



## SME100 initiatives - to bring SMEs to the forefront by 2030

Launched at the Conference-Exhibition of SMEs Serbia 2030: SME100 Expo, 2022

### I INTRODUCTION

This document presents a list of initiatives generated in a year-long dialogue that CEVES conducted with Serbia's small and medium-sized enterprises (SMEs), as well as other significant stakeholders, about SMEs' contribution to Serbia's sustainable development and how that potential can be increased and fully realized by 2030. The dialogue took place within the "SDGs for ALL" Platform, a project supported by the Swiss and German governments and implemented by the German Organization for Development Cooperation (GIZ) to promote the 2030 Agenda for Sustainable Development. They were launched at the Conference-Exhibition *SME Serbia 2030: SME100 Expo*, held in Kragujevac's Mind Park on June 1, 2022.

The 2030 United Nations Agenda identifies 17 universally agreed-upon Global Sustainable Development Goals (SDGs) to advance the multifaceted aspects of humanity's condition. The dimensions of this condition that they relate to have been described as the 5 Ps: people, planet, prosperity, peace, and partnership. In other words, in addition to the usual environmental, social and economic aspects of sustainable development, they include institutional quality and security and the partnership needed to ensure they are duly implemented—universally and indivisibly. Governments, parliaments, the United Nations (UN) system and other international organizations, local governments, civil society, business, the private sector, the scientific and academic community, all people, must collaborate to achieve these goals. While respecting differences in capacities and levels of national development, all must endeavor and contribute, and "no one should be left behind."



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The private sector's contribution to sustainable development is often seen to be limited to its activities in the field of corporate social responsibility, but SMEs contribute to the achievement of SDGs also in a more direct fashion. In any country they are the backbone of economic activity and their growth promotes prosperity as well as other dimensions of the 2030 Agenda. Since they account for most employment in Serbia's business sector, new chances for better, more innovative, and higher-paying jobs emerge as their production increases. In particular in Serbia SMEs also preserved some of the industrial skills that were otherwise lost during the gradual decline of its large industrial complexes, a legacy of socialist times. They also significantly contribute to the accelerated development of the ICT sector and play an essential role in the digitalization and advancement of Industry 4.0. Also, SMEs—and "hidden champions", in particular contribute to sustainable development through export-related activities and investments in knowledge and human capital development.

CEVES initiated the dialogue within the "SDGs for ALL" Platform to identify initiatives that can "help SMEs break through the ceiling by 2030". After a number of round tables and conferences we concluded that an enterprise's business conditions and needs are significantly affected by its size and level of competitiveness attained, as well as by its industrial sector. In fact, leading SMEs, notably exporters, inventors, or green pioneers, have the potential to be a "locomotive" for the expansion of other smaller enterprises. Hence, we chose to focus on one-on-one conversations with leading SME representatives during the following round of the debate. Also, presenting these SME leaders would be particularly effective in drawing the attention of the general public and decision-makers to the SME sector's overall potential. At the end of the dialogue, the conference-exhibition *SME Serbia 2030: SME100 Expo* brought together about 100 carefully chosen SMEs, small and medium by international standards but leaders in Serbia, to show their development potential. The "SME100 Expo" provided them with an opportunity to mutually engage and launch initiatives that will support the growth of SMEs and channel their potential toward achieving objectives for society as a whole.

We use the word "initiative" broadly, indicating a call for action rather than a formal legal proposal prepared for consideration by the government. Our aim was that the initiatives be specific and concrete with clear "next step" implications if to be implemented. Also, we made an effort to identify actions that can be implemented by the SMEs and other stakeholders independently of public institutions, although many inevitably depend on government responsiveness or are directed at state institutions.

In the following pages we first present CEVES' "development philosophy" for SMEs, based on years of research into the contribution of SMEs to the Serbian economy as well as observations made during the dialogue. Then we describe systemic issues that belong among the most significant difficulties that Serbian decision-makers must overcome to enhance the business climate and advance the SME sector. Finally, we recommend more specific actions in three areas that are key for the sustained growth of SMEs: capacity building, technological and "green" transformation, building human resources, and access to finance.

## SMEs AND SUSTAINABLE DEVELOPMENT OF SERBIA: WHAT POLICIES ARE NEEDED?

The present is a view of the pressing issues and development potential of Serbian SMEs as well as the policies and systemic transformation necessary to give them a vibrant business environment. The view is based on several years of research into the role that SMEs can play for the accomplishment of sustainable development goals for Serbia, as well as on the initiatives that crystallized during the above-mentioned dialogue.

In order to realize the country's full sustainable development potential, in Serbia SMEs need to be paid special attention. Not only are they the largest generator of employment, as elsewhere, but they are especially important as the only generators of "technological" innovations (this has recently been the case in other countries as well), and they also have a very specific and unique role in terms of broader skills and knowledge. As in other countries, SMEs in Serbia generate most of the production (60%) and employment (65%) of the business sector (economy without public services and agriculture). However, unlike most other countries, in Serbia, SMEs are also the key repositories of industrial and many service knowledge and skills in the domestic private sector (with the exception of the agro-industrial complex where the number of large domestic companies is significant). Together with foreign direct investors (FDI), domestic SMEs are the ones that "took over", ie. first rescued from oblivion, and then gradually developed, a part of the industrial knowledge and skills of the large socialist industrial complexes as they were imploding and disappearing throughout the previous decades. The further technological development and productivity growth of Serbia's domestic industry is possible only through the development of SMEs - either by spreading technological knowledge from FDI to SMEs, by establishing closer connections between them or by creating a favorable environment in which leading SMEs, internationally known as "hidden champions", can continue to grow and develop, in which "new champions" mature and in which all "champions" together "pull" many other smaller SME along with them.

In recent years, there has been a noticeable effort in Serbia to strengthen policies to support SME development. While programs for providing funds for the purchase of equipment are still the most pronounced (maximum of about 20 million euros reached in 2019, and somewhat more is expected in 2022), programs such as support for the inclusion of SMEs in multinational company supply chains (developed by the Development Agency of Serbia, DAS), investing in the development of innovations (eg the Innovation Fund spent more funds in 2020 and 2021 - 29 million euros - than in all previous eight years since its establishment), as well as in digital and green transformation (primarily within the Serbian Chamber of Commerce, SCC) are also increasingly present. There is also a noticeable increase in the amounts allocated to domestic entrepreneurs, both large and SMEs, through Government subsidies extended based on the Law on Investments (this, Mr. Čadež also mentioned at the Conference). In the five-year period 2017-2021 allocated funds amounted to 440 million euros, of which 80-90% was directed to companies with foreign owners (mostly large). In 2019 and

2021, domestic companies were allocated 8 million and 15 million euros, respectively. In both cases this accounted for 15% of the total allocated funds as they doubled over the period. A record total annual spending from the appropriation of the Ministry of Economy has been announced for 2022, in the amount of around 160 million euros.

