International Organization for Migration
IOM Belgrade

LABOUR MARKET SURVEY
SECOND REVIEW

NATO/PFP TRUST FUND PROJECT
REPUBLIC OF SERBIA

IOM BELGRADE

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LIST OF TERMS AND ACRONYMS

ALMM	Active Labour Market Measures
EC	European Commission
ETF	European Training Foundation
EU	European Union
EUROSTAT	Statistical Office of the European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ILO	International Labour Organisation
LMS	Labour Market Survey
NES	National Employment Service
NIP	National Investment Plan 2006-2011
OECD	Organisation for Economic Co-operation and Development
SCoC	Serbian Chamber of Commerce
SBRA	Serbian Business Registers Agency
SEE countries	South and Eastern European Countries
SME	Small and Medium-sized Enterprises
SSO	Serbian Statistics Office
UNECE	United Nations Economic Commission for Europe

1. SUMMARY OF KEY FINDINGS

- Although Serbia's economy has made important reforms and progress in the past six years, the business climate still appears to be an obstacle for investment (especially direct foreign investment), growth and job creation.
- Looking at the international standards Serbia is still behind other countries in the region in terms of transforming towards market economy with high unemployment rate. The basic features showing that gap in the Serbian economy can be summarised as follows: a high level of inefficiency of enterprises in all sectors of economy; imports that are three times higher than exports; a decline of the industrial production; a high number of unemployed people and a high share of administration costs in the State budget.
- Sustainable economic growth in Serbia will be possible only with political stability and steady democracy. Moreover, Serbia has to undertake significant actions to reduce corruption, especially considering that corruption has a negative and significant impact on the FDI inflows.
- The most successful countries in transition, during their restructuring phase, started to stimulate the creation of large number of jobs through the support to the development of new private sector firms and the expansion of existing ones; in these countries the service sector was the primary generator of employment and accounted for most of the newly created jobs. Differently, Serbia's economic structure is mainly oriented towards agriculture and industry, with a relatively underdeveloped service sector. Almost one-half of existed jobs in Serbia are still outside the private sector. Comparing with other transition neighbouring countries, in the period 2000-2004 Serbia had the lowest share of output in services representing only 45% of the total.
- According to the majority of the market analysts, prospectively businesses are to be identified in the following areas: agricultural production, healthy food production and processing, manufacturing of wood products (furniture, packing material and wood products), as well service sector activities, such as different kinds of workshops, financial and accounting bureaus, medical offices and service sector companies.
- Small and Medium-sized Enterprise (SME) development is an important element of economic reform process in the majority of the countries in transition. Looking at the Balkan region the SME sector represents more than 55% of the total turnover, produces more than 70% of the Gross Domestic Product (GDP) and employs the majority of the workforce.
- In Serbia, the SME sector is a growing sector that accounts for almost 60% of total employment (around 800,000 individuals), 32% of total capital invested and 53% of total revenues.[1] According to available data, during 2006, around 85,500 business entities and almost 169,000 entrepreneurs were registered in the Serbian Business Registers Agency. Most of those businesses are registered in Belgrade and Novi Sad areas. As concerns the type of business, the highest number of business entities are registered in the field of wholesale trade (12%), consulting and management (3%) and construction work – including carpentry, masonry and other similar activities (3%).
- Within the Strategy for Development of Small and Medium-sized Enterprises and Entrepreneurship 2003-2008, the Serbian government identified four strategically important sectors: manufacturing, food industry, tourism and e-business or e-commerce.
- Since 2002 when Serbia started its economic reforms, significant improvements were made in reducing administrative and legal barriers to facilitate the starting and development of businesses. The process of starting a business has been facilitated (average time to start a business in now 18 days) and companies can start operating already in 15 days (previously 51 days were required).

[1] Commission of the European Communities, Serbia 2006 Progress Report

Also, government and non-government funds have been established to provide different kinds of financial and non-financial support to SME development. Although progress has been made, there are still some actions to be taken to reach a comprehensive and joint approach from all relevant institutions.

2. INTRODUCTION

This second labour market survey builds on the findings of the first analysis presented at the second steering committee using the same methodology. Main source of data and information are official documents published by government institutions, analyses and reports of relevant international organisations such as the World Bank, the European Commission (EC), the European Training Foundation (ETF) and the United Nations Economic Commission for Europe (UNECE), as well as meetings with representatives of the NES, the Serbian Chamber of Commerce (SBRA) and the Fund for Increasing Employment.

Differently from the first survey, this analysis focuses on the status of the Serbian economy but also looking at the experience of other transition countries in the region that started moving towards a market economy almost ten years before Serbia. It will concentrate on SME development issues including the measures developed in Serbia to enhance that sector, as well as the analysis of available job opportunities in the National Employment Service (NES -during 2006).

3. THE SERBIAN ECONOMY

The period 2001-2006 was characterized by intensive reforms in the economic sector to establish macroeconomic stability, sustainable and stable economic development, restructuring and privatisation of large state companies and harmonization with EU legislation. Positive developments were reached in the field of reform of the tax system, labour market and social sector; more than 350 laws were adopted to support structural reforms.

Looking at the 2005 achievements, the World Bank proclaimed Serbia to be a top reform leader in the world, although still ranking at the 92nd place out of 155 countries. This general improvement has continued in the following years and, according to the report of the World Bank 'Doing Business in 2007', among 175 surveyed countries Serbia occupies 68th place.

The combination of all undertaken actions and reforms has resulted in a dynamic economic growth with a GDP at an average annual rate of 5.6% in the period 2001-2005. By the end of 2005, the GDP was 31% higher than in 2000. Except from agriculture, forestry and tourism, almost all sectors showed an increase. Trade, traffic and financial sectors were those scoring the highest growth. In 2006 this trend of GDP growth continued (5.8% higher in comparison with 2005), as well as the growth of the physical value of industrial output, services, transport, trade turnover and export trend.

According to economic analysts, the growing trend will remain strong in 2007. Key drivers of this positive phenomenon will include continued investment in newly privatised companies, relatively robust

consumer demand, driven by continued real wage growth and the expansion of commercial bank lending, and an increase in public investment.
Besides the above-mentioned progress, the general level of the overall economic activity in 2005 in Serbia is still to be considered as relatively low when compared to the 1990 data (around 60% lower). Macroeconomic analyses of the main reasons behind the low levels of economic activity can be summarised as follows:

- High level of inefficiency of enterprises in all sectors of economy
- Import is three times higher than export
- Declining of industrial production
- High number of unemployed
- High share of administration costs in the state budget.

Comparing the Serbian economic growth with the other neighbouring countries in transition we can notice that Serbia has a better position as concerns production and trading mainly thanks to skilled labour and lower production cost.

