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I. INTRODUCTION AND BACKGROUND

The objective of the Serbia Competitiveness and Economic Efficiency (SCEE) Project (PCE-I-00-98-00013-00, Task Order 811, or “the project”) was to assist in promoting Serbian economic and entrepreneurial competitiveness. SCEE was intended to assess Serbia's competitiveness and its competitiveness potential, conducting analyses and examinations to integrate insights about Serbia's political economy with the experiences of other nations in a format that would allow leaders to enhance Serbia's competitive position in a global context. The assistance was provided in a number of areas, such as:

- assessing Serbia's competitive position, including strengths and weaknesses;
- creating industry clusters¹ to build long-term competitive advantage;
- guiding the establishment of a Serbian National Competitiveness Council (NCC) to promote competitiveness-enhancing behavior;
- organizing a National Competitiveness Summit to build public awareness of competitiveness within Serbia;
- organizing a delegation of NCC, cluster, and Government leaders to the U.S. to learn about international best competitive practices and to identify patterns of competitive advantage in Serbia; and,
- assisting in the drafting of a National Competitiveness Strategy to guide competitiveness-building efforts going forward in Serbia.

This activity supported USAID Strategic Objective 1.3, “Accelerated Development and Growth of Private Enterprise.” The work under SCEE supported Intermediate Result 1.3.1. Overall, SCEE was designed to contribute to broad economic restructuring in the Republic of Serbia that will lead from a centrally planned economy to a decentralized market-oriented economy that is positioned to sustain the competitive pressures associated with accession into the European Union (EU).

SCEE coordinated closely with other USAID projects, other U.S. Government agencies, other donor programs, and public and private international organizations active in Serbia, in order to ensure common objectives and policy approaches and to avoid duplication of effort. In particular, SCEE complemented two ongoing USAID projects:

- the *Economic Policy for Economic Efficiency (EPEE) Project*, which seeks to remove structural impediments to economic development and build a strong policy, legal, and regulatory framework upon which to fuel growth, job creation, and prosperity; and,

¹ Clusters are interrelated groupings of firms (from suppliers to manufacturers to retailers to related industries), associations, and related governmental and non-governmental organizations that unite around specific competitive issues (like branding, training, research, design, education, certification, etc.) to help create more competitive industries in global economies. Clusters enable their members, and others, to go beyond the limits imposed by undertaking disparate individual initiatives.

- the *World Trade Organization (WTO) Accession Project*, which delivers focused technical assistance to the relevant Federal/State Union, Serbian, and Montenegrin ministries engaged in the process of gaining membership in the WTO.

A multi-disciplinary team under this Task Order mobilized in October-November 2002. This team, consisting of technical experts from both Booz Allen Hamilton and ontheFRONTIER, immediately set about to assess Serbia's competitive position; establish contacts with counterparts in ministries, trade associations, and industry firms; and, hold an initial workshop with government and private sector leaders to outline basic competitiveness principles. Over the following months of the project, the SCEE team successfully completed a broad range of activities to finalize its competitiveness assessment, provide support to pilot cluster groups, assist in establishing a National Competitiveness Council to sustain the competitiveness initiative, and help bring the competitiveness message to the broader public through a number of conferences and media initiatives.

USAID's Scope of Work listed six specific tasks for the project. All of these were completed. The success of the project is perhaps best indicated by the selection of a Booz Allen-lead team to implement the follow-on Serbia Enterprise Development Project (SEDP), which seeks to continue the work started during SCEE.

After the July 1, 2003 kick-off of SEDP, most of SCEE's ongoing activities were subsumed into SEDP. Therefore, this Final Report deals only with those SCEE accomplishments achieved prior to the launch of SEDP, with the exception of grants that were awarded to cluster groups from SCEE funds in September and October 2003, and the finalization of several documents started under SCEE and clearly identifiable with that project.

SCEE carried out its activities in a rather turbulent environment. Serbia was one of a handful of countries that were not given Normal Trading Relations (NTR) status by the U.S., hindering the competitiveness of exports to the U.S. Multiple presidential elections failed to meet minimal participation levels, leaving that post empty. Failure by Serbia to hand accused war criminals reportedly in Serbia over to the International Criminal Tribunal in The Hague put additional U.S. funding to efforts like SCEE under risk, and put strains on U.S.-Serbian relations. Most dramatically, the tragic assassination of Serbian Prime Minister Zoran Djindjic on March 12, 2003 was likened in its psychological impact to the assassination of President Kennedy, with attendant damage to Serbia's international profile, and brought into question the timing for the National Competitiveness Summit, as well as the delegation to the United States. After discussions between USAID and the Government of Serbia, the decision was taken to proceed with the National Competitiveness Summit with only a one-week delay and with no change in the schedule for the U.S. trip.

II. ASSESSING SERBIA'S COMPETITIVENESS

SCEE conducted a thorough review of Serbia's competitiveness. In doing so, we assessed the country's export performance, its readiness to compete in foreign markets, attitudes towards competitiveness among its leaders, the legal and regulatory environment, and the investment environment. Our key findings in each of these areas are outlined below. Our competitiveness assessment also included case studies of two pilot industry clusters; those case studies are summarized in Section III.

In a sense, the project's competitiveness assessment culminated with the inclusion of Serbia, for the first time, in the World Economic Forum's (WEF) 2003-04 global competitiveness rankings. Given our own analyses, Serbia's ranking in the bottom quartile of reporting countries was not surprising.

A. WORLD ECONOMIC FORUM GLOBAL COMPETITIVENESS RANKING

The WEF's 2003-04 *Global Competitiveness Report*² provides important rankings of 102 countries with regard to their economic competitiveness, both at a macro-economic level, in terms of their ability to attain sustained economic growth over the medium and long term (Growth Competitiveness Index), and at a micro-economic level, in terms of the ability of companies to create valuable goods and services efficiently (Business Competitiveness Index).

For the first time, through the efforts of SCEE, Serbia was included in the WEF rankings. The project made all necessary arrangements with WEF and subcontracted with a local non-governmental organization (NGO), the Center for Liberal Democratic Studies, to conduct the required Executive Opinion Survey of 100 respondents, the primary basis for the Business Competitiveness Index.

Inclusion in the WEF process and report is important. First, it indicates that Serbia is re-integrating itself in the international community and its institutions. Second, the rankings themselves, and in particular the detailed analysis included in the report, provide an extremely valuable tool for the Serbia National Competitiveness Council and other decision-makers in understanding the country's relative global and regional position and in focusing resources on priority issues.

The WEF 2003-2004 rankings were released October 30, 2003. Serbia ranked 77th of 102 countries in the Growth Competitiveness Index and 76th of 95 countries in the Business Competitiveness Index. In both indices, Serbia lagged behind all but one of its regional competitors:

² See www.weforum.org

2003-04 Growth Competitiveness Index	
Country	Rank
Slovenia	31
Hungary	33
Czech Rep	39
Slovak Rep	43
Croatia	53
Bulgaria	64
Romania	75
Serbia	77
Macedonia	81

2003-04 Business Competitiveness Index	
Country	Rank
Slovenia	30
Czech Rep	35
Hungary	38
Slovak Rep	43
Croatia	62
Romania	76
Bulgaria	77
Serbia	79
Macedonia	82

B. EXPORT PERFORMANCE

SCEE evaluated Serbia's export performance during the decade 1992 – 2002 using an analytical methodology based on United Nations Trade Statistics Data available for Yugoslavia. As Montenegro accounts for less than 5% of the data, except for aluminum, the analysis essentially presents a picture of the Serbian situation. The Trade Statistics Data is only available until year 2000; according to the Serbian Bureau of Statistics, there has been a 0.7% increase in exports from 2000 to 2001 and a 20% increase from 2001 to 2002.

The complete trade statistics report is included as an appendix. In summary, Serbia's exporting position is not good. The country's economic trade collapsed from 1992 through 1997; following a rebound in the late 1990s, the trade balance once again declined significantly in 2001 and 2002. Serbia's trade deficit is still 50% higher than it was in the early 1990s. Much of the decline in the 1990s can be attributed to sanctions against Yugoslavia that have since been lifted and to conflict-related trade disturbances. However, these disruptions to previous trade linkages, and the former trade partners' subsequent identification of new sources for goods and services, have had a lasting negative impact on Serbia's trade performance.

Importantly, a number of indicators show that the sophistication of the Serbia's exports generally has declined. Four out of five of its top exports are unsophisticated, commodity products. Serbia consistently imports more complex goods than it exports. Furthermore, in comparison to its regional neighbors, Serbia's export position has declined to near the lowest. Serbia exports about the same as Macedonia, but no more than half the levels for Slovenia, Croatia, and Bulgaria. Recently it has been dropping towards last place among this group in terms of balance of trade.

C. READINESS TO COMPETE IN FOREIGN MARKETS

In addition to evaluating Serbia's export performance at a macro-level (above), SCEE also moved quickly to identify and evaluate obstacles to competitiveness at a micro-level. Capitalizing on existing Booz Allen industry contacts, the project identified "decorative home accessories" and "processed foods" as two sectors whose products could be marketed in the United States to gain an initial understanding of the readiness of Serbian companies and products to compete in a major demand-led export market.

This activity was intended to be complementary to, and inform, our longer-term and more strategically oriented cluster development activities. There were two objectives:

- provide "real-time" feedback on the suitability of existing Serbian products in a demanding market and thereby better understand customer needs, logistical requirements, and other obstacles; and,
- facilitate quick sales, if possible, and thereby demonstrate that Serbia can, in fact, compete in demanding markets and serve as role models for other companies.

Over the four-month period of this activity (October 2002 – January 2003), SCEE's industry experts met with approximately 200 Serbian companies to identify appropriate products and educate these firms on the "buying process" followed by U.S. importers. The experts also contacted potential U.S. buyers to stimulate their interest. There were expressions of interest in a number of products (e.g., liquors, frozen fruits and vegetables, wild mushrooms, hard candies, herbal teas, wine vinegars, and hardwood flooring). However, there were no buyers.

As outlined in the reports included in the appendices, this activity helped identify a number of common obstacles: (i) lack of production and design capacity; (ii) lack of an understanding of how small producers can join forces to serve a large market; (iii) non-existent or underdeveloped knowledge of export markets; (iv) poor transport and logistical systems; and, (v) lack of "normal trade relations" (NTR) status which raised prices prohibitively in the U.S. market for numerous products.

With regard to "decorative home accessories," the capabilities seemed to be there, but there was limited interest among buyers. Other issues were identified:

- *Prices:* Regardless of NTR, prices were high, making the cost, ease, speed, and reliability of transport more of an issue.

- *Production capacity:* Given their low production volumes, producers lacked proven capacity and capability to increase production volume to serve a large market while maintaining quality.
- *Production costing:* Serbian manufacturers did not understand production costing.
- *Product design:* Serbian designs were less innovative than those offered by similarly priced producers from other markets.

With regard to “processed foods,” U.S. buyers in a variety of foods and drinks expressed interest, but again there were no sales. Key issues identified were:

- *Shipping:* Major damage to a shipment of samples indicated that Serbian exporters need to choose their logistics partners carefully.
- *Packaging:* There were multiple examples of poor quality jars that did not seal properly, or did not stay sealed, and producers lacked knowledge regarding bottle sizes that may be imported and sold in the U.S.
- *Pricing:* There was an indication that the prices for some fruit juices were too high and thus not competitive.
- *Responsiveness:* In several instances, Serbian companies failed to provide requested information to potential U.S. importers.

D. ATTITUDES TOWARDS COMPETITIVENESS

SCEE also conducted a “mental models and business environment” survey to measure prevailing attitudes towards competitiveness. The development and execution of strategies to attain competitive advantage depend on the joint efforts of multiple collections of individuals (e.g., public and private sector, labor and management, suppliers and customers). The mental models survey was designed to enable these decision-makers to examine and better understand their own assumptions about the mechanics of competitiveness. Furthermore, the public discussion of the survey’s results would help strengthen and broaden the impact of Serbia’s ongoing change initiatives.

The paper-based survey was administered to 201 Serbian leaders under a subcontract awarded to the Center for Liberal Democratic Studies (CLDS). The two largest groups represented in the respondent set were private sector firm leaders (45%) and Government ministers and officials (18%). Respondents were generally top leaders in

their organizations. A total of 56% were cabinet members, owners, or chief executive officers. Another 23% were senior executives.

Professor Boris Begovic, Vice President of CLDS presented the results at the National Competitiveness Summit on April 1, 2003. (The National Competitiveness Summit is discussed further below.) The survey revealed three themes concerning Serbian leaders' beliefs that may inhibit competitiveness, and ultimately may influence investment decisions and how those investment decisions will shape the current and future economic status of Serbia.

- Serbian leaders lacked a shared vision concerning competitiveness, which could inhibit agreement on specifics in a plan of action. Within this divisiveness, many leaders still wanted the government to make business-based decisions. Additionally, leaders were split on how to invest in physical or social capital, on the effects of globalization, and on social hierarchy.
- Trust levels were so low that they might inhibit the ability of firms and other groups within a cluster to develop and implement integrative strategies, an important element of competitiveness.
- Serbian leaders believed that firms are built by focusing on their current assets, rather than on the needs of demanding customers - where valuable new assets are actually created. Such beliefs typically inhibit competitiveness, and certainly make appropriate investing more difficult.

Copies of the survey questionnaire and report are included in the appendices.

E. LEGAL AND REGULATORY ENVIRONMENT

In order to develop a realistic and practical understanding of the legal and regulatory environment in Serbia, SCEE evaluated the primary commercial legal and regulatory constraints experienced by companies in the fruit and wood industry clusters. Both clusters are export-oriented and represent vitally important economic sectors for Serbia. Collectively, both broader industries comprise approximately 10% of gross domestic product (GDP), are responsible for almost 10% (or over \$130 million) of annual exports, and employ over 140,000 people³.

Our analysis indicated that a number of legal and regulatory constraints are impeding the commercial performance of companies in these two key sectors. The key constraints identified were:

³ 2001 estimates. Source: Serbian Investment and Export Promotion Agency (SIEPA)

- Ineffective remedies and protracted procedures associated with breach of contract;
- Non-existent, outdated, and poorly enforced quality control standards;
- Import tariff codes that fail to distinguish between raw materials and finished goods; and,
- Uncompetitive price controls on raw materials.

In addition to these four priority areas, SCEE identified 12 other business, trade, or investment regulations impeding competitiveness in these two cluster groups. The findings are discussed in greater detail in a report that is included in the appendices.

A number of the legal and regulatory constraints suggest a clear linkage between the promotion of “rule of law” reforms and private sector performance. Additionally, weak and inconsistent communication between Government ministries responsible for commercial legislation and export-focused companies undermines private sector confidence in Serbia’s legal framework and diminishes the Government’s ability to inform legislative drafting and implementation with practical corporate experience.

F. FOREIGN DIRECT INVESTMENT ENVIRONMENT

In March 2003, the Foreign Investors Council⁴, an influential group of investors in Serbia, published its first “White Book Proposal for Improvement of the Investment Climate in Serbia.” This document was an in-depth and robust examination of barriers impeding investment in Serbia and covered all aspects of the issue, including the country’s legal and regulatory framework; taxation; accounting and auditing sectors; labor, public administration, and bureaucracy; and, financial sector. Each of these sections identified specific barriers and provided recommendations that are required.

The FIC’s comprehensive analysis of this subject obviated the necessity for SCEE to conduct its own review of this subject. We reviewed the White Book and found its findings and conclusions to be persuasive and complementary to problems identified in our work with the fruit and furniture clusters. Furthermore, issues raised in the White Book were consistent with our own informal discussions with a number of investors who had invested, or were considering investing, in Serbia.

⁴ More information on the FIC and its White Book can be found at www.fic.org.yu.

III. CLUSTER CASE STUDIES AND SUPPORT

In addition to the assessment of Serbia's competitive position described in the preceding section, SCEE prepared detailed case studies of, and provided technical assistance to, two industry cluster groups: the fruit and fruit juice cluster, and the furniture and wood products cluster. This work provided deeper insights into the competitive position of two key industry sectors and their ability to compete in the global marketplace.

A. CLUSTER SELECTION

Prior to the SCEE team's arrival in Serbia, the pharmaceutical, agricultural, textile, and furniture sectors had been identified as having potential for inclusion in the project, primarily based on their export history. During October - December 2002, the team conducted a wide range of interviews with leaders in these sectors focusing on three key questions, the answers to which provide the cornerstone to establishing a sustainable competitive advantage:

- What products or services are being sold to whom (which customers)?
- Why do their customers buy from them instead of from their competitors?
- Why is it difficult for their competitors to imitate them and take away their best customers?

By December, SCEE selected the fruit and fruit juice and the furniture and wood products clusters for further detailed analysis and support. While both pharmaceuticals and textiles also showed promise, fruit and furniture were chosen because they best met our key criteria:

- *Economic potential*: Emphasis on the size and importance of the sector to the economy, existing and/or future export potential, and upstream and downstream linkages in the economy.
- *Progressive managers*: Emphasis on leaders' energy and enthusiasm, willingness to try new ideas, understanding of competitiveness issues, and readiness to change.
- *Readiness to collaborate*: Emphasis on the willingness of companies in a sector to work together to create greater competitive advantage.

Over a seven-month period (December 2002 – June 2003), SCEE continued to develop its case studies of the fruit and furniture groups and supported them in establishing their clusters. This work included assessing the barriers to their further growth, developing strategies for the future, and beginning the implementation of those strategies. The

results of our case studies and support activities are summarized below and are outlined in greater detail in documents attached as appendices.

B. FRUIT CLUSTER

The Challenge

The microclimate and soil conditions existing in Serbia converge to create an environment that is exceptionally conducive to the production of berry fruits and vegetables. This environment gives Serbia the ability to harvest an abundance of high-quality produce. Furthermore, the topography of southern and western Serbia is especially attractive for organic fruit and vegetable production, as the valleys in these regions prohibit contamination from airborne pesticides.

Fruit and fruit products have traditionally been one of Serbia's leading industries and generators of export revenues.⁵ In 2001, approximately 140,000 metric tons of fruit and fruit products were exported, with an estimated value of almost \$100 million. In 2002, the export value had increased significantly to almost \$140 million.⁶ Almost 75% of exports go to Western European countries, with Germany taking about 35%.

Serbia produces almost one-third of the world's raspberries. Raspberries are Serbia's leading fruit crop. In 2002, raspberries and raspberry products accounted for about two-thirds of Serbia's fruit export revenues. Other key fruit crops include plums, apples, sour cherries, pears, peaches, and strawberries.

The industry consists of four segments: frozen fruit, fruit juice, processed fruit, and fresh fruit. Exports consist primarily of frozen fruit, while higher-value-added products such as juice, processed fruit products, and fresh fruit account for only 18% of total exports.

Product Category	2001 Exports (\$ mil)	% of Total
Frozen	79.7	82%
Juice	4.9	5%
Processed	5.5	6%
Fresh	6.9	7%
Total	97.0	100%

The major competitive challenges facing the Serbian fruit industry were to shift to a much more value-added product mix (e.g., organic, fresh, processed) and to reconnect with and sell directly to export customers. Our analysis showed that most of the value and profitability of fruit sales was not being captured in Serbia, but was transferred abroad to middlemen and processors.

⁵ Trade data for the fruit industry, as for other sectors, is either not collected or not aggregated in ways that make it useful. For instance, there are no statistics on domestic consumption of fruit and fruit products, nor are there reliable estimates of actual fruit production. The figures presented above are best estimates based on available data.

⁶ One reason for the growth in export sales was the removal of international trading sanctions against Serbia in late 2000. During 2001 trading began to revive, and by 2002 the country was re-integrating itself with world markets.

Fruit Cluster Formation

To answer this challenge, the SCEE team convened a 15-member fruit cluster on December 15, 2002, with membership from a full spectrum of industry participants: a farmers' association (representing fruit producers / growers), cold stores (freezing and selling frozen fruits), fruit juice companies, fruit traders, business associations, agricultural NGOs, affiliated businesses, and academia. Other entities continued to join the cluster over the following months and by mid-2003, there were 26 members. A complete membership list is included in the appendices.

A full range of micro-enterprises, small- and medium-scale enterprises (SMEs), and large-scale businesses represented the private sector. The Vilamet Farmers' Association is a major industry player representing approximately 10,000 fruit growers, most of them individual family growers with only a few hectares under cultivation. Likewise, Terras Natural Foods Association represents several thousand small growers of organic fruits and vegetables. Most other companies were in the small- or medium-scale category, but large producers such as Fresh&Co. and Nektar also participated. Associated industries included TetraPak (packaging) and ICA NAAN (irrigation systems). Foreign investors were also represented (i.e., U.S.-owned Van Drunen Farms).

From the public sector, the cluster included the Yugoslav Standards Bureau, to help deal with issues such as fruit grading standards. The cluster also benefited from the membership of professors from the Agricultural Faculty at the University of Belgrade, as well as additional agricultural expertise from the Institute for Fruits in Cacak. Porecje, a fully integrated state-owned fruit grower and processor, and the Fund for Fruits and Vegetables, a trade association, represented the public sector.

The cluster included members from across Serbia: 29% from the north, 46% from central Serbia (all from Belgrade), and 25% from the south.

Barriers to Development

As the SEDP team continued to work with the fruit cluster companies, several principle barriers to further development and growth were identified:

- Lack of financing to fund export growth and much-needed capital improvements;
- Poor quality standards and training;
- Outdated technology;
- Lack of knowledge of marketing and branding;
- Limited market research regarding consumer needs and global competitors;

- Poor product development; and,
- Lack of trust and collaboration among cluster members.

Fruit Cluster Strategy

Through its work with SCEE, the fruit cluster settled on the following strategic elements to address the barriers noted above and serve as the initial basis for revitalizing the industry and helping it grow:

- *More sophisticated products:* With a view to increasing exports, move toward a higher-value-added product mix to include more organic, fresh, and processed fruit, instead of relying primarily on exports of frozen berries.
- *Better innovation and productivity:* Target improvements in areas such as growing and harvesting techniques, irrigation, greenhouses, plant protection, packaging, and logistics.
- *Improved quality and standards:* Place particular focus on organic certification, food safety, HACCP⁷ certification, labeling, and enforcing existing standards.
- *Better market research and marketing:* Research customer requirements and major competitors, and create a unique and differentiating brand for Serbian fruit.
- *Re-engage attractive markets:* Make direct connections with major wholesalers and retailers.

Along with these strategic elements, the fruit cluster companies set quantitative targets to be achieved: (i) increase fresh fruit export revenues by almost 50%, or \$45 million annually, by 2006; (ii) increase fruit juice export revenues by \$7.5 million annually by 2006; and, (iii) increase processed fruit export revenues by \$4.5 million annually by 2006.

The industry will, of course, face other strategic choices as it develops further in the medium to long term. Changing investment and logistical requirements and market opportunities will likely force the industry to narrow its strategic focus. Two potential alternative future strategic concepts that SCEE developed with cluster were⁸:

- *Serbian fruit and fruit juices, anytime, anywhere:* The cluster would generate wealth by selling its fresh fruit and fruit juices year-round to markets anywhere in the world that are willing to pay premium prices for them.

⁷ Hazardous Analysis Critical Control Point

⁸ Such options continue to be evaluated with the fruit cluster as part of the follow-on Serbia Enterprise Development Project (SEDP).

- *Specialized fruit processors:* The cluster would generate wealth by processing fruit into a variety of products of superior reliability and consistency that are sold in major markets, either marketed under Serbian brands or produced for foreign companies.

Results

SCEE worked with the fruit cluster in various ways to begin implementation of these initial strategic elements. Results included:

- **Exposed cluster to international best practice:** Cluster companies received a thorough analysis of the Chilean fruit industry, one of the world's leaders, which increased exports from \$140 million to \$960 million over a 20-year period. The Serbs gained appreciation of this key competitor and its focus on value-added products, commitment to quality, sophisticated logistics, strategic business alliances, and product branding.
- **Organized cluster:** To build sustainability, SCEE assisted the fruit companies to establish a more formal cluster structure with designated leadership. Within the cluster, task forces were organized to focus on training, market research, and standards. Considerable progress was made on building trust among cluster members and willingness to cooperate.
- **Clarified competitive position:** SCEE shared with the cluster its in-depth analysis of the Serbian fruit industry so that the companies had a better understanding of the challenge. This analysis included quantifying exports and imports by product category, explaining how significant profitability is being exported, and demonstrating why the industry is potentially so attractive.
- **Re-engaged with foreign markets:** Through grant funding, SCEE supported several cluster companies in attending a major industry trade show, the ANUGA Fair held in Cologne, Germany in October 2003. Not only did the companies to gain valuable exposure to customer requirements and their competitors, but actual sales of over \$500,000 were achieved through the facilitation of an industry expert.
- **Launched training on quality standards:** Two introductory sessions on HACCP requirements were conducted by the Swiss certification agency, SGS. SCEE also arranged for cluster companies to apply to a separate USAID program, Community Revitalization Through Democratic Action (CRDA), for grant funding to support staff training.

- **Supported fruit training centers:** SCEE facilitated the fruit cluster's preparation of grant applications for submission to various CRDA implementers to obtain funding for regional fruit training centers. These centers will focus on growing techniques, methods to extend the growing season, and new technologies. SCEE assisted in reviewing the proposals and facilitating the necessary contacts.

C. FURNITURE AND WOOD PRODUCTS CLUSTER

The Challenge

Just as with fruit, Serbia enjoys enviable natural resources that, along with superior craftsmanship skills, make it a particularly attractive industry for development. In particular, Serbia has an abundance of forestry resources, particularly hardwoods such as beech, which are ideal for the manufacture of furniture, flooring, and other products. A specialty hardwood, Slavonian oak, is also available, but in lesser quantities.

Serbia has a tradition of producing quality furniture. Furniture and other wood products have historically been a strong industry and export generator for Serbia. In the late 1980s, prior to international sanctions, exports of furniture and wood products from Yugoslavia totaled around \$1 billion annually⁹. By 2000-01, the industry still generated \$100 million in total revenues, but exports had fallen to approximately \$32 million¹⁰. Among export destinations, Western European countries are the largest buyers at 38%. (Italy alone buys 22%.) Former Yugoslav republics Macedonia and Bosnia-Herzegovina purchase 29% of exports.

The industry produces a full range of products, including wooden furniture; wooden windows, doors, and frames; wooden flooring; and, metal furniture. Furniture designs are generally modeled on Western European designs.

The primary competitive challenges facing the Serbian furniture and wood products industry were, broadly speaking, to increase production while maintaining quality; to understand and be more responsive to customer needs by providing better design and service; and, to reconnect with key export markets.

Furniture Product Category	2001 Exports (\$ mil)	% of Total
Wooden upholstered chairs	13.0	41%
Other wooden furniture	6.6	21%
Windows, doors & frames	2.5	7%
Flooring	3.1	10%
Other wood products	4.9	15%
Metal furniture	1.9	6%
Total	32.0	100%

Furniture Cluster Formation

⁹ SIEPA Newsletter, November 2003.

¹⁰ 2000-01 figures are for Serbia alone.

To answer this challenge, the SCEE team convened a 13-member furniture and wood products cluster on December 17, 2002, with membership from a full spectrum of industry participants: manufacturers of furniture, as well as doors, windows, and flooring; a lumber supplier; the academic community; and, an independent industry expert. Other entities continued to join the cluster over the following months and by mid-2003, there were 17 members. A complete membership list is included in the appendices.

Among the cluster members, companies were primarily SMEs in terms of size, although state-owned Kopaonik d.o.o., Kursumlija (KK) was a large-scale enterprise with 1,600 employees in 2002. The majority of participants were from the private sector; public sector representatives included the Yugoslav Standards Bureau and professors from the Forestry Faculty at the University of Belgrade. While most members were primarily located in and around Belgrade, there was nonetheless fair representation from the northern (four members) and southern (five members) regions of the country.

Barriers to Development

As the SCEE team continued to work with the furniture cluster companies, several principle barriers to further development and growth were identified, many of which, not surprisingly, were similar to those for the fruit cluster:

- Lack of financing to fund export growth and productivity-enhancing technologies;
- Lack of quality standards required by many foreign buyers;
- Poor insights into market trends and end-user requirements;
- Lack of knowledge of marketing and branding;
- Poor furniture design;
- Limited production capacity and outdated technology;
- Lack of trust and cooperation among cluster members; and,
- Lack of basic business skills.

Furniture Cluster Strategy

The initial strategy adopted by the furniture cluster included the following key elements:

- *Expanded production capacity through collaboration:* Firms will share information on their technology and capacity and work together to fulfill large orders beyond the capacity of any one producer. Cost savings will also be achieved through group purchasing of raw materials.

- *Better market research and marketing:* The cluster will focus export development on two-three key export markets and work together on joint market research and participation in trade shows. Re-entry into the Russian market is a priority, followed by re-entry into the EU market.
- *Improved quality and standards:* Companies will pursue International Organization for Standardization, or ISO, certification, as well as other essential certificates awarded by industry associations, such as the Forestry Stewardship Council. Consideration will be given to developing a Serbian quality seal.
- *More original design:* To move away from simply copying existing European designs, the cluster will discuss and investigate establishing a national design center to promote original Serbian designs. The center would also work to encourage young Serbian designers to stay in Serbia and provide design services to furniture manufacturers, as well as to other Serbian industries.
- *Skills enhancement:* Cluster companies will organize training where skills are weak: new technologies, marketing, production costing, and general business management.

As part of this strategic development process, the furniture cluster defined three quantitative goals to be achieved through the measures outlined above: (i) increase annual revenues by 24 million Euros by 2007; (ii) increase annual export revenues by 16 million Euros by 2007; and, (iii) create 400 new jobs through 2007.

SCEE worked with the furniture cluster to begin thinking about the strategic choices it is likely to face in the medium to long term after a period of recovery. The choice may likely be between the following two strategic concepts:

- *Branded craftsmanship:* The cluster would generate wealth by selling premium-quality, limited-production furniture and other wood products to Eastern Europe and EU wholesalers. The hallmarks of this strategy would be skilled craftsmanship, extensive marketing, first-rate customer service, and a strong Serbian brand – all intended to attract higher-than-average prices.
- *Increased production:* The cluster would generate wealth by selling serially produced furniture and wood products to Eastern European and EU wholesalers. The hallmarks of this strategy would be large-scale production, long-term contracts, and factories operating at peak capacity – all to ensure highly competitive prices.

Results

SCEE worked with the furniture cluster in various ways to begin implementation of these initial strategic elements. These included:

- **Exposed cluster to international best practice:** The cluster was familiarized with the Spanish and Polish furniture clusters. Both had achieved remarkable export growth through collaboration, targeted marketing, a focus on quality, improved technology and design, and investment incentives.
- **Organized cluster:** As with fruit, SCEE worked to create a sustainable furniture cluster. The companies established an organization headed by a steering committee and including task forces responsible for training, standards, and export market development.
- **Clarified competitive position:** As with fruit, SCEE shared with the cluster its in-depth analysis of the industry so that the companies have a better understanding of the challenge.
- **Re-engaged with foreign markets:** Through grant funding, SCEE assisted the furniture cluster's participation in key industry fairs. Several cluster members attended the Mebel Furniture Fair in Moscow where they were able to assess the competitiveness of cluster companies, establish contacts with distributors and retailers, and gather market information. SCEE also supported six cluster companies to exhibit at the major Cologne Furniture Fair in January 2004. This collaborative effort, which was months in preparation, was a major success and resulted in almost 300 sales leads.
- **Established furniture cluster website:** Grant funds were also used to design and establish a website for the furniture cluster, which was launched in conjunction with the cluster's participation in the Cologne Fair. This website, located at www.serbianfurniture.com, provides news and information about the cluster, contact information for cluster members, and links to the websites of individual cluster members.
- **Launched production collaboration:** Cluster members created a database of production technologies and capacities. They have also toured members' production facilities. Previously such cooperation and openness would have been unthinkable.
- **Conceptualized a Serbian national design center:** Working with a prominent Serbian furniture designer, SCEE explored the detailed requirements and prepared an initial concept for a center to promote Serbian design and designers. The idea is for the center to be broadly inclusive and support

furniture designers and apparel designers, as well as graphic and industrial design.

D. OTHER CLUSTER DEVELOPMENT

As a result of the interest and publicity generated by the National Competitiveness Summit held in April 2003 (discussed below in Section V), other industry groups came forward and indicated their interest in collaborative activity to achieve greater competitiveness. Chief among these were the textiles and construction clusters, both of which requested guidance from SCEE.

Textiles and Apparel

The SCEE team interviewed representatives of the textile and apparel industry early in the project and found that lack of financing, old equipment, excess labor, and loss of customer relationships had contributed to the decline of the traditional textile sector, which was heavily oriented towards CMT (cut-make-trim) manufacturers. However, a small number of privately owned ready-to-wear firms had emerged, spurred on by sophisticated local demand for designer products.

Project members made a presentation (included in the appendices) on May 20, 2003 concerning cluster formation and our cluster experience to date to a meeting of some 50 members (list attached) of the textile industry. A textile specialist with the Serbian Chamber of Commerce organized the session. Based on the relationships developed from this session, and the continued interest in the industry to form a cluster, a number of apparel companies were selected for assistance by SCEE's successor project, the Serbia Enterprise Development Project.

Construction

Dr. Neil Eldin, professor of construction management at Texas A&M University, joined SCEE team members in making a presentation on May 29 (included in the appendices) to 20 companies (list attached) in the construction industry in a session hosted by the Serbian Chamber of Commerce. Dr. Eldin had been working with the construction industry in Macedonia in support of SCEE's sister project, the Macedonia Competitiveness Activity. Thus, the meeting represented efficient use of resources between the two projects, as well as the first step in potential collaboration between Serbian and Macedonian construction clusters in the pursuit of international projects.

The immediate interest of the companies in both countries was the pursuit of contracts with international contracting firms for the reconstruction of Iraq. The broader discussion at the session was to encourage the companies to work together to raise their standards, to market their collective capabilities, and to strategize on how to work with a range of large international contractors for major projects.

IV. THE SERBIA NATIONAL COMPETITIVENESS COUNCIL

A major achievement of the SCEE Project was the establishment of the Serbia National Competitiveness Council (NCC) as a key focal point for promoting and sustaining competitiveness-building activities in Serbia. The Council was formed on March 31, 2003, based on a concept initially developed by the project. After the Council's formation, SCEE continued its support with the development of the NCC's operating procedures and a draft National Competitiveness Strategy.

A. CONCEPTUAL DEVELOPMENT

Proposal for a National Council

In a February 5, 2003 memorandum to Dr. Goran Pitic, Minister of International Economic Relations, the project outlined a proposal for a National Competitiveness Council. This detailed proposal (included in the appendices) addressed the major issues related to forming the Council.

Key elements of the proposal included:

- *Role:* As the focal point for competitiveness activities in Serbia, the Council will focus its attention on issues such as raising productivity; promoting unique Serbian products in key export markets; focusing the Government's attention on building social capital; ensuring that the private sector, government, and civic society are working together; and, ensuring that essential research and analysis is being conducted.
- *Performance Objectives:* For 2003-04, these included: (i) establishing benchmarks to measure progress on increasing competitiveness, or lack thereof; (ii) ensuring that a number of key competitiveness-building initiatives are launched; (iii) hosting a national summit to raise awareness and build momentum; and, (iv) taking steps to ensure the Council's sustainability.
- *Membership:* The proposed Council was to consist of a mix of approximately 20 members from the private sector, government, and civic society, including representatives from the main economic ministries, the central bank, key exporting sectors, labor groups, academics, consumer rights advocates, regional development agencies, and foreign investors. A Chairman from the private sector would lead the Council. A list of prospective members was included in the proposal.

- *Operations:* Specific activities were proposed for the Council, focused on communications, research, and the formation of an administrative secretariat. An outline for more detailed operating procedures was also included.

With some modifications, the Council was formed along the lines proposed.

Clarifying the Role of Government

Along with its proposal for the National Competitiveness Council, SCEE also advised the Government on its appropriate role in building greater competitiveness. The project's recommendations were outlined in a paper delivered to Minister Pitic on March 11, 2003 (included in the appendices). The paper discussed not only the Government's responsibilities, but also those of the private sector and civic society, as well as priorities for Government action.

The project's overriding recommendation to the Government was that it should no longer be the master strategist for Serbia's micro-economy. On the other hand, however, the Government should not limit itself to being simply a "laissez-faire" observer of the micro-economy. Instead, the Government's role should be directed toward creating an environment in which firms can compete, through its responsibility for education, the judicial system, regulation, etc. Beyond that, the Government should do everything it can to assist the private sector to compete, without actually impeding competition itself. That could take several forms:

- Being an active partner with the private sector (for instance, working with industry on drafting regulations);
- Using its enormous purchasing power to enforce competitive procurement practices, promote innovation, and increase quality; and,
- Using its power of convocation to build trust and cooperation among the private sector, civic society, and Government to address competitiveness issues.

In addition to the Government's role, the project addressed the roles of the other two key players. The private sector must take the lead in building competitiveness because individual firms compete in the marketplace, not governments or nations. The private sector must help build prosperity by providing high-value products and services to demanding customers. Civic society must help ensure that all Serbs benefit from the prosperity that comes with increased competitiveness, and that the quality of life in Serbia actually becomes a competitive advantage.

B. STRUCTURE AND ORGANIZATION

The NCC's membership (full list included in the appendices) was finalized in late March 2003 with appointments being made by Minister Pitic. The Council included 27 members from the private sector, the Government, and civic society, with representation allocated as follows:

- *Private Sector:* 13 members, including companies in the fruit, furniture, textiles, pharmaceuticals, automotive, bottled water, construction, and banking sectors.
- *Chambers of Commerce:* Both the Serbian Chamber of Commerce and the Regional Chamber of Commerce in Novi Sad were represented.
- *Media:* One representative.
- *Foreign Investor Community:* One representative from the Foreign Investors Council (FIC).
- *Academia / Think Tanks:* Two representatives.
- *Government:* Eight representatives, including from the Ministries of International Economic Relations; Economy and Privatization; Finance and Economy; Trade, Tourism, and Services; Labor and Employment; Agriculture; and, Science, Technology and Development, as well as the Prime Minister's Chief of Cabinet.

The Council's Executive Committee consisted of a representative from each of the three key sectors of society: (i) Dragoljub Vukadinovic, Managing Director of Metalac, from the private sector; (ii) Professor Boris Begovic, Vice President of the Center for Liberal Democratic Studies, from civic society; and, (iii) Minister Pitic from the Government. Mr. Vukadinovic was also selected to be the Council's Chairman.

The full Council had its inaugural meeting on March 31, 2003 at the Hyatt Hotel in Belgrade. At this session, which was organized and prepared by SCEE, there was enthusiastic support from all members for the NCC's proposed role and mission. The Council was introduced to the public the next day at the opening of the National Competitiveness Summit.

The project continued its organizational assistance to the NCC. In May, the project drafted and agreed a set of procedures (copy attached) for the ongoing operation of the Council. These procedures outline the Council's and the Executive Committee's

functions, define Council membership and terms of office, and provide for the establishment of a secretariat¹¹.

C. DRAFT NATIONAL COMPETITIVENESS STRATEGY

Following the provocative discussions that members of the National Competitiveness Council had with SCEE team members at a retreat in Cambridge, Massachusetts in April 2003 (described in greater detail in Section V.B below), the project began the process of working with the NCC to draft the country's first national competitiveness strategy. The purpose of the strategy was to provide a roadmap and action plan to mobilize and organize the private sector, government, and civic society to accelerate economic growth, to create jobs, and to improve the prosperity of all citizens. It was based on three fundamental themes, which are expected to provide the basis for Serbia's competitiveness strategy during the next 10-20 years:

- Serbia will restructure its economy to become highly productive and knowledge-driven, relying on unique and sophisticated products and services to generate wealth;
- Serbia will pursue membership in the European Union; and,
- Serbia will become an engine of growth for the Balkan region and a valued member of the global community of nations by implementing bilateral and multi-lateral trade agreements.

Working from these underlying themes, the project proposed 10 challenges for improving Serbia's competitiveness. These were:

- Serbia must *increase the productivity of its companies* to produce a competitive private sector.
- Serbia must *increase exports and improve trade policies* as a means of generating significant new wealth and objectively establishing the competitiveness of Serbia's companies against international competitors and quality standards, in part by ending protectionism and improving the nation's trading opportunities.
- Serbia must *re-establish linkages with the international business community* so that Serbian companies can develop their business-to-business markets and enter into strategic partnerships to better meet the needs of the global market.

¹¹ These procedures, with minor modification, were adopted by the Council at its meeting on September 26, 2003.

- Serbia must *build clusters in high-priority sectors* to accelerate sector restructuring, increase individual company productivity, and strengthen export initiatives.
- Serbia must *improve companies' access to, and productive deployment of, financing* for market-development and productivity-improving investments.
- Serbia must *accelerate strategic foreign investment* that will strengthen competitiveness reforms with substantial infusions of financial and intellectual capital.
- Serbia must increase its ability to *employ existing technologies and innovation to create new competitive advantages* for Serbian companies and clusters.
- Serbia must *invest aggressively in its human capital*, starting in the private sector and evolving to address every citizen of Serbia throughout his or her life.
- Serbia must *build and consolidate institutions and leadership* necessary to implement the National Competitiveness Strategy.
- Serbia must *deliver public education about modern economics and competitiveness* to ensure every citizen understands progress being made against the objectives of the National Competitiveness Strategy, and the role that each citizen should play in contributing to future progress.

These challenges formed the basis of more detailed discussion in the draft strategy document, and each was expanded to include specific objectives, priority initiatives, and responsibility assignments.

The July 2003 version of the National Competitiveness Strategy is included in the appendices. This document continued to be discussed in the following months with members of the National Competitiveness Council. With minor revisions, the proposed strategy was adopted by the NCC at its meeting on September 26, 2003.

V. COMPETITIVENESS CONFERENCES

The SCEE Project organized and hosted several competitiveness conferences, each of which was instrumental in increasing awareness and understanding of competitiveness issues, promoting the National Competitiveness Council, and advancing the debate about the priority actions that Serbia needs to take to improve its ability to compete.

A. NATIONAL COMPETITIVENESS SUMMIT, BELGRADE

The inaugural National Competitiveness Summit was held with great success April 1-2, 2003, at the Sava Center in Belgrade. This major conference was organized and sponsored by SCEE. It opened before an audience of 300 persons, including the entire cabinet and key members of the diplomatic corps. The Prime Minister, Mr. Zoran Zivkovic, delivered the keynote address, in which he underscored the importance of developing a more competitive economy, while also emphasizing the Government's fight against organized crime and its commitment to continuing economic reforms. U.S. Ambassador William Montgomery followed the Prime Minister, emphasizing the donor community's ongoing support to Serbia in the wake of the assassination of Prime Minister Zoran Djindjic the previous month.

Mr. Dragoljub Vukadinovic hosted the Summit in his capacity as the Chairman of the National Competitiveness Council, and used the opportunity to introduce the Council's role and its new members.

Attendance throughout the Summit was excellent. In addition to the fruit and furniture clusters, representatives were invited from other major industry sectors, including textiles, pharmaceuticals, automotive, tourism, food processing, banking, and construction. Other invitees came from key Government ministries and agencies, the Central Bank, Parliament, regional governments, trade unions, chambers of commerce, academia, non-governmental organizations, the foreign investor community, and donor organizations.

The audience heard a variety of speakers on competitiveness issues, including members of the Government, representatives of the fruit and furniture clusters, members of the National Competitiveness Council, foreign investors, and the donor community. A complete Summit agenda is included in the appendices.

This first National Competitiveness Summit was important and had several key results:

- *Supported the new Government at a politically opportune moment:* The Summit was held less than three weeks after the Djindjic assassination and provided the new Prime Minister the forum for his first major economic speech, which in this

instance promoted competitiveness and confirmed that economic reform would continue.

- *Promoted an awareness of competitiveness:* The Summit received considerable positive media coverage. Rarely had such a high-profile two-day conference been focused on such an important economic topic. Partly as a result of these two days, the terms “competitiveness” and “clusters” became key words in the Serbian business vocabulary.
- *Showcased the fruit and furniture successes:* In promoting competitiveness and clusters, it is useful to have actual examples of collaborative success to offer. The Summit provided an opportunity for the fruit and furniture clusters to talk about what they had achieved. This was highly instructive to others.
- *Prompted action by other clusters:* After hearing of the successes achieved by the fruit and furniture clusters, other industry groups decided to take action to build their competitiveness. In particular, the textiles and construction industries were particularly motivated. SCEE’s initial assistance to them is detailed in Section III.

B. SERBIAN DELEGATION TO THE UNITED STATES

SCEE sponsored a delegation of 22 Serbian leaders on a trip to the United States April 12 – 18, 2003. The delegation consisted of 14 members of the National Competitiveness Council, including Chairman Dragoljub Vukadinovic and Ministers Goran Pitic, Aleksandar Vlahovic, and Bozidar Djelic. In addition, there were two representatives of the fruit and furniture clusters, as well as six other Government representatives including Energy Minister Kori Udovicki, ministerial advisors, and public relations personnel. A detailed itinerary for the trip is provided in the appendices, as well as a copy of the briefing book prepared for the participants.

One of the real successes of the trip was that it provided the four ministers an opportunity to send a clear message to the international community that, in the aftermath of the death of Prime Minister Djindjic, the Government was in control, successful measures had been taken to fight organized crime, the economic reform program was continuing, and Serbia continued to be an attractive location for investment. In addition to their participation in the World Bank / International Monetary Fund Spring Meetings, the ministers were presented a number of venues in Washington, D.C., Cambridge, Massachusetts, and New York City to convey these messages:

Washington, D.C.

- Business Council for International Understanding
- Representatives of Citigroup
- Investor group organized by JPMorgan
- The Export-Import Bank
- Overseas Private Investment Corporation (OPIC)
- Under Secretary of State Alan Larson (senior economic advisor to Secretary of State Powell)
- Various energy sector meetings.

Cambridge, Massachusetts

- Harvard University, Kennedy School of Government (panel presentation)
- Private meeting with Professor Michael Porter, Harvard Business School.

New York City

- JPMorgan Emerging Markets Group
- Altria
- CNBC's "Power Lunch" (live interview)
- Bloomberg Forum (live interview).

The remainder of the delegation, primarily private sector members of the National Competitiveness Council, followed a separate track from the ministers. Their objectives were primarily to learn more about competitiveness issues and to develop their thinking with regard to developing a national competitiveness strategy.

In Cambridge, this group benefited greatly from several intensive sessions led by SCEE team members from ontheFRONTIER. These sessions focused on defining the role of the NCC; benchmarking Serbia's competitive position; setting priorities for Serbia's competitiveness strategy and action plan; analyzing attitudes in Serbia about competitiveness; and, investigating how to change the existing mindsets. A number of these sessions featured well-known thought leaders, including:

- Hunter Lovins, Rocky Mountain Institute, speaking on "natural capitalism," or how economic growth can be enhanced by environmental friendliness;
- Michael Fairbanks, ontheFRONTIER, focusing on the "competitiveness" mindset;
- Robert Barro, Robert C. Waggoner Professor of Economics at Harvard University, speaking on developing economic prosperity and social equity; and,
- Stace Lindsey, ontheFRONTIER, focusing on building receptivity to change.

These sessions were enhanced later in the week with a number of field trips to provide first-hand insights on competitiveness issues. Of particular interest to the NCC were:

- MIT's Technology Licensing Office, which provided insights into developing innovation and the university's technology transfer activities; and,
- Massachusetts Technology Collaborative, a state-funded body that supports the development of clusters of technology-related companies.

In addition, other visits focused on taking Serbian cluster members to visit companies or organizations directly related to their activities. These included:

Fruit and Fruit Juice Cluster

- The New England Produce Center
- Bread & Circus, a whole foods market specializing in organics
- BJ's Wholesale Market.

Furniture and Wood Products Cluster

- Boston Design Center
- Westwood Furniture
- Jordan's Furniture.

Pharmaceutical Cluster

- Massachusetts Biotech Council (a cluster of biotech companies).

C. SOUTHEAST EUROPE REGIONAL COMPETITIVENESS CONFERENCE, BELGRADE

Based on a proposal by SCEE, the various Balkan region USAID Missions and competitiveness project implementers agreed to convene a meeting in June 2003 to promote regional trade and investment linkages and build capacity for regional firms to compete in key export markets through improved regional cooperation.

The SCEE Project assumed responsibility to plan and host this meeting, which took place on June 16-17, 2003 at the Hyatt Hotel, Belgrade. A total of 29 individuals attended. In addition to Serbia, other countries or regions represented included Kosovo, Croatia, Macedonia, Romania, Bosnia and Herzegovina, and Bulgaria. The attendance list and agenda are included in the appendices.

The three half-day sessions addressed a number of key regional issues. As a result of the discussions, the USAID Missions and implementers committed to initiatives in five areas:

- *Grades and Standards Setting:* This initiative will seek to harmonize regional standards with those of the EU. It will promote an awareness of the importance of standards and seek to build local capacity in the region to facilitate standards implementation.

- *Regional Commodity Pricing System:* In an effort to stimulate regional agricultural trade, this initiative will seek to create a web-based information and pricing system for agricultural products.
- *Regional Cluster Development:* Participants identified furniture and wood products, as well as tourism, as the two clusters where regional cooperation could have an immediate impact. This initiative will seek to connect existing national clusters into a regional group to pursue common objectives.
- *Collaboration among Competitiveness Councils.* Utilizing councils that have been established in several regional countries, this initiative will promote regular meetings among the council leaders and collaboration on regional issues. By working together, councils could have a stronger voice, as well as share lessons learned.
- *Regional Competitiveness Conference:* In order to build further momentum, this event is intended to bring together senior government, private sector, and civic society representatives from multiple countries in the region to further intra-regional cooperation and build a foundation for regional competitiveness.

D. WORLD ECONOMIC FORUM MEETING, ATHENS

While SCEE was not a sponsor of the World Economic Forum's (WEF) regional meeting held in Athens May 23-24, 2003, a key team member did actively participate and take the opportunity to speak about some of the lessons learned from the project in Serbia. Don Pressley of Booz Allen Hamilton, representing SCEE, addressed a "Competitiveness and Entrepreneurship" session. His core message was that individual businesses – and the private sector in general – should lead the way in productivity enhancement, wealth creation, and economic growth in developing countries. Mr. Pressley said the goals and approaches of the competitiveness model he outlined during the session were based on work in Macedonia and Serbia by Booz Allen and its partners.

Prior to the start of the conference, the project responded to a request by USAID / Washington and provided suggested inputs to a speech to be delivered by Dr. Kent Hill, USAID's Assistant Administrator of the Europe and Eurasia Bureau. Included were Serbian examples of how improvements in competitiveness were designed not only to improve economic prosperity, but also to enhance social values. A copy of these speech themes, under the title "Competitiveness That Capitalizes on Social Values," is provided in the appendices.

VI. PUBLIC AWARENESS AND PUBLIC EDUCATION

SCEE promoted competitiveness to the broader business community through both print and broadcast media, and to more targeted groups through smaller seminars and workshops. These public awareness and public education initiatives are outlined in the following section.

A. PROMOTING COMPETITIVENESS IN THE MEDIA

Media coverage focused primarily on the National Competitiveness Summit held April 1-2, 2003 in Belgrade, and on the trip to the U.S. by the delegation of ministers and National Competitiveness Council members from April 12-18, 2003. As a result of thorough planning by SCEE and support provided by other USAID projects and the U.S. Embassy, coverage of both events was extensive and positive. In particular, the National Competitiveness Summit in Belgrade received headline coverage in every newspaper in Serbia, as well as radio and television exposure. Highlights of media articles for April are summarized in the appendices.

Coverage of the National Competitiveness Summit

The project held a briefing on March 11, 2003 to prepare journalists to cover the National Competitiveness Summit. The session was moderated by BBC reporter Djordje Vlajic and included discussions on competitiveness issues led by the project's senior competitiveness advisor, by Assistant Minister Gordana Lazarevic of the Ministry of International Economic Relations, and by leaders from the fruit and furniture clusters. A total of 26 journalists attended and were provided with a press kit (a list of the attendees is attached in the appendices).

To further journalists' understanding of competitiveness, SCEE conducted press tours to cluster companies on March 27-28, 2003. Journalists from Tanjug, *Blic*, *Glas*, *Danas*, Beta Agency, Radio Jugoslavija, and *Ekonomist* participated and visited the Next Juice factory in Subotica and the factories of Eurosalon, Saga, and Bosnjacki, all in Belgrade.

To support press coverage at the National Competitiveness Summit, the project made press kits widely available for all journalists, established a pressroom at the Sava Center, and organized a series of press conferences.

Coverage of the Delegation to the U.S.

To prepare journalists to cover the delegation's visit to the U.S., SCEE held a press briefing at the Belgrade Media Center. A dozen national reporters attended the informal briefing hosted by NCC member Dr. Boris Begovic and SCEE staff. Following

the briefing, a reporter from *Glas Javnosti* interviewed senior SCEE staff members for a story that appeared in the national section of the same publication the following day.

Media Training

The project also provided several media training sessions to individuals from cluster companies to help them understand how to deal with press inquiries and radio and television interviews. Participants included managers from Fresh&Co., Stefani Univerzali, Nektar, Agroekonomic, Eurosalon, Bosnjacki, and Saga. This training was also provided to four National Competitiveness Council members, including the newly appointed Chairman, Dragoljub Vukodinovic.

In addition to this training for cluster management, media training was provided to public relations staff at cluster firms.

SCEE Website¹²

SCEE launched a website for the project to coincide with the National Competitiveness Summit. The site, available in both English and Serbian, had four principle objectives:

- introduce the aims and activities of the SCEE project;
- provide a focal point for sharing project information with SCEE's implementation partners;
- promote the subject of competitiveness within Serbia; and,
- provide a reference tool for cluster firms, potential business partners interested in Serbia, and others interested in learning more about competitiveness.

The website's structure was divided among the following headings: (1) home page; (2) news and updates; (3) about us; (4) project description; (5) project clusters; (6) contact us; and (7) links.

B. PROMOTING COMPETITIVENESS THROUGH SEMINARS AND WORKSHOPS

In addition to the principal media initiatives described above, SCEE promoted competitiveness themes through a number of workshops and conferences.

Competitiveness Workshop with Michael Fairbanks

Shortly after launching SCEE, the project conducted a half-day competitiveness workshop for key Government and business leaders. The objectives of the workshop, held in Belgrade on November 22, 2002, were to present the broad conceptual

¹² The SCEE web address was www.scee.org.yu. That site was discontinued with the launching of a new website for the Serbia National Competitiveness Council at www.nccserbia.org.

underpinnings of the SCEE Project and to generate enthusiasm among business and Government leaders who should take primary responsibility in the drive for greater competitiveness. Fifty representatives from the public and private sectors attended the session, representing 35 organizations. A complete list of attendees is provided in the appendices.

The workshop was led by SCEE team member Michael Fairbanks of ontheFRONTIER, a recognized authority in the area of competitiveness. Using a range of examples, he focused on helping participants understand the concept of competitiveness, how it can be achieved, the differing roles of the public and private sectors in promoting competitiveness, and the link between improved competitiveness and social equity, sustainable job creation, and environmental responsibility. A copy of the workshop handout is provided in the appendices.

Mr. Fairbanks was interviewed immediately after the workshop, first on television by B92, then by journalists from *Ekonomist* and *Politika*. They used this opportunity to expand and re-emphasize for a larger public audience many of the themes presented in the workshop. A translation of the interview with Michael Fairbanks is provided in the appendices.

Competitiveness Workshops

In July 2003 the SCEE team conducted separate workshops with two of its partner organizations, the Serbian Investment and Export Promotion Agency (SIEPA) and the Agency for Small and Medium Enterprises (SME Agency). Each session provided background information on and practical insights into the fundamentals of competitiveness, and described SCEE's practical experience of building clusters in the fruit and furniture sectors.

Montenegro Competitiveness Conference

Two of SCEE's Serbian staff members participated in a competitiveness conference held in Montenegro June 23-27, 2003. The meeting was sponsored by the Yugoslav Association of Economists and was widely attended by leading regional academics and practitioners.

Drawing on SCEE's experience in establishing clusters, these SCEE consultants presented a paper entitled, "Improving Competitiveness Through Cluster Work – The Serbian Experience." Their paper (attached in the appendices) examined a number of components of cluster-based competitiveness building as they had evolved in the Serbian furniture and wood products cluster and the Serbian fruit cluster: the challenges these two groups face, long-term strategies and short-term actions that they have agreed to pursue, and the results they have achieved so far.

VII. PROGRAM AND DONOR COORDINATION

To achieve any measure of success in a competitiveness initiative, the active cooperation and participation of key government ministries and agencies, donor programs, and investors and business organizations are required. SCEE took particular care to coordinate with other relevant organizations and solicit their support. A summary of these activities is presented below.

A. GOVERNMENT

Ministry of International Economic Relations (MIER)

MIER served as SCEE's key counterpart within the Serbian Government. The project team met regularly with Minister Goran Pitic and Assistant Minister Gordana Lazarevic to provide them with briefings on project activities and to solicit their input with regard to project direction, recommendations of helpful contacts, etc. As an additional means of contact, Ministry staff participated in fruit and furniture cluster meetings.

In particular, SCEE worked closely with Minister Pitic to establish the National Competitiveness Council. As noted earlier, the Minister appointed the members of the Council, and served as a member of the NCC's Executive Committee. In addition, he provided inputs to the draft National Competitiveness Strategy.

Minister Pitic and Assistant Minister Lazarevic were involved in shaping the agenda for the inaugural National Competitiveness Summit, and the Minister was a speaker. Both also participated in the SCEE-sponsored delegation to the U.S.

Other Government Ministries, National Bank

With a view to building greater support for the competitiveness initiative, SCEE provided project briefings to a number of other key economic ministries and agencies, including:

- Ministry of Economy and Privatization;
- Ministry of Trade, Tourism, and Services;
- Ministry of Finance and Economy;
- Ministry of Labor and Employment; and,
- Ministry of Science, Technology, and Development.

Each of these sessions, held at the Minister or Deputy Minister level, helped SCEE to better understand the Government's economic priorities, its view of key competitiveness barriers, and ideas regarding competitive industries in Serbia. They

also offered the opportunity to solicit Government support for the broader competitiveness initiative.

The Ministers of the five ministries listed above, along with Minister Pitic of MIER and the Minister of Agriculture, were appointed members of the National Competitiveness Council. Furthermore, a number of these Ministers were active participants in other SCEE activities, including the National Competitiveness Summit in Belgrade and the delegation to the U.S.

The project also provided a briefing at the National Bank.

Economic Development Agencies

SCEE also coordinated its activities with two of the Government's key economic development agencies.

Serbian Investment and Export Promotion Agency (SIEPA)

With SIEPA, the project shared common objectives -- attracting investment and promoting exports. In addition, SIEPA targeted food processing and wood products as key sectors for its attention, and so the agency was particularly interested in and supportive of SCEE's work with the fruit and furniture clusters.

SCEE and SIEPA shared with one another initial presentations of their objectives, priorities, and capabilities. SIEPA also made presentations to both the fruit and furniture clusters concerning the support the agency could provide to exporters. SIEPA staff members regularly attended cluster meetings to stay abreast of cluster activities and to identify areas where they could provide assistance.

SCEE provided training to SIEPA staff. On July 3 and 9, 2003, the project delivered two training workshops, the first on competitiveness principles and the second on cluster development.

In June 2003, SCEE commented on a study funded by the European Agency for Reconstruction (EAR) and prepared for the benefit of SIEPA. This report, entitled "Investment Promotion Strategy," was also the subject of a workshop on July 2, 2003, in which SCEE participated.

Agency for Small and Medium Enterprises (SME Agency)

The second development agency with which SCEE coordinated was the Agency for Small and Medium Enterprises (SME Agency). As with SIEPA, the project provided a training session on competitiveness principles and cluster development. In Summer

2003, SCEE provided written input to the Agency, through the Ministry of Economy, regarding cluster development for inclusion in the “Report on SMEs of the Republic of Serbia.”

B. INVESTOR ORGANIZATIONS

Foreign Investors Council (FIC)

SCEE coordinated and promoted its activities with two key investor organizations in Serbia. Early in its existence, the project briefed the influential Foreign Investors Council about its objectives. In its assessment of competitiveness, SCEE made use of FIC’s “White Book Proposal for Improvement of the Investment Climate in Serbia,” a comprehensive and in-depth study of the subject. Likewise, FIC was supportive of the project’s activities: FIC’s Secretary General was a speaker at the National Competitiveness Summit and was invited to be a member of the National Competitiveness Council.

American Chamber of Commerce in Serbia and Montenegro (AmCham)

AmCham is also an influential investor organization and promoter of trade and economic recovery in Serbia. SCEE drew upon AmCham’s business network to build support for the competitiveness initiative. For instance, on March 27, 2003 AmCham hosted a breakfast meeting of its members to hear a speech by Minister Goran Pitic entitled “Serbia’s Commitment to Competitiveness Reforms.” Minister Pitic also used this opportunity to announce the formation of the National Competitiveness Council.

As a further indication of our mutual cooperation, AmCham’s President was a featured speaker at the National Competitiveness Summit. AmCham also provided an opportunity in the July 2003 issue of its *AmCham Perspective* magazine to publish an article entitled “Helping Serbian Businesses Gain a Competitive Advantage.”

C. DONOR AND INTERNATIONAL ORGANIZATIONS

The primary vehicle for coordinating with other donor programs and international organizations was the monthly Donors’ Coordination Meeting. SCEE’s Chief of Party Dillon Coleman was in regular attendance at this meeting, which also included representatives of other USAID projects, the World Bank, the European Bank for Reconstruction and Development (EBRD), Gesellschaft fur Technische Zusammenarbeit (GTZ), the U.K. Department for International Development (DFID), European Agency for Reconstruction (EAR), United Nations Development Program (UNDP), the International Finance Corporation (IFC), IFC’s Southeast Europe Enterprise Development (SEED) Program, and the Swiss Development Corporation. These

sessions offered the opportunity for all programs to report on their activities and identify areas for mutual cooperation.

SCEE did cooperate specifically with two other USAID-funded programs. Given their interest in small business development around regional municipalities, a number of the CRDA implementers were invited to make presentations and routinely attended meetings of the fruit and furniture clusters. These included CRDA implementers Mercy Corps, IRD, ACDI/VOCA, and CHF. As noted earlier, SCEE worked with the first three of those implementers to develop proposals for funding training centers for the fruit cluster.

In another initiative to assist the fruit and furniture cluster companies, SCEE worked with USAID's Global Trade and Technology Network (GTN) to have all companies listed on automated platform providing exporting opportunities.

VIII. LESSONS LEARNED

A. CLUSTER DEVELOPMENT

Clusters develop best organically, not when their structure is imposed. Clusters develop, grow, and succeed not because smart consultants tell them it's the thing to do, but because the companies see an economic benefit resulting from the collaboration. After working with the fruit and furniture clusters, SCEE staff recognizes that the momentum for cluster development begins to accelerate rapidly only after the companies start working together on a real project. Through this collaborative experience, they can begin to break down the barriers of distrust and secrecy and appreciate first-hand the benefits of working together. The follow-on SEDP project has followed this approach and found that it greatly facilitates cluster development.

Use industry experts to help guide and facilitate cluster development. SCEE's experience with the fruit and furniture clusters, while successful, demonstrated that using industry experts from the outset would have enhanced the cluster development process. While competitiveness experts have their role, only someone who has had a career in a particular industry can bring the necessary insights into competitive position, product quality, technology, target markets, and strategic development. They are immediately able to speak the "language" of the industry, understand its problems, and bring enormous credibility to the cluster-building process. Importantly, industry experts can also bring personal contacts to be exploited as the cluster seeks to re-connect with export markets.

Cluster members should assume leadership as soon as possible. Cluster members need to understand from the very beginning that they must take responsibility for the cluster's development. As SCEE learned from its experience with fruit and furniture, outside consultants can help in shaping the agenda and providing direction, but the companies need to show their willingness to devote the time and energy not only to substantive matters, such as researching and debating their strategic direction, but also to simpler issues such as organizing and hosting their meetings. SEDP has made "willingness to assume leadership and responsibility" a key criteria in selecting a cluster for support. If the cluster is not willing to show such commitment, it is unlikely to have the entrepreneurial drive necessary to be successful.

Short-term successes are necessary, but don't forget long-term strategy. Some "wins" are necessary early in the cluster development process in order to focus the companies' attention and provide them the necessary incentives to continue. But short-term opportunism should not completely override the need to develop a longer-term strategy. Newly formed clusters generally lack any collective vision and action plan for their future development, and this is obviously essential if they are going to build a solid competitive position. SCEE's experience showed that cluster development

requires a balance between short-term opportunities to create momentum and enthusiasm and longer-term strategic development to ensure sustainability and continued commitment

To the extent possible, keep politics out of cluster selection. This was not a major problem for SCEE. Fruit and furniture were obvious choices that did not give rise to criticism. However, in discussing potential clusters for future support, some comments from ministerial colleagues indicated that their suggestions were somewhat biased towards sectors that, because of size, level of unemployment, or some other political expediency, were politically important. This is of course natural, but may cause selection of a sector that is not competitive. Cluster selection should be directed towards those sectors, subsectors, or niches that are, or could be, competitive against international firms.

B. NATIONAL COMPETITIVENESS COUNCIL

Do not rush to write a national competitiveness strategy. Soon after the formation of the Serbian NCC and the delegation visit to the United States, SCEE began working with the Council to develop a National Competitiveness Strategy. Such a strategy was viewed by many as the fundamental *raison d'être* justifying the Council's very existence, and a pre-condition for its further development. While a national strategy is indeed important, a newly formed Council should keep it in perspective and realize that there are other essential things to do at the outset. In retrospect, it would have been better had the Serbian NCC focused on establishing its operations and defining a disciplined process by which the strategy would be developed, including in-depth economic analysis, input and drafting by local experts and academics, and a review process that involved and drew upon the expertise of Council members. This more deliberate approach would have required several months, but that is to be expected since the development and adoption of a strategy of such importance is a complex matter. The end product, however, would be one that is well founded and supported by key elements of the private sector, government, and civic society.

The NCC should be independent and non-political. The Council's key roles are to provide policy advice to government on competitiveness-related issues and to promote competitiveness initiatives in the private sector. Recommendations to government are most useful when they are objective and, in essence, tell the government "like it is." However, objectivity can be difficult to achieve when government ministers sit on the Council. Likewise, the Council is likely to have enhanced legitimacy in the public eye if it is considered to be free of political influence. Given these objectives and SCEE's initial work with the Serbian Council, the project would recommend that, in the Serbian context, the NCC in future consist only of private sector and civic society members. Access to government is still important, but that can be achieved without having ministerial representation on the Council itself.

Establish linkages with other councils as soon as possible after formation. There are a number of successful competitiveness and economic development councils in Western Europe (e.g., the Irish Competitiveness Council) that could serve as useful role models and sources of information for similar bodies being established in developing countries. Visits to one or more of these councils to discuss such topics as organization, operating procedures, analytical and research support, funding, promotional campaigns, and communications should be a high priority for any new council. In retrospect, such face-to-face contacts by the Serbian Council leadership would have helped them rapidly gain an understanding of different operating models, and benefit from lessons already learned by others.

Keep council membership limited. Based on its experience of working with the 27 members of Serbia's initial National Competitiveness Council, the project staff recommends that, in future, membership should be limited to around 15 members. Smaller groups are more efficient and, as a practical matter, the logistics of organizing meetings are much simpler.

C. OTHER ISSUES

Building competitiveness is a long-term effort, and project duration should reflect that. The one-year duration of SCEE forced the team to hurry activities (e.g., cluster formation, drafting the National Competitiveness Strategy) that, in reality, should have been spread over longer time periods. Thus, the project's short-term nature put it under artificial constraints and did not allow some complex activities to develop in a more natural flow. While good results were achieved, our recommendation is that project duration should be consistent with the long-term nature of competitiveness-building initiatives.

There's plenty of room for many donors to be involved in competitiveness, but coordination is essential. As this report makes clear, successfully building greater competitiveness requires a myriad of activities and demands the commitment of numerous organizations. No one donor organization could possibly provide all the necessary support, so there is scope for involvement by many donors. However, to avoid duplication and wasting of resources, and to be sure all needs are covered, a great deal of coordination is required among various donors. SCEE coordinated with numerous donors and donor projects and, in general, this interaction among donors was effective. But the need to coordinate never ceases and, as the competitiveness initiative in Serbia goes forward and grows, it must continue to be a top priority.

Successful competitiveness initiatives require significant communications programs. Like any other initiative, a competitiveness-building campaign will not gain the momentum it needs to succeed without significant attention being placed on

communications, public awareness, and public education. There are a number of communications activities that need to be initiated and sustained to make an impact. These include educating the business community and broader public to build acceptance and commitment, publicizing successes and role models to motivate others, launching websites and using other communications tools to re-connect industries to export markets, and raising the profile of the National Competitiveness Council. SCEE's budget for communications was limited and, although a number of key activities were launched, more could have been done. The follow-on SEDP project has substantial resources for communications and a greater impact has already been achieved.

**USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – October 2002**

Date: November 14, 2002

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for October 2002

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
Mr. Marko Obradovic, Deputy, Office of the Deputy Prime Minister, FRY
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Mr. Ashraf Soos, RCO, USAID/Budapest

1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project
Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003
Start Date: October 1, 2002
Report Date and Number: November 14, 2002, No. 1
Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec,
Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert
Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

(a) Project Administration -- Arrangements to lease project offices were tentatively agreed. The space is located at 41 Terazije, Belgrade on the same floor as the “Economic Planning for Economic Efficiency” (EPEE) project. It is expected that the project will be able to occupy the offices in mid-November after the present tenants have vacated. In the meantime, SCEE project consultants will work from space made available in the EPEE offices.

Interviews were ongoing during the month for the selection of local staff. Three full-time staff members have been recruited: the office manager, financial manager, and one junior economist. A local subcontractor has been identified to employ the local staff and provide them to the project.

Dillon Coleman, the Chief of Party, formally joined the project on 23 October.

(b) Project Initiation -- Project activities began in Serbia with the arrival of Project Director Mark Belcher, Project Co-ordinator Deqa Farah of Booz Allen, and the Market-Demand Export Activity team on 7 October. This group, accompanied by Dillon Coleman, met with the local AID mission on 8 October and Assistant Ministers Gordana Lazarevic and Ana Trbovic of the Serbian Ministry of International Economic Relations on 9 October. In addition to these introductory sessions, a number of logistical and staffing activities were started in Belgrade to prepare for the arrival of a Booz Allen / ontheFRONTIER team at the beginning of November to begin Phase I.

(c) Market-Demand Export Activity – To initiate Phase I of our workplan and capitalize on existing Booz Allen industry relationships, we identified decorative home accessories and processed foods as markets where we could quickly bring together potential North American buyers and Serbian producers and gain “real-time” insights into two Serbian clusters. The Market-Demand Export Activity team was in Serbia from 7 – 25 October with the specific objectives of (i) identifying potential U.S. purchasers and matching them with appropriate Serbian suppliers; (ii) educating Serbian firms on, and helping facilitate, the “selling “ process; and (iii) developing initial hypotheses as to whether business or ancillary conditions (e.g., weak transport systems) impede creating competitive advantage.

Prior to arrival in Serbia, task members Ray Manoff, Bob Delemarre, and Erin Owens had actively engaged senior level executives from a number of U.S. firms, and these executives enthusiastically expressed their interest in exploring Serbian market potential.

During the mission, nearly 200 Serbian firms met with the team and most provided, at no cost to the project, samples and brochures of their capabilities and products.

Meetings with home accessories/flooring companies suggested that a combination of natural resources, competent production, and some flair for design may form the basis for completing transactions in North America and other markets. Meetings with food processors were also positive – products with good quality, attractive packaging, and competitive pricing were received that may be marketable, as consumer trends in North America show increasing demand for unusual, organic, and ethnic food products.

As a result of this mission and follow-up work in the States, considerable progress has already been made in identifying both potential U.S. buyers and Serbian producers. Serbian home accessories and wood flooring firms have already been tentatively matched with potential North American buyers based on the Serbian firms' current capabilities, attitudes, and interests. Potential U.S. buyers of food products have also been identified, and samples have been collected from Serbian firms.

As part of their activity, the Market-Demand Export Activity team also captured market- and firm-specific information and attitudes from surveys completed with all interviewed firms to feed into our national and cluster level competitiveness assessment. Preliminary examples of themes that continued to appear are: (i) need for a national organic food certification process; (ii) need for an understanding as to how small producers can join forces to serve the larger North American market; (iii) lack of a unified professional design community; (iv) non-existent or underdeveloped knowledge of export markets; and (v) poor transport and logistical systems which hinder effective export.

A second mission by the team is planned for November to facilitate further the closing of business deals by the Serbian firms with interested U.S. companies and to integrate leaders from these Serbian enterprises into the broader national and cluster level competitiveness audit.

A full copy of the team's report is attached¹.

(d) Formal Project Kick-Off -- The project was formally kicked off on October 23 and 24 through a series of meetings with senior government and parliamentary officials, key counterparts, and associates. These sessions were led by Don Pressley of Booz Allen and Michael Fairbanks of ontheFRONTIER, accompanied by Chief of Party, Dillon Coleman. The purpose of these meetings was to introduce the project and its objectives, generate enthusiasm and support, and better understand the issues and concerns of Serbian leaders as they seek to improve competitiveness.

¹ As a small, but important, aside to this visit, team members spoke with Hyatt Hotel food and minibar managers regarding their lack of Serbian products (primarily liquors in the bar, items in the minibar, and juices in the restaurant). Team member Bob Delemarre has received a note from the Serbian company NEXT that Hyatt is now ordering and serving their juices.

Key focus and themes of these meetings:

- U.S. Embassy: Maja Piscevic, Patrick Hughes, Chris Dunnett – A broad-ranging commentary was provided on Serbia’s economic situation and relevant legislation, as well as suggestions on interesting clusters and leading firms for further investigation. The Office of Public Diplomacy expressed interest in translating Plowing the Sea, co-authored by Michael Fairbanks, into the Serbian language.
- Ministry of International Economic Relations: Serbian Minister Goran Pitic and Assistant Ministers Gordana Lazarevic and Ana Trbovic (other senior ministers were invited, but were unable to attend due to a Cabinet meeting). The participants agreed on holding a workshop on 14 November² for a broad range of Serbian leaders, including senior ministers and other government officials, key members of parliament, business leaders, editorial writers and other opinion-shapers, and civil society leaders. The objectives of this session, to be led by Michael Fairbanks, will be to generate enthusiasm and support at the highest levels, to introduce competitiveness concepts, and to frame to the strategic choices that Serbian leaders will have to make. The workshop will also give the project team an opportunity to identify potential leaders of the competitiveness initiative and to evaluate the level of understanding of competitiveness concepts and economic activity at the cluster level.
- Republic Parliamentary Committees: Vlatko Sekulovic (Deputy Chair of Committee for Foreign Economic Relations), Bojan Pajtic (Legislative Committee Chairman), and Dragisa Marinkovic (Chair of Committee for Privatization) – These parliamentarians expressed their interest in, and support for, legislative initiatives that will be necessary to enhance Serbia’s competitive position. In addition, they would like to participate in the public education campaign, perhaps by publishing articles on topics related to competitiveness.
- World Bank: Itzhak Goldberg, Scott Jacobs, Doug Muir, Irina Astrakhan – The range of topics discussed included: studies completed by the Bank or other organizations that are relevant background for SCEE; useful contacts among government, NGOs, and other donor projects; legislative and business regulation issues; and interesting business clusters.
- Center for Liberal-Democratic Studies (CLDS): Boris Begovic, Bosko Mijatovic, Dragor Hiber -- We reviewed CLDS’s recent projects on competition policy and corruption, as well as their thoughts on the radical changes that will be necessary to create a more competitive culture in Serbia. In addition, CLDS’s consulting

² Since re-scheduled for 22 November

capabilities were discussed with a view to possibly utilizing CLDS to conduct the Change-Readiness Assessment in Phase I.

- Deputy Federal Prime Minister Miroljub Labus – After hearing a broad description about SCEE's objectives and methods, Mr. Labus expressed his unqualified support for the project. He was particularly interested in the project's focus of developing and bringing about change through initiatives aimed at the cluster level.
- USAID Mission Director: Spike Stephenson – The team summarized their first impressions based on the two days of kick-off meetings. Everyone was impressed by the enthusiasm and receptivity shown by the various leaders, with a recognition, however, that much work would be required to expand the base of support necessary to achieve real change. There were further useful discussions regarding various clusters, particular fruits and vegetables.

To conclude the formal launch of the project, Booz Allen hosted a reception on the evening of 24 October with guests attending from USAID, other donor-funded projects, as well as Serbian counterparts and firms visited by Market-Demand Export Activity team.

(e) Other Activities – The project began preparation of its detailed workplan, began preliminary work on trade statistics to determine export performance and potential, and made preparations for the arrival of a Booz Allen / ontheFRONTIER team to initiate the Competitiveness Intervention Design. Preparations were also made for the return of members of the Market-Demand Export Activity team to attend annual Belgrade Furniture Fair November 11-17.

At the request of the Education Center in Leskovac, Chief of Party Dillon Coleman attended a conference entitled "From Embargo to Integration" on 31 October – 1 November and made a presentation of the project. The conference was attended by 35 – 40 regional enterprises wanting to improve their exports, as well as by journalists from local newspapers and TV Leskovac. The Chief of Party was interviewed by TV Leskovac after his presentation.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

The workplan is in the final stages of development; as yet, there are no proposed changes.

III. PROBLEMS

As noted, Michael Fairbanks agreed to Minister Pitic's suggestion of a workshop to be held for senior public and private sector leaders. To maximize the impact of this session, the list of invitees should be finalized and invitations issued as soon as possible.

The project's move into its offices has been delayed as a result of the existing tenant's inability to obtain permission from the Federal Property Commission (the federal government owns a portion of the building) to move to another floor in the building, thereby freeing up office designated for SCEE. It is hoped that this situation will be resolved by mid-November. The EPEE project has been extremely supportive and flexible.

IV. OTHER DEVELOPMENTS

It is unclear what impact the results of the upcoming Serbian Presidential elections may have upon the environment in which the SCEE project will be implemented, or the impact of policy or personnel changes that might occur in counterpart ministries and supportive organizations.

**USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – November 2002**

Date: December 15, 2002

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for November 2002

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
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Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
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1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project

Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER

Contract Number: PCE-I-00-98-00013-00

Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003

Start Date: October 1, 2002

Report Date and Number: December 15, 2002, No. 2

Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec,
Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert
Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

(a) Project Administration – The project experienced continuing difficulties in occupying the space located at Terazije 41 next to the EPEE project and was forced to look for other offices. In the meantime, project continued to work from the EPEE location.

The project's detailed workplan was submitted to, and reviewed with, USAID on November 18. The plan was reviewed with Assistant Minister Gordana Lazarevic and her team at our counterpart ministry, the Republic of Serbia Ministry of International Economic Relations, on December 3.

(b) Coordination with Other Donors – We have begun our active coordination with other donor organizations. The Chief of Party, Dillon Coleman, along with competitiveness expert, Dane Smith, made a presentation of the SCEE Project at the monthly donors' meeting held on November 5. In addition, the Chief of Party has begun a series of discussions with other projects to identify areas of mutual interest and potential cooperation. Meetings this month were held with the European Union's Policy & Legal Advice Center and Community Infrastructure Development Program managed by CHF.

(b) Market Demand Export Activity -- Progress was made during November in the furniture /home accessories area with further qualifying of Serbian firms as possible exporters to the U.S., educating these firms on product development for export, determining the potential of specific products, and identifying barriers which will likely hinder immediate exports. On the other hand, our activities in the food processing area were hampered by shipping difficulties outside the project's control, as summarized below.

Also during November, many of the Serbian industry leaders identified in our initial visits, in both furniture/home accessories and food processing, were interviewed and integrated into the broader cluster level activities.

Furniture - Industry specialists Ray Manoff and Ernest Owens visited Serbia from November 10th - 23rd. Two days were spent at the annual Belgrade furniture show, during which time they continued identifying additional producers with product potential and evaluating characteristics of the current industry (such as pricing practices, export experience, and overall product quality). Following the show, their time was spent in further one-on-one discussions with prospects, including visits to individual factories and meetings with company product designers. A representative listing of the firms visited is included as an appendix to this report.

During November, U.S. buyer requests for additional information centered on potential product prices, the need for design changes to meet American tastes, continued high tariffs on any products imported before Normal Trade Relations (NTR) legislation has passed, and ability to produce minimum required quantities, on time and at consistently high quality.

During their visit, Messrs. Manoff and Owens met on several occasions with other members of the team to share their insights concerning Serbian furniture manufacturers and obstacles to export. By the end of November, the following were beginning to emerge as some of the most significant obstacles to Serbian furniture / home accessories exports to the U.S. market:

- Lack of Normal Trade Relations (NTR) status and the resulting higher costs;
- Lack of sufficient productive capacity to service U.S. customers; and
- Less innovative product design and manufacture in Serbia.

Food Processing - Unfortunately our food export effort suffered a setback when the delivery of samples collected in October was both substantially delayed in Customs and then arrived with extensive product breakage and other transit damage. Many of those products not broken suffered label damage and were unsuitable for presentation to potential American customers. This damage occurred despite using one of the leading international shipping companies.

Plans are in process to replace a selected group of the samples in December and to schedule visits with potential U.S. buyers in January. Despite the disappointment with the samples and the subsequent delays, team members have continued to contact and collect information from potential U.S. buyers with regard to product needs and other important market entry data: how customers buy, requirements placed upon sellers related to product quality, minimum lot sizes, sanitary related issues, quality control, etc.

(c) Competitiveness Workshop – As one of the major highlights of the month, we conducted a half-day Competitiveness Workshop for key government and business leaders on November 22 in Belgrade. As agreed with Republic of Serbia Minister Goran Pitic of the Ministry of International Economic Relations during the project's formal kickoff in mid-October, the objectives of the workshop were to present the broad conceptual underpinnings for the SCEE Project and generate enthusiasm among government and business leaders who should take primary responsibility in the drive for greater competitiveness. Fifty representatives from the public and private sectors attended the session, representing 35 different organizations, and including the Serbian Ministers of International Economic Relations, Trade and Tourism, and Technology and Development. A complete list of attendees is attached.

The workshop was led by team member Michael Fairbanks, a recognized authority in the area of competitiveness. Using a wide range of examples and experience from other countries, Mr. Fairbanks focused on helping participants to understand what competitiveness is all about, how it can be achieved, the differing roles of the public and private sectors in promoting competitiveness and the link between improved competitiveness and social equity, sustainable job creation and environmental responsibility. Dane Smith followed in the second half of the session with further emphasis on the need to combine operational efficiency, well-planned strategic choices and the pursuit of greater competitiveness by focusing on clusters of related and supportive enterprises. A copy of the workshop handout is attached.

Many of the participants provided very positive feedback immediately following the workshop, commenting on the usefulness of including both private sector leaders and government representatives in such an open and honest dialogue about important competitiveness themes.

Michael Fairbanks and Dane Smith were interviewed immediately after the workshop, first on television by B92, then by journalists from the *Ekonomist* and *Politika*. They used this opportunity to expand and re-emphasize for a larger public audience many of the themes presented in the workshop. A translation of the interview with Michael Fairbanks is attached.

(d) Competitiveness Assessment – Competitiveness experts Dane Smith, Lawrence Groo and Karen Towers were in Serbia from November 4th - 24th to kick-off our national competitiveness assessment. Prior to their arrival, the pharmaceutical, agricultural, textile and furniture clusters had been identified as potential candidates for inclusion in the project.

As described below, the team conducted a wide range of interviews during their stay. A list of the persons interviewed is attached. These conversations focused on three key questions:

- What products or services are being sold to whom (which customers)?
- Why do their customers buy from them instead of from their competitors?
- Why is it difficult for their competitors to imitate them and take away their best customers?

Having good answers to these questions is the cornerstone to establishing a sustainable competitive advantage. Discussing the questions at length allowed the team to test hypotheses about the current level of competitiveness of the companies that were interviewed and exposed many of the obstacles that companies are confronting in their effort to become more competitive. The team will return in December to continue the assessment and to hold the first cluster meetings.

Fruit Cluster Mobilization - The SCEE team interviewed ten members of the fruit cluster including fruit juice producers, a farmers' association, cold stores, wholesalers, agricultural NGOs and the Serbian Minister of Agriculture, Prof. Dragan Vesolinov. From conversations with cluster members and their customers, the team learned that Serbian fruit products compete in export markets largely by offering low prices.

Cluster members believe that Serbia can increase its export earnings by introducing new products. They identified important obstacles to growth, such as inadequate financing, lack of organic certification, insufficient understanding of how to penetrate attractive foreign markets and limited cooperation among cluster members.

A preliminary group of leaders in the fruit cluster has been identified to participate in the first National Fruit Cluster Council meeting. These leaders include Fresh Co., Agrana, Agroekonomik and Tetra Pak.

Textile Cluster Mobilization - The SCEE team interviewed representatives of Afrodite Mode Collection, Beko Clothing Company, CLICK and members of the Yugoslav Chambers of Commerce. Key issues were the effect of privatization on the textile sector, the emergence of a small group of ready-to-wear clothing companies and the existence of a large number of struggling, socially-owned CMT (Cut-Make-Trim) manufacturers.

Meetings with government officials and cluster firms suggest that a combination of lack of financing, old equipment, excess labor and loss of customer relationships have contributed to the decline of the traditional textile sector. A small number of privately-owned ready-to-wear firms have emerged spurred on by sophisticated local demand for designer products.

Cluster members are receptive to cooperation within the cluster. Next steps include identifying cluster leaders to participate in the National Cluster Council Meeting.

Furniture Cluster Mobilization - The SCEE team interviewed ten members of the furniture cluster including producers of chairs, windows, flooring and doors, foreign buyers, the government's leading expert on the wood industry, and exhibitors at the national furniture fair in Beograd.

The team's initial findings suggested that Serbian furniture products are competitive in wood quality. Despite excellent craftsmanship, Serbian furniture makers sell at lower costs than their competitors in Italy. Customers explained this by the lack of original Serbian design and insufficient service from the Serbian furniture companies.

Our team's analysis suggests that Serbia can increase export earnings by enhancing the competitiveness of private firms and other actors in the furniture cluster. Key barriers to improving growth in the cluster include lack of financing for new equipment and new factories, lack of understanding of how to penetrate attractive foreign markets and limited cooperation among cluster members.

As a result of the initial round of meetings and interviews, a preliminary group of leaders in the furniture cluster have been identified to participate in the first National Furniture Cluster Council meeting. These leaders include Bosnjacki, Jankovic, Modul, and Eurosalon. Bosnjaski also participated in the November 22nd SCEE workshop given by Michael Fairbanks.

Pharmaceutical Cluster Mobilization - The SCEE team interviewed representatives of Hemofarm, Galenika and Vetfarm. These companies discussed their interest in increasing exports, possible partnerships with E.U. and U.S. producers and distributors, and the affect of privatization on the pharmaceutical sector. The U.S. market, in particular, is a primary focus of Hemofarm.

Cluster members are very receptive to cooperation with the SCEE team. However, the relative dominance of the two leading pharmaceutical firms within the domestic market suggests that the cluster is particularly challenging from the perspective of cooperative engagements. Further meetings were planned in December to explore whether there is a possible opportunity to broaden the cluster definition to include, for example, health care providers, pharmacies, hospitals, etc.

Trade Statistics - The Trade Statistics Analysis is a methodology developed by ontheFRONTIER to assess a country's level of progress based on an examination of export data collected by the United Nations. The analysis is significant because it highlights the importance of clusters in a competitive economy.

Export data for Yugoslavia was received from the United Nations in mid-November and is currently being analyzed by the SCEE team. The Trade Statistics Analysis will be completed by early December and selected findings will be shared at the cluster meetings.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

In mid-December, the SCEE team will be conducting a series of meetings with cluster leaders to discuss the formation of cluster competitiveness councils. One purpose of these meetings will be to assess the feasibility of the present project time schedule for the planned Competitiveness Roundtables and Summit, as reflected in the attached workplan. A further assessment of scheduling will be provided in the December report after these meetings have been concluded.

III. PROBLEMS

The delay in obtaining access to the office space at 41 Terazije has constrained the operational efficiency of the project. However, the program's substantive work has moved ahead on schedule, and the office situation should be remedied in early December.

IV. OTHER DEVELOPMENTS

Nothing to report under this heading.

USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – December 2002

Date: January 15, 2003

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for December 2002

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
Mr. Marko Obradovic, Deputy, Office of the Deputy Prime Minister, FRY
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Mr. Ashraf Soos, RCO, USAID/Budapest

1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project
Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003
Start Date: October 1, 2002
Report Date and Number: January 15, 2003, No. 3
Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec, Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

(a) Project Administration – The project moved into its new offices located at 31 Kralja Milana, Belgrade on 19 December.

Our local staff was strengthened by the addition of Jasna Matic on December 9 and Ivan Jankovic on December 17. Jasna was formerly an advisor to Mr. Miroljub Labus, the FRY Deputy Prime Minister. Ivan previously supported the project on a short term consulting basis and brings experience with both the food processing and furniture clusters.

(b) Coordination with the Serbian Ministry of International Economic Relations – Following the initial fruit and furniture cluster meetings (described below), Chief of Party Dillon Coleman, accompanied by competitiveness experts Dane Smith and Joe Babiec, held a de-briefing session with Minister Goran Pitic and Assistant Minister Gordana Lazarevic. The Minister was enthusiastic in his continued support and reiterated the importance of the program for the Government's economic strategy. In addition he outlined a number of critical areas where he would like the project to assist the Ministry:

- Defining the Ministry's and Government's role in improving competitiveness and making it a national priority;
- Disseminating the competitiveness message to the broader public; and
- Supporting Minister Pitic and other ministers in their ability to speak about and promote competitiveness.

The team agreed to respond to the Minister in January with concrete measures as to how such support could be provided.

(c) Market Demand Export Activity – This activity is in its final stages and the outstanding tasks described below will be wound up near the end of January. A number of valuable "lessons learned" have been gleaned from this exercise and these will be summarized in a final written report. This will provide valuable input to the furniture and fruit clusters as they move forward with their strategy development process.

Furniture - Despite recognizing that the Serbian furniture cluster does in fact have good potential, U.S. buyers with whom our team maintained contacts during December are not ready to place orders. The primary reasons are those cited previously in our November report: lack of Normal Trading Relations (NTR) trading status, lack of adequate productive capacity, at the Serbian level and the need to improve product design. An exception may be the interest shown in wood flooring produced in Serbia. One potential buyer (Dantek & Associates) continues to show interest and has presented a number of questions. The project will facilitate obtaining responses to these enquiries and getting the companies in direct contact.

Ernie Owens, our furniture industry expert, will prepare written findings for each of the Serbian companies visited. This customized feedback from the U.S. market will be extremely valuable as these companies consider their competitive position.

Food Processing - As indicated in our November report, our food export effort suffered a setback when the delivery of samples was held up in Customs and arrived with extensive damage, thus delaying the team's ability to explore the potential among U.S. buyers.¹ Another group of food-related samples will be shipped in early January for presentation to selected U.S. buyers. In the meantime, the continued interaction of team member Bob Delemarre during December with buyers indicates that there may be sales potential for Serbian liquors in the U.S. market.

(d) Competitiveness Assessment – Team members Dane Smith, Lawrence Groo, and Karen Towers arrived back in Serbia in the first week of December to progress the competitiveness assessment begun in November and continue the intensive interview process with potential cluster participants.

Continued Cluster Mobilization

Fruit Cluster - The SCEE team interviewed representatives of Zemlzoradnicka Zadruga Arilye, Niba Company, Takovo, Stefani Universal, Agrana Import-Export, Poljoprivredni List Agricultural Magazine, U.S. Embassy's Department of Agriculture, and the Faculty of Agriculture at the University of Belgrade. These companies and organizations expressed an interest in increasing exports of value-added fruit products to the European Union (EU) and U.S. markets, strengthening sanitary and quality control regulations, creating effective linkages between agricultural research and commercial entities, and establishing partnerships with foreign distributors.

Interviewees identified lack of trust among cluster members as a major barrier to increased export growth. Cluster members discussed the need for increased cooperation among fruit producers, processors, and wholesalers to penetrate foreign markets.

Furniture Cluster - Building on the initial contacts in the furniture cluster made by the SCEE team in November, a number of new firms and officials concerned with the broader wood industry, as well as furniture producers, were interviewed in and outside of Belgrade. Crucially, SCEE team members working with the various furniture firms began to establish good working relationships with the leadership of key companies, building trust, exchanging data and opinions on cluster issues, and shaping the agenda of the first national cluster meeting.

In general, companies and organizations expressed an interest in cooperating for specific purposes, and many noted that they were especially keen to build their export-business. They also acknowledging that, as Serbia's economy opened up further, they will face increased foreign competition within the domestic market.

Textile Cluster – The SCEE team interviewed Jelena Petrovic Zvekcic, the marketing and development coordinator of Legend Company. However, many other textile companies were unavailable to be interviewed in December due to the opening of new stores and the unveiling of new collections for the holiday season. Cluster members asked that the meetings be

¹ The courier company has now agreed to absorb the entire cost of the damaged shipment and the project will not incur any costs in this regard.

rescheduled to a time when they could better participate and the team will explore that possibility for late January or early February.

Pharmaceutical Cluster - To gain a broader understanding of the Pharmaceutical Cluster, the SCEE team established contact with Mrs. Milana Ducic, Deputy Director of the Pharmaceutical Institute of Belgrade. To date, cluster members, including Hemofarm, have expressed their full support and cooperation for the SCEE's potential work in the cluster. Given the current structure of the pharmaceutical sector and our communication with various companies and officials within the country, it may be more effective to include the pharmaceutical sector as part of a broader Health Care Services cluster initiative. The SCEE team will further evaluate this issue in January.

Initial Cluster Meetings

The month culminated with the convening of the first meetings of the furniture and fruit clusters in Belgrade on December 17 and 18, respectively. Some of the unique aspects of each session are discussed below. In general, these sessions were well attended, and project team members were pleased with the enthusiasm and receptivity shown by the cluster companies. They showed themselves to be ready now to begin working together to improve competitiveness and to begin developing winning strategies. A complete list of the attendees is attached.

The SCEE team presented findings on industry performance and export trends based on research and analysis conducted in the preceding months. The team also led discussions about potential strategic options and how participants could help shape and benefit from new competitive formulas. There was significant participation by the cluster members throughout both sessions as they discussed their current positions, thoughts for the future, and reactions to the project team's presentations.

There were a number of common issues raised by the two cluster groups, including:

- How can cluster members better access needed financial resources?
- What steps are to be taken in the process of developing new winning strategic formulas, both for the long and short term?
- What are the consumer needs that need to be better understood and better served?
- How can the cluster increase cooperation to serve a more attractive customer?
- What can the cluster do to alleviate distrust among cluster members?
- How can cluster companies work together to reconcile the competing needs to limit the scope of each firm's activities while increasing the overall scope of the cluster's product offerings?

Following the cluster meetings, SCEE team members followed up individually with each participant to assess the meetings' effectiveness and gather related recommendations and suggestions for the program moving forward. In a very positive sign, participants expressed their full support for the activity and confirmed their willingness to work with the SCEE project in the months ahead. A representative from one firm expressed the respective reactions fairly

well by saying, “*We [the firms] absolutely need this kind of help....We must significantly increase cooperation to deal with foreign competition.....and we need your help to do it.*”

The next meetings of both of these clusters will be held in January, when the participants will get down to the challenging business of evaluating and agreeing on new strategies. In the meantime, SCEE team members will be working on the following tasks to make these next sessions as effective and efficient as possible:

- preparing individual cluster members for the next group session;
- talking to potential new participants and helping them “catch up” with the other cluster members so that they can contribute effectively; and,
- conducting additional research and analysis for presentation at the next cluster meetings (a number of the potential topics to be addressed are outlined below).

Fruit Cluster Meeting - The initial meeting of the Serbian fruit cluster included fruit producers, fruit juice companies, cold stores, fruit wholesalers, business associations, and non-governmental organizations. Cluster members discussed the current state of the Serbian fruit industry and considered competitive strategies for the future. Participants identified several key changes needed in order to improve competitiveness, including increasing cooperation among cluster members. Participants suggested expanding the cluster council to include other key companies and organizations.

In addition, participants identified a number of outstanding questions:

1. What are examples of successful fruit clusters in other countries?
2. What is the competitive position of Poland and other surrounding countries in fruit juices?
3. What are the competitive positions of other countries producing raspberries (prices, varieties, markets, customers, processing)?
4. How do we establish the distinctiveness of Serbian fruit and fruit juice and build a brand image?
5. Should raspberry production be focused on varieties of raspberries for industrial processing or varieties that are suitable for fresh export?
7. What role should organic farming play in the future of the fruit cluster?
8. Can raspberry production be linked to bio-pharmaceuticals/cancer research?

Furniture Cluster Meeting - The initial furniture cluster meeting included producers of furniture and home construction products (flooring, doors, windows, etc.). Cluster members discussed the current state of the Serbian furniture industry and considered various competitive strategies for the future. Participants identified several key changes needed to improve competitiveness, including increased cooperation among cluster members with respect to equipment purchasing, new market penetration and industry-government relations. Additionally, participants identified several outstanding questions:

1. What can individual firms learn from the examples of Italy, Spain, and Slovenia in furniture production and brand improvement?

2. What are examples of pricing strategies, product varieties, customer identification strategies, and distribution networks used by furniture producers in other countries?
3. How can Serbia establish a distinctive and better brand image of furniture and home accessories?
4. What is the right product scope for the furniture cluster?
5. How will World Trade Organization (WTO) accession, EU integration, and Normal Trade Relations with the U.S. and other free trade agreements affect firms within the cluster?

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

As described above, December saw two very positive developments that have now led us to re-evaluate our workplan and to suggest the following changes. In summary, these developments were:

- The success of the initial fruit and furniture cluster meetings – greater receptivity than anticipated, as well as a readiness to start developing new strategic formulas;
- The enthusiasm of the Serbian Ministry of International Economic Relations for assistance in making competitiveness a priority - strong support for our activities and a need for assistance in defining the Government’s role and promoting competitiveness.

To capitalize on the opportunities now presented, we recommend the following changes to our current workplan:

- Phase I – our current plan calls for a case study involving only one cluster, with strategic planning delayed until Phase 4. We propose to accelerate the cluster case study activity to include both the fruit and furniture groups and to engage them now in the development of more competitive cluster strategies. In addition, we propose to include activities in direct support to the Serbian Ministry of International Economic Relations.
- Phase II – we propose to increase the number of participants in the Competitiveness Summit in the U.S. from the current 10-12 persons to 15-20. These additions would allow greater cluster representation and provide the clusters an opportunity to present their new strategies at the summit for critiquing by a number of leading experts in this field.

This accelerated program has two implications for the project’s schedule and budget. The U.S. Competitiveness Summit would be better held in mid-April instead of February to allow time for the two clusters to gel as cooperative groups and to develop new strategies. Furthermore, expanding the case study to include two clusters, accelerating the strategic planning tasks into our current activities, and including support for the Serbian Ministry of International Economic Relations means that our existing “level of effort” budget will be fully utilized by May.

These changes, the details of which will be presented to USAID in mid-January for approval, are based on the positive results achieved to date and are aimed at capitalizing on, and encouraging, the enthusiasm and receptivity of the fruit and furniture clusters. They promote the early development of competitive strategies for these two clusters, thus making the experience of the cluster members, both now and later at the U.S. Summit, much more

participative. By including two clusters, a broader base of leadership will be developed to support the program and a national competitiveness agenda. Finally, the government's needs in defining its appropriate role will be being addressed in the interim.

III. PROBLEMS

Nothing to report under this heading.

IV. OTHER DEVELOPMENTS

Nothing to report under this heading.

**USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – January 2003**

Date: February 15, 2003

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for January 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
Mr. Marko Obradovic, Deputy, Office of the Deputy Prime Minister, FRY
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Mr. Ashraf Soos, RCO, USAID/Budapest

1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project

Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER

Contract Number: PCE-I-00-98-00013-00

Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003

Start Date: October 1, 2002

Report Date and Number: February 15, 2003, No. 4

Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec,
Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert
Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

(a) Project Administration – Competitiveness expert Dane Smith accepted a full-time position on the USAID Macedonian Competitiveness Project, a program also being implemented by the consortium of Booz Allen Hamilton and ontheFrontier. While being available from time to time to ensure a smooth transition, Dane will focus his efforts on the Macedonia project. He was been replaced by Michael Brennan, who joined the project on 30 January.

(b) Coordination with Ministry of International Economic Relations and Related Projects – The project continued to coordinate its activities closely with its counterpart, the Serbian Ministry of International Economic Relations. Dillon Coleman, Chief of Party, and team member Lawrence Groo attended a presentation on January 17 of the Ministry’s “Quality Made in Serbia” proposal and discussed ways to link that to SCEE Project activities. This meeting also included a project update for Assistant Minister Gordana Lazarevic and her team; another project update was provided on January 24. In addition, the project prepared a short summary of past and upcoming competitiveness-building activities for use by the Ministry; a copy is attached.

Dillon Coleman, Karen Towers and Lawrence Groo met with Holly Higgins of the U.S. Department of Agriculture (USDA) on January 24 to discuss the projects activities with the fruit and furniture clusters and possible links to USDA programs. Among a range of issues discussed, those of particular note included Normal Trade Relations (NTR) with the United States, the possibilities for an “organic” certification program in Serbia, certification programs for “self-sustainable” forests and forestry management services of the U.S. Forest Service.

(c) Competitiveness Assessment – Building on the enthusiasm generated by the December fruit and furniture cluster council meetings, the SCEE team followed-up with cluster member firms in order to build trust, discuss next steps and continue the dialogue about the progress of the project. A number of new firms were identified for inclusion in the clusters. In addition, preparations began for the next cluster meetings, scheduled for February 6 (furniture) and 7 (fruit). Specific activities for each of the clusters are summarized below.

Fruit Cluster

Cluster members suggested potential new participants, including fruit processors Porecje and Yucom . There was also a meeting with Mr. Zvonimir Jovanovic, founder and Director of IGDA Impex from Belgrade, who agreed to become a new member of the cluster. In 2002, IGDA began to export fresh raspberries under its own label to German and Austrian markets.

The SCEE team contacted all other cluster companies by phone and asked for their feedback on the first meeting, as well as suggestions for future steps. All companies received a summary of the cluster meeting and copies of the translated slides used at the session.

The SCEE team began to evaluate and analyze issues and questions identified by the participants at the December council meeting, including better access to financial resources and examples of dynamic fruit clusters in other countries, such as Chile and Poland.

Furniture Cluster

The team met with several key new companies, including Buducnost, Domis, Lika Systems, Napredak, SAGA, and Trifunovic, to introduce them to the project and discuss their particular business and strategy concerns. As with many of the firms that the team has met, most of these companies expressed keen interest in export markets and showed a willingness to consider collaborative measures to improve their respective positions. The team also met with several existing companies to continue discussions about cluster issues, including Modul, in Nis, and Dizajn, in Novi Sad.

To better understand other policy and trade issues, the team met with the Government's lead negotiator on Regional Free Trade Agreements and with a leading expert on the national wood industry from the Forestry Faculty at the University of Belgrade. A list of the related meetings during January is attached.

(d) Legal & Regulatory Issues - Based on the SCEE's cluster work, and in recognition of the changing legislative and regulatory environment, SCEE team members Dillon Coleman and Lawrence Groo met with Secretary to the Inter-Ministerial Working Group for Legislative Reform (Andreja Marusic), as well as the Group's regulatory policy advisor from the World Bank (Scott Jacobs). A similar meeting was held with the Chief of Party for USAID's World Trade Organization (WTO) Accession Project (Charles Jacobini). The primary purpose of these sessions was to discuss issues of common concern and to identify ways in which SCEE cluster work could help inform legislative drafting. While it remains to be seen when the Working Group will begin to operate on a comprehensive basis, the SCEE team agreed to inform the Group's Secretary of relevant issues wherever appropriate. A similar agreement was reached with the WTO Project.

Looking ahead, the SCEE team envisions three avenues for legal and regulatory issues coming to the fore:

- Helping inform cluster members of new or revised laws affecting their businesses;

- Providing Government and other drafting authorities with input from the private sector on proposed or newly revised laws;
- Supporting the National Competitiveness Council on legal and regulatory issues.

Given the relevance of the rapidly evolving commercial law environment to the cluster work, SCEE team member Lawrence Groo has been given responsibility to follow legislative developments and to link up with Government drafting bodies and related USAID/World Bank/European Union programs wherever appropriate.

(d) Regional Project Coordination – Dillon Coleman and Lawrence Groo met with Kim Kotnik, Booz Allen Hamilton’s project manager for the Macedonia Competitiveness Activity, on January 25 in Belgrade. This provided a useful exchange with regard to approach and progress achieved to date.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

As detailed in the December 2002 Monthly Report, the SCEE team recommended several changes to its workplan to take advantage of a number of positive developments on the project. These proposals were reviewed with Maja Piscevic, Contract Technical Officer (CTO) for the SCEE Project, on January 17 and were subsequently summarized in a revised workplan document that was submitted to USAID on January 31. A copy of the revised workplan is attached.

III. PROBLEMS

The project continues to benefit from the enthusiasm for competitiveness-building activities shown by the fruit and furniture clusters. Minister Pitic and his colleagues at the Serbian Ministry for International Economic Relations have made it clear that the SCEE Project’s cluster development activity, the formation of a National Competitiveness Council and its national agenda, the National Competitiveness Summit, and the subsequent trip to the United States are all supportive of the Government’s own emphasis on improving competitiveness¹. Furthermore, the timing of the Competitiveness Summit is particularly fortuitous, as it will serve as a nice lead into a World Economic Forum-sponsored regional competitiveness conference to be held in May in Athens. The Government wants to make a presentation at this conference and our assistance in preparing for that has been requested.

In short, the SCEE Project continues to gain momentum and importance within key Government and private sector circles. Activities in the next three months are critical to

¹ This point has been further emphasized through subsequent meetings held in February with Minister Bozidar Djelic (Finance & Economy), Minister Slobodan Milosavljevic (Trade, Tourism & Services), Assistant Minister Slobodan Petrovic (Economy & Privatization), and Branko Hinic, Advisor to the Central Bank Governor.

success. However, as noted in our revised workplan and discussed with USAID on January 15 and again on February 12, the intensity of current project activities is rapidly consuming the project's "level of effort" (LOE) budget. While every effort will be made to conserve resources, it is likely that project activities must be phased down in the April – May timeframe, just as a number of the important events noted above are coming to fruition. An LOE usage schedule was submitted along with our revised workplan, and a copy is attached to this report².

IV. OTHER DEVELOPMENTS

Support to USAID SME Mission - The SCEE team provided support to a USAID mission evaluating the design of a technical assistance program for small and medium size enterprises (SMEs). On January 9, Chief of Party Dillon Coleman, competitiveness expert Joe Babiec, Project Director Mark Belcher, and Project Manager Chris Williams met with the mission (Don Niss, David Jesse and Marcus Winter) at USAID headquarters in Washington, D.C. to provide an overview of the project and progress to date. On January 27, Dillon Coleman, Karen Towers, and Lawrence Groo met with the mission in Belgrade for a more detailed review of fruit and furniture cluster activities and insights provided by the clusters into the business environment and the problems and constraints that many SMEs face in Serbia.

Dillon Coleman attended a similar session on January 28 between the SME mission and the five implementing firms for the USAID Community Revitalization Through Democratic Action (CRDA) Program. This provided a useful overview of CRDA activities, regional issues and possible linkages with SCEE Project activities.

Small Business Assistance Fund – Dillon Coleman met with Herb van der Vaart and Vladimir Pesevski of the Small Business Assistance Fund on January 28. The fund is already established in Macedonia and expects to be operational in Serbia by May. This could be a useful source of investment financing for SCEE cluster enterprises as they begin to implement their strategies later in the year.

² As it shows, we are able to get significantly more LOE (897.25 days) out of the existing task order budget by using Level II and Level III specialists. As shown on the attached schedule, the requested increase in LOE days is still within the expat labor budget, and is thus in compliance with the Task Order.

**USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – February 2003**

Date: March 16, 2003

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for February 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
Mr. Marko Obradovic, Deputy, Office of the Deputy Prime Minister, FRY
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Mr. Ashraf Soos, RCO, USAID/Budapest

1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project
Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003
Start Date: October 1, 2002
Report Date and Number: March 16, 2003, No. 5
Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec,
Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert
Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

(a) Program & Donor Co-ordination – The project continued to co-ordinate its activities with other related and complementary programs.

To contribute to the development of initiatives for Small & Medium Size Enterprises (SMEs) in Serbia, team members Mark Belcher, Joe Babiec and Dillon Coleman participated in an SME Conference organized by USAID on February 10 and 11. In addition, team members Dillon Coleman and Mike Brennan held coordination meetings with other donor programs providing significant assistance to SMEs: IFC/SEED (Hans Shrader and Mehrdad Etemad) on February 14 and GTZ (Wilhelm Parlmeyer) on February 26.

Means of ongoing cooperation were established with four of the Community Redevelopment Through Democratic Action (CRDA) implementing partners during the months. Representatives from **Mercy Corps** made a presentation at both the fruit and furniture cluster meetings to introduce their project and its funding opportunities. **IRD**, **CHF** and **ACDI/VOCA** will begin attending cluster sessions in March. In the meantime, fruit cluster participants are planning regional fruit training centers and, with the project's support, are now in the process of preparing proposals for submission to Mercy Corps and IRD to obtain the necessary financing. CHF is also interested in supporting such a center in its region. These centers, each in a different region, will be collaborative and share training experts, purchasing, etc.

Through the Ministry of International Economic Relations, the project made contact with the **Federal Institute for Standards** and the **Accreditation Agency**. The key issue with both of these institutes will be establishing EU standards for Serbian products. Representatives from these institutes will be attending cluster meetings.

The **Institute for Applied Science in Agriculture** has now become a fruit cluster member. This institute formerly consisted of the State run agricultural training centers; today it still has an extensive infrastructure, but is mostly engaged in selling fertilizer and seeds and growing its own fruit and vegetables. The **Academy of Applied Arts** has now become a member of the furniture cluster. This is an important step, as improving furniture design is a key issue.

(b) Competitiveness Assessment

Cluster Development

The project continued its intensive work with both the fruit and furniture clusters. In addition to holding formal cluster meetings, SCEE team members spent considerable time in one-on-one sessions with individual managers of cluster companies, usually at

their own premises, to ensure that everyone (i) understands the cluster concept and the benefits to be gained from collective action and (ii) is committed to further cooperation. Lists of these meetings are attached. Both cluster councils agreed to meet again in early March to begin considering short-term action steps that they, as representatives of broader industry sectors, would begin to support and help implement.

Notes on activities in each of the two clusters are presented below.

Fruit Cluster Council - Cluster members convened a council meeting on February 7th in Belgrade. During this session, cluster companies initiated a formal discussion regarding, among other issues, possible strategic competitiveness options for the future. The council also examined the evolution of the fruit cluster in Chile, in order to gain strategic insights about cluster development. SCEE team members also contacted donor organizations, ACIDI/VOCA and the U.N.'s Food & Agricultural Organization, to begin creating linkages with other projects working in the agricultural sector.

Furniture Cluster Council - Cluster members convened a council meeting on February 6th in Belgrade. The discussion focused on the nature of the cluster, the business priorities of participating firms, and whether the formal cluster council should be expanded. Dr. Branko Glavonjic from the University of Belgrade's Forestry Faculty (and a leading authority on the wood industry in Serbia) attended for the first time. As an expert on the industry, his participation was warmly welcomed by the other cluster members.

In support of the Serbian furniture cluster, SCEE team members also continued to research cluster development in other European countries, especially Poland, Slovenia and Spain, gaining important insights into successful initiatives in other countries.

Mental Models Survey

As part of its overall assessment of competitiveness in Serbia, the project has commissioned an important survey designed to measure opinions and beliefs concerning business and economic policy in the country. This survey will include approximately 200 Serbian respondents from government, the private sector, and civic society.

The subcontract to conduct this survey was awarded to the Center for Liberal Democratic Studies on February 21. The due date for completion of this survey, along with a database summarizing the individual responses, is March 18.

Legal & Regulatory Issues

Recognizing the relevance of the cluster activities to the evolving regulatory and commercial legislation in the country, Lawrence Groo, the SCEE team member

responsible for monitoring legal and regulatory issues, met with Gary Collins, Chief of Party of the Economic Policy for Economic Efficiency Project (EPEE) to build closer links between the EPEE and SCEE projects. Specifically, in the event that cluster members inform the SCEE team of relevant points concerning pending legislation under EPEE's mandate, Mr. Groo will notify a representative from the EPEE team. Likewise, if EPEE needs to consult representatives from the private sector on a legislative issue, a representative of the EPEE team may be directed to specific cluster firms to gain their perspective and advice.

Looking ahead, the SCEE team will also seek to evaluate the legal and regulatory framework from the perspective of the foreign investors that SCEE team members are introduced to and/or may cooperate with.

Foreign Investment

A number of actions were taken during the month to increase the project's input into the development of foreign direct investment (FDI). Through the assistance of Patrick Hughes and Christopher Dunnett of the U.S. Embassy on February 21, Chief of Party Dillon Coleman was able to identify a list of actual and potential foreign investors with possible interest in the project's cluster activities.

Lawrence Groo initiated contact with Van Drunen Farms, a U.S. company making an \$18 million greenfield investment to establish plant and machinery for drying fruit and vegetables in the Vojvodina region. Van Drunen has agreed to participate in the project's fruit cluster.

In a meeting with a key German investor in Serbia, HVB Banka Yugoslavia, Dillon Coleman and Lawrence Groo discussed a number of key problems hindering investment. A major issue is the need to develop a proper functioning legal system to protect property rights and business interests. The bank's managers also cited corruption as not improving and continuing to be a hindrance. Furthermore, there was an impression that "old" industry continues to be protected, thus holding back overall economic development.

Team member Mike Brennan developed close contacts with NAAN, a member firm of the Israel Centre of Agriculture specializing in irrigation systems. At present this firm is providing input to the proposal for the fruit training centers to be funded hopefully by CRDA firms. Their primary contribution includes guidance on the types of more advanced agricultural technology that the centers should be focusing on.

World Economic Forum Competitiveness Index

An important step in the development of Serbia's competitiveness will be its inclusion in the World Economic Forum's annual competitiveness index. This index ranks approximately 80 countries with regard to their competitiveness and will be a valuable tool to help Serbian leaders assess the success of their competitiveness-building activities.

During February, the project made contact with the World Economic Forum to determine how Serbia can be included in the survey and to obtain the necessary forms for the Executive Opinion Survey which must be administered in Serbia. The project expects to select a local firm in March to conduct the survey.

(c) National Competitiveness Summit – Preparations continued for holding a National Competitiveness Summit in Belgrade on March 24 and 25. Most importantly, the project obtained a commitment from Prime Minister Djindjic that he would open the conference. Project staff, with input from USAID and Serbian counterparts, prepared a draft agenda outlining themes and potential speakers (copy attached). After surveying several potential sites, project staff made arrangements with the Hyatt Hotel to serve as the venue.

(d) National Competitiveness Council – Project staff, with input from USAID and Serbian counterparts, submitted an initial list of nominees for the National Competitiveness Council to the Ministry of International Economic Relations (MIER) at the end of January. On February 25 the project received the ministry's revised list of nominees. On February 28, MIER invited the proposed chairman of the Council, Miodrag Babic of Hemofarm, to serve in this capacity. Unfortunately, he subsequently declined this role. At the end of the month, the Council had not yet been established as a working group, but will now likely be formed in early March, along with the selection of a new chairman.

In the meantime, the project continued its preparations for supporting the formation of the National Council. Project staff submitted a written proposal regarding formation of the Council to the Ministry of International Economic Relations on February 5. The proposal addressed a variety of issues, including the role of the Council, ways of measuring the Council's success, Council structure and membership, the Council's operating methods, and a series of "next steps" to move the Council forward. A copy of this proposal is attached.

(e) Trip to the United States – The planned trip for 15-20 Serbian government, business and civic society leaders to travel to the United States is scheduled for April 12-19 and preparations for this continued during the month. In Belgrade, the Chief of Party participated in two meetings with the Economic Policy for Economic Efficiency (EPEE) Project, along with USAID, regarding EPEE's preparations for U.S. trip for parliamentarians. Booz Allen and ontheFrontier home office staff prepared detailed

draft trip agendas showing daily and hourly activities for the delegation in Cambridge, Washington, and New York City, and made contacts with individuals in those cities who have assisted in arranging prior trips such as this for high level Serbian delegations. As soon as the members of the delegation are identified, the trip agenda will be finalized.

(f) Public Education / Public Awareness Activities

Strategy

During February, the project benefited greatly from initial assistance provided by Robin Johnson, public education / public awareness expert at the USAID Tax Reform Project. We have defined our public awareness action plan to include: (i) holding a briefing for journalists to prepare them to cover the upcoming summit; (ii) introducing journalists to the sources of information, (iii) creating competitiveness stories for journalists to cover, such as those focusing on clusters, NCC members, and the U.S. trip. The project also plans to develop a “campaign team” to help spread the competitiveness message. This team will consist of public relations persons from the ministry or business organization of each NCC members.

As part of the public awareness campaign, project staff wrote a number of op-ed articles on various competitiveness themes. We expect that most of these articles will be published in March in the weeks just prior to the National Summit.

Coordinating Message Throughout Government

Chief of Party Dillon Coleman and other project staff met with a number of ministries and government departments. The result of the meetings was strong support for the project’s initiatives and a better understanding of government priorities and issues. These meetings included the following:

- Privatization Agency - Mirko Cvetkovic, Director (7 February)
- Ministry of Economy & Privatization - Slobodan Petrovic, Assistant Minister (7 February)
- Central Bank - Mr Branko Hinic (10 February)
- Ministry of Trade, Tourism & Services – Minister Slobodan Milosavljevic (10 February)
- Ministry of Finance and Economy – Minister Bozidar Djelic (14 February)
- Ministry of Science, Technology & Development - Minister Dragan Domazet, Deputy Minister Danilo Golianin, and Deputy Minister Aleksandar Sedmak (26 February)
- Ministry of Labor – Deputy Minister Nebojsa Miletic (28 February)

Website

Project staff substantially designed and prepared the content for a project website during February. Project staff selected local website design firm Sw(4)I in a competitive tender and awarded a contract to begin building the website.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

None to propose at this time.

III. PROBLEMS

None to report at this time.

IV. OTHER DEVELOPMENTS

None to report at this time.

USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – March 2003

Date: May 7, 2003

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for March 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
Mr. Marko Obradovic, Deputy, Office of the Deputy Prime Minister, FRY
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Mr. Ashraf Soos, RCO, USAID/Budapest

1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project

Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER

Contract Number: PCE-I-00-98-00013-00

Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003

Start Date: October 1, 2002

Report Date and Number: May 7, 2003, No. 6

Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec,
Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert
Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

(a) Program & Donor Co-ordination

The project continued to co-ordinate its activities with other donor programs. On March 18 the Chief of Party met with Michael Kilcommons and William McConkey of the European Agency for Reconstruction (EAR). Both the SCEE project activities and the entire range of EAR support for Small & Medium Enterprises (SMEs) were reviewed.

The project maintained its close support for the Ministry of International Economic Relations, including Minister Goran Pitic and Assistant Minister Gordana Lazarevic. In particular, the project delivered a paper in mid-March requested by Minister Pitic on the “role of government” in building greater competitiveness. A copy of this paper is attached.

(b) Competitiveness Assessment

Cluster Development

The fruit and furniture clusters continued to expand their level of co-operation and both announced growth targets. Importantly, in the run-up to the National Competitiveness Summit, firms in both clusters agreed to share company, export and revenue data, greatly aiding the SCEE’s team ability to project revenue forecasts and develop realistic growth strategies. A complete list of cluster firm meetings is attached.

Fruit Cluster Council - During the March period the fruit cluster held two cluster meetings on March 3rd and March 21st. During these sessions, cluster members formed three taskforces to address strategic issues including: (i) Market Research, (ii) Training Centers for fruit growing, and (iii) Standards.

These taskforces have initiated their activities. Specifically, the Market Research Taskforce has developed a market research survey for fruit juice and fresh fruit wholesalers in foreign markets to test demand, branding concepts and price premiums for organic and healthy products. The Training Centers Taskforce has proposed centers to improve fruit growing in Leskovac, Valjevo, Ivanjica and Cacak. In addition, the Standards Taskforce is reviewing food safety, phytosanitary standards, organic laws and HACCP certification.

Recognizing the need to prepare cluster firms for export markets, with assistance from the SCEE team, cluster members announced a cluster development strategy that includes the following key growth targets:

- Increase revenue of fresh fruit export by 50% or \$40 million in 2006
- Increase revenue of fruit juice exports by \$7.5 million in 2006
- Increase revenue of processed fruit exports by \$4.5 million in 2006
- Create new jobs in agriculture and related services including transportation logistics, marketing, juice production, high-tech growing and training positions
- Target the EU market as the primary export destination
- Establish a network of training centers in fruit growing regions of Serbia
- Conduct joint market research on branding concepts for Serbian fruit and fruit products
- Begin organizing industry firms to gain accreditation for key international standards.

Furniture Cluster Council - During the March period the SCEE team held two cluster meetings and also met individually with a number of the cluster firms to agree on specific action items addressing priority issues. Specifically, recognizing the need to prepare cluster firms for export markets, cluster members announced a development strategy that includes the following key growth targets:

- Increase revenue by 20% by 2007
- Increase exports by 50% by 2007
- Increase cluster employment by 20% by 2007
- Target the Russian market as the primary new export destination
- Establish a national Design Center fostering innovation and improved training
- Establish joint training initiatives in technology and business management
- Begin organizing industry firms to gain accreditation for key international standards

Significantly, cluster firms are already showing a willingness to cooperate closely on important issues, including sharing sensitive technology insights. Eurosalon, which has the most advanced technology of any firm in the industry, announced in early March that it would host visits by other cluster firms to share insights about production techniques and advanced technology applications.

Foreign Investment

Recognizing the important role of foreign investment in bolstering Serbia's competitive position, the project is working to link key foreign investors with the cluster firms and their initiatives. For instance, Van Drunen Farms, a leading U.S.-based company that has recently invested \$13 million in northern Serbia, formally agreed to join the Fruit Cluster and will be working together with member firms to improve export opportunities for fruit, vegetables and herb products.

Additionally, during March, SCEE project representatives met with the leadership of both the Foreign Investors Council (FIC – Christof Greussing) and the American Chamber of Commerce in Yugoslavia (AmCham – Richard Danicic and Sasha Trisic). AmCham and FIC are the two leading foreign investor organizations in Serbia, and both expressed their full support for the SCEE cluster initiatives and the National Competitiveness Council – as well as their willingness to become more directly involved in supporting the work of the SCEE team.

To show its support, AmCham co-hosted with the SCEE project a breakfast meeting on March 27 for AmCham members at which Minister Goran Pitic was the guest speaker. Dr. Pitic addressed key competitiveness themes and related issues, and also announced the formation of the National Competitiveness Council.

Mental Models Survey

A survey designed to measure opinions and beliefs of Serbian leaders concerning business, competitiveness, and economic policy in Serbia was conducted during the month by the Center for Liberal Democratic Studies (CLDS). A total of 200 respondents from the public, private, and civic society were interviewed.

At a summary level, the survey highlights three themes concerning the beliefs of Serbian leaders that may inhibit competitiveness. First, there is a lack of shared vision among leaders concerning competitiveness, which may preclude agreement about a plan of action. Second, trust levels are so low that this might inhibit the development of an important element of competitiveness --- the ability of firms within a cluster to develop and implement integrative strategies. Finally, there is a belief that Serbians build firms by focusing on their current assets, rather than on the needs of demanding customers --- where new assets are created. Copies of the survey questionnaire and preliminary detailed report are attached.

Trade Statistics

During March the project's analysis of Serbia's trade statistics was completed. This analysis, based on U.N. Trade Statistics Data, shows that Serbia's export sophistication has generally declined; furthermore, the country's export position has declined to near the lowest level in the region, although the last two years have shown promise with annual increases over 10%. As part of the food industry, the fruit cluster, as based on density, is well positioned for growth into key regional and European Union markets. On the other hand, the furniture cluster is less dense, but can meet some needs of several regional markets. A copy of the report is attached.

World Economic Forum Competitiveness Index

The WEF's Annual Competitiveness Report is an important ranking of more than 80 countries with regard to their competitiveness. Recognizing the usefulness of the rankings for the National Council, the project had ongoing contact with the WEF during March to determine pre-requisites for including Serbia in the report. Project staff obtained copies of the required qualitative Executive Opinion Survey from WEF and, after a competitive tender, awarded a subcontract to the Center for Liberal-Democratic Studies to conduct the survey. The responses from 100 respondents are due by April 18.

(c) National Competitiveness Summit

The major activity during March was ongoing preparation for the National Summit to be held on April 1 and 2 in the Sava Center in Belgrade. This involved a number of different elements, all of which were completed and ready for the start of the summit:

- Developing and agreeing the summit agenda; the final agenda is attached;
- Preparing a list of persons to be invited to the summit; the final list is attached;
- Preparing and issuing summit invitations; copy attached;
- Arranging logistics for meeting rooms, lunches, interpretation, etc.;
- Working with the Chairman of the National Council to develop his role as host of the summit;
- Working with each of the summit presenters to help them develop the content of their presentations;
- Developing themes for use in summit speeches by Prime Minister Zoran Zivkovic, U.S. Ambassador William Montgomery, and USAID Mission Director James Stephenson; copies of these themes are attached;
- Working extensively with the Prime Minister's speech writer to finalize his speech.

(d) National Competitiveness Council

In mid-March, Mr. Dragoljub Vukadinovic, Managing Director of Metalac, a leading Serbian manufacturer and exporter of kitchenware, accepted the position of Chairman of the National Competitiveness Council. The Council's Executive Committee, consisting of Mr. Vukadinovic, Minister Goran Pitic of MIER, and Dr. Boris Begovic, Vice President of the Center for Liberal-Democratic Studies, met for the first time on March 25, followed by a meeting of the full council on March 31 at the Hyatt Hotel. Key items on the agendas for both of these meetings included a review of the SCEE Project's activities to date, a discussion of the role of the national council, a review of preparations for the national summit, and a discussion on the upcoming trip to the U.S. A list of the Council membership is attached, along with the press release prepared for the NCC's formation and first meeting.

(e) Trip to the United States

Project staff and Booz Allen and ontheFrontier home office staff began preparations for the trip to the United States for a group of 20 Serbian leaders. The project team worked closely with USAID and representatives of the Ministries of Economy & Privatization, Finance, International Economic Relations, and Energy & Mining, to prepare an itinerary and to arrange meetings. As the schedule developed, the home offices of Booz Allen and ontheFrontier coordinated and organized the logistical details. Final preparations for the trip will be completed in early April.

(f) Public Education / Public Awareness Activities

The project, with assistance from Robin Johnson, public education specialist at the USAID Tax Reform Project, developed a public education / public awareness strategy. The strategy (copy attached) was designed to help the project develop and sustain long-term relationships with the media, to create a public dialogue about competitiveness issues, and to generate publicity about the National Competitiveness Summit and trip to the United States.

The project held a briefing on March 11 to prepare journalists to cover the National Competitiveness Summit. The session was moderated by BBC reporter Djordje Vlajic and included discussions on competitiveness issues by team member Joe Babiec, on the role of government by Assistant Minister Gordana Lazarevic, and on the development of the pilot clusters by Dusan Radmilac (furniture) and Djordje Stevanovic (fruit). A total of 26 journalists attended (list attached) and each was provided with a press kit (copy attached). At the conclusion of the briefing, the journalists were surveyed as to how the project could better assist them to cover competitiveness issues (survey results attached).

The project conducted press tours to cluster companies on March 27 and 28. Journalists from Tanjug, Blic, Glas, Danas, Beta Agency, Radio Jugoslavija, and Ekonomist participated and visited the following cluster companies: Next Juice factory (Subotica), Eurosalon factory, Saga factory, and the Bosnjacki factory, all in Belgrade.

The project also provided several media training sessions to individuals from cluster companies to help them understand how to deal with press inquiries and interviews. Participants included managers from Fresh & Co, Stefani Univerzali, Nektar, Agroekonomic, Eurosalon, Bosnacki, and Saga. This training was also provided to the newly appointed chairman of the National Competitiveness Council, Dragoljub Vukodinovic.

In preparation for press coverage at the National Competitiveness Summit, the project prepared press kits for journalists, established a press room at the Summit, and organized press conferences at the Summit. Guidance was provided for National Competitiveness Council Members on dealing with the media at the Summit (attached).

As part of the public awareness campaign, project staff prepared a number of op-ed articles on various competitiveness related themes in anticipation of publication in the local press. We expect that most of these articles will be published in early April, in association with the National Competitiveness Summit. Copies of these are attached.

Subcontractor, Sw(4)I, completed building the project's website and it was launched. The site can be accessed at [http: \\www.scee.org.yu](http://www.scee.org.yu).

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

None at this time.

III. PROBLEMS

None to report at this time.

IV. OTHER DEVELOPMENTS

The tragic assassination of Serbian Prime Minister Zoran Djindjic on March 12 brought into question the timing for the National Competitiveness Summit, as well as the trip to the United States. After discussions between USAID and the Government, the decision was taken to proceed with the National Competitiveness Summit with only a one week delay and with no change in the schedule for the U.S. trip.

USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – April 2003

Date: May 23, 2003

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for April 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
Mr. Marko Obradovic, Deputy, Office of the Deputy Prime Minister, FRY
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Mr. Ashraf Soos, RCO, USAID/Budapest

1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project
Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003
Start Date: October 1, 2002
Report Date and Number: May 23, 2003, No. 7
Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec, Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

(a) Competitiveness Assessment

Cluster Development

Furniture - The Furniture and Home Construction Materials Cluster met on April 23rd. Significantly, the meeting was hosted by Eurosalon at its primary factory and assembly plant near Belgrade and featured a detailed tour of the company's production and technical facilities, providing insights and informal knowledge building for other cluster members.

The meeting focused on informing cluster firms about submitting a joint application for ISO 9000 certification and agreeing on export target markets; this discussion was led by Radomir Boskovic of Bonex Engineering. Cluster firms will approach both the Russian and German markets in the next several months, and participants agreed to first contact the German Embassy in Belgrade. Several other cluster firms agreed to share their market knowledge about specific distributors and local buying patterns.

Also during April, the project team members supporting the furniture cluster support team also met with IRD, an implementer for USAID's Community Re-development Through Democratic Action (CRDA) program, to coordinate ISO certification and other issues that both sides have in common, with Jovana Ducic meeting with Nick Stevens, and Lawrence Groo meeting with Robert Jacobi.

The cluster welcomed Kapaonik DOO as a member. Kapaonik is one of the largest furniture producers in the country and is expected to be privatized in the next six months. Other cluster firms specifically suggested that Kapaonik be invited to join the cluster based on its management performance and reputation, and doing so reflects the continuing expansion and growth of the broader cluster.

Fruit - The Fruit Cluster also met during the last week of April and was hosted by the Chamber of Commerce of Belgrade, as they are intent in actively participating in the cluster. The participants also reviewed the competitiveness summits in Belgrade and in the U.S., particularly the results of cluster-specific meetings, which were of particular interest for fruit growers and distributors.

The guest speaker at the meeting was a representative from the firm, SGS, who discussed requirements for "health analysis and critical control points" standards. The participants agreed to hold an all day training class in late May to train interested firms in the Hazard Analysis and Critical Control Point (HAACP) health and safety requirements.

Dr. Miladin Sevarlic of the University of Belgrade has joined the cluster. He is open to developing a training center near Belgrade as one of the six training centers being developed by the cluster (see below), and may also allow use of University facilities for such. The Office of Standards has also joined the cluster, to assist in working on

enforcement of current standards, while also developing its own USDA-like quality seal. In addition, representatives from the five CRDA program implementers have joined the cluster.

The SCEE project is helping the fruit cluster to prepare business plans for a network of six training centers throughout the country. The centers will introduce various new technologies and provide training on different growing methods. An Israeli firm, NAAN, is providing foreign expertise on new technologies. The cluster expects to receive financial support for the training centers from USAID's CRDA program. The U.S. Department of Agriculture will also participate through Belgrade University, which may also host the training center's central information hub. The training network will also include the Terras center in Subotica, a \$5 million agriculture center that focuses on organic growing.

Finally, cluster member Djordje Stevanovic (Stefani Univerzal), who met with the Export-Import Bank in Washington during the U.S. trip to discuss a potential loan to buy picking equipment, met with a U.S. consultant that helps foreign nationals secure Ex-Im Bank financing. This contact was arranged through the SCEE project office.

World Economic Forum Competitiveness Index

The Center for Liberal Democratic Studies (CLDS) completed its implementation of the WEF Executive Opinion Survey on April 18. The project submitted the survey documents to the WEF, which should lead to Serbia being included in the WEF's World Competitiveness Rankings for the first time. These rankings will be published in the Fall.

Legal and Regulatory Issues

In a meeting with USAID's WTO Accession Project, SCEE representative Lawrence Groo agreed to provide mailing lists and information on key domestic companies for outreach purposes. In return, the WTO project is forwarding draft laws of commercially relevant legislation (including the draft law on Foreign Trade) to the SCEE team for review and comment from the perspective of the National Competitiveness Council and cluster companies.

Additionally, Jasna Matic and Lawrence Groo met with Assistant Minister Radmila Milivojevic of the Ministry of International Economic Relations (MIER), who provided an overview of the Ministry's hopes to develop sector specific trade and export promotion programs in cooperation with the Serbian Investment & Export Promotion Agency (SIEPA). She expressed a hope that the follow-on project to SCEE would be able to assist MIER and SIEPA in this regard.

(b) National Competitiveness Summit

The inaugural National Competitiveness Summit was held with great success on April 1 and 2 at the Sava Center in Belgrade. The Summit opened before an audience of 300

persons, including the entire cabinet and key members of the Diplomatic Corps. The Prime Minister, Mr. Zoran Zivkovic, delivered the keynote address, in which he underscored the importance of developing a more competitive economy, while also emphasizing the government's fight against organized crime and commitment to continuing economic reforms. U.S. Ambassador William Montgomery followed the Prime Minister, emphasizing the donor community's ongoing support to Serbia in the wake of the assassination of Prime Minister Zoran Djindjic.

Mr Dragoljub Vukadinovic hosted the Summit in his capacity as the Chairman of the National Competitiveness Council (NCC), and used the opportunity to introduce the Council's role and its members. Attendance throughout the Summit was excellent, and the audience heard a variety of speakers on competitiveness issues, including members of the government, representatives of the fruit and furniture clusters, members of the National Council, foreign investors, and the donor community. A Summit agenda is attached.

In particular, the speakers for the fruit and furniture clusters unveiled the goals which these groups have set for themselves. Key targets include:

Furniture Cluster:

- Increase annual revenues by 24 million Euros by 2007
- Increase export revenues by 16 million Euros by 2007
- Create 400 new jobs through 2007

Fruit Cluster:

- Increase revenues of fresh fruit exports by almost 50% or \$40 million in 2006
- Increase revenues of fruit juice exports by \$7.5 million in 2006
- Increase revenue of processed fruit exports by \$4.5 million in 2006

(c) Competitiveness Delegation to the United States

The project sponsored a delegation of 22 Serbian leaders on a trip to the United States April 12 – 18. The delegation consisted of 14 members of the National Competitiveness Council, including Chairman Dragoljub Vukadinovic and Ministers Goran Pitic, Aleksandar Vlahovic, and Bozidar Djelic. In addition, there were two representatives of the fruit and furniture clusters, as well as six other government representatives including Energy Minister Kori Udovicki, ministerial advisors, and public relations personnel. A detailed itinerary for the trip is attached, as well as a copy of the briefing book prepared for the participants.

For the ministers, the primary objective of the trip was to send a clear message to the international community that, in the aftermath of the tragic death of Prime Minister Zoran Djindjic, the government is in control, successful measures have been taken to fight organized crime, the economic reform program is continuing, and Serbia is an attractive location for investment. In addition to their participation in the World Bank / International Monetary Fund Spring Meetings, the ministers were presented a number of venues in

Washington, D.C., Cambridge, Massachusetts, and New York City to convey these messages:

Washington, D.C.

- Business Council for International Understanding
- Representatives of Citigroup
- Investor group organized by JPMorgan
- The Export-Import Bank
- Overseas Private Investment Corporation (OPIC)
- Under Secretary of State Alan Larson (senior economic advisor to Secretary Powell)
- Various energy sector meetings

Cambridge, Massachusetts

- Harvard University, Kennedy School of Government (panel presentation)
- Private meeting with Professor Michael Porter, Harvard Business School (notes attached)

New York City

- JPMorgan Emerging Markets Group
- Altria
- CNBC's "Power Lunch" (live interview)
- Bloomberg Forum (live interview)

The remainder of the delegation, primarily private sector members of the National Council, followed a separate track from the ministers. Their objectives were primarily to learn more about competitiveness issues and to develop their thinking with regard to a national competitiveness strategy.

In Cambridge, this group benefited greatly from several intensive sessions led by team members from ontheFRONTIER. These sessions focused on defining the role of the NCC; benchmarking Serbia's competitive position today; setting priorities for Serbia's competitiveness action plan; analyzing attitudes in Serbia about competitiveness; and, investigating how to change the existing mindsets. A number of these sessions featured well known thought leaders, including:

- Hunter Lovins, Rocky Mountain Institute – speaking on “natural capitalism,” or how economic growth can be enhanced by environmental friendliness
- Michael Fairbanks, ontheFRONTIER – focusing on the “competitiveness” mindset
- Robert Barro, Robert C. Waggoner Professor of Economics, Harvard – speaking on developing economic prosperity and social equity
- Stace Lindsey, ontheFRONTIER – building receptivity to change

These sessions were enhanced later in the week with a number of field trips to provide first-hand insights on competitiveness issues. Of particular interest to the NCC were:

- MIT's Technology Licensing Office, which provided insights into developing innovation and the university's technology transfer activities
- Massachusetts Technology Collaborative, a state-funded body that supports the development of clusters of technology-related companies.

In addition, other visits focused on taking Serbian cluster members to visit companies or organizations directly related to their activities. These included:

Fruit & Fruit Juice Cluster

- The New England Produce Center
- Bread & Circus, a whole foods market specializing in organics
- BJ's Wholesale Market

Furniture & Flooring Cluster

- Boston Design Center
- Westwood Furniture
- Jordan's Furniture

Pharmaceutical Cluster

- Massachusetts Biotech Council (a cluster of biotech companies)

(d) Public Education / Public Awareness Activities

The Summit received broad, positive, and continuing coverage in the press which brought clustering and other competitiveness themes to the forefront of discussions within the business community. In particular, the National Competitiveness Summit in Belgrade received headline coverage in every newspaper in Serbia, as well as radio and television coverage. A summary of press coverage for April is attached.

Four National Council members and eight cluster members received media training prior to being interviewed by local television stations and newspapers. In addition, media training was provided to PR staff at cluster and council firms.

In light of the publicity surrounding the National Summit, a number of other clusters have shown interest in organizing themselves. A number of firms in the pharmaceutical and textile sectors have expressed interest in forming clusters following the models of the fruit and furniture clusters. During April the SCEE team met with a representative of the Chamber of Commerce, Vesna Vasiljevic, who is leading an informal effort to prepare a broader textile cluster. The SCEE team has been invited to address a number of textile producers for this express purpose at a meeting in May.

To publicize the visit to the U.S., the SCEE team held a press briefing at the Belgrade Media Center on April 17th. A dozen national reporters attended the informal briefing highlighting the recently announced results of the mental models survey. The briefing was hosted by NCC member Boris Begovic and SCEE team member Jasna Matic. Following the

briefing, a reporter from *Glas Javnosti* interviewed SCEE staff members Lawrence Groo and Jovana Ducic for a story that appeared in the national section of the same publication the following day.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

None at this time.

III. PROBLEMS

None to report at this time.

IV. OTHER DEVELOPMENTS

None to report at this time.

USAID SERBIA COMPETITIVENESS AND ECONOMIC EFFICIENCY PROJECT
Monthly Project Summary and Report – May 2003

Date: July 29, 2003

To: Ms. Maja Piscevic, Senior Legal Advisor and CTO, USAID/FRY

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for May 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Ms. Ana Firtel, Chief of Staff, Office of the Deputy Prime Minister, FRY
Mr. Marko Obradovic, Deputy, Office of the Deputy Prime Minister, FRY
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Mr. Ashraf Soos, RCO, USAID/Budapest

1. Project Identification

Title: USAID Serbia Competitiveness and Economic Efficiency Project
Contractor: Booz Allen Hamilton Inc. and ontheFRONTIER
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 811

2. Project Performance Dates

Period of Performance: October 1, 2002 – September 30, 2003
Start Date: October 1, 2002
Report Date and Number: July 29, 2003, No. 8
Anticipated Completion Date: September 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Michael Fairbanks, Don Pressley, Joe Babiec, Dane Smith, Lawrence Groo, Karen Towers, Raymond Manoff, Robert Delemarre, Ernest Owens, Erin Owens

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

Donor & Regional Co-ordination

EBRD's Turn-Around Management (TAM) Program is seeking to expand its activities in Serbia. The Project explored this opportunity with TAM Manager Director Chris Walker in May and will consider which cluster members might be suitable to avail themselves of this resource.

As a result of meeting with Braca Stankov, Project Manager for the Global Trade & Technology Network (GTN), the Project agreed to have all of its cluster companies listed on the network.

Regional meeting of USAID-funded competitiveness programs – based on a suggestion by SCEE Project Director, Mark Belcher, it was agreed among the various Balkan region USAID Missions and competitiveness project implementers to hold a co-ordination meeting in June to promote regional trade and investment linkages and build capacity for regional firms to compete in key export markets through improved regional cooperation. The SCEE Project took responsibility to plan and host this meeting and considerable planning was underway in May.

Competitiveness Assessment

Cluster Development

Furniture – ISO certification continues to be a major concern for the furniture companies as they seek opportunities to partner with western manufacturers. Through the facilitation of the SCEE Project, Radomir Boskovic, a consultant for Bonex Engineering (the ISO consultancy for IRD), has proposed a group pricing scheme for firms in the cluster. This will significantly reduce the price of ISO certification from about 10,000 Euros to 1,000-2,000 Euros.

The concept of a national Design Center progressed. A proposal for the Center, which will focus on furniture and textile design, was prepared in May with the assistance of SCEE. It will be presented to the cluster at their next regular meeting in June.

The project identified an opportunity for training and potential partnering for members of the cluster coming from the Government of Slovenia and the Slovenian wood processing sector. This opportunity was presented to the cluster by the Economic Advisor to the Slovenian Embassy. His presentation included an overview of the development of the Slovenian wood processing industry and the Slovenian approach to cluster development. Importantly he outlined a number of training programs (funded by the Slovenian Government) which are hosted by Slovenian furniture companies.

Fruit – HACCP (hazard analysis & critical control point) certification is an essential pre-condition for export of fruit and fruit juice. To address this issue for the cluster, the Project organized a HACCP training session for growers on May 26 through a technologist from ZZ Arilje and SGS, a Swiss consultancy. A second demonstration is expected to take place in June.

In order to assist fruit cluster members learn more about the product / service needs of buyers in key export markets, the Project assisted in the launch of a survey of 46 wholesalers of fruit and fruit juices in the European Union, as well as the U.S. grocery chains, Wild Oats and Wholesome Foods (two high-end chains which together represent over 300 premium stores) and Winn-Dixie.

In addition to its participation in the market survey, Wholesome Foods is having a dialogue with cluster members with regard to the import of fresh fruit in the coming year. Furthermore, Winn-Dixie is open to buying fruit. These opportunities are contingent on, among other things, the ability of cluster companies to meet sanitary standards and provide reliable delivery.

The first funding proposal for a fruit training center (in Pozega), prepared with SCEE assistance, was submitted to IRD. Approval is expected in June. A second proposal is being written, with SCEE oversight, by the Institute of Cacak in the VOCA region.

Professor Sevarlic of the University of Belgrade and president of the juice association suggested the following areas where the Agriculture Faculty could be more involved in the cluster's work: (i) a relevant member of the faculty could join each of the three key task forces; and (ii) the faculty could join with SCEE in proposing that the university facility at Radmilovac become one of the fruit training centers, as well as a training center for trainers in the other centers.

New Clusters

As a result of the interest and publicity generated by the National Competitiveness Summit held in April, a number of other clusters have come forward and indicated their interest in collective activity to achieve greater competitiveness. Chief among these are the textiles and construction clusters, both of which requested guidance from the project.

Textiles – Dillon Coleman and Jovana Ducic made a presentation on May 20 concerning cluster formation and our cluster experience to-date to a meeting of some 50 members (list attached) of the textile cluster. The session was organized by Vesna Vasiljevic, a textile specialist with the Serbian Chamber of Commerce. The fruit and furniture clusters examples were used to illustrate how and why clusters come together, the obstacles that clusters face in their development, and the benefits that can be achieved.

Construction – Dr. Neil Eldin, professor of construction management at Texas A&M University, made a presentation (attached) to 20 companies (list attached) in the

construction cluster in a session hosted by the Serbian Chamber of Commerce. The immediate interest of the companies was the pursuit of contracts with Bechtel for the reconstruction of Iraq. However, the broader discussion at the session was to encourage the companies to work together to raise their standards, to market their collective capabilities, and to strategize towards contracting with a range of large international contractors for major projects.

Dr. Eldin has been working with the construction cluster in Macedonia for several weeks, also preparing them to pursue contracts with Bechtel. Thus, the meeting also represented the first step in potential collaboration between Serbian and Macedonian construction clusters to pursue international projects. The next step is to jointly position Serbian and Macedonian firms to win contracts with major international engineering and construction firms, not only in Iraq, but also elsewhere by meeting appropriate standards.

World Economic Forum Meeting, Athens

Don Pressley of Booz Allen Hamilton, and also representing the SCEE Project, participated in the World Economic Forum's (WEF) regional meeting held in Athens on May 23rd and 24th. Serbia's key economic ministers attended, made a good impression among the delegates, and spoke well of the country's competitiveness initiative.

In response to a request by USAID/Washington, the project provided suggested inputs to a speech to be delivered by Dr. Kent Hill at the WEF meeting in Athens. Included were examples from the Serbian context of how improvements in competitiveness were designed to improve not only economic prosperity, but would also enhance social values. A copy of the examples, under the title "Competitiveness That Capitalizes on Social Values", is attached.

National Competitiveness Council

An initial draft of the national competitiveness strategy was submitted to the Council's Executive Committee, Dragoljub Vukadinovic, Chairman, Minister Goran Pitic and Dr. Boris Begovic, during the first half of the month. A copy of this draft is attached.

The Executive, along with Assistant Minister Gordana Lazarevic, made significant comments on the strategy. The project reviewed these with the Executive on May 27. In summary, the strategy document did not meet the Executive's expectations. The strategy will require significant revision; in doing so, the project must address the particular concerns cited by the members of the Executive: the excessive length of the document, lack of specificity in defining the competitiveness objectives, need for greater action-orientation, and need for better assignment of responsibility.

The Project drafted and agreed a set of procedures (copy attached) for the ongoing operation of the National Council. These procedures outline the Council's and the Executive Committee's functions, define Council membership and the term of office, and

provide for the establishment of a secretariat. These should be adopted by the Council at its next meeting.

Serbian Investment & Export Promotion Agency (SIEPA)

The Project took steps to ally itself closer with SIEPA with which it shares the dual objectives of export promotion and FDI attraction. Working with SIEPA's Director, Zlatan Milosevic and its advisor, Amy Bennett, the Chief of Party has agreed an initial plan of action:

- The Project will conduct two training session for SIEPA on competitiveness issues on dates to be agreed in early June.
- To begin increasing SIEPA's understanding of Serbian exporters (or potential exporters), the Project will organize visits for SIEPA personnel to fruit and furniture cluster members; this will become an ongoing activity.
- SIEPA will make a presentation of its capabilities at meetings of both the fruit and furniture clusters.
- SIEPA will begin attending cluster meetings to engage cluster companies in a dialogue as to how export barriers can be overcome.
- Designated counterparts will be appointed in each organization to facilitate information flows and closer co-operation.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

None at this time.

III. PROBLEMS

None to report at this time.

IV. OTHER DEVELOPMENTS

None to report at this time.

USAID SERBIA ENTERPRISE DEVELOPMENT PROJECT
Monthly Project Summary and Report – July 2003

Date: September 12, 2003

To: Ms. Aleksandra Zoric Krzic, Senior Advisor: Enterprise Development and CTO,
USAID/Serbia & Montenegro

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for July 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Mr. Ashraf Soos, RCO, USAID/Budapest
Minister Aleksandar Vlahovic, Ministry of Economy and Privatization
Assistant Minister Blagoje Paunovic, Ministry of Economy and Privatization
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Assistant Minister Gordana Lazarevic, Ministry of International Economic
Relations
Mr. Dragoljub Vukadinovic, Managing Director, Metalac a.d., and President,
SNCC
Dr. Boris Begovic, Vice President, Center for Liberal-Democratic Studies

1. Project Identification

Title: USAID Serbia Enterprise Development Project
Contractor: Booz Allen Hamilton Inc. with On The Frontier Group,
ACDI/VOCA, IESC, and OSC
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 814

2. Project Performance Dates

Period of Performance: July 1, 2003 - June 30, 2006
Start Date: July 1, 2003
Report Date and Number: September 12, 2003, No. 1
Anticipated Completion Date: June 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Don Pressley, Mike Brennan, Joe Babiec, Dane
Smith, Jeanette Miller

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

Project Management

- Conducted a successful four-day planning and team-building session (14-18 July) in Belgrade for key project participants (participants and agenda attached). Participants developed an innovative approach focusing on:

- delivering tangible results in terms of sales, exports, jobs, and attracting investment;
- supporting implementation of the National Competitiveness Strategy; and
- maximizing the number of interventions and thereby the opportunities for success.

The approach places greater emphasis on bringing in industry-specific technical assistance rapidly to help multiple sectors on a rapid basis. Expat LOE will be shifted from the full-time cluster development positions to industry-specific technical assistance to capitalize on near-term export opportunities.

- Prepared initial detailed workplans during the planning session for primary areas of technical assistance: export and cluster development, foreign direct investment, policy & institutional development, and public awareness / public education. These were later combined into a comprehensive plan (attached).
- Prepared the initial outline for a detailed engagement plan explaining the approach.
- Commenced search for larger office space to accommodate an expanded project team. Estimating approximately 25 full time staff located in Belgrade.
- Initiated process to recruit additional local staff. Placed advertisements for staff in Vreme and Danas.

Project / Donor Coordination

- Delivered two training sessions to the Serbian Investment & Export Development Agency (SIEPA). SEDP staff delivered the 3 July session with a focus on competitiveness principles (presentation attached). The 9 July session focused on cluster development and was delivered by cluster representatives Dusan Radmilac (furniture) and Milena Mitic (fruit).
- Prepared a summary (attached) of competitiveness and cluster activity for inclusion in the Ministry of Economy & Privatization's National Report on Small & Medium

Size Enterprises. Participated in a subsequent conference hosted by the European Agency for Reconstruction (EAR) to review the report.

- Introduced Jeanette Miller, SEDP's FDI lead, to Zlatan Milosevic, Director of SIEPA. Discussed areas of mutual cooperation including Ms. Miller's participation in, and support for, SIEPA's campaign in September to attract investors in agri-business, automotive components, electronics.
- Along with cluster members Dusan Radmilac (furniture) and Djordje Stefanovic (fruit), presented a training program to the Agency for Small & Medium Enterprises (SME Agency) regarding the SEDP activities and cluster experience.
- Agreed with the EAR experts David Miller and Shane MacAuley, who are supporting the SME Agency, to (i) utilize a report being prepared by the EAR's tourism consultant as a basis for potential follow-on technical assistance to the sector by SEDP, and (ii) lead a "cluster workshop" to be held in conjunction with the Agency-sponsored SME Conference in early October.

Export Development

- Initiated preparation of a database of 200-300 leading Serbian companies, particularly exporters, to be channeled into SEDP, sector by sector, for an initial assessment and possible technical assistance. Utilized the following sources in developing the long list of companies: (i) Serbian Chamber of Commerce, (ii) Assistant Minister Golianin (re companies in bio-pharma and information technology), and (iii) the Customs Administration (re leading exporters).
- In furtherance of export promotion, agreed with SIEPA the following areas of cooperation with SEDP:
 - Cost sharing for trade fairs and exhibitions (in particular SIEPA has agreed in principle to help share the costs of travel/exhibitions at the upcoming Cologne Furniture Fair and the Paris Fruit/Food Fair)
 - Support for website development for cluster firms (SIEPA can provide guidance and limited support for site development)
 - Training (SIEPA will open its ongoing training programs to cluster firms)
 - Support for cluster initiatives (e.g., SIEPA will support the development and founding of the Design Center; other initiatives could similarly benefit).

Cluster Development

- Assisted both the fruit and furniture clusters in developing an initial list (attached) of trade fairs to be targeted for their participation.

- Supported the furniture cluster in its final meeting prior to the summer break. The meeting was held at the premises of Agrana in Hrtkovci and focused on (i) getting all cluster members participating in GTN; (ii) agreeing the provision of expatriate technical assistance in production and marketing; (iii) planning for a joint web site; and, (iv) elaborating a plan of joint visits and participation at foreign trade fairs.
- Evaluated the prospect of forming a dairy cluster with Jerome Bayle, Managing Director of Tetra Pak. Tetra Pak could serve as a key “anchor firm” supporting the development of such a cluster.

Policy & Institutional Development

- Submitted a revised draft of the National Competitiveness Strategy to the National Council’s Executive Committee, as well as to Minister Vlahovic of the Ministry of Economy & Privatization.
- Reviewed the draft with the Executive Committee (Minister Pitic and Dr. Begovic on 8 July, and Mr. Vukadinovic on 23 July), as well as with Marko Stojanovic on behalf of the Ministry of Economy & Privatization. In general, this version was well received. Comments were taken on portions of the text and are being addressed.
- With Minister Vlahovic, addressed the concept of the SEDP approach – seeking to capitalize on near-term export opportunities while also developing cluster groups for longer-term competitive advantage – and agreed to work with the Serbian Chamber of Commerce to develop a list of candidate companies for inclusion in the project. Also agreed that it would be helpful if the National Competitiveness Strategy were adopted as government policy.
- Agreed with Minister Milosaljevic of Trade, Tourism, & Services to work with the newly appointed director of the Tourist Organization of Serbia in considering where opportunities exist for providing technical assistance to that sector. Also agreed to coordinate SEDP’s own ideas re a “Buy Serbia” campaign with the Ministry’s ideas about developing a “Quality from Serbia” seal.
- Completed an initial draft of a legal and regulatory brief (attached) designed to highlight the legal and regulatory impediments impacting on the fruit and furniture clusters. When finalized, this document will serve as a model for SEDP’s efforts to inform the National Council about impediments to competitiveness.

Public Awareness / Public Education

- Published an article (attached) entitled “Gaining a Competitive Advantage” in the July edition of the American Chamber of Commerce’s magazine, *AmCham Perspective*.
- Organized press visits to cluster companies TetraPak and Stefani Univerzal.
- Updated the SCEE website to include recent events.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

- None at this time.

III. PROBLEMS

- Problems experience in fielding expat advisors to lead the PA/PE and Export Development activities. Intensive efforts are underway to identify the best individuals.

IV. OTHER DEVELOPMENTS

- None to report at this time.

USAID SERBIA ENTERPRISE DEVELOPMENT PROJECT
Monthly Project Summary and Report – August 2003

Date: September 22, 2003

To: Ms. Aleksandra Zoric Krzic, Senior Advisor: Enterprise Development and CTO,
USAID/Serbia & Montenegro

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for August 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Mr. Ashraf Soos, RCO, USAID/Budapest
Minister Aleksandar Vlahovic, Ministry of Economy and Privatization
Assistant Minister Blagoje Paunovic, Ministry of Economy and Privatization
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Assistant Minister Gordana Lazarevic, Ministry of International Economic
Relations
Mr. Dragoljub Vukadinovic, Managing Director, Metalac a.d., and President,
SNCC
Dr. Boris Begovic, Vice President, Center for Liberal-Democratic Studies

1. Project Identification

Title: USAID Serbia Enterprise Development Project
Contractor: Booz Allen Hamilton Inc. with On The Frontier Group,
ACDI/VOCA, IESC, and OSC
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 814

2. Project Performance Dates

Period of Performance: July 1, 2003 - June 30, 2006
Start Date: July 1, 2003
Report Date and Number: September 22, 2003, No. 2
Anticipated Completion Date: June 30, 2003

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Don Pressley, Mike Brennan, Joe Babiec, Dane
Smith, Jeanette Miller

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

Project Management

- Welcomed Jeanette Miller to SEDP as a long-term expat team member. She will be primarily responsible for the project's investment promotion activities, while also contributing significantly to export development initiatives.
- Reached tentative agreement with CRDA implementers, CHF (Brian Holst and Tim Madigan), about renting space in a CHF office (most likely in Nis) to serve as SEDP's initial South Serbia office.
- Continued the recruitment of new staff, both local and expat, as well as the search for larger office space.
- Completed the first draft of a detailed engagement plan and workplan based on the results of the SEDP planning session held in mid-July.