Nevertheless, policies that simply redirect funds from one business (the taxpayer) to another play the largest role. They are about the allocation of funds - either as a subsidy under the Law on Investments, or support programmes to SMEs, (mainly of the DAS) and this would need to be justified based on clearer criteria and greater transparency in the allocation. On the other hand, investments that raise the capacity of the economy and increase the space for its synergetic action are still limited. Examples of these would be to make available to larger groups of companies public services and resources that would be more expensive or inaccessible to them if they got them individually (such as acquiring knowledge and information from abroad, digital skills), as well as investing in the capacity of institutions to provide services that support building the above capacity and synergies. At the same time, the existing programs are still fragmented, and the amounts granted at the individual level are very limited. For example, within the DAS' Program of support to companies for export promotion, the amount of approved funds for the implementation of project activities cannot exceed 2 million RSD. Or, for example, within the digitization support program in SCC, the focus is on the first levels of digitization, which by their nature require less resources.

We considered it reasonable until a few years ago for Serbia's main development policy to be increasing employment through the simplest administrative means possible—subsidies to investments associated with large employment figures, although other possibly better options also existed. Now, however, when the unemployment rate in Serbia has fallen to 10.6% and is concentrated in particular areas with special demographic and qualification profiles, it is necessary to stop this practice and thoroughly reevaluate the goals of Serbian development policies. It is a good question whether large investors can reach most of these areas at all. If incentives are to be provided, how to link them to achieving goals such as the transfer of certain technological knowledge or employment in specific less developed regions? How to ensure synergy between such investments and human resource development tailored to sustainable, human, development in which champions can play an extremely important role? In both of these examples, smaller employers can actually often achieve greater effects. The problem is that this requires the development of institutions that can reach out and work with a larger number of SMEs, and this, in turn, requires that decentralized action replace the current centralized action focused on a limited number of large enterprises.

To achieve sustainable development today, it is essential to decide on the direction and broad outlines of the future for which societies' funds will be used. It is now vital to develop comprehensive medium-term programs with clearly defined goals that offer all key public services, from human resources education to preserving infrastructure for innovation, to impact the entire environment in which SMEs operate. Such programs deal with particular

procedures, skills, and resources that specific groupings of SMEs typically require - not exclusively, but equally for all. The crucial factors for SME development vary depending on its typology. The availability of highly qualified human resources, opportunities for innovation development, the use of cutting-edge, smart, and green technologies, as well as the monitoring of performance on the international market with financial and other resources available to competing SMEs, are crucial factors for the Serbian champions.

It is possible to create transparent procedures for providing funding or services to certain businesses and verifiable standards when the objectives are clearly stated. The Council for Economic Development currently decides how funds will be allocated for subsidies under the Law on Investments, but its operations are carried out in a way that does not fully inform the public. The entire decision-making process should be made public, from developing the goals and criteria to reviewing the awards applications to deciding whether to give incentives. As required by law, the Council's work report should be accessible on the government website. In fact, financing for SME development support programs is only made available after completing strict administrative requirements which somehow highlight the earlier successes of these businesses. Instead, emphasis should be placed on the possibility of achieving the most significant desirable development effect, i.e., achieving a specific objective. A "first-come, first-served" system is another option to restrict the availability of funds, which also reduces the process's transparency. To achieve this transformation, it is essential to improve communication between institutions and the economy while developing and expanding programs, coordinating intersectoral policies, and strengthening institutions that implement this support.

Finally, the fundamentally unfavorable attitude toward entrepreneurship and the mistrust that Serbian society exhibits toward entrepreneurs continue to stand as fundamental barriers to the accelerated development of the Serbian economy, particularly SMEs. The government leads in this attitude, partly because of a socialism-era legacy of negative attitude toward "private owners" (*privatnici*) and partly because of a lack confidence in the government's ability to protect against economic abuses, which are always possible. This lack of confidence is shared between the public, and the civil service itself. Hence, the administration all too often bars legitimate business activities and undertakings, or avoids policies, that it feels can be abused. This happens more often in the case of SMEs as, because of their greater numbers, it is more difficult to exercise adequate oversight in their case. (In fact, after three decades of transition, Serbia has yet to abandon the ingrained habit of treating every business-related activity that is not expressly permitted by some law, as expressly forbidden. This despite the fact that the Constitution stipulates the reverse—everything that is not expressly forbidden is allowed.) In contrast to Serbia, the EU emphasizes SMEs more than large businesses regarding administrative needs, adhering to the "Think small first"<sup>1</sup> principle.

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<sup>1</sup>"Think Small First" embedded in the Small Business Act for Europe calls for the requirements for SMEs to be adjusted to their capabilities. Administrative requirements, which may seem reasonable and not particularly demanding when it comes to large enterprises, frequently pose insuperable or expensive barriers to SMEs.

Whether the damage from potential abuses is more significant or less than the advantages that unrestrained entrepreneurship can typically bring must determine whether targeted measures should prevent abuses because they are generally impossible to avoid altogether.

Decision-makers in Serbia should draw inspiration from other nations' successful implementation of various policies and programs to enhance exports, innovation, and sustainability, including Finland, Ireland, and Israel, as well as post-transition new EU members.