Table 1 **Economic growth in SEE countries (2000-2005)**

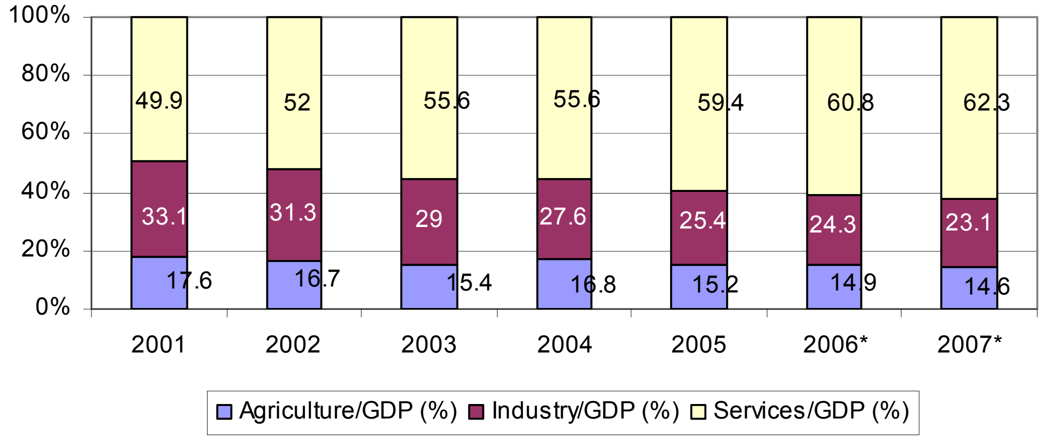
	2000	2001	2002	2003	2004	2005*
Albania	7.3	7	2.9	5.7	6	5.5
Bosnia and Herzegovina	5.5	4.5	5.5	3	6	5.5
Bulgaria	5.4	4.1	4.9	4.5	5.7	5.5
Croatia	2.9	4.4	5.2	4.3	3.8	4.3
FRY of Macedonia	4.5	-4.5	0.9	2.8	4.1	3.5
Romania	2.1	5.7	5.1	5.2	8.4	4.1
Serbia - (Serbia and Montenegro)	5.2	5.1	4.5	2.4	9.3	6.8

* forecast
Source: National statistics and Economist Intelligence Unit

During 2006, the industrial production was an approximately 25% of the GDP (in which manufacturing production accounted for 75%)[2]. The agriculture is one of the most important components of the Serbian economic development and it contributes to 15%. This has been an average trend over the past six years.

[2] estimated

Chart 1 **Share of GDP generated by sectors of economy/GDP, Serbia (2001-2007*)**



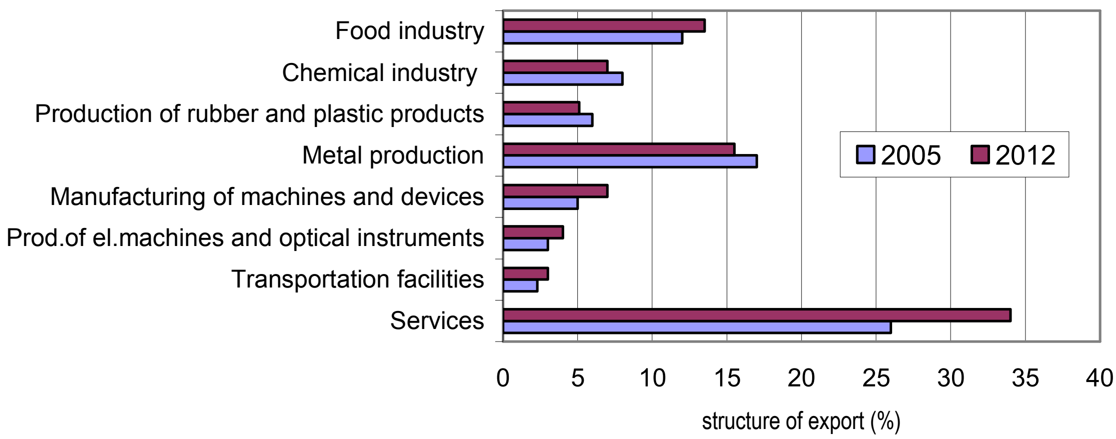
* estimated
- Data for the period 2001-2004 refers to Serbia and Montenegro, while data from 2005 refers to Serbia

Source: Economist Intelligence Unit

During 2006, the greatest increase was noted in the following sectors: transport (11.4%), financial intermediation and construction (11.8%) in opposition with tourism sector, which noted decreasing trend in 2005 and 2006. Industrial output in Serbia in 2006 was 4.4% higher than in 2005, whereas the greatest increase was noted in manufacturing (5%). The rise in industrial output was mainly the result of higher production of basic metals, food and beverages, furniture and chemicals and chemical products. Growth of agricultural production in 2006 was estimated to be 0.9%.

Looking at the export data in Chart 2, apart from the service sector, agriculture products (i.e. food industry) together with metal production represent the most significant sectors. According to the same chart, the service sector should continue to prevail in the future and leading export sectors will continue to include metal and food production but also chemical industry as well as production of rubber and plastic products.

Chart 2 **Sectors as export leaders (2005-2012)**



Source: National Strategy of Economic Development 2006-2012

Looking at the most relevant policy documents, it can be noted that in 2006, the Serbian government accepted a proposal of the Ministry of Finance concerning the implementation of the **National Investment Plan** for the period of 2006-2011 (NIP), developed on the basis of Irish experience[3]. Within that proposal, the following seven areas of priority were identified: education, modernization of the health care system and environment protection, transportation infrastructure, economic development (employment, entrepreneurship and creation of business incubators, start-up funds, waterpower engineering, science and tourism), building, improvement in living standards (sport, culture and social care) and advancement of government management. The primary objective of the NIP is to increase investment which would contribute to a dynamic economic growth, the rise of employment level and a more balanced regional development. The NIP envisages an investment of at least 5% of GDP per year, while for the period 2006-2007 the envisaged amount is of €1,675 billion.

Increased employment is one of the Serbian government's priority, both in terms of fighting poverty and strengthening economic growth. As reported in the **National Employment Strategy** 2005-2010, one of the goals is to increase employment rate by 1.5% annually and to achieve an employment level of 67% in 2010. Since 2000, the Serbian government has undertaken significant efforts to increase employment and promote faster economic development. Among several state fund programmes directed to raise employment level the most important are the NES programme for new employment stimulation, the Serbian Development Fund programme, as well as programmes of the Ministry of Agriculture, the Serbian (ex federal) Fund for Increasing Employment, the Vojvodina Development Fund and the Serbian Guarantee Fund. In addition to these national programmes, there are several regional and local development funds mostly financed / co-financed by external donors.

