava District	82,898	30,152	22,682	53,065	1.5	0.6	0.4	1.0
Toplica District	14,107	2,465	2,279	1,380	0.2	0.0	0.0	0.0
Pirot District	15,633	2,925	3,120	12,815	0.2	0.1	0.1	0.2
Jablanica District	40,149	12,572	13,096	4,722	0.8	0.2	0.2	0.1
Peinja District	23,346	6,339	5,812	22,370	0.5	0.1	0.1	0.4

Table 14: Regional breakdown of realized turnover in SMEE of Serbia

District	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Total*	1,470,698	549,224	476,879	1,491,626	681,218	598,663	1,878,233	939,564	770,750
<i>Share in SMEE</i>	<i>58.9</i>	<i>22.0</i>	<i>19.1</i>	<i>53.8</i>	<i>24.6</i>	<i>21.6</i>	<i>52.3</i>	<i>26.2</i>	<i>21.5</i>
City of Belgrade*	539,423	209,045	465,098	481,248	349,973	275,687	629,155	462,764	341,441
<i>Share in district</i>	<i>52.0</i>	<i>20.2</i>	<i>44.8</i>	<i>43.5</i>	<i>31.6</i>	<i>24.9</i>	<i>43.9</i>	<i>32.3</i>	<i>23.8</i>
North Backa *	29,953	15,029	24,115	49,603	18,386	19,736	57,098	23,277	32,141
<i>Share in district</i>	<i>66.6</i>	<i>33.4</i>	<i>53.6</i>	<i>56.6</i>	<i>21.0</i>	<i>22.5</i>	<i>50.8</i>	<i>20.7</i>	<i>28.6</i>
Central Banat*	13,017	12,631	14,592	17,533	6,929	14,117	26,769	11,372	18,977
<i>Share in district</i>	<i>50.8</i>	<i>49.3</i>	<i>56.9</i>	<i>45.5</i>	<i>18.0</i>	<i>36.6</i>	<i>46.9</i>	<i>19.9</i>	<i>33.2</i>
North Banat*	13,202	11,193	17,088	18,363	7,471	11,339	28,661	10,212	17,061
<i>Share in district</i>	<i>54.1</i>	<i>45.9</i>	<i>70.1</i>	<i>49.4</i>	<i>20.1</i>	<i>30.5</i>	<i>51.2</i>	<i>18.3</i>	<i>30.5</i>
South Banat *	27,070	21,827	34,657	82,221	15,572	21,855	85,831	29,453	23,451
<i>Share in district</i>	<i>55.4</i>	<i>44.6</i>	<i>70.9</i>	<i>68.7</i>	<i>13.0</i>	<i>18.3</i>	<i>61.9</i>	<i>21.2</i>	<i>16.9</i>
West Backa *	18,386	15,132	43,299	34,104	9,228	16,963	38,565	14,046	21,883
<i>Share in district</i>	<i>54.9</i>	<i>45.2</i>	<i>129.2</i>	<i>56.6</i>	<i>15.3</i>	<i>28.1</i>	<i>51.8</i>	<i>18.9</i>	<i>29.4</i>
South Backa *	134,373	56,095	280,051	148,896	78,502	70,396	182,072	120,775	85,582
<i>Share in district</i>	<i>70.6</i>	<i>29.5</i>	<i>147.0</i>	<i>50.0</i>	<i>26.4</i>	<i>23.6</i>	<i>46.9</i>	<i>31.1</i>	<i>22.0</i>
Srem*	30,299	10,981	7,593	55,049	22,269	13,534	78,874	30,020	23,942
<i>Share in district</i>	<i>73.4</i>	<i>26.6</i>	<i>18.4</i>	<i>60.6</i>	<i>24.5</i>	<i>14.9</i>	<i>59.4</i>	<i>22.6</i>	<i>18.0</i>
Macva*	32,465	12,897	9,846	53,825	19,000	17,166	67,343	18,567	17,384
<i>Share in district</i>	<i>71.6</i>	<i>28.4</i>	<i>21.7</i>	<i>59.8</i>	<i>21.1</i>	<i>19.1</i>	<i>65.2</i>	<i>18.0</i>	<i>16.8</i>
Kolubara *	16,837	6,141	3,028	33,311	8,434	11,077	38,636	12,608	13,572
<i>Share in district</i>	<i>73.3</i>	<i>26.7</i>	<i>13.2</i>	<i>63.1</i>	<i>16.0</i>	<i>21.0</i>	<i>59.6</i>	<i>19.5</i>	<i>20.9</i>
Podunavlje*	14,326	3,680	44,032	27,467	7,339	6,273	35,186	10,438	7,357
<i>Share in district</i>	<i>79.6</i>	<i>20.4</i>	<i>244.5</i>	<i>66.9</i>	<i>17.9</i>	<i>15.3</i>	<i>66.4</i>	<i>19.7</i>	<i>13.9</i>
Branicevo*	9,997	6,637	19,869	30,774	6,177	6,742	36,360	8,634	8,500
<i>Share in district</i>	<i>60.1</i>	<i>39.9</i>	<i>119.5</i>	<i>70.4</i>	<i>14.1</i>	<i>15.4</i>	<i>68.0</i>	<i>16.1</i>	<i>15.9</i>
Sumadija*	22,777	11,199	21,220	61,914	12,429	15,457	75,614	17,733	18,623
<i>Share in district</i>	<i>67.0</i>	<i>33.0</i>	<i>62.5</i>	<i>69.0</i>	<i>13.8</i>	<i>17.2</i>	<i>67.5</i>	<i>15.8</i>	<i>16.6</i>
Moravica*	24,958	5,674	11,990	41,786	13,780	8,255	49,982	16,956	11,828
<i>Share in district</i>	<i>81.5</i>	<i>18.5</i>	<i>39.1</i>	<i>65.5</i>	<i>21.6</i>	<i>12.9</i>	<i>63.5</i>	<i>21.5</i>	<i>15.0</i>
Bor*	7,891	5,752	14,325	13,375	4,529	7,800	21,038	9,542	11,313
<i>Share in district</i>	<i>57.8</i>	<i>42.2</i>	<i>105.0</i>	<i>52.0</i>	<i>17.6</i>	<i>30.3</i>	<i>50.2</i>	<i>22.8</i>	<i>27.0</i>
Zajecar *	5,812	2,759	6,718	22,869	2,836	4,157	25,014	4,126	3,351
<i>Share in district</i>	<i>67.8</i>	<i>32.2</i>	<i>78.4</i>	<i>76.6</i>	<i>9.5</i>	<i>13.9</i>	<i>77.0</i>	<i>12.7</i>	<i>10.3</i>
Zlatibor *	25,906	9,843	27,715	42,131	15,115	11,038	62,348	19,356	14,478
<i>Share in district</i>	<i>72.5</i>	<i>27.5</i>	<i>77.5</i>	<i>61.7</i>	<i>22.1</i>	<i>16.2</i>	<i>64.8</i>	<i>20.1</i>	<i>15.1</i>
Moravica*	32,230	17,432	11,118	37,288	22,129	19,497	55,436	31,502	30,046
<i>Share in district</i>	<i>64.9</i>	<i>35.1</i>	<i>22.4</i>	<i>47.3</i>	<i>28.0</i>	<i>24.7</i>	<i>47.4</i>	<i>26.9</i>	<i>25.7</i>
Raska*	25,140	9,070	18,069	49,455	13,348	11,068	56,473	19,805	13,603
<i>Share in district</i>	<i>73.5</i>	<i>26.5</i>	<i>52.8</i>	<i>67.0</i>	<i>18.1</i>	<i>15.0</i>	<i>62.8</i>	<i>22.0</i>	<i>15.1</i>
Rasina*	18,161	5,882	17,399	44,806	9,669	6,401	51,647	13,926	9,228
<i>Share in district</i>	<i>75.5</i>	<i>24.5</i>	<i>72.4</i>	<i>73.6</i>	<i>15.9</i>	<i>10.5</i>	<i>69.1</i>	<i>18.6</i>	<i>12.3</i>
Nisava*	38,536	14,351	39,424	72,773	23,521	16,586	82,898	30,152	22,682
<i>Share in district</i>	<i>72.9</i>	<i>27.1</i>	<i>74.5</i>	<i>64.5</i>	<i>20.8</i>	<i>14.7</i>	<i>61.1</i>	<i>22.2</i>	<i>16.7</i>
Toplica*	3,744	1,606	1,982	11,073	1,947	1,923	14,107	2,465	2,279
<i>Share in district</i>	<i>70.0</i>	<i>30.0</i>	<i>37.1</i>	<i>74.1</i>	<i>13.0</i>	<i>12.9</i>	<i>74.8</i>	<i>13.1</i>	<i>12.1</i>
Pirot*	3,868	1,363	10,363	13,556	2,350	2,337	15,633	2,925	3,120
<i>Share in district</i>	<i>73.9</i>	<i>26.1</i>	<i>198.1</i>	<i>74.3</i>	<i>12.9</i>	<i>12.8</i>	<i>72.1</i>	<i>13.5</i>	<i>14.4</i>
Jablanica*	12,918	6,019	6,148	26,993	5,926	4,915	40,149	12,572	13,096
<i>Share in district</i>	<i>68.2</i>	<i>31.8</i>	<i>32.5</i>	<i>71.3</i>	<i>15.7</i>	<i>13.0</i>	<i>61.0</i>	<i>19.1</i>	<i>19.9</i>
Pcinja*	9,166	4,641	15,708	21,212	4,357	4,344	23,346	6,339	5,812
<i>Share in district</i>	<i>66.4</i>	<i>33.6</i>	<i>113.8</i>	<i>70.9</i>	<i>14.6</i>	<i>14.5</i>	<i>65.8</i>	<i>17.9</i>	<i>16.4</i>

* in RSDm

Table 15: Gross value added of SMEE of Serbia in 2004-2006

		Micro	Small	Medium	SMEE
2004	in RSD bn	171.7	78.3	106.7	356.7
	in %	48.1	22.0	29.9	100.0
2005	in RSD bn	214.4	110.2	142.2	466.7
	in %	45.9	23.6	30.5	100.0
2006	in RSD bn	263.2	155.2	173.5	592.0
	in %	44.5	26.2	29.3	100.0

Table 16: Section structure of GVA of Serbia (economy = 100)

	2004			2005			2006		
	SMEE	Large	Total	SMEE	Large	Total	SMEE	Large	Total
<i>Economy of Serbia</i>	51.8	48.2	100.0	54.1	45.9	100.0	56.9	43.1	100.0
Agriculture, hunting and forestry	2.2	1.7	3.9	2.0	1.6	3.6	2.1	1.3	3.3
Fishing	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1
Mining and quarrying	0.2	5.3	5.5	0.2	5.1	5.4	0.3	4.3	4.6
Manufacturing	14.4	16.7	31.1	15.0	15.0	30.0	15.2	14.3	29.5
Electricity, gas and water supply	1.0	6.6	7.6	0.9	5.6	6.6	0.9	6.0	6.9
Construction	4.7	3.0	7.7	4.1	2.8	7.0	5.2	2.8	8.0
Wholesale and retail trade; repair	15.7	1.7	17.4	18.0	2.8	20.9	17.8	2.7	20.6
Hotels and restaurants	2.0	0.3	2.3	1.7	0.3	2.0	2.1	0.3	2.4
Transport, storage and communication	2.5	10.7	13.2	3.7	10.3	13.9	3.8	9.5	13.3
Financial intermediation	0.2	0.0	0.2	0.1	0.0	0.1	0.3	-	0.3
Real estate activities	6.2	0.8	7.1	5.7	0.9	6.7	6.8	1.0	7.8
Public administration and social insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0
Education	0.2	0.1	0.4	0.2	0.2	0.4	0.2	0.1	0.3
Health and social work	0.5	0.0	0.6	0.5	0.0	0.5	0.4	0.0	0.5
Other community, social and personal service act.	1.8	1.2	3.0	1.7	1.2	2.9	1.7	0.9	2.6

Table 17: GVA structure of SMEE of Manufacturing in Serbia (in RSD m)

	2004			2005			2006		
	micro	small	medium	micro	small	medium	micro	small	medium
Manufacturing	33,477	23,386	42,158	42,155	31,371	56,165	47,903	40,575	69,596
<i>Section = 100</i>	<i>33.8</i>	<i>23.6</i>	<i>42.6</i>	<i>32.5</i>	<i>24.2</i>	<i>43.3</i>	<i>30.3</i>	<i>25.7</i>	<i>44.0</i>
Manufacture of food products, beverages and tobacco	11,147	2,798	12,474	9,141	4,578	16,422	11,442	5,664	21,618
<i>Sub-section = 100</i>	<i>42.2</i>	<i>10.6</i>	<i>47.2</i>	<i>30.3</i>	<i>15.2</i>	<i>54.5</i>	<i>29.5</i>	<i>14.6</i>	<i>55.8</i>
Manufacture of textiles and textile products	2,153	1,009	1,881	5,798	1,977	2,528	5,484	2,641	3,240
<i>Subsection = 100</i>	<i>42.7</i>	<i>20.0</i>	<i>37.3</i>	<i>56.3</i>	<i>19.2</i>	<i>24.5</i>	<i>48.3</i>	<i>23.2</i>	<i>28.5</i>
Manufacture of leather and leather products	470	267	1,056	644	445	1,198	989	639	1,351
<i>Subsection = 100</i>	<i>26.2</i>	<i>14.9</i>	<i>58.9</i>	<i>28.2</i>	<i>19.5</i>	<i>52.4</i>	<i>33.2</i>	<i>21.4</i>	<i>45.4</i>
Manufacture of wood and wood products	1,564	1,023	763	2,960	1,470	938	2,880	1,760	923
<i>Subsection = 100</i>	<i>46.7</i>	<i>30.5</i>	<i>22.8</i>	<i>55.1</i>	<i>27.4</i>	<i>17.5</i>	<i>51.8</i>	<i>31.6</i>	<i>16.6</i>
Manufacture of paper, publishing and printing	3,326	4,332	5,450	4,656	5,388	8,034	5,705	6,686	9,093
<i>Subsection = 100</i>	<i>25.4</i>	<i>33.0</i>	<i>41.6</i>	<i>25.8</i>	<i>29.8</i>	<i>44.4</i>	<i>26.6</i>	<i>31.1</i>	<i>42.3</i>
Manufacture of coke and refined petroleum products	35	142	78	45	111	86	124	97	84
<i>Subsection = 100</i>	<i>13.8</i>	<i>55.8</i>	<i>30.4</i>	<i>18.6</i>	<i>45.8</i>	<i>35.5</i>	<i>40.6</i>	<i>31.9</i>	<i>27.5</i>
Manufacture of chemical products and man-made fibres	1,034	2,110	3,620	987	2,117	6,097	992	2,490	6,016
<i>Subsection = 100</i>	<i>15.3</i>	<i>31.2</i>	<i>53.5</i>	<i>10.7</i>	<i>23.0</i>	<i>66.3</i>	<i>10.4</i>	<i>26.2</i>	<i>63.3</i>
Manufacture of rubber and plastic products	2,585	1,505	1,479	3,126	2,248	2,014	3,433	2,704	2,924
<i>Subsection = 100</i>	<i>46.4</i>	<i>27.0</i>	<i>26.6</i>	<i>42.3</i>	<i>30.4</i>	<i>27.3</i>	<i>37.9</i>	<i>29.8</i>	<i>32.3</i>
Manufacture of other non-metallic mineral products	1,591	836	2,124	1,940	850	3,401	1,875	1,355	3,653
<i>Subsection = 100</i>	<i>35.0</i>	<i>18.4</i>	<i>46.7</i>	<i>31.3</i>	<i>13.7</i>	<i>54.9</i>	<i>27.2</i>	<i>19.7</i>	<i>53.1</i>
Manufacture of basic metals and fabricated metal products	4,122	2,836	3,938	5,572	3,614	4,653	6,314	5,107	7,075
<i>Subsection = 100</i>	<i>37.8</i>	<i>26.0</i>	<i>36.1</i>	<i>40.3</i>	<i>26.1</i>	<i>33.6</i>	<i>34.1</i>	<i>27.6</i>	<i>38.3</i>
Manufacture of machinery and equipment n.e.c.	730	1,248	2,083	1,125	1,479	2,247	1,493	1,740	2,607
<i>Subsection = 100</i>	<i>18.0</i>	<i>30.7</i>	<i>51.3</i>	<i>23.2</i>	<i>30.5</i>	<i>46.3</i>	<i>25.6</i>	<i>29.8</i>	<i>44.6</i>
Manufacture of electrical and optical equipment	2,592	3,782	3,772	2,971	4,790	4,622	3,537	5,964	6,340
<i>Subsection = 100</i>	<i>25.5</i>	<i>37.3</i>	<i>37.2</i>	<i>24.0</i>	<i>38.7</i>	<i>37.3</i>	<i>22.3</i>	<i>37.6</i>	<i>40.0</i>
Manufacture of transport equipment	179	263	1,314	344	408	1,459	312	811	1,440
<i>Subsection = 100</i>	<i>10.2</i>	<i>15.0</i>	<i>74.9</i>	<i>15.6</i>	<i>18.5</i>	<i>66.0</i>	<i>12.2</i>	<i>31.6</i>	<i>56.2</i>
Manufacturing n.e.c.	1,949	1,234	2,126	2,846	1,896	2,467	3,323	2,918	3,232
<i>Subsection = 100</i>	<i>36.7</i>	<i>23.2</i>	<i>40.0</i>	<i>39.5</i>	<i>26.3</i>	<i>34.2</i>	<i>35.1</i>	<i>30.8</i>	<i>34.1</i>

Table 18: Regional breakdown of GVA of Serbia in 2006

	micro	small	medium	large	total	micro	small	medium	large	total
	GVA in RSD m					Economy = 100				
Republic of Serbia	263,215	155,248	173,520	449,270	1,041,254	25.3	14.9	16.7	43.1	100.0
City of Belgrade	97,910	78,018	74,027	230,110	480,065	9.4	7.5	7.1	22.1	46.1
North Backa District	7,691	4,310	7,134	3,999	23,134	0.8	0.4	0.7	0.4	2.2
Central Banat District	3,566	2,021	3,630	5,170	14,386	0.4	0.2	0.3	0.5	1.4
North Banat District	4,190	2,078	3,974	4,102	14,344	0.4	0.2	0.4	0.4	1.4
South Banat District	10,384	4,284	6,047	9,678	30,393	1.0	0.4	0.6	0.9	2.9
West Backa District	5,274	2,291	5,122	7,814	20,501	0.5	0.2	0.5	0.8	2.0
South Backa District	25,846	19,035	17,664	69,314	131,859	2.5	1.8	1.7	6.7	12.7
Srem District	10,756	5,352	6,079	2,863	25,051	1.0	0.5	0.6	0.3	2.4
Macva District	8,343	2,533	3,240	3,590	17,706	0.8	0.2	0.3	0.3	1.7
Kolubara District	5,248	2,577	3,237	2,088	13,150	0.5	0.2	0.3	0.2	1.3
Podunavlje District	4,723	1,555	1,933	13,956	22,167	0.4	0.1	0.2	1.3	2.1
Branicevo District	4,545	1,274	1,748	8,294	15,861	0.4	0.1	0.2	0.8	1.5
Sumadija District	10,356	2,941	3,718	13,127	30,141	1.0	0.3	0.4	1.3	2.9
Pomoravlje District	5,403	2,456	2,804	5,382	16,044	0.5	0.2	0.3	0.5	1.5
Bor District	2,027	1,017	1,266	8,695	13,006	0.1	0.1	0.1	0.8	1.2
Zajecar District	3,156	622	1,310	1,455	6,542	0.3	0.1	0.1	0.1	0.6
Zlatibor District	8,896	3,435	4,406	11,227	27,964	0.9	0.3	0.4	1.1	2.7
Morava District	7,628	4,906	6,743	4,570	23,848	0.8	0.5	0.6	0.4	2.3
Raska District	7,464	3,371	4,915	7,316	23,066	0.7	0.3	0.5	0.7	2.2
Rasina District	6,529	2,010	1,789	7,854	18,183	0.6	0.2	0.2	0.8	1.7
Nisava District	11,315	5,303	6,006	16,084	38,709	1.1	0.5	0.6	1.5	3.7
Toplica District	1,781	398	721	481	3,380	0.1	0.0	0.1	0.0	0.3
Pirot District	2,084	715	1,076	3,677	7,551	0.2	0.1	0.1	0.4	0.7
Jablanica District	5,042	1,807	3,005	2,667	12,522	0.5	0.2	0.3	0.3	1.2
Pcinja District	3,058	939	1,927	5,755	11,679	0.3	0.1	0.2	0.6	1.1

Chart .1

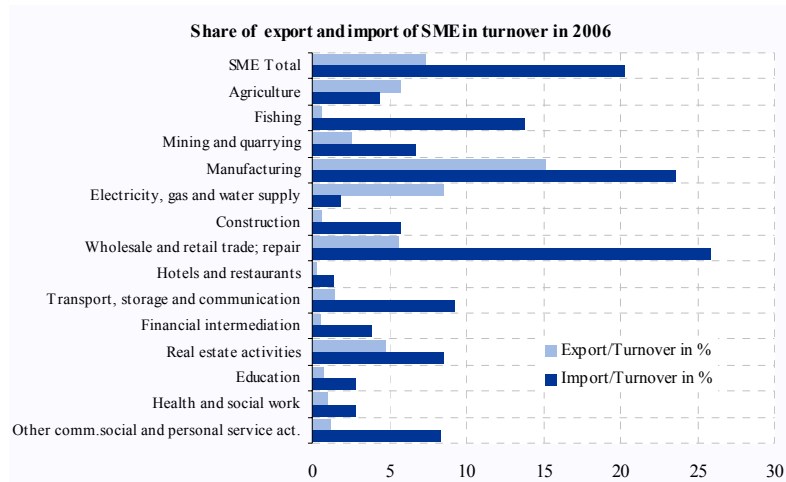


Chart 2

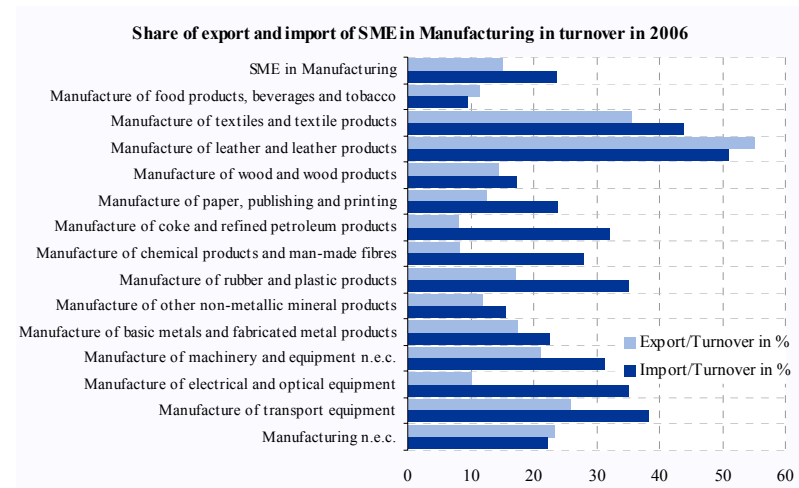


Table19: External trade of SME in sub-sections of Manufacturing in 2006 –technological level-