## SYSTEMIC PROBLEMS ADDRESSED BY THE INITIATIVES

1. **The SME100 calls The SME100 calls on the Government, the National Bank of Serbia and other relevant institutions to review the costs and benefits of regulatory obstacles to the conduct of SME business, especially when the impact on SMEs is stronger than that on the rest of the economy.** Where concern over possible abuse is the actual reason for the obstacles (or for the absence of supportive policies) the institutions should urgently embark in the strengthening of their own capacities to monitor and prevent the abuse rather than limiting all activity. Administrative obstacles narrow the space in which the economy can operate productively, and in a system that functions well the damage from limiting everybody's productivity is undoubtedly greater than the damage from inevitable abuses. In that context:
  - ✓ We join the efforts and initiatives submitted in the past years by CCS, the Employers' Association of Serbia (followed by a positive decision of the Socio-Economic Council) and NALED – **to restore the right to tax credits on investments for SMEs**, which was abolished (only for SMEs) with the amendments to the Law on Profit Tax in 2013. The re-introduction of this tax relief would stimulate investments in the modernization of existing and procurement of new equipment, and this would have a positive impact not only on the competitiveness of not only SMEs, but of the entire Serbian economy.
  - ✓ We call on the authorities to make advance payments on incentives for desired activities/goals wherever and whenever reasonably possible. The effectiveness of advance payments (even if they cover partial amounts) is manyfold that of payment through refunds, because the need for support is much greater at the beginning of any complex process than once it has been completed. This is amply borne out by the example of the effect that the recently adopted advance payment of IPARD fund support has had on these funds' take-up. We recommend the same practice particularly in the case of support payments for product certification costs. This initiative has already been launched by the Serbian Chamber of Commerce, and we underscore its importance.
  - ✓ We propose the introduction of the continuous review of public policies, regulations and public administration procedures to achieve maximum adherence to the EU principle "Think small first".

- ⇒ Shorten the period allowed for government payments to the business sector from 60 to 45 days, considering that this deadline also applies to payments from business to business.
- ⇒ Establish the principle that SMEs are given priority over large companies in public procurement.

2. **The SME100 call on the government to, in the new SME Development Strategy, identify medium-term support programs for the development of internal capacities of SMEs and, in particular, their digital (including Industry 4.0) and green transformations.**

Development programs must integrate the activities of several ministries, discriminate between the needs of SMEs at different levels of development, as well as include the necessary investments in the development of the capacities of the support institutions themselves. In particular, the existing capacities of "SME champions" need to be reviewed and a targeted programs of investment in their further digital and green transformation developed, which will build on these capacities. Thus, the development of innovative, high-tech and software products and services will be encouraged that can take Serbia's domestic economy closer to the frontiers of today's productivity.

- ✓ Among the initiatives discussed within the first thematic framework - "Strengthening internal capacities and technological and green transformation", **the call for targeted and increased investment in facilitating access to certification of product compliance** with certain standards, obtaining the CE mark and the like, is as an **example** of such a policy. The specific initiatives that we propose are described in more detail below.
- ✓ One of the implications of this "programmatic" approach is that the **support environment for development must be built in a targeted manner according to different typologies and different needs of SMEs**. In the rich array of SME support measures in Serbia, there are programs for "startups", youth entrepreneurship, women's entrepreneurship, micro and SME, innovative companies, etc. It is highly commendable that RAS has for several years been implementing a support program for SMEs to enter the supplier chains of multinational companies, a support program for companies for export promotion, a digital transformation program, a support program for the internationalization of SMEs through participation in fairs, etc. Also, ministries implement various programs that reach a large number of SMEs. However, for example, "digitalization" has a different meaning when it is applied to a company that is learning to create a web presentation of itself and when it concerns the integrated digital management of a company's entire production process. The latter represents one of the key steps forward in Industry 4.0. The government should not be expected to finance the "champions's" entire transformation to Industry 4.0, but it could/should develop "demonstration" programs and platforms and support the development of appropriate centers and laboratories that would encourage such a transformation (see the list of initiatives). The same is true of the "green" transformation,

for which, with relatively small investments, the government could secure the Serbian economy's access to significant European funds.

- ✓ Another implication of this programmatic approach is that medium-term investments in programs must be accompanied by **investments in the development of the capacity of the institutions themselves** to formulate and consistently and transparently implement these programs.
- ✓ In the context of further capacity building and transformation of SMEs, a particularly important role would have to be played by the public sector, and especially public enterprises at the national and local level, which **through public procurement can strongly influence these processes**. The specific initiatives that we propose are described in more detail below under thematic area 1.

3. **The SME100 call on the government to turn the introduction of learning through work into the education system into a two-way process by supporting and eventually becoming a partner of the private sector in the significant efforts this sector is already investing in training personnel.** It would thus strengthen this key channel of generating much needed qualified personnel for the economy, as well as enrich and accelerate the reform of the formal education system. The SME100 have identified the limited availability of qualified labor as the most serious limitation for their further growth and development, whereby "qualified" means preparedness for productive inclusion in the labor-force at all levels of qualification. Opening and supplementing formal education with work-based learning programs is the right answer to this problem, but the reform that is currently being implemented under the name of "dual education" is only a part of the necessary answer, and it is making slow progress. Possible forms of support, incentives and proposals for partnership ventures are described under initiatives in the following text under thematic area 2.

- ✓ As a minimum, the government should compensate at least some of the costs of the formal training that many companies regularly conduct, as well as of the benefits they give to employees to retain them living in their often "peripheral" locations. These are investments that benefit the entire economy by "grooming qualified staff" for everyone and mitigating the countryside's depopulation. We highlight the even more ambitious, and legally permitted, proposal to establish regional educational centers as public-private partnerships. See more about these initiatives below under thematic area 2.
- ✓ By establishing alternative channels of communication, support and mutual cooperation, the proposed initiatives would not only contribute to increasing the availability of personnel but would also contribute to the acceleration of the reform of the formal system. They would show by example and increase the exchange of relevant information between the private and public sector. In this context, it is significant that there is a political will to speed up the adaptation of the teaching staff profiles to the needs of the economy in the near future, as stated by Mr. Čadež, President of CCS, at the Panel of the 2nd Conference. However, the very processes of



identifying the needs of the private sector and training teaching staff with the appropriate profiles are very demanding and foreign to the formal education system.

4. The SME100 call on the Government and the NBS to invest further efforts in developing a range of instruments and entries to increased access to finance, guarantees and insurance of financial instruments, for SMEs.
  - ✓ Most of the participants of the Conference welcome the position of the President of the CCS, Mr. Čadeža that "the time is ripe" for the establishment of a national development bank that would cover the gap between the need for financing development projects, especially small businesses and agriculture, and the offer on the financial market. Classical financial institutions such as banks are not able to satisfy the needs of all segments of the economy, thanks primarily to the regulatory framework in which they operate and risk policies whose criteria are unattainable for many micro and small enterprises in early phases of development phase as well as for small agricultural farms.
  - ✓ It is extremely important, however, that the development bank has a professional management and a clearly defined lending policy that is in accordance with domestic and international regulations concerning state aid mechanisms. In building the experience and credibility needed to establish such an institution, we strongly support the further development of the Agency for Export Insurance and Financing (AOFI), through supporting the initiatives proposed under Topic Area 3 below. By implementing these initiatives, a qualitative difference could be made to the competitiveness of export-oriented SMEs in Serbia, in a very short time. Its gradual recapitalization, along with the continuation of good and credible management, would build both internal and external institutional credibility. The credibility of a development bank could then be further built on this foundation, yet without the allocation of proportionate fiscal resources.

