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BEST PRACTICES

SECTOR SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISE DEVELOPMENT



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○ — INCREASING COMPETITIVENESS TO WIN NEW MARKETS

- *Primary activities of the Project were directed at reduction of unemployment in the regions through increasing the competitiveness of small and medium enterprises, to enable their entry into new markets, sales growth, and export. Local and international experts were engaged and they provided mentoring support to the companies operating in the sectors with high export potential, while grants enabled the procurement of necessary equipment*

High unemployment rate is one of the key problems faced by municipalities and cities in Serbia. In addition to economic reform on the national level, the United States Agency for International Development (USAID) actively supported local communities and small and medium enterprises to become more efficient and create conditions for opening new jobs. USAID Sustainable Local Development Project was initiated in 2011 with the aim to support local governments, companies, and civil society in 32 partner municipalities in Serbia through inter-municipal cooperation to initiate and speed up the economic development. Primary activities of the Projects were directed at reduction of unemployment in the regions through increasing

the competitiveness of small and medium enterprises, to enable their entry into new markets, sales growth, and export. Local and international experts were engaged and they provided mentoring support to the companies operating in the sectors with high export potential, while grants enabled the procurement of necessary equipment. In addition to support to the development of the private sector, USAID Project worked with the representatives of local governments and especially with the employees at the Local Economic Development (LED) Offices to improve their knowledge and skills in attracting foreign investment, in managing public property, in establishing public-private partnerships, and in offering support to the existing industry.



IMC partnership led by Novi Sad, as the mentor city, included Beočin, Sremski Karlovci, Temerin, and Novi Sad

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IMC partnership led by Subotica, included Sombor, Kanjiža and Subotica

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IMC partnership led by Zrenjanin, included Kikinda, Novi Bečej, and Zrenjanin

●
IMC partnership led by Novi Pazar, included Sjenica, Tutin, and Novi Pazar

●
IMC partnership led by Kraljevo, included Čačak, Gornji Milanovac, Raška, Vrnjačka Banja, and Kraljevo

●
IMC partnership led by Užice, included Čajetina, Nova Varoš, Priboj, Prijepolje, and Užice

●
IMC partnership led by Vranje, included Bujanovac, Preševo, Vladičin Han, and Vranje

●
IMC partnership led by Niš, included Doljevac, Gadžin Han, Leskovac, Niš, and Merošina

The analysis of the economic activity throughout the areas of inter-municipal cooperation found that the most active sectors were textile (denim), furniture, food and footwear with a lot of small and medium enterprises. The assessment of the demand indicated that the increase in competitiveness of this type of companies could lead to entry into new markets and increase of export. It was also determined that there was a shortage of qualified staff in the labor market in all four sectors.

Having in mind the results of the demand and supply analysis, the activities of the Project were focused on support to the companies in the selected sectors and on the development of knowledge and skills of the future employees. The Project experts worked with 69 individual companies and with sector clusters/associations of producers, assisting them in improving their production, expanding their product offer, modernizing promotional activities and materials, and establishing contact with potential investors abroad.

Local and international experts worked on overcoming the key hurdles to growth and development of companies in selected sectors. Thus, for example, it was established that jeans producers in the region of Novi Pazar individually produce small quantities for bigger buyers. In addition, the entire sector is characterized by environmental problems due to the lack of treatment of wastewater, and the fact is that big foreign buyers will not buy products that do not meet international environmental standards, even if the producers offer exceptional quality and favorable prices.

Footwear producers are faced with similar limitations in attracting bigger buyers due to the inability of production of higher quantities of consistent quality, while the furniture industry is not competitive due to high costs of production and transport. Individual food producers miss the appropriate product quality and safety certificates in order to be able to increase sales and enter new markets.

In the texts that follow, in the interviews with local and international stakeholders, you will learn about the examples of best practice in sectoral support to the development of small and medium enterprises. We will present some of the key activities of the Project, show how the introduction and implementation of innovation contributes to the increase of competitiveness, and the best ways to overcome the gap between the needs of the employers on one hand and knowledge and skills of young people seeking employment on the other.



O — SERBIAN INDUSTRY HAS A CHANCE

● **Howard Ockman,**
Chief of Party, USAID
Sustainable Local
Development Project

You cannot simply change the laws and expect that everything will work out. On the contrary, it is hard work. It is hard to be a successful businessperson. All the people of my generation who are successful businesspersons have health problems. However, the more help and attention they receive to hire labor, to do market research, the higher the chances for success

Good investors, those who will not leave tomorrow, invest in a foreign country for business reasons and not because of tax incentives. If you opt for giving incentives and subsidies, everyone will be asking for them. Even without this policy, there would still be companies that would invest here for profit, says Howard Ockman, at the end of the five-year USAID Sustainable Local Development Project.

What was the aim of this project?

Working in geographically diverse municipalities in Serbia, we identified sectors that were once strong in those areas. We were not looking for startups or ICT sector projects, but for sectors that could potentially employ many people, because unemployment in the country is very high. We were also looking for sectors that already have a market.

These are sectors that continue to operate, but with difficulty. In Novi Pazar, these were jeans and furniture industries. In Niš, Leskovac and Vojvodina we found agribusiness, and food industry. We were oriented to food processing, as primary agriculture is at the bottom of the value chain. If you produce fruit and vegetables, and you can ship it fresh to the markets of European cities, that is a business with high value added, but for that you need refrigerated transport and cold storage and that is very expensive. A less expensive way of adding value is food processing and conversion into products of higher value added, which can then be exported.

All the experts have said that for a country that cannot afford large capital investments in cold storage and whose producers are not yet big enough to buy such equipment, it is better to invest in food processing.

We also chose footwear industry, with Vranje at the forefront although Novi Pazar has good footwear manufacturers too.

At the end, there is metal industry, manufacturers of secondary or final products of metal, gathered within Vojvodina Metal Cluster, as well as in Čačak and Kraljevo.

What was the reaction from the local authorities?

At the beginning we worked with local authorities. We went to the mayors and inquired about the possibilities of local development and the needs of the municipalities. Everybody had slightly different needs, but with exception of the local infrastructure, the common theme is a big problem of unemployment, especially among young people. We have seen more people in cafes than in factories. Therefore, we were looking for sectors that can expand into new markets and hire new people, and we were looking for ways to assist municipalities to attract foreign investors as well. Then we were working with local development agencies on finding concrete sectors. For example, in Novi Pazar 13,000 people work in the production of jeans.

I got the impression that local self-governments do not know enough about what is happening in the private sector in their communities. We asked them for some research, we paid for some national research using advanced statistics. That is how we managed to identify the companies we were able to work with.

Would local communities or those economic sectors be able to continue to develop by themselves without government assistance?

I have to say no, they would not. The government needs to be active in this, to have a group of people who understand the business, to have macroeconomists, and it must support the sectors that have the potential to expand into foreign markets and bring new jobs to the economy. If the government had an agency that could do it, frankly, it would not need the help of foreign donors to bring experts and build each of these sectors.

USAID and partner development program EU PROGRES are now analyzing each of the sectors to see whether they have the poten-



BANGLADESH, WHICH USED TO DO JEANS WELL, IS NOW FACING PROBLEMS WITH THE WORKFORCE. ITALY AND PORTUGAL ARE TOO EXPENSIVE. EUROPEAN CUSTOMERS WANT TO GET OUT OF ASIA NOT BECAUSE THEY DO NOT WANT TO BUY CHINESE GOODS. EVER SINCE THE DOLLAR HAS STARTED TO STRENGTHEN AGAINST THE EURO, AND ALL GOODS FROM CHINA ARE PURCHASED IN DOLLARS, FOR EUROPEANS, THESE GOODS HAVE BECOME 20 PERCENT MORE EXPENSIVE.

tial to be competitive, increase exports, improve the value chain within the country. If there is one good company, exporter within a sector, there is a whole group of small companies that may be suppliers. However, it is a difficult job because the high standards required by customers should be applied throughout the system. To me, this is the way to build a micro-economy of the country. You cannot simply change the laws and expect that everything will work out. On the contrary, it is hard work. It is hard to be a successful businessperson. All the people of my generation who are successful businesspersons have health problems. However, the more help and attention they receive to hire labor, to do market research, the higher the chances for success.

What was the situation you encountered in the sectors that you selected?

When we chose sectors for export, jeans, metal, footwear, furniture, and when we brought the experts in, they all said that at

this time there is a chance for these sectors. China, which has dominated the world, is now exiting these sectors. Bangladesh, which used to do jeans well, is now facing problems with the workforce. Italy and Portugal are too expensive. European customers want to get out of Asia not because they do not want to buy Chinese goods. Ever since the dollar has started to strengthen against the euro, and all goods from China are purchased in dollars, for Europeans these goods have become 20 percent more expensive. They want to source in Europe, they want to buy in euros, and do not want to ship goods from distant countries, do not want large quantities because it takes a long time to transport all that and then it takes time to get it all sold. So when you work with China, the orders are huge. European buyers want to buy closer to home, and the products to be more tailor made to suit the buyers. If they order wrong size footwear, they want to call and order the right size and have it delivered in two weeks. Basically, this is a "just in time" principle, without creating inventories.

Then the experts looked at the companies. The expert in jeans said that the quality is excellent, that this could easily be some famous brand jeans. It could also be a cheap pair of jeans, but why do it, because Novi Pazar cannot compete with Bangladesh in this niche. Footwear expert also said that producers know how to manufacture quality shoes, but that the price is a bit too high. They pointed out that the organization in the factories should change.

Furniture expert was a little more radical. He said that there is no chance for the local furniture manufacturers to survive international competition with furniture that they are making right now, but it is mainly upholstery and leather furniture. All the raw material for the furniture needs to be imported. China produces leather, but even if it had to import it, it would be in such large quantities and at so much lower price that would make it impossible to compete. On the other hand, wood furniture is another story. A few decades ago, Yugoslavia was among the largest exporters of wooden furniture in the world. It was the largest exporter of furniture to the United States in the sixties and seventies. Our expert was General Manager of the Italian company Natuzzi, in companies all across America. In his opinion, we cannot compete with Italy in the production of leather furniture, but quality wooden furniture is another story.

The situation with furniture was the worst, jeans was the best, footwear in the middle, and the situation with the metal industry was interesting. This sector exports a lot, mostly to Germany, but there are lots of small producers who work with outdated technology and who do not have a chance to expand into new markets. In agriculture, there are raspberries, strawberries that are exported fresh using refrigeration that exists. However, the food industry has failed to break into foreign markets. Agribusiness here can succeed, but it needs reorientation.

Are our companies ready to enter the world market?

Companies operating in these sectors, which have managed to get through the difficult times, have a share of the local market and are not ready for expansion in exports. That is the problem. They are satisfied with what they have. They worked hard, fought for what they have and are simply not interested in getting another heart attack.

I often meet them and tell them plainly – I will be here only if you want me to, if not – tell me to go. If you want my advice, if you want change – it will be difficult, it means working seven days a week, there is no rest.

In addition to the entrepreneurial spirit, a lot more needs to be done. In all these companies we have seen that there are problems with cost management, inventory, organization of production. In this country, if there were specialists to manage costs of production, it is likely that many of them have left. Also willingness is missing on the part of businesspeople to pay such a specialist. However, they should pay for it, because it would save them a fortune. That applies to every industry that we have analyzed.

For example, manufacturers of furniture, perhaps out of habit since the SFRY, keep in stock fabric in 100 colors. They should determine what their best-selling products are, and focus on them. It is all a question of training.

Each person on the production line has a role. Sometimes people are less effective in one place than another, simple substitution can increase production efficiency. In most companies, they do not know how to verify the effectiveness of each individual worker. The best companies know that they should supervise employees and as soon as they see that there is some problem, send workers into training, if they see that someone is not the best fit for the job, they immediately relocate the employee.

For example, when foreign buyers come to a jeans factory, they ask how many seconds it takes to produce a pair of jeans. No one can give them the answer at this time. If you place a machine five meters away from the next one, you need to transport the product and you waste time, and time is money.

In Vranje, we worked with one company that makes high-quality shoes, but a bit overpriced. A buyer from Britain showed up and requested three samples, but the samples were returned because there was an extra piece of thread sticking out, for example. International business is very difficult. The British were patient and decided to buy shoes from this very manufacturer even though they would have finished the job more quickly elsewhere. The reason why they wanted to buy shoes right here is because it is a good story. They will have a story about how they help this sector in Serbia, a country that was once devastated by war and so on, and they will even add the fact they source cheap shoes in Europe, not like the others who bring them in from China. This positions them as the best company for the sale of shoes in Europe.

We had a small, family footwear company in Germany, which has already closed one deal in Serbia; they use the story that they are a small family business that wants to work with small family companies to sell shoes.

Experts in jeans said that the quality is good, the final product being a little more expensive, so there is room for cost optimization, and came up with the idea to market the higher priced Novi Pazar jeans as environmentally friendly jeans, which is a new thing in this industry. In this market, there have been many incidents, major manufacturers of jeans had situations where their factories collapsed onto workers, production polluting rivers, etc. These companies do not want to be associated with such things, as this is of great importance to their customers, the millennials. Therefore, many big brands want to enter the eco-jeans niche.

We proposed to the association of manufacturers of jeans to get them a large machine for ozone finishing and for them to maintain and share this machine. Ozone is used for bleaching jeans instead of chemicals and it is environmentally friendly way of production. They will go to the biggest fair in the world in Paris and will target the eco-market. The goal is to find a niche market, if they need equipment they will get it, but the companies must demonstrate that they are ready for it.

Is lack of funds a problem for the Serbian companies, is this something they often complain about?

Every businessperson all over the world faces this problem of shortage of funds. Everyone complains about not having money for this or for that. When they tell me about all the things they could do if they just had one 100,000 euros machine, or keep blaming something else, I tell them they have a management problem. They complain no one is willing to give them money, but they should not be given any money if they cannot prove that the money will be utilized efficiently and that they will produce goods that the world wants.

I do not think that the state giving money to small businesses is a good idea, although I understand why every government has to do it. This money should be used to train people who want to learn, to train managers and business owners. The money that is given in the form of grants or for the purchase of equipment could be better used if people could just learn how to increase productivity. Then they themselves would be able to earn money for the equipment.

The awareness of the fact that time is money and the need for efficiency and cost optimization, this is in the DNA of traditional market economies' businesspersons. In the former communist countries there was no need to produce in the most efficient way possible so that the product can be sold.

Are companies ready for such changes?

It was difficult because you have to convince a company that a change is good for them, and that it reduces costs, to persuade them that what you propose works. After spending time with them, they are willing to try.

Are you satisfied with the results of the project?

I am satisfied, we have found buyers for some companies, helped to create better products, we have acquired the ozone machine with which the manufacturers will go to fairs. I am particularly pleased with the plan for the furniture industry.

In November, we decided to focus on the furniture industry, not only because of the resources, the history, but also because in SIEPA (now Serbian Development Agency - RAS) we found a good interlocutor who understands what this is about.

Demand for wood furniture in Europe is almost unlimited. IKEA alone can buy each piece of fine wood furniture made in Serbia.