Project / Donor Coordination

- Liaised with the Euro Info Center which is now formally linked with USAID's Global Trade & Technology Network (GTN). Thus SEDP's cluster companies, most of which are registered on GTN, are now connected to European trade opportunities, as well as those from the U.S. Arranged for the Center to make a presentation to cluster meetings.
- Provided guidance, utilizing Jeanette Miller's experience and connections with the U.S. Ex-Im Bank, to GTN as it assists Lider, a Serbian enterprise located in Leskovac. Lider is seeking financing through Ex-Im to purchase U.S.-made equipment for the production of polyurethane foam.
- Met with Rick Smith, nominated to be chief executive of Opportunity International's planned bank which will focus on the SME sector. Areas of particular mutual interest and likely cooperation between the bank and SEDP's cluster enterprises include trade financing and working capital loans.

Export Development

- Continued to build a pipeline of companies to channel into SEDP activities on a sector by sector basis. The list is being built using inputs from the Serbian Chamber of Commerce, the Customs Administration, and from various sector studies.

- Completed a model statement of work (attached) for the initial assessment of sectors by industry experts.

Cluster Development

- Identified industry experts to work with fruit juice and furniture enterprises. The companies will receive support in developing export market penetration strategies; the furniture companies will also receive assistance on improving and expanding their production capabilities.
- Conducted an initial meeting of key leaders in a potential tourism cluster, including the Tourism Organization of Serbia, the Ministry of Trade, Tourism & Services, and Putnik, one of Serbia's largest tourism companies.
- Obtained agreement from the EAR's expert in the tourism sector (Professor Bojan Zecevic, University of Belgrade) to coordinate his analysis in support of SEDP's need for (i) an initial assessment of the sector and (ii) recommendations as to where to focus potential technical assistance for maximum impact. This tourism sector report is expected in mid-September.
- Completed a legal brief (attached) presenting legal and regulatory issues impacting the competitiveness of companies in the fruit/fruit juice and furniture/wood products clusters. This brief was reviewed and approved by the leadership of both clusters and endorsed as a valuable means of informing the National Competitiveness Council.
- Supported a meeting of the furniture cluster on 20 August. The primary focus of the meeting was to plan the participation of selected cluster members at Cologne Fair, one of the largest furniture fairs in the world.
- Initiated the preparation of a business plan for the design centre initiative promoted by the furniture cluster. The center will support the training of young designers, assist them in finding employment, and offer services on a commercial basis. In addition to furniture, the center will work with textile designers.

Foreign Direct Investment

- Drafted an initial Memorandum of Understanding (attached) between the National Competitiveness Council and the American Chamber of Commerce (AmCham) to promote their mutual objectives. Submitted to AmCham's Executive Director for informal review. This memorandum will serve as a model for agreements to be reached with various partner organizations and will be discussed at the September meeting of the National Council.

- Agreed with SIEPA that SEDP will support its upcoming investment campaigns targeting the auto components, electronics, and agri-business sectors.

Policy & Institutional Development

- Submitted further revised drafts (both English and Serbian versions) of the National Competitiveness Strategy to the Council Executive Committee (attached).
- Completed a draft summary of judicial reform activities aimed at strengthening the rule of law in Serbia (attached). This summary will be used to inform the National Council about initiatives already underway in this area. It will be circulated to participants in the donors' meeting on legal reform for additional input and clarification.
- Liaised with the EAR's Shane McAuley regarding his contacts at the Irish Competitiveness Council and arranging a visit by the Serbian Council. Coordinating with the Macedonia Competitiveness Activity on the possibility of a joint visit.

Public Awareness / Public Education

- Dillon Coleman and Mike Brennan gave an interview to a journalist for the "SME News" insert in the newspaper *Politika* (copy attached). Interview focused on explaining the concept of competitiveness, elaborating the objectives of SEDP and the competitiveness initiative, and defining the role of the National Competitiveness Council and its strategy.
- Established the basis for an ongoing relationship with Junior Achievement Serbia (JAS), which provides business and management training at the high school level. This will provide a valuable means of getting the competitiveness message to a new generation of Serbian managers. Agreement reached (i) to associate the National Competitiveness Council with the program; (ii) to adapt planned university level business case studies for use by JAS; and, (iii) to encourage cluster company managers to volunteer time for meeting with students.

Grants

- Completed the initial grants proposals, including support to the furniture cluster in its participation at major trade fairs in Cologne and Moscow, as well as the development of websites for both the fruit and furniture clusters.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

- None at this time.

III. PROBLEMS

- SEDP's lead candidate to lead the Export Development component withdrew from further consideration. The search for leaders for this activity, as well as for Public Awareness / Public Education, continues.

IV. OTHER DEVELOPMENTS

- None to report at this time.

USAID SERBIA ENTERPRISE DEVELOPMENT PROJECT
Monthly Project Summary and Report – September 2003

Date: November 5, 2003

To: Ms. Aleksandra Zoric Krzic, Senior Advisor: Enterprise Development and CTO,
USAID/Serbia & Montenegro

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for September 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Mr. Ashraf Soos, RCO, USAID/Budapest
Minister Aleksandar Vlahovic, Ministry of Economy and Privatization
Assistant Minister Blagoje Paunovic, Ministry of Economy and Privatization
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Assistant Minister Gordana Lazarevic, Ministry of International Economic
Relations
Mr. Dragoljub Vukadinovic, Managing Director, Metalac a.d., and Chairman,
Serbia National Competitiveness Council
Dr. Boris Begovic, Vice President, Center for Liberal-Democratic Studies

1. Project Identification

Title: USAID Serbia Enterprise Development Project
Contractor: Booz Allen Hamilton Inc. with OTF Group, ACDI/VOCA, IESC, and
Mendez England & Associates
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 814

2. Project Performance Dates

Period of Performance: July 1, 2003 - June 30, 2006
Start Date: July 1, 2003
Report Date and Number: November 5, 2003, No. 3
Anticipated Completion Date: June 30, 2006

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Don Pressley, Joe Babiec, Dane Smith, Kip
Garland, Joe Pietrus, Jeanette Miller, Timothy Collins, Jasna Matic

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

Project Management

- Completed negotiations for move to new office spaces located at 86 Boulevard Kralja Aleksandra, 11000 Belgrade. New office was operational as of 1 October.
- Welcomed Joe Pietrus as Lead Advisor for Export Development on September 29.
- Arranged the transfer of Kip Garland from the Macedonia Competitiveness Activity (MCA) to SEDP to be Lead Advisor for Cluster Development; SEDP team member Mike Brennan will move to Skopje to assume a similar position on MCA.
- Selected Timothy Collins as the Lead Advisor for Communications; Timothy is expected to start in early October.

Project / Donor Coordination

- Met with Beat Heggli, Senior Investment Promotion Officer for the World Bank's Multilateral Investment Guarantee Agency (MIGA) to identify areas for potential cooperation. Agreed that SEDP could be a content provider for MIGA's "FDI Xchange" as investment opportunities are identified and other competitiveness initiatives are launched.
- Provided a briefing to Sasha Markovic, who follows USAID programs for Office of the Prime Minister, re SEDP's objectives and approach to open line of communications and support between SEDP and the OPM.

Export Development

- In a meeting with Assistant Minister Jelica Minic of the Ministry of Foreign Affairs, agreed (i) to coordinate with the MOFA re trade missions; (ii) to provide commercial attaches with training on competitiveness, export development, and investment opportunities; and (iii) to include commercial attaches in SEDP's database of competitiveness contacts so that they receive periodic updates on export and investment activities.

Cluster Development

- Industry experts Remer Lane (fruit and fruit juices) and Ann and Richard Vaughn (furniture) arrived on September 24 and 27, respectively, to begin their assistance to the fruit and furniture clusters. SEDP organized a fruit cluster meeting on September 29 to introduce Remer Lane and finalize his agenda.

- Presented the findings of a market research study on September 4th to the fruit cluster. Respondents included juice buyers in the U.S., Canada, and Europe. Significantly, ten of the respondents requested samples. Cluster members will be working with Remer Lane, SEDP, and select buyers to move forward on meeting standards and then generating sales.
- Six furniture companies finalized their participation at the January 2004 Cologne Furniture Fair, with Eurosalon designers developing the showroom layout. To support this effort, cluster members are (i) developing competitive data gathering sheets; (ii) completing a group website modeled after the Italian furniture industry's web presence; and (iii) creating English language marketing brochures.
- Two furniture members have initiated a joint procurement arrangement.
- Bambus, a furniture cluster member, made an export sale of approximately \$10,000 through the Global Trade and Technology Network (GTN) to a Romanian buyer.
- Agreed with the Ministry of International Economic Relations, Ministry of Economy and Privatization, the Executive Committee of the NCC, and USAID re the next three sectors that SEDP will mobilize for support. These sectors are biopharmaceuticals, textiles, and tourism (see Attachment 1 for supporting memo). SEDP project staff prepared statements of work and distributed them to SEDP consortium firms and organizations to identify industry experts to conduct an initial assessment for each sector.
- Met with Dr. Djuro Kutlaca, Head of the Mihajlo Pupin Institute, to review his current analysis of the software development sector in Serbia on behalf of OECD. Dr. Kutlaca agreed to provide SEDP a copy of his report to support our evaluation of the IT sector for potential support.

Foreign Direct Investment (FDI)

- Met with numerous parties working with FDI in Serbia in order to introduce the SEDP project and FDI component of the program. Achieved a greater understanding of the existing investments and opportunities for the future attraction of FDI in concert with other players in Serbia. (See Attachment 2)
- Initiated detailed discussions with SIEPA regarding opportunities to cooperate on several initiatives. These initiatives include the joint development of an existing investor database which would include levels of investment to date, as well as opportunities for follow-on investment. Additionally, SIEPA is informed of our

interest to develop specific targeted FDI interventions and is providing background information as available.

Policy and Institutional Development

- At a meeting held on September 26, the National Competitiveness Council (NCC) adopted its initial National Competitiveness Strategy, subject to several minor revisions being incorporated into the document. The council also adopted a set of operating procedures (see Attachment 3 for NCC operating procedures).
- Prior to the NCC meeting, worked with both Chairman Vukadinovic, Serbian Minister of International Economic Relations Pitic, and Serbian Assistant Minister for International Economic Relations Gordana Lazarevic to finalize the strategy document and plans for the council session. (See Attachment 4 for NCC meeting agenda.)

Communications

- Supported the SME Agency's "International Trade Fair of Entrepreneurship" by maintaining a presence at the fair to discuss SEDP activities and objectives. In addition, team member Mike Brennan made a presentation entitled "Business Innovation and Competitiveness in Serbia - Linking Research, Education and Business: Innovation-Based Examples."

Grants

- Grants were approved for:
 - Support for fruit and fruit juice cluster firms to attend the "ANUGA" Food Fair in Cologne, Germany, in October 2003
 - Support for furniture cluster firms to attend the "Mebel" Furniture Fair in Moscow, Russia, in November 2003
 - Support for furniture cluster firms to attend the Cologne Furniture Fair in January 2004
 - Support for the creation of a joint web site for the furniture cluster
 - Support for the creation of a joint web site for the fruit and fruit juice cluster.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

- None at this time.

III. PROBLEMS

- None to report at this time.

IV. OTHER DEVELOPMENTS

- None to report at this time.

USAID SERBIA ENTERPRISE DEVELOPMENT PROJECT
Monthly Project Summary and Report – October 2003

Date: November 11, 2003

To: Ms. Aleksandra Zoric Krzic, Senior Advisor: Enterprise Development and CTO,
USAID/Serbia & Montenegro

From: Mr. Dillon Coleman, Chief of Party, Booz Allen Hamilton

Re: Monthly Project Summary and Report for October 2003

CC: Mr. William S. Foerderer, USAID/FRY
Mr. Grant Morrill, SEGIR GBTI CTO, USAID/DC
Mr. Ashraf Soos, RCO, USAID/Budapest
Minister Aleksandar Vlahovic, Ministry of Economy and Privatization
Assistant Minister Blagoje Paunovic, Ministry of Economy and Privatization
Minister Goran Pitic, Ph.D., Ministry of International Economic Relations
Assistant Minister Gordana Lazarevic, Ministry of International Economic
Relations
Mr. Dragoljub Vukadinovic, Managing Director, Metalac a.d., and Chairman,
Serbia National Competitiveness Council
Dr. Boris Begovic, Vice President, Center for Liberal-Democratic Studies

1. Project Identification

Title: USAID Serbia Enterprise Development Project
Contractor: Booz Allen Hamilton Inc. with OTF Group, ACDI/VOCA, IESC, and
Mendez England & Associates
Contract Number: PCE-I-00-98-00013-00
Task Order No.: 814

2. Project Performance Dates

Period of Performance: July 1, 2003 - June 30, 2006
Start Date: July 1, 2003
Report Date and Number: November 11, 2003, No. 4
Anticipated Completion Date: June 30, 2006

3. Key Technical Advisors:

Dillon Coleman, Mark Belcher, Don Pressley, Chris Williams, Joe Babiec, Dane
Smith, Kip Garland, Joe Pietrus, Jeanette Miller, Timothy Collins, Jasna Matic

I. PROGRESS AGAINST DELIVERABLES AND/OR COMPLETION THEREOF

Project Management

- Relocated SEDP to new office at 86 Boulevard Kralja Aleksandra.
- Timothy Collins joined the project as Communications Advisor on October 9.
- Held an initial training session for SEDP team members (October 29) to introduce all new staff and to review the project objectives and approach.

Project / Donor Coordination

- Dillon Coleman, Milan Samardzic, and Mike Brennan attended the Macedonia Competitiveness Summit in Skopje to get an update on the competitiveness initiative in Macedonia and to gather ideas for SEDP's next conference.
- SEDP staff conducted a workshop at a conference organized by the SME Agency (October 6, 7). SEDP team member Dane Smith and fruit cluster member Milena Mitic (Fresh & Co.) led the workshop, entitled "Building on our Strengths – Sectors & Clusters," supported by Mike Brennan and Dillon Coleman.

Cluster and Export Development

- With Serbian juice manufacturer Fresh & Co., SEDP coordinated test marketing of single serve fruit juices in northern Italy through a Milan-based beverage distributor.
- SEDP organized a garment sector assessment starting on November 17, with 18 private sector garment manufacturers participating. SEDP is working closely with the Chamber of Commerce and Industry on this activity, which will be carried out with the assistance of garment industry expert Jeanne Atkinson.
- A SEDP assessment of the Serbian dairy sector concluded that the principal export development problem is poor milk quality. The time and effort required to improve milk quality is beyond the scope of SEDP. Further, the potential for increased dairy product exports appears to be smaller than that of other sectors. SEDP is exploring other donor programs regarding their interest in addressing dairy quality issues.
- SEDP reached agreement with the Chamber of Commerce and Industry to access Chamber industry experts in sectors of interest to SEDP. In October SEDP worked closely with Chamber staff in food processing and textiles and secured information about major exporting companies from the Chamber's database.

- SEDP reached agreement with SIEPA for them to take the lead in developing the SEDP envisioned exporter database. SEDP will provide SIEPA information on specific sectors and have access to the database.
- In early October, technical expert Remer Lane presented results of the sector analysis for the Serbian fruit and fruit processing cluster members and to representatives of the international business and donor community, with recommendations for increasing exports.
- At the Anuga Food Fair (Cologne, Germany, October 11-15), SEDP introduced cluster members to international contacts, performed market research, and closed two sales in organic juice concentrate (approx. \$500,000). The Anuga Fair also resulted in an agreement to exchange raspberry processing technology between a Serbian juice processor and the Chilean Organic Fruit Industry.
- The first of several cluster-based fruit production training centers is being finalized at the Institute of Cacak. Supported in part by ACDI-VOCA, the centers will teach producers affordable technology to address drought, frost, and hail problems that have crippled crop production for several years. The project also aims to introduce increased profit margins for fresh berries. A second training center in the network, at Pozega, which is being developed with IRD, received project support with a letter of recommendation to assist in financing.
- SEDP project staff are working with juice producers to develop a plan to immediately send fruit juice and fruit industry produce samples to several European and U.S. firms, including the Trader Joe's retail network.
- SEDP project staff are working with GTZ to provide HACCP training and certification to fruit and fruit juice producers. Several cluster members have received HACCP training in collaboration with IRD.
- Two industry experts, Richard and Ann Vaughn, provided detailed operational and marketing expertise as a part of sector assessments for the furniture cluster. They presented findings to cluster members and to representatives of the international business and donor community on October 17, and are performing follow-up in the U.S. to contact potential buyers. As a result of the analysis, cluster members have agreed to develop their own quality seal and quality standards and will begin that process in November.
- Six members of the furniture cluster continued to develop their display booth and strategy for the Cologne Furniture Fair (January 2004), working with ARISTIP to

develop leads and contacts. SEDP is providing co-funding for the booth and will train the group on data and intelligence gathering at the fair.

Foreign Direct Investment

- SEDP conducted a roundtable of the international donor community and government ministries working on FDI in Serbia. Participants discussed needs, resources, and cooperation. Attendance and interest was positive with the initiative continuing on a monthly basis, to be hosted in November by SIEPA.
- On October 15, SEDP introduced two cluster companies to the Serbia and Montenegro Export Credit Agency (SMECA) to discuss preferential export financing opportunities. Both companies are very interested in this option and will submit documents to obtain quotations on financing limits and interest.
- SEDP facilitated a meeting between SEDP, SIEPA, the Foreign Investors Council (FIC), and AmCham to discuss needs and coordination for developing an existing investor database in Serbia for joint usage.
- SEDP informed the Ministry of International Economic Relations of the need to move the Law on Secure Transactions forward, as the delay is preventing investment flow into Serbia. According to Ministry sources, there had been no movement for several months, but the Ministry has now prioritized this issue.
- SEDP staff met with Mira Tumara and John Fawthrop of the Fund Management Unit of the National Bank of Serbia. They agreed to include SEDP on the list of recipients of their monthly report of financing opportunities specifically targeted at SMEs.

Policy and Institutional Development

- SEDP staff revised the National Competitiveness Strategy, based on amendments that members of the National Competitiveness Council made at the NCC meeting held on September 26 and incorporating into the Strategy the newest macroeconomic data provided by the Ministry of Finance and Economy. SEDP staff worked with the Assistant Minister for International Economic Relations Gordana Lazarevic and the media representative to the NCC, Miša Brkic, to perfect flow and language in the Serbian version of the document.
- SEDP staff met with the executive manager of the FIC to define the FIC's internal structure for working with the NCC in implementing the Strategy.

- IESC senior staff member Betsy Bury designed a detailed monitoring and evaluation plan for SEDP, based upon intensive meetings with SEDP staff members.

Public Awareness / Public Education

- SEDP staff drafted the SEDP communications strategy.
- With MIER, MOEP, and the Office of the Prime Minister, SEDP coordinated talking points and press release for Serbia ranking the World Economic Forum.
- With National Tourism Organization of Serbia (NTOS) and Ministry of Trade and Tourism (MTT), SEDP helped develop strategy, display, press kits, and promotional materials for Serbia representation at the World Travel Market 2003 (London, November 10-13).
- SEDP provided campaign consultation to NTOS and the MTT Steering Committee to redefine Serbia's international image.
- With Junior Achievement Belgrade, SEDP developed a plan to introduce competitiveness lesson plans into high school curriculum in 38 high schools in southern Serbia.

Grants

- In October, a total of approximately \$35,000 was issued for five grants awarded at the end of the Serbia Competitiveness and Economic Efficiency (SCEE) project to the fruit and furniture clusters.
 - With \$ 5,876, SCEE supported three fruit cluster member firms¹ to attend the ANUGA Food Fair in Cologne, Germany, October 11-15.
 - With \$3,000, SCEE supported two furniture cluster member firms² to attend the Moscow Furniture Fair, November 17-21.
 - With \$25,000 SCEE, supported exhibition by the furniture cluster at the Cologne furniture fair, January 19-25, 2004.
 - With \$1,000, SCEE supported the SAGA Group to make a web sites for the fruit cluster, representing 21 companies and institutions. The joint web site will be a marketing tool where information on quality, branding, and activities of clusters will be presented together with information on individual companies, production capabilities, and products.

¹ Fresh Co., Nectar, Niba Co.

² Eurosalon, Trifunovic

- With \$1,000 SCEE supported the SAGA Group to make a similar web site for the furniture cluster, representing 14 companies.
- SEDP brought on its grant manager October 20, and made arrangements for IESC senior staff member Tarek Nabhan to provide assistance in designing and implementing a reimbursable grants program in early November.

II. PROPOSED CHANGES TO TASK ORDER OR WORKPLAN

- None at this time.

III. PROBLEMS

- None at this time.

IV. OTHER DEVELOPMENTS

- None to report at this time.

Attachment 1: SEDP FDI Meetings in October 2003

<i>SEDP – FDI Meetings in October</i>		
Party met	Reason for meeting	Follow up
SEED Slobodan Nakarada	Introduce SEDP FDI Team, discuss cooperation	<ul style="list-style-type: none"> • Coordinate activities with SEED • Invite to assessment presentations
Copernicus Investment Fund Heidi Mostic	Introduce SEDP FDI Team Understand investment strategy	<ul style="list-style-type: none"> • Invite to assessment presentations
SIEPA Milivoje Mandic	Discuss assisting SIEPA in creating database of foreign companies and how SEDP's FDI Team can best assist SIEPA in attracting FDI	<ul style="list-style-type: none"> • Facilitate meeting for SIEPA, FIC, AmCham to discuss creating the FDI database
ORACLE Dragan Španovic	Introduce SEDP FDI Team, discuss ORACLE support of the IT industry and potential cluster activity	<ul style="list-style-type: none"> • Put in touch with J. Pietrus for industry assessments
SOROS Investment Capital Fund Gavin Ryan	Introduce SEDP FDI Team Understand investment strategy	<ul style="list-style-type: none"> • Invite to assessment presentations
Ministry of International Economic Relations Dermot Coffey	Ongoing cooperation	<ul style="list-style-type: none"> • Define FDI Roundtable concept and potential participants
US Trade and Development Agency Scott Greenip	Discuss TDA pending initiatives in Serbia and SEDP benefit	<ul style="list-style-type: none"> • Share relevant information on food processing opportunities
Tourist Organization of Serbia Milica Cubrilo	Understand strategy of the TOS and discuss coordination regarding tourism industry	<ul style="list-style-type: none"> • Invite to tourism • Connect TOS with Timothy regarding image campaign
Serbian Privatization Agency Andrej Popov	Introduce SEDP FDI Team and Activities Learn about FDI opportunities in the privatization process	<ul style="list-style-type: none"> • Continue discussions regarding hotel and tourism privatizations • Welcome suggestions on other targeted assistance
Serbia and Montenegro Export Credit Agency Caslav Jovanovic & Lloyd Edgcombe	Briefed on status of SMECA and proposed product offerings	<ul style="list-style-type: none"> • Introduce to SEDP cluster companies to SMECA financing
SIEPA, FIC, AmCham & SEDP	Facilitate meeting for SIEPA, FIC and AmCham to discuss creating a database of information on FDI in Serbia	<ul style="list-style-type: none"> • Draft MOU and send to all parties • Review draft questionnaire

***Leadership Survey:
Economic and Business Opinions
(prepared by OTF Group)***

You are invited to participate in a research study to measure opinions and beliefs concerning business and economic policy in your nation and around the world.

Your voluntary participation would be greatly appreciated. You will be asked questions about business, economics, and professional relationships. In addition, you will be asked some general questions about the organization you work in, and your cultural and geographic background.

Please feel free to be very candid. There are no right or wrong answers to any questions. Most importantly, **the results of this survey will be completely confidential**. Your responses will be analyzed only in the aggregate, for statistical purposes.

The questionnaire will take approximately 20-25 minutes to complete. Instructions are provided in each section. For any question for which you do not have complete knowledge, please answer to the best of your ability.

We do not foresee any risks associated with participating in this study nor are there any particular foreseeable benefits. There is no direct reimbursement for participation. However, you will be invo

If you have read this form and have decided to participate in this study, please understand that participation is voluntary and you have the right to withdraw your consent or discontinue your participation at any time without penalty. You have the right to refuse to answer particular questions. Your individual privacy will be maintained in all published and written data resulting from the study.

For questions about the study, please contact the USAID Serbian Competitiveness & Economic Efficiency Project at (0) 63 3224-110.

I. Questions about the leadership of your country

In this section, you will be asked some questions about the leadership in your country. Unless otherwise specified, consider leaders to be prominent individuals in both the government and private sectors. Please circle the appropriate number for each line.

- | | |
|---------------------------------------|------------------------------------|
| 1 means “disagree <i>completely</i> ” | 5 means “agree <i>somewhat</i> ” |
| 2 means “disagree <i>generally</i> ” | 6 means “agree <i>generally</i> ” |
| 3 means “disagree <i>somewhat</i> ” | 7 means “agree <i>completely</i> ” |
| 4 means “neither agree nor disagree” | |

	disagree	agree	
Most citizens in Serbia believe the nation must act quickly and decisively to avoid an economic crisis.	1 2 3 4 5 6 7 DK		r1
Most influential people in Serbia actively seek innovative solutions to problems.	1 2 3 4 5 6 7 DK		r2
Most influential people in Serbia are open to change and learning.	1 2 3 4 5 6 7 DK		r3
Between its business leaders, academics and government officials, Serbia has the macroeconomic knowledge necessary to build its prosperity.	1 2 3 4 5 6 7 DK		r4
Business leaders inside Serbia’s companies have the knowledge and skills to increase the competitiveness of their firms.	1 2 3 4 5 6 7 DK		r5
Serbia’s work-force has the skills to compete in a new competitive economy, that favors open trade, innovation, and market forces.	1 2 3 4 5 6 7 DK		r6
When no crisis is imminent, Serbia’s leadership has the ability to create change and improvement for the nation.	1 2 3 4 5 6 7 DK		r7
Serbia’s leadership is gathering the necessary knowledge to build the country’s prosperity.	1 2 3 4 5 6 7 DK		r8
Serbia’s leadership has a correct sense of vision for the nation.	1 2 3 4 5 6 7 DK		r9
Serbia’s leadership is able to create approval among the people for its vision of the nation’s development.	1 2 3 4 5 6 7 DK		r10
Considering all the factors above, I believe that in the next 5 years, Serbia’s economic competitiveness will improve.	1 2 3 4 5 6 7 DK		r11
Considering all the factors above, I believe that the average citizen will enjoy a higher standard of living in 5 years than he or she has now.	1 2 3 4 5 6 7 DK		r12

(check one box for each question)

Generally speaking, would you say that most people in your country can be trusted, or that you can't be too careful in dealing with people?	<input type="checkbox"/> can be trusted <input type="checkbox"/> can't be too careful	d1
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III. Business Environment

The business environment can be understood in terms of four critical areas: (1) community infrastructure assets, (2) local demand conditions, (3) rules and incentives governing investment and competition, and (4) related and supporting industries. Government can affect each of these areas through its policies.

Instructions for Section 1:

For each question, please select the number that best expresses your opinion about the actual condition in your country.

By circling a smaller number, you agree more with the assessment as stated on the left.
 By circling a larger number, you agree more with the assessment as stated on the right.

Please answer all the questions in the context of **your business’s circumstances in the country.**

Availability of Infrastructure Assets

Infrastructure assets are one of the fundamental resources that a company draws upon in competition. They include tangible assets (e.g., local workforce, university research centers and transportation systems) as well as intangible assets (e.g. education system, access to capital).

1. The cost of doing business (specifically, the cost of real estate, wages and salaries, and utilities) is...		
High relative to other countries	1 2 3 4 5 6 7	Low relative to other countries

2. The overall quality of transportation (e.g., roads, air transport, railroads and ports) is...		
Very poor relative to other countries	1 2 3 4 5 6 7	Very good relative to other countries

3. Specialized facilities for research (e.g., science laboratories, university research institutions and technical libraries) are...		
Limited	1 2 3 4 5 6 7	Readily available

4. The institutions in Serbia that perform basic research...		
Rarely transfer knowledge to important industries	1 2 3 4 5 6 7	Frequently transfer knowledge to important industries

5. The communications infrastructure (including internet access) in Serbia...

Fails to satisfy (your or general) business needs	1 2 3 4 5 6 7	Fully satisfies (your or general) business needs
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6. Qualified scientists and engineers in Serbia are...		
Scarce	1 2 3 4 5 6 7	In ample supply

7. The available pool of skilled workers in Serbia...		
Is too small and hinders (your or general) growth	1 2 3 4 5 6 7	Is sufficient to meet (your or general) growth needs

8. The overall quality of the primary and secondary education system is...		
Very poor	1 2 3 4 5 6 7	Very high

9. Advanced educational programs (e.g., vocational schools, colleges and /or universities)...		
Provide (your or general) business with low quality employees	1 2 3 4 5 6 7	Provide (your or general) business with high quality employees

10. Access to capital (e.g. bank, venture funds and private equity investments) is...		
Difficult	1 2 3 4 5 6 7	Easy

Quality of Life

The quality of life in a locality refers to the cultural, natural, and other characteristics that impact families' standard of living in an area.

11. The overall quality of life (e.g., medical services, cultural opportunities and living conditions) in Serbia...		
Makes recruitment and retention of employees difficult	1 2 3 4 5 6 7	Makes recruitment and retention of employees easy

12. The cost of living in Serbia...		
Makes recruitment and retention of employees difficult	1 2 3 4 5 6 7	Makes recruitment and retention of employees easy

Local Demand Conditions

Local demand conditions refer to the presence or emergence of sophisticated and demanding local customers who press firms to improve and provide insights into existing and future needs.

13. Local customers for (your or general) business’s products/services are...		
Unsophisticated and undemanding	1 2 3 4 5 6 7	Sophisticated and demanding

14. Local customers for (your or general) business’s products/services have...		
No special needs that impact your product offering	1 2 3 4 5 6 7	Special needs that often impact your product offering

15. Feedback from (your or general) customers to improve your business’s products/services is...		
Not useful for developing new features or enhanced performance	1 2 3 4 5 6 7	Useful for developing new features or enhanced performance

Rules and Incentives Governing Investment and Competition

The investment climate and policies towards competition set the context within which firm strategy and rivalry develop. The climate for investment refers to labor market policies affecting the incentives for workforce development, the structure of the tax system, intellectual property rules, and their enforcement, among other things.

16. Government regulations affecting (your or general) business...		
Are inappropriate and hinder your firm’s ability to succeed	1 2 3 4 5 6 7	Are appropriate and assist your firm’s ability to succeed

17. Government environmental standards and safety regulations...		
Are lax	1 2 3 4 5 6 7	Are strict

18. Investment in R&D is...		
Discouraged by taxes and incentives	1 2 3 4 5 6 7	Encouraged by taxes and incentives

19. Government’s overall responsiveness and ability to work with the needs of business is...		
Low	1 2 3 4 5 6 7	High

20. Regional competition in your industry is...		
--	--	--

Mild	1 2 3 4 5 6 7	Intense
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Related and Supporting Industries

Related and supporting industries refers to the local access to internationally competitive suppliers of materials, components, machinery, and services. It also involves local access to industries sharing technology, channels, and/or customers.

22. Specialized suppliers of (your or general) business’s materials, machinery, and services are...		
Mostly not available inside Serbia	1 2 3 4 5 6 7	Mostly available inside Serbia

23. Local specialized suppliers of (your or general) business’s materials, machinery, and services are...		
Of very low quality	1 2 3 4 5 6 7	Comparable with the best quality elsewhere

24. Local specialized suppliers assist (your or general) firm with new product and process development ...		
Infrequently	1 2 3 4 5 6 7	Frequently

25. Businesses in Serbia...		
Hide information from other firms even when there is not a competitive reason to do so	1 2 3 4 5 6 7	Share information openly with other businesses

26. Finally, considering all the significant factors, including government, industry and social factors, how good a location is your country as a place to innovate in (your or general) business?		
Very poor location	1 2 3 4 5 6 7	Very good location

V. National priorities (conditions for competitiveness)

Here is a list of conditions many people consider important contributions to the competitiveness of a country’s industries. Please proceed through the list and indicate how well your nation is performing on each of the conditions. **Circle** the appropriate number on each line.

- 3 means “among the worst in the world”
- 2 means “significantly below average”
- 1 means “below average”
- 0 means “average”
- 1 means “above average”
- 2 means “significantly above average”
- 3 means “among the best in the world”

	worst							best	
Productivity of labor force	-3	-2	-1	0	1	2	3		m1
Quality of domestic companies' strategies	-3	-2	-1	0	1	2	3		m2
Effectiveness of government support for the private sector	-3	-2	-1	0	1	2	3		m3
Availability of high quality business opportunities	-3	-2	-1	0	1	2	3		m4
Security	-3	-2	-1	0	1	2	3		m5
Environmental conditions	-3	-2	-1	0	1	2	3		m6
Trust among citizens	-3	-2	-1	0	1	2	3		m7
The degree of organization of the leadership	-3	-2	-1	0	1	2	3		m8
Effectiveness of public institutions	-3	-2	-1	0	1	2	3		m9
Attitude toward change and innovation	-3	-2	-1	0	1	2	3		m10
Trust between government and private sector	-3	-2	-1	0	1	2	3		m11
Reliable and enforceable patent and property laws	-3	-2	-1	0	1	2	3		m12

VI. Opinions about economics and business

Please indicate your agreement or disagreement with each of the following statements. Circle the appropriate number on each line.

1 means "disagree *completely*"
 2 means "disagree *generally*"
 3 means "disagree *somewhat*"
 4 means "neither agree nor disagree"

5 means "agree *somewhat*"
 6 means "agree *generally*"
 7 means "agree *completely*"
 DK means "Don't Know"

	disagree							agree
1. It is important for managers to be older than the persons they supervise.	1	2	3	4	5	6	7	DK
2. Open competition is a force that enriches a society.	1	2	3	4	5	6	7	DK
3. Open competition threatens the stability and solidarity of society.	1	2	3	4	5	6	7	DK
4. Serbia's environment should be protected from damage, even at higher costs	1	2	3	4	5	6	7	DK
5. In the place I work, most employees can be trusted to make independent decisions about how to do their jobs well.	1	2	3	4	5	6	7	DK
6. Individual companies can not be competitive under poor national economic conditions	1	2	3	4	5	6	7	DK
7. The average citizen can have an influence in government decisions.	1	2	3	4	5	6	7	DK

8. Most large companies in Serbia can succeed without collaborating with each other.	1 2 3 4 5 6 7 DK
9. Organizations work best when everybody works together and no one takes individual credit	1 2 3 4 5 6 7 DK
10. People should follow the instructions of their superiors related to their job, even when they do not fully agree with them.	1 2 3 4 5 6 7 DK
11. In five years, the majority of Serbia's businesses will be much more competitive in the world market than they are now.	1 2 3 4 5 6 7 DK
12. Nothing can change the way most people in Serbia think about economics.	1 2 3 4 5 6 7 DK
13. Managers should admit to their employees when they are not sure what to do.	1 2 3 4 5 6 7 DK
14. A dramatically changing business environment is something to be welcomed and embraced.	1 2 3 4 5 6 7 DK
15. Only a small group of highly-trained and educated people are necessary to improve the competitiveness of Serbia's industries.	1 2 3 4 5 6 7 DK
16. Many companies enjoy sustained success by simply imitating their competitors.	1 2 3 4 5 6 7 DK
	disagree agree
17. In my organization, managers and employees generally are working towards a common goal.	1 2 3 4 5 6 7 DK
18. Corruption is the main impediment to competitiveness in Serbia.	1 2 3 4 5 6 7 DK
19. Some companies in Serbia are making too much profit.	1 2 3 4 5 6 7 DK
20. Wealth is finite and nations must struggle to redistribute it.	1 2 3 4 5 6 7 DK
21. Companies must fight against each other for a share of a limited pool of human, financial and physical resources.	1 2 3 4 5 6 7 DK
22. Chief executives that can't improve the performance of a company in one year's time should be replaced.	1 2 3 4 5 6 7 DK
23. All segments of the population must reach consensus about what Serbia's vision is before the country moves ahead.	1 2 3 4 5 6 7 DK
24. Companies that share lots of information with each other lose their competitive edge.	1 2 3 4 5 6 7 DK
25. Intense local competition between companies tends to contribute positively to the standard of living of the average citizen	1 2 3 4 5 6 7 DK

26. Companies that compete against each other in Serbia should establish closer ties and cooperative agreements than they have now.	1 2 3 4 5 6 7 DK
27. Entry of a new competitor into Serbia harms the business environment	1 2 3 4 5 6 7 DK
28. Presence of intense local competition between companies tends to foster innovation	1 2 3 4 5 6 7 DK
29. Where possible, companies should seek to train workers through co-operative training programs, rather than on their own.	1 2 3 4 5 6 7 DK
30. Projects that require cooperation and collaboration between firms tend to cost more than they return.	1 2 3 4 5 6 7 DK
31. It is possible for Serbian companies to collaborate and compete at the same time	1 2 3 4 5 6 7 DK
32. Cooperation between local firms has contributed directly to the prosperity of the country as a whole.	1 2 3 4 5 6 7 DK
33. Companies are worse off when they have to compete with other local companies to attract and retain skilled workers	1 2 3 4 5 6 7 DK
34. Individual companies in Serbia can prosper, even when the national economy is suffering	1 2 3 4 5 6 7 DK
35. Most people in Serbia can change how they think about economics.	1 2 3 4 5 6 7 DK
36. Serbia's companies generally deliver world-class standards of quality and productivity	1 2 3 4 5 6 7 DK
37. Serbian firms are often better off using suppliers from the EU, rather than working with local suppliers	1 2 3 4 5 6 7 DK
38. Increasing prosperity for all Serbian citizens will result in reduced ethnic tension and conflict.	1 2 3 4 5 6 7 DK
39. Foreigners should have the same opportunities to live and prosper in Serbia as do citizens of Serbia	1 2 3 4 5 6 7 DK
40. Serbia's companies should be measured against world-class standards of quality and productivity	1 2 3 4 5 6 7 DK
41. Serbia's low wage rates are an advantage for the country	1 2 3 4 5 6 7 DK
42. Many Serbian firms have sophisticated knowledge of the needs of their customers in export markets	1 2 3 4 5 6 7 DK
43. Globalization threatens Serbia's ability to protect its poorer citizens	1 2 3 4 5 6 7 DK
44. Doing business in Serbia presents unique challenges, different from those found elsewhere in central or Eastern Europe	1 2 3 4 5 6 7 DK
45. In the short run, pollution and environmental degradation are acceptable prices to pay for rapid growth	1 2 3 4 5 6 7 DK

46. Strong Serbian companies don't need to cooperate with other firms	1 2 3 4 5 6 7 DK
47. Until the government makes a commitment to competitiveness, Serbian firms will be unable to compete	1 2 3 4 5 6 7 DK
48. In Serbia, competition between firms often leads to inefficiencies	1 2 3 4 5 6 7 DK

VII. Questions about the role of government in the economy

Please indicate your agreement or disagreement with each of the following statements. Circle the appropriate number on each line.

1 means “disagree *completely*”

5 means “agree *somewhat*”

2 means “disagree *generally*”

6 means “agree *generally*”

3 means “disagree *somewhat*”

7 means “agree *completely*”

4 means “neither agree nor disagree”

Serbian government policies should...	disagree							agree							
levy substantial tariffs on imports in certain key industries.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C1
subsidize the profitability of some businesses.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C2
guarantee a minimum standard of living for all citizens.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C2
regulate prices in certain industries.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C4
grant some industries special privileges and protection.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C5
treat domestic and foreign companies equally.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C6
redistribute wealth from the more fortunate to the less fortunate.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C7
own or directly control certain companies.	1	2	3	4	5	6	7	1	2	3	4	5	6	7	C8

VIII. Background questions

Please complete this brief background section. Please keep in mind that the information you supply about your company and yourself will remain anonymous, and will be analyzed only in combination with other responses.

<p>Which best describes the type of organization in which you work? (If you work in more than one organization, list the one that takes the majority of your time)</p>	<p>___ State-owned company (1) ___ Socially-owned company (2) ___ Government (excluding state-owned companies) (3) ___ Private-sector company (# of employees?) (4) ___ Academics (5) ___ The press (6) ___ Unions (7) ___ Non-government organizations (8) ___ Student where? _____ (9) ___ Other (specify) _____ (10)</p>	<p>z1</p>
<p>If you work for a state-owned company or in the private sector, which best describes the primary focus of the company? (If your company is involved with more than one focus, list the one that creates the majority of its revenues)</p>	<p>___ Agriculture or natural resources (specify) _____ (1) ___ Manufacturing (specify) _____ (2) ___ Services (specify) (Reflect clusters) _____ (3) ___ Other (specify) _____ (4)</p>	<p>z2</p>
<p>Which best describes your position in the organization you listed in (1) above?</p>	<p>___ Owner, president, CEO, cabinet member (1) ___ Sr. Executive or Sr. Official (2) ___ Non-manager (professional) (3) ___ Other _____ (4)</p>	<p>z3</p>
<p>Education (Check highest completed)</p>	<p>___ Less than secondary school (1) ___ Secondary School (2) ___ Some College (3) ___ College Graduate (4) ___ Graduate Study (5) ___ Vocational School (6)</p>	<p>z4</p>
<p>Of which country or countries are you a citizen?</p>	<p>List of countries</p>	<p>z5</p>
<p>Age</p>	<p>___ 20-29 (1) ___ 30-39 (2) ___ 40-49 (3) ___ 50-59 (4) ___ 60 or older (5)</p>	<p>z6</p>
<p>Sex</p>	<p>___ Female (1) ___ Male (2)</p>	<p>z7</p>
<p>Looking back over the past 5 years, how would you rate your company's performance relative to your company's competitors? If you do not have this information, please mark DK/NA.</p>	<p>___ among the worst in the industry (1) ___ significantly worse than average (2) ___ somewhat worse than average (3) ___ just about average (4) ___ somewhat better than average (5) ___ significantly better than average (6) ___ among the best in the industry (7) ___ Don't Know / Not Applicable (8)</p>	<p>z8</p>

How many employees does your organization have in Serbia?	0-1	2-10	11-50	51-100	100+
How much time have you spent time abroad in the last 10 years?	none	Less than 2 months	3-12 months	1 year or more	

**This concludes the economic and business opinion survey.
Thank you for your cooperation.**

**Survey of Serbia's Leadership:
Mental Models and Business Environment**

Serbia Competitiveness & Economic Efficiency Project

April, 2003

Introduction

Led by a team comprised of members from Booz, Allen and Hamilton and the OTF Group, Serbia Competitiveness & Economic Efficiency Project is funded by USAID. It is currently engaged in two clusters and activities nationwide.

The mental models and business environment survey is part of the overall groundwork for the project's engagements, and is designed with two goals in mind: to assess and inform decision-makers about key competitiveness challenges facing Serbia, and to identify particular 'mental models' held by Serbia's leaders surrounding competitiveness.

The development and execution of strategies to attain competitive advantage depend on the joint-efforts of collections of individuals: public and private sector decision-makers, labor and management, suppliers and customers. Yet in most nations, decision-makers have different mental models concerning the importance, meaning, and means of achieving critical goals like 'strategy', 'competitiveness', 'development;' and 'prosperity'. By enabling decision-makers to examine their own assumptions about the mechanics of competitiveness, the public discussion of the survey's results can help strengthen and broaden the impact of Serbia's ongoing change initiatives.¹

Results from the survey have already figured prominently in the recent National Competitiveness Summit, and will be addressed again during the leadership offsite to be held in Cambridge, MA in May, 2003.

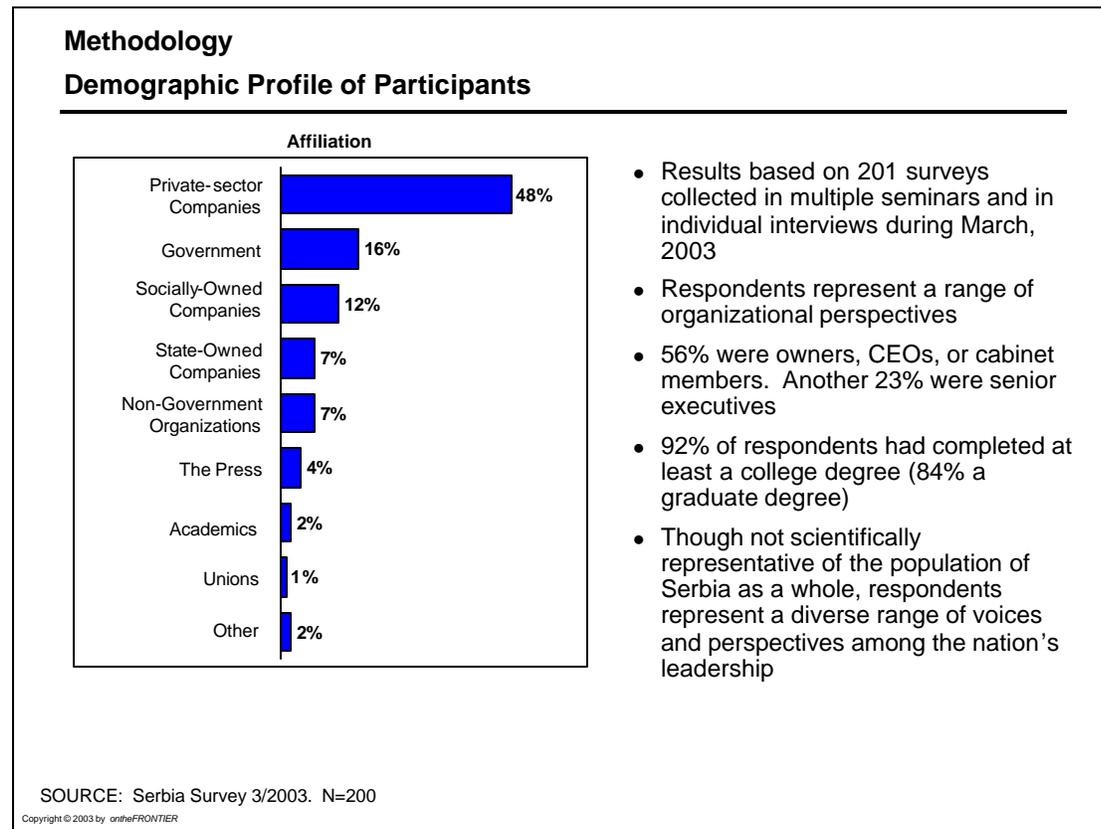
¹ Jonathan Donner, "Making Mental Models Explicit: Quantitative Techniques for Encouraging Change," (Paper in Monitor Company Seeds for Change Series, 1998).

Methodology

The paper-based survey was administered to 201 Serbia leaders. The two largest groups represented in the respondent set were private sector firm leaders (45%) and Government ministers and officials (18%). Respondents were generally top leaders in their organizations. 56% were cabinet members, owners, or CEOs. Another 23% were senior executives.

Respondents were invitees to the national summit and were contacted by the Center for Liberal-Democratic Studies. The surveys were undertaken in March 2003. Professor Boris Begovic, Vice President at the Center presented the results at the national summit on April 1st, 2003. With broad representation from the private sector, the press, academics, NGOs, and the government alike, the results of the survey can be viewed as likely to be representative of the leadership of Serbia. However, given the sampling methodology, the survey should not be considered to be reflective of the entire Serbian public.

The surveys were undertaken in March 2003, around the time of the assassination of the Serbian Prime Minister. The bulk of the interviews were completed before the event, with approximately 75 taking place in the first two weeks after the event. The post-event sample is too small to say definitively how the event may have influenced the responses of Serbia's leaders.



Summary Level Findings

There are three themes concerning Serbian leaders' beliefs that may inhibit competitiveness, and ultimately these may influence investments and how those investments shape the current economic status. The first is a lack of shared vision among leaders concerning competitiveness; which may inhibit an agreement for specifics in a plan of action. Within this divisiveness, many leaders still want the government to make business-based decisions. Additionally, leaders are split on how to invest in physical or social capital; the effects of globalization; and on social hierarchy. Second, trust levels are so low that it might inhibit an important element of competitiveness from being developed: The ability of firms and other groups within a cluster to develop and implement integrative strategies. Finally, is a belief that Serbians build firms by focusing on their current assets, rather than on the needs of demanding customers - where new assets are created. Such beliefs typically inhibit competitiveness, and certainly make appropriate investing more difficult.

When decision-makers have different beliefs, or “mental models” concerning the importance, meaning, and means of achieving goals, such as “prosperity” or “competitiveness,”² they inform a nation's agenda for making investments and creating prosperity in two extremely important ways. First, mental models impact the types of investments made and the type of results achieved. Second, the public discussion of how people think can help get to the root causes of poor investments and allow focus on the proper change initiatives. The following discussion is based on how Serbia's leaders view competitiveness.³

Summary Level Review of Serbian Leaders' Attitudes

Although a leadership survey of Serbians shows that most embrace the principles of competition, there is still a split among leaders across several key dimensions. These divisive themes and assumptions are among the “pain-points” that need to be discussed and understood before the nation can move forward. Most prominently, leaders are almost equally divided as to whether the government, or private sector, should take the lead in improving competitiveness. This disagreement highlights the differences between those who continue to see the government as a master strategist and those who believe the private sector must take responsibility for its future. In this era of total competition, firms must take steps on their own; their leaders must believe that can succeed on their own and not wait for the government.

Two other issues divide Serbian leaders concerning the role of government. The first issue concerns support for the less fortunate. Eighty two percent of Serbian leaders agree that guaranteeing a minimum standard of living for all citizens is an important goal. However, when framed as the redistribution of wealth to the less fortunate, only 34% agree. The second issue involves State intervention in the economy. In response to one question, most leaders (71%) agreed on “treating domestic and foreign companies equally.” However, when later questions

² Jonathan Donner, "Making Mental Models Explicit: Quantitative Techniques for Encouraging Change," (Paper in Monitor Company Seeds for Change Series, 1998).

³ In order to understand Serbian *leaders'* mental models, a survey was administered to 201 Serbia leaders, concerning their attitudes about conditions for change, macro- and micro-economic variables, competitiveness, government roles, and the business environment.³ Among the respondents were a mix of mostly private sector leaders and government ministers/officials, and to a lesser extent, civic leaders.

frame State intervention in terms of granting subsidies to businesses, regulating process, levying tariffs, or granting special privileges to certain industries, only 40% are in favor.

A divisive macro-economic issue highlighted by the survey was the question of whether wealth is finite or infinite. Those who said it is finite (57%) might focus on the lower forms of capital, rather than higher forms with their capacity for near-infinite returns. Similarly, those with a finite, or zero-sum, approach to wealth are more likely to say that companies in Serbia are making too much profit (63%). Another metric that supports the possibility of preferring lower forms of capital is that the quality of domestic companies is among the world's best (only 9% agree), and therefore, the right strategies are not in place to build the right assets.

Another divisive macro-economic issue is that of globalization. Arguments over the meaning of this charged term are related to differing beliefs about the finite or infinite nature of wealth, and differences concerning firm-level (and personal-level) agency themes. Some perceive globalization as a threat (36%), and others perceive it as an opportunity (48%). Only those who perceive it as an opportunity will prosper from it. With regard to micro-economic issues, three additional themes are evident where leaders disagree. The major theme is around hierarchy: following manager's orders, strong managers, and a strong but small cadre of leaders. Two minor themes, involves the extent to which uncertainty should be embraced, and whether the needs of the collective organization are better served through individual agency or not.⁴ Echoing the agency issue, leaders disagree about the extent that citizens can influence government affairs.

A second issue for Serbia is the perception among respondents of pervasive low levels of trust. Two-thirds of respondents rated trust among the lowest in the world. Sixty percent believe that firms and suppliers don't share information and 65% believe that firms hide information from other firms when there is not a competitive reason to do so. As innovation often occurs from firms with different perspectives solving problems – this lack of trust and collaboration might inhibit the innovative process.

However, the survey also provides good news for Serbia. Although trust and collaboration are perceived to be among the lowest in the world, three themes emerge as possible subjects for consensus building. Most leaders (92%) believe that increased prosperity will reduce ethnic tension. Most (92%) expressed a willingness to make some economic trade-offs in order to protect the environment; furthermore, in another item, only 13% agreed that pollution was an acceptable cost in the short run for growth. Though these 'post-materialist values'⁵ may simply be a function of the relative prosperity of the survey's leadership sample, they nevertheless provide a strong counterweight to other forces that tend not to take environmental factors into account when considering economic costs and returns.⁶ Finally, nearly all leaders (89%) admitted that Serbia's firms are not delivering at world-class levels. This too, can be a rallying-point for action.

⁴ See Geert Hofstede, *Culture's Consequences* (Beverly Hills, CA: Sage, 1980).

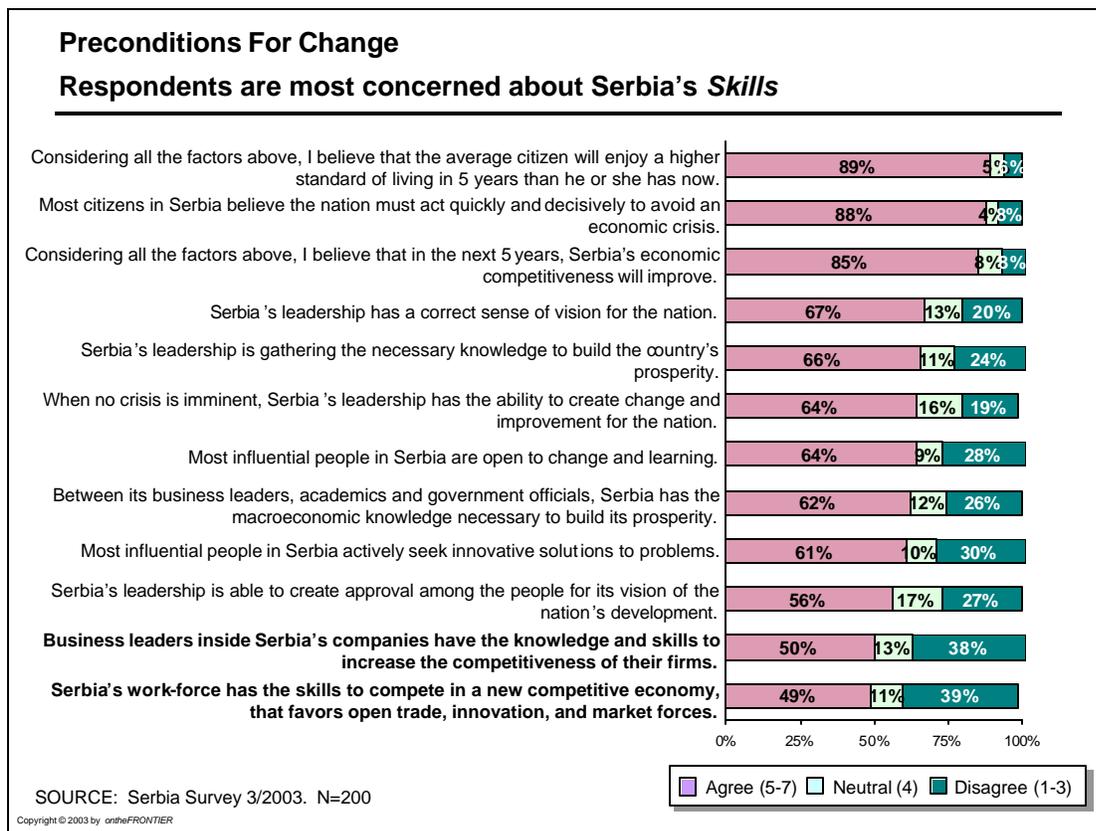
⁵ R. Inglehart, *Modernization and Postmodernization: Cultural, Economic, and Political Change in 43 Societies* (1997).

⁶ See Paul Hawkin, Amory Lovins, and L. Hunter Lovins, *Natural Capitalism: Creating the Next Industrial Revolution* (Boston, MA: Back Bay Books, 2000).

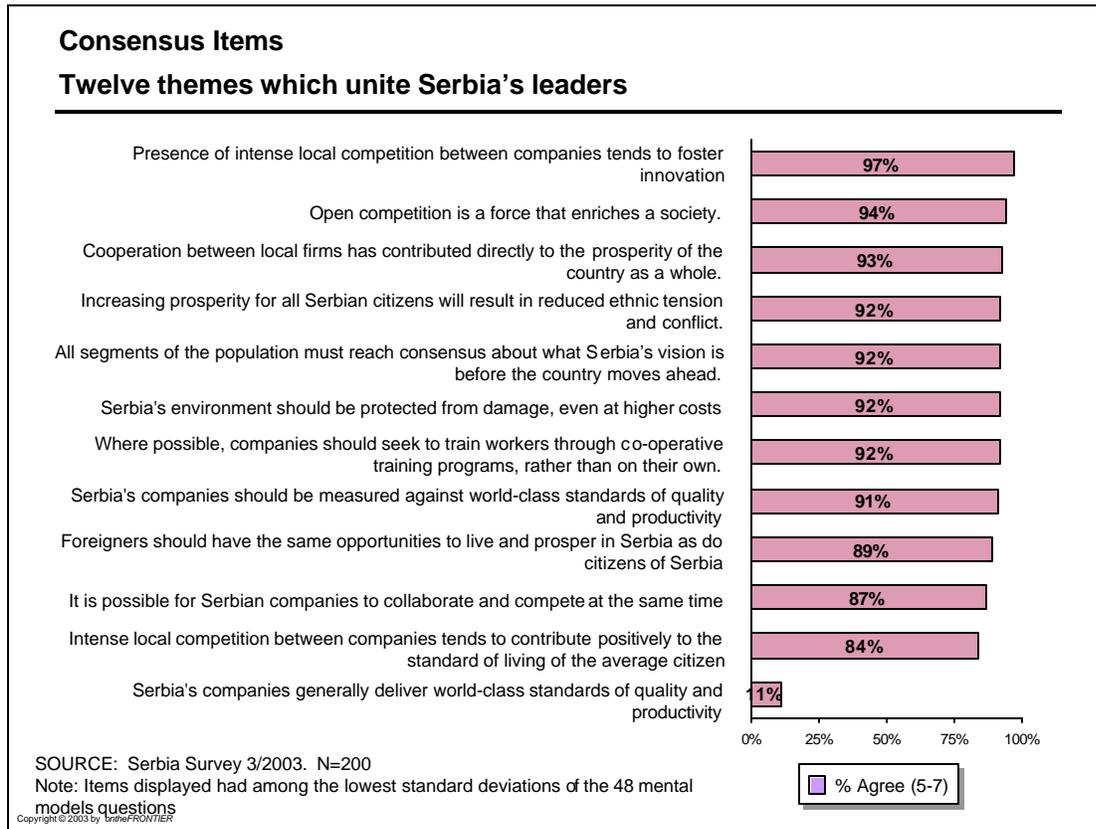
Detailed Findings

One block of questions asked about the presence of five *preconditions for change*: Tension, Moral Purpose, Leadership, Receptivity, and Insight (skills). These are basic diagnostic questions OTF group asks in almost every nation with which we work. In general, the responses reflected an optimistic, confident set of respondents – two-thirds of whom seem to sense that Serbia is equipped to change, grow, and prosper.

In this case, respondents sounded a warning in the area of insight and skills. Less than half of the participating leaders feel that that the nation’s business leaders and workforce have the skills necessary to build prosperity in this era of ‘total competition’.



Turing to the “mental models” items that comprised a large proportion of the total questions we asked, we did a fairly simple analysis to discover the points of *contention and consensus* with the respondents. This approach is consistent with the overall intent of the survey -- as described in the introduction – which is to inform, ignite, and intensify a national dialogue on the attitudes underlying competitiveness.



The consensus items are the subset of the forty-five “mental models” items that had the smallest standard deviation. Most of these items concern basic tenets of open-markets and competitiveness theory, and are, admittedly, difficult to disagree with. Nevertheless, in a post-communist climate, it is still worth noting such deep support for the basic principles of competition.

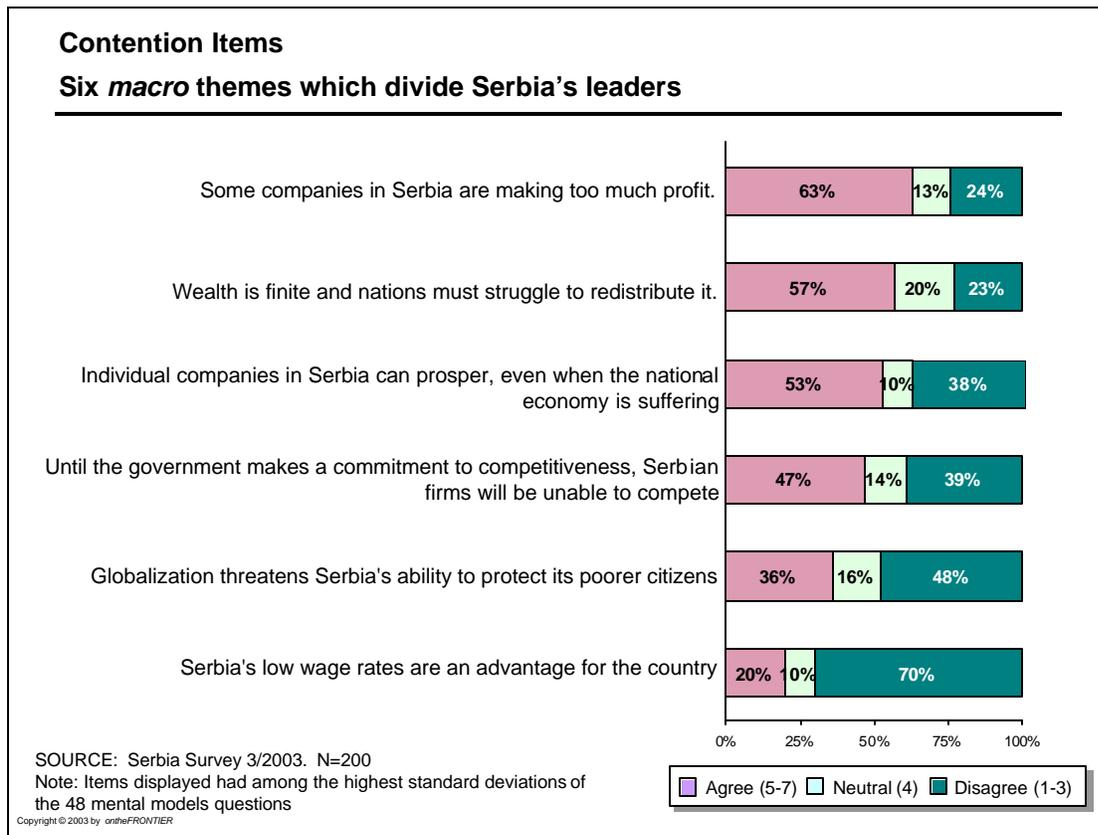
Three themes emerge as possible subjects for consensus building.

- That most leaders believe that increased prosperity will educe ethnic tension.
- That most leaders expressed willingness to make some economic trade-offs in order to protect the environment (in another item, only 13% agreed that pollution was an

acceptable cost in the short run for growth). Though these ‘post-materialist values’⁷ may simply be a function of the relative prosperity of the leadership sample, they nevertheless provide a strong counterweight to other forces that tend to not take environmental factors into account when considering economic costs and returns.⁸

- That nearly all leaders admitted that Serbia’s firms are not delivering world-class standards of quality and productivity. This too, can be a rallying-point for government policy and private sector action.

Where is there no consensus? What themes and assumptions still divide Serbia’s leaders? Of the 45 mental models items, the 11 displayed on the next two figures had the highest standard deviation. These assumptions are among the “pain-points” that need to be discussed and understood before the nation can move forward.

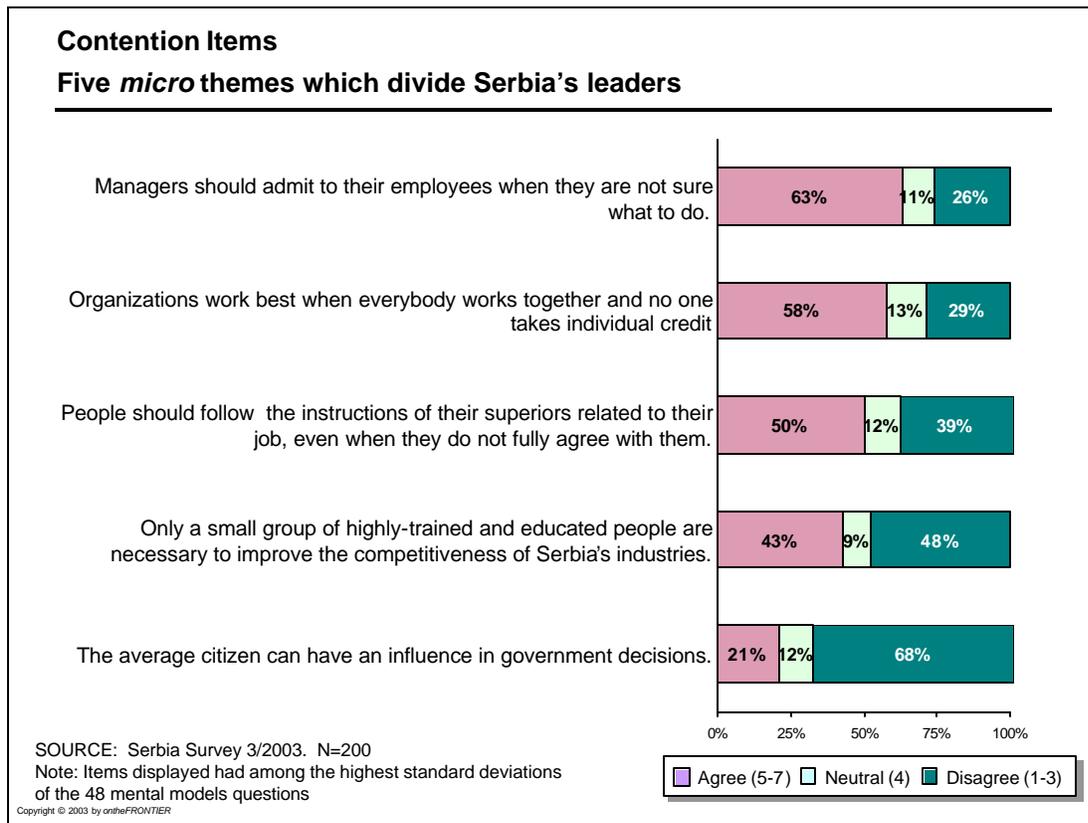


First, at the macro level:

⁷ R. Inglehart, *Modernization and Postmodernization: Cultural, Economic, and Political Change in 43 Societies* (1997).

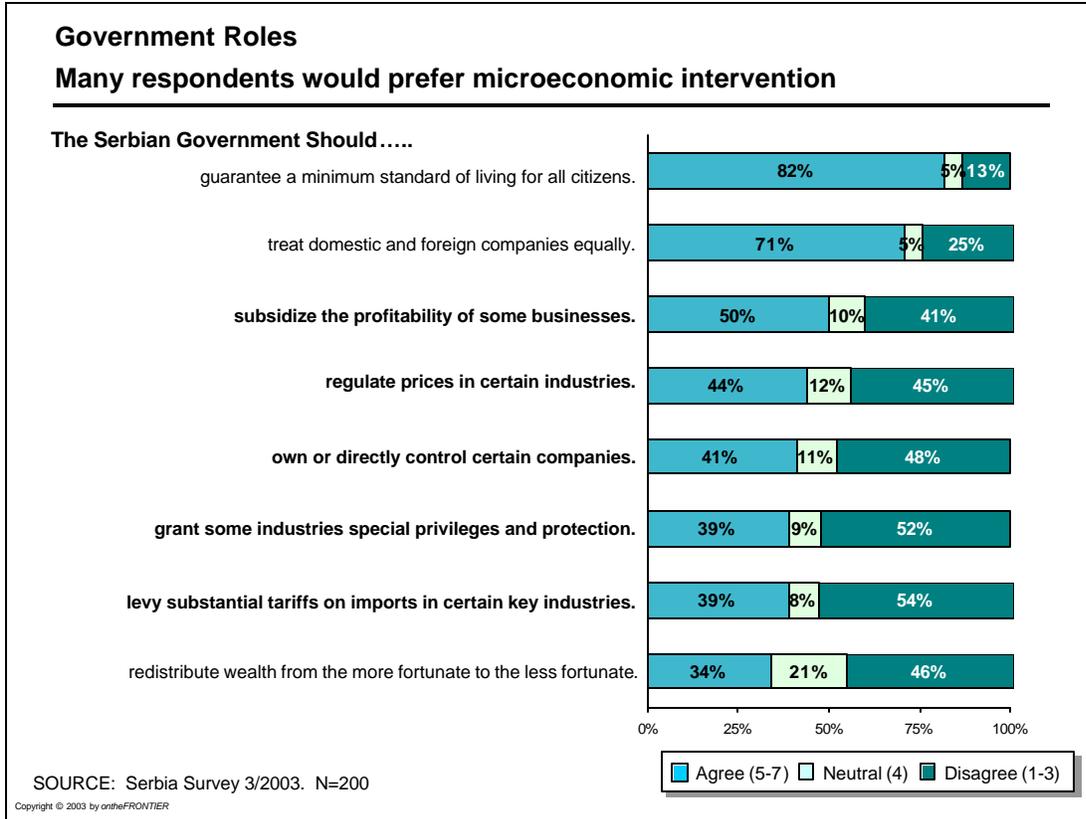
⁸ See Paul Hawkin, Amory Lovins, and L. Hunter Lovins, *Natural Capitalism: Creating the Next Industrial Revolution* (Boston, MA: Back Bay Books, 2000).

- Is wealth finite or infinite? Those who say it is finite might be focused on the lower forms of capital --- financial, natural, physical, rather than higher forms (human, cultural, knowledge, and institutional) with the capacity of near-infinite returns. Similarly, those with a zero-sum approach to wealth are more likely to say that companies in Serbia are making too much profit.
- Do firms control their own destiny? Can they prosper in times of macroeconomic stagnation, or regardless of what the government does? While not discounting the importance of structural and macro factors in a firm’s environment, it is impossible in this era of total competition to wait for the government to move, or to wait for economic conditions to improve. Firms must take steps on their own; their leaders must believe that can succeed on their own.
- Finally, what of globalization? Arguments over the meaning of this charged term are related not only to the zero-sum vs. expanding pie assumptions about wealth, but also to the theme of firm-level (and personal-level) agency. Globalization is perceived by some as a threat, by others as an opportunity. Only those who perceived it as an opportunity will be able to prosper from it.



On the microeconomic side, two additional themes are evident:

- The major theme is around hierarchy: following manager’s orders, strong managers, and a strong but small cadre of leaders.
- Two minor themes (common to many nations) involve the extent to which uncertainty should be embraced, and whether the needs of the collective organization are better served though individual agency or not.⁹
- Again echoing the agency issue, leaders disagreed about the extent to which average citizens have influence in government affairs.



Finally, a third source of contention with Serbia’s leadership was evident in their answers to questions about the *proper role of the government*. Historically, OTF has found that these “government role” items often reveal stark differences between respondents, since they are well-defined and often-debated policy items. The Serbian responses proved no exception.

The top item – guaranteeing a minimum standard of living for all citizens -- is a goal of most industrialized nations, and appeals to 82% of the leaders. Frame the same process as redistribution from the more to the less fortunate, however, and only 34% agree.

The next item, “treating domestic and foreign companies equally” – is more interesting. When framed in this way, 71% of leaders agreed. Later questions, however, framed the much same issue (of microeconomic intervention) in a different way: as granting subsidies to businesses,

⁹ See Geert Hofstede, *Culture's Consequences* (Beverly Hills, CA: Sage, 1980).

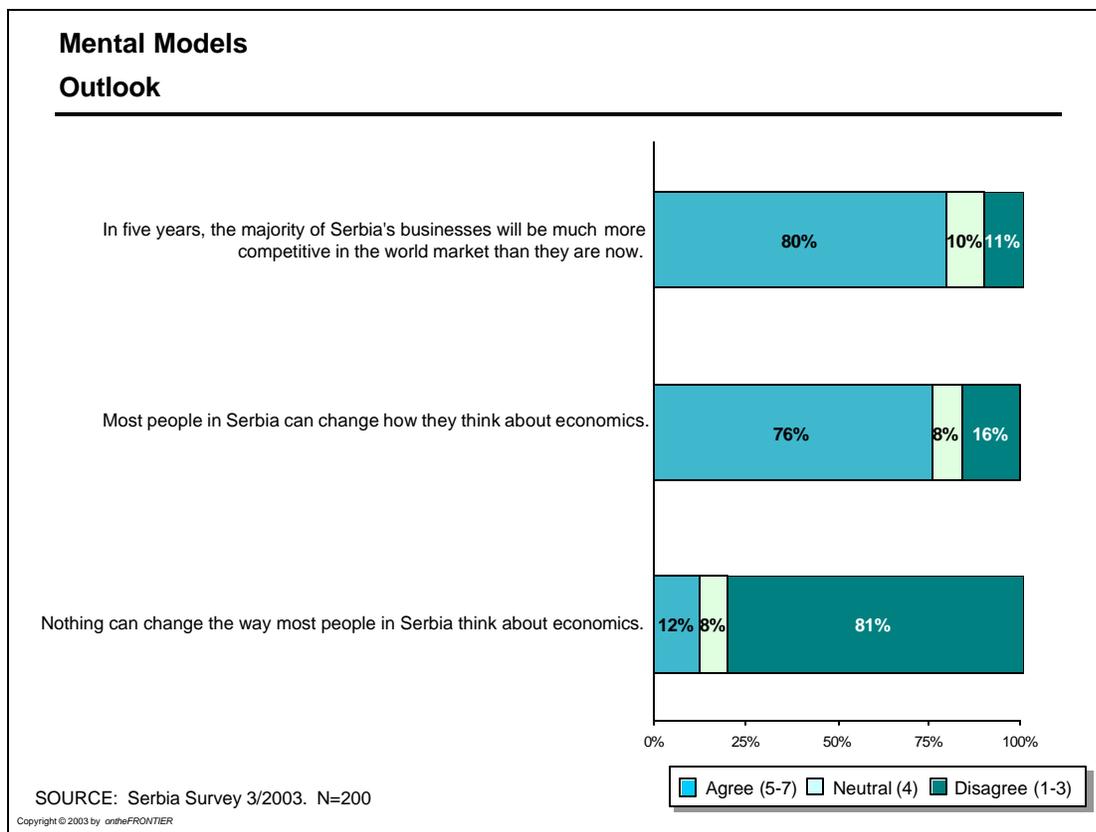
regulating process, levying tariffs, or granting special privileges to certain industries. When framed in these terms, roughly 40% of Serbia's leaders are in favor of microeconomic intervention, protection, or preferential treatment for some industries.

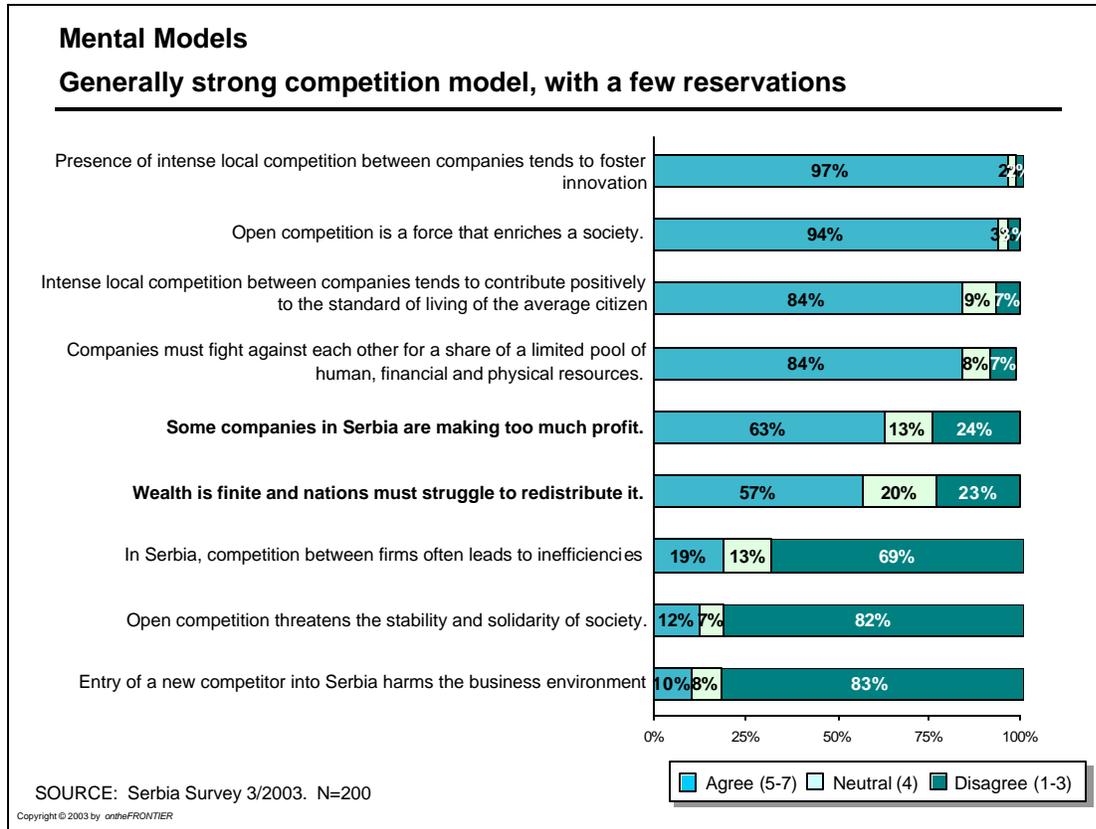
The choices to protect some industries or companies at the expense of others is a choice to alter, buffer, or forestall the forces of global competition. The trade-offs are weighty, and need to be considered very carefully. True competitiveness may not be the result of such choices.

Mental Models

Many of the key insights from the mental models section of the survey were covered under consensus and contention items in the highlights section. However, a few themes merit further exploration.

To begin, three items, taken together, indicate a generally positive, optimistic outlook among Serbia's leadership. Most respondents seem to believe Serbia's industries are on the right tack towards competitiveness. Also, respondents agree that Serbians can change the way they think about economics. Since mental models change is an important part of the competitiveness process, this outlook is encouraging.





The competition model held by Serbia’s leaders is also encouraging. Generally speaking, they embrace competition, but there are two critical caveats.

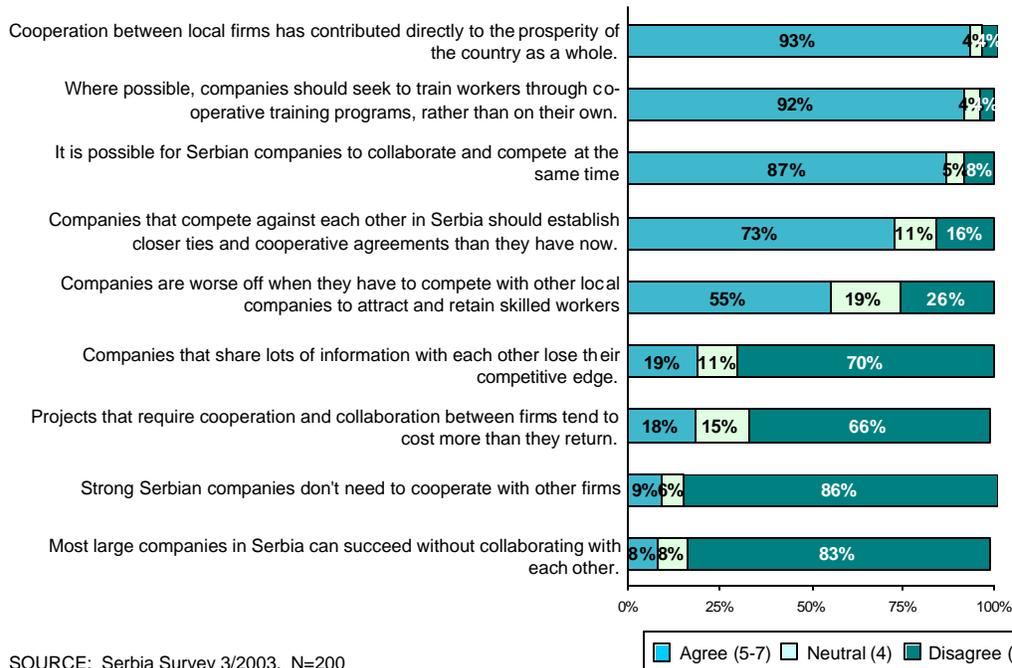
First, many respondents feel “that some companies are making too much profit.” This could be due to the influence of corruption in Serbia, or to an imperfect markets.

However, another explanation for the “too much profit” sentiment could be related to the second caveat – that “wealth is finite and nations must struggle to redistribute it”. As we mentioned in the review of key contention items, this points to a “zero-sum” rather than “expanding-pie” model of wealth, and tends to draw on the lower forms of capital/wealth (financial, natural, infrastructure), rather than the higher forms (cultural, human, knowledge, institutional) that have the promise of infinite returns.

A similar picture emerges concerning the other major pillar of the firm environment – inter-firm cooperation. Cooperative agreements, even in the midst of completion are critical to success in the rapidly changing global business climate. Serbia’s leaders have expressed a general willingness to trust the results of such collaborative agreements, which is a good sign for Serbia’s firms.

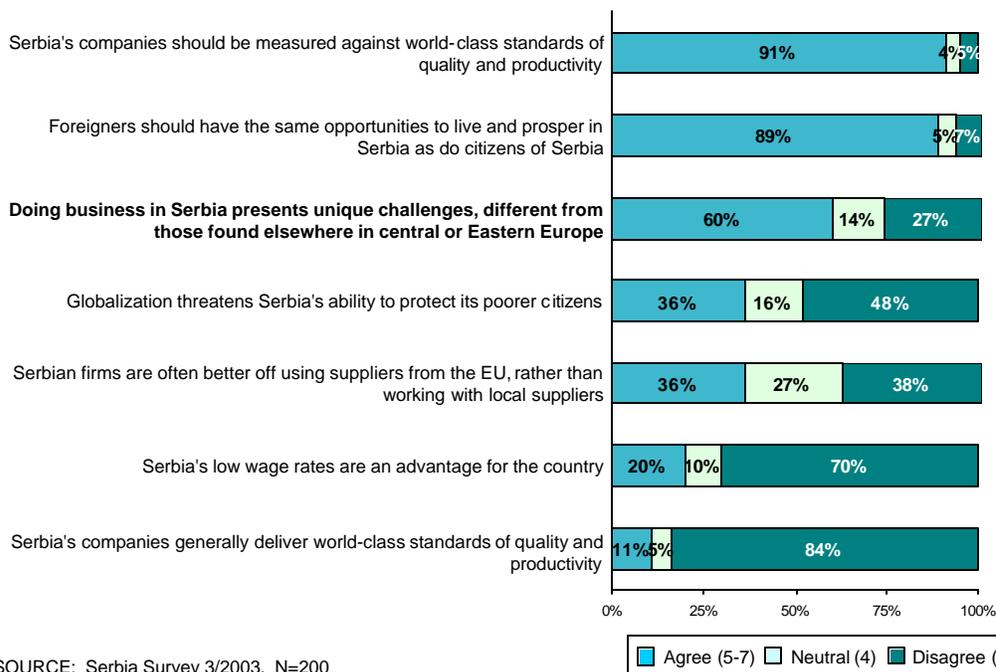
Mental Models

Strong support for inter-firm collaboration



Mental Models

Local vs. Global Reference-Groups



Another issue concerns the reference group Serbians use to compare themselves to others – is it the world, or something more local? The results on these questions are rather mixed. The most important question here concerns the “uniqueness” of doing business in Serbia. Is it actually more difficult to work in Serbia now than in Macedonia or Croatia or Bulgaria? In Germany? As long as respondents perceive the business environment in Serbia as unique, they may be tempted to craft solutions that protect or favor industries from competition.

Government and the Private Sector		
	Average Score (1=disagree, 7=agree)	
Mental Models Statement	Government	Private Sector
A dramatically changing business environment is something to be welcomed and embraced.	5.2	3.9
The average citizen can have an influence in government decisions.	4.0	2.6
Chief executives that cant improve the performance of a company in one years time should be replaced.	4.8	5.7
Corruption is the main impediment to competitiveness in Serbia.	4.4	5.0
Companies are worse off when they have to compete with other local companies to attract and retain skilled workers	4.3	4.8
Organizations work best when everybody works together and no one takes individual credit	3.8	4.7
Individual companies can not be competitive under poor national economic conditions	3.7	4.3
Globalization threatens Serbia's ability to protect its poorer citizens	3.0	4.0
In Serbia, competition between firms often leads to inefficiencies	2.5	3.1
Nothing can change the way most people in Serbia think about economics.	1.8	2.6
Entry of a new competitor into Serbia harms the business environment	1.7	2.6
Open competition threatens the stability and solidarity of society.	1.7	2.3

SOURCE: Serbia Survey 3/2003. N=33 Govt, N=96 Private Sector

Note: All items are significantly different at $p < .1$

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Finally, we did a brief analysis to test for differences between the mental models of the government officials and the private sector leaders in our sample. While the numbers are small, and while we cannot be assured that the leaders are precisely representative of the groups they were drawn from, the pattern that emerges is nevertheless interesting and worthy of speculation. Of the 45 mental models items on the survey, significant differences were found between he two groups on these 12.

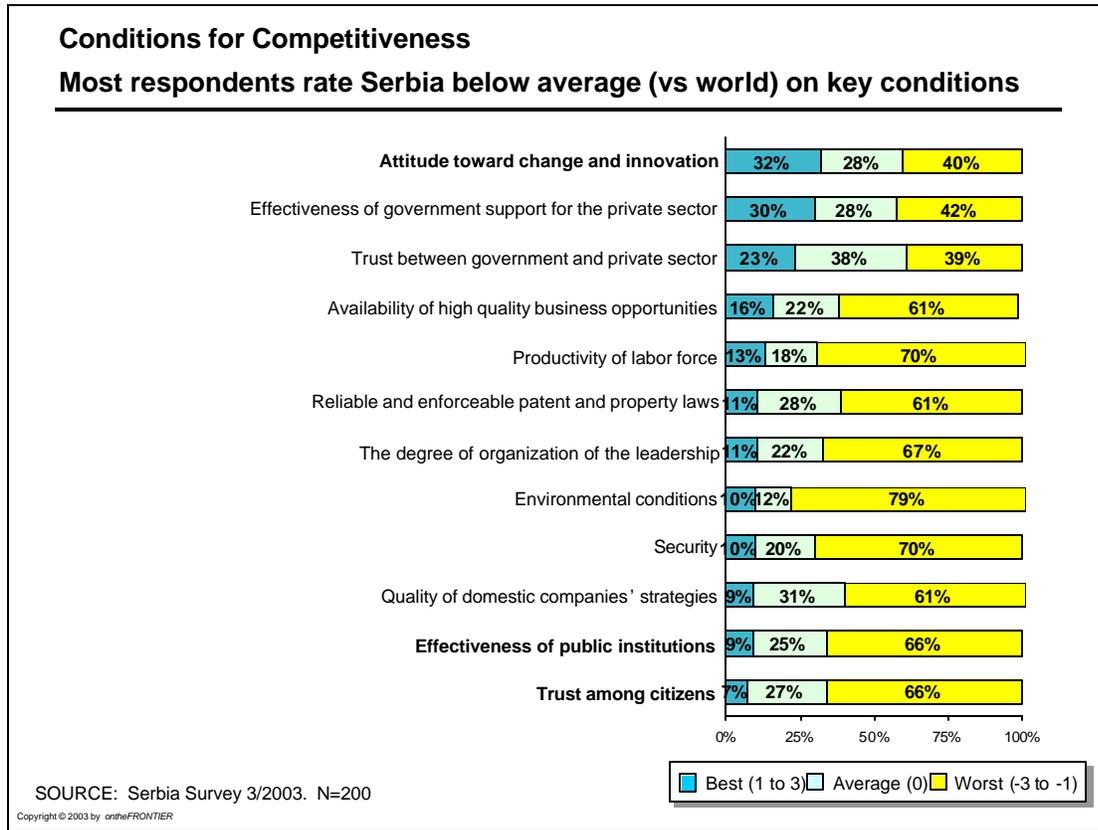
The government respondents tended to be more welcoming of change, and (not surprisingly) more confident that average citizens could have an influence on government affairs.

The private sector was more concerned about corruption as a cause of Serbia’s economic problems, and was more concerned about globalization. Also, and perhaps surprisingly, the private sector respondents may have been less convinced of the *pro-competition tenets* (entry of new competitors, open competition as a threat to stability, competition as inefficiencies) than

were the government leaders. While their scores were still averaging out to means below 4 (disagreement), the scores were nevertheless significantly higher than those of the government sample.

Infrastructure and Business Environment

Generally poor ratings, across-the-board, on a set of “conditions for competitiveness” items reveal a shared-perception in Serbia that many elements need improvement. The highest rating (itself not very high) was for Serbia’s “attitude towards change and innovation”, which 32% of respondents rated above average.



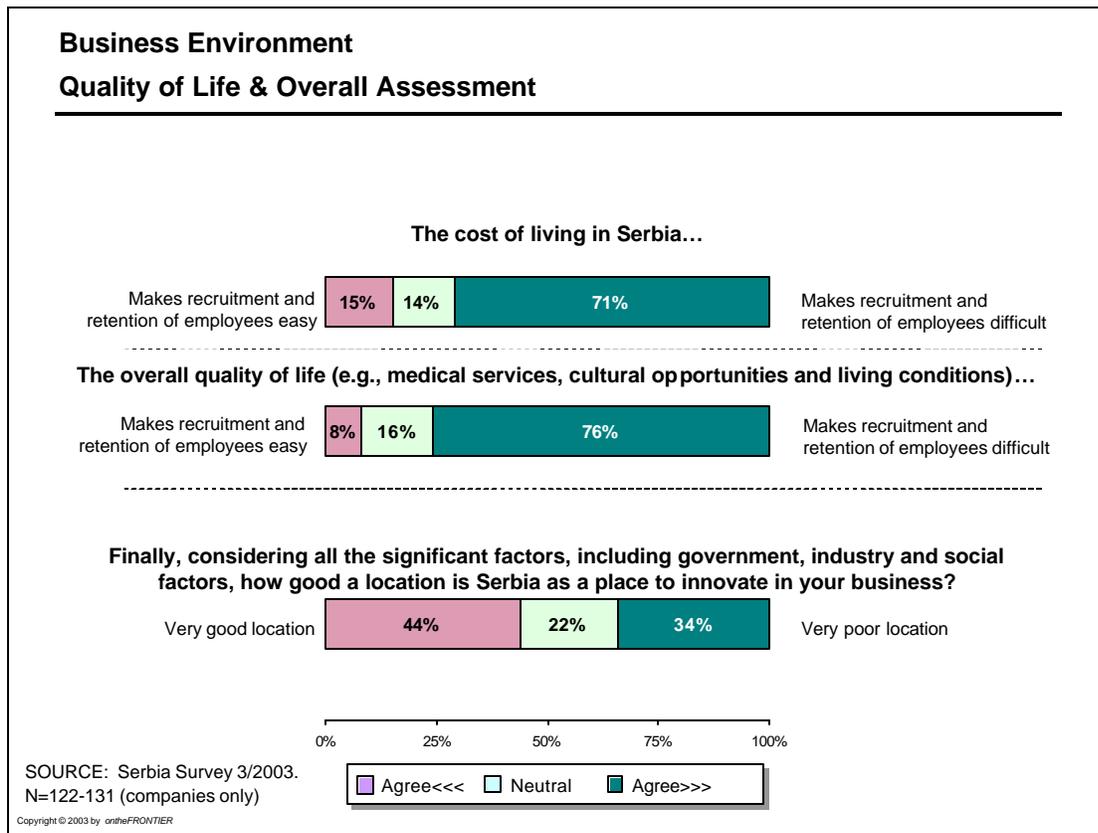
Based roughly on the elements of Michel Porter’s ‘Diamond’ approach to regional competitiveness,¹⁰ the final portion of the survey asked respondents to rate Serbia’s performance on a number of factors related to the *business environment*. Asking respondents for their estimation of the impact on their own particular firms, we asked this section only of the 131 private sector companies, socially owned companies, and state-owned-enterprises in our sample.

Like the exercise above, the business environment items reveal a series of frustrations felt by Serbia’s firm leaders. They find difficulty with the government’s support for their businesses, with the basic infrastructure, with the cost of living, and with the quality and responsiveness of the related and supporting industries relevant to their firms. The only things they rate high (well) are the intensity of the competition within their industries, and the demanding nature of their own customers.

¹⁰ Michael E. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

Since these are leaders' perceptions, rather than objective measures of reality, we cannot glean from these items whether the conditions in indeed Serbia are better or worse than those in Bulgaria or Denmark or Germany. Instead, the results should be used in two ways:

- First, early-unanimous positive or negative ratings may point to real problems with the business environment that should be tested with other data sources. For example, A full 93% of respondents are frustrated by the condition of the transportation network.
- Second, the patterns of opinions themselves are interesting, and help us design dialogue or campaigns to help leaders who to be competitive despite of national conditions. In this case, firms rated most conditions low, and only rated high those conditions which could cause them pain or inconvenience (demanding customers and strong competitors).



Business Environment
Infrastructure Assets (I)

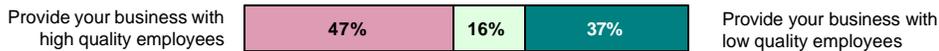
The available pool of skilled workers in Serbia...



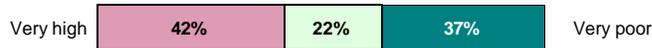
Qualified scientists and engineers in Serbia are...



Advanced educational programs (e.g., vocational schools, colleges and /or universities)...



The overall quality of the primary and secondary education system is...



The cost of doing business (specifically, the cost of real estate, wages and salaries, and utilities) is...



SOURCE: Serbia Survey 3/2003.
 N=122-131 (companies only)



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Business Environment
Infrastructure Assets (II)

The communications infrastructure (including internet access) in Serbia...



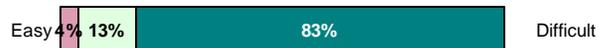
Specialized facilities for research (e.g., science laboratories, university research institutions and technical libraries) are...



The institutions in Serbia that perform basic research...



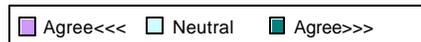
Access to capital (e.g. bank, venture funds and private equity investments) is...



The overall quality of transportation (e.g., roads, air transport, railroads and ports) is...



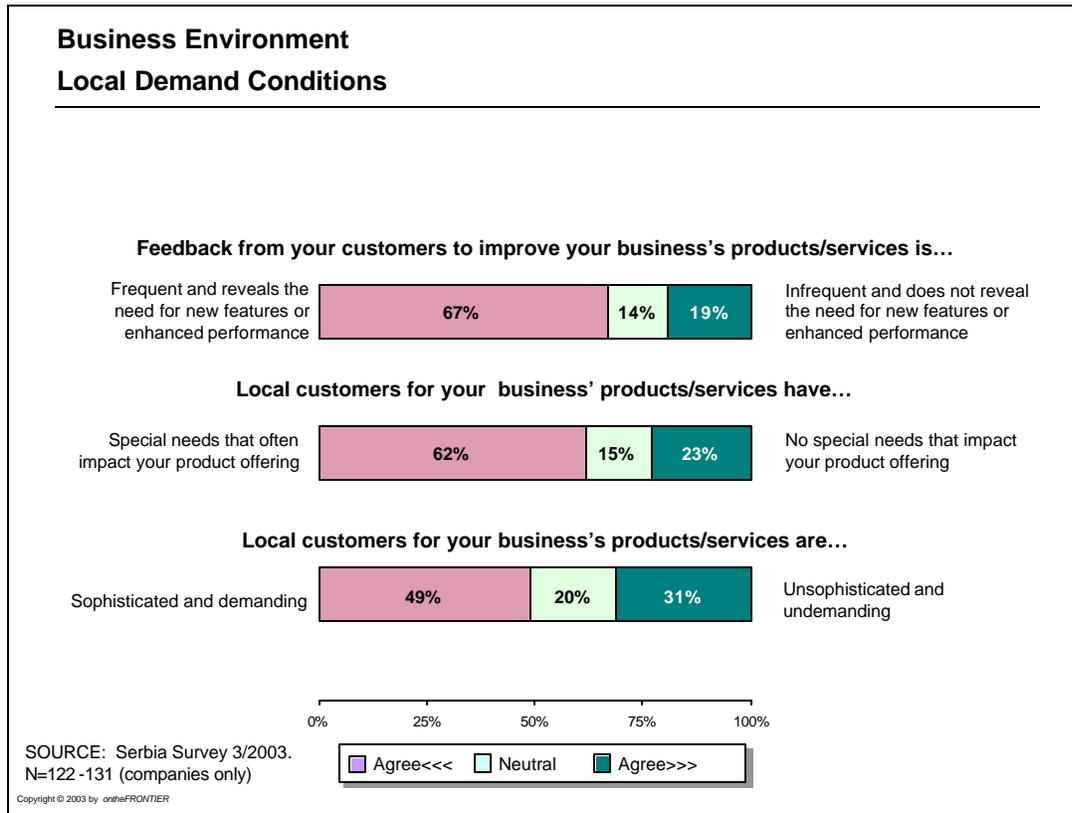
SOURCE: Serbia Survey 3/2003.
 N=122-131 (companies only)



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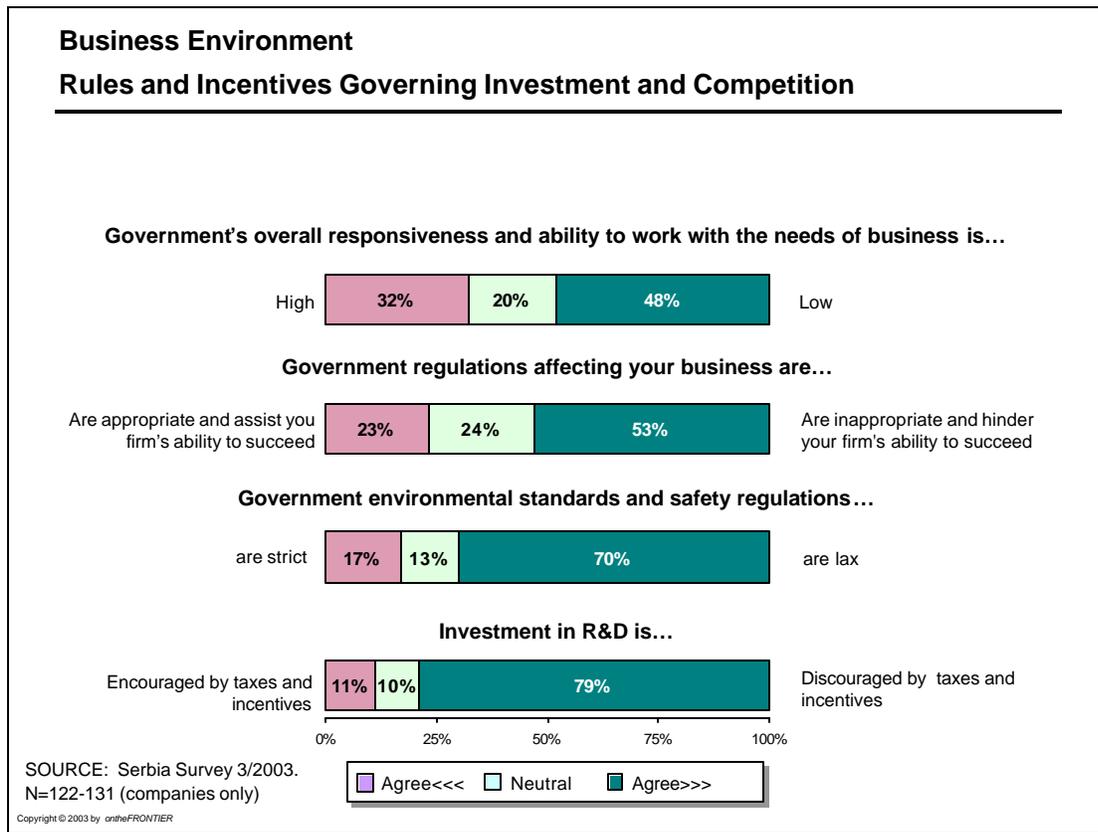
In terms of infrastructure assets, respondents were divided on the quality of Serbia’s workforce and of Serbia’s research and education systems. Roughly half of respondents felt these factors limited their own firm’s capacity to grow.

Respondents were critical across-the-board when it came to the quality of the transportation infrastructure, the cost of doing business, and the access to capital. All three are common complaints, in both developing and transition economies, but the resounding frustration with the transportation system is worth noting.



Firms benefit from strong, informed, and demanding local customers for their products. A small majority of Serbian firm-owners seem to consider their customers sufficiently demanding. It is our hypothesis, however, that continued exposure to more demanding markets overseas might make firm-owners rethink their assessments of local providers.

Many of Serbia’s leaders are also frustrated by their perception of the government’s responsiveness, and its regulatory structure.



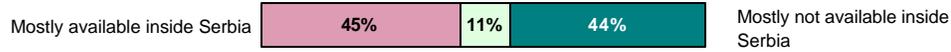
Finally, the related and supporting industries can view following slide as representing an opportunity – there is a set of firms that do not perceive that quality inputs (and R&D assistance) are available from within Serbia. Sophisticated suppliers of such services should rise to the challenge.

Business Environment
Related, Supporting, and Competing Industries

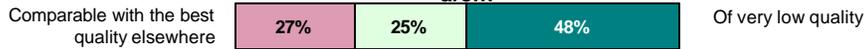
Regional competition in your industry is...



Specialized suppliers of your business's materials, components, machinery, and services are...



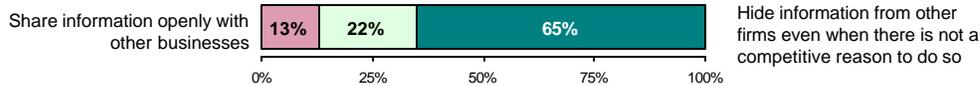
Local specialized suppliers of your business's materials, components, machinery, and services are...



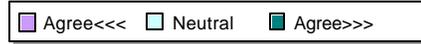
Regional specialized suppliers assist your firm with new product and process development ...



Businesses in Serbia...



SOURCE: Serbia Survey 3/2003.
 N=122-131 (companies only)



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Distinct Voices

There is another way to view the results of the survey. Instead of looking for differences between demographic groups (as we did by comparing the responses of the government respondents and the private sector respondents) we can look directly for distinct voices (or perspectives) within the group of respondents. The patterns of responses participants provide can give us clues about more elemental, deeper divisions in Serbian society. Again, the goal of such an analysis is to bring divisions to the surface, so that they can be discussed, understood, and addresses productively.

For this set of survey results, we took the 12 contention items (presented in the first section of this report), and performed a cluster analysis. The cluster algorithm is designed to identify groups within the respondent set, Maximizing similarity within groups while maximizing differences between groups. From our 200 participants, we found 3 distinct voices.

Distinct Voices			
Three different groups exist within the leadership			
Contention Statement	Average Score (1=disagree, 7=agree)		
	Dis-enchanteds	Zero-Sums	Bootstraps
Managers should admit to their employees when they are not sure what to do.	5.8	3.8	4.3
Organizations work best when everybody works together and no one takes individual credit	5.6	4.9	3.4
Some companies in Serbia are making too much profit.	5.3	4.9	4.1
Until the government makes a commitment to competitiveness, Serbian firms will be unable to compete	4.8	4.3	3.1
Globalization threatens Serbia's ability to protect its poorer citizens	3.3	5.1	2.8
Wealth is finite and nations must struggle to redistribute it.	4.8	5.1	3.9
People should follow the instructions of their superiors related to their job, even when they do not fully agree with them.	3.8	4.6	4.1
It is important for managers to be older than the persons they supervise.	2.5	2.8	2.3
Individual companies in Serbia can prosper, even when the national economy is suffering	3.8	3.6	4.9
Only a small group of highly-trained and educated people are necessary to improve the competitiveness of Serbia's industries.	4.0	3.0	4.3
The average citizen can have an influence in government decisions.	2.3	2.7	3.4
Serbia's low wage rates are an advantage for the country	2.0	2.5	3.2

SOURCE: Serbia Survey 3/2003. N=200
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Note: The segmentation was based on the inputs of these 12 variables, normalized/controlling for each respondent's particular mean-score across 48 mental models items. Clustering via K-means Quick Cluster algorithm in SPSS v10.0

- The Disenchanted are frustrated with Serbia's leadership. They feel alienated (with no voice in government decisions) and threatened by open competition and individualism. "Until the government makes a commitment to competitiveness," they feel, "Serbia will be unable to compete".

- Feeling that “wealth is finite”, the Zero-Sums have a mental model that may might been more closely aligned with the Socialist governments of the past. Not surprisingly, they are quite concerned about globalization, and are most likely to think that the Serbian government should subsidize the profitability of some firms. They are also least receptive to a “rapidly changing business environment”, and are least likely to have spent time outside the country in the last 10 years.
- Finally, the “Bootstrappers” are the optimists in the group. To a large extent, they are defined by their differences from the Zero-Summers and Disenchantedes. They are the group most likely to think the Serbian government should treat foreign and domestic companies equally. These respondents are most likely to have a college degree (though the whole sample was well-educated). The voice also contains a relatively higher proportion of respondents from government.

Though only the 12 “contention” items were used to create the segments, significant differences between the groups appeared in other parts of the survey, as well:

Distinct Voices
The groups have different priorities for government

Average Score (1=disagree, 7=agree)

The Serbian Government Should.....	Dis-enchanteds	Zero-Sums	Bootstraps
...guarantee a minimum standard of living for all citizens.	5.9	5.8	5.2
...regulate prices in certain industries.	4.2	4.0	3.5
...grant some industries special privileges and protection.	3.8	3.6	3.3
...redistribute wealth from the more fortunate to the less fortunate.	3.8	3.6	3.4
...subsidize the profitability of some businesses.	4.0	4.6	3.7
...levy substantial tariffs on imports in certain key industries.	3.5	4.0	3.3
...own or directly control certain companies.	3.7	3.8	3.6
...treat domestic and foreign companies equally.	5.1	4.8	5.4

SOURCE: Serbia Survey 3/2003. N=200
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Distinct Voices

Other differences between the groups

Mental Models Statement	Average Score (1=disagree, 7=agree)		
	Dis-enchanteds	Zero-Sums	Bootstraps
Increasing prosperity for all Serbian citizens will result in reduced ethnic tension and conflict.	6.5	6.3	6.0
All segments of the population must reach consensus about what Serbia's vision is before the country moves ahead.	6.5	6.4	5.9
Open competition is a force that enriches a society.	6.3	5.9	6.1
Chief executives that can't improve the performance of a company in one year's time should be replaced.	6.0	5.6	5.0
Corruption is the main impediment to competitiveness in Serbia.	5.5	4.6	4.7
A dramatically changing business environment is something to be welcomed and embraced.	4.4	3.8	4.4
In Serbia, competition between firms often leads to inefficiencies	3.2	2.7	2.5

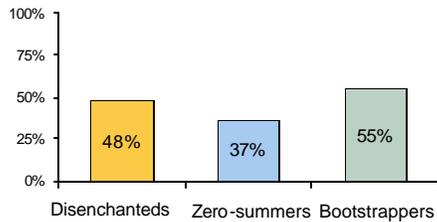
SOURCE: Serbia Survey 3/2003. N=200

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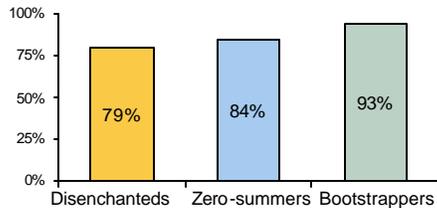
Distinct Voices

Demographic differences between the groups

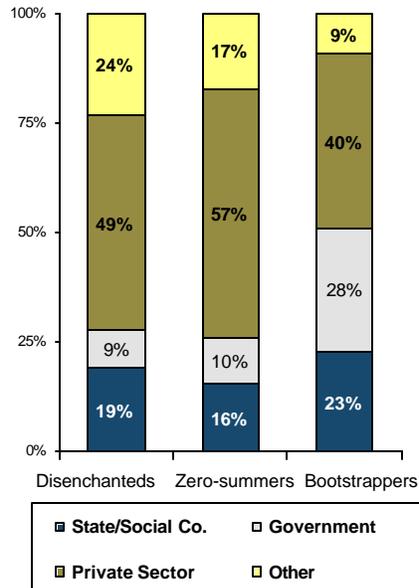
Percentage of Respondents spending at least 3 months abroad in the last 10 years



Percentage of respondents with a graduate degree



Organizational Affiliation



SOURCE: Serbia Survey 3/2003. N=200

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Conclusion

This tour through the respondents of Serbia's leaders should help people of all sectors understand the challenges facing Serbia as it works to improve the competitiveness of its industries, and should provide better language and frameworks for conversations about next steps.

We are already grateful to the leaders who participated in the survey, but we can't stop here. In light of this analysis, we encourage each leader to reflect on the answers he or she provided (especially the contention items), and perhaps to consider whether they would identify themselves as a Bootstrapper, a Disenchanted, or a Zero-summer. Most importantly, we hope the leaders will engage others in conversations about the results and the theories contained in the survey, and will use the results as part of the basis for new forms of collaboration and problem-solving.

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- Hofstede, Geert. *Culture's Consequences*. Beverly Hills, CA: Sage, 1980.
- Inglehart, R. *Modernization and Postmodernization: Cultural, Economic, and Political Change in 43 Societies*, 1997.
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Serbia Competitiveness & Economic
Efficiency Project
Trade Statistics Report, March 2003

Prepared by OTF Group

Serbia Trade Statistics Background Information

- **UN Trade Statistics Data is used for comparison purposes across the region and for specific industry sectors outside the region**
- **UN Data matches data of the Yugoslavian Federal Statistics Office, with a less than 2% variance**
- **Apart from Aluminum, Montenegro accounts for less than 5% of Yugoslavian data, so Yugoslavia data is essentially Serbia data**
- **Trade Stats data is only available until 2000, but according to Serbia's Bureau of Statistics there has been a .7% increase in exports from 2000 to 2001 and 20% export increase from 2001 to 2002.**

Serbia Trade Statistics Summary of Key Findings

Serbia's export sophistication is generally declining according to several indicators

- Serbia levels of upstream exports, where competition is primarily on cost, has increased to over one-third of exports.
- The portion of exports with natural resource inputs has risen from 46% to almost 60% in the past five years, and the processing levels of those natural resource based exports has been fluctuating
- Primary goods exports that typically indicate lower value goods and services, have risen from half to two-thirds of non-services exports in the last five years. The high primary goods levels are returning to 1997 levels, when no sanctions existed

Serbia's export positioning has declined to near the lowest in the region, but the last two years (using Serbia, not trade stat data) shows promise, with annual increases of over 10%

- Serbia falls behind Slovenia, Croatia and Bulgaria, but remains ahead of Macedonia in the portion of exports that are not dependent on natural resources
- Serbia has fallen to the fourth highest producer of the five measured countries for primary goods as a percent of total exports

As part of the food industry, the fruit cluster, as based on density, is well positioned for growth into key regional and EU markets. The furniture cluster is less dense but can meet some needs of several regional markets

Serbia Trade Statistics Summary of Detailed Findings

Serbia Trade Stats

- Serbia's economic trade collapsed from 1992 through 1997; and rebounded through 2002 - but still has a 50% greater trade deficit compared to the early 1990s
- Serbia trade within the broad cluster categories indicate that it is exporting mostly finished goods and about one-third upstream material – mostly metal.
- Its trade balance by broad clusters show that Serbia is closing the deficit gap for upstream industries, by importing less oil, for final goods, by shrinking the gap in food and textiles, but it is increasing its industrial trade gap mostly due to transportation and multiple business machinery inputs
- Analyzing Serbia's exports by vertical stage shows that it is a little thin due to weak exports in machinery however, this could be due to importing machinery, which may help its productivity across sectors

Regional Positioning

- Serbia exports about the same as Macedonia and no more than half the levels for Slovenia, Croatia, Bulgaria, but is dropping recently towards last in balance of trade
- Serbia is similar to Bulgaria and only lagging Slovenia with the density of its vertical stage exports
- Only Macedonia has more exports using natural resource inputs - while Serbia processes more of these before exporting, the positive trend for these high growth industries is for more semi- and processed goods from Serbia

Clusters: Fruit and Wood Positioning

- Regionally, Serbia's food cluster appears to have density and the capability to grow its export base, while furniture needs to re-group and develop density as well as support firm's export strategy
- Based on size local targeted markets for fresh fruit appear to be Germany, France and Austria, while juice the larger juice markets are France, Portugal and Italy
- Potential competitors, based on size include Spain, Belgium and the Netherlands for berries and the Netherlands, Germany and Saudi Arabia for juice
- Despite world consumption of wood furniture dropping by almost 40%, the U.S. demand is skyrocketing and now consumes 30% of wood furniture. Germany, France and the U.K. – the largest European markets are do not aggregately match the U.S. Italy is the world's largest producer with Germany and Denmark as other major European competitors

Trade Statistics Methodology: Classification Into Broad Clusters

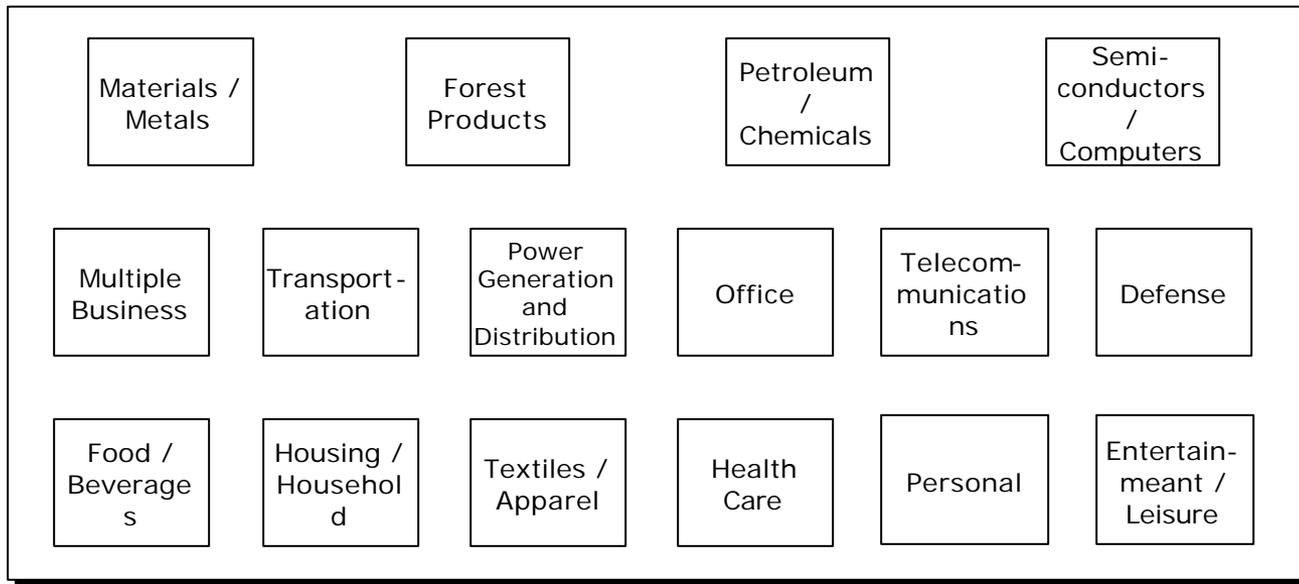
2,300 or 3,900 industry's export data from United Nations International Trade Statistics Yearbook

Sorted by end-use

Uniformity across countries

Uniformity over time

Type of end-use / source of advantage



Upstream Industries

- Inputs to products in many other industries
- Natural resource advantages

Industrial and Supporting Functions

- Products often bought by businesses
- Technology advantages

Final Consumption Goods and Services

- Products bought by consumers
- Natural resources
- Low labor cost advantages

There are three "bands" of broad clusters in a nation's economy

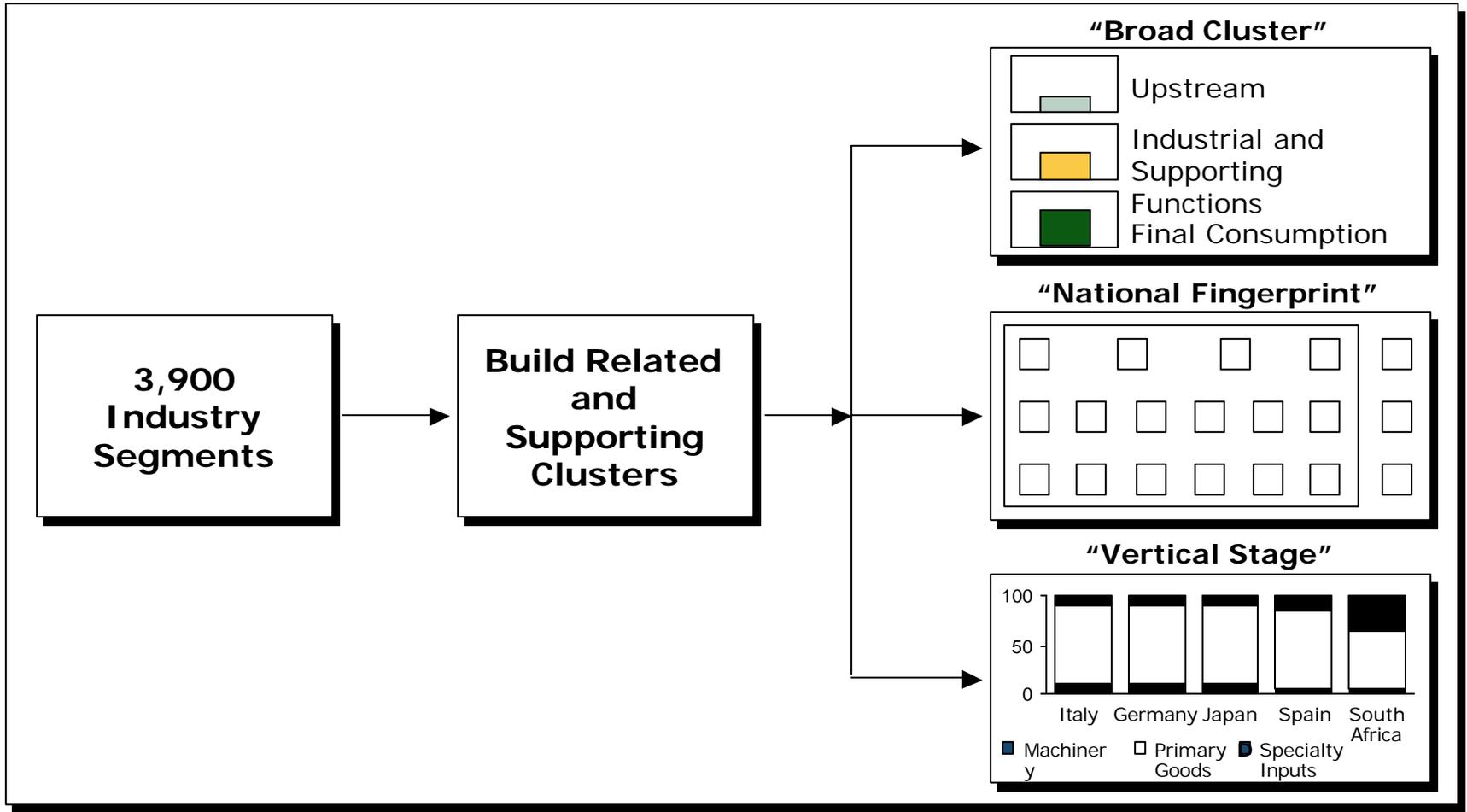
Trade Statistics Methodology: The OTF Group Model

- 10 Years in its use
- 150 Megabyte model
- Ability to analyze:
 - 2,300–3,900 industries
 - 16 broad clusters
 - 3 vertical stages for each broad cluster
 - 250 detailed clusters for each vertical stage
 - Industries by reliance on natural resources
 - Industries by level of processing



Proprietary technology that adds unique value

Trade Statistics Methodology: The OTF Group Model

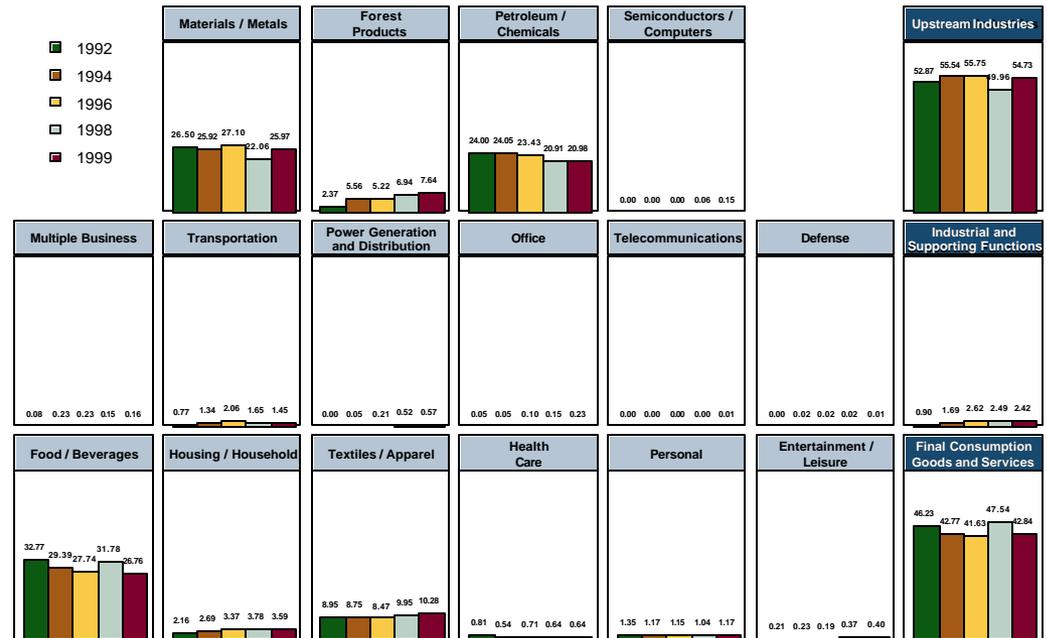


OTF Group’s approach goes beyond traditional macro and micro-economic views of competition. The analysis highlights the important role that clusters play

Trade Statistics Methodology: “Report Card” Metaphor

Competitiveness is a dynamic system; its best synonym is continuous learning

- One indicator for how well a country has learned is its export success
- Trade statistics output provides a codified, systematic way to evaluate the level and quality of that success



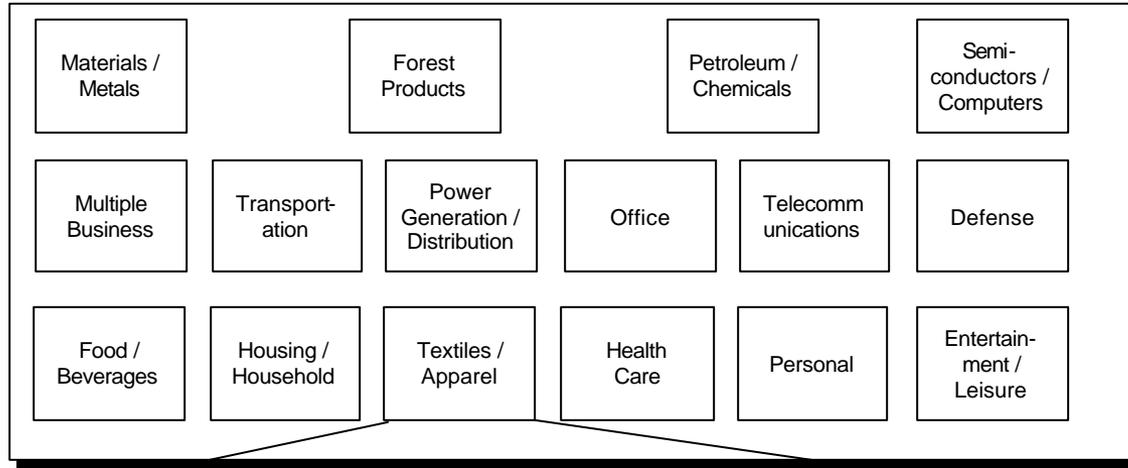
Trade Statistics analysis assesses a country's level of progress through the competitiveness system

Definition

Examples



Trade Statistics Methodology: Classification Into Vertical Stages



	Textiles / Apparel
Primary Goods	
Machinery	
Specialty Inputs	



Each cluster consists of three vertical stages

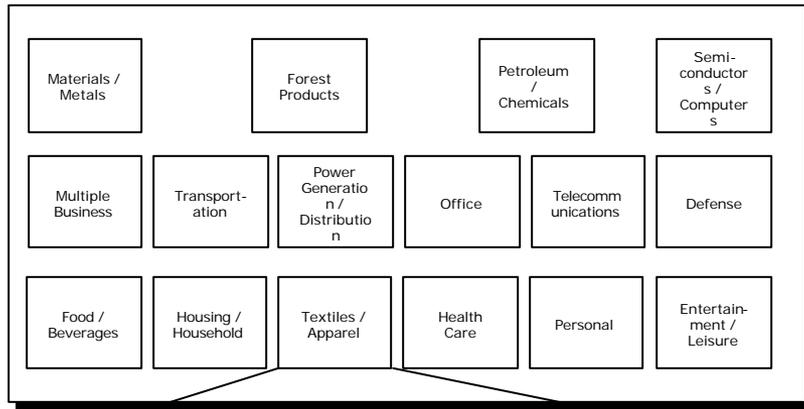
Trade Statistics Methodology: Vertical Stages: The OTF Group Approach

"Vertical Stage"	Definition	Examples
<p>Share of Exports</p> <p>Country 1 Country 2 Country 3</p> <p>Primary Goods</p> <p>Machinery</p> <p>Specialty Inputs</p>	<ul style="list-style-type: none"> ● The fundamental products for which the cluster is named, independent of level of manufacturing processing 	<ul style="list-style-type: none"> ● Orange juice ● Electronic microcircuits or computers ● Unrefined or refined oil ● Steel and steel tubing ● Trees and wood veneer
	<ul style="list-style-type: none"> ● Equipment or instruments used to manufacture the fundamental products or extract primary goods 	<ul style="list-style-type: none"> ● Electric industrial furnaces in power cluster ● Combines and harvesters in food cluster ● Mineral working equipment in materials cluster
	<ul style="list-style-type: none"> ● Those inputs which are not machinery but typically have no end consumer value; items which are predominantly inputs for other products or services 	<ul style="list-style-type: none"> ● Snake skins into leather cluster ● Chlorine into the forestry cluster ● Coloring components ● Cellulose derivatives



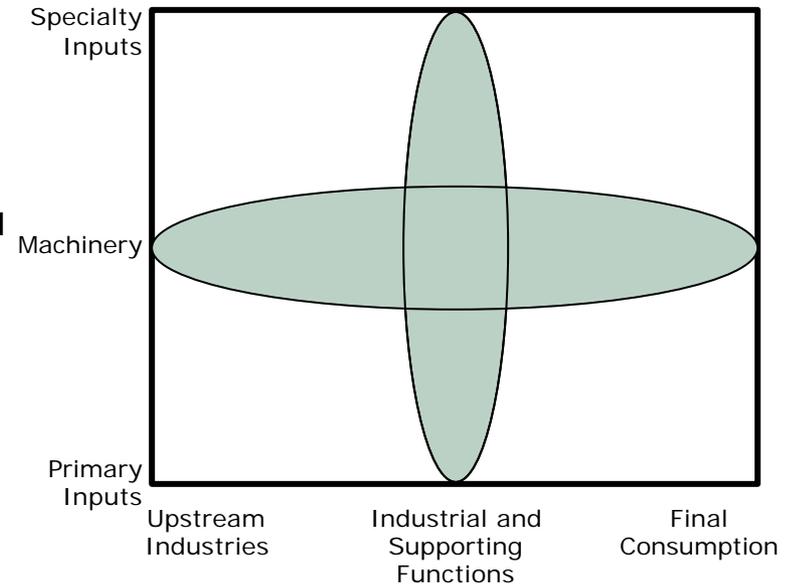
Vertical stage analysis provides an indication of the depth of clusters

Trade Statistics Methodology: Cross of Productivity: The OTF Group Approach



	Textiles / Apparel
Primary Goods	
Machinery	
Specialty Inputs	

Vertical Stage



Broad Cluster

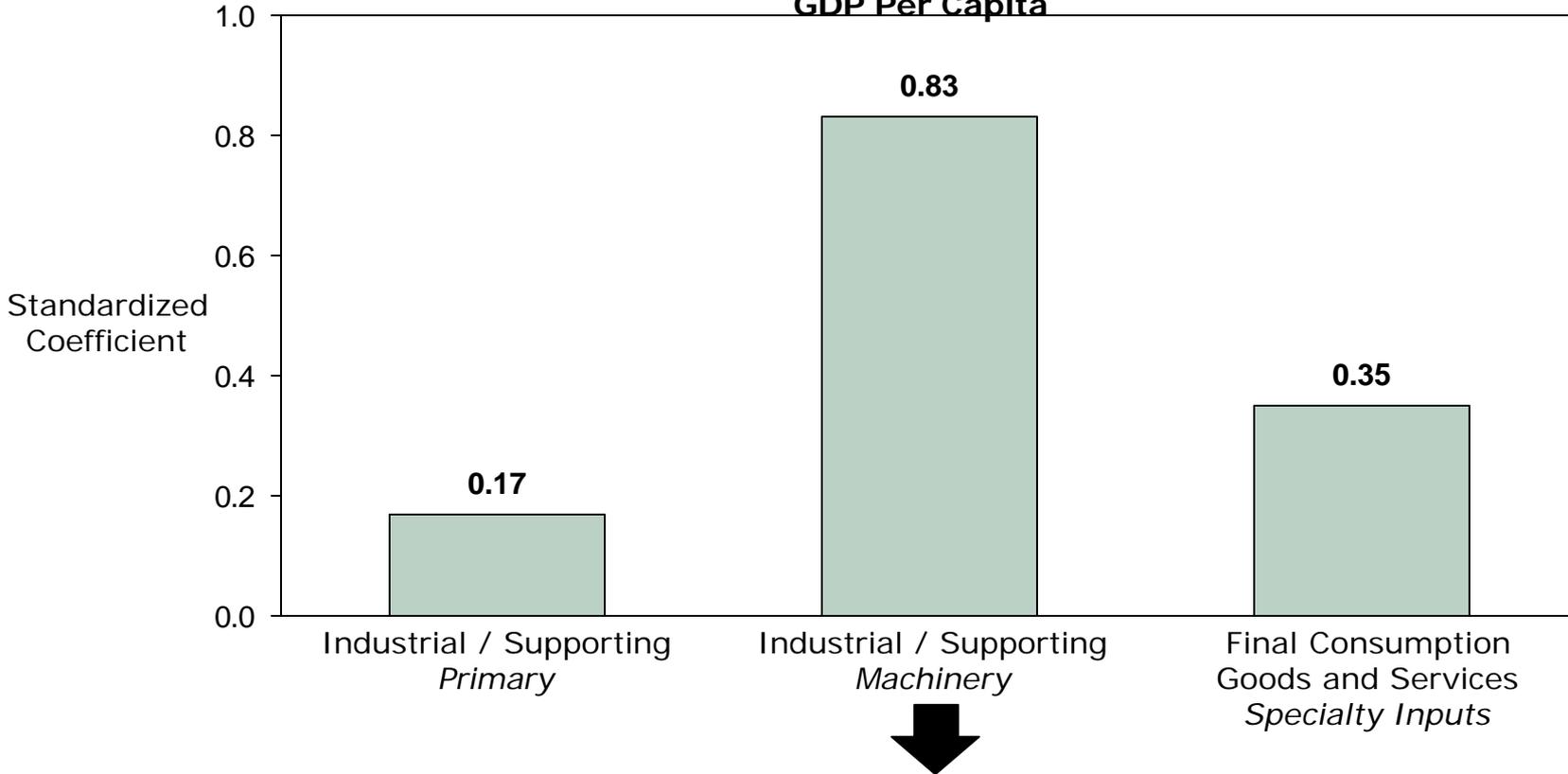


“Cross of Productivity” consists of middle bands from broad clusters and vertical stages, which tend to be more sophisticated products

Trade Statistics Methodology: Rationale for Focus on “Middle Band”

Impact of Changes in Export Structure on Changes in Prosperity

Standardized Coefficient of Change in Industry Structure vs. Changes in Real GDP Per Capita



A multiple stepwise regression indicated that export structure changes into the advanced sectors of the global economy yields a significant positive influence on per capita GDP. The results also satisfy most traditional statistical tests of significance

Note: Standardized coefficient measures the standard deviation changes in the dependent variable resulting from a 1 standard deviation change in the independent variable

Trade Statistics Analysis: Questions for Developing Countries

Q: Does this mean that countries with no position in the world in the advanced functions have to build clusters from scratch?

A: NO

Q: Do countries with existing assets outside the “cross” of advanced operations and functions have to abandon these to build “sophisticated” clusters elsewhere?

A: NO, it is often efficient to upgrade and “re-invent” traditional industries, or to develop supporting machinery of export-quality

Q: Does this analysis indicate that only “middle band” types of industries can be “good industries” for investment?

A: NO, while some industries are more structurally attractive and lend themselves to advantages that are harder to imitate, a company with a strong relative position can have success in any area.

Q: Is there any proof that countries building positions in the advanced functions create more prosperity than those who maintain their primary resources focus?

A: YES

Trade Statistics Methodology: The OTF Group Approach

Results

Comments

Increases in a country's exports in primary industrial and supporting clusters impact positively on prosperity

Increases in a country's export exposure in machinery-based industrial and supporting clusters impact positively on prosperity

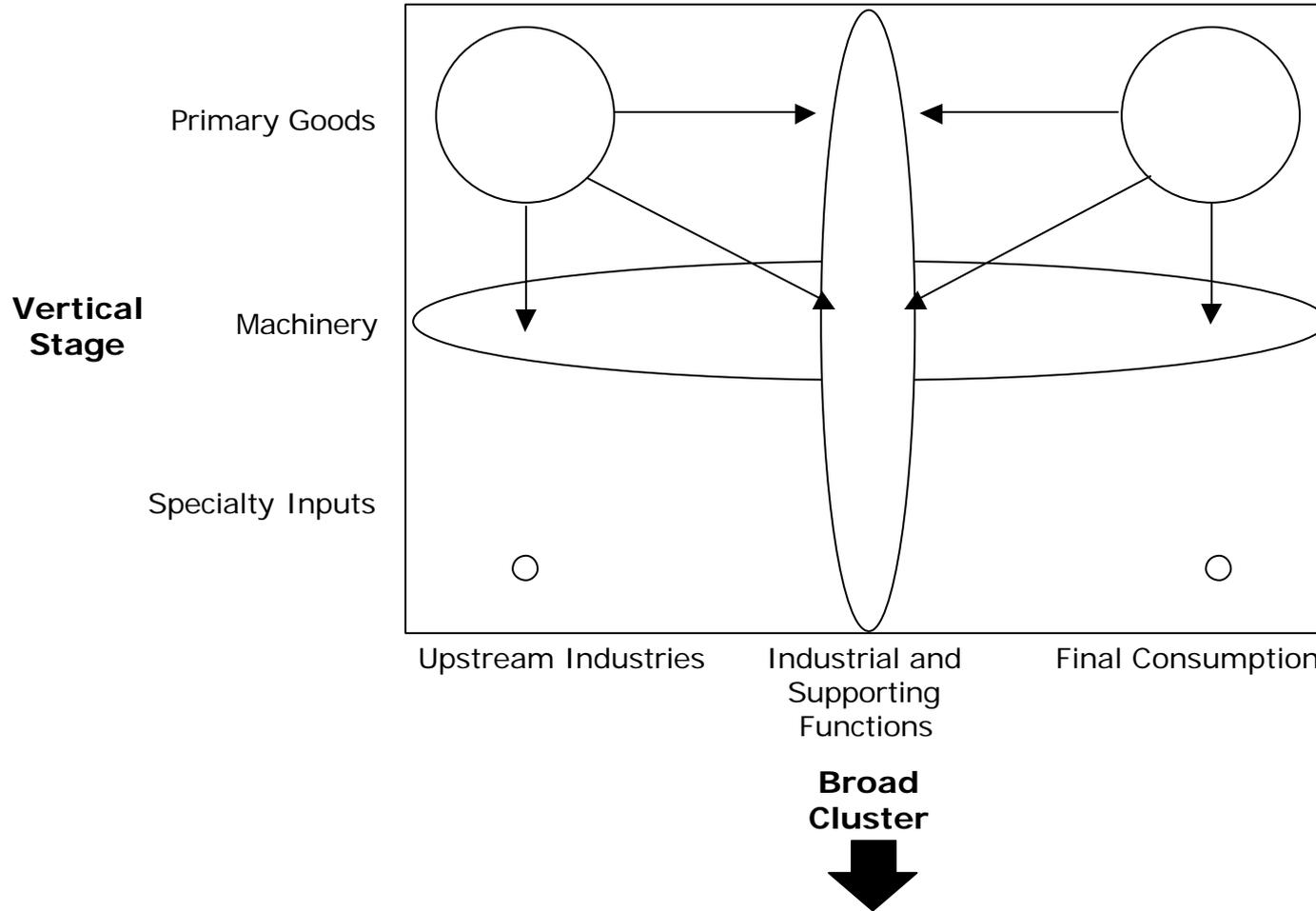
Increases in a country's exports in final consumption specialty inputs clusters impact positively on prosperity

- Competing in industrial and supporting functions demand higher levels of innovation and rapid learning
- Strong linkages with other parts of the economy accelerate innovation
- Sustainable competitive strategies can be built on factors other than cost
- Cooperation of firms within clusters is where sustainable differentiated strategies can be established
- All the independent variables and the regression equation are statistically significant



Innovation in the “cross of competitiveness” is highly correlated with changes in per capita GDP

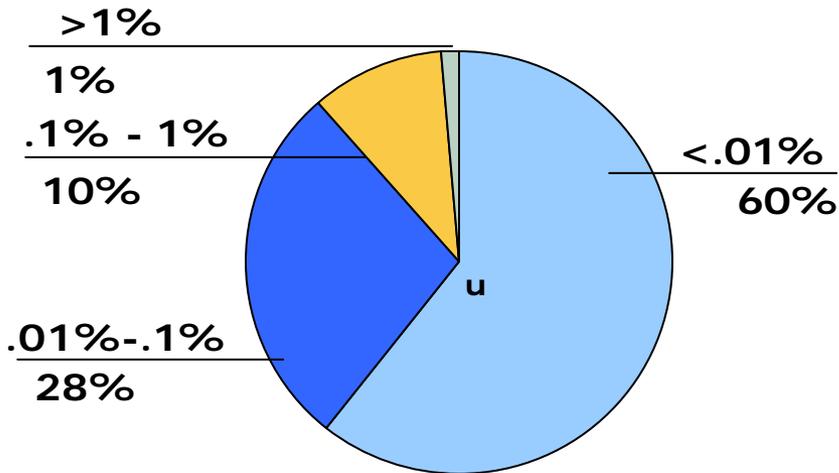
Trade Statistics Analysis: Imperatives for Change: Theoretical



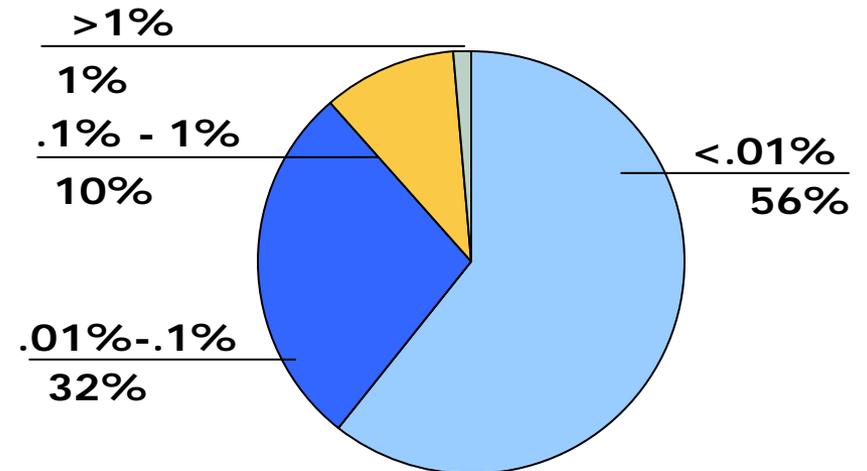
Competitive clusters need not be created from scratch. They should be based on creating specialized factor inputs, unique technologies and strategies rather than cheap labor or abundant natural resources

Engagement: Number of Export and Import Industries

**No. Of Export Industries
By Percent of World Share
\$1.7 billion in 2000**



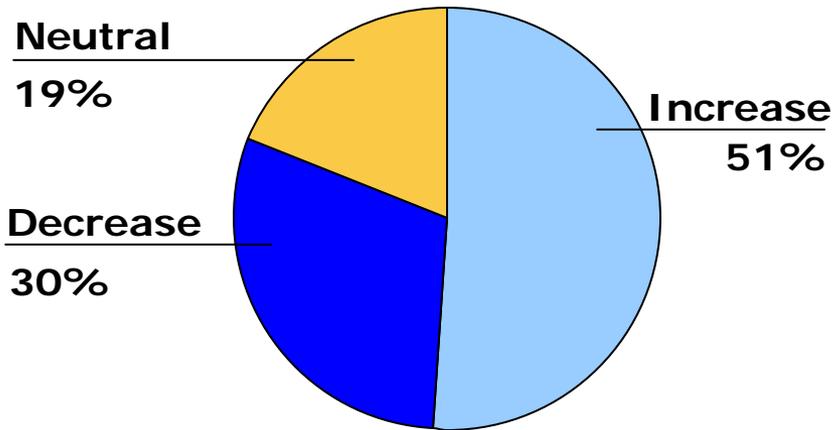
**No. Of Export Industries
By Percent of World Share
\$1.8 billion in 1996**



**Only 11% of Serbian leaders believe
Serbian firms deliver world class
products**

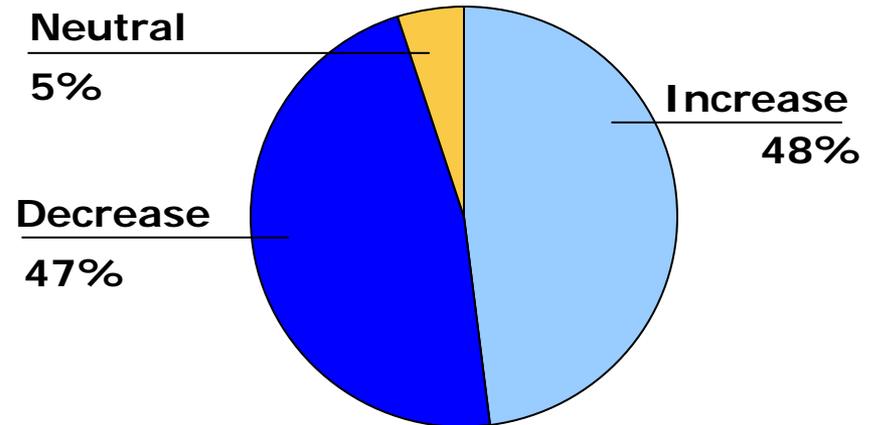
Engagement: Changes in Exporting and Importing Activity

**No. Of Export Industries
Change in Revenues
1992-2000**



Export levels:
\$2.5 billion in 1992
\$1.7 billion in 2000

**No. Of Import Industries
Change in Revenues
1992-2000**

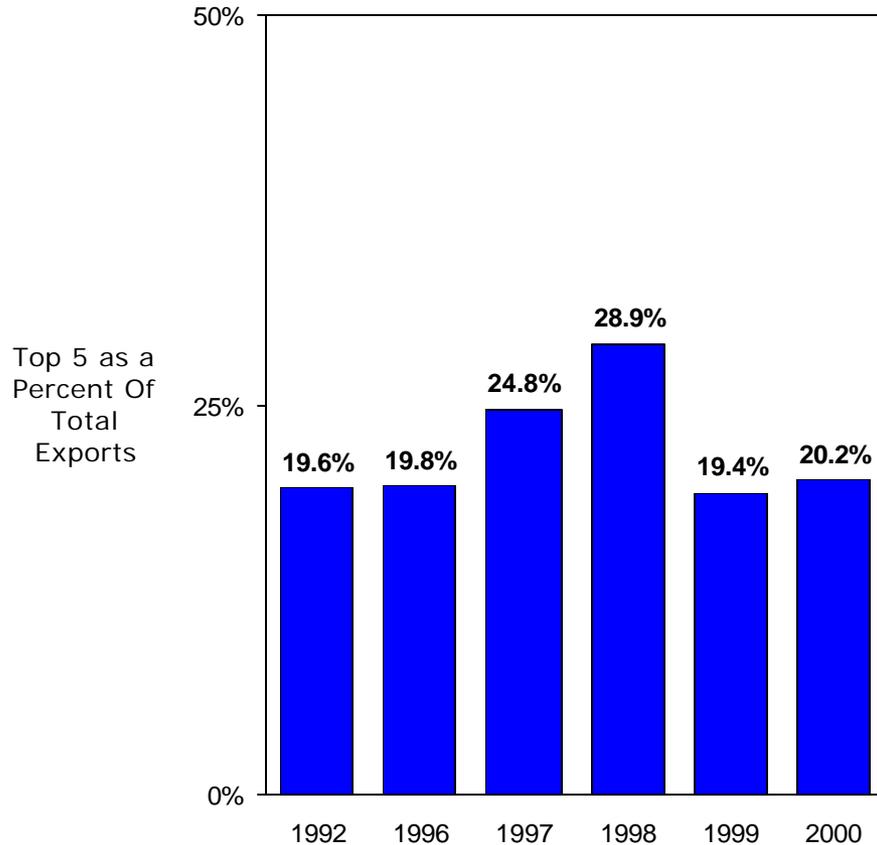


Import levels:
\$3.5 billion in 1992;
\$3.2 billion in 2000

Half of import industries increased expenditures; but total imports decreased

Four out of Five of Serbia's Top Exports are Unsophisticated, Commodity Products

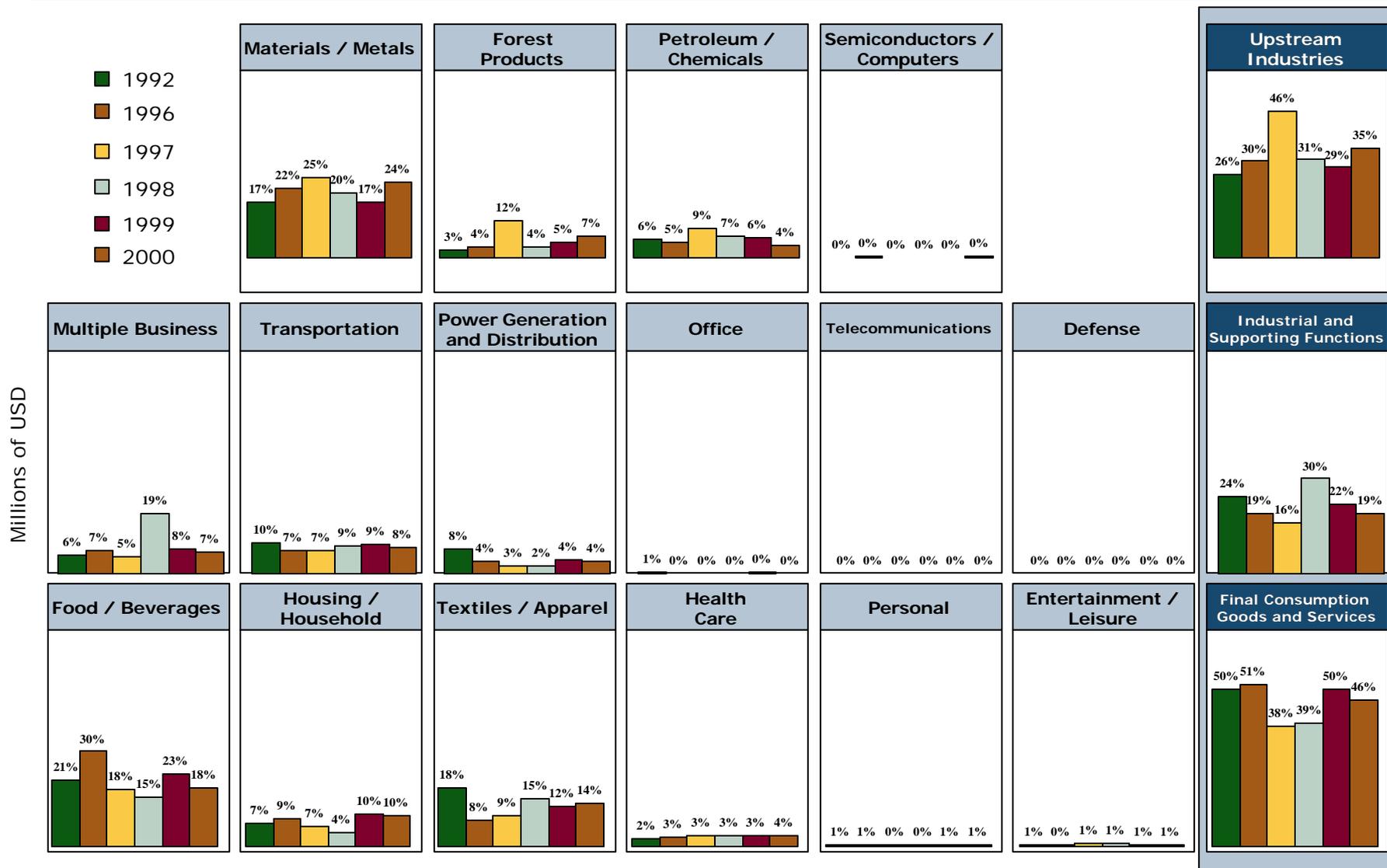
**Concentration of Top 5 Exports
by Country Export Value**



**Top 5 Exports by
Country Export Value, 2000**

- Aluminum, Unwrought Alloys
- Fruit, Frozen without sugar
- Lumber Sawn
- Iron, Simple Steel Coils
- Medicaments

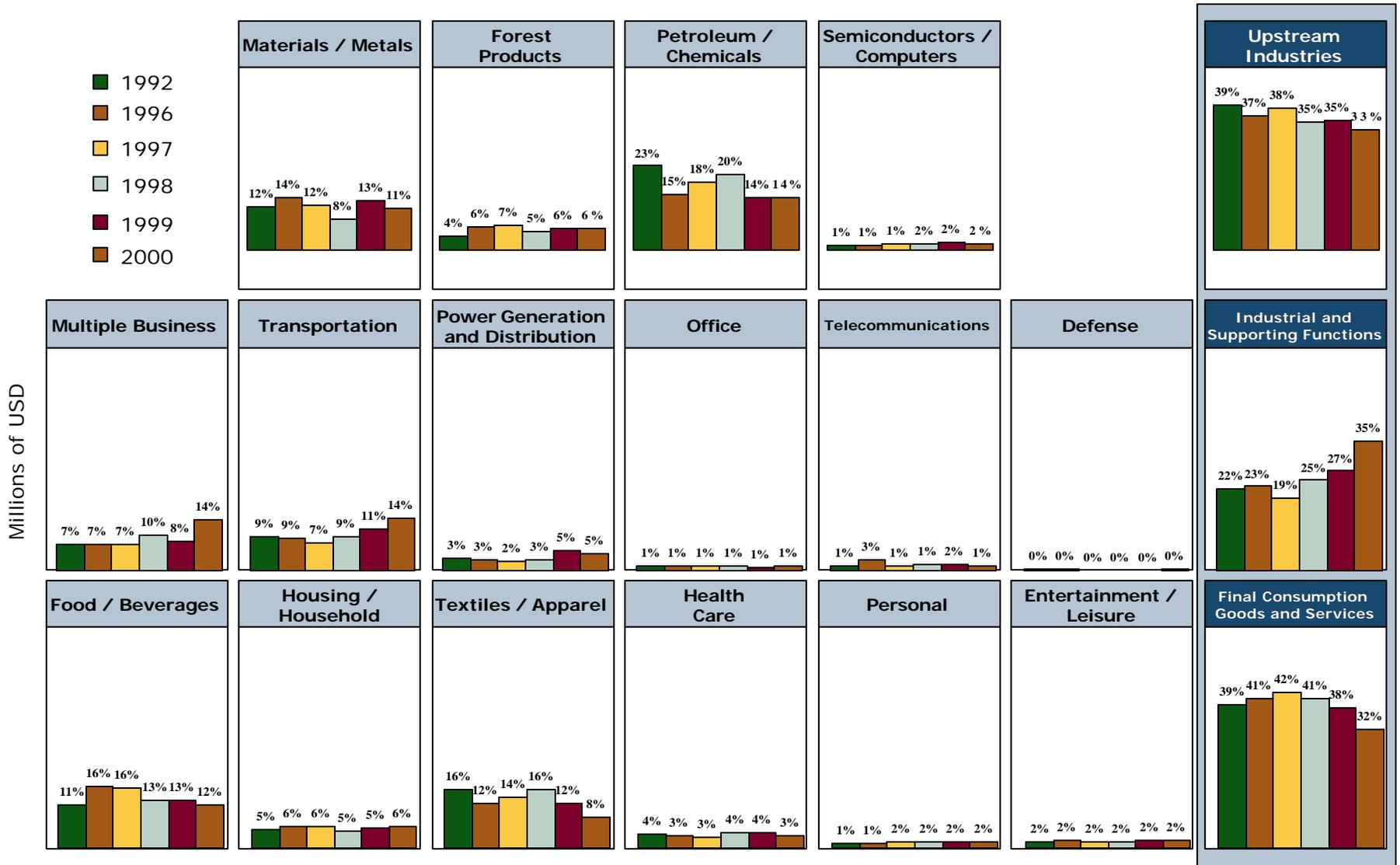
Serbia is moving towards the high levels of basic upstream products it achieved in the year when there were no sanctions



Note: Totals may not add up to 100% due to rounding

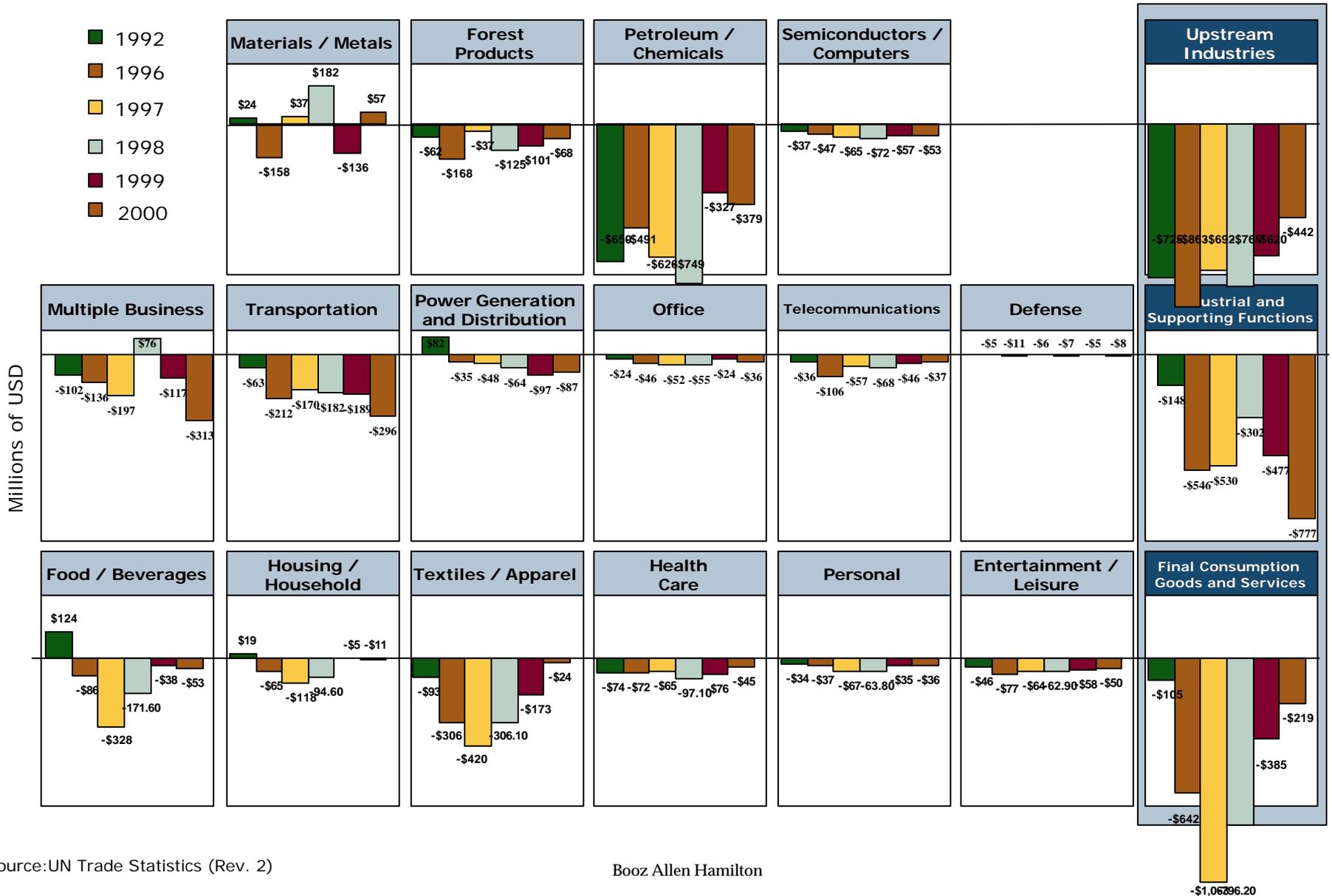
Source: UN Trade Statistics (Rev. 2)