All these national/local funds are certainly significant at the local level, but not sufficient when looking at the wider national context. Stronger inter-ministerial cooperation, the adoption of the Microfinance Law and the creation of the Start-up Fund would certainly need to be considered to really improve the national situation and contribute to the creation of a higher employment level and the achievement of the set employment goals.
Within the **Strategy for Development of SME and Entrepreneurship** 2003-2008, the Serbian government identified four strategically important sectors: (1) manufacturing, (2) food industry, (3) tourism and (4) e-businesses or e-commerce. Meanwhile the primary agricultural production was supported by concrete incentive measures through various funds at the national and local level.

In November 2006 the Serbian government adopted the **National Strategy of Economic Development** for 2006-2012 in which structural changes are forecast in the Serbian economy. As it is projected, in 2012 the most significant share within the industrial production should include food, beverage and tobacco production (31.3%) while the lowest should concern the wood processing industry (0.5%).

[3] According to the Serbian Minister of Finance Mladjen Dinkić, "one of the poorest countries of the European Union (EU), Ireland has become one of the most prosperous countries, thanks to the priorities it had set, such as education, transport infrastructure, health, and information technology. Dinkić expressed confidence that the Serbian Investment Plan, which has the same priorities as Ireland's, would improve the living standard of the population and result in an increase in the number of employed citizens".
http://www.mfa.gov.yu/Bilteni/Engleski/b100706_e.html

Table 2 Forecast of structural changes in Serbian economy (2005-2012)

(%)	2000	2005	2012
Food, beverage and tobacco industry	28.7	31.9	31.1
Textile and textile goods industry	9.5	4.1	3.7
Leather and leather goods industry	1.6	1.1	1.1
Wood processing industry	1.1	1	0.5
Production of pare and publishing	4.9	5.7	4.9
Production of coke and oil products	1.5	4.7	4
Chemical industry	12.6	12.3	12.7
Production of rubber and plastic items	4.8	4.4	5
Production of non-metal minerals	7.3	5.2	4.8
Metal production	11.9	12.7	12
Manufacturing of machines and devices	4.1	6.7	8
Production of electric machines and optical instruments	3.9	4.3	5
Production of transportation facilities	5.1	3.6	5
Other industry	2.8	2.3	2

Source: National Strategy of Economic Development for 2006-2012

Looking at the general market situation, market analysts identify the following categories as areas of prospective successful businesses: agricultural production, healthy food production and processing, manufacture of wood products (furniture, packing material and wood products). According to the same sources, also the service sector has a growing tendency, especially in the areas related to financial and accounting, medical and transport services. All above data is a general estimation that also depends on the different level of regional development. At present, there are still significant development discrepancy between municipalities and regions in Serbia (Vojvodina as the most developed area in Serbia in opposite to the South of Serbia that is the less developed part of Serbian territory) that would have a significant impact on the development of local businesses.

In addition to the above mentioned estimations, an additional indicator to identify which sectors are the most promising are the data related to the areas where foreign direct investments (FDI) are applied. The experience of transition countries like Hungary, Czech Republic, Estonia, and Poland where the number of FDI per capita is high, shows the positive impact of FDI in the local market and the targeted sectors. Within the Serbian context, FDI are mostly directed to state-owned and socially-owned enterprises as well as banks when privatised. In the period of January-September 2006, most of FDI were directed in the transport sector (44% out of total FDI), then manufacturing (24%), financial intermediation (20), wholesale and retail trade (7%) and real estate and renting activities (5%).

FDI are essential to boost Serbian economic growth, not only because there is a lack of domestic capital, but also for the purpose of enhancing the use of methods of corporate governing, transferring of new technology, expanding production and trade business connections, as well as increasing export to the European markets.

Although the previous analysis identifies very clearly the areas of future possible development, an additional element as the grey economy needs to be considered as it might impact the level of growth of those sectors. According to the available information[4], the gray economy seems to be deeply engrained particularly in the following sectors: Agriculture; Services: garages, car services, personal services (such

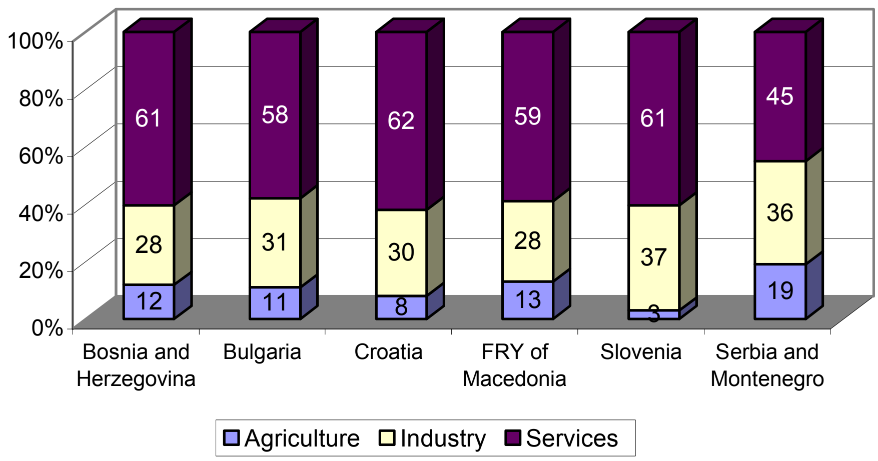
[4] According to the Wikipedia, the grey market refers to the flow of new goods through distribution channels other than those authorized or intended by the manufacturer or producer.

as hairdresser, beauty salons), restaurants, transport, distribution and hotel services; Handicrafts; Retail trade; Construction.

3.1 EXPERIENCE OF DEVELOPMENT IN TRANSITION COUNTRIES

Looking at the experiences of other countries it seems that the most successful transition process was achieved by those that, already during the transition phase tried to create jobs through the support to the establishment of new private sector firms and the expansion of existing ones. In these countries, the service sector accounted for most of the newly created jobs and become the primary generator of employment opportunities.