	Export		Import		Balance in RSDm	Coverage of export by import in %
	in RSDm	in %	in RSDm	in %		
SME Manufacturing	93,958	100.0	146,561	100.0	-52,602	64.1
Low tech	30,726	32.7	29,685	20.3	1,041	103.5
Man. of food prod. beverages and tobacco	17,779	18.9	14,734	10.1	3,045	120.7
Man. of textiles and tex. prod	9,471	10.1	11,722	8.0	-2,251	80.8
Man. of leather and leather prod.	3,476	3.7	3,230	2.2	246	107.6
Medium tech	46,976	50.0	76,819	52.4	-29,844	61.2
Man. of wood and wood prod.	2,995	3.2	3,594	2.5	-598	83.4
Man. of paper, publishing and print.	8,613	9.2	16,365	11.2	-7,752	52.6
Man. of coke and refined petrol. prod	217	0.2	865	0.6	-648	25.1
Man. of chemical prod. and man-made fib	4,688	5.0	15,976	10.9	-11,288	29.3
Man. of rubber and plastic prod.	5,371	5.7	11,012	7.5	-5,641	48.8
Man. of other non-met. mineral prod.	2,651	2.8	3,470	2.4	-819	76.4
Man. of basic metals and fab. metal prod	12,653	13.5	16,209	11.1	-3,555	78.1
Manufacturing n.e.c.	9,787	10.4	9,329	6.4	458	104.9
High tech	16,256	17.3	40,056	27.3	-23,799	40.6
Man. of mashinery and equipm. n.e.e	5,039	5.4	7,480	5.1	-2,440	67.4
Man. of electrical and optic. equip	8,078	8.6	27,929	19.1	-19,852	28.9
Man. of transport equipment.	3,139	3.3	4,647	3.2	-1,508	67.6

Table 20: Export in economy of Serbia by sections (section of economy=100)

Section	2005						2006					
	SME			Large			SME			Large		
	No of enter.	RSDm	in %	No of enter.	RSDm	in %	No of enter.	RSDm	in %	No of enter.	RSDm	in %
Economy	7,541	114,654	39.6	400	174,982	60.4	9,936	182,439	43.6	406	235,992	56.4
Agriculture	282	6,051	83.3	13	1,213	16.7	339	6,993	84.5	14	1,283	15.5
Fishing	1	1	15.5	1	4	84.5	6	14	100.0	0		0.0
Mining and quarrying	19	226	14.3	6	1,358	85.7	31	205	3.7	8	5,265	96.3
Manufacturing	3,129	58,150	26.1	300	164,326	73.9	4,036	93,958	30.3	284	216,299	69.7
Electricity, gas and water supply	2	3	0.2	6	1,669	99.8	3	2,455	33.7	7	4,825	66.3
Construction	148	418	63.5	17	240	36.5	256	990	74.4	25	341	25.6
Wholesale and retail trade; rep	3,276	45,731	89.8	28	5,175	10.2	4,308	67,727	91.4	34	6,402	8.6
Hotels and restaurants	13	25	31.5	1	54	68.5	20	58	39.2	3	91	60.8
Transport, storage and comm	217	1,077	64.9	16	583	35.1	275	1,630	59.1	17	1,128	40.9
Financial intermediation	1	1	100.0			0.0	2	14	100.0	0		0.0
Real estate activities	367	2,773	89.0	7	341	11.0	542	8,083	96.5	8	296	3.5
Education	7	9	100.0			0.0	10	26	100.0	0		0.0
Health and social work	12	29	75.1	2	10	24.9	14	31	36.5	2	54	63.5
Other comm. soc. and pers. act	67	160	95.0	3	8	5.0	94	255	96.6	4	9	3.4

Table 21: Export by districts of Serbia

District	2005				2006			
	No. of enterprises		RSDm		No. of enterprises		RSDm	
	SME	Large	SME	Large	SME	Large	SME	Large
Republic of Serbia	7,541	400	114,654	174,982	9,936	406	182,439	235,992
Central Serbia	5,501	289	81,613	116,200	7,443	304	127,867	161,595
Vojvodina	2,040	111	33,042	58,782	2,493	102	54,571	74,397
City of Belgrade	3,040	115	40,984	19,112	4,231	126	61,750	31,807
North Backa District	254	16	4,069	1,981	310	11	8,414	2,975
Central Banat District	90	11	2,011	2,196	112	11	2,817	2,659
North Banat District	128	11	2,065	10,563	159	11	4,846	11,849
South Banat District	171	14	2,977	20,364	212	13	3,650	23,949
West Backa District	150	11	2,484	5,577	158	11	3,691	5,833
South Backa District	947	40	14,935	15,039	1,171	40	23,868	23,211
Srem District	300	8	4,502	3,062	371	5	7,285	3,921
Macva District	259	8	3,458	1,099	208	7	3,555	3,476
Kolubara District	155	7	2,920	2,011	218	7	5,417	3,412
Podunavlje District	91	9	1,202	42,081	107	9	1,581	57,199
Branicevo District	60	2	1,049	616	79	5	1,487	28
Sumadija District	176	21	1,353	3,499	228	21	2,412	4,817
Pomoravlje District	116	8	1,731	1,670	148	9	2,367	2,641
Bor District	40	8	5,897	2,108	47	11	15,574	5,516
Zajecar District	47	4	1,130	1,593	59	4	1,512	1,193
Zlatibor District	271	19	5,145	16,213	399	20	6,879	19,876
Moravica District	298	16	5,836	3,027	442	13	7,835	3,704
Raska District	195	5	2,570	302	315	8	3,878	417
Rasina District	200	19	1,679	6,419	250	20	2,479	8,124
Nisava District	281	16	3,159	1,554	341	15	5,191	2,447
Toplica District	34	4	459	254	38	3	462	362
Pirot District	48	8	212	9,294	52	7	251	10,499
Jablanica District	101	4	1,319	444	181	6	2,776	645
Peinja District	89	16	1,510	4,904	100	13	2,462	5,432

Table 22: Import of economy of Serbia by sections (section of economy=100)

Section	2005						2006					
	SME			Large			SME			Large		
	No of enter.	RSDm	in %	No of enter.	RSDm	in %	No of enter.	RSDm	in %	No of enter.	RSDm	in %
Economy	15,964	390,959	64.0	508	219,884	36.0	17,331	503,158	59.2	484	346,122	40.8
Agriculture	315	4,276	87.3	18	622	12.7	371	5,396	92.9	14	414	7.1
Fishing	7	271	96.8	1	9	3.2	13	284	100.0			0.0
Mining and quarrying	41	771	6.3	12	11,530	93.7	52	526	0.8	10	66,007	99.2
Manufacturing	4,400	108,962	42.2	311	149,029	57.8	4,732	146,561	46.3	290	169,826	53.7
Electricity, gas and water supply	25	90	3.0	21	2,950	97.0	29	532	5.1	19	9,813	94.9
Construction	620	7,647	80.2	50	1,890	19.8	732	8,904	75.1	46	2,955	24.9
Wholesale and retail trade; rep	8,532	245,421	87.0	39	36,696	13.0	9,008	314,106	87.1	48	46,407	12.9
Hotels and restaurants	56	240	93.4	4	17	6.6	61	251	85.6	4	42	14.4
Transport, storage and comm	685	7,464	31.3	30	16,396	68.7	893	10,049	17.2	26	48,247	82.8
Financial intermediation	9	988	100.0			0.0	7	93	100.0			0.0
Real estate activities	1,036	12,892	97.8	9	294	2.2	1,168	14,447	86.4	13	2,276	13.6
Education	35	130	100.0			0.0	42	96	100.0			0.0
Health and social work	32	135	97.8	2	3	2.2	19	84	99.9	1		0.0
Other comm. soc. and pers. act	171	1,672	78.8	11	450	21.2	204	1,829	93.2	13	134	6.8

Table 23: Import by districts of Serbia

	2005				2006			
	No. of enterprises		RSDm		No. of enterprises		RSDm	
	SME	Large	SME	Large	SME	Large	SME	Large
Republic of Serbia	15,964	508	390,959	219,884	17,331	484	503,158	346,122
Central Serbia	12,014	368	320,137	161,226	12,935	358	406,098	200,307
Vojvodina	3,950	140	70,823	58,658	4,396	126	97,060	145,815
City of Belgrade	7,710	151	249,094	74,555	8,125	160	307,364	98,979
North Backa District	553	16	12,242	2,725	597	15	16,231	3,267
Central Banat District	154	14	2,761	2,134	205	12	3,040	2,166
North Banat District	196	11	2,620	5,240	238	12	3,687	4,596
South Banat District	443	18	6,980	11,632	492	15	9,047	12,633
West Backa District	210	14	3,655	6,012	225	12	3,958	3,403
South Backa District	1,935	56	34,785	28,862	2,080	51	46,772	117,291
Srem District	459	11	7,779	2,054	559	9	14,325	2,460
Macva District	377	9	8,174	1,658	361	7	8,912	3,300
Kolubara District	210	7	2,920	2,236	240	7	5,564	4,127
Podunavlje District	167	9	1,967	33,194	194	8	2,778	35,295
Branicevo District	157	9	2,151	873	138	4	2,341	2,184
Sumadija District	368	23	4,313	4,726	380	23	6,382	5,483
Pomoravlje District	258	10	3,757	2,180	287	10	4,704	2,086
Bor District	80	11	5,804	2,606	89	11	11,739	4,695
Zajecar District	68	4	969	1,553	70	4	1,217	1,631
Zlatibor District	369	25	4,524	12,900	463	23	6,897	17,017
Moravica District	444	18	11,893	2,360	517	18	17,117	1,951
Raska District	442	8	6,019	459	479	9	7,787	487
Rasina District	319	26	2,764	5,570	347	25	3,644	7,164
Nisava District	614	23	11,248	6,358	651	22	12,524	6,107
Toplica District	40	4	493	144	49	3	565	42
Pirot District	82	8	638	2,825	83	7	649	4,180
Jablanica District	141	6	1,650	745	252	3	2,981	803
Peinija District	168	17	1,756	6,284	210	14	2,934	4,777

Table 24: External trade turnover – section breakdown in 2005

	Export in RSDm				Import in RSDm				Balance				Percentage cover index (Export/Import)			
	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large
Total economy	31,111	38,428	45,115	174,982	124,248	154,410	112,301	219,884	-93,137	-115,982	-67,186	-44,902	25.0	24.9	40.2	79.6
Agriculture, forestry and waterpower engineering	12,070	1,652	2,329	1,213	1,275	2,307	693	622	794	-655	1,636	591	162.3	71.6	335.9	195.1
Fishing	1			4	46	1	224	9	-46			-5	1.6			44.1
Mining and quarrying	22	17	187	1,358	161	180	430	11,530	-139	-163	-243	-10,172	14.0	9.3	43.4	11.8
Manufacturing	7,012	16,565	34,574	164,326	16,521	37,995	54,446	149,029	-9,509	-21,430	-19,872	15,297	42.4	43.6	63.5	110.3
Man. of food prod. beverages and tobacco	2,069	3,554	9,125	17,844	1,313	2,561	6,127	32,792	756	993	2,998	-14,949	157.6	138.8	148.9	54.4
Man. of textiles and tex. prod	750	2,354	3,780	9,475	1,732	2,917	4,054	8,159	-982	-563	-274	1,316	43.3	80.7	93.2	116.1
Man. of leather and leather prod.	309	228	2,111	4,130	411	292	2,022	3,107	-102	-63	88	1,023	75.2	78.4	104.4	132.9
Man. of wood and wood prod.	529	963	713	340	700	1,439	514	177	-170	-476	199	163	75.7	66.9	138.7	192.4
Man. of paper, publishing and print.	299	1,253	4,563	1,687	2,007	3,487	8,825	3,508	-1,708	-2,234	-4,262	-1,821	14.9	35.9	51.7	48.1
Man. of coke and refined petrol. prod	2	97	68	2	209	522	133	218	-207	-425	-65	-217	1.0	18.6	51.1	0.7
Man. of chemical prod. and man-made fib	400	811	2,234	29,061	1,319	3,722	7,894	19,603	-919	-2,911	-5,659	9,458	30.3	21.8	28.3	148.2
Man. of rubber and plastic prod.	335	939	1,598	19,929	1,246	4,328	2,674	10,714	-910	-3,389	-1,076	9,214	26.9	21.7	59.8	186.0
Man. of other non-met. mineral prod.	149	207	955	2,663	332	495	1,217	5,101	-183	-288	-262	-2,438	45.0	41.9	78.5	52.2
Man. of basic metals and fab. metal prod	837	1,634	3,275	62,143	1,746	3,361	6,171	51,718	-910	-1,727	-2,896	10,425	47.9	48.6	53.1	120.2
Man. of mashinery and equipm. n.e.e	519	815	1,491	7,628	1,414	1,476	1,201	2,674	-895	-661	291	4,954	36.7	55.2	124.2	285.2
Man. of electrical and optic. equip	330	1,385	2,037	3,320	2,677	10,028	9,872	4,427	-2,346	-8,643	-7,835	-1,107	12.3	13.8	20.6	75.0
Man. of transport equipment.	67	424	825	3,289	188	687	2,000	3,716	-122	-263	-1,175	-428	35.4	61.7	41.3	88.5
Manufacturing n.e.c.	416	1,900	1,799	2,816	1,227	2,681	1,743	3,113	-811	-781	56	-297	33.9	70.9	103.2	90.5
Electricity, gas and water supply		2		1,669	5	10	74	2,950		-8	-74	-1,280		23.4	0.5	56.6
Construction	136	204	78	240	2,249	3,189	2,209	1,890	-2,112	-2,985	-2,132	-1,650	6.1	6.4	3.5	12.7
Wholesale and retail trade; rep	19,357	18,839	7,535	5,175	95,043	101,220	49,159	36,696	-75,686	-82,381	-41,624	-31,520	20.4	18.6	15.3	14.1
Hotels and restaurants	10	15		54	59	144	37	17	-49	-129	-37	37	17.2	10.3	0.0	319.7
Transport, storage and comm	494	420	163	583	2,906	3,899	659	16,396	-2,412	-3,479	-495	-15,812	17.0	10.8	24.8	3.6
Financial intermediation		1			4	225	758			-225				0.3		
Real estate activities	1,902	649	221	341	5,400	4,289	3,203	294	-3,498	-3,640	-2,981	47	35.2	15.1	6.9	116.0
Education	9				66	30	34		-58	-30			13.0	0.4		
Health and social work	5	1	23	10	58	52	25	3	-52	-51	-2	7	9.2	1.1	92.6	328.0
Other comm. soc.and pers. act	93	64	4	8	454	869	349	450	-362	-805	-345	-441	20.4	7.3	1.1	1.9

Table 25: External trade turnover – section breakdown in 2006

	Export in RSDm				Import in RSDm				Balance				Percentage cover index (Export/Import)			
	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large
Total economy	48,589	58,784	75,065	235,992	156,515	197,283	149,359	346,122	-107,926	-138,499	-74,294	-110,130	31.0	29.8	50.3	68.2
Agriculture, forestry and waterpower engineering	2,256	2,000	2,737	1,283	1,751	2,833	811	414	505	-834	1,926	869	128.8	70.6	337.5	309.9
Fishing	7	2	5		75	17	192		-68	-16	-187		9.3	11.8	2.6	
Mining and quarrying	15	53	137	5,265	86	289	150	66,007	-71	-237	-13	-60,742	17.4	18.3	91.3	8.0
Manufacturing	8,675	27,064	58,219	216,299	20,202	51,396	74,963	169,826	-11,527	-24,332	-16,743	46,473	42.9	52.7	77.7	127.4
Man. of food prod. beverages and tobacco	1,968	5,130	10,681	28,333	1,838	3,776	9,120	33,932	130	1,354	1,561	-5,599	107.1	135.9	117.1	83.5
Man. of textiles and tex. prod	1,008	3,217	5,247	12,268	2,057	3,583	6,083	11,420	-1,048	-366	-836	848	49.0	89.8	86.3	107.4
Man. of leather and leather prod.	378	434	2,663	4,750	184	570	2,476	3,738	194	-135	187	1,013	205.4	76.1	107.6	127.1
Man. of wood and wood prod.	693	1,508	794	627	1,006	2,009	579	167	-313	-502	216	460	68.9	75.1	137.1	375.4
Man. of paper, publishing and print.	569	1,397	6,646	2,219	2,162	3,604	10,599	5,364	-1,593	-2,207	-3,953	-3,145	26.3	38.8	62.7	41.4
Man. of coke and refined petrol. prod	16	19	182	249	223	457	185	978	-207	-438	-4	-729	7.2	4.2	98.4	25.5
Man. of chemical prod. and man-made fib	175	1,112	3,401	33,885	2,753	4,789	8,434	22,329	-2,578	-3,677	-5,032	11,556	6.4	23.2	40.3	151.8
Man. of rubber and plastic prod.	499	1,593	3,279	22,738	1,744	4,776	4,492	13,081	-1,245	-3,183	-1,213	9,657	28.6	33.4	73.0	173.8
Man. of other non-met. mineral prod.	204	218	2,229	4,075	895	748	1,826	4,226	-691	-530	403	-150	22.8	29.1	122.1	96.4
Man. of basic metals and fab. metal prod	1,058	3,096	8,499	86,632	1,891	5,071	9,247	59,837	-833	-1,974	-748	26,796	55.9	61.1	91.9	144.8
Man. of mashinery and equipm. n.e.e	847	1,320	2,872	6,745	1,824	2,250	3,405	2,204	-977	-930	-533	4,541	46.4	58.7	84.3	306.0
Man. of electrical and optic. equip	599	2,313	5,166	6,648	2,425	13,319	12,185	6,814	-1,825	-11,007	-7,020	-166	24.7	17.4	42.4	97.6
Man. of transport equipment.	146	951	2,042	4,510	220	1,593	2,834	3,408	-74	-642	-792	1,101	66.4	59.7	72.1	132.3
Manufacturing n.e.c.	514	4,755	4,518	2,620	982	4,851	3,497	2,329	-467	-96	1,021	292	52.3	98.0	129.2	112.5
Electricity, gas and water supply		1	2,455	4,825	27	38	466	9,813		-38	1,989	-4,988	0.0	2.6	526.8	49.2
Construction	345	498	147	341	2,580	3,394	2,930	2,955	-2,235	-2,896	-2,782	-2,615	13.4	14.7	5.0	11.5
Wholesale and retail trade; rep	35,522	21,427	10,778	6,402	121,373	126,785	65,948	46,407	-85,852	-105,358	-55,170	-40,005	29.3	16.9	16.3	13.8
Hotels and restaurants	19	10	29	91	78	111	63	42	-59	-101	-33	48	24.4	9.0	46.0	216.7
Transport, storage and comm	548	901	181	1,128	3,506	5,082	1,462	48,247	-2,958	-4,181	-1,281	-47,120	15.6	17.7	12.4	2.3
Financial intermediation	14				58	32	3		-44				24.1			
Real estate activities	1,046	6,688	350	296	6,237	6,285	1,925	2,276	-5,191	403	-1,575	-1,981	16.8	106.4	18.2	13.0
Education	8	17			38	57			-30	-40			21.1	29.8		
Health and social work	2	14	15	54	67	5	12		-65	9	2	53	3.0	280.0	125.0	
Other comm. soc and pers. act	132	112	12	9	436	958	435	134	-304	-847	-423	-125	30.3	11.7	2.8	6.7