Broad cluster imports shows Serbia's even distribution for all categories, with a recent increase of industrial functions

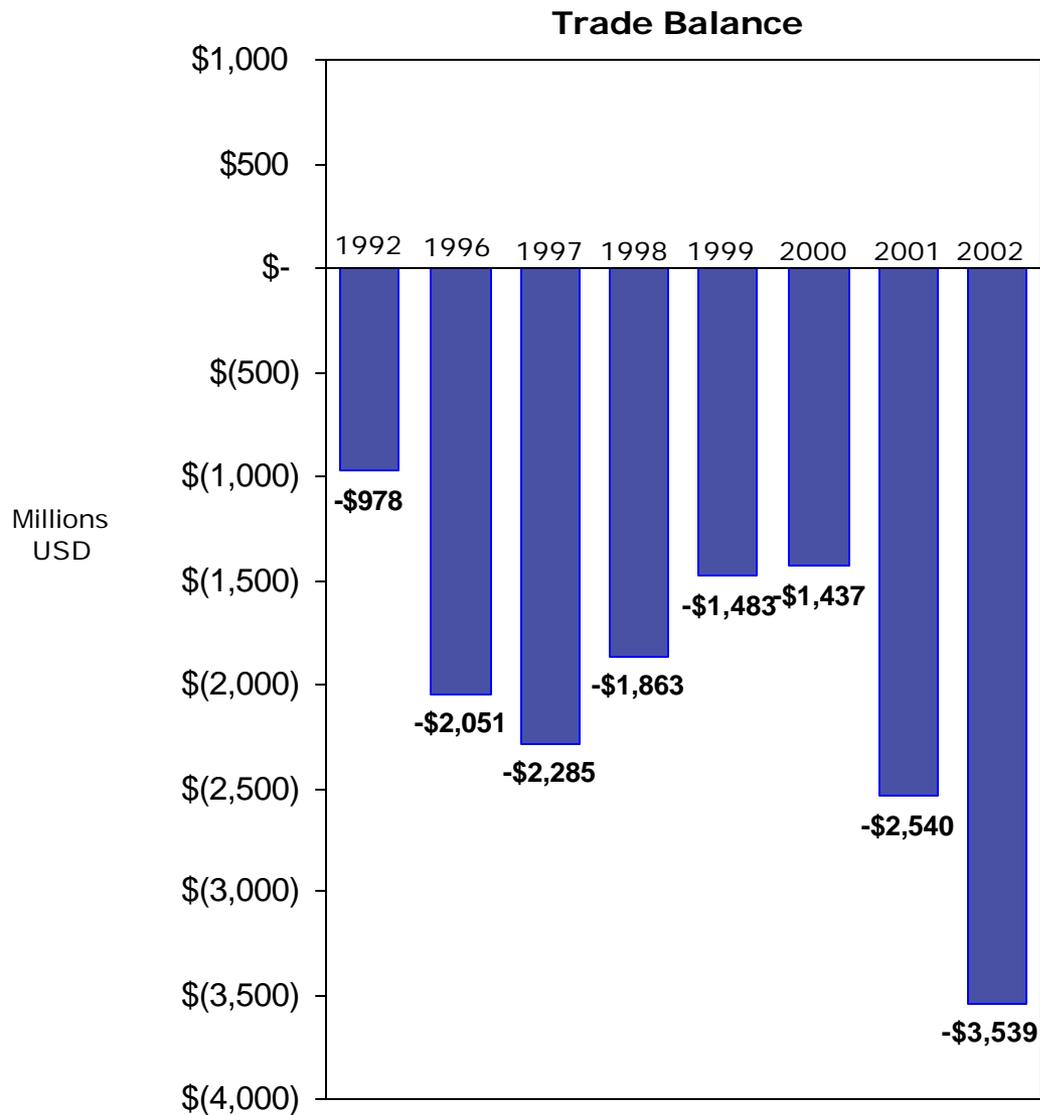


Note: Totals may not add up to 100% due to rounding
 Source: UN Trade Statistics (Rev. 2)

Serbian trade balance is negative for each broad cluster, improving for upstream and final goods and services



Serbia's overall trade balance has declined since the opening of its markets to international competition



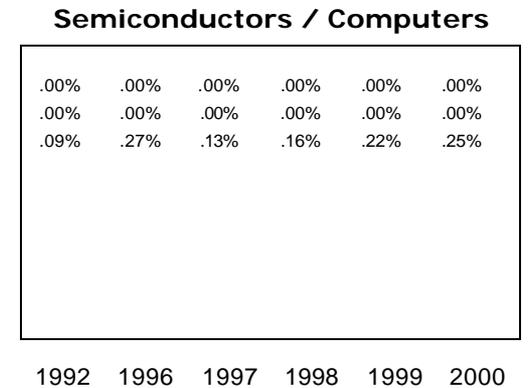
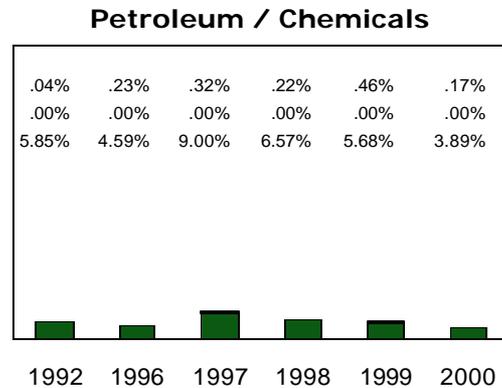
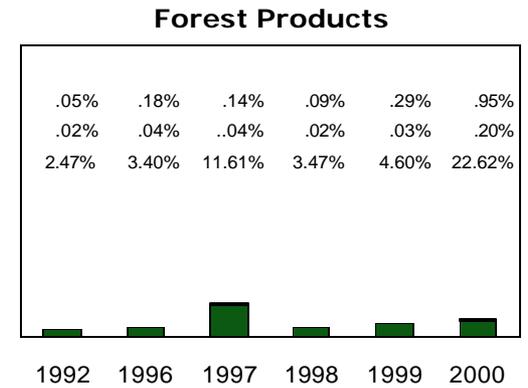
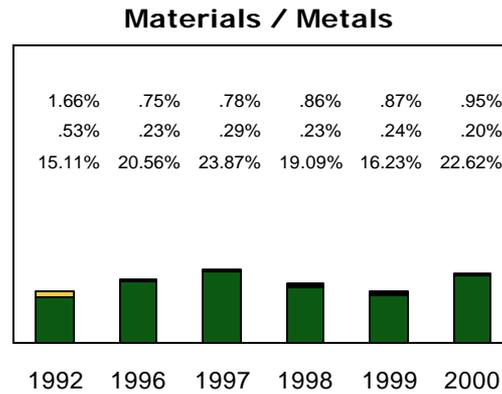
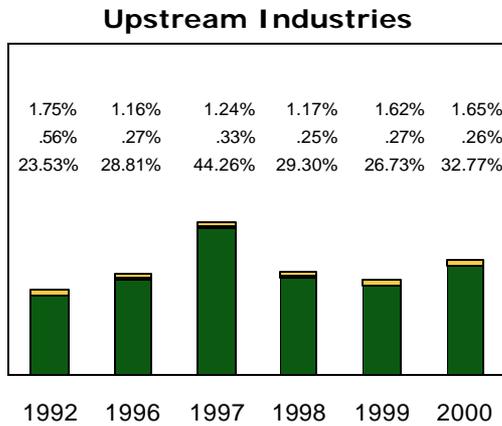
Note: 2001 and 2002 data includes only Serbia

Booz Allen Hamilton

Source: UN Trade Statistics (Rev. 2); Serbian Republic Bureau for Informatics and Statistics

Serbian broad-cluster, upstream industry exports is driven by primary goods, with an emphasis on materials and metals

Percentage of All Exports

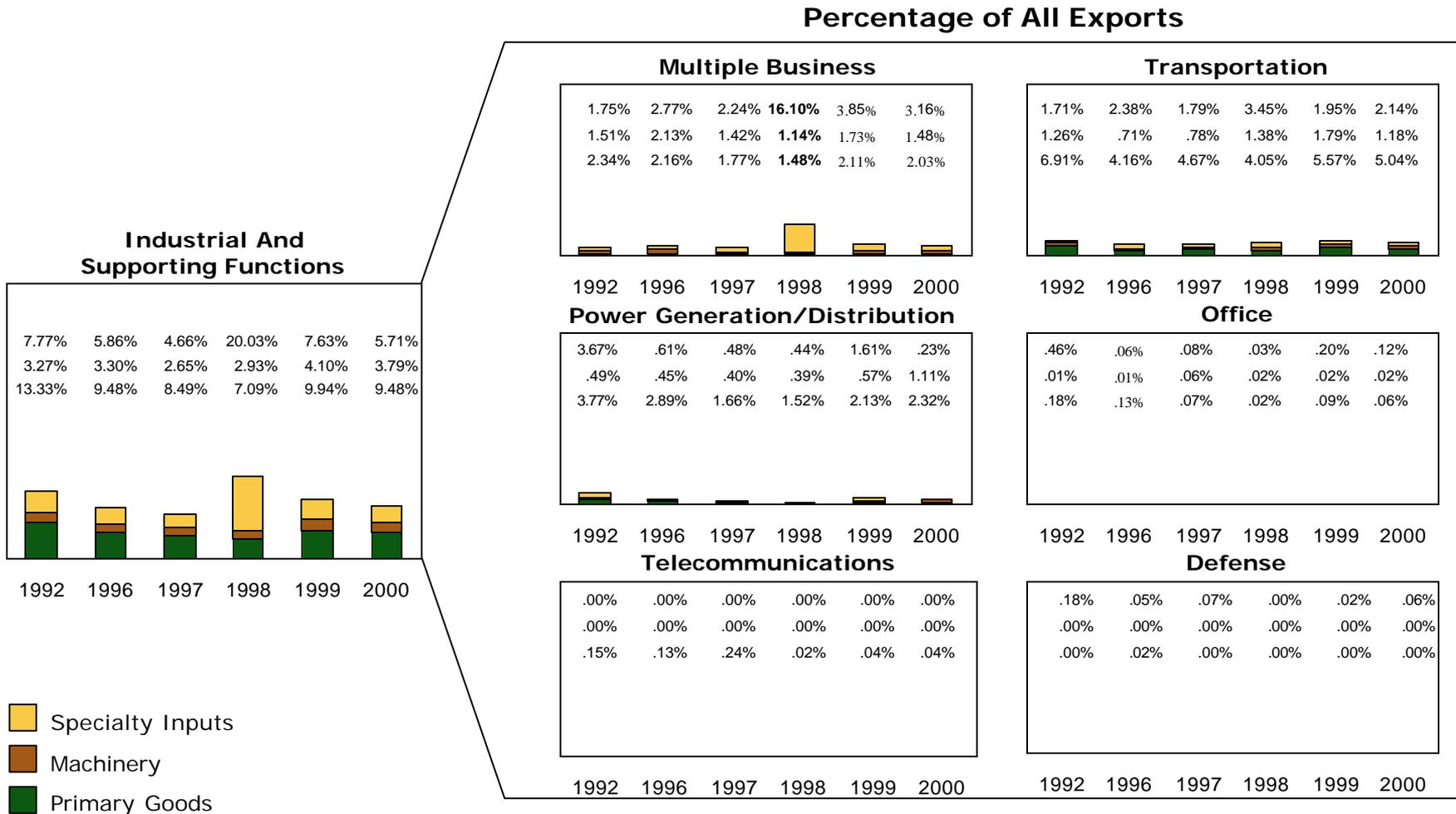


- Specialty Inputs
- Machinery
- Primary Goods

Note: Totals may differ due to rounding; vertical scale = 100%

Source: UN Trade Statistics (Rev. 2)

Serbian broad cluster, industrial exports are primarily primary goods with a focus on transportation and multiple business

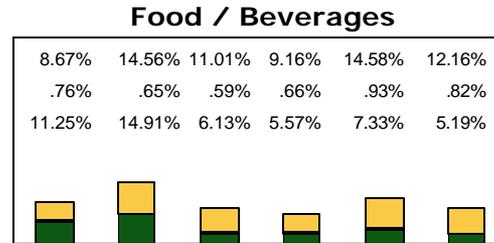
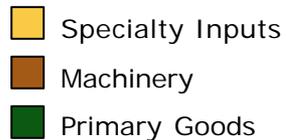
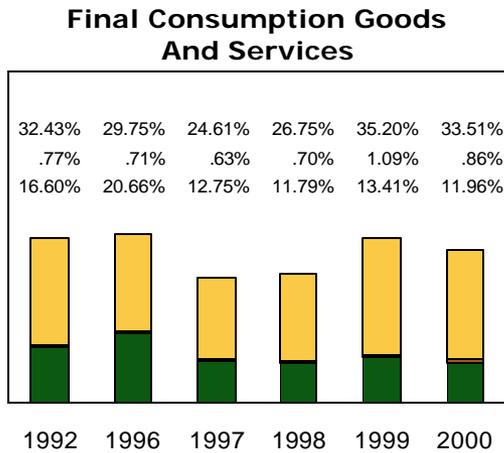


Note: Totals may differ due to rounding; vertical scale = 100%

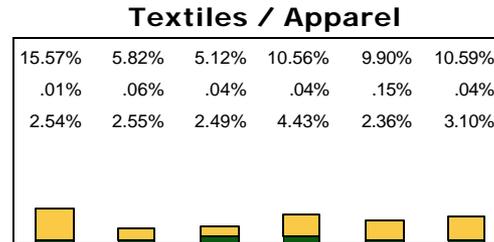
Source: UN Trade Statistics (Rev. 2)

Serbian broad cluster exports in final goods are mostly specialty inputs for food/beverage, textiles and household machinery

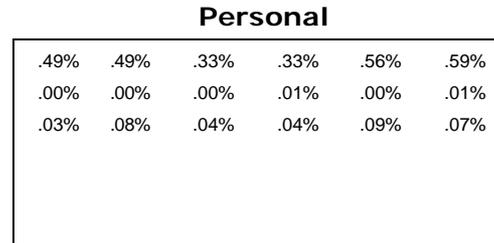
Percentage of All Exports



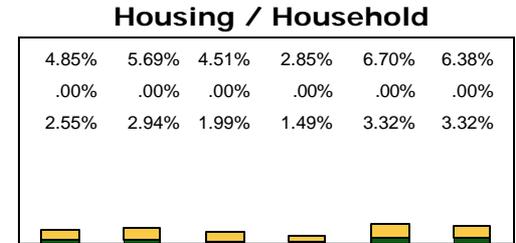
1992 1996 1997 1998 1999 2000



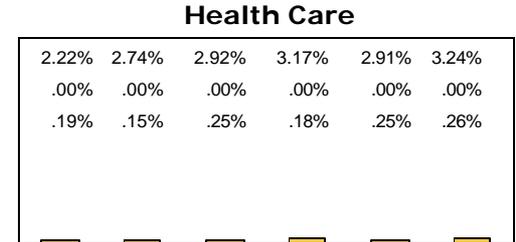
1992 1996 1997 1998 1999 2000



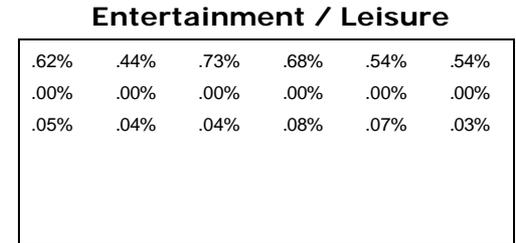
1992 1996 1997 1998 1999 2000



1992 1996 1997 1998 1999 2000



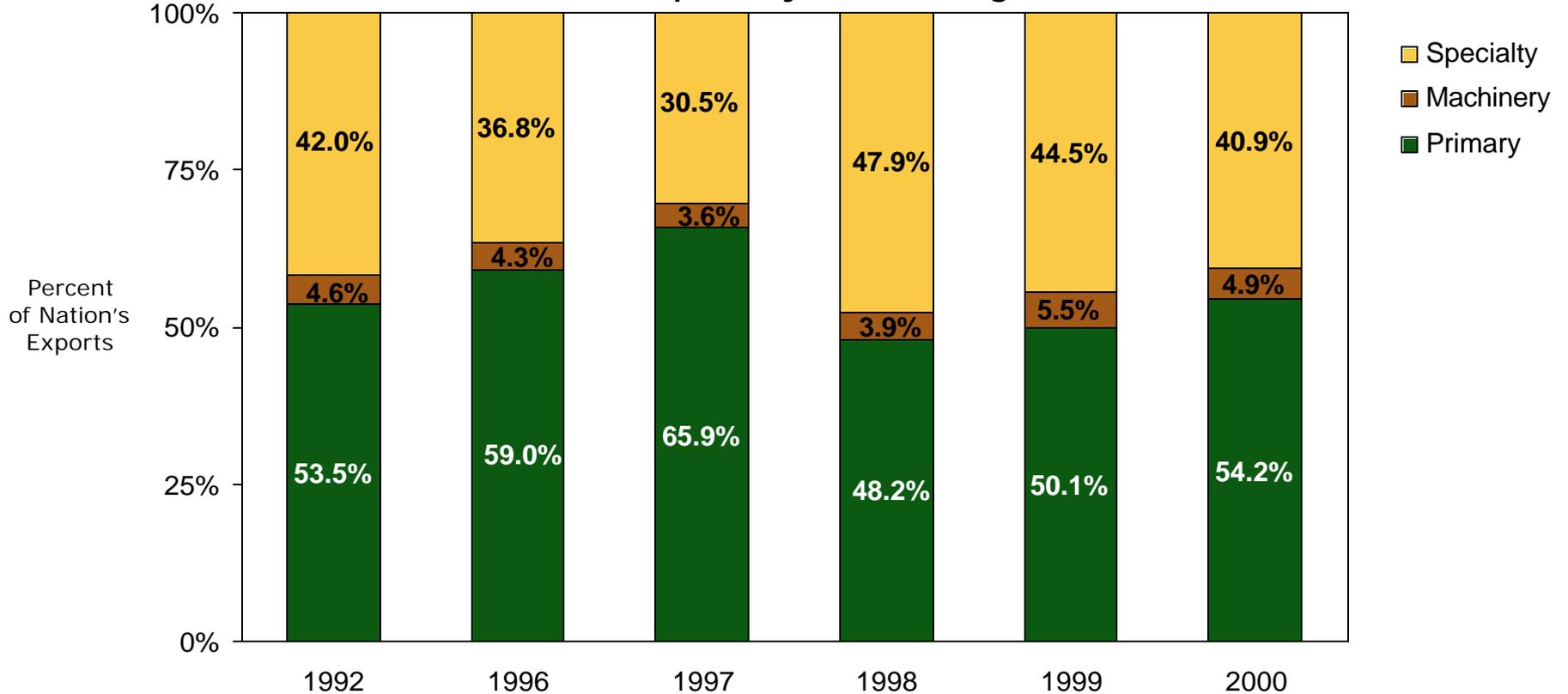
1992 1996 1997 1998 1999 2000



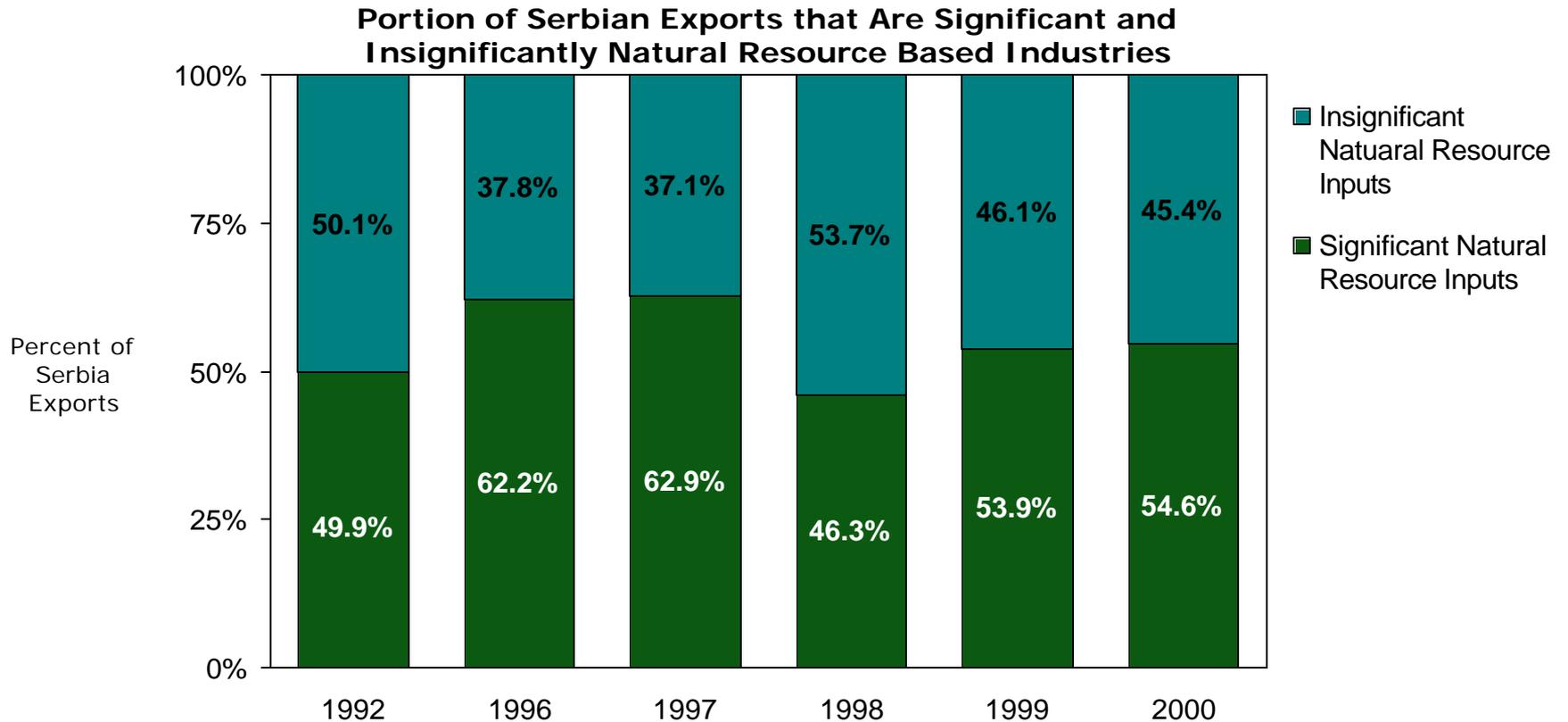
1992 1996 1997 1998 1999 2000

Examining Serbian exports by vertical stage shows that they are mostly primary goods, and light on machinery

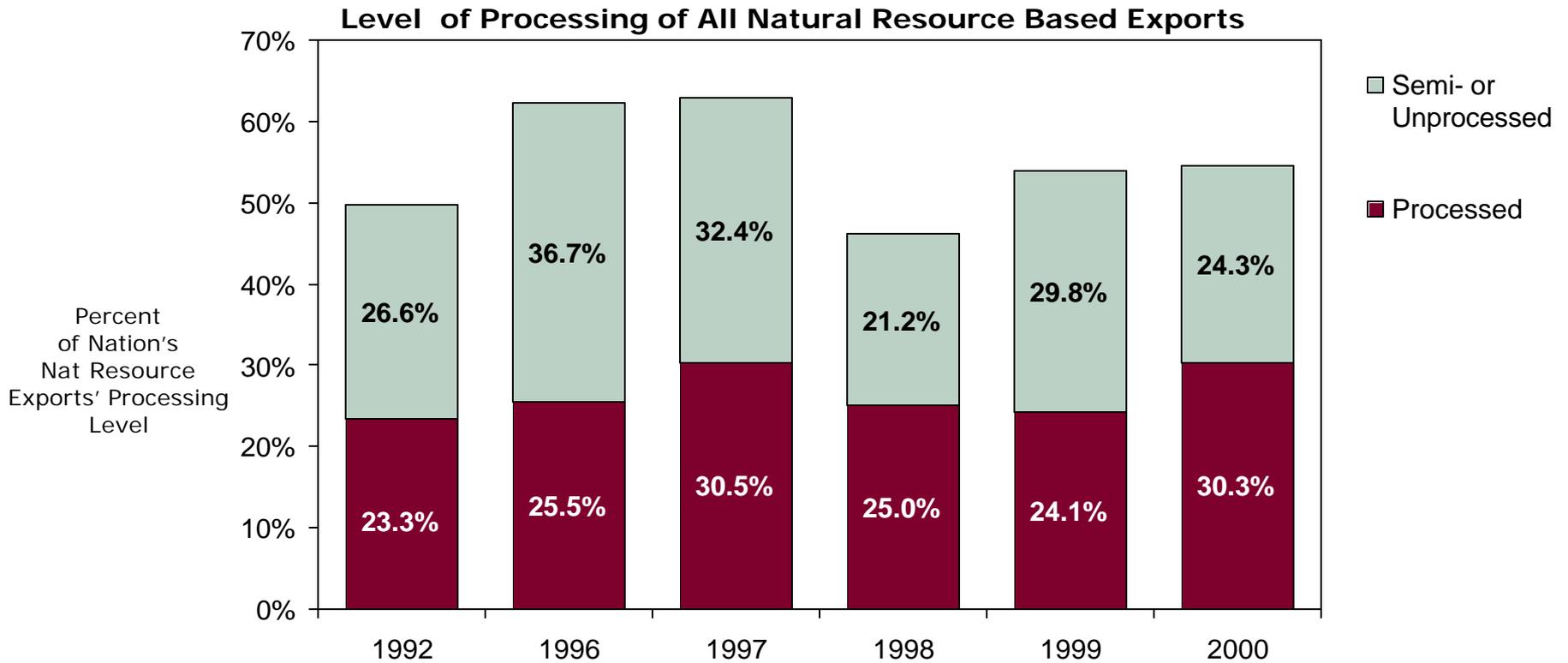
Share of Nation's Exports by Vertical Stage, 1994–2000



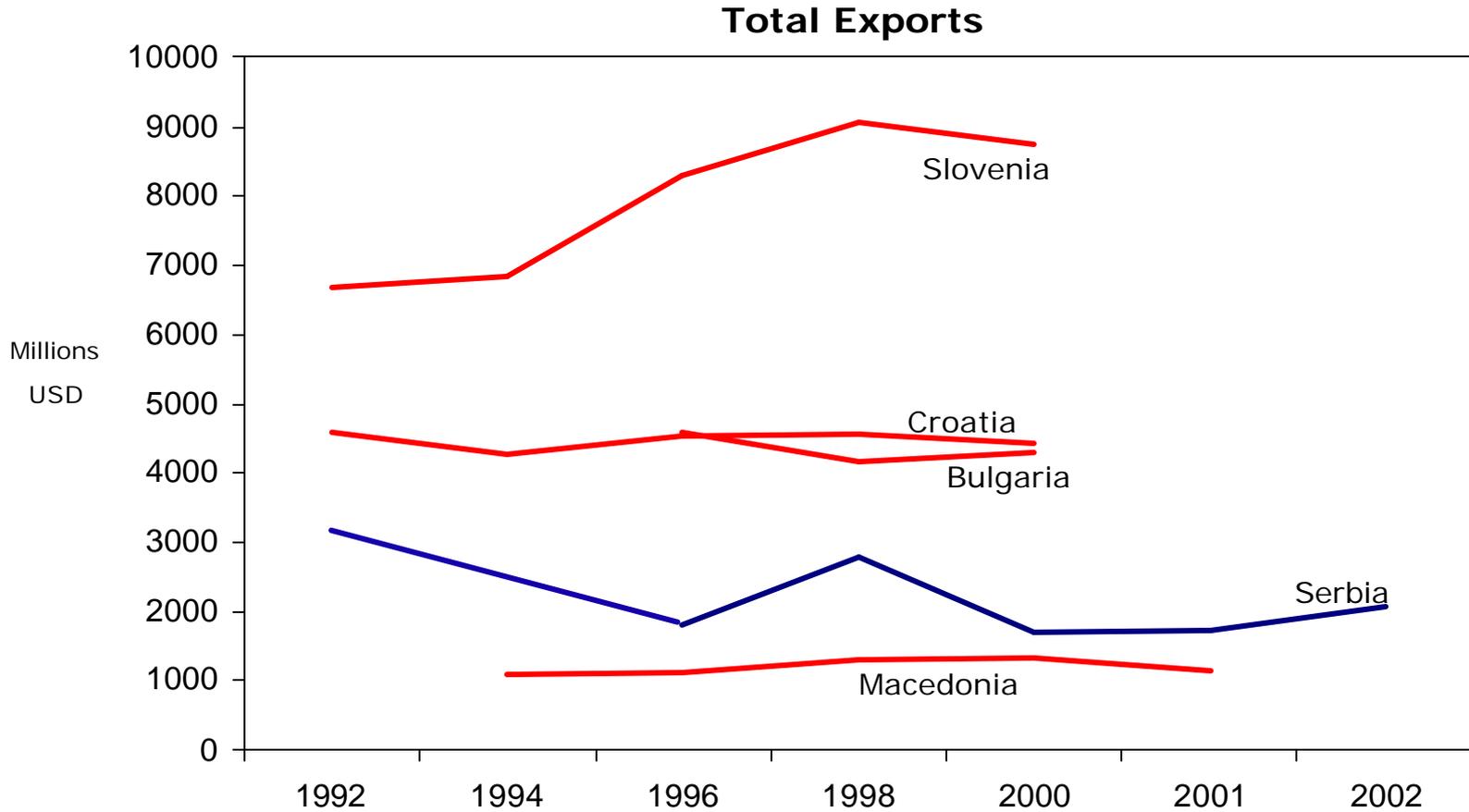
Over 50% of Serbian exports have significant natural resource inputs and are approaching the higher non-sanction levels



Serbian exports that have significant levels of natural resource inputs are equally likely to be processed or semi-processed



Serbia is lagging three of four regional countries in total exports by dollar amount

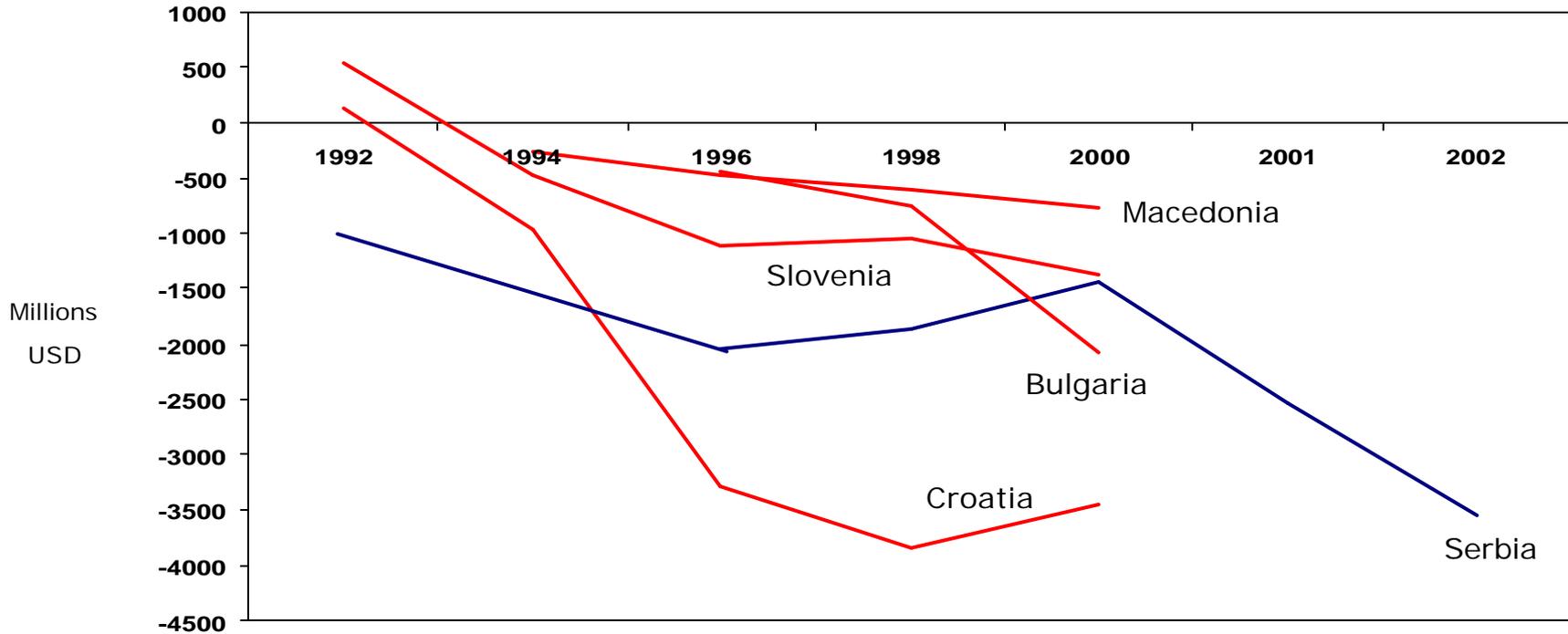


Booz Allen Hamilton

Note: 2001 and 2002 Yugoslavian Data includes only Serbia; No data available for Bulgaria 1992-1994
Source: UN Trade Statistics (Rev. 2); Serbian Republic Bureau for Informatics and Statistics

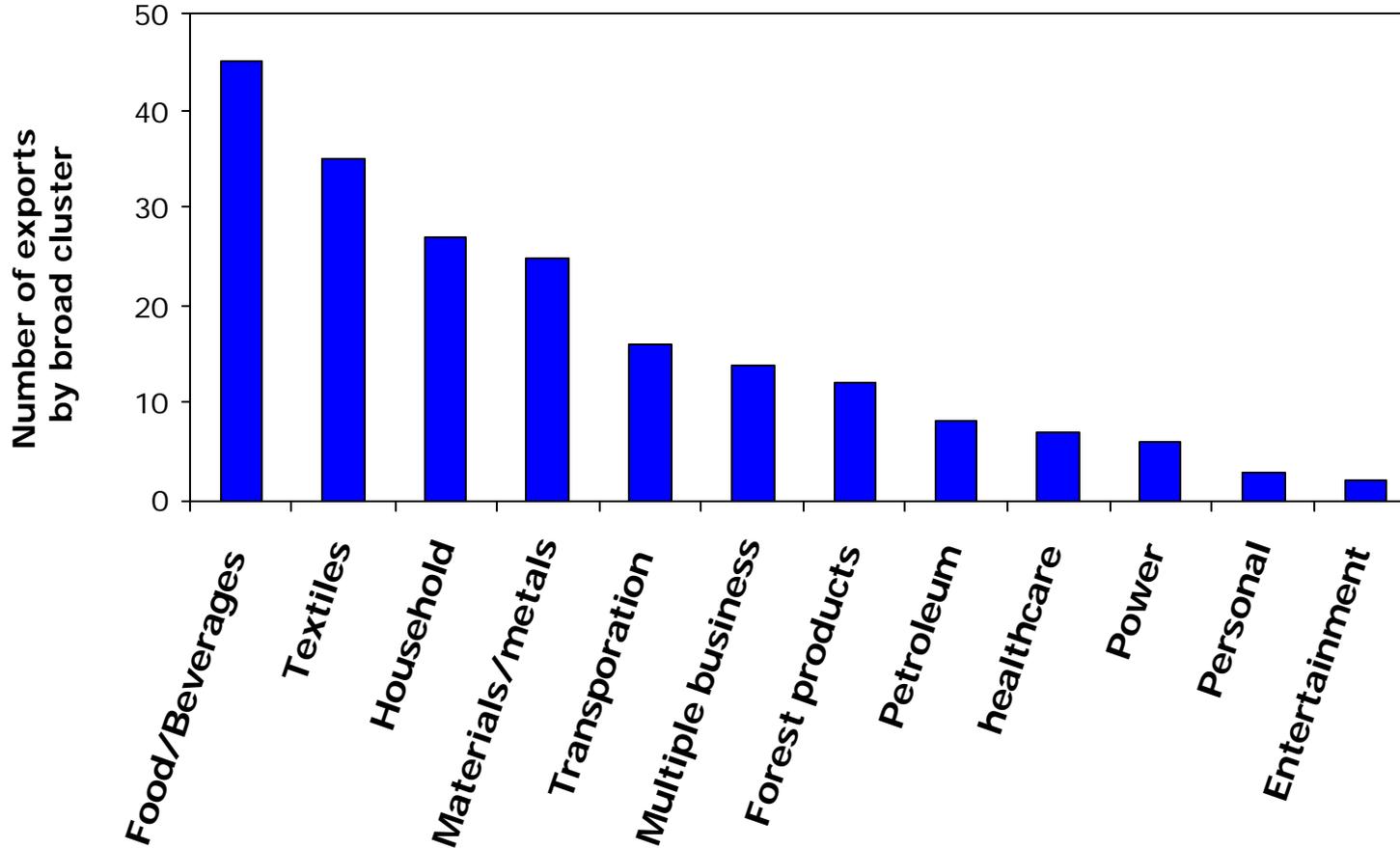
Serbia's trade balance was among the region's best through 2000, but using Serbian data for 2002, there is a recent sharp decline

Regional Trade Balance



Engagement: Serbia’s 200 Largest Exporting Industries

Top 200 exports by broad cluster

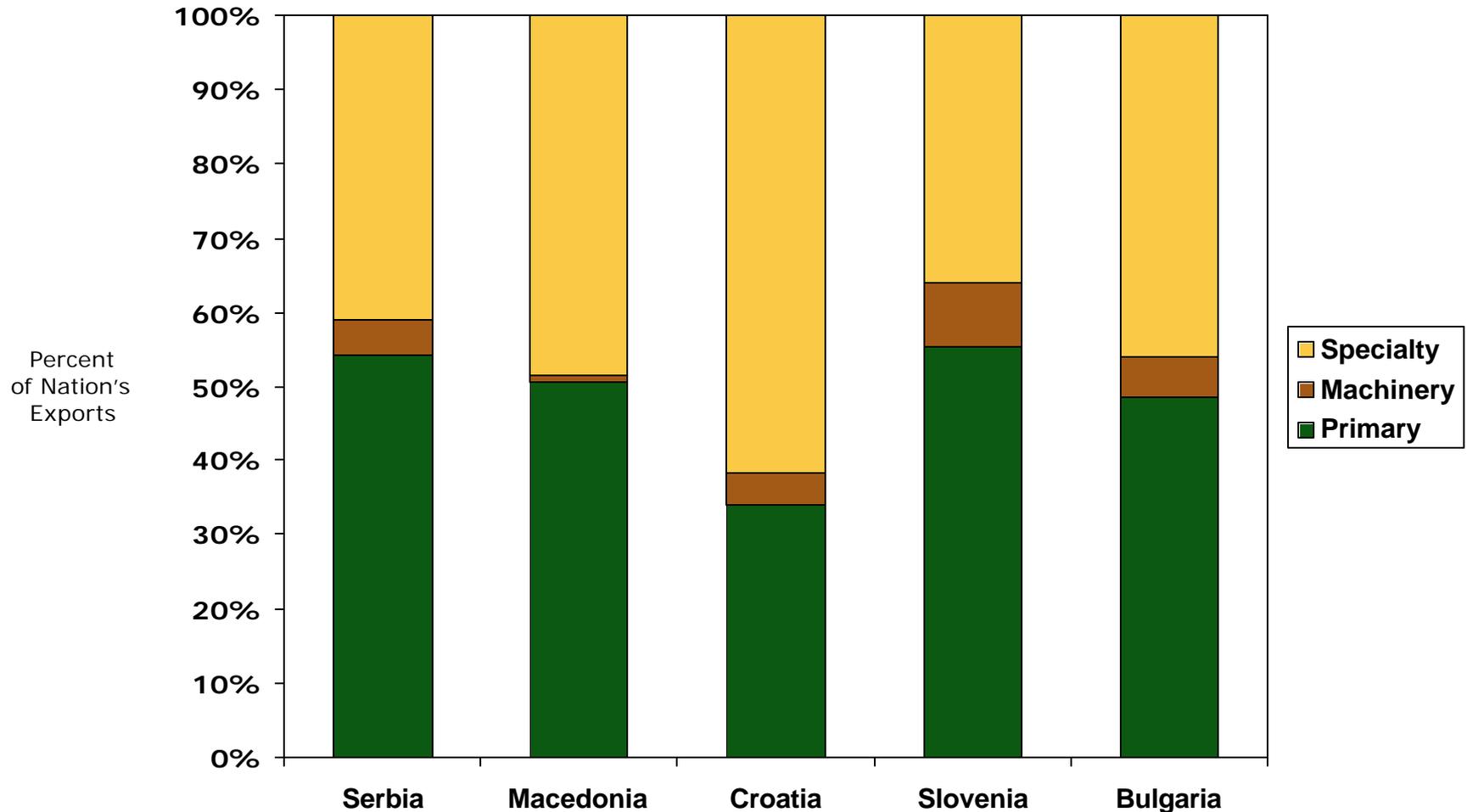


**Top 200
Export revenue:
\$1.5 billion or
88% of exports**

**Top 200 Export
CAGR
1992-2000:
-2.2%**

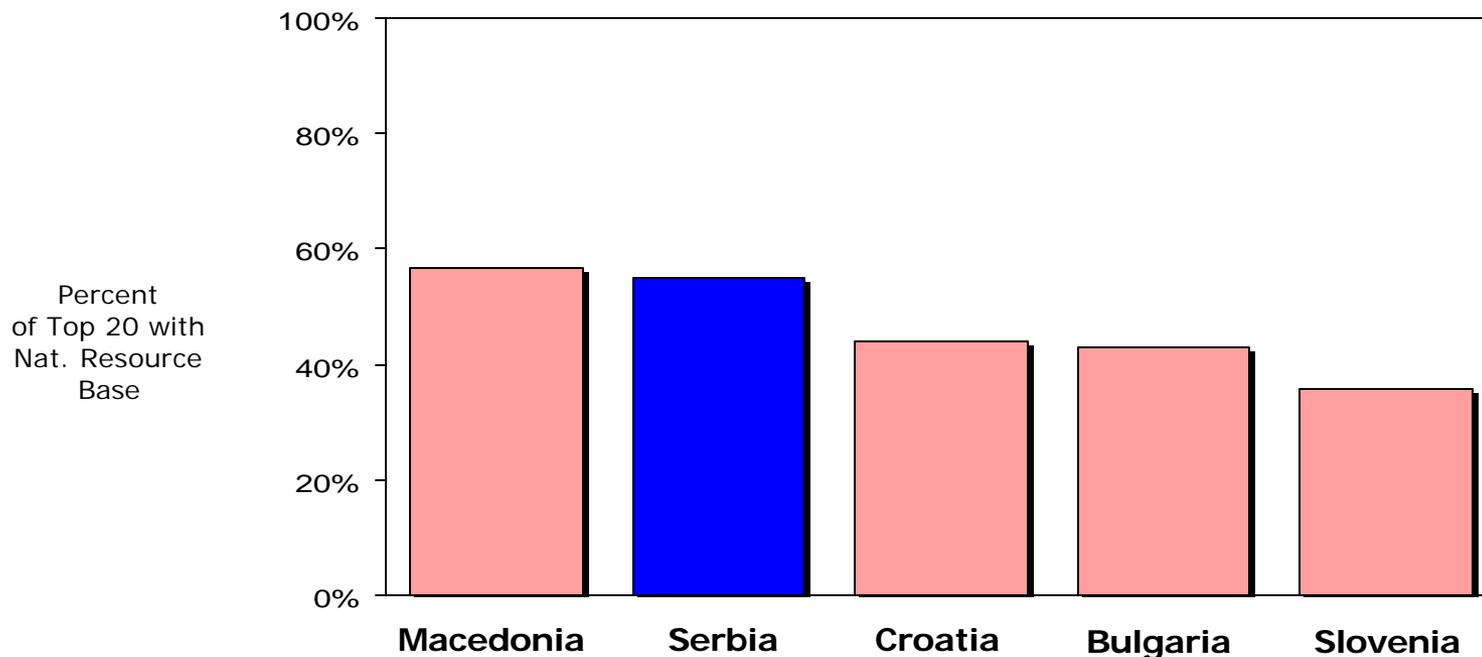
Serbia is near the level of Bulgaria but behind Slovenia by analyzing its percentage of vertical stage exports

Share of Nation's Exports by Vertical Stage in Year 2000



Serbia has a higher level of natural resource based exports than three of four neighboring countries in the region

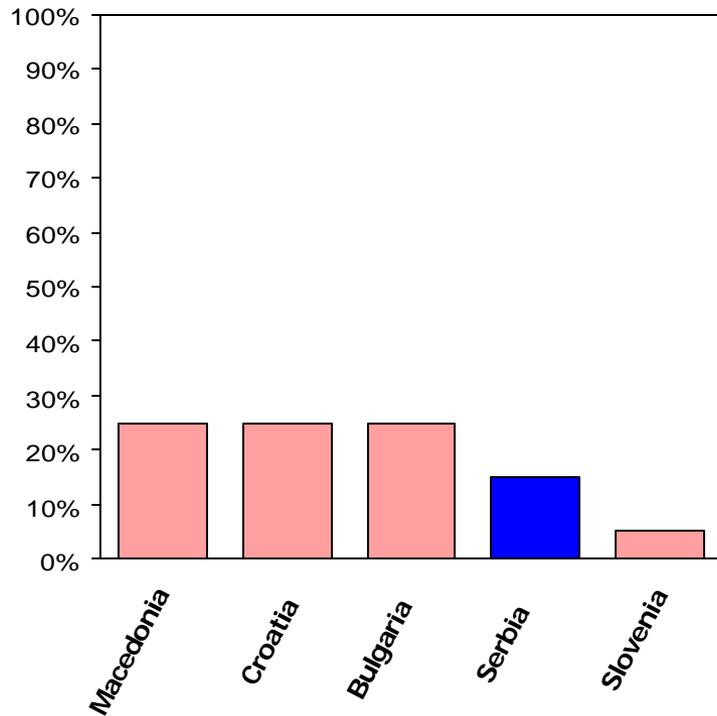
% of Top 20 Exports with Significant Natural Resource Based Inputs, 2000



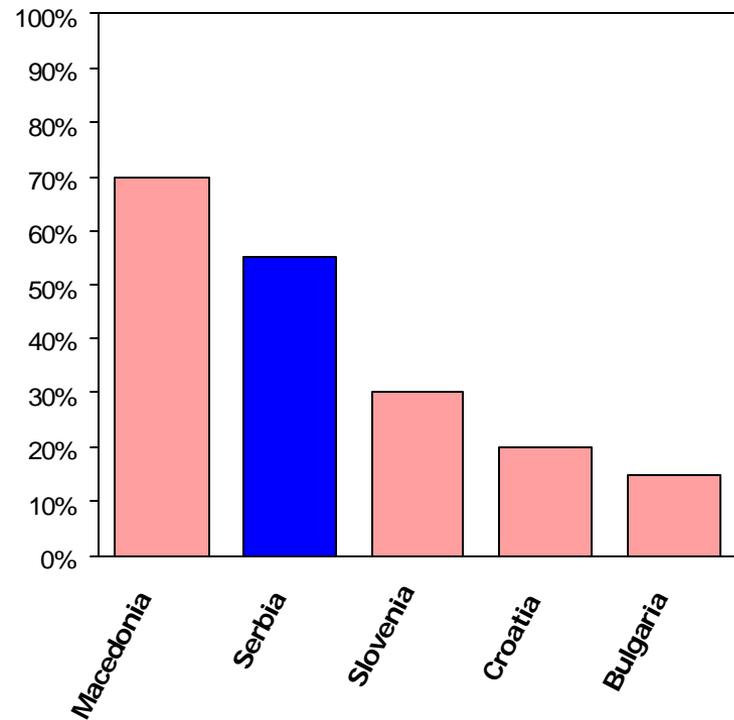
EXPORT CONCENTRATION	Macedonia	Serbia	Croatia	Bulgaria	Slovenia
Total Exports 2000 (US Bil)	1.32	1.71	4.43	4.28	8.73
Top 20 Exports as a % of Total Exports	56.9%	41.5%	43.9%	43.0%	35.9%

The region’s high growth exports are mostly processed, while Serbia’s is better positioned in lost exports in the region

**Top 20 High Growth Commodities, 2000
% Semi or Unprocessed**

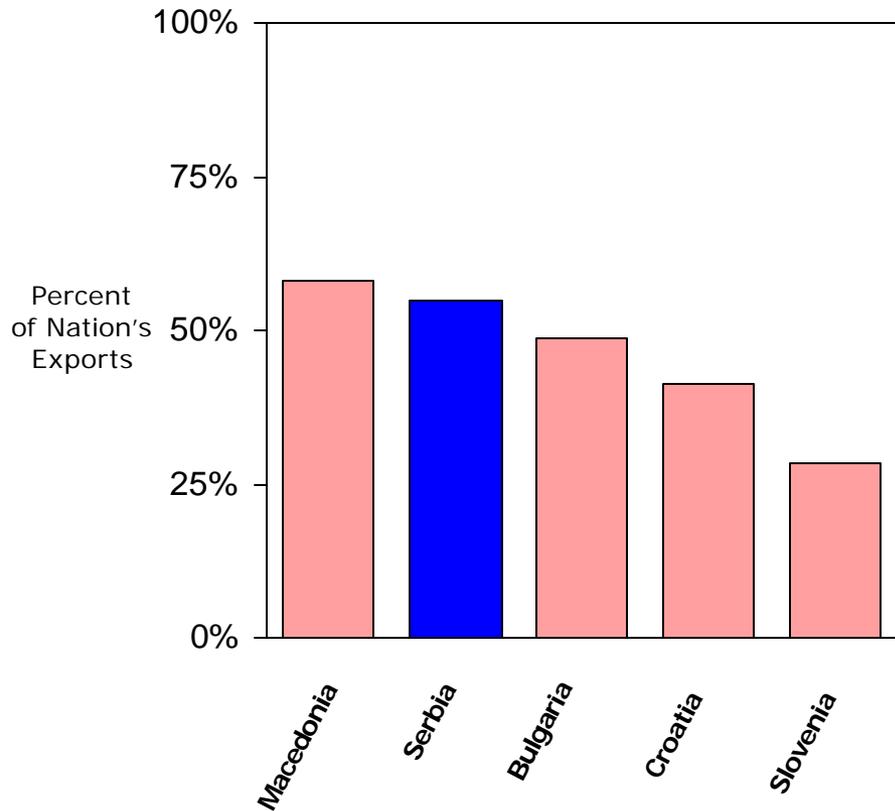


**Top 20 decreasing Commodities, 2000
% Semi or Unprocessed**

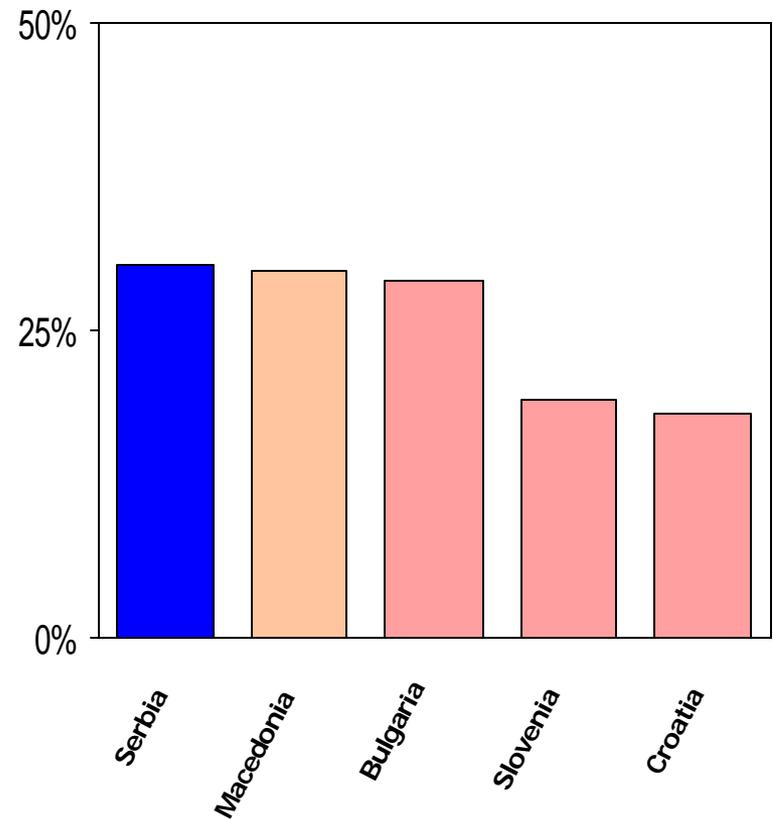


Serbia is among the regional leaders for exporting processed raw materials

Share of Nation's Exports that Contain Significant Natural Resource Inputs, 2000

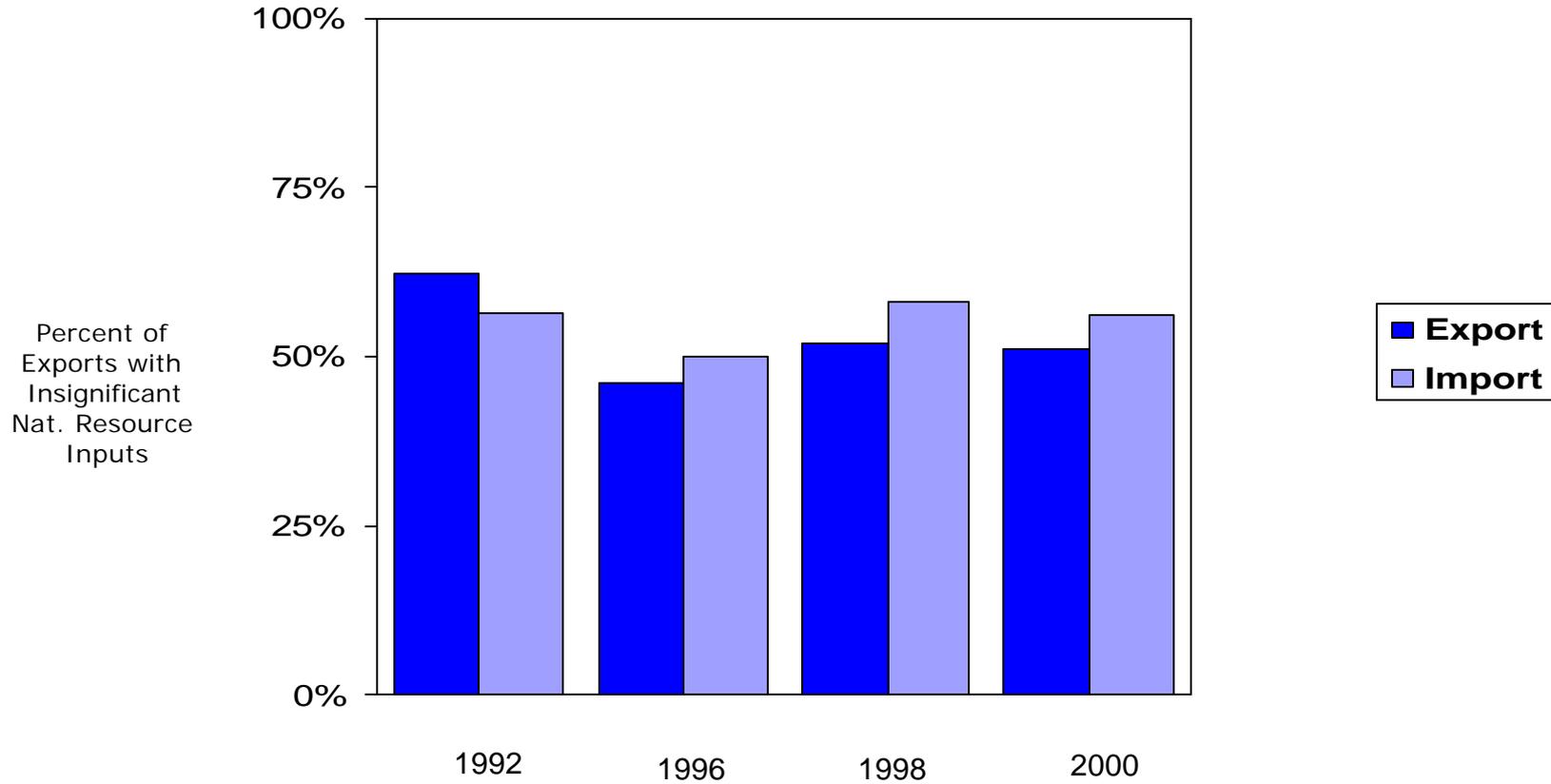


% of Natural Resource Based Exports that are Processed, 2000



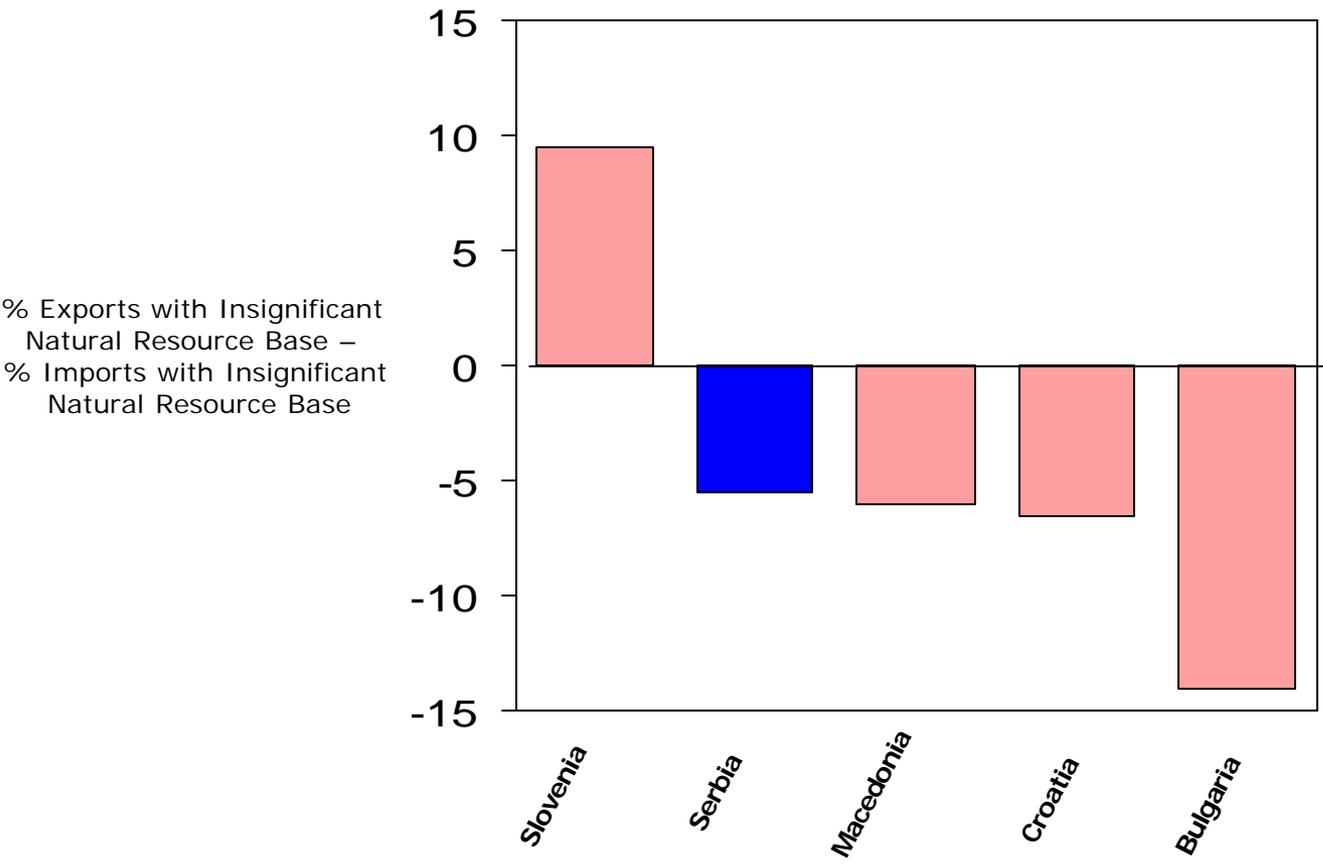
Serbia consistently imports more complex goods than it exports, since 1996

Level of Complexity of Serbia's Top 200 Imports and Exports



Among regional countries, only Slovenia is exporting a greater percent of complex goods than it is importing

Comparison of Complexity of Top 200 Import and Exports by Country, 2000



Serbia's food & beverage cluster is dense and provides a good platform for increased exports

Serbia's Total Value Exports of Food & Beverages: 310 Million USD

Food & Beverage Cluster				
Primary Goods	<u>Animal Oils / Fats</u> Pig,Poultry Fat Unrendrd Pig,Poultry Fat Rendered Residues of Treating Fat Fatty Acids,Acid Oils Hydrogenated Oil, Fat Live Poultry over 185 gr Live Pltry 185 gr or less Bovine- other than breeding Equine Species, live Oilcake &oth res-rape or colza Oilcake & oth resid-sunflwr sd Oilcake & oth resid-grndnuts Oilcake & oth resid-soya	<u>Cereals, Starches</u> Oth Cereals unmilled nes Maize unmilled Other Wheat etc unmilled Durum Wheat Unmilled Starches,inulin Wine Lees,Argol Beet -Pulp,Bagasse etc Bran etc of Oth Cereals Fodder Roots,Hay etc Meal,Groats of Wheat etc	<u>Meats</u> Other Meat nes fresh etc Bovine Meat with Bone in Mutton etc frsh,child,frzn Sausages including Tinned	<u>Other Animal Food</u> Fodder nesjncl sweetened
	<u>Agricultural Machinery</u> Pts nes of Mchy of 72191 Oth Agric etc machinery Pts nes of machy of 7212 Agric Clean,Grading Mach	Oth Harvestr,mowrs,baler Pts nes of Machy of 7211 Cultivators,Weeders etc Seeders,Planters etc <u>Vegetable Products</u> Ploughs Veg Prodt's nes fresh,dry Fresh Vegetables nes Veg Dried exc Leguminous Vegetables frozen Oth Veg presvd,prepd nes Vegtbls,fruit in vinegar Veg Dried exc Leguminous Veg presvd unfrzn untinnd Flours of Oth Veg, fruits Hop Cones and Lupulin	<u>Food Packaging</u> Inners for Vacuum Vessel <u>Food/Beverage Prcssg</u> <u>Mach</u> Pts ned of mchy of 72711 <u>Seeds, Beans</u> Milling Machines Seeds etc for Planting Oil Seeds and Fruits nes Fertilizer,Manufactured Superphosphates Chem Nitrog Fertilzr nes <u>Edible Oils</u> Oth Prepared Edible Fats Margarine Fixed Vegetable Oils nes Rape,Colze,Mustard Oils Sunflower Seed Oil Soya Bean Oil	<u>Tractors</u> Wheeled Tractors nes <u>Food Packaging and Food Preparation</u> Glass Bottles etc nonvacuum Misc Food Preprtions nes Vinegar and Substitutes Yeasts,Baking Powders Soups and Broths Sauces,mixed seasonings Mustard prepd or flour Homogenzd Composite Food <u>Bakery Products,Sugar and Spices</u> Pastry, Cakes etc Bread,Biscuit,com wafers Sugar Preps Non-choclate Ginger (excpt Sweetened) Pepper and Pimento
Machinery				
Specialty Inputs	<u>Rice, Cereals</u> Cereal Flour(non-Wheat) Cereal flaked,rolled etc Macaroni,Spaghetti etc Malt including Flour <u>Fruit Products</u> Mixtures of Diff Juices Juice of other fruit, veg Fruit Temp presvd,unfrzn Fruit,frzn without sugar Fruit,Nuts nes preserved Other Dired Fruit Berries fres Stone Fruit fresh nes			

Key: ■ Export share in 2X the threshold of the average world export share
■ Export share is 4X the threshold of the average export share

Comparatively, Slovenia's food & beverage cluster is thin and is less competitive, in depth and value

Slovenia's Total Export Value Food & Beverages: .2 Million USD

	Food & Beverage Cluster			
Primary Goods	<u>Animal Oils / Fats</u> Processed Anml,Veg Oil nes	<u>Cereals, Starches</u> Millet unmilled <u>Dairy, Processed</u> Milk and Cream Fish	<u>Livestock Meats</u> Other Meat nes fresh etc Bovine Meat with Bone in Sausages including Tinned Meat nes dried,salted,smkd Live Poultry over 185 gr Sheep, live	<u>Other Animal Food</u> Fodder nesinclsweetened
Machinery	<u>Agricultural Machinery</u> Oth Harvestr,mowrs ,baler Combine Harvestr-threshr	<u>Food/Beverage Prcssg Mach</u> Wine-making etc machnery	<u>Refrigeration Equipment</u> Pts nes of Refrig Equipmt Refrig Equip Nondomestic	
Specialty Inputs	<u>Rice, Cereals</u> Oth Cereal Preps, malt ex <u>Fruit Products</u> Apples fresh	<u>Vegetable Products</u> Vegtbls ,fruit in vinegar Hop Cones and Lupulin	<u>Food Packaging and Food Preparation</u> Glass Bottles etc nonvacuum Mustard prepd or flour Soups and Broths Vinegar and Substitutes Yeasts,Baking Powders	<u>Other</u> Flavored Waters Non-alcohol Waters,Ice and Snow Beer,Ale,Stout,Porter Molasses Sugar Preps Non-choclate

Key: ■ Export share in 2X the threshold of the average world export share
■ Export share is 4X the threshold of the average export share

Serbia’s furniture cluster appears relatively underdeveloped and supports its recent, severe decline in total export value

Serbia’s Total Export Value Furniture Cluster: 125 Million USD

Furniture Cluster, 2000					
Primary Goods	<table border="0" style="width: 100%;"> <tr> <td style="width: 25%; vertical-align: top;"> <u>Wood Products</u> Hoopwood,split poles etc Plywood of Wood Sheets Veneer Sheets etc Saw,Venner Logs, noncon-rough Lumber Plabed etc noncon Lumber Sawn etc noncon Railway Sleepers,Ties </td> <td style="width: 25%; vertical-align: top;"> Wood Charcoal Fuel Wood in Logs etc Soda,Sulpha Wpulp Bichd nondis Chem Wood Pulp Dissolving Other Wood articles nes Tools,Handles etc wood Boxes,Cases,Crates etc </td> <td style="width: 25%; vertical-align: top;"> <u>Housing Construction</u> Builders Woodwrk,Prefa </td> <td style="width: 25%; vertical-align: top;"> <u>Othr Prts Accsrs</u> Pts nes of Lamps of 7782 </td> </tr> </table>	<u>Wood Products</u> Hoopwood,split poles etc Plywood of Wood Sheets Veneer Sheets etc Saw,Venner Logs, noncon-rough Lumber Plabed etc noncon Lumber Sawn etc noncon Railway Sleepers,Ties	Wood Charcoal Fuel Wood in Logs etc Soda,Sulpha Wpulp Bichd nondis Chem Wood Pulp Dissolving Other Wood articles nes Tools,Handles etc wood Boxes,Cases,Crates etc	<u>Housing Construction</u> Builders Woodwrk,Prefa	<u>Othr Prts Accsrs</u> Pts nes of Lamps of 7782
<u>Wood Products</u> Hoopwood,split poles etc Plywood of Wood Sheets Veneer Sheets etc Saw,Venner Logs, noncon-rough Lumber Plabed etc noncon Lumber Sawn etc noncon Railway Sleepers,Ties	Wood Charcoal Fuel Wood in Logs etc Soda,Sulpha Wpulp Bichd nondis Chem Wood Pulp Dissolving Other Wood articles nes Tools,Handles etc wood Boxes,Cases,Crates etc	<u>Housing Construction</u> Builders Woodwrk,Prefa	<u>Othr Prts Accsrs</u> Pts nes of Lamps of 7782		
Machinery	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <u>Other Forest Products Mch</u> Wood Treating machns nes </td> <td style="width: 50%; vertical-align: top;"> <u>Metalworking Machinery</u> Drilling etc mch,mtlwrkg Lathes,Metalworking </td> </tr> </table>	<u>Other Forest Products Mch</u> Wood Treating machns nes	<u>Metalworking Machinery</u> Drilling etc mch,mtlwrkg Lathes,Metalworking		
<u>Other Forest Products Mch</u> Wood Treating machns nes	<u>Metalworking Machinery</u> Drilling etc mch,mtlwrkg Lathes,Metalworking				
Specialty Inputs	<table border="0" style="width: 100%;"> <tr> <td style="width: 25%; vertical-align: top;"> <u>Furniture</u> Othr Furn,Furn Parts nes Wood Furniture nes Mattresses etc Chairs and Other Seats </td> <td style="width: 25%; vertical-align: top;"> <u>Furniture Coverings</u> Table Linen of cotton Bed Linen of Cotton </td> <td style="width: 25%; vertical-align: top;"> <u>Paints,Stains</u> Varnish Solvents,thinrs Putty,other fillings etc Oth Paints,Varnishes etc Water-thinned Paints </td> <td style="width: 25%; vertical-align: top;"> <u>Decorative Products</u> Feather Goods nes </td> </tr> </table>	<u>Furniture</u> Othr Furn,Furn Parts nes Wood Furniture nes Mattresses etc Chairs and Other Seats	<u>Furniture Coverings</u> Table Linen of cotton Bed Linen of Cotton	<u>Paints,Stains</u> Varnish Solvents,thinrs Putty,other fillings etc Oth Paints,Varnishes etc Water-thinned Paints	<u>Decorative Products</u> Feather Goods nes
<u>Furniture</u> Othr Furn,Furn Parts nes Wood Furniture nes Mattresses etc Chairs and Other Seats	<u>Furniture Coverings</u> Table Linen of cotton Bed Linen of Cotton	<u>Paints,Stains</u> Varnish Solvents,thinrs Putty,other fillings etc Oth Paints,Varnishes etc Water-thinned Paints	<u>Decorative Products</u> Feather Goods nes		

Key: ■ Export share in 2X the threshold of the average world export share
■ Export share is 4X the threshold of the average export share

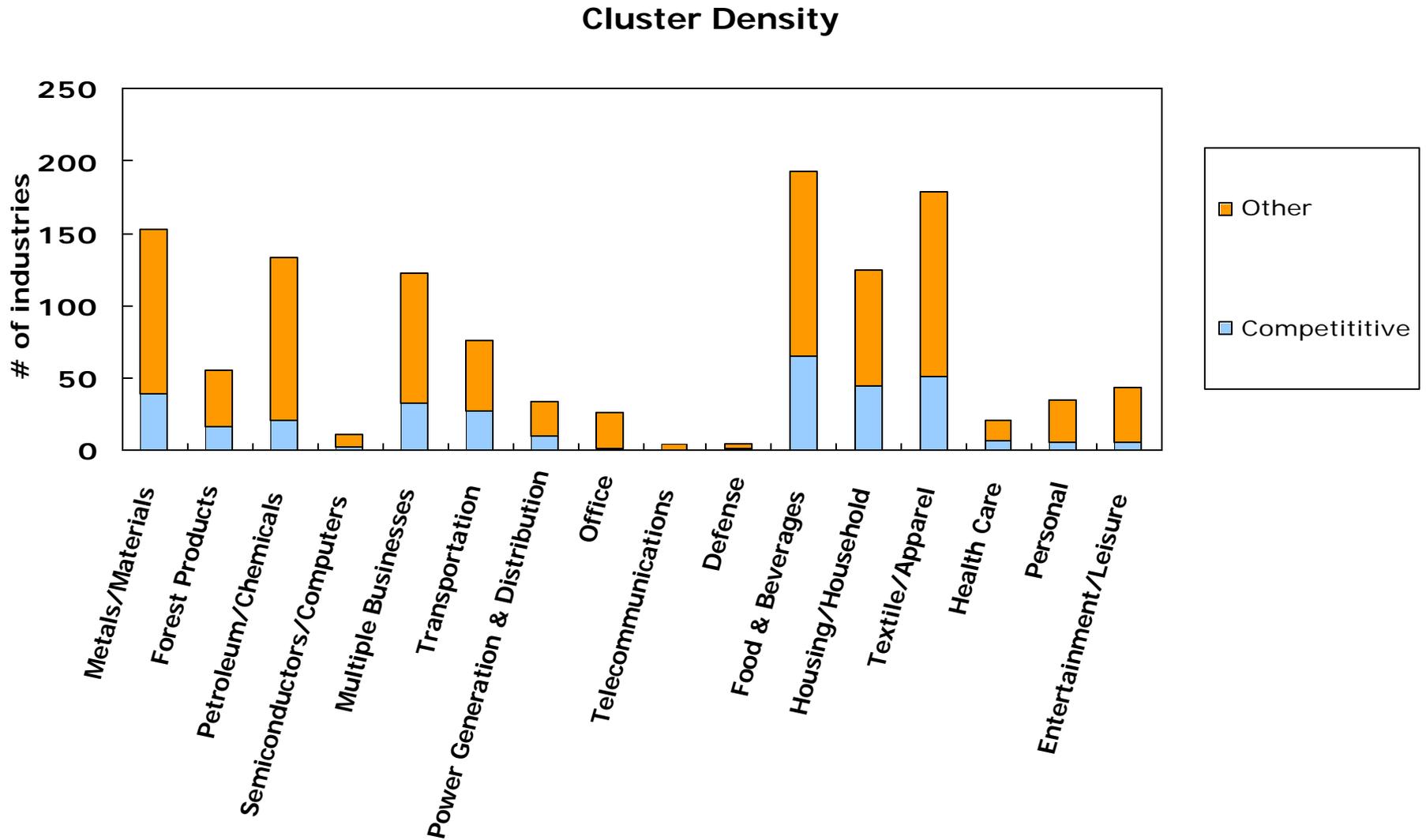
Slovenia boasts a comparable furniture cluster in density, but exports over ten times the value of Serbia's exports

Slovenia's Total Export Value Furniture Cluster: 1,247 Million USD

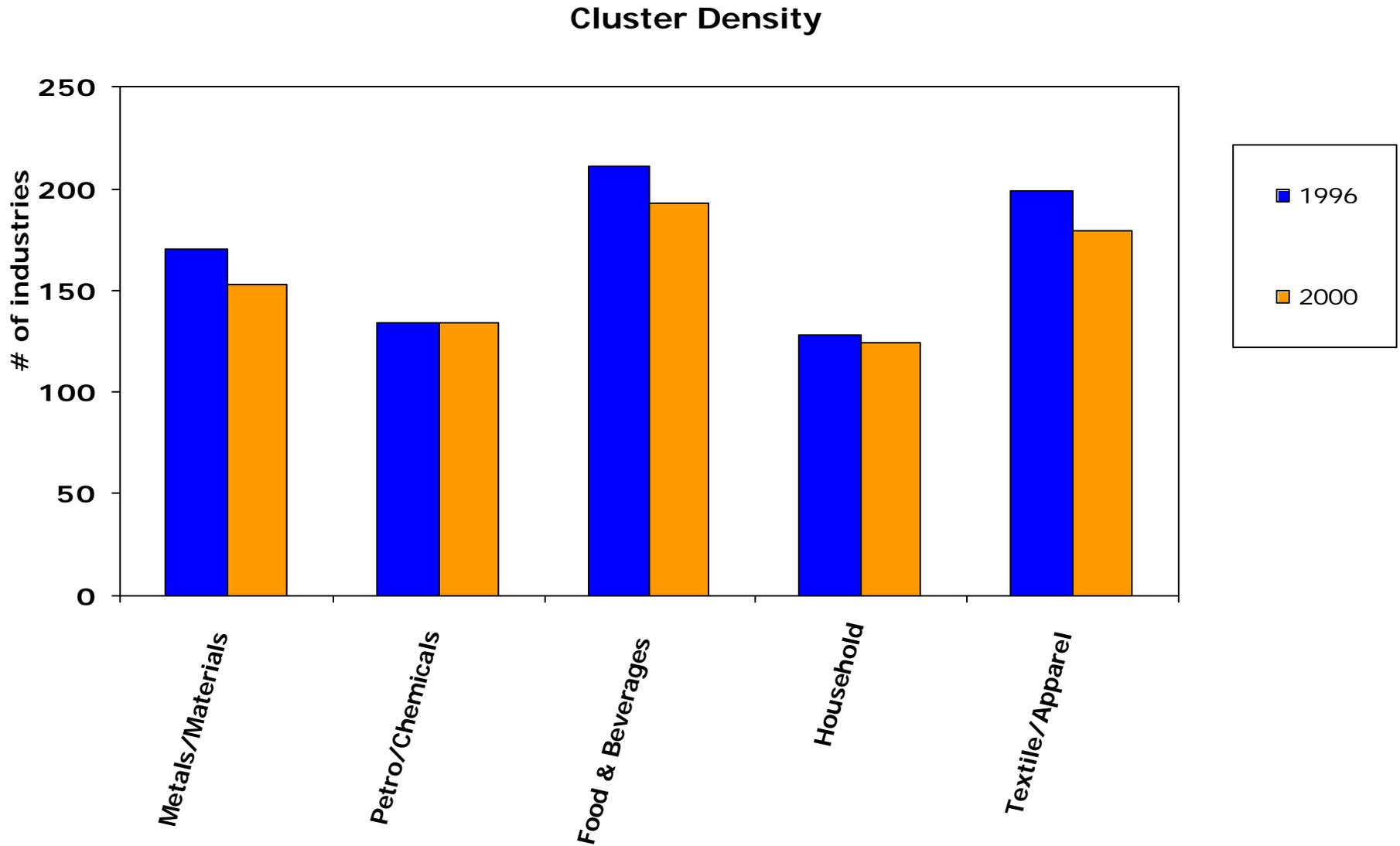
	Furniture Cluster, 2000		
Primary Goods	<u>Wood Products</u> Veneer Sheets etc Hoopwood, split poles etc Reconstituted Wood Saw, Venner Logs, noncon-rough Lumber Sawn etc noncon Lumber Planed etc conifer	Tools, Handles etc wood Other Wood articles nes Boxes, Cases, Crates etc Sulphite Wd Pulp Biched nondis	
Machinery	<u>Metalworking Machinery</u> Sawing machs, metalworkg Forging etc mchs, mtlwrkg Reaming etc mchs, mtlwrkg	Bending etc mchs, mtlwrkg Oth Metalworking Presses Electro-mech Hand Tools Pts nes of tools of 736	<u>Woodworking</u> Mach-tools to work wood Pts nes of tools of 7281
Specialty Inputs	<u>Furniture</u> Pts nes of Chairs etc Chairs and Other Seats Othr Furn, Furn Parts nes Wood Furniture nes Mattresses etc Metal Furniture nes	<u>Furniture Coverings</u> Other Linen of cotton Table Linen of cotton Oth Furn Art of Oth Fibre	<u>Paints, Stains</u> Colouring Material nes Putty, other fillings etc Oth Paints, Varnishes etc Prepared Driers Varnish Solvents, thinnrs

Key: ■ Export share in 2X the threshold of the average world export share
■ Export share is 4X the threshold of the average export share

Cluster Advantages: Cluster Density in Serbia’s Broad Clusters

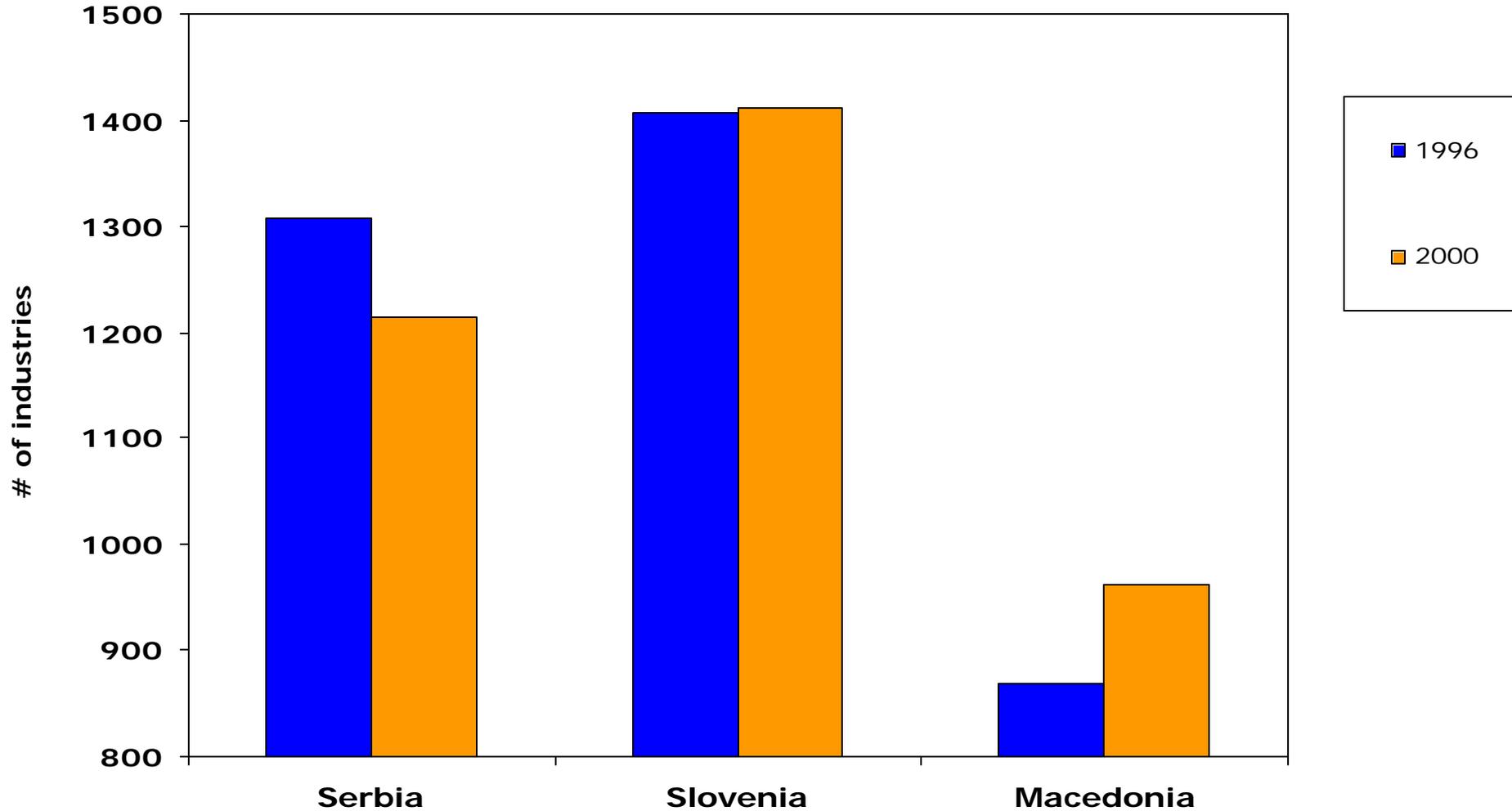


Cluster Advantages: Changes in Cluster Density In Serbia's Top Broad Clusters



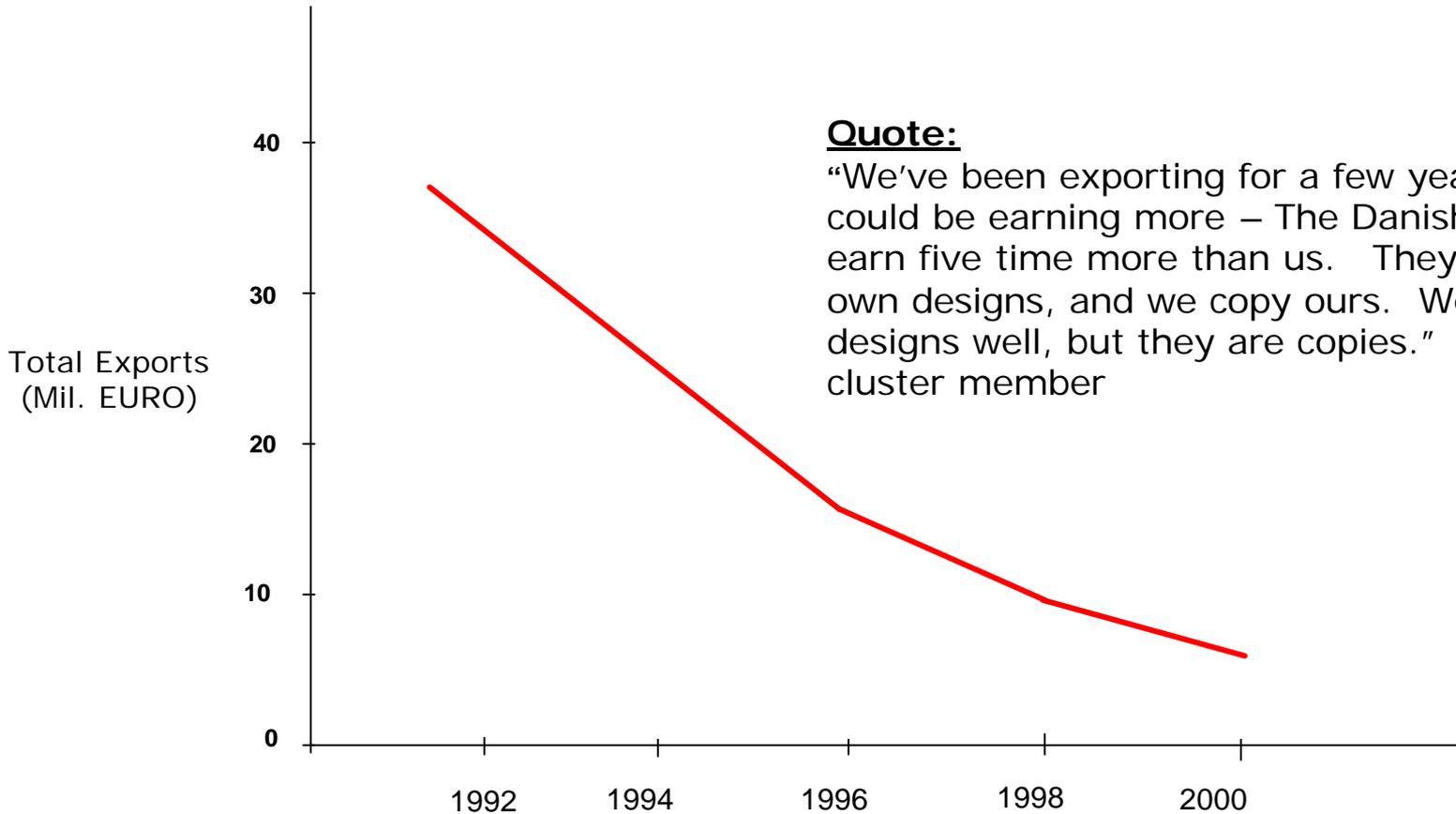
Cluster Advantages: Changes in Cluster Density Among Regional Competitors

Cluster Density



Serbia’s Must Develop a Long-Term Strategy to Re-Engage World Markets and Increase its Exports of Wood Furniture

**Total Exports of Wood Furniture from Serbia
1992-2000**

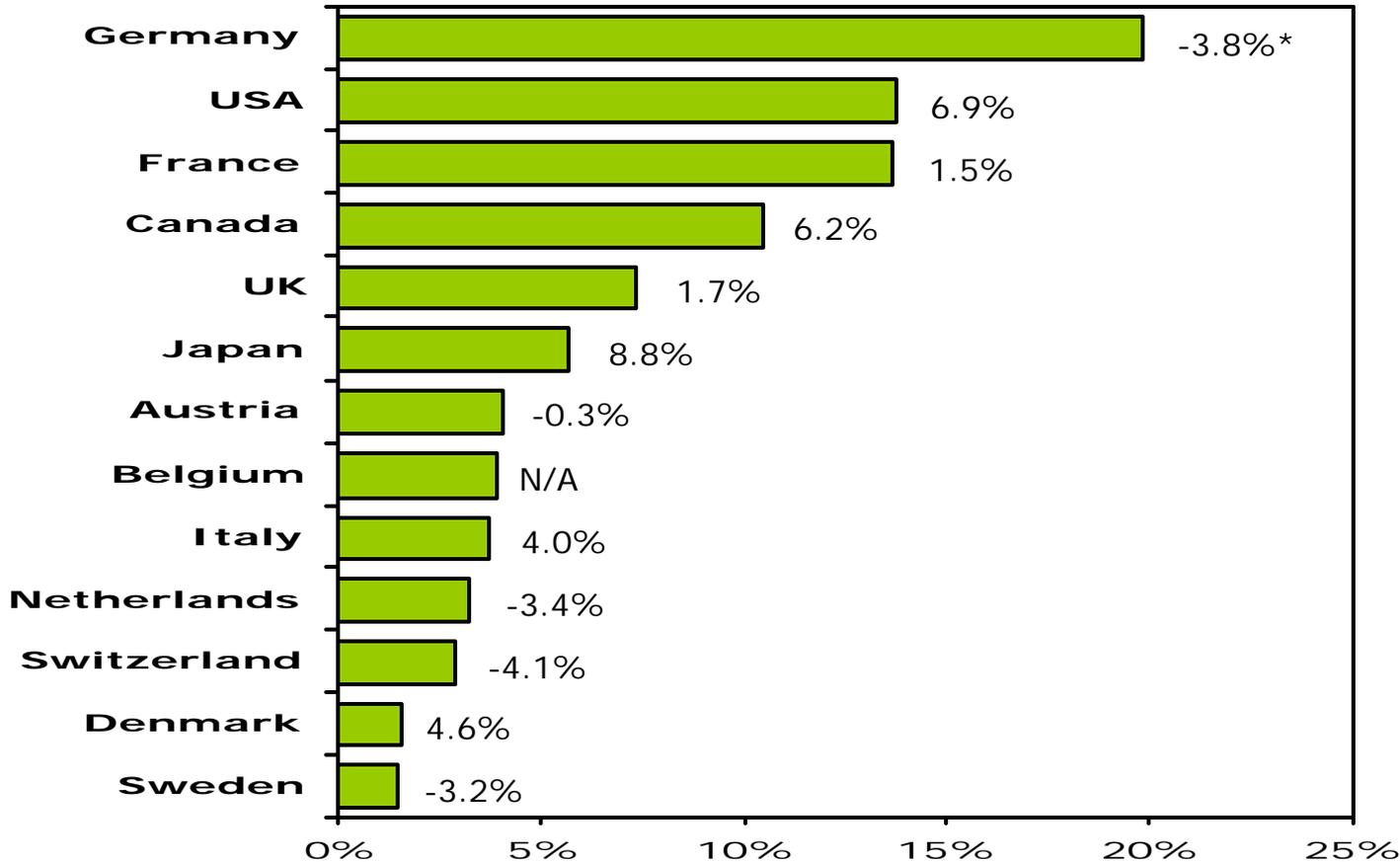


Quote:

“We’ve been exporting for a few years, but we could be earning more – The Danish producers earn five time more than us. They create their own designs, and we copy ours. We copy the designs well, but they are copies.” Furniture cluster member

Targeted Cluster Findings: Major regional importers of fresh berries include Germany, France and Austria

% Share of World Imports of Fresh Berries, 2000

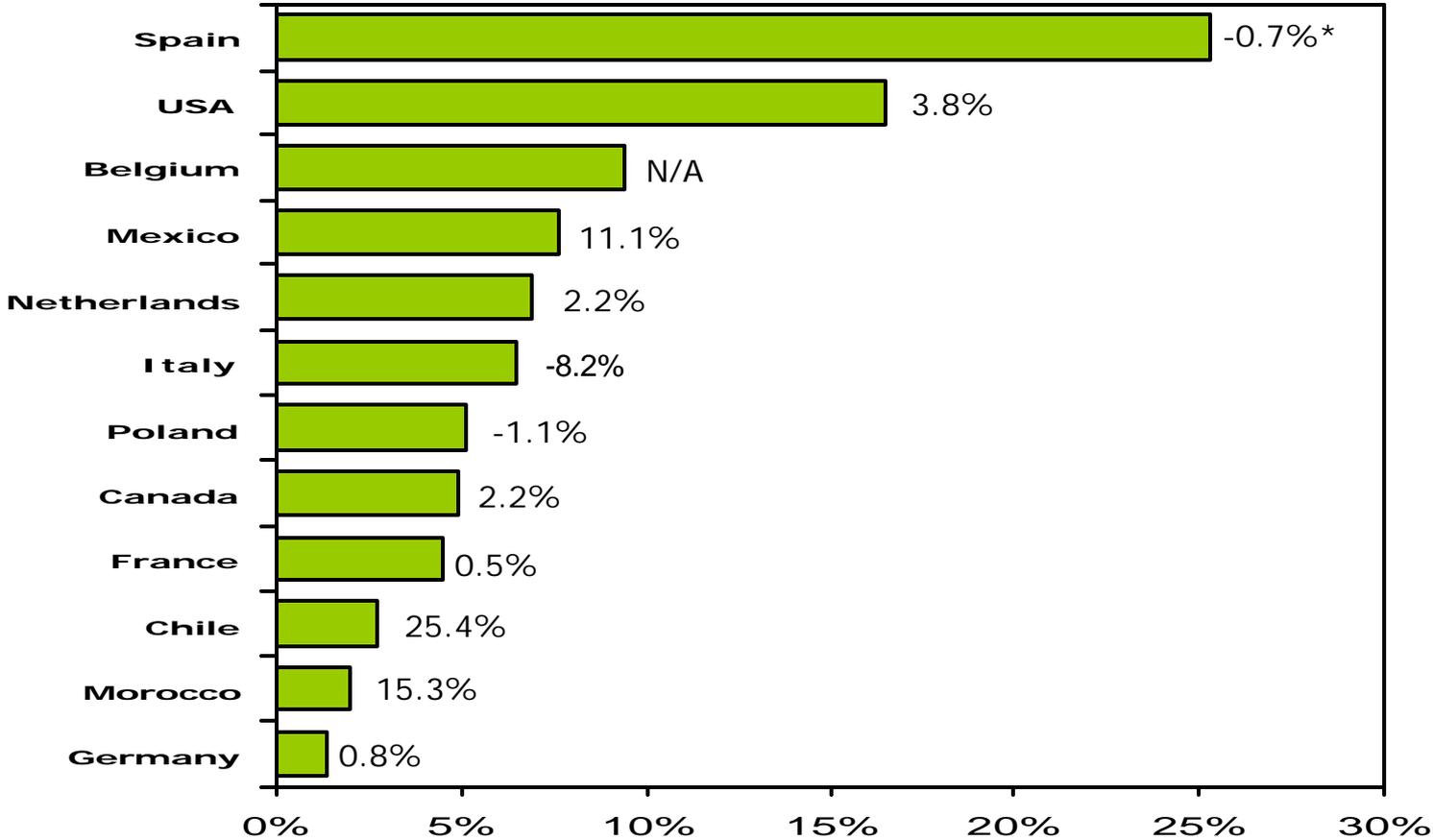


*** CAGR Values
1992-2000**

Regional Comparisons	% World	1994 (US Mil)	1996 (US Mil)	1998 (US Mil)	2000 (US Mil)
Poland	.44%	.67	.96	2.84	4.55
Czech. Republic	.34%	1.26	2.98	2.88	3.49

Major European exporters of fresh berries include Spain, Belgium and Netherlands (Spanish production is decreasing since 1998)

% Share of World Exports of Fresh Berries, 2000



*** CAGR Values
1992-2000**

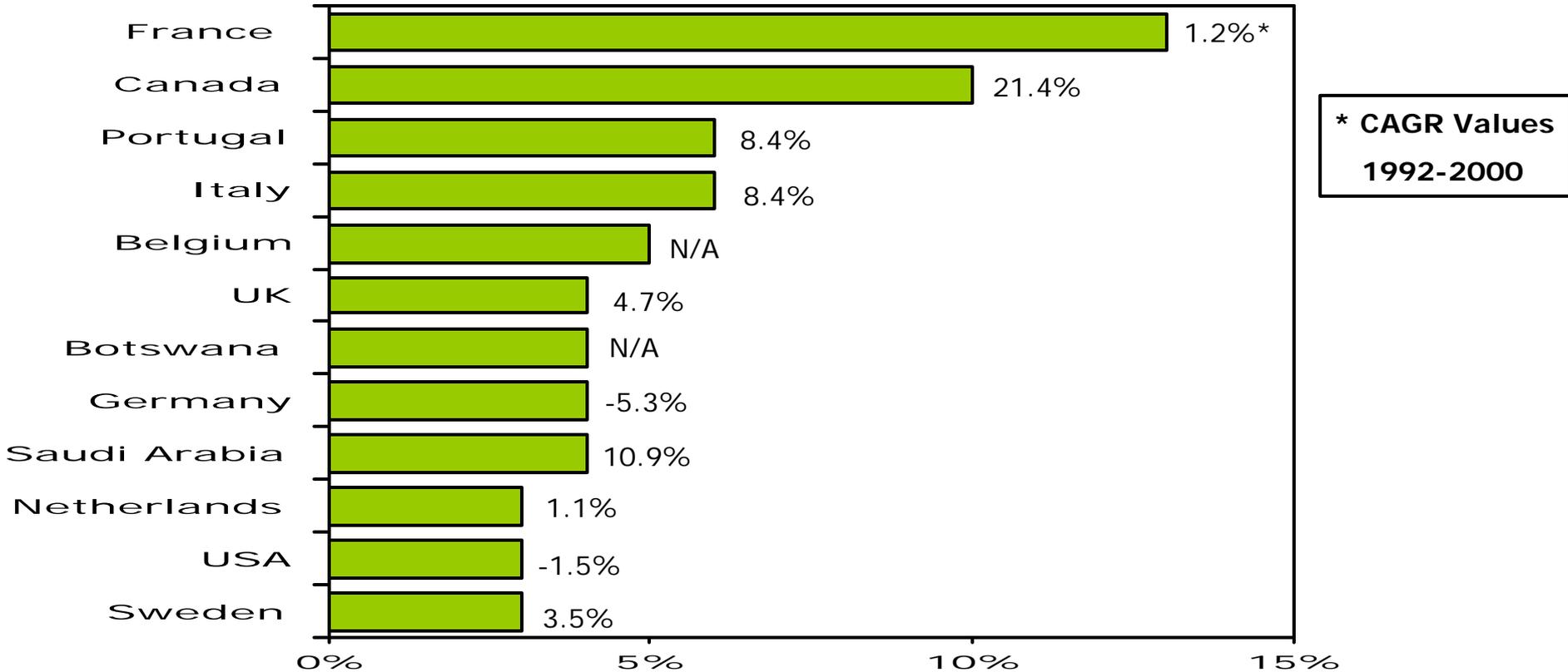
Regional Comparisons	% World	1994 (US Mil)	1996 (US Mil)	1998 (US Mil)	2000 (US Mil)
Poland	5.10%	54.5	36.9	49.2	49.9
Hungary	.43%	1.3	5.8	9.5	4.2
Serbia	.07%	n/a	1.6	1.5	.65

Booz Allen Hamilton

Note: Data not available for Belgium, 1994-1998 Source: UN Trade Statistics (Rev. 2)

Major European importers of fruit juice include France, Portugal, and Italy

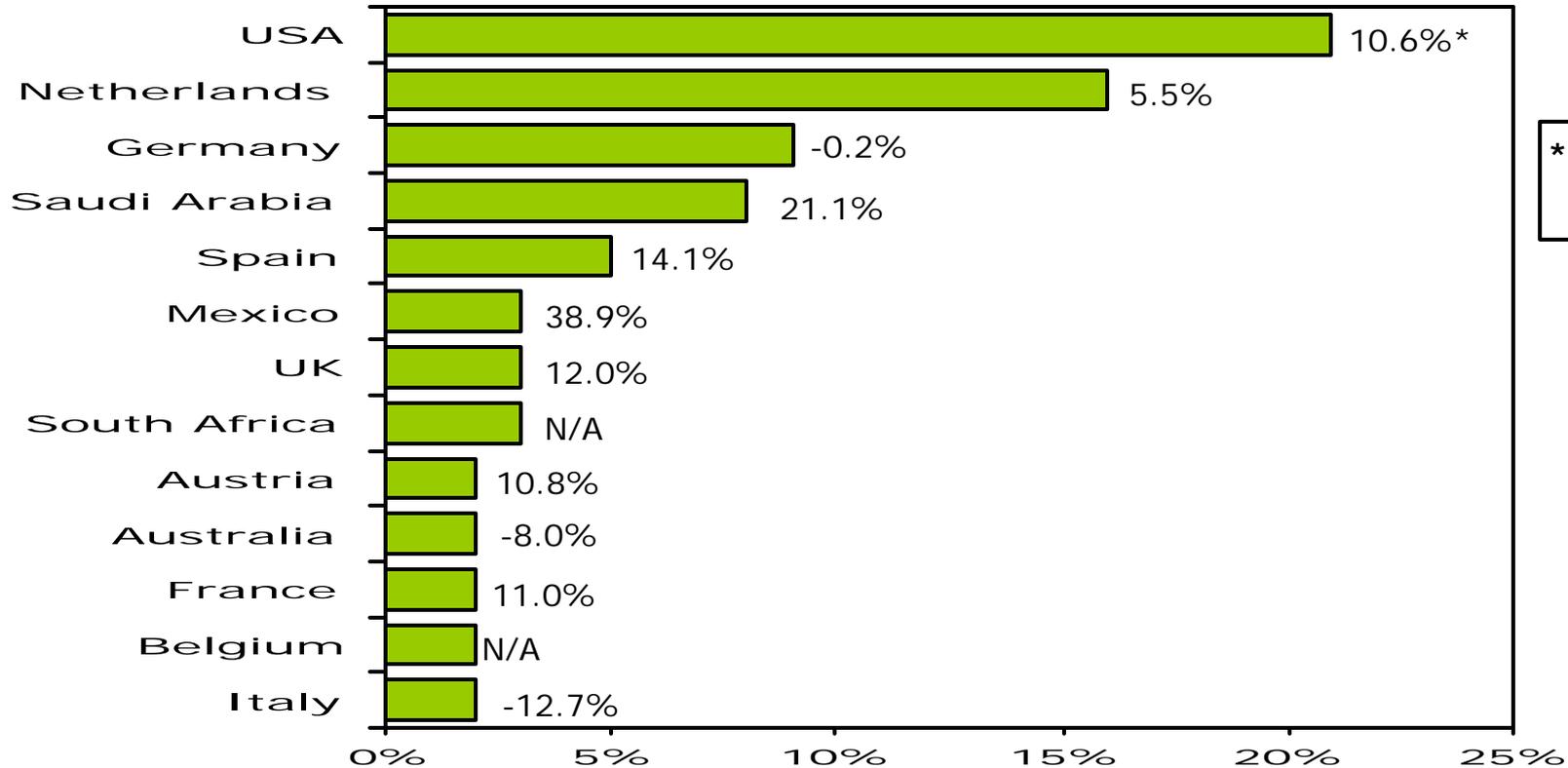
% Share of World Imports of Mixtures of Different Juices, 2000



Regional Comparisons	% World	1994 (US Mil)	1996 (US Mil)	1998 (US Mil)	2000 (US Mil)
Poland	1%	.71	5.39	7.37	4.75
Croatia	0%	1.89	3.71	1.17	1.28
Bulgaria	0%	n/a	.39	1.33	.78
Serbia	0%	n/a	.32	.29	.25

The largest juice exporters include Netherlands, Germany and Saudi Arabia, and only Germany has a low growth rate

% Share of World Exports of Mixtures of Different Juices, 2000



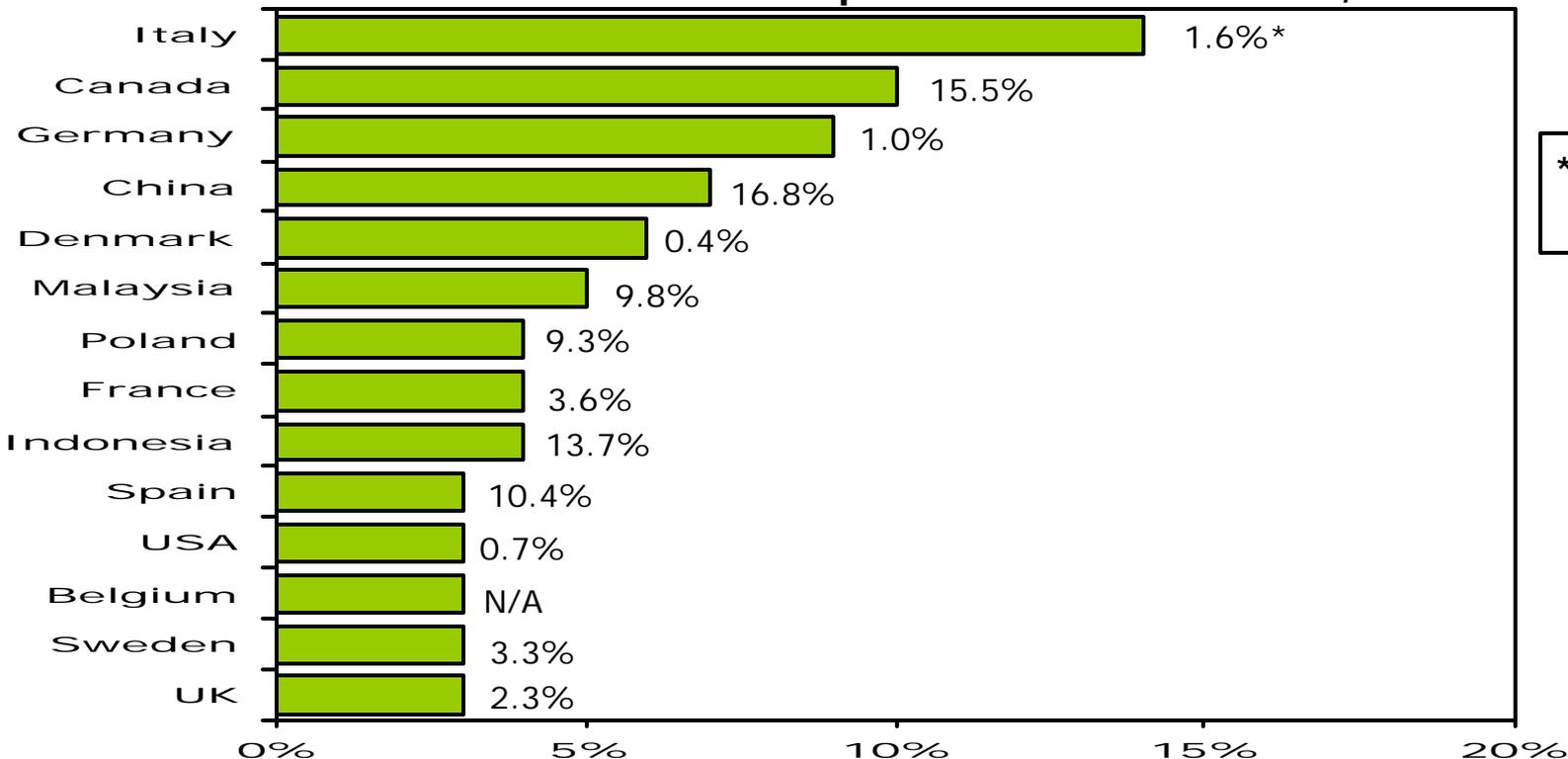
*** CAGR Values
1992-2000**

Regional Comparisons	% World	1994 (US Mil)	1996 (US Mil)	1998 (US Mil)	2000 (US Mil)
Poland	1%	2.40	4.14	3.19	2.83
Croatia	0%	.28	1.20	2.21	1.24
Serbia	0%	n/a	.70	1.01	1.03
Bulgaria	0%	n/a	2.85	.79	.74
Slovenia	0%	5.27	.52	.41	.56

Booz Allen Hamilton

European wood furniture exporters include Italy, Germany and Denmark, but world production decreased by 40% in six years

% Share of World Exports of Wood Furniture, 2000



*** CAGR Values
1992-2000**

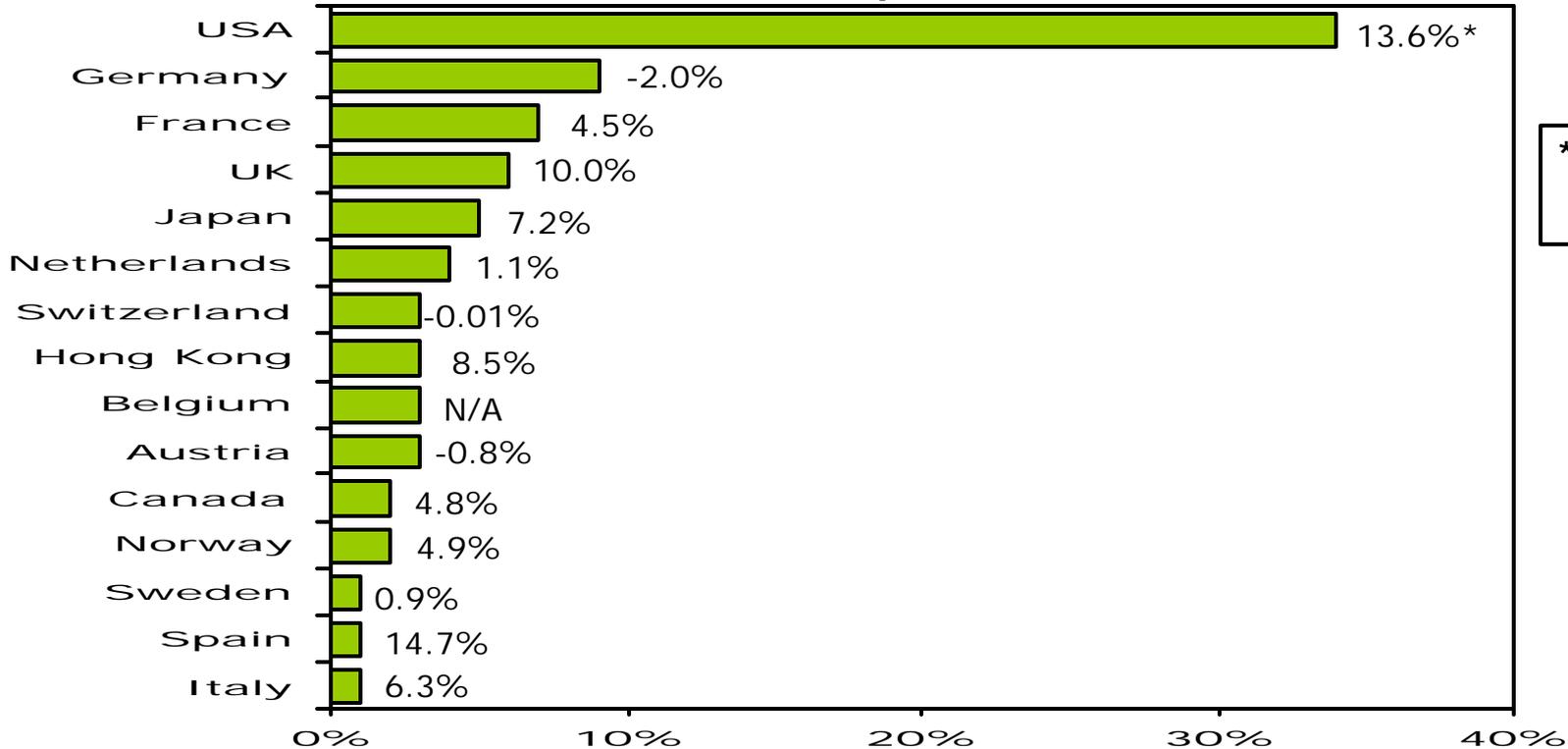
Regional Comparisons	% World	1994 (US Mil)	1996 (US Mil)	1998 (US Mil)	2000 (US Mil)
Poland	4%	422	727	841	860
Romania	2%	337	411	350	346
Slovenia	1%	124	135	129	115
Croatia	0%	50	37	30	31
Bulgaria	0%	n/a	21	22	20
Serbia	0%	n/a	17	8	7

Booz Allen Hamilton

Note: Data not available for Saudi Arabia and Belgium, 1994-1998; Source: UN Trade Statistics (Rev. 2)

EU wood furniture importers are Germany, France and the U.K., but the U.S. consumes 30% of the market and has strong growth

% Share of World Imports of Wood Furniture, 2000



*** CAGR Values
1992-2000**

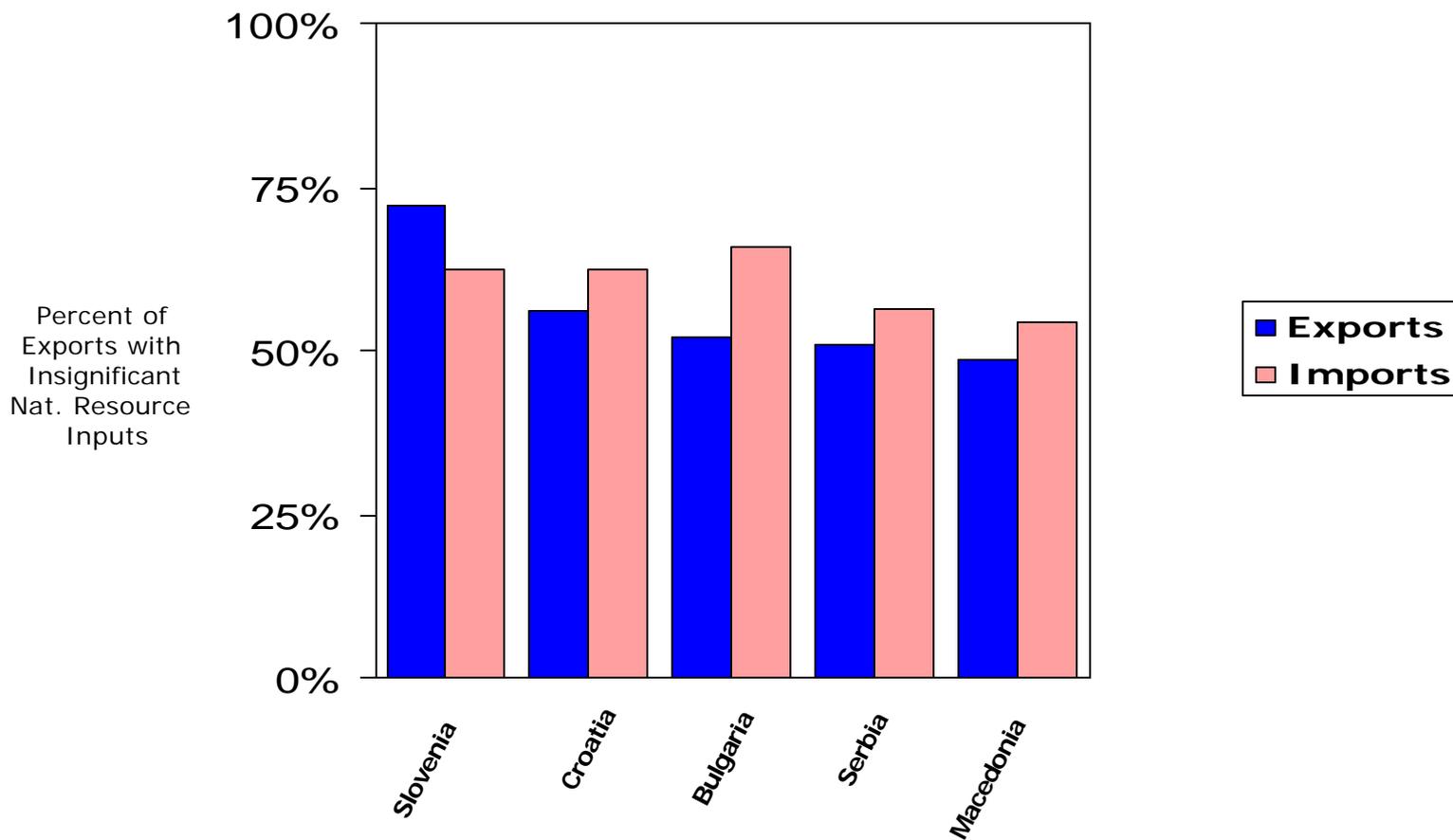
Regional Comparisons ^b	% World	1994 (US Mil)	1996 (US Mil)	1998 (US Mil)	2000 (US Mil)
Croatia	.28%	21.2	38.8	58.5	55.8
Slovenia	.16%	9.2	20.5	30.4	31.0
Romania	.16%	8.8	25.4	24.4	30.7
Bulgaria	.05%	n/a	7.6	7.5	10.1
Macedonia	.04%	5.8	5.1	7.3	7.1
Serbia	.03%	n/a	14.9	7.7	6.7

Booz Allen Hamilton

Note: Data not available for Saudi Arabia and Belgium, 1994-1998; Source: UN Trade Statistics (Rev. 2)

Serbia Imports More Complex Products than it Exports, but regionally only lags Slovenia

Level of Complexity of Top 200 Imports and Exports, 2000



NATIONAL COMPETITIVENESS COUNCIL

LEGAL AND REGULATORY CONSTRAINTS IN SERBIA'S FRUIT AND WOOD INDUSTRY CLUSTERS

USAID SERBIA ENTERPRISE DEVELOPMENT PROJECT

AUGUST 2003

In order to respect confidential corporate experience and promote information disclosure, companies in this document are attributed generically, whether by industry cluster, product type, or both.

The views and findings contained in this document do not necessarily reflect the views or position of the US Agency for International Development.

EXECUTIVE SUMMARY

This report, prepared on behalf of Serbia's National Competitiveness Council, details the primary commercial legal and regulatory constraints experienced by companies in the fruit and wood industry clusters. Both clusters represent vitally important economic sectors: collectively, both broader industries comprise approximately 10% of Gross Domestic Product (GDP), are responsible for almost 10%, or over \$130 million, of annual exports, and employ over 140,000 people.*

Fruit and wood cluster companies are therefore important not only as examples of export oriented businesses working collaboratively to improve their competitive position, but also because their ability to compete more effectively directly reflects the extent to which other companies -- and their respective industries in general -- can successfully re-engage global markets and realize increased growth.

While companies in both clusters are taking steps to boost exports, attract investment and improve operating efficiency, a number of legal and regulatory constraints are impeding their commercial performance. The highest priority constraints warranting action are:

- ❑ Ineffective remedies and protracted procedures associated with breach of contract
- ❑ Non-existent, outdated or poorly enforced quality control standards
- ❑ Import tariff codes that fail to distinguish between raw materials and finished goods
- ❑ Uncompetitive price controls on raw materials

A number of the legal and regulatory constraints suggest a clear linkage between the promotion of rule of law reforms and private sector performance. Additionally, weak and inconsistent communication between Government ministries responsible for commercial legislation and export-focused companies undermines private sector confidence in Serbia's legal framework and diminishes the Government's ability to inform legislative drafting and implementation with practical corporate experience.

* 2001 estimates. Source: Serbian Investment and Export Promotion Agency (SIEPA).

INTRODUCTION

The USAID Serbia Enterprise Development Project (SEDP) is focusing in part on assessing and promoting business performance and export capacity in the fruit and wood industry clusters. Based on the SEDP team's ongoing work with the cluster companies, a number of specific legal and regulatory constraints have been identified.

The purpose of this report, in the first instance, is to provide the National Competitiveness Council, formed in April of 2003, with cluster-based legal and policy findings that will help inform the development, implementation and evaluation of Serbia's National Competitiveness Strategy. The second, related, purpose is to provide Government and donor entities with concrete and actionable examples of regulatory constraints restricting the competitiveness of two specific export oriented industries.

More generally, a number of the identified legal and regulatory constraints suggest the importance of enforcing existing or nascent laws within the commercial spectrum -- demonstrating the clear linkage between the promotion of rule of law reforms and private sector performance.

The findings in this report are based on interviews with representatives from the fruit and wood cluster companies and organizations. The policy framework is derived from the Commercial Legal and Institutional Reform (C-LIR) approach developed by Booz Allen Hamilton on behalf of USAID.

POLICY FINDINGS

Based on the specific legal and regulatory constraints identified in the fruit and wood industry clusters, a number of practical policy findings can be articulated. From the standpoint of either the represented companies, or, more generally, the broader industries, these findings explicitly and concretely map the primary institutional constraints faced by business managers today.

As identified by the company leaders in both industry clusters, the highest priority legal and regulatory constraints warranting action are:

- ❑ Ineffective remedies and protracted procedures associated with **Breach of Contract** (1.1)
- ❑ Non-existent, outdated or poorly enforced **Quality Control Standards** (1.5)
- ❑ **Import Tariff Codes** that fail to distinguish between raw materials and finished goods (2.5)
- ❑ Uncompetitive **Price Controls on Raw Materials** (2.6)

These four policy issues, along with the longer list that follows below, will be presented to the National Competitiveness Council for review and consideration at the Council's November session.

1. BUSINESS REGULATIONS

1.1 BREACH OF CONTRACT ENFORCEMENT

The current lack of predictable and swift legal remedies for breach of contract encourages contract breaking and raises associated export costs – in addition to limiting the number of prospective foreign buyers.

- According to cluster firms, the existing law and associated procedures for breach of contract should be made more timely, predictable and explicit to deter infractions and encourage greater respect for the rule of law.

1.2 COMPANY REGISTRATION

The procedure associated with the company registration process, which can take in excess of 60 days, creates uncertainty and exposes companies to unnecessary business risk.

- To the extent that the Commercial Court will continue to maintain the Company Registry, more judges should be appointed to oversee the registration procedure to ensure an expedited approval process and a reduction in associated business risk.

1.3 FINANCIAL INSPECTIONS

Infrequent or ineffective inspections encourage firms to undercount employees or conduct business transactions in cash to reduce tax obligations, disadvantaging law-abiding firms.

- Financial inspections should take place more frequently, be more comprehensive, and incentivize firms to avoid gray market transactions.

1.4 ORGANIC PRODUCT REGULATIONS

Serbia's organic producers are disadvantaged by the lack of a specific agency overseeing organic production, little or no regulation governing independent inspection bodies and a protracted approval procedure for organic pesticides and related products.

- The Government should appoint a specific department overseeing organic production within the Ministry of Agriculture, approve regulations licensing organic production inspection bodies, and accelerate the process for giving approval for organic pesticides.

1.5 QUALITY CONTROL STANDARDS

Outdated, poorly administered or non-existing quality control standards in both the wood and fruit industries restrict export performance and competitiveness in the EU and other export markets.

- Following the abolishment of the Bureau of Standardization, there is a pressing need for a Government-sanctioned regulatory authority that would devise, implement and enforce updated and EU compatible quality standards in the fruit and wood industry clusters.

1.6 TAX REGULATIONS (GENERAL)

The existing corporate tax regime is complex and has been repeatedly changed in recent years, undermining financial planning and investor confidence.

- Companies suggested that special effort be made to simplify tax codes and limit future revisions to promote fiscal stability and longer-term financial planning.

1.7 TAX REGULATIONS (SPECIFIC)

Specific taxes; including the tax on windows and joinery, discourage energy efficiency and industry competitiveness, while provisions of the Tax Deferral Act impair tax collection and appropriate tax relief for struggling companies.

- The Government should promote energy efficiency by reducing tax on new windows and amend the Tax Deferral Act to ensure more transparency and flexibility in granting tax relief.

2. TRADE REGULATIONS

2.1 CUSTOMS PROCEDURES

The Ministry of Health's inspections regime for imported fructose syrup, which requires individual inspections of each shipment under a given contract, is time consuming and redundant.

- The Ministry of Health should improve the inspection regime by shifting responsibility for product quality to the private sector and requiring only one inspection per contract.

2.2 EXPORT COLLATERAL TAX

The export collateral tax, which is a weight-based levy on each export shipment, is a direct fiscal burden on export-focused companies producing heavier, lower margin goods like solid wood furniture.

- The Government should incentivize exports and reduce associated costs by reducing or eliminating the existing export collateral tax.

2.3 GOVERNMENT SUPPORT ABROAD

Cluster companies receive little or no promotional assistance from Serbia's embassies, or other Government agencies, in key export markets.

- The Foreign Ministry should, as a policy matter with or without authorizing legislation, engage firms from the fruit and wood industry clusters – as well as firms in other industries -- and more effectively represent their interests abroad.

2.4 IMPORT TARIFFS (EQUIPMENT)

Import tariffs on technical equipment are as high as 10%, imposing high costs and curtailing the ability of cluster firms to purchase and utilize the most efficient equipment.

- Imported equipment for export products or industries should receive a special exemption or discount from the normal tariff rate to promote export competitiveness.

2.5 IMPORT TARIFFS (RAW MATERIALS)

Tariff codes 2008 and 2009, by not distinguishing between raw and finished goods, discourage raw material imports while also restricting the eligibility of certain fruit products for preferential EU tariffs.

- Tariff codes 2008 and 2009 should be amended to: (1) encourage imports of raw materials vital for producing processed or finished goods, and which are unavailable on the domestic market; and (2) clarify the eligibility of certain fruit products for preferential EU tariff rates.

2.6 RAW MATERIAL PRICE CONTROLS

Because of Government-imposed price controls, prices for wood and timber in Serbia are higher than most regional countries, disadvantaging local producers in regional export markets and promoting disproportionate exports of the highest quality domestic wood.

- Price controls for wood and timber in Serbia should be abolished or substantially loosened to allow local firms to source Serbian stocks for their export products, while – noting Croatia’s example – stocks of high quality raw wood and timber should be better regulated to promote finished exports and natural resource conservation.

3. INVESTMENT REGULATIONS

3.1 COMPANY REGISTRY

The lack of a comprehensive and easily accessed company registry restricts the ability of foreign investors to identify and approach Serbian companies.

- Under the authority of the Ministry of Finance and with the cooperation of SIEPA, the Company Registry should be modernized and expanded. Specifically, for purposes of potential investors, corporate profiles, or each company’s *bonitet*, should be more readily accessible – a web-based platform is highly desirable.

3.2 PROPERTY REGISTRATION

Most cluster firms cannot secure much needed commercial credit because their property, which would otherwise comprise the collateral guaranteeing the loan or credit, is unregistered.

- Every effort should be made to accelerate property registration for commercial entities, while, contemporaneously, credit groups should be encouraged to lend to financially-sound businesses whose property is pending registration.

3.3 TAX EXEMPTION FOR INVESTMENTS

Tax exemption rate on investment, currently 20% for small enterprises and 40% for others, has been lowered significantly over the last few years, and has the effect of deterring capital investment and – by virtue of its variability – restricting long-term financial planning.

- To encourage investments and improved production capacity, the tax rate on investments should be reduced. Specifically, in the case of capital investments improving export capacity, tax obligations should be reduced or eliminated.

INSTITUTIONAL FRAMEWORK SUPPORTING CLUSTER DEVELOPMENT

For purposes of understanding the efficacy and parameters of the institutional framework regulating business performance in Serbia’s fruit and wood industry-clusters, this report employs C-LIR’s four legal tiers assessed across three critical regulatory dimensions impacting their competitiveness: business regulation, trade regulation and investment regulation (see Figure 1 below).

FIGURE 1: Institutional and Regulatory Framework Supporting Cluster Development

LEGAL OR REGULATORY DIMENSION		BUSINESS REGULATION	TRADE REGULATION	INVESTMENT REGULATION
Framework Laws & Strategies	Primary commercial laws and strategies impacting Serbian businesses	Company law, contract law, competition law, etc.	Trade tariffs, SIEPA strategy, customs regulation, etc.	Tax laws, foreign investment law, SIEPA strategy etc.
Implementing Institutions	Ministries and Courts implementing and enforcing framework laws	Commercial Courts and Collateral Registry	SIEPA, SME Agency, Commercial Courts	SIEPA, SME Agency, Commercial Courts
Supporting Institutions	Organizations or agencies supporting framework laws and implementing institutions	Bankruptcy trustees, notaries, etc.	Fund for Foreign Trade Insurance, banks and credit institutions	Development Fund for Serbia, foreign and domestic banks
Market for Reform	Companies and organizations helping to shape the legal environment	Industry-clusters, companies and organizations	Industry-clusters, companies and organizations	Industry-clusters, companies and organizations

Source: SEDP staff research

The specific legal and regulatory constraints identified in this Brief are grouped according to this institutional framework. Where a given legal entity or regulation pertains to two or more of the above categories, a priority area was selected. For example, price controls on raw materials are conceivably relevant to both business regulation and trade regulation, but for purposes of this Brief they were grouped in the latter category.

LEGAL & REGULATORY CONSTRAINTS FACING FRUIT AND WOOD COMPANIES

The principal legal and regulatory constraints impacting the business performance of companies in the fruit and wood clusters fall within sixteen specific headings, each of which are discussed below. A given constraint may raise costs, reduce product quality, slow delivery time or deter investment, or cause a combination thereof. Additionally, a constraint – such as poor quality control standards – may, more generally, prejudice the export potential of a company or industry at large (see Figure 2 below).

FIGURE 2: Impact of Legal or Regulatory Constraints on Business Performance

	LEGAL OR REGULATORY CONSTRAINT	RAISES COSTS	REDUCES QUALITY	SLOWS DELIVERY	RESTRICTS EXPORTS	DETERS INVESTMENT
BUSINESS REGULATION	Breach of Contract Enforcement	?			?	?
	Company Registration	?			?	?
	Financial Inspections	?				
	Organic Product Regulations	?	?		?	?
	Quality Control Standards		?		?	?
	Tax Regulations (general)	?				?
	Tax Regulations (specific)					?
TRADE REGULATION	Customs Procedures	?		?		
	Export Collateral Tax	?		?	?	
	Government Support Abroad			?	?	?
	Import Tariffs (equipment)	?	?		?	?
	Import Tariffs (raw materials)	?	?		?	?
	Raw Material Price Controls	?	?			
INVESTMENT REGULATION	Company Registry	?			?	?
	Property Registration	?			?	?
	Tax Exemption for Investments	?			?	?

Primary Effect: ?
 Secondary Effect: ?

While comparing the relative significance of the constraints is difficult because specific companies may be more affected by a given regulatory issue, the absence of market-based and well-enforced quality control standards is an over-riding institutional limitation impairing export performance of cluster firms. Additionally, there are several related state-imposed costs, including the export collateral tax, investment tax, raw material price controls and import tariffs on equipment and raw materials, that concern cluster companies as a whole, and which, collectively, restrict their competitiveness.

1. BUSINESS REGULATION

As identified by the cluster firms, institutional and legal constraints in the business regulation area are a result of either weak enforcement of existing regulations (breach of contract, financial inspections, etc.) or ineffective or incomplete regulatory regimes in the areas of organic product regulation or quality control standards.

1.1 BREACH OF CONTRACT ENFORCEMENT

Several fruit cluster companies cited the lack of sanctions for breach of contract under Serbian law as having adverse effects on their businesses. Because exporters of frozen fruit often enter into long-term contracts (usually on an annual basis) with foreign buyers at a set price, certain Serbian suppliers break the contract once the market price renders the set price less attractive. As a consequence of the increased risk of breach of contract, exporters typically have to work through a middleman, raising costs and lowering margins. Additionally, foreign importers are less willing to work with Serbian firms – reducing the pool of prospective buyers.

1.2 COMPANY REGISTRATION

Delays associated with company registration represent a consistent risk facing cluster companies. Under the existing Law on Enterprises,¹ firms are required to re-register their companies each time they change their senior management or business line. With the registration process before the Commercial Court Register taking up to 60 days, applicant companies face the prospect of being unable to finalize contracts or issue payments for up to two months. One cluster firm’s counsel, for instance, noted that companies with only one or two directors are particularly disadvantaged under the current system, as any change in their leadership requires re-registration and a wait of up to two months before their new leadership can assume full contractual authority.

BREACH OF CONTRACT IN PRACTICE: One exporter referred to a recent example in which a contract with a Serbian supplier and a large EU fruit processor was broken by the supplier following a winter price increase. The exporter was unable to source fruit elsewhere and lost credibility with an important commercial partner – whose production was also threatened by the action. In the absence of a legal remedy for breach of contract, neither the Serbian exporter nor the EU fruit processor had recourse to address their associated losses.

1.3 FINANCIAL INSPECTIONS

¹ Official Gazette FRY, No. 29/96

Firms in both clusters criticized the financial inspection regime, which is under the authority of the Ministry of Finance, for ineffective practices. The practical implications of a weak inspection regime are twofold: (1) companies accurately reporting their employees to the Registry of Employees are disadvantaged compared to firms that undercount to limit tax obligations; and (2) companies unwilling to operate on the gray market are disadvantaged compared to companies buying and selling in cash to avoid related taxes. One leading furniture company, for example, cited a recent order of 46 high-end armchairs that the buyer demanded to pay for in cash. When the company refused to accept the offer on a cash-only basis, the buyer went to another firm that was willing to accept the cash-only terms.

1.4 ORGANIC PRODUCT REGULATIONS

Appreciating that organic products generate, on average, a significantly higher margin than equivalent non-organic goods, and recognizing that demand for organic products is steadily growing, fruit cluster companies strongly suggested that the Government take action to address related regulatory weaknesses. Specifically, while a law on organic agriculture² has been adopted, and most related legislation is compliant with EU regulations,³ three primary regulatory shortcomings were noted:

- The Agricultural Ministry does not have a department or section tasked with overseeing organic production, and there is no inspection regime for organic products
- Inadequate regulation on the criteria that inspection bodies for organic production processes must meet – this situation is noncompliant with EU practices and key foreign certification organizations cannot operate in Serbia until such regulation exists
- Extremely long (several years) procedure for obtaining an approval from the Commission for Endorsement for organic pesticides, including EU-approved pesticides

More generally, producers noted that organic products are taxed at the same rate as non-organic products, dis-incentivizing organic production and restricting the domestic market for organic goods.

1.5 QUALITY CONTROL STANDARDS

Based on feedback from companies in both industry clusters, the regulatory constraints associated with quality control standards in Serbia are caused by:

- The existence of outdated and poorly administered classes of product quality
- The absence of regulations in certain key product categories

² The Law on Organic Farming, Official Gazette FRY, No. 28/00.

³ The EU regulation governing organic farming is EC 2092/91, Official Journal L 198, 22/07/1991 p. 0001 – 0015.

The effect of both is, on the one hand, to encourage mislabeling and confusion in the local market, and, on the other, to disadvantage Serbian firms in the face of competition from producers in countries with more modern and rigorously upheld quality control standards.

In the wood industry, the 40-year old JUS standard, which falls under the authority of the Ministry of Agriculture, is seriously outdated in comparison with international standards. Further, several company executives pointed out that even if the standards were more relevant, the almost complete absence of a viable market inspection regime ensures that their actual enforcement is all but impossible. For example, two top parquet exporters in the country reported one market inspection in the last 20 years. Both producers felt their position was disadvantaged compared to, for example, producers in Croatia, which has a more current and rigorously enforced quality standard regime. According to several firms, another adverse effect is the practice of middlemen buying from a given producer and then reselling lower grade material on the local market under a higher-grade classification.

In the fruit industry, the most recent standards were enacted in the late 1970s and are, according to one leading executive, “almost useless” commercially. The outdated Fruit and Vegetable Quality Standards, as authorized by the Ministry of Agriculture, are generally outclassed by the quality standards relied on in the primary export markets. Several companies noted that the outdated standards empowers buyers at the expense of sellers, because it is impossible for most small producers to determine a fair market price for their fruit or vegetable products when first or third-rate quality goods are so variable.

Also, the lack of regulations relating to several juice products undermines product quality in the local market. As identified by one company executive, two examples of gaps in the regulatory framework are:

- The lack of regulations defining fruit content in certain juice categories (banana, pineapple, etc)
- The lack of regulations concerning vegetable mixes other than tomato (e.g. carrot)

Moreover, according to a leading juice producer, existing domestic regulation on minimum dry matter content, which is scaled on a refractometric measurement, does not comply with the generally recognized international standard, measured on a Bx scale -- and the two standards have no direct conversion.

THE PRACTICAL EFFECTS OF WEAK QUALITY STANDARDS: Because of weak quality control standards governing Serbian fruit products, several independent certification agencies have started issuing quality certifications – without Government oversight. Select EU buyers, responding to the same problem, have recently initiated quality standards of their own. The effect of these competing quality control schemes is that many domestic cold stores and suppliers are unable to comply with the new standards and source their products to the broader EU market.

1.6 TAX REGULATIONS (GENERAL)

A majority of cluster companies cited existing tax regulations as being too complex and burdensome, noting as well that rather than supporting stable fiscal management the frequently changing tax system tended to subvert medium to long-term financial planning and investor confidence. Additionally, concerning tax compliance, several cluster firms stated that the variability of tax codes made it difficult to ensure comparability of internal financial data across multiple tax scheduling periods.

1.7 TAX REGULATIONS (SPECIFIC)

With respect to specific tax constraints, companies noted several examples. One exporter cited the *Tax Deferral Act*,⁴ which allows a company to defer tax obligations if, by meeting its full tax obligations, the company would incur tax obligations meeting or exceeding 25% of the company's working capital reported on the previous quarter's balance sheet. The problem with the Act is threefold: first, the Tax Administration's authority to grant deferrals is entirely discretionary, creating procedural uncertainty and decreasing transparency. Second, the 25% minimum obligation (pursuant to code AOP 024) is arbitrary and includes all accounts receivable: a firm with a much lower tax to working capital ratio could, for various reasons, be at least as threatened by having to meet its full tax obligations.

Third, because the tax deferral limit is 25% of working capital, inclusive of accounts receivable, the Act assumes that outstanding accounts receivable are part of company assets (and that the company will collect them shortly). Thus, a company with a higher proportion of uncollected receivables would not qualify for tax deferral, while a company with less uncollected receivables, would qualify. In effect, companies that do qualify are those that, having collected their revenue, are in less need of a tax deferral, while companies short of cash – and therefore more in need of tax relief – cannot qualify for tax deferral.

A second specific tax concern was raised by wood companies, several of which observed that existing taxes on windows and joinery – currently at 20% -- discouraged installation of new, energy efficient, windows and door frames. The point being that the tax regime should actively support the construction of more energy efficient facilities given the associated benefits to company and industry performance.

Another specific tax concern anticipated the soon to be implemented Value Added Tax (VAT) regime.⁵ Cluster firms voiced apprehension that Croatia's experience, in which a VAT was implemented without

⁴ Republic of Serbia Official Gazette, No. 80/01.

⁵ Official Gazette of FRY, No. 70/01.

corresponding tariff reductions (forcing a number of firms into bankruptcy), may be repeated in Serbia. The same firms, however, noted that Macedonia had introduced the VAT without similar difficulties.

2. TRADE REGULATION

Cluster companies repeatedly cited particular import tariffs and export collateral taxes as being detrimental to their businesses. More generally, several companies cited procedural flaws in the Customs Administration as being especially onerous to the timely delivery of specific products. Wood cluster companies also expressed strong dissatisfaction with existing price controls governing their primary raw materials.

2.1 CUSTOMS PROCEDURES

Fruit juice producers cited the Ministry of Health's requirement for exhaustive inspections of imported fructose syrup, which is used in many juice products, as being unnecessarily costly. Under the inspection regime, Government-appointed inspectors take samples from each shipment under a single contract. Inclusive of initial inspection, analysis, certification and customs approval, the inspection procedure for a given shipment can take between one and three weeks. Since there may be five or six truck shipments under a given contract, the multiple and time consuming inspections can delay production schedules and increase associated costs, undermining the companies' position in highly competitive export markets.

Additionally, substantial delays are associated with sanitary control inspections. One leading fruit juice exporter, for instance, noted that delays resulting from the inspections spoiled a large percentage of samples taken from the shipment. During summer months, for example, over 50% of samples were regularly lost, raising costs and adversely impacting production schedules.

2.2 EXPORT COLLATERAL TAX

Under the authority of the Customs Service, trucks crossing the border pay a set collateral tax under the Law on Administrative Tax,⁶ irrespective of the type of good being shipped. As of April, the tax was reduced to 150 YUM per 100 kilograms, encouraging exports and addressing concerns raised by many companies that the collateral tax, which was previously as high as 2,500 YUM, seriously impaired their export competitiveness. Even so, one cluster representative noted that for producers of heavier, low-margin export products including frozen fruit and solid wood furniture, the export collateral tax still represented a constraint on their export businesses. For example, companies could incur up to 6,000 EUR in collateral taxes per year based on an average of 50 truck shipments per month.

2.3 GOVERNMENT SUPPORT ABROAD

“I don’t even know how to contact our embassy in Berlin...and even if I did they wouldn’t do anything to help my company.”

General Manager, Wood Cluster Company

While not a specific regulatory constraint, nearly every cluster company voiced concerns that their business interests were not being represented by Serbian embassies in key EU countries. Additionally, few firms in either cluster had heard of the Serbian Investment and Export Promotion Agency (SIEPA). Companies also noted that many of their competitors have much closer relations with their respective governments. For instance, one cluster firm recalled how a Hungarian competitor had recently had a shipment delayed at Hungarian customs. The Hungarian firm contacted the Ministry of Finance, and within 24 hours the shipment was released.

2.4 IMPORT TARIFFS (EQUIPMENT)

While recognizing the potential assistance provided under the Financial Leasing Law,⁷ and the expected tariff reduction under the pending Act on Harmonization of Customs System and Tariffs, most cluster firms still noted that high tariffs on imported equipment were a direct constraint on their export performance. For example, wood cluster companies require advanced cutting and finishing equipment – often made in Austria, Germany or Italy – which can cost more than \$500,000 per unit. With tariffs on imported equipment ranging as high as 10%, many companies cannot afford to buy the equipment and pay the tariff, especially since many cannot gain commercial credit (see section 3.2). The result, according to company executives, is that a number of cluster companies cannot attain the production efficiencies, capacity increases or associated reduced costs that the new equipment would otherwise ensure.

2.5 IMPORT TARIFFS (RAW MATERIALS)

Fruit cluster juice producers, which include some of the leading exporters in the country, consistently cited tariff codes 2008 and 2009 as direct impediments to their export performance. The problems identified with the tariffs were: (1) definitional and (2) procedural.

With respect to the former, producers noted that the 2009 code fails to discriminate between raw materials or finished goods, when, instead, it should incentivize raw material imports and dis-incentivize imported finished goods. The 2008 code, on the other hand, levies high tariffs on select purees and

⁶ Republic of Serbia Official Gazette, No. 43/03.

⁷ Republic of Serbia Official Gazette, No. 55/03.

concentrates that are unavailable in the country, disadvantaging domestic producers relative to foreign competition.

The associated procedural problems occur because, with respect to tariff code 2009, the Customs Administration will not issue certificate of origin forms for products that would otherwise enable the product to be imported to the EU at reduced tariff rates. Specifically, some juices produced in Serbia falling under tariff code 2009 (pineapple, for example), but which contain less than 50% of imported components, are eligible for preferential EU tariff rates provided that the Customs Administration issues a EUR.1 certificate of origin form. However, because the Customs Administration, under tariff code 2009, fails to recognize different juices irrespective of the percentage of imported components, EUR.1 certification is withheld, making them less competitive in EU markets.

2.6 RAW MATERIAL PRICE CONTROLS

Wood stocks in Serbia are governed by price controls authorized by the Law on Forests,⁸ and administered by Srbijašume. A number of cluster companies noted that prices, which the law authorizes to be set at market rates, were in practice substantially higher than in the neighboring countries of Bosnia, Bulgaria, Croatia and Romania. The consequence is that Serbian firms must negotiate contracts with suppliers from Bosnia and other countries in order to remain price competitive in export markets, and, additionally, most of Serbia's best quality wood is exported.

3. INVESTMENT REGULATION

Companies in both clusters consistently cited the company registration process and the lack of property registration as significant impediments to attracting new investment. Several companies also noted that tax obligations on investment had changed substantially in recent years, and the current regime tended to discourage, rather than stimulate, investment.

3.1 COMPANY REGISTRY

A key weakness in investment regulation and promotion cited by several companies is the state of the Company Register, which is administered by the Chamber of Commerce under the authority of the Ministry of Finance. Specifically, companies noted that the ability of prospective foreign investors – assuming they know of the Registry's existence – to obtain accurate financial information on local

⁸Republic of Serbia Official Gazette, No. 54/96.

companies was severely hampered by the inaccessibility of company profiles, or *bonitets*, and that many companies were not even registered in the first place.

3.2 PROPERTY REGISTRATION

Firms in both clusters noted their disadvantage in securing credit because of the lack of registration of secured assets. For instance, property registration is uneven throughout Serbia – even in Belgrade, there are large tracts that have not yet been registered, and without registration some banks will forgo a credit line, restricting the ability of a given firm to apply for credit with commercial banks, and making the cost of capital even higher due to political and other risk in the country.

“Not being able to use my personal property as collateral is one of the biggest constraints facing my production and export business.”

Director, Wood Cluster Company

While the recently adopted Financial Leasing Law will take effect in September, the new law enables banks to require guarantees or collateral that can be prohibitively expensive or unmanageable for most private companies. Nor is the issue solely a matter of securing credit: one leading cluster exporter has almost no documents indicating that the company’s property is, in fact, legally owned.

3.3 TAX EXEMPTION FOR INVESTMENTS

According to several cluster companies, unpredictable and decreasing tax relief for investments discourage companies from making capital investments in their production facilities. For instance, companies cited the variability of tax exemptions for investments under the Law on Tax on Company Profits,⁹ which in the mid-1990s was close to 100% of the value of an investment, while by 2001 it was 50%, and, by 2002, it was reduced to 20% for medium or large enterprises and 40% for small enterprises -- reducing incentives for long-term investments. If anything, the trend should be reversed: providing greater tax relief on investments, with the Government gaining higher tax revenues from resulting revenue increases. As one cluster executive noted: “How can we plan our investment strategy if the exemption tax rate is constantly changing? The Government should be lowering tax obligations on investments, not raising them...why discourage companies from investing more?”

⁹Republic of Serbia Official Gazette, No. 43/03.

APPENDIX A: Draft or Pending Commercial Legislation

BUSINESS REGULATION

Accreditation Law
Advertising Law
Bankruptcy Law
Company Law
Competition Law
Conflict of Interest Law
Construction and Planning Law
Energy Law
Environmental Protection Law
Executions Law
Food Safety and Quality Law
Metrology Law
Phytosanitary Measures Law
Postal Services Law
Seeds and Seedlings Law
Standardization Law
Undisclosed Information Law
Veterinary Health Measures Law
Wine, Rakija, Liquor and Liqueurs Law

EXPORT REGULATION

Customs Law
Customs Service Law
Customs Tariff Law
Foreign Trade Law

INVESTMENT REGULATION

Copyrights Law (amendment)
Denationalization Law
Geographic Indications Law
Industrial Design Law (amendment)
Patents Law (amendment)
Plant Variety Protection Law
Secured Transactions Law
Topography of Integrated Circuits Law (amendment)
Trademarks Law (amendment)

* As of July 2003. Sources: Ministry of International Economic Relations; USAID WTO Accession Project; USAID Economic Policy for Economic Efficiency Project.

APPENDIX B: Cluster Companies & Organizations

<p><i>FRUIT CLUSTER COMPANIES</i> Agrana Agroekonomik Fresh & Co IGDA Impex Multi Food Nectar Niba Company Stefani Univerzal Tetra-Pak Uliks Etno Food Van Drunen Farms ZZ Arilje</p>	<p><i>FRUIT CLUSTER ORGANIZATIONS</i> Association of Juice Producers Bureau for Standardization Business Club of the Diaspora Fund for Fruits and Vegetables Institute for Fruits, Cacak Serbian Investment and Export Promotion Agency Terras Natural Food Association Vilamet Farmers Association</p>
<p><i>WOOD CLUSTER COMPANIES</i> AD Sava Hrtkovci – Agrana Bosnjacki Buducnost Domis Enterijer Jankovic Eurosalon Kopaonik Kuršumlija MIMCO Modul SAGA TMB Diamond Trifunovic</p>	<p><i>WOOD CLUSTER ORGANIZATIONS</i> Business Club of the Diaspora Forestry Faculty, University of Belgrade Regional Chamber of Commerce, Nis Serbian Investment and Export Promotion Agency (SIEPA)</p>

SCEE FRUIT CLUSTER MEMBERS

NO.	MEMBER	LOCATION	DESCRIPTION
1	Agrana	Belgrade	Producers, traders of frozen fruits
2	Agricultural Faculty, Univ of Belgrade	Belgrade	Academics
3	AgroEkonomic	Belgrade	Producers of concentrates, retail juices, frozen fruits
4	Association of Juice Producers	Belgrade	Private industry trade association
5	DMB	Arilje	Processors of frozen fruits, retail juices
6	Fresh&Co.	Subotica	Producers of retail juices
7	Fund for Fruits & Vegetables	Belgrade	State-sponsored trade association
8	ICA NAAN		Irrigation systems
9	IGDA Impex	Belgrade	Producers, traders of frozen fruits
10	Institutes for Fruits, Cacak	Cacak	State-sponsored research institute
11	IRD Uzice	Uzice	USAID CRDA implementer
12	Libertas	Belgrade	Cold store, processors of frozen fruits
13	Multi Foods	Belgrade	Processors of frozen fruits
14	Nectar	Novi Sad	Processors of frozen fruits, retail juices, concentrates
15	Niba Company	Belgrade	Traders of frozen fruits
16	Porecje	Vucje	State-owned, fully-integrated fruit company: growers, processors of frozen fruits, produces of jams, jellies
17	Stefani Univerzal	Pozega	Cold store, processors of frozen fruit
18	Terras Natural Food Association	Subotica	Private industry trade association for organic foods producers
19	TetraPak	Belgrade	Packaging company
20	Tico/Cer		
21	Uliks Etno Foods	Novi Sad	Marketing company for jams, jellies, other fruit and vegetable products; relies on co- producers for products
22	Van Drunen Farms	Banatsko Karadjordjevo	American-owned producers of dried fruits
23	Vilamet Farmers Association	Cacak	Private growers association representing approximately 10,000 farmers
24	Yucom	Subotica	Fully integrated, value-added processing company: growers, producers of juices, pies, frozen fruits, canned fruits, jams, jellies
25	Zavod za Standardizacij	Belgrade	Federal standards bureau; important for fruit grading standards
26	ZZ Arilje	Arilje	Co-op of growers, cold store, processors of frozen fruits



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Serbia Competitiveness & Economic Efficiency Project

Furniture Cluster Meeting 17 December 2002

Levels of Analysis

Clients and Competitors – Furniture and Home Accessories

	Client	Competitor
National	Serbia	Bosnia, Bulgaria, Hungary, Italy, Macedonia, Romania and Slovenia
Sub-national	Belgrade, Nis, Novi Sad, Pancevo	
Cluster	Furniture	
Organization	<p>Companies: Art Décor, Bosnjacki, Dizajn, Draloni, EuroLink, EuroSalon, Jankovic, Mimco, Modul, My Home, Simpo, Sloga, St. Nikolas, Ukras, etc.</p> <p>Government: Serbian Chamber of Commerce, Srbijasume, SIEPA, Ministry of Agriculture, etc.</p> <p>Independent: Forestry Institute, Faculty of Forestry, University of Beograd, Academy of Applied Arts, Association of Furniture Producers (Nis, etc.), workers unions, etc.</p> <p>Related companies: equipment producer, Milsped (shipping company), national and foreign banks providing credit/loans, etc.</p>	
Individual	Milan Gasic, Mr.Bosnjacki, Professor Glavonjic, Rasa Milic, Djuro Krneta, Ivan Krcunovic, Vitomir Mrdjanov, Dragan Stojanovic, Radovan Tufegdzcic, Teso Markovic, Bozo Jankovic, etc.	