We visited 46 municipalities and asked mayors what they thought of the idea, if there are any companies that will work on this, what employment situation is like... They generally told us that wood is no longer used so much for making furniture, for various reasons, and partly because of sectoral policies. We asked them to see whether in their municipality there are still people who would be able to do this work, those who have "sawdust under the nails," who understand wood.

Professor Glavonjić from the Faculty of Forestry was also present and he has been advocating this for years. We engaged him and several international experts and made a good action plan.

We are here talking about the Serbian forests, which belong to every citizen, which are used for fire wood or worse, hard oak wood is cut into planks in saw mills and sent to China or Italy to make furniture. The value of such a cubic meter of wood boards is 50 euros and the value in furniture is 600 euros.

We talked to Srbijašume. Some laws and by-laws must be changed in order to take advantage of the forest in the best way. There are also sawmills and it is convenient for them to cut the wood into planks to send to China and this has been going on for long time. They would not be happy if Srbijašume said that they can get only four percent of harvested wood. There are many questions in relation to the rules. If however, long-term contracts with manufacturers of furniture were closed, they would probably be willing to pay more than \$ 50 if this brings in such a high income. I believe that everyone in the chain, including sawmills, would win. Here we have local raw materials and demand in the world market. All the conditions for a successful business venture have been met, and so I believe that this plan will not be given up on.

How did you help municipalities to attract the FDI?

We helped municipalities to create industrial zones, prepare land for investors, we worked with local development agencies, we trained those who work on attracting investors on how to most effectively do so and highlight their potential to the target investors.

What do you think of subsidies for foreign investors?

Good investors, those who will not go away tomorrow, invest in a foreign country for business reasons and not because of tax incentives. If you give incentives and subsidies, everyone will ask for them. Even without this policy, there would still be companies to invest here for profit. In order to cooperate with high-tech sector from Niš, a company will come here, and they will not necessarily need subsidies, but they will still ask for them if you give them to everyone.

If Fiat suppliers were local companies, perhaps small subsidies to Fiat would make sense. If, however, Fiat does not buy anything from Serbian producers and only employs several thousand people in Kragujevac, the question is whether it is a good idea to give it money. We also have foreign companies that open factories to supply Fiat, which is a good thing since we do not have local producers, but why give them subsidies when they come here for their buyer? Companies will not come if it is not profitable, and if it is profitable – why give them money on top of it? I worked for seven years in Ukraine and there companies had profits of 20-25 percent. They covered their investment in two or three years and I really see no reason for such companies to be given additional subsidies.

○ — INVESTMENT SUSTAINABILITY MATTERS

● **Laura Pavlović,**
Director, Office of
Democratic and Economic
Growth at USAID Serbia

Our cooperation with local governments has traditionally been very good since the beginning of operation of USAID in Serbia. This project was no exception. Moreover, this project took the cooperation even further by supporting by the involvement of entrepreneurs in the entire work process and decision-making at the local level

How do you assess the results achieved by the Sustainable Local Development Project?

For us even more important than assessing the results of five years' work of the project as good or bad is perhaps the question whether the results will be sustainable or not and how they will be used for further development of municipalities and business sectors in which we worked. This project was implemented in 32 municipalities throughout Serbia, which at that period managed to attract more than \$ 240 million in investments and create more than 5,000 new jobs. These are pretty impressive figures, but what is more important for us is that we have achieved these results in partnership with eight inter-municipal cooperation entities led by Kraljevo, Niš, Novi Pazar, Novi Sad, Subotica, Užice, Vranje, and Zrenjanin, which agreed that their priority is improving the environment for economic growth. Investment and new jobs created with the help of the Project are in the sectors in which these regions have a comparative advantage, and our assistance addressed obstacles that these regions still face in order to be more

competitive, be it innovation, improving labor force or infrastructure. We believe, however, that the results of our project will be sustainable thanks to the partners we were working with, from local governments to private sector to civil society organizations. We are once again witnesses of what is possible when key stakeholders get together to tackle common challenges.

Are you satisfied with the cooperation with the local governments?

Our cooperation with local governments has traditionally been very good since the beginning of operation of USAID in Serbia. This project was no exception. Moreover, this project took the cooperation even further by supporting the involvement of entrepreneurs in the entire work process and decision-making at the local level. Through this project, we supported the efforts to have the municipalities meet with representatives of SMEs to work together and overcome the obstacles SMEs face in expanding their business in these municipalities.



FINANCES ARE ONE OF THE MAIN PROBLEMS, PRIMARILY THEIR DIVERSIFICATION, AS WELL AS EASIER ACCESS TO PREFERENTIAL LOANS. BUT FINANCES ARE NOT THE ONLY PROBLEM. THERE IS ALSO QUITE COMPLEX ADMINISTRATION, WHICH OFTEN REQUIRES THE DAILY INVOLVEMENT OF THE OWNER AND MANAGER OF THE COMPANY, INEVITABLY TAKING AWAY TIME FOR OTHER ACTIVITIES, SUCH AS LONG-TERM PLANNING. NEW TECHNOLOGIES, INCREASING PRODUCTIVITY AND MARKETING, ARE JUST SOME OF THESE PROBLEMS.

What are the biggest problems faced by small and medium enterprises in Serbia, apart from financial problems?

Finances are one of the main problems, primarily their diversification, as well as easier access to preferential loans. But finances are not the only problem. There is also quite complex administration, which often requires the daily involvement of the owner and manager of the company, inevitably taking away time for other activities, such as long-term planning.

New technologies, increasing productivity and marketing, are just some of these problems. On this project we were working with SMEs in order to improve the skills and knowledge they need to become competitive. The project engaged experts with years of experience to help those sectors in Serbia that show the potential for export. Together they introduced improved processes and technologies that will make these sectors more competitive both in the regional and global markets. This is exactly the reason why we helped install ozone finishing equipment for jeans production in Novi Pazar.

Which industries in Serbia you see as having potential and are currently underdeveloped?

International experts - consultants that we engaged confirmed what we all more or less already know. First of all, these are the sectors where Serbia has natural resources that are underutilized, such as agriculture i.e. food, and wood processing industry - the sector of production of solid wood furniture. Of course, there are also sectors with skilled and qualified workforce, such as textile, denim and jeans, footwear, metal-processing industry, tourism, ICT. For this purpose, our international consultants held a number of specific vocational trainings for each specific sector. However, in order to compete in these sectors SMEs should ensure the quality, quantity and continuity in order to be competitive in the regional and global markets. Perhaps one of the most important contributions to the competitiveness of key sectors in Serbia by the Sustainable Local Development Project is support to key clusters and business associations.

To what extent are local businesspeople willing to introduce change and modernize business?

Modernization is one of the prerequisites for successful operations of local businesspeople. Many of them are aware of the fact that the methods of their business are obsolete. In order to survive in the local or regional market, or even penetrate foreign markets, they must follow trends and innovate both in production and in business processes at all levels. Very often there are requirements of potential foreign partners relating to the improvement of product quality, productivity, international standards, working conditions and environmental protection. Most businesspeople are very well aware of this and they want to introduce innovations in order to improve the business, but often face barriers such as lack of funding, complicated regulations, lack of skilled labor. One of the advantages of the project was its focus on SMEs and establishment of links with research and development institutions such as 3D Impuls Centar in Kraljevo that every year doubles its orders from SMEs, or with educational institutions, such as vocational school in Novi Pazar, which now attracts more students because of the more interesting programs.

How should small and medium enterprises that you supported continue to operate in order to have a sustainable business, what was your message to them?

To continue and to persevere in their path. Most of these companies have been operating for many years and have undergone various stages of development. Although some of them are running out of patience, they are aware that success does

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not come overnight. Continuous development of production processes and management is one of the basic prerequisites of a good and successful business. Exchange of experiences and networking can bring many benefits and provide greater competitiveness in regional and international markets. There have been cases that some companies imported some components needed for their products, while in the vicinity there was a company that produced those same parts, maybe even better than the imported ones. We have the example of Vojvodina Metal Cluster, whose members for a long time did not know about colleagues in Užice or Niš, but now they work together.

Do they have quality that is essential for the export to the markets of developed countries?

The potential is definitely there. This fact has been confirmed in numerous international exhibitions in Germany, Italy, France, Slovenia where the producers from Serbia exhibited. The quality is there, but not in sufficient quantities. Companies that are interesting to foreign partners make efforts to reach that level. For many, this is the first time they are faced with such requests. Sometimes it is a question of international standards - ISO 9001, 22000, HACCP. For others it is an issue of foreign partners demanding the specific quality of the finishing of the products required and expected by foreign markets. USAID Sustainable Local Development Project supported the strengthening of links between potential partners and "our" companies. In this way, our manufacturers had assistance during negotiations, and more importantly, they got their own experience in how to communicate and develop business relationships with foreign partners.

When we observe the development of local government, Belgrade region and some municipalities in Vojvodina are developed in relation to municipalities in central Serbia which are poor. How do you assess the economic development in central Serbia, which municipalities were assessed by experts as having the most problems?

Economic development of municipalities in central Serbia is very diverse. As you said, some municipalities in Vojvodina have had more success in attracting investment compared to some other parts of Serbia. The geographical location is not critical and this is illustrated by positive examples in Vranje, Niš and Čačak. Many municipalities have a burden of economic development legacy from the previous period, where one or only a few factories were the basis of economic development. Their shutting down caused a huge problem. Some local governments recognized on time their comparative advantages (natural resources, educational institutions, youth, geographic location) to develop new, more modern economic sectors and connect them with the old ones. We had the privilege to work with many of these municipalities, for example, with Novi Sad and Niš in the ICT sector, with Užice in the sectors of tourism and agriculture, in Novi Pazar and Vranje in the sector of textiles and footwear, and in eastern Serbia and Sandzak in the furniture production sector.

What should local governments do in order to jumpstart development?

Local governments have made significant progress as a driving force of economic development which was confirmed during the implementation of the Sustainable Local Development Project. They became aware that without a strong economy, there is no development in other areas. On the other hand, businesspeople got a partner who is willing to listen to them and help in solving problems in their areas, but also to jointly advocate for change and propose solutions to the higher levels of decision making. The activities of the Sustainable Local Development Project confirmed that the responsible local governments and their offices for economic development are one of the most important factors in the process of attracting new investments and expansion of existing enterprises.

Are the government subsidies to foreign investors and incentives offered by local governments crucial for foreign investors attraction or can there be other means to attract investment?

Government subsidies and incentives of local governments are just one of the ways for attracting foreign investors. These

are mainly financial measures, but there are other elements that can be just as important. Prepared project documentation, equipped sites, short deadlines for issuing the necessary permits are just some of the elements where the local administration can be crucial because they are the first address of each investor. And their co-operation impacts the performance and durability of the investment. Sustainable Local Development Project, together with our partner municipalities, participated in the creation and implementation of numerous laws and regulations in this sphere, the Law on Investment, the Law on Construction Permits, and eight other strategic documents.

Cheap labor is emphasized as one of the key factors of Serbian competitiveness. Is this an advantage in your view and is it sustainable?

When speaking of the labor force as an element of competitiveness, all professional circles in Serbia, as well as our foreign experts have agreed that this can be one of the elements, but certainly not essential one. What is important when it comes to the labor force, is its expertise and education. The problem for foreign investors is finding adequately educated workforce to meet the needs of their production processes, not their price. There have been cases where investors were forced to relocate their factories from one to another part of Serbia because of the lack of skilled labor. USAID addressed this problem at the local level when this project helped the adjustment of curriculum in secondary technical school in Vranje to the needs of the Italian Geox, the largest foreign investment in that part of Serbia. This of course requires systemic solutions that require the inclusion of higher levels of decision-making.

After the completion of the Sustainable Local Development Project, is USAID planning some new local development projects?

We will certainly continue activities on the development of local economic capacity. The experience we have gained and the activities that we have implemented over the past 15 years, give us a pretty good basis for the continuation of work and new projects. One of the main conclusions is that sustainable local economic development presupposes the development of deeper relationships between the key stakeholders, including SMEs, municipalities and other state institutions, then, development agencies, business associations, scientific and research institutions. By bringing together all actors around a common development strategy, donor organizations, such as USAID, can help create a really favorable business environment for private sector development.

○ — EXPERT SUPPORT IS VALUABLE

● **Miloš Petrović,**
General Manager of the
Development Agency of
Serbia (RAS)

The development of small and medium enterprises at the local level stimulates the overall economic development of local self-governments, creates new jobs, increases exports, reduces foreign trade deficit

How do you assess the Sustainable Local Development Project, how much do such projects contribute to local development and increasing the competitiveness of small and medium-sized enterprises?

I believe that this kind of international expert and institutional support is valuable for countries that are working on their own re-industrialization, as is the case with Serbia. Practically, through these projects we get world-class experts to advise our local producers in order to raise the capacity of business and improve management know-how. At the same time the companies are informed about the latest trends prevailing in these industries in the world. It is precisely the development of small and medium-sized enterprises (SMEs) and entrepreneurs at the local level that stimulates the overall economic development of these local self-governments. Also, from the position of this country it is a useful model because it is raising the capacity of local SMEs, creating new jobs, increasing exports, reducing foreign trade deficit, bringing opportunities for new investments. Finally, the SME sector is an economic "backbone" of the European Union, which is our country's strategic aim, so such programs contribute to local economies by preparing them for competition.

The Development Agency of Serbia was created by merging the former Serbian Investment and Export Promotion Agency and the National Agency for Regional Development. Which activities did RAS have in the context of sustainable local development?

RAS continued to support the initiative of developing the wood industry, which initially included SIEPA. The aim of supporting the industry is to encourage its export competitiveness boost, for Serbia to position itself on the world map of producers, primarily of wood furniture, and other products with high value added. I

am very grateful to the US Agency for International Development (USAID), and European Progress program who initiated this great initiative and helped us to observe the room for growth, as well as identified a niche industry that the sector in our country should target in the future. We have been an institutional partner from the side of the state and took over the responsibility to report to the most senior instances of the executive power on the measures and action plan resulting from this project.

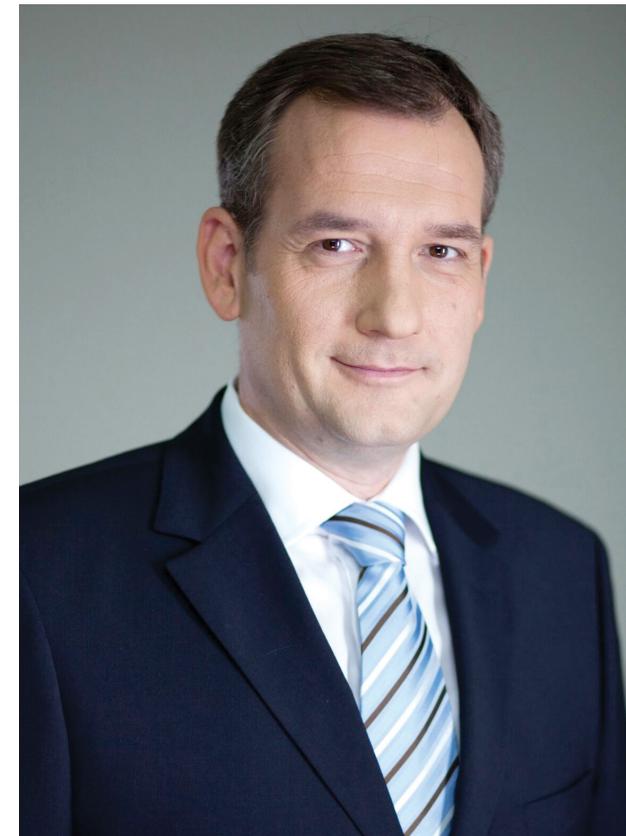
How do you assess the possibilities for the development of the wood industry in Serbia?