Table 26: External trade turnover – regional breakdown in 2005

District	Export in RSDm				Import in RSDm				Balance				Percentage cover index (Export/Import)			
	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large
Republic of Serbia	31,111	38,428	45,115	174,982	124,248	154,410	112,301	219,884	-93,137	-115,982	-67,186	-44,902	25.0	24.9	40.2	79.6
City of Belgrade	11,287	17,362	12,334	19,112	76,481	103,227	69,386	74,555	-65,194	-85,864	-57,052	-55,443	14.8	16.8	17.8	25.6
North Backa District	1,028	951	2,090	1,981	3,204	3,941	5,097	2,725	-2,177	-2,990	-3,007	-743	32.1	24.1	41.0	72.7
Central Banat District	180	249	1,581	2,196	502	827	1,431	2,134	-322	-578	150	63	35.9	30.2	110.5	102.9
North Banat District	372	380	1,312	10,563	772	1,116	732	5,240	-400	-735	580	5,323	48.2	34.1	179.2	201.6
South Banat District	412	590	1,974	20,364	2,398	2,490	2,093	11,632	-1,985	-1,899	-118	8,732	17.2	23.7	94.3	175.1
West Backa District	754	278	1,451	5,577	515	737	2,403	6,012	240	-459	-953	-434	146.5	37.8	60.4	92.8
South Backa District	3,901	4,060	6,974	15,039	13,517	13,340	7,929	28,862	-9,616	-9,280	-955	-13,823	28.9	30.4	88.0	52.1
Srem District	832	1,367	2,302	3,062	2,278	3,072	2,430	2,054	-1,446	-1,704	-127	1,008	36.5	44.5	94.8	149.1
Macva District	583	1,701	1,174	1,099	2,825	2,934	2,415	1,658	-2,243	-1,233	-1,240	-559	20.6	58.0	48.6	66.3
Kolubara District	254	1,157	1,510	2,011	665	699	1,556	2,236	-411	457	-46	-224	38.2	165.4	97.1	90.0
Podunavlje District	465	359	378	42,081	789	930	248	33,194	-325	-570	130	8,888	58.9	38.6	152.3	126.8
Branicevo District	195	335	519	616	709	701	742	873	-514	-365	-222	-257	27.5	47.9	70.0	70.6
Sumadija District	495	538	320	3,499	1,401	1,782	1,131	4,726	-905	-1,244	-811	-1,228	35.4	30.2	28.3	74.0
Pomoravlje District	271	756	704	1,670	1,140	1,961	655	2,180	-870	-1,205	48	-510	23.7	38.6	107.4	76.6
Bor District	5,006	770	121	2,108	4,438	950	416	2,606	568	-179	-295	-498	112.8	81.1	29.0	80.9
Zajecar District	389	340	401	1,593	424	199	347	1,553	-35	141	55	40	91.7	170.9	115.8	102.5
Zlatibor District	1,251	1,746	2,149	16,213	1,520	1,422	1,582	12,900	-269	323	567	3,312	82.3	122.7	135.8	125.7
Moravica District	883	1,308	3,645	3,027	1,979	4,695	5,220	2,360	-1,096	-3,388	-1,574	668	44.6	27.8	69.8	128.3
Raska District	292	1,124	1,154	302	2,622	2,214	1,183	459	-2,330	-1,090	-29	-157	11.1	50.8	97.6	65.7
Rasina District	983	521	176	6,419	1,004	1,408	352	5,570	-22	-888	-176	848	97.8	37.0	49.9	115.2
Nisava District	478	1,312	1,369	1,554	2,988	4,587	3,673	6,358	-2,510	-3,275	-2,303	-4,803	16.0	28.6	37.3	24.4
Toplica District	75	365	19	254	158	327	8	144	-83	37	11	110	47.4	111.4	251.8	176.6
Pirot District	85	73	54	9,294	342	89	207	2,825	-257	-16	-153	6,468	24.9	81.6	26.0	328.9
Jablanica District	383	338	599	444	816	365	468	745	-434	-28	130	-301	46.9	92.4	127.8	59.6
Peinja District	257	448	805	4,904	759	398	599	6,284	-503	50	206	-1,380	33.8	112.6	134.4	78.0

Table 27: External trade turnover – regional breakdown in 2006

District	Export in RSDm				Import in RSDm				Balance				Percentage cover index (Export/Import)			
	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large
Republic of Serbia	48,589	58,784	75,065	235,992	156,515	197,283	149,359	346,122	-107,926	-138,499	-74,294	-110,130	31.0	29.8	50.3	68.2
City of Belgrade	16,542	21,883	23,325	31,807	90,615	129,080	87,669	98,979	-74,073	-107,197	-64,345	-67,172	18.3	17.0	26.6	32.1
North Backa District	1,580	852	5,981	2,975	4,718	4,345	7,169	3,267	-3,137	-3,493	-1,187	-292	33.5	19.6	83.4	91.1
Central Banat District	309	391	2,117	2,659	547	1,292	1,201	2,166	-238	-901	916	494	56.5	30.2	176.3	122.8
North Banat District	555	696	3,595	11,849	906	1,892	889	4,596	-350	-1,196	2,706	7,253	61.3	36.8	404.5	257.8
South Banat District	813	937	1,900	23,949	3,292	2,778	2,978	12,633	-2,479	-1,840	-1,078	11,316	24.7	33.7	63.8	189.6
West Backa District	958	791	1,941	5,833	859	976	2,123	3,403	100	-185	-182	2,430	111.6	81.0	91.4	171.4
South Backa District	4,456	11,852	7,560	23,211	18,451	17,605	10,716	117,291	-13,995	-5,753	-3,156	-94,080	24.2	67.3	70.5	19.8
Srem District	1,221	1,659	4,405	3,921	3,646	4,342	6,337	2,460	-2,425	-2,683	-1,932	1,461	33.5	38.2	69.5	159.4
Macva District	726	1,500	1,328	3,476	3,420	2,412	3,080	3,300	-2,693	-912	-1,751	176	21.2	62.2	43.1	105.3
Kolubara District	418	1,323	3,676	3,412	722	906	3,936	4,127	-304	416	-259	-715	57.9	145.9	93.4	82.7
Podunavlje District	363	542	676	57,199	1,194	787	797	35,295	-831	-245	-121	21,904	30.4	68.9	84.8	162.1
Branicevo District	265	449	773	28	910	896	535	2,184	-645	-448	238	-2,156	29.1	50.0	144.6	1.3
Sumadija District	694	753	965	4,817	1,871	2,646	1,864	5,483	-1,178	-1,893	-899	-665	37.1	28.4	51.8	87.9
Pomoravlje District	483	468	1,416	2,641	1,211	2,210	1,283	2,086	-728	-1,742	133	554	39.8	21.2	110.4	126.6
Bor District	12,614	2,499	461	5,516	8,373	2,627	739	4,695	4,241	-128	-278	821	150.7	95.1	62.4	117.5
Zajecar District	70	783	659	1,193	551	262	405	1,631	-480	522	254	-438	12.8	299.3	162.7	73.1
Zlatibor District	1,864	2,891	2,124	19,876	2,325	2,492	2,079	17,017	-461	399	44	2,860	80.2	116.0	102.1	116.8
Moravica District	1,174	2,337	4,324	3,704	2,613	6,517	7,988	1,951	-1,439	-4,179	-3,664	1,754	44.9	35.9	54.1	189.9
Raska District	659	1,338	1,880	417	3,251	3,263	1,272	487	-2,592	-1,926	608	-71	20.3	41.0	147.8	85.5
Rasina District	976	1,068	435	8,124	1,222	1,971	451	7,164	-246	-902	-17	960	79.9	54.2	96.3	113.4
Nisava District	763	1,855	2,573	2,447	3,256	5,953	3,315	6,107	-2,493	-4,098	-742	-3,660	23.4	31.2	77.6	40.1
Toplica District	135	271	57	362	204	257	104	42	-70	14	-47	319	65.8	105.6	54.6	855.1
Pirot District	102	115	34	10,499	306	141	202	4,180	-204	-26	-167	6,319	33.3	81.8	17.1	251.2
Jablanica District	592	845	1,338	645	1,302	845	834	803	-710		504	-158	45.5	100.0	160.5	80.3
Pcinja District	256	684	1,522	5,432	752	788	1,395	4,777	-496	-103	127	655	34.0	86.9	109.1	113.7

Table 28: Generated profit in economy of Serbia

	2004		2005		2006	
	in RSDm	in %	in RSDm	in %	in RSDm	in %
Economy	191,732	100.0	260,790	100.0	314,811	100.0
<i>Large</i>	<i>101,376</i>	<i>52.9</i>	<i>129,362</i>	<i>49.6</i>	<i>149,208</i>	<i>47.4</i>
<i>SME</i>	<i>90,357</i>	<i>47.1</i>	<i>131,428</i>	<i>50.4</i>	<i>165,603</i>	<i>52.6</i>
Micro	24,086	12.6	35,730	13.7	42,707	13.6
Small	36,033	18.8	52,357	20.1	74,796	23.8
Medium	30,238	15.8	43,340	16.6	48,100	15.3

Table 29: Profit in economy of Serbia in 2006 by organization type and size

Organization type	Micro		Small		Medium		Large		Economy	
	in RSDm	in %	in RSDm	in %	in RSDm	in %	in RSDm	in %	in RSDm	in %
Partnership	1,493	3.5	828	1.1	29	0.1	0,0	0.0	2,350	0.7
Limited partnership	200	0.5	21	0.0	-27	-0.1	1,704	1.1	1,898	0.6
Stock company	-348	-0.8	1,718	2.3	7,707	16.0	74,501	49.9	83,578	26.5
Limited liability company	41,239	96.6	72,010	96.3	38,367	79.8	55,795	37.4	207,411	65.9
Social	-564	-1.3	-413	-0.6	-1,500	-3.1	-2,583	-1.7	-5,059	-1.6
Public	16	0.0	610	0.8	3,166	6.6	19,841	13.3	23,634	7.5
Cooperative	622	1.5	-146	-0.2	354	0.7	0,0	0.0	830	0.3
Other	49	0.1	168	0.2	4	0.0	-51	0.0	169	0.1
Total	42,707	13.6	74,796	23.8	48,100	15.3	149,208	47.4	314,811	100.0

Table 30: Section structure of profit in economy of Serbia (in RSDm)

Section	2004		2005		2006	
	SME	Large	SME	Large	SME	Large
Agriculture, forestry and waterpower engineering	4,318	2,236	4,665	2,738	5,611	1,566
Fishing	49	-65	42	30	125	0
Mining and quarrying	691	12,083	837	17,326	1,633	17,023
Manufacturing	29,091	18,573	40,489	24,879	47,446	31,163
Electricity, gas and water supply	2,085	27,179	2,040	28,662	2,579	36,283
Construction	12,277	6,262	10,811	6,213	16,563	6,932
Wholesale and retail trade; repairs	26,786	1,372	50,218	8,639	57,424	6,843
Hotels and restaurants	-160	83	1,001	-252	586	874
Transport, storage and communication	3,918	31,895	7,316	38,029	9,395	45,274
Financial intermediation	190	0	-71	0	944	0
Real estate, renting and business activities	10,452	1,077	11,804	1,039	20,721	1,250
Public administration, defence and compulsory social security	0	0	-3	0	-2	0
Education	237	1	440	1	242	1
Health and social work	-92	-83	-84	-228	12	-393
Other community, social and personal service activities	516	762	1,924	2,287	2,322	2,391

Table 31: Section structure of the profit of SME (in RSDm)

Section	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Agriculture, forestry and water power engineering	435	851	3,032	528	1,414	2,723	1,167	2,355	2,089
Fishing	8	68	-27	21	47	-25	49	101	-25
Mining and quarrying	75	153	463	145	195	497	198	291	1,145
Manufacturing	4,861	11,963	12,267	6,946	15,679	17,864	7,001	18,252	22,192
Electricity, gas and water supply	35	225	1,825	51	384	1,604	40	511	2,028
Construction	2,693	5,168	4,416	1,882	4,171	4,758	2,780	7,118	6,665
Wholesale and retail trade; repairs	11,330	11,836	3,620	18,012	21,590	10,616	20,348	30,426	6,650
Hotels and restaurants	-20	-94	-46	4	251	745	3	302	281
Transport, storage and communication	1,281	1,599	1,038	2,235	3,291	1,790	2,604	4,103	2,688
Financial intermediation	54	60	76	-7	13	-77	303	623	18
Real estate, renting and business activities	3,138	3,901	3,412	5,223	4,596	1,985	7,387	10,013	3,320
Public administration, defence and compulsory social security	0	0	0	1	0	-4	1	0	-3
Education	22	220	-5	177	123	141	113	84	45
Health and social work	34	-40	-87	33	54	-171	68	47	-103
Other community, social and personal service activities	140	122	254	480	551	893	644	569	1,109

Table 32: : Structure of the profit of SME in Manufacturing (in RSDm)

Section	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Manufacturing	4,861	11,963	12,267	6,946	15,679	17,864	7,001	18,252	22,192
Manufacture of food products, beverages and tobacco	388	1,124	5,271	914	2,220	6,126	718	2,142	9,756
Manufacture of textiles and textile products	37	197	-239	362	841	11	266	926	101
Manufacture of leather and leather products	92	61	135	78	162	203	66	203	83
Manufacture of wood and wood products	297	476	-74	392	743	-106	374	809	-209
Manufacture of paper, publishing and printing	657	2,110	2,394	1,175	2,418	4,071	1,192	2,888	4,288
Manufacture of coke and refined petroleum products	20	100	-44	24	63	-54	84	54	-50
Manufacture of chemical products and man-made fibres	296	1,496	1,436	424	1,255	3,432	240	1,274	3,065
Manufacture of rubber and plastic products	303	913	225	455	1,444	580	522	1,544	894
Manufacture of other non-metallic mineral products	149	426	127	172	373	794	223	612	682
Manufacture of basic metals and fabricated metal products	739	1,496	667	966	1,601	457	1,073	2,213	1,323
Manufacture of machinery and equipment n.e.c.	354	686	324	428	702	274	427	637	-128
Manufacture of electrical and optical equipment	1,228	2,188	1,337	1,097	2,634	1,321	1,189	3,055	1,901
Manufacture of transport equipment	69	117	89	30	211	128	79	378	-428
Manufacturing n.e.c.	232	573	619	428	1,012	627	548	1,518	915

Table 33: Profitability rates by sections

Section	2004			2005			2006		
	SME	Large	Total	SME	Large	Total	SME	Large	Total
Agriculture, forestry and water power engineering	29.1	19.7	25,0	27.5	20.4	24.4	27,0	11.9	21.2
Fishing	16.6	-217.8	-5.1	12.2	25.4	15.6	23.2	0,0	23.2
Mining and quarrying	43.8	33.4	33.8	42.3	39.2	39.3	54.7	37.6	38.7
Manufacturing	38.3	16.1	24.9	39.9	19.3	28.4	37.4	21,0	28.5
Electricity, gas and water supply	30,0	60.2	56.1	25.4	58.9	54.2	26.8	58.4	54.2
Construction	49,0	29.9	40.3	41.6	25.6	33.9	44.1	24.1	35.4
Wholesale and retail trade; repairs	43,0	11.5	38,0	50.2	35.3	47.3	47.1	24.1	42.7
Hotels and restaurants	-4.6	4,0	-1.4	17.8	-10.4	9.3	8.3	26.6	14.1
Transport, storage and communication	32.8	43.3	41.8	39.7	43,0	42.4	36.9	45.7	43.9
Financial intermediation	39.2	0,0	39.2	-12.8	0,0	-12.8	50.4	0,0	50.4
Real estate, renting and business activities	35.5	19,0	32.9	31.9	12.8	28.5	36.8	12.2	33,0
Public administration, defence and compulsory social security	2.8	0,0	2.8	-14.2	0,0	-14.2	-4.6	0,0	-4.6
Education	20.7	0.1	11.2	27.5	0,0	15,0	15.5	0.1	9.2
Health and social work	-9.1	-27.5	-13.3	-7,0	-73,0	-20.6	0.8	-107.6	-19.9
Other community, social and personal service activities	9.1	9.1	9.1	21	21.3	21.2	20.5	26.7	23.3

Table 34: Profitability rates in Manufacturing

Section	2004			2005			2006		
	SME	Large	Total	SME	Large	Total	SME	Large	Total
Manufacturing	38.3	16.1	24.9	39.9	19.3	28.4	37.4	21	28.5
Manufacture of food products, beverages and tobacco	41.4	25.1	29.4	40.8	34.3	36.3	43.2	42.2	42.5
Manufacture of textiles and textile products	-0.2	-42.2	-21.2	22.7	-21.3	4.3	18.9	-21.3	3.6
Manufacture of leather and leather products	19.2	-23.8	2.3	24.2	-0.3	12.8	16.1	3.5	10.4
Manufacture of wood and wood products	29.2	-92.3	16,0	32.3	-68.3	25.2	27.2	-42.9	22.5
Manufacture of paper, publishing and printing	45.2	14.4	35.8	48.3	18.9	40.9	44.3	23.3	39.6
Manufacture of coke and refined petroleum products	30.3	0,0	30.3	13.2	46.1	33.8	29,0	45.8	41.4
Manufacture of chemical products and man-made fibres	51.3	42	44.6	57	37.1	43.8	49.8	21.1	31.1
Manufacture of rubber and plastic products	40.3	39.4	39.7	48.6	45.2	46.4	44.4	31.6	37.3
Manufacture of other non-metallic mineral products	21.4	26.8	25.4	28.7	32.3	31.1	27.3	32.7	30.9
Manufacture of basic metals and fabricated metal products	35.5	-11.9	10.1	30,0	-3,0	11.1	32.2	20.2	25,0
Manufacture of machinery and equipment n.e.c.	34.6	4.3	15.7	31,0	-23.7	-1.8	17.3	-29.4	-10.7
Manufacture of electrical and optical equipment	49.2	-14.7	31.2	43.5	-4.3	29.6	41.2	4.7	31.6
Manufacture of transport equipment	16,0	-38.1	-24.5	18.1	-64,0	-41.1	1.2	-91.6	-63.3
Manufacturing n.e.c.	36.3	-27.8	15.2	39.4	-20.5	24,0	40.5	-19.2	26.3

Table 35: Profitability rates of SME by sections

Section	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Agriculture, forestry and water power engineering	30.5	24.0	30.7	33.8	32.8	24.6	46.2	36.9	17.6
Fishing	42.2	39.0	-26.6	55.1	27.7	-17.9	65.5	39.4	-12.2
Mining and quarrying	57.1	51.0	40.3	74.3	50.3	35.6	66.2	53.3	53.4
Manufacturing	46.6	51.2	29.1	49.9	50	31.8	42.0	45.0	31.9
Electricity, gas and water supply	42.2	22.7	31.0	47.2	29.9	24.2	34.8	31.2	25.8
Construction	60.0	58.0	37.9	47.3	46.1	36.7	47.9	50.9	37.5
Wholesale and retail trade; repairs	48.3	49.9	24.0	52.2	55.5	39.8	49.1	57.3	24.2
Hotels and restaurants	-10.3	-14.1	-1.7	1.4	19.7	18.3	0.6	17	5.8
Transport, storage and communication	41.9	37.9	22.2	47.3	44.8	28.1	43.0	41.4	28.2
Financial intermediation	28.7	37.4	55.6	-3.7	4.6	-100	41.1	68.0	8.3
Real estate, renting and business activities	30.8	39.9	36.1	37.0	36.6	19.2	38.4	46.0	21.7
Public administration, defence and compulsory social security	2.8	0.0	0.0	5.7	0.0	-30.2	3.9	-7.4	-18.5
Education	5.5	38.2	-3.1	26.9	25.8	30	13.9	16.7	18.0
Health and social work	29.5	-10.5	-16.8	24.4	11.8	-27.8	29.9	8.3	-13.7
Other community, social and personal service activities	14.0	8.1	8.0	29.1	23.3	17.3	28.2	17.2	19.4

Table 36: Profitability rates of SME in Manufacturing

Section	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Manufacturing	46.6	51.2	29.1	49.9	50	31.8	42	45	31.9
Manufacture of food products, beverages and tobacco	34.5	40.2	42.3	53	48.5	37.3	37.6	37.8	45.1
Manufacture of textiles and textile products	6.8	19.5	-12.7	43	42.6	0.4	28.3	35.1	3.1
Manufacture of leather and leather products	53.4	22.7	12.8	41.4	36.3	17	33.7	31.8	6.2
Manufacture of wood and wood products	48.7	46.6	-9.7	50.3	50.5	-11.3	42	46	-22.7
Manufacture of paper, publishing and printing	40.2	48.7	43.9	48.1	44.9	50.7	38.5	43.2	47.2
Manufacture of coke and refined petroleum products	64.2	70.3	-56.5	54	56.3	-62.9	68.4	55.7	-59.4
Manufacture of chemical products and man-made fibres	53.0	70.9	39.7	56.2	59.3	56.3	34.7	51.2	51.0
Manufacture of rubber and plastic products	51.6	60.6	15.2	54.5	64.2	28.8	50.3	57.1	30.6
Manufacture of other non-metallic mineral products	46.4	51.0	6.0	41.5	43.8	23.4	41.1	45.2	18.7
Manufacture of basic metals and fabricated metal products	52.8	52.7	16.9	53.0	44.3	9.8	49.9	43.3	18.7
Manufacture of machinery and equipment n.e.c.	57.5	55	15.6	53.7	47.4	12.2	40.7	36.6	-4.9
Manufacture of electrical and optical equipment	58.1	57.9	35.4	49.6	55	28.6	45.7	51.2	30.0
Manufacture of transport equipment	48.3	44.6	6.8	17.4	51.6	8.8	38.5	46.6	-29.7
Manufacturing n.e.c.	41.0	46.4	29.1	48.7	53.4	25.4	45.1	52.0	28.3

Table 37: Profit structure of economy of Serbia by districts (in RSDm)

District	2004		2005		2006	
	SME	Large	SME	Large	SME	Large
City of Belgrade	49,810	60,914	68,233	76,554	88,010	86,588
<i>share in district</i>	45.0	55.0	47.1	52.9	50.4	49.6
North Backa District	2,857	728	4,364	727	5,486	95
<i>share in district</i>	79.7	20.3	85.7	14.3	98.3	1.7
Central Banat District	1,677	1,563	1,458	1,208	1,682	744
<i>share in district</i>	51.8	48.2	54.7	45.3	69.3	30.7
North Banat District	1,417	950	1,697	1,298	2,475	404
<i>share in district</i>	59.9	40.1	56.7	43.3	86.0	14.0
South Banat District	2,751	3,835	3,500	2,511	3,413	-211
<i>share in district</i>	41.8	58.2	58.2	41.8	100.0	0.0
West Backa District	1,816	5,007	2,663	2,418	2,681	2,324
<i>share in district</i>	26.6	73.4	52.4	47.6	53.6	46.4
South Backa District	10,936	21,279	16,191	29,746	20,383	33,394
<i>share in district</i>	33.9	66.1	35.2	64.8	37.9	62.1
Srem District	2,656	-129	4,219	-328	5,224	35
<i>share in district</i>	100.0	0.0	100.0	0.0	99.3	0.7
Macva District	1,650	443	2,865	519	2,456	1,396
<i>share in district</i>	78.8	21.2	84.7	15.3	63.8	36.2
Kolubara District	1,423	-47	2,484	148	2,966	221
<i>share in district</i>	100.0	0.0	94.4	5.6	93.1	6.9
Podunavlje District	761	-780	1,090	-1,687	1,264	3,535
<i>share in district</i>	100.0	0.0	100.0	0.0	26.3	73.7
Branicevo District	449	3,009	777	3,299	1,131	3,023
<i>share in district</i>	13.0	87.0	19.1	80.9	27.2	72.8
Sumadija District	1,430	-133	3,072	-1,679	2,970	-181
<i>share in district</i>	100.0	0.0	100.0	0.0	100.0	0.0
Pomoravlje District	1,066	-493	1,890	-347	2,097	-774
<i>share in district</i>	100.0	0.0	100.0	0.0	100.0	0.0
Bor District	-257	1,285	14	1,197	-29	2,043
<i>share in district</i>	0.0	100.0	1.2	98.8	0.0	100.0
Zajecar District	80	603	256	417	326	152
<i>share in district</i>	11.7	88.3	38.0	62.0	68.2	31.8
Zlatibor District	1,623	3,260	2,997	4,568	3,582	4,862
<i>share in district</i>	33.2	66.8	39.6	60.4	42.4	57.6
Morava District	2,887	556	4,662	772	6,705	529
<i>share in district</i>	83.8	16.2	85.8	14.2	92.7	7.3
Raska District	1,947	1,933	3,534	1,987	4,063	2,101
<i>share in district</i>	50.2	49.8	64.0	36.0	65.9	34.1
Rasina District	1,205	1,488	1,330	1,360	1,449	458
<i>share in district</i>	44.8	55.2	49.4	50.6	76.0	24.0
Nisava District	2,140	-2,430	3,146	3,851	5,213	7,169
<i>share in district</i>	100.0	0.0	45.0	55.0	42.1	57.9
Toplica District	192	-231	287	-17	189	199
<i>share in district</i>	100.0	0.0	100.0	0.0	48.8	51.2
Pirot District	-56	427	181	977	290	411
<i>share in district</i>	0.0	100.0	15.6	84.4	41.3	58.7
Jablanica District	-132	764	132	784	1,056	209
<i>share in district</i>	0.0	100.0	14.4	85.6	83.4	16.6
Pcinja District	419	-637	387	-920	520	481
<i>share in district</i>	100.0	0.0	100.0	0.0	51.9	48.1