Cluster Results

Year	2002
Overall Prosperity	
Number of Companies	
Total revenues	
Average revenue per employee	
Top 10 exports as percent of total exports	
Price per unit index (basket of goods, base year = 100)	100
Annual growth rate	0% (2001)
Total export revenue	\$30 million
% firms more than 50% state-owned	50%
Domestic market share of firms > 50% foreign-owned	25%
Total number of employees	13,000
Average number of employees per company	
Average employee earnings	
Total equity value of industry	

Note: Preliminary Estimates

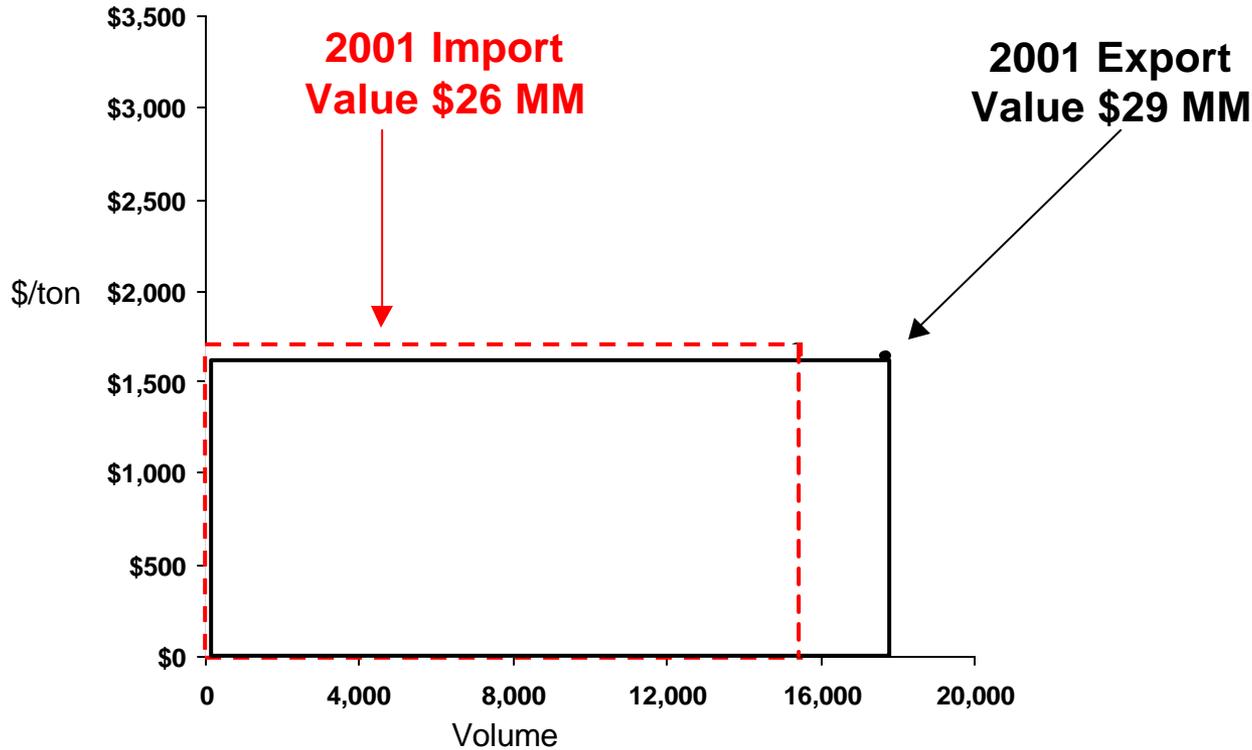
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Cluster Results

Year	2010
Overall Prosperity	
Number of Companies	
Total revenues	
Average revenue per employee	
Top 10 exports as percent of total exports	
Price per unit index (basket of goods, base year = 100)	
Annual growth rate	
Total export revenue	\$150 million
% firms more than 50% state-owned	
Domestic market share of firms > 50% foreign-owned	
Total number of employees	
Average number of employees per company	
Average employee earnings	
Total equity value of industry	

Source: Government announced objectives

Furniture and Furniture Parts Export and Import Values in 2001

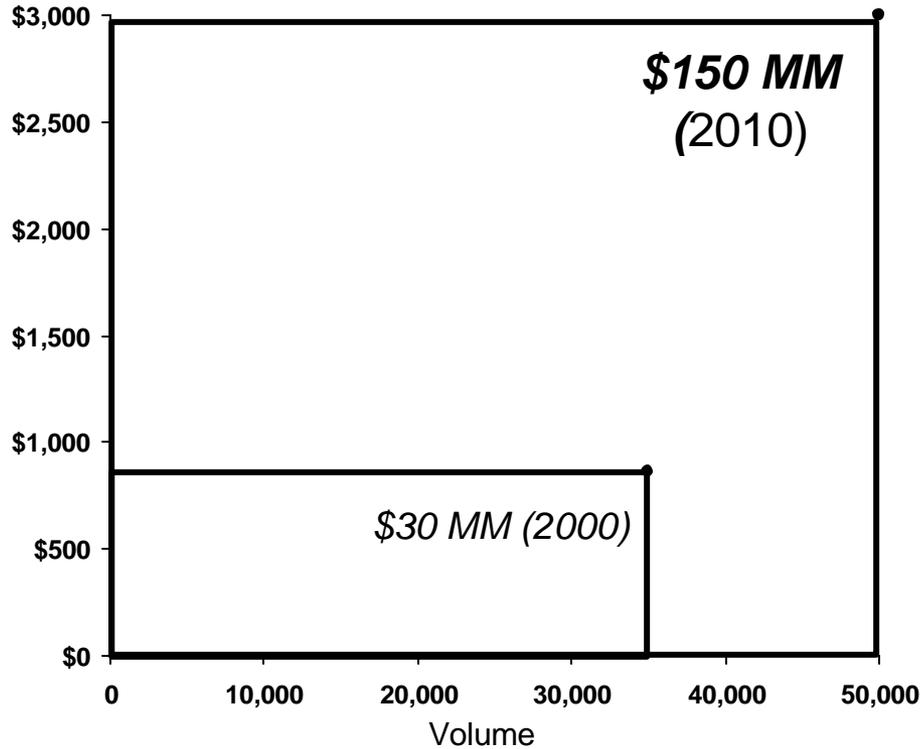


	Volume	\$ / ton	Receipts (\$ Million)
Export	17715	1637	29
Import	15415	1686	26
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Furniture and Furniture Parts Export Values in 2010

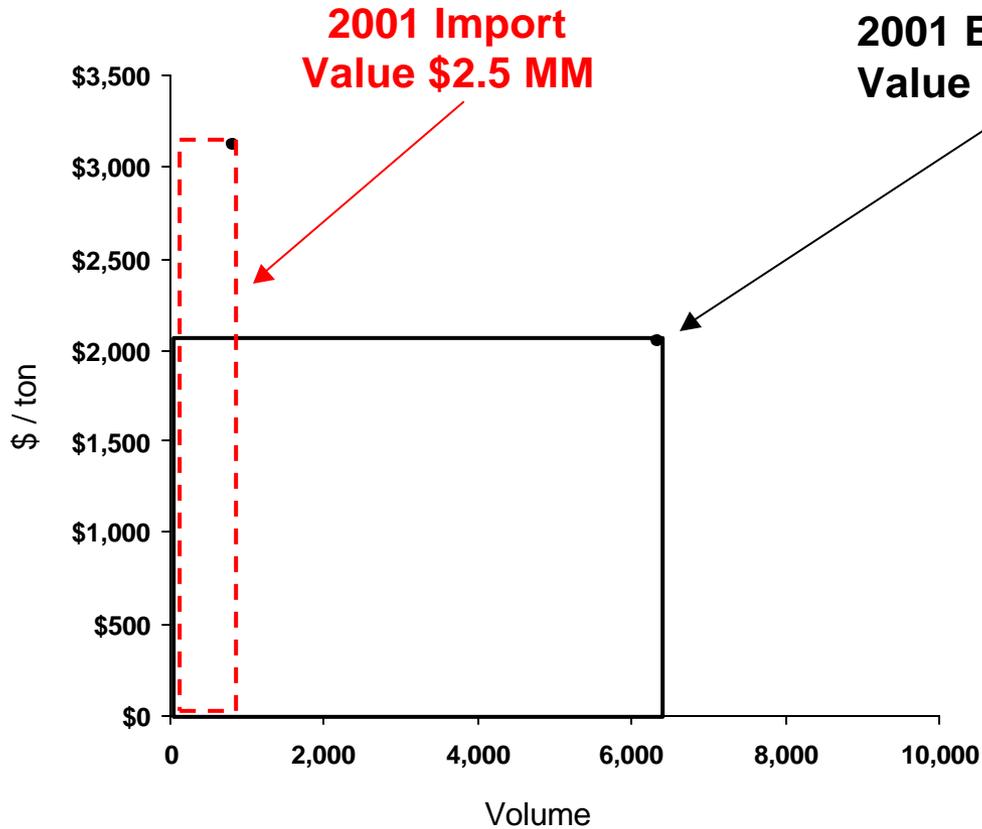
Furniture Exports -- 2010



	Volume	\$ / ton	Receipts (\$ Million)
domestic			
export	35000	857	30

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

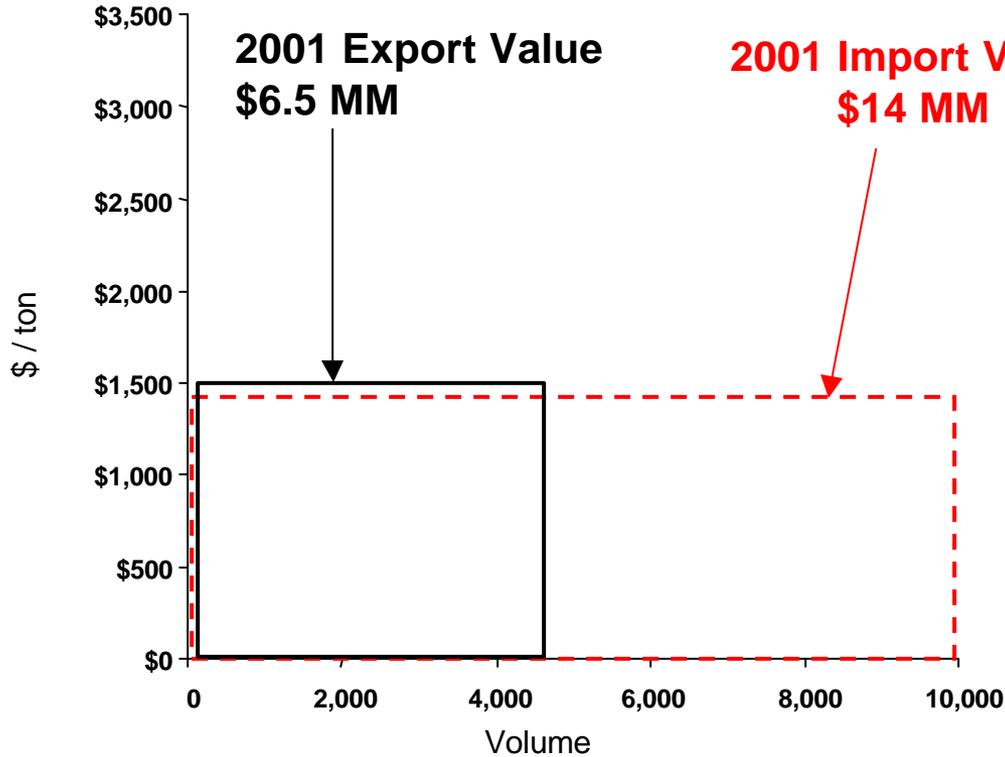
Wooden Upholstered Chairs Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	6340	2050	13
Import	800	3125	2.5
Domestic			

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

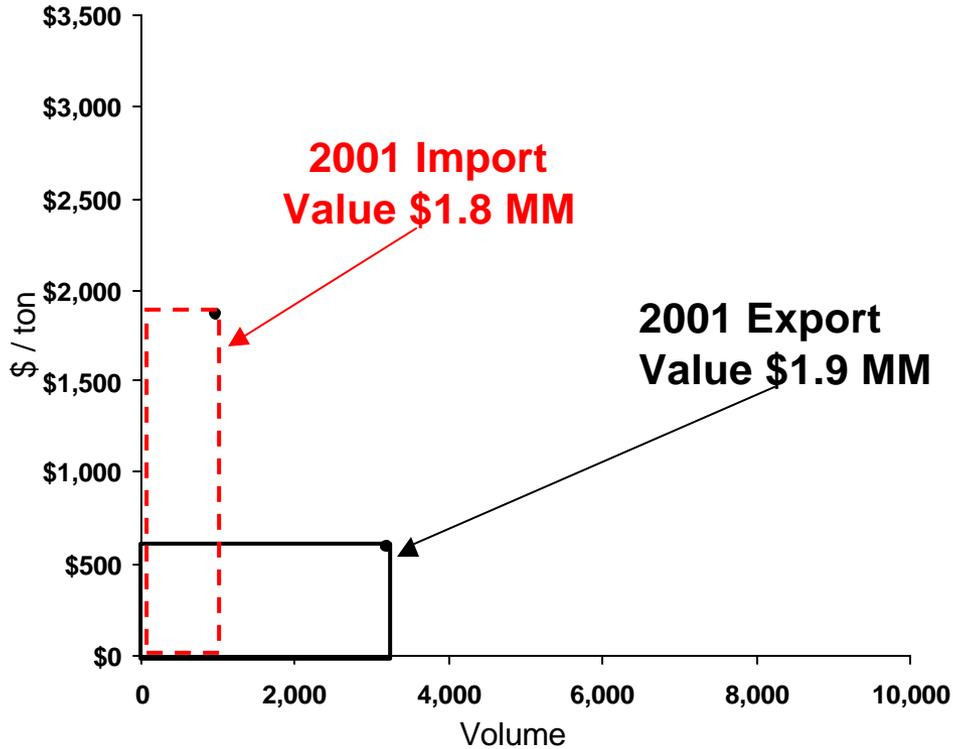
Other Wooden Furniture Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	4500	1444	6.5
Import	10000	1400	14.0
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

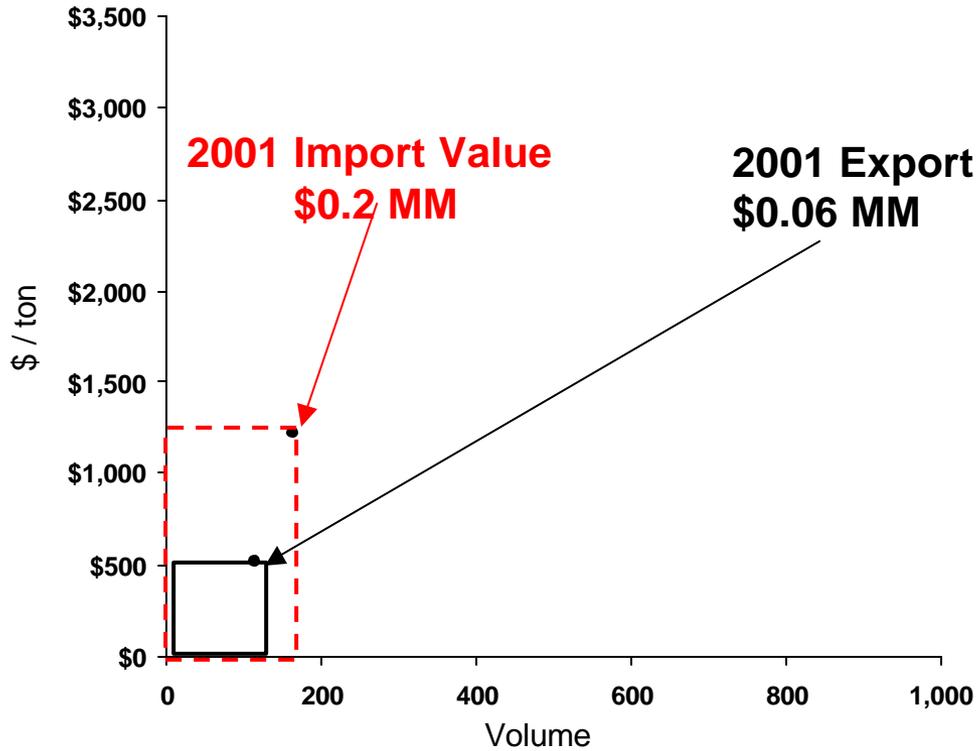
Metal furniture Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	3200	593	1.9
Import	961	1873	1.8
Domestic			

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

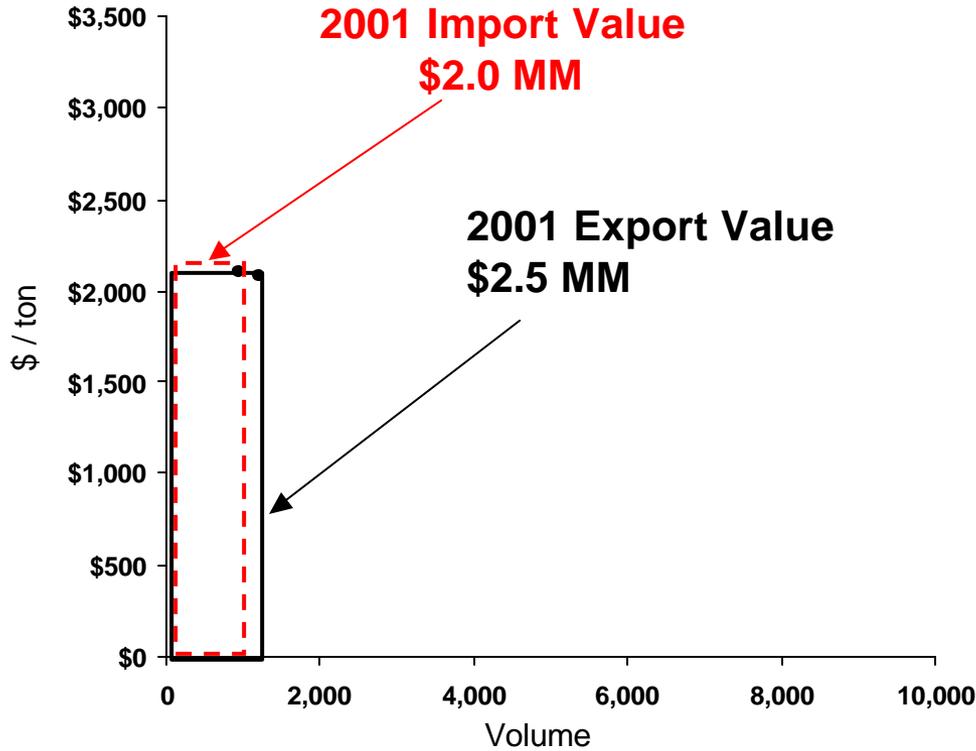
Flooring Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	115	521	0.06
Import	164	1219	0.2
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Windows, Doors and Frames Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	1200	2083	2.5
Import	950	2105	2.0
Domestic			

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Strategy Summary

In general:

What does Serbia sell to whom?

- Serbia sells furniture and interior home structure parts modeled on Western European designs, mostly to Serbian consumers and a small but growing amount to ex-Yugoslavian and EU wholesalers.

Why do Serbia's customers buy from Serbia rather than from Serbia's competitors?

- Customers buy Serbian rather than Western European because Serbian usually has: 1) lower price; 2) better hardwood; 3) equal design; 4) roughly equal craftsmanship.
- Customers buy Serbian rather than ex-Yugoslavian because Serbian usually has: 1) better design; 2) better craftsmanship; 3) roughly equal price.

Why is it difficult for Serbia's competitors to imitate Serbia and take Serbia's best customers away?

- Ex-Yugoslavian competitors have similar cost structures and do not have the skilled people to close the design and craftsmanship gaps.
- Western Europeans use design innovation, strong brands, and stronger service to distributors to frequently win business from more rewarding customers than Serbia's best customers.

Strategy Summary

In general:

What does Serbia sell to whom?

- Serbia sells the unique Serbian home furnishing experience, consisting of products and services, featuring patented, original Serbian design to consumers and retailers in the EU and ex-Yugoslavia.

Why do Serbia's customers buy from Serbia rather than from Serbia's competitors?

- Customers buy Serbian because the home furnishing experience integrates services such as interior decorating and consulting with furniture products, linking original design concepts to the consumer's desired living experience.

Why is it difficult for Serbia's competitors to imitate Serbia and take Serbia's best customers away?

- Serbia's competitors cannot imitate Serbia because: (1) original designs are patented; (2) the integration of services and products is based on deep insight into consumer lifestyles developed through market research; and (3) strategic use of information technology, and manufacturing and support services are configured so that the consumer may participate in the design experience.

Product and Service Portfolio

	Customers	Consumers
Products		<ul style="list-style-type: none"> • Upholstered chairs • Other wooden furniture • Doors, windows and frames • Flooring • Metal Furniture • <u>Other product exports</u> <p style="text-align: center;"><i>\$29 million</i></p>
Services		

Note: Preliminary Estimates

Source: Yugoslav Federal Trade Statistics, SCEE estimates

Product and Service Portfolio

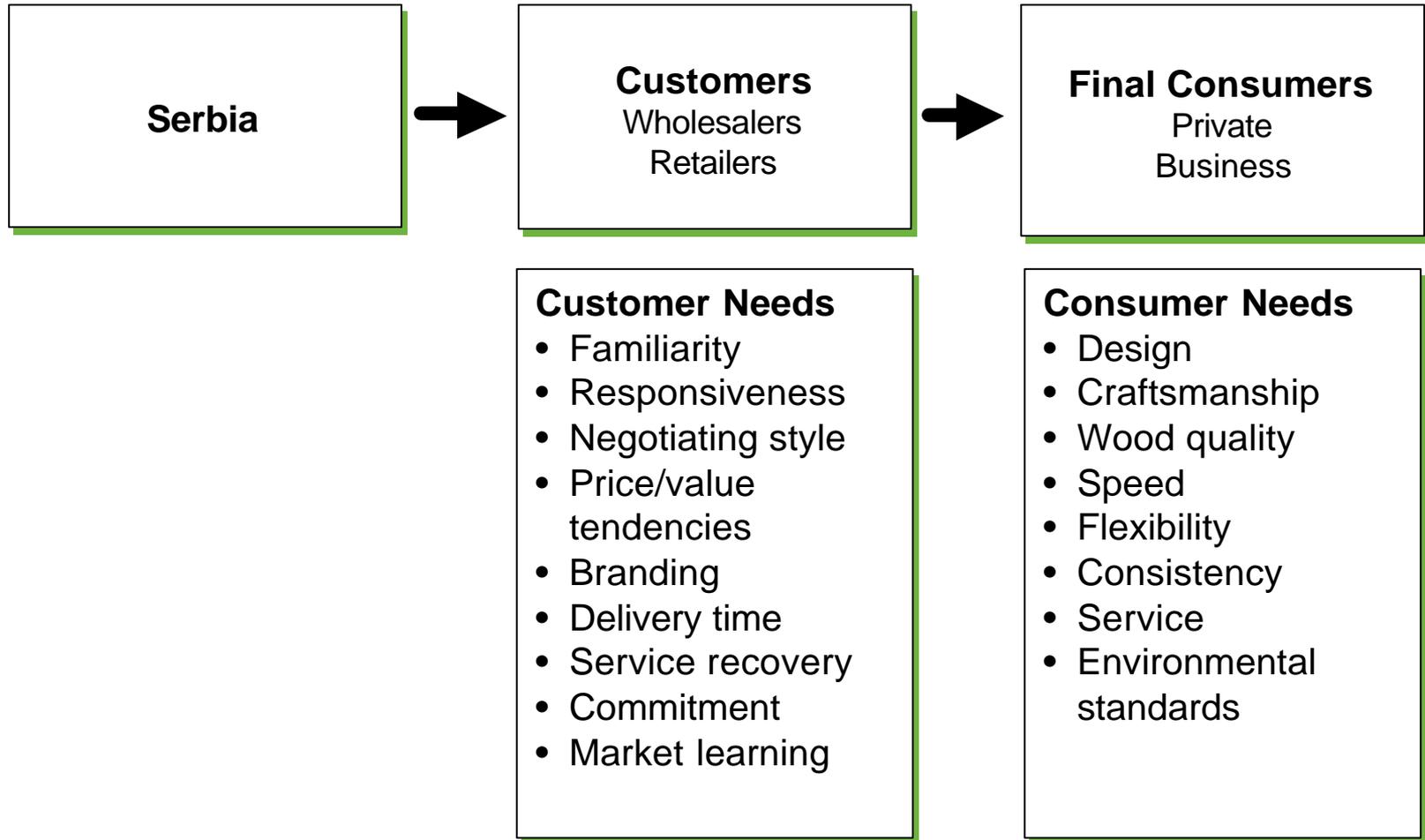
	Customers	Consumers
Products	5%	50%
Services	20%	25%

Key Exports and Markets

	Ger	Fran	Russia	Italy	Mac.	Bos.	Other	Export Revenues (2001)(mil)
Products								\$29.0
Upholstered wooden seats	\$0.5	\$0.9	\$0.06	\$5.8	\$1.4	\$1.6	\$2.7	\$13.0
Other wooden furniture	\$1.2	\$0.7	\$0.09	\$0.3	\$1.0	\$2.5	\$0.8	\$6.6
Metal furniture (home)	\$1.3	\$0.05	-	\$0.2	\$0.02	\$0.2	\$0.13	\$1.9
Windows, doors, and frames	\$0.001	-	\$0.5	\$0.004	\$0.3	\$1.4	\$0.295	\$2.5
Flooring	\$0.02	-	-	-	-	\$0.03	\$0.01	\$0.06
Other								\$4.9
Services								\$0.0

Source: Federal Trade Statistics, SCEE estimates

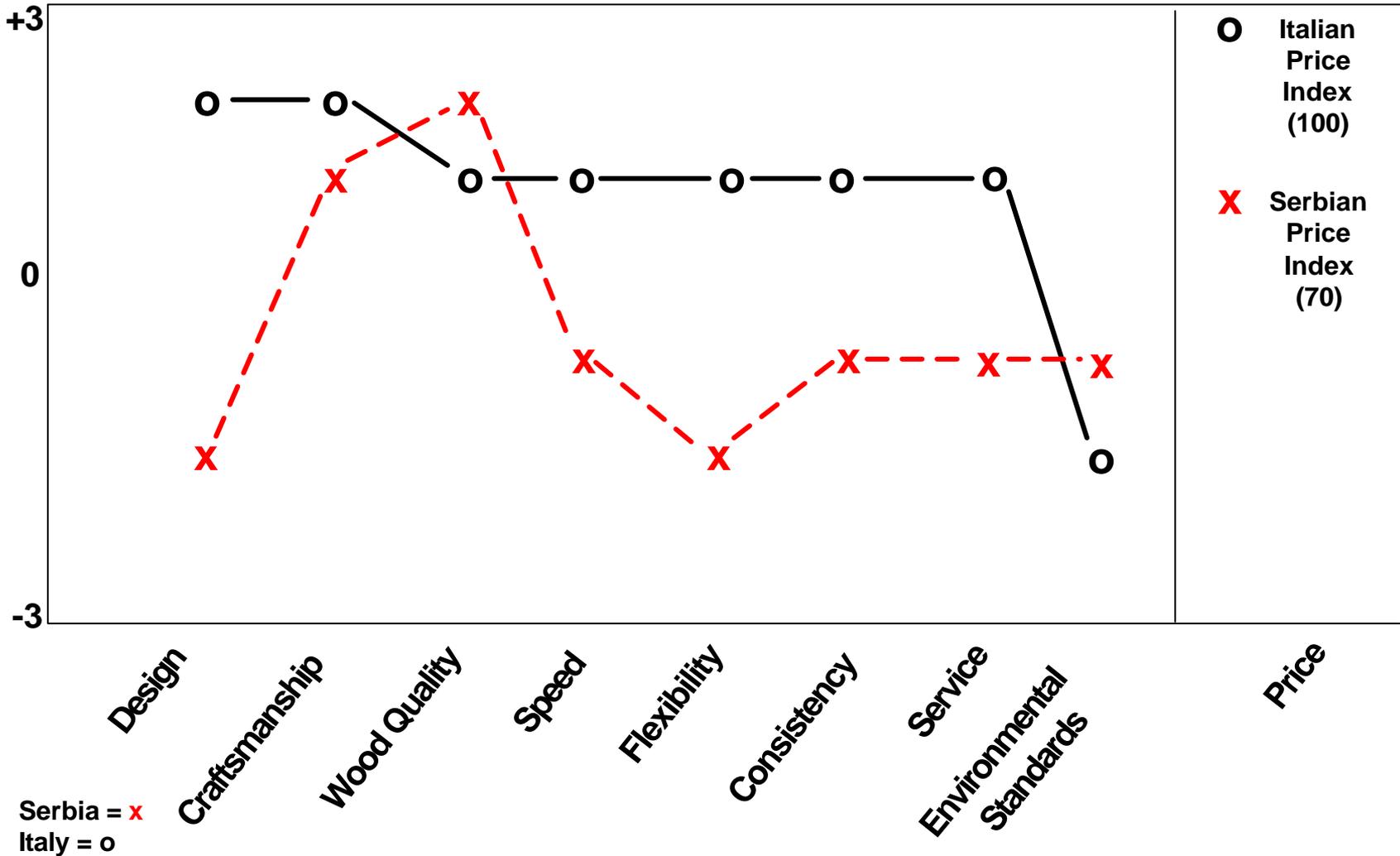
The Customer's Customer



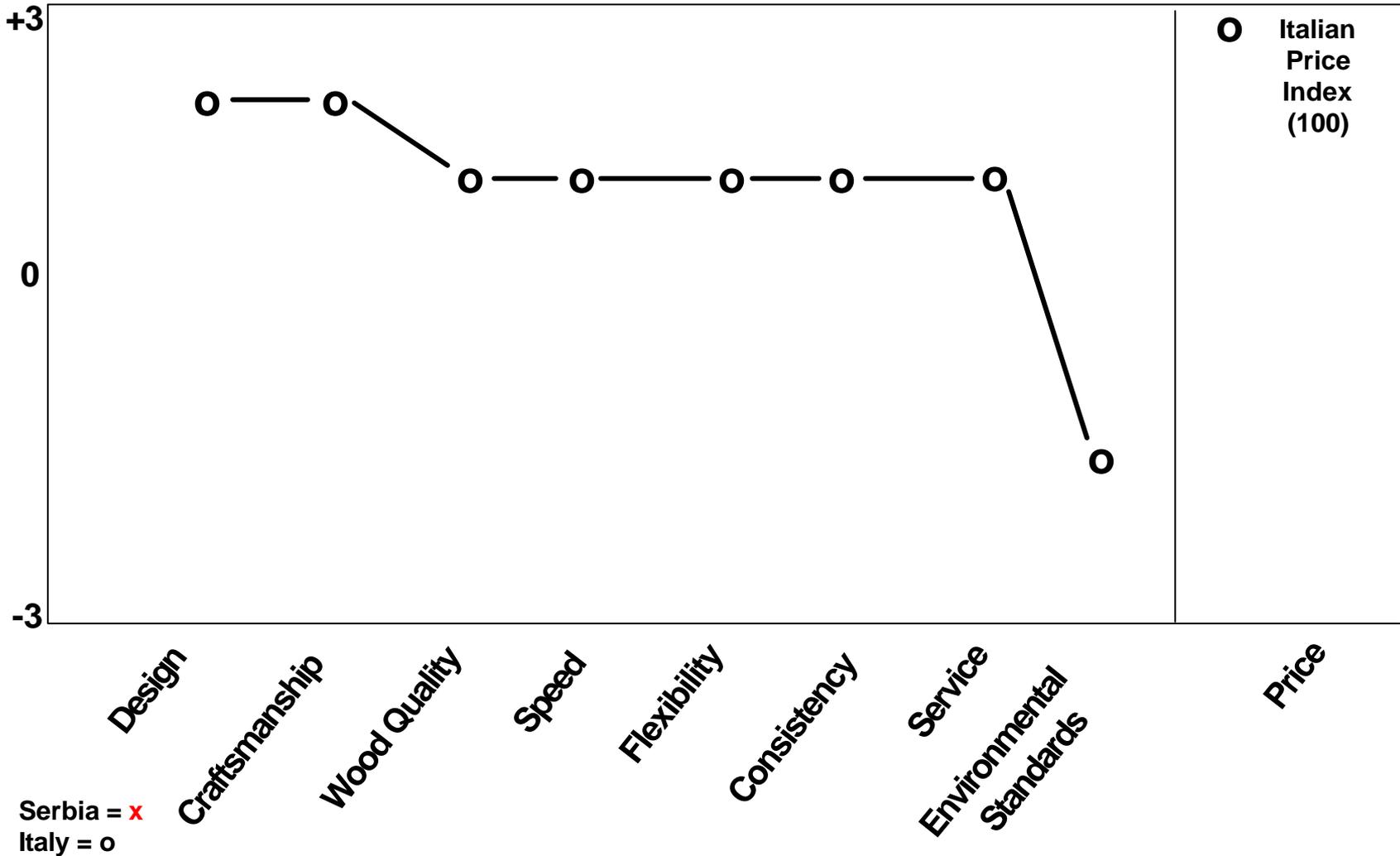
Note: Preliminary Evaluation

Source: SCEE interviews with Serbian, European and US wholesalers

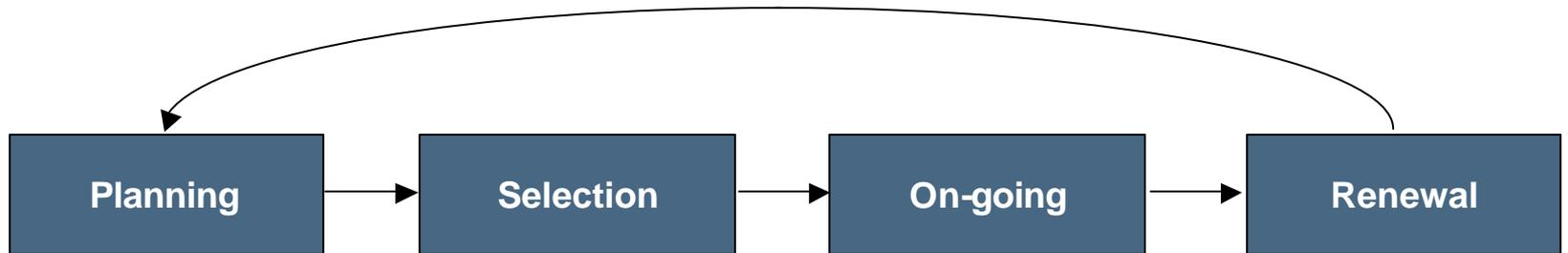
Positioning with Consumers



Positioning with Consumers



Current Customers' Needs



- + Meet furniture manufacturers at major furniture fairs
- + Look for manufacturers will provide what retailer is asking for

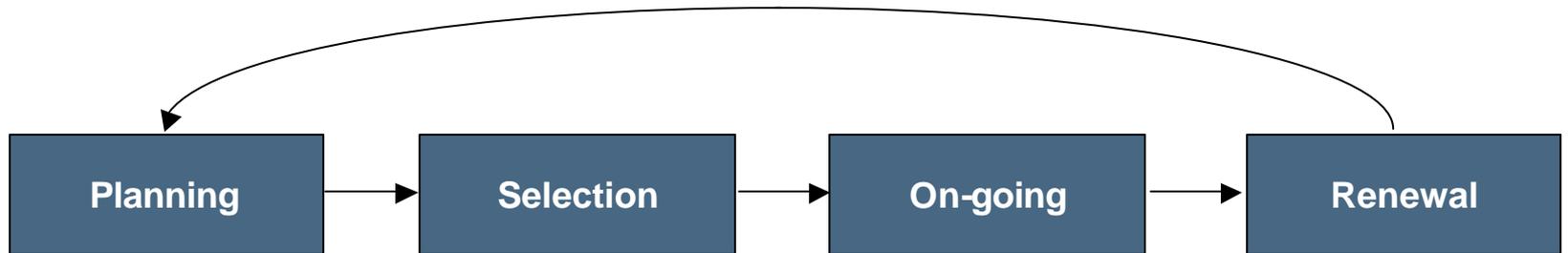
- + Send buyers to inspect manufacturing and negotiate contracts
- + Aggressive price negotiation

- + Sell unbranded products at lower prices
- + Delivery time < 1 month
- + Minimum quality and replacement guarantees

- + Frequent switching
- + Little sharing of non-price customer feedback

Source: USAID SCEE interviews with European and US wholesalers

New Customers' Needs



- + Target manufacturers with clear positioning
- + Identify manufacturers' willingness to collaborate on design and promotion

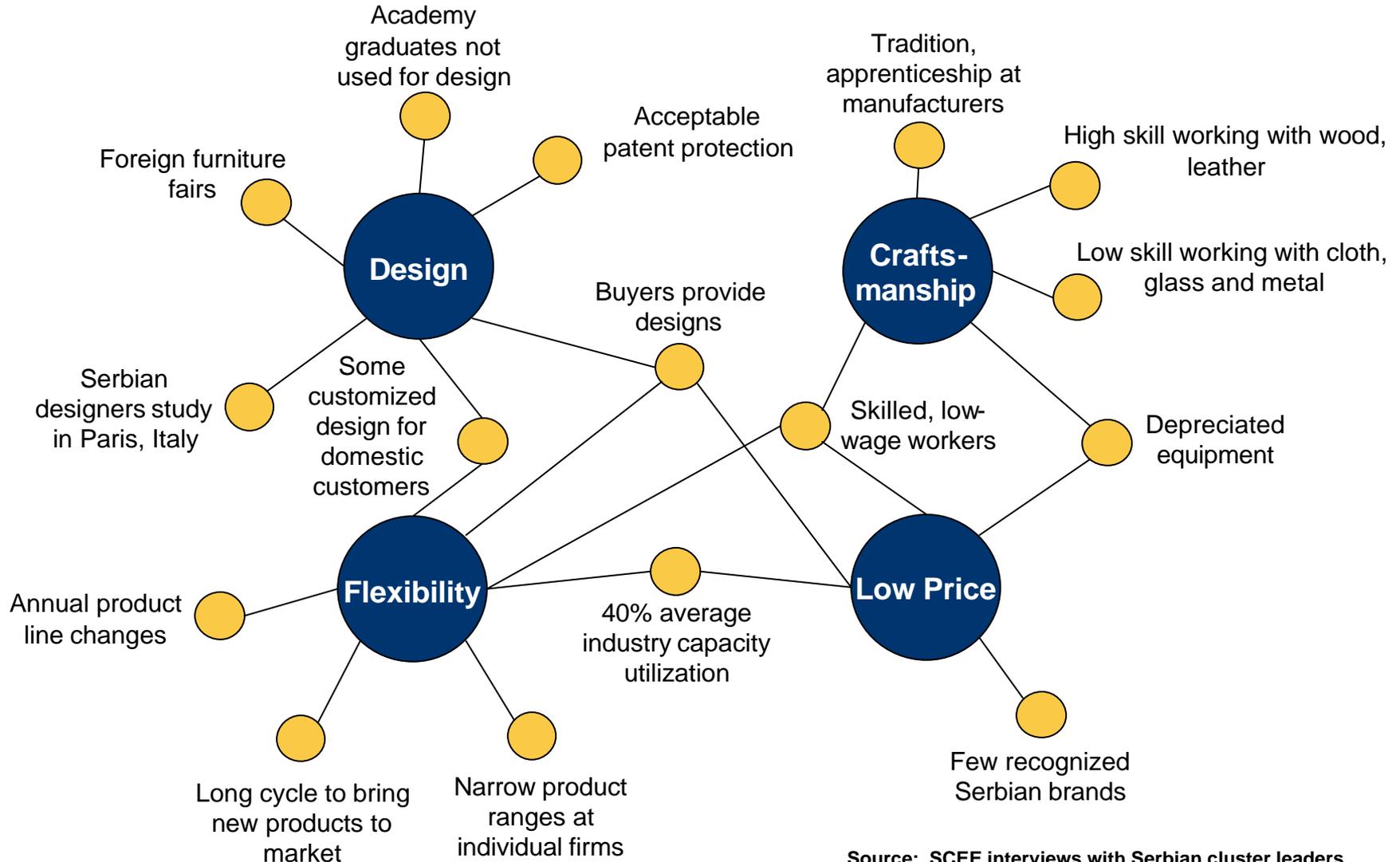
- + Develop contracts and other agreements among management teams
- + Aggressive quality requirements

- + Sell branded products and higher prices
- + Delivery time < 2 weeks
- + Complete consumer satisfaction guarantees

- + Long-term relationships
- + Collaborative market learning

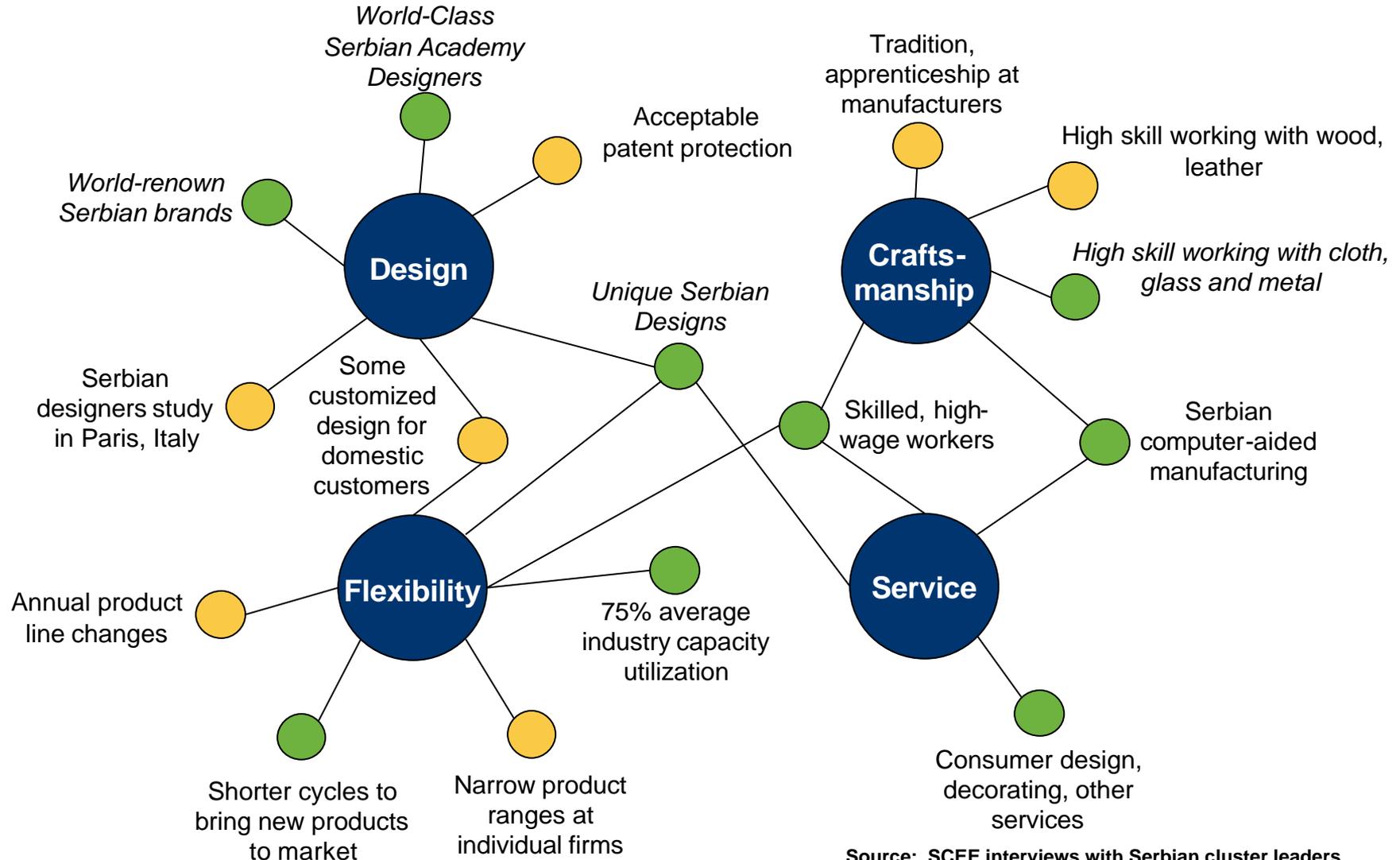
Source: USAID SCEE interviews with European and US wholesalers

Web of Activities to Satisfy Consumer Needs



Source: SCEE interviews with Serbian cluster leaders

Web of Activities to Satisfy Consumer Needs



Source: SCEE interviews with Serbian cluster leaders

Important Government Actions

Legal	<ul style="list-style-type: none">• Price controls on unprocessed and semi-processed wood• High import tariffs on textiles and leather
Administrative	<ul style="list-style-type: none">• Ministries seek to direct industry strategy• No consumer protection and health and safety certifications
Direct Market	<ul style="list-style-type: none">• Government owns many firms in the industry• Government is a price-sensitive purchaser of furniture products

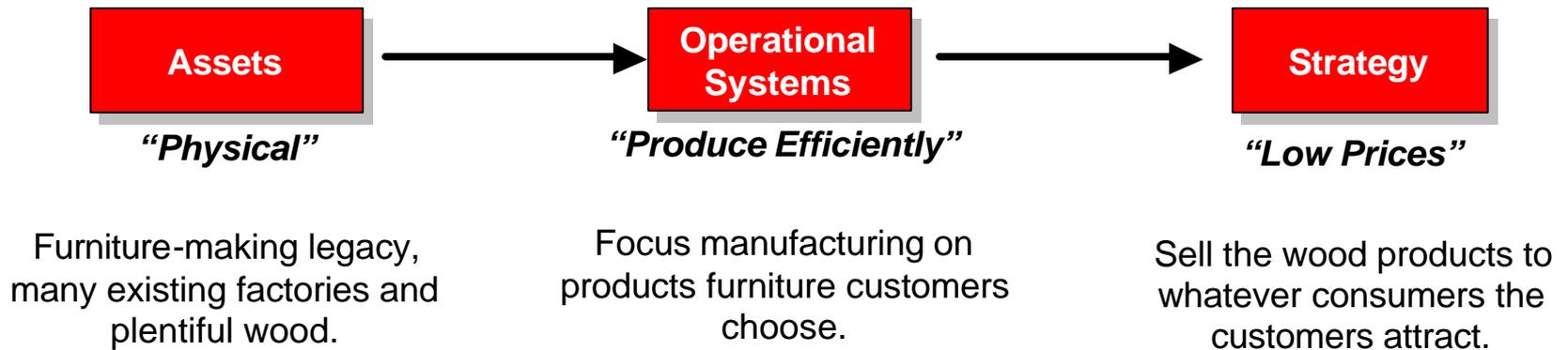
Source: SCEE interviews with Serbian cluster leaders

Important Government Actions

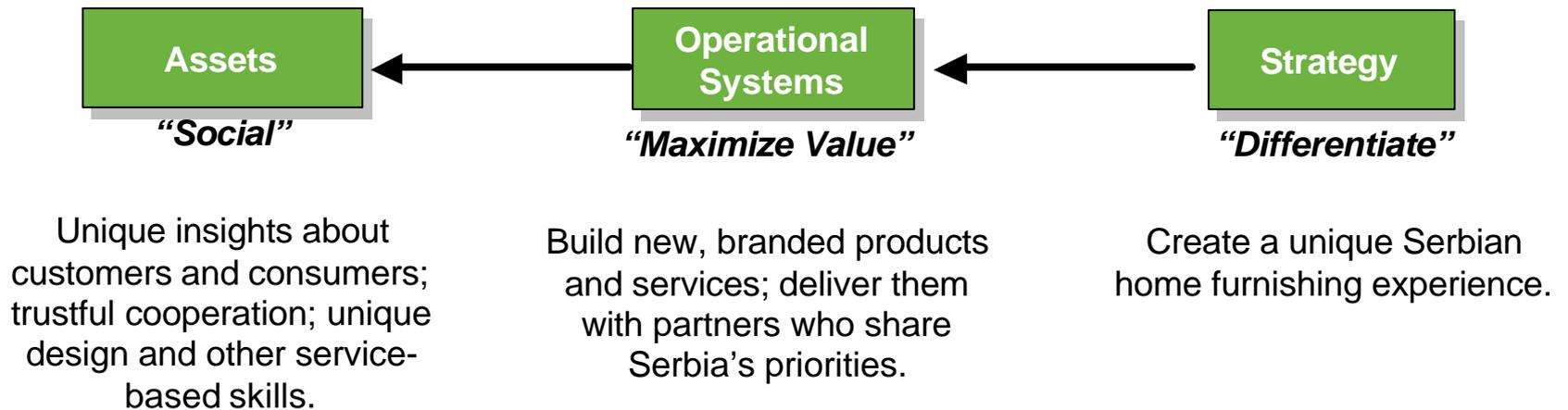
Legal	<ul style="list-style-type: none">• International intellectual property protection for Serbian designs, brands and trademarks• Targeted WTO negotiations for furniture and interior home products
Administrative	<ul style="list-style-type: none">• Ministries coordinate public sector efforts behind private sector priorities• Strong consumer and employee protection standards, consumer credit regulations
Direct Market	<ul style="list-style-type: none">• No government ownership of cluster firms• Government is a value-driven purchaser of furniture products

Source: SCEE interviews with Serbian cluster leaders

Comparative Advantage Approach to Creating Wealth



Competitive Advantage Approach to Creating Wealth



Defensive Reasoning

Belief or Assumption

“The government doesn’t do anything for us, so why should we care about them?”

Conclusion

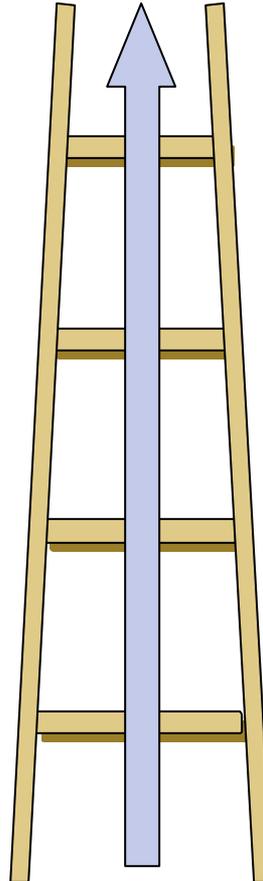
“We can compete with foreign firms in export markets, but the government needs to help us.”

Paraphrase / Interpretation

“If you think of all the advantages that foreign furniture firms have, its amazing that there are any Serbian firms that can compete with them in other markets.”

Selected Data

“The government is lowering import barriers and not providing much credit to Serbian firms.”



Belief or Assumption

“The government shouldn’t help firms until they help themselves.”

Conclusion

“Many firms, especially the most competitive ones, will not cooperate with either the government or each other...right now I am afraid all they care about is themselves.”

Paraphrase/Interpretation

“If our firms don’t succeed, it must be because they do not have good management.”

Selected Data

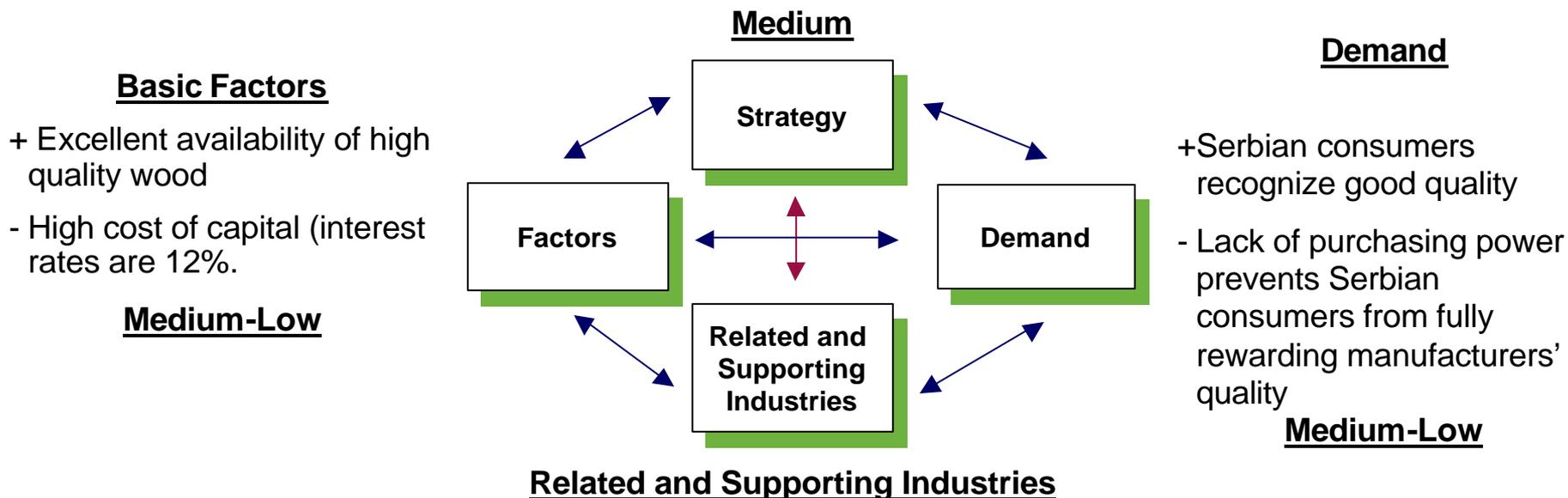
“Serbia has excellent wood stocks, we have good quality laborers available at comparatively lower wages, and close proximity to Europe’s largest markets.”

Source: SCEE interviews with Serbian cluster leaders, government advisors

The Domestic Competitive Environment

Strategy, Structure, and Competition

- What Serbia sells to whom
- Why customers and consumers buy from Serbia instead of someone else
- Why others find it hard to copy Serbia and take Serbia’s best customers away



+ Excellent availability of high quality wood
 - High cost of capital (interest rates are 12%).

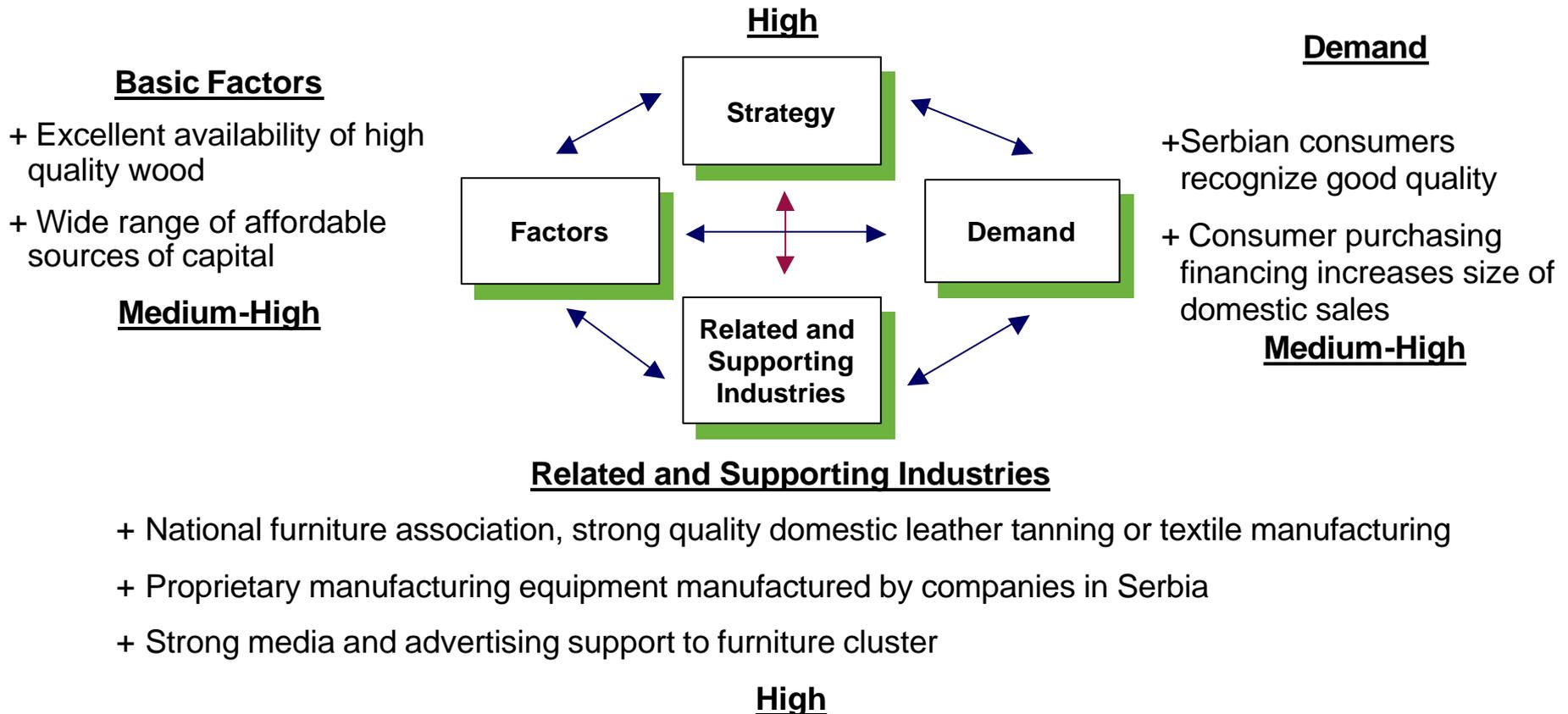
+Serbian consumers recognize good quality
 - Lack of purchasing power prevents Serbian consumers from fully rewarding manufacturers' quality

- No active national furniture association, few domestic designers, no high quality domestic leather tanning or textile manufacturing
- Machinery is imported from Italy, Germany and Austria
- Three local furniture and home/office design magazines with small circulation in Serbia

The Domestic Competitive Environment

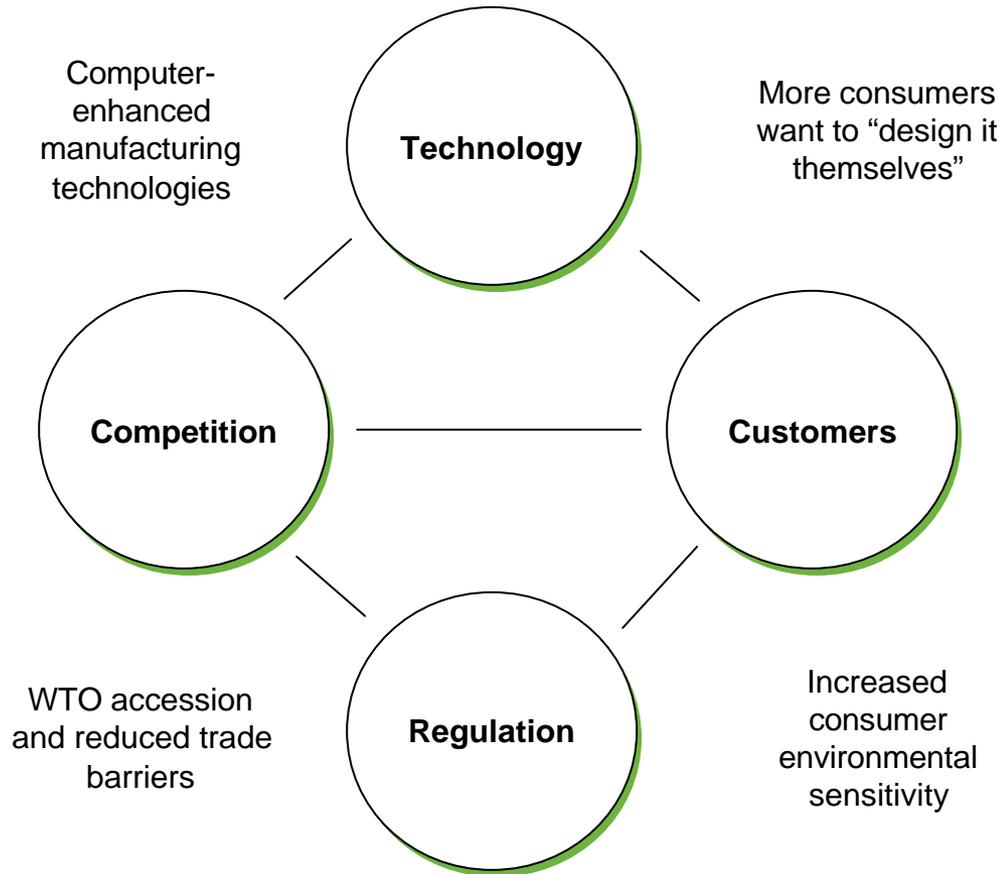
Strategy, Structure, and Competition

- What Serbia sells to whom
- Why customers and consumers buy from Serbia instead of someone else
- Why others find it hard to copy Serbia and take Serbia’s best customers away



SOURCES

Significant Trends and Uncertainties





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Serbia Competitiveness & Economic Efficiency Project

Fruit Cluster Meeting
February 7, 2003

Fruit Cluster Meeting Agenda

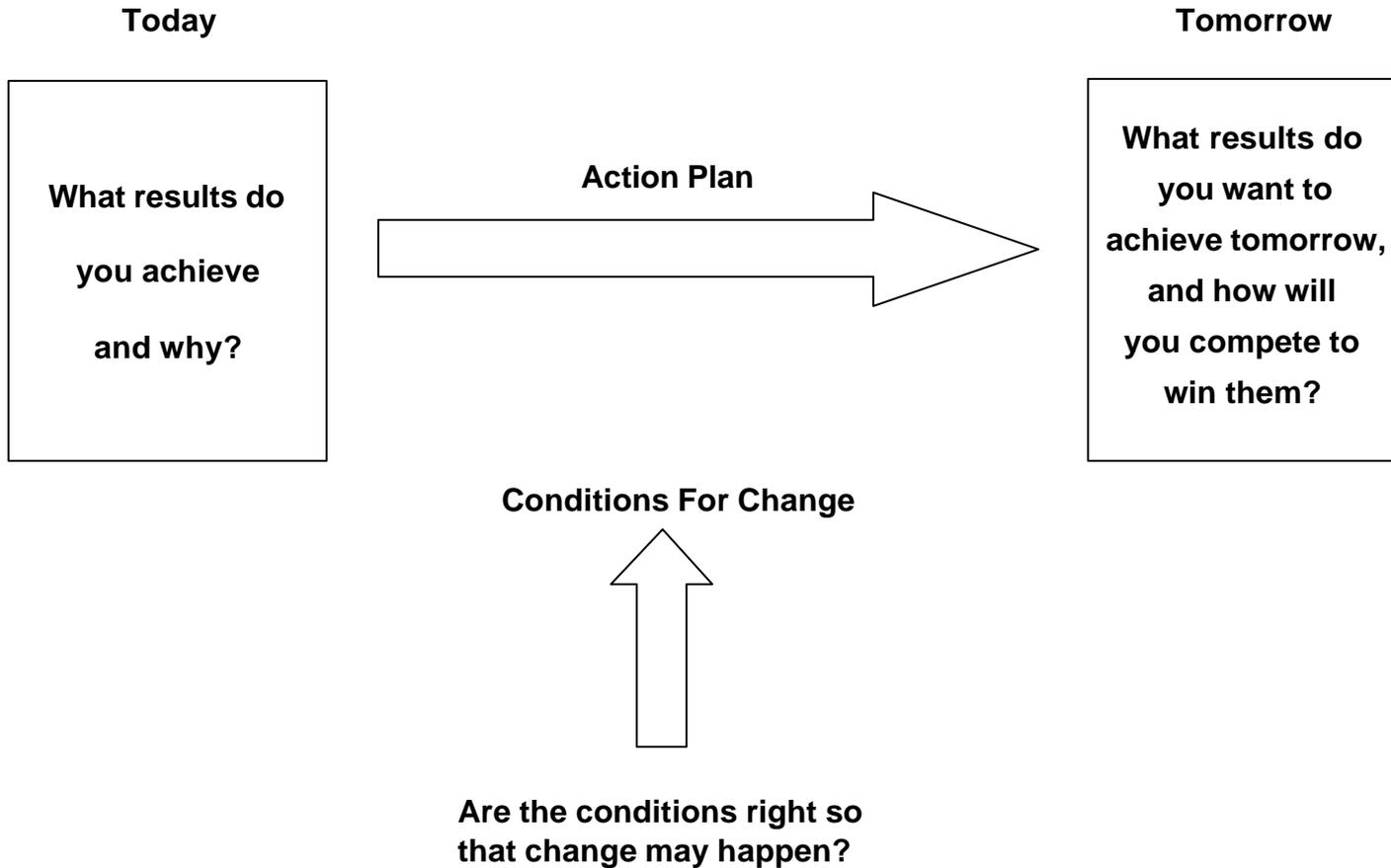
- I. SCEE Overview and Update**
- II. Competitiveness Development Approach**
- III. Fruit Cluster Campaign Development**
- IV. Campaign Development Workshop**
- V. Next Steps**
 - National Council Representative Selection**
- VI. Meeting Feedback**

List of participants

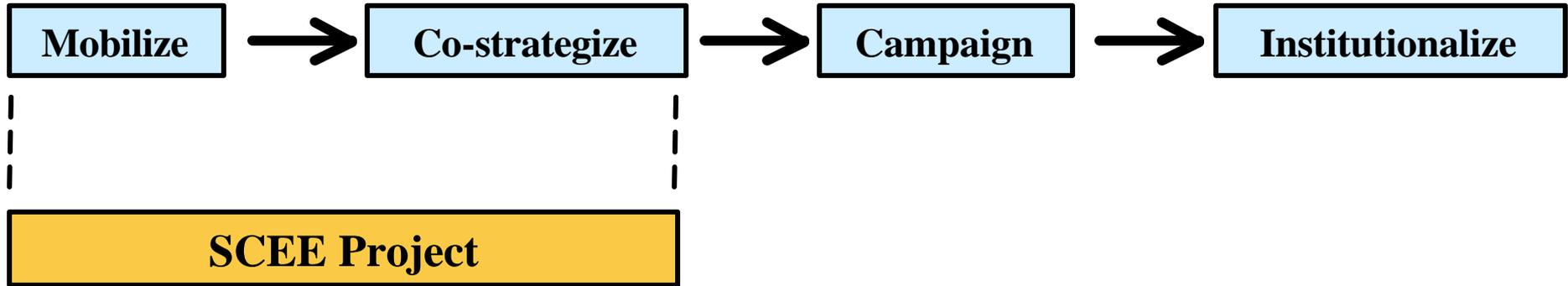
<u>Associations:</u>	<ul style="list-style-type: none"> ➤ Fund for Fruit and Vegetables ➤ Association for Fruits and Vegetables ➤ Vilamet Producers Association 	<p>Mr. Jovo Đilas Ms. Evica Mihaljevic Mr. Aleksandar Mitrovic, Mr. Dragisa Terzic, Mr. Mladimir Jankovic, Mr. Paun Jevericic</p>
<u>Companies:</u>	<ul style="list-style-type: none"> ➤ Agrana, Beograd ➤ Agroekonomik , Beograd ➤ Fresh Co, Subotica ➤ IGDA Impex , Beograd ➤ Multi-Food, Beograd ➤ Nectar, Backa Palanka ➤ Niba Co, Beograd ➤ Porecje, Vucje ➤ Stefani Universal ➤ Tetra-Pak, Beograd ➤ Zemljoradnicka Zadruga Arilje ➤ Yucom, Subotica 	<p>Mr. Cedo Nikolic Mr. Dragoje Dusic Mr. Živojin Đordevic, Ms. Milena Mitic Mr. Zvonimir Jovanovic Mrs. Mirjana Kneževic, Mr. Branislav Kneževic Mr. Bojan Radun, Mr. Cedo Praška Mr. Bratislav Stankovic Mr. Nenad Stevanovic Mr. Đorđe Stefanovic Mr. Jerome Bayle Mr. Vojo Božovic, Mr. Mirko Dabovic Mr. Sive Mackovic</p>
<u>NGOs:</u>	<ul style="list-style-type: none"> ➤ Terra's, Subotica 	<p>Mr. Nenad Novakovic, Mr. Dejan Zvekic</p>

Competitiveness Intervention Process

A Sound Competitiveness Plan Has Four Synchronizes Elements



SCEE project has three stages

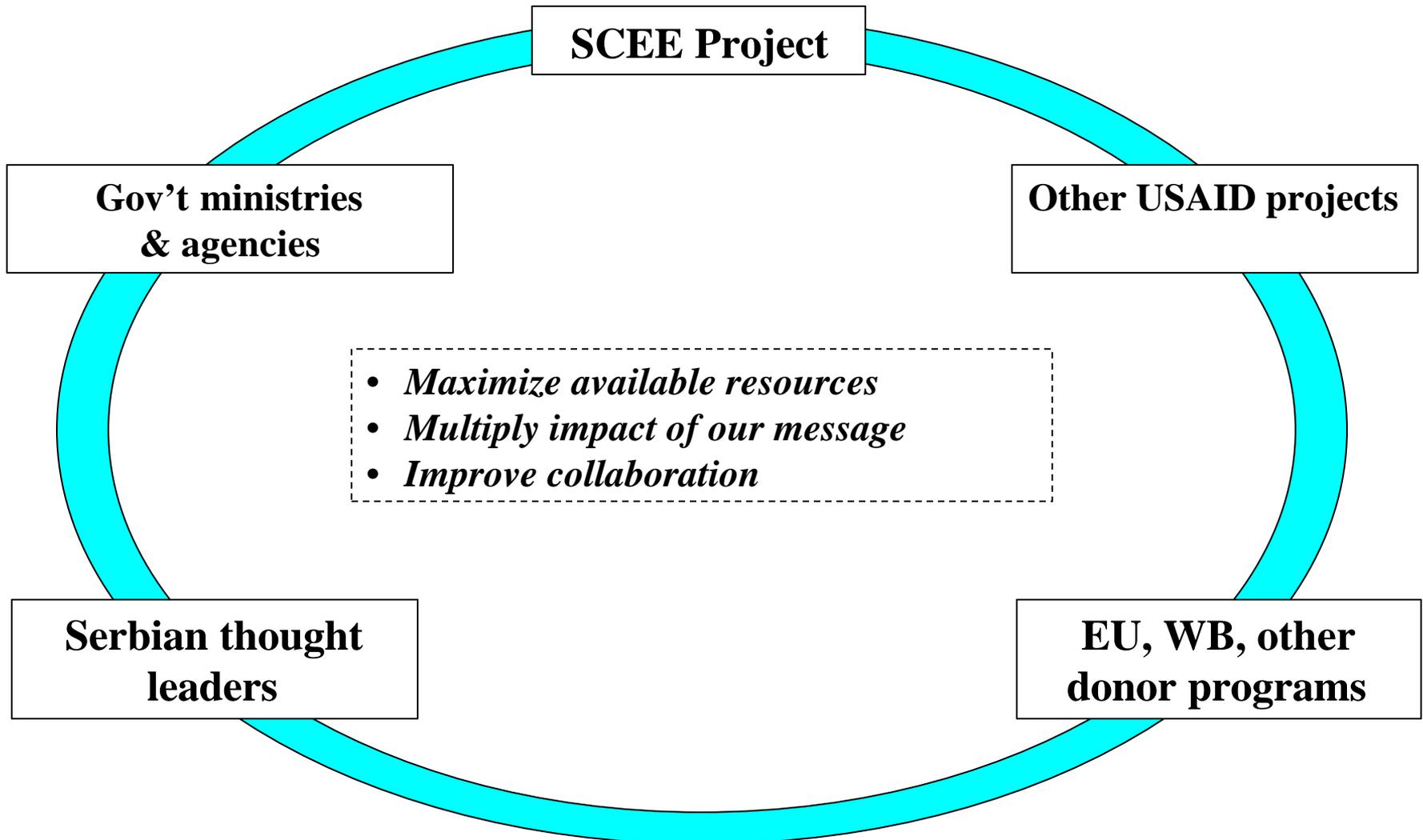


Stage 1: commitment & leadership

Stage 2: objectives, insights, new winning strategy

Stage 3: expanding leadership & support

SCEE is coordinating with other ongoing development programs



Clusters can become more competitive faster by participating in the SCEE project

Participants can expect:

- **To break into new markets**
- **To help cluster members cooperate and collaborate**
 - **Target export markets and conduct consumer research**
 - **Institute internationally recognized quality and safety standards**
 - **Lobby for specific legislative reforms**
 - **Promote training and investment in technology**
- **To remove barriers in the business environment**
- **To build relationships with foreign firms & customers**

Serbian Fruit Cluster

Intra-firm Interests & Possible Collaboration

Export Market Penetration

- Data on market composition/trends
- Distributor/buyer relationships
- Shipping/logistics
- Quality Control
- Volume



Cooperate in Targeting Export Markets

- Joint consumer research and market learning
- Adopt cluster-wide quality standards
- Sub-contracting arrangements on large contract
- Joint marketing campaign to promote Serbian fruit and fruit products
- Joint Advertising

Government & Regulatory Environment

- Organic Laws
- Quality, Sanitary and Labeling Standards
- Import duties
- Free Trade Agreements



Increased Dialogue with Government Agencies

- Lobby for specific legislative reforms
- Inform representatives of cluster interests
- Brief Cluster members about new laws

Research, Training & Technology

- University agricultural programs
- Professional training
- Growing techniques
- Processing technology



Promotion of Better Research, Training & Technology Transfer

- Joint funding of agricultural research projects
- Training on research, support functions and processing technology
- Jointly funded scholarships for agronomists

Overview of First Cluster Meeting

Objectives:

- Discuss the SCEE project and our approach
- Outline the challenge of Competitiveness & a potential starting point for this cluster's activity
- Discuss next steps, roles and responsibilities

Outcomes:

- Agreed that fruit cluster's current strategy should be improved in order to capture more value
- Concluded that the fruit clusters' members have to cooperate better
- Discussed where the cluster would like to be in the future

Questions Generated:

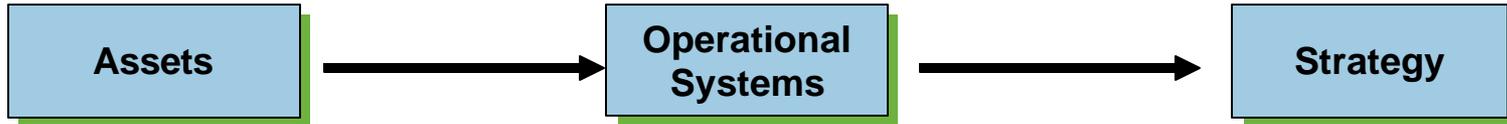
- What are examples of successful fruit clusters in other countries?
- What is the competitive position of Poland and other surrounding countries in fruit juices?
- What is the competitive position of other countries producing raspberries (prices, varieties, markets, customers, processing)?
- How do we establish the distinctiveness of Serbian fruit and fruit juice and build a brand image?
- Should raspberry production be focused on varieties of raspberries for industrial processing or varieties that are suitable for fresh export?
- What role should organic farming play in the future of the fruit cluster?
- Can raspberry production be linked to bio-pharmaceuticals / cancer research?
- How can cluster members better access needed financial resources?
- What are the consumer needs that need to be better understood and better served?
- How can cluster companies work together to reconcile the competing needs to limit the scope of each firm's activities while increasing the overall scope of the cluster's product offerings?

What Is Competitiveness?

- Competitiveness has emerged as the preeminent issue in every nation — for companies and governments
- Upgrading a nation's export competitiveness requires a shared understanding of competitiveness within the nation
- Competitiveness is not simply:
 - A favorable exchange rate
 - Positive balance of trade
 - Industrial subsidies
 - Low inflation rate
- Rather, competitiveness is the productivity with which resources are deployed
 - Human resources
 - Capital
 - Physical assets
- Since competitiveness relies on productive deployment of resources, industry sectors and their firms compete, not nations
 - Government has a partial but significant role in creating the platform from which firms compete

Comparative Advantage Approach to Creating Wealth

Old Model: *Begin with Assets*



“Physical”

“God gave us a good climate and fertile soil. We have the best quality raspberries in the world.”

“Produce”

“We buy all the raspberries from local farmers and freeze them for transport to German processors because we cannot transport them fresh and we don’t have money to invest in processing equipment.”

“Low Prices”

“We freeze the raspberries and then wait for the buyers to come to us. We compete against each other for buyers and often need to price the products very inexpensively in order to sell them.”

New Model: *Begin with Strategy*



“Social”

“German, French and Austrian small and medium supermarkets, specialty stores and restaurants will want to buy directly from us because we create strong relationships based on trust and communication. We will invest time in understanding their quality requirements, delivery and packaging needs.”

“Maximize Value”

“We will invest in technology that will allow us to grow raspberries year-round and we will re-configure our distribution system so that we can efficiently deliver fresh raspberries within 1-2 days of picking.”

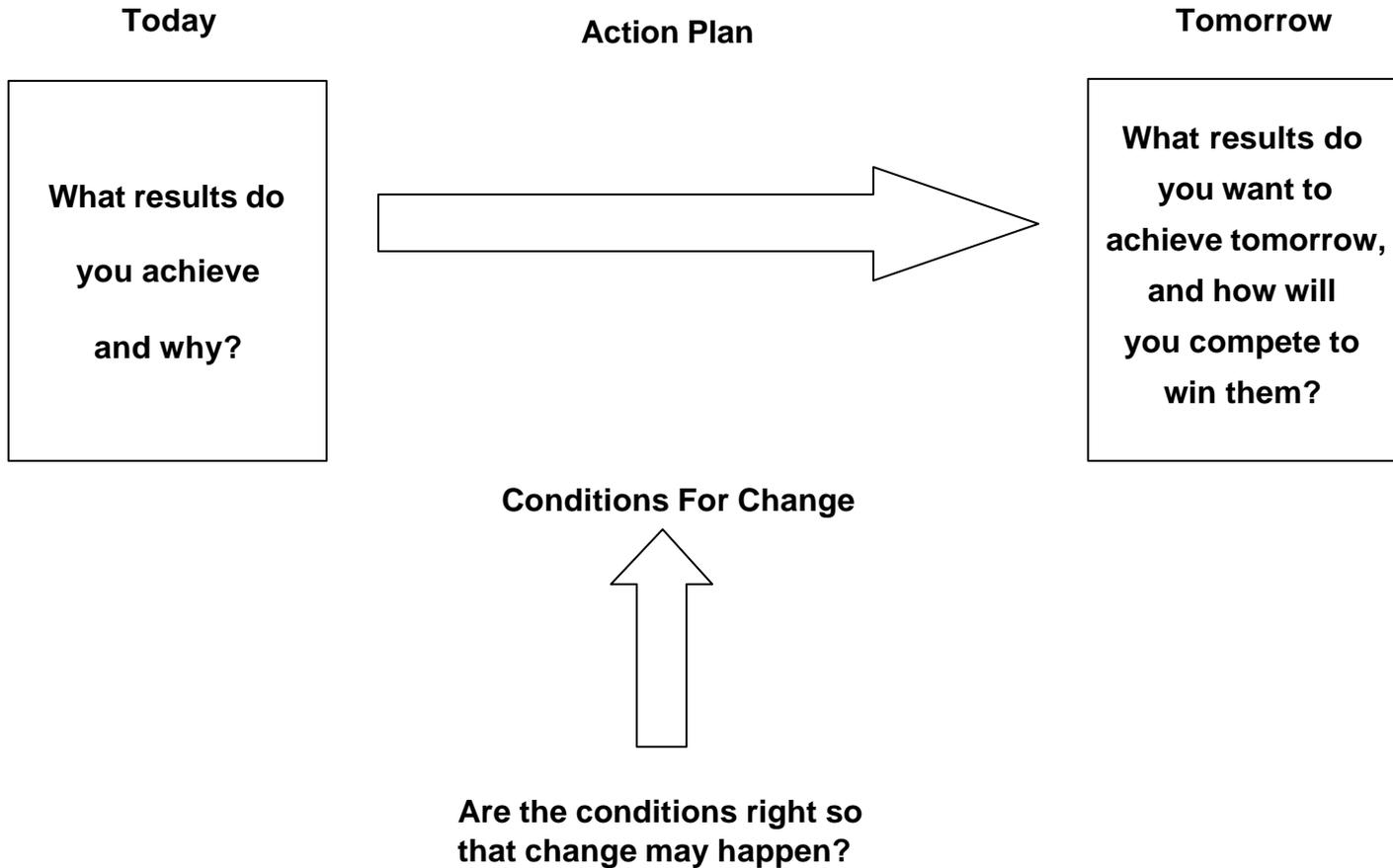
“Differentiate”

“We will supply branded ready-to-eat fresh organic raspberries to small and medium supermarkets, specialty stores and restaurants in Germany, France and Austria.”

Source: Old Model – Quotes from SCEE interviews with Serbian raspberry producers. New Model – Hypothetical comments from a raspberry producer.

Competitiveness Intervention Process

A Sound Competitiveness Plan Has Four Synchronizes Elements



Chilean Fruit Cluster

Chile 1980

US\$138 Million in Exports

What is Chile selling to Whom?

relatively small quantities of table grapes and apples to wholesalers in US, Canada and Latin America

Why are they buying from Chile rather than its competitors?

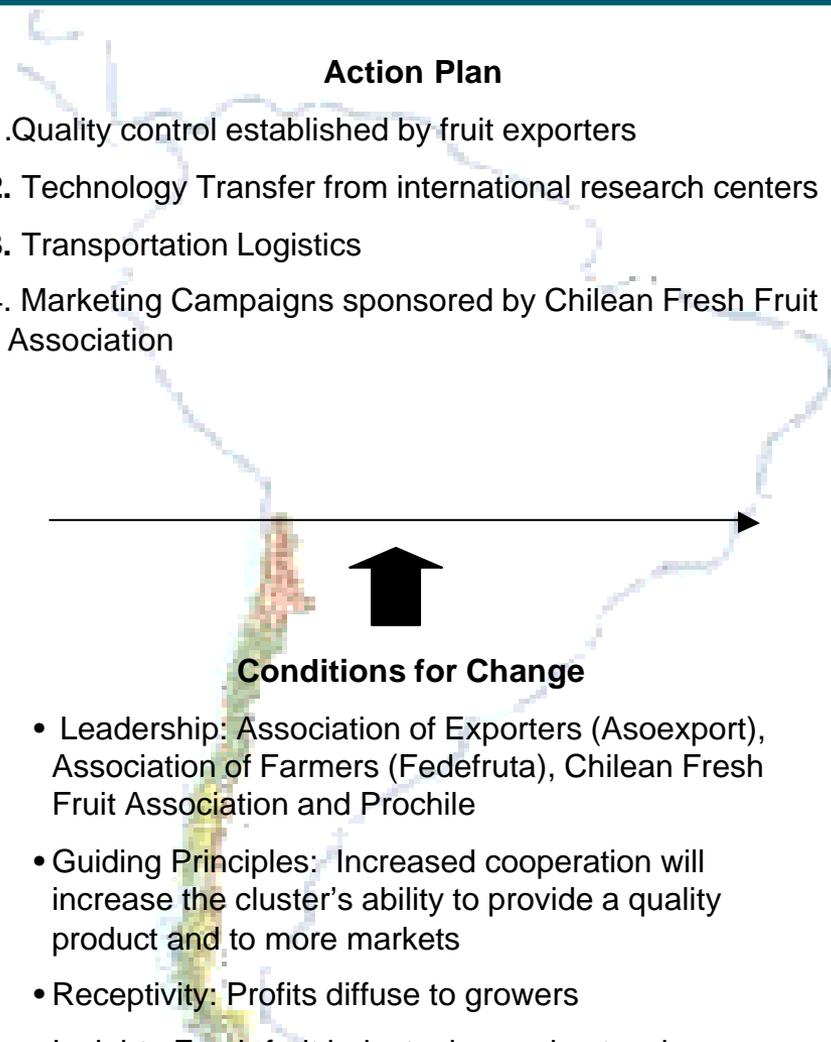
Chilean fruit is of acceptable quality and cheaper than other major southern hemisphere fruit exporters such as Argentina, New Zealand and Australia

Why don't competitors imitate?

Surrounding Latin American countries have not invested in the technology to overcome worse growing conditions.

Action Plan

1. Quality control established by fruit exporters
2. Technology Transfer from international research centers
3. Transportation Logistics
4. Marketing Campaigns sponsored by Chilean Fresh Fruit Association



Conditions for Change

- Leadership: Association of Exporters (Asoexport), Association of Farmers (Fedefruta), Chilean Fresh Fruit Association and Prochile
- Guiding Principles: Increased cooperation will increase the cluster's ability to provide a quality product and to more markets
- Receptivity: Profits diffuse to growers
- Insight: Fresh fruit industry boom due to changes in dietary habits and increase in year-round consumption of fresh fruit

Chile 2003

US\$958 in Exports

What is Chile selling to Whom?

Branded Chilean Fresh fruit to wholesalers and retailers in US, Canada, Europe, Asia and other Latin American countries

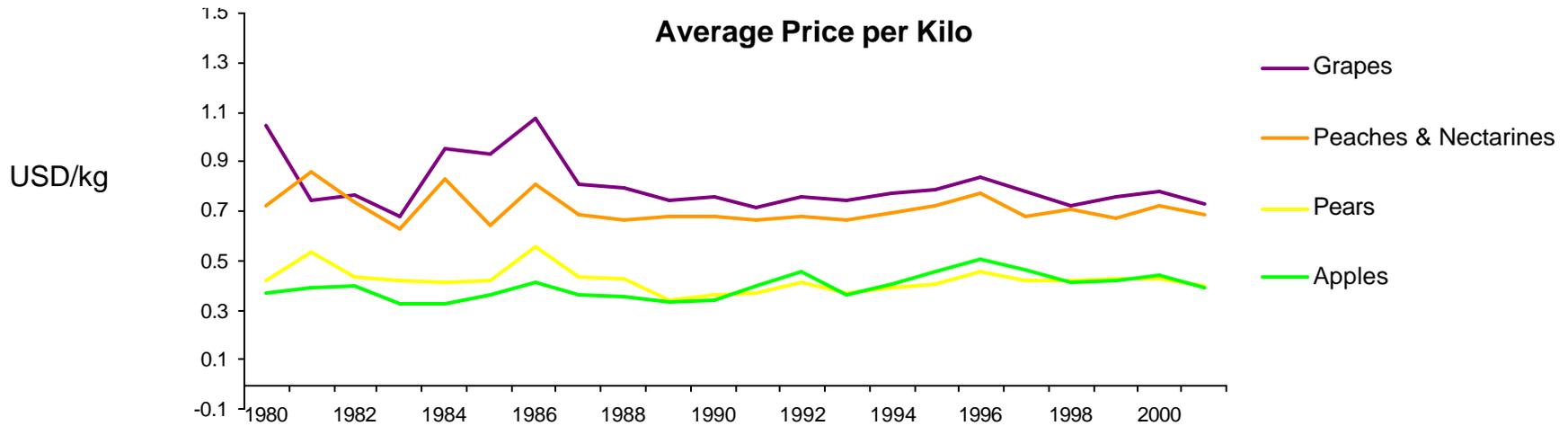
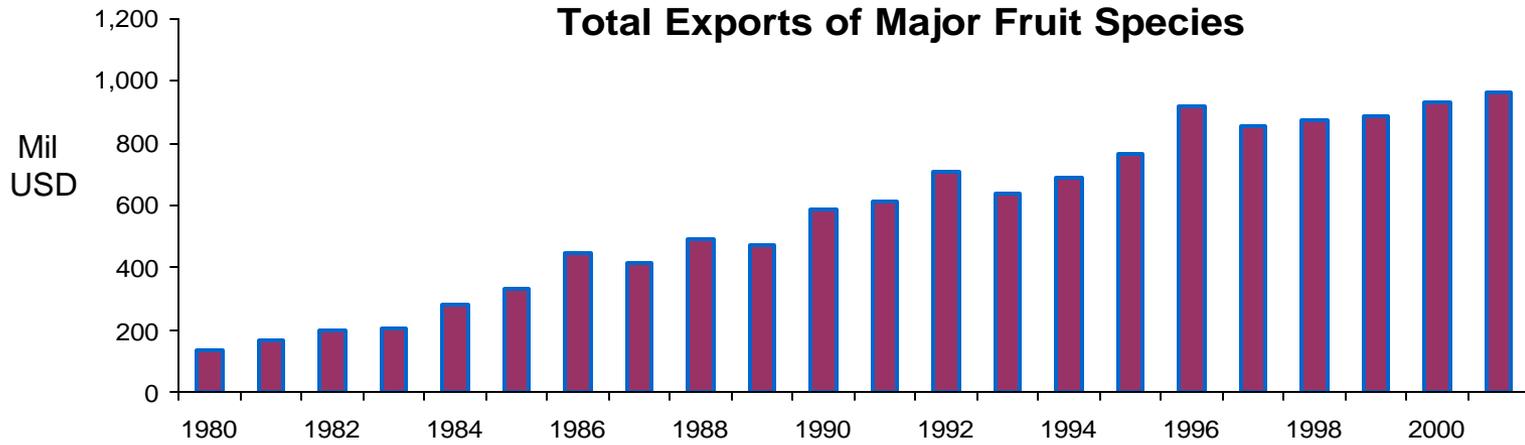
Why are they buying from Chile rather than its competitors?

Chile can provide high quality off-season fresh fruit delivery to the Northern Hemisphere. A sophisticated logistics system allows for the delivery of fresh fruit as soon as 48 hours after picking.

Why don't competitors imitate?

Strategic alliances with Northern Hemisphere fruit companies allow for 12 month fresh fruit availability; Consistent consumer research and R&D results in the introduction of new fruit varieties.

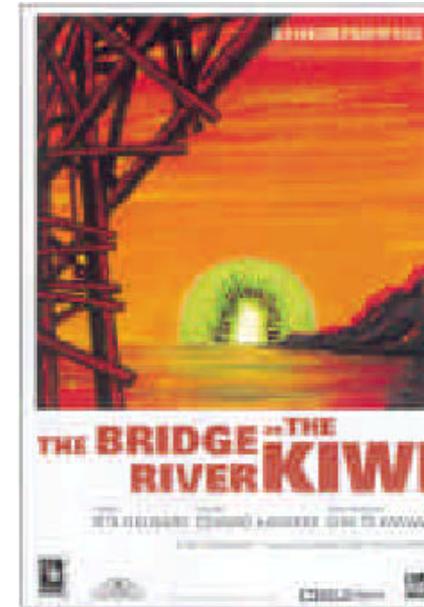
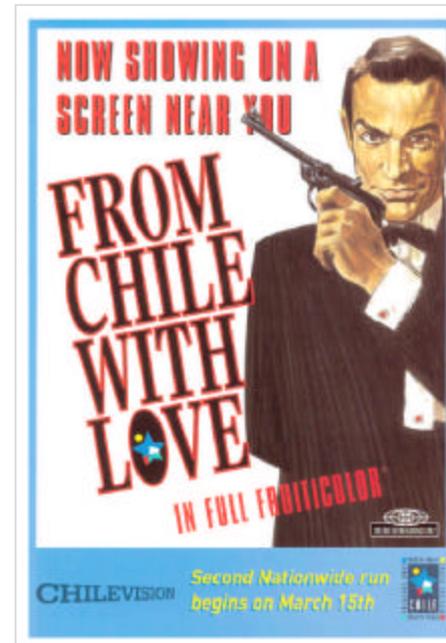
Chilean Fresh Fruit Exports increased almost 10 fold over 20 years, but prices are stagnant



Source: FAO; Total Exports figures include Grapes, Apples, Pears, Peaches & Nectarines, Kiwi and Raspberries

Booz Allen Hamilton

Chile uses marketing and promotional campaigns to increase the recognition of Chilean products



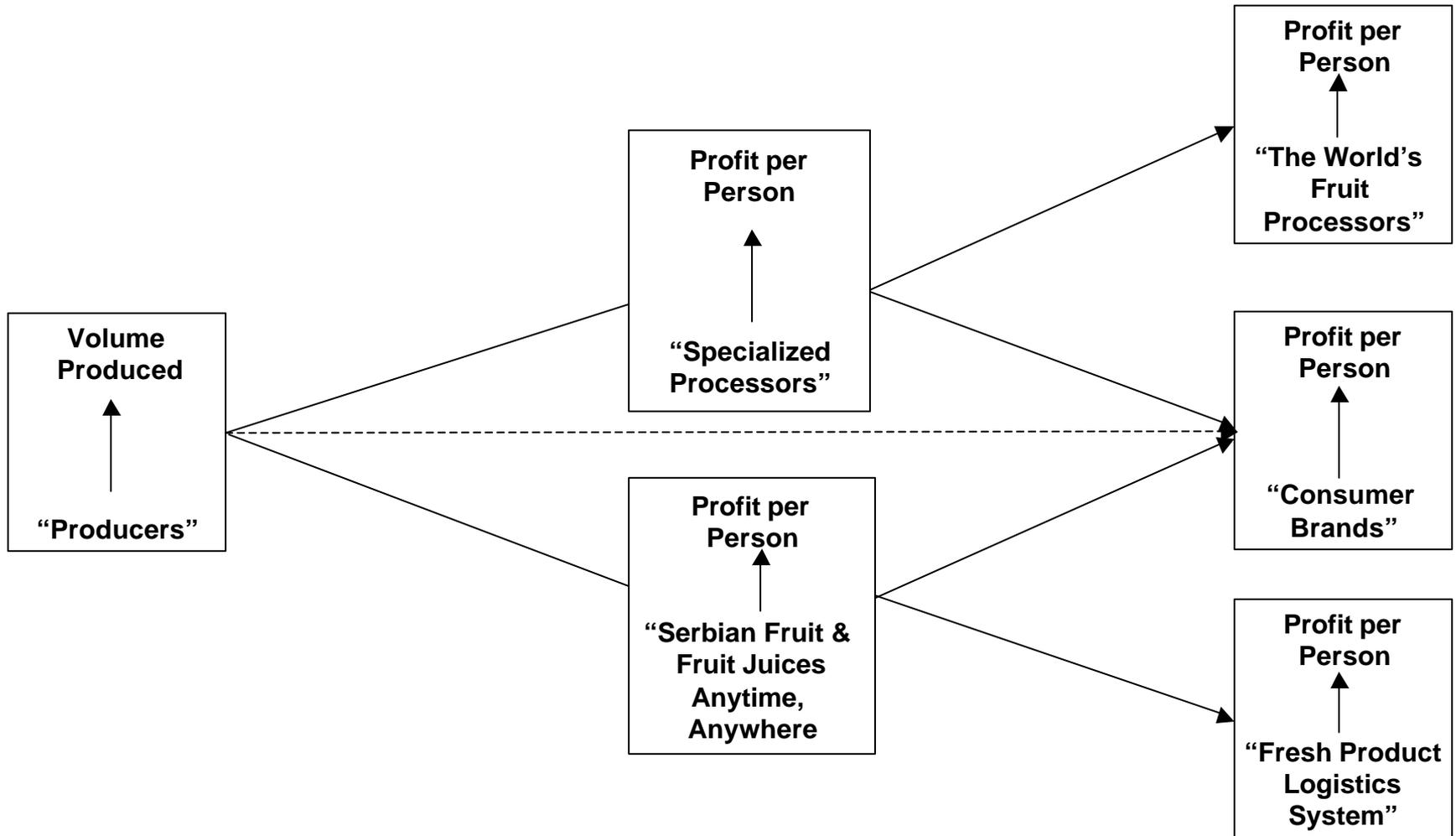
UK Supermarket Chain Campaign

- March 2002 Promotion in Tesco, UK's #1 Supermarket Chain
- Coordinated campaign with wine producers
- New varieties tasting in 120 stores in the UK
- Distribution of money-off coupons and innovative recipe cards

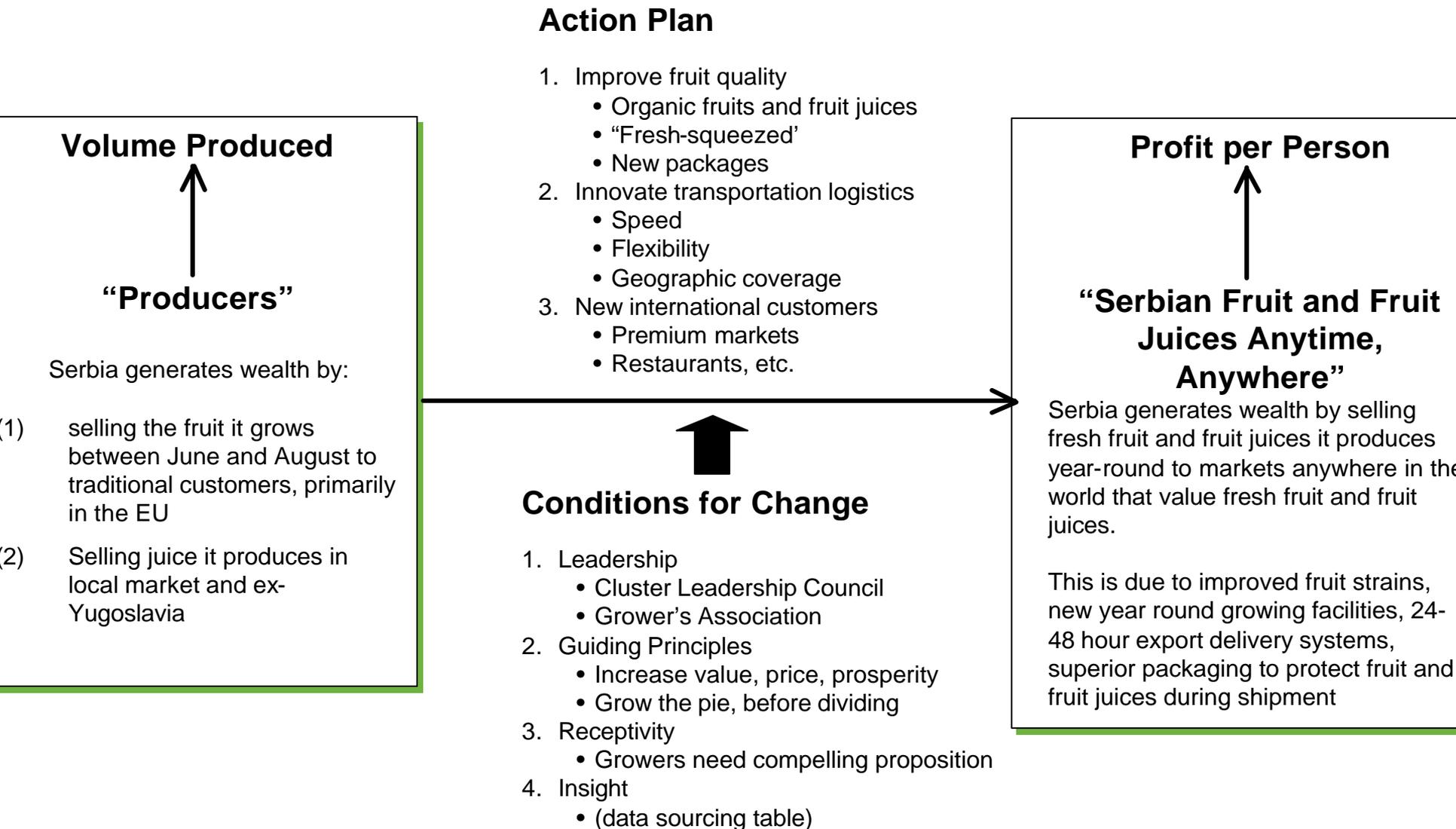
UK Cinema Campaign

- February - April 2002 Campaign
- Targeted younger audience
- 2.5 million people saw the advertisement
- Campaign coincided with a school campaign that promotes greater intake of fruit

Overview of Fruit Cluster’s Competitiveness Campaign



Summary of Option I (Serbian Fruit and Fruit Juices Anytime, Anywhere)

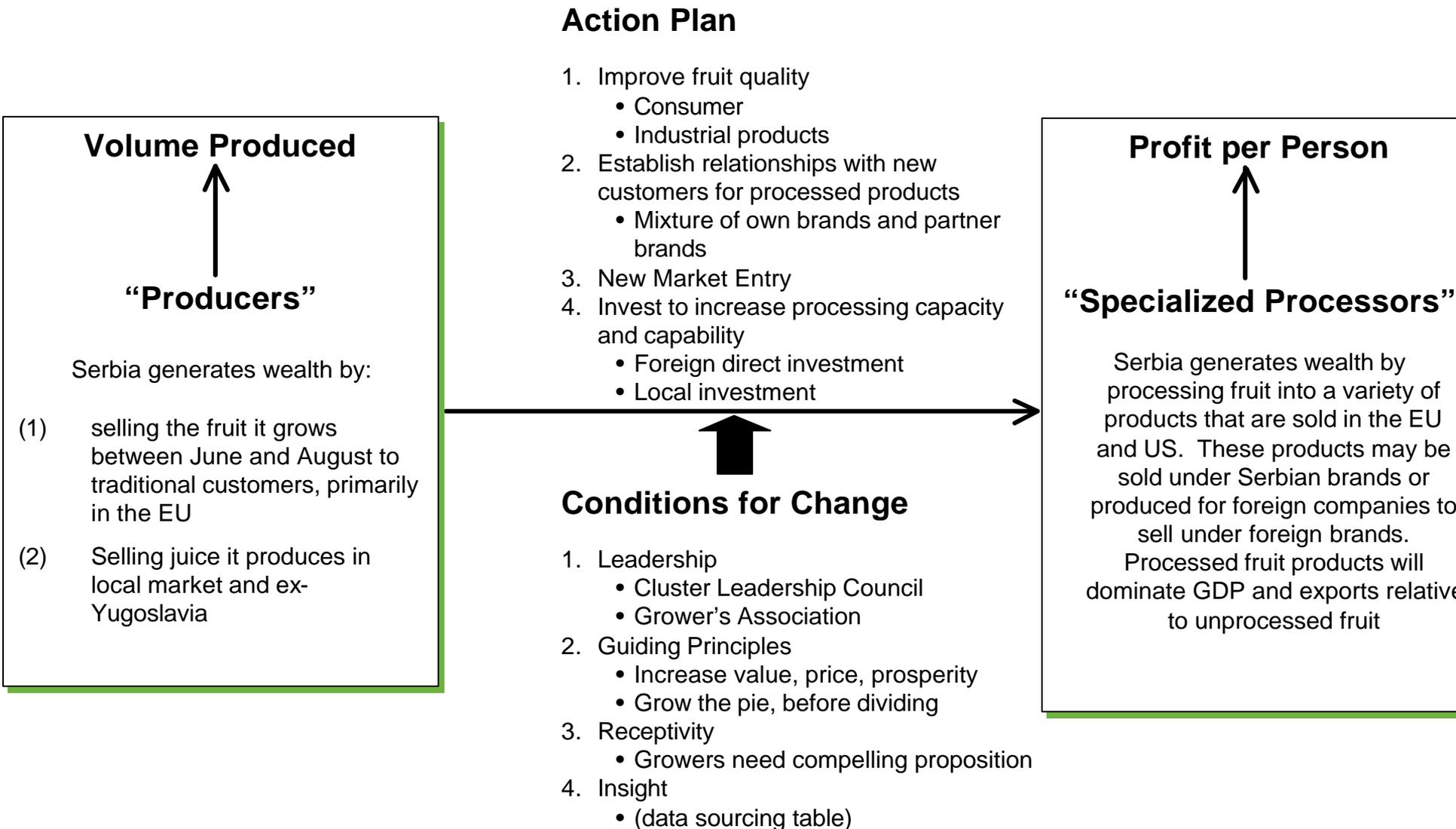


Note: Preliminary Evaluation

Source: SCEE interviews with Serbian, European and US wholesalers

Booz Allen Hamilton

Summary of Option II (Specialized Processors)



Note: Preliminary Evaluation

Source: SCEE interviews with Serbian, European and US wholesalers

Booz Allen Hamilton

Strategy Summary (Today)

Serbia: Producers	
Results	Tons Exported: 138,850 (2001) \$/Ton: \$677 Employment: 122,320
What does Serbia sell to whom?	85% of Serbia's exports come from selling frozen fruit, primarily to Germany and France. Less than 10% comes from selling processed fruit or juices.
Why do customers buy from Serbia instead of from which competitors?	France and Germany buy Serbian fruit rather than Polish fruit because Serbian fruit offers better flavor at the same price. They purchase Serbian fruit instead of Chilean fruit because Serbian fruit is cheaper at equal taste. Serbian juices have acceptable flavor and lower prices than EU-produced juices.
Why will competitors not be able to rapidly imitate Serbia's offering(s) and success?	Poles and Bulgarians have not invested in techniques to close the quality gap by overcoming worse growing conditions than Serbians have. Processed fruit and juice exports are easy to imitate. No barrier to imitation for Chileans, they have already entered the European market with fresh off-season fruit.

Source: observations based on data provided by client to SCEE team

Strategy Summary (Option 1)

Serbian Fruit and Fruit Juices Anytime, Anywhere	
Results	Profit/Person Employed <ul style="list-style-type: none"> • Supported by strategy-appropriate value-added metrics
What does Serbia sell to whom?	The great majority of Serbia’s exports come from selling fresh fruit and fruit juices to selected wholesalers and retailers in the EU, United States and Asia. Serbia focuses on wholesalers and retailers who will pay premium prices for fresh fruit in quantity.
Why do customers buy from Serbia instead of from which competitors?	Serbia can provide fresh fruit in good quality at times of year when others are unable to produce such fruit, and can deliver in quantity year-round to sign multi-year contracts.
Why will competitors not be able to rapidly imitate Serbia’s offering(s) and success?	Development of new strains, transportation systems and packaging techniques will require significant capital investments or partnerships with others who already have these capabilities available for Serbia to purchase. Serbia’s large competitors, like Chile, do not want to set up a parallel distribution system for small and medium retailers when their principal business is to large supermarket chains. It is not clear what will prevent imitation in the medium-term once Serbia has demonstrated that this approach is economically viable.

Strategy Summary (Option 2)

Specialized Processors	
Results	Profit/Person Employed <ul style="list-style-type: none"> • Supported by strategy-appropriate value-added metrics
What does Serbia sell to whom?	The majority of Serbia’s exports come from selling processed fruit products in the EU, United States and Asia. Serbia focuses on retailers who want to expand the range of choices they offer customers (rather than looking to effectively co-brand with specific brands or products) or companies with consumer brands looking to expand their product lines with private label products.
Why do customers buy from Serbia instead of from which competitors?	Serbia offers processed products to retailers that offer superior delivery reliability, “international” flavor and product consistency when compared with competing products from E. Europe, the EU or the US. Serbia’s processing capabilities are positioned to offer superior quality and responsiveness at smaller lot sizes than established processors.
Why will competitors not be able to rapidly imitate Serbia’s offering(s) and success?	Serbia will have the benefit of investing in new equipment and capabilities, and will enjoy high levels of productivity that will make the value-proposition significantly expensive for some competitors to imitate. Serbia will also provide products more specifically designed for retailers or private labelers and available more quickly/flexibly than other processors will be able to profitably imitate.

Source: observations based on data provided by client to SCEE team

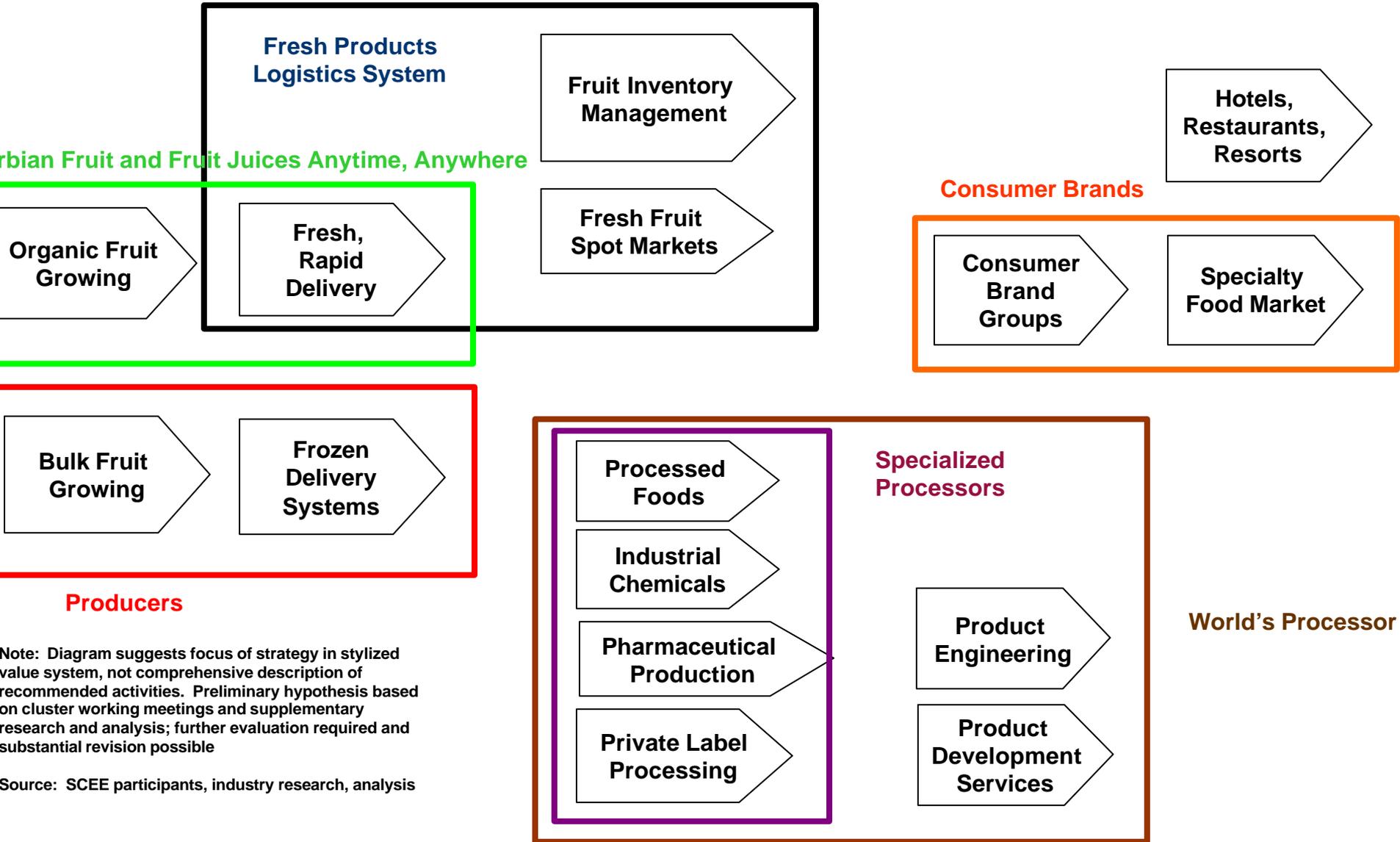
Comparing Current and Future Options for Fruit Cluster

	Producers (Current)	Serbian Fruit and Fruit Juices Anytime, Anywhere	Specialized Processors
Key Products and Services	Frozen Raspberries Processed juices with incipient branding	Fresh organic fruit and fruit juices 24-48 hour order response time services High-end fruit packaging	Processed foods and juices Industrial chemicals Fruit-derived pharmaceuticals Logistics, storage and maintenance services for processed goods
Target Customers and Markets	Wholesale and retail supermarkets France, Germany	Specialty fruit stores, restaurants North America, EU, Japan, Australia/NZ, Caribbean resort islands	Mid-range markets seeking variety, food companies with brands but outsourced processing preferences E. Europe, EU, Caribbean, E. Asia

Note: Preliminary Hypothesis based on cluster working meetings and supplementary research and analysis; further evaluation required and substantial revision possible

Source: SCEE Participants, industry research, analysis

Comparing Current and Potential Future Options for Fruit Cluster



Note: Diagram suggests focus of strategy in stylized value system, not comprehensive description of recommended activities. Preliminary hypothesis based on cluster working meetings and supplementary research and analysis; further evaluation required and substantial revision possible

Source: SCEE participants, industry research, analysis

Fruit Cluster Data Sourcing Tables

Sourcing Tables Are Used to Simplify Data Collection by The Cluster

Cluster members need to first identify the critical data needed to help inform their choice of options

Next, the cluster members review the source and method to obtain the required information

Specific Issues/Questions	Mgmt	Employ.	Customer	Partner	Competition	Govt.	Civic/ Assoc
Q1. What are the specific non-price value needs of customers that drive higher premiums for fresh fruit?	I-view	I-view	Survey	Phone I-view	Comp. Press Releases		Library
Q2. What transportation and associated logistics systems are needed for fresh export, and how much do they cost?	I-view	I-view		Phone I-view	2ndary research comp. literature	Council Meeting	Library
Q3. Who are the most likely competitors for Serbia's new strategy; and what is the most likely competitive response?	I-view	I-view	Survey	Phone I-view	2ndary research comp. literature		
Q4. What technology is required to increase productivity and/or extend year-round fruit growth?	I-view	I-view		Phone I-view	2ndary research of comp. literature	Council Meeting	Library

Fruit Cluster Summary Task Worksheet

Information is aggregated for each source by activity

The cluster classifies the questions by activity and source

Next, the cluster agrees to timing and who will gather the information

Tasks: Interviews, Surveys, Research

Information Required	Source	Timing	Responsible
Issues/Questions: I,II,III,IV	Management	Week prior to Mar 3 meeting	
Issues/Questions: I,II,III,IV	Employees	Week prior to Mar 3 meeting	
Issues/Questions: I,III	Customer	Week prior to Mar 28 meeting	SCEE
Issues/Questions: I,II,III,IV	Partner	Week prior to Mar 3 meeting	
Issues/Questions: I,II,III,IV	Competition	Week prior to Mar 3 meeting	
Issues/Questions: II,IV	Government	Week prior to Mar 3 meeting	SCEE
Issues/Questions: I,II,IV	Civic Group/ Association	Week prior to Mar 3 meeting	SCEE

Furniture Cluster Data Sourcing Tables

Sourcing Tables Are Used to Simplify Data Collection by The Team

The team needs to first identify the critical data needed to help inform their choice of options

Next, the team reviews the source and method to obtain the required information

Specific Issues/Questions	Mgmt	Employee	Customer	Partner	Competition	Govt.	Civic/Assoc
Q1.							
Q2.							
Q4.							

Furniture Cluster Summary Task Worksheet

Information is aggregated for each source by activity

The team classifies the questions by activity and source

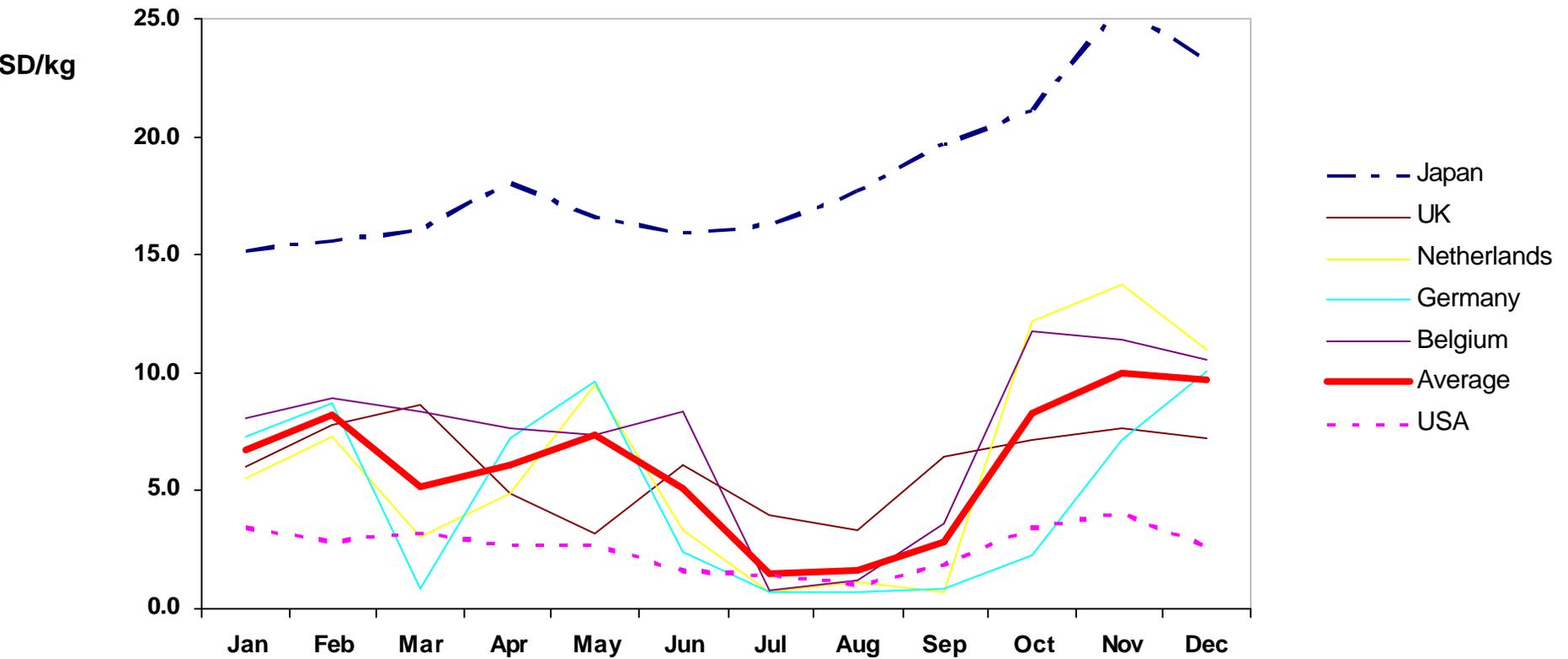
Next, the team agrees to timing and who will gather the information

Tasks: Interviews, Surveys, Research

Information Required	Source	Timing	Responsible

The majority of Serbian raspberries are exported from July to September when the prices are the lowest

Monthly Import Prices of Fresh Raspberries

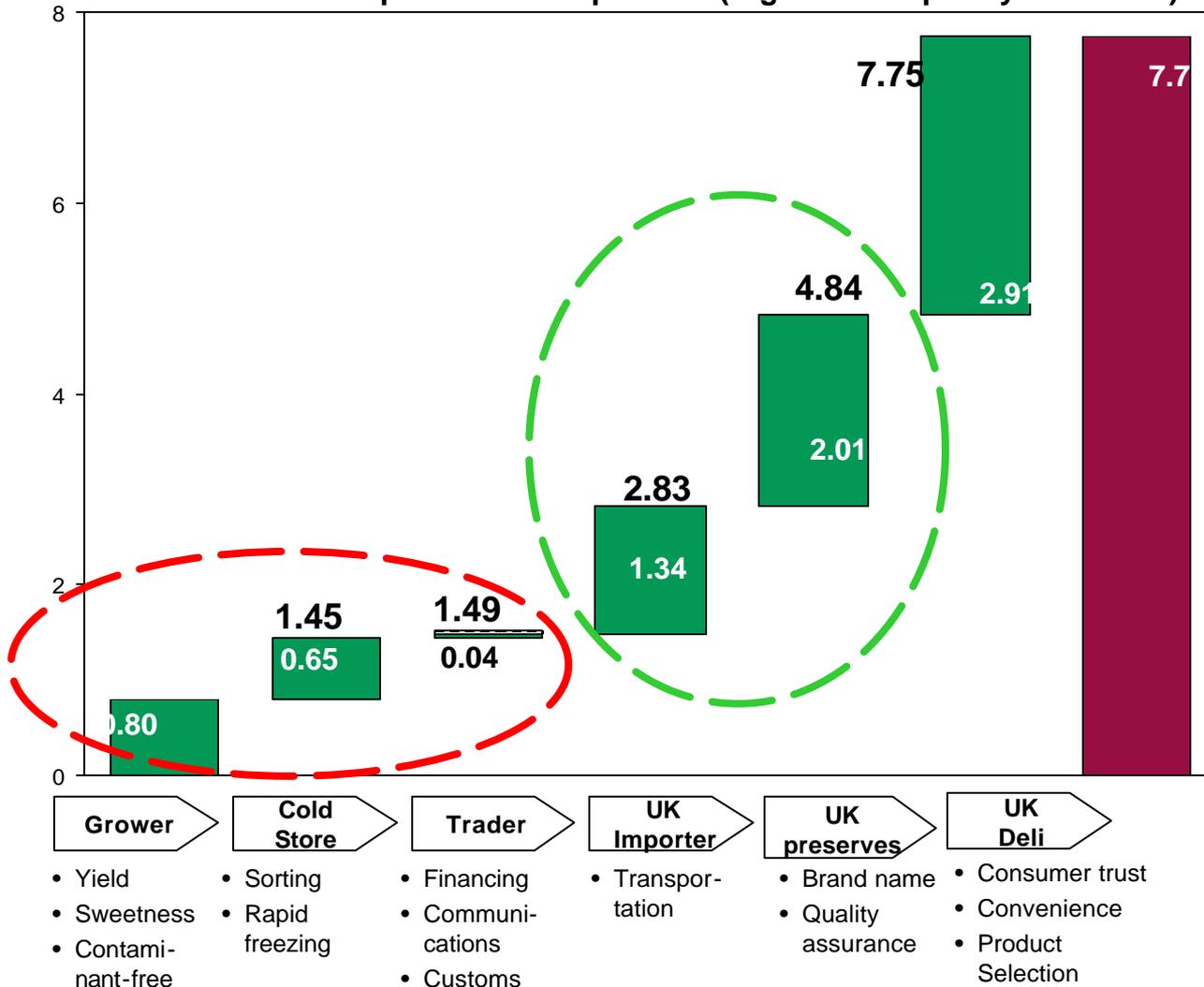


Source: Market Ag, 1997 data; SCEE Analysis

Booz Allen Hamilton

Revenue captured from sale of raspberry products

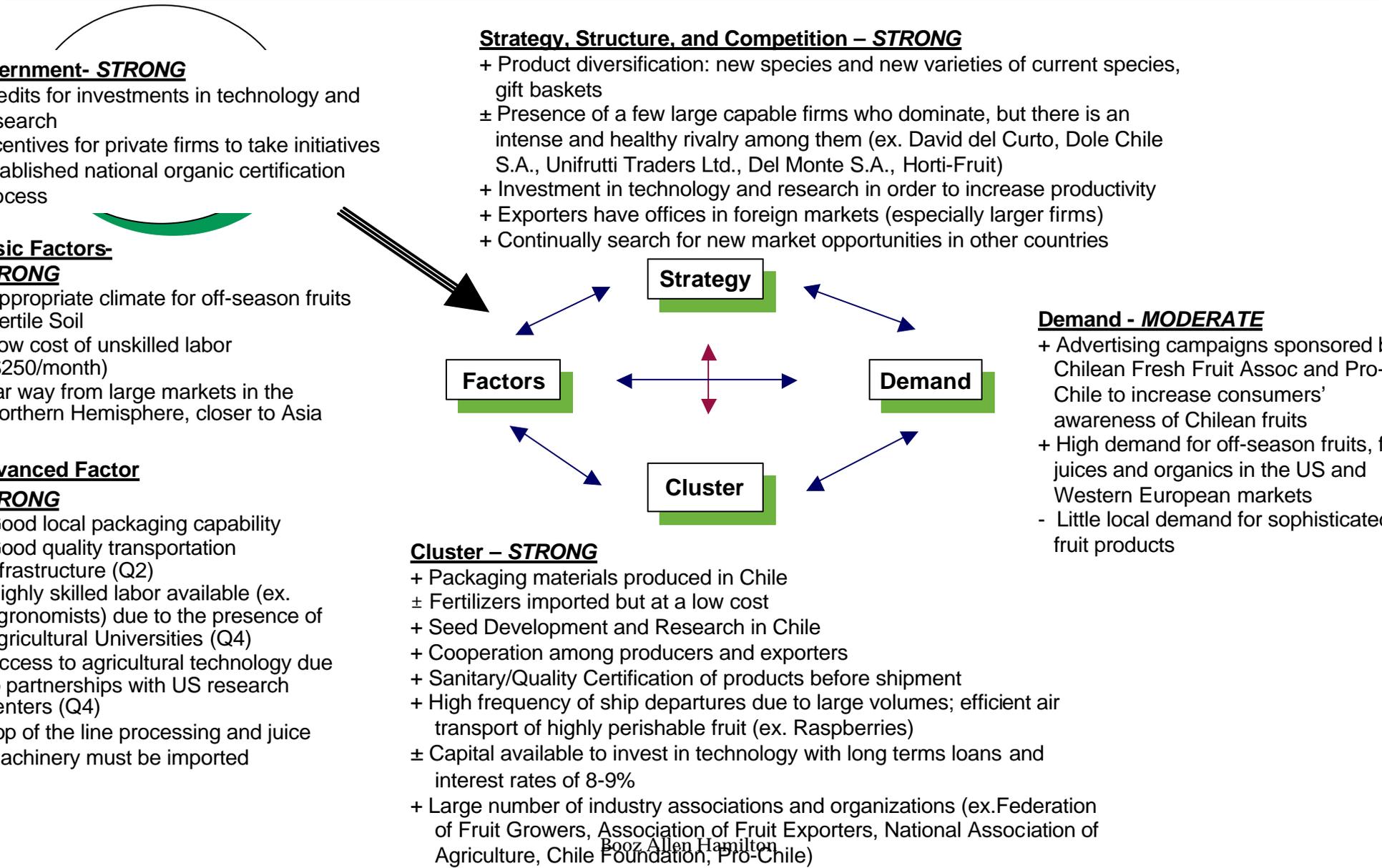
Net Revenue per Kilo of Raspberries (Highfield Raspberry Preserves)



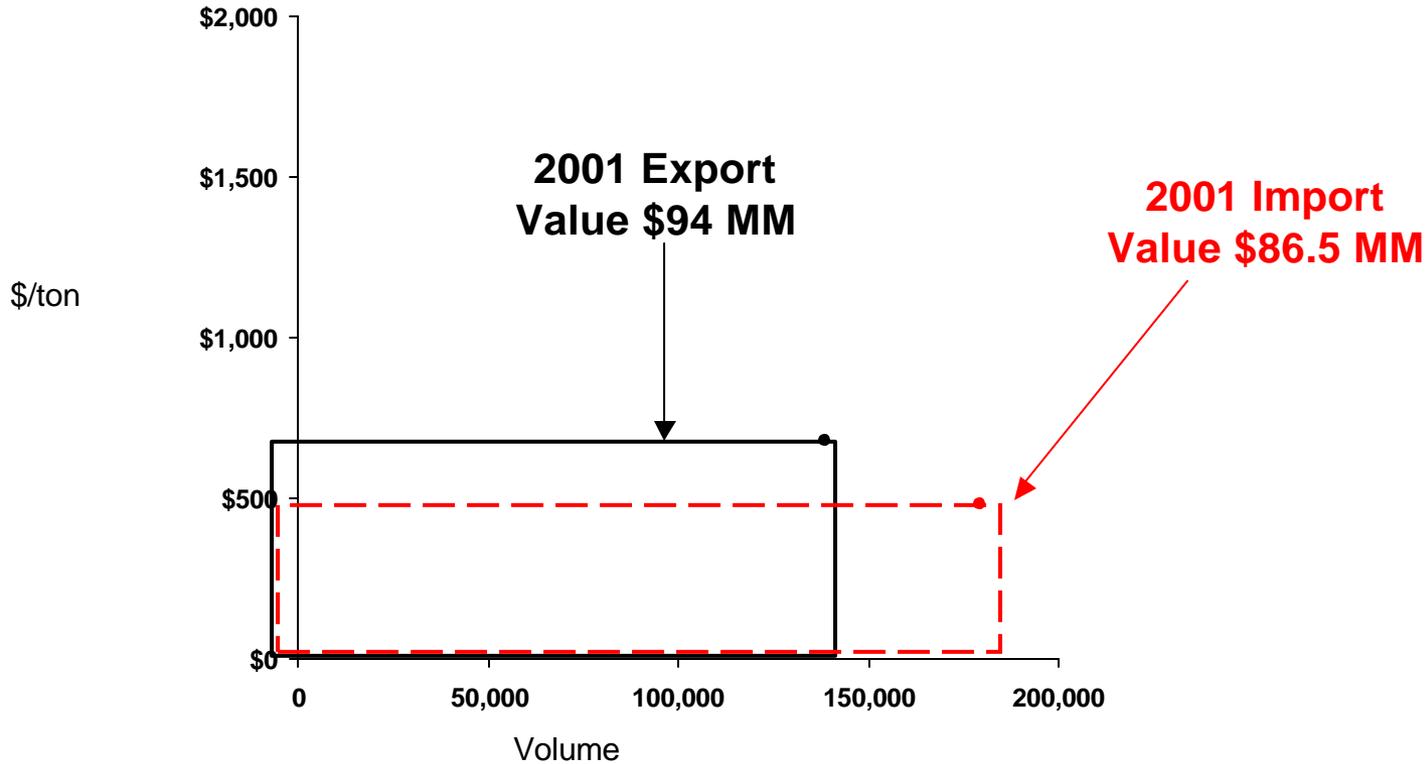
Key selection criteria

- Consumer trust
- Convenience
- Variety
- Brand
- Taste
- Attractive packaging
- Healthy
- Price

The Competitive Diamond for fruits in Chile is strong due to a well developed cluster and strong demand



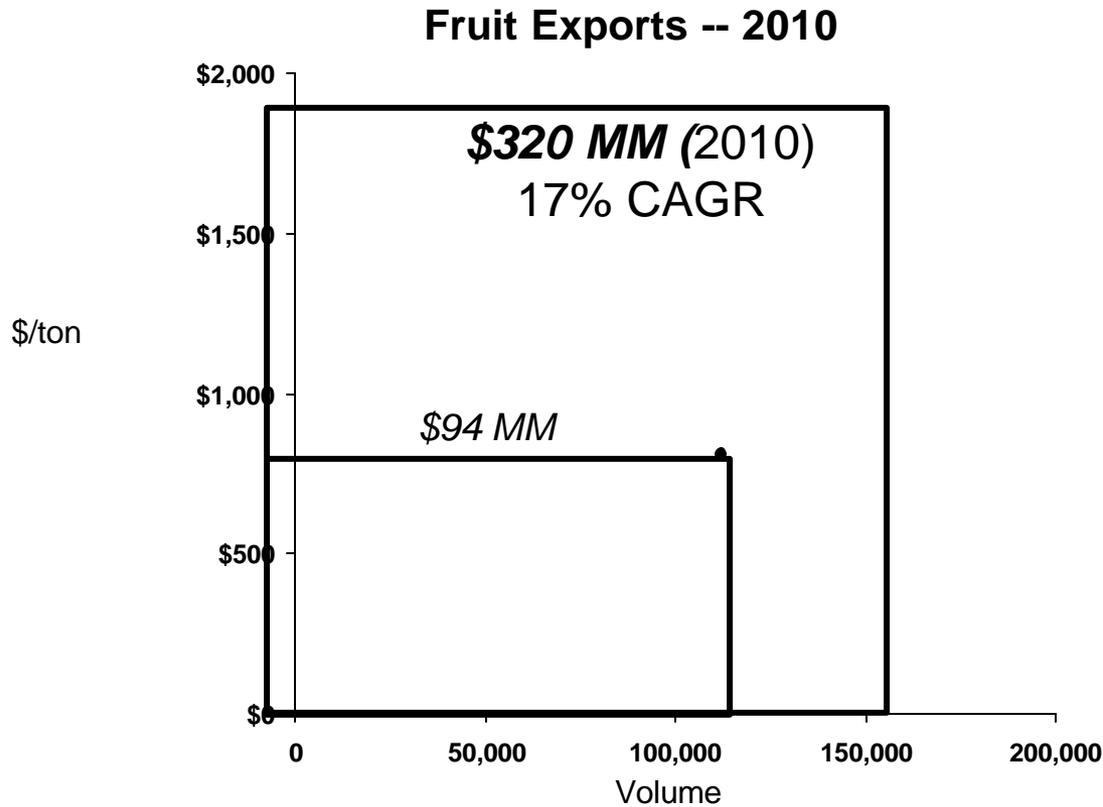
Total Fruit Export and Import Values in 2001



	Volume (tons)	\$ / ton	Receipts (\$ Million)
Export	138,850	677	94
Import	179,461	482	86.5
Domestic			

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

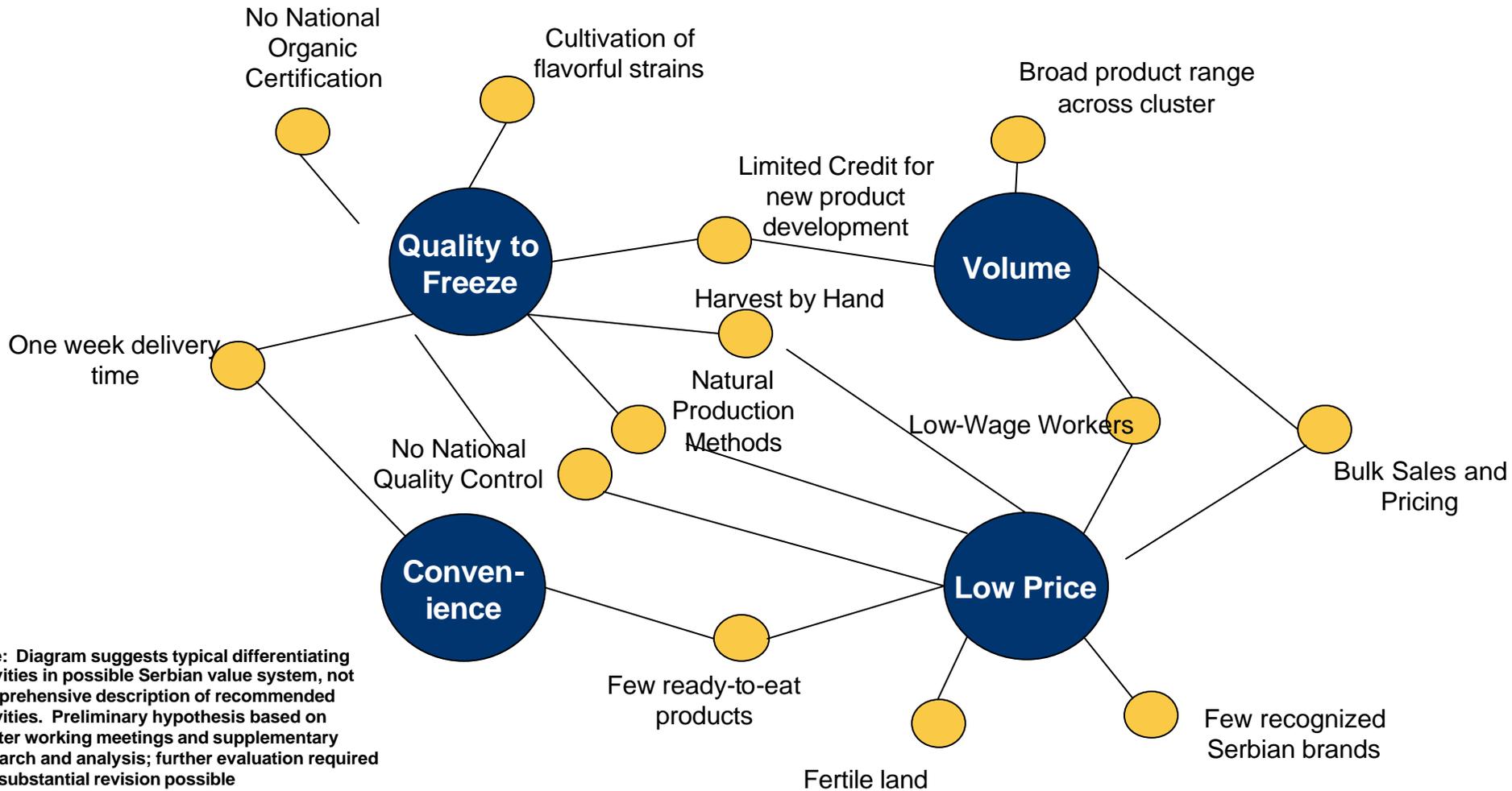
Fruit Export Values in 2010



	Volume (tons)	\$ / ton	Receipts (\$ Million)
domestic			
Export	138,850	677	94

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

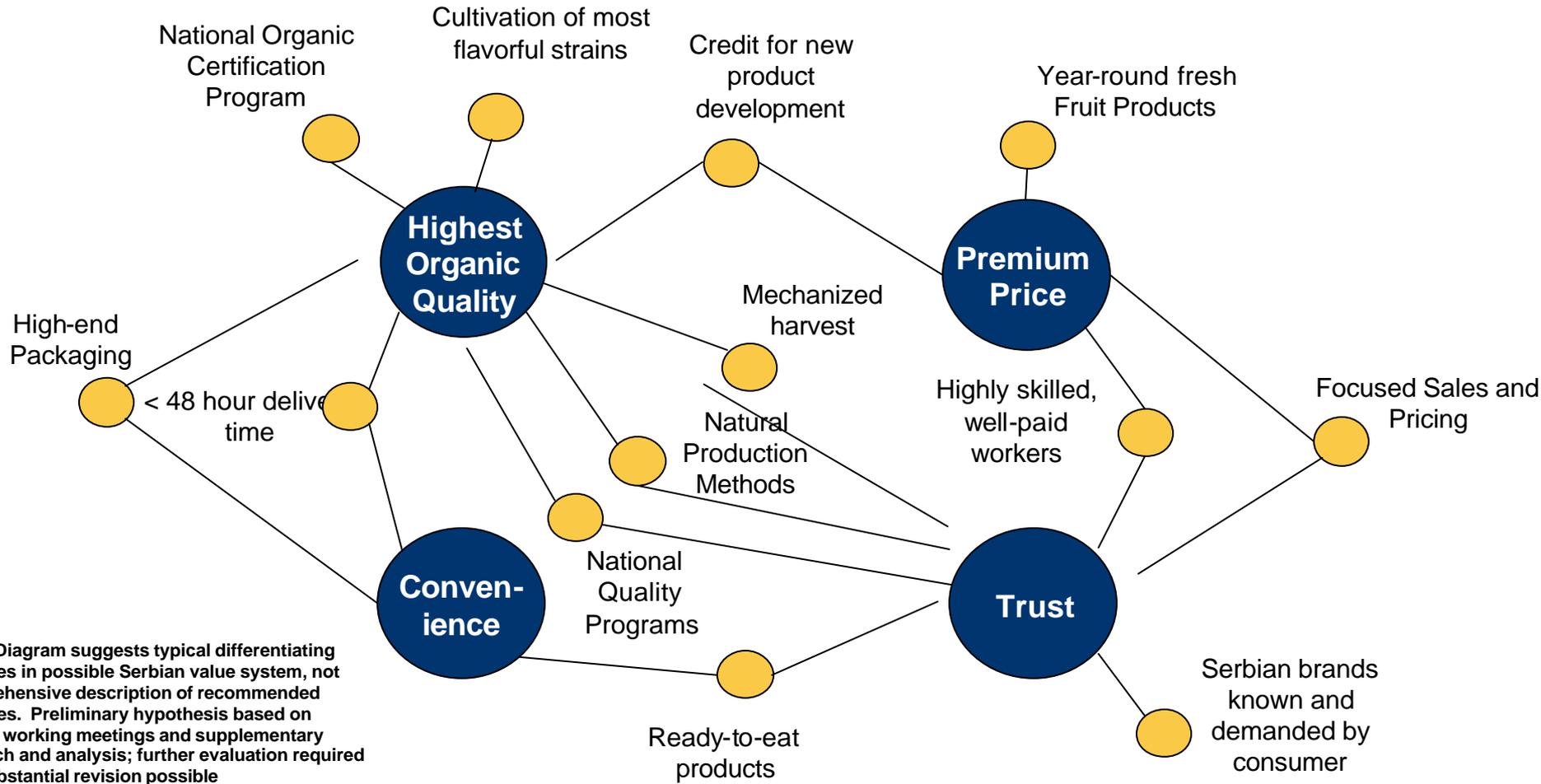
Web of Activities to Satisfy Consumer Needs (Producers)



Note: Diagram suggests typical differentiating activities in possible Serbian value system, not comprehensive description of recommended activities. Preliminary hypothesis based on cluster working meetings and supplementary research and analysis; further evaluation required and substantial revision possible

Source: SCEE participants, industry research, analysis

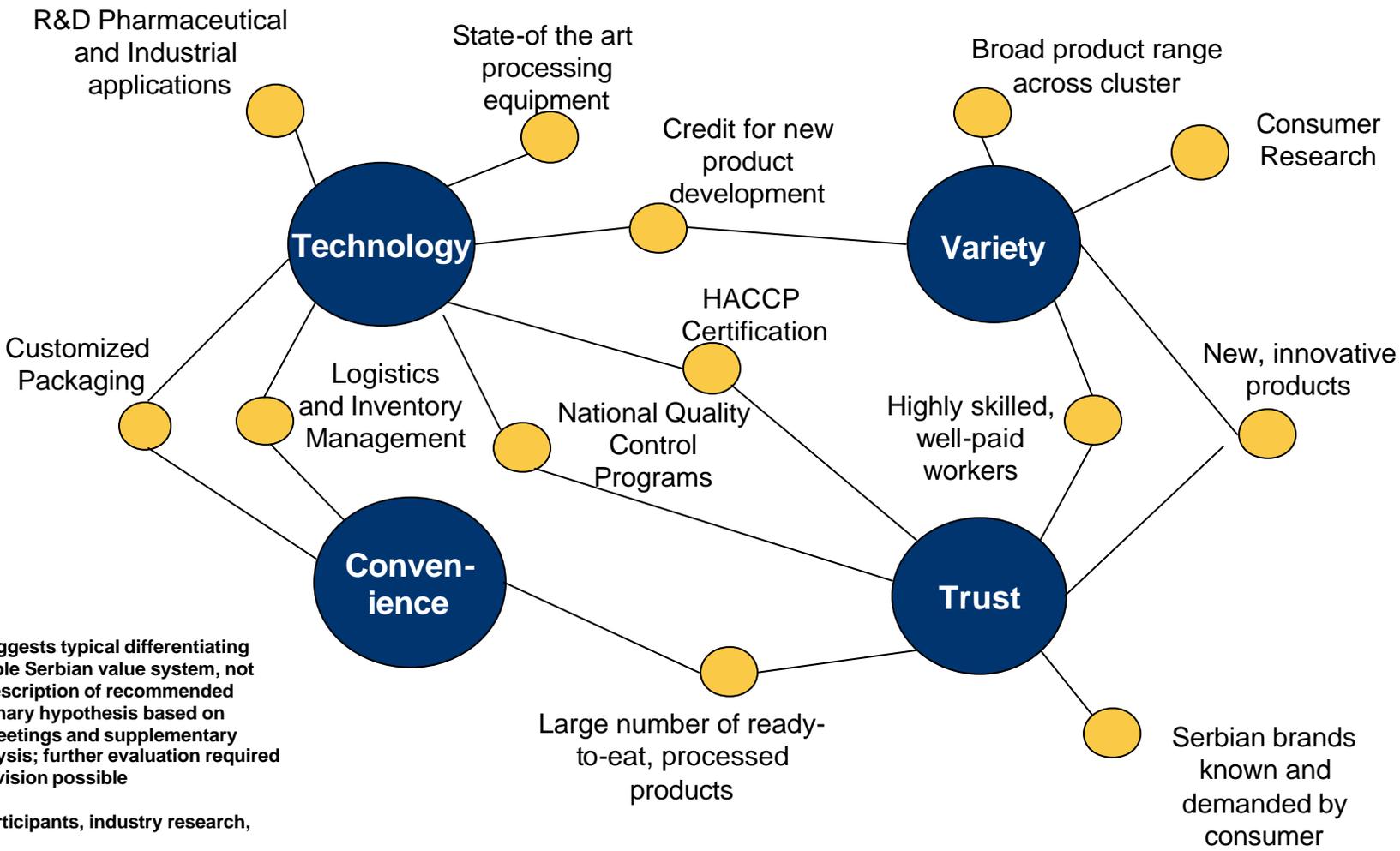
Web of Activities to Satisfy Consumer Needs (Serbian Fruit and Fruit Juices Anytime, Anywhere)



Note: Diagram suggests typical differentiating activities in possible Serbian value system, not comprehensive description of recommended activities. Preliminary hypothesis based on cluster working meetings and supplementary research and analysis; further evaluation required and substantial revision possible

Source: SCEE participants, industry research, analysis

Web of Activities to Satisfy Consumer Needs (Specialized Processor)



Note: Diagram suggests typical differentiating activities in possible Serbian value system, not comprehensive description of recommended activities. Preliminary hypothesis based on cluster working meetings and supplementary research and analysis; further evaluation required and substantial revision possible

Source: SCEE participants, industry research, analysis



**Serbia Competitiveness &
Economic Efficiency Project**

**Fruit, Fruit Juices and Equipment Meeting
21 March 2003**

Developing the Fruit and Fruit Juice Campaign

Fruit Cluster Meeting Agenda

- I. SCEE Update**
- II. Press Conference and National Summit Update**
- III. Evolving Fruit Cluster Structure**
- IV. ACDI/VOCA Guest Speaker**
- V. Decision on Taskforce Focus and Taskforce Member Composition**
- VI. Taskforce Breakout Groups**
 - **Goals of the Taskforce defined**
 - **Responsibilities Assigned**
 - **Timing Agreed Upon**
 - **Discussion about new products, job creation, revenue stream**
- VII. Meeting Feedback**

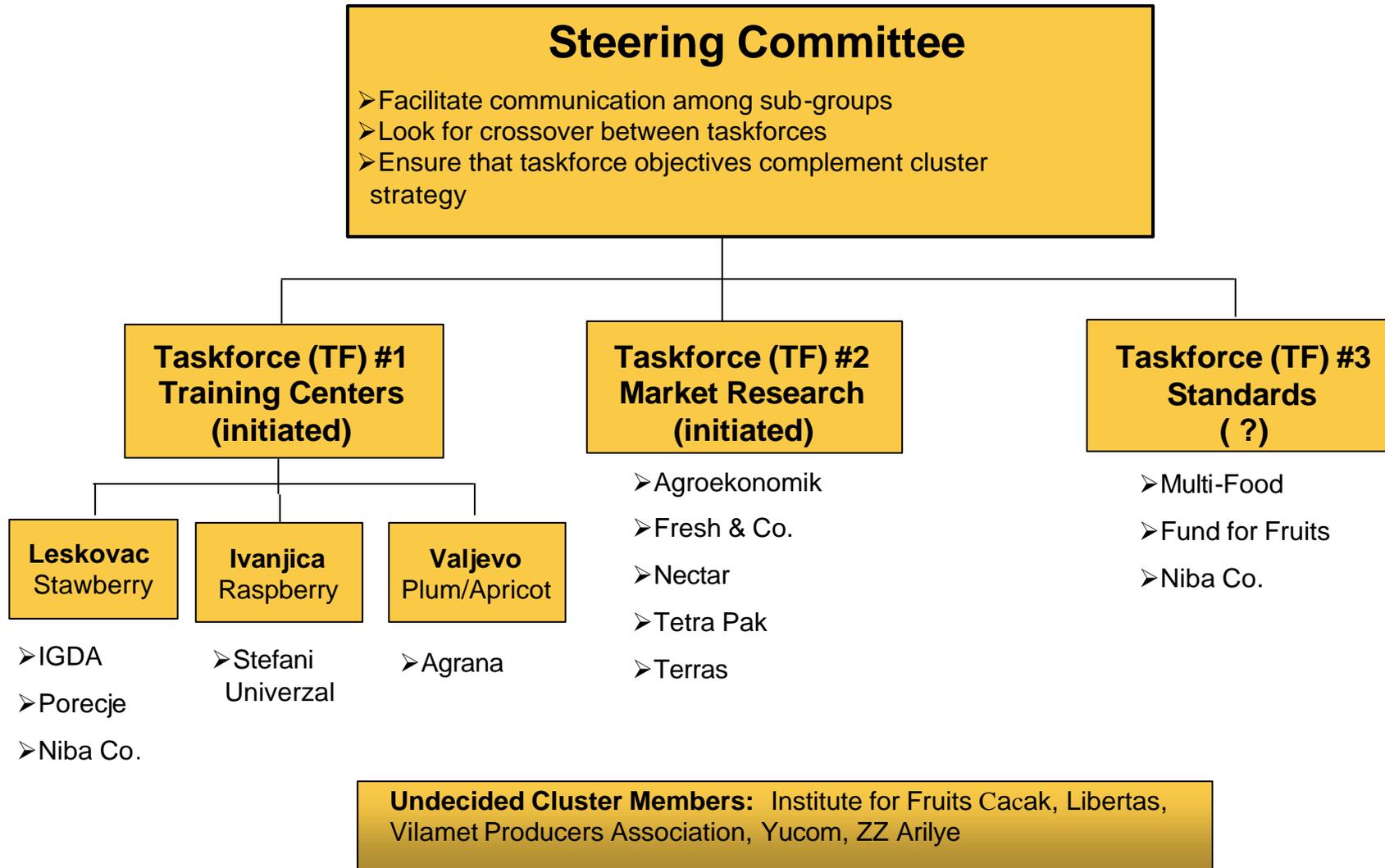
Developing the Fruit and Fruit Juice Campaign

Who Is in The Broader Cluster

	Current Members	Broader Cluster
Firms and Partners	<ul style="list-style-type: none"> • Agrana • Agroekonomik • Fresh Co • IGDA Impex • Multi-Food • Nectar • Niba Co • Porecje • Stefani Universal • Tetra-Pak • ZZ Arilje • Yucom 	<ul style="list-style-type: none"> • Agropartner • Libertas • ZZ Latvica • Other Fruit growers
Civic/ Associations	<ul style="list-style-type: none"> • SCEE Cluster Group • Association for Fruits and Vegetables • Fund for Fruit and Vegetables • Terra's, Natural Food Association, Subotica • Vilamet Producers Association 	<ul style="list-style-type: none"> • Fruit Juice Association
University Training Centers Research Orgs.	<ul style="list-style-type: none"> • Open University • Institute for Fruit Cacak • Center for Plant and Genetical Research • Institute of Applied Sciences 	<ul style="list-style-type: none"> • University Curriculum
Finance Institutions	<ul style="list-style-type: none"> • Zepter Bank 	<ul style="list-style-type: none"> • Agro bank • Exim Bank • Community Revitalization Democratic Action • Diaspora (Angel Investors) • Firms (FDI) • VOCA; AIK; Rihizen Bank
Government	<ul style="list-style-type: none"> • National Council • Ministry of International Economic Relations 	

Developing the Fruit and Fruit Juice Campaign

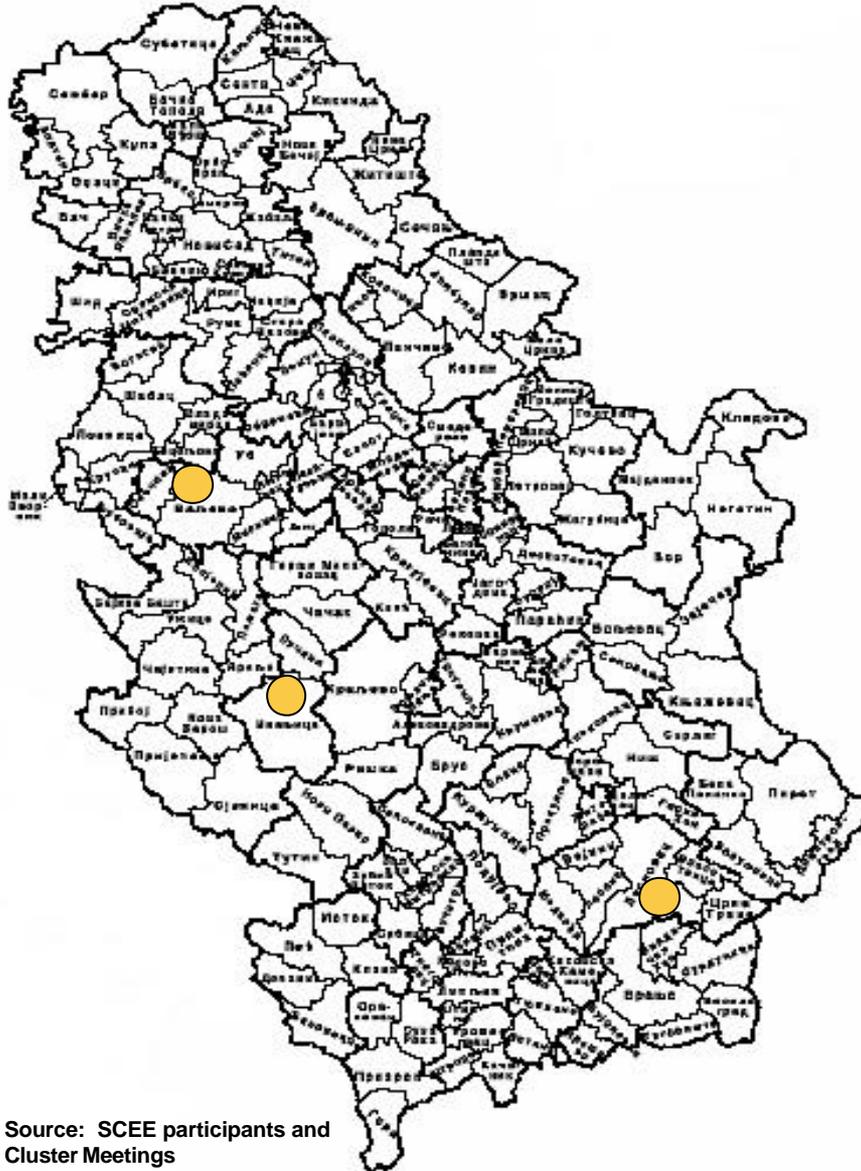
The Structure of Cluster Activities



Source: SCEE participants and Cluster Meetings

Developing the Fruit and Fruit Juice Campaign

TF #1: Regional Training Centers in Valjevo, Ivanjica and Leskovac



Source: SCEE participants and Cluster Meetings

Development of targeted fruits with partial funding provided by CRDA Programs

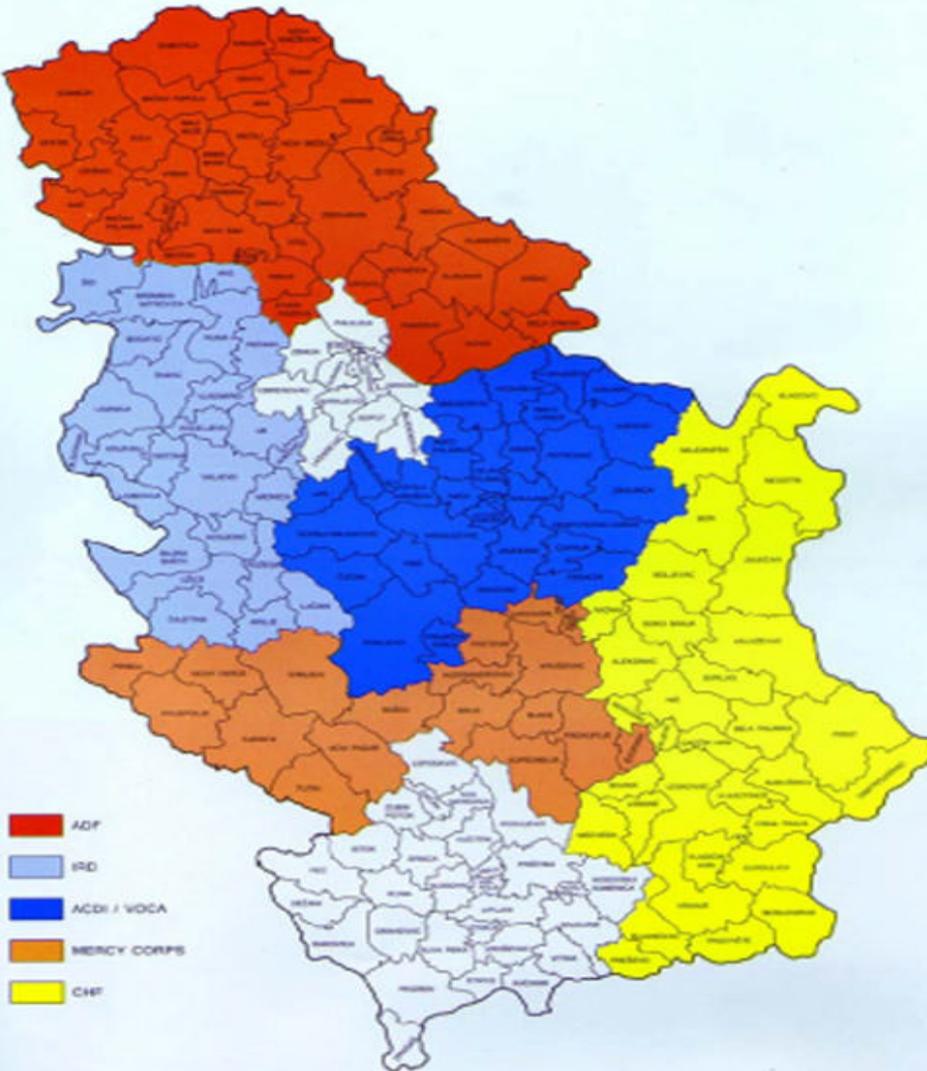
The Training Centers will focus on:

- Growing & harvesting techniques
- Irrigation technology
- Hail & frost protection
- Disease prevention
- Testing of new strains and varieties
- Extension of growing season
- New product development
- Packaging
- Marketing
- Logistics and transportation testing
- Testing varieties for taste, demand and sturdiness

Developing the Fruit and Fruit Juice Campaign

Possible Funding Sources for the Training Centers

CRDA PROGRAM



ADF - Americas Development Foundation
(<http://www.adfusa.org>)

IRD - International Relief and Development
(<http://www.ird-bg.org.yu/>)

ACDI/VOCA - Agricultural Cooperative Development International / Volunteers in Overseas Cooperative Assistance
(<http://www.acdivoca.org.yu/>)

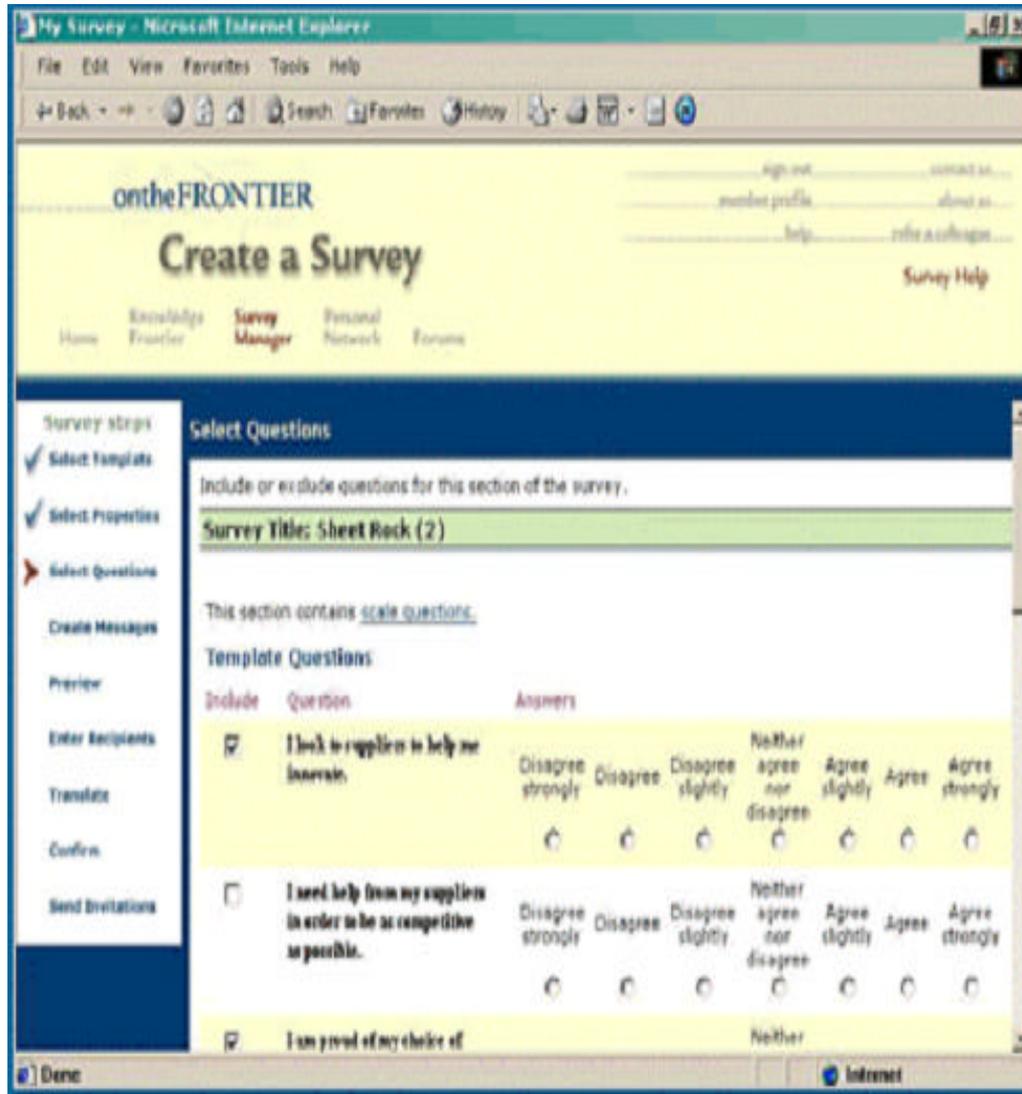
MCI - Mercy Corps International
(<http://www.mercycorps.org/>)

CHF - CHF International (<http://www.chfyu.org/>)

OI - Opportunity international
(www.opportunity.org)

Developing the Fruit and Fruit Juice Campaign

TF #2: Market Research will Test Viability of Strategy Options



- Use OTF Group's Strategy Builder to create market survey
- Develop Questions to inform strategic decisions
- Test branding concepts
- Test the concept of Serbian fresh fruit
- Test demand and price premiums for organic, healthy fruit products
- Understand needs and requirements of foreign buyers
- Conduct initial survey of fruit juice wholesalers
- Conduct end user survey in selected market

Developing the Fruit and Fruit Juice Campaign

Taskforce #3: Standards

Food Safety and Phytosanitary Standards

➤ Currently the standards required by law in Serbia are below the the standards required by the EU and need to be revised by the government.

HACCP Certification

➤ In order to approach the US and Western European Markets, Serbian companies need to work on obtaining Hazard Analysis and Critical Control Point (HACCP) certification which requires sanitary testing of products in different points in food processing in

Labeling Laws

➤ The Fruit Juice Association has succeeded in strengthening Serbian labeling laws on fruit juices, but these laws must be enforced

Organic Laws/Organic Certification

➤ Serbia adopted its first organic law on organic farming in July 2000. This law is a good start but it needs further elaboration in specific areas like primary plant production, livestock husbandry, and food processing before companies/firms can obtain organic certification.