The wood industry in Serbia has great potential for growth, as well as a number of comparative advantages over the competition. We have excellent raw material base, a long tradition and know-how in the production of solid wood furniture, for which there is great demand on world markets. Sustainable Local Development Project has given us recommendations and action plan, a sort of a road map for the development of this industry, and it is up to us to incorporate them into regular activities within the support to the economy.

What are the other economic sectors, in addition to the wood industry, where you see the potential?

Traditionally, we are strong in agriculture and food production, as recognized by many foreign investors. This sector is particularly interesting in the context of the Euro-integration process during which we will see more accession funds open for us, mostly aimed at modernizing production. Then the textile sector, where we have educated workforce with a competitive cost of labor, and in which foreign investors have in recent years opened more than 10,000 new jobs.

Very important also is the sector of the electronics industry, which has a strategic importance for further development. Uni-



versity centers in Belgrade, Niš and Novi Sad educate staff for this area. As a country we have the necessary experience, and this potential has been recognized by world-renowned companies such as Siemens, Panasonic or Gorenje. Great interest and the potential exist in the metal-mechanical sector. Serbia has workers with a high level of technical literacy, it is only necessary to introduce them to modern processes and trends that have been adopted in the world.

Is enough done to develop small and medium enterprises in Serbia, as an important pillar of economic development?

In the European Union, micro, small and medium enterprises make up 99 percent of all registered companies, and generate more than 60 per cent of the gross national income of the Union. They are responsible for more than 50 percent of the total value added created by companies in the EU. It was exactly the development of this sector that is one of the priorities of financing and advisory support in the member states as well as candidate countries, one of which is Serbia. It is our responsibility to take advantage of these opportunities together and prepare the national economy for the big European competition we will face in a few years.

This year was declared the year of entrepreneurship, what do you expect from such a mode of state support and in which industry is it necessary to set up new companies?

First of all, I expect the local public to learn about the importance of entrepreneurship in general, and then on the specific mechanisms of state support to the sector. I stressed in my previous answer several sectors that have great potential, but it is even more important to explore sectoral niches. So, small areas that have not been covered or have but insufficiently. In Serbia, people made fantastic business producing toothpicks or popsicle sticks, all you had to do was research the market and see what was missing and in demand.

What is necessary for small and medium-sized enterprises in Serbia in order to become more competitive and export their goods to foreign markets?

It is necessary to invest in production and capacity, to follow the trends, to associate and have joint approach to foreign markets. Also, they need to go to international fairs and offer their products. Certainly, the implementation of various certificates and quality systems is necessary so that these products can be sold on the demanding world markets. Many of these activities are helped by the state or international institutions so they also need to be well informed.

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INTERNATIONAL EXPERT SUPPORT IS VALUABLE FOR COUNTRIES THAT ARE WORKING ON RE-INDUSTRIALIZATION OF THE ECONOMY SUCH AS IS THE CASE WITH SERBIA, AS WORLD-CLASS EXPERTS ADVISE LOCAL PRODUCERS IN ORDER TO RAISE PRODUCTION CAPACITY AND IMPROVE OPERATIONS

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○ — DEVELOPMENT PROJECTS FOR THE LOCAL ECONOMY

● **Tihomir Petkovic,**
The Mayor of Užice

The most important programs that have been implemented within the framework of Sustainable Local Development Project are the Zlatibor District Dairy Industry Development Study, training program for attracting foreign direct investment, the Action Plan for solid wood furniture export, and geodetic and topographic imaging of Ponikve Airport location

How did the City of Užice participate in the Sustainable Local Development Project?

I became the Mayor of the City of Užice in August 2014. According to the information I received from the Local Economic Development Department, the realization of USAID Sustainable Local Development Project began in late 2010. Upon my arrival to the position of the City Mayor, the cooperation with colleagues who had worked on the implementation continued at full capacity, which is the best proof of the quality of cooperation of the City of Užice with USAID. The City of Užice participated in the project with 31 local governments in the territory of Serbia. In the Zlatibor District, Užice was a part of the cluster with the municipalities of Čajetina, Nova Varoš, Priboj, and Prijepolje. One of the biggest benefits that the City of Užice received from the Sustainable Local Development Project was to establish cooperation with all stakeholders involved in the implementation of activities. First of all, I think that the cooperation between local self-governments is very important in order to transfer experience and best practice examples. It is also important to note that most of the activities that have been done through the project very favorably influenced the work of the local self-government, as well as the improvement of business environment in Užice.

What activities did the city conduct in cooperation with USAID on this project?

Within the project, a large number of activities were done. The most important programs that were implemented within the framework of this project are: the Zlatibor District Dairy Industry Development Study, training program for attracting foreign direct investment, training program for local economic development, and the development of the Action Plan for the positioning of Serbia as the exporter of solid wood furniture. One of the most important projects was the development of geodetic and topographic imaging for Ponikve Airport location, which enabled us to create the General Regulation Plan and further develop the airport. This project represents one of the key development projects, both for the City of Užice, and for the entire region of Western Serbia, Eastern Bosnia and the north of Montenegro.

How do you assess this form of assistance to local development?

This form of development programs is very important for the development of local self-government. Through the implementation of a series of activities, capacity of local self-govern-



ment has been raised to a higher level. Of course, a number of specific projects have been implemented, studies and strategic documents drafted as very important for the further development of local communities.

Užice has processing industry, local development drivers are large exporters like Impol Seval, and Copper Mill Sevojno; to what extent are small and medium-sized enterprises present and what are the sectors in which you see the opportunities for local economic development?

At the very beginning I have to add Prvi Partizan AD to the two major companies you mentioned as the main pillars of development in Užice. In Užice, there are about 3,000 legal entities that are classified as small and medium-sized enterprises operating in different sectors. Industries that have great potential for development in the sector of small and medium-sized enterprises are certainly agriculture, tourism, and manufacturing. When I say manufacturing, I primarily refer to the industry of metal processing, wood, textile industry and of course the industry of processing agricultural products.

Which sectors in Užice received help and support in this project?

As for concrete assistance to enterprises in the City of Užice, I should first point out on the job training program funded by Sustainable Local Development Project. This program included hiring of young employees with costs covered by Sustainable Local Development Project. Through this program, more than 30 young people from Užice got the opportunity to work in private companies. After a period of six months, the best of them had the opportunity to get a job in the companies where they were trained. Significant results have been achieved in cooperation with companies Korun and Kadinjača. It is also important to note that Sustainable Local Development Project financed "Mountain Breakfast", a project implemented by RDA Zlatibor from Užice. "Mountain Breakfast" included the local self-governments of Užice, Čajetina, Nova Varoš, Prijepolje, and Priboj.

What are the biggest problems of small and medium enterprises at the local level and how important are projects like this one for them?

In Užice there are many problems in the operation of small and medium enterprises as indeed in most other local communities in Serbia. These are mainly tax laws and procedures, complicated export and import procedures, shortage of skilled labor. Local self-government is aware of this, and at the beginning of 2015 we established the Council for Large Businesses and the Council for Small and Medium Businesses. In this way we communicate regularly with local businesspeople and we are aware of all their needs and problems. At the request of local businesses, we are ready to simplify certain procedures under the jurisdiction of local governments. But we are also ready to provide assistance in tackling the problems that arise from the procedures under the jurisdiction of the State.

Unemployment is a major problem, just like in other cities in Serbia; do you expect some investments?

We are actively working on the preparation of sites for potential local and foreign investors. Also, as you surely know, Užice is one of 14 cities and municipalities in Serbia which has established Free Zone, an important competitive advantage. As for concrete investments in Užice, a contract has been signed with the German company Lidl. Also, there are ongoing negotiations with several foreign companies also engaged in the construction of commercial centers and intending to build retail center in Užice. One of the most important investments that we expect in the course of this year is the Government of Serbia investment in Ponikve Airport, which will make the airport fully operational for commercial and cargo flights.

○ — FACTORY OWNERS OPEN FOR COOPERATION

● **Margaret Bishop,**
Textile and Apparel
Expert

The factory owners in the jeans cluster in Novi Pazar with whom I worked opened their factories to me; they welcomed my expertise and recommendations, including the recommendations to adopt ozone technology to bleach jeans with substantially reduced use of water, chemicals, and energy

How many denim manufacturers from Novi Pazar were supported during the Sustainable Local Development Project and how satisfied are you with accomplished results?

The project supported a cluster comprised of 9 companies and their factories and provided some assistance to the Novi Pazar School for Textile and Leather Design. The companies were all part of the Novi Pazar jeans cluster and were selected by the Project staff.

I am very satisfied with how the factory owners welcomed the assistance, the upgrades they made in safety, and how they embraced the technology I recommended. I was also very happy with how eagerly the school Director, faculty, and students embraced the guest lectures I provided in the school.

What was the situation in the jeans industry in Novi Pazar upon your arrival, what was the quality of denim, in what condition were the factories?

In 2013, the factories were facing challenges to grow their sales and expand their market. They were also facing three important environmental concerns: 1) The factories faced serious seasonal water shortages; this was critical due to the large amounts of water required during normal jeans washing and distressing but also for the health and well-being of their community. 2) The companies also had inadequate effluent (wastewater) treatment equipment for the chemical processes they were using to bleach the jeans. 3) Some factories were also using firewood to fuel boilers for the washing processes. These three issues were taking a toll on the environment, and were impeding the compa-

nies' ability to sell to more environmentally-conscious European denim brands and retailers.

Overall the condition in the factories was good. Compared to clothing factories worldwide, the Novi Pazar factories with which I worked were generally clean, and generally had average to good safety practices. The owners welcomed suggestions for improvements. Following my recommendations, one of the factories invested in some new equipment to better safeguard the workers during certain finishing operations. Overall I was pleased with the conditions I observed in the factories with which I worked.

How do you assess cooperation with local producers whether they accept the expert assistance and advice?

It was both enjoyable and productive working with the jeans cluster in Novi Pazar. The factory owners with whom I worked opened their factories to me; they welcomed my expertise and recommendations, including the recommendations to adopt ozone technology to bleach jeans with substantially reduced use of water, chemicals, and energy. They have embraced the new ozone technology and have eagerly been experimenting with using the technology to achieve the looks that are fashionable in the market today. Use of this new technology to replace earlier chemical bleaching will provide significant tangible benefits to the factories, the consumers, and to the community as a whole.

Are the jeans manufacturers of Novi Pazar ready for the world market?

Yes, on a moderate scale. Their individual and combined production capacity (number of pairs of jeans they can produce in a given



IN
2014,
THE NOVI PAZAR
FACTORIES REPORTED
WATER USE AS ONE OF THEIR
BIGGEST CONCERNS. REPLACING
TRADITIONAL CHEMICAL BLEACHING
WITH OZONE BLEACHING CUTS
WATER USE IN HALF, REDUCES
CHEMICAL USE BY MORE THAN 50%,
REDUCES THE USE OF PUMICE
STONES BY MORE THAN 60%,
AND CUTS ENERGY USE
IN HALF

period of time) is still more limited than most large global brands require. However, they have reasonable quality and are capable of supplying small European brands directly and subcontracting for larger European and global brands. To be successful at this, however, it will be critical that the factories continually improve and maintain their quality (and consistency of quality), and that they increase their ability to provide the communications and customer service that European and global brands demand. With the new ozone technology USAID and the Project provided, the Novi Pazar factories have a competitive advantage over most other jeans factories around the world. Increasingly European and global jeans brands and retailers are promoting garments that have reduced environmental impact (low chemical, low water jeans); only about 5 percent of the jeans factories worldwide have converted their bleaching equipment yet to ozone technology, so adoption of this technology by the Novi Pazar factories brings an important advantage over their competitors.

How does the modern technology, such as treatment with ozone contributes to environmental protection?

Traditional stonewashing and chemical bleaching of jeans requires vast quantities of water and chemicals. Levi Strauss estimates that standard manufacturing uses 42 liters of water per pair of jeans. In 2014, the Novi Pazar factories reported water use as one of their biggest concerns. Replacing traditional chemical bleaching with ozone bleaching cuts water use in half, reduces chemical use by more than 50%, reduces the use of pumice stones by more than 60%, and cuts energy use in half. Afterwards, ozone gas breaks down into ordinary oxygen. When used, this technology brings very substantial reductions in environmental impact.

After completion of the Project, which long-term effects do you expect in the production and sale of Novi Pazar jeans?

Long-term impact will depend upon the individual factory owners' ongoing commitment to use the ozone technology to its fullest capabilities (and investing in additional ozone equipment as they increase use of the equipment), to continually improve the quality (and consistency of that quality) of their production, and to improve their ability and reliability of communications and customer service. I do believe the factories and the school would benefit from additional assistance to reinforce the improvements they have made and to help them continue to grow their market access but I consider the results of the Project in the jeans sector an important success.

○ — WORK IN PROGRESS

● **Jordan Saliman,**
Shoe Sector Expert

The family dynamics have to be dealt with as an issue as well. Father, son, daughters, brothers have different points of views on how to accept and follow through on agreed priorities and goals

With how many domestic shoe manufacturers did you cooperate with, and how do you assess the results of the Sustainable Local Development Project in the footwear industry?

Domestic Manufacturers cooperated with.

NOVI PAZAR	VRANJE
C. line (Factory)	Minex (Factory)
EuroScarpa (Factory)	Stuff (Factory)
Bosa (Factory)	Roberto (Factory)
Florida (Factory)	Lotos (Factory)
4BR Tref (Factory)	Hiv (Outsole Factory)
Antilop (Factory)	Mladenovic (Factory)
Europa (Tannery)	Sanch (Factory)
	Matid (Factory)

The Sustainable Local Development Project was received extremely well by all factories.

What were the biggest problems that you observed in this sector?

Each factory has its own strengths and weakness. We as a team instructed, trained and encouraged them with a hands on approach to absorb and understand what it takes to change the paradigm (the mind set) to participate in the Global Export Footwear Community. Several of the factories speak "Global but think Local." This was our opportunity and challenge to teach them to fully understand and to have them get into a "Mental Helicopter and get a Global Perspective." Look at the Industry from a Global point of view. They should not expect to develop the same

local product and have it be acceptable to the potential export client.

In the Export Footwear Market the competition is extremely competitive and the Factories have been instructed to understand that as a country or as a company/brand they have to have (USF) Unique Selling Features in all product. Quality, fashion design, technology, value and quickness to the market and to the consumer, were constantly encouraged through all visits.