## **THEMATIC AREA 1: STRENGTHENING INTERNAL CAPACITY AND TECHNOLOGICAL AND "GREEN" TRANSFORMATION**

The discussion on each of the following areas of capacity building starts with an effort to create systemic programs or programs that cannot be well implemented without significant public investment. Delivering more state services of more excellent quality and volume is more important than directly subsidizing businesses. Key programmatic initiatives are followed by presentations of less complicated initiatives that do not need state assistance but in which businesspeople and development partners can act independently from (the absence of) government policies.

### **1. Raising capacity and quality standards, mainly to compete in international markets**

- 1.1. **Supporting international export standards compliance (market entry) and/or facilitating faster integration into value chains.** To accelerate the integration of SMEs in international value chains, it is necessary to facilitate access and reduce the cost of product certification as regards appropriate quality standards, obtaining the CE mark, and the like. Simultaneously, it is necessary to distinguish between the needs of enterprises that are just beginning the process of modernization and entry into foreign markets and those that stand out from Serbia's SME sector; the latter's needs are frequently not as visible due to their distinctiveness and small number. On the one hand, more significant incentives are needed for the upgrading of existing and acquisition of new laboratory equipment and accreditation of control bodies or laboratories for missing types or volumes of product testing and trials. On the other hand, the introduction into Serbia of tests that cannot yet be supported on a commercial basis but are expected to help the Serbian economy expand to higher levels of productivity and competitiveness (e.g., enable certification of EMS standards - for fire reliability testing or SIL class for safety certificates) require support, and one possibility is to support certified university laboratories to develop them. Another example would be government investment into solutions like a test park or smart testing grounds for high-tech enterprises that are entirely export-oriented, such as those that create radar sensors, particularly well-liked in the automotive industry. Hungary has one. An intelligent range would attract additional smart nomads who would establish a new community and microworld where new companies may flourish in response to emerging requirements, creating a domino effect. Something like this is required if Serbia wants to position itself in the region and beyond in terms of smart technologies.

*"Following the latest standards (rich, food contact, oeko, tex, iso ...) and the introduction and certification of environmental and safety standards requires significant laboratory equipment and people investments. "*  
*(Glue production company)*

- 1.2. **As the first step in a prior attempt to improve product quality, advanced SMEs can be linked to select specific tests and certifications whose development would be a priority to strengthen the capability and competitiveness of the Serbian economy.**
- 1.3. **One way to provide a broader development effect of support for raising the business standards of SMEs (establishment of vertical, customer-supplier cooperation) is the development of domestic suppliers for Serbian champions through the improvement of technical and business capacities of smaller SMEs. Perhaps an SME-led pilot initiative with development partners can get off the ground.** On the one hand, Serbian export champions need a base of local (national) suppliers offering high-quality products and services at competitive rates and with short delivery periods to focus on producing additional value-added products and

parts. On the other hand, many micro, small, and medium enterprises have the potential but lack the resources to independently meet the requirements for integration in the supply chain of international corporations. Serbian champions can assist domestic suppliers in improving technical and technological capacity, accessing specific knowledge, developing business skills, and providing demand for their products and services through customer-supplier cooperation and with the support of the public sector or the government. This way, exporters can ensure a reliable supply of the products and services they need to sell in overseas markets while also assuring a gradual and sustainable path for local (national) SMEs to internationalize their operations.

*"Without the networking and collaboration of small and medium-sized businesses, our company would not have been successful." (Company offering design, interior design, and carpentry services)*

- 1.4. **As a preliminary step or a complement to the development of domestic suppliers, sectoral/targeted "business encounters" can be organized, where smaller SMEs can present their capabilities to larger SMEs and large businesses.** Businesses in Serbia must first get to know one another to collaborate more successfully.
- 1.5. **All stakeholders should be involved in regulating and developing business infrastructure, particularly in the ongoing work on drafting the Business Infrastructure Law. Stakeholders can support the government by connecting and sharing current practices and expressing priority needs and opportunities that should be addressed in the regulatory framework.** Clusters, business organizations, industrial parks, and other types of business infrastructure actors play an important role in networking, collaboration, boosting competitiveness, and fostering the creation of a knowledge-based society. Through adopting legislation on business infrastructure and providing funding for support programs, the government and other stakeholders should be more involved in developing and managing business infrastructure. NTP, MIND Park, Auto Cluster Vojvodina, Fashion Cluster FACTS, and others are examples of good practices.

*"As members of the Council for Cooperation of Science and Economy of the SCC and AgTech pilot supercluster, we began operating under the aegis of the incubator of technical faculties in Belgrade, offering high-tech research and development services as well as developing IoT solutions for corporate users. Our collaboration aims to establish an ecosystem that encloses the circle of academic institutions and innovations, economic cooperation to industrialize products, and financial support via the first significant domestic customers as a launchpad for new domestic products with export potential." (Computer programming company)*

- 1.6. **SMEs to develop a platform on which commercial and non-commercial service providers will present support services.** SMEs, particularly SMEs in the top 100,

**should submit references based on their available experience.** When SMEs at any business level determine that they require external counsel or a supplier to adapt their company model to modern trends and challenging market conditions, they are confronted with a relatively underdeveloped market of business support providers with a wide range of quality. The development of a platform that provides information on service providers (in areas such as digital transformation, financial management, green transformation, and other forms of organizational change), as well as the ability for users to share references, would make it much easier for SMEs to find proper support. As in most other cases, it would be necessary to group services and their providers according to the type of SMEs that would use them. Global Business Services is an example of good practice.