Table 38: Profit structure of SME by districts (in RSDm)

District	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
City of Belgrade	13,457	20,475	15,878	17,650	27,706	22,878	22,291	39,391	26,329
<i>share in district</i>	27.0	41.1	31.9	25.9	40.6	33.5	25.3	44.8	29.9
North Backa District	588	1,073	1,195	1,071	1,545	1,749	1,116	1,686	2,684
<i>share in district</i>	20.6	37.6	41.8	24.5	35.4	40.1	20.3	30.7	48.9
Central Banat District	170	335	1,172	329	488	642	302	622	759
<i>share in district</i>	10.2	20.0	69.9	22.6	33.4	44.0	17.9	37.0	45.1
North Banat District	251	355	811	436	488	774	546	745	1,185
<i>share in district</i>	17.7	25	57.3	25.7	28.7	45.6	22.1	30.1	47.9
South Banat District	513	597	1,641	474	975	2,051	635	1,966	812
<i>share in district</i>	18.7	21.7	59.7	13.6	27.8	58.6	18.6	57.6	23.8
West Backa District	330	430	1,056	618	651	1,394	628	872	1,182
<i>share in district</i>	18.2	23.7	58.1	23.2	24.4	52.4	23.4	32.5	44.1
South Backa District	2,364	4,264	4,308	4,771	5,898	5,521	5,403	10,477	4,503
<i>share in district</i>	21.6	39	39.4	29.5	36.4	34.1	26.5	51.4	22.1
Srem District	583	1,154	919	917	2,020	1,281	785	2,628	1,811
<i>share in district</i>	22	43.5	34.6	21.7	47.9	30.4	15	50.3	34.7
Macva District	349	448	853	657	1,316	892	627	1,074	755
<i>share in district</i>	21.2	27.1	51.7	22.9	45.9	31.1	25.5	43.7	30.7
Kolubara District	436	635	352	594	885	1,005	667	1,302	997
<i>share in district</i>	30.6	44.6	24.8	23.9	35.6	40.4	22.5	43.9	33.6
Podunavlje District	381	250	131	547	401	141	787	476	2
<i>share in district</i>	50.1	32.8	17.1	50.2	36.8	12.9	62.2	37.6	0.1
Branicevo District	114	112	223	299	314	165	326	484	321
<i>share in district</i>	25.5	24.9	49.6	38.4	40.4	21.2	28.8	42.8	28.4
Sumadija District	576	706	148	959	1,038	1,075	905	1,394	670
<i>share in district</i>	40.3	49.4	10.3	31.2	33.8	35	30.5	46.9	22.6
Pomoravlje District	342	461	263	446	922	522	409	1,003	686
<i>share in district</i>	32.1	43.3	24.7	23.6	48.8	27.6	19.5	47.8	32.7
Bor District	36	66	-358	128	191	-305	158	508	-695
<i>share in district</i>	35.3	64.7	0	40.2	59.8	0	23.8	76.2	0
Zajecar District	42	15	22	209	58	-11	178	131	17
<i>share in district</i>	52.7	19.4	27.9	78.4	21.6	0	54.6	40.2	5.2
Zlatibor District	713	569	341	1,090	1,201	706	1,439	1,626	517
<i>share in district</i>	43.9	35.1	21	36.4	40.1	23.6	40.2	45.4	14.4
Morava District	685	1,339	864	992	2,063	1,607	1,539	2,778	2,388
<i>share in district</i>	23.7	46.4	29.9	21.3	44.3	34.5	23	41.4	35.6
Raska District	537	678	732	1,017	1,146	1,370	983	1,477	1,603
<i>share in district</i>	27.6	34.8	37.6	28.8	32.4	38.8	24.2	36.4	39.5
Rasina District	382	559	265	656	766	-92	733	772	-56
<i>share in district</i>	31.7	46.4	22	46.1	53.9	0	48.7	51.3	0
Nisava District	910	1,131	99	1,017	1,726	404	1,188	2,247	1,777
<i>share in district</i>	42.5	52.9	4.6	32.3	54.9	12.8	22.8	43.1	34.1
Nisava District	19	111	63	19	101	167	67	135	-14
<i>share in district</i>	9.6	57.6	32.7	6.5	35.3	58.3	33.2	66.8	0
Pirot District	65	37	-158	120	133	-72	94	176	20
<i>share in district</i>	63.4	36.6	0	47.5	52.5	0	32.5	60.6	6.9
Jablanica District	143	199	-474	349	166	-384	538	547	-30
<i>share in district</i>	41.8	58.2	0.0	67.7	32.3	0	49.6	50.4	0
Pcinja District	162	171	87	366	159	-138	364	280	-124
<i>share in district</i>	38.6	40.7	20.7	69.7	30.3	0	56.5	43.5	0

Table 39: Profitability rates by districts (in %)

District	2004			2005			2006		
	SME	Large	Total	SME	Large	Total	SME	Large	Total
City of Belgrade	45.1	37.1	40.3	44.7	37.7	40.7	43.5	37.6	40.4
North Backa District	35.7	17.0	29.1	40.6	15.8	33.2	38.5	2.4	30.6
Central Banat District	33.2	30.1	31.6	26.5	23.7	25.2	25.5	14.4	20.6
North Banat District	28.8	23.8	26.5	29.2	26.8	28.1	34.3	9.8	25.4
South Banat District	31.9	35.9	34.1	33.0	22.9	27.9	28.0	-2.2	14.6
West Backa District	32.3	49.7	43.4	35.8	27.1	31.1	30.3	29.7	30.0
South Backa District	39.7	45.8	43.5	42.9	49.0	46.7	42.3	48.2	45.8
Srem District	37.2	-5.4	26.5	40.8	-14.2	30.8	38.2	1.2	31.8
Maeva District	28.0	16.9	24.6	35.1	18.6	30.9	33.3	38.9	35.2
Kolubara District	35.6	-4.2	26.8	43.8	9.5	36.4	41.4	10.6	34.4
Podunavlje District	25.4	-14.8	-0.2	27.4	-26.1	-5.7	25.4	25.3	25.4
Branicevo District	19.4	40.8	35.7	24.3	38.4	34.5	28.7	36.4	34.0
Sumadija District	30.8	-1.5	9.7	42.3	-16.6	8.0	34.9	-1.4	12.9
Pomoravlje District	29.8	-10.5	6.9	35.5	-6.6	14.6	31.6	-14.4	11.0
Bor District	-17.7	26.4	16.2	0.7	21.1	15.9	-1.0	23.5	17.6
Zajecar District	5.8	26.8	18.9	12.3	19.5	16.0	13.6	10.5	12.4
Zlatibor District	28.8	36.3	33.4	37.0	43.9	40.9	34.1	43.3	38.9
Morava District	40.0	12.5	29.5	44.7	15.8	35.5	46.4	11.6	38.1
Raska District	35.3	36.0	35.7	42.3	34.4	39.1	39.4	28.7	35.0
Rasina District	33.9	23.5	27.2	31.1	17.9	22.6	27.1	5.8	14.4
Nisava District	27.5	-21.5	-1.5	29.8	34.0	32.0	36.4	44.6	40.7
Nisava District	19.2	-46.8	-2.6	23.4	-3.2	15.3	13.7	41.3	20.8
Pirot District	-5.1	12.9	8.4	11.4	25.3	21.3	13.5	11.2	12.0
Jablanica District	-6.3	24.1	12.0	4.9	24.7	15.6	17.1	7.9	14.3
Pcinja District	16.2	-16.0	-3.3	13.5	-19.5	-7.0	13.4	8.4	10.4

Table 40: Profitability rates of SME by districts (in %)

District	2004			2005			2006		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
City of Belgrade	46.7	51.4	38.0	46.6	49.7	38.8	44.4	50.5	35.6
North Backa District	36.5	43.4	30.4	45.8	44.8	35.3	39.9	39.1	37.6
Central Banat District	32.6	31.4	33.8	41.4	34.0	19.6	31.6	30.8	20.9
North Banat District	35.5	32.5	25.9	44.1	32.8	23.2	47.0	35.8	29.8
South Banat District	37.2	31.3	30.7	33.0	35.4	31.9	34.1	45.9	13.4
West Backa District	41.3	36.3	29.0	49.0	39.2	30.9	43.5	38.0	23.1
South Backa District	40.5	47.3	34.0	50.6	48.8	34.1	47.0	55.0	25.5
Srem District	44.2	44.4	28.5	45.1	50.5	29.8	35.1	49.1	29.8
Macva District	31.4	27.9	26.9	41.2	47.5	23.5	39.4	42.4	23.3
Kolubara District	48.4	48.0	19.9	53.0	51.8	35.3	49.3	50.5	30.8
Podunavlje District	46.6	29.7	9.7	50.1	33.6	8.4	53.1	30.6	0.1
Branicevo District	22.3	18.6	18.4	38.9	33.5	11.0	35.7	38.0	18.4
Sumadija District	51.7	47.9	7.2	55.1	53.0	30.1	48.9	47.4	18.0
Pomoravlje District	37.7	37.2	18.4	38.0	46.2	24.2	29.8	40.8	24.5
Bor District	14.6	18.3	-42.2	35.8	38.3	-28.0	33.3	49.9	-54.9
Zajecar District	17.7	4.9	2.7	47.8	16.2	-0.9	38.6	21.1	1.3
Zlatibor District	51.9	39.9	12.0	58.0	47.8	19.0	54.0	47.3	11.7
Morava District	46.0	56.3	25.7	46.2	58.3	33.9	55.2	56.6	35.4
Raska District	46.2	44.3	26.0	56.3	50.2	32.2	48.4	43.8	32.6
Rasina District	48.4	43.8	17.7	51.8	47.2	-6.7	47.2	38.4	-3.1
Nisava District	43.4	38.9	3.6	41.9	43.0	9.8	39.5	42.4	29.6
Nisava District	12.7	40.9	10.8	11.2	31.8	22.6	25.4	34.0	-1.9
Pirot District	29.5	11.0	-29.4	39.0	25.9	-9.5	26.9	24.6	1.9
Jablanica District	30.0	29.2	-51.0	44.5	23.2	-32.1	40.0	30.3	-1.0
Peinja District	30.2	30.7	5.8	43.9	24.4	-10.0	35.6	29.8	-6.4

2. Strategy for Competitive and Innovative SME

(英語、SADSMEE、2007 年)

Draft (1)

*Strategy for Competitive and Innovative Small and Medium-sized Enterprises
2008-2012*

Integral version

*Draft of the five-year Strategy for the Development of Small and Medium-sized Enterprises and
Entrepreneurship in Serbia*

December 2007.

Content	Page
I STRATEGY BASIS	
• <i>Macro-economic environment</i>	
• <i>SMEs sector development</i>	
II DIRECTION (PILLARS) OF THE STRATEGY	
• <i>Promotion of entrepreneurship and start-ups</i>	
• <i>Human resources for a competitive SME sector – Development of management, knowledge and skills and advisory services</i>	
• <i>Financing and financial expertise for SMEs and taxation</i>	
• <i>Competitive advantages for SMEs in export markets – Innovations, quality assurance, sector development, clusters and outsourcing</i>	
• <i>Legal environment in Serbia and public institutions at the service of SMEs</i>	
III STRATEGY IMPLEMENTATION	
IV STRATEGY FINANCING	
V STRATEGY IN THE EUROPEAN CONTEXT	
• <i>Impact on the implementation of the European Charter for Small Enterprises</i>	
• <i>Pre-accession instruments</i>	
• <i>Initiative for innovation support</i>	
VI STRATEGY OPERATIONALIZATION	
VII MONITORING AND ANALYSIS OF STRATEGY EFFECTS	
VIII SWOT ANALYSIS	

I STRATEGY BASIS

a. Macro-economic environment

The next five years will be of crucial significance for Serbia in its efforts to build an economy which will provide a European standard of living for its citizens. Small and medium-sized enterprises (SME) will have an important role in the achievement of that objective. In the current decade, significant economic progress has been made with an average annual Gross Domestic Product (GDP) growth rate of over five per cent, together with single digit inflation. Significant economic reforms, restructuring and privatization have been carried out.

Basic macro-economic indicators¹ are as follows:

- GDP growth of 5.7% was achieved in 2006, but it is estimated that the real level of GDP is only 65% of the level in 1990;
- GDP per capita in Serbia for 2006 was USD 4,270, compared with an EU average of USD 29,300;
- Compared with neighboring countries and the European Union, Serbia has the highest unemployment rate at 20.8% and the highest long-term unemployment rate at 16.5%;
- Total productivity is among the lowest in Europe, as shown by Serbia's ranking at 87th in the World Competitiveness Index for 2006²;
- Serbia has an extremely high trade deficit, which rose by 11% in 2006 to USD 6.7 billion, while the value of imports was more than double the value of exports;
- In the period between 2001 and 2005 foreign direct investments (FDI) totaled USD 4.5, while only in 2006 they totaled USD 4.4; *Shane comment: I'm not clear about this.*
- The diaspora remits around USD 3 billion per year. Serbia is in fourth place among European countries which depend on emigrants' remittances;
- For 2006 the current account deficit totaled USD 3.6 billion (or 12.3% of GDP), while total balance surplus was based on the realized net FDIs income (including the revenues from privatization) and usage of foreign credits. *Shane comment: I'm not clear about this.*

The **labor market** in Serbia is characterized by high unemployment rates, considerable hidden unemployment, low participation of employment in the private sector and insufficient labour mobility. As a consequence of economic transition, between 2001 and 2006, overall employment decreased at an average annual rate of 0.5% and unemployment increased at an average annual rate of 5.7%.

The employment rate of the working population in 2006 totaled 49.9% in Serbia (according to the Labour Force Survey) and compared with the European Union and some of its members, as well as with neighboring countries, it is at a low level (only Turkey has a lower employment rate – 45.9%).

The labour market is under pressure from large numbers of job seekers, while the supply of labour does not correspond to the demand, bearing in mind that the structure of registered unemployed persons is unfavorable, with a high percentage of long-term unemployed, young, unskilled and women. According to the data of the National Employment Service (NES), the total number of persons seeking employment in 2006 was 1,005,427, while 913,239 of them were actively unemployed. At the same time, the unemployment rate among persons seeking a job rose from 26.8% in 2001 to 33.1% in 2006 (NES data). The unemployment rate (of actively unemployed) in 2004 was 26.4%, 30.0% in 2005 and 31.0% in 2006.

¹ Source: Report on SME 2006.

² World Competitiveness Index

The analysis of the World Economic Forum (WEF), as shown by the the changes in the **World Competitiveness Index** during the last three years (position 96 in 2004, 85 in 2005, and 87 in 2006), indicates a mild improvement but a continuously low level of competitiveness for the Serbian economy. The basic problems which the Serbian economy faces are in the areas of institutions, infrastructure, macro-economy, health and education. The *Business Competitiveness Index* also shows that the micro-competitiveness of our economy is at a very low level (position 83 among 103 countries in 2004, 86 out of 116 countries in 2005. and 86 out of 121 countries in 2006.) due to the continuously unfavorable business environment.

The **Micro-economic measures**, which should be undertaken, relate to: (1) realization of strategic and operational solutions for certain economic subjects (*Shane comment: "I'm not clear as to what is meant by subjects"*) and sectors; (2) easier access to financial resources for business entities; (3) further simplification of administrative procedures; (4) modernization of production processes, which would provide a higher level of diversification and specialization in production processes; (5) links between business entities and scientific institutions; (6) implementation of international standards; (7) improvements in the efficiency of government incentives for economic growth and development.

The low level of innovation activities in the Serbian economy represents the main barrier to economic growth in the modern international market, where the highest priority is given to factors based on knowledge and high technology.

The Serbian economy is characterized by weak activity and shortage of business innovations, lack of innovation networks, lack of research, poor reputation of domestic products, insufficient support in finance and infrastructure, a limited number of laboratories and research capacities, as well as the lack of the key factor – infrastructure network for the development of innovation. Basic activities should be directed towards creation of an adequate structure of innovative achievement by companies, enterprise match-making (especially with knowledge centers), creation of a critical mass of innovative enterprises, implementation of and adherence to internationally accepted standards and creation of conditions for internationalization of business innovation within the economy.

Information and communication technologies (ICT) are closely related to innovation. According to the WEF report, in the field of ICT, Serbia holds 79th position out of the 104 countries, which were assessed. Serbia is in a very low position compared to the EU and its new member states. This finding shows a low level of readiness in the public sector, from the national to the local levels, to participate in the development of ICT or to make use of it.

The Government of the Republic of Serbia has prepared a number of policy documents; the objective of which is to build an internationally competitive economy that would be able to provide a higher living standard and a much higher level of employment. The economic priorities of Serbia are listed in two main documents:

- National Strategy for the Economic Development of Serbia 2006 – 2012, which envisages a yearly GDP rise of at least five percent;
- National Investment Plan 2006 – 2012 (NIP), which envisages state investments of at least EUR 1.2 billion per year (5% of GDP) in infrastructure, economic development, housing and state administration capacity building, with higher allocations per capita for underdeveloped areas.

In addition, the following strategic documents are also relevant:

- Multi-Annual Indicative Planning Document 2007 – 2009 (In cooperation with the European Commission);

- Strategy for Regional Development;
- National Employment Strategy 2005 – 2010;
- Poverty Reduction Strategy;
- Strategy for the Development of Vocational Education and Training ;
- Strategy for Development of Tourism;
- National Strategy of Serbia for EU Accession.

b. Development level of SME sector

The general conditions in which business activities are conducted also affect the position and results of the small and medium-sized enterprises (SME) sector. Indicators in relation to the SME sector demonstrate the role that this sector plays in the economy: total number of business entities, employment, gross value added (GVA), realized turnover, role in foreign trade, profitability and productivity in business, competitiveness, innovation and technical-technological progress. The *SME Development Index* (*Shane comment: whose index?*) shows that Serbia has made progress in recent years, which has ranked it among the fastest growing countries since 2005. Bearing in mind that the process of privatization is almost complete, it will be necessary to direct a complex set of activities towards support for development of the SME sector, so that it can play a key role in the achievement of economic growth, expansion of employment, strengthening of competitiveness and a decrease in the foreign trade deficit.

Analysis of the level of SME sector development³ shows that the sector is becoming an increasingly important segment of the economy in the implementation of structural reforms. Compared to 2004, this sector is characterized by a continuous increase in the number of employees, an increase in turnover, GDP and exports. The SME sector comprises 99.7% of the total number of business entities, it accounts for two thirds of total employment, it represents two thirds of total turnover and around 60% of GDP, 40% of exports, 60% of import, but also as many as three thirds (*Shane comment: !!!!*) of the foreign trade deficit of Serbia. However, it should be stressed that in 2005 and 2006, SME generated 60,000 net new jobs annually.

With an average number of SMEs per 1,000 citizens (36), Serbia is not far behind the average of the new EU member states, among which the Czech Republic (42), as leader, is the closest to the EU average. However, a more in-depth analysis shows the unfavorable structure of the Serbian SME sector. Micro enterprises comprise 95.5% of the sector, small 3.4% and medium-sized only 0.9%. Comparing the number of employees, micro enterprises account for 30.2% of employment, small 13.4% and medium-sized 19.5%. Nevertheless, micro enterprises with an average of only two employed, account for 35.3% of the realized turnover and 25.3% of the total GDP of the SME sector. This shows slow growth and development and the need to develop a more balanced structure for the SME sector, with a faster conversion of micro into small, and small into medium-sized enterprises.

For 2004-2005, the SME sector had above average but decreasing, while big enterprises had below average but increasing, **productivity level indexes**. Decreased productivity of SMEs and the unproductive business transactions of big enterprises contributed to a decrease in productivity for the whole economy and to a decrease in its competitiveness on external markets.

3 Source: Report on SME 2006.

The SME sector is also characterized by an extremely high regional disproportion bearing in mind that over 39% of SMEs are concentrated in the Belgrade area (29.1%) and South Backa region (10.2%). These regions have generated almost 51% of the total turnover. A similar situation exists in relation to sector concentration, as shown by the fact that 56.1% of SMEs operate in only two sectors (processing industry 16.6% and whole-sale and retail trade 39.5%). These two sectors also account for two thirds of total turnover. At the same time, high-technology sectors are very poorly represented. This shows that the SME sector at present does not have a significant effect on a reduction in regional disparities and in changes to the economic structure.

In the SME sector, there is an insufficient horizontal and vertical integration, both mutually and with large-scale enterprises and with scientific and research institutions. As a consequence, the application of innovation and new technical-technological improvements in enterprises is weak, which is resulting in inadequate improvements in productivity and competitiveness. Research⁴ from 2006 presents the view of entrepreneurs that Serbia's export potential could be multiplied if the SME sector were organized more efficiently.

c. SME policy implementation

On the basis of annual reports of the European Commission on Serbia's progress in development of the SME sector and implementation of the principles of the European Charter for Small Enterprises, it could be concluded that Serbia has a positive tendency of development and impact of SME to moderate the starting negative effects of transition and that the continuation of reforms in the area of legal and legislative regulations will effect SME to grow into the barrier for structural changes and overall economic development of Serbia.