Three critical points in the Fashion Footwear Business are the following:

The Eye: The Hand and The Feel. The product has to look good to the eye;

The product has to feel good in the hand: The product has to feel good on the foot. If you receive an A Score on all three....you have a satisfied customer.

With the Project support, the key factories attended major footwear shows at GDS Dusseldorf Germany where they were able to see first hand that the above noted points are pertinent to the development of companies and brands to be competitive in Serbia and around the world.

The high school from Novi Pazar sent students and an instructor to GDS with the factories so the students can view and understand the footwear sector....First Hand! Upon the return they presented their reports and all shared the positive experience.

YES Serbia can compete with continued teaching and training...

Are local producers willing to cooperate, do they accept the expert assistance and advice?

All factories embraced the strategy... some more than others. But all factories were willing to cooperate. ALL Factories appreciated and respected USAID and the Management of our program.

There is a challenge for factories to work together as a Cluster....and share of information/collaboration. The entrepreneur



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**THREE CRITICAL POINTS IN THE FASHION FOOTWEAR BUSINESS ARE THE FOLLOWING:
THE EYE: THE HAND AND THE FEEL. THE PRODUCT HAS TO LOOK GOOD TO THE EYE;
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spirit is not so inclined to accept this concept....they choose to hold the cards close to their chest. What needed to be understood is that all of these factories are family owned and managed. Therefore the family dynamics have to be dealt with as an issue on each visit. Father, son, daughters, brothers have different points of views on how to accept and follow through on agreed priorities and goals. These are normal issues and being a family moderator and fa-

clitator is an effective way to learn more about the companies and the family participants. Naturally the fathers or brothers of the businesses have to let go, and let the younger generation plane for the future.

How do you evaluate the organization of production, does it meet appropriate business standards?

This is a work in progress. Timely production, organization of quality control and effectiveness are all issues that are dealt with daily. Some of the same organization and production systems are in place for years, but (step by step) several are updating equipment, going to Bologna Italy for Footwear machinery and technology shows. These are all part of moving the process.

Several factories in Vranje and Novi Pazar are working closer with the High School and Technical Facilities to bring in students on apprenticeships to learn the fashion and footwear industries.

Significant Progress has been established in moving along design and development with several factories since the experiences gained at the International Shows attended.

Working closer with Turkish and Italian designer, tanneries and component companies has meant more-timely product in season.

Have any of the footwear producers established cooperation with the international companies, and do they have the production capacity to cooperate with the large companies?

Yes, several of the companies in Novi Pazar have received small orders from EU countries and Russia. They are also working on samples for retailers in Germany and Scandinavia. In Vranje Stefi Company is in the final development stage of sampling for a major company in the UK with tentative production to be started end of August.

A year and a half ago the German Chamber of Footwear Manufacturing mentioned at its Board Meeting at GDS that Serbia was a country to consider for Shoe Production. It represented a closer timeline to the EU Countries vs China and it was relatively competitive in value.

What effects do you expect from the support of this industry for the local economy?

With the introduction of new production, it is estimated that Stefi would add additional 40-60 workers. If this deal goes through as planned, we expect that other footwear companies in Vranje would also benefit, through joint cooperation in large orders.

○ — LONG LIST OF IMPROVEMENTS NEEDED

● **Jeff Baron,**
International Furniture
Sector Expert

This industry needs a benefactor. It needs a home in the government within one of the Ministries. It needs to be identified as a strategic industry to be supported and grown without exception or excuse. We need legislative support, allocation of sufficient raw materials, help with marketing, schools must train the qualified workers we need

How many furniture manufacturers in Serbia were supported by USAID Project and what are the results in this area?

During the nearly three years that the Project worked in the sector, several dozen Serbian producers were assisted out of nearly one hundred we met. The activities included:

- Subsidizing a visit to Europe's largest furniture trade event in Cologne, Germany where the participants attended specialized training, and had one-on-one meetings with major manufacturers and buyers.
- Meetings in Serbia with major international buyers and manufacturers considering sourcing and/or Foreign Direct Investments in Serbia.
- Introductions to other Serbian producers in order to stimulate outsourcing and specialization.
- Presentation of several companies to the buying staff of IKEA to initiate business cooperation.
- Mentored and advised manufacturers on improving manufacturing efficiency, preparing for exporting and participation in trade shows, product development and design, costing calculations, sales and marketing organization, customer service and relations, retail store operations, material selection and sourcing, etc.
- Conducted training and informational seminars.
- Advised the Belgrade Fair on why and how to add a Business to Business element to the annual Furniture Fair.
- The Project supported the development of "The National Action Plan for Supporting Export of High Value-Added Products of the Serbian Wood Industry". The Plan, supported by USAID and EU Progres program presents the steps necessary to take advantage of the existing market opportunity.

Of course, it is difficult to measure the results in numbers. We see an obvious development of the companies we assisted, which are expanding their sales, becoming more efficient and competitive.

The Serbian furniture industry is in a difficult situation, what are the biggest problems that the manufacturers are faced with?

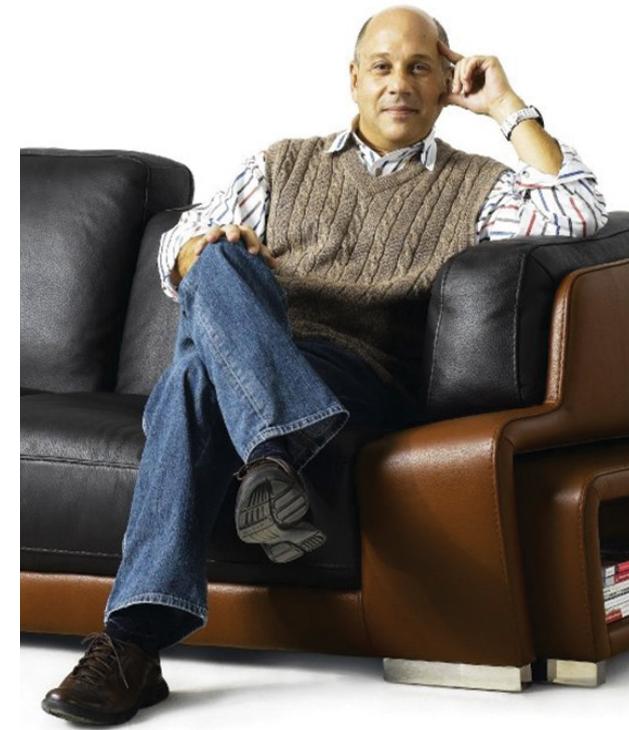
Actually, Serbia's furniture industry is the country's third largest manufacturing employer with over 8% of the Serbia's manufacturing employees, makes a significant contribution to GDP, contributes more than €80 million annually in VAT and is one of the few sectors where Serbia exports more than it imports.

Unfortunately, in many cases, we have allowed our factories to atrophy and lose efficiency, lost contact with the foreign buyers and markets and watched our skilled workforce leave or take jobs in other sectors. Meanwhile, Serbia burns a huge part of the valuable forested wood for heating and exports another huge part to countries that use Serbia's natural resources to build the final products, while creating jobs for their own workers.

One of the greatest challenges the sector faces is from outside the country. Serbia has recently been "discovered" by foreign retailers who are working towards opening stores here. To the extent that those foreign retailers open stores in Serbia and DO NOT source in Serbia, they will be taking market share from the local producers' own stores. The options are either to improve the locally-owned shops in order to compete with the foreign giants (this will be difficult), increase exports to compensate for the lost domestic sales, or "join them" - become suppliers to those foreign retailers. The challenges facing Serbian producers will intensify even more in the coming years.

What measures have you proposed to improve the production of wooden furniture in this industry?

Serbian producers should work together to improve efficiency. Right now, companies often buy the same, expensive, specialized equipment and only use it for several hours a week. Rather than



seeing other domestic companies only as competitors, Serbian firms should begin to collaborate when there is a "common good". Producers need to target specific foreign markets. They need to begin to travel, visit foreign stores, understand the markets and build products adapted for those markets. There are different tastes, styles, sizes, colors, qualities and proportions demanded outside Serbia's borders.

Improve management capability. There is a long list of improvements needed when it comes to people managing the companies, including knowledge of foreign languages, communication, negotiation, fiscal management, marketing, merchandising and product development, inventory control, HR, raw material sourcing, production flow, factory organization and safety, quality control, technical knowhow, knowledge of foreign markets, etc. Participate in the November Belgrade Furniture Fair AND fairs in their target markets. As mentioned, the needs of foreign buyers are vastly different and should be analyzed and ready to adapt to them.

Can the local furniture manufacturers compete in the world market and in what way should they improve production in order to be competitive?

There are actually a good number of Serbian producers that enjoy significant export. Most of these are highly specialized. The

best of the factories I visited in Serbia is not only Serbia's best, it is world-class and would be a jewel anywhere in the world. I believe in specialization, efficiency and being the best at something. The right approach is the one from one of the producers I've met, who said "I have a limited supply of Beech wood so my sole aim is to process it in such a way to be able to sell each cubic meter for the highest possible price.

On the other hand, so many times I have met owners driving the latest BMW but without enough cash to purchase raw materials or provide safe and efficient conditions for workers.

How do you assess the potential that Serbia has to develop furniture made of wood?

As you likely know, China became "the world's furniture factory" over the past decade or two. Over time, the elements that allowed China to conquer the world's business have evaporated. Their workers now earn more than the average Serbian factory employee, the currency exchange has shifted so that the buyers buying with Euros want to be buying in Europe. This business has become so unpredictable that retailers need suppliers closer to their shops, not on the other side of the world. European buyers need European suppliers. We need to prepare our companies and then let the buyers know our capabilities.

What do you suggest that the government needs to do to help the development of furniture industry in Serbia?

The national focus on this industry, which existed during the former Yugoslavia, is gone. Today, we don't support the wood sector, we allocate the precious raw material without regard for how it can benefit the Serbian society, we do not train students for the jobs needed by the industry. Our furniture industry is sustainable because it is founded on an advantage we have that others don't... we have the wood! Last year, each cubic meter of wood that was harvested, processed and exported eventually had an average value of US\$275, which is 2.5 times less than, for example, Croatia, because they managed to process their wood into finished products that commanded prices higher than ours.

To give another example, in 2015, 145,000 cubic meters of mostly Beech was exported from Serbia with a total value of €45.3 million. Had that wood been processed in Serbia and then exported as, for example, finished dining chairs, the value would have been closer to €265 million (nearly 6 times higher) and 5,000 new jobs would have been created in Serbia.

This industry needs a benefactor. It needs a home in the government within one of the Ministries. It needs to be identified as a strategic industry to be supported and grown without exception or excuse. We need legislative support, allocation of sufficient raw materials, help with marketing, schools must train the QUALIFIED workers we need etc.

LOCAL PRODUCERS UNDER A JOINT BRAND



● **Snežana Milisavljević,**
General Manager
of Zlatibor Regional
Development Agency

More than 25 producers, 15 tourism establishments and five local tourism organizations are involved in developing the concept called Mountain Breakfast. Our goal is to bring local producers together and promote the gastronomic brand

During 2015, USAID Sustainable Local Development Project supported Zlatibor Regional Development Agency in developing a regional gastronomic brand called Mountain Breakfast within the framework of the Project. How many local food producers were included?

The region covering a part of the Western Serbia, bordered by the municipalities of Užice, Čajetina, Nova Varoš, Prijepolje, and Priboj, with Zlatibor as a tourism center, is undoubtedly the most visited destination in Serbia out of city bounds. In 2014, the tourist region of Western Serbia registered 654,463 overnight stays and 172,004 arrivals, of which 17.5 percent are foreign tourists. Gastronomy imposed itself as a distinctive element of the tourist offer. Although there are small authentic producers who offer quality, the problem is they do not have continuity in production, or guaranteed quantity of products to be included in the food industry sector. Additional limitation is the lack of production in accordance with applicable legislation through a registered household and sanitary acceptable technology. We felt that the best way to introduce local products into tourism offer was through authentic Mountain Breakfast containing ingredients from the territory (Zlatibor, Užice, Priboj, Prijepolje and Zlatar specialties). Our goal was to bring together local produce around a seal of quality assurance - Mountain Breakfast - and make a menu that would generate interest both with local and foreign guests. More than 25 producers, 15 tourist establishments and five local tourism organizations are involved in the process of developing the concept of Mountain Breakfast.

What are the results so far and have you achieved the goal?

The Institute for the Protection of Intellectual Property has registered the trademark of quality assurance - Mountain Breakfast - Zlatibor, Zlatar, Tara. Tourism-catering facilities of high standards and reputation have Mountain Breakfast on offer. Local manufacturers thus get a channel for promotion in hotels and restaurants in a simple manner at a lower cost, reaching the target group, the tourists. We supported the opening of a specialized shop with local products on Zlatar. The concept has been promoted at national and international fairs (tourism fairs in Belgrade, Moscow), Slow Food fairs in Stuttgart and Tirana, EXPO in Milan, as well as at other tourism events in the country and the region. Zlatibor Regional Development Agency has been awarded by the National Tourism Organization of Serbia for the concept of Mountain Breakfast as raising the quality of tourism services.

What do you plan to do in future to promote the regional brand?

Zlatibor Regional Development Agency has established a strategic partnership with Slow Food movement, globally promoting the concept of production and distribution of primarily small food producers who prepare smaller quantities, taking the traditional approach in production. We plan to have our producers at Salone Del Gusto world exhibition at the end of September in Turin. We are working to have the holders of quality assur-



ance trademark Mountain Breakfast on the shelves of specialty shops that sell high-quality and traditionally prepared food.

What are the biggest problems of local food producers?

For manufacturers with whom we cooperated during the project, the key problem is marketing inactivity. They have a good quality product, but due to lack of finances for promotion, lack of visual identity and appearance under specific brand, they do not have good sales and position in the tourism market. We still do not have legal framework that would facilitate the distribution of products from farms to the broader market of Serbia.

How many small and medium-sized enterprises are there in your area and which are the most common activities?

In our region, currently there are about 2,800 companies and more than 10,000 entrepreneurial shops. The main activities

in the economic structure of the region of Užice are manufacturing, agriculture, forestry, construction, trade, and transport.

How satisfied are you with the results of the cooperation with the team in the context of Sustainable Local Development Project?

Great openness and support of the team of Sustainable Local Development Project contributed to sustainable results and activities which continue after project completion.

In the first phase of the project an analysis of supply and demand of local products in the tourism sector was done with representatives of manufacturers on one side and tourists and HoReCa sector on the other. Bearing in mind the proposed measures and Action Plan for the next four years, the second phase of the project envisaged the implementation of activities on the branding of local products and specialty cuisine. However, promotion is a key link for the success on the market. In cooperation with secondary tourism school in Čajetina, first orientation workshops were held which identified: local products, current practice and the potential for their development. The starting points for the topics that were discussed were local products and their availability, old recipes, existing menus with local dishes. The Project enabled the design and printing of menus in which we presented the breakfast as characteristic for each of the municipalities.

What are the ongoing programs designed to help entrepreneurs?