*"There is not much time or capacity to explore where everything is; perhaps another employee should be hired, but that would be pricey. It could be helpful to provide a "Platform for Information on Assistance from Domestic and International Institutions, Donor Programs, and Consultants - All in One Place." (Plastic parts service company)*

- 1.7. **Stakeholders and/or the government should work together to create an organization or institution that allows export-oriented SMEs to conduct international "benchmarking" of their performance and access information on global flows in relevant markets.** Currently, each SME must invest resources individually and separately to track market trends and identify niches for their products, risks, and diversification opportunities, comparing their performance to others in the market. Hiring international consulting firms is extremely costly, and as they hence seldom become engaged by SMEs, their knowledge isn't tailored to the latter's needs anyway. Instead, an organization can be founded with the support of public or donor funding to build this knowledge, serve the needs of SMEs in the most current sectors, on a limited cost-recovery basis. This type of organization/institution can be built with the help of donors or funds and SMEs' own investments. An example of good practice: <https://www.cbi.eu/>

## 2. **Fostering digitalization and enhancing an innovation-friendly environment**

- 2.1. **The government to gradually develop a program and determine the level of resources that can make a difference in the digital transformation of advanced SMEs** through (i) financial support for the implementation of automation software, IoT and Cloud solutions, additive and new materials (3D printing and use of nanomaterials); (ii) financial support to SMEs for the use of services of SME technology providers in the implementation of new ICT technologies; (iii) financing the purchase of digital solutions; (iv) creation of a program to support the modernization of production through robotics, which includes the procurement of robots and services of SME technology providers for the implementation and maintenance of robots for at least three years.

- 2.2. **It is necessary to organizationally support the digitalization of SMEs through the development of regional innovation centers (Digital Innovation Hubs - DIHs)**, which are intended to serve as a "one-stop-shop" for supporting SMEs' use of digital technology to increase their competitiveness. Companies would have the opportunity to share ideas and projects within regional digital hubs to enhance business/production processes, products, or services utilizing digital technology. The variety of services offered by DIH includes networking, training, financing opportunities, technical assistance, and information on funding opportunities. With DIH, businesses may experiment and test their investments before fully implementing them.
- 2.3. **The public sector, including institutions and utilities, might seriously accelerate the progress of digitalization by utilizing the services of domestic ICT enterprises through "Public procurement for innovation" and "Partnership for Innovation."** The term "Innovation Partnership" was first used in The Public Procurement Law, which entered into force in the mid of 2020. Serbia is only getting started; thus, a pilot project is required (for example, there is already a proposal for "Smart elevator management"). The initiative is in line with the Smart Specialization Strategy Action Plan (2020-2027) and Measure 2.10: "Development of a public procurement system aimed at procurement for innovative solutions with piloting in priority areas of the Strategy." The aim is to support the implementation of new possibilities opened by the Public Procurement Law.
- 2.4. **Government programs aimed at accelerating the digitalization of the Serbian industry should use the exchange of information between industrial and technical businesses on the needs of ones and the capabilities of the others as an example and an incentive. Is creating a platform the best move to make?** On such a platform, information on new technologies (ICT, green technologies, etc.) might be made available, and demonstration cycles and models for technology transfer between technology providers and SMEs, information sharing, and user experiences could be built. Within the platform, support programs for SMEs' employees' digital literacy might be developed. By encouraging the adoption of local ICT enterprises' services, could a platform like this help in the digital transformation of the Serbian economy? In addition to business interest, creating such a platform will undoubtedly involve prior investment from businesses or donors and effective complementary research. Consider whether such a platform could expand on the EBRD's current, successful model of good practice [http://technology-rs.ebrdgeff.com/srb\\_srp/](http://technology-rs.ebrdgeff.com/srb_srp/)

### 3. Green transformation

- 3.1. **Serbia's green transformation policies are still in their infancy. The present situation is insufficient, in our opinion** (see the document Strategy of Industrial Policy of the Republic of Serbia from 2021 to 2030 for more information [13](https://www.privreda.gov.rs/sites/default/files/documents/2021-08/Industrijska-</a></p></div><div data-bbox=)

[Strategija-Vlade-Srbije-F01.pdf](#)). The Energy Laws of 2021 mark the beginning of more robust incentives to increase energy efficiency and the production of renewable energy (and less use). The development of appropriate policies and initiatives for SMEs urges research and analysis of the potential for SMEs to transform into sustainable and effective business models, as well as the development of these models in the fields of resource use, environmental protection, and CO2 reduction. This should be considered as we seek to align our economy with the EU's "Clean Energy Package" policy.

3.2. **SMEs working with partners to learn about the expanding opportunities for "greening" to have a positive economic impact as well as to spread knowledge about the value of environmental protection (particularly in waste management and the use of waste as a raw material in industrial processes) and tackling climate change through the sharing of best practices.**

- ✓ Promote the CCS's digital platform for the circular economy (<https://circulareconomy-serbia.com/>) to share knowledge and best practices.
- ✓ Advocate best practices to promote waste reduction (for instance, due to internet orders, millions of boxes are thrown away, but a pilot project in Singapore shows that it is possible to avoid this - <https://cirkularnaekonomija.org/milione-kutija-bacamo-zbog-onlajn-porudzbina-pilot-projekat-u-singapuru-pokazuje-da-moze-i-drugacije/>)
- ✓ To increase energy efficiency, highlight SMEs' best practices (e.g., UNIPLAST, IVA 28, Tehnomarket Pančevo) to increase energy stability, lower production costs, and reduce CO2 emissions by using energy from alternate sources (like solar) to provide some of the electricity for manufacturing.
- ✓ Promote positive behaviours to boost recycling rates (for instance, the equipment manufacturer has information on every customer who bought his products. According to the contracts, they will be eligible for bonuses when selling the equipment to another bidder if they notify the new buyer or make them an offer to purchase it. They fix defects and detect, improve, and reuse parts for other machines on that equipment, which is frequently out-of-date. As a result, it's essential to standardize the parts and components that make up the equipment.) Additionally, it's necessary to incorporate standardized and unified aspects while designing and developing new equipment (for example, in the EU, the same charger is used for all devices, reducing electronic waste).
- ✓ The introduction of the "Digital Product Passport" by the EU, which aims to ensure that every product contains complete information about its composition or materials so that users across the supply chain can more easily reuse or recycle it if they wish, is another positive practice that can be used to increase the share of recycling. Given that having a digital passport will be one requirement for selling the goods in the EU, these, and similar initiatives must be carefully monitored and addressed as soon as they arise.