Developing the Fruit and Fruit Juice Campaign

Taskforce #1: Training Centers

Tasks	Responsible	Timing
Identify Priority Training Needs of the Cluster		
Choose Specific Fruit Species and Region of Focus		
Select committee of cluster members to work on regional project proposal		
Contact donor organizations for funding		
Interview Industry Organizations, fruit producers and fruit processing companies in the region to assess local needs		
Assess costs of training center (land, irrigation equipment, technology etc..)		
Assess profit potential		
Write project proposal		
Submit project proposal to donor organization		
Update cluster council on progress		

Developing the Fruit and Fruit Juice Campaign

Taskforce #2: Market Research

Tasks	Responsible	Timing
Identify goal of the market research survey		
Identify respondents		
Develop questions		
Decide on survey length and required questions		
Assess the possibility of adding pictures of products or packaging		
Develop revised survey		
Survey approved by taskforce		
Taskforce provides e-mail addresses and contact information for wholesalers		
Survey is sent out		
Survey Results received and processed		

Developing the Fruit and Fruit Juice Campaign

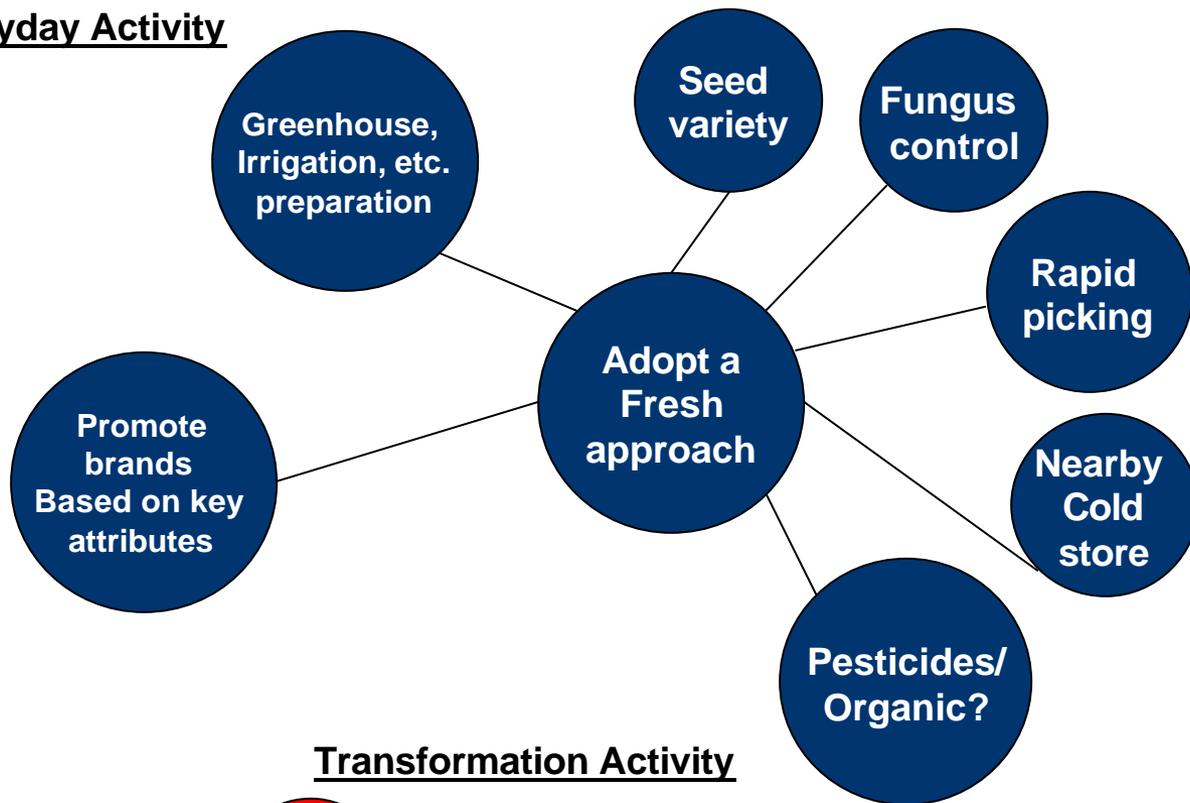
Taskforce #3: Standards

Tasks	Responsible	Timing
Identify Priority Standards		
Assess Specific Changes Required		
Contact Government Ministries to understand current standards		
Investigate requirements of EU/US market		
Examine how changes in standards will affect Serbian companies		
Develop draft of proposed changes		
Submit draft to the cluster council and industry organizations		
Agree on proposed changes		
Submit proposal to government		

Developing the Fruit and Fruit Juice Campaign

(Web of Activities: Sell Serbian Fresh Fruit to 1st Market)

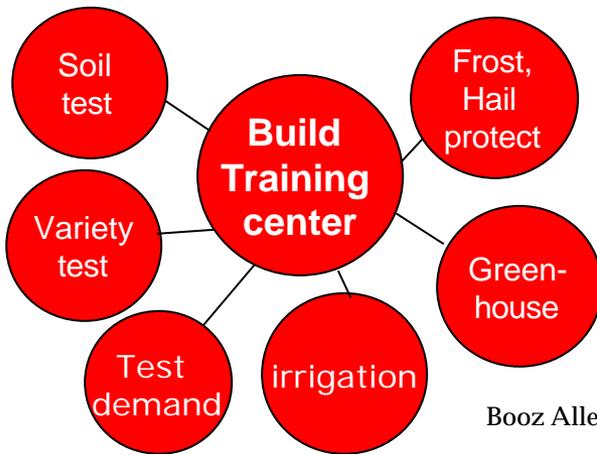
Everyday Activity



Conditions for Change



Transformation Activity



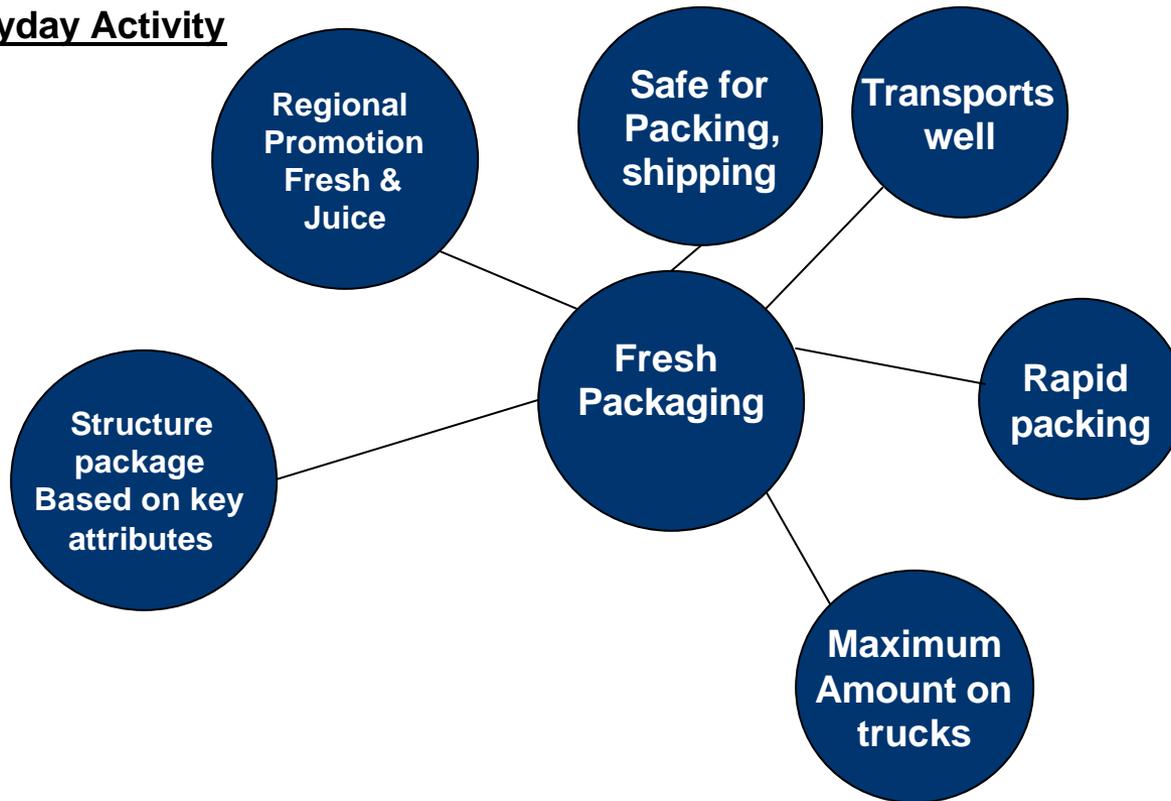
Note: Preliminary hypothesis - further evaluation required and substantial revision possible

Source: SCEE participants, industry research, ofF Group Analysis

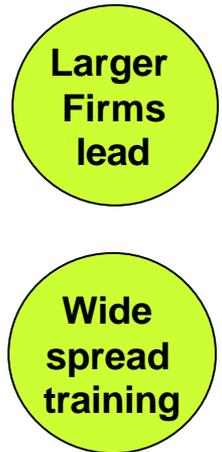
Developing the Fruit and Fruit Juice Campaign

(Web of Activities: Sell Serbian Fresh Fruit to 1st Market)

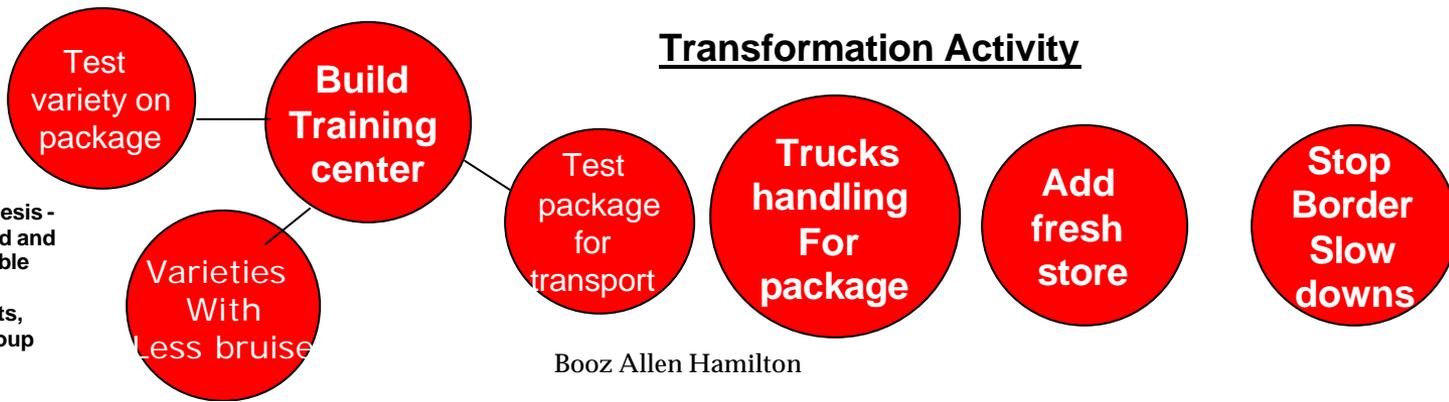
Everyday Activity



Conditions for Change



Transformation Activity



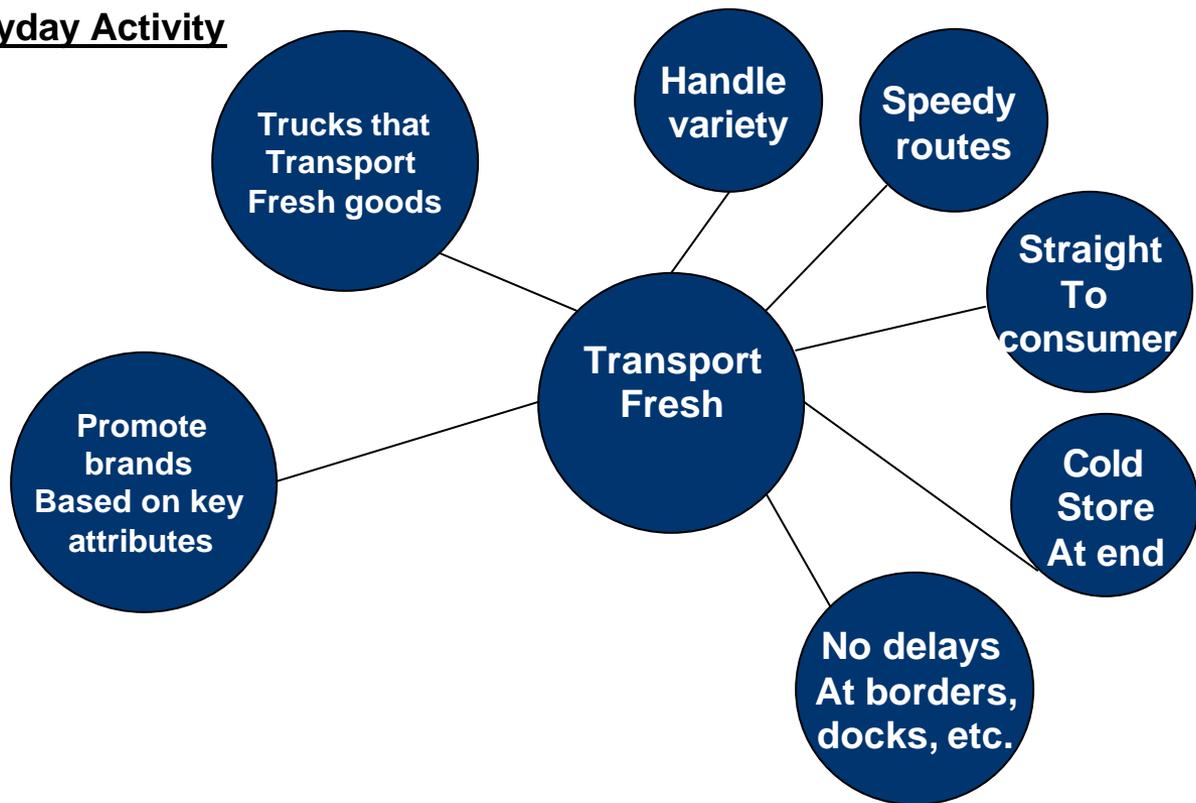
Note: Preliminary hypothesis - further evaluation required and substantial revision possible

Source: SCEE participants, industry research, otF Group Analysis

Developing the Fruit and Fruit Juice Campaign

(Web of Activities: Sell Serbian Fresh Fruit to 1st Market)

Everyday Activity



Conditions for Change



Transformation Activity



Note: Preliminary hypothesis - further evaluation required and substantial revision possible

Source: SCEE participants, industry research, otF Group Analysis

Developing the Fruit and Fruit Juice Campaign

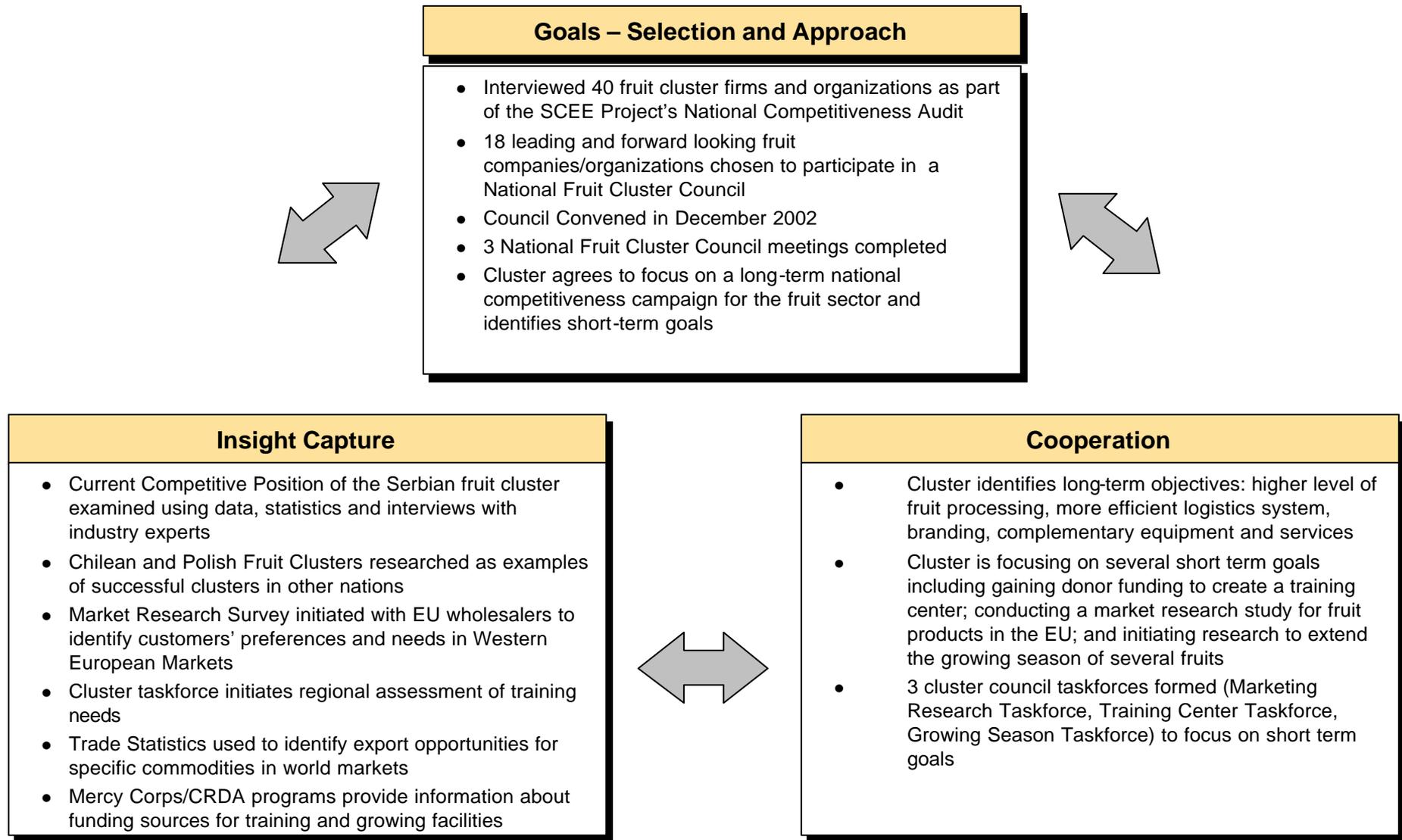
What Are the Goals of The Cluster

Primary Goal: Improve profits per worker

	1. Success Criteria	2. Insight Capture	3. Co-operation
Goal Description	<ul style="list-style-type: none">• Primary goal being profit per worker• Initial measure: turnover of cluster firms (total & export)• Assets (machinery for target production, etc.)• Skill improvement measures• # of markets entered	<ul style="list-style-type: none">• Audit of skill set to better serve customers - for training and human capital programs• Learn and share market trends, customer needs and potential competitor information• Obtain and share technical information	<ul style="list-style-type: none">• Develop cluster team with ability to gain market information, training programs and create wealth with differentiated products services in export markets• Cluster team that shares select competitive information (Company overviews) and develops trust among members
Rationale	<ul style="list-style-type: none">• Goals need to be measured to determine success and make adjustments	<ul style="list-style-type: none">• Successful clusters are able to rapidly share data with members. This includes understanding market needs; competitor strengths, technology trends, etc.	<ul style="list-style-type: none">• There is a need to overcome barrier of low trust and increase communication to facilitate fast responses to win in the market• Sharing overview of companies will provide understanding of export capability and improve production guarantees

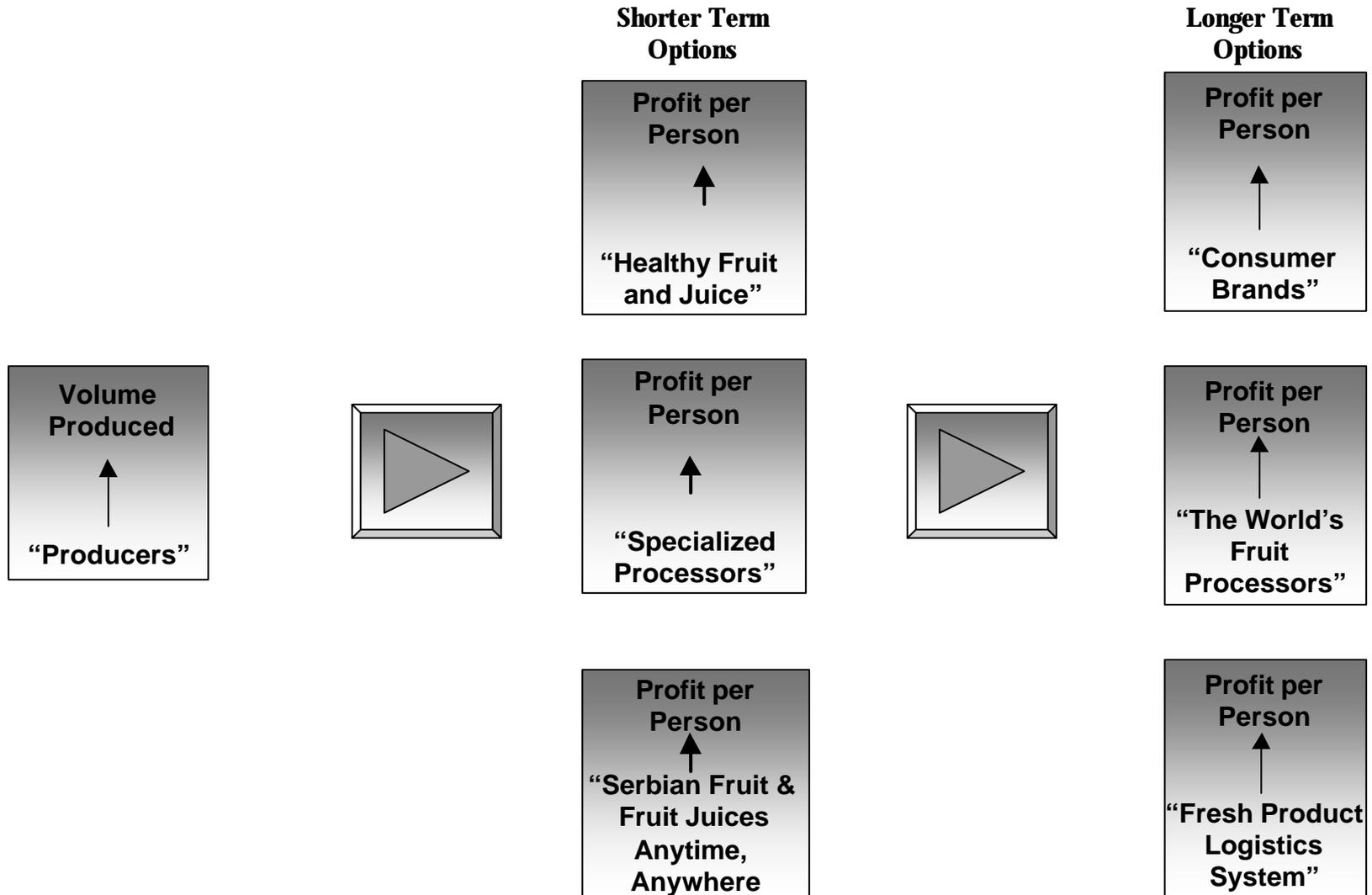
Developing the Fruit and Fruit Juice Campaign

What Progress Has the Cluster Achieved by National Summit



Developing the Fruit and Fruit Juice Campaign

Fruit and Fruit Juice Competitiveness Campaign Overview



Developing the Fruit and Fruit Juice Campaign

Option I (Serbian Fruit and Fruit Juices Anytime, Anywhere)

Action Plan

1. Improve fruit quantity and supply predictability – continue quality
 - Organic fruits and fruit juices
 - New packages
2. Innovate transportation logistics
 - Speed; Flexibility
 - Geographic coverage
3. New international customers
 - Premium markets
 - Restaurants, etc.
4. Develop training program
5. Examine organic / marketing benefit

Volume Produced

↑

“Producers”

Serbia generates wealth by:

- (1) Selling the fruit it grows between June and August to traditional customers, primarily in the EU
- (2) Selling juice it produces in local market and ex-Yugoslavia

Profit per Person

↑

“Serbian Fruit and Fruit Juices Anytime, Anywhere”

Serbia generates wealth by selling fresh fruit and fruit juices it produces year-round to markets anywhere in the world that value fresh fruit and fruit juices.

This is due to improved fruit strains, new year round growing facilities, 24-48 hour export delivery systems, superior packaging that protects fruit and fruit juices during shipment

↑

Conditions for Change

1. Leadership
 - Cluster Leadership Council
 - Grower’s Association
2. Guiding Principles
 - Increase value, price, prosperity
 - Grow the pie, before dividing
3. Receptivity
 - Growers need compelling proposition
4. Insight
 - (data sourcing table - what are the questions?)

Note: Preliminary Evaluation
Source: SCEE interviews with Serbian, European and US wholesalers

Developing the Fruit and Fruit Juice Campaign

Option II (Specialized Processors)

Action Plan

1. Improve fruit quality and quantity (predictability)
 - Consumer
 - Industrial products
2. Establish relationships with new customers for processed products
 - Mix of own brands/partner brands
 - Choose long term brand to work towards
3. New Market Entry
4. Invest to increase processing capacity and capability
5. Examine organic feasibility

Conditions for Change

1. Leadership
 - Cluster Leadership Council
 - Grower's Association
2. Guiding Principles
 - Increase value, price, prosperity
 - Grow the pie, before dividing
3. Receptivity
 - Growers need compelling proposition
4. Insight
 - (data sourcing table - what are the questions?)

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Volume Produced

↑

“Producers”

Serbia generates wealth by:

- (1) Selling the fruit it grows between June and August to traditional customers, primarily in the EU
- (2) Selling juice it produces in local market and ex-Yugoslavia

Profit per Person

↑

“Specialized Processors”

Serbia generates wealth by processing fruit into a variety of products that are sold in the EU and US. These products may be sold under Serbian brands or produced for foreign companies to sell under foreign brands. Processed fruit products will dominate GDP and exports relative to unprocessed fruit

Note: Preliminary Evaluation
Source: SCEE interviews with Serbian, European and US wholesalers

Developing the Fruit and Fruit Juice Campaign

Option III (Healthy Fruit and Juice)

Action Plan

1. Focus training for developing wider variety of healthy fruits; longer production cycle
2. Develop research to test successful positioning of Serbian healthy brand
3. Test sell-ability of (fresh) fruit with healthy campaign (link to health benefit research)
 - Target small market and combine with PR/ packaging etc.
 - Test organic benefit
4. Combine branding for use on Serbian processed fruit and juices in same market
5. Develop appropriate capacity and logistic strategy

Volume Produced

↑

“Producers”

Serbia generates wealth by:

- (1) Selling the fruit it grows between June and August to traditional customers, primarily in the EU
- (2) Selling juice it produces in local market and ex-Yugoslavia

Profit per Person

↑

“Healthy Fruit and Juice”

Serbia generates wealth by focusing on a healthy multi-fruit and fruit product campaign

Improve the quality (and variety) of fresh fruit for the Serbian export market. Increase profitability per kilo and use as a marketing tool for branding healthy, tasty fruit: “Asking for a healthy, fruity experience? The answer is Serbia!”

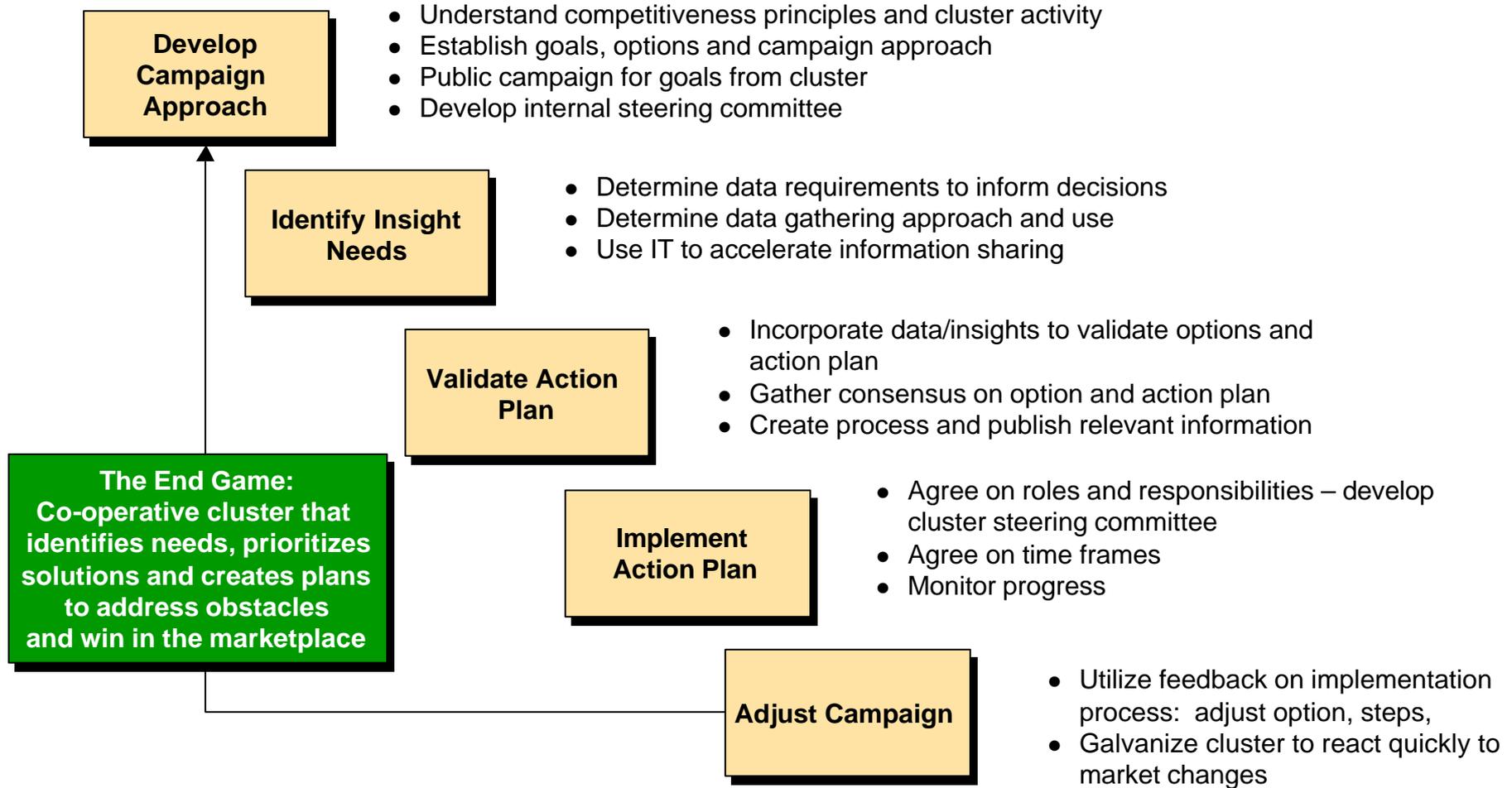
Conditions for Change

1. Leadership
 - Cluster Leadership Council
 - Grower’s Association
2. Guiding Principles
 - Increase value, price, prosperity
 - Grow the pie, before dividing
3. Receptivity
 - Growers need compelling proposition
4. Insight
 - (data sourcing table – what are the questions?)

Note: Preliminary Evaluation
Source: SCEE interviews with Serbian, European and US wholesalers

Back up: Developing the Fruit and Fruit Juice Campaign

Action Steps (Short Term)



Back up:

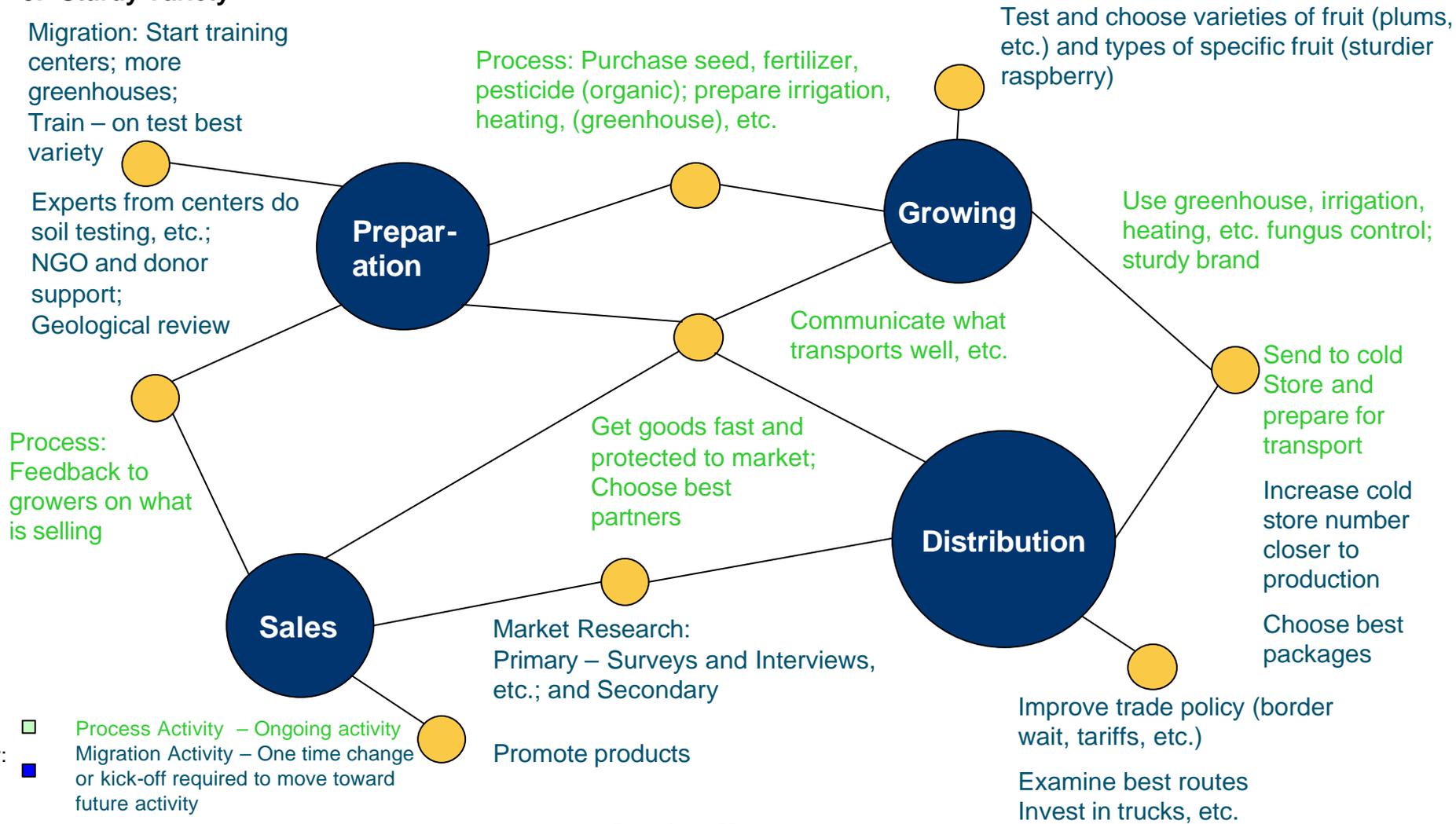
Web of Activities to Satisfy Fresh Fruit Export to Region

Research Example Attribute Focus:

1. Earlier in season
2. Richer Color
3. Sturdy Variety

Goal: Increase fresh exports at \$.50 less than Spain price

1. From 5% to 15% of frozen exports in 2 years:
2. 9,500 tons by \$4.50 revenue per kilo increase USD\$45M



Back up: Developing the Fruit and Fruit Juice Campaign

What are the Current Cluster Challenges

Insufficient Insights

Customer Insights:

End users in potential target markets are not understood

Competitive Analysis:

Approach to understanding competitive capability is underdeveloped and information is not shared in the cluster

Cost Analysis:

Not all firms have precise understanding of their cost structure – creating difficulty for finance decisions and competitive cost analysis

Lack of Financing

Lack of Bank Partnering:

Bank financing is high and has a wide range of interest rates

Source of Funds:

Firms in the cluster are largely unaware of newer and developing sources of funds, such as partnerships, venture capital/diaspora funding, foreign direct investment, donor organizations, foreign banks, etc.

Underdeveloped Trust

Collaboration:

Initial goals of cluster may be impeded by low trust in the region

Survivor mentality:

Low profitability prevents many firms in the cluster from taking a risk of believing local competitors

Commitment:

Retailers and processors complain that firms in cluster frequently do not adhere to production promises and break contracts

Below-average Skill Set

Wide range of training needs:

Business plans; Fund request plans; Marketing research, New product development; competitive analysis; technical (packaging design, operations)

Uneven school curriculum:

Engineering programs are good but schools lack marketing programs and the latest technology training/use for crop production, processing and transportation

Low university involvement:

Universities need to incorporate hands-on experience; create excitement with students about their area of studies



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Aggregated Results from the Fruit and Juice Buyers Survey

The Serbia Enterprise Development Project
September Cluster Meeting, 2003

Fruit Juice and Fruit Survey

Survey overview

30 EU and US fruit juice and fruit buyers have responded to the Survey*

Sample: Currently Buy Serbian?

(N = 30)



Note: Thirty respondents should be considered as directionally important information – but not statistically significant. To verify some of the attribute findings:

1. Primary consumer research can help to validate preferences in key markets
2. Building relations with suppliers to serve them better is required; continually solicit feedback

	Total	US and EU	
		US/Canada	EU
Buy Serbian	X	–	X
Do Not Buy	X	X	X

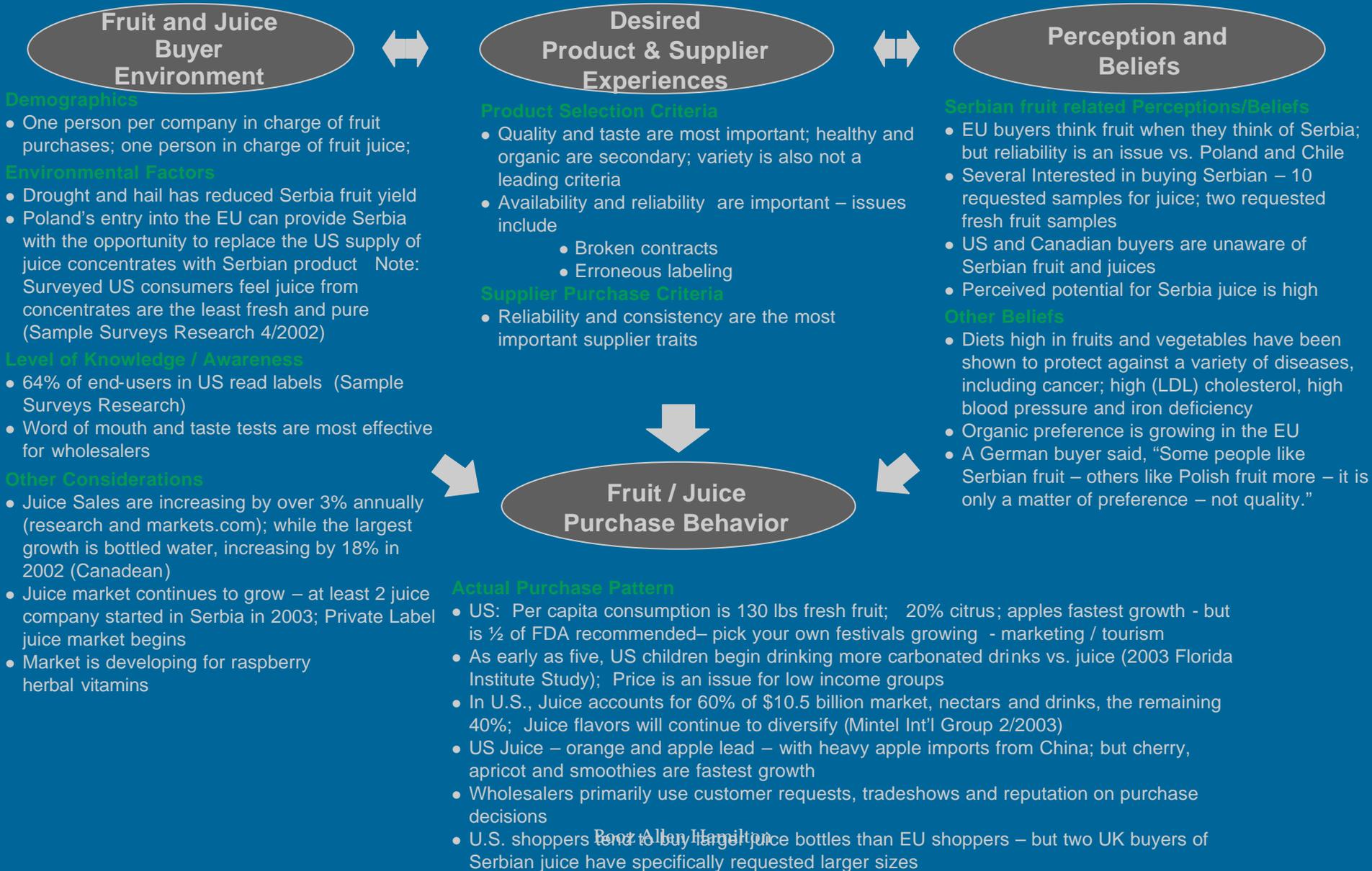


The survey revealed that the most significant differences in customers exist between current and potential buyers of Serbia products. Customer portraits are developed along these lines.

*) 30 respondents from a total of 100 surveys sent out.

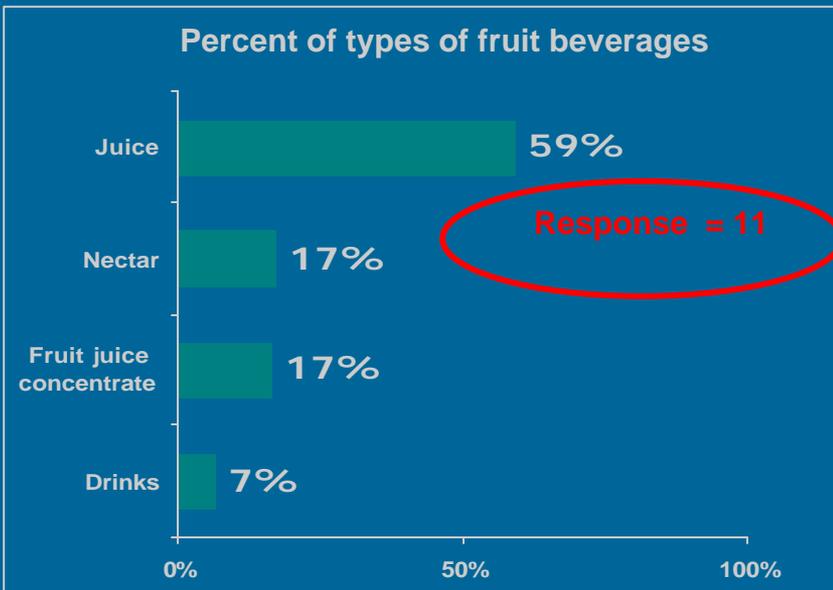
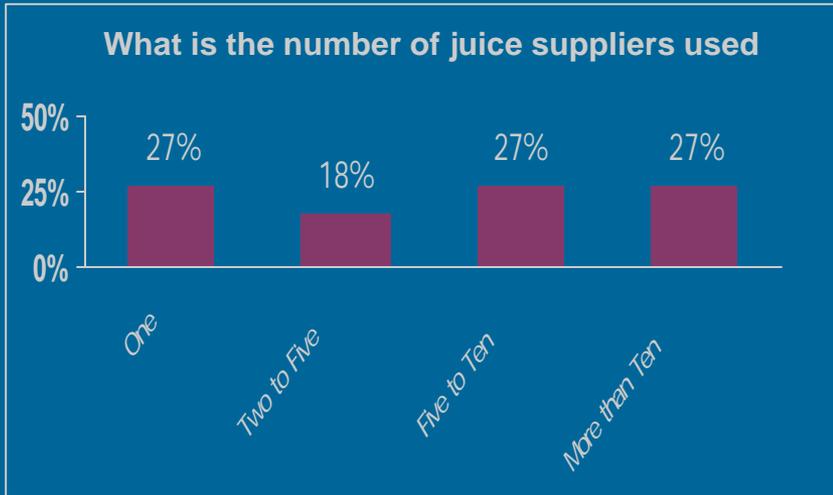
Fruit Juice and Fruit Survey

Preliminary findings: Respondent Portrait



Fruit Juice and Fruit Survey

Wholesale Fruit Juice – Purchase Environment

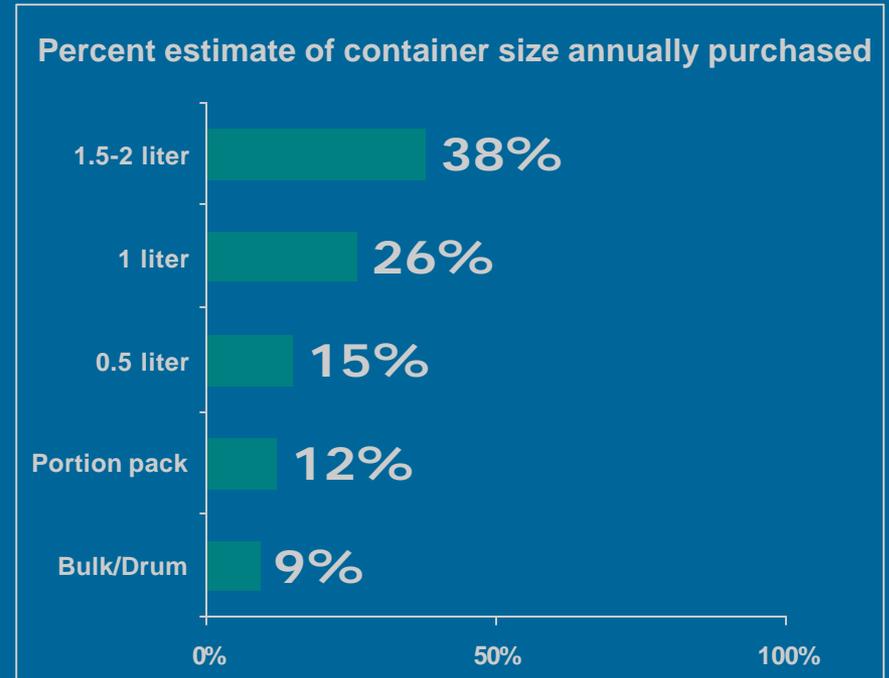
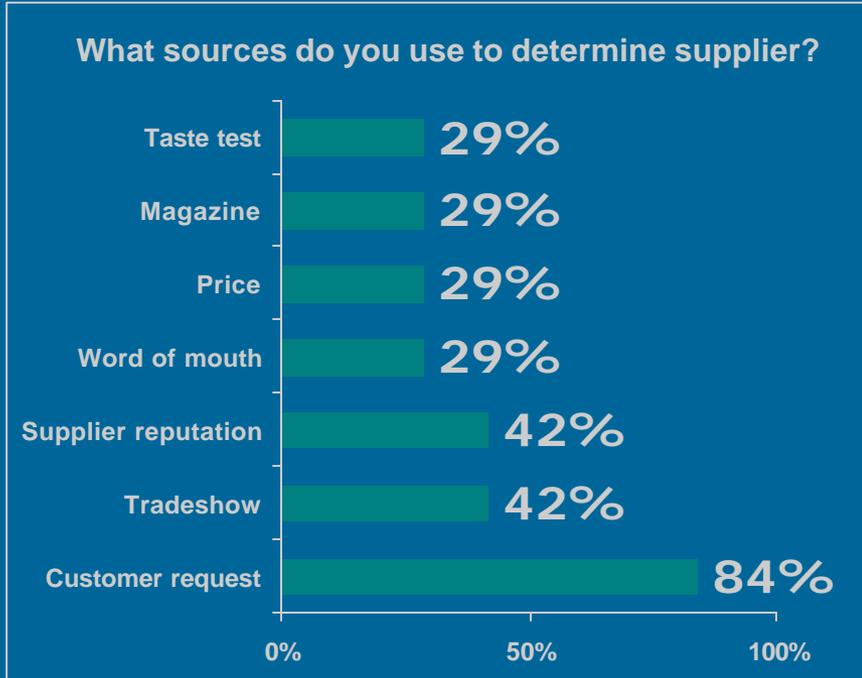


Almost two-thirds of individual buyers did not provide volume numbers for purchases, but of those who did, over half purchase at least \$500,000 annually

Fruit Juice and Fruit Survey

Wholesale Fruit Juice – Purchase Environment

Buying behavior



"If we could get larger than a liter size, I could quadruple the volume of juice sales." EU fruit juice purchaser of Serbian product



- Wholesale buyers are most likely to be order takers – based on customer requests, but have a say in purchases, based on taste tests, magazines, price, and word of mouth.
- The majority of purchases is larger than one liter sizes

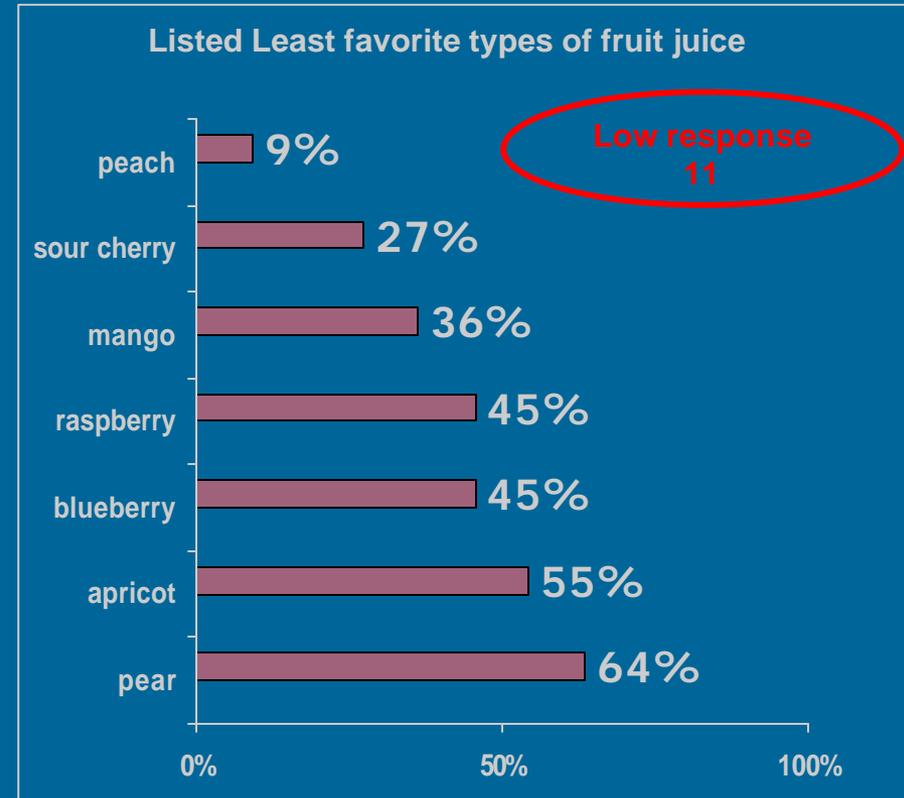
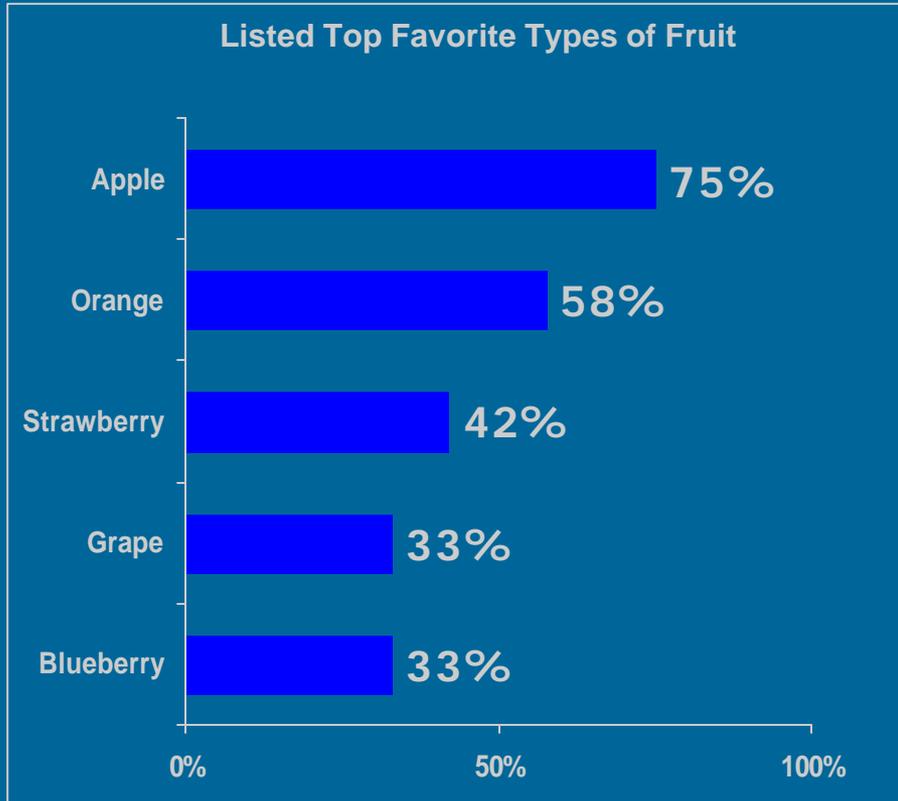
Note: Multiple answers allowed

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Fruit Juice and Fruit Survey

Wholesale Fruit Juice Buyer – Purchase Environment

Choice of fruit juice



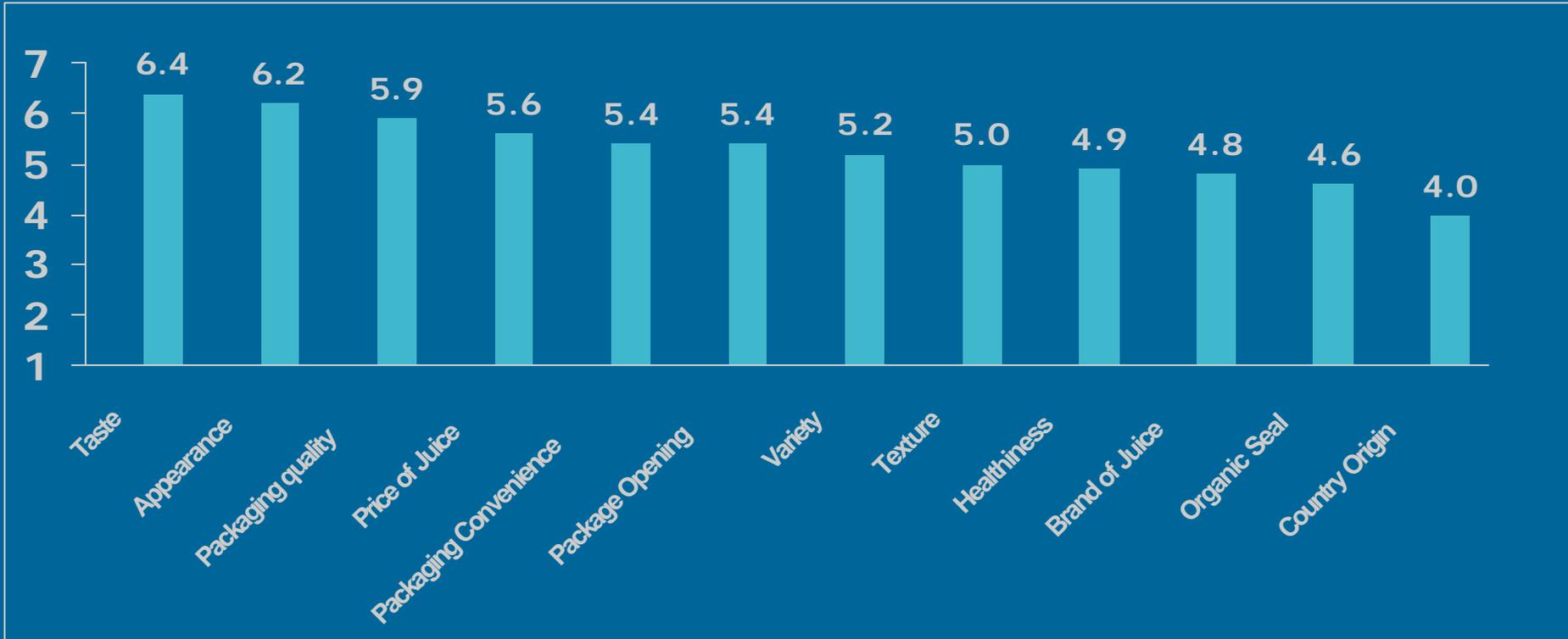
- “95% of the juice we sell is Orange and Apple – the other 5% is mix of I’m not sure what.” UK fruit juice buyer
- Recent trends indicate a growing range of flavors - cherry flavor is becoming popular in the US; (Mintel Int’l Group); Ocean Spray has introduced a variety of berry flavored, mango, passion, etc. fruit juices

Fruit Juice and Fruit Survey

Wholesale Fruit Juice Buyer Portrait - Desired Product & Supplier Experience

Classification of **Product** Selection Criteria of Fruit Juice

(1 = Not at all important ; 7 = Very important)



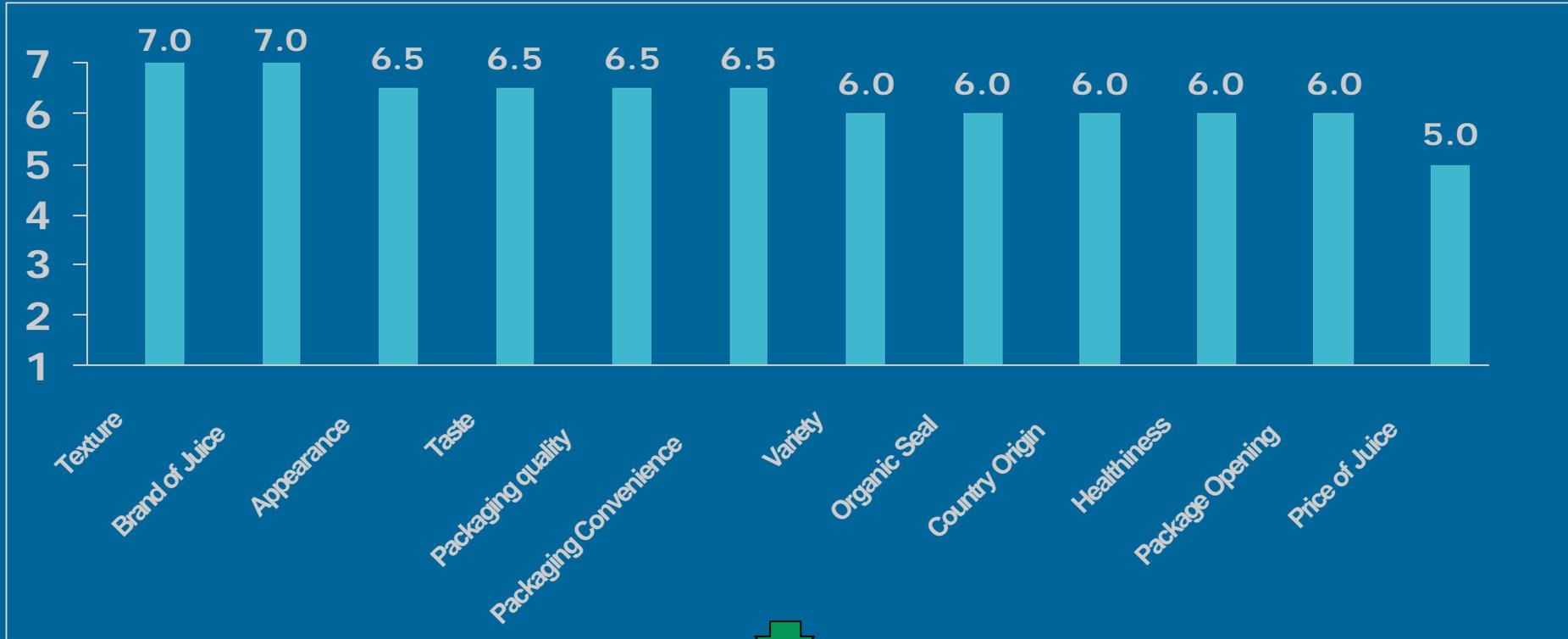
- Besides Taste, Appearance is considered as one of the most important product attributes – *“We’re assured that our Serbian suppliers have an excellent product ” (Large UK Importer)*
- Healthiness and Organic is not top of mind for wholesalers – but in other studies is organic gaining momentum in Austria, Denmark, Sweden, and Switzerland
- Packaging features are as or more important than price

Fruit Juice and Fruit Survey

Wholesale Fruit Juice Buyer Portrait - Desired Product & Supplier Experience

Classification of **Product** Satisfaction with Serbian Juice Performance

(1 = Not at all important ; 7 = Very satisfied)

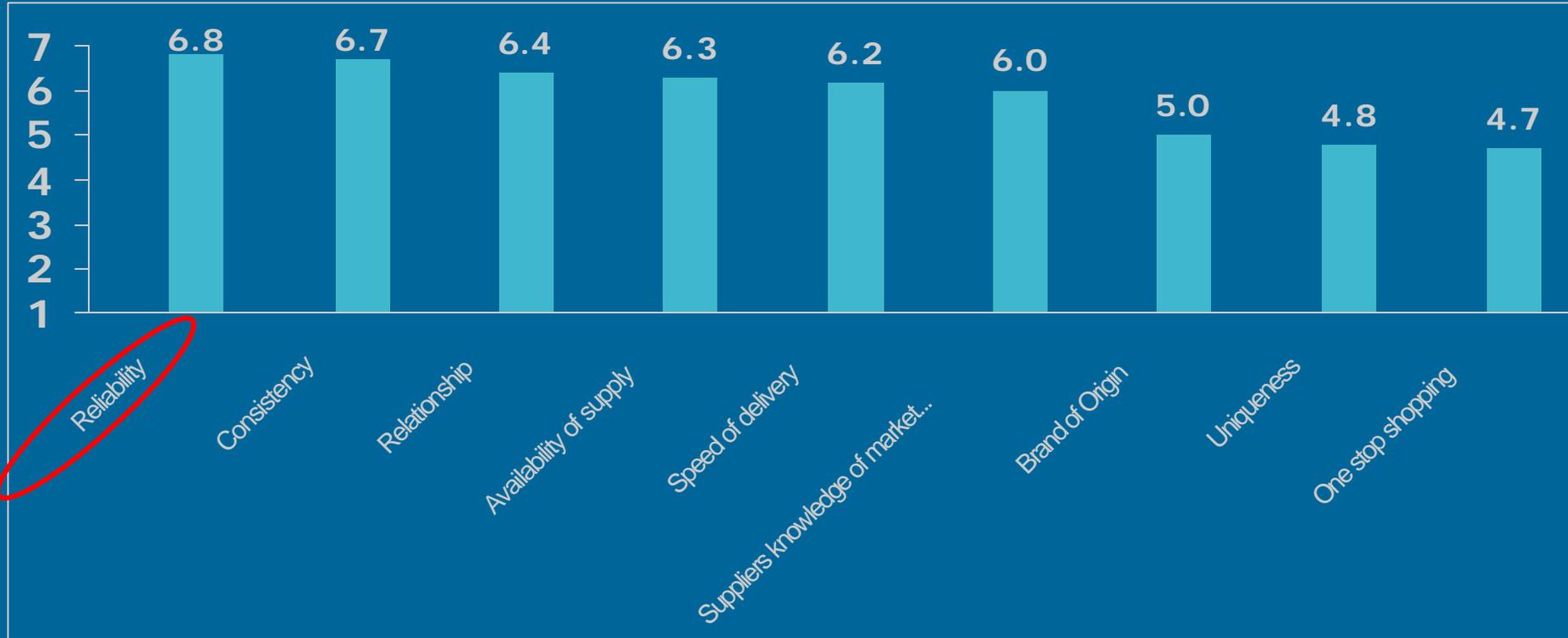


- Among those who answered, Serbian producers ranked high for satisfaction (from preferred customer list); for example, "Serbian products are as good as the best products in Sweden."
- "I had to pay a fine because what was supposed to be in the package, wasn't in the package." Austrian buyer who did not respond to question
- "When the Chileans or the Polish sellers promise an amount (of fruit) – you can count on it, that is not the case with the Serbs." French fruit buyer who did not respond to question

Fruit Juice and Fruit Survey

Wholesale Fruit Juice Buyer Portrait - Desired Supplier Experience

Classification of Juice **Supplier** Characteristics
(1 = Not at all important ; 7 = Very important)



- **Reliability** is considered most important, with **Consistency** and **Relationship**.
- Being the one-stop source of a variety of products and being unique are currently less important than most characteristics.
- **Brand of origin** scores relatively low which might be an opportunity for a less known player.

Fruit Juice and Fruit Survey

Wholesale Fruit Juice Buyer Portrait - Desired Supplier Experience

Classification of Total Supplier Satisfaction

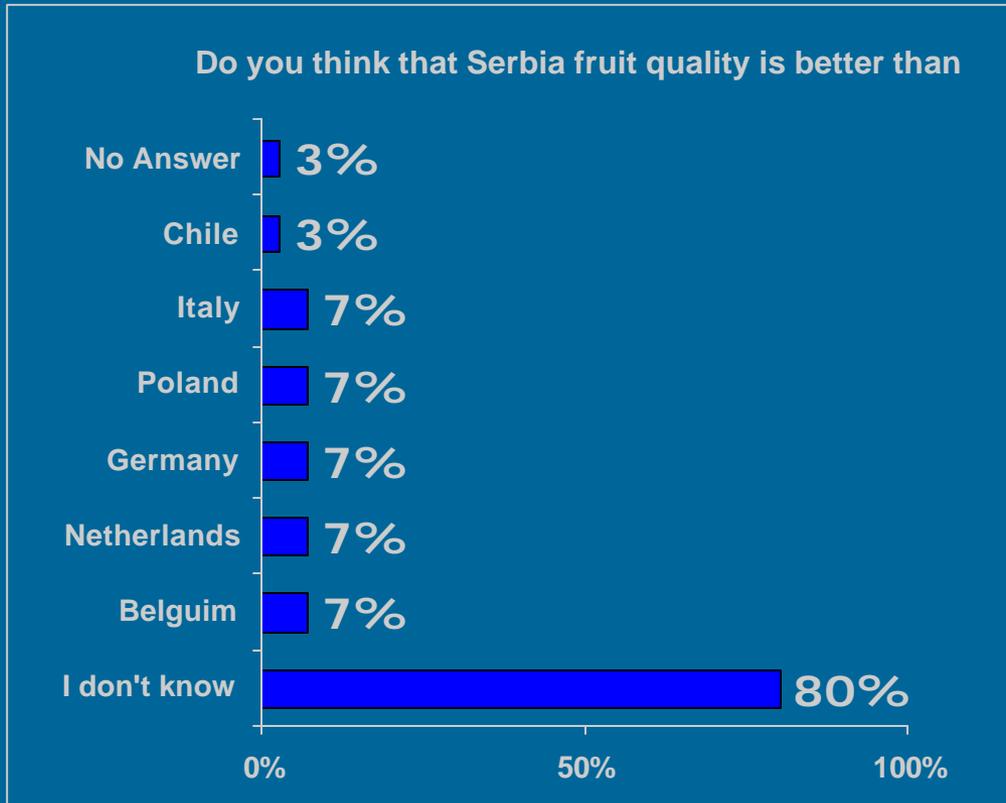
(1 = not at all important; 7 = very important)



- **Reliability** – There is room for new suppliers to beat current suppliers by being more reliable – the most important supplier characteristic
- Other important attributes that can be leveraged to beat other suppliers are the **relationship and to a lesser extent, availability**
- “If a seller calls me that has a history of canceling orders, there is no reason for me to provide preferential treatment.”

Fruit Juice and Fruit Survey

Wholesale Fruit Buyer Portrait – Perception of Serbia



“Spain has the best quality fruit in Europe. I doubt that Serbia can match it”

German buyer

“I’ve never heard anything about Serbian fruit before.”

US buyer

“Are you kidding me... Serbia has fruit – that’s good?”

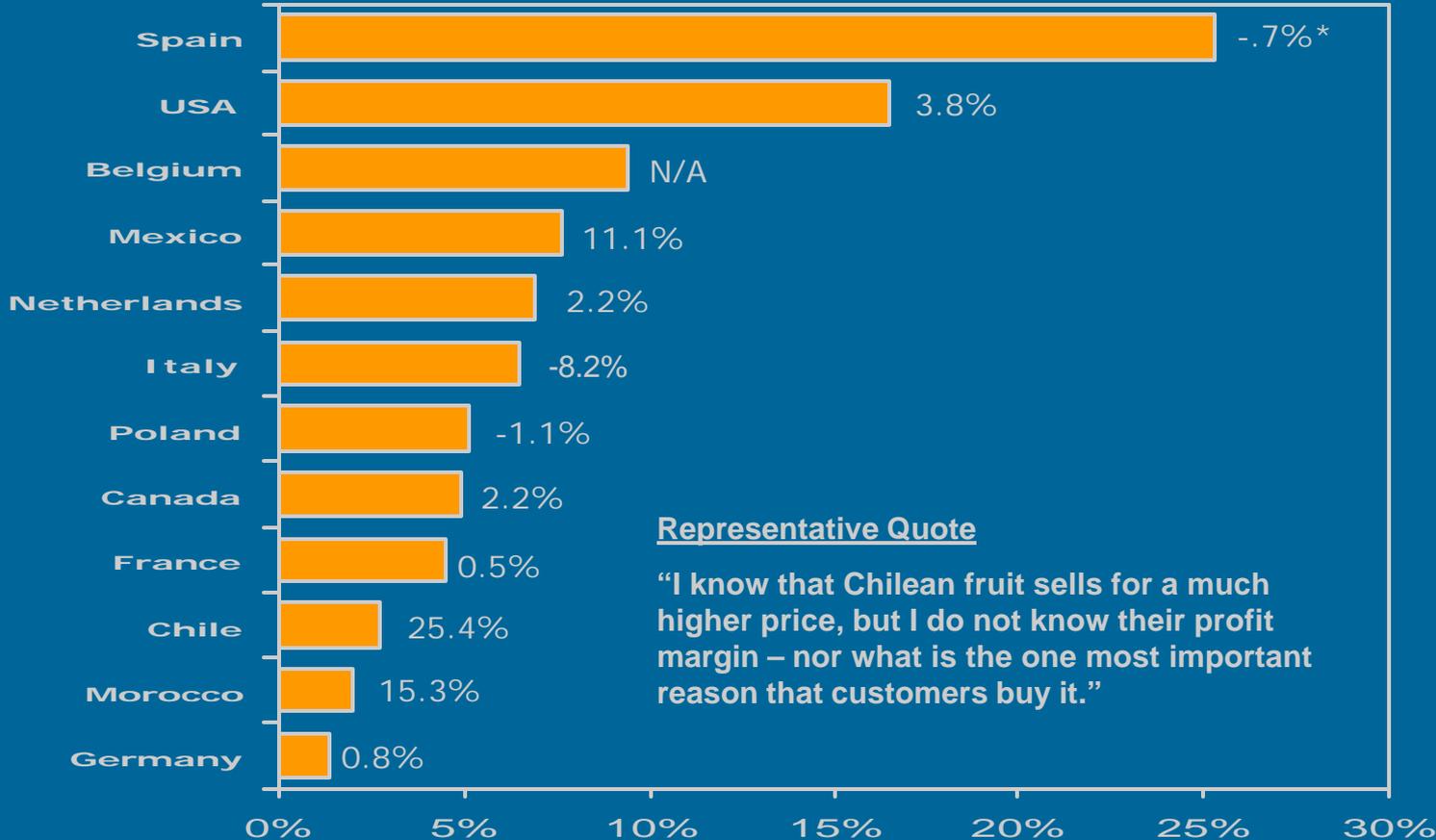
US Buyer



The majority of respondents knew little about the *quality* of Serbian fruit. The Europeans – mostly Austrians and German buyers were the exceptions.

Competitive exporters of fresh berries include Spain, Belgium and Netherlands; but Chilean exports are growing by 25% annually

% Share of World Exports of Fresh Berries, 2000



* CAGR Values
 1992-2000

Representative Quote

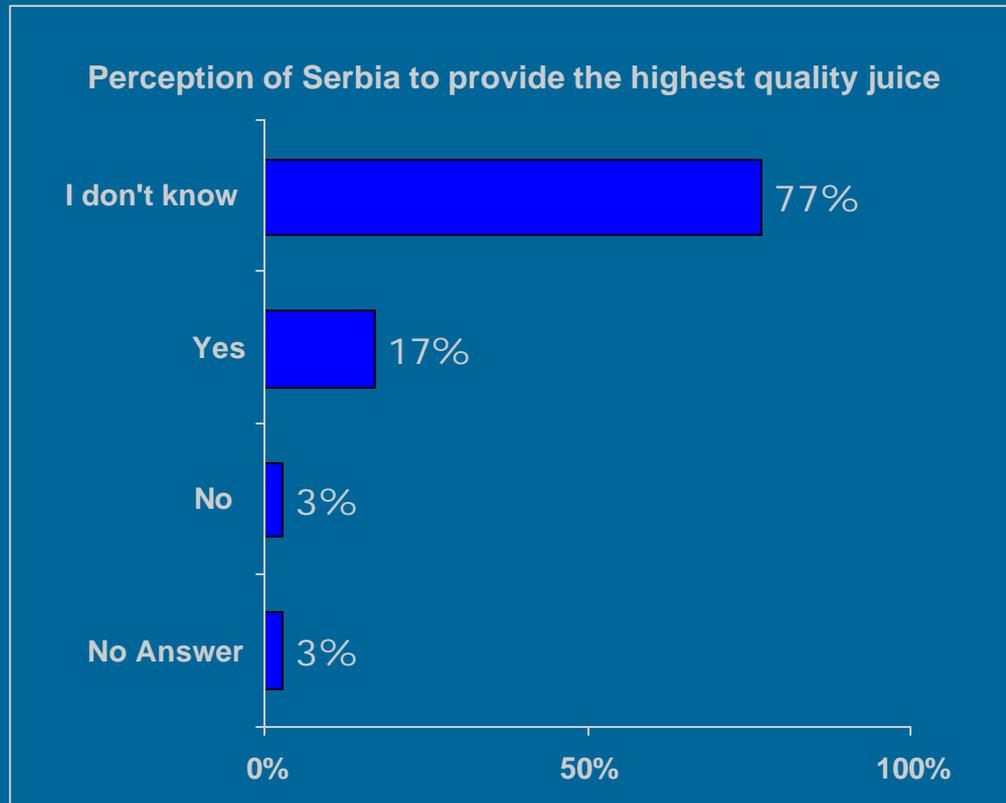
“I know that Chilean fruit sells for a much higher price, but I do not know their profit margin – nor what is the one most important reason that customers buy it.”

Regional Comparisons	% World	1994 (US Mil)	1996 (US Mil)	1998 (US Mil)	2000 (US Mil)
Poland	5.10%	54.5	36.9	49.2	49.9
Hungary	.43%	1.3	5.8	9.5	4.2
Serbia	.07%	n/a	1.6	1.5	.65

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Fruit Juice and Fruit Survey

Wholesale Fruit Juice Buyer Portrait – Perception of Serbia

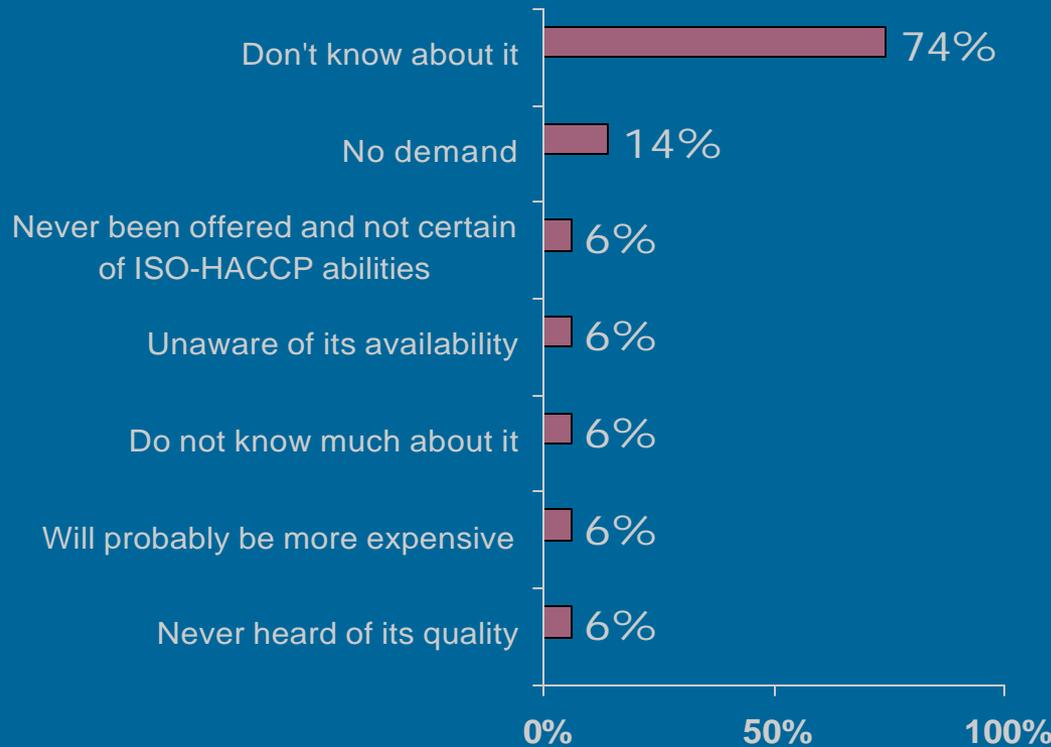


- The majority of respondents don't know about Serbian fruit juice
- Among those who have an opinion, there is reason for optimism

Fruit Juice and Fruit Survey

Wholesale Fruit Buyer Portrait – Perception of Serbia

Why respondents don't buy Serbian Fruit – (50% answered)



US buyer comments

“Will probably be more expensive, because of freight.”

“May be cheaper to buy US fruit because of logistics ... and homeland reputation is important.”

“Checking for diseases could be an issue.”

“Would need rapid delivery.”

“The big factor to determine if Serbia is the best juice? Marketing, marketing, and more marketing”

“Price is a pretty big factor in determining what we buy.”

Are the logistics real? Isn't it cheaper to buy stuff that is shipped a shorter distance – like Chile?

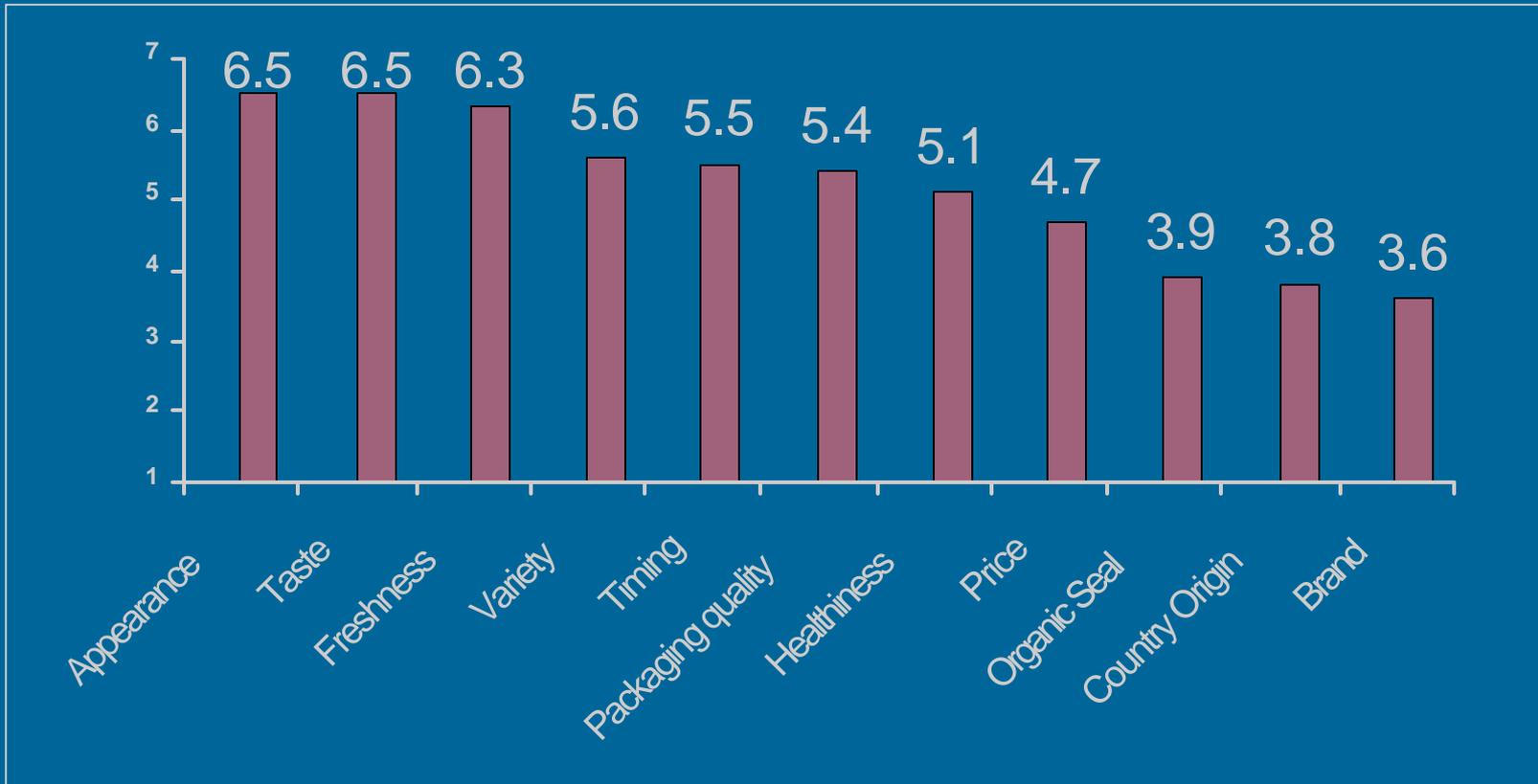


- The majority of respondents don't know about Serbian fruit
- A small number of concerns were mentioned, concerning expense and standards

Fruit Juice and Fruit Survey

Wholesale Fruit Purchase Attribute Importance

Importance of characteristics, when choosing to purchase fresh fruit
(1 = not at all important; 7 = very important)



Appearance, Taste and Freshness lead the wholesaler importance rankings for fresh fruit

Fruit Juice and Fruit Survey

Wholesale Fruit / Advertising Effectiveness Buyer Beliefs for End Consumer

Advertising Methods

Rate how effective you believe the following is in selling fruit/related products:



- Word of mouth and product testing are considered to be the most effective marketing methods for fruit and related products by the respondents

Harness word of mouth:

- Advertising/PR *campaign* that gets people to talk about your product

Taste Testing:

- Improve brand familiarity
- Demonstrate quality

Point of Purchase:

- Goal is to get people to just *pick-up* your product

Fruit Juice and Fruit Survey

Wholesale Fruit Juice – Purchase Environment

How Could Suppliers Serve You Better?

“Deliver on the promises!”

“Let me sample their product”

“Provide information on its juices and SAMPLES”

“Samples and informational material”

“Publish information about why the juice is good or better quality than most”

“Would have to try product - I didn’t know Serbia had juice”

“Inform me”

“Get me larger sizes” (Current Serbian Juice buyer)



- Ten wholesalers in UK, Canada and Italy have requested juice samples
- Two stores have requested fruit samples when available

Some of the Firms Requesting Juice Samples

United Kingdom



J Sainsbury plc



Canada

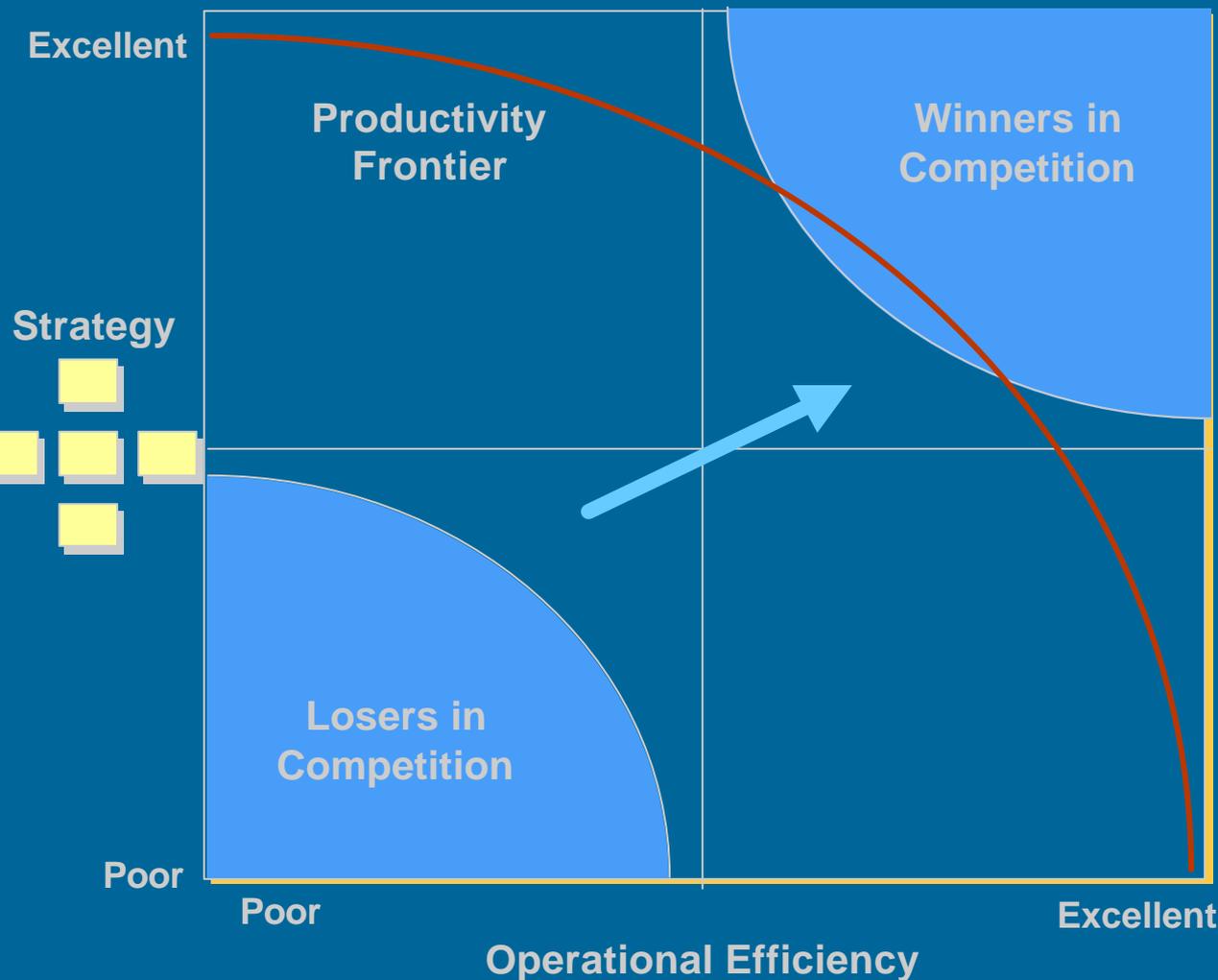


Italy



The Productivity Frontier

Fruit and Juice Migration Strategies – The Basics



Essential Requirements:

- Taste
- Appearance
- Package Quality (Freshness for fruit)

Service Requirements:

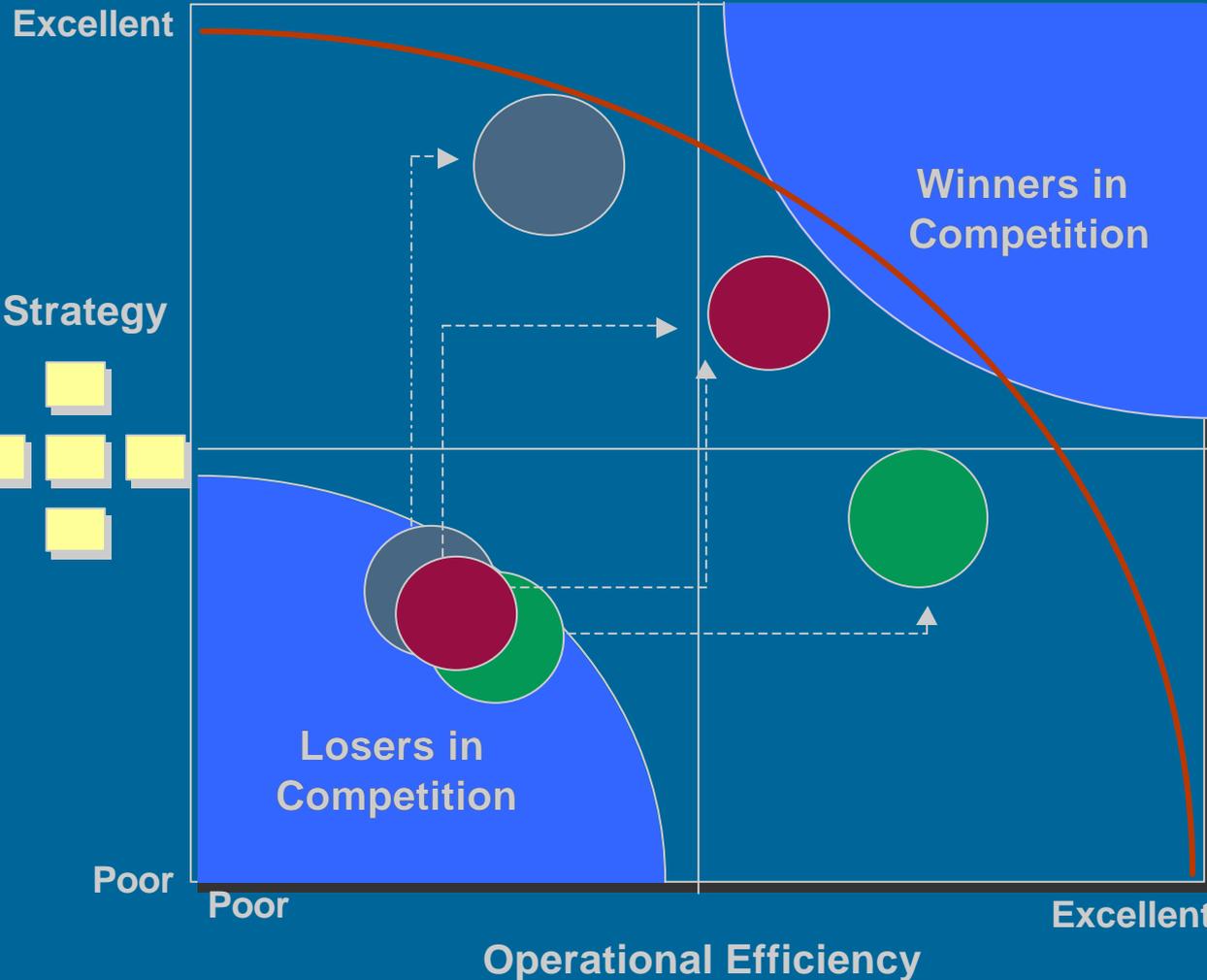
- Reliability
- Consistency
- Relationship

Possible Opportunities:

- Outperform competitors on reliability
- Increase package size for tested, select markets
- Educate buyers on Serbian quality (word of mouth for buyers and consumers) – Seven buyers felt Serbian quality was excellent – the remainder were unsure or didn't know about Serbia
- Aggressive sample promotions
- Purchase Displays

Productivity Frontier

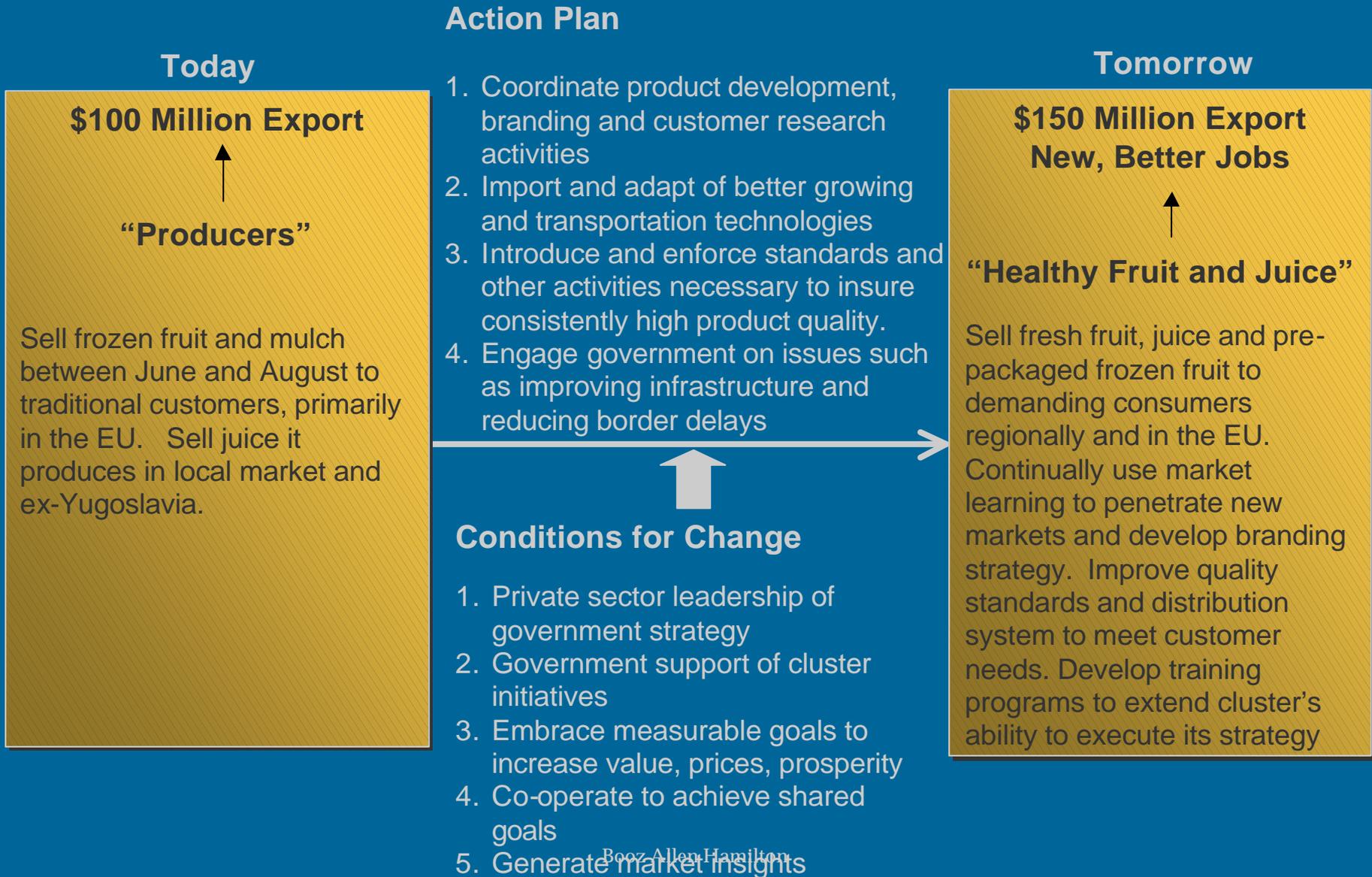
Fruit and Juice Migration Strategies - Choices



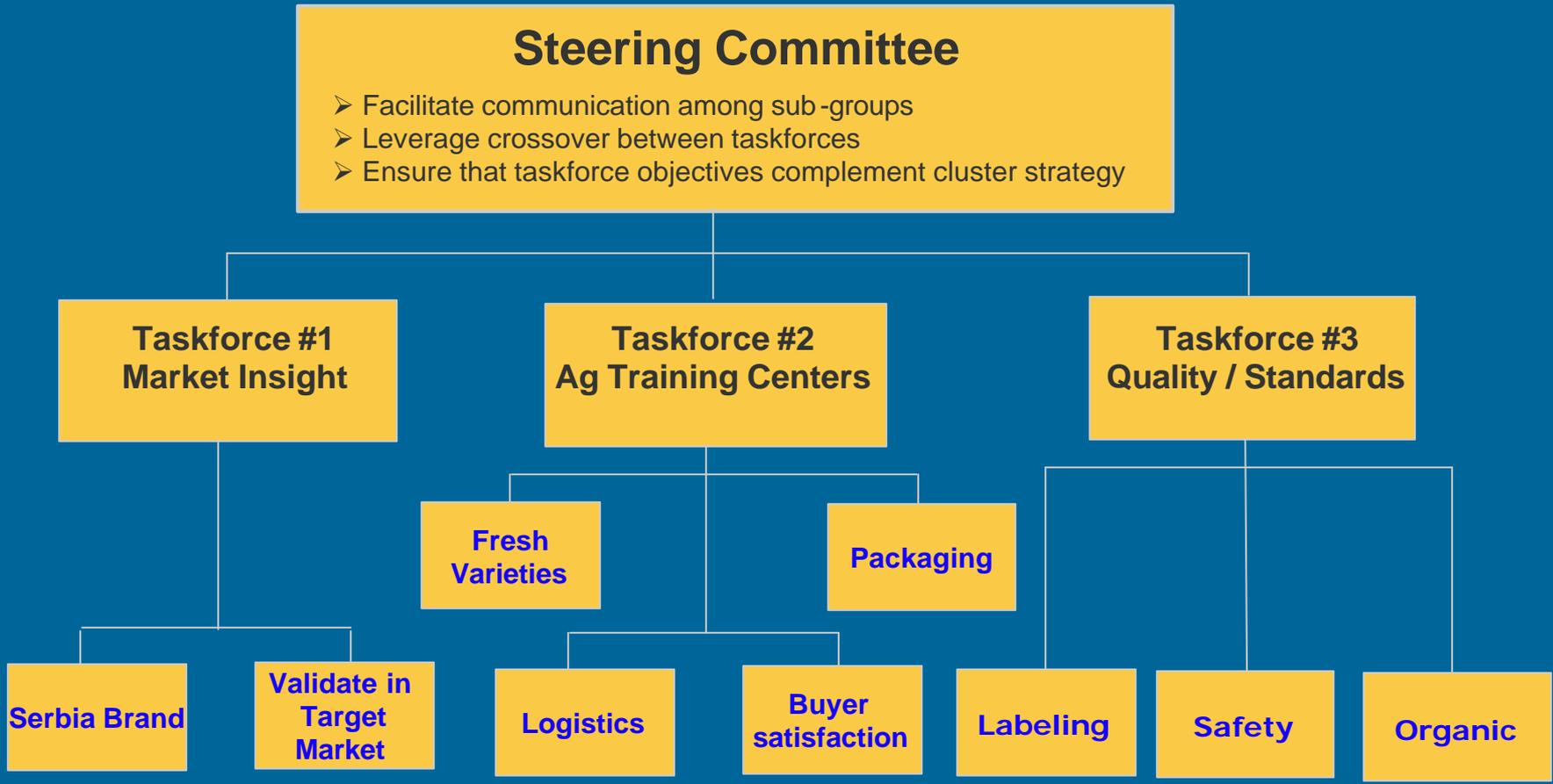
Position Choices:

- Geographic market entry
 - Which market(s)?
 - Campaign in market?
 - Co-brand fruit & juice quality?
 - Brand primarily on ...?
 - Taste
 - Appearance (& Package)
 - Organic (& Healthy)
 - Alter package sizes?
- Develop *reliable* fresh pipeline (to increase revenues, support Serbia brand)?
 - What varieties?
 - What investments to logistics?
 - What packaging?
 - What transportation?
 - How to guarantee volume, quality?
- Consider selling concentrates (frozen) into US?
 - Sell under own brand?
 - Sell as generic supplier?

The Serbian Fruit and Fruit Juice Suggested Strategy can Help to Sell both Serbian Quality Fruit and Juice



Next Steps: Cluster leadership must focus on basic and business winning criteria and make strategy choices



SCEE FURNITURE & WOOD PRODUCTS CLUSTER MEMBERS

No.	MEMBER	LOCATION	DESCRIPTION
1	Agrana	Hrtkovci	Flooring
2	Artinjan	Kraljevo	Furniture
3	Bosnjacki	Belgrade	Furniture
4	Buducnost	Subotica	Furniture
5	Business Club of Diaspora	Belgrade	
6	Domis	Cacak	Doors, windows and flooring
7	Enterijer Jankovic	Novi Sad	Doors, windows and flooring
8	Eurosalon	Belgrade	Furniture
9	Federal Institute of Standardization	Belgrade	Government agency
10	Forestry Faculty, Univ of Belgrade	Belgrade	Research on forestry issues
11	Kopaonik Kursumlija	Kursumleja	Furniture, State-owned manufacturer
12	Mimco	Belgrade	Furniture
13	Modul	Nis	Furniture
14	Saga	Belgrade	Parquet flooring
15	TMB Diamond	Pancevo	Furniture
16	Trifunovic	Cacak	Furniture
17	USAID CRDA Implementers	Various	Financing for development projects



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Serbia Competitiveness & Economic Efficiency Project

Furniture Cluster Meeting
17 December 2002

Levels of Analysis

Clients and Competitors – Furniture and Home Accessories

	Client	Competitor
National	Serbia	Bosnia, Bulgaria, Hungary, Italy, Macedonia, Romania and Slovenia
Sub-national	Belgrade, Nis, Novi Sad, Pancevo	
Cluster	Furniture	
Organization	<p>Companies: Art Décor, Bosnjacki, Dizajn, Draloni, EuroLink, EuroSalon, Jankovic, Mimco, Modul, My Home, Simpo, Sloga, St. Nikolas, Ukras, etc.</p> <p>Government: Serbian Chamber of Commerce, Srbijasume, SIEPA, Ministry of Agriculture, etc.</p> <p>Independent: Forestry Institute, Faculty of Forestry, University of Beograd, Academy of Applied Arts, Association of Furniture Producers (Nis, etc.), workers unions, etc.</p> <p>Related companies: equipment producer, Milsped (shipping company), national and foreign banks providing credit/loans, etc.</p>	
Individual	Milan Gasic, Mr.Bosnjacki, Professor Glavonjic, Rasa Milic, Djuro Krneta, Ivan Krcunovic, Vitomir Mrdjanov, Dragan Stojanovic, Radovan Tufegdzcic, Teso Markovic, Bozo Jankovic, etc.	

Cluster Results

Year	2002
Overall Prosperity	
Number of Companies	
Total revenues	
Average revenue per employee	
Top 10 exports as percent of total exports	
Price per unit index (basket of goods, base year = 100)	100
Annual growth rate	0% (2001)
Total export revenue	\$30 million
% firms more than 50% state-owned	50%
Domestic market share of firms > 50% foreign-owned	25%
Total number of employees	13,000
Average number of employees per company	
Average employee earnings	
Total equity value of industry	

Note: Preliminary Estimates

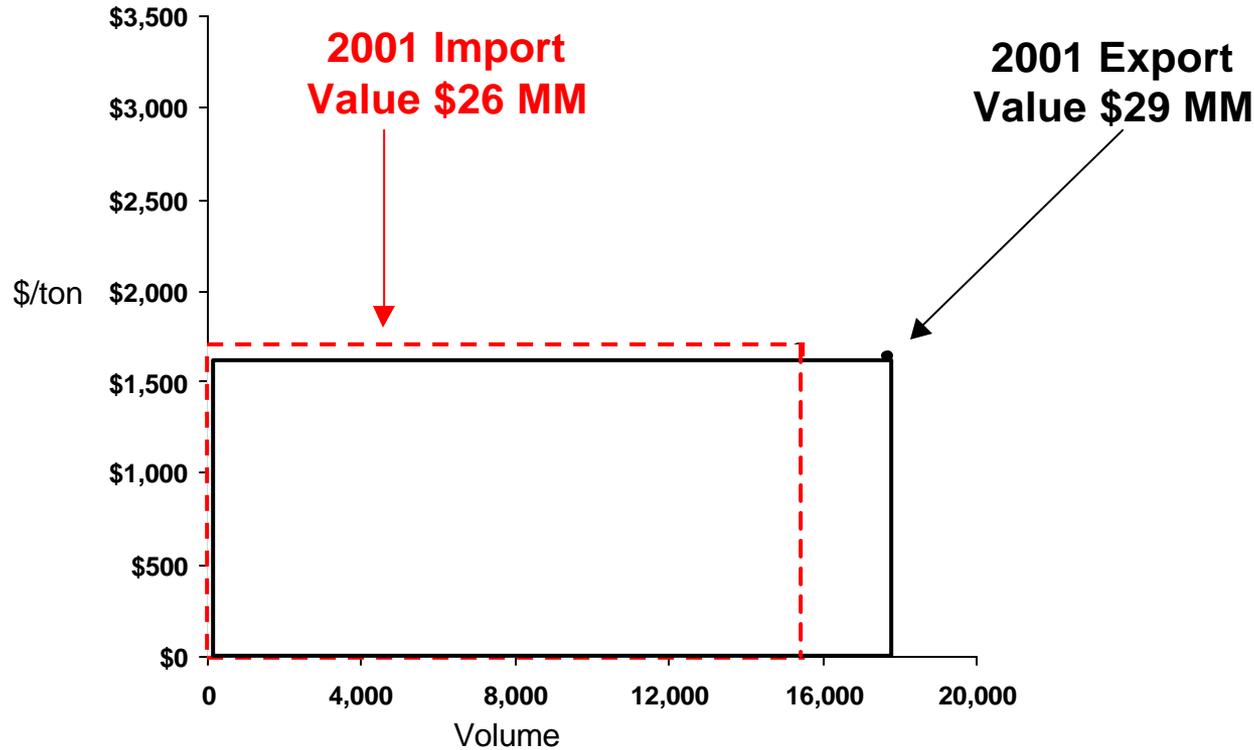
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Cluster Results

Year	2010
Overall Prosperity	
Number of Companies	
Total revenues	
Average revenue per employee	
Top 10 exports as percent of total exports	
Price per unit index (basket of goods, base year = 100)	
Annual growth rate	
Total export revenue	\$150 million
% firms more than 50% state-owned	
Domestic market share of firms > 50% foreign-owned	
Total number of employees	
Average number of employees per company	
Average employee earnings	
Total equity value of industry	

Source: Government announced objectives

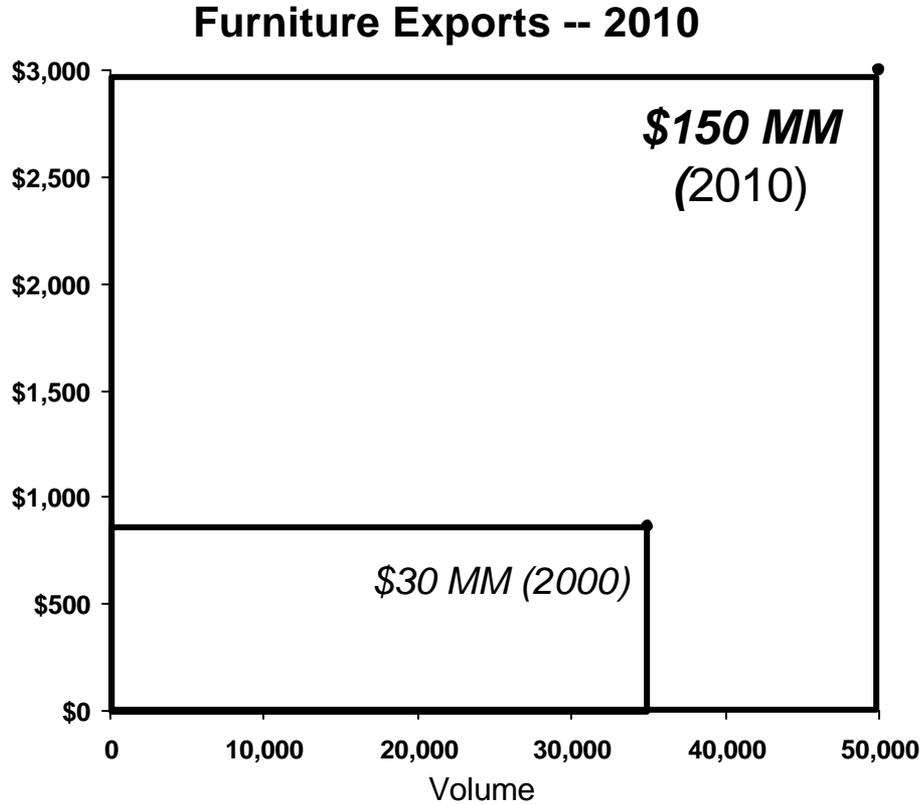
Furniture and Furniture Parts Export and Import Values in 2001



	Volume	\$ / ton	Receipts (\$ Million)
Export	17715	1637	29
Import	15415	1686	26
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

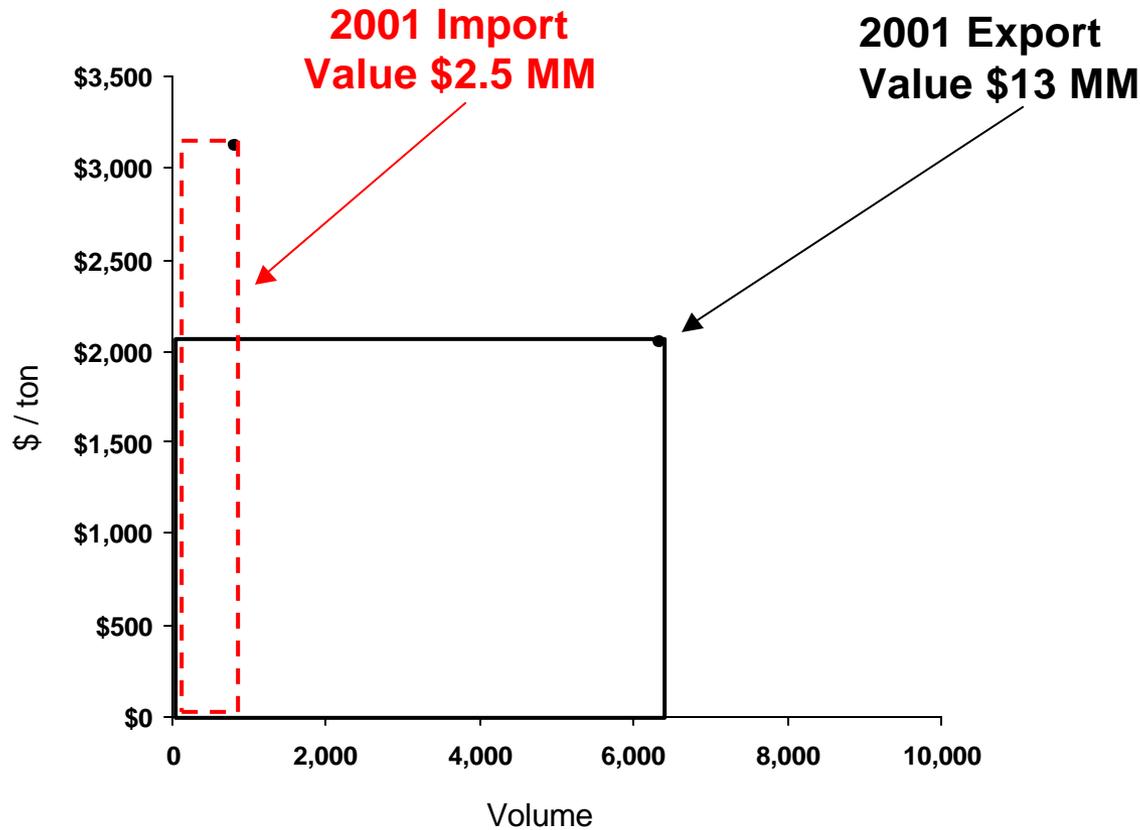
Furniture and Furniture Parts Export Values in 2010



	Volume	\$ / ton	Receipts (\$ Million)
domestic			
export	35000	857	30

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

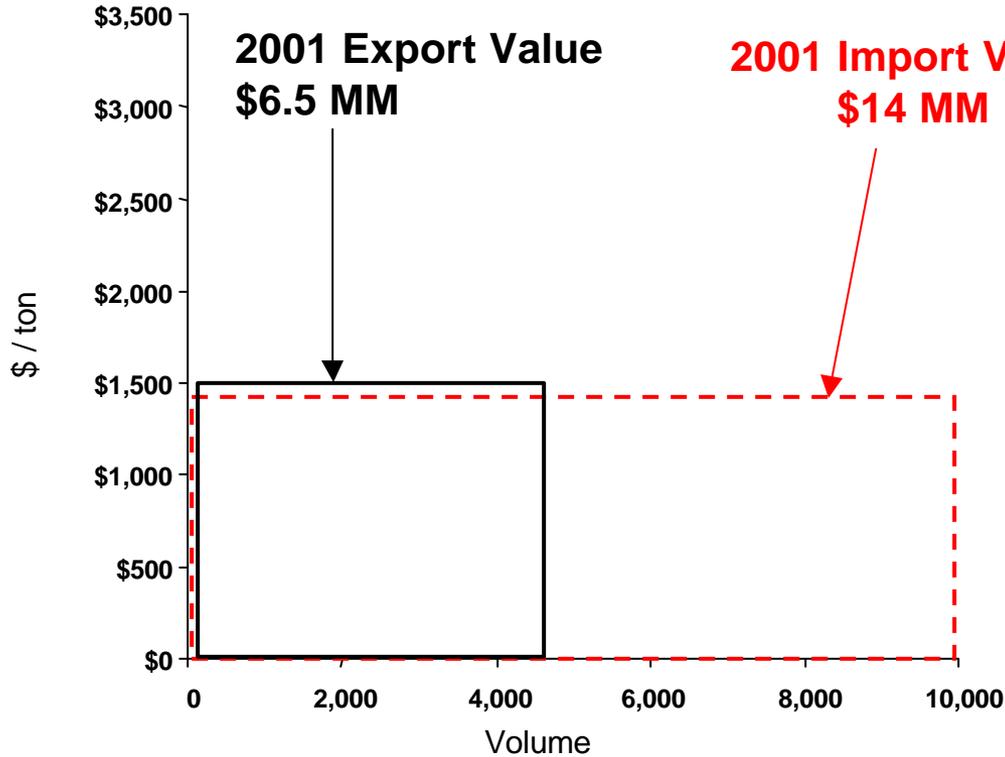
Wooden Upholstered Chairs Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	6340	2050	13
Import	800	3125	2.5
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

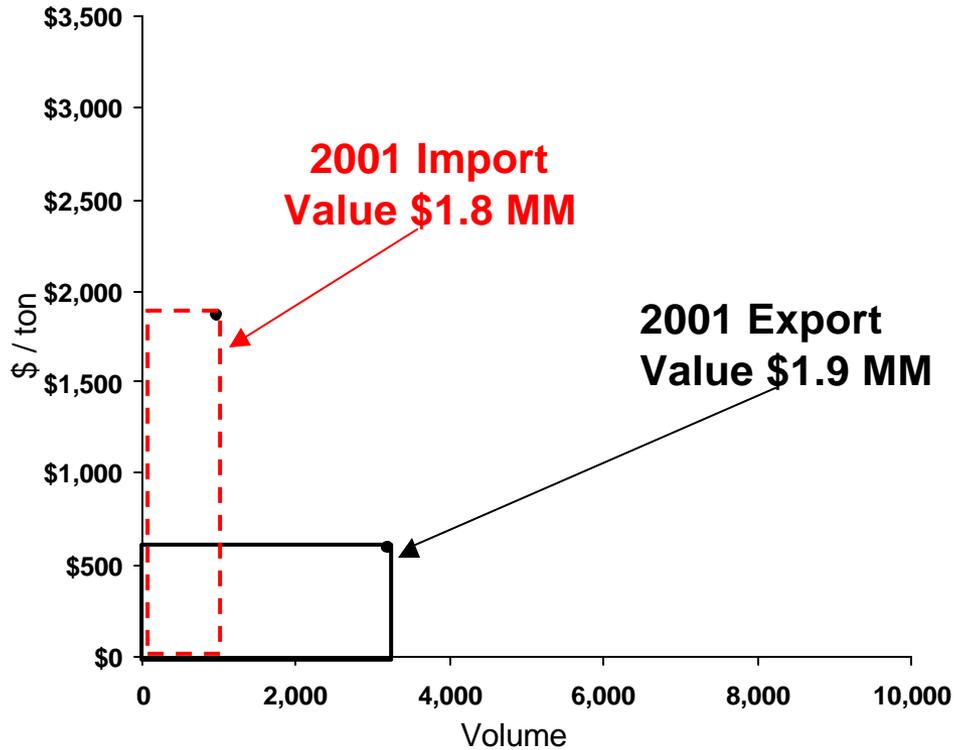
Other Wooden Furniture Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	4500	1444	6.5
Import	10000	1400	14.0
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

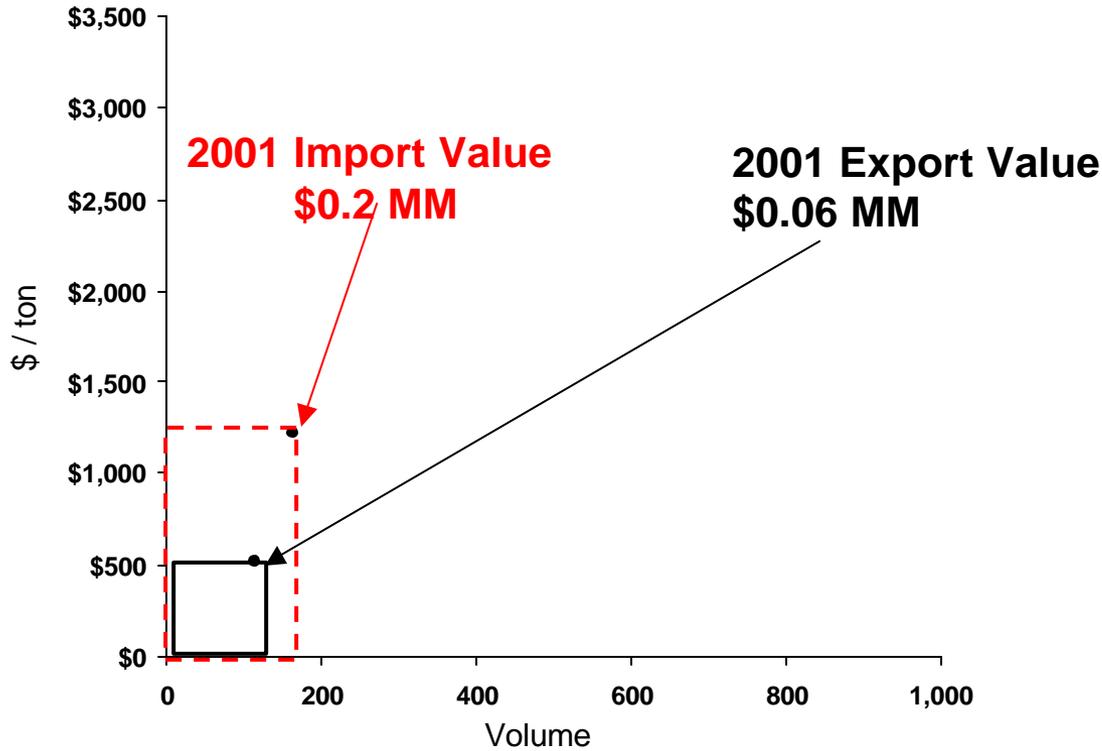
Metal furniture Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	3200	593	1.9
Import	961	1873	1.8
Domestic			

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

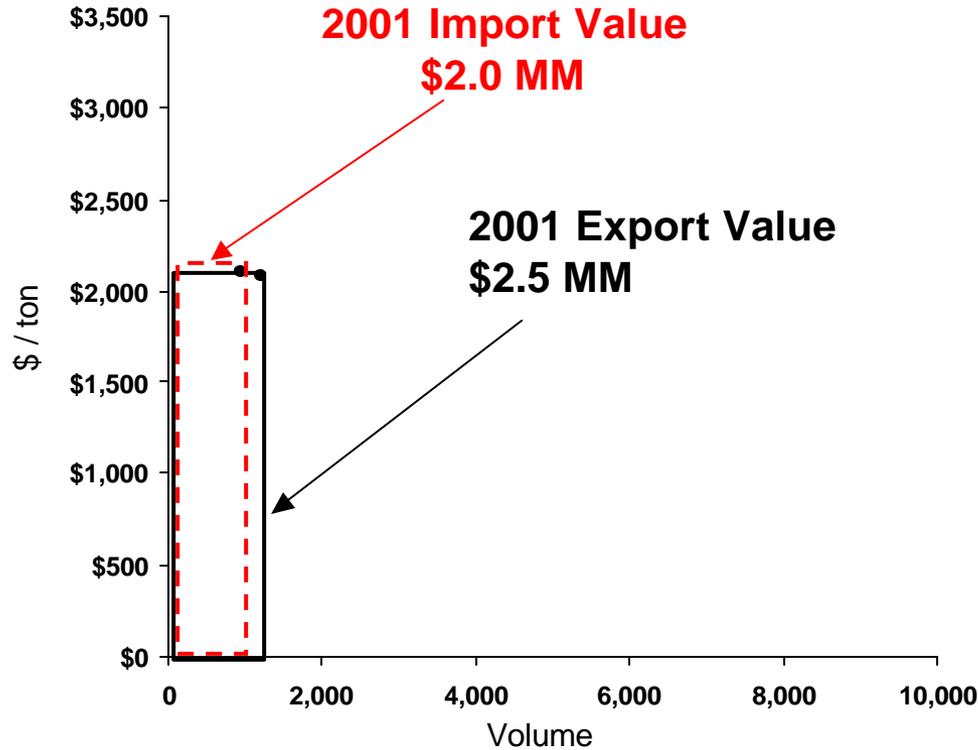
Flooring Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	115	521	0.06
Import	164	1219	0.2
Domestic			

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Windows, Doors and Frames Export and Import Values



	Volume	\$ / ton	Receipts (\$ Million)
Export	1200	2083	2.5
Import	950	2105	2.0
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Strategy Summary

In general:

What does Serbia sell to whom?

- Serbia sells furniture and interior home structure parts modeled on Western European designs, mostly to Serbian consumers and a small but growing amount to ex-Yugoslavian and EU wholesalers.

Why do Serbia's customers buy from Serbia rather than from Serbia's competitors?

- Customers buy Serbian rather than Western European because Serbian usually has: 1) lower price; 2) better hardwood; 3) equal design; 4) roughly equal craftsmanship.
- Customers buy Serbian rather than ex-Yugoslavian because Serbian usually has: 1) better design; 2) better craftsmanship; 3) roughly equal price.

Why is it difficult for Serbia's competitors to imitate Serbia and take Serbia's best customers away?

- Ex-Yugoslavian competitors have similar cost structures and do not have the skilled people to close the design and craftsmanship gaps.
- Western Europeans use design innovation, strong brands, and stronger service to distributors to frequently win business from more rewarding customers than Serbia's best customers.

Strategy Summary

In general:

What does Serbia sell to whom?

- Serbia sells the unique Serbian home furnishing experience, consisting of products and services, featuring patented, original Serbian design to consumers and retailers in the EU and ex-Yugoslavia.

Why do Serbia's customers buy from Serbia rather than from Serbia's competitors?

- Customers buy Serbian because the home furnishing experience integrates services such as interior decorating and consulting with furniture products, linking original design concepts to the consumer's desired living experience.

Why is it difficult for Serbia's competitors to imitate Serbia and take Serbia's best customers away?

- Serbia's competitors cannot imitate Serbia because: (1) original designs are patented; (2) the integration of services and products is based on deep insight into consumer lifestyles developed through market research; and (3) strategic use of information technology, and manufacturing and support services are configured so that the consumer may participate in the design experience.

Product and Service Portfolio

	Customers	Consumers
Products		<ul style="list-style-type: none"> • Upholstered chairs • Other wooden furniture • Doors, windows and frames • Flooring • Metal Furniture • <u>Other product exports</u> <p style="text-align: center;"><i>\$29 million</i></p>
Services		

Note: Preliminary Estimates

Source: Yugoslav Federal Trade Statistics, SCEE estimates

Product and Service Portfolio

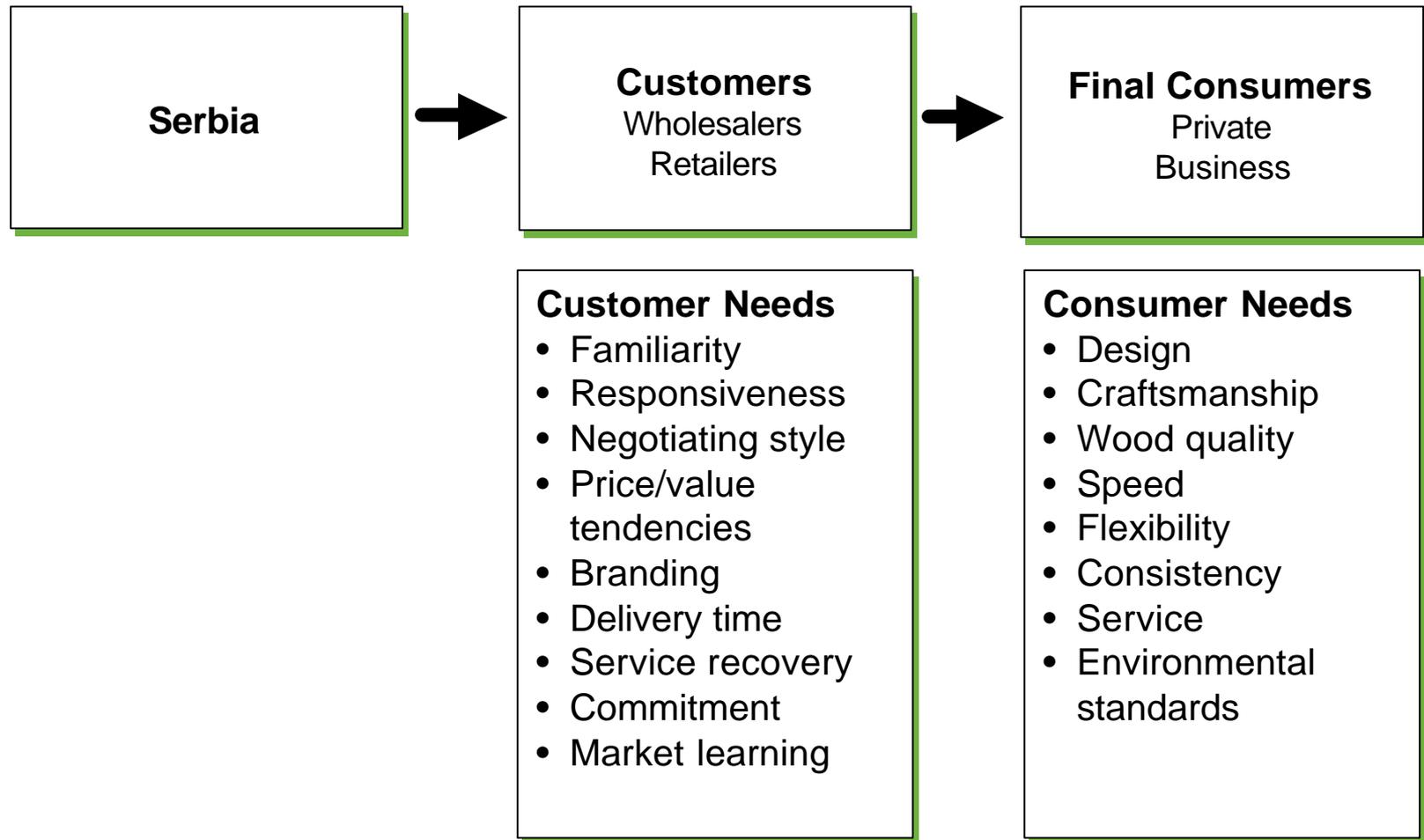
	Customers	Consumers
Products	5%	50%
Services	20%	25%

Key Exports and Markets

	Ger	Fran	Russia	Italy	Mac.	Bos.	Other	Export Revenues (2001)(mil)
Products								\$29.0
Upholstered wooden seats	\$0.5	\$0.9	\$0.06	\$5.8	\$1.4	\$1.6	\$2.7	\$13.0
Other wooden furniture	\$1.2	\$0.7	\$0.09	\$0.3	\$1.0	\$2.5	\$0.8	\$6.6
Metal furniture (home)	\$1.3	\$0.05	-	\$0.2	\$0.02	\$0.2	\$0.13	\$1.9
Windows, doors, and frames	\$0.001	-	\$0.5	\$0.004	\$0.3	\$1.4	\$0.295	\$2.5
Flooring	\$0.02	-	-	-	-	\$0.03	\$0.01	\$0.06
Other								\$4.9
Services								\$0.0

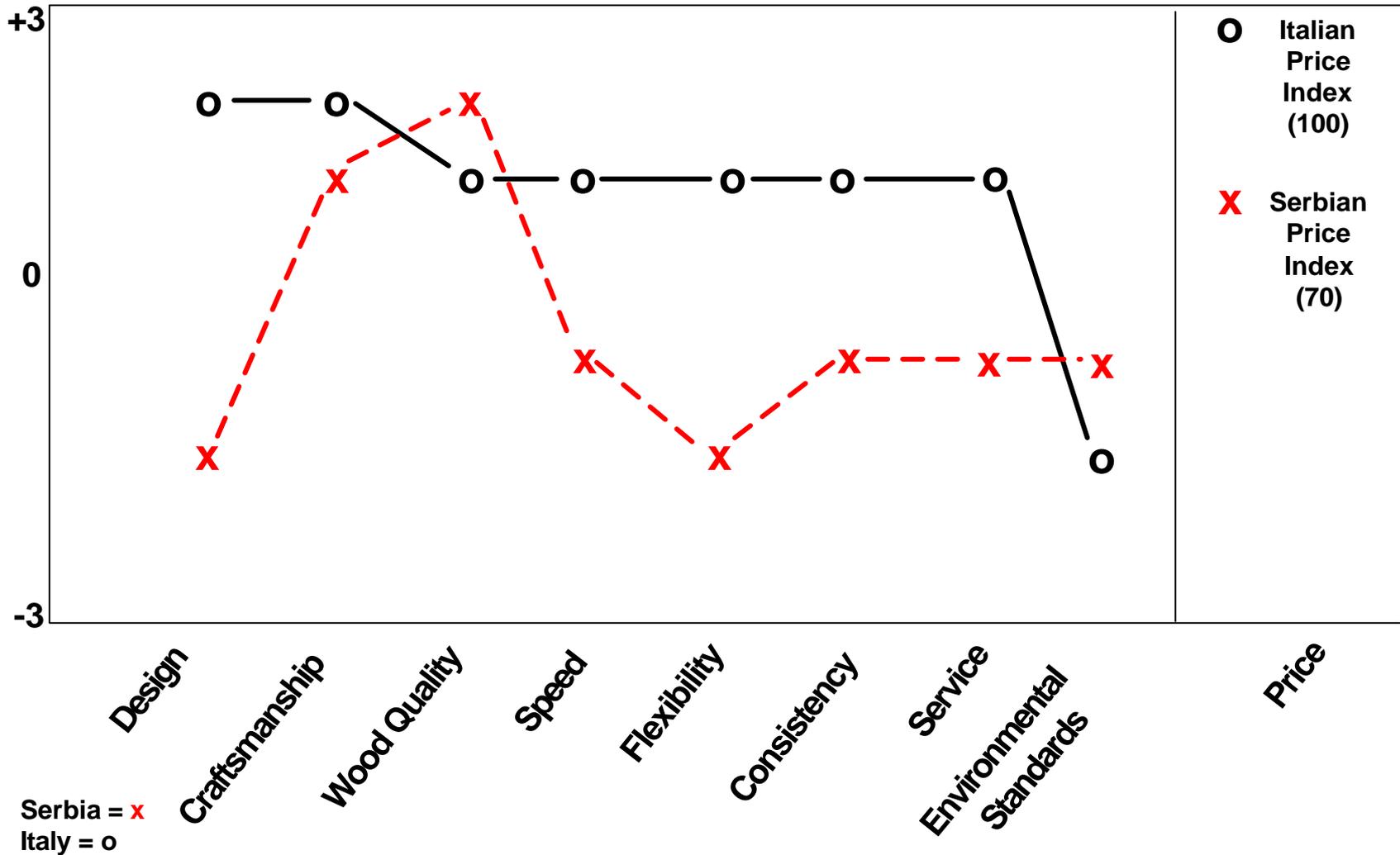
Source: Federal Trade Statistics, SCEE estimates

The Customer's Customer

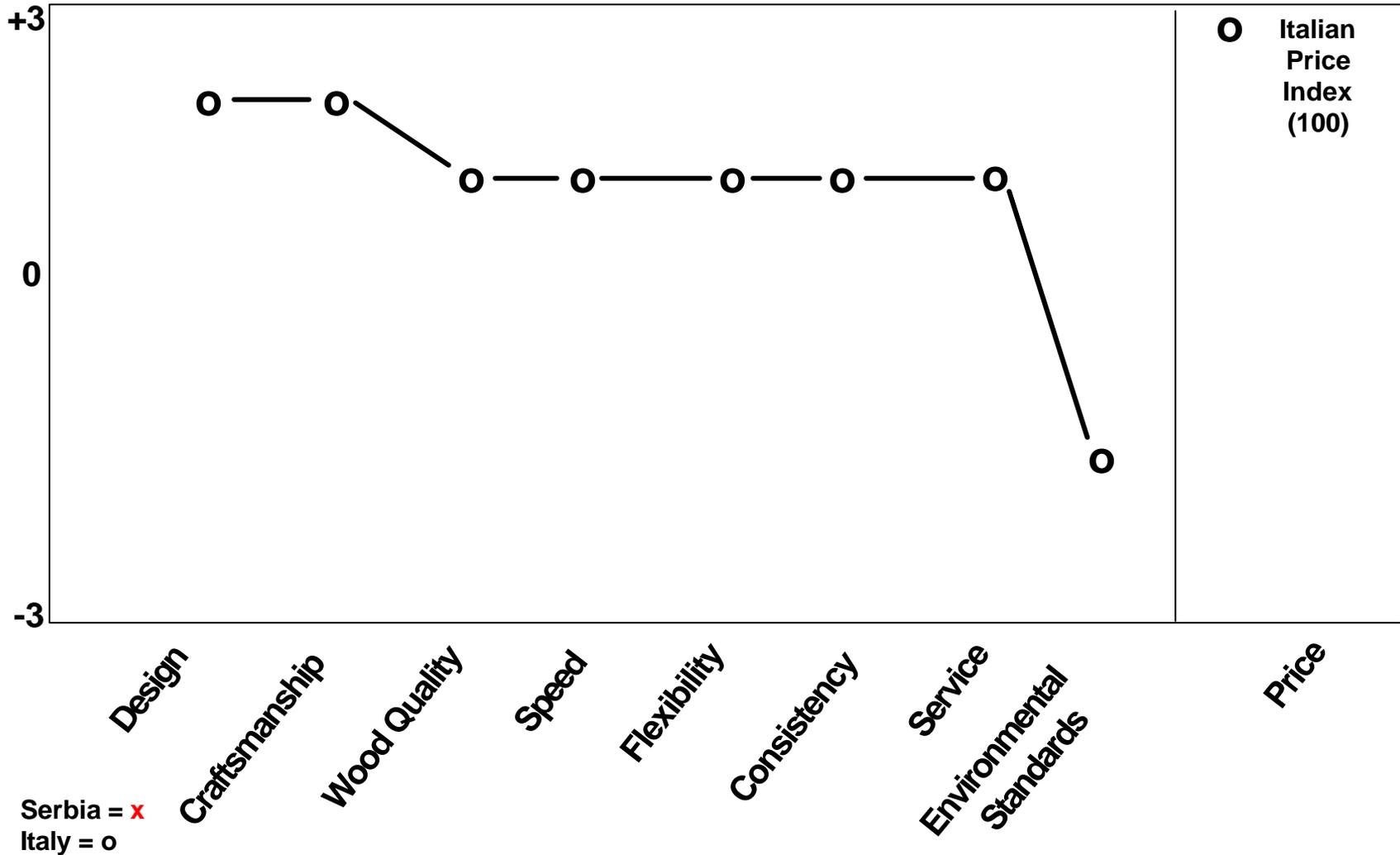


Note: Preliminary Evaluation
Source: SCEE interviews with Serbian, European and US wholesalers

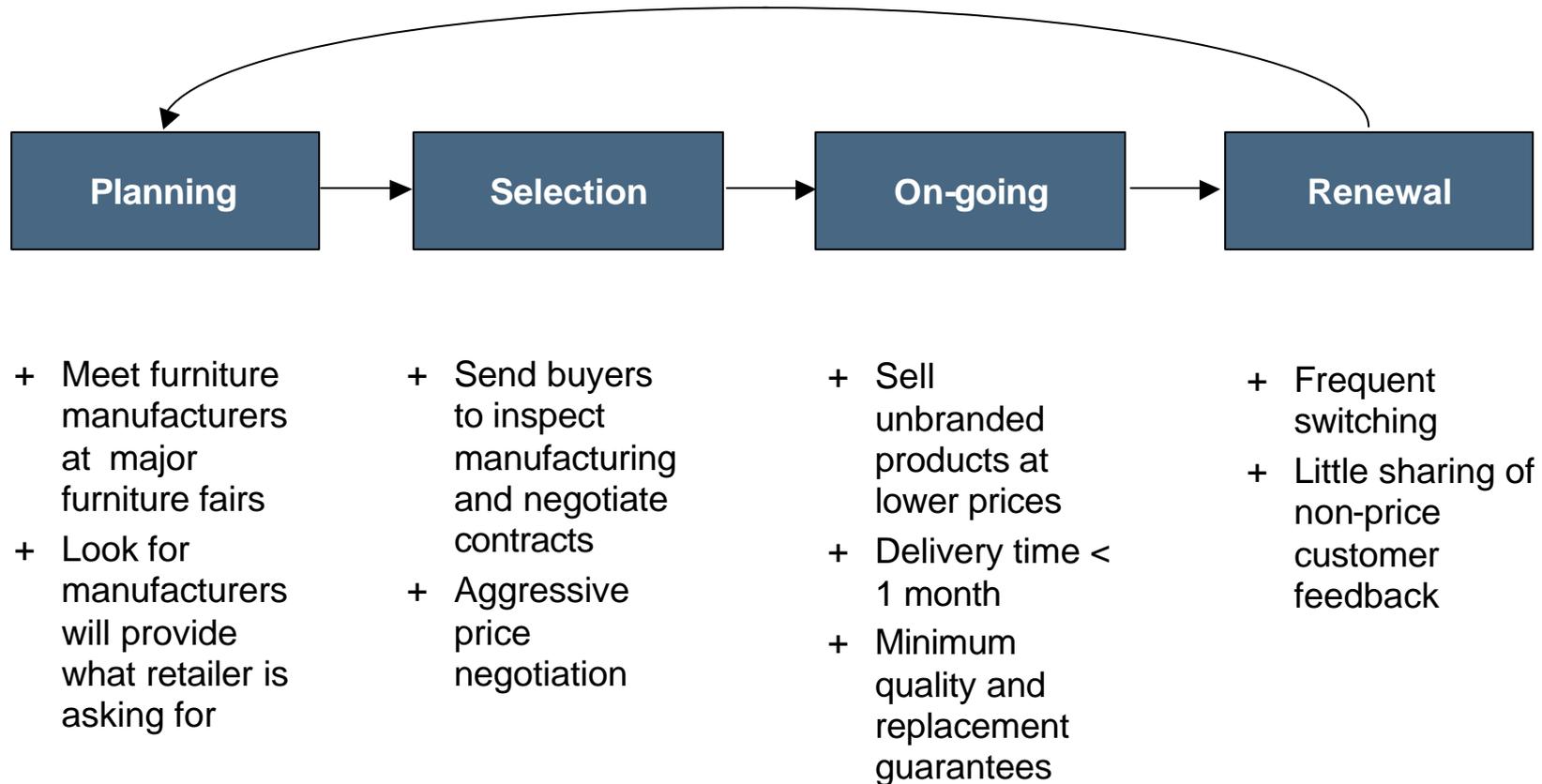
Positioning with Consumers



Positioning with Consumers

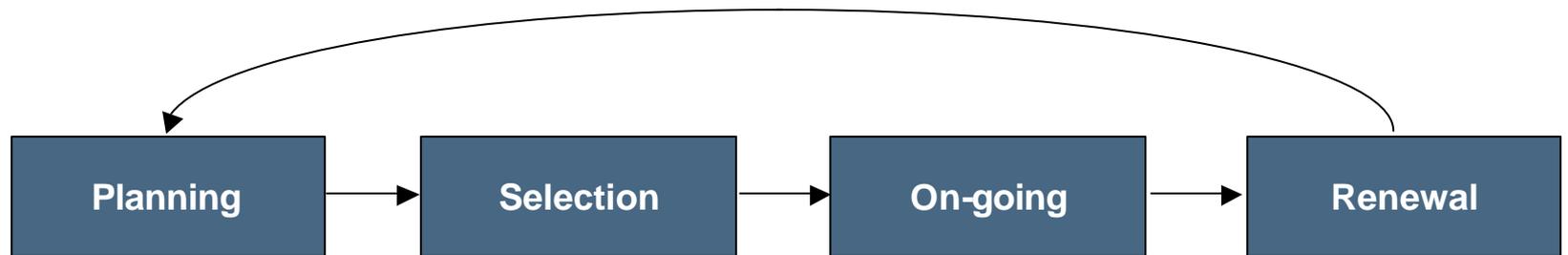


Current Customers' Needs



Source: USAID SCEE interviews with European and US wholesalers

New Customers' Needs



- + Target manufacturers with clear positioning
- + Identify manufacturers' willingness to collaborate on design and promotion

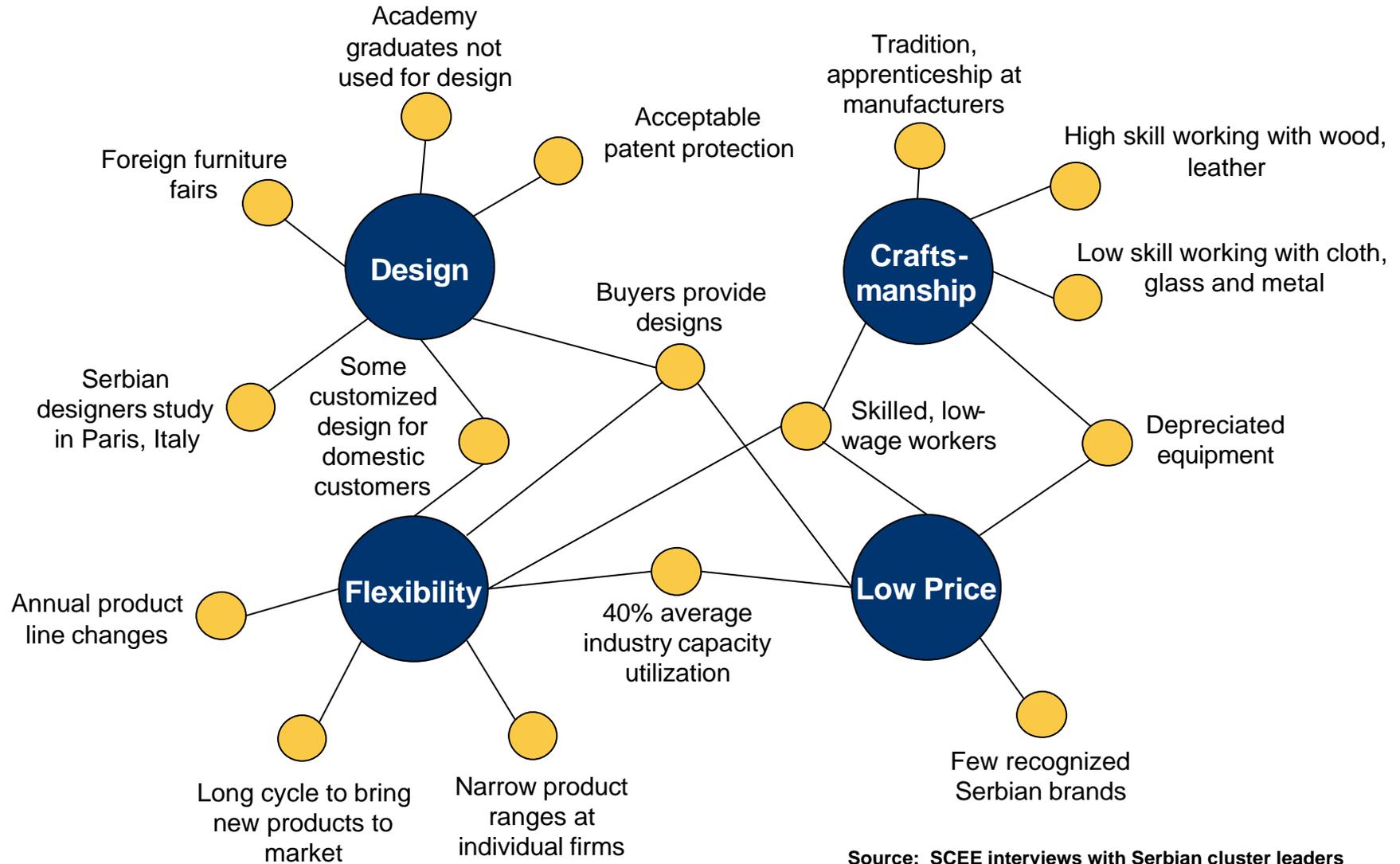
- + Develop contracts and other agreements among management teams
- + Aggressive quality requirements

- + Sell branded products and higher prices
- + Delivery time < 2 weeks
- + Complete consumer satisfaction guarantees

- + Long-term relationships
- + Collaborative market learning

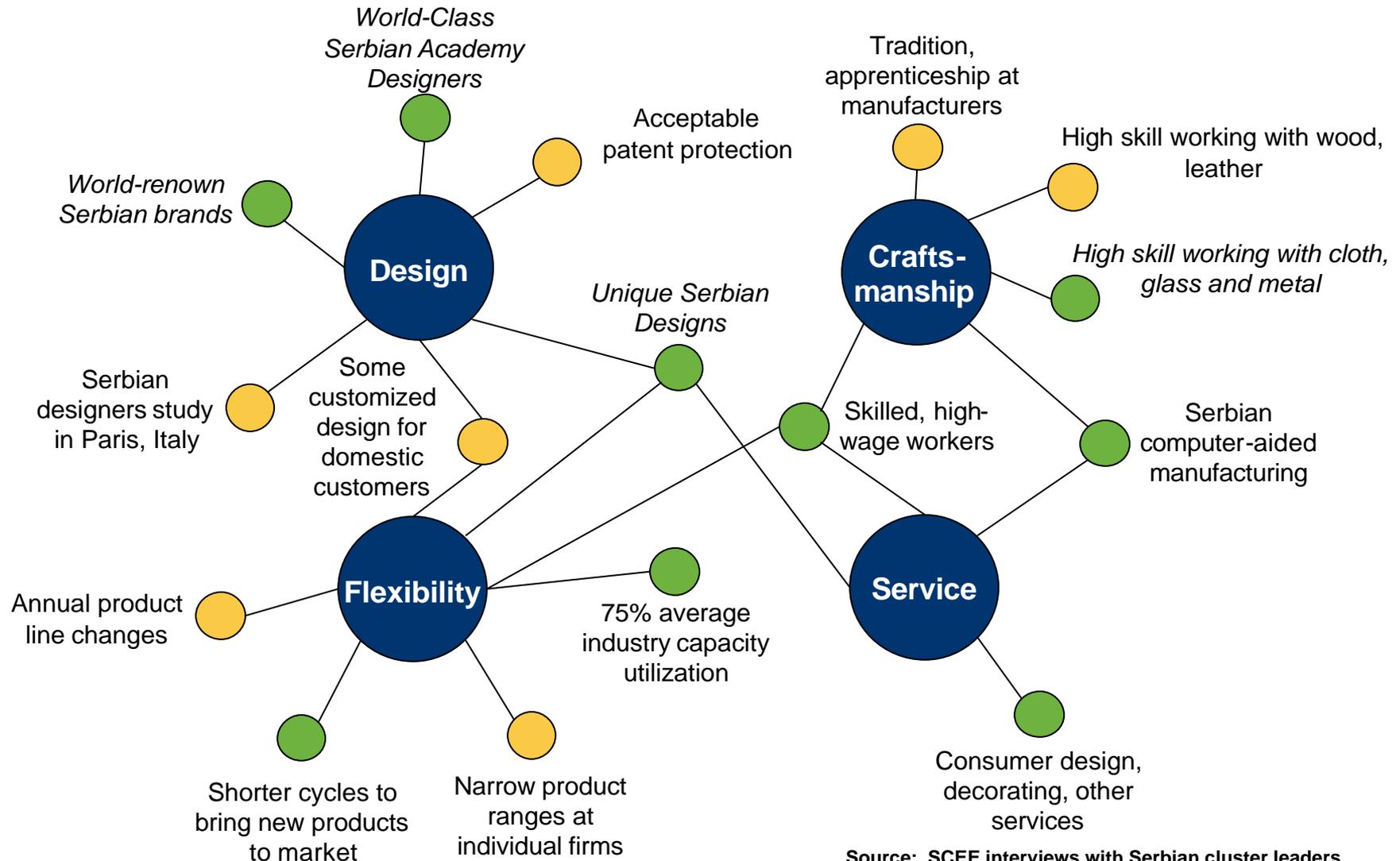
Source: USAID SCEE interviews with European and US wholesalers

Web of Activities to Satisfy Consumer Needs



Source: SCEE interviews with Serbian cluster leaders

Web of Activities to Satisfy Consumer Needs



Source: SCEE interviews with Serbian cluster leaders

Important Government Actions

Legal	<ul style="list-style-type: none">• Price controls on unprocessed and semi-processed wood• High import tariffs on textiles and leather
Administrative	<ul style="list-style-type: none">• Ministries seek to direct industry strategy• No consumer protection and health and safety certifications
Direct Market	<ul style="list-style-type: none">• Government owns many firms in the industry• Government is a price-sensitive purchaser of furniture products

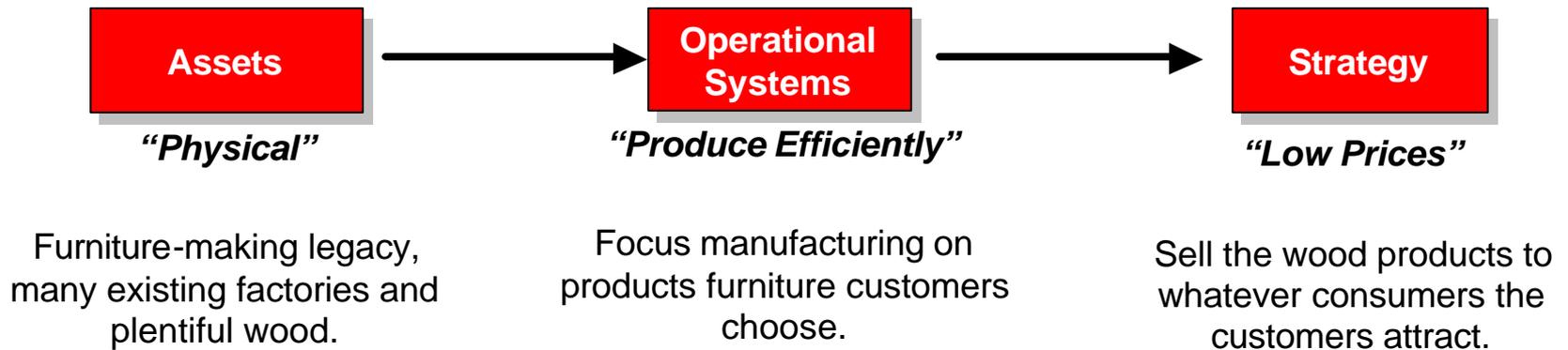
Source: SCEE interviews with Serbian cluster leaders

Important Government Actions

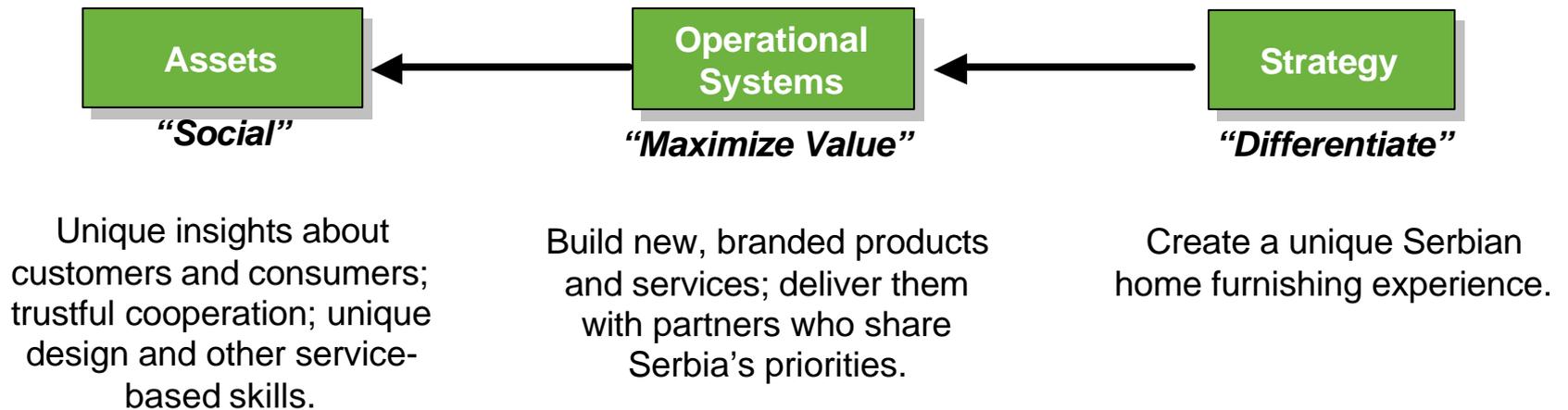
Legal	<ul style="list-style-type: none">• International intellectual property protection for Serbian designs, brands and trademarks• Targeted WTO negotiations for furniture and interior home products
Administrative	<ul style="list-style-type: none">• Ministries coordinate public sector efforts behind private sector priorities• Strong consumer and employee protection standards, consumer credit regulations
Direct Market	<ul style="list-style-type: none">• No government ownership of cluster firms• Government is a value-driven purchaser of furniture products

Source: SCEE interviews with Serbian cluster leaders

Comparative Advantage Approach to Creating Wealth



Competitive Advantage Approach to Creating Wealth



Defensive Reasoning

Belief or Assumption

“The government doesn’t do anything for us, so why should we care about them?”

Conclusion

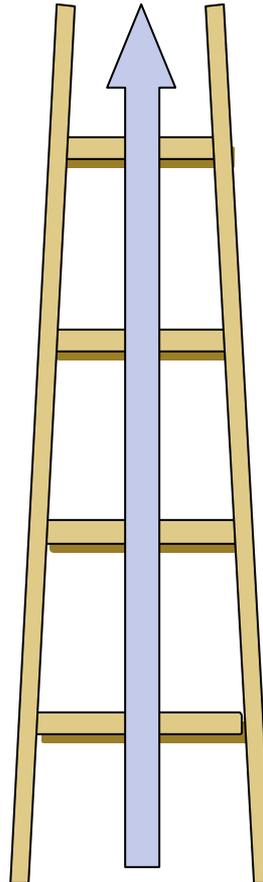
“We can compete with foreign firms in export markets, but the government needs to help us.”

Paraphrase / Interpretation

“If you think of all the advantages that foreign furniture firms have, its amazing that there are any Serbian firms that can compete with them in other markets.”

Selected Data

“The government is lowering import barriers and not providing much credit to Serbian firms.”



Belief or Assumption

“The government shouldn’t help firms until they help themselves.”

Conclusion

“Many firms, especially the most competitive ones, will not cooperate with either the government or each other...right now I am afraid all they care about is themselves.”

Paraphrase/Interpretation

“If our firms don’t succeed, it must be because they do not have good management.”