Chart 3 **Structure of economy (2000-2005)**



Source: World Bank – World Development Indicators

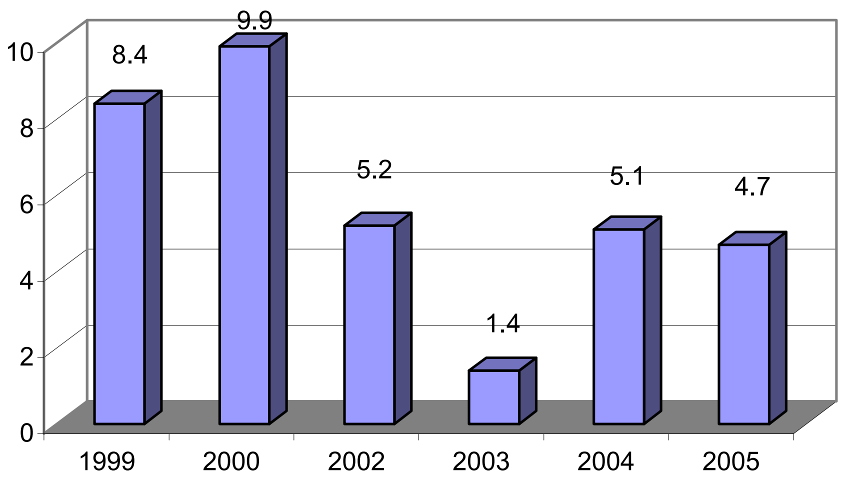
At the moment Serbia's economic structure is mainly oriented towards agriculture and industry, whereas service sector is relatively undeveloped.

In this sense, the Serbian development experience shows more similarities with the Irish's one. For that reason, when developing the guidelines in the creation of the NIP 2006-2011, the Serbian government decided to take the Irish development example as a model.

In the middle of the 80s the Irish economy faced a number of serious difficulties, such as declining employment, substantial emigration and a rapidly rising national debt. To deal with these problems, the government, employers and trade unions agreed in 1987 on a three-year Programme for National Recovery. This programme emphasized fiscal and monetary stabilisation, tax reform, pay moderation and development on the basis of consensus. The programme proved to be successful and was followed by two other reform waves in the following period. Over the period of these programmes the economic growth was over twice the European Union (EU) average, inflation had fallen to one of the lowest rates in the EU and employment in the private non-agricultural sector had shown an annual average growth of about 2.5%. As measured by real GDP per capita (real GDP divided by total population), the Irish economy increased by 97% between 1989 and 2000, almost doubling its value over a period of 11 years. A sharp employment turnaround has also been one of the main driving forces behind the Irish economic boom of 1994-2000. During those six years, short-term employment recorded a boom that has brought the number of jobs to increase by 44%.

However, Ireland's success over the past two decades is not the result of any one factor, but rather the combination of many including education, transport, infrastructure, health and information technology, For example, through investments in education and the adopting a sensible tax and fiscal policies, Ireland created some of the conditions to attract FDI. Ireland's expenditure on education equalled 5.3% of GDP in 2002 reaching levels that are almost in line with countries of the Organisation for Economic Co-operation and Development (OECD)[5].

Chart 4 **GDP real growth rate in Ireland - in percentage (1999-2005)**

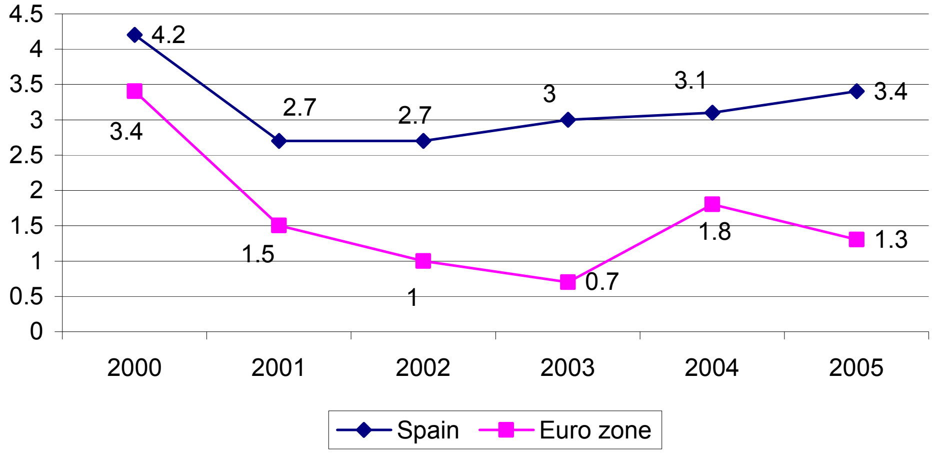


Source: World Development Indicators

Considering political background and development conditions, the experience of Spain could also be used as a model for Serbia. Spain has made great economic progress in recent decades, and its economy has been regarded as one of the most dynamic within the EU. Spain accession to the European Community, in January 1986 led the country into opening its economy, modernize its industrial base and revise economic legislation. The Spanish goals in the early 2000s were related to the reducing of the public sector deficit, decreasing unemployment, reforming labour laws and investment regulations, lowering inflation and raising per capita gross domestic product (GDP). With the support of the EU funds, Spain was able to make good progress in all these sectors creating a large number of jobs (mostly under permanent contracts) reducing unemployment from 23 to 10% as well as inflation to a level that is lower than 3%. Today, the Spanish economy is the eighth largest economy in the world.

[5] Average of 6.1% in 2002

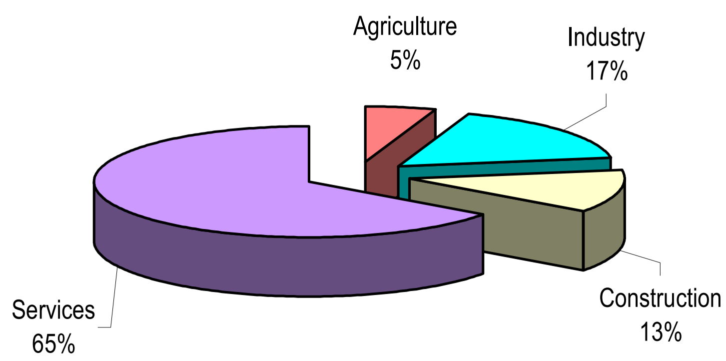
Chart 5 **GDP growth in Spain (2000-2005)**



Source: EUROSTAT

In the modern knowledge-based Spanish economy the service sector is the main contributor to GDP (65.1% in 2005), followed by the industry (17.2% in 2005). These two sectors represent almost over 80% of Spain's GDP with agriculture's share at around 5%. As concerns FDI, in recent years Spain has been one of the main recipients of foreign direct investment receiving approximately 177 billion Euros in 2006.