## THEMATIC AREA 2: EMPLOYEE EDUCATION AND TRAINING

In Serbia, reform initiatives have been ongoing for a while now. The goal is to prepare the education system for citizens who will be better taught and ready for the workplace and for the system to increase their capacities and production throughout their productive lives. Along with the economy and society, that transformation must also concern our obsolete educational system. In the section that follows, we don't offer more specific recommendations for enhancing the entire education reform; instead, we provide concrete initiatives that, while it would be desirable if the state took them in cooperation with business, businesspeople and development partners can handle independently.

### 1.1. Initiatives related to on-the-job training and retraining of employees

- 1.1. **Government to financially implement and administratively support training programs in enterprises that maintain resources dedicated solely to employee development and professional training.** Since it is essential to maintain or grow a firm, many companies offer training to their staff. These pieces of training mostly "fill in the gaps" left by prior schooling and are only partially targeted to the needs of enterprises. Such corporate investment is advantageous to society overall. Because of this, skilled people are more productive and employable for any business nationwide. We, therefore, propose that the government bear some of the expense of such training. Instead of focusing on specialized training, the challenge is how the state can "identify" or how the employer can "show" that this is socially useful. Is it enough for an employer to provide distinctly defined teaching/training programs with specially compensated lecturers/mentors, or do they also need to be accessible to staff members from other organizations who pay a registration fee to participate? Is it possible that the government help the participants with the registration cost payment? A specific question is how to make it simpler for employers to become publicly recognized training operators if they want to.

*"Spending a lot of money on pointless training sessions that are "held to last" is not uncommon. The state is advised to put aside significant funds and plan genuine training that will last longer and provide people with real and relevant skills. The most crucial factor is knowledge." (Design, interior design, and carpentry services company)*

- 1.2. **The private sector and the government to jointly establish regional centers for work-based learning through public-private partnerships (PPPs).** Not all businesses or educational institutions have the capacity or resources to develop work-based learning initiatives on their own, and not all educational institutions can seize this chance. By establishing regional centers in the form of public-private partnerships, businesses with a structured system of learning through work might serve as a venue for training students from a particular region for a specific activity. To establish regional centers, the appropriate infrastructure must be built, the tools and equipment must be

provided, the formal status of the centers must be decided, staff must be provided to operate in the centers, and the activity must be funded.

*"There are several requirements for the "first salary" program, and the faculty provides the majority of our untrained staff. However, it would mean more to us if we were all driven to complete a "first internship." The idea is to set up programs with paid internships, similar to the first practice, but with a few exceptions. The internship program's goal should be knowledge dissemination, not employment commitment. I propose combining many businesses that employ the same workers in certain forms of PPP and establishing educational facilities to impart knowledge and experience to new hires." (Participant in conference)*

- 1.3. **As a first step in establishing PPP regional centers, or in the absence of progress, stakeholders can design professional development programs in enterprises with a reference base of "100 top experts from practice" that they can share.** With the donor's aid, establish a "learning from each other" program based on the top 100 experts and professionals from Serbian firms. The program would include instruction in management, business, and manufacturing. This paradigm is effective in developed European nations.
- 1.4. **The government and/or business, working with development partners, should promote the effective learning systems established by Serbian companies and encourage sharing knowledge and best practices among SMEs.** On their own, several businesses have developed very effective processes that other Serbian businesses may use with minor or major adjustments. To promote good practice and the sharing of experiences, the state can establish a type of "Road Show" in companies that have shown they can successfully develop and implement a learning program through work.
- 1.5. **Employers and the media should work together to regularly compile and publish ranking lists of the best educational courses and training.** Several months after hiring a new employee, each employer builds a strong picture of the particular educational program the individual completed at a particular school or faculty as well as the training program or specialty course. Based on this impression, the employer may grade the system or training in several categories (e.g., theoretical knowledge, motivation, understanding of the process, work ethic, use of equipment). A straightforward web form should be used to complete this assessment. The sponsoring media would release a ranking list once a year that might be referred to by the name of the media, for instance, NIN's ranking of educational programs. This list would encourage educational institutions to follow in their footsteps, while also assisting businesses in employing new employees.



*"Although the state has encouraged more students to enroll in ICT courses and programs, the quality of training is falling because there is no system in place to maintain and raise the standards of the teaching staff."*

*(Conference participant)*

## 2. Initiatives that are related to cooperation and support for formal education

2.1. **Private sector and local governments to provide scholarships to students with deficient profiles.** Businesses and local communities support the development of their future workforce by offering independent or joint corporate scholarships for underrepresented educational profiles in the local labor market, thereby solving one of the most pressing business concerns. The price of high turnover and a shortage of skilled people is more than the price of a scholarship. Many students from lower-income homes cannot go to school, regardless if they are, in fact, interested in learning a trade. Corporate scholarships are an affordable way for companies to interact with the community, develop a positive reputation, and establish trusting relationships with potential future employees.

2.2. **The state should consistently encourage higher vocational schools to engage more actively in learning through work.** Vocational colleges are the area of the educational system where dual education is most natural (like the German Fachhochschule). They are attended by recent high school grads who already possess the foundational skills required for further work and education, who are aware of where they want to work and what they want to do, and who have taken the initiative to connect the business where they will begin their career with a higher education institution that can give them the desired professional development and credentials. Vocational higher education institutions find it simpler to accredit their programs, and it is common for them to be impacted by the needs and demands of the interested business. A representative from the appropriate sector frequently influences vocational higher education institutions to certify their programs by controlling them with their demands and standards. It is also simpler to introduce industrial professors and instructors at vocational colleges rather than faculties. As a result, this kind of education is appropriate for quickly and successfully integrating the economy and formal education. When negotiating contracts with newly hired staff, employers could offer incentives for professional development, such as the opportunity to study while working at higher technical colleges.

*"Earlier, we had industrial production in regional centers and schools that followed the needs of that production, which was lost. So, there are no schools in the region for the staff needed. Retraining is the only option to reach these workers." (Conference participant)*

2.3. **Technical faculties to prepare and accredit programs for instructors of work-based learning.** Instructors must master both technical and pedagogical abilities. One

employee explaining to the pupils what they must accomplish is insufficient. The success of dual education is mainly dependent on the instructor's role. Many companies lack the skilled and certified personnel needed for this position. The most excellent option is to hire competent and enthusiastic secondary vocational school teachers. They also require additional training to fulfill the requirements of work-based learning programs.