Selected Data

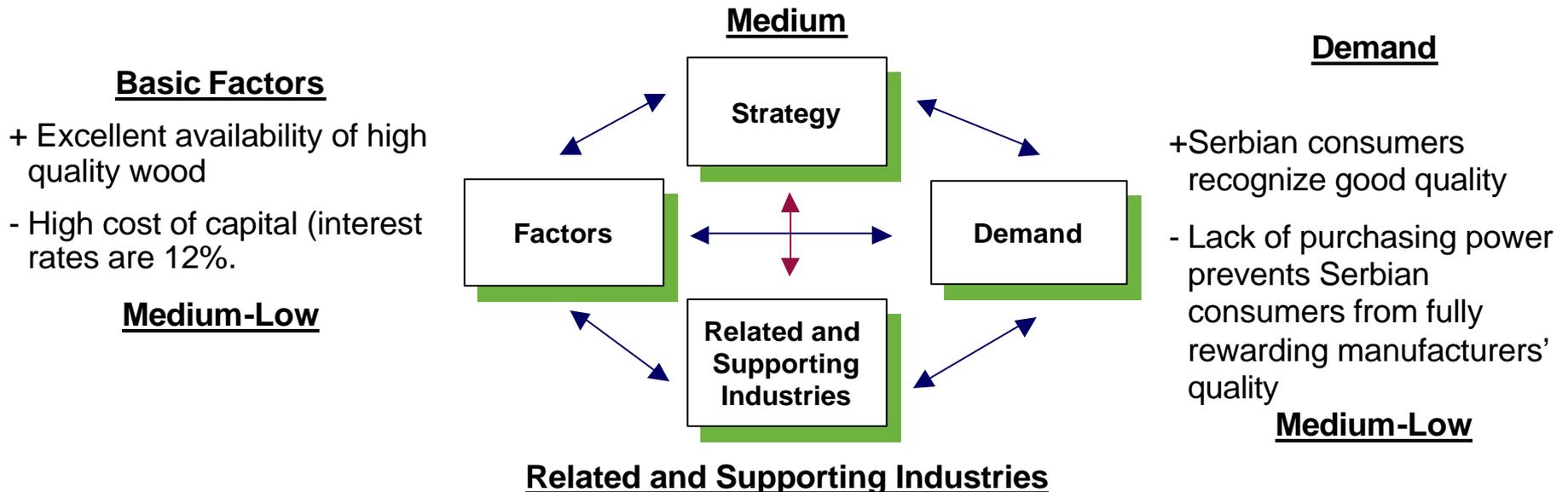
“Serbia has excellent wood stocks, we have good quality laborers available at comparatively lower wages, and close proximity to Europe’s largest markets.”

Source: SCEE interviews with Serbian cluster leaders, government advisors

The Domestic Competitive Environment

Strategy, Structure, and Competition

- What Serbia sells to whom
- Why customers and consumers buy from Serbia instead of someone else
- Why others find it hard to copy Serbia and take Serbia’s best customers away



- No active national furniture association, few domestic designers, no high quality domestic leather tanning or textile manufacturing
- Machinery is imported from Italy, Germany and Austria
- Three local furniture and home/office design magazines with small circulation in Serbia

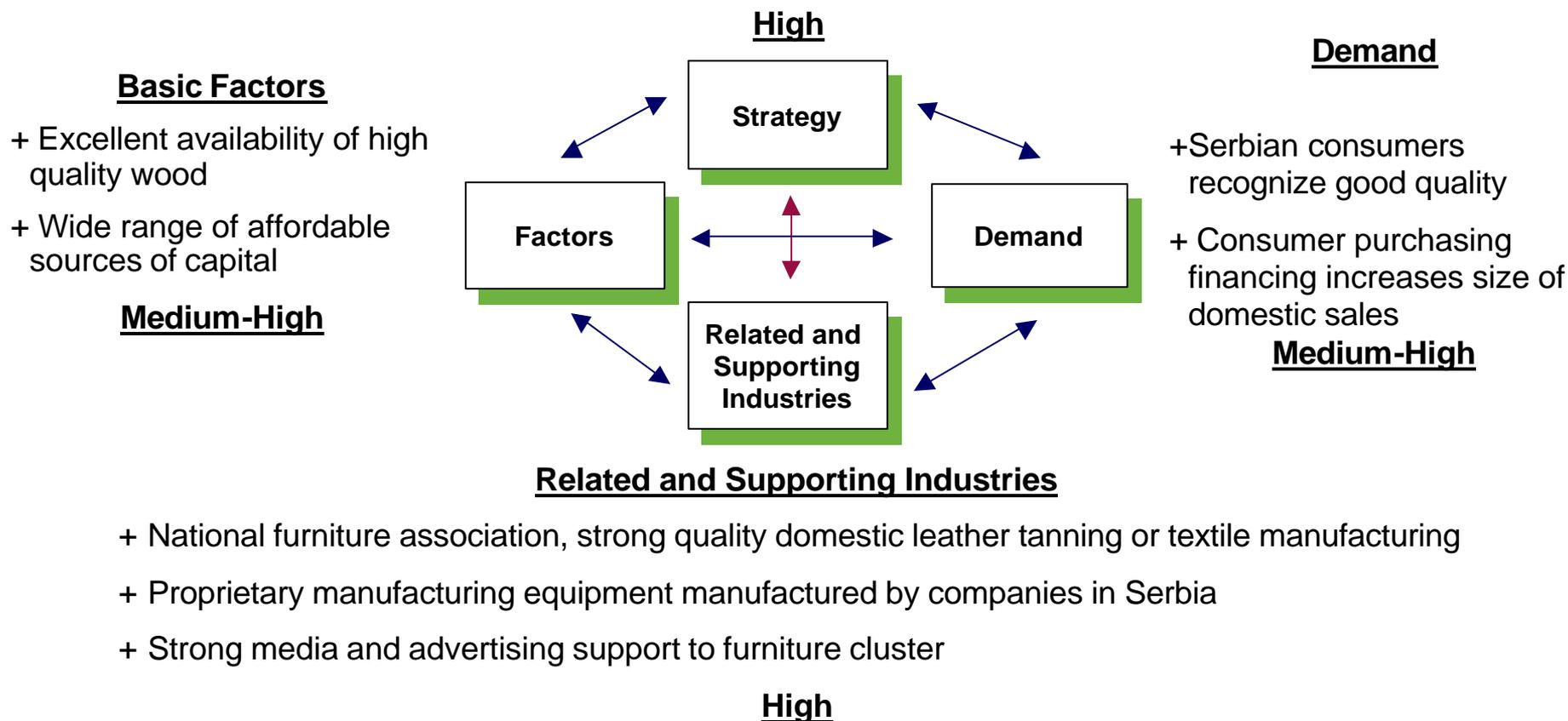
Low

SOURCES

The Domestic Competitive Environment

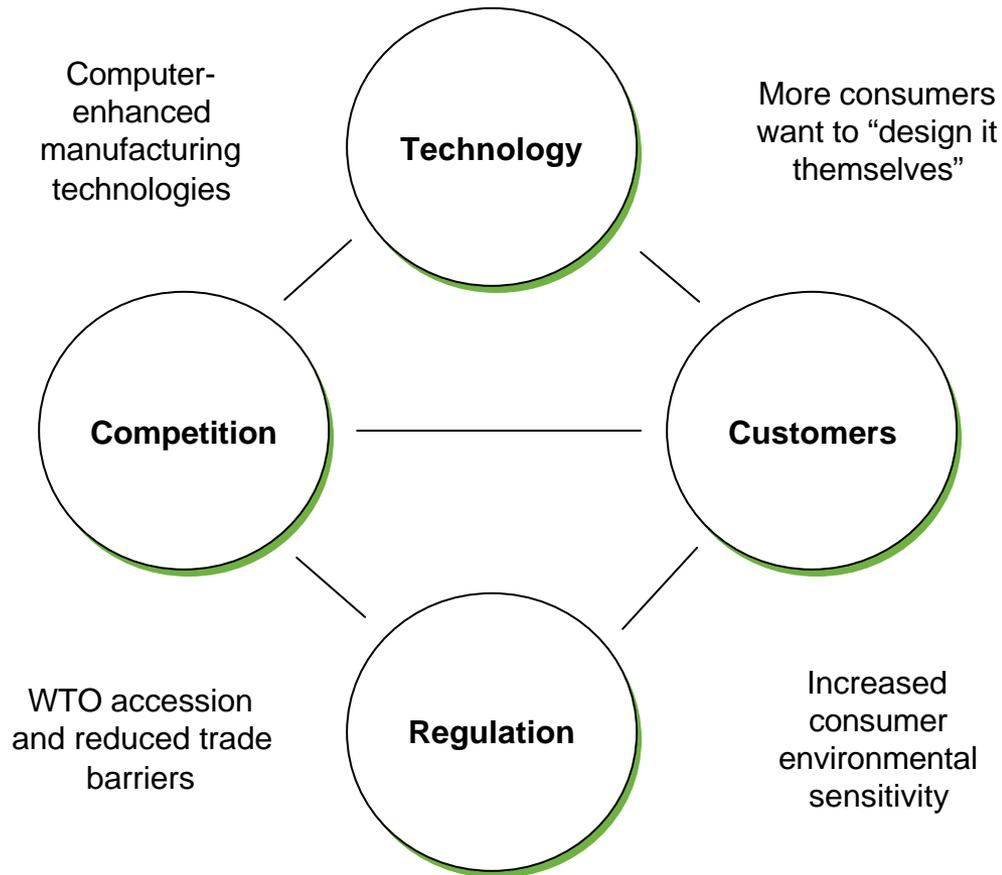
Strategy, Structure, and Competition

- What Serbia sells to whom
- Why customers and consumers buy from Serbia instead of someone else
- Why others find it hard to copy Serbia and take Serbia’s best customers away



SOURCES

Significant Trends and Uncertainties





Booz | Allen | Hamilton
delivering results that endure



Serbia Competitiveness & Economic Efficiency Project

Furniture, Construction Materials and Flooring Cluster
Meeting
6 February 2003

Cluster Council Participants

Furniture

- Bošnjacki**
- Buducnost**
- Eurosalon**
- Mimco**
- Modul**
- TMB Diamond**
- Trifunovic**

Doors, Windows & Flooring

- Domis**
- Enterijer Jankovic**
- Saga**

Lumber Supplier

- Lika Sistem**

Independent Experts

- Branko Glavonjic, Forestry Faculty**
- Milan Gašic, Reiffeisen Bank and 'Sloga' agent**

Furniture, Construction Materials and Flooring Cluster Meeting Agenda

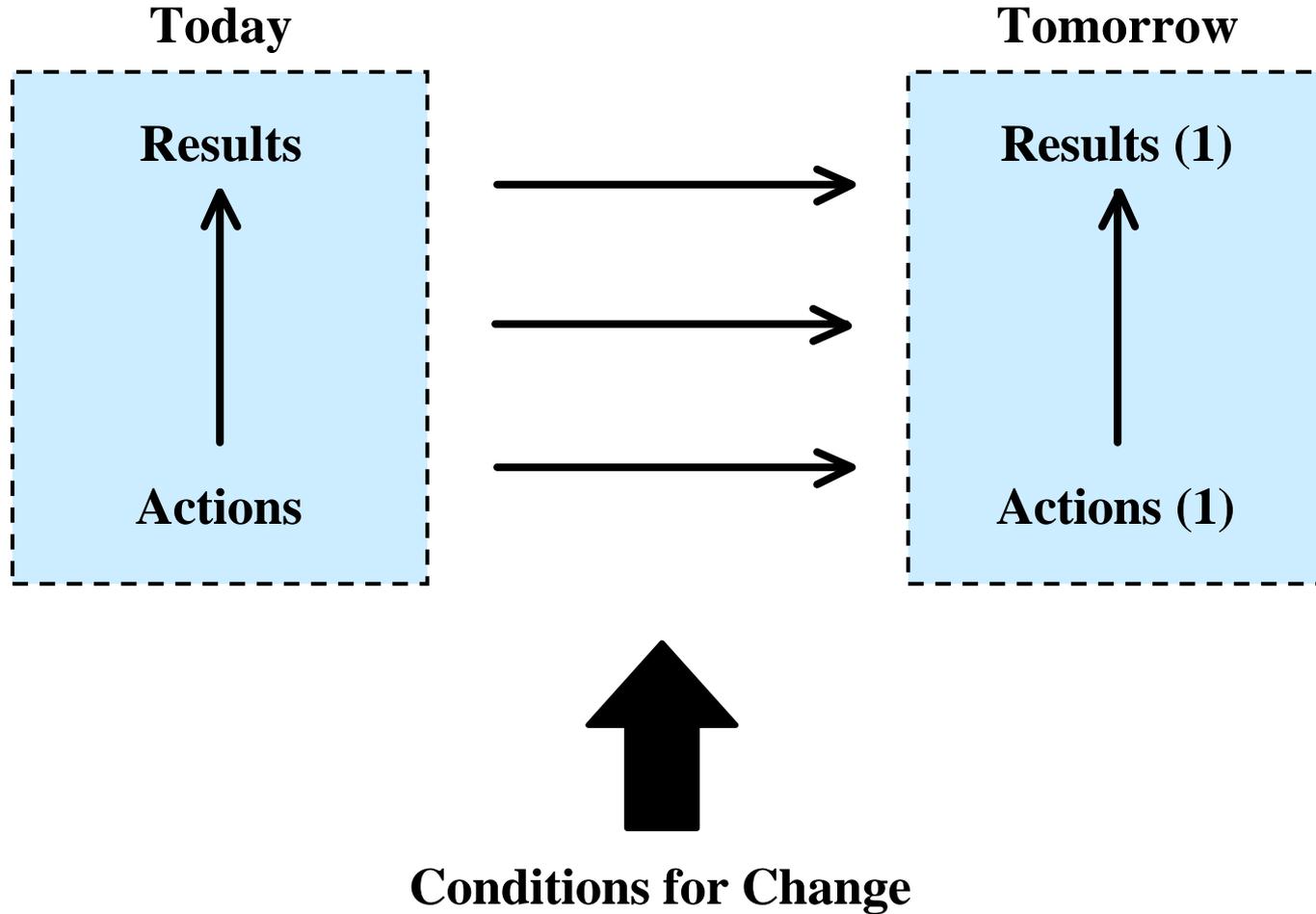
- I. SCEE Overview and Update**
 - **Welcome and Introductions**
 - **SCEE Project Overview**
 - **Updates on Recent SCEE Developments**

- II. Furniture, Construction Materials and Flooring Cluster**
 - **The cluster's approach to competitiveness**
 - **Hypothesis about how the cluster may become more competitive**

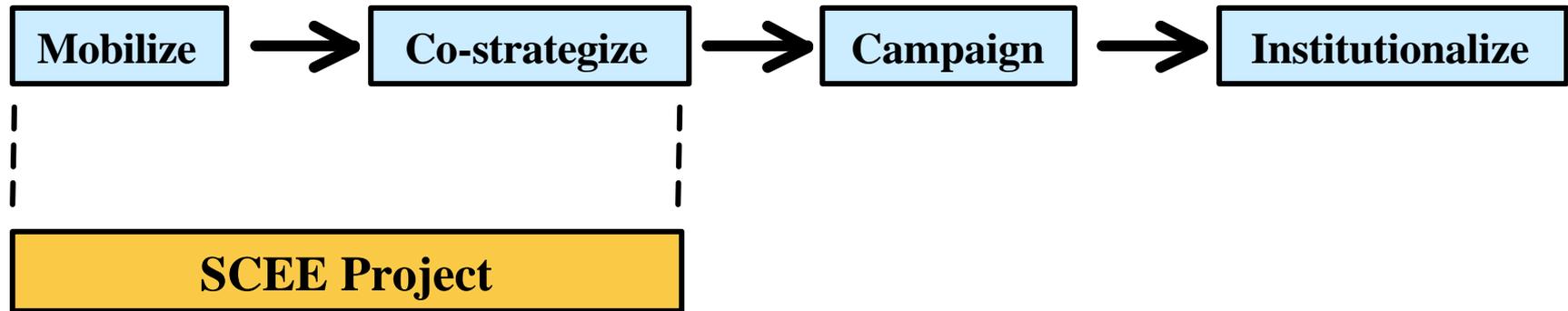
- III. Developing competitive advantage for the cluster through market insight**

- IV. Next steps**
 - **For the cluster**
 - **For the SCEE**

Our approach to helping Serbia build a thoughtful, competitiveness- building program



SCEE project has three stages

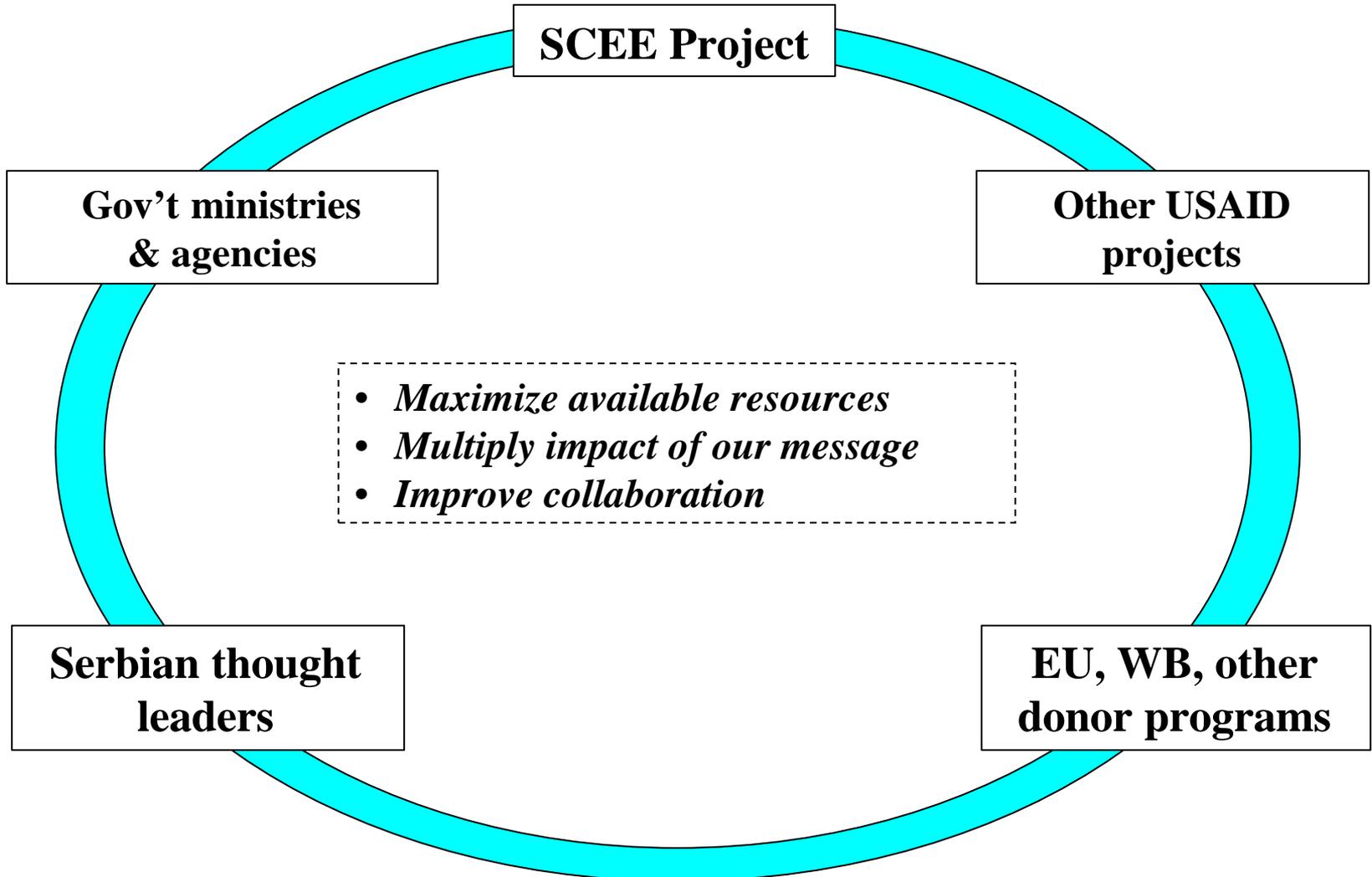


Stage 1: commitment & leadership

Stage 2: objectives, insights, new winning strategy

Stage 3: expanding leadership & support

SCEE is coordinating with other ongoing development programs



Clusters can become more competitive faster by participating in the SCEE project

Participants can expect:

- **To break into new markets**
- **To help cluster members cooperate and collaborate**
 - **Target export markets and conduct consumer research**
 - **Institute internationally recognized quality and safety standards**
 - **Lobby for specific legislative reforms**
 - **Promote training and investment in technology**
- **To remove barriers in the business environment**
- **To build relationships with foreign firms & customers**

Serbian Furniture Cluster

Intra-firm Interests & Possible Collaboration

Raw Materials & Production

- Wood supply
- Fabric, leather, metal & glass suppliers
- Production machines



Effective Resource & Production Management

- Adopt sustainable wood harvesting standards
- Joint investments in domestic material production
- Group purchasing of production machines

Government & Regulatory Environment

- Price controls & taxes
- Import duties
- Free Trade Agreements
- Specific legislation



Increased Dialogue with Government Agencies

- Inform representatives of cluster interests
- Lobby for specific legislative reforms
- Brief Cluster members about new laws

Export Market Penetration

- Data on market composition
- Distributor/buyer relationships
- Shipping/logistics
- Volume



Cooperate in Targeting Export Markets

- Joint visits/consortium to major European cities
- Group exhibits at major trade fairs
- Sub-contracting arrangements on large contracts

Training & Design Skills

- Professional training
- Quality of design
- Quality of labor



Promotion of Better Training & Design Skills

- Joint funding of training for managers
- Creation of National Design Awards
- Jointly funded scholarships for workers

Objectives:

- Discuss the SCEE project and our approach
- Outline the challenge of Competitiveness & a potential starting point for this cluster's activity
- Discuss next steps, roles and responsibilities

Outcomes:

- Discussed the furniture clusters' current results
- Examined furniture cluster's current strategy (mainly export-oriented)
- Discussed where the cluster would like to be in the future, and the threat of foreign competition

Questions Generated:

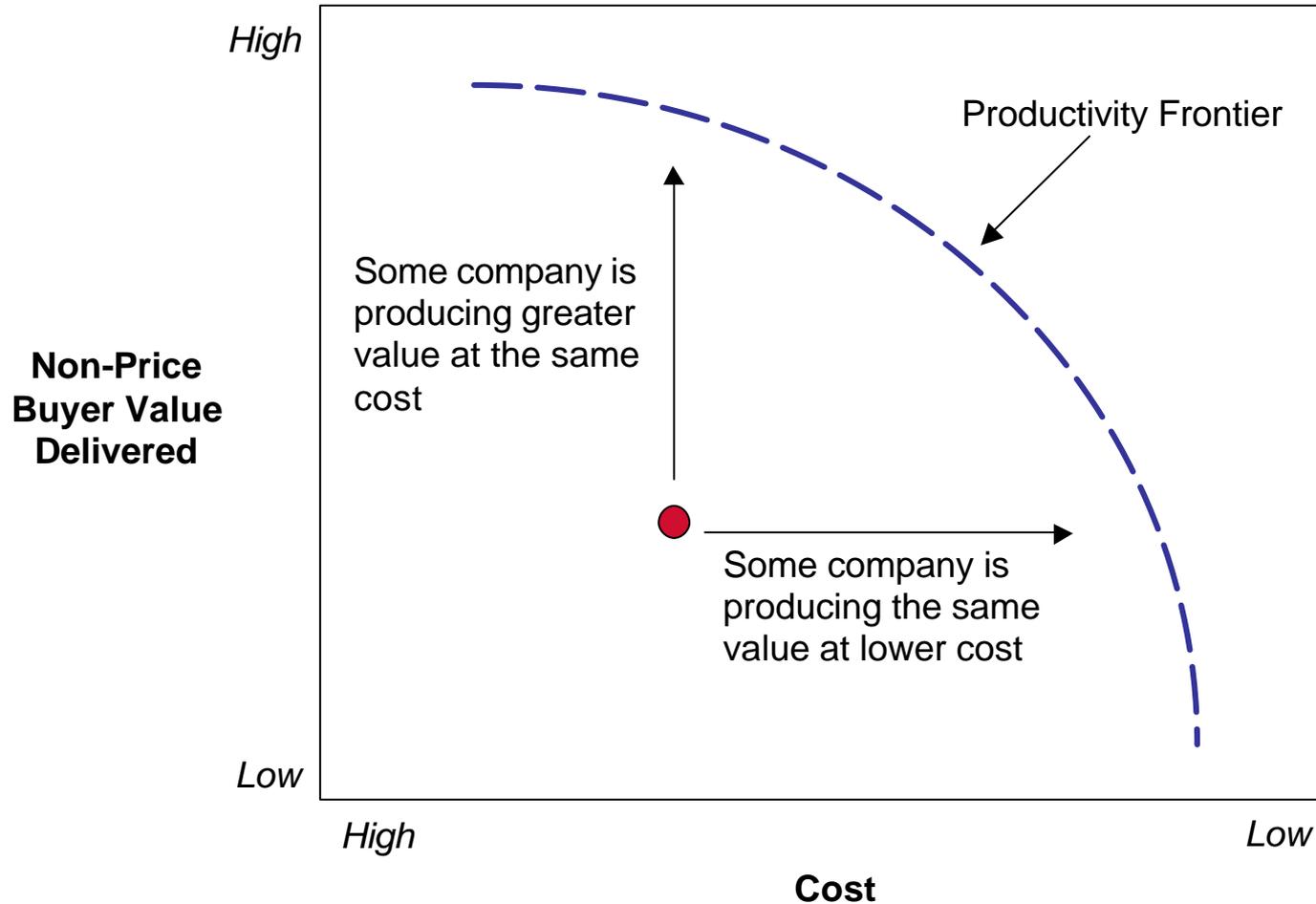
- What can individual firms do to improve cooperation and alleviate distrust among cluster companies?
- How will free trade agreements, especially those with neighboring countries, affect firms within the cluster?
- What can individual firms learn from the examples of clusters in Spain, Slovenia & Italy in production, brand development and export promotion?
- How do we establish the distinctiveness of Serbian furniture and home accessories like doors, flooring and windows and build a better brand image?
- How can cluster members better access needed financial resources?
- What are the consumer needs in the domestic and foreign markets that need to be better understood and better served?
- What is the right product scope for the cluster?

What Is Competitiveness?

- Competitiveness has emerged as the preeminent issue in every nation — for companies and governments
- Upgrading a nation's export competitiveness requires a shared understanding of competitiveness within the nation
- Competitiveness is not simply:
 - A favorable exchange rate
 - Positive balance of trade
 - Industrial subsidies
 - Low inflation rate
- Rather, competitiveness is the productivity with which resources are deployed
 - Human resources
 - Capital
 - Physical assets
- Since competitiveness relies on productive deployment of resources, industry sectors and their firms compete, not nations
 - Government has a partial but significant role in creating the platform from which firms compete

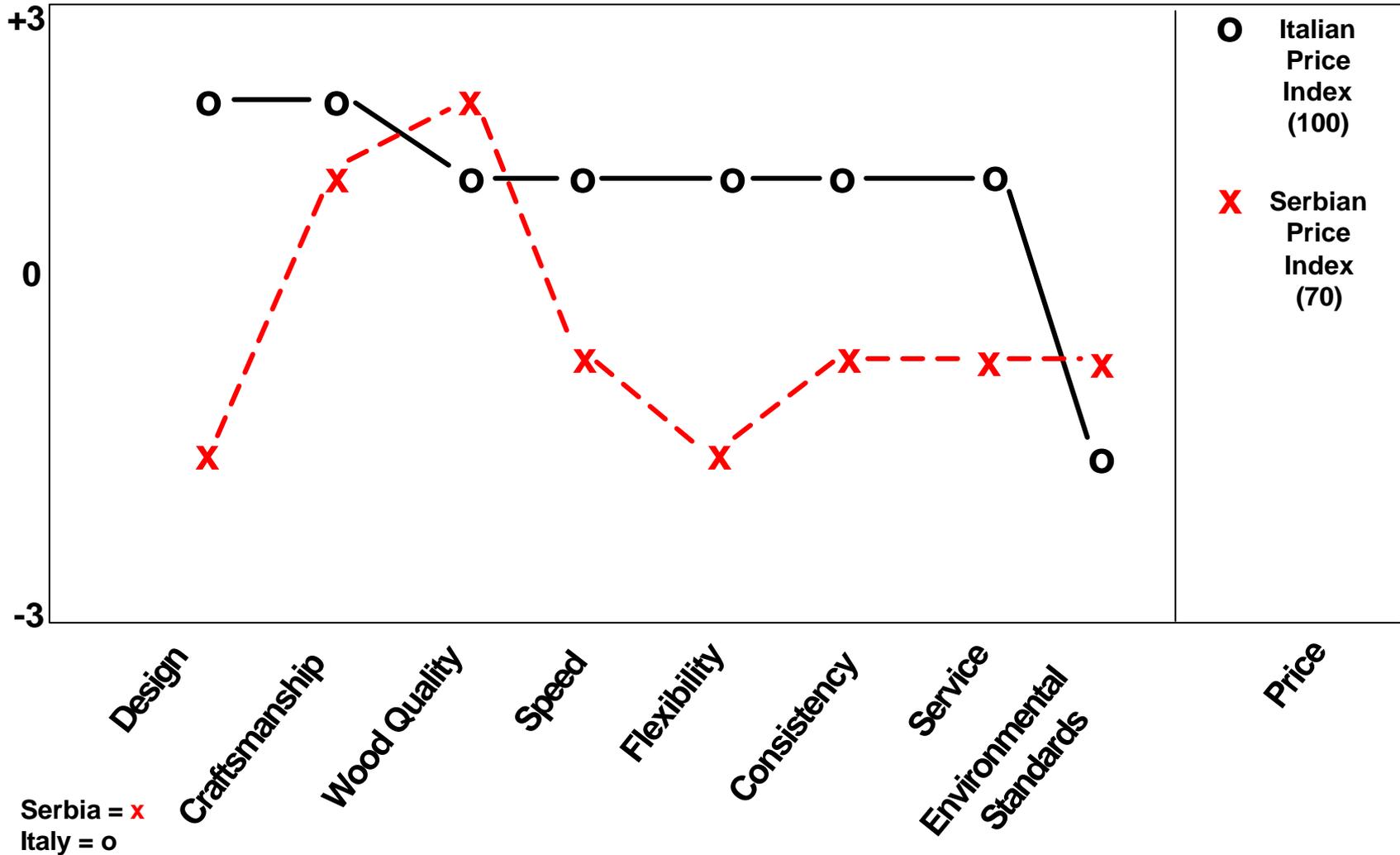
Analyzing Internal Challenges

The Productivity Frontier



If you are not producing along the productivity frontier. . . you are underperforming

Positioning with Consumers



Seven Forms of Capital: Part of the Comprehensive Development Framework

		Representative Elements	Representative Examples
Social	Cultural	<ul style="list-style-type: none"> • Tangible Articulations • Norms • <i>Mental Models</i> 	<ul style="list-style-type: none"> • Architecture, Music, Language • Range of Acceptable Behaviors • <i>Trust, Wealth Creation Attitudes, Long-term Thinking</i>
	Human	<ul style="list-style-type: none"> • Health and Population • Education and Training • Attitudes and Motivation 	<ul style="list-style-type: none"> • Nutrition, Medical and Mental Health • Primary and Secondary, Technical • Self-responsibility, action-orientation
	Knowledge	<ul style="list-style-type: none"> • <i>Qualitative, Quantitative Data</i> • <i>Frameworks and Concepts</i> • <i>Knowledge Generation</i> 	<ul style="list-style-type: none"> • <i>Statistics, Opinions, Records</i> • <i>Theories, Processes, Procedures</i> • <i>Universities, R&D, Market Learning</i>
Physical	Institutional	<ul style="list-style-type: none"> • “Good, Clean Governance” • Justice System • <i>Connective Organizations</i> 	<ul style="list-style-type: none"> • Transparency, No Hidden Costs • Property Protection, Predictable Regulations • <i>Chambers of Commerce, Unions</i>
	Financial	<ul style="list-style-type: none"> • Financial Systems • <i>Private Wealth</i> • <i>Public Wealth</i> 	<ul style="list-style-type: none"> • Banks, Stock Markets • <i>Bank Deposits</i> • <i>Bank Reserves, Taxes, Duties, Macroeconomic Stability</i>
	Man-Made	<ul style="list-style-type: none"> • Transportation, Communication • Power • Water and Sewerage 	<ul style="list-style-type: none"> • Roads, Ports, Telephone Systems • Electric Grids, Generation Capacity • Pipelines, Pumping Stations
	Natural Endowments	<ul style="list-style-type: none"> • Environmental Issues • <i>Raw Materials</i> • <i>Climate and Location</i> 	<ul style="list-style-type: none"> • Conservation, Restoration • <i>Agricultural, Mineral, Petroleum</i> • <i>Proximity to Markets</i>

Note: Items in normal type reproduce the original Wolfensohn framework. Items in italics are additions recommended by Monitor’s Country Competitiveness (MCC) experience. Items with shading are discussed in the memo.

Free Trade Agreements & Related Trade Regulations on Cluster Products

Foreign Tariffs on Serbian Exports

Domestic Tariffs on Serbian Imports

	Foreign Tariffs on Serbian Exports	Domestic Tariffs on Serbian Imports
Existing	BiH	<ul style="list-style-type: none"> • None
	Hungary	<ul style="list-style-type: none"> • Tariffs on doors, windows, thresholds, parquet panels until 2004
	Macedonia	<ul style="list-style-type: none"> • None
	Russia	<ul style="list-style-type: none"> • Tariffs on wooden office, kitchen, bedroom & other wooden furniture, & wooden upholstered chairs
Pending	Bulgaria	<ul style="list-style-type: none"> • <u>Current</u>: 35% tariff on furniture and 25% tariff on construction material and parquet • <u>Proposed</u>: None
	Croatia	<ul style="list-style-type: none"> • <u>Current</u>: 9% tariffs on furniture, and 7% on construction material & parquet • <u>Proposed</u>: Tariffs on doors, windows, thresholds chairs until 2007
	Romania	<ul style="list-style-type: none"> • <u>Current</u>: 15% tariffs on construction materials & parquet, 20% tariffs on furniture • <u>Proposed</u>: Tariffs on chairs until 2005

Source: SCEE research

Defensive Reasoning

Private Sector

Belief or Assumption

“The government doesn’t do anything for us, so why should we care about them?”

Conclusion

“We can compete with foreign firms in export markets, but the government needs to help us.”

Paraphrase / Interpretation

“If you think of all the advantages that foreign furniture firms have, its amazing that there are any Serbian firms that can compete with them in other markets.”

Selected Data

“The government is lowering import barriers and not providing much credit to Serbian firms.”

Public Sector

Belief or Assumption

“The government shouldn’t help firms until they help themselves.”

Conclusion

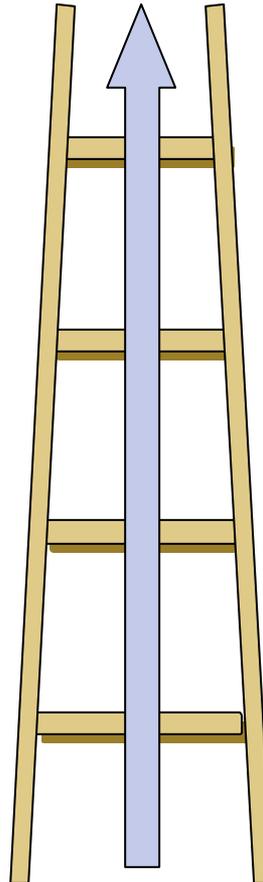
“Many firms, especially the most competitive ones, will not cooperate with either the government or each other...right now I am afraid all they care about is themselves.”

Paraphrase/Interpretation

“If our firms don’t succeed, it must be because they do not have good management.”

Selected Data

“Serbia has excellent wood stocks, we have good quality laborers available at comparatively lower wages, and close proximity to Europe’s largest markets.”

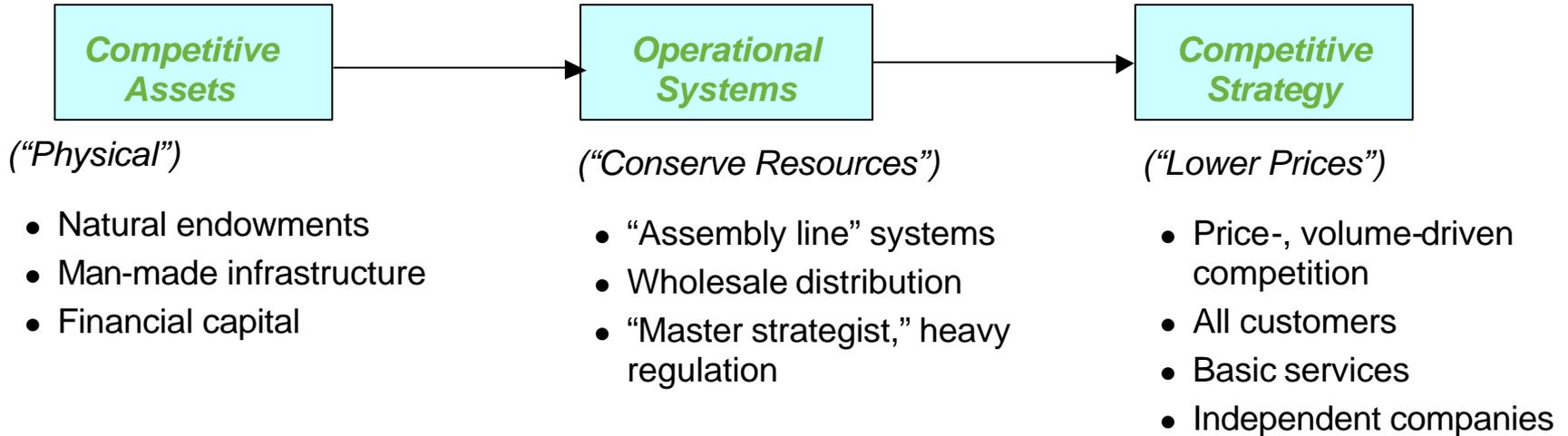


Source: SCEE interviews with Serbian cluster leaders, government advisors

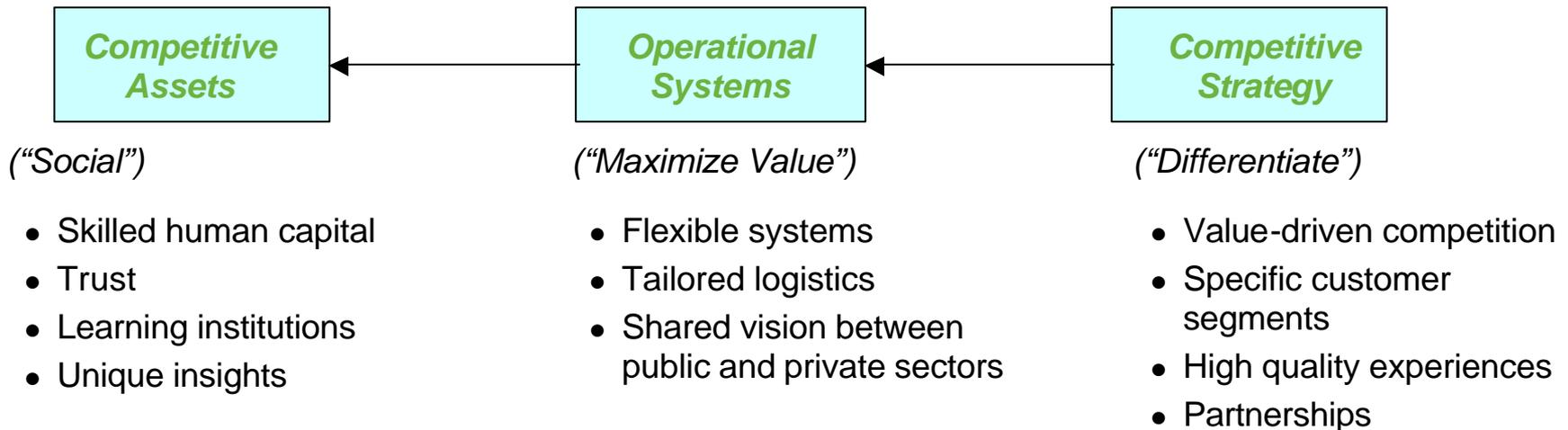
Globalization Impact on Firms

The New Business Model

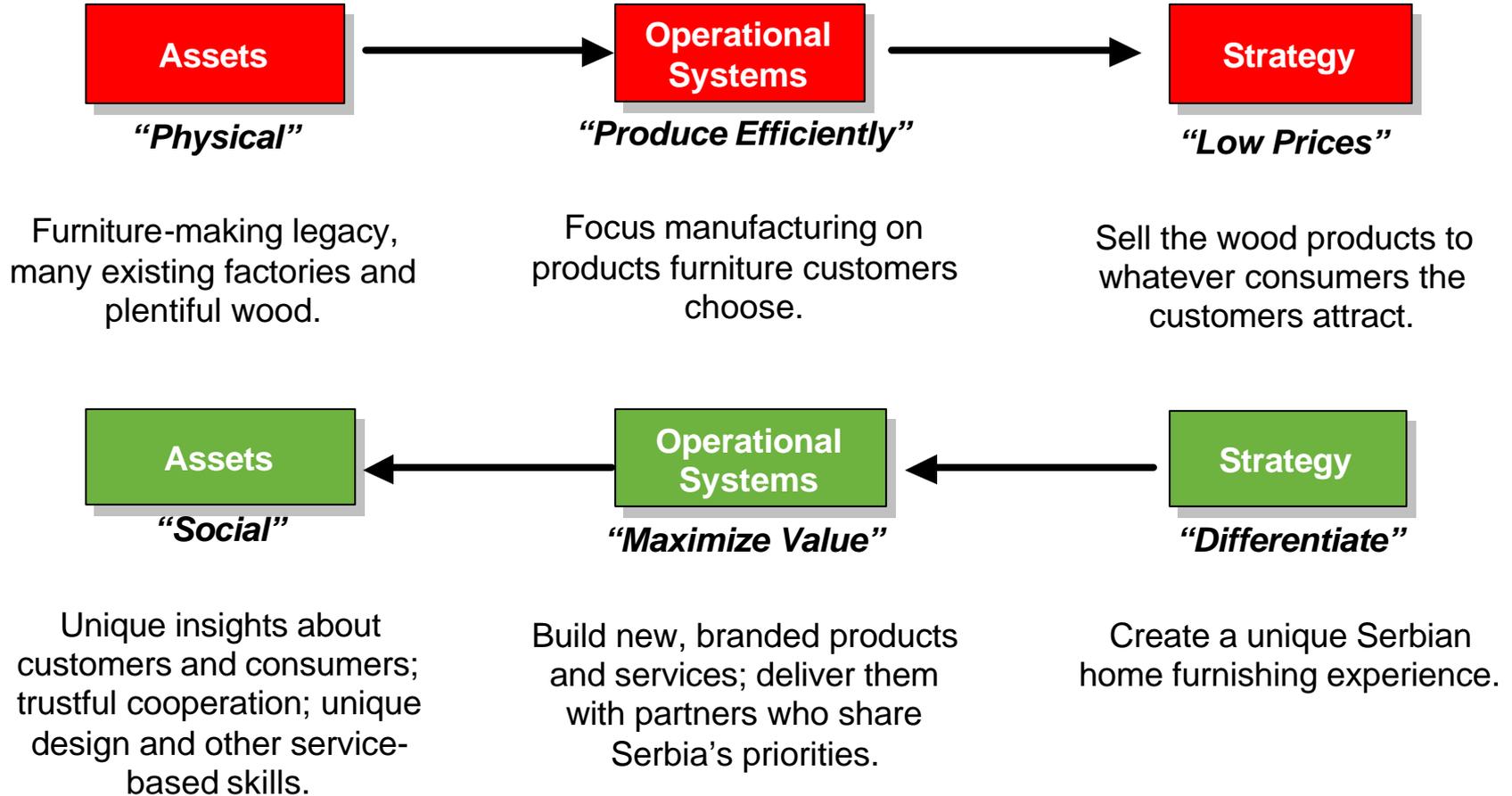
Old Model (Start with Assets)



New Model (Start with Strategy)

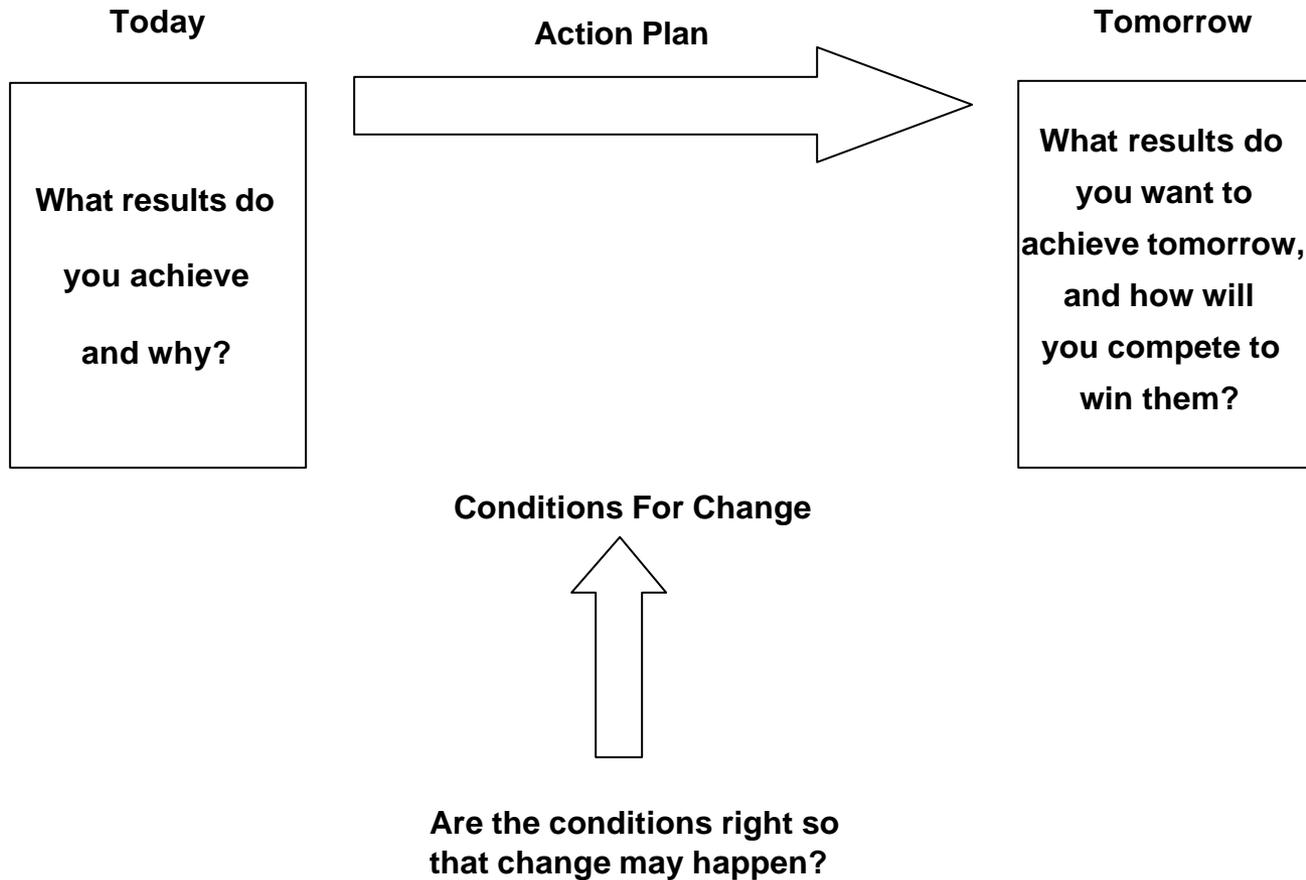


Comparative Advantage Approach to Creating Wealth

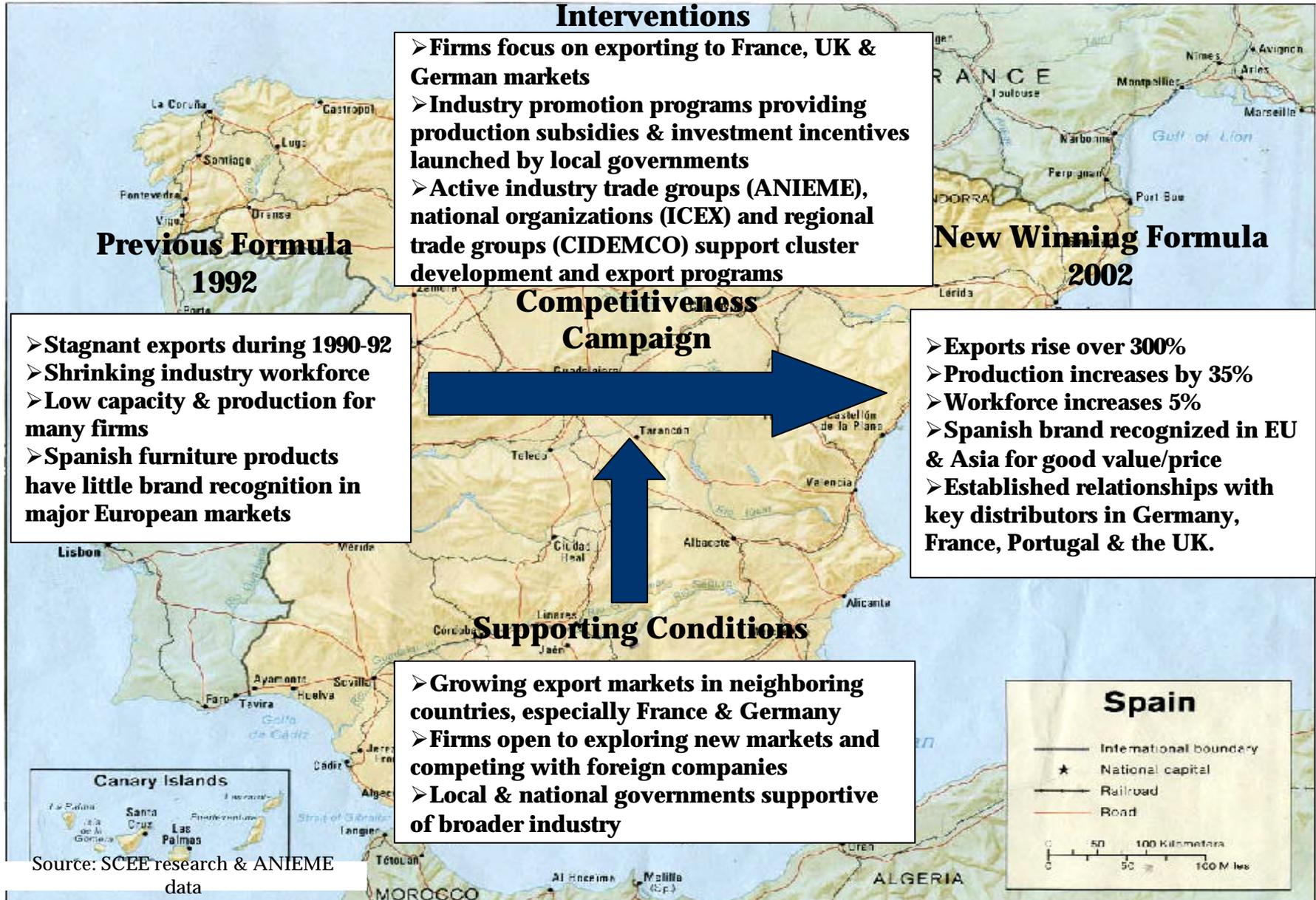


Competitiveness Intervention Process

A Sound Competitiveness Plan Has Four Synchronizes Elements



Competitiveness Building Examples: The Experience of the Spanish Furniture Cluster



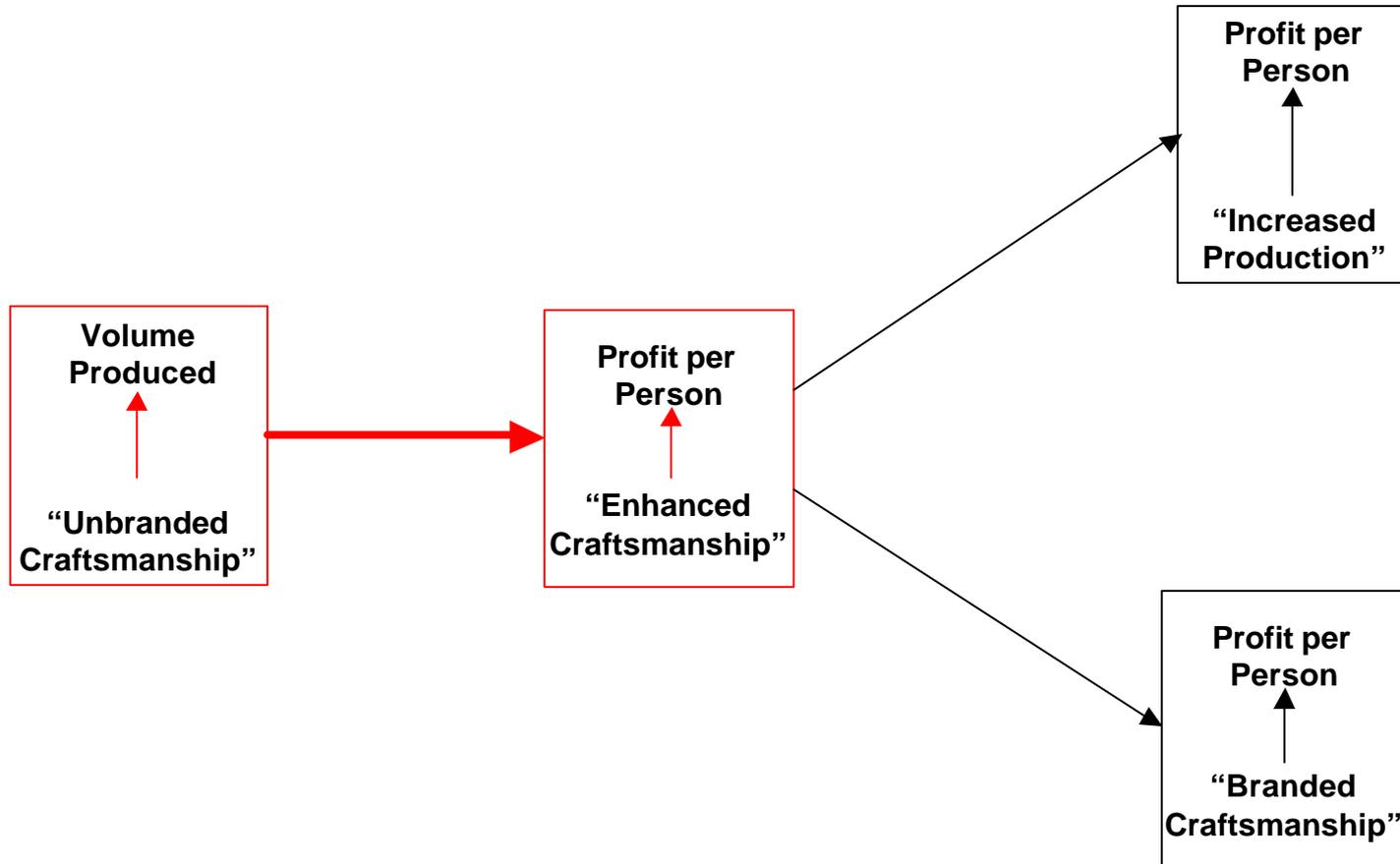
Key Exports and Markets

By comparison, in 2001 Slovenia exported over \$900m in furniture products

	Ger	Fran	Russia	Italy	Mac.	Bos.	Other	Export Revenues (2001)(mil)
Products								32.0
Upholstered wooden seats	\$0.5	\$0.9	\$0.06	\$5.8	\$1.4	\$1.6	\$2.7	\$13.0
Other wooden furniture	\$1.2	\$0.7	\$0.09	\$0.3	\$1.0	\$2.5	\$0.8	\$6.6
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Flooring	\$1.0	-	-	\$0.5	-	\$1.5	\$0.6	\$3.06
Other								\$4.9
Services								\$0.0

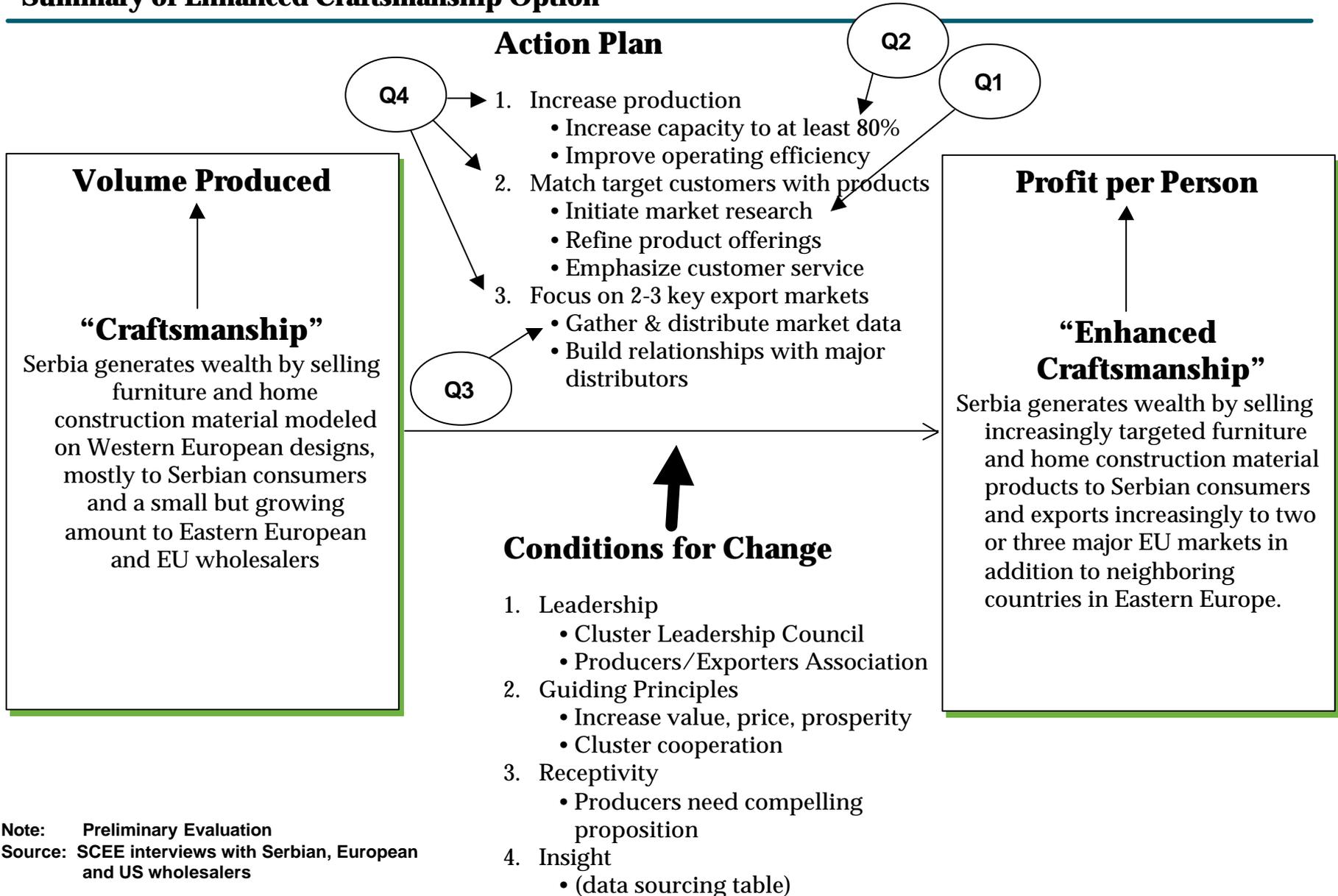
Source: Federal Trade Statistics, SCEE estimates

Overview of Furniture Cluster's Competitiveness Campaign



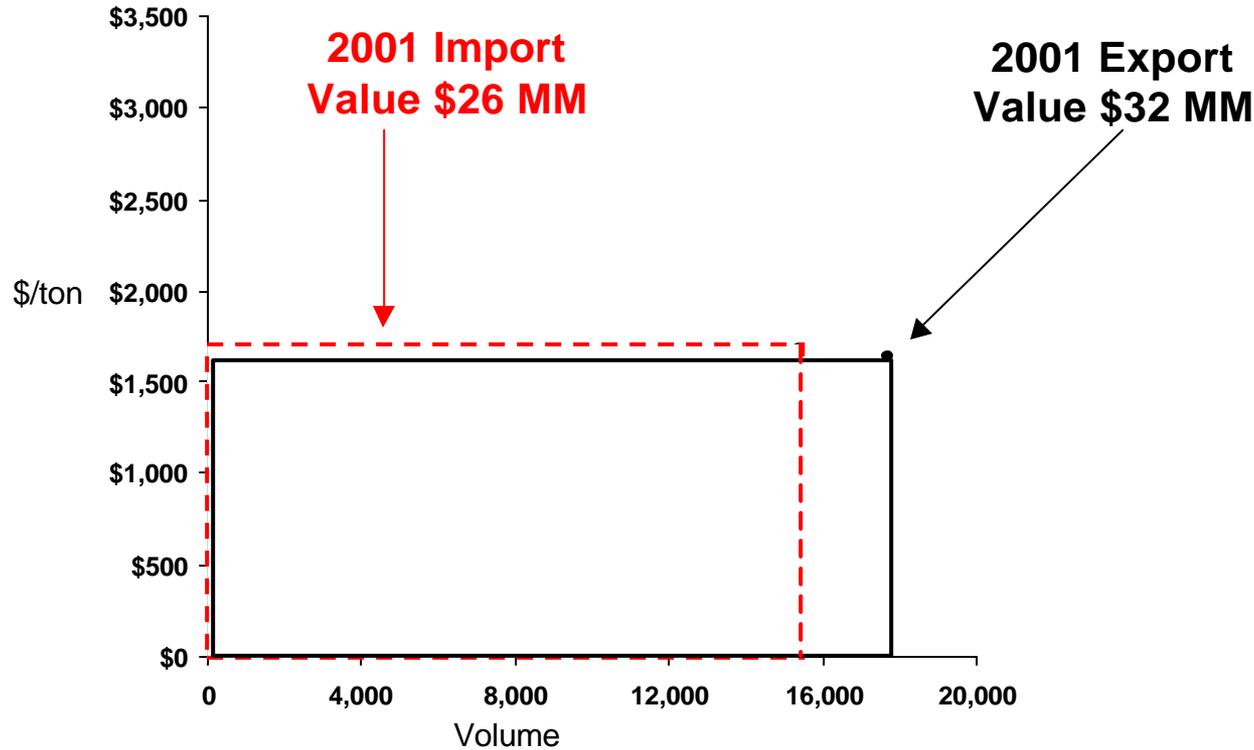
Summary of Enhanced Craftsmanship Option

Action Plan



Note: Preliminary Evaluation
Source: SCEE interviews with Serbian, European and US wholesalers

Furniture and Furniture Parts Export and Import Values in 2001



	Volume	\$ / ton	Receipts (\$ Million)
Export	17715	1637	32
Import	15415	1686	26
Domestic			

Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Strategy Summary for Today

In general:

What does Serbia sell to whom?

- Serbia sells furniture and interior home structure parts modeled on Western European designs, mostly to Serbian consumers and a small but growing amount to Eastern European and EU wholesalers.

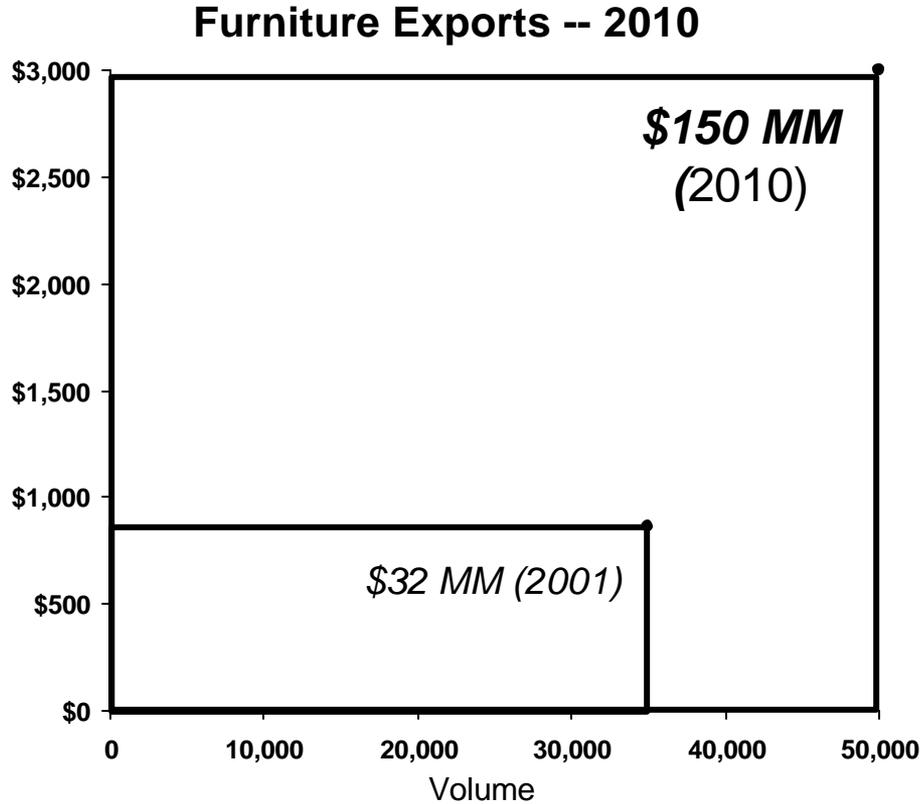
Why do Serbia's customers buy from Serbia rather than from Serbia's competitors?

- Customers buy Serbian rather than Western European because Serbian usually has:
1) lower price; 2) better hardwood; 3) equal design; 4) roughly equal craftsmanship.
- Customers buy Serbian rather than Eastern European because Serbian usually has:
1) better design; 2) better craftsmanship; 3) roughly equal price.

Why is it difficult for Serbia's competitors to imitate Serbia and take Serbia's best customers away?

- Eastern European competitors have similar cost structures and do not have the skilled people to close the design and craftsmanship gaps.
- Western Europeans use advanced design, strong brands, and stronger service to distributors to frequently win business from more rewarding customers than Serbia's best customers.

Furniture and Furniture Parts Export Values in 2010



	Volume	\$ / ton	Receipts (\$ Million)
domestic			
export	35000	857	32

Note: Preliminary Estimates
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Strategy Summary for Enhanced Craftsmanship

In general:

What does Serbia sell to whom?

- Serbia sells furniture, home construction materials & parquet modeled on Western European designs, to Serbian consumers and a growing number of Eastern European and EU wholesalers.

Why do Serbia's customers buy from Serbia rather than from Serbia's competitors?

- Customers buy Serbian rather than Western European because Serbian usually has: 1) lower price; 2) better hardwood; 3) equal design; 4) roughly equal craftsmanship.
- Customers buy Serbian rather than Eastern European because Serbian usually has: 1) better design; 2) better craftsmanship; 3) roughly equal price; better customer service; and 5) comparable production capacity and delivery times

Why is it difficult for Serbia's competitors to imitate Serbia and take Serbia's best customers away?

- Eastern European competitors have similar cost structures and do not have the skilled people to close the design and craftsmanship gaps.
- Western Europeans use advanced design, strong brands, and stronger service to distributors to frequently win business from more rewarding customers than Serbia's best customers.

Serbian Furniture Cluster

Intra-firm Interests & Possible Collaboration

Raw Materials & Production

- Wood supply
- Fabric, leather, metal & glass suppliers
- Production machines



Effective Resource & Production Management

- Adopt sustainable wood harvesting standards
- Joint investments in domestic material production
- Group purchasing of production machines

Government & Regulatory Environment

- Price controls & taxes
- Import duties
- Free Trade Agreements
- Specific legislation



Increased Dialogue with Government Agencies

- Inform representatives of cluster interests
- Lobby for specific legislative reforms
- Brief Cluster members about new laws

Export Market Penetration

- Data on market composition
- Distributor/buyer relationships
- Shipping/logistics
- Volume



Cooperate in Targeting Export Markets

- Joint visits/consortium to major European cities
- Group exhibits at major trade fairs
- Sub-contracting arrangements on large contracts

Training & Design Skills

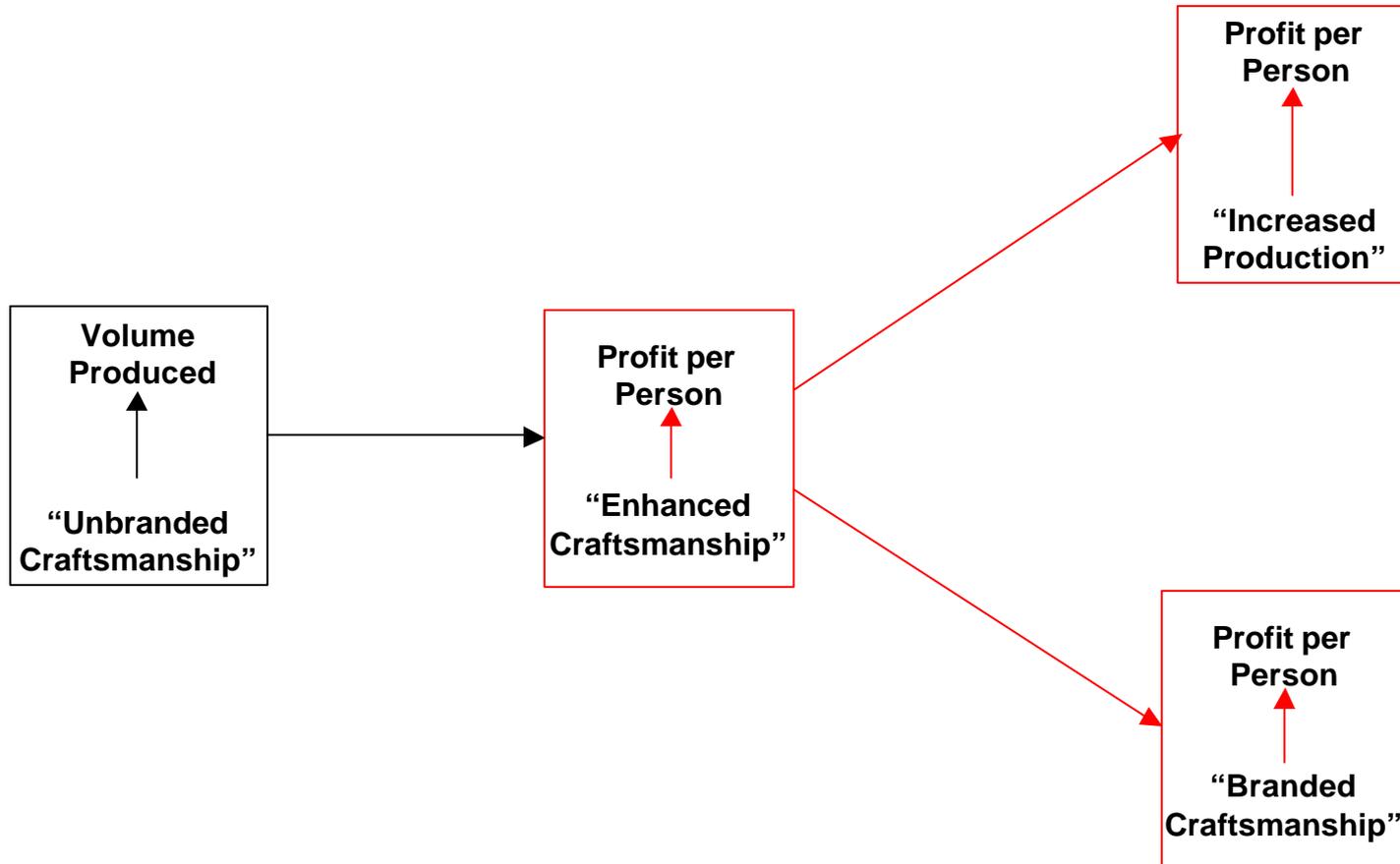
- Professional training
- Quality of design
- Quality of labor



Promotion of Better Training & Design Skills

- Joint funding of training for managers
- Creation of National Design Awards
- Jointly funded scholarships for workers

Overview of Furniture Cluster's Competitiveness Campaign



Summary of Branded Craftsmanship Option

Action Plan

- Improve brand recognition
- Marketing promotions in key urban European markets
2. Strengthen customer service
 - Enhance custom-design options
 - Accent full-service experience
 - Shorten delivery times
 3. Boost product quality
 - Utilize more innovative designs
 - Adopt higher quality control standards

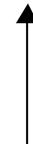
Profit per Person



“Enhanced Craftsmanship”

Serbia generates wealth by selling increasingly targeted furniture and home construction material products to Serbian consumers and exports increasingly to two or three major EU markets in addition to neighboring countries in Eastern Europe.

Profit per Person



“Branded Craftsmanship”

Serbia generates wealth by selling premium quality, limited production furniture and home construction material products to Eastern European and EU wholesalers. Skilled craftsmanship, extensive marketing, and first-rate customer service featuring consulting & computer-aided design ensure that Serbian products develop a strong brand in regional markets and sell at higher than average prices.

Conditions for Change



1. Leadership
 - Cluster Leadership Council
 - Producers/Exporters Association
 2. Guiding Principles
 - Increase value, price, prosperity
 - Cluster cooperation
 3. Receptivity
 - Producers need compelling proposition
 4. Insight
 - (data sourcing table)
- Booz Allen Hamilton

Note: Preliminary Evaluation
Source: SCEE interviews with Serbian, European and US wholesalers

Summary of Increased Production Option

Action Plan

Modernize production

1. Eliminate outdated production lines
 - New equipment
 - Implement training programs
2. Improve transportation logistics
 - Improve flexibility & speed
 - Expand geographic coverage
3. More international focus
 - Build relationships with major EU distributors & producers
 - Establish partnerships with hotels & construction companies

Conditions for Change

1. Leadership
 - Cluster Leadership Council
 - Producers/Exporters Association
2. Guiding Principles
 - Increase value, price, prosperity
 - Cluster cooperation
3. Receptivity
 - Producers need compelling proposition
4. Insight
 - (data sourcing table)

Profit per Person

“Enhanced Craftsmanship”

Serbia generates wealth by selling increasingly targeted furniture and home construction material products to Serbian consumers and exports increasingly to two or three major EU markets in addition to neighboring countries in Eastern Europe.

Profit per Person

“Increased Production”

Serbia generates wealth by selling serially-produced furniture and home construction material products to Eastern European and EU wholesalers. Large-scale production, long-term contracts and factories operating at maximum capacity ensure competitive prices for products that can be rapidly delivered to major EU markets with delivery times, on average, 1-2 weeks faster than current position.

Note: Preliminary Evaluation
Source: SCEE interviews with Serbian, European and US wholesalers

Furniture Cluster Data Sourcing Tables

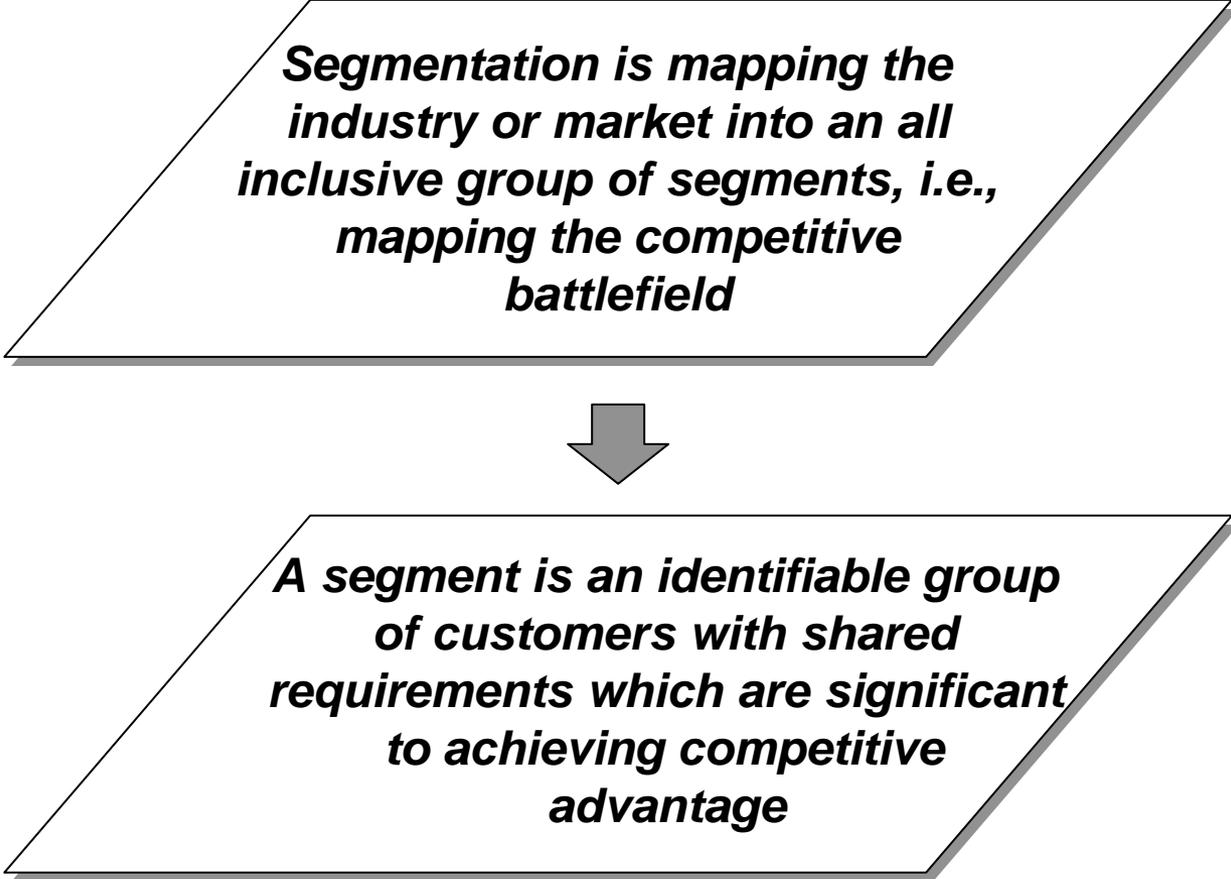
Sourcing Tables Are Used to Simplify Data Collection by The Team

The team needs to first identify the critical data needed to help inform their choice of options

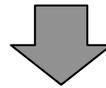
Next, the team reviews the source and method to obtain the required information

Specific Issues/Questions	Mgmt	Empl.	Custmr.	Partner	Compttn.	Govt.	Civic/ Assoc
Q1. What are the specific non-price value needs of customers that drive higher premiums for furniture?	I-view	I-view	Survey	Phone I-view	Comp. Press Releases		Library
Q2. What technology is required to increase productivity and/or handle logistics for exporting?	I-view	I-view		Phone I-view		Export/ Import Data	Library
Q3. Who are the most likely competitors for Serbia's new strategy; and what is the most likely competitive response?	I-view	I-view	Survey	Phone I-view	2ndary research comp. literature		
Q4. What are immediate actions that can be taken to address business winning needs?	I-view	I-view	Survey	Phone I-view	2ndary research of comp. literature		Library

Introduction to Market Segmentation: Segment Definition



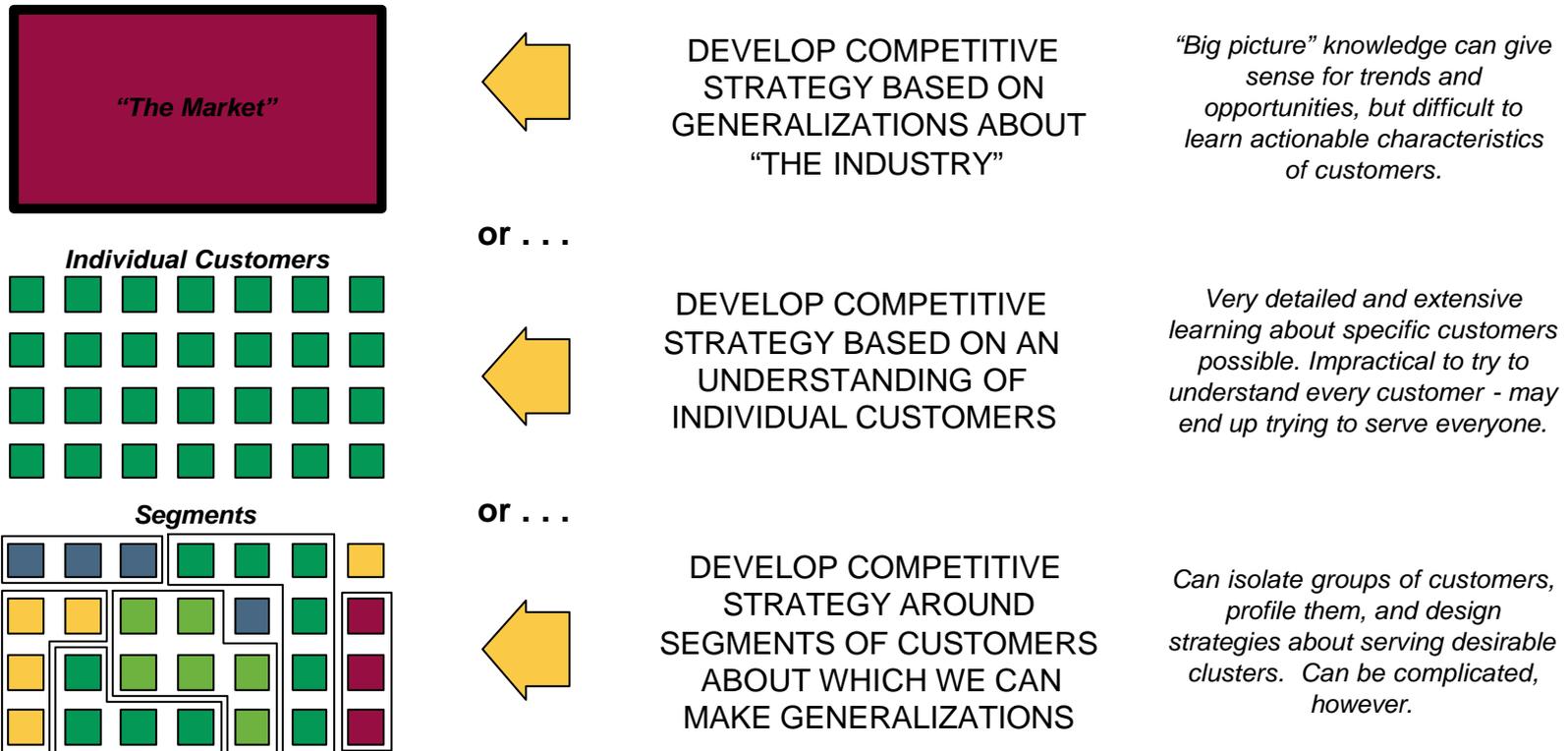
Segmentation is mapping the industry or market into an all inclusive group of segments, i.e., mapping the competitive battlefield



A segment is an identifiable group of customers with shared requirements which are significant to achieving competitive advantage

Introduction to Market Segmentation: Consumer Segmentation Learning

- Firms must make choices about what learning about customers they want to acquire
- There are risks and benefits to each choice



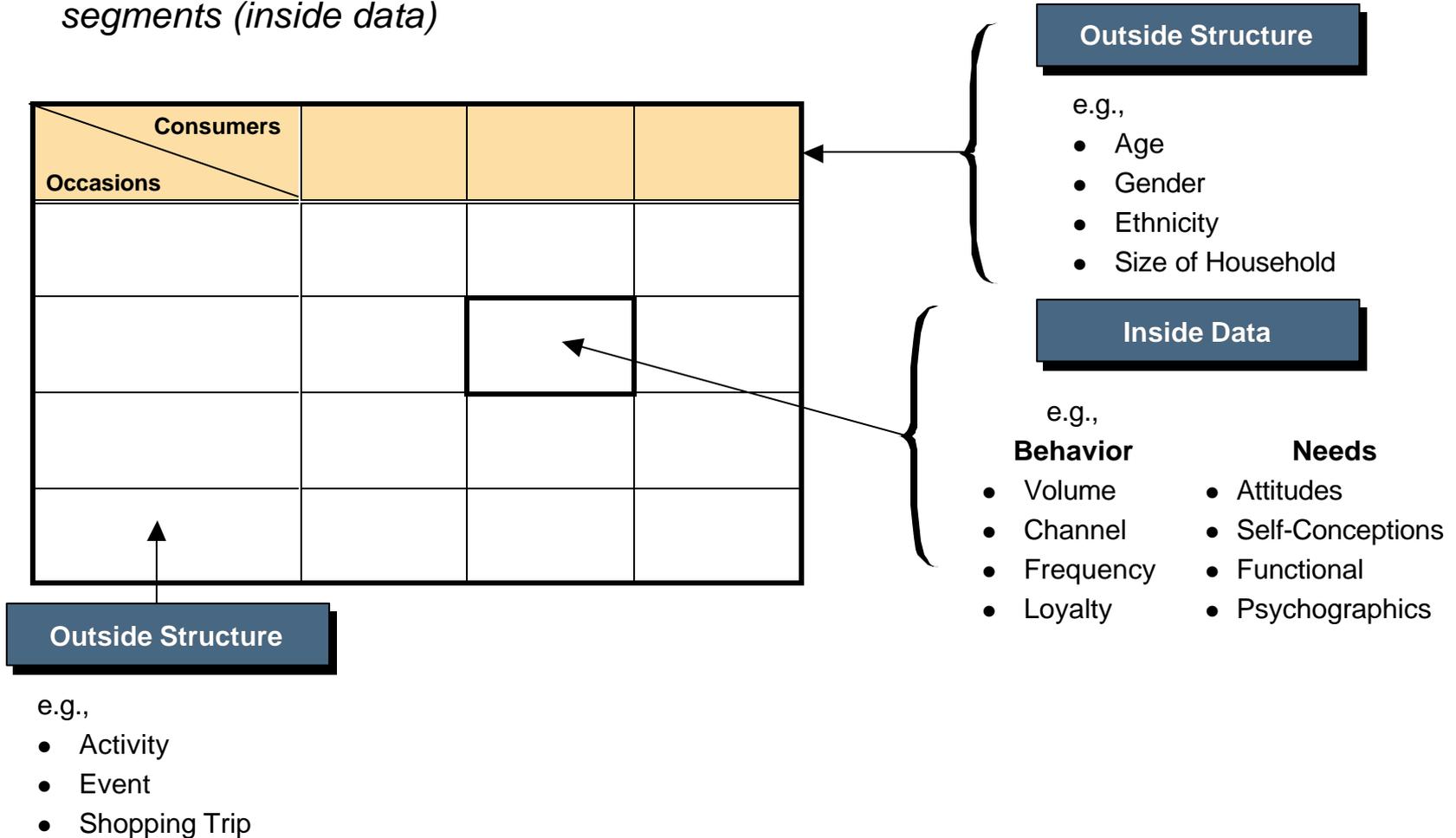
While learning about segments of customers is complex, it is the best means to understand them and to offer products that will cater to their needs

Action Segmentation™

“Inside” vs. “Outside” Structure of the Map

All important data is captured in the market map

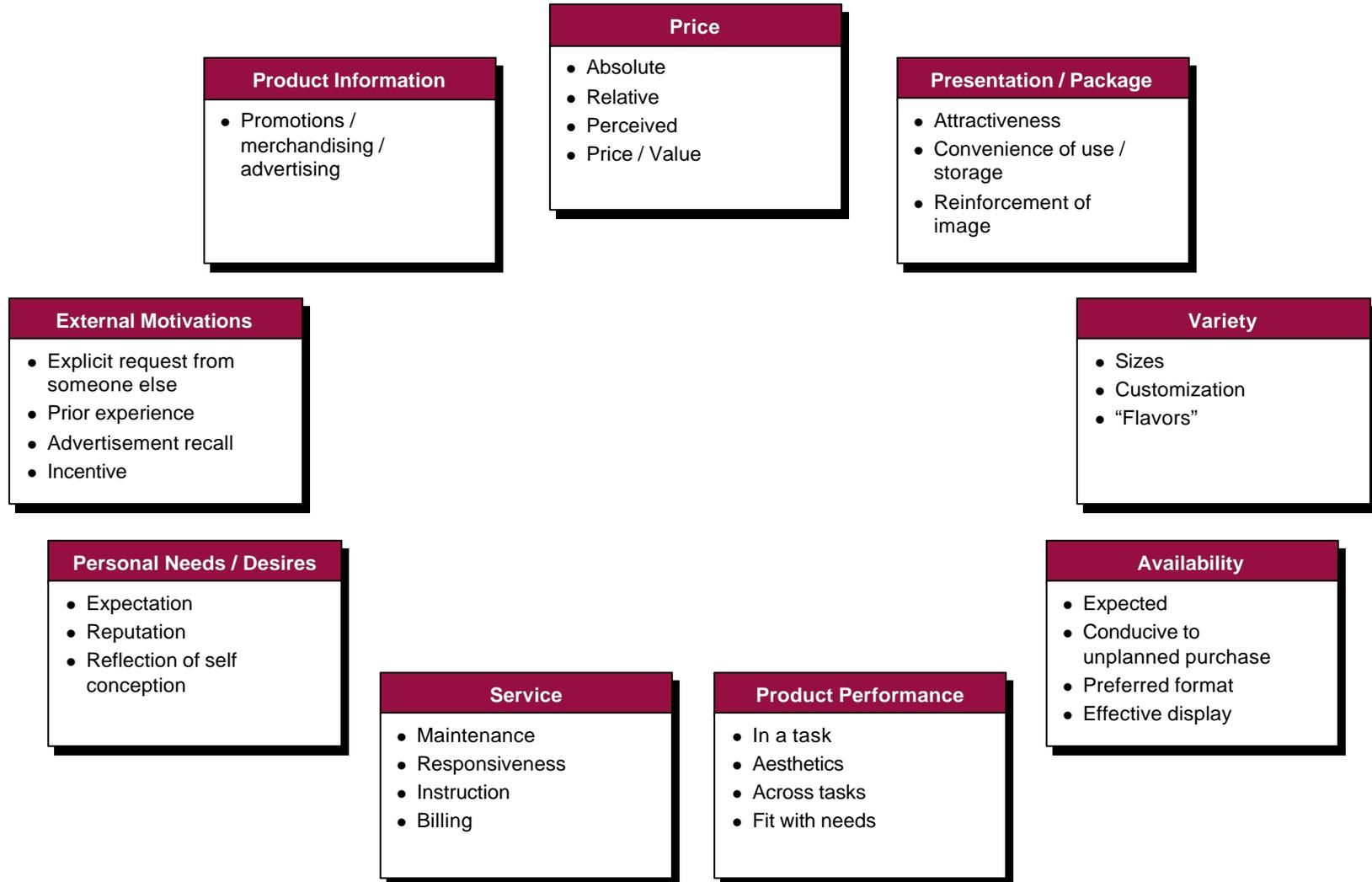
- Some used to build map (outside structure) while others used to define / profile the segments (inside data)



The Customer Portrait® Framework

Generic Types of Customer Drivers

Key Question: *What components of the purchase or usage occasion are the most instrumental in creating this segment’s decision to purchase needed product / service?*



Overview and Comparison of Segment Profiles

Needs-Based Segment Profiles

Quick Break

- The Quick Explorers
- **The Quick Escapers From the Real World**
- Breaking for Entertainment

Family Bonding

- The Family Getaway
- Socially Active Family
- Pamper my Family

Romantic Getaway

- Romantic See the World
- The Romantic Relaxers
- The Romantic Funseekers

Water Activity

- Swim with Locals
- Fun with Water
- Surf and Turf

“The Quick Escapers from the Real World”, (Quick Break) Segment Profile

Profile Summary

The Escapers are the aging yuppies reaching the prime of their lives. Busy and financially well rewarded for their hard work, their lives are too busy to permit more than a few moments of total relaxation. When those moments come, they expect their quick break vacation to be the reward for all of the long hours and stress. Enjoying a margarita by the hotel pool, they want nothing more on their agenda than a few hours to work on a tan. After treatments at the spa and a workout at the health club, they shed their sweatshirts and shorts for a dress or a suit and tie and head for a restaurant where the maitre ‘d knows presentation and panache matter as much as the perfect vintage to accompany the chef’s special. Having caught up on some sleep, the Escapers look for a quick thrill--perhaps some scuba diving arranged through the hotel. They depart with mixed emotions: anticipation of the challenges awaiting their return home, and sadness knowing it will be months before they will return to this place and its pampering that makes the rigors of everyday life worthwhile.

Attractiveness Summary

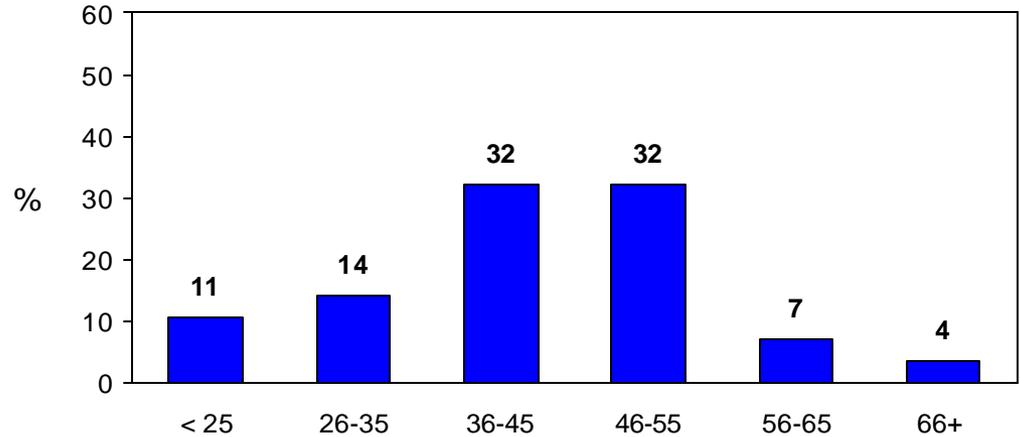
There is every likelihood that the Escapers and Bermuda could become long-term partners, but Bermuda will have to earn their trust. The island’s proximity and its natural “casual elegance” give it a head start, but because the Escapers are price-insensitive and knowledgeable, Bermuda will find itself competing with the best in the world. If it can consistently provide the experience for which the Escapers long, Bermuda will earn the approval and lucrative loyalty of many Escapers.

“The Escapers from the Real World” (Quick Break): Demographic Profile

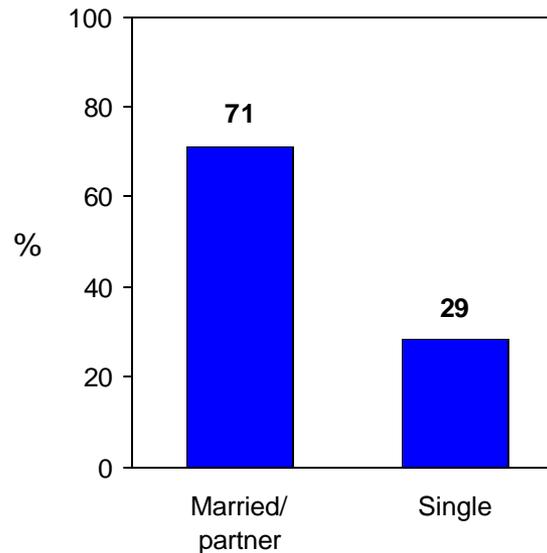
General Information

Consumer Segment (Product Segment)	“The Escapers from the Real World” (Quick Break)
Description	Visitors dreaming about a resort life to be refreshed in their short stays
Potential market	1.8 MM trips per year
Portion Quick Break Segment	26%
Average spending per person per day	\$201
Average length of stay	4.2 nights

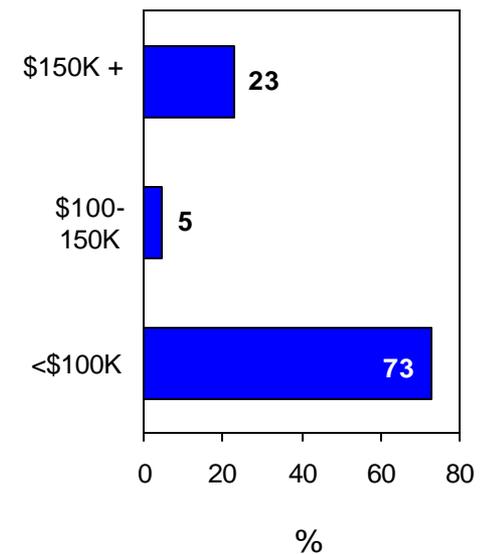
Age



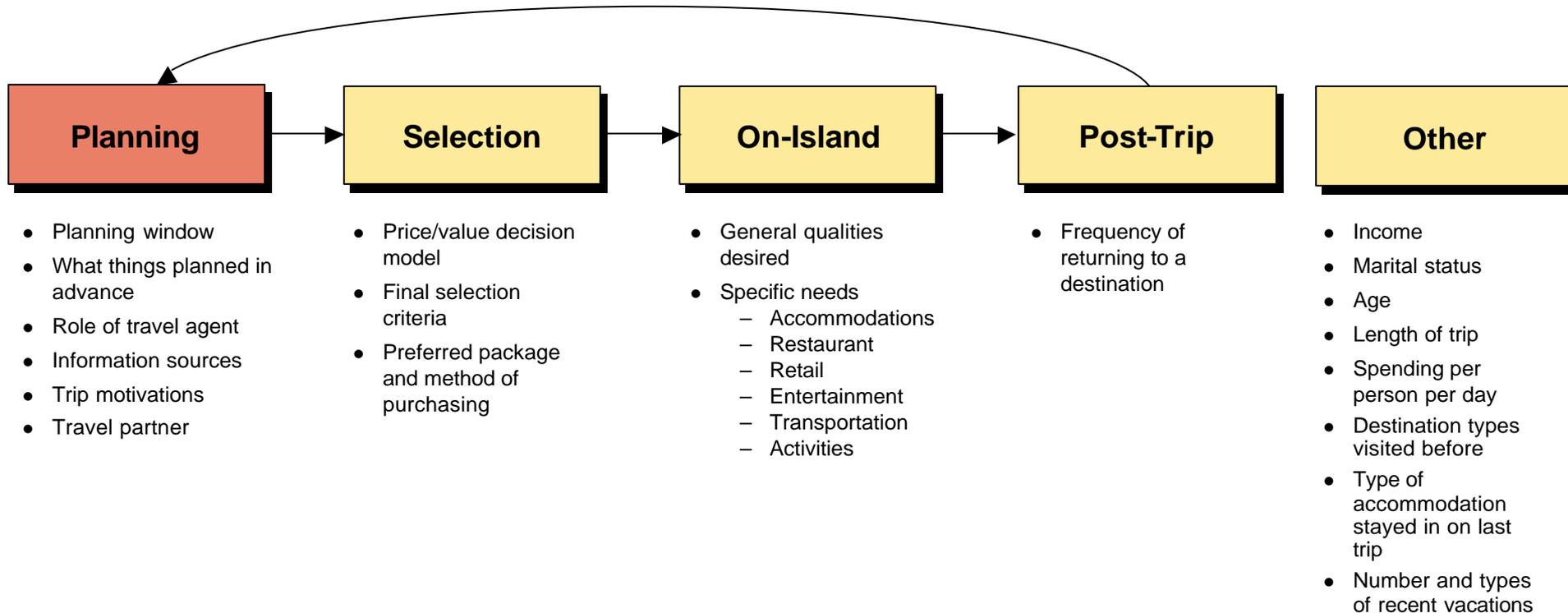
Marital Status



Household Income



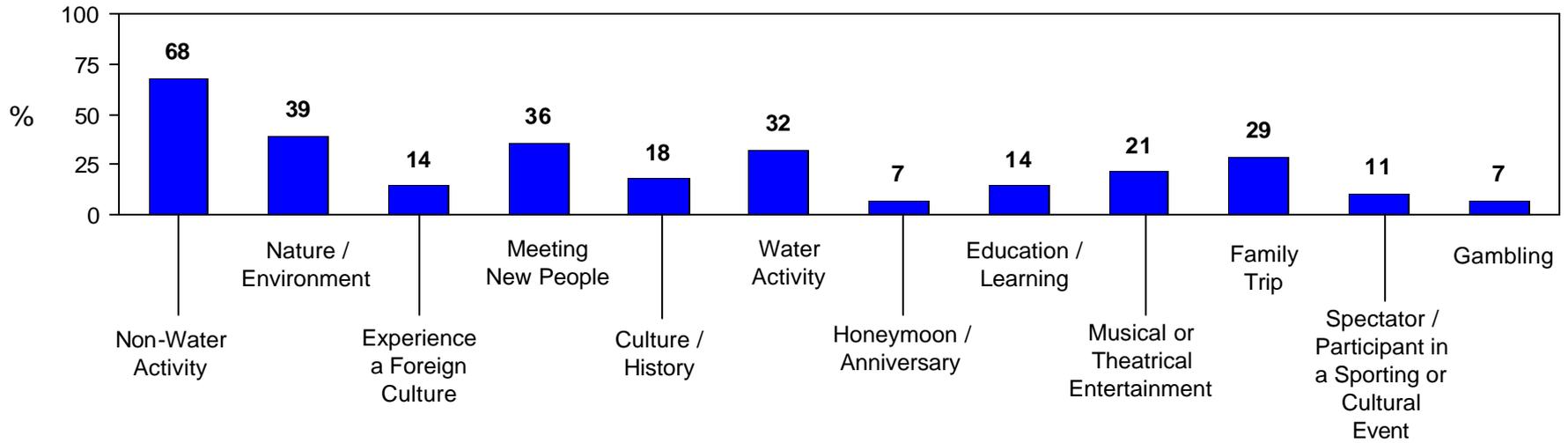
“The Escapers from the Real World” (Quick Break): Methodology: Customer Experience Model



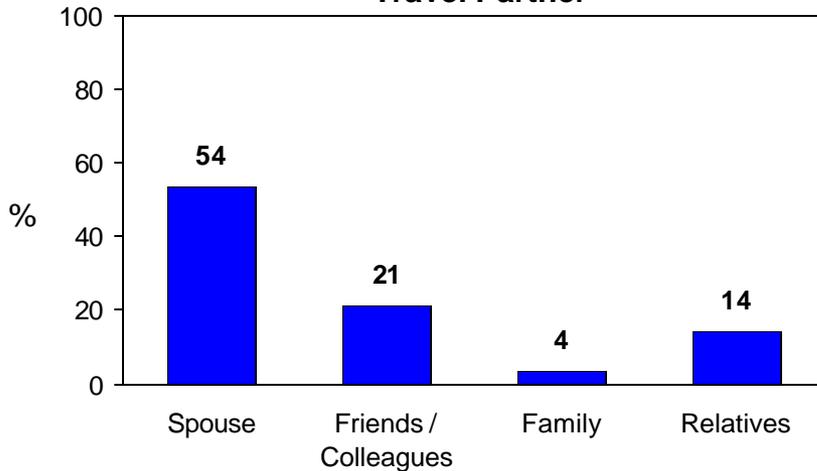
The quantitative survey asked consumers 54 questions about each stage of the consumer experience.

“The Escapers from the Real World” (Quick Break): Planning Experience: Motivations

What were the main reason for taking the quick break vacation?

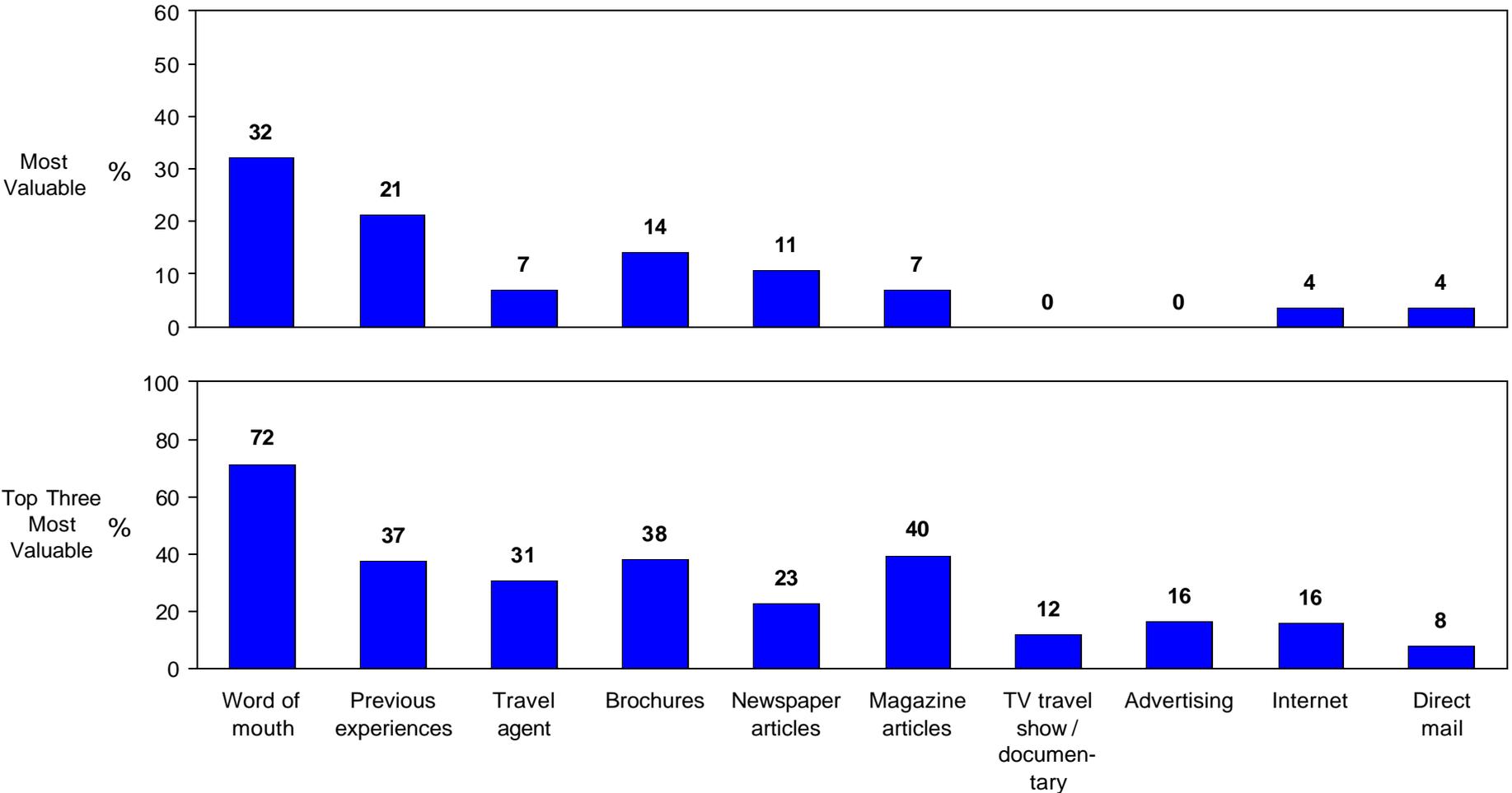


Travel Partner



“The Escapers from the Real World” (Quick Break): Planning Experience: Sources of Information

Which types of information sources do you find most valuable?



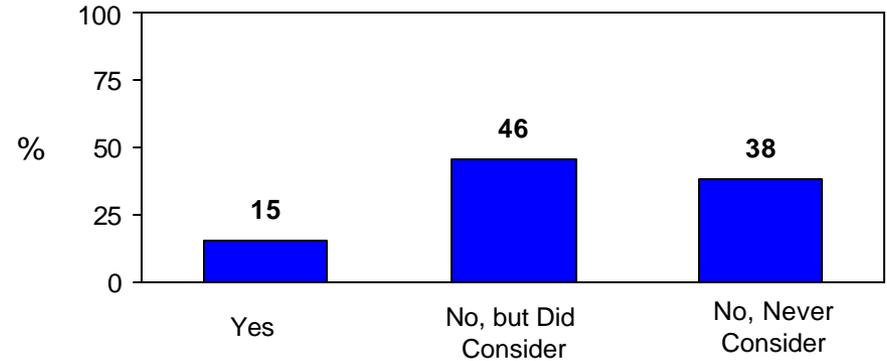
- 32% contacted a travel agent as part of their planning process

“The Escapers from the Real World” (Quick Break): Planning Experience: Influence of Past Experiences

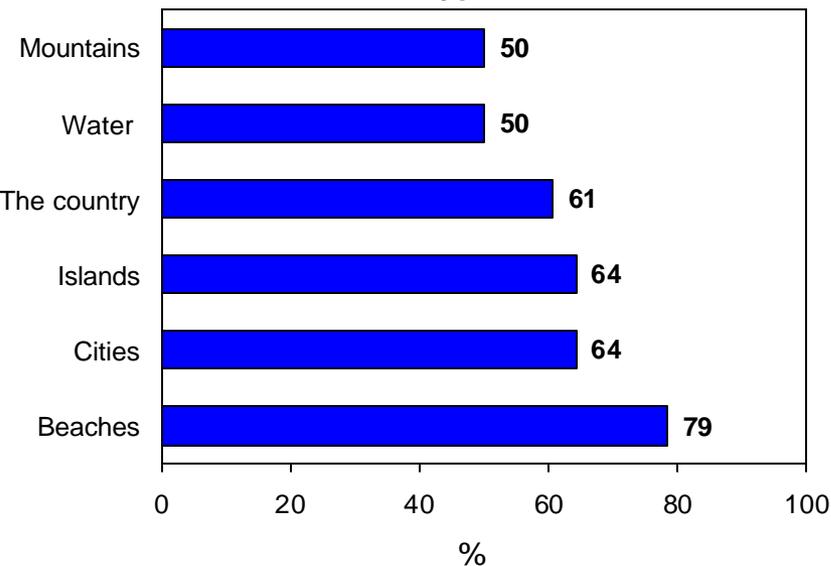
Recent Trips

Number of vacations in the previous two years	4.1
Number of Quick Break vacations in the last two years	4.1

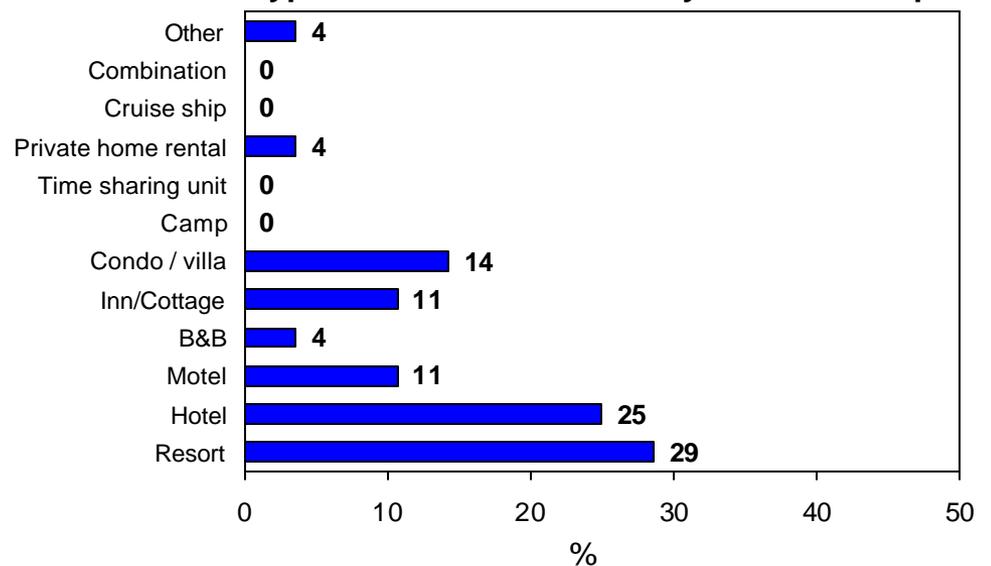
Visited Bermuda



Destination Types Visited Before

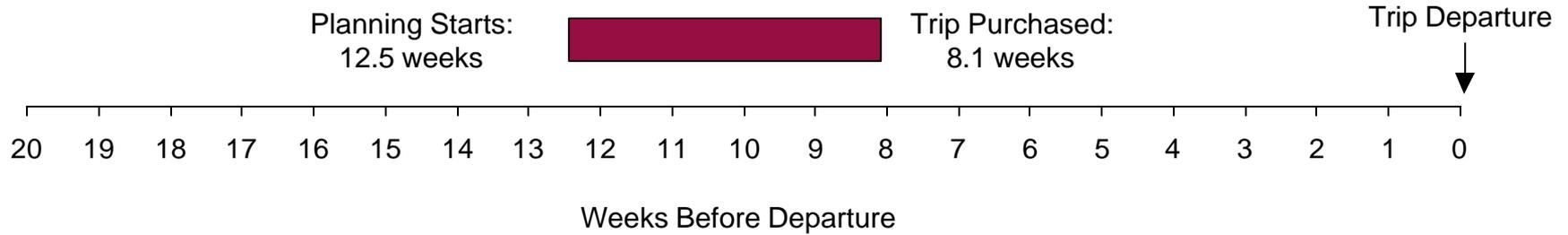


Type of Accommodation Stayed for Last Trip

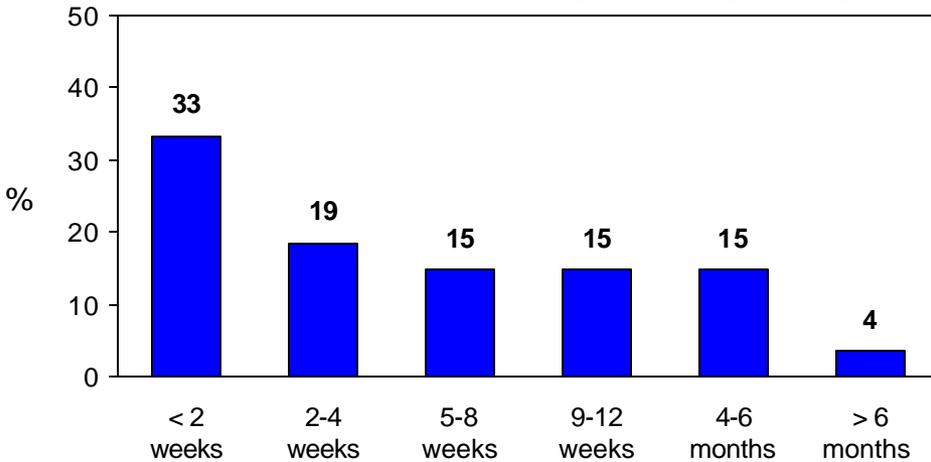


“The Escapers from the Real World” (Quick Break): Planning Experience: Planning Logistics

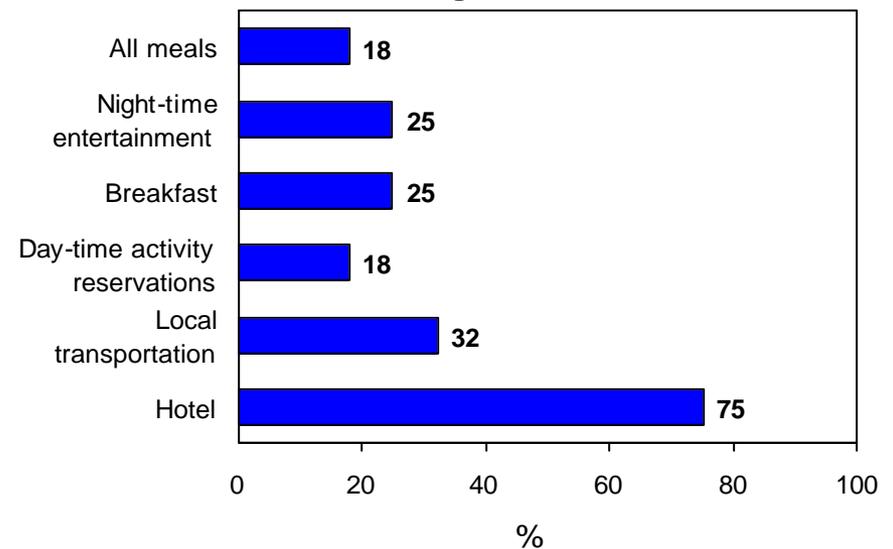
Average Planning Window



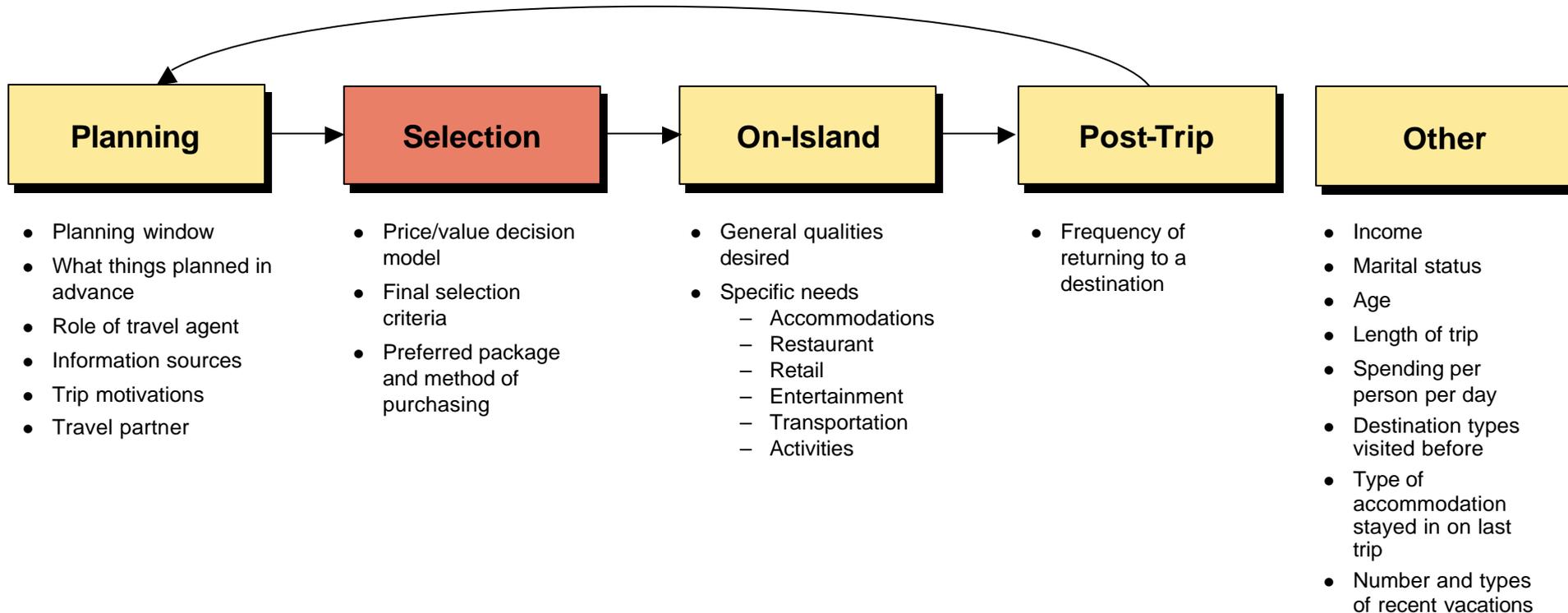
How far in advance did you book your trip?



Kind of Things Planned in Advance



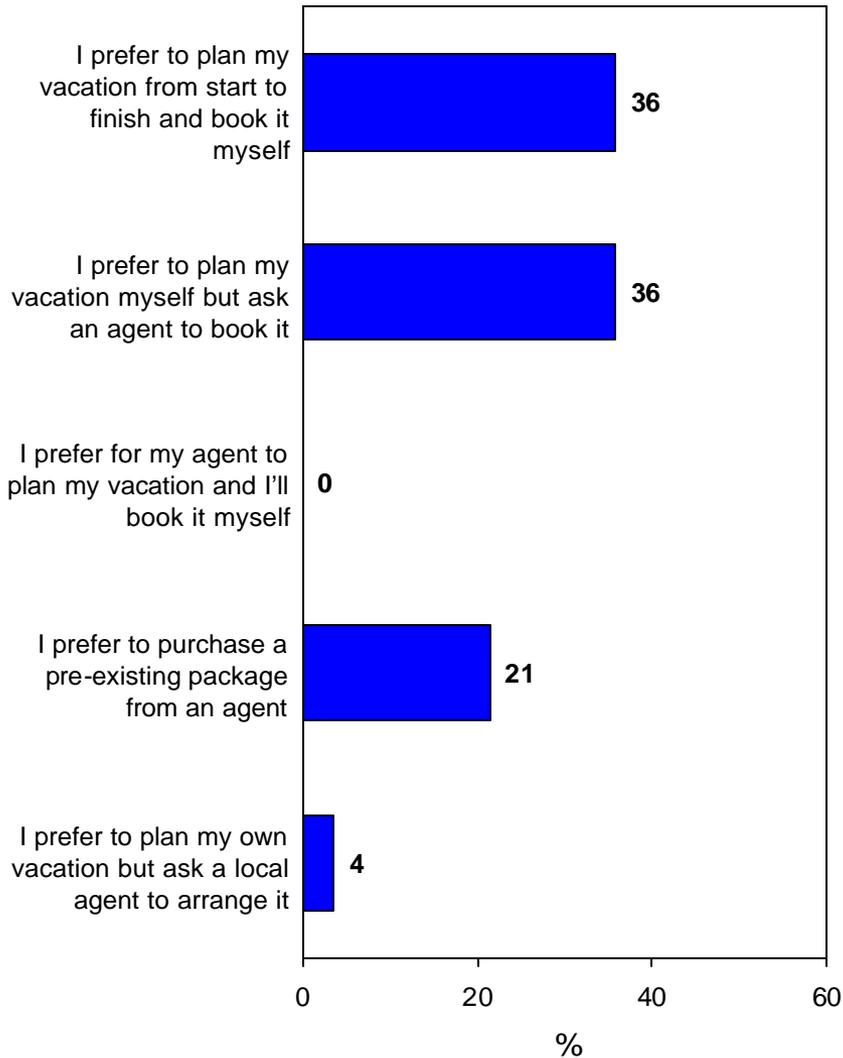
“The Escapers from the Real World” (Quick Break): Methodology: Customer Experience Model



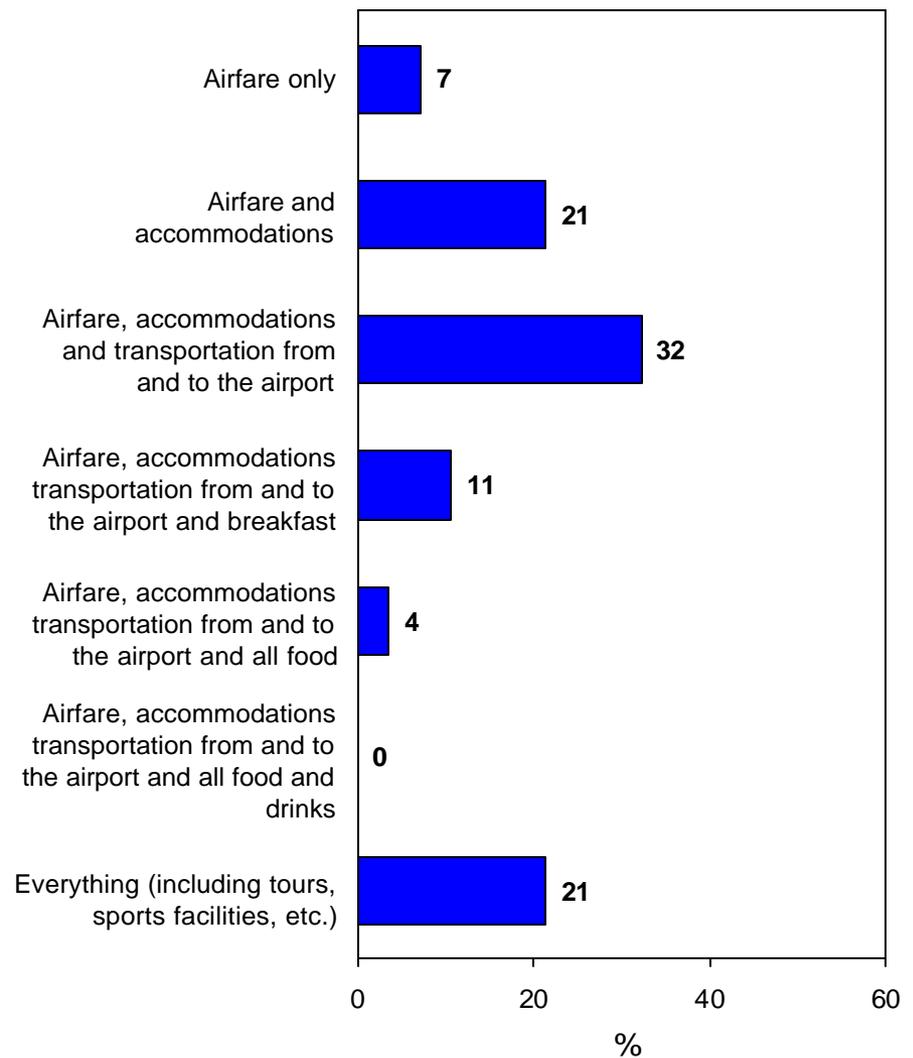
The quantitative survey asked consumers 54 questions about each stage of the consumer experience.

“The Escapers from the Real World” (Quick Break): Selection Experience: Packaging and Purchasing Preferences

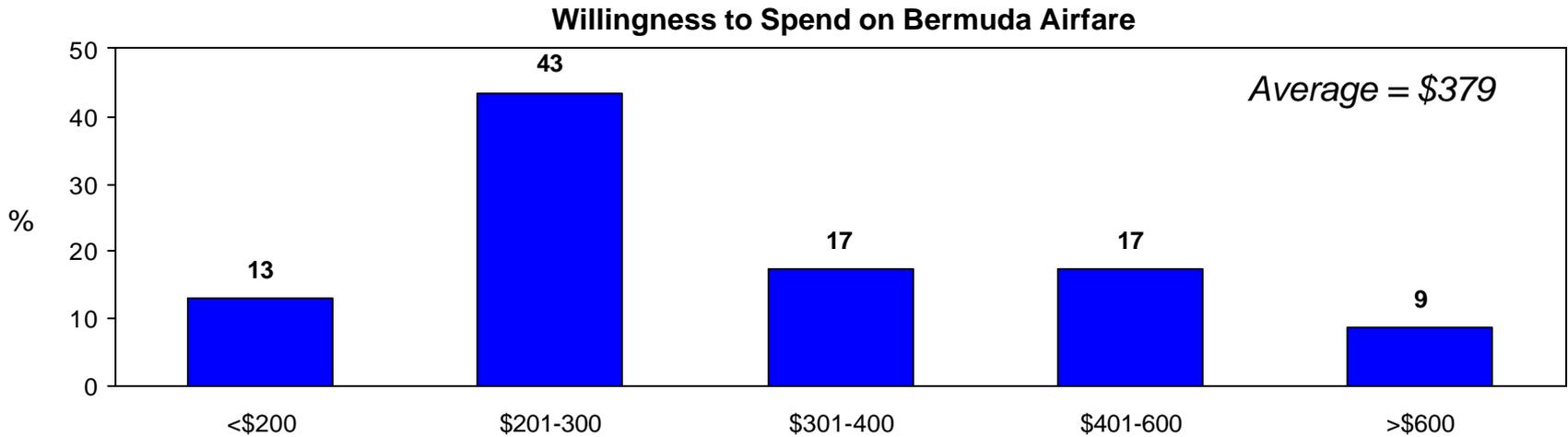
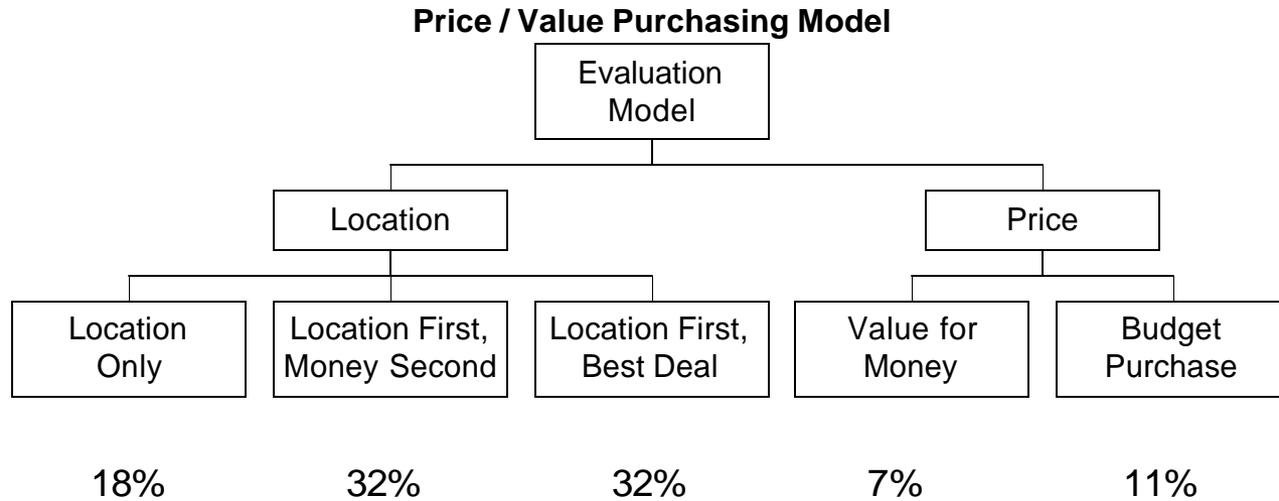
Preferred Way of Purchasing Vacation



The Kind of Packaged Trip Most Interested In

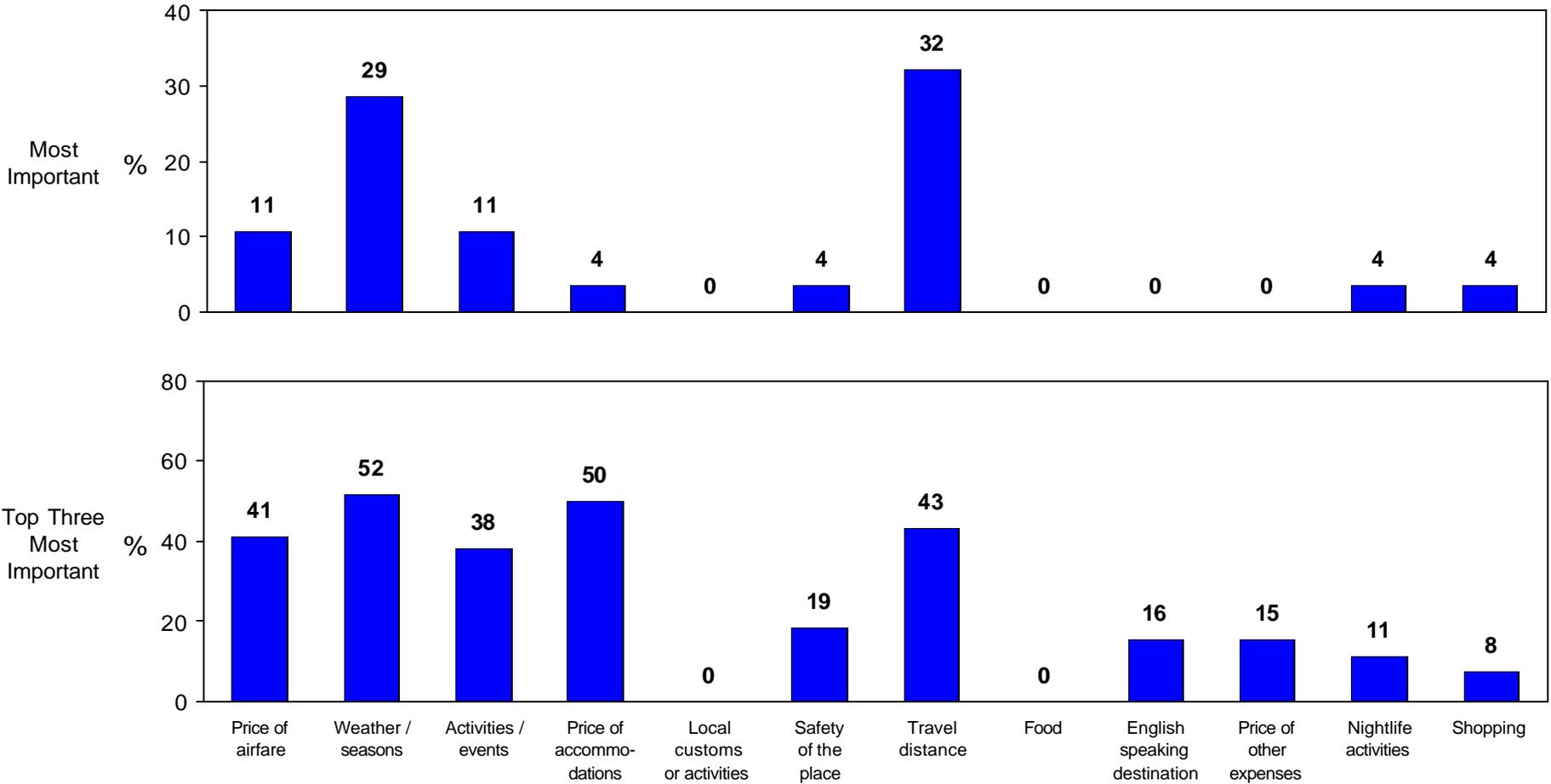


“The Escapers from the Real World” (Quick Break): Selection Experience: Decision Model

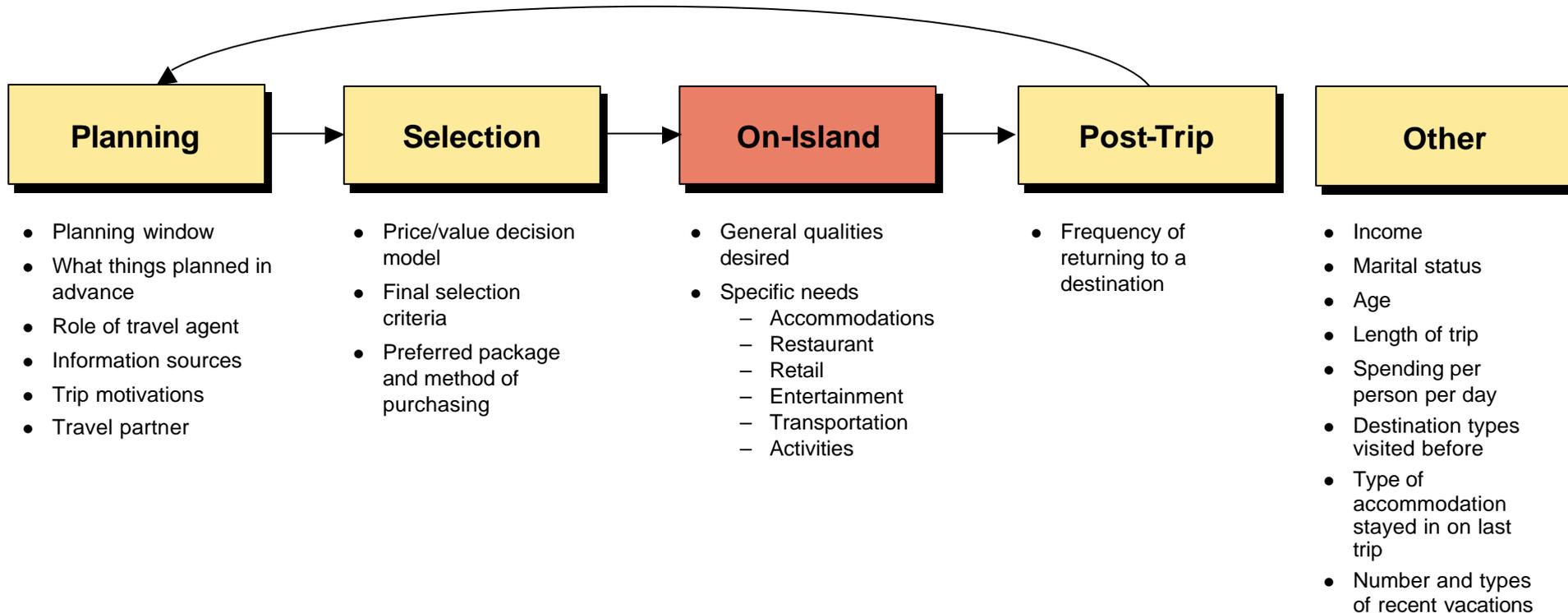


“The Escapers from the Real World” (Quick Break): Selection Experience: Selection Criteria

Important Attributes When Deciding the Destination



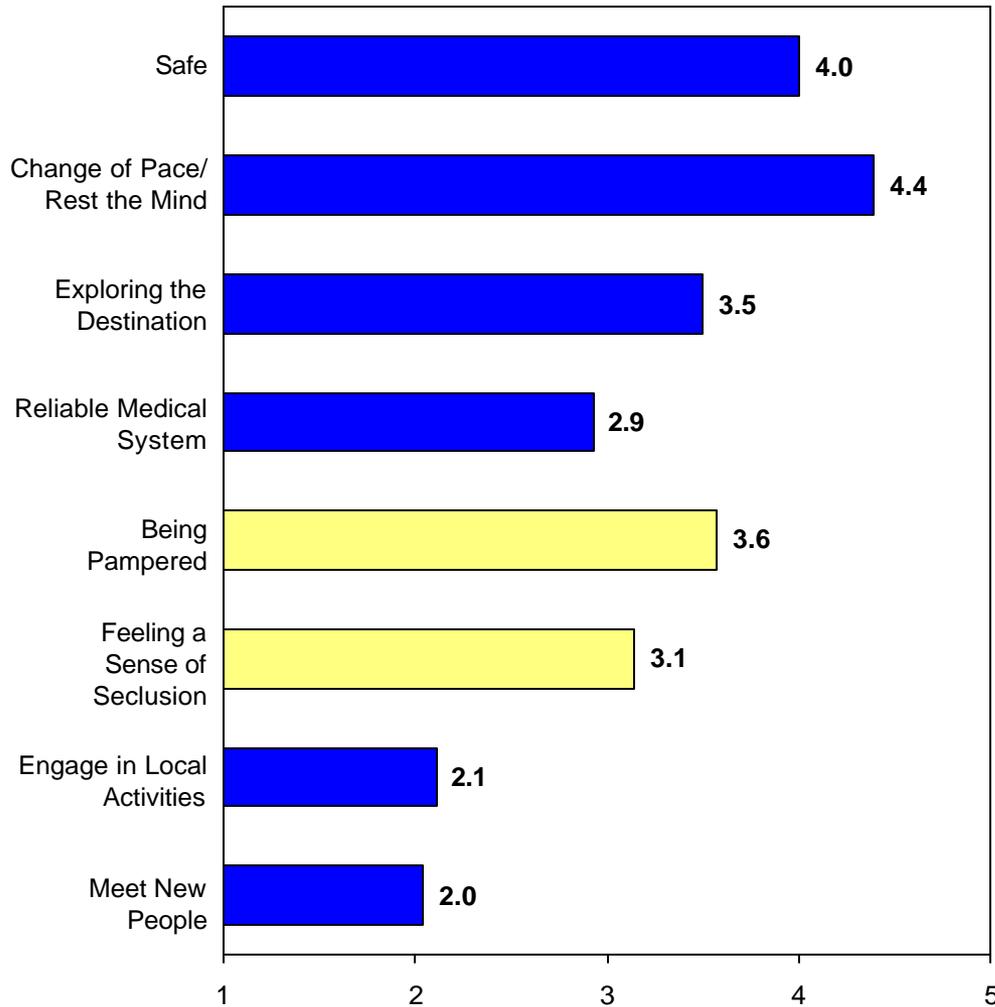
“The Escapers from the Real World” (Quick Break): Methodology: Customer Experience Model



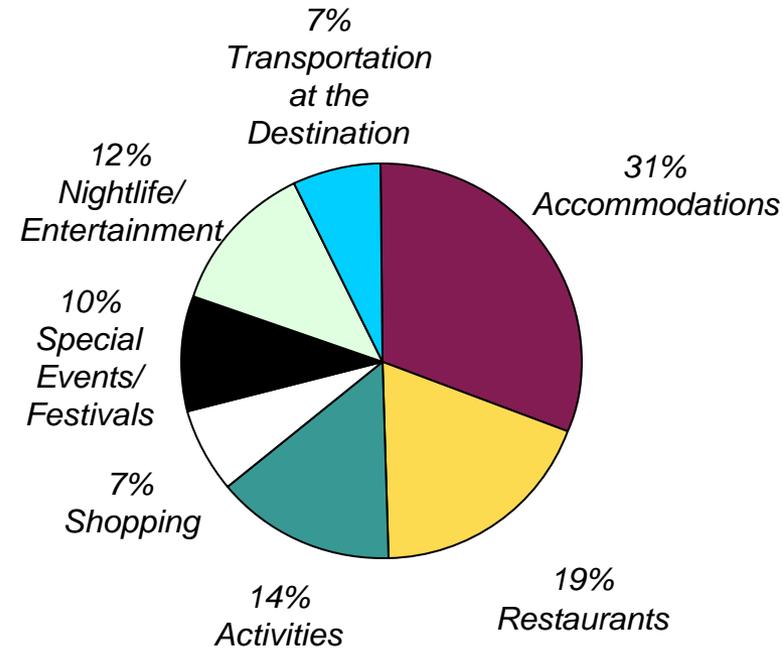
The quantitative survey asked consumers 54 questions about each stage of the consumer experience.

“The Escapers from the Real World” (Quick Break): On-Trip Experience: Overall Determinants of Satisfaction

Importance of General Characteristics*



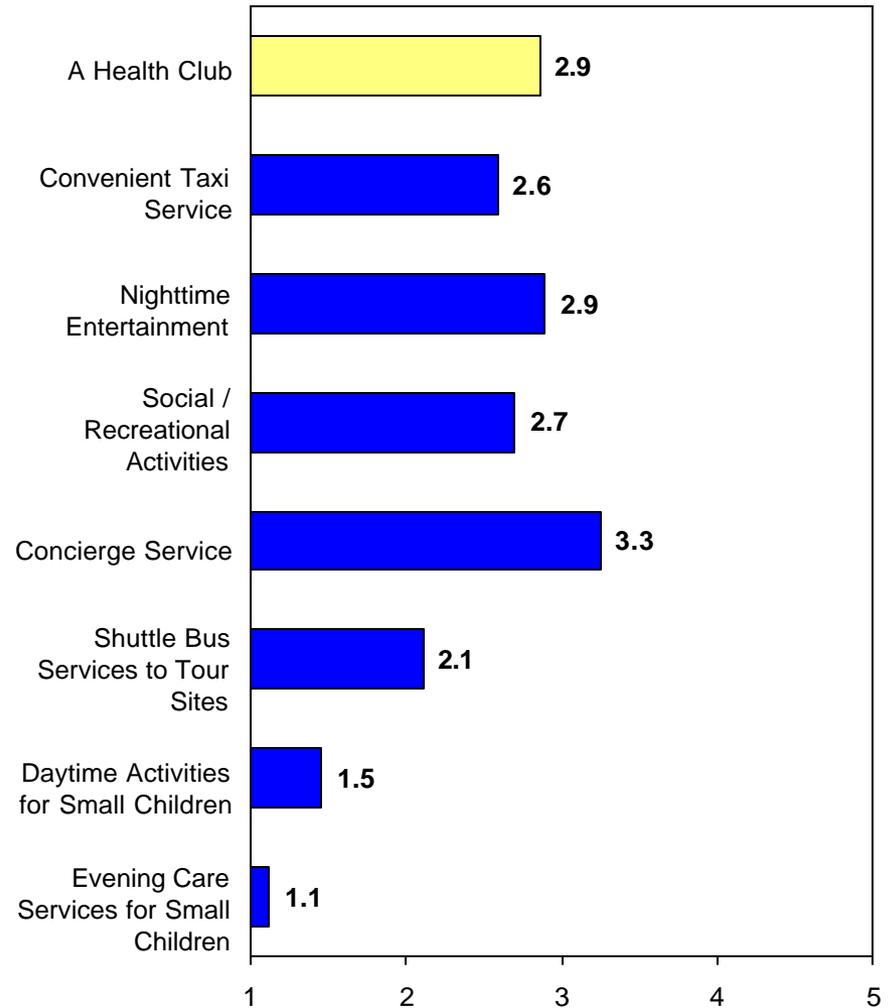
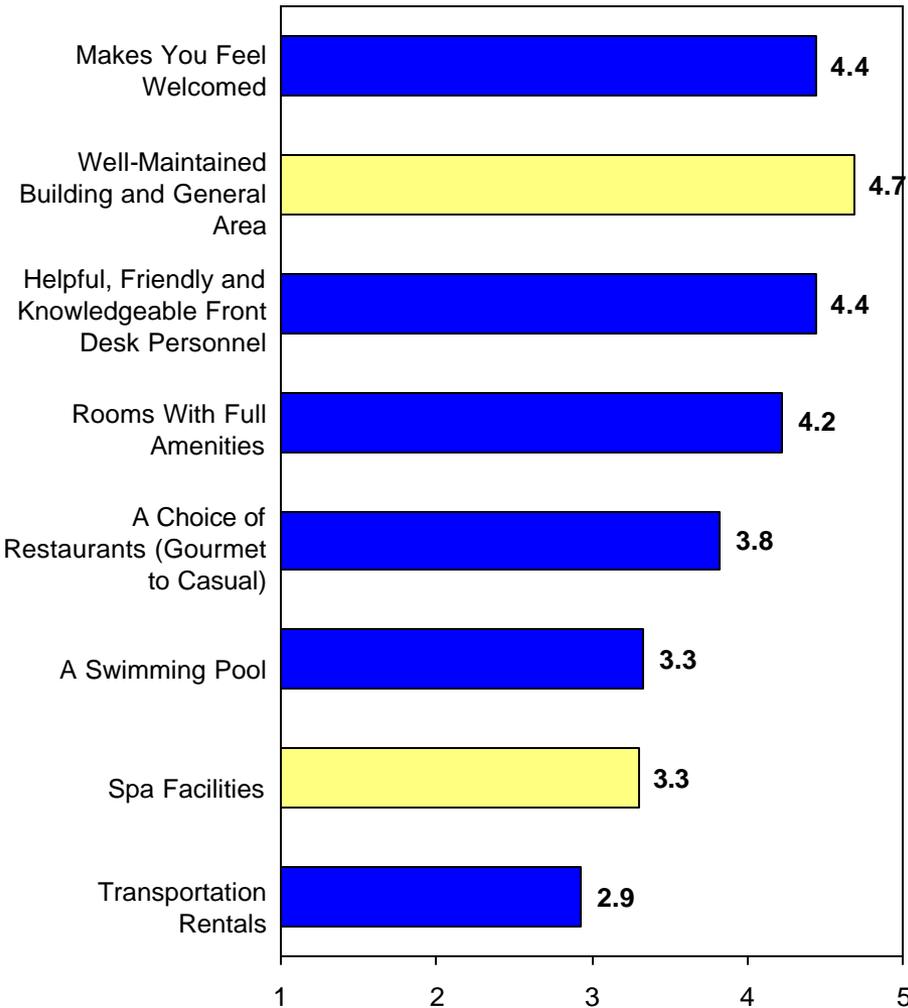
Importance of Elements in Your Vacation



Note: *Yellow indicates a significant positive difference within Quick Break segment

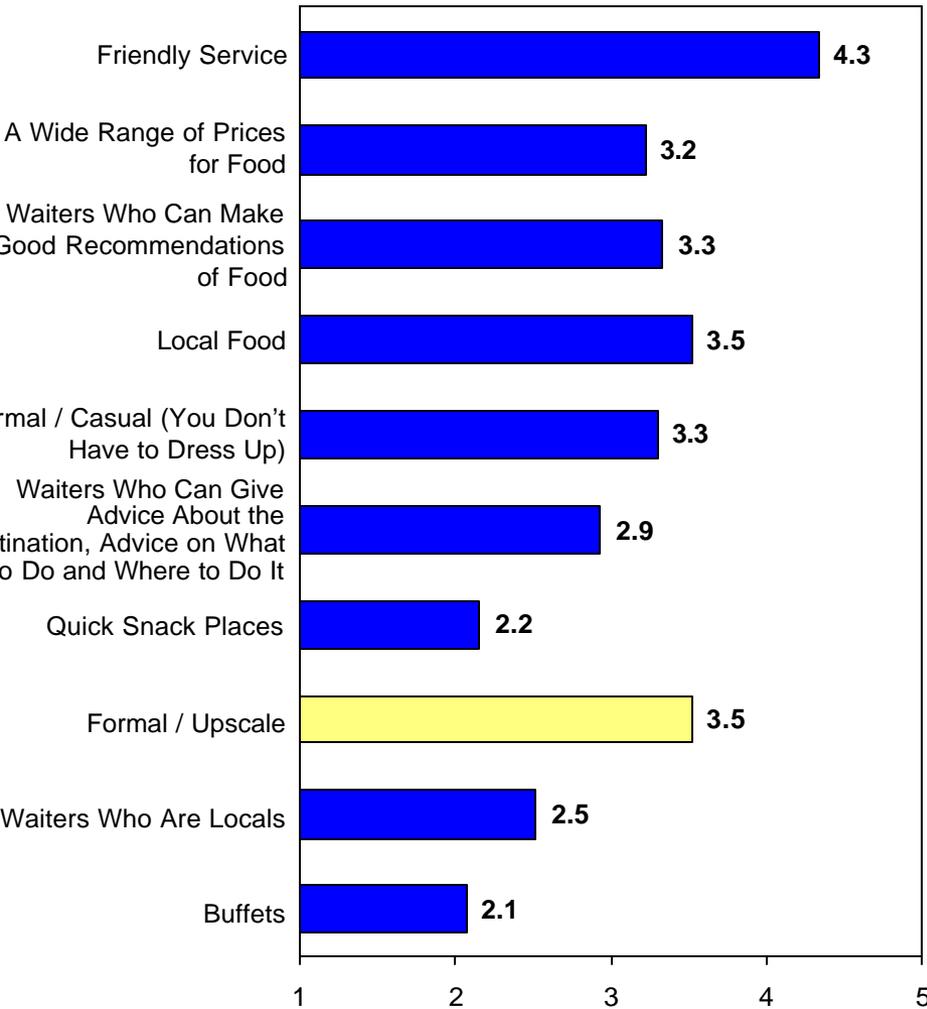
“The Escapers from the Real World” (Quick Break): On-Trip Experience: Specific Needs from Accommodations

Importance of Accommodation Characteristics

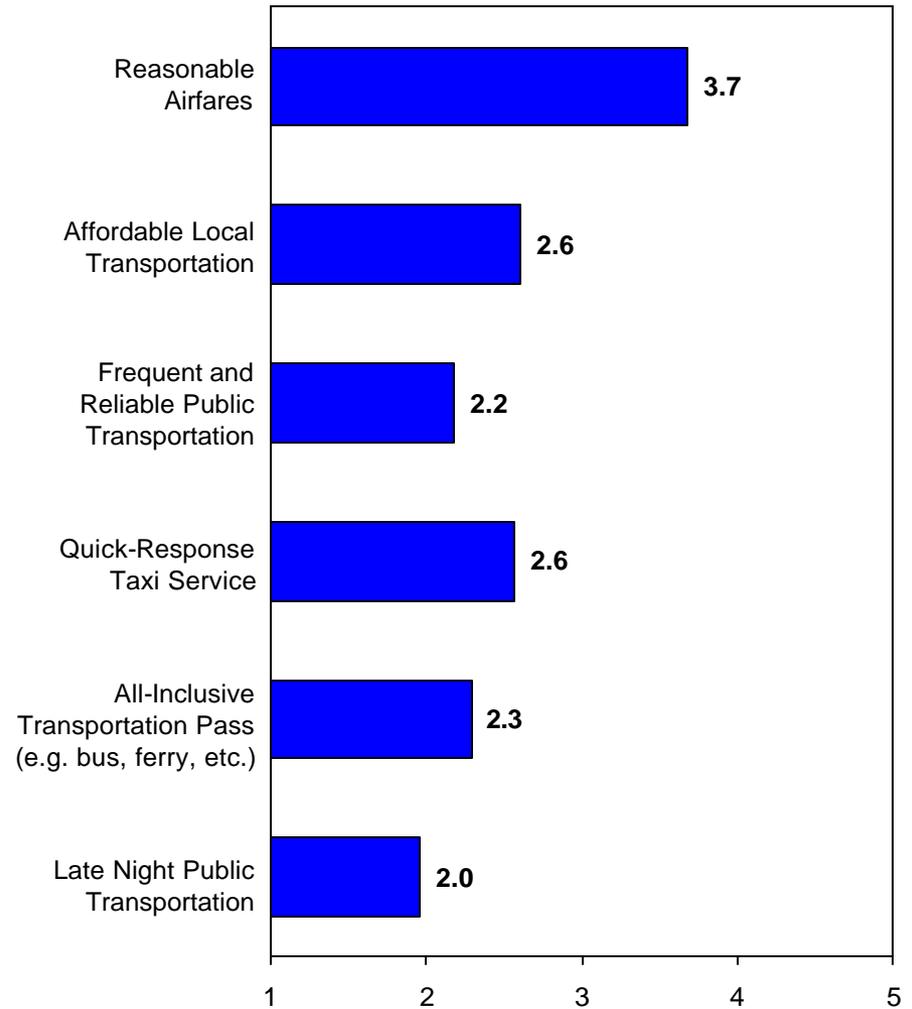


“The Escapers from the Real World” (Quick Break): On-Trip Experience: Specific Needs from Restaurants, Transportation

Importance of Restaurant Characteristics

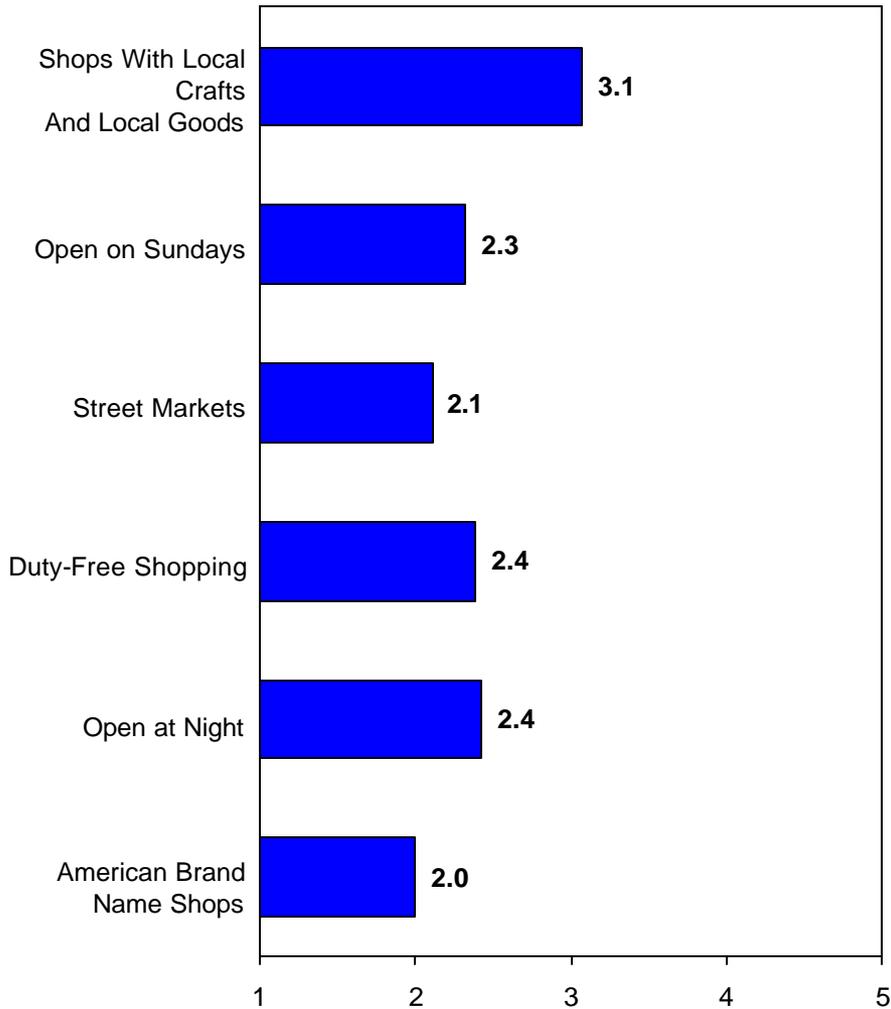


Importance of Transportation Characteristics

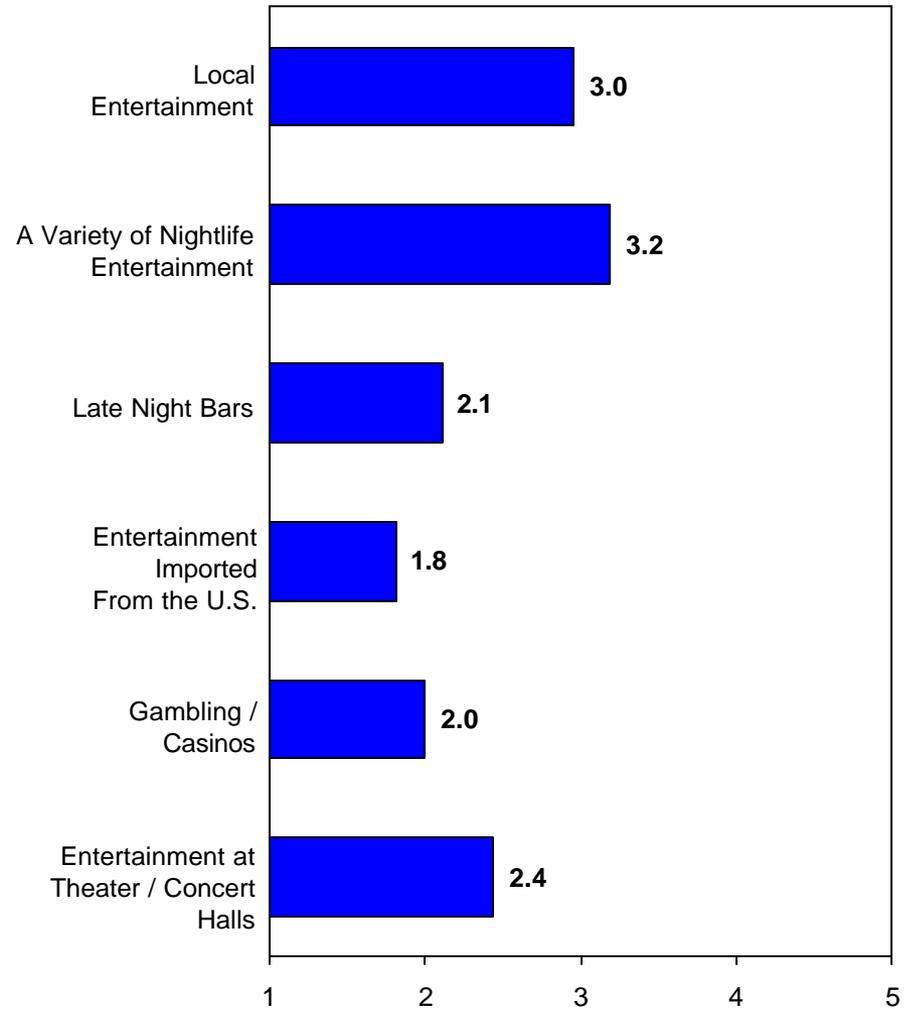


“The Escapers from the Real World” (Quick Break): On-Trip Experience: Specific Needs from Shopping, Entertainment

Importance of Shopping Characteristics

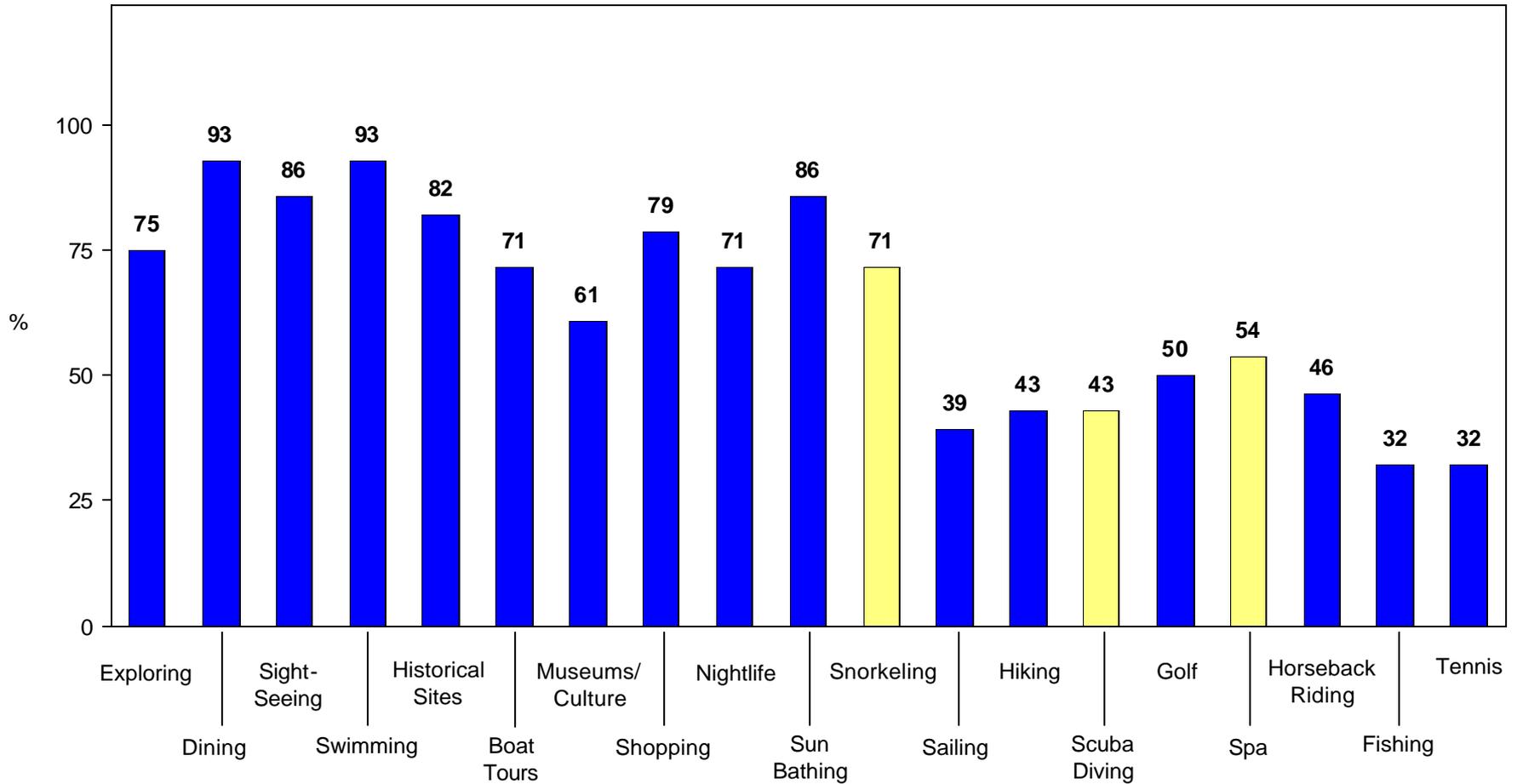


Importance of Entertainment Characteristics

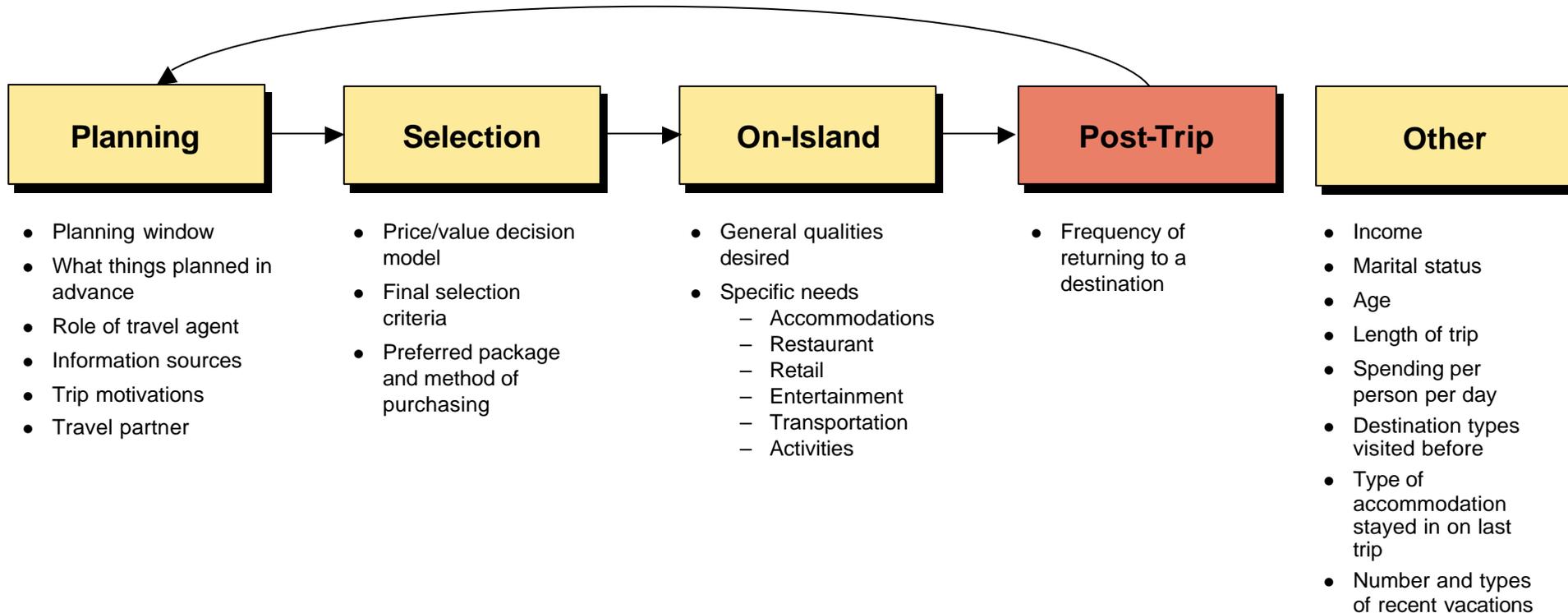


“The Escapers from the Real World” (Quick Break): On-Trip Experience: Activities Desired on Trip

What specific activities would you be looking for in a vacation?