Chart 6 **Structure of the Spanish economy (2005)**



Source: Spain national statistics

Looking at the models of Ireland and Spain as well as of other transition countries it is possible to notice the following patterns that should also be considered when looking at Serbia's development:

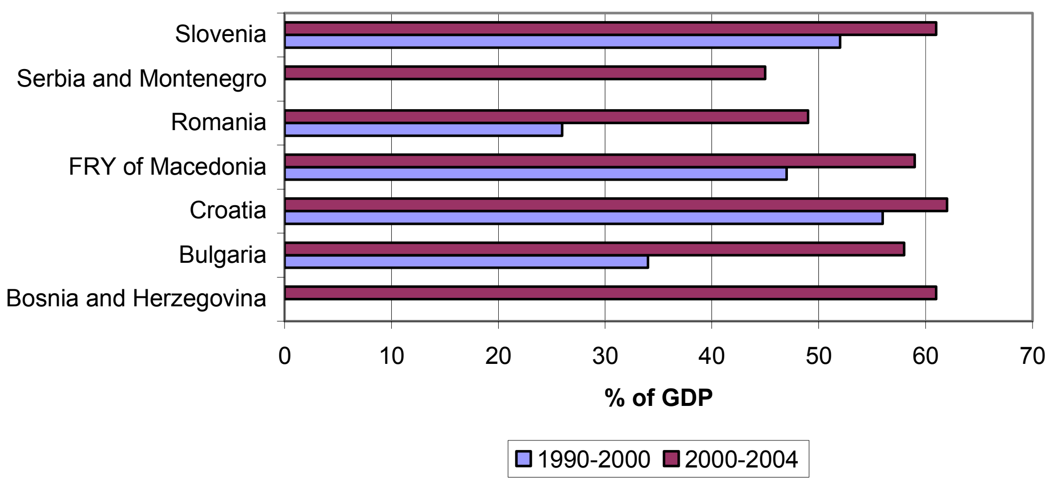
- the services sector is the one that during the transition process grows more rapidly;
- new jobs created in the financial sector, business services or public administration usually require high skills but are also among the best-paid jobs in the national economies;
- new jobs in distribution, personal and household services are of low quality in terms of stability, security, remuneration and working conditions;
- services related to production usually record particularly rapid development over the transition period and some of them hold significant potential;

- according to the analyses of the International Labour Organization (ILO), adult education, social and health care services are also expected to expand in connection with labour market changes and an ageing population;
- personal services usually increase in line with rising personal incomes.

It has also to be noted that countries like Ireland and Spain succeeded in their transition process also because the political and economic environment was favourable to welcome profound changes. Similar and sustainable economic growth in Serbia will also be possible only with political stability and steady democracy. In its transition process Serbia has to undertake significant actions to reduce corruption, especially considering that corruption has a negative and significant impact on the FDI inflows. Since 2002, combating corruption was on the top of the priorities of the Serbian government and some progress has been made. Up to now, the Anti Corruption Council and Serbia was created and actively participates in the Stability Pact Anticorruption Initiative as well as the Council of Europe's GRECO initiative (Group of States against Corruption).

Moreover, considering the importance of the service sector, as well as the fact that the service sector is the key to promoting restructuring of industry and stimulating enterprises and entrepreneurship especially in countries which are in transition to market economies, giving the better prospective in terms of employment generation it has to be considered as an issue of strategic importance for Serbia. According to the World Banks' data, in the period 2000-2004 among other SEE countries (especially looking at those that are ongoing a similar pattern) Serbia had the lowest share of output in services (45% of GDP). By the end of the 2006, estimated share of service sector in Serbia was around 60% of GDP.

Chart 7 **Share of GDP in the service sector (1990-2000 / 2000-2004)**



Source: World Bank – World Development Indicators

4. SME DEVELOPMENT

Out of 20 million enterprises active in the EU, 99% of them are small and medium-sized enterprises (SME) and 93% of all EU businesses employ less than ten people. SME are the main source of employment and wealth creation within the EU providing over 80 million jobs or two thirds of the total EU private sector employment and accounting for 70% of total EU turnover; SME represent 60% of the total EU GDP. Looking at these data it is clear that SME have a crucial role in consolidated economies and assume a particular importance within a transition process.

According to the UNECE statistics[6], provided by the SME national focal points of the 27 transition countries and emerging market economies, the SME sector includes 15.6 million economic units (entrepreneurs), 7.6 million incorporated enterprises with juridical personalities. The SME sector without individual entrepreneurs employs about 44 million people. In the 27 countries in transition, nearly 11 million SME have more than 50.5 million employees, while the number of unemployment amount for 16.1 million.

According to the same source and considering the progress made within the scope of entrepreneurship development, transition countries are classified in four groups:

(1) **Emerging market economies**, that includes eight countries that became EU member after enlargement in May 2004: Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia and Lithuania;

(2) **Countries making rapid progress** like Bulgaria and Romania (that joined the EU in January 2007), as well as Croatia as EU candidate country and the Russian Federation;

(3) **Countries with intermediate stage of transition**: Albania, Armenia, Azerbaijan, FRY of Macedonia, Montenegro and **SERBIA**;

(4) **Countries making slow progress** with less commitment from their governments towards SME sector development, such as Bosnia and Herzegovina and the majority of the Commonwealth of Independent States (CIS) countries.

Focusing on the South and Eastern European (SEE) countries it is possible to notice how SME already make up the vast majority of the active private businesses. Because of their size and adaptability SME are not only likely to become the largest source of employment but also a key source of innovation, entrepreneurship, and productivity. The development of dynamic SME in the region would also enhance the opportunities for a strong interest in social stability and a healthy market economy.

Many countries in transition especially SEE countries consider the development of SME as an important element of the reform process. However, as general remark to the SME development it can be noted that in the majority of the countries in transition SME are overwhelmingly trade oriented and only a small proportion is involved in the commercial goods production or services. This situation is likely to change with the further development and consolidation of the process.

In the most developed transition countries in the region the SME sector has a significant share in GDP (Slovenia 56.5%, Croatia 56%, Romania 55%) as well as large share of employees in SME in total employment (Croatia 65%, Slovenia 62.6%, Hungary 56.8%).

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[6] 'SME in Countries in Transition', UN Geneva and New York, 2006

Note: UNECE regularly updates and reviews the development of legislation and provides statistical data on SME highlighting the problems faced by the SME sector under the economic transition process in individual countries.

Table 3 SME sector in SEE transition countries (2005)

Country	Share of private sector in total economy (%)	Share of SME sector in GDP (%)	Share of employees in SMEs in total employment (%)
Hungary	80	36.9	56.8
Croatia	99	56	65
Romania	65	55	20.8
Bulgaria	75	30	42.2
Slovenia	65	56.5	62.6
Serbia	55	46.6	32.4

Source: UNECE

4.1. SME DEVELOPMENT IN SERBIA

A comparative analysis done through the index of SME development[7] indicates an accelerated development of that sector in Serbia. Index of SME development indicates that Serbia moved from the group of countries in transition that make slow progress (2002) to the group of transition countries with intermediate stage of transition (2006).