*"The issue is merely theoretical knowledge, and practical knowledge is crucial for businesspeople. Due to the significance of having dual education for young people entering the workforce, we began with it in 2011. We have set up opportunities for students from various generations to join our business and become familiar with how things are done. I exclusively oversee and collaborate with young people's development." (Company making colourful and plastic injection-molded tools)*

### 3. Initiatives aimed at retaining and attracting employees

- 3.1. **Tax deductions on the share of profits used for employee benefits should be made possible by the government, which should recognize the importance of keeping key personnel in companies.** Tax incentives for employee benefits, like a tax exemption on a portion of the earnings the company delivers the employee in the form of participation in a housing loan, would incentivize businesses to focus on retaining and attracting top talent. This type of government aid is a productive strategy to deal with the problem of high turnover rates and, in some places, even depopulation.

*"We need to discuss our options since tax policy is something that can be changed. To improve employee motivation, our business offers participation in company ownership and aid with housing loans. We work to foster an environment where teamwork is beneficial in the long term for employees. Because of this, we provide our staff with company stock (vesting program). Employees can already receive shares and ownership shares without paying taxes." (Company that processes and cans fruits and vegetables)*

- 3.2. **Serbia needs an immigration policy that is open and transparent. In the meantime, the government should allow all interested parties to get work permits under equal conditions, fairly and openly.** Many immigrants and refugees now residing in Serbia have training and experience in fields where domestic SMEs are lacking. "Digital nomads" are becoming increasingly interested in working in Serbia. It would benefit both parties if they participated in these jobs.

*"Since there is no one in our village or the area who we could engage, we have previously requested permission from the municipality three times. However, each time, they rejected us. We're not sure why." (Metal company)*

#### 4. Cooperation between higher education institutions and the business sector

- 4.1. **Make e-platforms that link scientific research institutions with the business sector genuinely inspiring and therefore sustainable.** To encourage business-academia collaboration, businesses must have access to information about available tools, skills, and willingness to work together. Some attempts have been to develop an online platform that would make data about research infrastructure, the capacity of scientific research organizations, the potential of applied research, and usage procedures for research infrastructure accessible. The platform would also provide information on opportunities for product testing and certification. Why haven't these efforts been successful? Can different forms of coordination or participant expansion, like involving IT firms, be formed to make such a solution more long-lasting?

*"The level of collaboration between research and the business is really low. If it exists, it is at the individual level. An e-platform for business and scientific collaboration would be very beneficial, especially for start-ups and businesses in the early stages of development."  
(Participant in conference)*

### THEMATIC AREA 3: ACCESS TO FINANCE

The underdevelopment of the export support system significantly reduces the competitiveness and limits the growth of Serbian companies working to expand internationally. As alternative funding sources are limited, they rely on traditional sources of financing, which are generally expensive and difficult to access. In order to remove obstacles in financing, it is necessary to engage the state, but also development partner institutions, the banking sector and the companies themselves.

1. **Within the framework of the already-existing law and accepted international practice, establish conditions that will enable the Export Credit Agency of the Republic of Serbia (AOFI) to significantly lessen the problem that domestic exporters face because Serbian bank guarantees are not generally accepted abroad (even when the banks are foreign-owned).** It would substantially reduce the cost and time needed for SMEs to provide guarantees, such as those for the repayment of debts, good performance, maintenance within service time, or participation in bids, enhancing their competitiveness. To qualify for the above categories and others, SMEs must currently provide a guarantee from the Serbian bank that supports them, followed by a confirmation from the parent bank of those foreign banks. Administratively and financially, it is a costly and time-consuming process that occasionally results in the loss of job opportunities, especially as it the parent bank often resides in a third country in relation to the transaction. To implement a solution that AOFI has already agreed upon with Raiffeisen International Bank in Vienna, AOFI needs permission to open an account in one of the first-class

financial institutions in Austria, Germany, or Switzerland that would provide guarantees that are acceptable to foreign partners in arrangements with AOFI. These guarantees would be re-insured with the best reinsurers available on the global market. This arrangement is no longer in place because AOFI failed to gain NBS approval for a deposit account with Raiffeisen International Bank, which was a requirement of the bank. Accepting guarantees from Serbian exporters and investment contractors abroad would be resolved by getting the NBS's approval for AOFI to open a deposit account in a foreign bank (partner), as the guarantor would theoretically become either a first-class bank or a first-class insurer/reinsurer from Austria, Germany, or Switzerland. Enlarging the capital of AOFI (currently at only 70 million Euros) would also expand the range of transactions for which such guarantees might be offered. With such solutions, SMEs and even large Serbian companies would gain access to tools that their competitors on the international market have long had at their disposal.

*"Our company exports expensive machinery (800,000 -1 million euros). When we sign the contract, we are given a predetermined amount of advance money, but we are required to give you a guarantee because no one will just hand you the cash. When it comes to banking, European customers are infamously picky. The only remedy for this problem was confirmation (parent banks in the country). A job guarantee problem (also known as a letter of credit or documented letter of credit) also occurs when clients approach our banking institutions and assert that they have an open letter of credit from, for instance, an Algerian or a Moroccan financial institution. Procedures are expensive and time-consuming."  
(Manufacturer of special machinery)*

*"We were not given the tender since our company was not given a guarantee on the integrity of the invitation to participate in the Qatari tender. We spoke with two of our banks. Our bank refused to provide a guarantee when we asked because they would only accept banks from Qatar. They were unable to fix the problem in time for the deadline. The job was not completed." (Manufacturer of innovative ICT technology solutions)*

- 2. Facilitate the insurance of banks (not necessarily Serbian residents) for the event of non-payment by a foreign buyer of Serbian goods due to commercial and political risks.** Thus, commercial banks will be encouraged to extend loans to foreign buyers, particularly needed in the export of equipment, machinery and other fixed assets. Thus, financing would support the competitiveness of Serbian companies' exports in accordance with the OECD arrangement on state-supported export credits (incorporated into EU regulations). This type of insurance can be developed by affirming and developing the kind of public-private partnership between AOFI and commercial banks, which exists in every developed economy (from Finnish Finnver, through Croatian HBOR, Slovenian SID Bank, Czech EGAP, Slovak EXIM Bank, to US EXIM Bank, Italian SACE and many others), and especially in cases of medium and long-term financing and insurance. By using such a developed public-private partnership model, Serbian exporters would get a tool that would enable them to be more competitive, especially in terms of payment terms, but also to win new customers and export markets. In order for AOFI to be able to carry out these insurance activities without hindrance, it is necessary to fine-tune the legal

framework, and above all to enable medium- and long-term financing by AOFI, as well as to expand and modernize the instruments with which it can operate. Boosting AOFI's capital would also be highly desirable. After the conference, some commercial banks expressed their interest in cooperation with AOFI, and further elaboration of possible cooperation can be expected in the coming period. It is necessary to launch an additional initiative towards the Association of Banks, so that all banks are informed about the possibilities of developing this product in cooperation with AOFI.