Within the framework of the state program called Entrepreneurship Year, more than 25 programs of support to further development of small and medium-sized enterprises are under way. Also current is the program of internationalization, mentoring and all lines of credit are open at the Development Fund of the Republic of Serbia. Ministry of Economy is implementing a program for the purchase of equipment and special care is taken of the associations, clusters and cooperatives that can apply for funding through various programs. Zlatibor Regional Development Agency organizes free training and training for starting a business, and in 2016 already 50 participants successfully completed the training. We expect continued support to entrepreneurs who have started their own business. It has been shown that the first three years are crucial for their survival, so we hope that the necessary support of relevant institutions will be present in the coming years too. It is important to mention that RDA Zlatibor is in cooperation with USAID, Serbian Development Agency (RAS) and three regional agencies in Kraljevo, Leskovac and Novi Pazar, on the Project of Support to the Development of Private Sector in the South and Southwest Serbia for development of small and medium-sized enterprises and entrepreneurship, increase of sales, exports and job creation.

○ — WE WANT QUALITY AT EUROPEAN STANDARDS

● **Esad Hodžić,**
General Manager of
the Regional Centre
for Development of
Agriculture in Sjenica

The territory covered by the Regional Centre covers about 10,000 registered farms and 72 registered processors of milk and meat. The laboratory has the latest devices and equipment for quality control of milk and dairy products, meat and meat products according to the requirements and standards of the European Union

When was the Regional Centre for Agricultural Development established and what is your role in the agricultural development of the Sandzak area?

In 2011, Sjenica Municipal Assembly established the Regional Centre for Agriculture and Rural Development. Two years later, the Regional Centre was joined by the City Assembly of Novi Pazar and Tutin Municipal Assembly.

The main activity of the Centre is research and development of agriculture, as well as providing advisory and technical support to farms, agricultural associations and clusters. Our vision is to become a recognized leader and trusted partner to primary producers and processors with the role of coordinator and promoter of the Sandzak region. All this in the production of high quality food with sustainable business by providing services. Our goal is to improve food security and create competitive agricultural enterprises by dissemination of knowledge on improved agricultural technology. It is important to point out that we want to improve the ability of manufacturers to produce high quality and safe products fit for consumption and to provide market-competitive laboratory and professional services to surpass expectations in terms of quality and cost-effectiveness. We are also working on the expansion and diversification of agro-food industry in the area of Sandzak and encouraging farmers to develop their farms in order to create commercially viable business.

Do you have institutional support?

International institutions and agencies have given generous contribution in the construction of the building and provision of equipment for the Center, such as European Progress, Czech Development Agency, Office for Sustainable Development of Underdeveloped Areas, USAID and the Sandzak Development Agency (SEDA). Therefore, the overall objective of the Regional Center is to help agricultural producers and agricultural companies to produce quality products which are fit for consumption. We are

very satisfied with the cooperation with USAID in the framework of the Sustainable Local Development Project, primarily because they provided to employees of the Center the necessary ISO standards, consultant for ISO 17025: 2006, and enabled calibration of laboratory equipment. USAID has recognized the potential for the development of agriculture in the Pester area and contributed to the development of livestock farming and we are thankful for that. These projects are important because they raise awareness, provide information and help societal development. Compared to the beginning of the work of the Center, in 2011, we have made significant progress, and I believe that we are on the right track towards achieving the European standards, which will contribute to the development of the region.

How many farmers use the Center services and what services do you provide?

The territory covered by the Regional Centre covers about 10,000 registered farms and 72 registered processors of milk and meat. To date, we have established cooperation with nine dairies and their subcontractors, and producers. Milk processors in our laboratories test quality of milk coming from the producers and it is especially important to them whether this milk contains added water or an increased number of somatic cells, which directly affects the quality of the product. On the other hand, milk producers find protein content essential, which indicates the quality and proper nutrition of cows, especially in winter.

What analyses of food quality can be done in your laboratory?

The laboratory has the latest devices and equipment for quality control of milk and dairy products, meat and meat products according to the requirements and standards of the European Union. The laboratory implements fast, standard, and reference methods. Fast method is done using a Bentley device, which analyzes



●

THE BIGGEST PROBLEM FOR FARMERS IN SANDZAK IS THE DISTANCE OF MARKETS, POOR INFRASTRUCTURE IN RURAL AREAS AND LACK OF INFORMATION. CURRENTLY, THE PROBLEM IS THE LOW PURCHASE PRICE OF MILK ON THE MARKET.

●

150 milk samples per hour. At the same time, it determines six parameters of milk chemistry, such as fat, protein, lactose, dry matter, freezing of milk and somatic cell count. Reference methods serve to prove the correctness and validity of our results.

A few years ago we had an issue in Serbia of aflatoxin in milk. Did that cause stricter control of the quality of milk in your region?

Bearing in mind the diet of cattle in our area, there was no occurrence of aflatoxin in milk. Cattle feed includes pastures, hay, and

silage from grass, and because of this and because of the altitude, we do not expect appearance of aflatoxin in milk.

Are some standards in terms of quality of milk and meat in Serbia subpar compared to the EU standards?

The country is in line with the European standards, as well as producers and processors of milk and meat from Serbia.

Do you expect better placement of food from your region in the coming period?

By obtaining accreditation by the Accreditation Body of Serbia, we will be able to officially confirm the quality of products from this region, which is the basic condition for better placement of products on the local and foreign markets. The protection of geographical indications is the first step in placement in the category of delicacies. Sjenica products, Sjenica cheese, sheep cheese and lamb are trade mark with protected geographical indications while Sujuk and Stelja (dry sheep meat) are in the process of protection of geographical indications. We use laboratory analyses to confirm the quality of these delicacies.

How can local producers become competitive in foreign markets?

The best way for the local producers and processors to survive in a competitive market is the maintenance of quality and certification of products.

What are the biggest problems farmers face in your area?

The biggest problem is the distance from markets, poor infrastructure in rural areas (road, water, electricity) and the lack of information. Currently, the problem is the low purchase price of milk on the market. Also, the inability of manufacturers to produce cheese in packages of less than five kg which is in accordance with the requirements and market trends. In addition, the processors generally have limited capacity and not enough technical equipment and therefore they have a small number of products. Marketing of our products is quite extensive so special attention should be paid to the promotion and development of promotion and marketing.

Does the state have sufficient capacity to help farmers?

Despite the good intentions, the state does not have sufficient capacity to provide assistance to agricultural producers. The agricultural budget has been stagnating, and the problems of our producers are increasing from one year to the next.

○ — NEW EQUIPMENT FOR TESTING OF PESTICIDE RESIDUES

● **Laura Oblaković Hadžić,**
Technology Engineer, Sanitary
Chemistry Specialist, the Institute of
Public Health, Subotica

Thanks to the support of the Sustainable Local Development Project, we have new modern equipment at the Laboratory for qualitative and quantitative determination of residues of several hundred kinds of pesticides in food

Within the framework of the Sustainable Local Development Project, the Institute of Public Health in Subotica received new equipment for the Laboratory. What kind of tests do you do at the Laboratory?

The founder of the Institute of Public Health of Subotica is the Government of the Autonomous Province of Vojvodina. In the framework of the Sustainable Local Development Project, funded by USAID, from 2013 to 2016, the Laboratory for Chromatographic Testing received new modern equipment, gas chromatograph with mass spectrometer. This configuration of equipment enables qualitative and quantitative determination of the residue of hundreds of types of pesticides, with computer processing of test results and the formation of the permanent record. Equipment and supplies and materials for the preparation of samples for gas-mass determinations were delivered in 2014. The engineers at the laboratory worked on the process of verification and expanding the scope of accreditation for the standard method for testing for pesticide residues in food of plant origin. In June 2015, the method was accredited by the National Accreditation Body of Serbia (ATS) for the quantitative determination of residues of 43 different pesticides in food of plant origin.

How do you assess the quality of agricultural products based on samples tested at the laboratory, taking into account the different types of pesticides used by manufacturers?

In the period from May 2015 to June 2016, that is in the period of provision of accredited services to customers at the

laboratory, we detected no presence of pesticide residue in the products from organic production. This means that the quality is adequate in terms of tests for residues of plant protection products. In conventional products from primary agricultural production, pesticide residues were detected in some products, especially in the samples from greenhouses. The obtained test results were within the limits of maximum permissible concentration for this type of product. This means that the quality is adequate in terms of testing the residue of pesticides and it complies with existing regulations.

Are some standards missing in terms of quality of fruits, vegetables and grains in Serbia compared to the EU standards?

The Rules on the Maximum Allowable Residues of Pesticides in Food and Feed is the applicable legislation in the field of pesticide residue testing, and it is applicable as of 21 March 2014. The requirements in the Rules are in line with the Regulation of the European Parliament and the Council of Europe. The introduction of standard test methods for pesticide residues at the Laboratory has enabled quantitative determination of a large number of different groups of pesticides in raw materials and processed foods of plant origin. In the previous period, the existing equipment at the Laboratory carried out quantitative testing of residues of organochlorine pesticides only. The donated equipment expanded the scope of quantitative tests and the Laboratory expanded the list of services to existing and potential customers to include better, more accurate and reliable test results.



Why are these projects important and how satisfied are you with the results?

The objective of the Laboratory is to continue to expand the scope of testing, i.e. the type and number of pesticide residues in food of plant origin, and to extend the scope of tests on samples of the second type, i.e. food of animal origin, and samples from the environment. The donated equipment offers the possibility of screening residues of pesticides in the analyzed samples, which is especially important for testing samples from organic production. Also, the equipment represents a modern analytical technique for testing pesticide residues in food, feed and environmental samples. The modern techniques provide an opportunity to examine samples adequately in line with the demands of users, as well as to achieve increasingly stringent limits of detection and quantification in the field of tests for pesticide residues. The assistance to the Laboratory provided through the activities of USAID in the framework of the Sustainable Local Development Project is very important because it contributed to the Laboratory upgrade by modern analytical equipment and consequently, enabled us to respond in an adequate manner to the requirements of service users in terms of testing techniques for pesticide residues. In addition, following modern trends in analysis of food and environmental samples, the Laboratory can follow the increasingly stringent requirements of the legislation. It can also provide adequate information on the quality of agricultural raw materials and finished products in terms of pesticide residue content and health security.

THE
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BETTER, MORE ACCURATE
AND RELIABLE TEST
RESULTS

— HIGH TECHNOLOGIES OFFER MANY OPPORTUNITIES

● **Goran Mladenović,**
Manager, Niš Cluster of
advanced technologies

Today, more than ever before, young people can do great things in life. Knowledge is accessible and communication made easier through the Internet. Success depends only on willingness of an individual

What are your activities on the development of new technologies?

IT sector and advanced technologies enable young people to stay in their town, be constantly in touch with the world, work in great and creative jobs, make good money and through their successes contribute to the development of their community. Sustainable Local Development Project recognized this by both directly and indirectly supporting the activities planned by the Niš cluster of advanced technologies. The activities are: informal education in IT, convergence of science and economy as well as better positioning of Niš on the world IT map. From the Chief of Party of the Project to colleagues at the operational and administrative levels, everyone involved exhibited a sense of partnership and sincere desire to understand the problem and to find high quality solutions.

What is the aim of the ICT Cluster Academy which was established in April 2014?

The establishing of the first ICT Cluster Academy was an important impulse in lobbying and promoting what high-tech can give to Serbia. The Academy aims to bridge the gap between education and the real needs of the economy and thus help young people enter a world that offers great opportunities. The message of the Academy - Your Career is in Your Hands - in the best way reflects the purpose of our education. The interest was great, more than 120 candidates applied for the Academy. The work was very intense, five months of training and three months of practice. Finally, of the 22 candidates, 18 received job offers, and 16 of them got hired before the end of the program. Cluster Academy was supported by the following institutions: Faculty of Electronic Engineering, Post Secondary Technical School and

the National Employment Service, and the cluster is in the action plan of the City of Niš 2020. What made the Academy a success is the fact that the whole curriculum was designed around the needs of companies, and they actively participated in all stages, which was crucial.

What does the training look like?

High-tech industry is advancing and changing rapidly, and in order to survive in the market, companies have to follow the latest trends. We trained two profiles, software developer and embedded specialist, because research has shown that these were two of the most sought for profiles in companies of the cluster. It should be noted that in Niš, of 170 high-tech companies, about 100 work in IT sector and 70 in the areas of optoelectronics, electro-medicine, advanced engineering and automation, which makes the second profile particularly interesting. Due to the rigorous selection process that included technical analysis of candidates, the obligation to attend lectures, three months practice in companies, participants were highly motivated and engaged from the very beginning at the Academy.

IT sector is a big chance for Niš and Serbia and it is often said that IT professionals leave creating a shortage of skilled staff. What would you change in our education system?

City of Niš with more than 170 companies in the field of high technologies is becoming a respectable center. It is important to emphasize that in Niš there are world-renowned companies in the field of optoelectronics, electro-medicine, automation and electronics and advanced mechanical engineering as well as many successful IT companies. The first Forum of Advanced



Technologies was held in 2015 and it brought together more than 60 exhibitors and had more than 7,000 visitors. What is most important is that there is synergy and shared vision for Niš. To accomplish this goal, it is necessary to have more retraining and additional training, more intense cooperation and communication with educational institutions, training in entrepreneurship and promotion of good practices. Numerous medals from the world mathematics and coding Olympics have shown that there is potential, and we know the models. It is necessary for our country to recognize what others have already done, and benefit from it. Coding and subjects that are related to it have to be studied from as early as primary school, and they must be integrated into curricula in secondary schools. Universities need to form partnerships with industry. The point is to motivate brilliant minds and give them a chance to build successful businesses from Serbia. There are already enough examples of success, some of the companies in the cluster are the best in the world in the areas in which they operate.

What is the role of high technologies in economy?

IT is the leverage and the most dynamic part of modern economy. It is important that people understand that high technology should improve people's lives. When we speak of new compa-

nies in high technology we actually speak about new jobs for economists, designers, people from other fields whose needs are met only by a software solution. Serbian IT clusters are an example of excellent cooperation and synergy effect. Open for cooperation, we can comprehensively build sustainable solutions for local and regional economy, and our industry needs to have multiple roles.

Are young people interested in starting a business in the IT sector?

Today, more than ever before, young people can do great things in life. Knowledge is available and communication made easier through the Internet. Success depends only on willingness of an individual. It is important to change the awareness of young people. We are trying to raise awareness about the possibilities, organizing a number of conferences and inspiring lectures. The most important mission of my generation is to give a good enough reason to the best young people to build a career here and live a successful and fulfilling life. The support of Sustainable Local Development Project was very important to us, and we are confident that in partnership with USAID and the US Embassy we will soon be able to implement new pioneering projects that will have a significant effect on the development of Serbia.

○ — IT TRAINING FOR FASTER EMPLOYMENT

● **Milan Šolaja,**
CEO, ICT Cluster, Novi Sad

ICT Cluster Academy was launched in response to the growing demand for human resources in the IT sector. The Academy would not have happened were it not for the USAID Sustainable Local Development Project recognizing the potential and possibilities.