Shane comment: I think that this is what the above paragraph means.

On the basis of annual reports of the European Commission on Serbia's progress in development of the SME sector and implementation of the principles of the European Charter for Small Enterprises, it could be concluded that development trends in Serbia are positive and that the progress of the SME sector, is offsetting to some extent, the initial negative effects of transition and that the continuation of the reform process will ensure the structural changes necessary for the overall development of Serbia.

According to the Report of the European Commission and estimates of OECD⁵, Serbia has reached the level 2.48 (in the scale from 1 to 5, where 5 is the highest score) in the process of implementation of the EU Charter. The greatest progress has been made in the implementation of Principle 2 (Cheaper and Faster Start-up) and Principle 7 (Financing and Taxation), with average scores over 3, while the weakest results, with scores below 2, have been achieved in the implementation of Principle 4 (Available Skills) and Principle 10 (Stronger Representation of SME Interests in the Public Sector).

In the process of implementation of the EU Charter for Small Enterprises, it will be necessary for Serbia to achieve an average score of 4 in order to be ready for EU entry.

II DIRECTON (PILLARS) OF STRATEGY

⁴ *Views of entrepreneurs on SME support policy* has been conducted as a research within the EAR project *Programme for Development of Support for the enterprises and entrepreneurship*.

⁵ *Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans – SME Policy Index 2007*

The objective of the **Strategy for Competitive and Innovative Small and Medium-sized Enterprises 2008-2012** is to continue the progress already achieved, strengthen the SME sector and realize its full potential for the benefit of the Serbian economy, contribute to an increase in competitiveness and exports, further strengthen innovation capabilities of SMEs, higher rates of employment and balanced regional development.

The structure of the Strategy is based on: (1) concrete priorities for SME development in Serbia; (2) the approach adopted by EU countries regarding SME support policy; and (3) implementation of the EU Charter for Small Enterprises.

Objective: Development of an entrepreneurial economy, based on knowledge and innovation, which will result in a strong, competitive and export-oriented SME sector on the basis of which living standards in Serbia will become closer to the average within the European Union.

The set objective shall be realized through:

- ◆ More start ups which successfully survive the early years of business;
- ◆ Faster total growth and development of the SME sector, with a faster conversion of micro into small and small into medium-sized enterprises;
- ◆ An increase in exports and a significant improvement in the foreign trade balance of Serbia;
- ◆ A higher rate of employment for a highly qualified and productive labour force;
- ◆ Balanced regional development.

The Strategy concept has five pillars which are:

- 1. Promotion and support for entrepreneurship and establishment of new (“start-up”) enterprises**
- 2. Human resources for a competitive SME sector – Management, skills and advisory services development**
- 3. Finances and financial expertise for SMEs and taxation**
- 4. Competitive advantage for SMEs in export markets – Innovation, quality assurance, sector development, clusters and outsourcing**
- 5. Legal environment of Serbia and public institutions at the service of SMEs**

Pillar 1: Promotion and support for entrepreneurship and establishment of new (“start-up”) enterprises

Entrepreneurship in Serbia is not sufficiently recognized as a good career choice. Furthermore, an estimation of entrepreneurial potential in Serbia, which would be a real parameter for creation and implementation of promotion and support targeted at the development of entrepreneurship, has not been undertaken.

The results of the World Bank analysis – *Business Report 2008* – show that in the course of 2007, compared with the previous year, the procedure for starting a business in Serbia slowed (23 days compared to 18 days in 2006), and the flexibility of employment legislation decreased (rigidity index increased from 38 to 46) – while the number of procedures for the employment of new workers, determination of working hours and the process of dismissal due to redundancy increased.

In recent years, certain operational measures were undertaken in support of start ups. A reform of the system for registration of business entities, which has made the process of registration cheaper, faster

and simpler, was implemented. In addition, a pre-registration, which has created an up-to-date system with reliable data regarding SMEs, was introduced. Important steps were also taken regarding access to financial sources, particularly in regard to start up micro-credits from public sources. Tenders were organized for specific-purpose credits for beginners in business and self-employment with active support from the network of regional agencies for development of SME, additional subsidies have been provided through NES, educational programs have been strengthened and support provided for programs for establishment of business incubators. The possibility has been created for the use of personal pledges on equipment as a security instrument against the approval of credit from budget resources and this has stimulated considerable interest among potential entrepreneurs.

The experiences gained show that there is an unquestionable need for constant and better coordinated financial and non-financial support for start ups. Certain procedural problems have emerged, which require measures to be undertaken for their regulation so that programs, which have already commenced in this area, may be implemented more efficiently. There are particular problems in relation to limited resources and thus to an insufficient supply of micro-finance for start-ups from the private and non-profit sectors, as well as the failure to monitor effects of financial support.

Pillar 2: Human resources for a competitive SME sector – Management, skills and advisory services development

It has been proven that the level of knowledge and competence of entrepreneurs is far behind the requirements for the creation of a competitive, internationalized and export-oriented SME sector. The reform processes to overcome this situation have been set in motion, but the first results may only be expected after a longer period. The greatest progress in the creation of potential for entrepreneurial knowledge has been achieved in the preparations for the research of entrepreneurship within the frame of secondary school education and the increase in the number of private secondary schools and upper schools and universities which are focused on acquisition of entrepreneurial knowledge. In informal education, which should provide the implementation of principles for lifelong education and compensate for the deficiencies of formal education, certain initial results are being achieved, but on the whole, the situation is unsatisfactory. Material state support for the development of non-financial support institutions is insufficient, and the market for informal education is underdeveloped and unregulated.

The education services market is underdeveloped, but an increase in the number of actors is evident: universities, institutes, non-governmental organizations, national, workers' and open universities and private consulting agencies. The quality of educational programs is uneven, as neither mechanisms for the issue of licenses and certificates for neither lecturers nor models of monitoring and marking the training results, which mostly consist of marking immediate users, have yet been determined.

An integrated system of statistical monitoring of educational programs has not yet been instituted in Serbia, a system which should follow the example of the EU, which has developed a wide range of specific indicators for this area within the European Statistics Bureau Eurostat.

According to the degree of the demonstrated needs of SMEs, in the survey of the Republic Agency for the Development of SME (RAMSP) in relation to problems and needs of SMEs, education holds fourth position, after promotion support, matchmaking with partners and market research, which indicates the level of awareness/unawareness as to the need for lifelong education of entrepreneurs.

Pillar 3: Finance and financial expertise for SME and taxation

World Bank analysis results – Business Report 2008 – show that the investment environment for business transactions in Serbia, compared to previous year, remains unchanged, in relation to both easier access to credit and investor protection. The level of awareness in relation to possibilities for obtaining credit, degree of investor protection and the process for registering property have remained the same.

State financial support for the SME sector has been increased and is becoming more varied in relation to conditions for credit and the purpose, but the approach of this sector to the financial market is still limited. Consequently, finance is still one of the main problems and needs of the SME sector, which may also be seen in the results of a Survey organized by the Republic Agency for SME Development. According to this Survey of micro enterprises and entrepreneurs, the problems of financing have been given particular prominence..

Bank credits are very expensive and unobtainable for most SMEs with potential for faster growth and development. The reasons are partly internal, due to the low level of capability to manage finances, but partly also external, due to the underdeveloped financing system which does not correspond to SME needs. An insufficient level of knowledge among SME management for the efficient management of own financial resources leads to a decreased ability of SMEs to accumulate financial reserves and insufficient attractiveness for achieving bank credits.

A lack of legal regulations in the area of non-banking financial institutions limits the development of financial institutions for risk capital, micro-credit and guarantee funds at regional and local levels and other financial sources appropriate for the real needs and possibilities of this sector.

In the area of taxation, regardless of the uncontested progress that has been made in the creation of a more favourable business environment for the SME sector, high total fiscal consumption (including also contribution allotments (*Shane comment: I'm not clear what this means*)) is evident, as well as complicated procedures of the taxation and inspection bodies, complex procedures for the submission of obligatory financial and tax reports, high local taxes, which finally very much affect the spending competitiveness of this sector. Delay in GDP return (*Shane comment: I'm not clear what this means*) is also evident, while criminal policy is rigid and uneven.

Pillar 4: Competitive advantages of SME in export markets – Innovation, quality assurance, development of the sector, clusters and outsourcing

Due to insufficient economic and financial resources, SMEs have not been able to modernize their outdated equipment and to master new technologies, and this has significantly decreased the competitiveness of the total economy of Serbia, which has also worsened its position in the international market. An insufficiently developed culture of innovation is an important factor, as is the low level of awareness and lack of preparedness on the part of entrepreneurs to improve their knowledge and skills, a necessity for an internationally competitive SME sector.

The SME sector accounts for 43.6% of total exports and 60% of total imports. The level of imports by value is around three times greater than that of exports. The foreign-trade deficit formed in this sector accounts for 74.4% of the total deficit of the Serbian economy. This indicates an insufficient valorization of export possibilities and to the high export dependence of the sector. The low export representation of high technology industrial branches is also evident, which is one of the basic limiting

factors for foreign-trade activities (high technology industrial branches of the SME sector generate only 8.9% of exports and 8% of imports). On the other hand, strong concentration is evident in two sectors specifically (processing industry and wholesale and retail trade – 88.6% of exports and 91.5% of imports) and in two districts (the City of Belgrade and South Backa – 46.9% of export value and 70.4% of import value)⁶.

Another conspicuous problem is an insufficient standard of implementation, which calls for greater support from state institutions.

The Serbian Agency for Investment and Export Promotion (SIEPA) has basic institutional responsibility for improving the international competitiveness of SMEs. The main activities of SIEPA are directed towards the provision of financial grants for SMEs for market research, participation in international fairs, product and packaging design, product testing and certification, implementation and certification of new standards, preparation of promotion materials, as well as for international legal protection (logos- trade marks, patents).

There is considerable demand in Serbia for different innovative activities. As many as 68% of enterprises have requirements for finance for innovation services, which are not available in the domestic market. However, only 8% of enterprises show interest in R&D (Research and Development) and product development within the structure of innovation services, while the demand for technology transfer is somewhat higher (11%). The organization of support is related to SME requirements and the main activities are technological support for new product development, installation of ICT equipment and new product processes as well as export promotion. Support which is related to the organization of innovation activities (management activities, design etc.) and human resources is less significant. Due to the weak interrelation between enterprises, universities and public research institutes, less than 20% of the enterprises surveyed used different sources of knowledge as sources of information for own innovation activities.

Pillar 5: Legal environment in Serbia and public institutions at the service of SME

To date, the main progress in the area of legal regulations has been in the area of business registration procedures. However, legal regulations and institutional infrastructure are characterized by numerous deficiencies reflected by the manner in which they respond to SME needs. Namely, the speed with which new laws are passed, numerous bylaws and administrative procedures, which are very often not in harmony, doubtful and for which responsibility is allocated to many different public officials, often result in confusion and additional expense in time and money for most of the small business enterprises, which have limited human resources to understand and deal with these problems.

World Bank analysis results – Business Report 2008 – show that in Serbia the period in which a customs declaration for export is received has lengthened from 11 to 12 days, for import it has lengthened from 12 to 14 days, while progress has been made only in the area of license issuance (shortened from 211 to 204 days). The results of the Survey conducted by the Republic Agency for Development of SME also show that the problems ranked second are those related to the implementation of laws with accompanying regulations. According to the same Survey, businesses have given the lowest rating to the activities of inspection bodies, while for medium-sized enterprises export and merchandise transit procedures rank last.

⁶ Source: Report on SME 2006

The data show that the highest frequency of complaints and the worst average ranking apply to the issuance procedures for licenses for the construction and renovation of buildings, followed by tax policy, as well as by work permit issuance. Problems are also acute in the area of unfair competition from the gray market, aggravated receivables collection, corruption, non-availability of public supplies and the existence of monopolies.

It is clear that the solution to problems in the SME sector requires implementation of a very wide range of measures to shorten administrative procedures and the engagement of a large number of republic institutions and organizations, while regulations and procedures of local authorities are also important for the SME sector.

The prospects for a successful and well implemented SME strategy will be greatly improved if mechanisms for dialogue between the public sector and SME sector are created in the development of the strategy and the plan of its implementation. The Ministry of Economy and Regional Development should undertake constant measures to improve the dialogue mechanisms and ensure that SMEs “feel” a sense of real ownership towards the Strategy.

III STRATEGY IMPLEMENTATION

A strategy for any aspect of economic development is useless if not implemented. Following adoption by the Government of the Republic of Serbia, Strategy for Competitive and Innovative Small and Medium-sized Enterprises 2008-2012 will be successor to the following:

1. Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia 2003-2008;
2. Plan of the Government of the Republic of Serbia to Stimulate Small and Medium-sized Enterprises and Entrepreneurship 2005-2007.

Previous experience in relation to the implementation of policy measures to support SME development has shown that significant improvement is needed. The main reasons for the low level of policy implementation are: (1) underdeveloped capacities and lack of an efficient coordination of institutions within specific areas of authority; (2) lack of clearly defined instruments and financial resources for implementation of planned measures; (3) lack of progress in monitoring the implementation of defined support policy measures; and (4) lack of dialogue and partnership between the public and SME sector at the national and local levels.

The main institutions in charge of SME policy are:

Ministry of Economy and Regional Development (Department for Development of Small and Medium-sized Enterprises and Entrepreneurship), which is generally responsible for SME policy.

Council for Small and Medium-Sized Enterprises

The Council was founded by the Government decision from 17 August 2006 as an interdepartmental and inter-institutional body for coordination of SME policy implementation. The Council has an important role in the harmonization of the SME support policy with other strategic economic policy documents and in the coordination of the implementation of all support activities for SME development.

Republic Agency for Development of Small and Medium-Sized Enterprises and Entrepreneurship

The Agency has executive responsibility in the implementation of operational programmes and

projects to realize the strategy, on the basis of its position of vertical relationships with the network of regional SME development agencies, as well as of horizontal relationships with relevant public institutions (Development Fund, Guarantee Fund, National Employment Service (NES), Serbia Investment and Export Promotion Agency SIEPA, The Export Credit and Insurance Agency of the Republic of Serbia (AOFI), Serbia and Montenegro Export Credit Agency (SMECA).

Full communication, coordination and cooperation between the Ministry, Council and Agency will be of crucial importance for an efficiently and successfully implemented SME policy, and the results will be reflected in real and material economic progress.

The public institutions responsible for the implementation of SME policy will receive the necessary resources, skills and technical support to efficiently fulfill their roles. The process of implementation will be based mostly on a *project approach*. Well planned and efficiently implemented projects for the development of human resources, improvement of the business environment and provision of a modern, competitive and innovative infrastructure for enterprises offer the best means for achieving successful results. Project oriented Working Groups formed by the Council for SMEE will represent one of the most important instruments for full implementation of the SME Strategy.

IV STRATEGY FINANCING

The Ministry of Economy and Regional Development, in cooperation with other involved ministries, will prepare recommendations for measures, programs and projects envisaged for implementation of the Strategy.

All sources of potential financing will be thoroughly examined so that every proposed measure will be matched with the most appropriate financing resource.

The first and basic financial resource will be the annual state budget. At the same time, substantial resources will be available under the National Investment Plan. In addition, there are other potential significant sources. In the coming years, resources will become available through European Union instruments for the pre-accession period, donor projects and other sources such as international financial institutions.

V STRATEGY IN THE EUROPEAN CONTEXT

The development of the SME sector in Serbia is one of the key factors in enabling the country to participate successfully in the European integration process. The Government of the Republic of Serbia is part of the European and international consensus regarding the significance of the SME sector as a driver of economic growth. SMEs are a significant source of business relationships with other European countries through trade and other activities. In this way, SMEs assist the process of Serbia's integration with the wider European economy.

According to the recommendations of the European Commission⁷, within the sector policy (Industry and SME), it will be necessary to:

⁷ Recommendation of the Council resolution "About principles, priorities and conditions of European partnership with the Republic of Serbia", from 6 November 2007

- implement the European Charter for Small Enterprises,
- adopt a new medium-term industry and SME policy, and an appropriate Action Plan,
- strengthen the Council for SME as an instrument of interdepartmental cooperation between ministries and cooperation between the public and private sector in order to efficiently create and implement SME policy,
- reduce administrative barriers for small and medium-sized enterprises.

The Ministry of Economy and Regional Development has and will continue to play an active role in the European Commission initiatives for SME development.

Impact on the implementation of the European Charter for Small Enterprises

The Charter was adopted in June 2000 by the heads of the Government of the (then) European fifteen member states at a meeting in Lisbon. The Charter stresses the importance of small enterprises for growth, competitiveness and employment and sets out ten key principles to help their development:

1. Education and training for entrepreneurship
2. Cheaper and faster start-up
3. Better legislation and regulation
4. Availability of skills
5. Improving on-line access
6. Getting more out of the Single Market
7. Taxation and financial matters
8. Strengthening the technological capacity of small enterprises
9. Successful e-business models and top-class business support
10. Developing stronger, more effective representation of small enterprises' interests

Serbia signed the Charter in 2003 and has actively cooperated with the European Commission and other countries and entities of the Western Balkans in implementing its provisions.

According to the assessment of the Organization for Economic Cooperation and Development (OECD)⁸, Serbia has achieved an average score of 2.48 in the implementation of the Charter principles.

The principles of the Charter have been included in the Strategy of SME development to the greatest extent possible. Moreover, in the process of creation of this strategy and of the operational programs for its implementation, a dynamic analysis as to how the implementation of strategy affects the implementation of EU Charter will be conducted separately.

Pre-accession instruments

Although still not a candidate state, Serbia partly fulfills the conditions for the use of EU pre-accession instruments. The resources envisaged within the Indicative Instrument for Pre-accession (IPA) of the European Commission⁹, according to the Multi-Annual Institutional Financial Framework¹⁰ for 2007-2008?, (*Shane comment: Is this correct?*) are as:

Component 1: Assistance in transition and institution building: indicative resources within this paragraph are EUR 540.5 million.

⁸ Note: OECD acts as an independent estimator compared to the European Commission

⁹ Indicative Instrument Pre-accession - IPA

¹⁰ Multi-Annual Institutional Financial Framework

Component 2: Cross-border and border cooperation: indicative resources within this paragraph are EUR 31.9 million.

The Draft Indicative Instrument for Pre-accession¹¹ determines the priorities of IPA in both components. The priorities of Component 1 are as follows:

Improvement of the investment climate and support for small and medium-sized enterprises:

Further development of local and regional structures for support of enterprises (*clusters, incubators, business and technological parks, etc.*) in order to promote business, research and innovations and public services. Development and implementation of industrial, innovative and foreign direct investment (FDI) related strategies and action plans and potential in specific industrial branches and activities related to tourism.

An arrangement for 2008 has been accomplished, in line with which Serbia will have a total of EUR 109.9 million at its disposal.

The Ministry of Economy and Regional Development will, in cooperation with other partners create projects for the development of the SME sector, in accordance with IPA criteria.

Innovations support initiatives

Ministry of Economy and Regional Development shall help state, private and non-profit organizations in Serbia to participate fully in the future EU Research Framework Programme¹², Competitiveness and Innovation Programme (CIP)¹³ and interregional cooperation programmes, which will provide significant possibilities for the transfer of knowledge, experience and methods from more advanced innovation systems from other parts of Europe to Serbia.

At present, Serbia does not participate in any of the main European networks for technology and innovations transfer (such as the Innovation Relay Centre Network¹⁴), thus Serbian enterprises lose the opportunity to participate and take advantage of technology transfer. The Ministry of Economy and Regional Development has started the implementation of a project for the establishment of an Innovation Relay Centre and Euro-info Correspondence Center and for participation in the European Innovation Scoreboard¹⁵.

VI STRATEGY OPERATIONALIZATION

Having regard to the identified constraints that should be removed, as well as to the need for creating a stimulating economic and systematic environment for the development of competitive and innovative SMEs, a range of measures, tasks and activities to implement the Strategy has been determined.

Introduction to Pillar 1: Promotion and support for entrepreneurship and establishment of start-ups

Strong growth in the numbers of start-up enterprises is a sign of a healthy economy and a necessity for

¹¹ Draft Indicative Instrument Pre-accession - IPA

¹² EU Research Framework Programme – FP7

¹³ Competitiveness and Innovation Programme - CIP

¹⁴ Innovation Relay Centre Network

¹⁵ European Innovation Scoreboard

successful economic growth. Start-ups are the seed bed for future successful medium-sized and large-scale enterprises. The role of start-ups has always been and still is a key point in the process of transition. However, compared with other countries, Serbia has been less successful in the process of establishing new enterprises and additional employment, as is shown in the following quote from the World Bank Report “The Republic of Serbia: Plan for Economic Growth and Employment”, December 2004: “The share that self-employment has in the total non-agricultural employment is among the lowest in the countries of Central and Southeastern Europe.”

Statistical data from the Agency for Economic Registers show that certain progress has been made regarding the rate of establishment of new enterprises for the 2005-2007 period. Although the increase in the number of newly registered enterprises is welcome, it is still insufficient compared with the needs for a much greater level of entrepreneurship in Serbia.

Some measures have been implemented to stimulate entrepreneurship and self-employment in Serbia, but their implementation should be strengthened and the range broadened. Serbia has to deal with the issues of entrepreneurship development in all its phases and to create an environment which will stimulate and assist start ups.

Financing of start-ups is an important issue, due to the limited possibilities for raising start-up capital from personal resources of citizens. Provision of additional resources for start-up enterprises in every region of Serbia, which would result in activities for the creation of more favorable micro-financing arrangements, is a Government priority.