The SME sector is becoming a growingly important component of the Serbian economy in pursuing structural reforms, especially in creating new jobs and reviving the growth of the overall economic system.
In Serbia there are considerably large numbers of already registered SME and entrepreneurs as well as relatively good financial results of existing SME; that sector is now accounting for almost 60% of total employment, 32% of total capital and 53% of total revenue. In the past years, Serbia recorded an increased number of SME registered – from around 62,000 enterprises in 1999 to around 71,500 in 2005 and more than 85,000 in 2006.

Table 4 Number of enterprises by size[8] (1999-2005)

	Small-sized		Medium-sized		Large		Total
	number	*%*	*number*	*%*	*number*	*%*	
1999	58,662	94.8	2,359	3.8	879	1.4	61,870
2000	59,106	94.3	2,616	4.2	973	1.5	62,695
2002	63,995	95.6	2,223	3.3	742	1.1	66,960
2003	65,547	95.8	2,181	3.2	663	1	68,391
2004	66,989	96.6	1,515	2.2	605	0.9	69,109
2005	68,309	95.8	2,292	3.2	702	1	71,303

Source: Serbian Chamber of Commerce

[7] Made by UNECE
[8] According to the law, the SBRA is not obliged to keep data by size of enterprises. All available information related to size is the result of compiled data from the SSO, NES and SBRA.

Around 50% of the total turnover and 1/3 of GDP of the Serbian economy were attained by SME doing business in the sectors of *Wholesale and Retail Trade* (with a dominant share of entrepreneurs) and *Manufacturing* (with a dominant share of medium-sized enterprises). During 2005, around 60% of people were employed in the SME sector with a dominant share of SME in private ownership accounting for almost 55% of GDP. The majority of employees were recruited in large enterprises (45.2%), while around 25% of employees were working in small private enterprises.

Table 5 **Number of employees by size of companies (2005)**

	Small-sized	Medium-sized	Large	Total
Socially-owned	27,866	41,114	46,399	115,379
Private	281,032	110,559	141,873	533,464
Cooperatives	9,445	3,570	239	13,254
Mixed ownership	20,251	53,524	128,982	202,757
State-owned	16,231	27,191	157,818	201,240
Undefined	11,691	20,932	39,095	71,718
Total	366,516	256,890	514,406	1,137,812

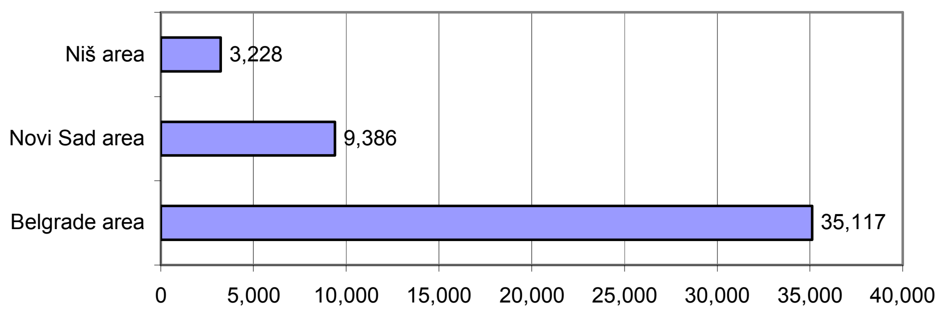
Source: Serbian Chamber of Commerce

As concerns the main data and information about SME in Serbia it is possible to refer to the Serbian Business Registers Agency (SBRA). In order to set an updated and accurate database of business entities, SBRA recently decided to erase from its Register 145,000 inactive business entities that were not re-registered until 15 June 2005. The process of cleaning and re-registration of the database is still ongoing and after 15 June 2007 the SBRA will be able to provide more accurate information.

Looking at the available data, **85,460 business entities and 168,634 entrepreneurs** were officially registered **in 2006**. In that period, around 12,000 new businesses opened in Serbia showing an increase of 6.5% inform the 2005 data.

As far as the number of entities by region is concerned, most of them are registered in Belgrade (around 42%) and Novi Sad (around 11%) areas while the smallest number are registered in Jagodina (2%) and Užice (2%) areas.

Chart 8 **Number of business entities by region (2006)**

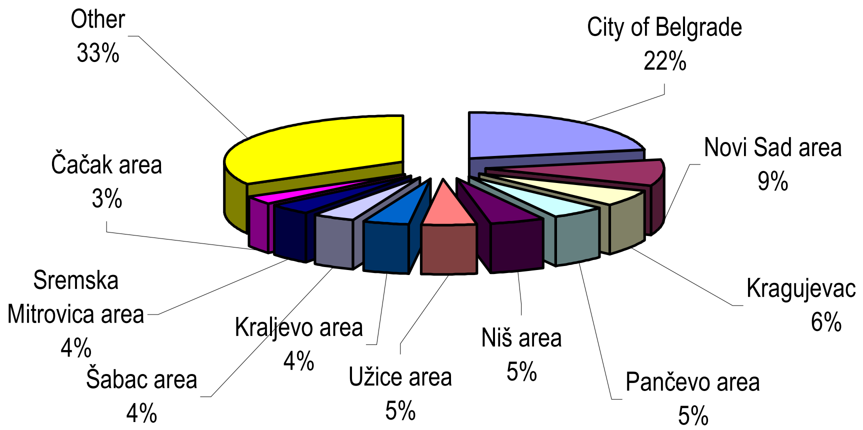


Source: Serbian Business Registers Agency

In 2006, the highest number of entrepreneurs was registered in Belgrade (35,118) and Novi Sad (15,042). In Niš 6,875 entrepreneurs were registered.

During the first 10.5 months of 2006, the SBRA registered 18,761 new entrepreneurs that represents an increase of almost 80% compared to the same period in 2005 (10,458). Most of these new enterprises are registered in Belgrade (22%) and Novi Sad (9%) areas.

Chart 9 Registered entrepreneurs by areas (January – 15 November 2006)



Source: SBRA

Concerning the type of business, the highest number of business entities is registered for wholesale trade (12%), consulting and management (3%) and construction work - including carpentry, masonry and other similar activities (3%).

As it has been noted by the EC in the 'Serbia Progress Report 2006', good progress has been achieved in the area of industry and SME. In relation to SME, Serbia has been very effective and professional in the implementation of the European Charter for Small Enterprises and delivers quality input in the process. Serbia has launched structures as clusters, incubators and technology, i.e. business parks that will certainly contribute to SME development. During 2006 three new clusters have been launched in the automotive sector, small agriculture machinery and rubber & plastics, along with existing ones in more traditional areas (textile, fruit and furniture). In addition, links have been created with similar clusters in SEE.

In order to create this sector as a protagonist of economic and overall development of Serbia as well as source of new jobs and instrument for poverty reduction, it is necessary to complete the privatization process and to create a comprehensive approach from all relevant government institutions.