How do you assess the cooperation in the framework of Sustainable Local Development Project?

Vojvodina ICT cluster in a short time since its founding in 2010 got involved in a large number of projects in collaboration with numerous national and international organizations. Cooperation with USAID and the Sustainable Local Development Project stands out and is characterized by direct contact of the people from the Project with us as a client, excellent communication and task orientation. There was no down time which, unlike it is unfortunately often the case in cooperation with other organizations. This has greatly contributed to the efficiency and performance of the activities and the overall success of the joint project.

What do you want to achieve, what is the aim of the cluster?

In the project, the Cluster primarily intended to demonstrate the concept of education, which includes intense cooperation with companies and managed to train young professionals with whom the companies can actually work with. The ICT Cluster Academy was launched in response to the growing demand for human resources in the IT sector, in order to offer alternative ways to mitigate this problem. Academy curriculum was divided into four areas (databases, Java, Web programming and C #). Using the experience of this project, we subsequently improved the curriculum in accordance with the lessons learned through alignment with companies. So today we have a prepared concept for new generations. I must point out that the project of the ICT Cluster Academy would not have happened were it not for the USAID Sustainable Local Development Project recognizing the potential and possibilities. This collaboration enabled us to

draw attention to the possible directions of development of IT in education and set a precedent that is now very much present in the discussions on this subject in Serbia.

How many young people attended training and how many got employed after the training?

Most importantly, we have proved that the concept of informal education in the IT sector produces results. Over 40 people were trained, most of whom (over 70 percent) got employed during the project. This also confirmed our prediction that it will be key to success to have the inclusion of companies in the project as they opened the door to interns in real business conditions, which was of great value in skills acquisition of the participants. Finally, we have shown that the costs of the project are much smaller than the amount of revenues that are generated in the state budget through taxes and contributions on salaries of employees. However, we were unable to convince state authorities to finance the next generation. At the end of June 2016, we received an announcement from the Ministry of Education that there might be some news, but for now we are still awaiting an invitation for a meeting.

What skills can young people acquire at the Academy?

Training program (for future generations of students) will be based 60 percent on Java programming language, while the rest will be distributed to the areas that will give participants a good starting point for further improvement through work. Three weeks internship is mandatory, full-time, and one can do it over a period of three months. It all depends on the agreement with the companies, because companies have different approach to organizing internship. Participants will be introduced to hands on



work at the companies even during the theoretical training, and internship will be organized only for the participants who qualify by demonstrating a standard of knowledge.

In Vojvodina, in recent years, entrepreneurs in the field of information technology have achieved success in the IT market. How many companies are gathered in the cluster?

In the cluster there are currently thirty companies that employ more than 3,000 professionals, and Novi Sad has taken a leading position in the IT industry in Serbia. For further progress of the sector, which has developed nicely without any help from the state, it is necessary to have a strategic approach. The vision of our cluster, Digital Serbia, means the progress of information technologies in the function of society and the economy as a whole. Achievement of such a vision requires work on several tracks simultaneously, education, tax policy, incentives to entrepreneurship, promotion of exports. Vojvodina ICT cluster has prepared a document with proposals for courses of action. True to our mission that only connecting all participants in a triple helix of business-education-state administration makes it possible to achieve a result, we are still waiting for the state administration to properly respond to this initiative of ours. Vojvodina ICT Cluster stands firmly on the position that USAID is one of the best allies for achieving these objectives and we count on cooperation and support in the future.

This year was declared the year of entrepreneurship. How many young people who come to training are interested in launching their business? Are they interested in that?

Entrepreneurship is very present in the minds of young people and in general in Serbia, but this is at the same time a country which does not forgive success, let alone failure. There are many obstacles on the road to developed eco-system that supports entrepreneurship as we want it to. One of the first measures should be developing a culture of entrepreneurship, tirelessly explaining that it is not a shame to fall, but it is a shame to stay down. Of course, there is much more: access to capital, infrastructure support, incubators, co-working spaces, mentoring help, legal and other professional services. Young people who came to training in Cluster Academy were not set on entering the entrepreneurial word after completion, because our project is not designed to make them capable of such a thing, but to create employable young professionals. However, I believe that many of these people will become entrepreneurs, because armed with the basic knowledge and working in the industry in which the initial investment is relatively small, soon enough they will be able to advance and engage in entrepreneurial endeavors.

I BELIEVE
THAT MANY OF THE
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○ — FIGHT IN THE INTEREST OF ENTREPRENEURS

● **Filip Radojičić,**
President of the Association
of Young Entrepreneurs of
Serbia (AYES)

USAID has recognized the importance of youth entrepreneurship for the development of Serbia and helped establish our Association. This assistance later continued by providing support in organizing educational activities and donation for furnishing of our training facilities

How significant for young entrepreneurs in Serbia are support programs such as USAID Sustainable Local Development Project?

It is very important that there are programs which aim to support young people who have private businesses, to influence young people to stay in their country. Every young man who achieves success in private business motivates other young people to follow suit. Therefore, it is important to have as many programs as possible to have as many young people as possible go that way. Unfortunately, there are currently very few projects that are directly involved in supporting young entrepreneurs, and I hope that there will be more in the future. USAID and their Sustainable Local Economic Development Project recognized the importance of youth entrepreneurship development for Serbia and helped establish our Association. This assistance was later continued by providing support in organizing educational activities as well as the recent donation for the furnishing of training facilities.

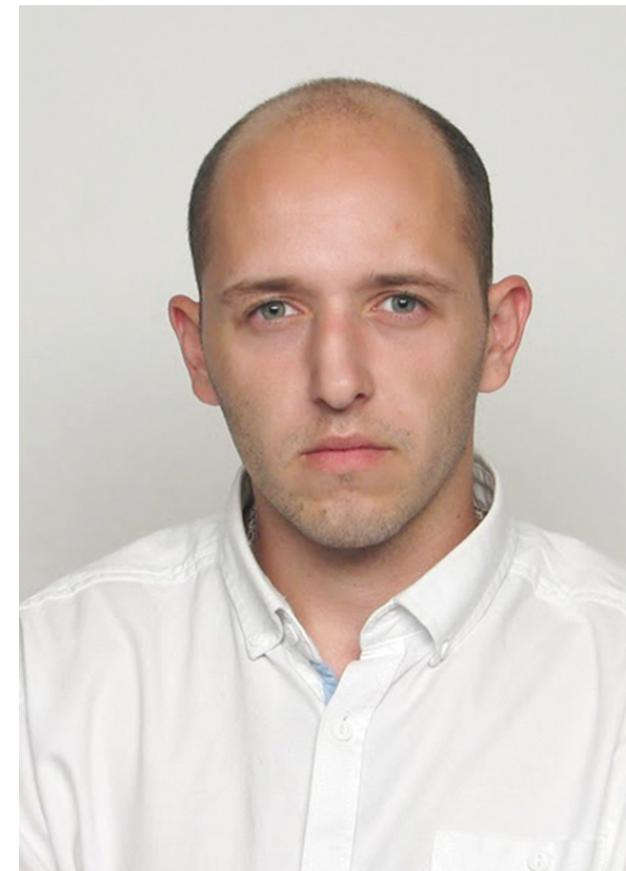
What problems do businesspeople from your Association bring up, is lack of funding the main problem?

Surely the biggest problem for young entrepreneurs is the lack of basic equipment for work, while those who have already developed the business lack funds for accelerated development.

In addition, there are other problems that young entrepreneurs face. First of all, I think the excessive tax burden on earnings, which is 65 per cent, followed by the lack of educational activities aimed at developing business, shortage of business incubators. Better communication with institutions that can solve certain problems that young entrepreneurs face is also necessary as well as long-term systemic support by institutions. I often hear that young man who is thinking about starting a business is advised by many people not to do so. We must create an environment in which the environment, friends and family would support young people to try to set up a company, otherwise we will continue to have a large number of young people who have given up on their ideas due to the negative impact of the environment.

This year was declared the year of entrepreneurship. How do you assess such state support?

I think that the project Year of Entrepreneurship is a good idea because it provides an opportunity for young entrepreneurs to start a business with the help of very favorable startup loan. There are a large number of young people who are interested to start a business and this is the right opportunity to do so. Such loans are a key support if we want to have more young entrepreneurs. I think the next step is to create a more favorable business environment in order to increase the number of young people who



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ONLY LASTS FOR ONE
YEAR

will effectively govern these businesses. If this is not done and if only financial support is provided, I am not sure about the future of such a project. Although I have a lot of praise for the program of support to beginners in the Year of Entrepreneurship, I do have some objections. One of the support programs is designed for exporters who have already achieved a high level of export. There is no possibility to access the benefits if you are a young person who has yet to export or place their products abroad in small quantities. This means that the objective of the program is the development of existing exporters rather than creating new ones. In addition, it is not known whether these programs will be available in the coming years. It is important that young people are encouraged to think about starting their business and we will not succeed if only one year is devoted to entrepreneurship.

How many business owners are members of the Association, how many members are there and what is the goal of the Association?

The Association has 24 permanent members and a base of around 100 young people who have their own businesses or are seriously considering becoming entrepreneurs and who are invited to educational activities and networking meetings that we organize. During the strategic planning after establishment, the Association has defined three main objectives: promotion of youth entrepreneurship, influencing the creation of a better business environment for the development of young entrepreneurs, and networking. The idea is to have as many young people closer to the idea of self-employment, to organize professional training programs which are currently missing, to be a platform through which the young entrepreneurs network and collaborate, and to fight in the interest of young entrepreneurs before the competent institutions.

Entrepreneurs have increasingly been engaged in the service industry in recent years. In what way can production be encouraged?

Starting a business in the service industry is a lot easier and requires less money. There are service activities that have the possibility to expand to foreign markets, such as services in the IT sector and design, but most service businesses do not have this possibility. I think it is better for young people to decide to start production, since they have the possibility to place their products in foreign markets at some point. Production is best encouraged through the program for purchase of equipment. Such programs currently exist and they cover 25 percent of the value of equipment. I think that young entrepreneurs should be a special category which is supported and the state's share should be 50 percent in incentives for the value of the equipment. For example, a young fruit processing entrepreneur in the EU receives support for new equipment even up to 70 percent of its value.

○ — INNOVATIONS FOR NEW PRODUCTS

● **Snežana Ćirić Kostić,**
Manager, 3D Impuls
Center for Rapid Product
Development, Faculty
of Mechanical and Civil
Engineering, Kraljevo

3D Impuls laboratory is the only one in Serbia capable for 3D printing that creates functional prototypes, products and tools from plastics, composites and metals. USAID has provided equipment for multimedia laboratory so that entrepreneurs from the region have a way to introduce and apply innovation in business and reduce production costs.

What services are offered by the Center for Rapid Product Development?

3D Impuls laboratory is a scientific research unit of the Faculty of Mechanical and Civil Engineering in Kraljevo (FMG), which deals with the application of digital technologies to develop new products. It has the most advanced equipment in this part of Europe, which works on the principle of selective laser sintering. It is one of a kind facility in Serbia which can do 3D printing that creates functional prototypes, products and tools from plastics, composites and metals. The laboratory was established in the framework of the project titled Innovation Management for New Products, known under the acronym Impuls. The project was funded by the European Commission (in the amount of 966,624 euros), the City of Kraljevo (3,500,000 dinars) and the City of Čačak (3,000,000 dinars). The project has developed 308 computer models and 121 prototypes for the needs of companies in Raški, Rasinski and Moravski districts. The laboratory has expanded its work to the whole territory of Serbia and neighboring countries and continues to cooperate with the industry on many small projects which help continuous development of new and improvement of existing products. The laboratory is a center that provides educational, consulting and development services to companies that would be unable to afford the use of modern technical achievements individually.

What were the activities of the Centre in the framework of USAID Sustainable Local Development Project?

The results of the Impuls project were taken further by two projects supported by the USAID Sustainable Local Development

Project (worth 38,000 dollars and 5,000 dollars) that have built laboratory capacities for the promotion and continuous education in the field of digital technologies for product development. USAID has provided equipment for multimedia laboratory so the entrepreneurs from the region can gain the necessary skills and knowledge in order to reduce production costs, introduce and apply innovation in business. Also, the support to produce a web site has enabled greater visibility, better promotion and easier access to services of the center. With the help of USAID, the representatives of 3D Impuls have established cooperation with the Center for Innovation Support, a part of the Technology Faculty in Ostrava, Czech Republic. The study tour presented the best practices in the use of 3D printing as a tool for the implementation of innovation and business development. USAID has also hired a business development manager, who has helped Impuls center attract new customers, companies that can improve operations using 3D printing.

What are the global trends in 3D printing, is Serbia lagging behind in this area?

First of all, 3D printing or additive manufacturing, as it is increasingly referred to, is a set of technologies that work on the principle of applying material, layer by layer, and allow the production directly from the 3D computer model, without having to create additional tools. This method of production is different from the conventional technologies in which parts are made by removing excess material or molding in a mold. In the auto and airline industry, the trend is prototyping and manufacturing of parts of so-called reduced weight. Light-



weight design, production of parts of optimized geometry (Figure 1-Airbus), mesh and cell structure, function integration. In Serbia since 2013, there has been year on year growth of knowledge about these technologies and their application. For now, it is mostly used in prototyping and small series products, mainly of plastic. Occasionally, there are requirements for making metal parts and tools of complex geometry, but this is a relatively small number of companies, mostly exporters.

How will the Center be developing in the future?

Given that these are new technologies, it is essential to have constant education of students, engineers, designers, managers about the possibilities offered by the application of digital technologies for product development. The first step has been done. 3D Impuls laboratory is the initiator of a new academic course titled Digital Technology for Product Development, which is a 2015/16 elective course on the fourth year of the FMG. Another important step is the publication of textbook titled Additive Manufacturing, for students, engineers and designers because the relevant literature in our country does not exist. The priority is the continued expansion of cooperation with enterprises and organizing one-day courses on geometry optimization of products and tools for additive manufacturing. Plans also include the continuation of scientific cooperation with European universities and work on new joint projects. The plan is to continue the work of the Head of the Laboratory to establish a European strategy for the development and application of additive manufacturing, within the expert group set up in the FoFAM (Factories of the Future - Additive Manufacturing) project, Horizon 2020.

How do you assess the level of development of innovative products in companies in Serbia?

After four years of direct cooperation with local enterprises, I can say that we have had the pleasure to work with a large number of innovative companies. On the other hand, there are companies that do not base their operation and competitive advantage on innovation.

How do you assess the activities of the state in terms of stimulating innovation, what should be done?

In March this year the Government of Serbia adopted the Strategy for Scientific and Technological Development 2016 - 2020, entitled Research for Innovation, which is promising to some extent. We shall see if this triggers innovation in the Serbian economy.

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○ — FOOD SECTOR HAS A CHANCE TO EXPORT

● **Vladimir Kostić,**
Manager, Technological and Food
Processing Park, Leskovac

The improvement of the existing products means large consumption of raw materials if tests are done using the available product lines. Opening and equipping the pilot plant for the improvement and development of food technology created the capacity for experimental production of food products in small batches

Which programs and activities were financially assisted by USAID?