Pillar 1 Matrix: Promotion and support for entrepreneurship and new business start-ups

MEASURE 1: Promotion aimed at segments of population with entrepreneurial potential	
Tasks:	Activity:
1. Preparation and implementation of promotional campaigns to encourage establishment of start-ups	<ul style="list-style-type: none"> ■ Research foreign experiences in promotion of entrepreneurship ■ Determine entrepreneurship profile of Serbia ■ Prepare and implement multimedia promotional campaign
MEASURE 2: Development of information and advisory and training services , designed for potential and new entrepreneurs	
Tasks:	Activity:
1. Preparation and distribution of informational package “Start your own business” 2. Further strengthening and widening of specialized training for potential entrepreneurs 3. Improvement in the capacities of providers of advisory and information services for new entrepreneurs	<ul style="list-style-type: none"> ■ Preparation of an information package “Start your own business”, which would include models of business plans and information on registration, taxation, and contacts for assistance and services – in paper form and on the Internet ■ Implementation of specialized training through SME support network at regional and local level ■ Training courses and materials for personnel of regional SME development

4. Introduction of subsidized consulting and training services	<p>agencies and local offices of National Employment Service, and accredited business services consultants</p> <ul style="list-style-type: none"> ■ Introduction of a voucher system with a defined scope, types of services and training and range of end users
MEASURE 3: <i>A greater role for the education system in the promotion of entrepreneurship</i>	
Tasks:	Activity:
1. Develop and apply the concept of a strategy for lifelong learning ¹⁶	<ul style="list-style-type: none"> ■ Create and implement a strategy for lifelong learning ■ Ensure that advisory activities for career development include and support for starting a business as a reasonable career choice
MEASURE 4: <i>Greater practical support for start-up enterprises through the network of business incubators and provision of workspace</i>	
Tasks:	Activities:
<p>1. Provide a statutory basis for incubators</p> <p>2. Development of the network of business incubators</p> <p>3. Provide work space for start-ups throughout Serbia</p>	<ul style="list-style-type: none"> ■ Adoption of government acts (statutes and book of rules) which would facilitate the foundation and management of incubators ■ Implementation of the Programme for the Development of Business Incubators and Clusters in the Republic of Serbia 2007-2010 ■ Active participation by local government in the provision of business space and land (as stated in the Pillar 5, Module 3)
MEASURE 5: <i>Improved conditions for financing of start-up enterprises</i>	
Tasks:	Activity:
1. Provide greater availability, access and acceptability of financing of start-up enterprises, from public resources, at regional and local level	<ul style="list-style-type: none"> ■ Definition of decentralized concept of financing of start ups from public sector, harmonized with the system of non-financial support ■ Creation of annual programmes for financing of start-up enterprises from public sector, harmonized with regional needs and plans, with the range of types of financial support: <ul style="list-style-type: none"> - Grants in a single amount for self-employment of unemployed persons - Credits for start-up - Subsidies for employers for new employment (for every newly created

¹⁶ Life-Long Learning

<p>2. Legally systematize business transactions with micro-financing</p> <p>3. Enable establishment of funds for risk capital</p> <p>4. Stimulate foundation and strengthening of local and regional funds of start-up capital</p>	<p>vacancy)</p> <ul style="list-style-type: none"> - Development credits for enlargement and modernization of business activities ■ Legally systematize micro-financing in a way that partnership of all three sectors is enabled <i>Which sectors?</i> ■ Analyze whether the existing legal framework enables establishment of risk capital funds and propose an appropriate solution ■ Institute legal regulations which enable establishment of local and regional funds of start-up capital
<p>MEASURE 6: <i>Improvement of taxation and social contribution policy for start-ups</i></p>	
<p style="text-align: center;">Tasks:</p>	<p style="text-align: center;">Activity:</p>
<p>1. Introduction of taxation exemptions for start ups</p> <p>2. Provide gradual taxation of self-employment through social contribution policy for the category of unemployed persons</p>	<ul style="list-style-type: none"> ■ Determine the forms of stimulation, decrease and/or exemption from tax and social contributions in the first three years of business
<p>MEASURE 7: <i>Faster and cheaper registration</i></p>	
<p style="text-align: center;">Tasks:</p>	<p style="text-align: center;">Activity:</p>
<p>1. Reduce the number of steps for starting a new business through unification of the procedures of relevant state bodies</p>	<ul style="list-style-type: none"> ■ Establishment and implementation of a “one-stop shop” system within the Business Registers Agency (BRA) ■ Implementation of a system for on-line registration in BRA

Introduction to Pillar 2: Human resources for a competitive SME sector – Development of management, knowledge and skills and advisory services

Investment into the development of human resources is an extremely important condition for the future success of the SME sector and realization of its full potential as an important contributor to the economic growth of Serbia. All personnel categories within enterprises will need a high degree of knowledge and skills.

This Pillar comprises four modules which deal with increasing the capabilities of an enterprise:

1. Better management capabilities for SMEs
2. Highly qualified work force for SMEs
3. Efficient and constantly developing support services
4. Education for entrepreneurship

Principle 4 of the European Charter for Small Enterprises addresses skills availability: “We shall endeavor to ensure that training institutions, complemented by in-house training schemes, deliver an adequate supply of skills adapted to the needs of small business, and provide lifetime training and consultancy.” Serbia still has a lot of work to do in the implementation of Principle 4.

Future success of SMEs in Serbia will depend greatly on the capabilities and performance of their management (often the owner-manager of the enterprise). Very few studies have been conducted in the area of management development in Serbian SMEs, but problems such as the chronic structural trade deficit in Serbia suggests that there is a serious shortage of managers with the skills necessary for the successful operation of internationally competitive enterprises. *Module 1 deals with management development issues.*

New and better skills are necessary not only for managers of SMEs. An educated and qualified work force at all enterprise levels is an absolute imperative for an enterprise to be economically competitive and productive. Serbia faces great challenges in the achievement of that goal. *Module 2 envisages measures to improve labour force skills of SMEs as a whole.*

To improve enterprise capabilities, Serbian SMEs will need access to various external advisory services, whether provided by regional agencies for SME development or by specialized consultants with necessary expertise. This type of services is not yet well developed in Serbia and there is need for progress. *Module 3 deals with establishment of an advisory services network for SME which would help build strong and market-oriented capabilities within Serbian enterprises.*

Matrix of Pillar 2 – Module 1: Improvement of SME management capabilities

MEASURE 1: Adopt and implement Programme for improvement of SME management capabilities	
Tasks:	Activity:
1. Research the requirement for SME management improvement TNA - (training need analyses) 2. Based on results of researche, conduct a pilot-phase of training and mentoring for SME management improvement 3. Create a Programme for improving SME management capabilities 4. Design and implement training courses for SME managers and mentor programmes	<ul style="list-style-type: none"> ■ Collect and study available material from international and domestic sources on SME management development ■ Prepare a research plan and supported by a survey questionnaire ■ Conduct survey, analyze results and prepare reports on the state of SME management in Serbia (identified deficiencies and future needs) ■ Based on the study results, design Programme, with defined goals, resources, dynamics and implementation methodology ■ Prepare mentor and training programmes and specialized-purpose materials for multimedia approach: Internet, CD, printed materials for seminars, workshops and interactive training ■ Training and mentoring programme realization
MEASURE 2: Promotion of training for SME managers and encourage participation	

Tasks:	Activity:
<p>1. Design and implement promotional activities with the objective of encourage SME owners-managers to develop management capabilities</p> <p>2. Introduce a system of vouchers to include subsidies for management development expenses</p>	<ul style="list-style-type: none"> ■ Design and implement a multimedia promotional campaign in the way that SME understand needs and support management development ■ Introduce a system of vouchers, which will provide SMEs with subsidies to cover expenses of consulting services organized by the institutional network for SME support
Matrix of Pillar 2 – Module 2: Highly qualified labour force for SME	
MEASURE 1: <i>Design of Strategy to increase competitive capabilities of the labour force focused on SME needs</i>	
Task:	Activity:
<p>1. Analysis of SME labour needs</p> <p>2. Preparation and adoption of training and skills strategy for SME</p>	<ul style="list-style-type: none"> ■ Conduct a study of available skills (which are provided by education system), with particular reference to ways in which they respond to the needs of SMEs with an emphasis on quality ■ Determine future necessary skills, in different sectors, in order to facilitate SME growth, development and competitiveness (connected with the work of the Academic Training Association) ■ Set educational and training objectives, determine resources needed to overcome deficiencies and fulfillment of envisaged needs ■ In keeping with recommendations of the European Training Foundation (ETF), suggest measures to provide necessary skills
MEASURE 2: <i>Design and implementation of a Programme for training, development and provision of skills and capabilities required for the SME work force</i>	
Tasks:	Activity:
<p>1. Coordinated implementation of training and skills programme with monitoring and analysis of results</p>	<ul style="list-style-type: none"> ■ Creation of a body for coordination of the implementation of the Strategy and Training and skills programme ■ Design and implementation of the Programme for wider, coordinated and integrated provision of training services, including long-distance education availability (through Internet) ■ Preparation and provision of training

<p>2. Adapt the content of training to the acquisition of knowledge and skills necessary for SME development in a competitive economy</p>	<p>courses for service users (providers?)</p> <ul style="list-style-type: none"> ■ Design and implement courses, on the basis of international experience and best practice ■ Monitor and analyze service provision effects
<p>MEASURE 3: <i>Improvement of skills development infrastructure</i></p>	
<p style="text-align: center;">Tasks:</p>	<p style="text-align: center;">Activity:</p>
<p>1. Strengthen trade education infrastructure, at all educational levels, in line with European Training Foundation (ETF) recommendations</p> <p>2. Development of a modern network for adult education</p>	<ul style="list-style-type: none"> ■ Creation of Vocational Education Council at the national level ■ Strengthening of vocational schools capacities for provision of higher quality services through modernization of the study plan and programme ■ Improvement in vocational training capability of lecturers (through preparation during vocational training implementation) and investment in school renovation ■ Determine capacities of the existing workers' universities (status, resources, services, sustainability) ■ Design of a workers' universities development plan, as a network for adult education, in keeping with the skills needed by the market: ICT technologies, engineering, languages etc. ■ Plan implementation with provision of adequate resources
<p>MEASURE 4: <i>Increased labour mobility</i></p>	
<p style="text-align: center;">Tasks:</p>	<p style="text-align: center;">Activities:</p>
<p>Design and implementation of a programme which would (with subsidies) stimulate work force mobility in response to the needs of employers</p>	<ul style="list-style-type: none"> ■ Design of a programme – system of financial and other incentives which would attract inflows of people with educational-business profiles needed in specific towns and regions. ■ Provision of financial support (budget and donors) ■ Programme promotion
<p><i>Matrix of Pillar 2 – Module 3: More efficient services for support of SME</i></p>	
<p>MEASURE 1: <i>Better services of Regional development agencies</i></p>	
<p style="text-align: center;">Tasks:</p>	<p style="text-align: center;">Activities:</p>
<p>1. Strengthening of capacities of Regional SME development agencies</p>	<ul style="list-style-type: none"> ■ Constant development in the competences of regional agencies staff ■ Innovation and widening of range and

2. Reestablishment of European Information Correspondence Centre (EICC)	<p>standardization of services in keeping with SME needs</p> <ul style="list-style-type: none"> ■ Certification of regional agencies for the provision of quality services ■ A draft project for reestablishment of EICC is underway in consultation with EU
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MEASURE 2: *Expansion and improvement of business consulting service (Accountancy services are addressed in Pillar 3)*

Tasks:	Activity:
<p>1. Improvement in the level of knowledge and skills in the area of business consulting (training of trainers), in keeping with SME needs</p> <p>2. Strengthening of non-governmental and private sector capacities in provision of services for SME needs</p> <p>3. Improve availability, range and quality of business consulting services for SMEs</p> <p>4. Provision of financial incentives in order to encourage SME to use business consulting services</p> <p>5. Promotion and provision of information on business consulting services</p>	<ul style="list-style-type: none"> ■ Constant improvement of study plans and programmes at universities which provide education in the field of the economic-legal system and economy ■ Introduction of specialized courses, adapted to the needs for acquisition of knowledge and skills in the provision of SME consulting services (available on a regional basis), in the study plans and programmes of universities and schools ■ Organization of training courses for every main specialized branch of business consulting (in cooperation with recognized educational or training institutions) ■ Support an initiative to organize associations of business consultants, with a clear legal and normative status and quality assurance certification ■ Set accreditation standards for every specialized area of business consulting ■ Determine complaint procedures for issues related to activities of accredited consultants ■ Create Internet presentation, with a register of accredited consultants and areas of their specialization ■ Promote usage of voucher system (as suggested in Measures 2 and 7) ■ Active promotion of consulting services through media, chambers and regional SME development agencies

Matrix of Pillar 2 – Module 4: Education for entrepreneurship

MEASURE 1: *Constant improvement and development of education for entrepreneurship, through formal and informal educational forms*

Tasks:	Activities:
1. Introduction of education for entrepreneurship	<ul style="list-style-type: none"> ■ Gradual introduction of entrepreneurship

at all education levels, from primary school to university	through adoption of study plans and programmes at all levels, in keeping with the needs of education for entrepreneurship
2. Introduction of experience in entrepreneurship, through creative out-of-class activities	<ul style="list-style-type: none"> ■ Foundation of creative (entrepreneurship) clubs and playing rooms at the level of primary education ■ Establishment of youth enterprises and virtual companies at the level of secondary education ■ Foundation of Spin-off group at technical universities ■ Career leadership
3. Direct connecting of educational institutions with SMEs to implement mutual projects	
MEASURE 2: <i>Legal organization and infrastructure improvement of educational institutions for practical application of acquired knowledge and skills for entrepreneurship</i>	
Tasks:	Activities:
1. Arrange legal framework for foundation and business transactions of student enterprises	<ul style="list-style-type: none"> ■ Conduct an analysis, identification of limitations and deficiencies in existing legal regulations, with a suggestion for adequate organization ■ Stimulate educational institutions at all educational levels to design and implement student entrepreneurship projects
2. Provide sources of special-purpose resources for encouraging entrepreneurship activities of educational institutions	

Introduction into Pillar 3 – Finance and financial expertise for SME and taxation

The approach to financing and management of financial resources is an issue of key importance for SMEs¹⁷, which is also related to taxation. This pillar consists of two modules:

1. Financing and financial expertise for SME
2. SME taxation

Although certain progress has been made in recent years, there are still many problems in Serbia with regard to **SME financing**. Existing enterprises need to achieve higher levels of profitability in order to increase their financial resources. External SME financing is an important function of the commercial banking system and of other financial institutions in most countries, but that is not the case in Serbia. There are also state initiatives in Serbia for the provision of direct SME financing and changes in legislation, which provide for the introduction of new financial instruments. However, further progress is necessary.

Regarding the SME financing, the following problems need to be addressed:

- Better access to start-up enterprises financing (see Pillar 1 which deals with entrepreneurship and start-up enterprises)
- Improve unsatisfactory SME profitability, a consequence of out-of-date equipment and weak

¹⁷ Note: Financing of start-up enterprises is the subject of Pillar 1: Promotion of entrepreneurship and foundation of new enterprises

- productivity, through better financial management and information capabilities and systems
- Improve relations between commercial banks and the SME sector, so that the banks have a much bigger role in SME financing, especially in the area of medium-term and long-term credits
- Better collateral registration systems to make it easier for banks to increase their SME lending activities
- Improve state SME financing

Soft credit lines provided by international organizations and institutions, which are operated through the Revolving Credit Fund of the Republic of Serbia, Apex Global Credits of EIB, Credit for SMEs financing of the Government of the Republic of Italy, Fund for Serbia of the German bank KfW, Hellenic plan and others, help in bridging the gap caused by the deficiencies in SME financing resources within Serbia and in partly compensating for the insufficient and expensive credit offers from the commercial banks. However, it is important to stress that there was a slowdown in the use of these resources during the last year because the banks, which operate the credit lines, achieve greater profits through lending from their own resources. As a result, SMEs as end users do not have easy access to these “soft credit lines”.

During recent years, Serbia has improved its tax system by decreasing tax rates and simplifying tax administration, with the result that burden of tax compliance has been eased for SMEs. The annual income tax rate for enterprises in Serbia is only 10% at present. There is still scope for reducing the administrative burden on SMEs by introducing more efficient and consistent procedures and incentives to encourage investment.

Matrix of Pillar 3 – Module 1: Finance and financial expertise for SME

MEASURE 1: Improvement of expertise for more efficient financial management of SME	
Tasks:	Activity:
1. Raise SME owners’ awareness as to the need for improving knowledge of SME financial management	<ul style="list-style-type: none"> ■ Promotion of importance of financial management, including the role of information systems (through professional articles, appearance of SME agencies’ representatives in media, and thematic material presented on Internet)
2. Organization of specialized training and seminars in efficient financial management for SMEs	<ul style="list-style-type: none"> ■ Design and implement training in the field of financial management systems ■ Preparation and organization of courses on statement of account methods and expense management ■ Introduce modules on financial information and control systems into training courses for SME managers ■ Provide certificates and accreditation for accountants who have passed specialized training
3. Specialized training for SME accountants	<ul style="list-style-type: none"> ■ Promote the role of accountants as advisors in SME financial management

MEASURE 2: <i>Improve communication between the banking and SME sectors</i>	
Tasks:	Activity:
<p>1. Promote the SME sector as a profitable market for banks</p> <p>2. Improve knowledge in SMEs regarding bank requirements</p> <p>3. Stimulate competition among banks for SME lending</p>	<ul style="list-style-type: none"> ■ Information, promotional material and organization of thematic meetings on SME lending ■ Information materials and training in the field of business planning and SME financing consistent with bank requirements: realistic projections, prepared according to international accountancy standards and provision of credit guarantees ■ A special section of Internet presentation of the Republic SME Development Agency should be allocated for the specific purpose of providing up-to-date information on conditions for bank credit offers for SMEs ■ Introduction of an annual award “The Best business bank for SMEs”
MEASURE 3: <i>Greater availability of medium- and long-term loans at favourable interest rates</i>	
Tasks:	Activity:
<p>1. Use credit-monetary policy to encourage growth of long-term deposits with the aim of providing resources for more favourable long-term lending for SMEs</p> <p>2. Provide mechanisms for efficient collateral functioning</p>	<ul style="list-style-type: none"> ■ Promote long-term saving among the population through financial and fiscal benefits and incentives ■ Encourage banks, as part of their business policy, to increase interest rates on deposits of from three to five years ■ Establish and sustain a reliable, precise and available system of land registration ■ Establish and keep up-to-date real estate register (mortgages)
MEASURE 4: <i>State initiatives for improvement in the economic system framework for SME financing</i>	
Tasks:	Activities:
<p>1. Redefinition of the role of the public sector in SME financing</p> <p>2. Establishment of legal framework for foundation of local and regional development guarantee funds</p>	<ul style="list-style-type: none"> ■ Decentralization of the functions of public development institutions (Development Fund, Guarantees Fund) with establishment of regional and local credit-guarantee funds (related to Pillar 5, Module 3) ■ Support initiatives to establish regional and

3. Provide a legal basis for establishing common forms of loan guarantees	<ul style="list-style-type: none"> ■ local credit-guarantee funds ■ Establish cooperation and partnership of public institutions with banking sector through harmonization of business policy
4. Establish mechanisms for financing SME innovation	<ul style="list-style-type: none"> ■ Support initiatives to establish common forms of loan guarantees for SMEs (especially clusters) ■ More favourable SME lending conditions through interest subsidies and reduction of risk for creditors through the issue of guarantees
5. Facilitate relations between the SME sector with non-banking capital (legal regulation for venture capital and business angels)	<ul style="list-style-type: none"> ■ Motivate private investors to invest in small enterprises through attractive programmes ■ Establishment of mechanisms for connection of supply with demand for non-banking private capital (institution of electronic “stock-exchange” of venture capital)
6. Solution of problems with collection of outstanding debts	<ul style="list-style-type: none"> ■ Factoring possibility – repurchase of short-term liabilities and assets (foreign and home contracts, letters of credit etc.)

MEASURE 5: Funds for young entrepreneurs

Tasks:	Activity:
1. Formation of regional funds (public-private partnership) which would supply financial assistance (favourable credits and/or grants) and consulting for young entrepreneurs	<ul style="list-style-type: none"> ■ Creation of standard rules for funds to make them sustainable in the long run ■ Selection of local partners to conduct local projects ■ Appropriation of resources (budget and donors) ■ Promotion of programme results

Matrix of Pillar 3 – Module 2: Taxation for SME

MEASURE 1: More efficient tax administration

Tasks:	Activity:
<p>1. Continuous decrease in the administrative burden for SMEs in tax compliance</p> <p>2. Clear and consistent application of tax regulations</p>	<ul style="list-style-type: none"> ■ Further simplification of procedures ■ Establishment of the one-stop-shop model ■ Improvement of expertise of tax administration staff ■ Provision of on-line communication with tax administration ■ Clear and unambiguous codification of tax regulations and provision of consistent application of the regulations by all tax officers ■ Organized professional support for SME

3. Bring VAT reimbursement practice in Serbia closer to the practice in EU in order to improve cash flow in SMEs	<p>accountants and auditors for the purpose of application of tax regulations</p> <ul style="list-style-type: none"> ■ Enable reimbursement of VAT within 30 days for non-export activities, instead of the present 45 days period
MEASURE 2: Stimulations for investment in SME	
Tasks:	Activity:
<ol style="list-style-type: none"> 1. Lift customs barriers to investment in equipment 2. Stimulate investment by SMEs in activities aimed at increasing international competitiveness 3. Stimulate investment in SMEs 	<ul style="list-style-type: none"> ■ Provide consistent and unlimited application of customs exemptions on equipment imported by SMEs (especially in the area of production and ICT) ■ Introduction of tax incentives for investment in SME innovation and skills development in the production and export services sectors ■ Introduction of a set of tax benefits, exemptions and credits for investments in SME (especially for newly employed and in less developed areas), on the basis of tax citizens' income tax, property tax, real estate trade tax etc.

Introduction to Pillar 4 – Competitive advantage for SMEs in export markets – innovation, quality assurance, development of clusters and sectors and outsourcing

Pillar 4 deals with the issues of key importance for the international competitiveness of SMEs. There are four modules:

1. Technical and non-technical innovations
2. Internationally accepted standards and quality assurance systems
3. Development of sectors, clusters and outsourcing
4. Support for export-oriented SMEs

A culture of innovation at technical and non-technical level (Module 1)

In the most general sense, business innovations may be defined as including development of new products and services, new ways of working, new trade arrangements with markets and ways to getting the best out of people. Innovation is today universally recognized as the crucial factor for the development of the competitiveness of an enterprise.