*"Competitors from countries with institutions that give export assurances for them frequently win jobs while charging 30% more since we are unable to provide such guarantees." (Company for furniture and home furnishings and at least two other companies)*

- 3. It is important to continue and expand the discussion on the causes of the severe underdevelopment of the capital market in Serbia through a thorough analysis of prior experiences and initiatives that have been put into action, as well as the effect of the unusually high degree of regulatory constraints.** The goal is to find tactics that could lead to more significant breakthroughs by acknowledging "failures", as well as the factors that have contributed to at least some limited achievements. The discussion before and during the Conference pointed out that there is **an increasing need for the development of the private capital market**. This would facilitate that one part of the economy invests excess funds, and the other use them in a far more flexible way than what the banking sector could provide. Even if the market has seen some recent changes, such as the rise of new types of financing, the Serbian financial market is still very much "bank-centric." Banks cannot fulfil all their duties due to the prudential regulations and restrictions they must follow to conduct their regular business and the more stringent lending criteria established by BASEL standards. Although there has been a considerable growth in the creation of new private factoring companies and the development of fully digital solutions for efficient factoring, leasing companies are primarily controlled by banks, and factoring is handled mainly by banks.

Numerous attempts to expand the capital market, including buying SME shares and using so-called "alternative financing techniques," have so far failed to produce any apparent outcomes. Before and during the Conference, discussions among stakeholders brought up a variety of potential effects as well as issues that might arise, from the possibility that some of the anticipated stakeholders may be "disinterested" to the fact that their current activities overlap with the fact that investments and advocacy have promoted incompatible market development strategies.

It might be useful to define the conditions more clearly under which different types of fund mobilization should be used. On the one hand, savings and loan cooperatives have been suggested, which in the past had a considerable impact on funding the economy in socialist Yugoslavia and in the period between the two world wars. Would they still be a viable option? Has the regulatory obstacle they have encountered since 2005, along with others, impacted an expansion of other kinds of capital markets? (Namely, under the 2005

Law on Banks, credit unions were mainly required to become commercial banks, combine with banks, or cease operations to obtain financial institutions' status.) On the other hand, strengthening instruments like **private equity, private debt, venture capital, crowdfunding, and crowdlending** make a "more modern" solution due to the development of new types of SMEs (especially in "technological" sectors), as well as perhaps for needs comparable to those that the savings and loan association would address.

Last but not least, the state should try to create a stimulating regulatory framework through legislation, including tax incentives for such funding, even though it is crucial to highlight the advancements already made in developing various types of finance. This will further encourage investors and highlight the investment potential of our economy.

4. **Introduce mechanisms for the Innovation Fund to use private co-financing of projects with private investment funds, venture capital funds, and individual businesses. To encourage large corporations to employ excess capital to finance innovative projects and risky commercial ventures for which traditional and non-traditional sources of funding are scarce in Serbia, the government could offer tax breaks or exemptions.**
  - ✓ To continue running the Serbia Ventures program in the upcoming years, through which the Innovation Activity Fund helps start-up venture capital funds, individual creative firms, and entrepreneurs with project co-financing. Create a program like this to help SMEs and owners of private capital (Private Equity) with project co-financing (under the auspices of the Innovation Fund or another government organization). Keep the restriction that no fund may represent more than 50% of the total assets of the Innovation Fund.
  - ✓ Enhance tax incentives or exemptions by including businesses in the tax relief system. This would encourage them to use surplus funds to finance creative ideas and risky business projects through alternative investment funds, which are currently scarce in Serbia.
  - ✓ Change the NBS bylaws to allow banks, insurance firms, and pension funds to invest up to 1% of their assets in alternative investment funds. Permit these financial institutions to invest in alternative investment funds using tax breaks.
5. **It is necessary to develop a particular A2F portal within [preduzetnistvo.rs](http://preduzetnistvo.rs) that will compile all information from various sources and connect all financial institutions, investors, and alternative sources of financing with potential users to provide entrepreneurs with up-to-date information on all available sources of funding in one location.** To increase the entrepreneurs' knowledge and provide information on the available sources, a unique educational section that will explain all the features of the various products offered on the market must be created. This section must also clarify the institutions dealing with or financing the economy. To assist farmers, it is advisable to draw

attention to agricultural financing, the instructional material related to using IPARD funds, and state, provincial, and municipal support programs.

To obtain accurate and up-to-date information, it is necessary to maintain constant communication with a large number of actors:

- ✓ State institutions (Development Fund, AOFI, Ministry of Economy, RAS, provincial and municipal authorities, which have financial support programs, etc.)
- ✓ Banks
- ✓ Leasing companies
- ✓ Factoring companies
- ✓ Crowdfunding and Crowdlending platforms
- ✓ Business Angels, Venture Capital investors
- ✓ Donors, international institutions and organizations

A distinct data collection model from all participants must be built for a database to function correctly and be reliable. This model will allow data to be filtered based on the characteristics of users and financial products.

Sort companies by the following criteria:

- ✓ Date of establishment
- ✓ Activity
- ✓ Ownership structure: (domestic or foreign ownership, participation of women in ownership)
- ✓ Classification of enterprises by size
- ✓ Export-oriented enterprise, yes or no
- ✓ Annual income
- ✓ Reported profit/loss
- ✓ Number of employees

Need for financing:

- ✓ Amount of funds required
- ✓ Purpose of funds
- ✓ Maturity
- ✓ Collateral available
- ✓ Method of repayment

This demands daily database maintenance, engagement with persons who supply information, and continuous data entry regarding funding sources.



*"Companies lack proper access to information, particularly smaller businesses that lack the staff necessary to conduct research on programs and support systems for businesses. Companies are unaware of the options available to them, and even when they are, applying for programs requires a lot of paperwork. Our business has utilized numerous state aid tools, but it would be simpler if the information was available faster and the procedures were clearer."*  
*(Company in the metal sector).*

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