Collaboration with USAID in the previous period was done in the framework of several programs: SDLP, PSD, BEP and Open World. Together with experts from the SDLP, we prepared a project application titled "Establishment of a Pilot Plant for New Products Development" and defined the activities carried out with USAID financial support. The total value of the project amounted to 10,356,756 dinars, of which donations amounted to 85 percent. The following activities were implemented: the adaptation of the pilot plant facility, procurement and installation of equipment in the pilot plant (10 devices, desks, shelves, trolleys and small tools necessary for experimental production), market analysis, development of 10 new food products, improvement of 10 existing products, accession of new members to Technological and Food Processing Park as a private-public partnership. The activities that we conducted in the framework of the Project include the internship for students of the Faculty of Technology (75 participants). We have also held an internal competition for the conceptual design of a new food product (seven students awarded) and promotional materials (web site, brochures, leaflets, catalog of products and marketing plan) were developed. In addition to financial support, we also received a complete technical assistance in the implementation of these activities, project

monitoring and evaluation of the results achieved, provided by the program coordinator at the SDLP.

What do the food processors get from the opening of the product development plant?

The members of the Technological and Food Processing Park (food producers) are private companies, none of which have an R&D department. The capacity of production facilities is high, which is a limiting factor in the technical sense to experiment and test new products, as this is not feasible in large batches. The same problem exists for improvement of existing products because it means a fairly large consumption of raw materials in order to perform tests on the available production lines. Opening and equipping the pilot plant for the improvement and development of food technology has created the capacity for experimental production of food products in small batches. The plant is equipped with modern technology, which has a wide range of operations, enabling food producers to improve existing and develop new products. The operating cost of new product development in this way is significantly reduced, and even more significant is that the possible risks of investing in new technology is reduced to a minimum, because the industrial production starts only after the testing and the feedback received on market demand for that product.



What are the results so far?

The effects of opening the pilot plant within the Technological and Food Processing Park can be measured in qualitative and quantitative terms. After almost a year in operation, the plant has improved the quality of a dozen existing products and developed 18 new products that are now in various stages of the product life cycle. All new products are sold under the name "Top Food", which is a joint brand. Apart from Serbia, the products are sold in the markets of the neighboring countries: Croatia, Macedonia, and Montenegro. Indirect effects of the plant are reflected in an increase in the volume of production and placement of the Park member companies.

When was the Park established, who were the founders, and what is your goal?

Technological and Food Processing Park in Leskovac is the first public-private partnership of this type in Serbia. It was founded in September 2012, in the framework of the implementation of RSEDP project funded by the Delegation of the European Union. The founders and owners of the Park with equal shares are: the City of Leskovac, the Faculty of Technology in Leskovac, "Tomaco Line", "Primanova", "Moravka", "Mlekara Leskovac" and "DCP Hemigal". The development of successful business model and creating new employment opportunities in the food industry through the development, manufacture and marketing under the regional brand "Top Food" represents our main task. In addition to the seven founders of the public-private partnership, we have signed agreements on the accession with five new members whose accession process is under way.

How do you assess the food industry in Serbia?

Food industry in Serbia is the most important sector of the economy and should be the bearer of the future development of the country. I believe that on the basis of tradition in food production, using modern technology, the food sector has the greatest chance to improve foreign trade balance in our country, and to attract a large number of direct investments and create conditions for new employment and better living standard. I think the biggest problem for food manufacturers is lack of financial resources. Large retail chains get the financial resources daily from end customers, and they impose conditions for the placement of products by variety of costs borne by the manufacturers. These costs are fees for introducing new products to the retail chains, printing leaflets, positioning on the shelves, additional rebates, etc. The terms and conditions of payment often exceed several months. All this complicates the position of producers, particularly small and medium-sized enterprises that are not able to secure liquidity in such conditions that would enable the efficient production process.

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○ — WE HAVE TO ADAPT TO GLOBAL TRENDS

● **Matija Kovač,**
Provincial MP, Novi Bečej

All young people selected to use the greenhouses had to fulfill certain conditions, to be under the age of 35, take training and submit a business plan. Greenhouses donated by USAID program were of 240 square meters each

At the time of implementation of the USAID Sustainable Local Development Project, you were Deputy Mayor of Novi Bečej. How did the municipality participate in this project and what is the purpose of this support?

The municipality of Novi Bečej joined the Sustainable Local Development Project to provide young people with the opportunity to gain new knowledge and experience in agricultural production, specifically in vegetable production. Youth unemployment is a problem in our community just as it is in the entire country and that is why we participated in the project and practically pooled resources with USAID. Also, agricultural production in our community relies mainly on grains production, which is not satisfactory if one considers the level of income per unit of arable land. Therefore, this project promoted the diversification of agriculture in our community to help young people realize that small area vegetable production has a much better chance to succeed. Specifically, the municipality of Novi Bečej undertook the infrastructural financing of communal plots selected for the establishment of vegetable incubator for young people. That meant construction of water supply connections, building fences and barracks for the needs of young learners' production. In addition, we organized the participation of experts in the field of vegetable production who acted as mentors. In the end, the effectiveness and timeliness of local self-government enabled us to finish the first cycle marked by festive media promotion of the whole project in Novi Bečej, with the presence of the US Ambassador.

How many young farmers started their production in the context of the project and what were the preconditions in order for them to be able to start production?

Within the project in our municipality so far four young people have started their production and established their farms, and soon their use of greenhouses expires. New users will come as this is the purpose of the existence of entrepreneurial incubators. All young people who attended the training and who were selected to use the greenhouses had to fulfill certain conditions, among other things they had to be under the age of 35, to undergo training, submit a business plan, which included planting structure and the possibility of product placement.

What is the size of these greenhouses, and what is produced?

Greenhouses donated by USAID were of 240 square meters per greenhouse, for growing lettuce, tomato, pepper, cucumber. It is interesting to mention that the area equipped for receiving greenhouses is free space that participants use for additional production in the open, and the municipality plans construction of additional four greenhouses in the area and increase of the number of beneficiaries of agricultural and entrepreneurial incubator.

What are the results so far, what is the volume of production in greenhouses?

The results so far, according to the users of greenhouses are very good, both in terms of quality and quantity of products



A LARGE NUMBER OF SMALL FARMS ARE STILL DEALING WITH ONLY GRAINS PRODUCTION. SUCH FARMS HAVE NO FUTURE UNLESS THEY START VEGETABLE AND FRUIT PRODUCTION OR CULTIVATION OF MEDICINAL HERBS

from the agri-entrepreneurial incubator. The volume of annual production is about 10 tons of products placed mainly through the sale in farmers markets and local shops.

Are young farmers trained to continue production and operation independently?

Sure they are, this was the main motive of formation of agro-entrepreneurial incubator. Production experience, challenge to produce by themselves, and independence certainly helped, in addition to making profit, to enable them to upgrade and extend production in their own farms.

What measures should the provincial and national government take in order to develop agriculture?

I believe that there is much room for the state to take measures towards the development of quality agriculture, and mostly through the support programs of financing the acquisition of new and more efficient equipment and machinery, which will certainly contribute to a faster, more economical and more efficient production. The concept of financial subsidies, which in previous years cost the country a lot, has not proved sufficiently useful and effective in faster development of agriculture in all regions. Also, a large number of small farms of very small size are still only in grains production. Such farms have no future unless they change the way of thinking. With the help of the state, they should reorient production towards intense production, vegetable and fruit growing, cultivation of medicinal plants. In addition, it is necessary for the state institutions in cooperation with local governments and provincial authorities to cooperate more closely on improving agricultural infrastructure such as farm and rural roads, electrification of farms and grange farms, building a system that will contribute to the increased irrigation of agricultural areas. All these are prerequisites for intense development of all areas of agriculture and for the villages throughout Serbia to have far brighter prospects than is currently the case.

How do you assess the contribution of such projects to local development and does the state have the capacity to support young farmers?

The contribution of such projects to local development is great and it would really be helpful for each local self-government to get the opportunity to independently or in partnership implement such a positive project. In any case, the number of such projects is now very small, and it would be particularly important for such projects to be implemented by the State, through the competent institutions that certainly have the capacity to implement them and monitor the quality of their implementation. Agricultural production in the world is developing much faster than in previous decades, and our adjustment has to be more flexible in relation to the previous period. Therefore, the introduction of interactive projects that combine practical and theoretical knowledge, with the possibility of earning money and gaining independence is of key importance.

○ — VEGETABLE FARMING — A CHANCE FOR THE UNEMPLOYED

● **Duško Radišić,**
Assistant to the Mayor,
Zrenjanin

The City of Zrenjanin, supported by USAID Sustainable Local Development Project, set up 15 greenhouses with irrigation system for young farmers

In what way did the City of Zrenjanin participate in USAID Sustainable Local Development Project and what is the aim of this support?

In order to achieve the objectives of the program - to increase the number and effectiveness of the newly established agricultural farms owned by the young people, the City of Zrenjanin provided land with infrastructure. The Program was implemented in the territory of the Inter-Municipal Cooperation of Zrenjanin, Kikinda, and Novi Bečej. In this way we wanted to encourage young people to become actively involved in the agro-business providing them with the necessary infrastructure and mentoring in the production of various agricultural crops. In the long term, we hope that through this project we will educate and empower more young people to apply new knowledge in the field of agriculture toward diversification of agricultural production in the territory of Zrenjanin by introduction of different, highly profitable crops. Bearing in mind the capacity and capability to produce crops on the territory of Zrenjanin, and entire Vojvodina, we are trying to provide the necessary support to young people to start a business. In addition to traditional crops such as wheat, corn, sunflower, we strive to engage them in the production of other crops that are not as represented. In doing so, they have a great chance of selling the produce such as tomatoes, beans, peas and others.

How many greenhouses are there, how many young farmers have set up farms within the Project, and what were the preconditions to start production?

The City of Zrenjanin, with the support of USAID Sustainable Local Development Project, set up 15 greenhouses with irrigation

system, on a total area of 3,600 square meters. Greenhouses are located at Molierova Street in Zrenjanin. Plot area is three hectares. Project allocation was one hectare so there is a possibility of extending the greenhouse production. Fifteen of these greenhouses were intended for 15 young people who embarked on the adventure in agriculture. The basic precondition for all candidates was unemployment status, age under 35. Of course, before they started production we needed to provide basic conditions. All candidates who were assigned greenhouses received training that was organized within the project, which gave them the basic knowledge in greenhouse production. Our support extended during the whole production process as all the beneficiaries of greenhouses were provided assistance of professional mentors in cooperation with "Carska Basta" farm. This segment was important for the project, because independent market penetration is a big challenge. After the end of the incubation period for young farmers, which is two years, all users of greenhouses are required to move their production to their registered farms. After that, the greenhouses will be used by the new group of young farmers.

What are the results so far, what is production volume in greenhouses, where are the products sold?

Greenhouse beneficiaries independently select crops and handle product placement. We provide professional assistance as well as contacts with other manufacturers and distributors, to sell the goods in various ways - placement in retail chains, farmers' market sales, and interestingly - on two occasions the greenhouse produce sold over the Internet. This is particularly important to us because it shows the ability to adapt to market conditions and place the goods in a variety of ways.



●

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●

Vojvodina has a great potential for the production of food and agriculture is a big chance for the local economy. What measures, in your opinion, should be taken for the development of agriculture?

Agriculture as an industry is of great importance in Vojvodina. The diversification of agricultural production, redirection and intensifying of cost-effective production on small plots I think is the way to a more successful production. In the case of Zrenjanin, where we have introduced innovations in the financing of small agricultural holdings, we have encouraging results. There are also incentives for livestock production (distribution of high quality heifers), farming (subsidizing agricultural loans), vegetable and fruit production (well drilling). Incentives are planned also for beekeepers, for intensive fish farming, and vegetable production in controlled conditions (subsidies for the purchase of equipment). Finally, processing, branding, and product finalization are next steps towards a visible, significant revival and strengthening of our farmers. Also due to poor forestation of Zrenjanin and Vojvodina, one possible solution is cooperation and cultivation of plantations of fast-growing crops, of high energy value, such as different types of Paulownia and energy willow. In this way, in addition to large forest coverage, farmers who opt for this type of production with minimal investment get stable and high income.

○ — RAW MATERIAL SOURCING IS A PROBLEM IN SERBIA

● **Bojan Radovic,**
Creative Director,
GIR, Kraljevo

We produce about 50,000 pieces of wooden furniture annually. Our products are exported mainly to logistics centers of our partners in France and Belgium to be distributed throughout the world. In the last two years, we have increased the number of employees from 250 to 420.

When was your company founded, how many employees do you have, and what is the annual production volume?

GIR was founded in 1993, in Kraljevo. We have been producing furniture since 1995. The production of solid wood furniture became our dominant activity in 2001. In the same year we started serious export in cooperation with foreign partners. We currently have 420 employees. Our company annually produces about 50,000 pieces of furniture. Our products are exported mainly to logistics centers of our partners in France and Belgium, from where they are distributed throughout the world –mainly to Western and Northern Europe and North America, and the annual export value is approximately eight million euros. New markets have started opening recently, so we have started direct container export to the region of Southeast Asia. In the future, we expect an increase in workload and challenges in the years ahead, given the positive trend of previous years. In two years we have managed to increase the number of employees from 250 to the current number of 420.

Which new markets are you planning to export to?

Interestingly, the most recent new market for us is the Serbian market. We are opening a retail shop in New Belgrade, at Trešnjinog Cveta 5, where visitors will have the opportunity to see and buy GIR product range.

What measures and activities were proposed by USAID experts for business improvement?

USAID Project expert, Mr. Jeff Baron, with whom we spoke, really is a great expert with extensive experience in the furniture industry. We are confident that these programs can have a positive effect on the industry and raise awareness of the potentials of Serbia, in terms of production and exports. In terms of our production, besides the pleasant conversation we had, there was not much room for cooperation on a particular project, because we already have a highly developed and defined story with foreign partners. We have partners with whom we have been doing business for the last 15 years. However, I am sure that there are a large number of small producers that such support programs can assist significantly.



Why is advisory support important for small producers?

Support programs are very important for small producers in the wood industry who are not aware of their potential. Such programs can help them significantly to raise their business to a higher level – to begin to export, to reach foreign markets where the real game is played, and become serious players.

What problems do you face and what are the biggest problems in the local furniture industry?

The problems we face are generally similar to the problems that affect all the other entrepreneurs in Serbia: cumbersome bureaucracy and non-optimized business processes. In particular, as far as we are concerned, the essential need is the procurement of timber, and we are unfortunately forced to purchase raw materials from other countries, such as Croatia, Bosnia, Ukraine for two reasons. The first is that it is impossible to get the quantities we needed, because of insufficient oak timber stock in Serbia. Another reason is that forests in Serbia are not FSC certified, unlike the forests in these other countries. The foreign markets require FSC certified products.

How do you assess the potential that Serbia has to develop wood furniture industry?