Although credit to the private sector has been growing, access is still limited and it depends on the size of capital investments. In addition, SME are restricted by a low level of financial liquidity and a high degree of indebtedness. According to some analysts, these elements together with the lack of new technologies and knowledge in certain sectors, the limited number of vital large enterprises to cooperate with SME, the concentration on trade rather than on production as well as the existence of administrative barriers and lack of adequate tools to stimulate the general business environment creates a situation where more than 50% of established businesses fail in the first three years of existence and around 75% of established enterprises do not survive more than five years.

Motivation for starting a SME business is, in many cases, still related to economic necessity caused by losing a job in transition period. Large-scale restructuring in Serbia as well as throughout SEE, is mainly resulting in loss of jobs and unemployment that is not matched sufficiently by the creation of new public jobs (lack of internal and foreign investments is also considered to be an indirect reason for high unemployment rates).

4.2. SUPPORTIVE MEASURES FOR SME DEVELOPMENT

Considering the importance of SME development to the overall economic growth, Serbia launched the National Strategy for SME and Entrepreneurship Development 2003-2008, as well as the Plan on Stimulating the Development for SME and Entrepreneurship Development in the period 2005-2007. Also, the Council for SME and Entrepreneurship as inter-ministerial body responsible for monitoring of SME development was set-up in August 2006.

Significant improvements were made in the field of reduction of administrative and legal barriers and improving of training, promotion of doing business on domestic and foreign market. Corporate profit tax rate was reduced from 14% to 10% and now it is among the lowest in transition countries.

Table 6 **Starting business by number of procedures, duration and costs**

	Number of procedures	Duration (days)	Costs US$
Bosnia and Herzegovina	12	54	903.41
Bulgaria	9	32	270.96
Croatia	10	45	982.83
FRY of Macedonia	10	18	210.6
Montenegro	15	24	242.41
Romania	5	11	167.99
Slovenia	9	60	1,636.93
Serbia 2004	12	51	-
Serbia 2005	10	15	-
Serbia 2006	10	18	334.52
OECD countries	6.2	16.6	-

Source: Doing Business in 2007, World Bank

The process of starting a business in Serbia has been facilitated reducing to 18 days the necessary timeframe to establish a business[9]. Start-up registration has been moved from local administration (commercial courts and self-government bodies) to a new administrative registry – the SBRA that was established during 2004 and started to work in January 2005. Also, entrepreneurs can register online and company can start operating in 18 days.

[9] See Annex I – Procedure of starting a business in Serbia

However, although that reduced period of time is certainly a considerable achievement it is still below the threshold of other neighbouring transition countries (especially OECD countries) and needs to be further decreased.

Furthermore, improvements are still to be made as concerns access to information. Alhough general information as well as assistance in SME development can be obtained through the following government and non-government institutions:

- Republic Agency for SME
- 13 Regional Agencies for SME Development and 30 sub-centres, covering 70% of Serbian territory- mainly established through donor funds
- National Employment Service with its branches
- Serbian Development Fund
- Development Fund of Vojvodina
- The Guarantee Fund of the Republic of Serbia

According to entrepreneurship analysts, a person who is interested in starting a new business or expanding an existing one mostly needs the following information: how to establish and register a business, how much money is necessary, how to create a business plan and how to research a market. At the moment in Serbia there is still lack of access to relevant information such as which bank offers the most favourable credit or where to buy equipment.
Besides all mentioned support, the SME still have limited access to credit/funds, mainly because of high interest rates, requirement for collateral and low amounts of available state/donor resources. In addition, SME are hampered by a low level of financial liquidity and a high degree of indebtedness.

5. EMPLOYMENT TREND IN 2006

The following information represents an update of the first labour market overview handed over during December 2006 Steering Committee. This chapter will continue to be updated at each new labour market overview.

According to official statistics, during 2006 the number of employees has decreased by 1.9% in comparison to the same period last year. The average number of employed individuals in 2006 was around 1,472,000. Most of them were employed in the following fields of activity:

Sector	Number	Percentage
Manufacturing	around 421,000	28.6%
Wholesale and retail trade	around 198,000	13.4%
Health and social care activities	158,000	10.7%
Education	125,000	8.5%
Transport	110,000	7.5%
Construction work	85,500	5.8%

In the public sector, there is a decrease of 4.8%, while employment in the private sector increased by 6.6%. According to the same sources, considering that the private sector cannot compensate the work force in surplus within the public companies, there will be a further drop in the employment rate in the next future. This data needs also to be combined with the information from the SSO that reports how approximately 17.7% of the existing private companies would decrease the number of their staff in the first three months of 2007.[10]

During 2006, the number of registered vacancies by the NES, compared to the same period last year, increased by 17,4%, especially in the following fields of activity

Sector	Percentage
Real estate business	+ 27.7%
Trade	+ 25.5%
Transport, storage and communication	+ 23.2%
Hotels and restaurants	+ 16.2%
Public utility, social and personal services	+ 15.0%

The number of registered vacancies decreased in the following sectors of activity:

Sector	Percentage
Electricity, gas and water supply	- 20.7%
Public administration	- 9.3%
Ore and stone extraction	- 9.1%
Fishing	- 6.8%

Compared to 2005, the employment growth in 2006 was recorded in the following fields of activity:

Sector	Percentage
Electricity, gas and water supply	+ 20.7%
Public administration	+ 9.3%
Ore and stone extraction	+ 9.1%
Fishing	+ 6.8%

On the contrary, the employment decreased in:

Sector	Percentage
Electricity, gas and water supply	- 23.0%
Ore and stone extraction	- 6.2%
Fishing	- 4.0%
Public administration	- 1.6%

The extent of vacancy filling was 89.3%, i.e. 75,600 vacancies had not been filled since the end of 2006. The lowest rate of filled vacancies in January-December 2006 was recorded in:

Sector	Percentage
Education	70.8%
Health and social work	87.2%
Civil engineering	88.4%

In contrast, the highest growth was recorded in the following sectors:

Sector	Percentage
Financial mediation	95.7%
Other public utility, social and personal services	92.5%
Wholesale and retail trade	92.5%
Hotels and restaurants	92.0%

[10] Miladin Kovacevic, Deputy Director of the Serbian Statistics Office
'Weekly Economic Bulletin', issue No. 547,, V.I.P. News Services, Belgrade 8th February 2007

According to available information about registered and fulfilled vacancies the sectors of hotels and restaurants as well as financial mediation are the most dynamic ones.

Considering NES has just adopted the 2006 annual report, detailed information about different active labour market measures (ALMM) and their real impact on the creation of new employment in 2006 will be available only by the end of the first quarter 2007 and this chapter will be further updated with these data in the next edition of the labour market survey.