In the case of SMEs, it is especially important to differentiate between technical and non-technical innovations:

- Technical innovations are research and development (R&D) which bring new products or

- significant improvements in existing products.
- Non-technical innovations are more often based on realization of incremental progresses related to business processes, improvement in the service level and supply methods, or application of proven technologies or techniques. These kinds of non-technical innovations, when an enterprise is working on something new or on something old in a new way, are often the foundation for performance and productivity improvement of most smaller enterprises.

The situation in the area of innovation in Serbia is very unfavorable, but some steps towards improvement have already been undertaken, especially with the passing of the Law on innovations and scientific research.

One of these initiatives is the Innovations Fund, a public financial institution established under the Innovations Law (2005), to provide special resources to stimulate innovation. The Fund will direct financial resources from public sources for innovation projects to industrial and research organizations and promote joint-venture projects. It will also promote cooperation with foreign innovation partners. According to the Innovations Law, the Fund should provide financial resources for the preparation, implementation and development of programmes, projects and other activities in the area of the implementation of national innovation policy.

A survey of the overall innovation situation in Serbia, which covered 600 enterprises, was conducted by the project Support for Enterprises and Entrepreneurship Development Programme¹⁸. The results of this research showed that the percentage of Serbia's population with university education is comparable with the average for 25 EU member states, which may be viewed as an advantage. As to the main weaknesses in the area of innovation, the following are stressed: the level of public investment in research and development, structure of innovation activities is limited to purchase of machines, equipment and software and related training, the number of science and engineering graduates, business R&D, participation in long-life education and employment in high-tech production and services, which are below the level of 25 EU member states, and the same holds true for the share of high-tech production in the creation of value-added.

Moreover, in Serbia, no data are available regarding: high-tech patenting (EPO, USPTO), total patenting (EPO, USPTO), SMEs which use Internet (in-house) innovation, SMEs which cooperate in the field of innovation, expenditure and turnover related to innovation, SMEs which use non-technological innovations, expenditure on information and communication technologies compared to GDP and other indices which are important for innovation. The lack of data in respect of such a large range of issues is a worrying indicator of the low priority given to innovation in Serbia.

The number of registered and approved patents is an important index of innovations, which also confirms the low position of Serbia. Business R&D in Serbia is 0.13% of GDP compared to with an average of 1.27% for 25 EU member states¹⁹. There are strong arguments for a coordinated approach which would include promotion, education, training and financial incentives in support of innovation by Serbian SMEs.

Innovation priorities for SMEs

Consistent with the situation and needs of the SME sector, it is necessary to develop an innovation culture through:

18 The project was financed by the EU, and conducted by European Reconstruction Agency

19 Innovation Survey

- Promotion of technical and non-technical innovation in enterprises
- Support for investment in ICT as an innovation driver
- Development of relations by enterprises with foreign sources of knowledge and research
- Provision of finance for innovations
- Participation in innovation initiatives of the European Commission

Matrix of Pillar 4 – Module 1: Innovation

MEASURE 1: Improvement of technical and non-technical innovation for SMEs	
Tasks:	Activity:
<p>1. Promotion of a culture of innovation as a key factor in the development of an entrepreneurial economy</p> <p>2. Provide assistance for research and development of new and improved products, processes and services</p> <p>3. Provide new financial instruments (resources) to stimulate business innovations within enterprises</p> <p>4. Provide SMEs with simple access to the same possibilities and opportunities for innovation</p>	<ul style="list-style-type: none"> ■ Promotion of innovation activities by SMEs and examples of good practice ■ Design a system which combines financial incentives (grants) and fiscal benefits (taxes) for research and development by enterprises in strategically important sectors ■ Provide subsidies for patenting expenditures, creation of technical documentation, and development of product prototypes and testing ■ Stimulation of research and development in all clusters assisted by the Ministry of Economy and Regional Development and by the Project for Stimulation of Regional and Local Connecting into innovations networks and clusters development ■ Include subsidizing of usage of expert services (of accredited service providers) through a voucher system ■ Develop standards, criteria and design manuals on managing innovation ■ Support SMEs in the activities of constant adaptation and improvement of production processes, business procedures and services ■ Earmark resources from public sources for special purposes in encouraging investment financing of SME innovation projects ■ Innovative and technological updating ■ Establish an innovations unit in every regional agency for development of SME
MEASURE 2: Support for investments in ICT as a driver of innovation	
Tasks:	Activity:
<p>1. Strengthening of ICT infrastructure</p>	<ul style="list-style-type: none"> ■ Survey of the situation on the ground (existing and lacking infrastructure),

<p>2. Introduction of Serbia into eBSN network</p> <p>3. Stimulate a much greater usage of computers and Internet access all over Serbia</p> <p>4. Improve ICT skills in the entire SME sector</p>	<p>identification of obstacles and their removal (by earmarking resources and implementing projects which would remove identified obstacles)</p> <ul style="list-style-type: none"> ■ Integrated multimedia campaign for promotion of computers and Internet usage for everyone: households, enterprises, educational institutions and public administration ■ Conduct short-term models of training which contribute to the development needs of SMEs in the area of ICT
<p>MEASURE 3: <i>Develop relations of enterprises with external sources of knowledge and research and participation in EU innovation programmes</i></p>	
<p style="text-align: center;">Tasks:</p>	<p style="text-align: center;">Activity:</p>
<p>1. Stimulate productive relations between SMEs and external sources of knowledge and technologies (with research institutions and universities)</p> <p>2. Stimulate participation of domestic SMEs and clusters in EU innovation projects, especially FP 7, as well as participation in the European Innovation Scoreboard</p> <p>3. Improve access of SMEs to contact and information networks sponsored by the European Commission, and especially to European Information Correspondence Centres</p>	<ul style="list-style-type: none"> ■ Commercial links of educational and scientific institutions with SMEs, by using management and technical capacities to organize test laboratories and prototype workshops ■ Accredite specific institutions as qualified providers of knowledge for participation in the voucher system ■ Promotion and information related to opportunities and possibilities which exist under FP 7, as well as participation of enterprises, innovation networks and clusters in the Competitiveness and Innovation Programme (CIP) ■ Establish an accredited centre for innovation transfer in Serbia ■ Participation of Serbia in the European Innovation Scoreboard

An internationally adopted and recognized system of standards and quality assurance (Module 2)

Regarding standards and quality assurance, Serbia mainly lags behind, which endangers development of Serbian enterprises. In the current situation, Serbian companies could face significant technical barriers in their efforts to penetrate new markets.

Serbia wishes to harmonize laws and technical regulations and to introduce standardization, metrology, procedures of harmonization estimation and development of infrastructure for quality assurance, which correspond to the needs of a market economy and which would improve the competitiveness of Serbian products and services in European and world markets.

The activities of the Accreditation Body of Serbia and of the Institute for Standardization of Serbia will lead to a much better environment for certification of standards and quality guarantee. The priorities

will be as follows: (1) development of the network of accreditation bodies for testing and certification which would place Serbian companies at the same level as enterprises in the EU and remove existing deficiencies, and (2) promotion of awareness among SMEs as to usefulness and importance of standards and quality assurance.

Matrix of Pillar 4 – Module 2: Standards and quality control

MEASURE 1: <i>Create an infrastructure for efficient adoption of standards and promotion of their implementation, especially standards for quality management systems</i>	
Tasks:	Activity:
<p>1. Institute for Standardization of Serbia has the leading role and status of a competent and internationally recognized body in the area of standards and standardization</p> <p>2. Create national networks of bodies for harmonization assessment</p> <p>3. Increased usage of CE mark in Serbia</p>	<ul style="list-style-type: none"> ■ Complete harmonization of domestic standards with ISO and other international norms ■ Provision of technical assistance for interested enterprises, laboratories and certification bodies ■ Gradual implementation of accreditation processes bearing in mind requirements for different groups of products and services and regional needs ■ Provide training necessary in the fulfillment of accreditation conditions for a certain number of laboratories and other bodies for harmonization assessments ■ Promote usage of the CE mark and provide assistance for enterprises in production of technical documentation and statements regarding harmonization with the requirements of new approach directives, and also provide assistance for enterprises in certification of products if a third party requires assessment of harmonization
MEASURE 2: <i>Motivate SME towards efficient and wider application of standards for different management systems</i>	
Tasks:	Activity:
<p>1. Promotion and stimulation of usage of ISO, HACCAP and other standards and quality assurance for SMEs</p>	<ul style="list-style-type: none"> ■ Promotion and distribution of information on programmes for implementation of quality management systems and international systems for recognition of harmonization certificates
MEASURE 3: <i>Programme of stimulation for introduction of standards and enterprises and products certification</i>	
Tasks:	Activity:
<p>1. Creation of a financial incentives programme for introduction of standards and product certification, implementation of the programme</p>	<ul style="list-style-type: none"> ■ Creation and implementation of the programme ■ Promotion of the programme at regional

Development of the sector, clusters and outsourcing (Module 3)

In the production and services offered at the international level, there are sectors in which Serbia could have potential competitive advantages due to availability of raw materials, special skills, market proximity and many years of trade relations.

The Ministry of Economy and Regional Development considers clusters to be one of the instruments for overcoming the problems of Serbian enterprises related to competitiveness in international markets. Since 2005, the Ministry has been operating its Clusters Project, which provides financial and technical support for the establishment and development of clusters (in the field of ICT, production of automotive parts, production of smaller agricultural machinery, wood processing and furniture production, plastic processing and tyre production).

Another important area is business cooperation through outsourcing, which offers the possibility for strengthening SMEs in some sectors and provides an opportunity for enterprises to expand their business activities. An important initiative in this area is the Programme of Serbian Suppliers Development, which should assist Serbian suppliers to raise their business standards in order to cooperate successfully with multinational companies wishing to invest in Serbia. The results of the Programme should be used to develop measures aimed at creating conditions where Serbian SMEs would be engaged as subcontractors.

The findings of the survey²⁰ show that SMEs are not yet sufficiently ready to establish more intensive links with other partners on the basis of long-term business cooperation. They expect the state to actively support and contribute to improvement in the organization and business links of SMEs with the aim to modernizing business, improving competitiveness and promoting exports.

Matrix of Pillar 4 – Module 3: Clusters and business links

MEASURE 1: <i>Implementation of the Business incubators and Clusters Development Programme in the Republic of Serbia 2007-2010</i>	
Tasks:	Activity:
1. Establish ten operating clusters, as envisaged by the Programme	<ul style="list-style-type: none"> ■ Provide resources from the National Investment Plan to create conditions for implementation of the cluster programme, as adopted ■ Provide adequate technical support for approved cluster projects ■ Prepare a special business links (by value chains) and cluster development support programme at local level with employment and preservation of cultural environment as the goals
MEASURE 2: <i>Support for the development of SME based on wider application of experiences and results in the implementation of cluster programmes</i>	

20 Views of Entrepreneurs Regarding SME policy

Tasks:	Activity:
<p>1. Application of experience and results in clusters to stimulate sector development</p> <p>2. Application of possibilities for business links, created by clusters and sector development</p> <p>3. Improve the systems for the sale of SME products through large trading chains</p> <p>4. Promote franchising as a SME business links model</p>	<ul style="list-style-type: none"> ■ Publication and presentation of cluster results, findings and identified problems, as practical lessons for sector development ■ Promotion of the achieved results of the Programmes for Domestic Supply Chain Development, and their transfer by clusters supported by the Ministry of Economy and Regional Development ■ Through cooperation of SME chambers and associations with authorized institutions, the SME market position should be improved by a more adequate organization of relations and elimination of credits for mega systems by small business entities Late payment legislation? ■ Organize thematic meetings and specialized franchising fairs ■ Enable access to information about available franchises in Serbia

Support for export-oriented SMEs (Module 4)

When the first Serbian SME Strategy was published at the end of 2002, imports were 2.5 times greater than exports, and, ever since, that ratio has fluctuated in a range between 2:1 and 2.5:1. *In the last six years there has not been any basic improvement in the structure Serbian trade.* The foreign trade deficit of Serbia is financed by foreign direct investments, mostly from privatization, and remittances from the diaspora.

Serbia needs to achieve significant improvements in the area of exports, which means greater output of products and services with higher added value and a larger number of exporting enterprises. The foundation and main starter of this strategy, which stresses the establishment of enterprises, investment, human resources development, quality, innovation, clusters and competitive sectors, is in the increase of export value by creation of more export and “export-ready” enterprises. The Serbian Agency for Foreign Investments and Export Promotion (SIEPA) is tasked with the promotion of Serbian products and services in foreign markets. The activities of SIEPA and other institutions in this field will be intensified, in order to achieve higher levels of SME exports.

Matrix of Pillar 4 – Module 4: Support for export-oriented SMEs

MEASURE 1: Increase the level and added value of SME exports	
Tasks:	Activity:
<p>1. Improve capacities and advisory services for SMEs</p> <p>2. Improve and expand export marketing skills of SMEs</p>	<ul style="list-style-type: none"> ■ Continuous provision of additional resources for the existing and expanded support system within SIEPA ■ Organize specialized training courses in the area of export marketing for SMEs at regional and local levels ■ Promote use of vouchers (Pillar 2) for consulting services aimed at more efficient planning and achievement of export business

<p>3. Develop specific programmes of assistance for SMEs in sectors with higher added value</p> <p>4. Bring more enterprises to the point where they are “export ready”</p> <p>5. Institutionalization of the Programme for Strengthening of Local Suppliers Chains within SIEPA activities</p> <p>6. Remove financial barriers for export which are an obstacle for SMEs, through better insurance and export credits</p>	<ul style="list-style-type: none"> ■ Implement specific and targeted export support programmes aimed at SMEs in higher-value sectors, and particularly at clusters, which are representative of these sectors: ■ Appointment of SIEPA advisors, in each selected sector ■ Better information and promotion among SMEs regarding export possibilities ■ Formation of a team within SIEPA for support to first-time export enterprises ■ Design special purpose support programmes for enterprises with export potential ■ Provision of budget resources for support of domestic SMEs to become suppliers for multinational companies (and foreign investors) ■ Certification of SIEPA as an authorized assessor for the EFQM method ■ Expansion of SIEPA systematization in order to establish a department which would deal exclusively with enterprises, in line with the EFQM method ■ Situation assessment and revision ■ Provision of expert services ■ Organization of contacts with multinational companies (MNC) and investors in successful enterprises ■ Organization of meetings with buyers (where MNCs present to SMEs the products and services that they require) ■ Increase the financial base of the Export Credit and Insurance Agency (AOFI) and Serbia and Montenegro and the Export Credit Agency (SMECA), in order to increase the level of existing services and also to create new products for SME export financing
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Introduction into Pillar 5 – Legal environment in Serbia and public institutions at the service of SME

Pillar 5 comprises five modules:

1. Legal and regulatory framework which encourages entrepreneurship
2. Efficient public institutions at the service of SMEs
3. Institutional support for SME at regional and local levels
4. Dialogue between the public and SME sectors
5. Public procurement for SMEs

Legal and regulatory framework which encourages entrepreneurship (Module 1)

During the last five years, major changes in the legal and regulatory environment have been implemented in the Republic of Serbia and these have created more favourable conditions for the operation of a market economy, including SME development. Examples of new laws designed to

improve the business environment include: Law on Companies, Law on Financial Leasing, Law on Bankruptcy and Law on Value Added Tax.

Although significant progress has been made regarding reforms of commercial rights and regulations, there are still important issues which need to be addressed in order that Serbia can claim a complete corpus of modern commercial law. One area of particular importance is ICT, where there is still a lack of appropriate legislation, Another significant problem arises from the fact that although Serbia has a Law on Electronic Signature, there are still no instruments for its implementation.

Regulatory impact analysis of regulations is not being implemented and there are no proposals for a systematic approach in order to decrease administrative barriers and simplify forms and procedures for SMEs. The whole field of municipal regulations and their impact on SME has not been taken into account. There is no systematic approach to simplification of forms and procedures that should be completed by enterprises. Serbia holds the lowest possible position in that aspect (Better laws and regulations) in the 2006 EU Charter Index for SMEs. In this context, a “guillotine” approach will be applied, which means abrogation of all unnecessary and outdated regulations.

Entrepreneurs believe²¹ that the existing economic-systemic environment is not organized in keeping with the needs and potential of SMEs and that the government is responsible. Therefore, they expect the government to remove the administrative obstacles which have been imposed by inadequate legal regulation. The need for further deregulation, but also for systematization of regulations (which makes relevant the need for the establishment of a valid regulations register) is obvious. SMEs stress that, in the current situation, they simply do not possess the capacities or the capabilities to observe and implement them.²²

Matrix of Pillar 5 – Module 1: Legal and regulatory framework which encourages entrepreneurship

MEASURE 1: Completion of legal and regulatory framework necessary for a market economy, including electronic transactions, and ensuring dissemination and transparency	
Tasks:	Activity:
1. Identify institutions and areas relevant for SME development, which are not regulated or are insufficiently regulated in the field of economic legislation 1.1 Adopt changes and amendments of Law on Companies 1.2 Changes and amendments of the Law on Registration of Business Entities (passing of a new law on registration) 1.3 Enact the law on handicraft activities and handicraft associations	<ul style="list-style-type: none"> ■ Inter-institutional cooperation between relevant ministries in determining all outstanding laws and accompanying regulations required for the completion of the regulatory framework for SMEs, including updating of the existing laws and regulations. The process should include consultations with the European Commission and the World Bank ■ Enactment and application of all laws and accompanying regulations necessary for implementation of the National Strategy for Information Society (in keeping with the Initiative for e-Europe of the European Commission and Principle 9 of the European Charter for small enterprises – Models

21 Report Views of Entrepreneurs Regarding SMEs Policy

22 Some of the entrepreneurs said: “All these constant and numerous changes in regulations make me feel as if somebody is persecuting me.” “Due to the such a complex and complicated ‘paperworks’ I feel as if I were a swindler, because I am not able to understand and apply all that.”

<p>1.4 Enact the law on cooperatives 1.5 Enact the law on associations (law on non-profit associations) 1.6 Provide a regulatory framework for micro financing activity</p> <p>2. Define a regulatory framework for the establishment of the information society</p> <p>3. Implementation of regulatory reform through the application of regulatory impact analysis</p> <p>4. Regulations guillotine</p> <p>5. Provide transparency in relation to all laws and regulations that affect SMEs (electronic access) on-line</p> <p>6. Complete revision, rationalization and simplification of all forms and documents related to SME business activities</p>	<p>of e-business and support for small enterprises)</p> <ul style="list-style-type: none"> ■ All drafts of laws and regulations shall be submitted to the Council for Regulatory Reform of Economic System, with a report on the expected impact of each draft law or regulation on SMEs. (In response to Principle 3 of the European Charter for Small Enterprises – Better laws and regulations) ■ Preparation and establishment of an electronic register of laws and regulations related to SME, within the framework of a proposed national Internet SME portal <ul style="list-style-type: none"> ■ Abrogation of all unnecessary (outdated) regulations <ul style="list-style-type: none"> ■ Appointment of a Working Group by the Council for Regulatory Reform of Economic System, which would conduct a comprehensive review of all forms and accompanying documentation with recommendations for radical simplification and consistent with e-management requirements (Application of Principle 3 of the European Charter for Small Enterprises – Better laws and regulations)
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MEASURE 2: *Development of a uniform methodology and harmonization of development research of SME sector with the EU*

Tasks:	Activity:
<p>1. Systematic research and monitoring of SME sector according to EU methodology</p> <p>1.1 Harmonize the existing Serbian definition of micro, small and medium-sized enterprises (MSME²³) with the EU definition</p> <p>2 Establish R&D Observatory for SME and access to EU network Observatory for SMEs and GEM²⁴</p>	<ul style="list-style-type: none"> ■ Continue the work of the SME Council Working Group on improvement of statistical monitoring and research of the SME sector, consistent with Eurostat standards; ■ Continue activities related to international cooperation of relevant ministries in the harmonization of monitoring methodology and unification of available statistics on the SME sector; ■ Establish a research and development Observatory for SME (responsible to the Republic Development Bureau, based on project tasks).

²³ Micro, small and medium-sized enterprises

²⁴ Global Entrepreneurship Monitor

Efficient public institutions at the service of SMEs (Module 2)

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 through its impact on the business environment in which the enterprise sector of the economy operates. The potential benefits of public sector reform through, for example, 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 universally recognized. Put simply, the public sector is expected to view itself as part of the national competitiveness “mix” and to add value to the private sector through the efficient delivery of high quality services. An enterprise is a client to be served rather than a subject to be controlled.

Entrepreneurs believe²⁵ that it is necessary to change the attitude of state administration towards SMEs. Entrepreneurs are apprehensive because they are not familiar with regulations, and they do not know where to seek help. The following requirements are emphasized: (1) better exchange of mutual information between public institutions, those who create and draft regulations and SMEs on the practical impact of the application of regulations, as well as initiatives for changes etc; (2) orientation towards greater preventive activity of inspection bodies; (3) common organization of additional education and training of entrepreneurs in the application of regulations; and (4) establishment of better cooperation at local level between inspection bodies and SME associations, in order to solve existing problems in the application of regulations.

Upgrading of state administration capacities is one of the main pillars of the National Investment Plan 2006-2012, which shows that the Government has recognized the importance of this issue, but it also indicates that a lot of work remains to be done in order to “equip” Serbia with capable, regional and local institutions. Total progress in state administration, as envisaged by the National Investment Plan, will certainly bring a higher degree of efficiency and decreased expenditure for SMEs. In relation to the problems of reform of public institutions, there are two issues which are of special importance for SMEs:

- Complete implementation of e-management
- New and improved services of new institutions, such as the Republic Geodetic Authority and Cadastre, Agencies for Bankruptcy and commercial courts.