It is very important for the producers and enterprises to take the initiative, then these programs, such as the Sustainable Local Development Project, to do their part – to direct and assist in the implementation of the initial ideas of the manufacturers. The potential that Serbia has, viewed through the eyes of manufacturers of furniture, is really big. Especially lately, with all the macroeconomic conditions, global tendencies and trends that really suit us. However, there is a lot to do internally, as well as to provide uninterrupted and continuous access to raw materials. In doing so, it is necessary that the raw materials have all necessary certificates and meet all standards.

What are your long term plans?

In the future we are planning to expand production capacity, which is something we are doing at the moment. Also, we are planning a constant work on improvement of the quality of the products and services we offer. We are working on developing new product range and introducing new material. The vision of our company is to position ourselves as a leader in the region in the field of development and production of solid wood furniture of high design value.

THE PROBLEM FOR US IS SOURCING OF TIMBER, PARTICULARLY SINCE FORESTS IN SERBIA ARE NOT FSC CERTIFIED, AS THE FOREIGN MARKETS REQUIRE FSC CERTIFIED PRODUCTS

○ — SUPPORT IN IDENTIFYING NEW MARKETS

● **Bratislav Đorđević,**
Executive Manager, Stefi
Komerac, Vranje

We cooperate with Italian partners, we are currently working for Nero Guardini, represented by Progetti, Belgrade and Geox, Vranje. I am particularly pleased that USAID continued to support footwear manufacturers in identifying and expanding the market.

What is your experience in cooperation with USAID and the experts within the framework of the Sustainable Local Development Project?

Our family owned company P.S. Stefi Komerac has very good cooperation with USAID. The cooperation began several years ago, when USAID provided support during the association of footwear producers. We partnered with other manufacturers for a more competitive positioning in foreign markets. I am particularly pleased that USAID continued to support footwear manufacturers in identifying and expanding the markets. In this way we are able to directly connect with foreign buyers, allowing us to increase the local export capacity. Experience with the experts within the framework of the Sustainable Local Development Project is very satisfactory. It was an honor to have had the opportunity to work with a man who has experience in the footwear industry, who generously shared advice based on his professional experience. It was significant that the cooperation begun before going to fairs, by expert study of the production range and capacity of our family business. He consequently gave us an assessment on strengthening and expanding our competitive position. Our company is a significant employer in Vranje and we have

many years of experience with foreign customers, especially the buyers from Italy. The cooperation with the Sustainable Local Development Project team brought new opportunities, and links with new markets. Thanks to this cooperation, we are better able to look at the demands of the market and how to adapt to the requirements of customers. Cooperation on the Project solidified our decision to develop technological and human capacity in the company, in order to be ready for a potential buyer. Negotiations are under way with a major buyer in the United Kingdom.

How have experts helped boost your business, what were the recommendations?

The recommendations mainly related to increasing the efficiency and productivity. In addition, the management of the company, through this cooperation, considered aspects to increase efficiency in the production process, so we decided to increase capacity and improve operations. It is very important to be flexible in the market and be ready for certain compromises and relatively quickly adapt to customer requirements. This is of strategic importance for the growth of each company.



THE COOPERATION WITH SUSTAINABLE LOCAL DEVELOPMENT PROJECT TEAM OPENED NEW POSSIBILITIES THROUGH IDENTIFYING NEW MARKETS

What is the annual volume of production, what is the sales volume in the local market, the export volume in foreign markets, and where do you export?

Stefi Komerac, Vranje, started its operation in 1993 as a small family business in mixed goods and footwear trade. Since 2000, through the reorganization of the plant and the introduction of new product lines, we started with the production of women fashion footwear within the line called Donna Line. The final product uses 50 percent of production capacity. Sales are 30 percent local, 70 exported. Production of semi-finished product - upper parts of footwear on the basis of Lohn transactions for foreign partners from Italy - reaches annual volume of production and export of about 150,000 pairs of shoes. When it comes to our brand Donna Line, we export to Macedonia, Montenegro, Bosnia and Herzegovina, Slovenia and other countries. Italy is our market only for the export of semi-finished products on the basis of Lohn transactions.

Who are your international partners in the footwear industry and what is the significance of this kind of cooperation for your company?

In making the semi-finished product - upper parts of footwear, we cooperate with Italian partners. We are currently working

for Nero Guardini, represented by Progetti, Belgrade, and Geox, Vranje. Cooperation with such large companies is of great importance for our company, because it gives us the opportunity to expand production capacity and contribute to improved performance of the company.

What are your plans in terms of increasing the volume of production and new investments, what are the expectations going forward?

Regarding the increase in production volume, negotiations are underway with a significant British buyer. We are planning to open new retail stores, to maintain the existing production capacities and possibly increase the production of semi-finished products for foreign markets.

How do you assess the Sustainable Local Development Project?

I hope there will be more such projects aimed at sustainable local development. For domestic producers who participated in this project, it was a great experience. I must mention that the cooperation with people who worked on the project meant a lot to all businesses who seek to improve their competitiveness and their operation.

○ — MODERN AND ENVIRONMENTALLY FRIENDLY JEANS

● **Nihat Ugljanin,**
President, Pro Denim
Association, Novi Pazar

Sustainable Local Development Project has provided significant support to strengthen the competitiveness of denim clothing producers. We use ozone finishing as a new technology that is energy efficient and does not have detrimental impact on the environment

What is your experience in cooperation with USAID in the framework of Sustainable Local Development Project, in what way has this project helped you?

For many years USAID has been one of the most important partners of the private sector in Novi Pazar and the region in general. In this sense, Sustainable Local Development Project has provided significant support to local companies. It foremost assisted the producers of denim clothing, gathered in AS-STEX association and cluster, but also other sectors typical for this region. Sustainable Local Development Project approach provided great support to strengthening the competitiveness of local companies to be ready to sell their products or services in the international market.

What are the advantages of the new technology of ozone treatment of denim?

Ozone treatment refers to the part of the so-called finishing of jeans, washing process, which is very complex and characteristic of denim products. In essence, it uses ozone as the stron-

gest natural oxidant in the technological process where O₃ oxidizes indigo color molecules of denim dye. Thus we get different effects, from cleaning (residues of indigo color, primarily on light and bleached parts) to the different levels of bleaching. Unlike conventional methods of processing, the advantage of this process is energy efficiency. In addition, there is no harmful effect on the environment. The most commonly used ozone washing process is completely dry, and only uses ozone as gas in chamber in which the process is done. In the context of the global market, this is still fairly new and expensive technology. We were fortunate with the help of USAID Sustainable Local Development Project to get equipment which is one of the best systems in the world. The same method is used by world famous manufacturers in their plants, such as Levi's.

To what extent has the new production technique affected the quality of your products?

The application of this process is a new option and value, but at the moment it still does not completely replace the traditional ways of processing and washing. Our goal is to use ozone in-



stead of wash cycle and thus reduce the overall consumption of water, energy, as well as various chemicals. Although ozone is a strong oxidant, it is important to say that it in no way affects the mechanical properties of the fibers, unlike some of the bleach which, for example, may damage the fabric and thus significantly affect the quality of the product.

Eco-friendly production is a trend in the world - do you expect better sales in the market?

Production processes that reduce the environmental impact become obligatory in fashion industry, so there are more brands in the global market that have high demands when it comes to ecology. In this regard, we expect better visibility of local manufacturers who use modern methods of production.

How many companies are there in the Association who jointly use the new technique in production and what is the volume of products sold in the local and in foreign markets?

In Pro Denim there are six local manufacturers of jeans (Brug, Bros, Maxers, Denistar, Exact, and Classics). The idea of this project was the introduction of new technologies, so the services of Pro Denim are available to producers who are not members too. Apart from local producers, the association cooperates with vocational secondary school for textile and leather design from Novi Pazar as well as with post-secondary textile vocational school in Belgrade, so their students and teachers can familiarize themselves with the technology and with jeans treatment. Members of the association are present in the local and regional markets, so on average between 50 and 80 per cent of merchandise is exported to the region, but also to some of the EU markets.

What are your future plans in terms of increasing sales and product promotion?

We expect to have more efficient promotion on international fairs, but also through direct contacts with potential clients. Experience has shown that promotion is very important for this sector in Serbia. First of all, a large number of potential customers have insufficient information about Serbia and know very little about the possibilities of cooperation with our companies. We expect that our new technology of ozone washing will help draw attention and promote us as environmentally conscious entrepreneurs who follow global trends and innovations in the industry. A lot of work and training is needed in order to be competitive in the dynamic market of fashion industry. By the end of this year we expect to establish cooperation with new clients in the EU market.



○ — ATTRACTIVE AND MODERN MULTI-BRAND STORE

● **Mirsad Ikić,**
General Manager,
Jeans Factory, Novi
Pazar

In the framework of Sustainable Local Development Project, we worked with top international experts in our sector, who gave us a number of recommendations on how to improve our business. Jeans Factory store opened late last year and brings together three local jeans brands: Brug, Exact and Classics Jeans

How much has the advisory and consultancy support in the framework of the Project helped in the business and what do you think about projects such as this one?

USAID, through its programs, has for years been one of the most important partners of local manufacturers of jeans. Our experience with experts in the framework of Sustainable Local Development Project is positive. I believe that these programs represent a significant support to local companies to become competitive and to better position themselves in the market. Sustainable Local Development Project was significant for us because it enabled us to cooperate with top international experts in our sector.

Why is such support important in your business?

Expert assistance is very important, first of all, given the extensive experience of experts at various stages of operation, of course, including marketing and branding, production, sale and generally all segments of our business. In this sense it was important for us to hear the opinion on our companies and products, as well as the proposals as to what should be changed and how, to become recognized and competitive in the market.

When was Jeans Factory brand created and how many Novi Pazar companies are behind it? Where are your jeans sold?

Jeans Factory was founded in mid-2015, and the retail store was opened late last year. The brand was established with the aim of a joint market approach in Belgrade, through unique multi brand concept. In this sense, Jeans Factory is a joint project that was created with the idea to join brands to more efficiently and easily respond to market demand. Of course we followed the idea that this will better position us in the market. Thus, Jeans Factory is retail a concept, but it may in the future become a special brand. Jeans Factory multi brand store is located Arena Mall in Vozdovac, Belgrade and offers three local jeans brand products: Brug, Exact and Classics Jeans.

What are the most important recommendations that were given to you by experts to improve the market position?

We got a large number of recommendations relating to all business segments. Recommendations were primarily related to marketing and promotion and slightly different sales concept. Thanks to the recommendations and guidelines, within the



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framework of Sustainable Local Development Project, we got an attractive and modern multi brand store. I often like to point out that the store looks so good that it would make the even the world's biggest brands proud. Everyone who visits our store in Arena Mall can attest to that.

How have foreign experts assessed the quality and design of your products?

Our product quality and design were favorably assessed as well as the pricing. This assessment was favorable when it comes to our manufacturing facilities, equipment and work conditions. For our business it is very important that we hear international expert assessment of the current situation. Regardless of high quality and product design, certainly there is room for improvement and possibly entering into some demanding market niches, primarily in foreign markets. Otherwise, we can be price competitive in the local market because the cost of distribution and sales is much lower compared to exports.

What are the future plans in terms of increasing sales and product promotion?

In the future we plan to better position ourselves in the market of Belgrade, as well as to consider the possibilities for the expansion of the retail network. In fact, we plan to open another retail store in Belgrade, but also in other major cities in Serbia.

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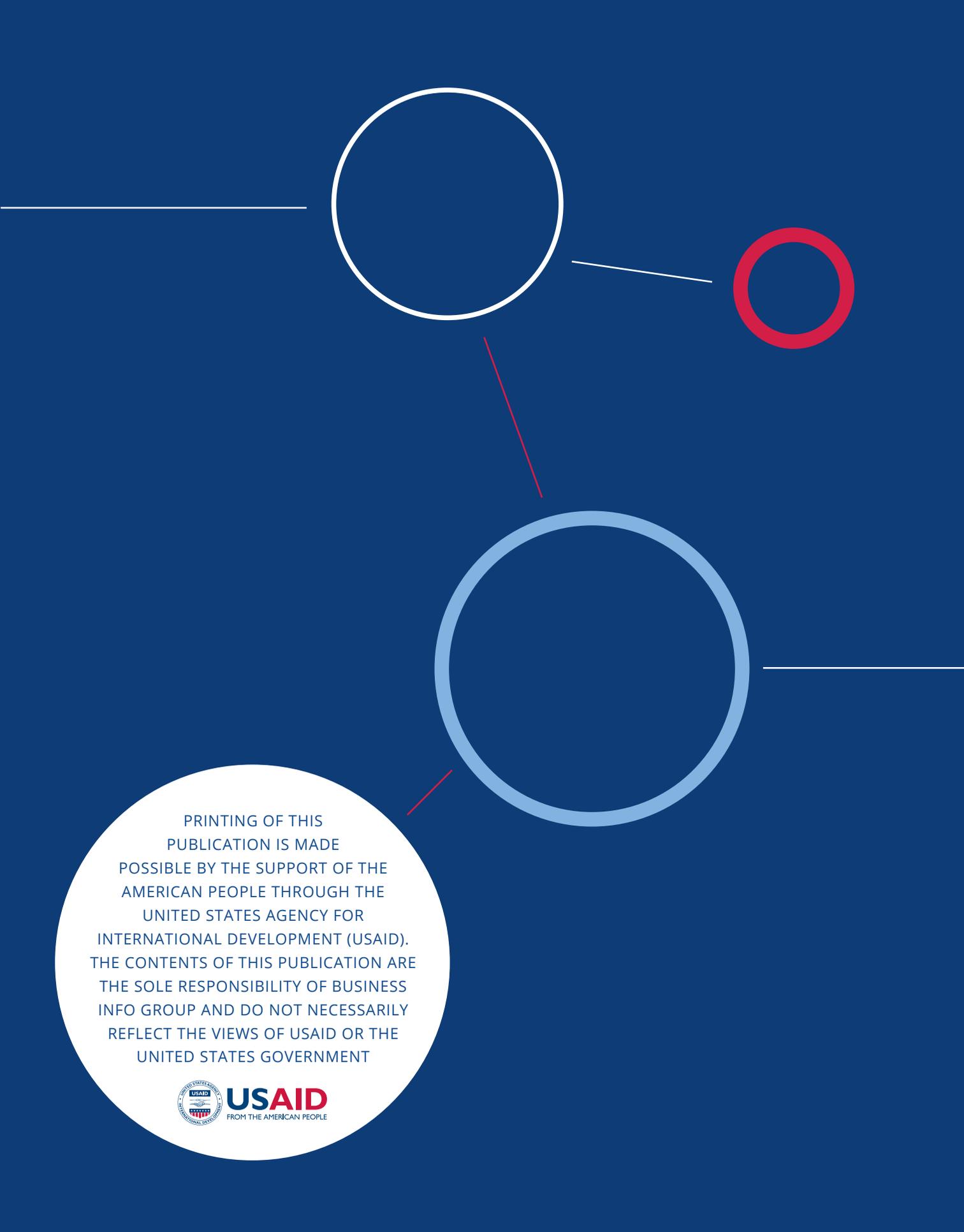
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