6. CONCLUSIONS

The core of the political and economic transformation of any country in transition is the creation of the private sector, the development of entrepreneurship and creation of SME. They are considered to be one of the principal driving forces in economic development. Also, SME stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, help diversify economic activity and make a significant contribution to exports and trade.[11]

Besides intensive progress made in the field of economy and harmonisation with EU legislation since 2001, the Serbian development level is still far behind in comparison to other transitional neighbouring countries. The level of overall economic activity is relatively low – around 60% comparing with 1990 and the employment rate is substantially lower then in other transition countries. The privatisation and restructuring process of the large state enterprises is still not completed creating an additional burden which will possibly further increase the number of unemployed people.

The share of the private sector in the GDP ranges at 55%, while state and social ownership still covers a great part of Serbia's output. The absence of a larger share of the private sector activity is an obstacle for dynamic supply of competitive domestic products and service. The process of job creation in the private sector has been slow and between 40 to 50% of the total number of jobs is still outside the private sector.

However, the SME sector has become a growing important sector in Serbia that employs around 60% out of the total of employees. Analysing similar development experience of other transition countries, the SME sector should become an important part of overall economic development in Serbia, as well as being a source of employment creation.

In order to achieve sustainable economic growth Serbia has to increase the level of political stability, democracy as well as to make significant efforts in the field of anticorruption. Considering that unemployment is a one of the basic problems that Serbia is facing, the World Bank in its labour market study for Serbia recommends that the government has to ensure macroeconomic stability, improve the investment environment, reform the labour market and education policies and provide better social protection for unemployed people.

In the coming months this report will focus on macroeconomic and employment trend in Serbia during 2006, the implementation of active labour market programme in 2006 as well as the impact of each active labour market measures (ALMM) on the creation of new employment.

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[11] 'SME in Countries in Transition', UN Geneva and New York, 2006

Annex I

SOURCES OF INFORMATION

Commission of the European Community - 'Serbia 2006 Progress Report' - Brussels (November 2006)

International Labour Office - 'Global Employment Trends' (January 2004)

Ministry of Economy, 'National Strategy of Economic Development for 2006-2012' (November 2006)

Ministry of Economy, 'Strategy for Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia 2003-2008' (January 2003)

Ministry of Economy, 'The Plan of the government of the Republic of Serbia for Stimulating Small and Medium-sized Enterprises and Entrepreneurship Development 2005-2007' (October 2005)

Ministry of Economy, Republic Development Bureau and Serbian Agency for SME and Entrepreneurship Development - 'Report on SME and Entrepreneurship in 2005' (October 2006)

National Employment Service, monthly bulletins and other official data

Republic Development Bureau, Serbian Monthly Economic Diagrams, Belgrade

Serbian Statistics Office, Official data and publication

Survey Republic of Serbia, 'A Record of Facts and Information' (Quarter 3, 2006)

United Nations Economic Commission for Europe, 'Small and Medium-sized Enterprises in Countries in Transition', New York and Geneva (2006)

World Bank - 'SCG - An Agenda on Economic Growth and Employment in Serbia' (December 2004)

World Bank - 'Serbian Labour Market Assessment' (September 2006)

THE MOST RELEVANT MEETINGS — January / March 2007

Name	Position	Institution
Radovan Ristanović	General Director	NES
Zoran Matović	Sector Director – Sector for Entrepreneurial Development and Employment Programmes	NES
Gabrijela Petković Jovanović	PR Manager	SBRA
Svetozar Babić	Acting Head of Association of Entrepreneurs	SCoC
Miroslav Tomić	Director	Fund for Increasing Employment
Miroljub Pokuševski	Assistant Director	

Annex II

PROCEDURE OF STARTING A BUSINESS IN SERBIA, 2006

Nature of Procedure (2006)	Number of procedures	Duration (days)	US$ Cost
Buy registration forms, form RJR-1, form OP, forms M1 and M4 at the paper shop or it also could be obtained online.	1	1	1
Notarize the Memorandum of Association and lease contract at the Basic Court	2	1	213.75
Open a temporary bank account; pay founding deposit or its part and all other fees	3	1	0
Obtain the registration certificate from Serbian Business Registers Agency (SBRA)	4	3	75.07
Make Stamp and seal	5	1	38.54
Obtain PIB - tax identification number at the Municipal Hall; Certify the signatures (3 copies) for opening bank account	6	6	0
Open a permanent business account with the commercial bank	7	1	6.17
Register the employment contracts with the Employment Organization/Fund	8	1	0
Obtain certificate from the PIO Fund (pension fund)	9	2	0
Obtain certificate from the Health Fund	10	1	0
Total	**10**	**18**	**$334.52**

Source: World Bank, Doing Businesses

Annex III

OVERVIEW OF REGISTERED VACANCIES BY SECTOR OF ACTIVITY IN PERIOD 2003-2006, NES

Sector of activity	Filled vacancies				
	I-XII 2003	I-XII 2004	I-XII 2005	I-XII 2006	Indicies I-XII 2006 / I-XII 2005
Total	432,103	439,422	537,139	631,535	117.6
Agriculture, hunting, forestry and water resource management	12,486	12,928	15,421	15,875	102.9
Fishing	266	388	428	411	96.0
Ore and stone extraction	2,111	3,906	4,060	3,808	93.8
Processing industry	110,340	110,434	136,277	157,891	115.9
Electricity, gas and water supply	5,952	6,501	6,211	4,782	77.0
Civil engineering	25,863	27,078	37,079	43,554	117.5
Wholesale and retail trade, motor vehicles, motorcycles and appliances	108,416	110,192	134,041	166,791	124.4
Hotels and restaurants	17,224	16,408	21,938	25,548	116.5
Transport, storage and communications	20,463	23,046	28,161	33,897	120.4
Financial mediation	14,562	13,879	19,397	21,290	109.8
Real estate, renting and other business activities	23,205	23,263	35,616	46,136	129.5
Public administration and defence, compulsory social insurance	14,267	12,847	15,026	14,790	98.4
Education	37,510	38,598	39,221	45,074	114.9
Health and social work	25,057	24,646	26,873	31,743	118.1
Public utility, social, personal and other services	14,343	15,294	17,355	19,866	114.5
Private households with employed persons	35	6	26	74	284.6
Extra-territorial organizations and bodies	3	8	9	5	55.6

Source: NES, monthly bulletins

Annex IV

OVERVIEW OF FILLED VACANCIES BY SECTOR OF ACTIVITY IN PERIOD 2003-2006, NES

Sector of activity	Filled vacancies				
	I-XII 2003	I-XII 2004	I-XII 2005	I-XII 2006	Indicies I-XII 2006 / I-XII 2005
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Source: NES, Monthly bulletins