Matrix of Pillar 5 – Module 2: An efficient public sector that assists SMEs

MEASURE 1: Introduce e-management adapted to the needs of SME sector	
Tasks:	Activity:
1. Affirm and expand the practice of on-line communication of public institutions for official authentication and takeover of data about SME (for example by inspecting the APR website, not by a register certificate) 2. Create national SME portal, which would provide a complete range of information services of e-management and interactive benefits for SME	<ul style="list-style-type: none"> ■ Organize and provide comprehensive training in the field of e-management services for the staff of all relevant institutions ■ Plan, establish and maintain a national SME portal which would provide a wide range of information on laws, regulations and services and which would operate interactively for most activities

25 Report Views of Entrepreneurs Regarding SMEs Policy

	<ul style="list-style-type: none"> ■ Promote and raise awareness regarding the advantages of e-management
MEASURE 2: <i>Complete the introduction of Real Estate Cadastre and Mortgage Register</i>	
Tasks:	Activity:
<p>1. Create an up-to-date and reliable electronic system of cadastre and fast registration process</p> <p>2. Full implementation of Mortgage Register (Register of real estate mortgages)</p>	<ul style="list-style-type: none"> ■ Completion of establishment of a Real Estate Cadastre for the whole territory of Serbia and operation of entry system (registration) ■ Provide Internet access (on-line) to up-to-date information on registration of all real estate ■ Establishment and regular updating of an electronic mortgage register
MEASURE 3: <i>Improvement in the work of commercial courts and more efficient implementation of bankruptcy procedures</i>	
Tasks:	Activities:
<p>1. Consistent rulings, faster resolution of disputes and more efficient implementation</p> <p>2. More efficient implementation of bankruptcy procedures</p>	<ul style="list-style-type: none"> ■ Improvement in the efficiency of the operation of commercial courts, through improvement in capacities of court administration and improvement of proceedings ■ Provision and improvement in the quality of information support for communication between courts and their operation (linked by a computer network, creation of legal information data base, training, etc.) ■ Strengthening of judicial capacities – training for judges and court administration ■ Strengthening of capacities of Agency for Bankruptcy Monitoring in order to better regulate the profession of bankruptcy manager, more efficiently exercise rights of creditors and implementation of commercial courts rulings
MEASURE 4: <i>Institute a high degree of legal safety, provision of legal help and more efficient legal operations</i>	
Tasks:	Activities:
<p>1. Enact the Law on public notaries</p>	<ul style="list-style-type: none"> ■ Harmonization of the existing legal regulations with EU legislation through the introduction of the institution of notary, which exists in all modern legal systems, i.e. in EU member states

- Faster legal processes and procedures, protection of clients' interests, professional and unbiased advice and higher standards for evidence and degree of reliability in the act of notary

Institutional assistance for SMEs at the regional and local levels (Module 3)

Regional and local economic development is a state priority. The Ministry of Economy (temporarily Ministry of Economy and Regional Development), is tasked with policy for regional development and implementation of the government's Strategy for Regional Development 2007-2012.

The SME sector is an important instrument for the realization of balanced regional and local development and the following priorities will be stressed in relation to institutional support:

- Integrated access to support for SMEs through coordination at regional level of the activities of local authorities, regional SME agencies and National Employment Service
- Completion of the network of Regional agencies for development of SME so that they cover the whole territory of Serbia
- Encourage local authorities to undertake a more active role as leaders of local development, including support for SME and provision of necessary skills for local authorities

Matrix of Pillar 5 – Module 3: Infrastructural support for SME at regional and local levels

MEASURE 1: <i>Coordination of activities for support to SMEs and entrepreneurship at regional and local levels</i>	
Tasks:	Activity:
1. Full coordination of all services, regional development agencies, National Employment Service etc with services and bodies of local self-government	<ul style="list-style-type: none"> ■ Harmonization of cooperation between regional agencies for development of SME, National Employment Service and local authorities regarding common activities for the rational provision of efficient services ■ Provide all available information and services for SMEs in each region on the websites of regional development agencies
MEASURE 2: <i>Completion and improvement of capacities of the network of regional SME development agencies</i>	
Tasks:	Activity:
1. Complete and improve capacities of the entire network of regional SME development agencies 2. Equip all sub-offices of regional SME development agencies with the necessary tools for provision of all services for clients at the local level	<ul style="list-style-type: none"> ■ Ensure that the range and size of the network of regional agencies/centers on the whole territory of Serbia corresponds to the needs of SMEs through introducing new and improving existing capacities ■ Analyze the capabilities of all sub-offices regarding provision of services and implement necessary improvement in management and technical capacities
MEASURE 3: <i>Strengthening the role of local self-governing bodies in economic development</i>	

Tasks:	Activities:
<p>1. Through the delegation of of authority, provide local self-government bodies with the opportunity to take more responsibility for economic development</p> <p>2. Establish local development coalitions, through partnership between the main sectors</p>	<ul style="list-style-type: none"> ■ Provide technical support for planning and financial support for implementation of plans and programmes for local economic development, with special attention to the role of SME sector ■ Local authorities, within their jurisdictions, will monitor SMEs development needs through spatial planning (land, location, infrastructure, zoning) and provide efficient municipal services ■ Provision of better communication, cooperation and partnership between the local economic development leaders (local authorities, institutions for SME development support, private and NGO sectors), as the basis and necessary model for successful planning and establishment of sustainable development with efficient use of own resources

Dialogue between the public and SME sectors (Module 4)

Paradoxically, the number of private entrepreneurs and small and medium-sized enterprises as well as their contribution to employment and GDP is on the rise, while at the same time, their collective influence on design and implementation of economic policy is becoming weaker. It is true that SME policy creators recognize the inadequate position and limited possibility for drawing attention to and representation of SME interests to the public sector. Nevertheless, an organized process of systematic efforts and progress towards improvement in their organization in order to create modern business and professional associations is lacking. The reasons may be found in the inertia of the chamber system faced with challenges of time and the needs of a changed economic structure, where SMEs dominate, and, on the other hand, in the sporadically expressed readiness of the SME sector itself to invest in the necessary efforts to create their own independent interest associations.

The intention to institute SME Forum is stressed in Chapter 6 – Dialogue with SME sector. Principle 10 of the European Charter for small enterprises titled “Develop stronger, more effective representation of small enterprises’ interests at Union and national level”. A useful dialogue between the public and SME sectors is of crucial importance for the efficient operation of a modern economy, and especially for a legal and regulatory framework and public institutions which would be at the service of SMEs. SMEs themselves know very well and understand the requirements for a positive business environment, and the authorities should ensure that discussions with SMEs are an integral part of the process of adoption of appropriate policy or measures.

The Plan of the Government of the Republic of Serbia for the stimulation of small and medium-sized enterprises and entrepreneurship 2005-2007 envisaged the establishment of a SME Forum as a mechanism for communication between the public and SME sectors. The plan defined the Forum in the sense of a need to “identify barriers to business activities of SMEs and to present recommendations for their removal”. The Forum would be directly connected with the Ministry of Economy and Regional Development. In addition, representatives of Forum would participate in the activities of Working Groups of the Council for small and medium-sized enterprises and entrepreneurship. Thus the interests of the SME sector would be more efficiently represented in the process of SME policy design and implementation.

The Ministry of Economy and Regional Development recognizes the need to more fulfill conditions in order that the envisaged Forum could operate efficiently and comply successfully with Principle 10 of the European Charter.²⁶ These conditions include: (1) better understanding among SMEs and their representative organizations of the importance of dialogue between the public and SME sectors; (2) strengthening the abilities of SME representative organizations to establish, articulate and represent their arguments in a clear and logical way; and (3) better communication between SME representative organizations and their members.

Matrix of Pillar 5 – Module 4: Dialogue between the public and SME sectors

MEASURE 1: Promotion of the Forum as an instrument for public and SME sector dialogue	
Tasks:	Activity:
1. Promotion of SME Forum at national, regional and local levels	<ul style="list-style-type: none"> ■ Media promotion of the resolve on the part of the Ministry of Economy and Regional Development to establish a dialogue with SME sector and to organize the Forum as an appropriate mechanism ■ Design “a message” as to the need for direct consultations with SMEs, with an invitation to actively participate in the process of design and implementation of SME strategy ■ Establish the Forum through the use of “bottom-up” mechanisms, from local through regional to the national level ■ Promote the Forum among the SME community, with appropriate promotional and media material as to the need for and importance of dialogue and direct representation of SME interests to the public sector ■ Initiate organization of thematic meetings at local and regional levels
MEASURE 2: Process of consultations for the establishment of the Forum	
Tasks:	Activity:
1. Review the experiences of other countries as a starting point for consultations about possible dialogue mechanisms 2. Gather information on the views of the private sector	<ul style="list-style-type: none"> ■ Through the process of the EU Charter implementation, gather information on models for dialogue between the public and SME sectors in the countries which have signed the Charter ■ Prepare an initial working document, with data on the situation and recommendations on possible options for Serbia ■ Public invitation to SMEs to give own views on the Forum ■ Organize consultative meetings with active regional chambers and SME representative associations ■ Use promotional meetings at local and regional levels as mechanisms for gathering views of SME

26 Regarding this principle, Serbia has the lowest individual score (1-2) in the *Implementation Report on the European Charter for 2006*.

3. Gather information on the views of the public sector	<ul style="list-style-type: none"> and public sector representatives ■ Gather information on the views of all relevant national institutions with regard to the Forum for SME (through the Council for Small and Medium-Sized enterprises and entrepreneurship)
MEASURE 3: <i>Design and foundation of Forum</i>	
Tasks:	Activities:
<ol style="list-style-type: none"> 1. Prepare a proposal for establishment of the SME Forum that responds to conditions and realities in Serbia 2. Establish the Forum 	<ul style="list-style-type: none"> ■ Conduct an analysis of collected data and recommendations on the basis of the completed consultation process and propose an optimum concept for establishment and successful operation of the Forum ■ Prepare a proposal for the establishment of the Forum which would define status, authority, members and resources, as well as relations with the Ministry of Economy and Regional Development and the Council for Small and Medium-sized Enterprises and Entrepreneurship ■ Submit the proposal to establish the Forum for government's approval ■ Establish the Forum (following government approval)

Public procurement for SMEs (Module 5)

According to the Public Procurement Office, the total value of registered public procurement contracts in Serbia was €2 billion. In the five year period (2002 - 2007), the average contract value increased fivefold

The Public Procurement Office (PPO) was established under Article 18 of the Public Procurement Law (Official Gazette 39/2002) as an independent state organization and its responsibilities include all activities related to the correct and efficient administration of the public procurement system in Serbia. A priority for OPP is the establishment of a specialized Internet-based portal with tender and award notices, including the processing of notices, information and guidance systems to support the procurement community, including guidance documentation, model tender and contract documentation. Such a portal would have the potential for greatly improving SME access to public procurement.

The system of public procurement should be improved in a way that: (1) it is transparent and provides complete and timely information for all participants; (2) procedures are understandable and easily applicable for SMEs; and (3) it applies positive SME discrimination, which would provide at least 25% of public procurement value directly for SMEs.

Matrix of Pillar 5 – Module 5: Public procurements

MEASURE 1: <i>System of public procurements which stimulates participation of SME</i>	
Tasks:	Activity:
1. Ensure that SME sector has a full and equal access to public procurements and all tender	<ul style="list-style-type: none"> ■ Create an Internet portal for public procurements which would encourage

<p>documentation</p> <p>2. Ensure that SMEs are better informed about potentials of public procurements</p> <p>3. Stimulate negotiators to be more inclined to SMEs – principle of positive discrimination (ensure participation of SME sector in public procurement of at least 20%)</p>	<p>participation of SMEs and provide all information in a clear and transparent way as well as full access to all tender documentation</p> <ul style="list-style-type: none"> ■ Identify and fulfill all relevant needs of SMEs related to training and advice ■ Identify initiatives and experience of other states which could be successfully applied to the situation in Serbia ■ Develop and promote the use of standardized tender forms which would reduce administrative expenditures for SME ■ Budget users shall provide timely and comprehensive information for SME sector about planned public procurements for the following year through public announcements, organization of special-purpose meetings and participation in activities of SME representative bodies ■ Invitations for public procurements should include clear and unambiguous requirements regarding tender documentation ■ Consider the possibility of breaking tender requirements into parts which could be supplied by smaller companies and encourage arrangements which facilitate subcontracting in larger contracts ■ Provide a contact person who will assist SMEs to participate in tenders ■ Enable SMEs which participate in public procurements to form tendering consortia
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VII MONITORING AND ANALYSIS OF STRATEGY EFFECTS

Design of operational programmes and monitoring of Strategy effects

The design of operational programmes and projects for implementation of the Strategy, as well as monitoring of Strategy implementation will be carried out by the Republic Agency for the Development of Small and Medium-Sized Enterprises and Entrepreneurship, in cooperation with the Ministry of Economy and Regional Development, through half-yearly reports which shall be submitted to the Government of the Republic of Serbia and annual reports for the National Assembly of the Republic of Serbia.

An improved system of statistical monitoring and research of SME sector will be applied as one of the

basic instruments for evaluation of results against the set parameters of the Strategy (for example, the net change in the number of SMEs, net numbers of new jobs, participation in the realized turnover and GDP, achieved import/export, accumulation, financial power and investments, innovations index, competitiveness and use of ICT, etc.).

Monitoring of the implementation of operational programmes will be carried out annually, through analysis of the effects on achievement of set objectives and their revision in keeping with identified failures and deficiencies.

In order to establish an efficient system of monitoring and analysis of the Strategy implementation effects, experiences of good practice in the process of implementation of the European Charter for Small Enterprises will be applied. Through technical support which will be provided by the next EAR Project ²⁷ and in cooperation with OECD, the *methodology for Strategy monitoring* will be defined (with indicators, time dynamics, risk analysis, corrective actions) and *a guide for Strategy implementation* will be created for key actors in the SME policy process.

In the process of Strategy implementation monitoring, *OECD will be engaged as an independent evaluator*, which would at the same time provide efficient identification of failures and deficiencies in the implementation as well as recommendations for timely application of corrective measures.

VIII SWOT ANALYSIS

<p>Strengths:</p> <ul style="list-style-type: none"> ■ Commitment of the Government of the Republic of Serbia to conduct reforms for Serbia’s EU accession; ■ Competence and resolve of the Ministry of Economy and Regional Development to establish a competitive economy based on knowledge and innovations; ■ Established mechanism of planning 	<p>Weaknesses:</p> <ul style="list-style-type: none"> ■ Insufficient level of human resources development in the public sector; ■ Inability of public sector institutions to fulfill the requirements for efficient servicing of citizens and economy; ■ Delay in the institution of e-government; ■ Incomplete institutional infrastructure and low level of capacities for SME support;
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⁷ *Technical Support to Enterprise Policy and Innovation*

<p>(reserving) of special-purpose resources in the budget for implementation of support policy for SME development (operative programmes of Strategy);</p> <ul style="list-style-type: none"> ■ Established mechanism (SME Council) for efficient coordination of activities of departmental institutions related to implementation of SME development policy. 	<ul style="list-style-type: none"> ■ Insufficient financial resources for comprehensive implementation of planned measures and activities, due to budget limitations; ■ Low level of organization in SME sector and lack of a dialogue and partnership with public sector.
<p>Opportunities:</p> <ul style="list-style-type: none"> ■ Unused entrepreneurship and innovation potential of Serbia; ■ Significant available resources of the EU (and other international institutions and donors) for support of SME, entrepreneurship, innovations and competitiveness development in Serbia; ■ Entry of SME into new markets in the countries in the region and in the EU through integrative processes (Central European Free Trade Agreement – CEFTA – and Serbia’s Stabilization and Association Agreement with the EU); ■ Perspective of EU membership of Serbia as a factor of direct foreign investments stimulation. 	<p>Threats:</p> <ul style="list-style-type: none"> ■ Low level of awareness and knowledge of SME management about challenges and requirements related to harmonization with open market economy; ■ Insufficient readiness of entrepreneurs to gain new knowledges and skills; ■ Insufficient capacities of public and private sector to fully use available resources (EU pre-accession funds, EU and other international institutions’ development programmes, donation programmes for SME development support); ■ Stronger competition in domestic and international markets;

3. Law on the SADMEE

(英語、Official Gazette of the Republic、2001年)

LAW ON THE AGENCY FOR THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

Foundation

Article 1.

The Republic Agency for the Development of Small and Medium Enterprises (hereinafter referred to as: Agency) is hereby established.

Legal Status

Article 2.

The Agency is a legal entity, with the rights, obligations and liabilities determined by the law and the statute.

The Agency operates in accordance with regulations on public services.

The Agency has an account.

Seat of Office

Article 3.

The Agency has its seat of office in Belgrade.

Foundation and Operating Capital of the Agency

Article 4.

The means for the Agency foundation are procured from:

- 1) the budget of the Republic of Serbia;
- 2) donations, contributions and sponsorships of domestic and foreign legal entities and persons.

The means for the Agency operation are procured from:

- 1) donations, contributions and sponsorships of domestic and foreign legal entities and persons;
- 2) income obtained from the performance of its activities;
- 3) other sources, in accordance with the law.

Concept of Small and Medium Enterprises

Article 5.

As conceived by this Law, SME's are those enterprises which are in compliance with the requirements of the Law on Accounting.

The provisions of this Law do not apply to small and medium enterprises from par. 1 of this Article which represent connected companies.

Beneficiaries of the Services

Article 6.

The Agency provides professional support to:

1. Small or Medium Enterprises from Article 5 of this Law;
2. Entrepreneurs;
3. Legal entities and persons intending to establish a Small or Medium Enterprises.
4. Individual agriculture producers intending to undertake raw agricultural goods processing.

Activities of the Agency

Article 7.

The Agency performs consulting and management activities.

The Agency:

1. participates in the preparation of the strategy of development and proposal of the economic policy measures for the stimulation of the development of SME's and entrepreneurs in cooperation with the competent ministry;
2. prepares and renders professional assistance for the co-ordination of special programs and investment funds as well as for financial support for the stimulation of creation of new and development of existing SME's and entrepreneurs;
3. renders professional assistance necessary for the realization of local and foreign investments in SME's;
4. renders professional assistance necessary for improving the operation, the development of innovations as well as their application in SME's;
5. creates a unique data base system of statistical data and informations relevant for the development of SME's and entrepreneurs;
6. prepares and delivers programs of education of instructors and consultants for the development needs of SME's and entrepreneurs;
7. renders other services as provided by the law;

Management Bodies of the Agency

Article 8.

The bodies of the Agency are: Management Board, Supervisory Committee and Managing Director.

The President and the members of the Management Board and the Supervisory Committee and the Managing Director are appointed and suspended by the Government of the Republic of Serbia

The President and the members of the Management Board and the Supervisory Committee and the Managing Director are appointed for a four-year term of office.

The Management Board

Article 9.

The Management Board consists of the President and four members.

The President and three members of the Management Board are appointed from the SME and entrepreneurs sector.

The fourth member of the Management Board is appointed from the employees of the Agency.

The Managing Board will:

1. enact the Statute;
2. enact the general regulations as stipulated by the Statute;
3. adopt the annual program of activities;
4. adopt the financial plan;
5. adopt the annual report on business management and the annual financial statement;
6. carry out other operations as stipulated by this Law and the Statute.

The Supervisory Board

Article 10.

The Supervisory Committee has a President and two members.

The President and one member of the Supervisory Committee are appointed from the SME sector.

The second member of the Supervisory Committee is appointed from the employees of the Agency.

The Supervisory Committee will:

1. monitor the legality of operation of the Agency;
2. survey the annual business management report and the annual financial statement;
3. execute other activities as stipulated by this law and the Statute.

The Supervisory Committee will at least once a year submit the results of the activities to the competent Ministry and within 15 days from the day of receipt of the report, the Ministry will notify the Government of the Republic of Serbia.

The Managing Director

Article 11.

The Managing Director will:

1. represent the Agency;
2. organize and manage the Agency operations;
3. propose legal drafts to be adopted by the Management Board;
4. execute decisions adopted by the Management Board and undertake the measures for their implementation;
5. monitor the legality of operation and be responsible for the legality of operation and for the usage and allocation of the Agency assets;
6. adopt the Act on Internal organization and positions systematization;
7. proposes the program of activities;
8. performs other activities determined by the law and Statute.

General Acts

Article 12.

The general acts of the Agency are the Statute, Regulation and other general acts.

The Statute is the principal general act of the Agency.

The Statute is adopted by the Management Board of the Agency, with the approval of the Government of the Republic of Serbia.

The Statute contains stipulations of:

1. The Agency activities;
2. The way of performance of the activities;
3. The management bodies and their activities;
4. The representation of the Agency;
5. The rights obligations and responsibilities of the staff members;
6. Other issues of significance for the operation of the Agency.

Special Assignments

Article 13.

The Agency is allowed to engage, for the performance of certain professional activities within its capacities, other national or international, legal or private entities.

Supervision

Article 14.

The Agency is responsible for its activities to the Government of the Republic of Serbia in accordance with the law.

The supervision over the operations is assigned to the competent Ministry.

At least four times a year the Agency will submit a report to the competent Ministry and within 7 days from the day of receipt of the reports, the Ministry will notify the Government of the Republic of Serbia and the competent board of the Assembly of the Republic of Serbia.

Regional Agencies

Article 15.

The Government of the Republic of Serbia, in the aim of organization of a network of professional assistance to SME's and entrepreneurs on the entire territory of the Republic of Serbia, may establish regional agencies for the development of small and medium enterprises and entrepreneurs.

Regional Agencies from paragraph 1. of this article can be founded for the territory of one or more municipalities or autonomous region, taking into consideration the population, the number of enterprises as well as the number of small and medium enterprises and entrepreneurs and the rate of unemployment on the territory for which it is established.

The Agency renders necessary professional assistance necessary for the organization, coordination of activities and operation of the Regional Agencies.

Transitional and Final Provisions

Article 16.

The Government of the Republic of Serbia will appoint the Managing Director, the Managing Board and the Supervisory Committee members of the Agency within 15 days from this Law coming into force.

Article 17.

The Managing Board of the Republic Agency is obliged to adopt the Statute within 15 days from the day of its appointment.

Article 18.

This Law comes into force on the eighth day from its announcement in the Official Gazette of the Republic of Serbia.

NOTE: Published in the Official Gazette of the RS (No.65 of the 23.11.2001.)

4 . Founders support to regional agencies

(英語、SADSMEE、2008 年)

CENTRE	AMOUNT	PURPOSE
VRANJE	350 €	office rent
NOVI SAD	NA	
NOVI PAZAR	0	
SABAC	1.600.000 RSD	
KRUSEVAC	385.443 din	office rent
SOMBOR	4.000.000 RSD	capital investment
BEOGRAD	NA	
KRAGUJEVAC	30% of expenses	
ZAJECAR	39.000 RSD/month	
NIS	0	
LESKOVAC	office rent	
ZLATIBOR	350.000 RSD	office rent
SUBOTICA	20% of expenses	
ZRENJANIN	23.700,00€	