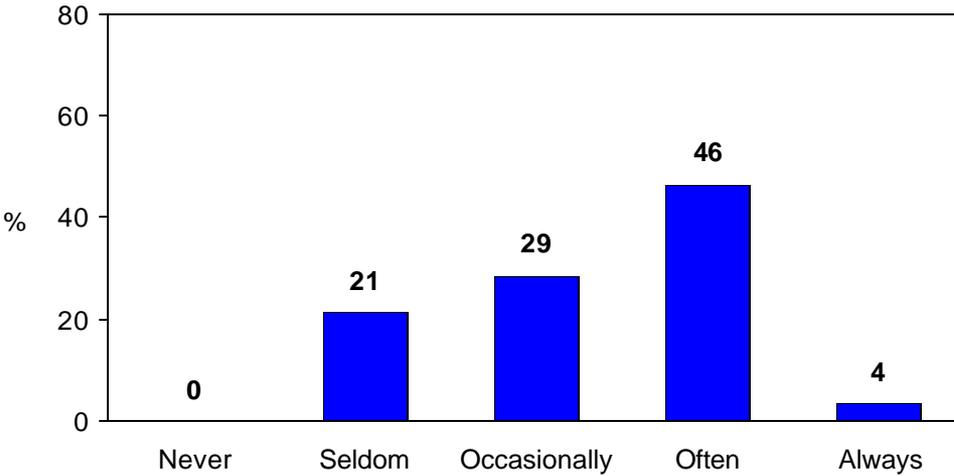
“The Escapers from the Real World” (Quick Break): Methodology: Customer Experience Model



The quantitative survey asked consumers 54 questions about each stage of the consumer experience.

“The Escapers from the Real World” (Quick Break): Post-Trip Experience: Frequency of Revisiting a Destination

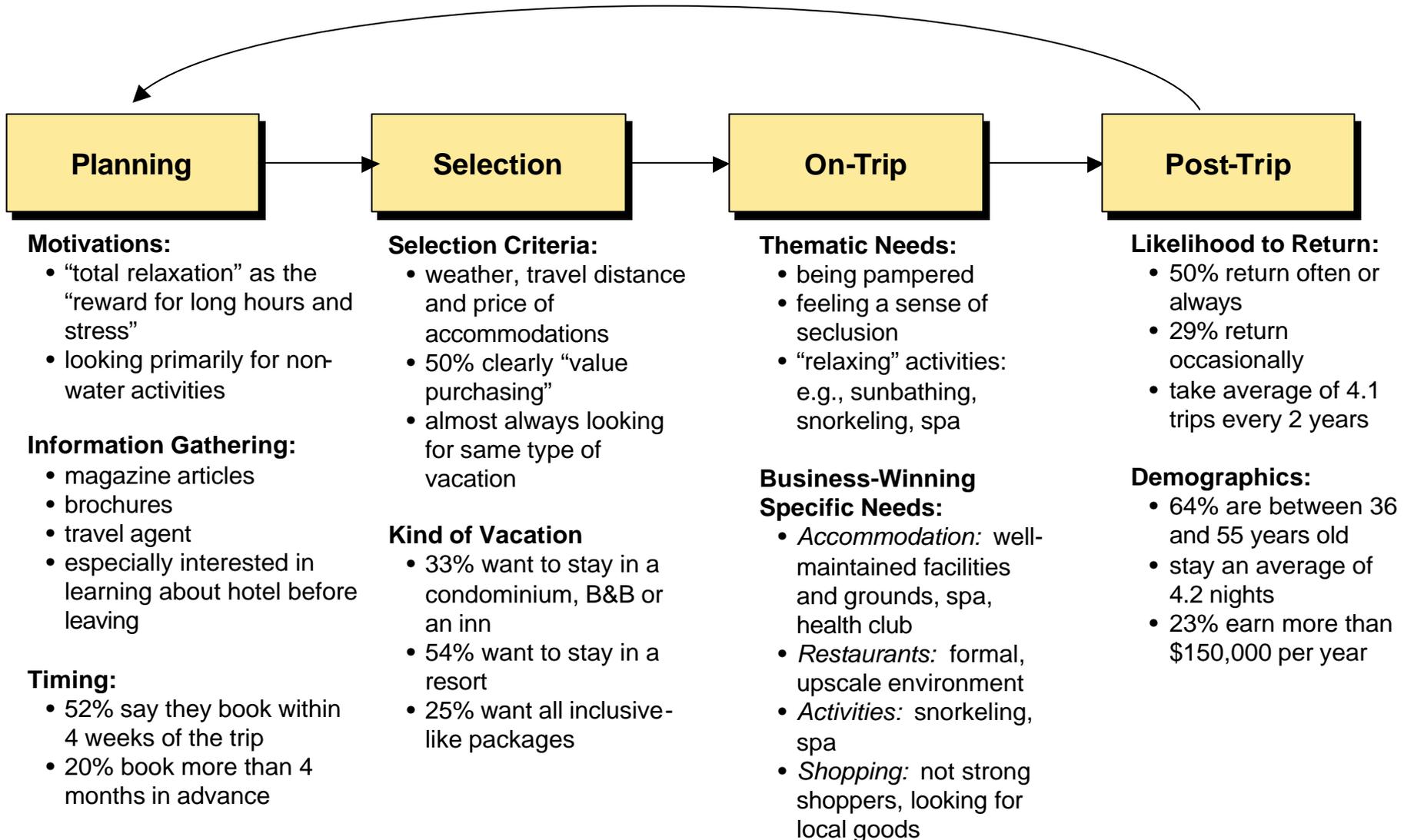
How often do you return to a destination?



Recent Trips

Number of vacations in the previous two years	4.1
Number of Quick Break vacations in the last two years	4.1

“The Quick Escapers from the Real World”, (Quick Break): Needs and Behavior Summary



* Information-rich sources include word of mouth, previous experiences, brochures and magazine articles.

Furniture Cluster Data Sourcing Tables

Sourcing Tables Are Used to Simplify Data Collection by The Team

The team needs to first identify the critical data needed to help inform their choice of options

Next, the team reviews the source and method to obtain the required information

Specific Issues/Questions	Mgmt	Employee	Customer	Partner	Competition	Govt.	Civic/Assoc
Q1.							
Q2.							
Q3.							
Q4.							

Furniture Cluster Summary Task Worksheet

Information is aggregated for each source by activity

The team classifies the questions by activity and source

Next, the team agrees to timing and who will gather the information

Tasks: Interviews, Surveys, Research

Information Required	Source	Timing	Responsible

Cluster Results

Year	2002
Overall Prosperity	
Number of Companies	1,000
Total revenues	
Average revenue per employee	
Top 10 exports as percent of total exports	
Price per unit index (basket of goods, base year = 100)	100
Annual growth rate	0% (2001)
Total export revenue	\$32 million
% firms more than 50% state-owned	50%
Domestic market share of firms > 50% foreign-owned	25%
Total number of employees	13,000
Average number of employees per company	9
Average employee earnings	
Total equity value of industry	

Note: Preliminary Estimates

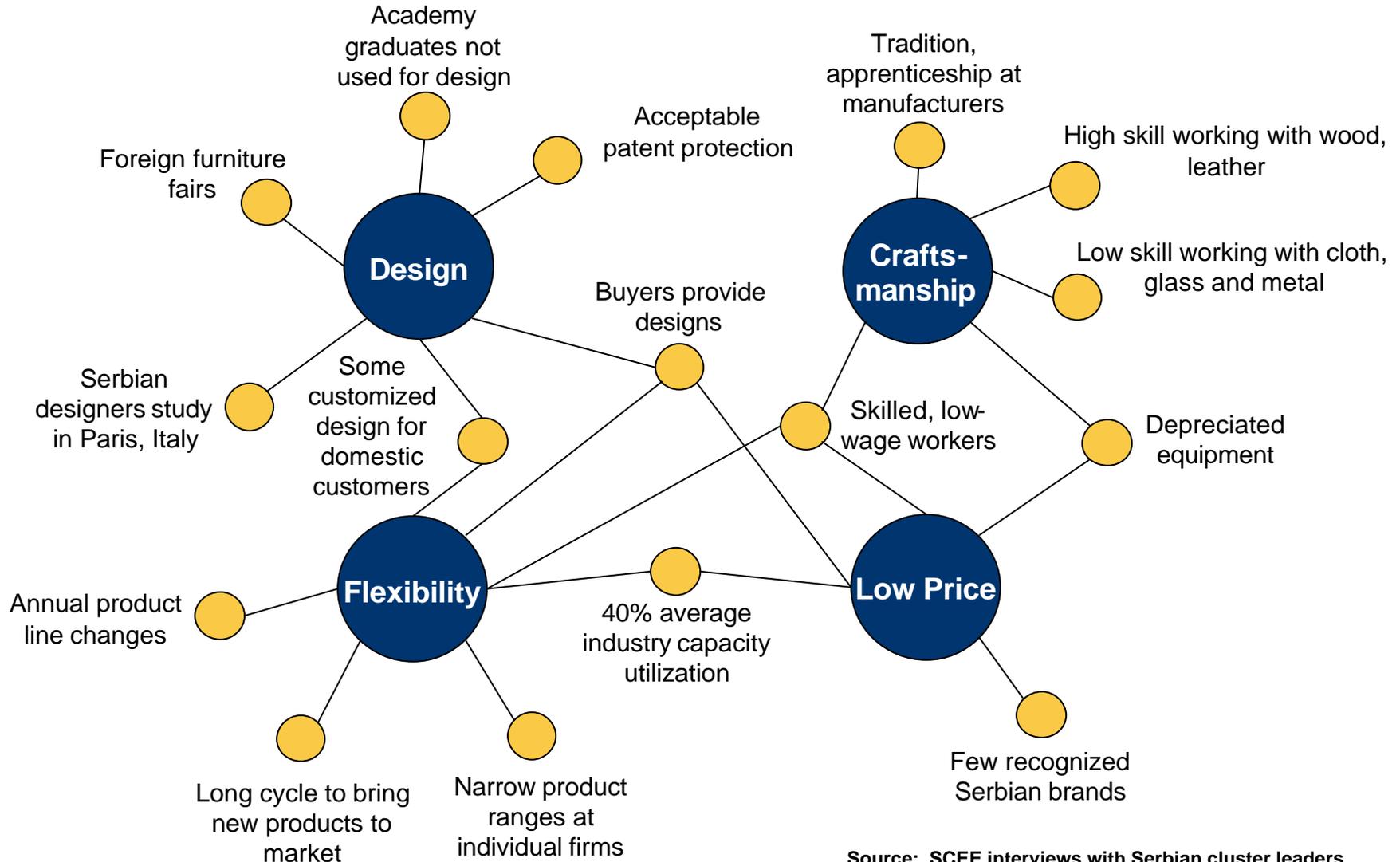
Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Cluster Results

Year	2010
Overall Prosperity	
Number of Companies	
Total revenues	
Average revenue per employee	
Top 10 exports as percent of total exports	
Price per unit index (basket of goods, base year = 100)	
Annual growth rate	
Total export revenue	\$150 million
% firms more than 50% state-owned	
Domestic market share of firms > 50% foreign-owned	
Total number of employees	
Average number of employees per company	
Average employee earnings	
Total equity value of industry	

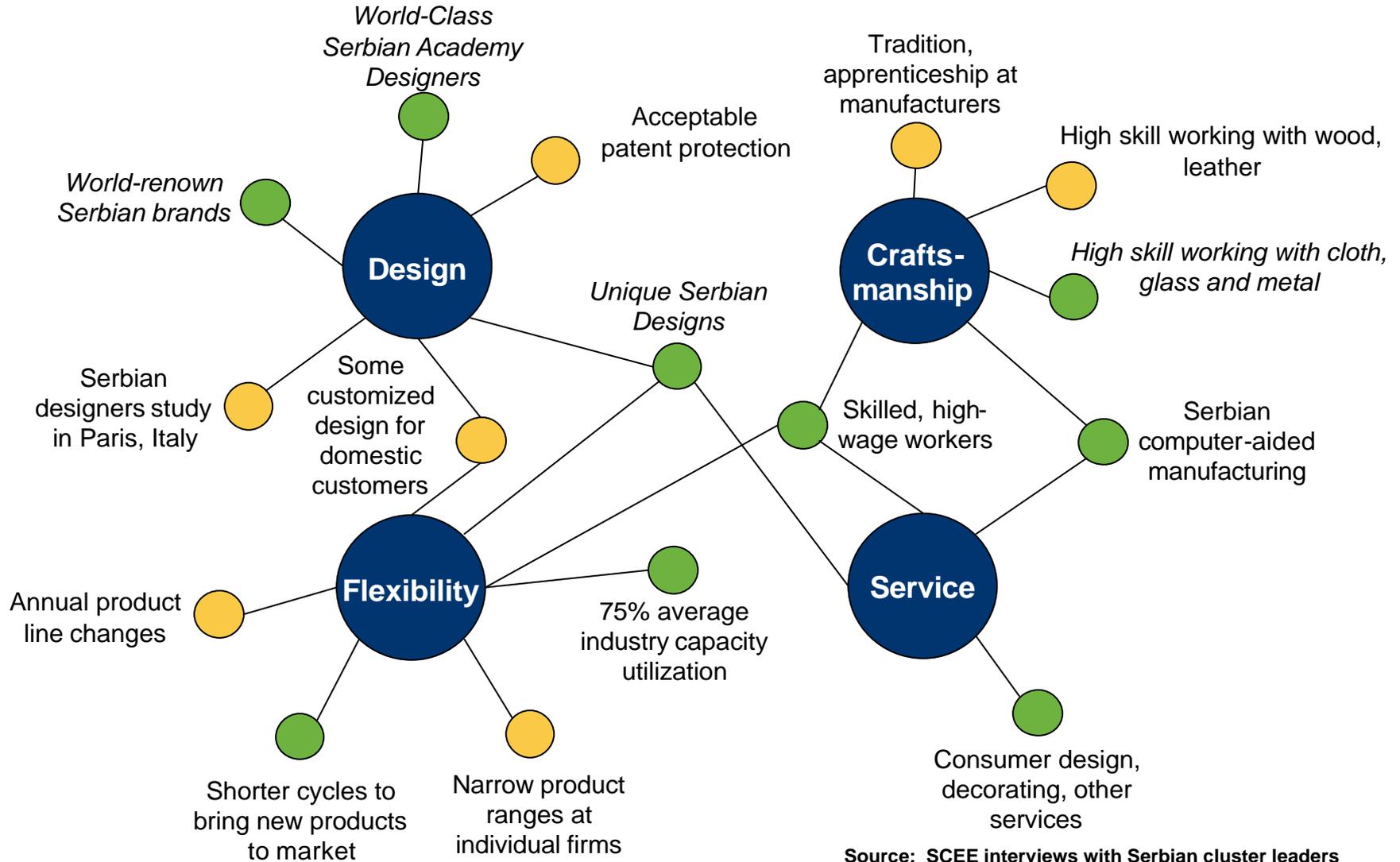
Source: Government announced objectives

Web of Activities to Satisfy Consumer Needs



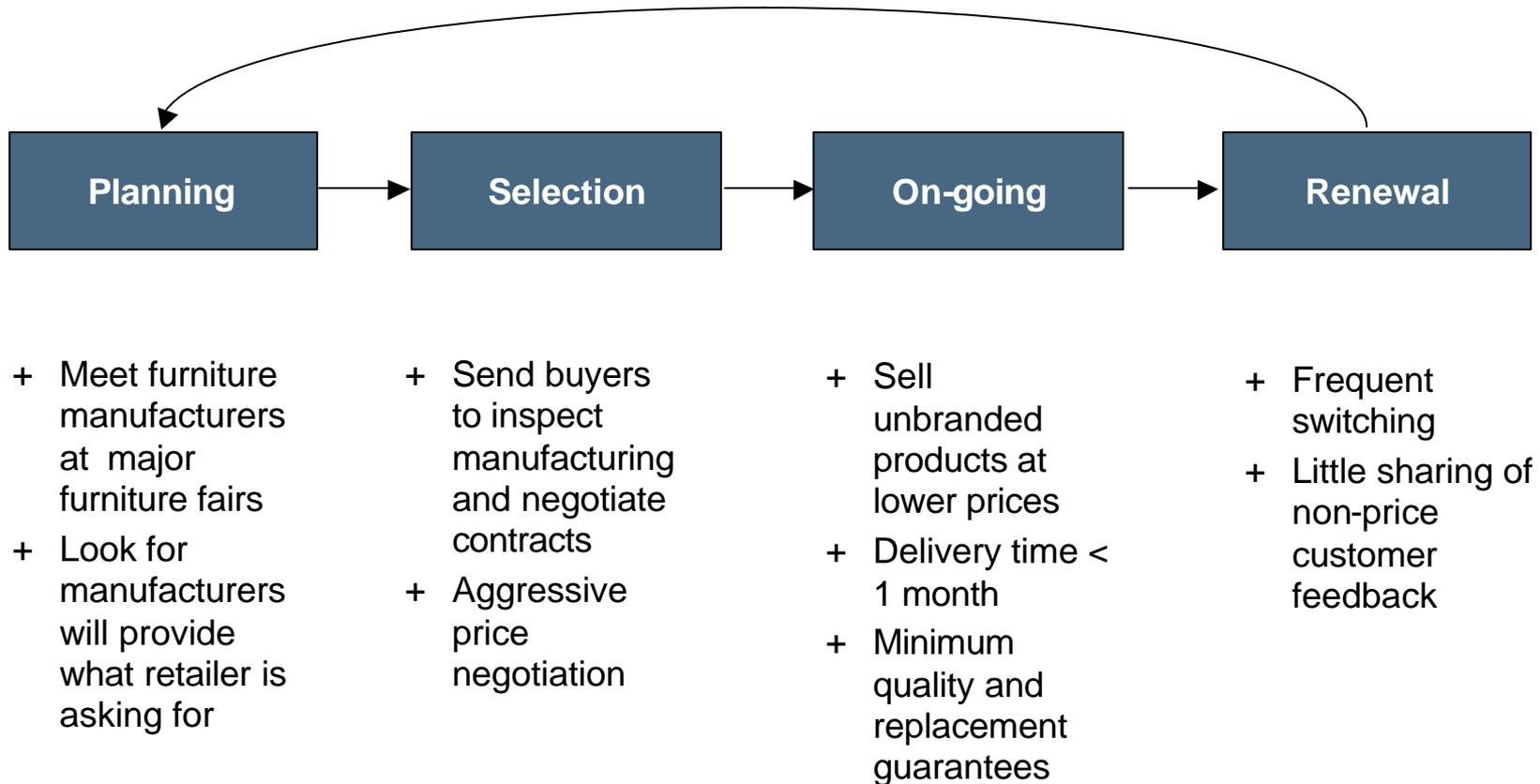
Source: SCEE interviews with Serbian cluster leaders

Web of Activities to Satisfy Consumer Needs



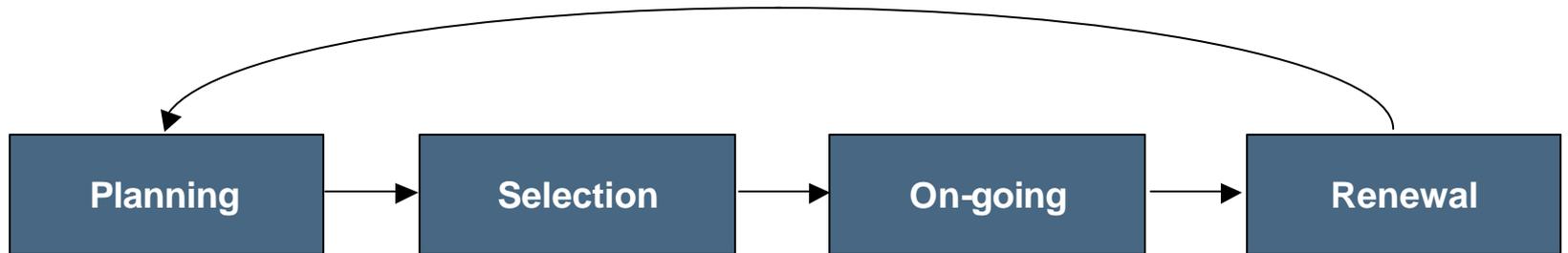
Source: SCEE interviews with Serbian cluster leaders

Current Customers' Needs



Source: USAID SCEE interviews with European and US wholesalers

New Customers' Needs



- + Target manufacturers with clear positioning
- + Identify manufacturers' willingness to collaborate on design and promotion

- + Develop contracts and other agreements among management teams
- + Aggressive quality requirements

- + Sell branded products and higher prices
- + Delivery time < 2 weeks
- + Complete consumer satisfaction guarantees

- + Long-term relationships
- + Collaborative market learning

Source: USAID SCEE interviews with European and US wholesalers

Product and Service Portfolio

	Customers	Consumers
Products		<ul style="list-style-type: none"> • Upholstered chairs • Other wooden furniture • Doors, windows and frames • Flooring • Metal Furniture • <u>Other product exports</u> <p style="text-align: center;"><i>\$29 million</i></p>
Services		

Note: Preliminary Estimates

Source: Yugoslav Federal Trade Statistics, SCEE estimates

Product and Service Portfolio

	Customers	Consumers
Products	5%	50%
Services	20%	25%



Booz | Allen | Hamilton
delivering results that endure

ontheFRONTIER

Serbia Competitiveness & Economic Efficiency Project

Furniture, Construction Materials and Flooring Cluster Meeting 4 March 2003

Serbian Furniture Cluster Intra- firm Interests & Possible Collaboration

Raw Materials & Production

- Wood supply
- Fabric, leather, metal & glass suppliers
- Production machines



Effective Resource & Production Management

- Adopt sustainable wood harvesting standards
- Joint investments in domestic material production
- Group purchasing of production machines

Government & Regulatory Environment

- Price controls & taxes
- Import duties
- Free Trade Agreements
- Specific legislation



Increased Dialogue with Government Agencies

- Inform representatives of cluster interests
- Lobby for specific legislative reforms
- Brief Cluster members about new laws

Export Market Penetration

- Data on market composition
- Distributor/buyer relationships
- Shipping/logistics
- Volume



Cooperate in Targeting Export Markets

- Joint visits/consortium to major European cities
- Group exhibits at major trade fairs
- Sub-contracting arrangements on large contracts

Training & Design Skills

- Professional training
- Quality of design
- Quality of labor



Promotion of Better Training & Design Skills

- Joint funding of training for managers
- Creation of National Design Awards
- Jointly funded scholarships for workers

Developing the Furniture Campaign: Who Is in The Broader Cluster

	Current Members	Broader Cluster
Firms and Partners	<ul style="list-style-type: none"> • Bošnjacki • Buducnost • Eurosalon • Mimco • Saga • Lika - Milan Gašić, Reiffeisen Bank and 'Sloga' agent •Modul •TMB Diamond •Trifunovic •Domis •Enterijer •Jankovic 	<ul style="list-style-type: none"> • To Be Determined
Civic/ Associations	<ul style="list-style-type: none"> • SCEE Cluster Group 	<ul style="list-style-type: none"> • New Association/Association developing in South?
University Training Centers Research Orgs.	<ul style="list-style-type: none"> • Dr. Branko Glavonjic, Forestry Faculty • IMS Institute 	<ul style="list-style-type: none"> • Academy of Applied Art • Architectural Faculty
Finance Institutions	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Banks – Enterprise funds • Community Revitalization Democratic Action • Diaspora (Angel Investors) • Firms (FDI) • Seed (IFC) • GTZ
Government	<ul style="list-style-type: none"> • National Council • Ministry of International Economic Relations 	

Developing the Furniture Campaign: What Are the Goals of The Cluster

Primary Goal: Improve profits per worker

1. Success Criteria

- Primary goal being profit per worker
 - Initial measure: turnover of cluster firms (total & export)
- Group raw material purchasing metrics
- Assets (machinery for target production, etc.)
- Skill improvement measures
- Profit (initially turnover) in targeted market

2. Insight Capture

- Audit the various needs for training
- Understand purchase bargaining power
- Learn and share market trends, customer needs and potential competitor information
- Obtain and share technical information

3. Co-operation

- Develop cluster team with ability to share training programs in technology, market research, finance, design and create wealth with differentiated products services in export markets
- Introduce Association idea (collaborate with chamber of commerce) with Design Association, architects, etc.
- Develop joint method to improve training

Goal Description

Rationale

- Goals need to be measured to determine success and make adjustments

- Successful clusters are able to rapidly share data with members. This includes understanding market needs; competitor strengths, technology trends, etc.

- There is a need to overcome barrier of low trust and increase communication to facilitate fast responses to win in the market
- Sharing overview of companies will provide understanding of export capability or purchasing opportunities

Developing the Furniture Campaign: What are the Current Cluster Impediments

Insufficient Insights

Customer Insights:

End users are not understood in Serbia or potential target markets

Competitive Analysis:

Approach to understanding competitive capability is underdeveloped and information is not shared in the cluster

Cluster capacity:

Need to understand supply potential existing among members; by product type, space and machine; examine ability to pool resources together for similar quality

Production trends:

Need to get knowledge of
- new technologies
- new materials

Cost Analysis:

Require knowledge of cost structure – creating difficulty for finance decisions and competitive cost analysis

Lack of Financing

Lack of Bank Partnering:

Bank financing is high and has a wide range of interest rates

Source of Funds:

Firms in the cluster are largely unaware of newer and developing sources of funds, such as partnerships, venture capital/diaspora funding, Donor organizations, foreign banks, etc.

Underdeveloped Trust

Collaboration:

Initial goals of cluster may be impeded by low trust in the region

Overcoming failures:

Several firms have tried to pool similar cluster firms to develop production and buying groups

- Groups would agree to production, then “cheat” by approaching buyer directly
- Groups could not agree on purchase criteria

Below-average Skill Set

Wide range of training needs

Technical (design, operations)/ Business plans / Marketing research / Inventory management, competitive analysis / sales training

Uneven school curriculum:

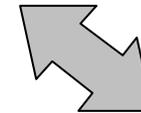
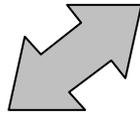
High school/ college curriculum does not assist in developing skills of industry

Developing the Furniture Campaign:

What Progress Has the Cluster Achieved by National Summit

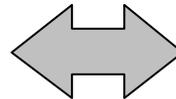
Goals – Metrics Selection and Approach

- Profit for each worker – begin with turnover
- Capacity availability; by product, quality etc.
- Cluster raw material purchase volume and prices
- Training needs listed, scorecard and steps for action developed



Insight Capture

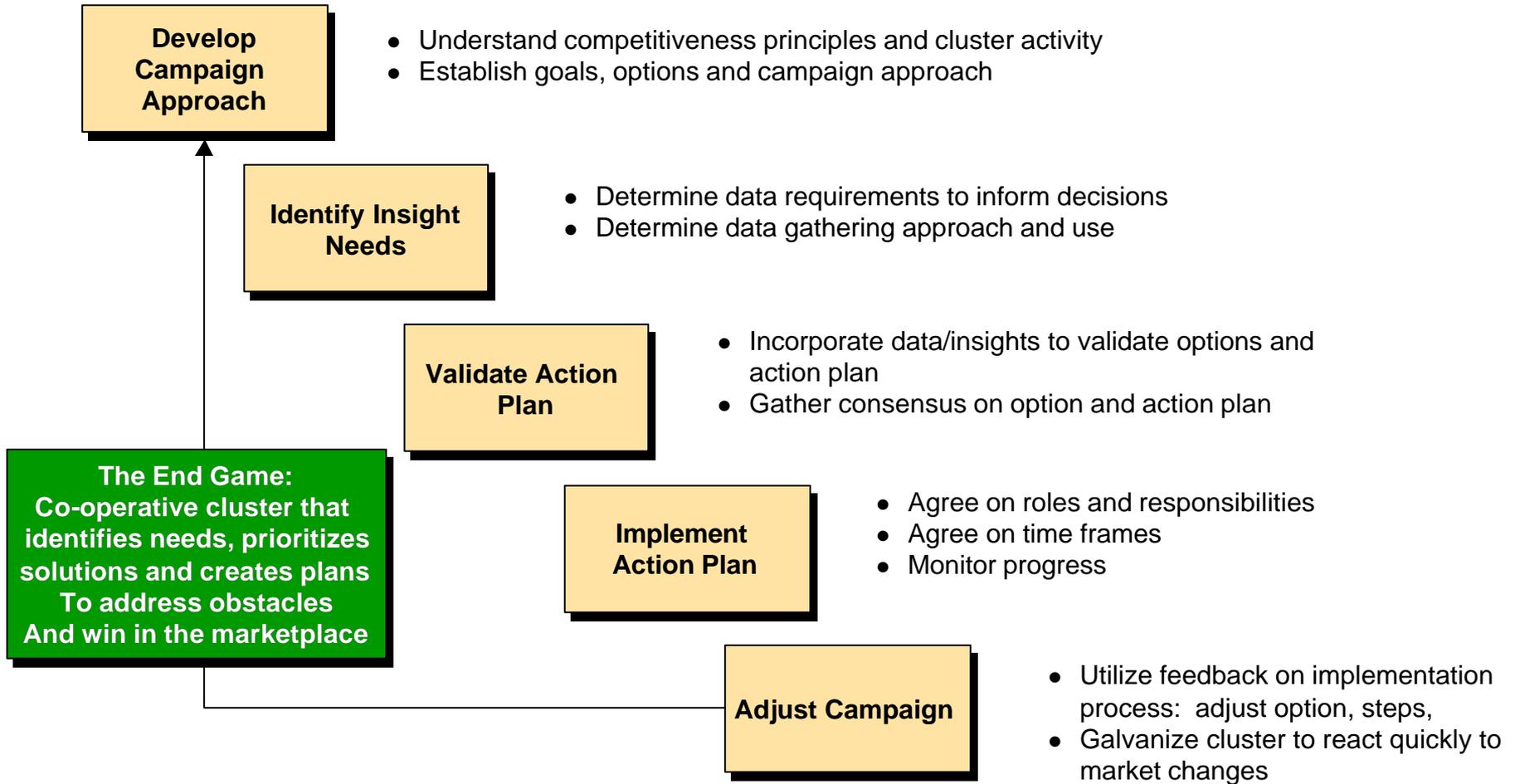
- Initial questions identified and continually updated
- Serbian market selected for market research survey – questions being developed
- Members selected to gather information and share with cluster
- Example of successful cluster researched and used to develop



Cooperation

- Cluster meeting initiated
- Plan to work with university and/or association to create training center
- Cluster is focusing on several short term goals that focus on training, developing standards and developing a industry-wide association

Developing the Furniture Campaign: Action Steps (Short Term)



Developing the Furniture Campaign: Campaign Review – Craftsman Option

Action Plan

1. Determine training needs (technology, bus.plan, design, etc./ cooperation with university, association, etc.)
2. Understand current cluster capacity
3. Determine need/vote for association
4. Determine standards requirements
5. Match target customers with products
 - Initiate/Utilize market research
6. Focus on 2-3 key export markets
 - Gather & distribute market data
 - Examine distributor potential

Conditions for Change

1. Leadership
 - Cluster Leadership Council
 - Producers/Exporters Association
2. Guiding Principles
 - Increase value, price, prosperity
 - Cluster cooperation
3. Receptivity
 - Producers need compelling proposition
4. Insight
 - (data sourcing table)



Furniture Cluster Sample Action Steps:

Training

- *Identify priority training needs:*
Technical, marketing, sales, etc.
- *Identify key inputs for training priority:*
Funding source, proposal, organizational support, etc.
- *Identify owners of specific inputs:*
Proposal writer, organization leadership, etc.
- *Agree on timeline for developing inputs:*
Proposal completion date, program launch date, etc.
- *Establish execution follow-up:*
Cluster meetings, individual meetings, etc.

Standards

- *Identify priority standards for Cluster members:*
ISO, FSC, etc.
- *Agree on steps needed to inform members of issues involved in adopting priority standards:*
visiting certification entity, conducting a survey of cluster members, etc.
- *Select cluster leader(s) to supervise issue:*
Private firm(s), university experts, etc.
- *Agree on timetable to (1) inform cluster members & government; (2) identify key next steps; and (3) develop funding needs, if any, for standards adoption*
- *Identify key experts or coordinating authority for standards and invite them to provide technical assistance or suggest possible funding sources*

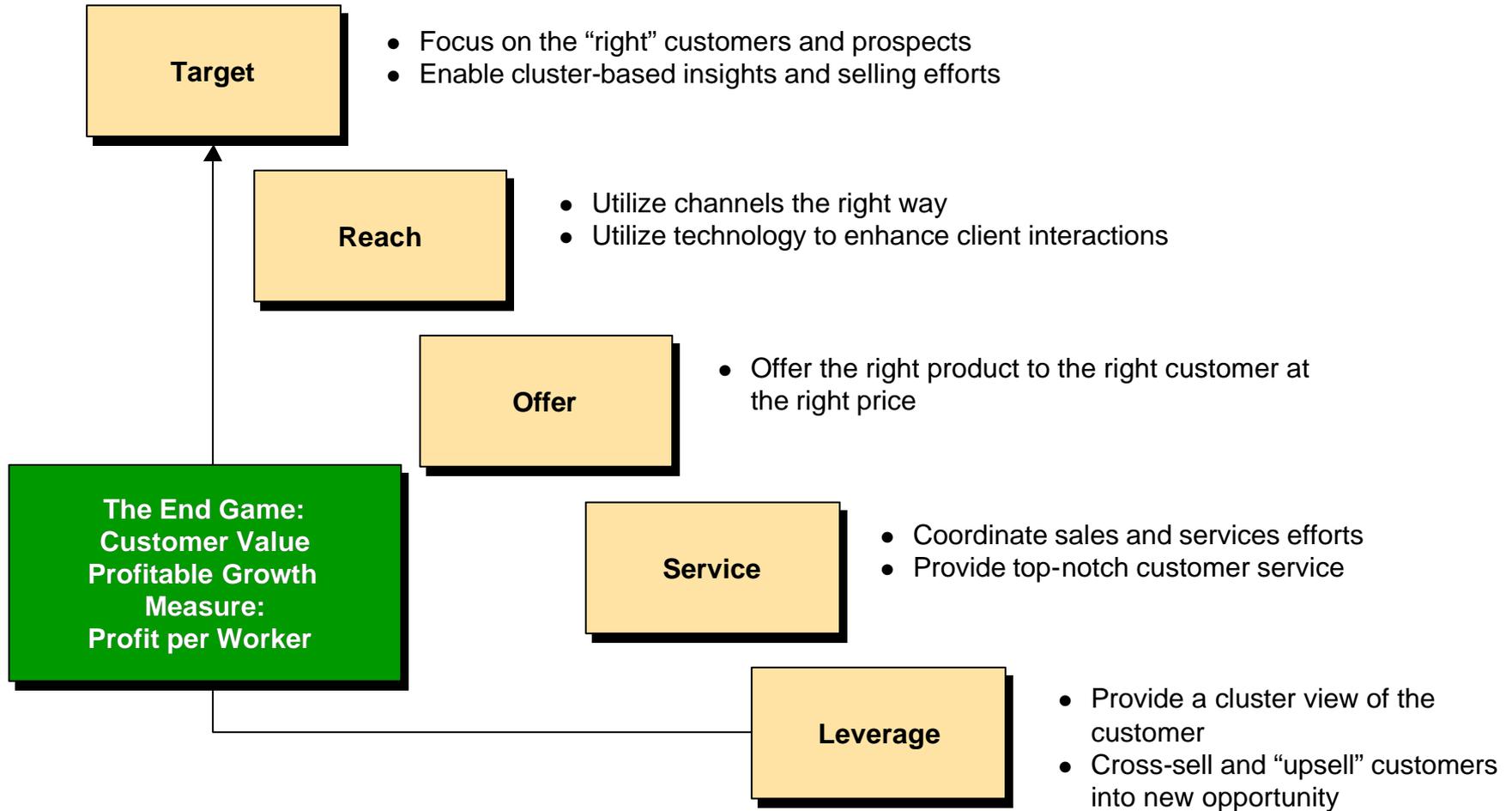
Association

- *Agree on need for an industry-wide association*
- *Determine organizational scope:*
Information, sales collaboration, marketing, standards, etc.
- *Establish form of organization:*
membership, leadership, fees, etc.
- *Identify funding needs and sources:* Donor organizations, firm contributions, government
- *Agree on timeline for execution and program supervisors*

Sample Functions of a National Furniture Association:

- **Government Relations**
 - Representing cluster interests before the Government & lobby for specific legislation favorable to industry firms
- **Standards Oversight**
 - Supervise the adoption of international standards and monitor implementation
- **Technology Assistance**
 - Conduct research and disseminate information on new manufacturing, environment, safety, and information technology for members
- **Training & Education**
 - Provide training & development opportunities that improve the overall management and technical skills of member company employees.
- **Public Relations**
 - Promote awareness of furniture and home accessories by the consumer and enhance the industry's image to the broader public
- **Statistics**
 - Gather and disseminate information and forecasts regarding manufacturing, sales, profitability, compensation, capital, and other pertinent information

Developing the Furniture Campaign Backup: Campaign Requirements (Long Term)





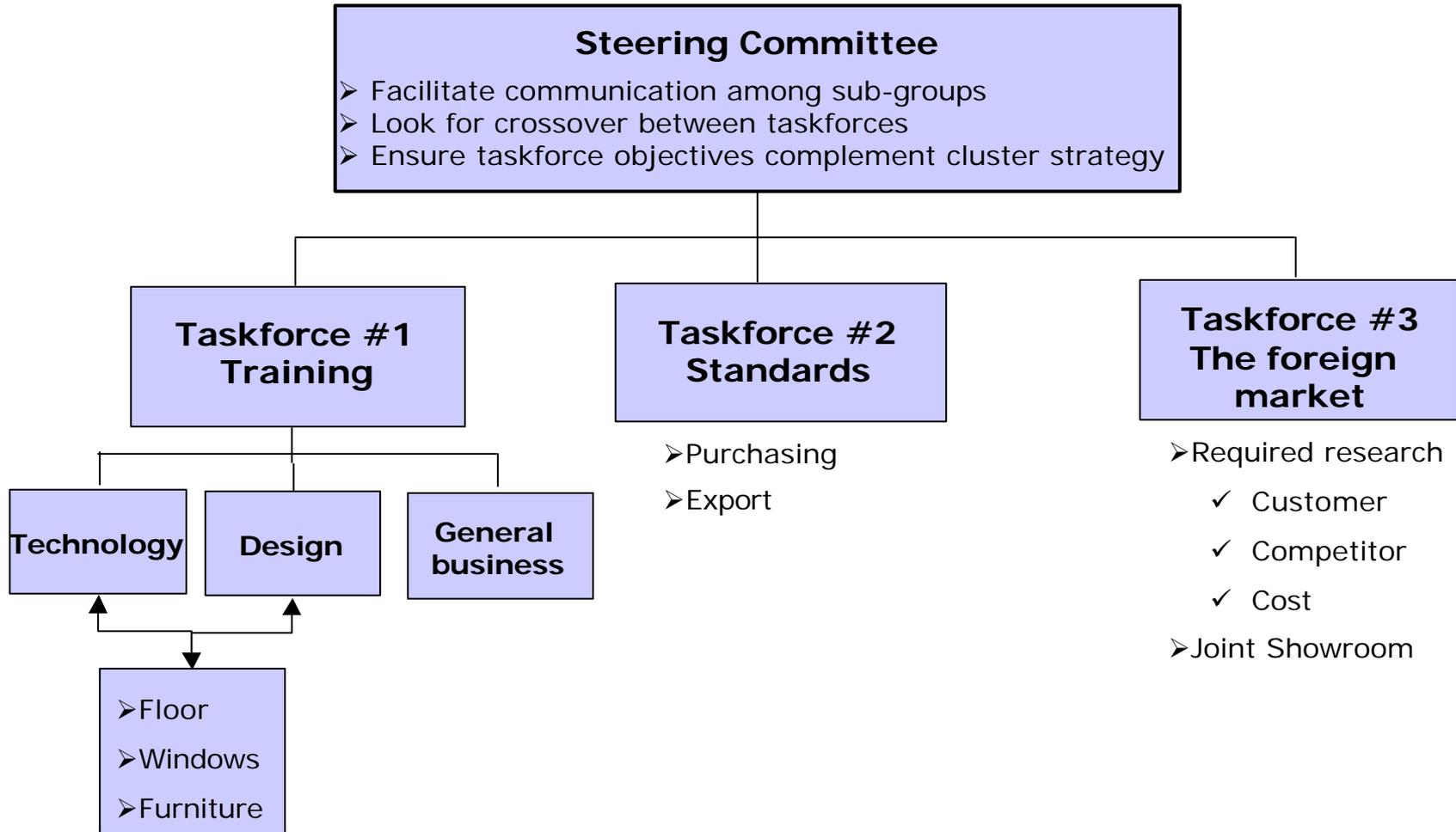
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Serbia Competitiveness & Economic Efficiency Project

Furniture, Construction Materials and Flooring Cluster Meeting 19 March 2003

The Suggested Structure of Cluster Activities (To be Updated)



Source: SCEE participants and Cluster Meetings

Developing the Furniture Campaign

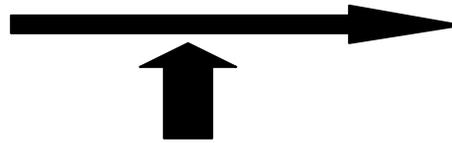
Who Is in The Broader Cluster

	Current Members	Broader Cluster
Firms and Partners	<ul style="list-style-type: none"> • Bošnjacki • Buducnost • Eurosalon • Mimco • Saga • Milan Gašić (Reiffeisen Bank and 'Sloga' agent) <ul style="list-style-type: none"> •Modul •TMB Diamond •Trifunovic •Domis •Enterijer Jankovic 	<ul style="list-style-type: none"> • Artinjan • Agrana
Civic/ Associations	<ul style="list-style-type: none"> • SCEE Cluster Group 	<ul style="list-style-type: none"> •Producers Association •Designers Web
University Training Centers Research Orgs.	<ul style="list-style-type: none"> • Dr. Branko Glavonjic, Forestry Faculty • Federal Institute for Standardisation 	<ul style="list-style-type: none"> • Academy of Applied Art • Architectural Faculty • Institute for certification
Finance Institutions	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Banks – Enterprise funds • Community Revitalization Democratic Action • Diaspora (Angel Investors) • Firms (FDI) • Seed (IFC) • GTZ
Government	<ul style="list-style-type: none"> • National Council • Ministry of International Economic Relations 	

Competitiveness Building Examples: The Polish Furniture Campaign

Action plan

- Firms focus on exporting to EU
- Target less affluent with low-end furniture
- Attract FDI through stimulation programs (reduction of corporate income tax, tax relief in special economic zones, employment and training grants)
- Adopt Standards (one of the first countries in Europe that adopted FSC standard)
- Increase number of mergers, although the industry is still very fragmented (20,000 firms of more than 5 workers and 400 more than 50)
- Increase use of computer-aided design (such as planit millenium)



Supporting Conditions

- EU accession process
- Association of furniture manufacturers, Chamber of wood industry, Marketing Center for forest products and furniture industry (analyses of dom. & for. wood markets, data bank on polish wood industry, information on dom. & for. producers of machinery & equipment)
- FDI – Germans own 80% of the largest furniture companies, IKEA

Previous Formula 1985

- State owned firms
- Export at \$147 million
- Ratio export/prod 17%
- Not significant exporter to any country
- Wage per employee in the sector \$123 per month in 1985

Winning Formula 1999

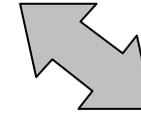
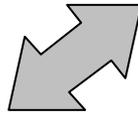
- Privatized firms
- Export in 1997 - \$1.7 billion
- Ratio export/prod 80%
- The most important exporter to the EU with 25% of the market
- Wage per employee in the sector \$717 per month in 1999
- Ratio export of furniture/GDP highest in the world 1.2%

Developing the Furniture and Home Accessories Campaign

Progress to Date

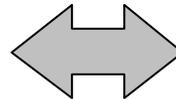
Goals – Selection and Approach

- Interviewed 45 furniture cluster firms and organizations as part of the SCEE Project’s National Competitiveness Audit
- 11 leading and forward looking furniture and home accessories companies/organizations chosen to participate in a National Furniture Cluster Council
- Council Convened in early December 2002
- Four National Furniture Cluster Council meetings completed
- Cluster agrees to focus on a long-term national competitiveness campaign for the furniture sector and is currently identifying priority short-term goals
- Creating steering committee and task forces to perform action plan activity



Insight Capture

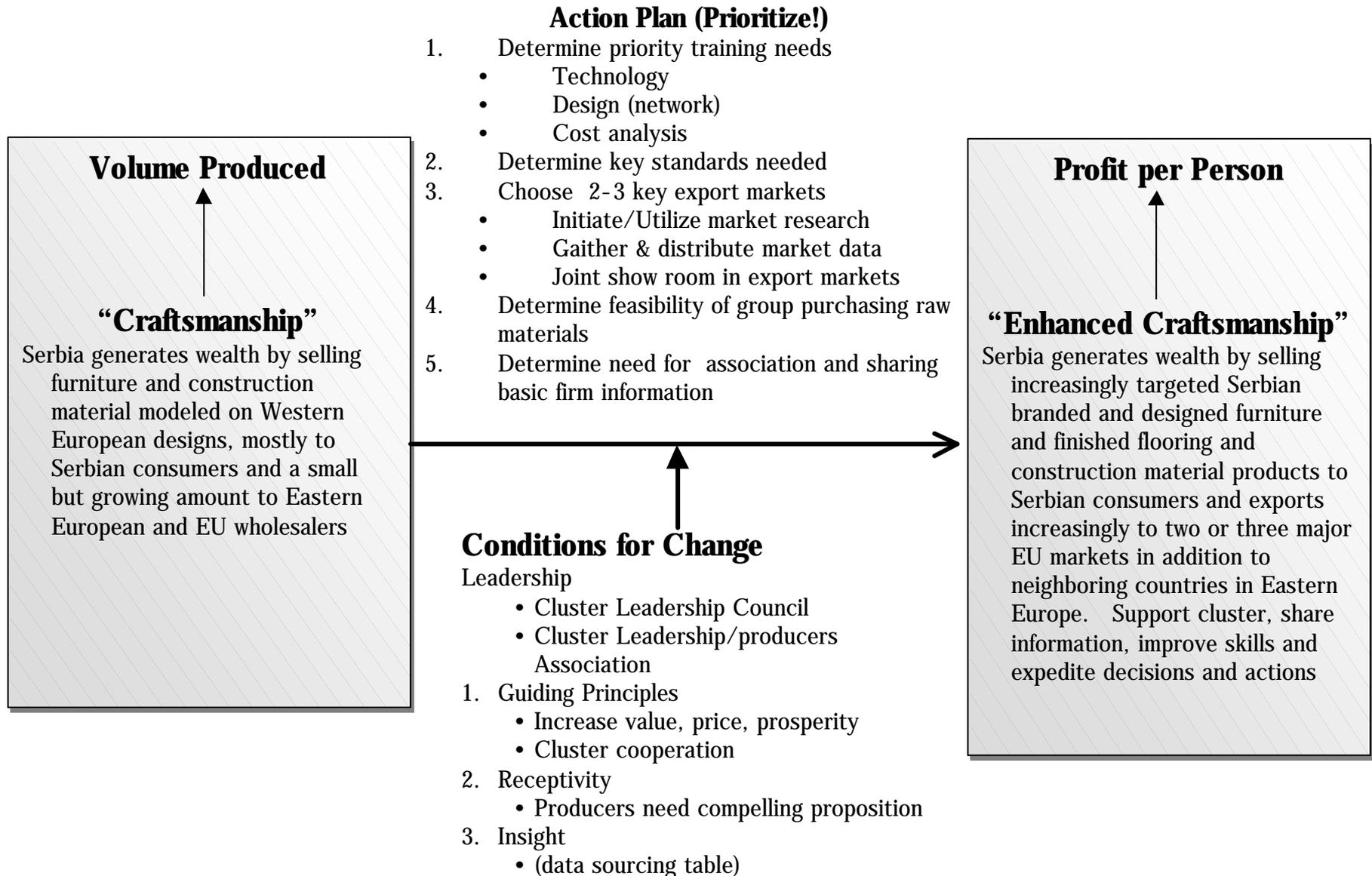
- Current Competitive Position of the Serbian furniture cluster examined using data, statistics and interviews with industry experts
- Spanish and Polish Fruit Clusters researched as examples of successful clusters in other nations
- Informal market research initiated with North American and EU wholesalers to identify customers’ preferences
- Cluster members initiate assessment of training and educational needs
- Standards and Design organizations will participate in cluster meetings
- USAID CRDA programs provide information about funding sources for training & technical facilities; VOCA will participate in meetings



Cooperation

- Cluster is identifying long-term objectives: greater penetration of export markets, better training, branding initiatives, etc.
- The Cluster is focusing on several short term goals including developing a joint training program for cluster employees; conducting market research of key EU markets; and promoting the adoption of recognized international quality standards
- Initiating cooperation with Universities, Standards Agencies and the Design community to encourage more effective and long-term Cluster development
- Exploring group coordination for buying raw materials in bulk at lower rates – groups suggesting factory tours to other cluster members

Developing the Furniture Campaign - Campaign review ‘ Craftsman Option ’



Web of Activities to Satisfy Consumer Needs

(Short Term: Sell Serbian Enhanced Craftsmanship)

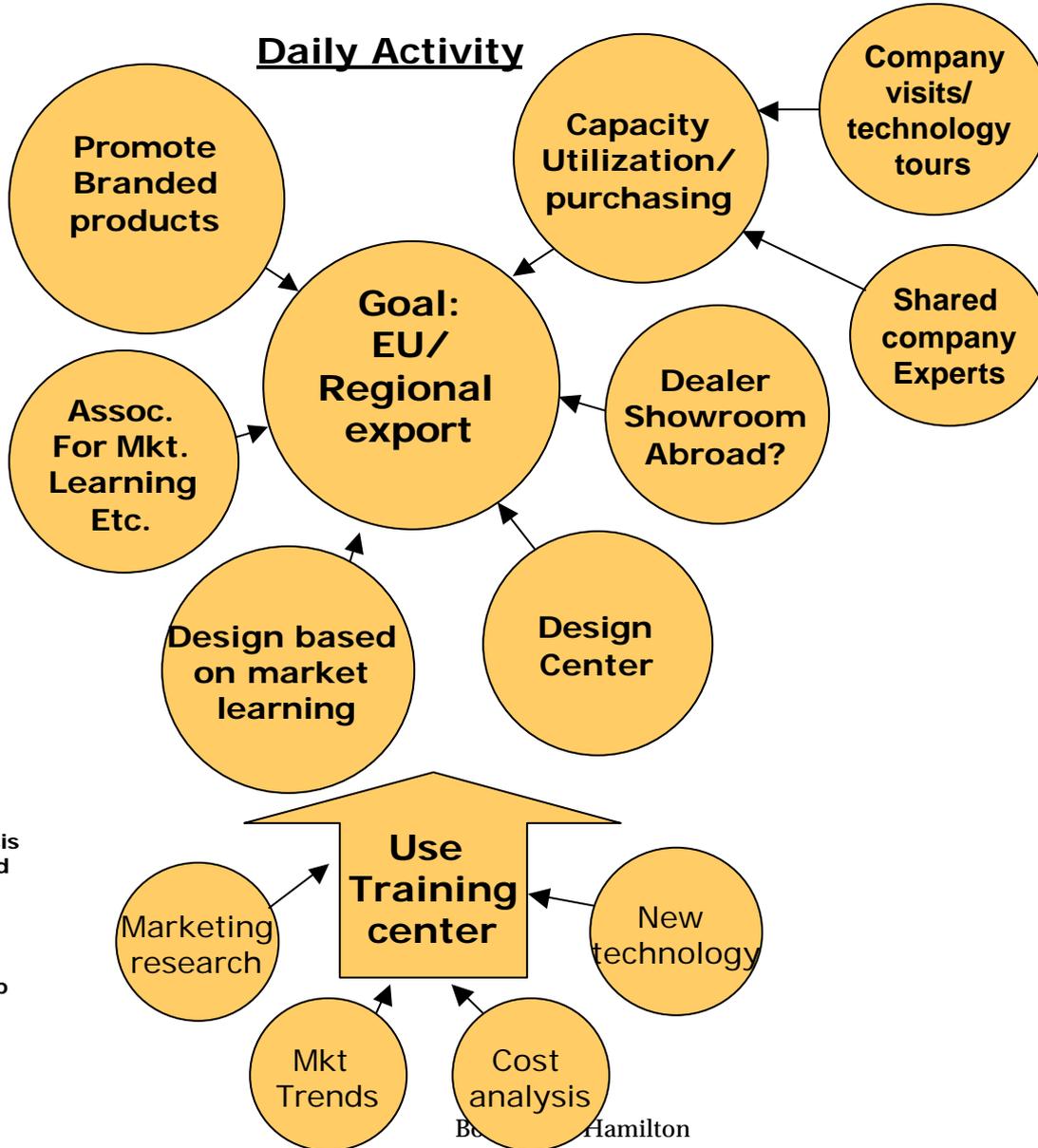
Conditions for Change



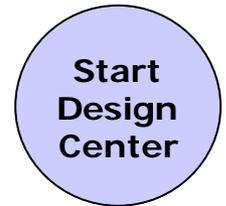
Note: Preliminary hypothesis - further evaluation required and substantial revision possible

Source: SCEE participants, industry research, otF Group Analysis

Daily Activity



Transformation Activity



Furniture Cluster Sample Action Steps:

Training in technology

- *Agree on need for a technology task force*
- *Identifying key needs:* the use of new technologies, info on technology sellers, etc
- *Identify key inputs for training task force:* Funding source, proposal, organizational support, etc.
- *Select cluster leader(s) to supervise issue:* Private firm(s), university experts, etc.
- *Agree on timeline for developing inputs:* Proposal completion date, program launch date, etc.
- *Establish execution follow-up:* Cluster meetings, individual meetings, etc.

Standards

- *Identify priority standards for Cluster members:* ISO, FSC, etc.
- *Agree on steps needed to inform members of issues involved in adopting priority standards:* visiting certification entity, conducting a survey of cluster members, etc.
- *Select cluster leader(s) to supervise issue:* Private firm(s), university experts, etc.
- *Agree on timetable to (1) inform cluster members & government; (2) identify key next steps; and (3) develop funding needs, if any, for standards adoption*
- *Identify key experts or coordinating authority for standards and invite them to provide technical assistance or suggest possible funding sources*
- *Enforcement of standards*

Training in design

- *Agree on need for an association of designers (Design Center)*
- *Determine organizational scope:* Information, sales collaboration, marketing, standards, etc.
- *Establish form of organization:* membership, leadership, fees, etc.
- *Identify funding needs and sources:* Membership fee, firm contributions, governmental or international support
- *Agree on timeline for execution and program supervisors*

Developing the Furniture Campaign

What Are the Goals of The Cluster

Primary Goal: Improve profits per worker

	1. Success Criteria	2. Insight Capture	3. Co-operation
Goal Description	<ul style="list-style-type: none"> Primary goal being profit per worker <ul style="list-style-type: none"> Initial measure: turnover of cluster firms (total & export) Group raw material purchasing metrics Assets (machinery for target production, etc.) Skill improvement measures Profit (initially turnover) in targeted market 	<ul style="list-style-type: none"> Audit the various needs for training Understand purchase bargaining power Learn and share market trends, customer needs and potential competitor information Obtain and share technical information 	<ul style="list-style-type: none"> Develop cluster team with ability to share training programs in technology, market research, finance, design and create wealth with differentiated products services in export markets Introduce Association idea (collaborate with chamber of commerce) with Design Association, architects, etc. Develop joint method to improve training
Rationale	<ul style="list-style-type: none"> Goals need to be measured to determine success and make adjustments 	<ul style="list-style-type: none"> Successful clusters are able to rapidly share data with members. This includes understanding market needs; competitor strengths, technology trends, etc. 	<ul style="list-style-type: none"> There is a need to overcome barrier of low trust and increase communication to facilitate fast responses to win in the market Sharing overview of companies will provide understanding of export capability or purchasing opportunities

Developing the Furniture Campaign

What are the Current Cluster Impediments

Insufficient Insights

Customer Insights:

End users are not understood in Serbia or potential target markets

Competitive Analysis:

Approach to understanding competitive capability is underdeveloped and information is not shared in the cluster

Cluster capacity:

Need to understand supply potential existing among members; by product type, space and machine; examine ability to pool resources together for similar quality

Production trends:

Need to get knowledge of
- new technologies
- new materials

Cost Analysis:

Require knowledge of cost structure – creating difficulty for finance decisions and competitive cost analysis

Lack of Financing

Lack of Bank Partnering:

Bank financing is high and has a wide range of interest rates

Source of Funds:

Firms in the cluster are largely unaware of newer and developing sources of funds, such as partnerships, venture capital/diaspora funding, Donor organizations, foreign banks, etc.

Underdeveloped Trust

Collaboration:

Initial goals of cluster may be impeded by low trust in the region

Overcoming failures:

Several firms have tried to pool similar cluster firms to develop production and buying groups

- Groups would agree to production, then “cheat” by approaching buyer directly
- Groups could not agree on purchase criteria

Below-average Skill Set

Wide range of training needs

Technical (design, operations)/ Business plans / Marketing research / Inventory management, competitive analysis / sales training

Uneven school curriculum:

High school/ college curriculum does not assist in developing skills of industry



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OTF
GROUP

Serbia Competitiveness & Economic Efficiency Project

Furniture, construction material and flooring
April 23, 2003

National Summit on competitiveness, Belgrade 1.-2.4.2003



POCEO NACIONALNI SAMIT O EFIKASNOSTI SRPSKE PRIVREDE Put do konkurentnosti



– Cilj Vlade Srbije je da stvori bezbednu državu u kojoj vlast neće biti korumpirana, u kojoj o zaokruženi tako da garantuju bezbednost i ekonomsku stabilnost kako bi se obezbedio još nastavak reformi, i uslove za jaccanje konkurentnosti. Konkurentnost je pobediti druge kvalit Vlada ne sme biti strateg konkurentnosti. Njen zadatak je da otklanja prepreke za konkurent privrede.

Ovim recima republikki premijer Zoran Živkovic juce je u Centru "Sava" otvorio dvodnevni N konkurentnosti, koji je ra inicijativu Ministarstava ekonomske veze sa inostranstvom i priv podršku Americke agencije za medunarodni razvoj, oko kljucnog pitanjanase ekonomije, ok lidera domace privrede, države i civilnog društva.

Isticiuci da privreda ne može da bude konkurentna u državikoja je nebezbedna, u kojoj pojec korist kriminata nego u korist gradana i privrede Živkovic je kao osnovni uslov za unapreder i privredne efikasnosti markirao bezbednost i stabilnost države

– Ta borba je pocela 5. oktobra i svedoci smo da se ona sada u tragicnom vremenu, posle ul Đindica, i intenzivira do maksimuma. Ona bi bila intenzivirana i da premijer nije ubijen ali on platio svojim životom. Stoga je naša obaveza da tu borbu nastavimo - rekao je Živkovic.

Drugi uslov za jaccanje konkurentnosti po Živkovicu, jeste nastavak reformi.

– One ce bez dileme biti nastavljene i intenzivirane. Sada je to mnogo lakše, jer je mnogo toć protekle dve godine ne samo u makroekonomskoj sferi vec i u drugim oblastima, pa novoj-s da zaokruži paket zakona koji ce obezbediti najbolje moguće uslove za razvoj tržišta i konku Po predsedniku Vlade Srbije uslov za konkurentnost je i privatizacija kao i tržišno formiranje obezbediti stabilnost cena na tržištu ali ne administrativnim merama, vec stvaranjem uslova uzroka nestabilnosti ili rešavanjem problema ukoliko do njih dode

Kao posebno znacajnu Živkovic je naveo borbu protiv korupcije ocenjujuci daje ona kod na obicaj ", da je dosta toga urađeno, da se situacija promenila na vrhu vlasti ali ne i u svim sfer Mada su rezultati u borbi protiv korupcije ogromni Živkovic ih je oznacio još nedovoljnim i u da ce se ta borba nastaviti ako ne doiskorenjivanja ono "do svedenjakorupcije na podnošlj

Danas

*Premijer Srbije Zoran Živkovic otvorio
Nacionalni samit o konkurentnosti*

Patriotizam iskazan kroz konkurentnost privrede



Vlada ne sme da bude strateg vec partner
privredi:
Zoran Živkovic



Premijer otvorio Nacionalni samit o konkurentnosti

Vlada partner, a ne strateg privrede



BEOGRAD - Posao Republike vlade je da stvori uslove za konkurentnost doma ce privrede, a to su pre svega stabilnost i bezbednost, nastavak reformi, privatizacija, stabilnost cena i borba protiv korupcije. Ipak Vlada Srbije ne sme da bude glavni strateg, vec samo partner u borbi za konkurentnost doma ce privrede, rekao je srpski premijer Zoran Živkovic prilikom otvaranja Nacionalnog samita o konkurentnosti.

On je porucio direktorima koji dolaze u Vladu Srbije da traže novanu pomoc i poslovne savete da to nije pravo mesto za njih.

- Ne tražite od nas biznis planove, ne pitajte nas šta da proizvodite i na koja tržišta da idete. Možete da nam se obratite samo ako imate problema sa porezima ili administrativnim preprekama u poslovanju naglasio je Živkovic.

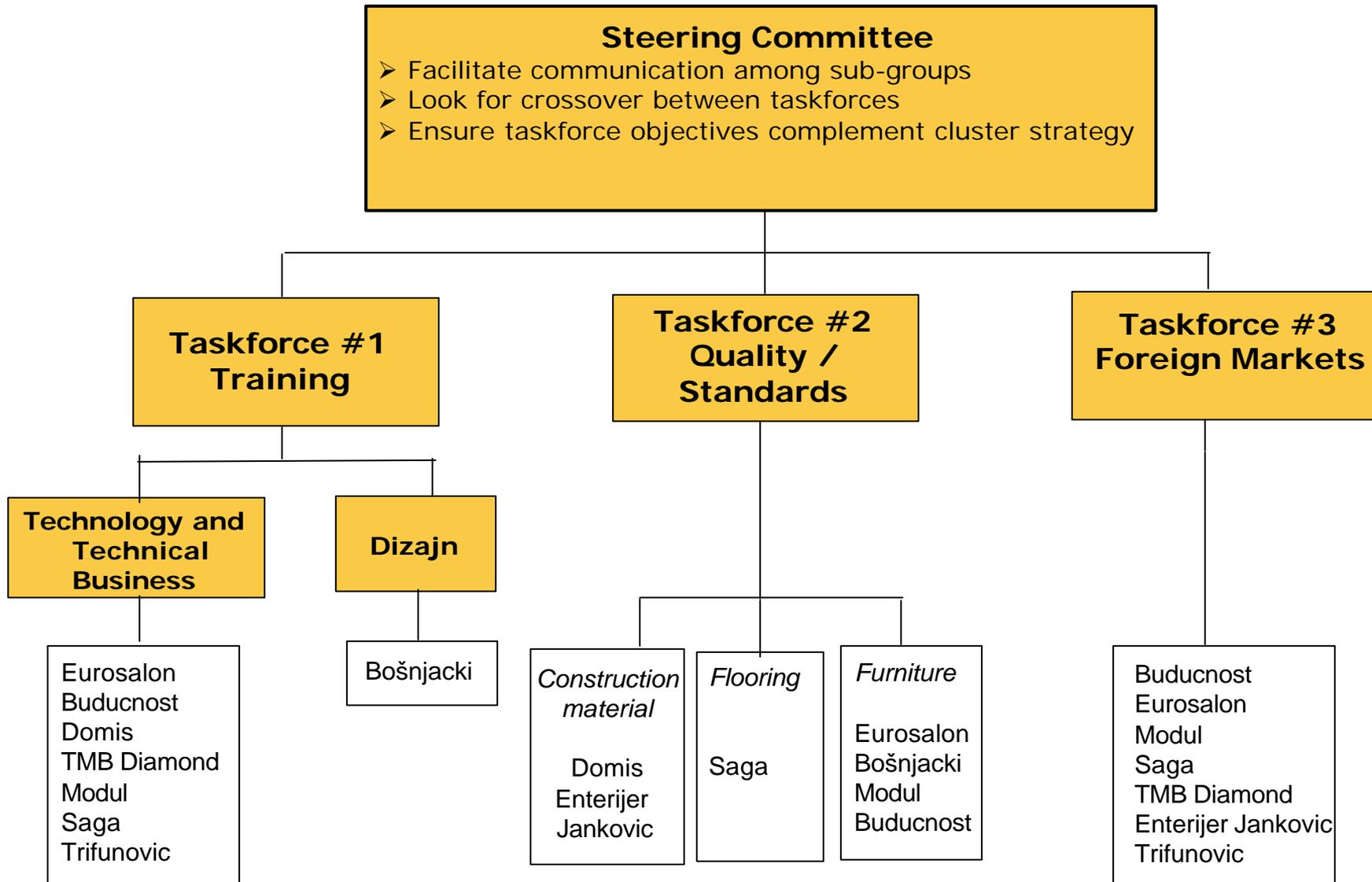
Goran Ptić, srpski ministar za ekonomske odnose sa inostranstvom, najavio je da ce država u cilju poveccanja konkurentnosti doma ce privrede raditi na trgovinskoj politici, merama necarinskezaštite, standardizaciji, kao i na poveccanju konkurentnosti finansijskog sektora što treba da rezultira sve vecim ulaskom stranog kapitala u zemlju

Živkovic je istakao potrebu da se u što kracem roku harmonizuju ekonomski odnosi između Srbije i Crne Gore, kao neophodan uslov za proces stabilizacije i asocijacije sa Evropskom unijom. Taj posao bi, prema njegovim recima, mogao da bude gotov do kraja tekućeg meseca.

Improving the connection to public and civic active partners will allow the cluster to improve its competitiveness

	Cluster Members			
Firms and Partners	<ul style="list-style-type: none"> •Agrana •Artinjan •Bošnjacki 	<ul style="list-style-type: none"> •Buducnost •Domis •Eurosalon 	<ul style="list-style-type: none"> •Enterijer Jankovic •Kopaonik Kursumlija •Mimco 	<ul style="list-style-type: none"> •Modul •TMB Diamond •Trifunovic •Saga
Civic Associations	<ul style="list-style-type: none"> • SCEE Cluster Group • Business club of diaspora 			
Universities Training Ctr. Research Inst.	<ul style="list-style-type: none"> • Forestry Faculty; University of Belgrade • Federal Institute for Standardization 			
Finance Institutions	<ul style="list-style-type: none"> • USAID Community Revitalization Democratic Action Program • VOCA, Mercy, CHF, IRD, ACH 			
Government	<ul style="list-style-type: none"> • National Competitiveness Council • Ministry of International Economic Relations 			

Creating a formal structure allows the cluster to have ongoing activity for developing strategies to increase productivity



Task force: standards

ISO standards

ISO 9000 is concerned with "quality management", i.e. what the organization does to ensure that its products conform to the customer's requirements. ISO 14000 is primarily concerned with "environmental management", i.e. what the organization does to minimize harmful effects on the environment caused by its activities.



Task force: standards

- Task force to identify priority standards for each group (furniture, construction material and flooring)

- Engage in the work of the three commissions of the Federal Institute for standardization:
 - Commission for furniture
 - Commission for construction material
 - Commission for flooring



Task force: foreign markets

- Identify priority foreign market:

- Russia
- Germany
- France
- USA



- Identify activity plan

- Set the meeting for the task force for foreign markets
- Market research
- Select priority foreign fairs and organize joint exhibition
- Form the cluster profile – data base (questionnaire)

Task force: design
Design Center structure

Furniture
and
enterier



Design Center
will be formed
of:

textile

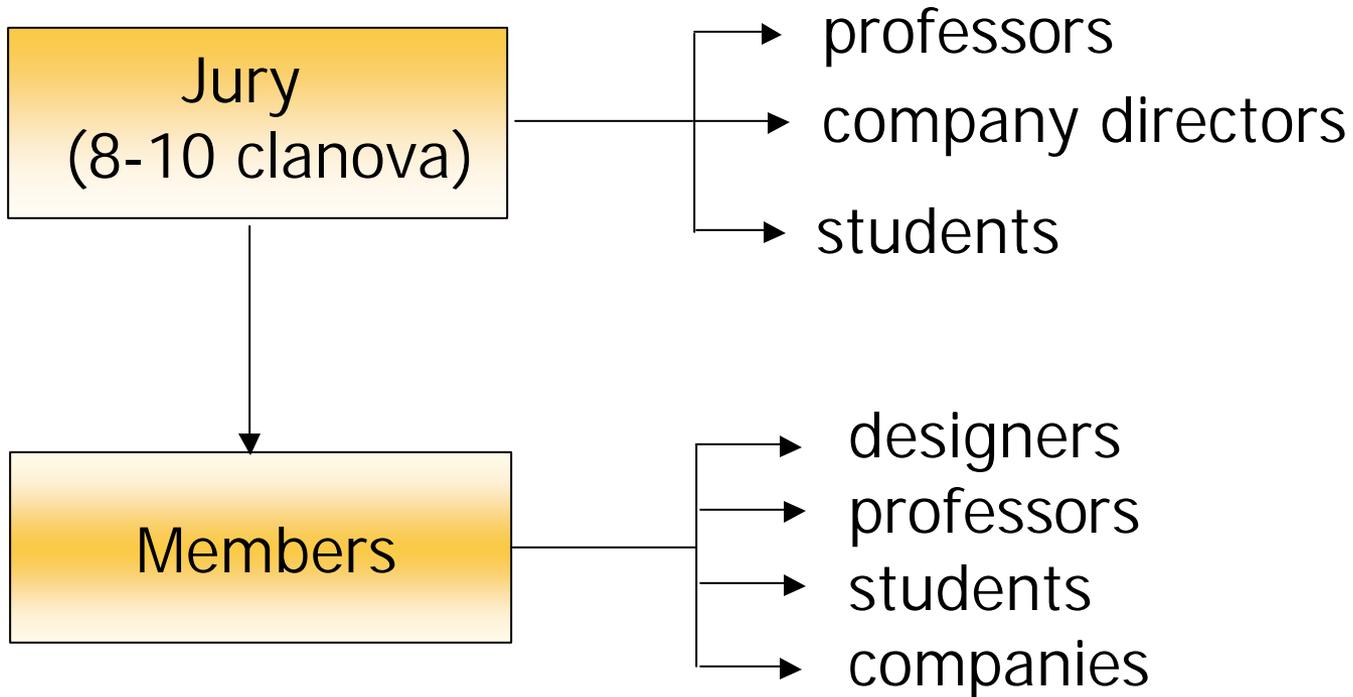


graphic i
Industrial design



Task force: design

Design Center structure



Task force: design
Design Center aims

- Improving educational and creative designer's skills
- Building business network between producers and designers
- Designers promotion at foreign markets (relation with companies, fairs, universities, foreign experts...)
- Professional design affirmation



Task force: design

Improving educational and creative designer's skills



➤ Information sharing

- organizing workshops with experts from country and abroad

- visits to fairs, exhibitions, conferences

- Launching the Center's magazine aiming to educate and inform members and wider audience

- Publishing Annual Report on Center's performance

➤ Specialisation in foreign companies and universities

Task force: design
Competitive Bid (preliminary)

- Company launches a bidder in cooperation with the Center.
- Company is free to launch a public bidder.
- Before launching the bid, the Center and the company organize a lecture in order to inform the members on the company's technology Capabilities.
- Members submit projects to the Jury. The company has its representative in the Jury.
- The Jury makes a decision on the bid.

Task force: technology and general business

- Knowledge sharing within the cluster (factory tours, etc)
- Identifying priority training needs (ACDI-VOCA experts)
- Finding additional training opportunities (Slovenian Government)
- Lobbying for the regulation that stimulates training of students in cluster factories



Achieving results with aggressive milestones will expedite the cluster's increased export revenue and improved prosperity

	April	May	June	July	August	September
Task Force: Foreign Markets		Initiate research in Serbia market for developing design and quality brand for domestic market	Initiate research for targeting customer preferences in Russian market	Finalize Serbian branding and quality standards campaign		Finalize Russian branding and quality standards campaign Complete research on priority EU market
Task Force: Training		Hold factory tours Begin sharing technology training	Complete plan for Design Center and identify key industry partners	Work with VOCA and universities to initiate management training		Launch Design Center
Task Force: Quality			Introduce cluster members to FSC standards in cooperation with Forestry Faculty	Prioritize EU standards for cluster action in cooperation with Federal Institute for Standardization		Agree on priority standards and action plan supporting industry compliance
Steering Committee:		Invite additional firms, financial bodies and other organizations to join cluster	Confirm initial members of group purchasing consortium	Agree on plan with government on law and standards enforcement		Agree on plan linking universities, technical experts and Design Center

**COMPANIES ATTENDING THE TEXTILE CLUSTER PRESENTATION
MAY 20, 2003**

1. Javor, Ivanjica
2. Jagger, Kragujevac
3. Afroditia Mode Collection, Beograd
4. Mona, Beograd
5. Nicola`S , Beograd
6. Kulska Fabrika Stofova, Kula
7. Yumko, Vranje
8. Niteks, Nis
9. Mladost, Pozega
10. Tatran, Backi Petrovac
11. Beko, Beograd
12. Novitet, Novi Sad
13. Kvalitet, Kanjiza
14. Slavija, Bac
15. Novitet, Pancevo
16. Passage Group, Pancevo
17. 22 Decembar, Kragujevac
18. Elipsa, Kraljevo
19. Elegant Draskovic, Vrnjacka Banja
20. Beogradski Vunarski Kombinat, Beograd
21. Miteks, Stara Moravica
22. Vida, Nis



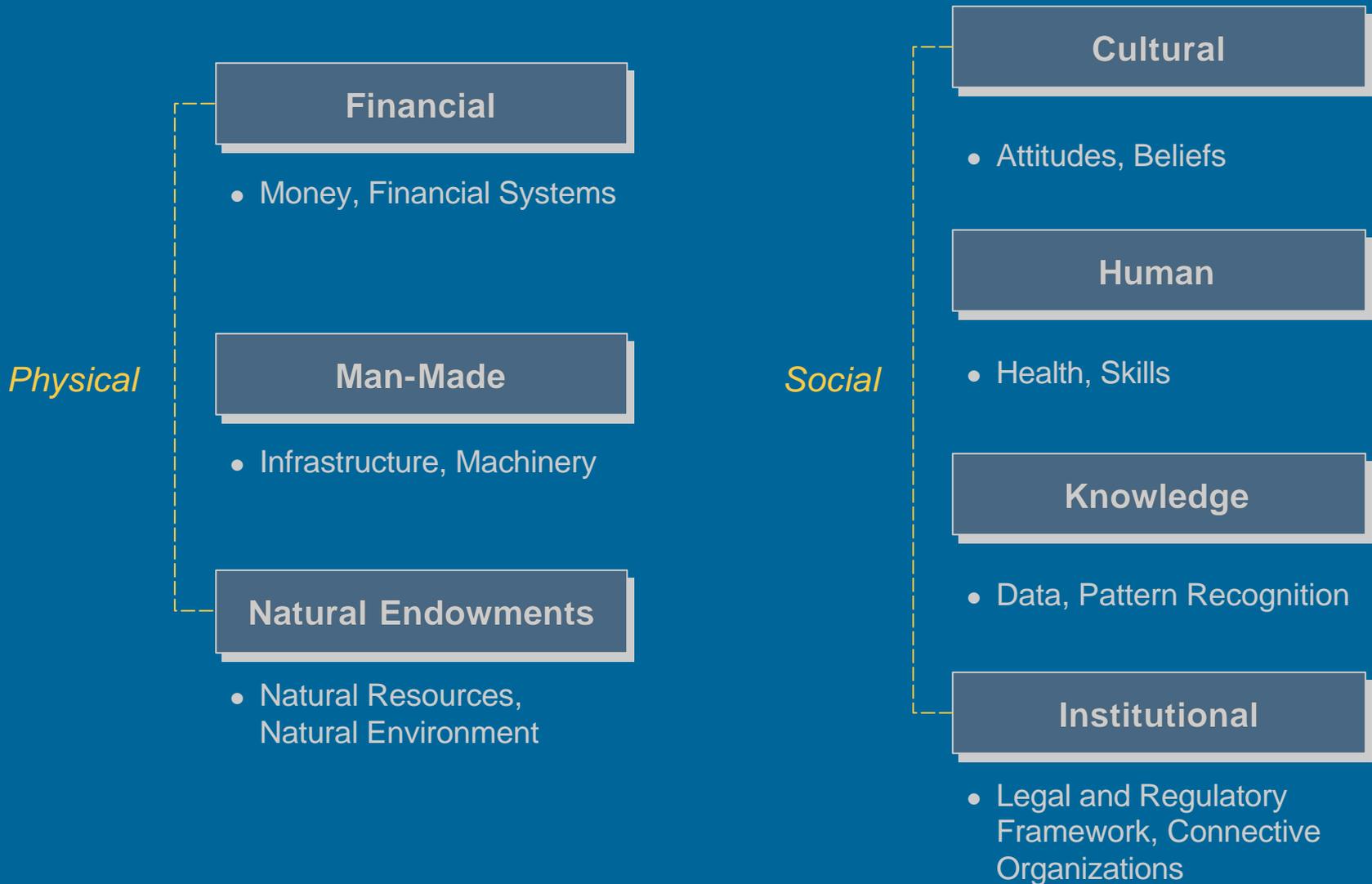
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**Presentation to the Textile Cluster
May 20, 2003**

**Serbia Competitiveness &
Economic Efficiency Project**

Prosperity: Seven Forms of Capital



Measured by its physical capital, Serbia is a moderately wealthy nation.

Financial

- \$200 monthly salary is at parity with Bulgaria, Romania and Macedonia, but lags Croatia and Slovenia
- Serbia ranks 54th of 81 WEF countries for available domestic credit as a % of GDP
- 83% of Serbian surveyed leaders state access to capital is difficult
- The interest rate spread of 13.3 ranks Serbia 73rd
- The Serbia investment rate is ranked 78th in the WEF
- FDI, at \$165 million, ranked Serbia last in the WEF in 2000; although improvements are underway

Man-Made

- Serbia ranks 36th in the WEF for paved roads as a percent of roads
- Serbia ranks 45th for telephone lines and 54th in mobile phones in the WEF
- At 2.3 personal computers per 100 citizens, Serbia ranks 62nd in the WEF
- Serbia ranks 54th in the WEF for losses in power transmission, as a percent of output
- Serbia only lags Slovenia among measured regional countries for producing machinery as a percent of exports

Natural Endowments

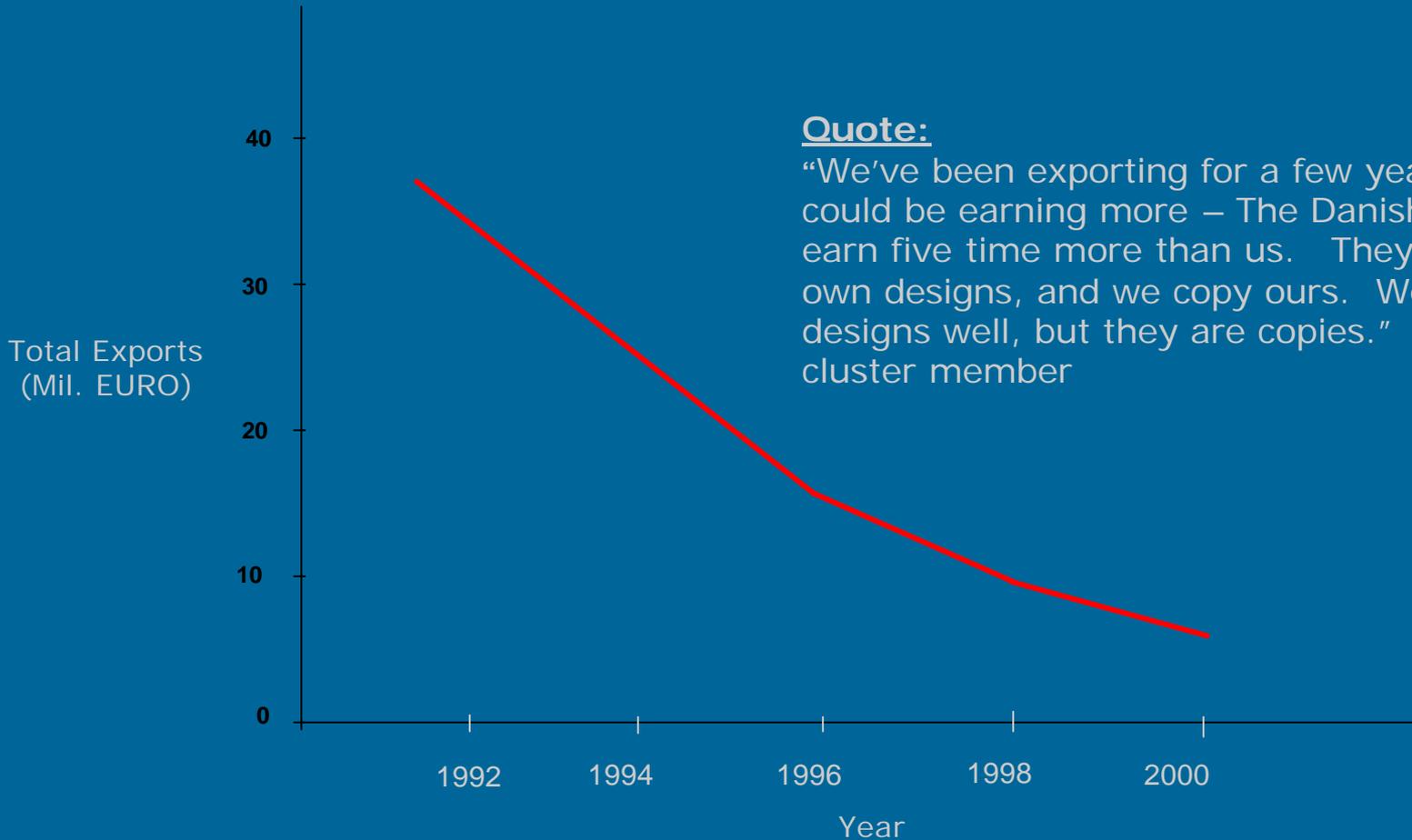
- Serbia has close proximity to the European Union market
- There is an abundance of raw material – I.e., 36% arable land level is among the region's highest
- Fruit growers claim that climate, soil and geographic location provide Serbia with excellent fruit varieties
- Waterways have provided cheap and effective transportation to ports along Danube and other locations

Measured by its social capital, Serbia is a relatively poor nation, but does provide human capital support

Cultural	Human	Knowledge	Institutional
<ul style="list-style-type: none">• 67% of leaders state that trust is among the world's lowest• Produce buyers complain that growers often break contracts to sell goods for a higher price• Only 23% of surveyed Serbian leaders believe that trust between the government and the private sector is high, relative to the world• "The problem is that businesses here do not trust each other – and we are not used to sharing any information." Furniture cluster member	<ul style="list-style-type: none">• Serbia ranks 26th among the WEF for tertiary school enrollment and 16th for secondary school• Serbia ranks 23rd for R&D spending as a percent of GDP, but per capita GDP ranks 77th• Cluster members state that high schools should provide relevant technical training• "We need to collaborate with universities to create the latest management and technical curriculum – they are not up to date." Cluster member	<ul style="list-style-type: none">• The primary request among cluster members is to learn about foreign markets• Half of Serbian leaders state that local customers are demanding and do provide opportunities for them to learn about sophisticated customers• Serbia ranks 28th in the WEF for utility patents per million population• We gather market data from trade shows and from our partners, who tell us what designs to produce." Furniture Cluster Member	<ul style="list-style-type: none">• Two-thirds of surveyed Serbian leaders state that corruption is the main impediment to competitiveness; Corruption is ranked as the 4th largest problem in the country.• 80% of surveyed Serbian leaders state that tax policy discourages R&D• Chambers of commerce do not serve us well for networking, information or other benefits. We need to fix these and make them work again." Fruit cluster member• Serbia ranks 67st in the WEF for the number of procedures to start a business

Serbia's Must Develop a Long-Term Strategy to Re-Engage World Markets and Increase its Exports of Wood Furniture

Total Exports of Wood Furniture from Serbia 1992-2000



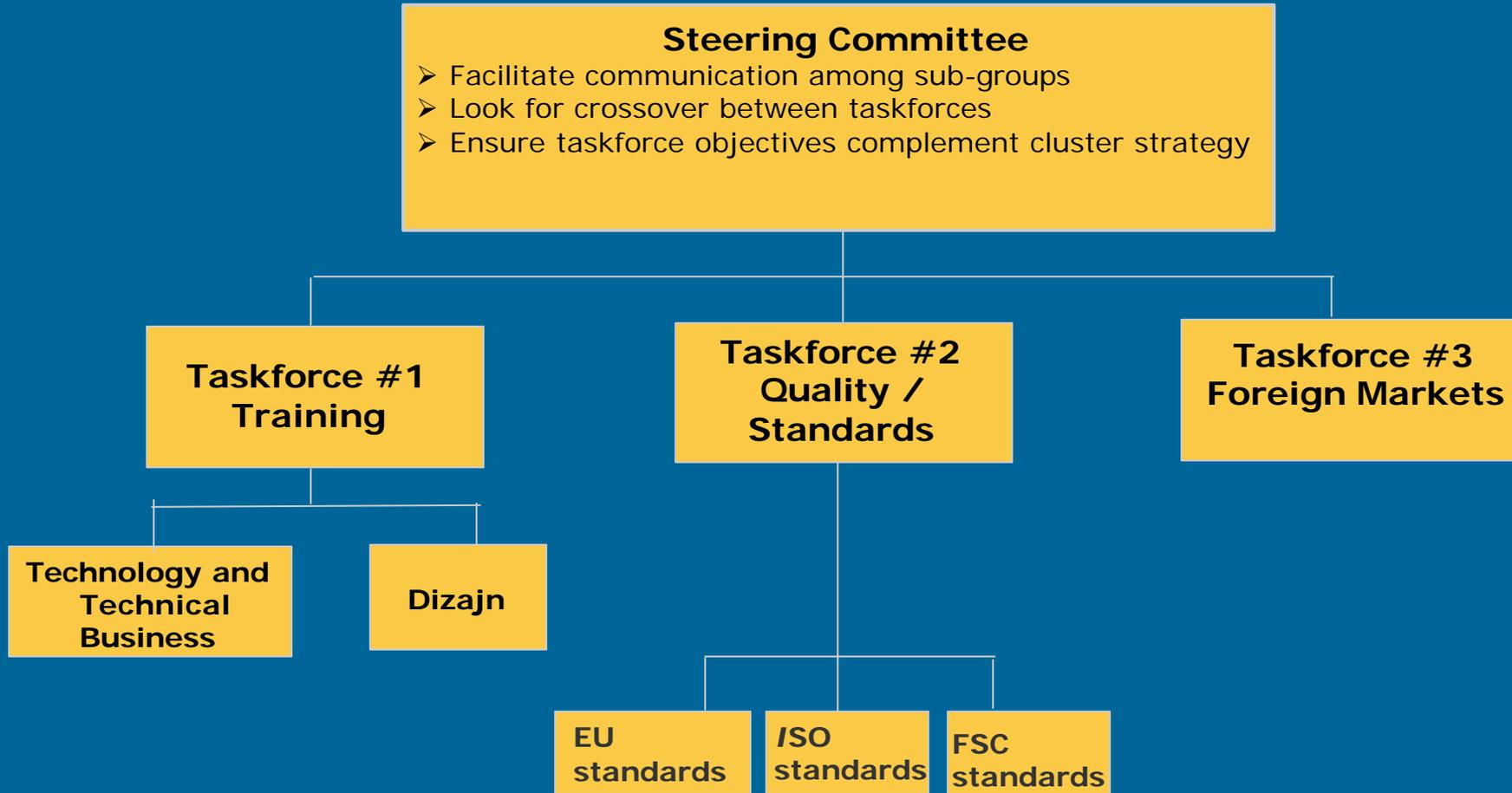
Quote:

“We’ve been exporting for a few years, but we could be earning more – The Danish producers earn five time more than us. They create their own designs, and we copy ours. We copy the designs well, but they are copies.” Furniture cluster member

Improving public and civic active connections will allow the cluster to improve its competitiveness

Cluster Members	
Firms and Partners	<ul style="list-style-type: none"> •Agrana •Artinjan •Bošnjacki •Buducnost •Domis •Eurosalon •Enterijer Jankovic •Kopaonik Kursumlija •Mimco •Modul •TMB Diamond •Trifunovic •Saga
Civic Associations	<ul style="list-style-type: none"> • SCEE Cluster Group • Business club of diaspora
Universities Training Ctr. Research Inst.	<ul style="list-style-type: none"> • Forestry Faculty; University of Belgrade • Federal Institute for Standardization
Finance Institutions	<ul style="list-style-type: none"> • USAID Community Revitalization Democratic Action Program <ul style="list-style-type: none"> • VOCA, Mercy, CHF, IRD, ACH • Raiffheisen Bank (potential)
Government	<ul style="list-style-type: none"> • National Competitiveness Council • Ministry of International Economic Relations

Creating a formal structure allows the cluster to have ongoing activity for developing strategies to increase productivity



**COMPANIES ATTENDING THE CONSTRUCTION CLUSTER PRESENTATION
MAY 29, 2003**

1. Omni Stock, Beograd
2. Janko Lisjak, Beograd
3. Saobracajni institut CIP, Beograd
4. Komgrap, Beograd
5. Jugoimport, SDPR
6. Mostogradnja, Beograd
7. Montinvest, Beograd
8. Ratko Mitrovic, Beograd
9. Minel, Beograd
10. Beoimpex, Beograd
11. Montaza, Beograd
12. Minel-Montaza, Beograd
13. Hidrotehnika, Beograd
14. PIM Ivan Milutinovic, Beograd
15. Energoprojekt, Beograd

Serbia Competitiveness and Economic Efficiency Project (SCEE)

Building the Competitive Advantages of the
Serbian Construction Industry

Presentation to the Construction Cluster

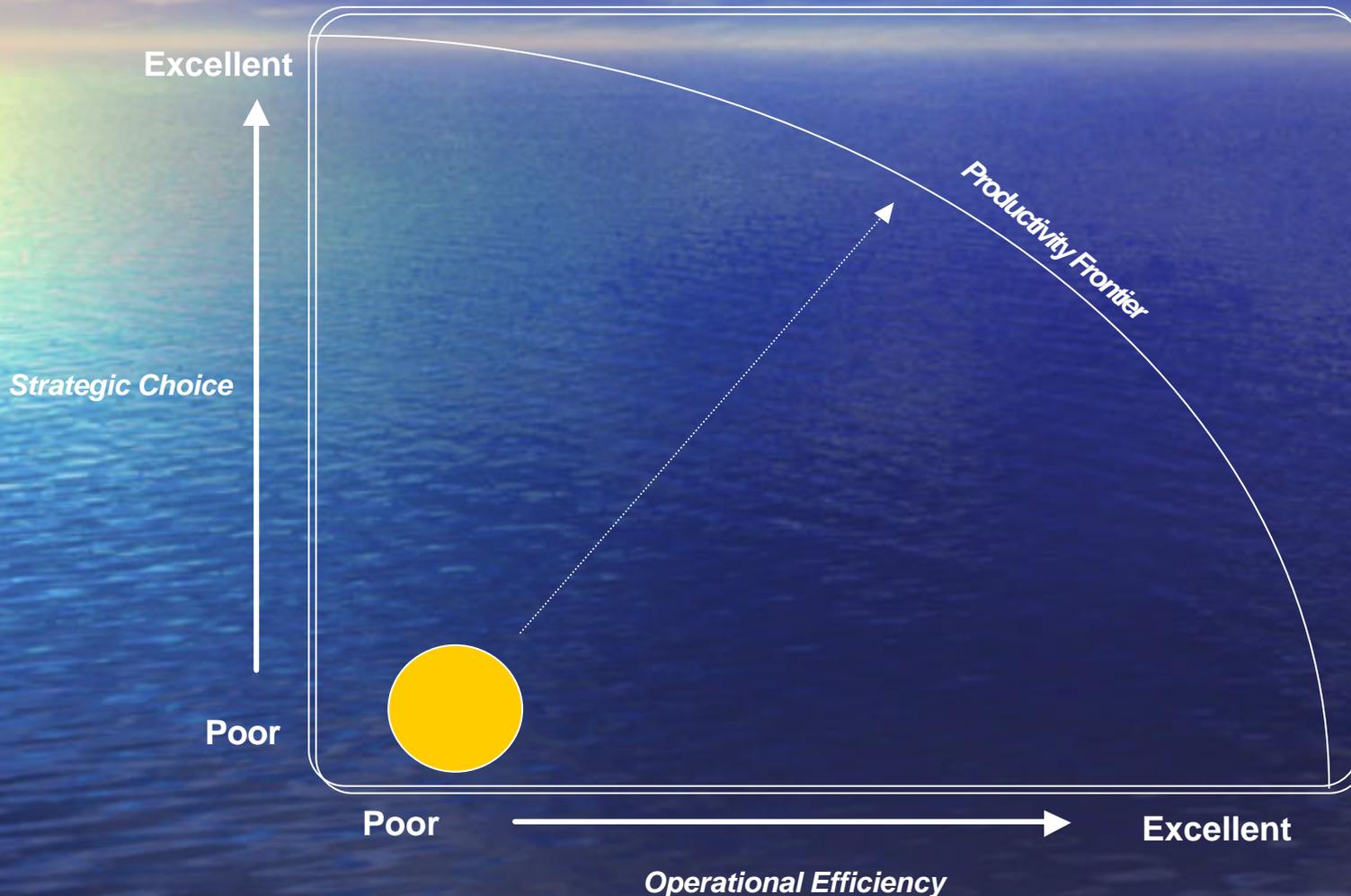
May 29, 2003

Dr. Neil Eldin, Ph.D., P.E., Texas A&M University,
IESC Volunteer

SEDP will increase prosperity in Serbia through the following activities:

- ***Strengthen the top eight Serbiaian industry clusters*** that will lead the nation's ascension into the WTO
- ***Help to establish a “competitiveness culture”*** in Macedonian society that embraces competition, innovation, and sustainable development
- ***Transfer primary leadership of the nation's competitiveness agenda*** from the public to the private sector

The productivity frontier can be defined as a line that divides the companies that are profitable in a sustainable way and those that are not profitable. A company's position vis-a-vis the productivity frontier is determined by cost, quality and strategic differentiation in its target market



Bechtel Contract in Iraq is an Opportunity

- Immediate business opportunity
- More importantly an opportunity to learn about a number of different things that can have a big impact on future earnings and the prosperity of your companies
 - How competitive are Serbian construction companies?
 - Become more competitive by finding the most demanding customers in the world; if you can meet their needs, then you can sell to anyone in the world
 - What are the needs of the most demanding customers in construction?
 - What do you need to do to become more competitive?
 - Can you work together as a cluster to become more competitive?

What is a cluster?

A cluster is a concentration of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that share joint characteristics and complementarities:

- Manufacturers and providers of final goods and services
- Providers of specialized raw material, components, equipment, and services
- Companies in similar industries or service-oriented industries (consumers or distribution channels)
- Financial institutions
- Producers of complementary products
- Specialized infrastructure
- Institutions that provide specialized training and technical support (for example, universities, professional groups, or providers of specialized training)
- Trading associations and other collective bodies from the private sector

Benefits of Clusters

- Grouping companies and related institutions provides **better access** to data and specialized employees, public goods and information.
- Complementarity among companies and other institutions can be better exploited by **reducing the cost of developing new products and services**
- The increase in communication and strong competitive pressure among local rivals increases the skills of the companies and **incentivizes innovation**
- Strong and numerous links within the cluster permits an **accelerated innovation process**.



Clusters help increase innovation and productivity

Welcome

IESC Speaker

- Neil N. Eldin, PhD, PE, CPC
- Over 30 Years of Construction Experience
- Consultant: Bechtel, Brown & Root, ARAMCO, ENRON
- Professor ... Construction Science Dept
Texas A&M University
College Station, Texas
USA

Road Map

- Introduction
- General Rules & Procedures
- What a Company Could Do?
- Q&A

Introduction

Ingredient for Success

External

- Sensitivity to Clients Needs/Wants/Excitement Features
- Understanding the Rules

=====

Internal

- Realistic Expectations
- Can Do Attitude
- Creating a Success-Fostering Culture
- Good Plan
- Serious Execution
- Allowing Feedback & Course Correction

=====

Deliverables

- High Quality Products

General Rules

- Prequalification Procedures
- Responsible
- Responsive
- Proposal Quality

General Rules

Prequalification Procedure

- Type of Organization -- Corporation, Joint Venture, etc
- Years in Business
- Licensing & Certification – type, capacity, etc
- Experience – type, how long
- Claims – by you, against you
- References – Clients, Surety, Banks, Subs
- Financial Strength – Assets, liabilities, Credit lines

General Rules

Responsible

- Key Staff – CEO, Managers, Superintendents, Technical
- Good Records – Previous work (similar, on time, ...)
- Financial Ability – Liquidity, Credit line,

General Rules

Responsive

- Strict Adherence to requirements (i.e., instructions to bidders)
 - Forms
 - Format
 - Proper authority signature
 - Erasures,

General Rules

Proposal Quality

- Completeness: pre-construction, construction, post
- Details and Backup
- Sensitivity to Client's Hot Buttons – address them explicitly
- Cost/Time Reduction Ideas – Value Engineering
- Risk Reduction & Management
- Looks – arrangement, care, professionalism

General Rules

Good Proposal

- Brief Company Profile
- Discussion of Project Main Features and Challenges
- Your Methodology – this is where you shine
- Estimate & Estimate Analysis
- Schedule & Schedule Analysis
- Value Engineering Recommendations
- Why Us? Target the Client hot buttons!!

=====

Water Tight 😊: Grammar, Spelling, Succinct, Organization,
Quality Paper/Cover Design/Photos/ etc

General Rules

Bechtel Specifics

- Zero Accident Commitment
- Environmental & Health Focus
- Total Installation Cost
- Communication Protocols: PM, Procurement, Eng
- Familiarity w/ Bechtel Operation: JIT, Billing, etc
- Project Controls steps: Cost, Schedule, QA/QC
- Management of Changes
- Proposal Clarity & Completeness:
 - Written: Structure, Flow, Professionalism
 - Oral: Team Dynamics, Fluency, Confidence, Q&A

What a Company Could Do?

Develop Firm-Level Strategy

- What do you sell to whom?
- Why do your customers buy from you instead of your competitors?
- Why will it be difficult for your competitors to copy what you are doing and steal your best customers?

and

- What risk are you willing to accept

What a Company Could Do?

What Do You Sell to Whom?

- One-Stop Shop – Major Joint Venture/Consortium:
 - Design: Capabilities, Certification, ISO, Awards, Recognition,
 - Supplier: Discussed Before
 - Subcontractor: Discussed Before
 - Design/Build Capabilities
 - Turn Key Ability
- Multi-National:
 - Serbia-??????? Collaboration
 - Serbia-US Forum
 - Commercial Company
 - Light Industrial
 - Project Controls

What a Company Could Do?

What Do You Sell to Whom?

- Supplier:
 - What Goods
 - Capabilities
 - Benchmarking
 - Bechtel Inside Track

- Subcontractor:
 - What Specialty
 - Building
 - Infrastructure
 - Heavy Civil
 - Industrial
 - Capabilities
 - Bechtel / International Competitive Bidding Guidelines

- Size:
 - Contract Value \$\$ -- Bonding Capacity
 - Duration

What a Company Could Do?

What Do you Sell To Whom?

Bechtel Inside Track ...

- Purpose:

Access information and strategies integral to Bechtel projects to improve your work processes and ultimately your competitive advantage

- Registration:

- <https://supplier.bechtel.com/portal/index.jsp> → Follow Directions
- Unlimited Access 24 x 7
- \$450 annual fees for 1 License
- \$750 annual fees for 10 Licenses

What a Company Could Do?

Bechtel Inside Track ...

Overview – 9 Modules:

1. **Getting Started**: who to talk to during the Pre-Bid stage, communication, ethics
2. **Winning Bid Strategies**: competitive bid and Bechtel's bid evaluation process
3. **Scheduling** : who to how to craft a schedule that meets project requirement
4. **Short-Cycle Drawing Review** : drawing review process and obtaining "Work May Proceed" status
5. **Scope Change Management** : examines work processes for managing scope changes and explains how to address them to avoid disputes and claims
6. **Quality**: covers critical aspects of Bechtel's Quality strategy and how they compliment your own Quality
7. **Packing and Shipping** : tagging/marking requirements for different materials and strategies to ensure that your goods are received and documented
8. **Invoicing** : Bechtel's accounting process and critical information required for invoice approval
9. **Closeout and Ratings** : correctly closing out a Purchase Order and Bechtel's criteria to rate suppliers to improve your future opportunities for work

What a Company Could Do?

Why You?

- Supplier:
 - Benchmarking
 - Formal Agreement w/ Known Names/Brands
 - Guarantees/Warrantees

- Subcontractor:
 - Records of Previous Work: domestic, international, Iraq
 - Methodology: all Serbian, Serbian-Regional, Serbian-Local,
 - Guarantees/Warrantees

What a Company Could Do ?

What Risk Are You Willing To Accept?

- Innovative Methods/Terms:
 - Higher Retainage Percentage
 - Back-End Loading (Schedule of Values)
 - LDs
 - Sliding Fees

- Guarantors:
 - Government Support
 - International Surety
 - Local/International Banks

What a Company Could Do?

Homework ...

- Short Term:
 - Dun & Bradstreet Number
 - Safety Plan
 - ISO Certification
 - LEAD Certification
 - PE, CPC,, Other Certifications
- Long Term:
 - Construction Training Center
 - International Competitions
 - Partnership Programs:
 - US Companies – 3 companies (willing to visit)
 - US Institutions – Texas A&M

What a Company Could Do?

Dun & Bradstreet ...

- Purpose:
 - Database of Over 13.7 Million Businesses
 - Mailing Lists by Location, Industry Classification
 - D&B Credit Risk Rating
- Registration:
 - <http://www.dnb.com/>
 - Office for Macedonia in London, UK
 - Call 441-494-423-858

What a Company Could Do?

Partnership Programs ...

- With Industry:
 - Exchange staff for 3-Month Assignments
 - Team up for Proposals
- With Institutions:
 - Texas A&M University
 - Schedule 2-4 Week Workshops and Hands-on Training
 - Off campus / Distance Learning MS Degree (2 years)
 - Other Institutions:
 - Similar arrangements

Possible Next Steps

- Group Question and Answer meeting to address doubts about Bechtel application process
- Facilitation of group discussion about how to collaborate on an application to Bechtel
- Technical Workshop
 - Safety Issues
 - Company Organization
 - Project management
 - Other issues
- Organize and facilitate formation of clusters of both large and small companies to increase long-term competitiveness of the Serbian construction industry

GUIDING PRINCIPLES AND RECOMMENDATIONS CONCERNING THE ROLE OF SERBIA’S GOVERNMENT IN IMPROVING SERBIA’S COMPETITIVENESS

This memo addresses three issues:

1. The role that Serbia’s government should play in efforts to improve the nation’s competitiveness.
2. The relationship between government and other important actors, including the private sector, civic sector, foreign investors and donor organizations.
3. Priorities for action by Serbia’s government to contribute to improving competitiveness.

This memo is intended to provide relevant guiding principles, helpful examples, and some preliminary recommendations with which the government may work to establish its agenda as part of Serbia’s competitiveness building efforts. This memo is not intended to be comprehensive, and should be the beginning of a dialogue with the public sector, and eventually among the private, public and civic sectors about their respective roles. Serbia’s government can show important leadership, and build additional credibility, by demonstrating its willingness to reflect upon its role and design its future efforts in close collaboration with the private and civic sectors. As part of that ongoing dialogue, we would be happy to address additional issues or research additional case examples within Serbia or overseas, or to help apply these principles within different parts of Serbia’s government.

ROLE OF GOVERNMENT

First, it is important to be clear about two roles Government should not play in the Serbian effort to build competitiveness.

Government should not be the “master strategist” for Serbia’s micro-economy.

Traditionally, the private sectors of many nations have looked to their governments for economic leadership. In the best of times, governments could set direction and oversee the few initiatives necessary to achieve prosperity. When initiatives to compete were unsuccessful, governments often shielded firms from competition through protective regulation and subsidy. Like in many nations, this “master strategist” model is part of Serbia’s economy today.

In today’s increasingly complex and rapidly changing global markets, *this “paternalistic” relationship between government and the private sector is a hindrance rather than a help.*

Governments cannot create competitive industries; only companies can do that. Professor Michael Porter, the world's leading expert on strategy and competition writes that, "Governments have been notably unsuccessful in managing firms and in responding to the fluid market changes that characterize international competition. Even when staffed with the most elite civil servants, governments on their own make erratic decisions about the industries to develop, the technologies to invest in, and the competitive advantages that will be the most appropriate and achievable."

Similarly, those regulations and subsidies that were intended to protect firms and redistribute success now often have the opposite effect. Over time, old regulations restrict innovation and change; when frustrated customers choose other nations' products and services, this will leave little real wealth for Serbia's government to distribute to anyone.

Serbia's government is demonstrating its commitment to move out of the master strategist role by its actions, including:

- its commitment to large-scale privatization of companies throughout the economy
- its commitment to forming a national competitiveness council to coordinate the nation's competitiveness strategy with the private and civic sectors

At the same time, the attitudes, practices and systems of the master strategist approach are still very present.

Serbia's government must keep its commitment to move out of the role of master strategist for Serbia's microeconomy.

Government should not limit itself to being a "laissez-faire" observer of the micro-economy.

There are many calls for Serbia's government to take a *laissez-faire* approach in which the free market reigns and focus is sharply limited to macroeconomic policy and legal reforms.

While this approach has the advantage of emphasizing government's move away from unhelpful master strategist practices, it is also insufficient to the requirements of building competitive companies and clusters.

Governments can affect the determinants of competitiveness both positively and negatively in many ways. Government's efforts are more appropriately directed toward creating the *environment* in which firms compete. However, establishing the "right

environment” is a dynamic, not a static result; it is the result of making the right choices and taking the right actions every day, rather than instituting a set of policies and then stepping to the sidelines.

Government policies can have a major influence on not only the general education system and generalized infrastructure but on the ability to create specialized training, specialize technological capability in universities, and specialized infrastructure to the needs of local industries. Rivalry can be affected by government policies towards cooperation and managed trade, as well as by the level of direct intervention by regulators and state-owned enterprises. The sophistication of domestic demand can be affected by standards governing product performance and safety and environmental impact. The attitudes, goals, and motivations of both individuals and companies can be influenced by the nation’s political discourse, tax policies, capital market regulation, labor laws and other measures.

Government has the resources and unique ability to support, but not determine, the evolution of the competitive environment. In well-developed environments in other countries, governments may support investment in specialized factor assets, use government procurement to signal requirements for more sophisticated local production, collect market intelligence from overseas to support domestic firms developing export strategies, and provide research or other institutions to support the development of rich clusters of related and supporting industries. Government is often most successful when it supports firms in these ways and refrains from the temptation to directly influence the evolution of a competitive environment with subsidies, import substitution policies or other market distorting activities.

Serbia’s government is missing appropriate opportunities to be an active partner to Serbia’s companies. Serbia’s firms will be at a disadvantage relative to their competition if government is a passive, but not an active, partner in building competitiveness.

So, what role should government play?

Government should do everything it can to assist the private sector to compete and win, except impede competition itself.

Because customers have choice, the only guarantee of sustained competitiveness is the ability of Serbia’s products and services to satisfy customers better than competitors’ products and services. No government subsidies can guarantee this result for long, and subsidies often delay necessary changes to raise productivity by shielding companies from learning how to compete or compete better.

Government is most effective when it is an active partner to companies and the civic sector in building competitiveness. There are three specific forms this might take:

1. *Government must be an active partner within the nation's clusters, not just an observer.*

Government organizations often deal directly with customers (e.g., tourism ministries) or provide specific inputs to companies (e.g., reliable industry data, worker training programs). The best regulation is often drafted in collaboration with private and civic sector leaders, and the best regulators are those who are as familiar with the factory floor as the ministry's meeting rooms.

We have witnessed the value that Serbia's government creates when it is an active partner with a cluster. We have also witnessed the competitive disadvantage caused when government becomes too controlling or too laissez-faire in its partnership:

As the private sector defines its strategy and designs its operational systems, it must be clear about where and how government may play an active role that enhances productivity. Government must then embrace these responsibilities with energy and commitment.

2. *Government must be a good, not just a large, customer of Serbia's products and services.*

Serbia's government is responsible for a large percentage of national consumption. In aggregate, the nation's firms take strong signals from what government purchases, why (i.e., what product or service features it does or does not emphasize), and how it rewards its suppliers (i.e., is price the only real determinant of contracting, or are firms rewarded with premium prices for unique levels of quality, reliability, service, etc.).

Anecdotally, it appears that Serbia's government is missing opportunities to use its dramatic purchasing power to promote the nation's firms to innovate and upgrade their products and services to the world-class requirements necessary to be globally competitive.

The example of other countries' governments may provide helpful illustrations of the types of steps Serbia's government might take, although Serbia will have to develop programs and behaviors that are suitable to the nation's specific cluster and government needs.

3. *Government, through its power of convocation and use of its good offices, must be a pioneering catalyst for trustful collaboration within the private, civic and public sectors.*

Government can exert tremendous influence over events through the way it shapes the

public discourse. Unfortunately, too much of that discourse is filled with statements that promote defensiveness and blame. This impedes building the trust required to enable firms to work with one another or with their public and civic sector counterparts.

Serbia's government must use its tremendous power of convocation to bring private, civic and public sector leaders together to address competitiveness issues in an environment that promotes trust, cooperation and risk-taking. The national competitiveness council is a good step in this direction. Government participation in the new cluster leadership councils in the fruit and furniture clusters would be welcome additions.

Government can also use its "good offices" to facilitate cooperation. Respected government certifications can inspire customer trust in qualifying companies (e.g., hotel ratings, manufacturer safety or quality certifications).

The prime minister and his cabinet should call upon each individual and organization in government to focus on how whether they are doing everything they can to help Serbia's companies compete, without impeding competition itself.

RELATING GOVERNMENT'S ROLE WITH THOSE OF OTHER IMPORTANT ACTORS

The private sector wins prosperity for the nation by providing high-value products and services to demanding customers, domestically and globally.

Serbia's companies are on the front lines of competition. While it needs the active support of the public and civic sectors, the private sector must be accountable for selling high-value products and services to customers who will reward the firm, and in turn, create rewards for shareholders, employees and the community.

Government must recognize and promote companies who raise productivity and win prosperity for themselves and their communities. It must also bring public pressure to change on those firms that do not, even as government seeks to work with them to help them bring about the necessary changes.

For example:

- Singapore's insistence on ISO quality standards for its manufacturing companies proved an effective way to get the private sector to take productivity seriously without exerting inappropriate control over the operations of the nation's firms. The scorecard of compliance provided a public incentive for firms to comply.

The civic sector must ensure that Serbia’s quality of life becomes a competitive advantage.

The traditional view of labor unions, consumer rights organizations, and other civic organizations is that the living standards, or quality of life, of the average citizen is something to be protected from exploitation by companies and, in some cases, the public sector.

Governments in several parts of the world are helping civic leaders to see quality of life as something that can be a competitive advantage, and a necessary part of achieving competitive success. Together, they are helping companies to make economic growth through social equity their fundamental, and successful, strategy.

Government should ensure donors invest in an explicit Serbian microeconomic strategy to raise the nation’s productivity, not let donor priorities de facto determine Serbia’s strategy.

In Serbia, as in many countries, the relationship between the nation and its donors often works “backwards.” Typically, a government quietly feels that donors often exert indirect, and sometimes direct, pressure to pursue one or another specific microeconomic priority. Donors quietly feel that they are not presented with a clear strategy by the nation

Serbia’s government should ensure the nation presents a clear and credible microeconomic strategy to international donors to invite their support, rather than waiting for donors to present priorities and trying to modify or adapt them one at a time. For example:

- The Government’s SME strategy, shared with USAID and other donors at a workshop on Feb 11-12, outlined for the first time clear government aspirations for the development of Serbia’s SMEs. Future drafts should include additional detail about specific steps Serbia intends to take, and recommendations to donors about how their assistance programs could best reinforce or complement Serbia’s SME-promotion efforts.

Government, private and civic sector leaders should seek foreign investors who strengthen Serbia’s competitive environment, not deplete it.

Foreign investors typically have one of three motives. Many invest in emerging economies to take advantage of low-cost labor or to extract natural resources of some kind with minimal value-added processing. This can include purchasing

manufacturing operations with functional but dated equipment and low wage rates for the primary purposes of lowering production costs. Some invest to gain access to a market; it may be the local market, or it may be access to a trade agreement. Serbia clearly offers both opportunities. A few investors seek locations where they feel the environment will offer them the best platform for innovation and dramatic improvements in value-added productivity. This kind of investor often requires both a rich cluster with which to connect and a quality of life suitable for the relocation of highly skilled employees.

PRIORITIES FOR GOVERNMENT ACTION

The Government should agree upon and communicate about its intended role in improving Serbia’s competitiveness.

Government must resist using devaluation of the currency to promote exports without creating competitive advantage or real wealth for Serbia.

Government must resist using subsidies to hide deficiencies in productivity.

Government should invest aggressively in Serbia’s stock of social capital.

Serbia’s government should seek every opportunity to:

- re-establish rule of law
- replace defensiveness with trust
- invest in skilled human capital
- promote attitudes that embrace competition and cooperation: a “culture of competitiveness”

Government should customize its specific assistance to each cluster in the economy.

As businesses’ products and services differentiate from those of their competition, their own operational and asset requirements differentiate as well. Government investments in the seven forms of capital must be driven by an explicit understanding of what specialized assets businesses need but which the public sector is best suited to deliver. This requirement often conflicts with traditional programs designed to ease access to general sources of capital, labor, equipment or market access.

Government should be a customer who forces Serbian companies to reach world-class standards and rewards them when they do.

Government should align and focus its trade negotiation priorities behind the export

strategies of its clusters.

For example, the government of one Canadian province initiated trade missions to Europe to promote exports of high-tech sound and speaker equipment. However, the mission's focus on consumer applications and equipment retailers was completely unhelpful to the province's best export hopes, firms whose sound and speaker equipment are critical components in commercial underwater sonar technology.

Government must learn, make choices and take action at the same pace as Serbian businesses must, the pace of global competition.

Government, with its private and civic sector partners, should take steps to choose its donor assistance and foreign investors, not remain relatively passively chosen by them.

APPENDIX: WHY GOVERNMENT’S ROLE HAS EVOLVED AWAY FROM MASTER ECONOMIC STRATEGIST.

The traditional approach to creating wealth was inspired by the classic trading theory of comparative advantage. This approach starts by asking, “what assets do we have from which we can create wealth?” It then seeks to convey those assets to others in the most operationally efficient manner, ultimately seeking to offer the lowest price to whatever customer has interest. This pattern is common to natural resource-based or low-cost-labor-based companies and clusters; it is also common among start-up companies in many industries.

An alternative approach is inspired by the theory of competitive advantage. The process starts by identifying a high-value market opportunity and designing the best product or service to realize the highest prices possible from that opportunity. Operationally, one tends to focus on designing systems to maximize value or quality instead of absolutely minimizing cost (e.g., using the best packaging to preserve freshness and appearance instead of the least expensive packaging that meets sanitary and shipping requirements). Such operational systems tend to place a higher premium on social capital (e.g., skilled people instead of low-cost untrained people more commonly desired in comparative advantage-driven companies).

Individual organizations and clusters will find these two approaches complementary in important ways, and using both lines of reasoning produces the best design for the ultimate business model. In practice, most people default immediately to the comparative advantage model and rarely balance that perspective with the competitive advantage model, and even fewer start with the competitive advantage model themselves. Serbia should be sure it has approached its issues from both perspectives, not just the comparative advantage perspective. The more Serbia embraces the competitive advantage approach, the greater the pressure on the public, private and civic sectors to change from their traditional roles.

In a typical comparative advantage business model, *the most important competitive assets are natural resources (e.g., sub-soil assets or natural beauty), low-cost labor, or privileged access to attractive markets*. Because the availability of these assets usually seems limited, communities which value them highly, often *believe the potential wealth they can create is limited*. As a corollary, individuals in these communities often believe that the only way one may become more wealthy is to take part of another’s share, i.e., to make someone else less wealthy.

Companies in a comparative advantage business model build their operational systems around these basic assets. To protect their shares of these resources, the companies (and often the individuals within the companies) *seek scale economies and*

operate largely independently from one another. In the best cases, these firms operate like all-stars concerned more about their individual statistics than the score of the game; in the worst cases, their efforts nullify one another and diminish the total benefit to their customers and to their communities. Occasionally they unify just enough to “package” their separate services or products under one umbrella price. The confrontations are not limited to firms; especially when low-cost labor is seen as an advantage, there are *inherently confrontational relationships between management and employees*. Often, individuals and organizations rely upon *Government to arbitrate any competitive tensions*. Government’s response to these calls often creates a paternalistic relationship between the public sector and the private sector.

Because the operational systems of the business model are optimized for reliable delivery of high volumes of basic quality goods and services, the resulting competitive strategy is typically “*mass marketing*” at low prices. Companies attempt to satisfy the needs of any potential customer, no matter how contradictory the needs of these different customer are. Firms rarely collaborate even when they are from different industries but share the same customer. *Volume is frequently the most important measure of success*. Government often exercises decision rights over which customers companies may serve and what services companies may provide. As a result, Government is seen to have the responsibility for acting as the constructive “*master strategist*” for firms and industries.

Change comes slowly within regions that rely on comparative advantage business models. When change does happen, it is usually the result of confrontation or emotion, often expressed by lobbying government to exercise more control.

In the comparative advantage model, allocating scarce assets is the driving force. In the competitive advantage model, strategies for improving productivity are the driving force.

The typical competitive advantage strategy emphasizes *identifying which customers are the most rewarding to serve* and focuses all energy on *designing experiences which are customized to these attractive customers’ most important needs*. Often, delivering a complete experience with consistently high quality for the customer requires companies from the same and different industries to form close partnerships, with each participant providing unique value for the customer and for the other partners. Over time, these *partnerships evolve into complex clusters*. This approach to business and economic strategy emphasizes the private sector’s responsibility for competitiveness leadership and calls on the government to provide space so that firms may make their own choices and may learn from the consequences.

To customize specific services for the chosen customers and deliver consistently superior quality, firms optimize their operational systems to emphasize high

productivity, flexibility, and responsiveness. Meritocracy is the basis of cooperative relationships between managers and employees. *Decision-rights are decentralized* as much as possible within companies and across industries; complementarity of effort is maintained through a shared vision of how to serve the customer and aggressive sharing of insights and information. Partner companies often enhance their cooperation by integrating important activities and processes, engaging in what is called “mutual adaptation.” Firms address competitive tensions by *letting the customer reward the individuals and companies* that provide the most value. *Government does everything it can to assist the private sector, except impede competition;* politicians and civil servants work together to make speedy, transparent decisions about how to provide a pro-competition business environment that ensures firms have access to a rich variety of competitive assets. This is the basis of the shared vision between the public and private sectors.

The competitive assets most desired by the private sector are no longer natural resources, man-made infrastructure or even financial reserves; these assets are not the keys to making the operational systems highly productive. Instead, companies, unions and government invest as cluster partners in *unique insights* about customers’ needs and how to satisfy them, and in *highly skilled and well-compensated people*. These skilled people operate in a *culture of trust and innovation* which facilitates the sharing and application of their insights. *Strong institutions promote continual learning.* Because knowledge and its potential applications by skilled people are unlimited, individuals and organizations believe their individual and collective wealth is potentially infinite.

The comparative advantage business model works best when customers have little choice (i.e., there are few competitors for their business) and customers are demanding more than companies are supplying. Globalization and the competitive advantage revolution have provided the most rewarding customers with ample choices, allowing them to select whatever offers them the highest value for money. Those unable to win this business must focus on less rewarding customers or risk having no customers at all.

Competitive advantage business models change constantly. They must. Their *strength comes from the ability to learn how to serve customers current and emerging needs* rather than the enforcement of a dominant, lasting formula for success. Change is based on reason and emphasizes productive dialogue among all those involved with, and affected by, the business model.

PROPOSAL FOR THE FORMATION OF THE NATIONAL COMPETITIVENESS COUNCIL

5 February 2003

To: Dr. Goran Pitic, Minister of International Economic Relations

From: Serbian Competitiveness & Economic Efficiency Project

Re: Proposal for the Formation of the National Competitiveness Council

As you requested, we have prepared a detailed proposal for the formation of a Serbian national competitiveness council. This document is intended as a discussion paper to solicit feedback from you with regard to establishing this body.

The proposal addresses the following key issues:

- Role of the National Competitiveness Council
- Measuring the Council's success
- Council structure and membership
- Council operations
- Next steps

We would appreciate your reviewing this so that we can get your feedback as to whether this is the essence of a design with which you are comfortable or if you feel that there are issues or design choices which remain to be addressed or addressed differently. We would very much like to review this later today if at all possible so that we can agree the specifics for forming the council, as well as a date in the very near future for the first "planning and design" session.

We have re-categorized our suggested membership list according to the criteria outlined in the proposal, but for the most part have left the names the same for the time being. We are aware that you took issue with some of the proposed members and we would like to discuss that further with you, as well as to take your suggestions for those categories where we do not currently have a candidate. It is important to agree a list as soon as possible.

We look forward to discussing this proposal with you.

I. The National Competitiveness Council

Role of the Council

The national competitiveness council will serve as the focal point for competitiveness building activities in Serbia. It will ensure that Serbia is executing a national competitiveness campaign that is increasing the nation's general prosperity. To that end, the council will focus on:

- ensuring that the nation's private, public and civic sectors are united to increase prosperity by raising productivity and the unique value of Serbia's exports, not by degrading Serbia's natural resources or arbitraging her low-cost labor
- ensuring that key exporting clusters have clear campaigns that win increasing prosperity for their companies, employees and the Serbian communities in which they live and work
- ensuring that government efforts are focused on building the social capital that the key clusters need for competitive advantage
- ensuring that civic society embraces the culture of competitiveness and globalization in a thoughtful way
- ensuring that private, public and civic efforts are coordinated to address truly national competitiveness challenges and opportunities
- ensuring that competitiveness decisions and actions are taken on the basis of the best available analysis and with coordination among the right individuals and their organizations

The council is not intended to be Serbia's "master strategist" exerting control over every competitiveness decision. Rather, the council will guide informed choice-making, timely action and thoughtful reflection by indirect means thanks to the explicit commitments of support from key parts of Serbian society and the personal influence of the individuals who compose the council's membership.

The council is not intended primarily as a forum for the private sector or civic society to lobby government for favors. Rather, it is a forum for the public, private and civic sectors of society to set expectations for themselves and each other, and to make the commitments to deliver on those expectations.

Relationship With Other Organizations

The council will not have formal decision rights over other organizations with an interest in, or responsibility for, competitiveness issues, except where granted by those

organizations (e.g., the secondment of staff from an industry association or ministry). Every effort will be made to ensure that the council is an integrative complement to, rather than a duplicate for, other related organizations. The SCEE will compile a list of these related organizations.

The council will work to ensure that the national agenda is reflected appropriately in the agendas of various organizations. For example, the council will ensure that organizations involved with exporters, market research, trade negotiation, etc. are suitably mobilized the 2003-2004 priority to reconnect Serbian exporters with lucrative foreign markets. This coordination may extend to donor organizations and NGOs as well.

II. Measuring the Council's Success

The council's mission is to ensure that there exist in Serbia the five conditions necessary for change:

- tension to overcome inertia without causing panic
- receptivity to innovation and collaboration
- guiding principles that are consistent with increasing general prosperity through improved competitiveness
- insight necessary to ensure that Serbia makes decisions better and faster than its competition
- leadership based primarily on the influence of reason, rather than primarily the exercise of power or the passion of emotion

The council will evaluate itself each year to assess whether these conditions are in place and the role that the council played in addressing any identified deficiencies.

Performance Objectives 2003-2004

To ground this evaluation in practical, tangible things, the national council will set specific performance objectives for each year. In 2003-2004, the council will pursue the following specific objectives:

- establish benchmarks for measuring Serbia's competitiveness and provide quarterly updates to the nation; these benchmarks will be accompanied by relevant specific examples of Serbian competitiveness success to provide positive role models for the nation
 - ensure key export clusters are organized to win greater prosperity
 - functional cluster leadership council
 - explicit cluster competitiveness campaign, including specific performance objectives, clear strategies, and practical action plans
 - clear engagement plans to coordinate resources of cluster and support outside the cluster
- ensure that Serbia executes specific initiatives to address the three most important national competitiveness challenges or opportunities; these issues may include:
 - connecting or re-connecting Serbian exporters to lucrative international markets and customers
 - promoting a pro-competitiveness mindset in the general population through public education initiatives and other promotional activities
 - coordinating cluster export strategies, government trade agreement negotiations, and foreign investment promotion efforts

- host a national competitiveness summit in April, 2003 and plan for a subsequent national summit in 2004
- ensure council sustainability, including:
 - meeting 6 times during 2003 (including the national summit) and provide updates to the nation from each meeting
 - arranging the availability to the council of resources necessary to complete the council's objectives for the year (e.g., formalizing relationships with research staff at one or more institutions to undertake measurement of the Serbian competitiveness benchmarks)
 - avoiding creation of duplicative or unnecessary administrative capabilities
- publish a competitiveness leadership directory to facilitate coordination among individuals involved in various competitiveness initiatives
- publish certified, audited accounts of council activities and financial dealings once per year

Please note, these metrics are intended to measure the effectiveness of the competitiveness council in fulfilling its role in guiding the Serbia's competitiveness efforts. These metrics are not intended to measure Serbia's competitiveness; metrics for evaluating Serbia's competitiveness are addressed elsewhere.

III. Council Membership and Structure

Membership

The council should be composed of the fewest number of members necessary to ensure that there is sufficient shared vision and commitment from the public, private and civic sectors from across Serbia. In the specific case of Serbia, we believe the council should include specific representatives chosen using the following approach:

- one representative each from the Ministry of International Economic Relations, the Ministry of Finance, the Ministry of Economy and Privatization, Ministry of Trade, Tourism & Services, and the Ministry of Agriculture
- one representative from the Central Bank
- one representative from the leadership council of each key exporting cluster
- two “at large” representatives of the private sector
- two representatives of labor or employee groups
- two representatives from the academic and think tank community
- one representative from a Serbian consumer rights advocacy organization
- two representatives from Serbian regional development organizations
- one or two representatives of the community of foreign investors in Serbia

Our initial estimate is that the council should have approximately 20 members. Attached with this memo is a table outlining the proposed membership for the first council and the rationale for including each member.

Structure

The council should have a single chairperson, preferably from the private sector. The chairperson should serve a maximum of one, two-year term. Chairpersons may serve more than one term as long as the terms are not consecutive.

The council should have a three-person executive board to provide leadership and focus to the group and its proceedings. The executive board should be headed by the private sector chairperson, who will be joined by one government member and one member from the various civic representatives.

The committee should be mindful to ensure a diversity of members. To this end, the council should include a strong number of women, some leaders under 40, and leaders who represent interests beyond Belgrade.

IV. Council Operations

General Activities

The Council will use indirect means, rather than direct control, to promote the five conditions for changing competitiveness. Consequently, the council may employ any means that respect this principle and are useful for promoting one or more of the conditions for change.

The 2003-2004 performance objectives outlined previously indicate specific means by which the council may promote conditions necessary for the nation to achieve its competitiveness objectives that period. The following list suggests other actions the council might take (this list is suggestive and representative, not comprehensive or required):

- public statements made through speeches, media communication or other means
 - e.g., National Competitiveness Summits, catalyzing newspaper features about Serbia's most competitiveness firms
- commissioning and publishing of topical research and analysis
 - e.g., publishing national competitiveness benchmarks and competitiveness leadership directories
- convening specific private, public and/or civic leadership to address important national competitiveness challenges that fall outside or beyond the scope of existing cluster or other leadership structures
 - e.g., creating a working team to coordinate WTO negotiation strategy with cluster export priorities
- personal intervention by council members to mediate friction or disagreements that significantly impede the national competitiveness campaign from proceeding with appropriate tempo
 - e.g., providing personal oversight to enable two clusters to cooperate to develop new exports while ensuring shared benefits, such as the creation of bio-pharmaceuticals by collaboration between the fruit and pharmaceutical clusters
- guiding the priorities, actions, budget allocations and staffing of public, private or civic organizations to strengthen those organizations' abilities to fulfill their competitiveness responsibilities
 - e.g., reorganizing research staffs in ministries and universities to ensure faster delivery of higher quality competitiveness research to the council and the nation
- seconding specific resources from other organizations (with the providing

organization's approval) to administer any of the council's initiatives

- arranging for regular, part-time staff support from industry associations and government ministries

The council will generally seek to have initiatives executed by existing organizations, commissions or other institutional structures. Only when essential will the council seek to establish new arrangements, and then only for the duration required to achieve the specific objective for which the new committee, etc. was created. When possible, the council should promote efficiency by recommending that institutions reduce the scope of their activities to those for which they provide the most differentiated service, or the merger of institutions where appropriate.

Council Secretariat

The council should be supported by a small administrative team of individuals seconded from public, private and civic organizations. These individuals will be rotated very 2-4 years to ensure a balance between building and preserving institutional memory on the one hand, and providing fresh turnover and sharing of the administrative obligation on the other.

The administrative team will have a leader appointed from among the group by the council's chairperson. The administrative team will provide appropriate logistical and administrative support for the council. The operational requirements of this team will be established once the other parameters in this memo are reasonably close to being resolved.

The council will secure a small budget for administrative expenses from a mix of private and public sources. The budget for specific initiatives will be identified for each initiative and will not be mixed with or drawn from the Council's administrative budget.

Operating Parameters

The council's operation will be significantly dependent upon the preferences of the members once they are selected. That said, it is possible to recommend a few operating parameters to further suggest how the council might function:

- council meetings will be scheduled for approximately one working day, taking into account the travel requirements of members
- the council executive board will have additional, more frequent meetings of shorter duration with the administrative team as appropriate to ensure continuity of effort, preparation and communication

- the council executive committee will meet with the Prime Minister after each council meeting to provide a suitable briefing

It is expected that other operational guidelines will emerge over time.

Basic Meeting Agenda

The council's agenda will follow the same format at all meetings except for national summits:

1. Approve last meeting minutes and this meeting's agenda
2. Evaluate any updates to the competitiveness benchmarks
3. Evaluate year-to-date progress against annual national competitiveness priorities
4. Address issues from key exporting clusters
5. Entertain other priority issues
6. Agree next steps and accountabilities

Agenda items may be introduced for information, for discussion or for decision by the members present. Suitable pre-reading materials will be sent to members before council meetings to ensure focused sessions.

V. Next Steps

In this section we outline the next steps for the council's activities, first in the run-up to the National Competitiveness Summit to be held at the end of March and then in the period after the summit when the council will begin its normal operations.

Action Plan for Council Formation

The national council is expected to meet three times in February and March prior to the National Competitiveness Summit at the end of March. Each of those meetings will be approximately two hours in length. A tentative agenda for each of those sessions is presented below.

The council will be supported by the SCEE Project throughout these formative meetings. However, it is expected that, once the council has actually been formed, the national council leadership will quickly begin to assume responsibility for directing the council's activities.

First Meeting

The key objectives of this session will be to establish the council and obtain commitments from its members. The agenda will include the following activities:

- introducing the concept of the national council and its role
- reviewing the commitments expected of participating council members
- establishing the council's operating procedures and arranging its administrative support
- introducing the council's proposed performance objectives for 2003-2004
- agreeing the appropriate metrics for assessing Serbia's competitive position
- commissioning an analysis of these metrics to benchmark Serbia competitive position against other countries

Second Meeting

The key objectives of this second session will be to select the council's leadership and to agree the national competitive agenda. The agenda will include the following activities:

- electing the council's chairman and executive committee
- agreeing the council's performance objectives for 2003-2004
- reviewing the strategies developed by the fruit and furniture clusters
- finalizing the council's proposed performance objectives for 2003-2004

- reviewing and finalizing the benchmarking analysis of Serbia’s competitive position relative to other countries

Third Meeting

This third meeting will focus on preparations for the council’s central role in the National Competitiveness Summit. The agenda will include the following activities:

- agreeing on the key benchmark competitive data to be presented at the Summit
- identifying council members who will participate in the Summit
- finalizing the key messages to be delivered at the Summit from the council
- identifying any final analysis to be completed prior to the Summit
- presenting final comments to the cluster councils regarding their strategies

Action Plan for Establishing Operations

[to be determined]

National Competitiveness Council Membership (March 31, 2003)

<i>Category</i>	<i>Organization</i>	<i>Name</i>	<i>Contact Details</i>
Clusters	Metalac	Dragoljub Vukadinovic, Managing Director	Tel: 032/711 350 Fax: 032/725 211
	Fruit: Fresh&Co.	Zivojin Djordjevic	Tel: 011/ 176 3303 Fax: 011/176 44 55
	Fruit: Stefani Univerzal	Djordje Stevanovic, Director	Tel: 031 816 291, 816 427 Fax: 031 813 866, 813 950 Email: stefany@eunet.yu
	Furniture: SAGA	Dusan Radmilac, Director	Milentija Popovica 9, Sava Centar 11070 Belgrade Tel: 011 3108 502 Fax: 011 3108 567 Email: dusan.radmilac@saga.co.yu
	Textiles: Todor	Mr. Mirko Todorovic, Managing Director	36210 Vrnjacka Banja Tel: 036/632 555 Fax: 036/632 556
	Pharmaceuticals: Hemofarm	Miodrag Babic, President	mbabic@hemofarm.co.yu Tel: 13 82 11 46, 82 11 15 Fax: 13 82 10 34
	Automotive: Tigar Michelin	Dragan Nikolic, Director	nikolic@tigar.com Tel: 010 31 31 21 Fax: 010 31 31 22
	Sintelon	Mr. Dragan Zarkovic	radmila_grubor@sintelon.com Tel: 021 742-012 Tel: 021 751 203, 7557 702 Fax: 021 750 133
	Engergoprojekt	Mr. Pavle Vuckovic	
	Knjaz Milos	Radenko Marjanovic, General Manager	Tel: 034/725 451 Fax: 034/726 018
	Financial Services: National Savings Bank	Olja Matic Brbara	Tel: 3202-339 Fax: 3202-426
	Financial Services: Delta Banka	Draginja Djuric, Director	Tel: 311 3990 Fax: 311 6897
	Financial Services: Yubanka	Borislav Djokic, Director	Tel: 3234 931 Fax: 3246 840

Members at Large from Business Community	Serbian Chamber of Commerce	Current president of the chamber	Tel: 3232-188, 3233-955, 3234-181 Fax: 3235 426
Regional Development Organizations	Regional Chamber of Commerce, Novi Sad	Current president of the chamber	Tel: 021 468 921 Fax: 021 366 100
Government – Ministries & Agencies	Ministry of Int'l Economic Relations	Dr. Goran Pitic, Minister	cabinet@mier.sr.gov.yu Tel: 3617-628, 3617-583 Fax: 3617-628, 3617- 583
	Ministry of Economy & Privatization	Aleksandar Vlahovic, Minister	aleksandar.vlahovic@mpriv.sr.gov.yu Tel: 3346-770, 3617-599, 3617-699 Fax: 3617-640
	Ministry of Finance & Economy	Bozidar Djelic, Minister	Tel: 3616 533 Fax: 3616 535 Email: bdjelic@mfin.sr.gov.yu
	Ministry of Trade, Tourism & Services	Dr. Slobodan Milosavljevic, Minister	cabinet@minttu.sr.gov.yu Tel: 3631-136 Fax: 3610-258
	Ministry of Labor & Employment	Mr. Dragan Milovanovic	Tel: 3631 402 Fax: 3616 498
	Ministry of Agriculture	Dr. Dragan Veselinov, Minister	Tel: 3065 038 Fax: 3616 272
	Chief of Cabinet to the Prime Minister	Nemanja Kolesar	kolesar@srbija.sr.gov.yu Tel: 3617-581 Fax: 3617-609
	Ministry of Science, Technology & Development	Dr. Danilo Golianin, Deputy Minister	Tel: 3616-516 Fax: 688 047
Academia / Think Tanks	Center for Liberal-Democratic Studies	Boris Begovic	29 Novembra, Belgrade bbegovic@eunet.yu Tel: 3225 024, 3225 517 Fax: 3225 024 Mobile: 063 307 989
	G17 Institute	Milko Stimac	stimac@g17institut.co.yu Tel: 3346 086 Fax: 3346 172

Media	Vreme	Mr. Misha Brkic	Tel: 063-247-988 Fax:
Foreign Investor Community	HVB Banka Jugoslavia a.d.	Christoph Greussing, Chairman & CEO	Tel: 011 3204 512 Fax: 011 3342 200

Chairman of the Council:	Dragoljub Vukadinovic
Executive Committee Members:	Private Sector representative - Dragoljub Vukadinovic, Chair Government representative - Minister Goran Pitic Civic Society representative - Boris Begovic

For release March 31
For further information, please contact:
Robin Johnson, 063/635 814
Ljuba Podunavac, 011/3617-628

National Competitiveness Council Formed to Promote Economic Growth
Top business leaders partner with Government and Civil Society

Minister of International Economic Relations, Dr, Goran Pitic, businessman Dragoljub Vukadinovic, and Boris Begovic of the Center for Liberal Democratic Studies introduced the newly-formed National Competitiveness Council. “This is a new partnership between business, government and civil society which will position Serbia to successfully compete in the global market,” said Pitic.

The twenty six member council includes twelve business leaders, eight government leaders, five representatives of civil society and a foreign investor. Vukadinovic, who will act as the Council’s Chairman, heads Gornji Milanovac-based Metalac, which employs 1250 workers, has annual revenues of over 30 million EUR, and exports to over three million consumers in Germany, Great Britain, Italy and other European countries. Vukadinovic defined competitiveness as ‘creating more prosperity more productively in the market.’ “Business must lead the way in improving competitiveness and increasing wealth,” said Vukadinovic.

Pitic agreed: “Government must no longer be the master strategist. Government should be an active partner helping Serbian businesses become globally competitive.”

Begovic explained civil society plays a vital role in advancing Serbia’s competitiveness. “In addition to the physical capital of investments, infrastructure and natural resources, competitive countries also need social capital such as well-educated workers, university-caliber research facilities and strong chambers of commerce. Every citizen needs to contribute to and will benefit from Serbia competing more successfully in global markets.”

Vukadinovic, who is serving as the chairman of the Council, said council members would be listening to and speaking with more than 150 business, government and civil society leaders at a National Competitiveness Summit April 1 and 2 at the Sava Center. “The Summit will be the first step in developing a national competitiveness strategy,” said Vukadinovic.

The National Competitiveness Council was convened by the Ministry of International Economic Affairs with support from USAID.

SERBIA NATIONAL COMPETITIVENESS COUNCIL

DRAFT OPERATING PROCEDURES

1. Establishment

- 1.1 The National Competitiveness Council (NCC) was first convened by Serbian Government, business and civic leaders on March 31, 2003.
- 1.2 The NCC has been organized under the laws of the Republic of Serbia [statutory reference] and enjoys all the rights, privileges and obligations that this status confers.

2. Functions

- 2.1 The role of the NCC is to serve as the focal point for competitiveness-building activities in Serbia. To that end, the council's responsibilities include:
- 2.2 In co-operation with other relevant organizations, initiate and promote the implementation of a variety of programs to ensure that Serbia is executing a national competitiveness campaign that is increasing the nation's general prosperity.
- 2.3 Meet at least on a bi-monthly basis and at such other times in accordance with the Sections below.
- 2.4 Establish and publish annual competitiveness goals for Serbia, as well as a strategy and action program designed to achieve those goals. Such goals, strategy and action program should be published each year no later than January 31st.
- 2.5 Establish appropriate metrics for evaluating the country's competitiveness position and the data collection and analysis processes necessary to ensure that reliable measurements can be made. Based on these metrics, provide quarterly updates to the nation on Serbia's competitiveness position.

- 2.6 Ensure the completion of such data collection and surveys as are required to include Serbia in the World Economic Forum’s Competitiveness Rankings.
- 2.7 Publish an Annual Competitiveness Report monitoring and examining the international competitiveness of Serbia’s business sector.
- 2.8 Convene an annual National Competitiveness Summit at the end of February, or beginning of March, to provide a forum in which to present, at a minimum, the results of the Annual Competitiveness Report, the results of the council’s activities for the past year, its plans for the coming year. At the council’s discretion, the Summit may include such speakers and other activities designed to promote competitiveness in Serbia.
- 2.9 Commission the preparation of such other reports on priority competitiveness issues, as appropriate, with recommendations on measures required to improve competitiveness.
- 2.10 Provide advice and support to business and government leadership on competitiveness strategies, programs and policy issues.
- 2.11 Conduct such public awareness / public education activities as are necessary to promote the council’s activities and educate the broader public about competitiveness and the benefits to be achieved.
- 2.12 Publish audited accounts, in accordance with international accounting standards for such organizations, of the council’s financial resources and transactions at least once a year.
- 2.13 The Executive Committee shall keep the Prime Minister of Serbia informed of the Council’s activities.
- 2.14 To undertake from time to time such other functions as the members may decide.

3. Membership

- 3.1 A wide range of viewpoints should be represented on the council to ensure that all Serbians benefit from the competitiveness-building activities.

- 3.2 To this end, the Council’s membership shall consist of representatives from the private sector, civic society, and the Government. Membership need not be equally divided among these categories, but each should be substantially represented. In addition the council membership shall include women, some leaders under 40 years of age, and leaders who represent interests beyond Belgrade.
- 3.3 Council members shall be appointed by the Minister for International Economic Relations, acting on the recommendations of the Executive Committee. Nominations for membership on the council shall be solicited from the general public, industry and the government.
- 3.4 The number of members shall be at the discretion of the Executive Committee, but will not exceed 27.
- 3.5 Council Members shall be senior and influential decision-makers or thought leaders in their organizations so as to be able to provide the council with a robust dialogue on competitiveness issues and to promote the council’s programs.
- 3.6 Council members are expected to attend regular and special council meetings, to take an active part in the council’s deliberations, and to participate in the council’s promotional and educational activities.
- 3.7 The Council may invite non-Members to attend Council meetings in an observer capacity whenever appropriate.
- 3.8 Membership will automatically be revoked in the event that a given member fails to attend one third of the Council meetings.

4. Executive Committee

- 4.1 The Council shall be led by a three-Member Executive Committee, consisting of one representative each from the private sector, civic society, and Government.
- 4.2 The Executive Committee shall provide leadership and focus to the group and its proceedings and ensure that council activities are continuing between formal council sessions. It shall set the dates for council meetings, prepare an agenda for each meeting and circulate this, along with any appropriate background materials, at least one week prior to the meeting

- 4.3 The private sector representative shall be the Chairperson of the Executive Committee and the Council.
- 4.4 The Executive Committee shall be elected by the Council membership at the first meeting of the Council following the annual appointment of new term Members, as provided for below.

5. Term of Office

- 5.1 Council members shall serve 2 year terms, with the exception of ministers whose terms will match their period in office.
- 5.2 Half of the Council's members that are not members of the Government should step down each year after completing their two year appointment. To facilitate the establishment of this procedure, half of the initial council non-government members should step down i.e., at February 28, 2004. They would be replaced by newly appointed members to serve full two year terms.
- 5.3 On February 28 each year the Executive Committee shall recommend a number of new Council Members not exceeding the number of retiring Members. The recommendations shall be made to the appointing authority specified in Paragraph 3.3.
- 5.4 Retiring Members shall be eligible for re-appointment after they have been off the council for one term.

6. Meetings and Procedure

- 6.1 Subject to the requirements set out herein, the Council shall regulate its own procedures.
- 6.2 The quorum for a meeting of the Council shall be not less than 18 Members present, including the entire Executive Committee.
- 6.3 Decisions of the council shall be determined by a simple majority of votes of the Members present and, in the event that voting is equally divided, the Chairperson shall have the deciding vote.

- 6.4 The Chairperson may call a Council meeting at any time, or shall call a Council meeting when requested to do so in writing by any five Members.
- 6.5 Council meetings will be conducted in private to facilitate discussion. At the discretion of the council and the Executive Committee, the public can be invited to particular council meetings or meetings can be followed by press conferences or roundtable discussions to disseminate council decisions.
- 6.6 Minutes shall be taken of all council meetings, circulated among council members, revised as appropriate and made public.

7. Secretariat

- 7.1 The Council shall have a Secretariat supporting its activities, as mandated by the Executive Committee and agreed upon by the membership.
- 7.2 The secretariat shall consist of an Executive Secretary appointed by the Executive Committee and such other individuals as are appropriate to carry out the secretariat's duties.
- 7.3 The secretariat shall serve as a point of communication and a clearinghouse for information regarding the council's activities. It will make arrangements for holding council meetings, oversee the preparation of substantive materials for the council's consideration and such other activities as directed by the Executive Committee.
- 7.4 Members of the secretariat will serve at the discretion of the Executive Committee.

8. Confidentiality

The disclosure of information, except in the exercise of their duties, obtained by any Council Member or consultative group appointed by it, shall be prohibited.

9. Revisions to these Procedures

These procedures can be amended or revised based on a vote of the council.

THE NATIONAL COMPETITIVENESS COUNCIL

DRAFT

**SERBIA NATIONAL
COMPETITIVENESS STRATEGY**

NOT FOR PUBLIC DISTRIBUTION

August 2003

INTRODUCTION

This is Serbia's first *National Competitiveness Strategy*. The purpose of the *Strategy* is to mobilize and organize our nation to accelerate economic growth, to create jobs and to improve the prosperity of the average citizen. These are complex goals that will require coordinated and focused effort from our entire nation — led by the business sector, with the government and civic society as active partners.

The citizens of Serbia fought and won the right to pursue the vision of a Serbia that is a stable, democratic and prosperous member of the European Union and, through institutions like the World Trade Organization (WTO), a valued member of the global community of nations. Achieving this vision will require that new competitiveness reforms join the political and economic policy reforms currently underway. Political reforms are giving the average Serb greater access to economic opportunity and resources. Economic policy reforms are enabling citizens and organizations to more efficiently allocate the nation's resources. Competitiveness reforms are now necessary to strengthen the productivity of the economy so as to generate new wealth for the average citizen and the nation as a whole. In the past three years, ordinary citizens and a wide variety of organizations all across Serbia have taken many steps to implement important reforms, but a great deal of work remains for all of us to do together before we realize our ultimate vision for Serbia.

The *National Competitiveness Strategy* will help to prepare Serbia for the work ahead in several ways. It provides guidance and accountability to the private companies and organizations that must compete more productively in domestic and international markets. It recommends certain actions through which government can be an active partner to the business sector. It suggests steps that civic organizations and individual Serbians can take to improve competitiveness and improve their own standard of living. In this way, the *Strategy* provides a framework for the contributions that we all can make to deliver greater economic growth, jobs and prosperity.

The specific actions outlined in the *Strategy* will be adjusted and amended over time to stay current with evolving domestic and international circumstances. While we adapt our actions, we must stay true to the fundamental principles of competitiveness. Competitiveness is competing more productively in the market. The private sector must lead in competitiveness. Government must be an active partner to the private sector, but can no longer be the master strategist for the private sector. Civic society must work with businesses and government to ensure that every citizen benefits from competitiveness. If we keep these principles in mind, Serbia will win the prosperity we all desire.

SERBIA'S CURRENT COMPETITIVENESS CONTEXT

A decade of wars, sanctions and unsustainable policies has seriously damaged the Serbian economy. Despite a modest recovery beginning in 2000, improvements are necessary to meet debt-servicing requirements in 2007 to 2009: Serbia must continue high GDP growth, increase exports by over 15% annually, and create an environment where foreign direct investment (FDI) reaches 20% of GDP.

GDP Growth: catching up

The Serbian economy continues to rebound, as GDP increased to \$15.5 billion in 2002 and is estimated to surpass \$18 billion in 2003.¹ It might approach pre-war levels by 2004, and a longer-term goal for 2007 is to approach \$25 billion, or 20% higher than its 1989 level. GDP in 2001 was half of the pre-war level of 1989,² and on a per-capita basis, 2001 GDP was \$1,350 compared to \$1,679 for Bulgaria, \$4,614 for Croatia and \$5,088 for Hungary.³ At the 10% GDP growth rate of the Ukraine,⁴ it will take almost 25 years for Serbia to reach French, German or Italian per-capita GDP levels of \$25,000 and ten to fifteen years to reach Croatia and Hungary. Clearly, Serbia must do something different.

Exports: falling behind imports

According to the Serbian Investment and Export Promotion Agency (SIEPA), exports per capita increased from \$263 in 2001 to \$286 in 2002, with levels in the near term expected to reach \$345 in 2003 and \$394 in 2004. As a percent of GDP, Serbian export levels for 2001 are 19%, compared to 61% for Hungary, 56% for Bulgaria and 47% for Croatia. If Serbia exports increase to 28% of GDP, the country will roughly achieve its 1990 export level. However, it needs to reach even higher levels to gain parity with the region and to create jobs, growth and prosperity. Additionally Serbia must move away from exporting less sophisticated, natural resource based products, as 33% of 2002 exports were semi-finished goods and raw materials.

Finally, the per capita trade deficit, which increased from (\$228) in 2001 to (\$330) in 2002, may surpass (\$340) by 2004. It was expected that imports would outpace exports from 2001 to 2003, due to the purchase of new technology. Although imports are greater than exports, machinery imports lag oil/products, road vehicles, and yarns/textiles.⁵

FDI / GDP: gaining momentum

After dropping to \$27 million in 2000, FDI is rebounding through Serbia's privatization program. Thanks in part to the June 2001 law on foreign investment, FDI as a percent of GDP increased to 1.5% in 2001 and 3.6% in 2002.⁶ However, per capita FDI is predicted to remain near that level during 2003 and 2004. This compares to Hungary's 4.0%, Bulgaria's 4.7% and

¹ SIEPA website using a population base of 8 million for Serbia and Montenegro

² 1989 GDP level referenced from 2002 IMF Country Report, other GDP measures from SIEPA website

³ World Bank Data Profile

⁴ World Economic Forum

⁵ SIEPA website

⁶ SIEPA website for investment and population figures

Croatia's 6.8% - levels that are only slightly higher than Serbia, but which present the range for a significant goal in the near future.

On a per capita basis, the current level of FDI is near \$50, while the required investment to help alleviate debt servicing is predicted to be approximately \$500.⁷ The Foreign Investors Council 2003 White Book highlights six recommendations that mainly focus on legal and regulatory frameworks that will help to expedite this required foreign investment.

Donor Contributions as a Percentage of GDP: post-sanctions support

Donor countries and organizations provided funds of approximately \$1.3 billion to Serbia in 2001,⁸ which is approximately 12% of GDP and 28% of 2001 government spending levels.⁹ This level appears generous when compared to Bulgaria, with grants at 2.5% of GDP, Hungary at 0.8% and Croatia, at 0.6%, with Serbia funding levels likely to decrease after the next three years.

Average Monthly Salary: a slow climb

The Serbian average monthly salary increased to \$151¹⁰ in 2002 from \$102 in 2001. As of May 2003, the monthly salary has further increased to \$170, and the prediction for 2004 is that monthly salary levels will further rise to over \$180. Although the trend continues to be positive, significant innovation will be required to reach Croatia's 2001 monthly salary level of \$535 or Hungary's mark of approximately \$600 per month.¹¹

⁷ DANAS July 14, 2003 byline Stojan Stamenkovic and SEDP analysis

⁸ World Bank Country Profile Table (European Commission: FDY Country Strategy Paper 2002-2006 shows \$2.1 billion over several years) and SEDP analysis

⁹ IMF report that provides government expenditure as percent of GDP

¹⁰ Net salary, from SIEPA website

¹¹ Deutsche Bank Study, converted from Euros

STRATEGIC OBJECTIVES

The purpose of the *National Competitiveness Strategy* is to mobilize and organize our nation to accelerate economic growth, to create jobs and to improve the prosperity of the average citizen. There are explicit metrics for each of these goals:

Economic Growth

Metric	2002 Benchmark	2004 Goal	2007 Goal
GDP Growth Rate	4.0% ¹²	5.0%	6.0%
Growth Rate for Exports	13.7% ¹³	17.0%	17.0%
Balance of Payments Deficit	(\$3,471) ¹⁴	(\$2,500)	(\$1,000)
Foreign Direct Investment per capita	\$43	\$100	\$500

Jobs

Metric	2002 Benchmark	2004 Goal	2007 Goal
National Unemployment Rate	28.6%	25.0%	15.0%
Total Number of Jobs (Millions)	1.4	1.5	1.7
Economic activity based jobs (millions)	1.0	1.1	1.3

Prosperity

Metric	2002 Benchmark	2004 Goal	2007 Goal
PPP-Adjusted GDP/Capita ¹⁵	\$2,250	\$2,400	\$3,600
Average Wage (Net) ¹⁶	\$151	\$172	\$250
Percent of population living below the poverty line ¹⁷	10.6%	7.6%	4.4%

The *Strategy* will also rely on the World Economic Forum's Global Competitiveness Ranking to evaluate the competitiveness of Serbia's economy.

Metric	2003 Benchmark	2004 Goal	2007 Goal
WEF Global Competitiveness Rank ¹⁸	First Ranking in Fall 2003	top 2/3	top 1/2

¹² IMF

¹³ IMF

¹⁴ SIEPA website (also provides data for 2002 FDI and job metrics)

¹⁵ 2003 World Development Report

¹⁶ SIEPA website

¹⁷ World Bank 2002 Report

¹⁸ World Economic Forum Global Competitiveness Rank, 2003

STRATEGIC VISION

Serbia's business, government and civic leaders are united to achieve a competitive Serbia whose strategy is based on three fundamental themes:

1. Serbia will restructure its economy to become highly productive and knowledge-driven, relying on unique and sophisticated products and services to generate wealth in domestic and international markets.
2. Serbia will pursue membership in the European Union, where it aspires to be a valued partner to other Member States.
3. Serbia will become an engine of growth for the Balkan region and a valued member of the global community of nations by implementing bilateral trade agreements, such as those with neighboring countries, and by pursuing multi-lateral agreements like WTO membership.

The initiatives of the *National Competitiveness Strategy* will convert these themes into tangible actions and measurable results. Although the initiatives will evolve over time, these three themes will guide Serbia's competitiveness strategy for the next 10-20 years.

In the coming year, it is essential for Serbia to begin to develop a unique economic identity in the community of nations. This unique identity must position our firms and our economy as a valuable complement to other nations. In the past, Serbia had a unique economic identity, namely that of being the engineer for many other nations and providing complex technical products and engineering services to the non-aligned nations, among others. Several of the Asian economies that experienced rapid industrialization in the 1980s and 1990s developed a unique economic identity for themselves as the product and service factories for OECD nations. As these Asian economies restructured from nations of farms to nations of factories, they experienced historic success. By contrast, the nations of the CIS that have positioned themselves as attractive only for their low-cost labor and natural resources lack a clear role in the international economy, and they consequently lack the growth, jobs and prosperity their citizens desire.

As Serbia moves closer to joining the EU and rebuilds its relationships with its Balkan neighbors, what will our unique economic identity be? Will a new generation of pharmaceutical, processed agricultural, petrochemical and other engineered products re-establish Serbia as the specialist engineers for the world? Or do we want to create a new and different identity to claim the role we wish to play in Europe and in the world. In the coming year, the National Competitiveness Council will seek advice from leaders from throughout Serbia and the international community with regard to these issues. The Council will also closely monitor the competitive successes and failures of our economy to see where new competitive advantages emerge. At the next National Competitiveness Summit, the Council will advocate promoting a unique economic identity for Serbia.

TEN CHALLENGES FOR IMPROVING COMPETITIVENESS

This *National Competitiveness Strategy* presents ten challenges for close attention in 2004 and beyond. These challenges are:

1. Serbia must *increase the productivity of its companies* to produce a competitive private sector.
2. Serbia must *increase exports and improve trade policies* as a means of generating significant new wealth and establishing the competitiveness of Serbia's companies against international competitors, ending protectionism and improving trading opportunities.
3. Serbia must *reconnect with the international business community* so that Serbian companies can develop their business-to-business markets and enter into strategic partnerships to better meet the needs of the global market.
4. Serbia must *build industry clusters in high priority sectors* to accelerate sector restructuring, increase individual company productivity, and strengthen export initiatives.
5. Serbia must *improve companies' access to and productive deployment of financing* for market-development and productivity-improving investments.
6. Serbia must *accelerate strategic foreign investment* that will strengthen competitiveness reforms with substantial infusions of financial and intellectual capital.
7. Serbia must increase its ability to *employ existing technologies and innovate to create new competitive advantages* for our companies and clusters.
8. Serbia must *invest aggressively in its human capital*, starting in the private sector and evolving to address every citizen of Serbia throughout his or her life.
9. Serbia must *build and consolidate institutions and the rule of law* necessary to implement the *National Competitiveness Strategy*.
10. Serbia must *deliver public education about modern economics and competitiveness* to ensure every citizen understands the progress being made and the role he or she should play in contributing to future progress.

In the pages that follow, each of these ten challenges is described in detail, with the specific objectives and priority initiatives for 2004 necessary to achieve those objectives. The list of initiatives is intended to highlight key activities that the Council will coordinate in 2004, but it is not a comprehensive list. Ultimately, each organization must take steps to improve its own competitiveness and contribute to Serbia's overall competitiveness reforms. No document could hope to catalogue, never mind prescribe, so many changes, but the Council recognizes they are important to the success of the overall *Strategy*.

1. INCREASING FIRM-LEVEL PRODUCTIVITY

What needs to be done?

Serbia must raise the productivity of its private sector, emphasizing improvements in quality and unique capabilities rather than price-based competition. We must develop a new generation of business leaders with world-class management skills, and we must restore a solid work ethic within every workplace. Our managers must lead organizations that meet or exceed established international standards for quality.

Specific objectives for productivity include:

- Number of firms self-reporting that they have a business plan rises from 25% to 50% in 2004.
- Increasing Value Added per Employee in Serbia’s companies; an initial benchmark will be established by early 2004.
- Number of exporters possessing a quality standard certificate issued by a certified agent rises from 27% to 50% in 2004.
- Serbia improves its ranking in the World Economic Forum Index Section 10 (Company Operations and Strategy) to the top 2/3 internationally in 2004.

Priorities for the coming year	Primary Responsibilities
(1.1) Launch a campaign to get private firms to adopt internationally recognized quality standards that are relevant to their industries; present a special certification to firms achieving such quality standards.	MOEP, Chamber of Commerce of Serbia, Regional Chambers of Commerce, American Chamber of Commerce
(1.2) Establish guidelines to certify sound business planning and management systems are in place, promote compliance, and facilitate access to technical assistance for firms not in compliance.	Chamber of Commerce of Serbia, Regional Chambers of Commerce
(1.3) Secure donor commitments to facilitate access to international technical expertise to help firms implement quality standards, strengthen marketing and sales strategies, and improve employee training programs related to productivity and quality.	National Competitiveness Council
(1.4) Establish working committees to streamline and modernize industry regulations and design appropriate industrial policies for Serbia.	MOEP, MIER, leading companies and clusters
(1.5) Establish a national campaign to restore full effort for a full work week in Serbian organizations.	Unions, local civic leaders, Ministry of Labor, company managers

2. IMPROVING EXPORTS & TRADE POLICY

What needs to be done?

Serbia needs a new generation of export products and services that firmly establishes the sophistication of our economy and makes us a desirable trading partner for our unique value, not for low prices and average quality.

Specific objectives for exports include:

- The total value of Serbia’s exports must increase to \$5.5 Billion in 2004.
- Exports to neighboring countries must surpass \$1.0 Billion in 2004 and new exports should emphasize products and services meeting global quality standards.
- Exports to the EU and United States must increase to \$2.0 Billion in 2004 and emphasize manufacturing and knowledge-intensive products and services meeting the quality standards of these markets.
- At least 10% of exporters will self-report in 2004 that they offer products or services superior to international competitors in export markets, up from 0% in 2003.

Priorities for the coming year	Primary Responsibilities
(2.1) Host sector-specific conferences within Serbia featuring experts who will identify export opportunities in Serbia’s target export markets for high priority clusters; participating firms will be expected to pursue product development programs that produce new products and services that meet international requirements and are introduced in foreign markets.	Chamber of Commerce of Serbia, Regional Chambers of Commerce, American Chamber of Commerce
(2.2) Mobilize delegations to show Serbian products and services in at least two international trade fairs per sector/cluster in 2003-2004; the cumulative exports resulting from this and complementary efforts should total at least [AMOUNT].	SIEPA, companies from high priority sectors and clusters
(2.3) Implement a “Buy Serbia” branding campaign to promote sales of high quality Serbian products and services in domestic, regional and EU markets.	SIEPA, leading exporters, leading domestic companies
(2.4) Identify the ten most export-inhibiting legal or regulatory measures in Serbia’s legal and economic institutions and take action to remove them.	MIER, MOEP, Ministry of Finance, National Competitiveness Council
(2.5) Pursue additional bi-lateral trading arrangements with the EU, US and neighboring countries to further integrate Serbia’s economy with these markets.	MIER, Ministry of Foreign Affairs
(2.6) Work with government and business leaders from neighboring countries to simplify transportation of physical products into and out of Serbia and reduce transit times from days to hours.	MIER, Ministry of Transportation, Ministry of Finance, Customs Administration

3. RECONNECTING WITH THE INTERNATIONAL BUSINESS COMMUNITY

What needs to be done?

Serbia must re-establish linkages with the international business community so that Serbian companies can develop their business-to-business markets and enter into strategic partnerships to better meet the needs of the global market.

Specific objectives for exports include:

- The number of Serbian companies maintaining stable export or import relationships with foreign companies will rise; an appropriate benchmark will be established by early in 2004.
- Serbian connective organizations will increase the number and quality of the affiliations they hold with international business networking organizations; an appropriate benchmark will be established by early in 2004.
- Serbia will arrange by the end of 2004 to host the global meeting of an international business organization during 2007.

Priorities for the coming year	Primary Responsibilities
(3.1) Encourage Serbian firms' participation in the Global Trade Network.	Global Trade Network, Chamber of Commerce of Serbia
(3.2) Support Serbian firms' participation in trade shows in high priority foreign markets.	Chamber of Commerce of Serbia, American Chamber of Commerce, SIEPA
(3.3) Support Serbian firms' participation in trade missions to high priority foreign markets.	Ministry of Foreign Affairs, MIER, SIEPA
(3.4) Organize training of economic and commercial officers in embassies abroad to represent the interests of Serbian firms.	Ministry of Foreign Affairs, MIER, SIEPA
(3.5) Coordinate international business-to-business networking by Serbian companies.	SIEPA, Chamber of Commerce of Serbia, American Chamber of Commerce
(3.6) Support coordination between Serbian clusters and related clusters in South East European nations.	SIEPA, MIER, Cluster Leadership Councils
(3.7) Take advantage of programs that facilitate imports into OECD markets, such as Swiss SIPPO and Japanese Jetro	MIER, Ministry of Foreign Affairs, National Competitiveness Council

4. BUILDING INDUSTRY CLUSTERS

What needs to be done?

Companies, government regulators, civic groups and others must work together in “clusters” to strengthen the productivity of each sector’s supply chains, distribution and logistics networks, research and development capabilities, labor markets and capital markets. These clusters will begin within Serbia, but may grow to include partners in neighboring countries and export markets.

Specific objectives for clusters include:

- Six clusters with at least 20 active members each will be operating by the end of 2004.
- Cluster members generate exports and total employment earnings at 150% of the national average rate in 2004.
- Serbia improves its ranking in the World Economic Forum Index Section 9 (Cluster Development) to the top 2/3 internationally in 2004.

Priorities for the coming year	Primary Responsibilities
(4.1) Establish leadership councils in at least four new clusters in 2004; three of the clusters will be in pharmaceuticals, tourism and textiles; other sectors are encouraged to apply to the National Competitiveness Council, which will evaluate their technical assistance needs.	National Competitiveness Council, Chamber of Commerce of Serbia, Regional Chambers of Commerce, American Chamber of Commerce
(4.2) Secure donor commitments to facilitate technical assistance for restructuring strategies in each cluster; each strategy will identify specific target geographic and product markets where the cluster will intend to make dramatic improvements in domestic and/or international sales.	National Competitiveness Council, MIER, MOEP
(4.3) Secure donor commitments to facilitate technical assistance to introduce world-class supply chain and distribution logistics techniques to improve overall productivity in the clusters.	National Competitiveness Council, MIER, MOEP
(4.4) Modernize and streamline industry-specific regulations that affect the clusters’ collective productivity (e.g., customs procedures, alignment of domestic quality standards with international standards, intellectual property rights).	MOEP, Cluster Leadership Councils, other ministries as appropriate
(4.5) Promote retraining and redeployment initiatives for cluster members affected by the restructuring strategy.	Ministry of Labor, Cluster Leadership Councils
(4.6) Encourage cluster businesses to seek opportunities to market and sell the products of other cluster members who are not direct competitors, especially in foreign markets.	Cluster Leadership Councils, Chamber of Commerce of Serbia, Regional Chambers, American Chamber of Commerce

5. FINANCING ENTERPRISES

What needs to be done?

While financial capital alone does not determine competitiveness, Serbia's companies must have better access to loans and other forms of financing. Our companies must become more sophisticated in applying for and productively deploying financing from banks and other sources.

Specific objectives for financing include:

- The effective cost of capital for firms must be reduced by 1-2% beyond any reductions due to macroeconomic adjustments in 2004.
- Number of exporters receiving financing assistance from Serbian or international agencies will increase in 2004; an appropriate index for benchmarking will be established by early in 2004.
- Serbia improves its ranking in the World Economic Forum Index Section 2 (Macroeconomic Environment) to the top 2/3 internationally in 2004.

Priorities for the coming year	Primary Responsibilities
(5.1) Review tax credit schemes and reduce the cost of financing productivity-improving capital investments.	MOEP, Ministry of Finance, Cluster Leadership Councils, company leaders
(5.2) Secure donor commitments to facilitate technical assistance to help companies to reduce their working capital requirements and, consequently, reduce their total financing requirements.	National Competitiveness Council, Chamber of Commerce of Serbia, Regional Chambers of Commerce
(5.3) Sponsor seminars to help firms improve the effectiveness with which they apply for financing and to identify steps by which they may improve their creditworthiness, and solicit feedback about steps that can be taken to simplify application processes, streamline payment and monitoring procedures, and otherwise improve the financing process for creditworthy companies.	Banks, Chamber of Commerce of Serbia, Regional Chambers of Commerce
(5.4) Speed the application of financing to support important market-development or productivity-improvement initiatives.	Banks, Cluster Leadership Councils, Chamber of Commerce of Serbia, Regional Chambers of Commerce
(5.5) Establish Serbia & Montenegro Export Credit Agency (SMECA) and establish cooperative trade financing arrangements with organizations in OECD markets, such as Hermes in Germany, SACE in Italy and COFACE in France.	National Competitiveness Council, Donor Organizations
(5.6) Identify specific steps the government and private sector may take to reduce financing risks and lower domestic interest rates.	Banks, Ministry of Finance, MOEP, cluster and company leaders

6. ATTRACTING FOREIGN DIRECT INVESTMENT

What needs to be done?

Serbia must attract strategic foreign investors whose financial and intellectual capital can rapidly accelerate the restructuring of individual firms or provide the foundation for the development of new exporting clusters. It is important that Serbia become proactive in searching for investors willing to make substantial, long-term investments in plant improvement, worker retraining, and research and development.

Specific objectives for foreign investment include:

- Foreign investment should exceed \$500 million in 2004.
- Support planned efforts by current foreign investors to make incremental new investments in Serbia.
- Serbia improves its ranking in the World Economic Forum indicators related to foreign investment to the top 2/3 internationally in 2004.

Priorities for the coming year	Primary Responsibilities
(6.1) Advance implementation of the recommendations in the FIC White Book to improve the attractiveness of the legal and business environment for foreign investors in Serbia.	National Competitiveness Council, Foreign Investors Council (FIC)
(6.2) Identify current foreign investors in Serbia that are planning incremental new investments in Serbia and provide assistance as appropriate to realize these opportunities.	SIEPA, FIC, American Chamber of Commerce
(6.3) Actively promote Serbian investment opportunities abroad to international investment banking organizations and the international corporate community.	SIEPA, MOEP, Ministry of Finance, FIC, American Chamber of Commerce
(6.4) Improve access to information and organizations critical for streamlining a potential foreign investor's due diligence.	SIEPA, FIC, American Chamber of Commerce
(6.5) Identify and approach potential foreign investors whose presence would significantly strengthen productivity in a cluster; such investments could be purchasing companies through privatization, direct equity purchases, or the establishment of new (greenfield) investments.	Cluster Leadership Councils, SIEPA, MOEP
(6.6) Simplify the establishment of initiatives to retrain or redeploy workers affected by foreign investment and associated restructurings.	SIEPA, Ministry of Labor
(6.7) Ensure that Serbia's trade strategy explicitly reflects the interests and priorities of foreign investors as well as Serbian companies.	SIEPA, MIER, Ministry of Foreign Affairs
(6.8) Engage Serbian diaspora to identify individuals who might be potential investors in Serbia or facilitate referrals for Serbian companies to relevant non-Serbian investors.	SIEPA

7. PROMOTING INNOVATION & TECHNOLOGY

What needs to be done?

To make rapid strides in competitiveness, we must quickly attain technological parity with competitor nations. One important area in which we must close considerable gaps is in our use of information and communication technologies (ICT). Once we have achieved parity with our competitors, we must surpass them through continued and widespread innovation, and earn the profits and competitive advantage that comes with unique intellectual property such as international patents, proprietary technologies, and trademarked designs.

Specific objectives for innovation include:

- Serbia must maintain, and even increase, R&D spending as a percentage of GDP (1.3% in 2003) as the economy grows in 2004.
- Serbia improves its ranking in the World Economic Forum Index Section 3 (Technological Innovation and Diffusion) to the top 2/3 internationally in 2004.
- Serbia improves its ranking in the World Economic Forum Index Section 4 (Information and Communication Technology) to the top 2/3 internationally in 2004.

Priorities for the coming year	Primary Responsibilities
(7.1) Promote the use of ICT by Serbian businesses to learn about export markets, the capabilities of important foreign competitors, the requirements to achieve international standards, and the compliance information associated with customs and other commercial and trade regulations.	Ministry of Science and Technology, domestic and international ICT firms
(7.2) Institute awards for the most innovative uses of technology to improve competitiveness in firms and clusters.	Ministry of Science and Technology
(7.3) Secure donor commitments to facilitate technical assistance to raise from 60% to [X%] the proportion of Serbian exports with at least a basic presence on the Internet.	SIEPA, Ministry of Science and Technology, National Competitiveness Council, MIER
(7.4) Identify specific competitive advantages that Serbian companies and universities can develop through Serbia's membership in the 26-country EU EUREKA program.	Ministry of Science and Technology, cluster and company leaders
(7.5) Support the development of an ICT development strategy to build a "knowledge-based society," including reorientation of R&D funding towards applied research.	Ministry of Science and Technology, National Competitiveness Council, cluster and company leaders

8. DEVELOPING HUMAN CAPITAL

What needs to be done?

For Serbia to enjoy a knowledge-driven economy, we must dramatically improve the skills and openness to learning of our leaders, managers, employees, and citizens. Training initiatives must be closely linked to priority improvements in productivity. Our organizations must share the benefits of improved productivity with the employees whose efforts have made this possible, ensuring a clear link between improved productivity and increased prosperity.

Specific objectives for improving skills and learning include:

- In 2004, the Council will establish a benchmark for the number of workers receiving professional training during the year from their employer or from another source.
- The percentage of top university graduates taking employment in Serbia will increase in 2004; an appropriate benchmark will be established by early in 2004.

Priorities for the coming year	Primary Responsibilities
(8.1) Establish connections with leading EU and US universities to offer access to world-class management training materials for managers in Serbia.	Universities, National Competitiveness Council
(8.2) Develop higher education and vocational curriculums that support high priority, cluster-specific skills requirements.	National Competitiveness Council, cluster and company leaders, vocational institutions
(8.3) Encourage organizations throughout Serbia to actively recruit from within the Serbian diaspora in the US and EU, and identify a suitable organization to cultivate the necessary formal and informal connections with these diaspora communities.	National Competitiveness Council, MIER, Ministry of Foreign Affairs, Chamber of Commerce of Serbia, American Chamber of Commerce
(8.4) Promote international exchanges of professional employees and graduate students to increase Serbians' familiarity with the global competitive environment, the nature of important export markets, and the priorities for improving competitiveness in Serbia.	National Competitiveness Council, MIER
(8.5) Develop cost-effective programs to mitigate the negative effects of industry restructuring on workers and accelerate their retraining and transition into other employment.	MOEP, Ministry of Labor, Unions, cluster and company leaders
(8.6) Support an internship/mentoring program matching university students with competitive firms.	Ministry of Education, student organizations

9. STRENGTHENING INSTITUTIONS & THE RULE OF LAW

What needs to be done?

Implementing the national competitiveness strategy will require strong connective institutions and effective rule of law throughout Serbia. Stronger institutions are central to successfully implementing and reinforcing competitiveness enhancing reforms, and the rule of law provides the basis for increasing economic development, promoting FDI and fostering a secure and lasting enabling environment for both the private and public sectors.

Specific institutional and leadership objectives include:

- The National Competitiveness Council is consolidated and its initiatives fully funded.
- The Council will establish in 2004 a new benchmark for membership by businesses in voluntary chambers and other commercial associations.
- Serbia improves its ranking in Transparency International’s Annual Corruption Index.
- Serbia improves its ranking in the World Economic Forum Index Section 6 (Public Institutions) to the top 2/3 internationally in 2004.

Priorities for the coming year	Primary Responsibilities
(9.1) Institutionalize National Competitiveness Council membership, supporting Secretariat, and access to resources necessary to implement the Strategy; as part of this, consolidate the NCC's relationships with key business, government and civic organizations.	National Competitiveness Council, Donor Organizations
(9.2) Assist the Government with the political, macroeconomic, and rule of law reform agendas currently underway (e.g., the privatization process, banking restructuring, judicial and legislative strengthening) where those reforms overlap with the national strategy.	National Competitiveness Council
(9.3) Complete the restructuring of the Chamber of Commerce of Serbia into an organization with voluntary membership and member-oriented services.	MOEP
(9.4) Establish strong working relationships between the National Competitiveness Council and regional leaders in Nis, Novi Sad and other regions that will host priority export clusters and implement important initiatives outlined in this Strategy.	National Competitiveness Council
(9.5) Establish a central gateway to or repository for important competitiveness information, with access available to all Serbians in-person or through the Internet.	National Competitiveness Council

10. BOLSTERING PUBLIC EDUCATION

What needs to be done?

It is important that the public embraces the principles of competitiveness and is informed about important results that are achieved through the implementation of the *Strategy*. It is also important that Serbia communicates clear and consistent messages to foreign customers, investors, governments and donor organizations about the competitiveness reforms underway and the benefits these represent to the international community as well as to Serbia.

Specific objectives for public communication include:

- Serbia’s business, government and civic leaders should report high levels of awareness of the National Competitiveness Strategy and its key initiatives; measurements will be taken quarterly.
- The number of Serbians giving a positive rating to the trustworthiness of the domestic business environment will rise from 7% to 20% in 2004.
- Each six months, the National Competitiveness Council will publish an update about progress made at implementing the priorities of the *National Competitiveness Strategy*.

Priorities for the coming year	Primary Responsibilities
(10.1) Provide instructional manuals and seminars to educate all firms about basic competitiveness principles and cluster formation.	National Competitiveness Council, Chamber of Commerce of Serbia, American Chamber of Commerce
(10.2) Highlight success stories of Serbian entrepreneurs and exporters to communicate progress and illustrate important competitiveness principles.	National Competitiveness Council, MIER, MOEP
(10.3) Hold regional roundtable discussions in Novi Sad, Nis, and other parts of the country; these discussions will ensure local communities are informed about the Strategy and progress toward achieving its objectives; the discussions will also allow the Council to gather feedback about local competitiveness issues of high priority in each region of the country.	National Competitiveness Council
(10.4) Issue formal semi-annual reports to summarize progress made against implementing the Strategy, and sustain more frequent communications in the media to announce important achievements as they occur.	National Competitiveness Council
(10.5) Build a coalition of civil society organizations to lead a campaign to increase knowledge of, and promote changes in attitudes and behaviors among workers and citizens that contribute to increasing productivity.	National Competitiveness Council

ORGANIZING FOR COMPETITIVENESS

Implementing the *National Competitiveness Strategy* will require new kinds of leadership and cooperation in the business, government and civic sectors. Political and macroeconomic reforms can be implemented from the top-down. Competitiveness reforms require that many individuals and organizations take actions on their own, guided by the framework of the *Strategy*. Consequently, competitiveness reforms require leadership based on establishing a shared vision of what must be done, rather than exercising direct control over every initiative.

In March of 2003, the Serbia National Competitiveness Council was formed to coordinate the *National Competitiveness Strategy*. The Council is composed of leading businesspersons, senior government ministers and influential members of civic society. The Council has a three-person Executive Committee, chaired by Mr. Dragoljub Vukadinovic (Managing Director of Metalac a.d.) on behalf of the business sector, who is accompanied by Dr. Goran Pitic (Minister of International Economic Relations) representing the government and Professor Boris Begovic (Vice President, Center for Liberal Democratic Studies) representing civic society. The Council will meet bi-monthly to evaluate progress against the *Strategy* and to make adjustments as appropriate to ensure Serbia's plans remain current and competitive.

The National Competitiveness Council is establishing close working relationships with a number of organizations that will play important roles in implementing the *Strategy*. In government, the Council will work closely with the Office of the Prime Minister; the Ministry for Economy & Privatization; the Ministry of Finance & Economy; the Ministry of International Economic Relations; the Ministry of Trade, Tourism & Services; the Ministry Labor & Employment; the Ministry of Foreign Affairs; and other parts of government as required. In the business sector, the Council will work closely with leading companies, regional chambers of commerce, and the new cluster groups that are forming in high priority economic sectors. In the civic sector, the Council will work closely with local officials, labor unions, the media and other advocacy groups. In the foreign community, the Council will work closely with the American Chamber of Commerce, the Foreign Investors Council, and donors and investors from the United States, the EU and other nations. The Council will work with its partners to ensure that there is sufficient communication and coordination among the many competitiveness reform initiatives. This will limit duplication of effort and improve the efficiency with which the *Strategy* is implemented.

COMMITTING TO COMPETITIVENESS

The *National Competitiveness Strategy* is the result of deliberation by the Serbia National Competitiveness Council. Over the past three months, the Council has sought information and advice from a variety of domestic and international organizations. Their insights and commitments of support provide the foundation for the strategic vision and the specific initiatives that the Council will oversee.

The *Strategy* follows the very successful National Competitiveness Summit held at the Sava Center in Belgrade on April 2-3, 2003. The Summit announced the nation's commitment to formal competitiveness reforms and secured the support of important partners across the nation and from the international community. A second National Competitiveness Summit will be held

in March 2004 to evaluate progress in the first year of implementing the *Strategy*, and set priorities for the second year of competitiveness reforms.

A number of key organizations have already committed to implementing crucial parts of the *Strategy*. In the coming weeks, the Council will secure the remaining necessary commitments. The Council will also engage in aggressive dialogue with the public to mobilize many individuals and organizations to take the initiative to implement parts of the program. The Council will maintain public directories of the organizations participating in various competitiveness reforms.

The Council will maintain a comprehensive timeline and status report of progress implementing the *Strategy*. This information will be available on the Council's web site, www.nsk.org.yu. In addition, the Council will periodically make public announcements when important initiatives begin or, more importantly, when important results have been achieved.

BENEFITTING FROM COMPETITIVENESS

The national effort to improve competitiveness will yield tremendous benefits and entail substantial financial and other costs. Benefits will be measured in terms of increased economic growth, jobs and prosperity. Like these benefits, the costs of competitiveness reforms will be shared fairly among all of us.

The Council will mobilize resources from within Serbia and from the international donor community to meet the costs of technical assistance and other resources required by large-scale initiatives like implementing quality standards, forming new export clusters and implementing new trade and industrial policies. The Council will work closely with donor organizations to ensure that these resources are deployed effectively.

Individual business, government and civic organizations, and even private citizens, will also be expected to invest their resources in restructuring their operations and improving their productivity. As Serbia becomes more competitive, the nation must assume more responsibility for sustaining the costs of competitiveness reforms. Ultimately our prosperity, and the economy that delivers it, must be self-sustaining. While the Council wishes to set the expectation that all organizations in Serbia should invest in their own competitiveness, the Council also recognizes that this may represent real sacrifices for many organizations, and these sacrifices are greatly appreciated.

The Council acknowledges the contributions of financial and technical support from many donor organizations. Further support will be required to implement the first year of the *Strategy* and achieve the 2004 objectives. The council has secured critical support from donors to begin implementation immediately. However, the Council's goal is to assist Serbia in graduating from donor assistance as quickly as possible. We are confident that Serbia can and must once again become one of the European nations that is able to bear the burden of its own competitiveness and prosperity.

CONCLUSION

The National Competitiveness Council is pleased to publish Serbia's first *National Competitiveness Strategy*. Implementation of the *Strategy* will yield greater economic growth, create more jobs and improve the prosperity of the average citizen. Led by the business sector, with the government and civic society as active partners, we must all do our part.

Every citizen of Serbia must become involved in the effort to make our economy more competitive and more productive. The organizations given leadership responsibility for various priorities in the *National Competitiveness Strategy* must certainly lead; however, each of us must do his or her part to strengthen our companies, government ministries, civic organizations, and communities. Those citizens and organizations who answer this call will benefit and see their standard of living rise; those who delay or participate without commitment will find themselves left behind.

The National Competitiveness Council will help individuals and organizations to become involved in implementing the priorities outlined in this *Strategy*. Each of us should feel free to contact the organizations identified as responsible for an initiative in which we want to participate. The Council's web site will have a regularly updated list of appropriate people to contact at these organizations. In addition, to get information about general issues related to the Council, the National Competitiveness Strategy, or the priority initiatives, please feel free to contact:

- [PRIVATE SECTOR CONTACT AT THE CHAMBER OF COMMERCE OF SERBIA]
- [PROPOSED: ASSISTANT MINISTER GORDANA LAZAREVIC AT MIER]
- [CONTACT AT CLDS OR OTHER ORGANIZATION IN THE CIVIC SECTOR]

The Council is excited to see Serbia embark on a year that marks a new commitment to strengthening our economy by improving our competitiveness. Rejoining the community of nations as a prosperous and productive member is our goal; by working hard and together we can make it a future we all realize and enjoy.

**NATIONAL COMPETITIVENESS COUNCIL
SECOND MEETING
Friday, September 26, 2003
14:00 AM-17:00 AM
Hyatt Hotel, Belgrade**

MEETING AGENDA

- 1. The National Competitiveness Strategy**
- 2. NCC operating procedures and secretariat**
- 3. New NCC members**
- 4. Cooperation with other institutions on the NCS implementation**
- 5. World Economic Forum rankings**

NATIONAL COMPETITIVENESS SUMMIT AGENDA

Day 1 – April 1, 2003

Time	Topic	Description / Key Message	Speaker
9:45 – 10:00	Welcome	Objectives of the conference; summarize the days activities	Dragoljub Vukadinovic, Chair, National Competitiveness Council
10:00 – 10:30	Continuing Serbia's economic reform agenda	As a country and as representatives of our various constituencies, we need to commit ourselves to economic reform & building greater competitiveness; the NCC should be a key focal point of this effort	Prime Minister Zivkovic
10:30 – 10:45	America will continue to support Serbia	The US supports this initiative to build greater competitiveness, and now is the right moment, but Serbians must take responsibility for this	US Ambassador Montgomery
10:45 – 11:30	Viewing competitiveness in a global context	Serbia must learn to compete in a complex and challenging international marketplace (incl. what do we mean by competitiveness; international examples)	Joe Babiec, SCEE Project
11:30 – 12:00	Coffee Break / Press Conference		
12:00 – 1:00	Roles in Building National Competitiveness	Panel discussion highlighting the essential, but different, roles that the private sector, government and civic society have in building competitiveness; introducing the NCC as a vital means to institutionalize the co-operation among these segments of society	Dragoljub Vukadinovic, Chair, National Competitiveness Council; Minister Goran Pitic; and Boris Begovic, CLDS
1:00 – 1:30	The Fruit Cluster: building a competitiveness success story	The fruit cluster is an example of a national group of companies which have learned to work together to develop a competitive strategy	Djordje Stefanovic, Stefani Univerzal, cluster representative
1:30 – 2:00	Serbia must become attractive for foreign investment	Serbia needs to create the proper economic and legal environment in order to be attractive to foreign investors and the extra financial and human capital that they can provide; increased competitiveness is a key component of this	Christoph Greussing, Chairman of the Foreign Investors Council
2:00 – 2:30	Is Serbia ready to compete?	Serbian attitudes shape the country's economic development & competitiveness. Commentary on a survey of 200 Serbian business, government and civic society leaders	Boris Begovic, Center for Liberal Democratic Studies

Time	Topic	Description / Key Message	Speaker
2:30 – 2:45	Wrap up	Summarizing the issues raised in the day’s session; outlining the next day’s agenda	Dragoljub Vukadinavic, Chair, National Competitiveness Council
3:00 – 4:00	Lunch		

Day 2 – April 2, 2003

Time	Topic	Description / Key Message	Speaker
9:45 – 10:00	Welcome & Opening Remarks	Continuity with yesterday’s session; outlining the day’s activities	Dragoljub Vukadinavic, Chair, National Competitiveness Council
10:00 – 10:30	The Furniture Cluster: building a competitiveness success story	The furniture cluster is another example of a national group of companies which have learned to work together to develop a competitive strategy	Dusan Radmilac, SAGA, representative of the cluster
10:30 – 11:00	Foreign investors can support competitiveness building	How foreign investors can help Serbia: working with specific firms and clusters, creating linkages to export markets and serving as connective organizations.	Sasa Trisic, President, American Chamber of Commerce
11:00 – 11:30	Privatization as a first step towards greater competitiveness	Privately owned industry is more effective and efficient in building competitiveness, creating jobs and building prosperity	Minister Aleksandar Vlahovic, Minister of Economy & Privatization
11:30 – 12:00	Competitiveness is built at the grass roots	National strategies are essential, but greater competitiveness is ultimately derived from the ground up; the CRDA example	James Stephenson, Mission Director, USAID
12:00 – 12:30	Coffee Break/ Press Conference		
12:30 – 1:00	Strengthening national competitiveness: mobilizing the private sector & civil society	Working groups address the key concerns in the public, private and civil societies, providing the NCC with a core group of issues and recommendations supporting the development of a National Competitiveness Strategy	Several facilitators from the project and the NCC

Time	Topic	Description / Key Message	Speaker
1:00 – 1:30	Key issues and commitments needed to support a National Competitiveness Strategy	Presentation of key issues and recommendations from working groups representing the private, public and civil sectors	Representatives from the working groups
1:30 – 1:45	Summit wrap up	We must commit to building competitiveness: the NCC to identifying and implementing a broad national strategy; the government to creating the proper environment; clusters to working together to develop collective strategies for increasing competitiveness and exports	Dragoljub Vukadinavic, Chair, National Competitiveness Council
2:00 – 3:00	Lunch		



**Serbia Competitiveness & Economic Efficiency Project
National Competitiveness Summit**

**Fruit and Fruit Juices; Building a Success Story
1 April 2003**

Improving the connection to public and civic active partners will allow the cluster to improve its competitiveness

	Cluster Members	
Firms and Partners	<ul style="list-style-type: none"> • Agrana • Agroekonomik • Fresh Co. • IGDA Impex • Multi-Food • Nectar 	<ul style="list-style-type: none"> • Porecje • Stefani Universal • Tetra-Pak • ZZ Arilje • Van Drunen Farms • Niba Co.
Civic Associations	<ul style="list-style-type: none"> • SCEE Cluster Group • Association for Fruits and Vegetables • Fund for Fruit and Vegetables • Terra's, Natural Food Association, Subotica • Vilamet Producers Association 	
Universities Training Ctr. Research Inst.	<ul style="list-style-type: none"> • Open University • Institute for Fruit Cacak • Center: Plant and Genetical Research 	<ul style="list-style-type: none"> • Institute of Applied Sciences • University of Belgrade, Agriculture
Finance Institutions	<ul style="list-style-type: none"> • Community Revitalization Democratic Action <ul style="list-style-type: none"> • VOCA, Mercy, CHF, IRD, ADF • Raiffeisen Bank 	<ul style="list-style-type: none"> • Agro bank • Exim Bank • Diaspora (Angel Investors) • AIK
Government	<ul style="list-style-type: none"> • National Competitiveness Council • Ministry of International Economic Relations 	

Focusing on high productivity strategies will set the stage for firms to increase prosperity with differentiated competitive advantages

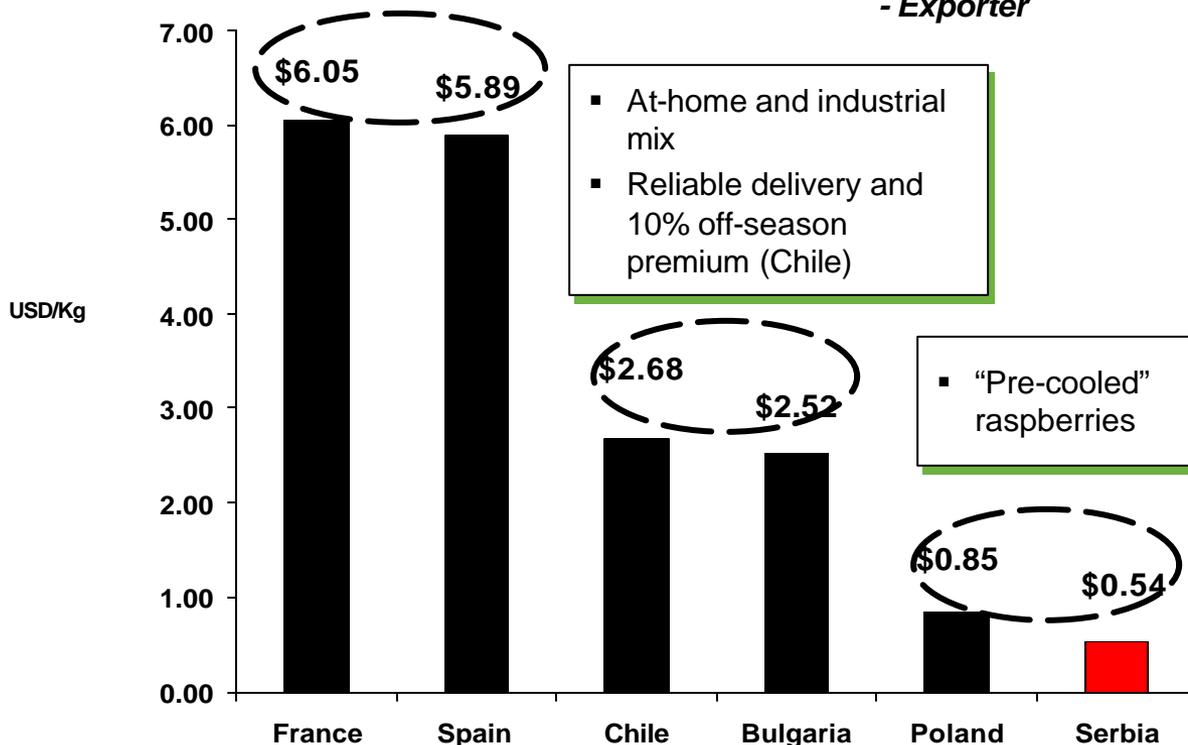
Average Price per Kilo - Export Values in 2001

- For EU, at-home *fresh* consumption
- 100% organic premium

Representative Quote :

“We barely make a profit on our sales, and it’s not our fault. But it’s worse for the farmers and cold stores . The cold stores think the farmers are greedy and the farmers think the cold stores are stealing their money. We need to stop this and work together.”

- Exporter

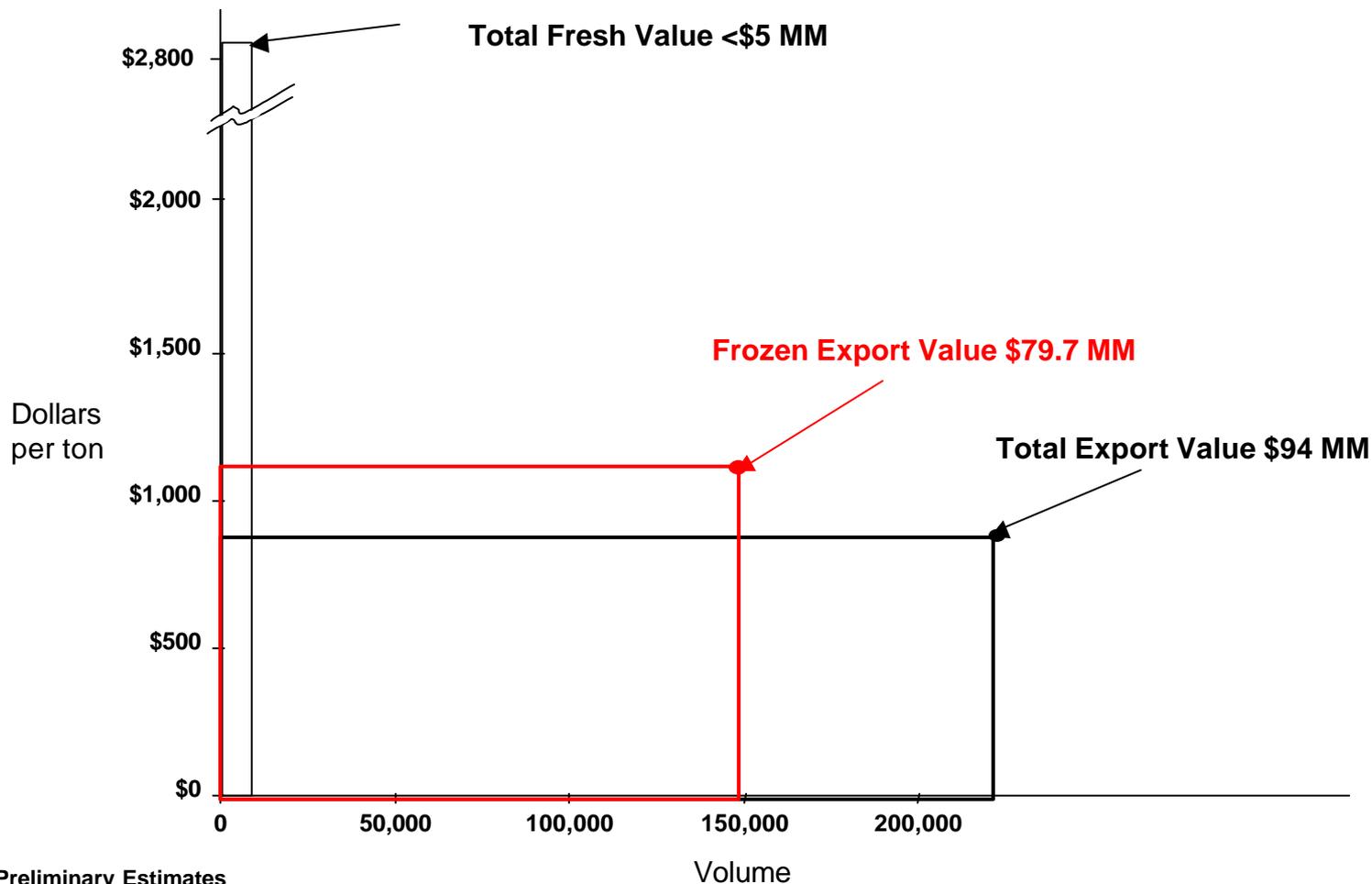


Note: Preliminary Estimates

Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Producing more sophisticated products will deliver an improved average standard of living among participating members

Total Fruit Export and Import Values in 2001



Note: Preliminary Estimates

Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates

Booz Allen Hamilton

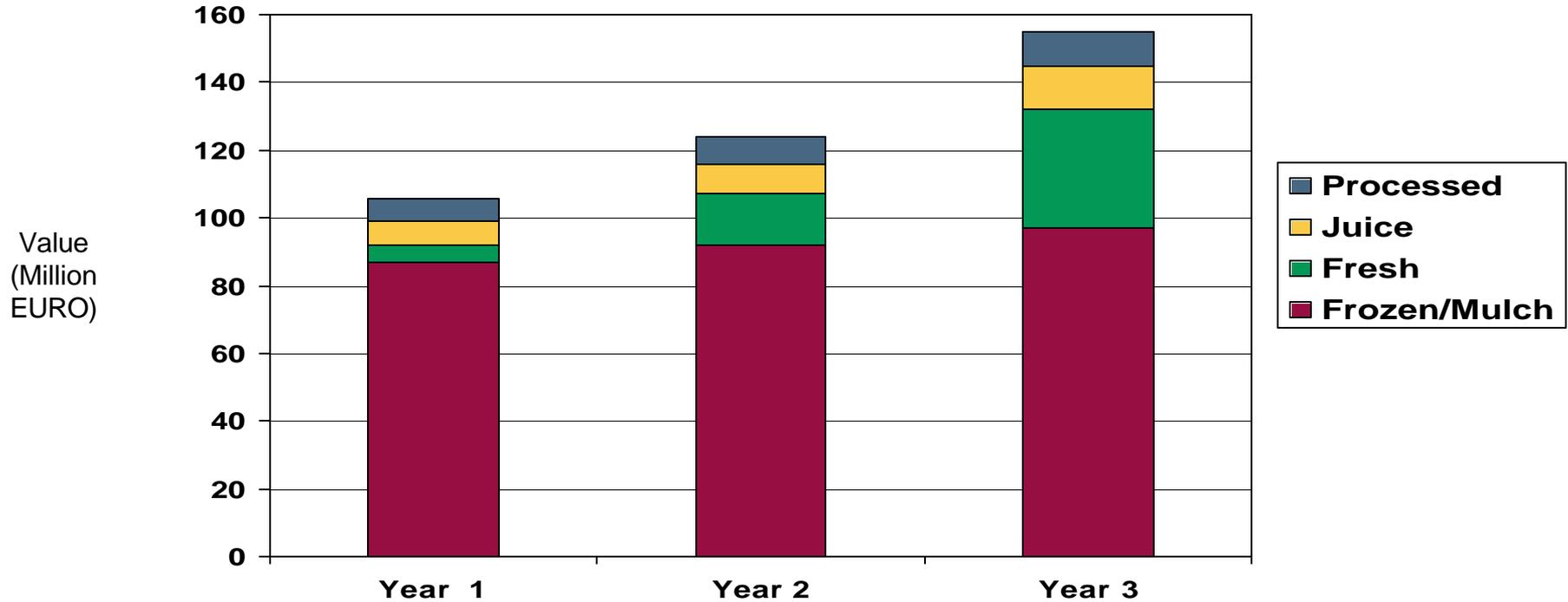
Choosing prosperity by embracing competitiveness and increasing productivity is the goal of the cluster

Goals

- Increase revenue of fresh fruit export by almost 50% or \$45 million in 2006
- Increase revenue of fruit juice export by \$7.5 million in 2006
- Increase revenue of processed fruit export by \$ 4.5 million in 2006
- Create new and better jobs in agriculture and related services
 - Training positions
 - High-tech growing
 - Logistics and Transportation
 - Marketing
 - Juice production
- Focus government on education, law enforcement, border delays, and quality control

Increasing fresh and juice exports with joint branding requires cooperation and shared vision from the cluster members

Estimate of annual cluster revenue and export Future Plan



- Initiate branding
- Focus on quality
- Develop relationships with high-end stores and wholesalers

- Lengthen growing season
- Improve transportation logistics
- Continue branding efforts

- Increase organic fresh fruit and juices
- Strengthen and/or building new relationships

Note: Preliminary Estimates

Source: Interviews with Serbian cluster leaders; SCEE analysis

Booz Allen Hamilton

Testing the viability of strategy options for juice and fruit, and understanding foreign markets is done by market research

ontheFRONTIER

Create a Survey

PRODUCT SURVEY

Solution Center Thought Leaders **Survey Manager** Personal Network Strategy Forums

Step 3e: SELECT QUESTIONS

Include or exclude questions for this survey

SUPPLIER RELATIONSHIP

Include	Question (as displayed)	
<input checked="" type="checkbox"/>	I often change from one provider to another, based on my ability to find lower prices.	STRONGLY DISAGREE -3
<input type="checkbox"/>	If the vendor can provide a superior product or service, I am willing to pay more than the industry average.	STRONGLY DISAGREE -3

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Status

- Survey of fruit juice wholesalers in progress
- Will conduct end user survey in selected market

Research Approach:

- Developing action-based survey questions
- Supporting increase in export of higher value fresh fruit
- Creating best approach for aggressive penetration of foreign juice markets
- Informing strategic decisions and testing purchase criteria in foreign markets
 - Juice
 - Fresh fruit
 - Packaged Frozen Fruit
- Test demand and price premium for organic and healthy fruit products
- Identify key drivers for future branding campaign

Training centers in Valjevo, Ivanjica, Cacak and Leskovac will increase innovation and productivity to deliver fresh exports



: Allen Hamilton

Status

- Three proposals in process for possible collaboration with CRDA, USDA, foreign firms, Opportunity International and local training centers
- Additional proposal in development with Agricultural Institute in Cacak

The training center focus:

- Growing, harvesting, irrigation technologies
- Expanding the season with greenhouse, etc., technology
- Hail, frost protection and disease prevention
- Testing of new strains and varieties for taste, demand and sturdiness
- Packaging
- Marketing
- Logistics and transportation testing

Re-engaging foreign markets will require the cluster to determine and enforce the appropriate quality and standards

Labeling Laws that were amended by The Fruit Juice Association must be enforced.

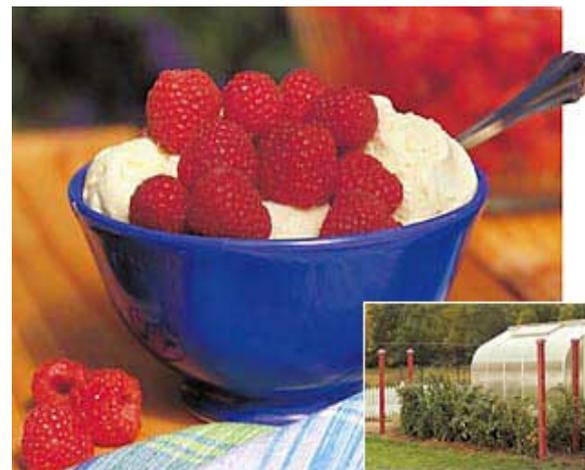
Nutrition Facts	
Serving Size ½ cup (114g)	
Servings Per Container 4	
Amount Per Serving	
Calories 90	Calories from Fat 30
% Daily Value*	
Total Fat 3g	5%
Saturated Fat 0g	0%
Cholesterol 0mg	0%
Sodium 300mg	13%
Total Carbohydrate 13g	4%
Dietary Fiber 3g	12%
Sugars 3g	
Protein 3g	
Vitamin A 80%	Vitamin C 60%
Calcium 4%	Iron 4%
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs:	
	Calories: 2,000 2,500
Total Fat	Less than 65g 80g
Sat Fat	Less than 20g 25g
Cholesterol	Less than 300mg 300mg
Sodium	Less than 2,400mg 2,400mg
Total Carbohydrate	300g 375g
Dietary Fiber	25g 30g
Calories per gram:	
Fat 9 • Carbohydrate 4 • Protein 4	

Organic Laws/Organic Certification adopted in July 2000. Clarification required, such as in primary plant production, livestock husbandry, and food processing.



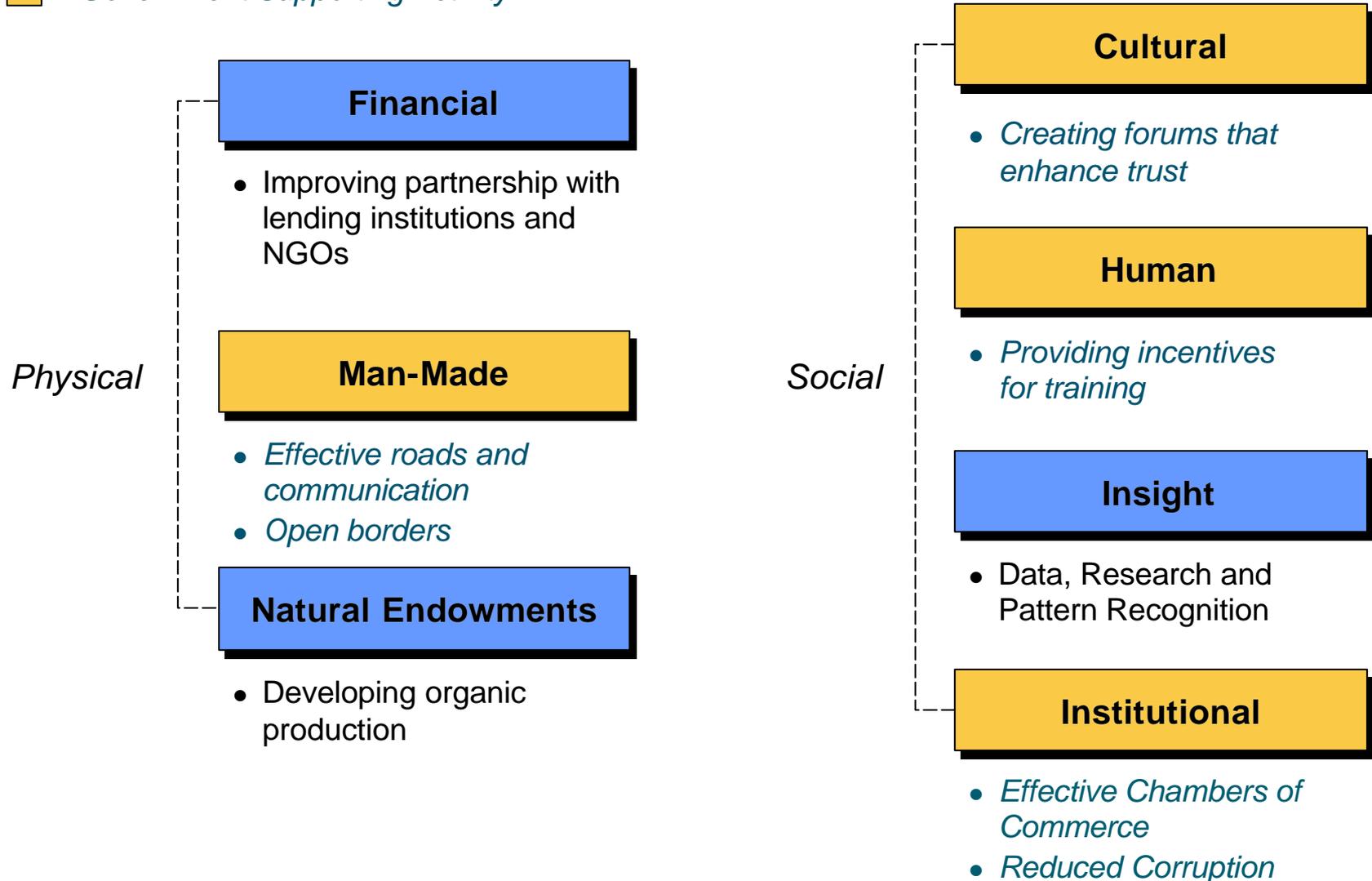
Food Safety and Phytosanitary Standards are below EU requirements and need revision.

Hazard Analysis and Critical Control Point (HACCP) Certification with sanitary testing in food processing will be required to approach European markets

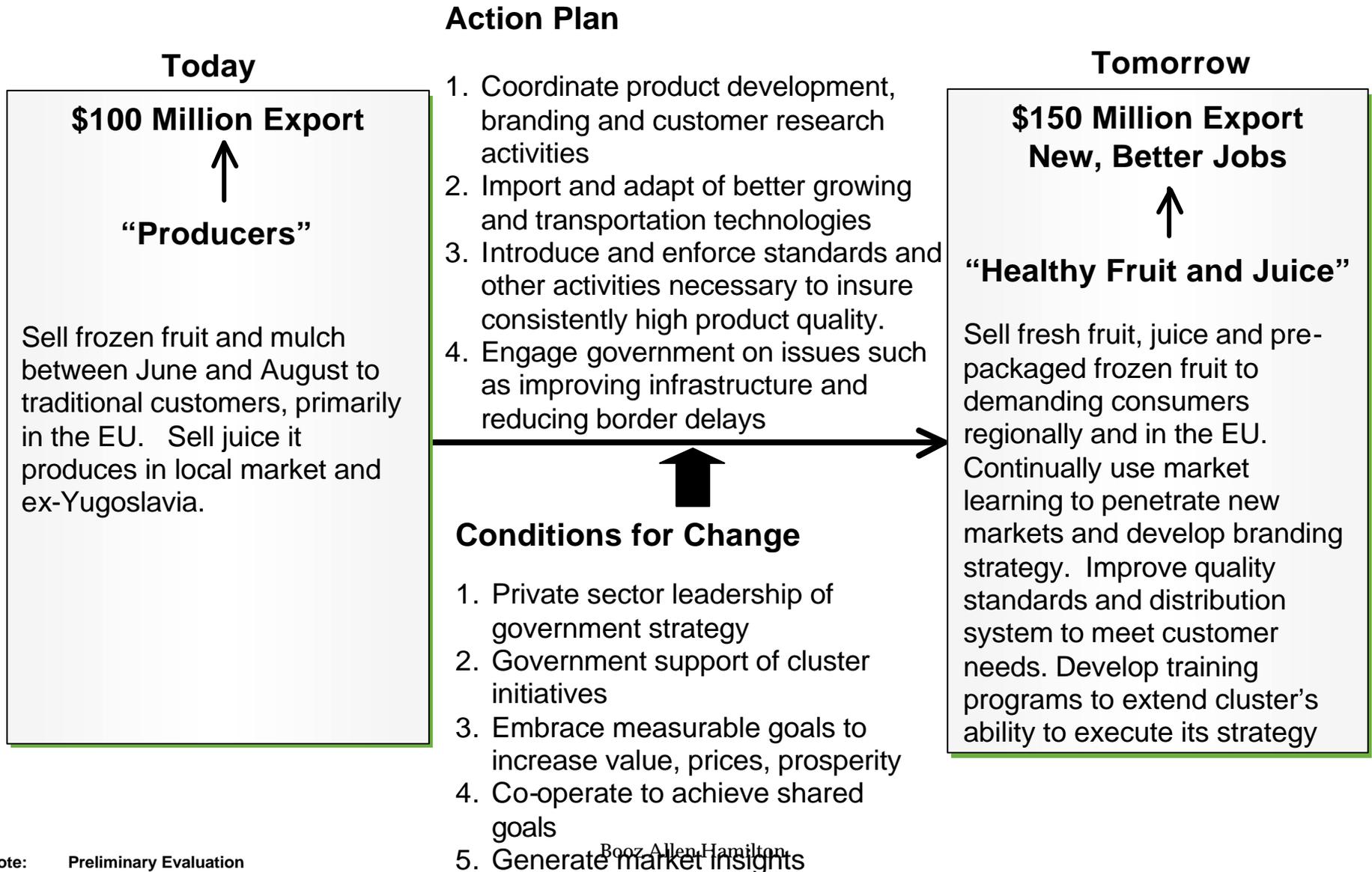


Supporting activity from the government will be most effective with private sector leadership and dialog

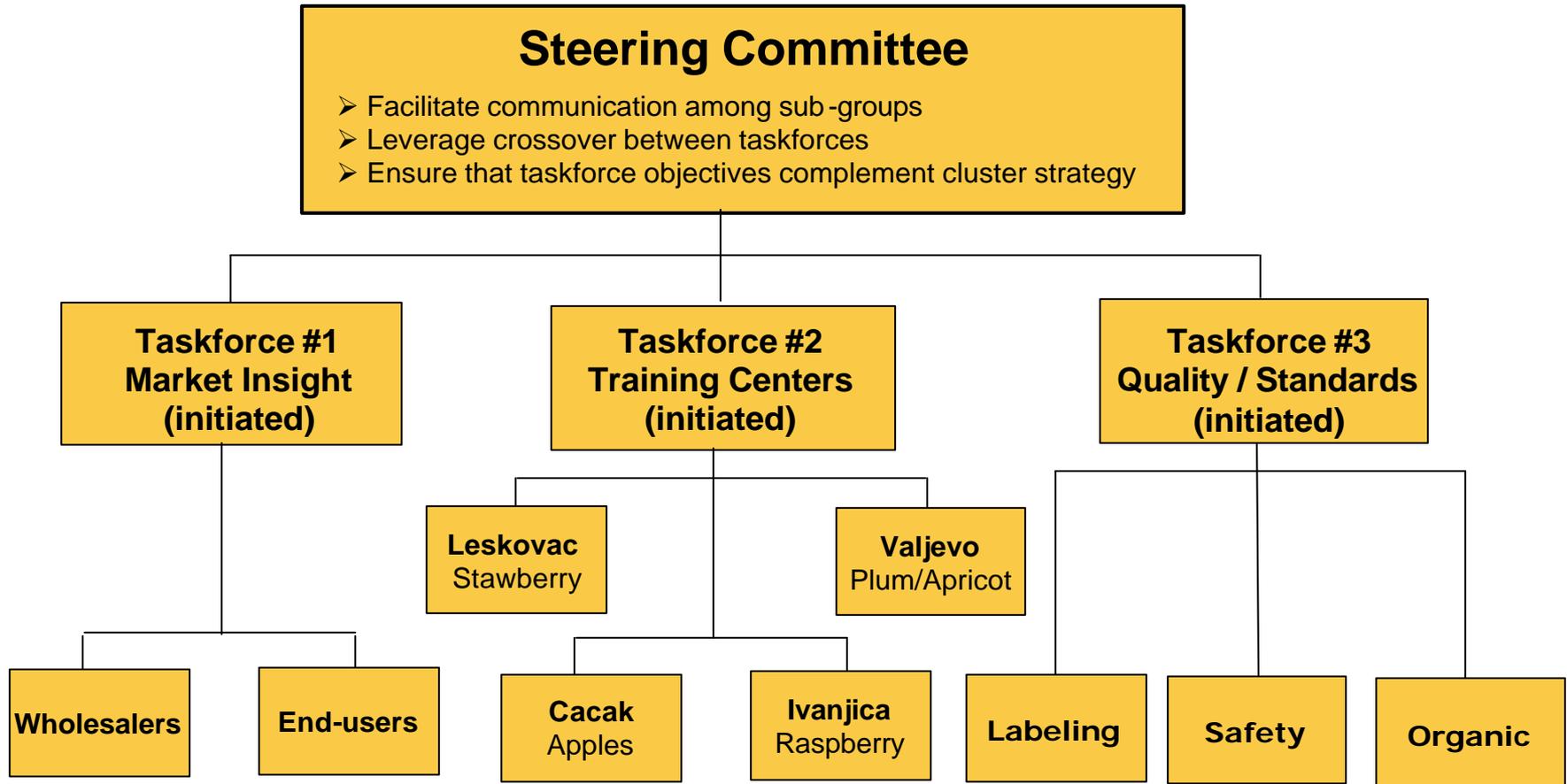
Government Supporting Activity



Providing the necessary conditions for change requires private sector leadership and co-operation, with public sector support



The cluster's leadership activity is institutionalized to increase export revenue and to choose prosperity



Achieving results with aggressive milestones will expedite the cluster’s increased export revenue and improved prosperity

	April	May	June	July	August	September
Task Force: Market	Complete European Wholesaler survey to initiate market contacts and branding campaign design	Complete research for targeting preferences of Serbian consumer and focus domestic sales strategies		Finalize fruit and juice branding campaign		Execute branding campaign
Task Force: Technology	Finalize design and funding plan for training centers		Ground-breaking of two greenhouse training centers	Ground-breaking of frost and hail protection training centers		
Task Force: Quality		Agree on methods for enforcement of labeling and organic certification laws				Introduce compliance training of standards into all training centers
Steering Committee:			Agree on plan with government on standard enforcement		Agree on plan with government to address border delays	

Choosing prosperity and achieving success within a competitive framework sets the platform for the right economic growth

- Our competitiveness depends on our productivity in global markets.
- Business, not government, has to take the lead in competitiveness to set the strategy.
- We must cooperate with each other and with government to achieve our goals and create prosperity for ourselves, our employees and our partners.

Fruit growers/transporters need to shift 12% of production to fresh to increase the wholesale value by the \$50 M target

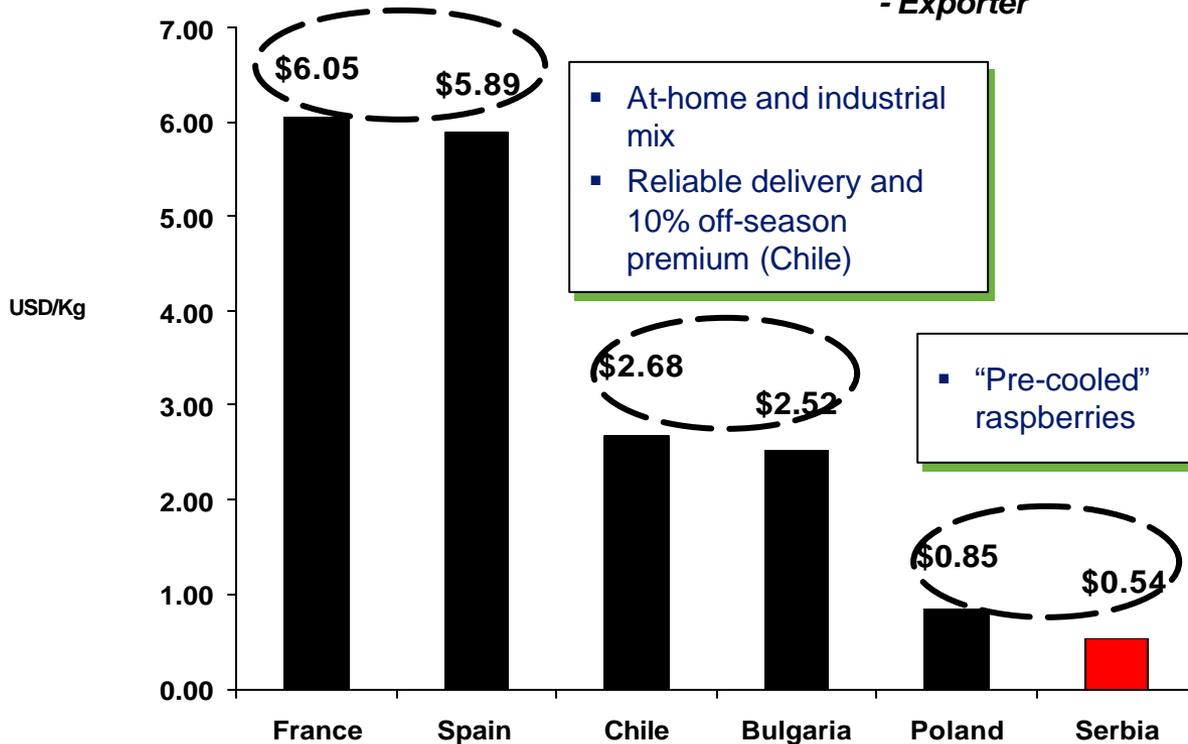
Average Price per Kilo - Export Values in 2001

- For EU, at-home fresh consumption
- 100% organic premium

Representative Quote :

“We barely make a profit on our sales, and it’s not our fault. But it’s worse for the farmers and cold stores . The cold stores think the farmers are greedy and the farmers think the cold stores are stealing their money. We need to stop this and work together.”

- Exporter



Note: Preliminary Estimates
 Source: Yugoslav Federal Trade Statistics, Interviews with Serbian cluster leaders; SCEE estimates



Booz | Allen | Hamilton
delivering results that endure

OTF
GROUP

**Serbia Competitiveness & Economic Efficiency Project
National Competitiveness Summit**

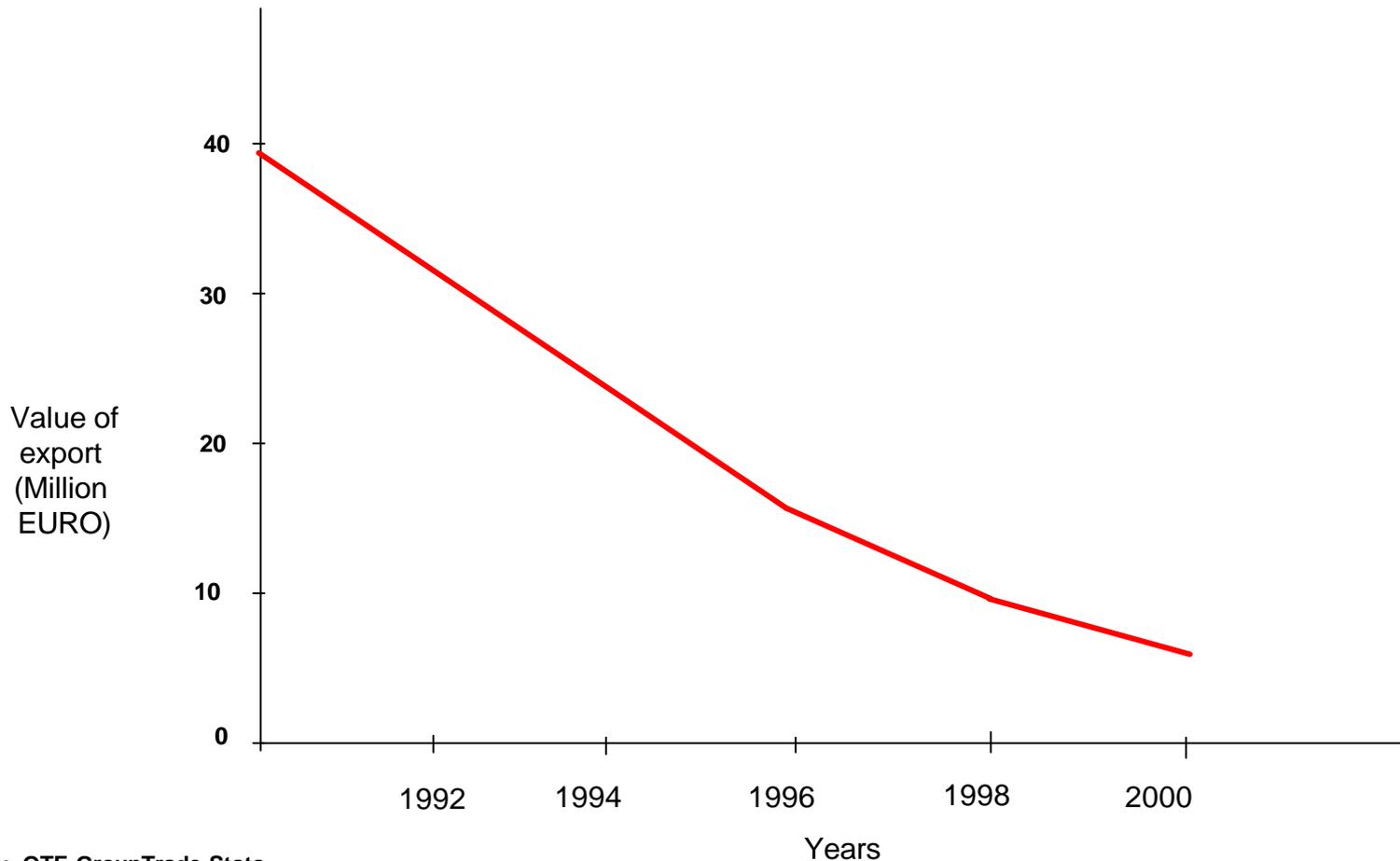
**Furniture, Construction Material, and Flooring Cluster
2 April 2003**

Improving the connection to public and civic active partners will allow the cluster to improve its competitiveness

	Cluster Members		
Firms and Partners	<ul style="list-style-type: none"> •Agrana •Artinjan •Bošnjacki •Buducnost •Domis 	<ul style="list-style-type: none"> •Eurosalon •Enterijer Jankovic •Mimco •Modul 	<ul style="list-style-type: none"> •TMB Diamond •Trifunovic •Saga
Civic Associations	<ul style="list-style-type: none"> • SCEE Cluster Group • President of the Regional Association of Nis for the wood industry 		
Universities Training Ctr. Research Inst.	<ul style="list-style-type: none"> • Forestry Faculty; University of Belgrade • Federal Institute for Standardization • Academy of Applied Arts 		
Finance Institutions	<ul style="list-style-type: none"> • USAID Community Revitalization Democratic Action Program <ul style="list-style-type: none"> • VOCA, Mercy, CHF, IRD, ACH • Raiffeisen Bank (potential) 		
Government	<ul style="list-style-type: none"> • National Competitiveness Council • Ministry of International Economic Relations 		

Developing insightful strategies that allow for re-engaging and expanding regional markets is required to reverse plummeting wood furniture exports

Yugoslavia wood furniture total exports 1990-2000



Source:, OTF GroupTrade Stats

Booz Allen Hamilton

Embracing competitiveness and increasing productivity will result with more revenue and jobs among participants

Goals

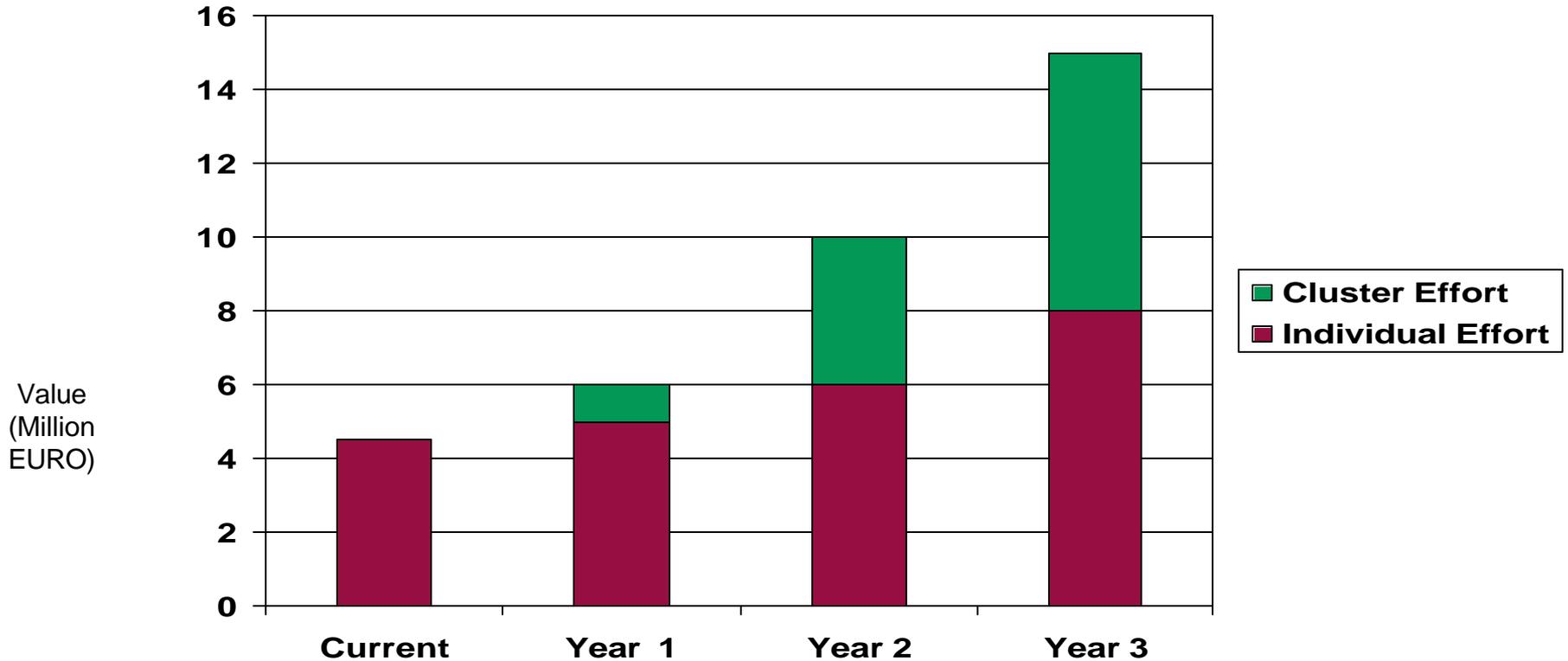
- Increase annual revenues by 24 million by 2007
- Increase export revenues by 16 million EURO by 2007
- Create 400 new jobs through 2007

Approach

- Develop market re-entry strategy for Russia
 - Joint market research
 - Joint trade show/show room participation
- Rapidly determine market expansion into Germany, Austria, etc
- Research, create and brand Serbian designed products, supported by new Design Center
- Improve cluster co-operation on sharing production, export and technology information
- Develop purchasing consortium to improve supplier service
- Focus government on education, law enforcement - legalisation of grey economy and proof of meeting standards

Achieving goals of increased exports and new market entry requires information and cost sharing among cluster members

Estimate of total annual cluster export revenue
Future Plan



- Develop designs based on insight
- Plan to meet EU standards
- Share technology
- Develop relationships with high-end stores
- Develop branding strategy
- Training based on new designs and standards
- Strengthen and/or build new relationships

Booz Allen Hamilton

Note: Preliminary Estimates

Source: Interviews with Serbian cluster leaders; SCEE analysis

Re-engaging with Russia and expanding into Europe will require well coordinated activity by cluster members

Members choose Russia

- Perform market research
 - Survey consumers
 - Interview wholesalers
 - Secondary research
- Develop designs and training
- Prepare joint trade shows and show rooms
- Choose branding strategy
 - Key consumer insights

EU Markets to follow

- Targeted market research
 - Utilize developed brand
 - Additional research
- Cultivate distributor relationships
- Continue design development
- Prepare joint trade shows/show rooms
- Choose branding strategy
 - Useful / required standards
 - Key consumer insights



Training in technology, design and general business will improve the productivity of the participating firms

Technology



- Hold meetings at factories
Sharing expertise in latest technology within cluster
- Determining production capabilities
- Using technical volunteers (ACDI-VOCA; USDA, etc.)
- Other experts

Design

- Establishing Design Center to promote professional and original design
- Establishing a network between designers and companies



General business



- Performed internal audit of training needs:
 - Marketing research
 - Operations and cost analysis
 - Business planning
 - Financial Planning
- Utilize cluster resources, NGO training organizations and universities

Re-engaging with foreign markets will require members to determine and enforce the appropriate standards (ISO, FSC)



ISO standards

ISO 9000 is concerned with "quality management", i.e. what the organization does to ensure that its products conform to the customer's requirements. ISO 14000 is primarily concerned with "environmental management", i.e. what the organization does to minimize harmful effects on the environment caused by its activities.



A Serbian quality seal for cluster products

Establishing a seal similar to Slovenia's collective trademark of its wood processing industry bearing the sign, "PREIZKUŠENO," which signifies a well defined and high level of quality This seal must be important to buyers

Cooperating with the Federal Institute for standardization on prioritizing EU standards

Booz Allen Hamilton

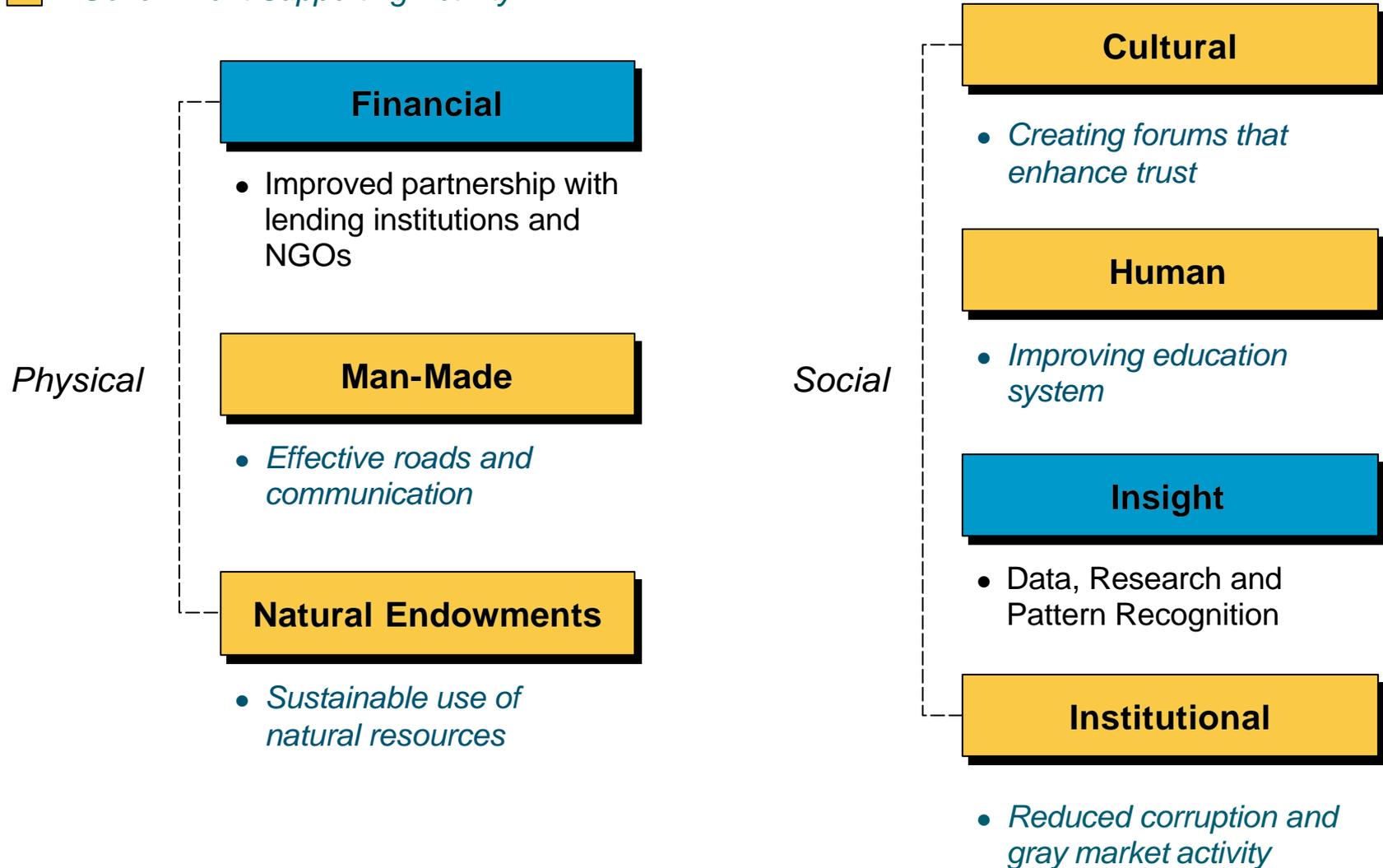


FSC standards

The Forest Stewardship Council introduces an international labeling scheme for forest products, which provides that the product has come from a forest, which has been evaluated and certified as being managed according to agreed social, economic and environmental standards.

Supporting activity from the government will be most effective with private sector leadership and dialog

Government Supporting Activity



Re-engaging with Russia, expanding in regional markets and preparing for EU entry will increase profitability in the industry

Action Plan

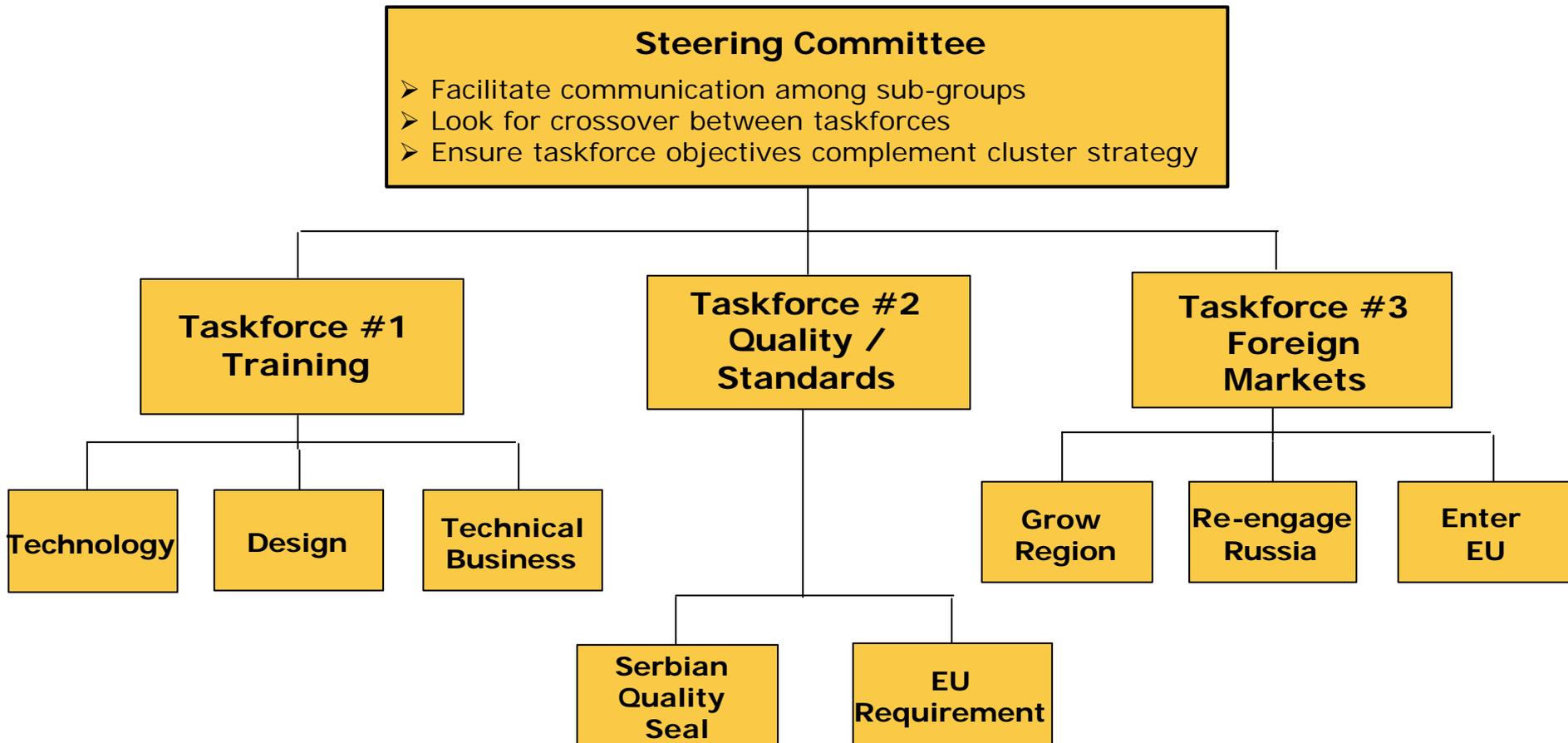
1. Coordinate market research activities, trade shows, product design, branding and sales activities
2. Develop Design Center linking designers with companies, while incorporating the newest technology and creating products with original design
3. Develop a quality seal, and work on EU and other standards.
4. Work with the government on law enforcement and education programs.



Conditions for Change

1. Strong cluster leadership
2. Cooperation among cluster members with technology and information sharing
3. Specific goals
 - Revenue
 - Export
 - Number of markets entered

Creating a formal structure allows the cluster to have ongoing activity for developing strategies to increase productivity



Achieving results with aggressive milestones will expedite the cluster's increased export revenue and improved prosperity

	April	May	June	July	August	September
Task Force: Foreign Markets		Initiate research in Serbia market for developing design and quality brand for domestic market	Initiate research for targeting customer preferences in Russian market	Finalize Serbian branding and quality standards campaign	Finalize Russian branding and quality standards campaign	Complete research on priority EU market
Task Force: Training		Hold factory tours Begin sharing technology training	Complete plan for Design Center and identify key industry partners	Work with VOCA and universities to initiate management training		Launch Design Center
Task Force: Quality			Introduce cluster members to FSC standards in cooperation with Forestry Faculty	Prioritize EU standards for cluster action in cooperation with Federal Institute for Standardization		Agree on priority standards and action plan supporting industry compliance
Steering Committee:		Invite additional firms, financial bodies and other organizations to join cluster	Confirm initial members of group purchasing consortium	Agree on plan with government on law and standards enforcement		Agree on plan linking universities, technical experts and Design Center

Choosing prosperity and achieving success within a competitive framework sets the platform for the right economic growth

- Our competitiveness depends on our productivity in global markets.
- Business, not government, has to take the lead in competitiveness to set the strategy.
- We must cooperate with each other and with government to achieve our goals and create prosperity for ourselves, our employees and our partners.

SCEE Final Report

	Minister Pitic	Minister Djelic	Minister Udovicki	Minister Vlahovic	SNCC Delegation	Contacts	Planning Notes
7:00	Travel to DC:	Travel to DC:	Travel to DC:	Travel to DC:		World Bank/IMF Meeting Schedule arranged by Dusan Vujovic, Senior Advisor to the Executive Director for Azerbaijan, Krygyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan Phone: (202) 473-6339 Cell: (202) 415-4404	
7:30	Lufthansa 3407 Dpt Belgrade 06.55 Arr. Munich 08.25	Lufthansa 3407 Dpt Belgrade 06.55 Arr. Munich 08.25	JU 262 Dpt. Belgrade 07.00 Arr. Amsterdam 09.35	Lufthansa 3407 Dpt Belgrade 06.55 Arr. Munich 08.25			
	Lufthansa 199 Dpt. Munich 10.25 Arr. Frankfurt 11.35	Lufthansa 199 Dpt. Munich 10.25 Arr. Frankfurt 11.35	United 947 Dpt. Amsterdam 13.00 Arr. DC/Dulles 15.15	Lufthansa 199 Dpt. Munich 10.25 Arr. Frankfurt 11.35			
	Lufthansa 418 Dpt. Frankfurt 13.20 Arr. DC/Dulles 15.55	Lufthansa 418 Dpt. Frankfurt 13.20 Arr. DC/Dulles 15.55		Lufthansa 418 Dpt. Frankfurt 13.20 Arr. DC/Dulles 15.55			
8:00							
8:30							
9:00							
9:30							
10:00							
10:30							
11:00							
11:30						Hotel in DC:	1. Flight arrangements for Ministers from Belgrade confirmed
12:00						Washington Hilton 1919 Connecticut Ave. N.W. Washington, DC 20009 Telephone: +1-202-483-3000 Facsimile: +1-202-232-0438	1. Briefing packages (including scheduled events) finalized and delivered prior to departure for U.S.
12:30							
13:00							
13:30							
14:00							
14:30							
15:00							
15:30							
15:45			Meeting with Ambassador Steven Mann, U.S. Envoy on Caspian Energy, at Dulles Intern'l Airport				
16:00	Ground transportation to hotel	Ground transportation to hotel		Ground transportation to hotel			Chris Williams, Deqa Farah, Ambassador Vujacic to meet at airport
16:30			Ground transportation to hotel				
17:00	Check in at Washington Hilton	Check in at Washington Hilton	Check in at Washington Hilton	Check in at Washington Hilton			1. Embassy will transport ministers 2. Booz Allen will provide van for assistants, luggage
17:30							
18:00							
18:30	WB Constituency Meeting, H-1200 (ground floor), World Bank H Building (Entrance on 19th Street b/t G and F)	WB Constituency Meeting, H-1200 (ground floor), World Bank H Building (Entrance on 19th Street b/t G and F)	WB Constituency Meeting, H-1200 (ground floor), World Bank H Building (Entrance on 19th Street b/t G and F)	WB Constituency Meeting, H-1200 (ground floor), World Bank H Building (Entrance on 19th Street b/t G and F)			
19:00							
19:30							
20:00	Dinner for official delegation, Smith & Wollensky, 1112 19th Street (short walk from H Building)	Dinner for official delegation, Smith & Wollensky, 1112 19th Street (short walk from H Building)	Dinner for official delegation, Smith & Wollensky, 1112 19th Street (short walk from H Building)	Dinner for official delegation, Smith & Wollensky, 1112 19th Street (short walk from H Building)			
20:30							
21:00							
21:30							
22:00	Briefing for Serbia and Montenegro meetings						
22:30							
23:00							
23:30							

	Minister Pitic	Minister Djelic	Minister Udovicki	Minister Vlahovic	SNCC Delegation	Contacts	Planning Notes
7:00					Travel To DC: Lufthansa 3407 Dpt Belgrade 06.55 Arr. Munich 08.25		
7:30							
8:00							
8:30							
9:00	Breakfast meeting - Jeffrey R. Shafer, Antro Sarkissian. 4 Ministers, Slavko Andrejevic, and Bill Foerderer. Citigroup/Salomon Smith Barney. The Chevy Chase Room in Washington Hilton	Breakfast meeting - Jeffrey R. Shafer, Antro Sarkissian. 4 Ministers, Slavko Andrejevic, and Bill Foerderer. Citigroup/Salomon Smith Barney. The Chevy Chase Room in Washington Hilton	Breakfast meeting - Jeffrey R. Shafer, Antro Sarkissian. 4 Ministers, Slavko Andrejevic, and Bill Foerderer. Citigroup/Salomon Smith Barney. The Chevy Chase Room in Washington Hilton	Breakfast meeting - Jeffrey R. Shafer, Antro Sarkissian. 4 Ministers, Slavko Andrejevic, and Bill Foerderer. Citigroup/Salomon Smith Barney. The Chevy Chase Room in Washington Hilton		World Bank/IMF Meeting Schedule arranged by Dusan Vujovic, Senior Advisor to the Executive Director for Azerbaijan, Kryrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan Phone: (202) 473-6339 Cell: (202) 415-4404	
9:30							
10:00		Legal Department IMF and World Bank			United 963 Dpt. Munich 12.00 Arr. DC/Dulles 15.30		Deqa Farah and Chris Williams meeting SNCC delegation at airport and transporting to hotel
10:30			Meeting - Eric Green (?) from State Department at the Metropolitan Club, 1700 H Street call Dwight Nystrom at (202) 647-0757 when we know			Hotel in DC:	
11:00		11.15 -12.00 Deppler				Washington Hilton 1919 Connecticut Ave. N.W. Washington, DC 20009 Telephone: +1-202-483-3000 Facsimile: +1-202-232-0438	
11:30							
12:00							
12:30	12.15 - 13.30 JPMorgan IMF/World Bank Spring Meetings. Serbia Georgia Room The Mayflower Hotel 1771 Connecticut Avenue, N.W. Washington, DC	12.15 - 13.30 JPMorgan IMF/World Bank Spring Meetings. Serbia Georgia Room The Mayflower Hotel 1771 Connecticut Avenue, N.W. Washington, DC	12.15 - 13.30 JPMorgan IMF/World Bank Spring Meetings. Serbia Georgia Room The Mayflower Hotel 1771 Connecticut Avenue, N.W. Washington, DC	12.15 - 13.30 JPMorgan IMF/World Bank Spring Meetings. Serbia Georgia Room The Mayflower Hotel 1771 Connecticut Avenue, N.W. Washington, DC		JP Morgan event organized by Rossanna Scanlon, JP Morgan, mobile phone (917) 535-5027	
13:00							
13:30	Walk back to World Bank						
14:00	WB Intro Meeting H6-201						
14:30							
15:00							
15:30							
16:00		16.15 - 16.45 Peter Voicke, Executive Vice President, IFC			Ground transportation to hotel		
16:30							
17:00					Check in at Washington Hilton		
17:30					Orientation Meeting with SNCC Delegation		
18:00		PFSAC Review			PFSAC Review		
18:30							
19:00					Group Dinner at City Lights of China, 1731 Connecticut Ave, (202) 265-6688		
19:30							
20:00					Group Dinner		1. Make reservations for Delegation at restaurant near hotel
20:30							
21:00							
21:30							
22:00							
22:30							
23:00							
23:30							

	Minister Pitic	Minister Djelic	Minister Udovicki	Minister Vlahovic	SNCC Delegation	Contacts	Planning Notes
7:00							
7:30							
8:00							
8:30							
9:00							
9:30							
10:00							
	IMF Meetings	IMF Meetings	IMF Meetings	IMF Meetings	OPEN SCHEDULE	World Bank/IMF Meeting Schedule arranged by Dusan Vujovic, Senior Advisor to the Executive Director for Azerbaijan, Krygyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan Phone: (202) 473-6339 Cell: (202) 415-4404	Embassy will arrange transport for Ministers
10:30							
11:00							
11:30							
12:00						Hotel in DC: Washington Hilton 1919 Connecticut Ave. N.W. Washington, DC 20009 Telephone: +1-202-483-3000 Facsimile: +1-202-232-0438	
12:30							
13:00							
13:30							
14:00							
14:30							
15:00							
15:30	Meeting with Johannes Linn, Vice President, Europe and Central Asia Region, World Bank H12-201	Meeting with Johannes Linn, Vice President, Europe and Central Asia Region, World Bank H12-201	Meeting with Johannes Linn, Vice President, Europe and Central Asia Region, World Bank H12-201	Meeting with Johannes Linn, Vice President, Europe and Central Asia Region, World Bank H12-201			
16:00							
16:30	Meeting with Orsalia Kalantzopoulos, World Bank H 12-201	Meeting with Orsalia Kalantzopoulos, World Bank H 12-201	Meeting with Orsalia Kalantzopoulos, World Bank H 12-201	Meeting with Orsalia Kalantzopoulos, World Bank H 12-201			
17:00							
17:30							
18:00							1. Meet in lobby of hotel at 18.45 to walk over
18:30							
19:00	Reception at Embassy of Serbia and Montenegro, with small briefing of U.S.-based Serbian media at 19.00 2134 Kalorama Rd, NW; meet in lobby of hotel at 18.45 to walk three blocks to Embassy	Reception at Embassy of Serbia and Montenegro, with small briefing of U.S.-based Serbian media at 19.00 2134 Kalorama Rd, NW; meet in lobby of hotel at 18.45 to walk three blocks to Embassy	Reception at Embassy of Serbia and Montenegro, with small briefing of U.S.-based Serbian media at 19.00 2134 Kalorama Rd, NW; meet in lobby of hotel at 18.45 to walk three blocks to Embassy	Reception at Embassy of Serbia and Montenegro, with small briefing of U.S.-based Serbian media at 19.00 2134 Kalorama Rd, NW; meet in lobby of hotel at 18.45 to walk three blocks to Embassy	Reception at Embassy of Serbia and Montenegro, with small briefing of U.S.-based Serbian media at 19.00 2134 Kalorama Rd, NW; meet in lobby of hotel at 18.45 to walk three blocks to Embassy		
19:30							
20:00							
20:30							
21:00							
21:30							
22:00							
22:30							
23:00							
23:30							

	Pitic/Podunavac/Radulovic/Foerderer (transport provided by Booz Allen)	Minister Djelic (transport provided by Embassy)	Minister Udovicki/Aleksejevic (transport provided by Booz Allen)	Minister Vlahovic/Stojanovic (transport provided by Embassy)	SNCC Delegation (transport provided by Booz Allen)	Contacts	Planning Notes
6:00							
6:30							
7:00							
7:30					Check out of hotel		
8:00	Minivan from Hilton to St. Regis		Minivan from Hilton to St. Regis	Minivan from Hilton to St. Regis	Transport from Hilton to St. Regis	Hotel in DC:	1. Arrange ground transportation
8:30	BCIU Breakfast Presentation Mount Vernon Room St. Regis Hotel 923 16th and K Streets, NW Washington, DC	Transport from Melrose Hotel	BCIU Breakfast Presentation Mount Vernon Room St. Regis Hotel 923 16th and K Streets, NW Washington, DC	BCIU Breakfast Presentation Mount Vernon Room St. Regis Hotel 923 16th and K Streets, NW Washington, DC	BCIU Breakfast Presentation Mount Vernon Room St. Regis Hotel 923 16th and K Streets, NW Washington, DC	Washington Hilton 1919 Connecticut Ave. N.W. Washington, DC 20009 Telephone: +1-202-483-3000 Facsimile: +1-202-232-0438	
9:00		09.15 Meeting with Undersecretary of State Larson					
9:30	"Serbia -- Moving towards Stability and Prosperity"		"Serbia -- Moving towards Stability and Prosperity"	"Serbia -- Moving towards Stability and Prosperity"	"Serbia -- Moving towards Stability and Prosperity"	Hotel and workshop location in Boston:	Ex-Im Meetings planned by Efe Cummings, 202-336-8400 (switchboard number)
10:00	Meeting at St. Regis with Eric Rohtla, Assistant Vice President, AIG, re life insurance legislation in region	David Oman LC	Transport to Melrose Hotel, 2430 Pennsylvania Avenue, NW, Telephone: (202) 955-6400	Transport to World Bank for meetings	Transport to Ex-Im Bank 811 Vermont Ave., NW Washington, DC 20571		AIG meeting planned with Eric Rohtla, Assistant Vice President, International Emerging Markets, ALICO, phone (302) 594-2559
10:30	Open schedule		10:45 Meeting with Deputy Prime Minister Linic of Croatia at Melrose Hotel		Export - Import Bank: Frank Graebner and Efe Cummings on what Ex-Im Bank can offer the Serbian private sector	Contacts for BCIU: Michael Sipos, (212) 490-0460 Krystyna Gut, Senior Program Officer, (212) 490-0460 ext. 227	
11:00		Kohler IMF MD					1. Arrange ground transportation
11:30							
12:00	Available for meetings	PFSAC Meeting and lunch	Available for meetings	PFSAC Meeting and lunch at World Bank	Transport to Reagan National Airport		1. EXIM Lunch to be confirmed by Margaret Kostic, Director SE Europe Structure & Trade Finance. 385-1-492-1677
12:30					Check in to flight to Boston		Ex-Im Meetings planned by Efe Cummings, 202-336-8400 (switchboard number)
13:00	13.15 Departure from front of main building (MC) of World Bank	Transport (arranged by Embassy) to Ex-Im Bank	13.15 Departure from front of main building (MC) of World Bank				
13:30	Meeting with Ex-Im Bank President and Chairman Philip Merrill 811 Vermont Ave., NW	Meeting with Ex-Im Bank President and Chairman Philip Merrill 811 Vermont Ave., NW	Meeting with Ex-Im Bank President and Chairman Philip Merrill 811 Vermont Ave., NW		Departure for Boston: US Airways 2034 Dpt. DC/Reagan 13.30 Arr. Boston 14.48		Deqa Farah, Don Niss, Maja Piscevic, Gordana Lazarevic, Dillon Coleman travel to Boston with SNCC delegation (Niss and Piscevic to make own travel arrangements; hotel reservations made by SCEE)
14:00							
14:30	Open -- return to World Bank?	Open -- return to World Bank?		Available for meetings			
15:00				Transport (arranged by Embassy) to OPIC	Transport to The Charles Hotel, location of all Competitiveness Retreat events (unless otherwise noted)		

15:30	OPIC, Ross J. Connelly, Exec. VP; Robert B. Drumheller, VP Finance; Michael T. Lempres, VP Insurance; Daniel Nichols, VP Investment Development; Marko Stojanovic and Bill Foerderer only other attendees -- enter at the New York Avenue entrance, 1100 New York Avenue NW -- call Susan Marshall at (202) 336-8707 when en-route to ensure you are met at the door	15:45 Transport to Dirksen Senate Office Building (between First and Second Streets and Constitution Avenue, N.E) provided by Embassy	15:45 Transport to Dirksen Senate Office Building (between First and Second Streets and Constitution Avenue, N.E)	OPIC, Ross J. Connelly, Exec. VP; Robert B. Drumheller, VP Finance; Michael T. Lempres, VP Insurance; Daniel Nichols, VP Investment Development; Marko Stojanovic and Bill Foerderer only other attendees -- enter at the New York Avenue entrance, 1100 New York Avenue NW -- call Susan Marshall at (202) 336-8707 when en-route to ensure you are met at the door	Welcome and Orientation - Objectives For The Competitiveness Retreat	OPIC Contact is Susan Marshall at 1-202-336-8707. Meeting in Europe Room, OPIC, 1100 New York Ave, NW
16:00		Meeting at Dirksen Senate Office Building with Tom Reeser and Paul Grove, Staffers of Senate Appropriations Committee	Meeting at Dirksen Senate Office Building with Tom Reeser and Paul Grove, Staffers of Senate Appropriations Committee		Designing a Competitiveness Program (Babiec, Smith, Brennan)	
16:30	16:15 Transport to VOA, 330 Independence Avenue (entrance between 4th and C Streets)	Downtime	16:45 Transport back to World Bank	16:45 Transport to VOA, 330 Independence Avenue (entrance between 4th and C Streets)	Benchmarking Serbia's Prosperity and Competitiveness Today * World Economic Forum Competitiveness Rankings * A Robust Definition Of Prosperity: Seven Forms Of Capital * Exercise: Setting Serbia's Prosperity And Competitiveness Benchmarks For Tomorrow (Babiec, Smith, Brennan)	
17:00			WB meeting -- Bank support to the energy sector H11-201 (Country Unit and PREM)			
17:30					Serbia's Competitiveness Strategy * Insights From Serbia's National Trade Strategy * Exercise: Priorities For Serbia's Future Trade Strategy (Babiec, Smith, Brennan)	
18:00	Free dinner time - no set plans	Free dinner time - no set plans	Free dinner time - no set plans	Free dinner time - no set plans	Serbia's Competitiveness Mindset - Initial Observations	
18:30					Check in to The Charles Hotel	
19:00					Dinner at The Blue Room Restaurant Dinner Discussion: Design And Operation Of The National Competitiveness Council	
19:30						
20:00						
20:30						
21:00						
21:30						
22:00						

	Minister Pttic	Minister Djelic	Minister Udovicki	Minister Vlahovic	SNCC Delegation	Contacts	Planning Notes
7:00							
7:30			Check out of hotel				
8:00	Check out of hotel	Check out of hotel	Luis Giusti, former CEO Petroleos Venezuela, and Robert Ebel, Director Energy Program. Re NIS privatization and regional pipeline. CSIS, 4th floor, 1800 K ST NW	Check out of hotel	Designing Serbia's Competitiveness Action Plan * Four Action Priorities * Exercise: Mobilizing More Serbian Clusters	Hotel in DC: Washington Hilton 1919 Connecticut Ave. N.W. Washington, DC 20009 Telephone: +1-202-483-3000 Facsimile: +1-202-232-0438	
8:30	CSIS: Breakfast meeting with George Handy re establishing a Serbia-U.S.-E.U. Action Commission in hotel restaurant	Time available for breakfast meeting		Time available for breakfast meeting			
9:00	Minivan to Reagan National Airport	Minivan to Reagan National Airport		Minivan to Reagan National Airport		Hotel and workshop location in Boston: The Charles Hotel One Bennett Street Cambridge, MA 02138 Telephone: +1-617-864-1200 Facsimile: +1-617-864-5715	
9:30	Check in for flight to Boston	Check in for flight to Boston		Check in for flight to Boston		CSIS Contact: Ms. Georgeta Pourchot, (202) 887-0200	Bill Foerderer and Chris Williams will travel with Ministers and deputies
10:00					Michael Fairbanks "Changing the Mind of a Nation"		
10:30	US Airways 2028 Dpt DCA 10.30 Arr Boston 11.50	US Airways 2028 Dpt DCA 10.30 Arr Boston 11.50		US Airways 2028 Dpt DCA 10.30 Arr Boston 11.50			Fairbanks will discuss competitiveness; provide examples of strategic opportunities drawn from oTF's work globally; and lead an interactive session identifying key challenges for Serbia using learning from the National Summit
11:00			Transport to Reagan National Airport				
11:30			Check in to flight		Hunter Lovins "Natural Capitalism"		
12:00			US Airways 2032 Dpt DCA 12.30 Arr Boston 13.47				
12:30	Minivan from Logan International Airport to Cambridge	Minivan from Logan International Airport to Cambridge		Minivan from Logan International Airport to Cambridge			
13:00	Check in to The Charles Hotel	Check in to The Charles Hotel		Check in to The Charles Hotel	13.00 - 13.45 Lunch		
13:30	13.45 - 14.45 Group session "There Is No Silver Bullet" with Professor Robert Barro, Harvard University Department of Economics	13.45 - 14.45 Group session "There Is No Silver Bullet" with Professor Robert Barro, Harvard University Department of Economics	Transport from Logan International Airport to Cambridge	13.45 - 14.45 Group session "There Is No Silver Bullet" with Professor Robert Barro, Harvard University Department of Economics	13.45 - 14.45 Group session "There Is No Silver Bullet" with Professor Robert Barro, Harvard University Department of Economics		
14:00							
14:30	14.45 Walk to HBS	14.45 Walk to HBS	14.45 Walk to HBS	14.45 Walk to HBS			
15:00	Private Meeting with Professor Michael Porter at Harvard Business School	Private Meeting with Professor Michael Porter at Harvard Business School	Private Meeting with Professor Michael Porter at Harvard Business School	Private Meeting with Professor Michael Porter at Harvard Business School	Stace Lindsay: Preparation Exercise For Wednesday Session		
15:30							
16:00	Walk to Lant Lecture Theater, Kennedy School of Government	Walk to Lant Lecture Theater, Kennedy School of Government	Walk to Lant Lecture Theater, Kennedy School of Government	Walk to Lant Lecture Theater, Kennedy School of Government	Walk to Lant Lecture Theater, Kennedy School of Government		

16:30	Panel discussion at Kennedy School of Government, moderated by Prof. Robert Lawrence -- Lant Lecture Theater	Panel discussion at Kennedy School of Government, moderated by Prof. Robert Lawrence -- Lant Lecture Theater	Panel discussion at Kennedy School of Government, moderated by Prof. Robert Lawrence -- Lant Lecture Theater	Panel discussion at Kennedy School of Government, moderated by Prof. Robert Lawrence -- Lant Lecture Theater	Panel discussion at Kennedy School of Government, moderated by Prof. Robert Lawrence -- Lant Lecture Theater	Kennedy School of Government contacts are Vuk Jeremic (KSG '03), mobile (617) 642-3179, and Mikhaila Stein, Assistant Director, Kokkalis Program (617) 496-7114
17:00						
17:30						
18:00						
18:30	Escort to Harvard Faculty Club for Kokkalis Program Dinner	Escort to Harvard Faculty Club for Kokkalis Program Dinner	Escort to Harvard Faculty Club for Kokkalis Program Dinner	Escort to Harvard Faculty Club for Kokkalis Program Dinner	Return to The Charles Hotel	
19:00	Kokkalis Program Dinner at Harvard Faculty Club with Harvard professors, including Kennedy School of Government Senior Associate Dean Joe McCarthy (see description of KSG event for invite list)	Kokkalis Program Dinner at Harvard Faculty Club with Harvard professors, including Kennedy School of Government Senior Associate Dean Joe McCarthy (see description of KSG event for invite list)	Kokkalis Program Dinner at Harvard Faculty Club with Harvard professors, including Kennedy School of Government Senior Associate Dean Joe McCarthy (see description of KSG event for invite list)	Kokkalis Program Dinner at Harvard Faculty Club with Harvard professors, including Kennedy School of Government Senior Associate Dean Joe McCarthy (see description of KSG event for invite list)	No scheduled dinner -- free time for participants	
19:30						
20:00						
20:30						
21:00	Drinks with Harvard Community	Drinks with Harvard Community				
21:30						
22:00			Check in to The Charles Hotel			
22:30						
23:00						
23:30						

	Minister Pitic	Minister Djelic	Minister Udovicki	Minister Vlahovic	SNCC Delegation	Contacts	Planning Notes
6:00		Check out of hotel	Check out of hotel	Check out of hotel			
6:30		Transport to Logan International Airport	Transport to Logan International Airport	Transport to Logan International Airport			
7:00		Check in for flight to NYC	Check in for flight	Check in for flight to NYC			
7:30	Check out of hotel	Delta 1825 Dpt. Boston 08.30 Arr. NY LaGuardia 09.40	Travel to Washington DC: US Airways 2023 Dpt. Boston 07.00 Arr. DCA 08.32	Delta 1825 Dpt. Boston 08.30 Arr. NY LaGuardia 09.40			
8:00	Breakfast review of Day One and Day Two, and review of Day Three agenda				Creating the Conditions for Change in Serbia * Five Conditions for Change * Exercise: The Role of The National Competitiveness Council In Promoting Conditions For Change Required By National Competitiveness Strategy	JP Morgan contact is Brian Marchiony, JPM Media Office (212) 270-2596 or Bryan Plat.I JPM Global Head of Sovereign Liability Management (212) 834-4314; also Nina Dodig in London, mobile +44-787-944-2971	
8:30			Energy Sector Meetings (TBC): - Ed Morse to confirm meetings at DOE - Henry Owen to confirm meetings at State Department - Ned Cabot to confirm meetings at State Department and National Security Council				
9:00	L. Hunter Lovins "Natural Capitalism and the World Economic Forum" TBC					Hotel and workshop location in Boston: The Charles Hotel One Bennett Street Cambridge, MA 02138 Telephone: +1-617-864-1200 Facsimile: +1-617-864-5715	Ground transport in NYC to be provided by JP Morgan
9:30		Picked up at airport by JP Morgan		Picked up at airport by JP Morgan			
10:00		Transport to JP Morgan offices, 270 Park Avenue		Transport to JP Morgan offices, 270 Park Avenue	Stace Lindsay "Building Receptivity to Change" * Root Causes of Defensiveness and Mistrust * Productive Reasoning Techniques * Creating The Environment for Collaboration in Serbia * Exercises Included During The Plenary Presentation		
10:30	Developing the Action Agenda for the NCC (Babiec, Smith, Brennan)	Meeting with JP Morgan Emerging Markets staff and management		Meeting with JP Morgan Emerging Markets staff and management			
11:00		11.15 - 12.00 Meeting with Altria CFO Dinny Devitre, 120 Park Avenue (41st Street)		11.15 - 12.00 Meeting with Altria CFO Dinny Devitre, 120 Park Avenue (41st Street)			
11:30							
12:00	Working lunch; Mr. Vukodinovic may meet with similar pot/pan firm	Depart Altria offices at 12.00 for CNBC studio in New Jersey		Depart Altria offices at 12.00 for CNBC studio in New Jersey	Working lunch		
12:30							
13:00	Transport to MIT	Live interview on CNBC "Power Lunch" 13.20-13.27		Live interview on CNBC "Power Lunch" 13.20-13.27	Travel to MIT		
13:30	Jack Turner for tour of MIT Technology Licensing Office (most successful tech transfer office)	Transport to Bloomberg Forum (near JP Morgan offices)		Transport to Bloomberg Forum (near JP Morgan offices)	Jack Turner for tour of MIT Technology Licensing Office (most successful tech transfer office)		
14:00							
14:30							
15:00	Tour of Massachusetts Technology Collaborative	Bloomberg Forum: Sit-down, live interview simultaneously on TV, radio and print (Bloomberg terminals) 14.45 - 15.15		Bloomberg Forum: Sit-down, live interview simultaneously on TV, radio and print (Bloomberg terminals) 14.45 - 15.15	Travel to Massachusetts Technology Collaborative		

15:30				Tour of Massachusetts Technology Collaborative		
16:00						
16:30	Depart for Belgrade Lufthansa 432 Dpt. Boston 16.30 Arr. Frankfurt 05.35 (Thursday)	FURTHER SCHEDULE DEPENDENT ON FINAL FLIGHT DECISION	OPEN SCHEDULE -- AVAILABLE FOR MEDIA OR MEETINGS			
17:00				Return to The Charles Hotel		
17:30	Lufthansa 078 Dpt. Frankfurt 07.35 Arr. Munich 08.35					
18:00	Lufthansa 3426 Dpt. Munich 10.55 Arr. Belgrade 12.20			Free time		
18:30						Foerderer, Williams, deputies and assistants to Ministers depart Boston (Foerderer makes own travel arrangements)
19:00						
19:30		Travel to Belgrade: Air France 007 Dpt. New York JFK 19.45 Arr. Paris 08.50 (Thursday)				
20:00		JU 243 (April 21) Dpt. Paris 17.25 Arr. Beograd 19.45		Overnight in Marriott Marquis 1535 Broadway, New York, NY, 10036, USA Phone: 1-212-398-1900 Fax: 1-212-704-8930		
20:30						
21:00						
21:30		Travel to Belgrade: United Airlines 962 Dpt. DC/Dulles 17.25 Arr. Munich 08.00 (Thursday)				
22:00		Lufthansa 3426 Dpt. Munich 10.55 Arr. Belgrade 12.20				
22:30						
23:00						
23:30						

	Minister Pitic	Minister Djelic	Minister Udovicki	Minister Vlahovic	SNCC Delegation Clusters	SNCC Delegation Non-clusters	Contacts	Planning Notes					
7:00						Check out of hotel		Niss departs from Boston (makes own travel arrangements)					
7:30						Meetings with Boston area clusters: Fruit and Juice (J) Furniture (F)							
8:00										Hotel and workshop location in Boston: The Charles Hotel One Bennett Street Cambridge, MA 02138 Telephone: +1-617-864-1200 Facsimile: +1-617-864-5715	Cluster members: Radmilac (SAGA) and Krmeta (Eurosalon) for furniture, Mitic (Fresh Co.) and Stevanovic (Stefani Univerzal) for fruit		
8:30												Continuity Of Effort In Serbia * Draft Outline Of National Competitiveness Strategy White Paper * Serbia Competitiveness Calendar For 2003-2004 * Finalizing Short-Term Action Steps Upon Return To Serbia	
8:30					OPEN SCHEDULE IN NYC								
9:00													New England Produce Center (J); Boston Design Center/Creative Office Pavilion (F)
9:30													
10:00													
10:30													Lambert's Rainbow Fruit/Juice to Very Fine (J) (TBC); Tile Showcase (F)
11:00													
11:30													
12:00													Lunch
12:30													
13:00													Bread and Circus Store Tour, Produce Buyers, Juice Buyers (J) (TBC); Westwood Furniture/Stickley Showroom (F)
13:30													
14:00													Star Market Store Tour, Produce Buyers, Juice Buyers (J) (TBC); Bernie and Phyl's Store Tour and Marketing Department (F)
14:30													
15:00													
15:30													
16:00													Produce Marketing Association (J); Jordan's Furniture Showroom Tour (F) (TBC)
16:30													
17:00													
17:30													Unscheduled dinner
18:00													
20:00									Departure for Belgrade: Lufthansa 411 Dpt. New York 20.15 Arr. Munich 10.05 (Friday) Lufthansa 3426 Dpt. Munich 10.55 Arr. Belgrade 12.20				
20:30													
21:00													
21:30													
22:00													
22:30													
23:00													
23:30													

	Minister Pitic	Minister Djelic	Minister Udovicki	Minister Vlahovic	SNCC Delegation Clusters	Contacts	Planning Notes
7:00							
8:00							
8:30							
9:00					Final workshop to review findings, conclusions, and action plan	Hotel and workshop location in Boston: The Charles Hotel One Bennett Street Cambridge, MA 02138 Telephone: +1-617-864-1200 Facsimile: +1-617-864-5715	
9:30							
10:00							
10:30							
11:00							
11:30					Check out of hotel		
12:00					Free afternoon in Cambridge		
12:30							
13:00							
13:30							
14:00							
14:30							
15:00							
15:30							
16:00							
16:30							
17:00					Depart for Logan International Airport		
17:30					Check in for flight to Belgrade		
18:00							
18:30					Departure for Belgrade: United 8903 Dpt. Boston 18.45 Arr. Munich 08.10 (Saturday) Lufthansa 3426 Dpt. Munich 10.55 Arr. Belgrade 12.20	Coleman, Farah, Piscevic depart Boston (Piscevic to make own travel arrangements)	
19:00							
19:30							
20:00							
20:30							
21:00							
21:30							
22:00							
22:30							
23:00							
23:30							

Building New Competitive Advantages for Serbia

Serbia National Competitiveness Council Competitiveness Retreat Organized by OTF Group Cambridge, Massachusetts April 2003

Monday, April 14

Time	Content
3:30 PM to 6:30 PM	<p>Welcome and Orientation</p> <ul style="list-style-type: none">Objectives For The Competitiveness Retreat <p>Designing a Competitiveness Program</p> <p>Benchmarking Serbia's Prosperity and Competitiveness Today</p> <ul style="list-style-type: none">World Economic Forum Competitiveness RankingsA Robust Definition Of Prosperity: Seven Forms Of CapitalExercise: Setting Serbia's Prosperity And Competitiveness Benchmarks For Tomorrow <p>Serbia's Competitiveness Strategy</p> <ul style="list-style-type: none">Insights From Serbia's National Trade StrategyExercise: Priorities For Serbia's Future Trade Strategy <p>Serbia's Competitiveness Mindset</p> <ul style="list-style-type: none">Initial Observations
7:00 PM to 10:00 PM	<p>Dinner at The Blue Room Restaurant</p> <p>Dinner Discussion: Design And Operation Of The National Competitiveness Council</p>

Tuesday, April 15

Time	Content
8:00 AM to 10:00 AM	Designing Serbia’s Competitiveness Action Plan <ul style="list-style-type: none">• Four Action Priorities• Exercise: Mobilizing More Serbian Clusters
10:00 AM to 11:30 AM	Michael Fairbanks: Changing the Mind of a Nation
11:30 AM to 1:00 PM	Hunter Lovins: Natural Capitalism
1:00 PM to 1:45 PM	Lunch
1:45 PM to 2:45 PM	Robert Barro: There Is No Silver Bullet For Economic Growth Or Social Equity
3:00 PM to 4:00 PM	Stace Lindsay: Preparation Exercise For Wednesday Session
4:30 PM to 6:00 PM	Kennedy School of Government Panel Presentation
9:00 PM	Drinks with Harvard Community

Wednesday, April 16

Time	Content
8:00 AM to 10:00 AM	Creating the Conditions for Change in Serbia <ul style="list-style-type: none">• Five Conditions for Change• Exercise: The Role of The National Competitiveness Council In Promoting Conditions For Change Required By National Competitiveness Strategy
10:00 AM to 12:00 PM	Stace Lindsay: Building Receptivity to Change <ul style="list-style-type: none">• Root Causes of Defensiveness and Mistrust• Productive Reasoning Techniques• Creating The Environment for Collaboration in Serbia• Exercises Included During The Plenary Presentation
12:00 PM to 1:00 PM	Lunch
1:30 PM to 3:00 PM	Massachusetts Institute of Technology - Technology Licensing Office
3:00 PM to 3:30 PM	Travel Time
3:30 PM to 5:00 PM	Massachusetts Technology Collaborative
Evening	Free Time

Thursday, April 17

Time	Content
8:00 AM to 12:00 PM	Continuity Of Effort In Serbia <ul style="list-style-type: none">• Draft Outline Of National Competitiveness Strategy White Paper• Serbia Competitiveness Calendar For 2003-2004• Finalizing Short-Term Action Steps Upon Return To Serbia
12:00 PM to 12:30 PM	Lunch, Then Departure To Logan Airport For Non-Cluster Council Members

Serbian National Competitiveness Council

***Delegation to the United States
April 11-18, 2003***

**Supported by
The United States Agency for International Development (USAID)**



Serbia Competitiveness and Economic Efficiency Project

Implemented by

Booz | Allen | Hamilton



Booz Allen Hamilton

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DELEGATION MESSAGES

The National Council’s goal in improving competitiveness is to increase prosperity for all Serbian citizens

- As our late prime minister said “The citizens of Serbia won the right to a normal life: one free of poverty and fear...” The first step, as Mr. Djindjic wrote in the Annual Report of 2002, “is to make the country competitive in both regional and world markets.”
- The recent detention of 3000 mafia members is proof that Serbia can create conditions giving all citizens an equal opportunity to succeed
- Serbia has 8 million consumers in the heart of the 55 million strong South Eastern Europe market
- The fruit cluster has a goal to increase exports by \$50 million by delivering better products to more markets
- The furniture cluster has a goal to increase exports by \$15 million by delivering better products to more markets

Serbian businesses are taking the initiative to improve national competitiveness

- Serbian businesses in the fruit and furniture clusters are sharing knowledge and information in an unprecedented spirit of cooperation
- Cluster cooperation is leading to improved market research, improved worker training and other measures that will raise productivity and increase exports
- The cluster members are proving that Serbian businesses are eager to learn, and recognizing that we need assistance from those who are competing successfully in the global market
- Leading US companies like Bell Packaging (metals), McDonalds, US Steel, Galaxy (rubber) and Van Drunen Farms (agriculture) are investing in Serbia
- Foreign direct investment has increased by 100% in the past two years
- As the new prime minister recently told industry leaders at a National Competitiveness Summit, “Don’t knock on government’s door” for favors and protection -- government will help provide equal conditions for all firms

Government is now an active partner with business & civil society

- The recent detention of 3000 mafia members is proof that Serbia is “switching the light on” and becoming open
- A National Competitiveness Council, comprised of leaders from industry, government and civil society is coordinating competitiveness-enhancing programs at the national level
- Serbia has free trade agreements with Albania, Bosnia, Croatia, Macedonia and Russia
- A Normal Trade Relations bill is before the US Congress – significant import and export opportunities for both Serbian and US firms are expected soon
- More than 40 new commercial and business-friendly laws are pending before the Serbian government, included reforms in business registration, concessions and secured transactions

- The EBRD has recognized Serbia as the reform “leader” in SE Europe

COUNCIL AND GOVERNMENT DELEGATES

National Competitiveness Council Delegates

Dragoljub Vukadinovic, Managing Director, Metalac (NCC Chairman)
Miša Brkic, Voice of America
Bozidar Djelic, Minister of Finance & Economy
Borislav Djokic, Director, Yubanka
Danilo Golijanin, Deputy Minister of Science, Technology & Development
Goran Pitic, Minister of International Economic Relations (MIER)
Dušan Radmilac, Director, SAGA
Djordje Stevanovic, Director, Stefani Univerzal
Olja Matic Brbora, National Savings Bank
Dragan Lukac, President, Novi Sad Regional Chamber of Commerce
Radoslav Veselinovic, President, Serbian Chamber of Commerce
Aleksandar Vlahovic, Minister of Economy & Privatization
Nebojša Vujovic, Advisor to the President, Hemofarm

Other Government Delegates

Kori Udovicki, Minister of Mining & Energy
Gordana Lazarevic, Assistant Minister, MIER
Slavko Andrejevi, Advisor, Ministry of Mining & Energy
Ljubomir Podunavac, Public Relations Manager, MIER
Jelena Radulovic, Public Relations Manager, Ministry of Economy
Nebojša Savic, Head of Research, Economics Institute
Marko Stojanovic, Advisor, Ministry of Economy & Privatization

Cluster Firm Delegates

Djuro Krneta, Deputy Manager, Eurosalon
Milena Mitic, Advisor, Fresh & Co.

USAID Representatives

Bill Foerderer, Director, Economic Policy and Finance, USAID Serbia
Maja Pišcevic, Legal Advisor, USAID Serbia

USAID Serbia Competitiveness and Economic Efficiency (SCEE) Project

Booz Allen Hamilton

Don Pressley, Principal
Mark Belcher, Senior Associate
Dillon Coleman, Chief of Party
Jovana Ducic, Consultant
Deqa Farah, Senior Consultant
Lawrence Groo, Associate
Jasna Matic, Consultant
Chris Williams, Associate

OTF Group

Mike Fairbanks, Chairman of the Board
Joe Babiec, Chief Knowledge Officer
Mike Brennan, Manager
Dane Smith, Regional Director
Karen Towers, Analyst

Interpreters

Vesna Kostic

Goran Krickovic

AGENDA FOR COUNCIL DELEGATES

Saturday, April 12

Time	Event
16.00hrs	Arrive at Dulles International Airport in Washington DC and take shuttle to Washington Hilton Hotel
17.00-17.30	Check in at Washington Hilton Hotel
17.30-18.30	Planning & Orientation meeting for NCC delegates
20.00	Group Dinner in Washington

Sunday, April 13

Time	Event
Morning	Open for exploring Washington DC
Afternoon	Open for exploring Washington DC
18.00-19.00	Reception at the Serbian Embassy
19.00-19.30	Press Briefing at the Serbian Embassy

Monday, April 14

Time	Event
7.30-8.00	Check out of Washington Hilton Hotel
8.00-8.30	Transport from Hilton to St. Regis Hotel
8.30-10.00	BCIU Breakfast presentation: Serbia – Moving Toward Stability and Prosperity
10.00-10.30	Transportation to US Export-Import Bank
10.30-10.45	Meeting with Mr. Frank Graebner & Mr. Efe Cummings on the US Export-Import Bank and how it can help the Serbian private sector
11.00-11.30	Shuttle to Ronald Reagan National Airport
11.30-11.45	Check in for US Airways Flight 2304 to Boston (13.30)
14.00-14:30	Arrive at Logan Airport in Boston and take shuttle to Charles Hotel
14.30-15.00	Check into Charles Hotel
15.00-15.30	Group welcome and agenda review
15.30-16.30	Review of National Summit and overview of next steps for developing the NCC’s agenda and national strategy recommendations (SCEE Project Team)
16.30-16.45	Coffee break
16.45-18.30	Developing cluster strategies as part of the national agenda (SCEE Project Team)
18.30-18.45	Coffee break
18.45-19.00	Wrap-up of day one (SCEE Project Team)
19.00	Group dinner in Boston



BUSINESS COUNCIL FOR INTERNATIONAL UNDERSTANDING (BCIU)

Worldwide Headquarters

1212 Avenue of the Americas, 10th Floor
New York, NY 10036
Tel. (212) 490-0460
Fax (212) 697-8526

Washington Office

1133 15th Street, N.W., 9th Floor
Washington, DC 20005
Tel (202) 775-3483
Fax (202) 775-6025

Mission Statement: BCIU, a U.S. business association founded in 1959 at White House initiative, is dedicated to promoting dialogue and action between the business and government communities for the purpose of expanding international commerce.

The Business Council for International Understanding (BCIU) was founded in 1959, at the initiative of President Eisenhower. Initially, BCIU focused on supporting U.S. business interests internationally by convening member company executives with newly confirmed U.S. Ambassadors in order to brief them on the problems facing their operations in the markets to which the ambassadors were accredited. Since that time, BCIU programs have expanded to include discussions not only with U.S. Ambassadors but also with other senior diplomatic and cabinet-level officials and heads of state serving the U.S. and foreign governments. Today, BCIU operates programs not only in New York, but also in Washington, D.C., Houston, other major cities in the United States, and London. BCIU programs are characterized by candid, off-the-record exchanges. The access, insights and information gained by member companies are vital tools for their success. Briefings take the form of roundtables, workshops, seminars and conferences. Altogether, BCIU organizes a variety of programs each year to support the international business interests of its members.

The Export-Import Bank of the United States (Ex-Im Bank)
811 Vermont Ave., NW
Washington, DC 20571
Telephone: (800) 565-EXIM (3946), (202) 565-EXIM (3946)
Facsimile: (202) 565-3380

The Export-Import Bank of the United States (Ex-Im Bank) was created in 1934 and established under its present law in 1945 to aid in financing and to facilitate U.S. exports. Its creation was spurred by the economic conditions of the 1930's when exports were viewed as a stimulus to economic activity and employment. A primary aim of Ex-Im Bank was to foster trade between the United States and the Soviet Union. During the post-World War II era, Ex-Im Bank helped U.S. companies participate in the reconstruction of Europe and Asia.

Ex-Im Bank is encouraged to supplement, but not compete with private capital. Over the years, the private sector, Congress and the executive branch have debated Ex-Im Bank's role in a free market economy, where the private sector handles the majority of export financing. For example in 1953, the President virtually liquidated Ex-Im Bank in an effort to reduce government spending and to ease a turf battle with the World Bank, but Congress intervened to keep Ex-Im Bank open. According to supporters, Ex-Im Bank has historically filled gaps created when the private sector is reluctant to engage in export financing.

Today Ex-Im Bank faces many of the same challenges and opportunities that it encountered when it was first created. For example, the United States is renewing trade relations with the countries of the former Soviet Union and Eastern Europe. Increasingly, exports are seen as vital for sustaining U.S. economic growth. The U.S. economy is much more internationalized and exports form a larger share of the gross national product than in the 1930's. In addition, around the world trading and financial systems are more interdependent and international competition is incomparably more intense.

Ex-Im Bank provides guarantees of [working capital loans](#) for U.S. exporters, [guarantees](#) the repayment of loans or makes [loans to foreign purchasers](#) of U.S. goods and services and provides [credit insurance](#) against non-payment by foreign buyers for political or commercial risk. Ex-Im Bank must also balance its mandate, that there exists a reasonable assurance of repayment.

The Bank is focusing on critical areas such as emphasizing exports to developing countries, aggressively countering trade subsidies of other governments, stimulating small business transactions, promoting the export of environmentally beneficial goods and services, and expanding project finance capabilities. Ex-Im Bank is not an aid or development agency, but a government held corporation, managed by a Board of Directors consisting of a Chairman, Vice Chairman and three additional Board Members. Members serve for staggered terms and are chosen and serve at the discretion of the President of the United States.

Tuesday, April 15

Time	Event
8.30-9.00	Review of Day Two agenda
9.00-10.00	Seminar on Clusters and Activity Webs, Mr. Bruce Chew, Harvard University
10.00-12.00	“Realizing the Promise of Prosperity in Serbia”, Michael Fairbanks
12.00-13.30	Lunch and debrief on morning session
13.30-14.00	“There Is No Silver Bullet”, Professor Robert Barro, Harvard University Department of Economics
14.00-15.30	“Moving Toward the Productivity Frontier: Migration Strategies for Key Business Clusters”, Stace Lindsay, Vice President, Advisory Group, OTF Group
15.30-16.30	“Developing industry strategies in newly democratic nations” (Speaker to be announced)
16.30-17.30	Panel discussion at Harvard’s Kennedy School of Government, moderated by Professor Robert Lawrence, Kennedy School Lecture Theater
18.00-18.30	Debrief for day two
Evening	Free time for delegates
21.00	Drinks with Harvard students (location to be determined)

Wednesday, April 16

Time	Event
8.00-9.00	Breakfast review of day three agenda
9.00-10.00	“Natural Capitalism and the World Economic Forum”, L. Hunter Lovins, Strategy CEO, Rocky Mountain Institute
10.00-10.30	Coffee break
10.30-12.00	Developing the action agenda for the NCC (SCEE Project Team)
12.00-13.00	Lunch
13.00-13.30	Transportation to the Massachusetts Institute of Technology (MIT)
13.30-15.00	Tour of MIT’s Technology Licensing Office, Mr. Jack Turner, MIT
15.00-16.00	Tour of Massachusetts Technology Collaborative
16.00-18.30	Free time
18.30	Group dinner (location to be announced)

Technology Transfer

MIT Technology Licensing Center:

The Technology Licensing Office manages the patenting, licensing, trademarking and copyrighting of intellectual property developed at M.I.T., Lincoln Laboratory and the Whitehead Institute and serves as an educational resource on intellectual property and licensing matters for the M.I.T. community.

Massachusetts Technology Collaborative

The Massachusetts Technology Collaborative is the state's development agency for renewable energy and the innovation economy, which is responsible for one-quarter of all jobs in the state. We work with cutting-edge companies to create new jobs and stimulate economic activity in communities throughout the Commonwealth. As our name suggests, we use a collaborative approach to achieving the organization's mission. We bring together leaders from industry, academia, and government to advance technology-based solutions that lead to economic growth and a cleaner environment in Massachusetts.

By developing energy from wind, solar, and other renewable resources, we're reducing our reliance on coal, oil, and other fossil fuels that contribute to air pollution and global warming. Investments in the emerging clean energy market stimulate new economic activity in the renewable industry and job growth across Massachusetts. Technology-driven innovation fuels our economy. MTC is uniquely positioned to provide solutions to the difficult challenges presented by the Governor and State Legislature. By forming dynamic partnerships with key stakeholders, the agency serves as a catalyst for growing the innovation economy.

Furniture

Boston Design Center

The Boston Design Center is a cooperative space feature 75 designer showrooms under one roof. The facility offers a unique environment for furniture producers to showcase their work, reach a variety of buyers, and share the cost of space with other producers. The center also provides consumers with a one-stop approach.

Westwood Furniture – Stickley Showroom

Westwood Furniture is the only New England Showroom of Stickley Furniture. Stickley Furniture has been made near Syracuse, New York. Today, it is the most respected manufacturer in the industry; its name is synonymous with quality, integrity, value and service, and is considered to be at the top of the industry in quality and price for wood furniture.

Today, many people associate Stickley only with Mission style furniture. But they offer six collections: Mission oak and cherry, 18th Century cherry and mahogany, elegant French Directoire, sleek Metropolitan and sophisticated 21st Century. Stickley has been licensed by the Colonial Williamsburg Foundation to reproduce selected works from their museum collections.

Jordan's Furniture

Eliot and Barry's grandfather opened the first store in 1918 in Waltham. Now, the family includes a remarkable group of dedicated employees - the J-Team - who keep the spirit going with four stores and another on the way. Jordan's Furniture attracts record numbers of guests each week. Now, we sell more furniture per square foot than any other furniture retailer in the country. And, we make sure to give back to the community, making philanthropy a cornerstone of our business. Come experience it for yourself. For nearly 100 years, our family has provided well-built, quality furniture to the people of New England. It all started with our grandfather Samuel, selling furniture from the back of his truck. Now, we're proud to say that a 4th generation continues the tradition.

Thursday, April 17

Time	Event
7.30-8.30	Breakfast
8.30-12.00	NCC delegation (except fruit and furniture) checks out of Charles Hotel and has final workshop to review findings & action plan, departing for Logan International Airport at 12.00 to check in for United Flight 1021 (14.33)
Morning	Cluster member meetings: Fruit cluster members meet with representatives from the New England Produce Center; Lambert's Rainbow Fruit Juice; and Very Fine Juice Furniture cluster members meet with representatives from the Boston Design Center; Creative Office Pavilion; and the Tile Showcase
12.00-13.00	Working lunch for cluster members
Afternoon	Cluster meetings: Fruit cluster members meet with representatives from Star Market Store; Produce Buyers; Juice Buyers; and the Produce Marketing Association Furniture cluster members meet with representatives from Bernie and Phyl's Store and Jordan's Furniture Showroom
Evening	Free Time

Friday, April 18

Time	Event
8.00-9.00	Breakfast
9.00-11.00	Fruit and furniture cluster members review findings and action plans
11.00-11.30	Check out of Hotel
11.30-16.00	Free afternoon in Cambridge/Boston
16.00-16.30	Transportation to Logan International Airport
16.30-17.00	Check in for United Flight 8903 to Belgrade (18.45)

NATIONAL COUNCIL DELEGATE BIOGRAPHIES

Dragoljub Vukadinovic

Dragoljub Vukadinovic is the Managing Director of Metalac a.d. and is the Chairman of the Serbian National Competitiveness Council. Metalac specializes in the production of all kinds of enameled cookware, non-stick enameled cookware and stainless steel cookware, stainless steel and enameled sinks, offset printed carton packing material and caldrons for water heating and is one of the leading Serbian exporters. It is situated in Gornji Milanovac and employs 1,250 people. Born in 1946, Mr. Vukadinovic was awarded a BSc. in Chemical Engineering from the Department of Technology and Metallurgy, University of Belgrade. His early career was as an engineer in a copper mill (Sevojno) and steel mill (Sisak). He joined Metalac in 1975 and since then has held several senior management positions. He was appointed Managing Director in 1989. In addition to his role as chairman of the competitiveness council, Dragoljub Vukadinovic is chairman of the Executive Board, Cacanska Banka, Cacak and a member of the Executive Board of the Serbian Chamber of Commerce. He was recognized as the Manager of the Year 2001 by the Yugoslav Chamber of Commerce and Manager of the Year 1998 by the Serbian Chamber. He is married with two sons.

Miomir Brkic

Miomir Brkic is a journalist for the magazine "Vreme" and a correspondent for the Serbian Division of Voice of America. Born 1952, he graduated from the Faculty of Philosophy in Belgrade. Mr. Brkic has been working as a journalist since 1976. His first professional engagement was with newspaper "Vecernje novosti". In May 1992, he commenced working for "Borba" as a journalist and in 1993 became editor for the economic section of the same newspaper. In December 1995, he was appointed Editor-in-Chief of the newspaper "Nasa Borba", a post he retained until February 1998. He then worked for the magazine "Vreme" as Assistant Editor-in-Chief. He is married and has one child.

Bozidar Djelic

Bozidar Djelic is the Minister of Finance & Economy of the Government of the Republic of Serbia. Born 1965, in Belgrade, he graduated in 1987 with a double master's degree from the Institute of Political Sciences as well as "École des Hautes Études Commerciales". In 1991 he was awarded a master's degree in Finance, Strategy, Macroeconomics and International Relations at Harvard University in Cambridge (USA). From 1993 to October 2000, he was an employee of the leading global strategic firm McKinsey & Co. The Minister speaks English and French fluently and has a working knowledge of Russian, German and Polish. He is married, father of two children.

Borisav Djokic

Borisav Djokic is the Director General of Jubanka A.D. Beograd. He was born March 3, 1950 in Kremna, Užice, Republic of Serbia and in 1974 graduated from the Faculty of Economics in Belgrade. He began his business career in 1974 at the Copper and Aluminium Works Sevojno in executive positions ranging from head of department to Financial Director. In February 1991 he joined Jubanka A.D and has served in a number of management roles, including Executive Director of the IT and Financial-Accounting Affairs Division (1991-1992), Executive Director of the Funds, Plans and Analysis Division (1992-1993), and Deputy Director General of the Bank (1993-2001). He was appointed Director General of Jubanka in December 2001. Mr. Borisav Djokic is Chairman of the Bank Association of Yugoslavia (elected October 2002) and is a member of the National Competitiveness Council since March 2003.

Danilo Golianin

Danilo Golianin is an assistant minister responsible for technology transfer and development in Serbian Ministry of Science, Technology and Development. Prior to returning back to his native Belgrade, Dr. Golianin spent 20 years in California, Holland and Singapore. His experience includes such positions as president and CEO of a security chip startup in Los Gatos, CA; director of business development and intellectual property management at Chartered Semiconductor Manufacturing Ltd., Singapore; general manager for Asia Pacific of a Philips Electronics operating company based in Singapore; marketing director for Philips Analytical, a semiconductor capital equipment operating division, based in Holland. Dr. Golianin has also held several marketing, product development and engineering positions of increasing responsibility with Kevex, Inc., and Xerox Corp., both in southern California. He received a bachelor's degree and a master's degree in electrical engineering from University of Belgrade and University of Southern California, respectively, and a Ph.D. in materials science from University of Southern California in Los Angeles.

Goran Pitic

Goran Pitic is the Minister of International Economic Relations in the Government of the Republic of Serbia. Since joining the Government in January 2001, he has led Ministry's mission of creating a favorable investment environment in Serbia and securing and managing all donor assistance to the Republic Government. Prior to joining the government, Minister Pitic taught at the School of Economics at the University of Belgrade. He is a Professor of Macroeconomics and Economic History and Associate in the Faculty Research Center. He has worked mainly on projects dealing with the restructuring of the Yugoslav economy and macroeconomic policy measures. During the 1990's, he was a senior manager at Deloitte & Touche Belgrade (1994-98) while maintaining a presence at the prestigious Center for Economic Research, The Economics Institute throughout the past ten years. In addition, he has lectured at the University of Toronto and the Braca Karic School of Management in Belgrade. He received his doctorate in 1993 at the Faculty of Economics in Belgrade. He was also awarded a master's degree in economic sciences at Faculty of Economics in Toronto.

Dušan Radmilac

Dušan Radmilac is a co-owner of the firm Saga, a leading manufacturer and exporter of top quality wood flooring. Born in 1958, he graduated from the Faculty of Economics, University of Belgrade in 1982. His early career was in banking. In 1989, he joined Genex-Belgrade, an exporter of sawn timber, furniture and wood products. In 1991, Radmilac started Saga where, in addition to being an owner, he serves as financial manager and chairman of the board of directors.

Djordje Stevanovic

Djordje Stevanovic is the owner and director of Stefani Univerzal. He graduated from Belgrade University, Faculty of Economics in 1979. His early career was in the metal working industry (Potens), construction (Ratko Mitrovic) and construction materials (Jelen-Do, where he was the general manager). In 1990 he established, with two partners, the company Partnersped, the first private cold store in Serbia with freezing capacity of 300 tonnes of raspberries. In 1991, Mr. Stevanovic established his current company, Stefani Univerzal with a cold storage capacity of 1,500 tonnes. In 1998, he sold his interest in Partnersped and since then has completely devoted himself to building Stefani Univerzal and its business in the fields of production and processing of fruit berries. Stevanovic has special interest in the planning of industrial development, the economics of business and agricultural economics.

Olivera Matic-Brbora

Olivera Matic-Brbora is Assistant General Manager of the National Savings Bank, where she is responsible for Corporate and Retail Banking. She was born on July 8, 1955 in Obrenovac, near Belgrade and graduated in 1978 from the Faculty of Economics at the University of Belgrade as one of the best students in her class. Between 1979-1998 she worked in Belgrade Bank on foreign affairs including loans and guarantees, long-term business cooperation, joint investments, leasing, business development and foreign payment operations. Her responsibilities included negotiations and implementation of contracts with The World Bank, IFC and European Investment Bank. Throughout that period, Ms. Matic-Brbora performed the role of Chairman of the Board for foreign affairs of Jugoslav Banking Association, and between 1985 –1990 she was the representative of the bank in the Jugoslav-American economics council. At the invitation of ANZ Bank London and DAIWA Securities London she has participated in several months of training concerning business in the international financial market. Between 1998 –1999 she held the position of Director of International Relations in AY Bank. She assumed her present position in March 2002.

Dragan Lukac

Dragan Lukac is President of Regional Chamber of Commerce Novi Sad. He attended the College for Internal Affairs - Belgrade and the Faculty for Management – Zajecar where he received a BSc. degree in agricultural economics. From 1982-1991 Mr. Lukac was the provincial secretariat for Internal Affairs in Vojvodina – Office of State Security Novi Sad. During the years 1991-1994 he was Sales Manager in the Vojvodina Region for PTT Telefax, Belgrade. In 1996, Lukac was appointed to the High Commissioner for the Refugee Commissariat in Novi Sad where he was an associate in the legal department. From 1996-1997, he was President of the Managing Board of JKP “Stan” Novi Sad and from 1996-1998 was Chief of Staff in the President’s Office of the Executive Board for the city of Novi Sad. From 1997-2001, Mr. Lukac was Assistant Director in charge of marketing for JP “Poslovni prostor” Novi Sad. In 2001, he was named Vice President of the Regional Chamber of Commerce Novi Sad and later that year became President. In that year, he was also appointed Deputy President of the Managing Board for the Business College in Novi Sad. During 2002, he served as a Member of the Commission for Anti-Corruption ICC. He also serves as a member of the Managing Boards for PIK “Becej” Becej and KIC “Begec” Begec and in 2003 was appointed a Member of National Competitiveness Council.

Radoslav Veselinovic

Radoslav Veselinovic is President of the Chamber of Commerce and Industry of Serbia, a position he has held since 2000. He was born in 1952 in Cerovac, Serbia. He completed electro-technical school 1971 and soon after established the first handicraft workshop for repair and maintenance of electric engineering machines. In 1977 he opened a workshop for the repair and maintenance of electro technical machines and equipment known as the Galeb Group. Mr. Veselinovic led this company in an inventive and visionary manner; it was registered in 1989 as the first private company in the former Yugoslavia. Today Galeb Group is a respected company which continues to grow. From 1987 to 1991 Mr. Veselinovic was a member of the Board of Directors of the Chamber of Commerce and Industry of Yugoslavia. From 1991 to 2000 he was a member of the Board of Directors of the Chamber of Commerce and Industry of Serbia. He was elected national delegate of the Serbian Parliament in Parliamentary elections of 1993 and 2000.

Aleksandar Vlahovic

Aleksandar Vlahovic is the Minister of Economy & Privatization in the government of the Republic of Serbia. He was born in 1963 in Belgrade and graduated from the Faculty of Economics in Belgrade in 1987. In July 2000, he was appointed Director of Deloitte & Touche Yugoslavia (including Republika Srpska). He is a member of the Association of American Appraisers, International Association of Accountants, Association of Yugoslav Economists and the Association of Yugoslav Appraisers. Minister Vlahovic speaks English and Russian. He is married and the father of two children.

Nebojsa Vujovic

Nebojsa Vujovic is Advisor to the President of Hemofarm Koncern A.D., and a member of a board of directors in charge of International co-operation. He joined Hemofarm in March, 2001. Born on October 3rd 1957, Mr. Vujovic graduated from Law School at the University of Belgrade in October 1979 and became a diplomat with the Federal Ministry of Foreign Affairs. During his 20-year diplomatic career he was Consul in the General Consulate in Sydney, Minister-Counselor in the Embassy of FRY in Washington, Ambassador, Assistant to the Minister for Foreign Affairs, and President of the Committee for co-operation with KFOR and UNMIK in Pristina. He participated in the peace conference in Dayton (USA), and in technical negotiations in Kumanovo which resulted in historic agreements.

BIOGRAPHIES OF OTHER GOVERNMENT DELEGATES

Kori Udovicki

Kori Udovicki is the Minister of Energy & Mining for the Government of the Republic of Serbia. She was born in 1961 in La Paz, Bolivia and graduated from the Faculty of Economics at the University of Belgrade. She was later awarded a master's degree and doctorate at Yale University (USA). Until 2001, she worked at the International Monetary Fund as Chief Economist in programs for Yugoslavia, where she coordinated the work of sector economists, established a database on the real economy, and specialized in analysis of issues in the electric-power industry. Mrs. Udovicki also worked as the Chief Economist in the program for Bosnia-Herzegovina where she coordinated structural reform projects. In the Serbian government, she served as advisor to the Minister of Finance for the real sector, and as a member of the Commission for restructuring public enterprises. Ms. Udovicki speaks English and Spanish, with good command of Portuguese and French. She is married with three children.

Gordana Lazarevic

Gordana Lazarevic is an Assistant Minister in the Ministry of International Economic Relations. She has worked 28 years in key positions in the public administration. Her duties have involved planning, work on economic and financial regulations, debt management, cooperation with international financial institutions (International Monetary Fund, International Bank for Reconstruction and Development, European Investment Bank) and the European Union. Mrs. Lazarevic has great experience in debt management. She was the key economic advisor in negotiations with Paris Club and London Club of Commercial Creditors. She has worked on negotiations regarding debt reprogramming in large public enterprises, such as the railway and electric power industry. Mrs. Lazarevic has worked on several projects of the World Bank, the most significant being one dealing with restructuring of the financial sector. On behalf of Yugoslavia, she has participated in numerous negotiations regarding loans of various international institutions. As Assistant Minister, Mrs. Lazarevic works on coordination of international development support and encouraging foreign direct investment. She was awarded both the BA and MA degrees from the Faculty of Economics, University of Belgrade.

Slavko Andrejevic

Slavko Andrejevic is currently an adviser to the Serbian Minister of Energy & Mining. Born in 1974 in Belgrade, he obtained a B.A. degree in Political Science from Middlebury College (USA). Until 2002, he was an associate in the Telecom Mergers & Acquisitions Group at Salomon Smith Barney's New York and London offices. While at Citigroup, he also coordinated the firm's effort to establish a market presence in Serbia following the political changes of 2000. In August 2002, he joined the Ministry of Energy and Mining and assumed his current position. His direct responsibilities include financial aspects of restructuring the state oil & gas industry and the vertically integrated electricity industry, as well as construction of the Constanza-Pancevo-Omisalj regional pipeline. He is fluent in English and French, with a good command of Russian.

Ljubomir Podunavac

Ljubomir Podunavac is Public Relations Manager for Dr. Goran Pitic, Minister of International Economic Relations, a position which he has held since the end of 2001. Born in 1972 in Belgrade, Mr. Podunavac attended the Faculty of Political Science, University of Belgrade. In the period between 1995 and 2001, he worked as a journalist covering economic and internal affairs for the Independent Daily Newspapers Nasa Borba, Glas Javnosti and Danas. After the democratic changes in the state, Mr. Podunavac worked as a Public Relations Manager for Minister of Telecommunications Boris Tadic from 2001 to 2002. During the same period, he was also Chief of the Press Center Bujanovac with the Government Vice President Nebojsa Covic and also Chief of the Press Center FINA CUP (World Cup) in Belgrade. He is fluent in both written and spoken English.

Jelena Radulovic

Since February 1993 Jelena Radulovic has been the Director of Communications in the Ministry of Economy and Privatization. Immediately prior to that, she was the head of the Center for Strategic Communications within the Prime Minister's Office. She was born in 1972 in Belgrade, Serbia and Montenegro and studied programming and mathematics at the Faculty of Mathematics, University of Belgrade. Until 1998, Jelena worked as an assistant in the Spanish news agency EFE in their office in Belgrade. Between 1999 and 2001, she worked as a correspondent based in Belgrade for Bloomberg News, covering wide range of political, business and financial news from all countries of former Yugoslavia. In 2001, she worked shortly as a journalist for Business Central Europe magazine, a subsidiary of The Economist. In late 2001, Jelena joined the Bureau of Communications in the Government of Serbia, where she worked as an editor-in-chief of the Government's official web site. She speaks English and Spanish, with good command of French.

Nebojša Savic

Nebojša Savic is a senior advisor and head of research at the Economics Institute in Belgrade. He has nearly twenty years of experience in economic policy management, macroeconomics and stabilization policies, transition to market economy, structural adjustment, restructuring of enterprises and banks and privatization. He received a PhD from the Faculty of Economics at the University of Belgrade in 1981, and was a visiting Fellow at Harvard University in 1992, and the National Bureau of Economic Research in Massachusetts in 1990. He is the editor and author of a number of leading business and economic papers, and is currently the editor in chief of the monthly *Economic Barometer* journal, published by the Economics Institute.

Marko Stojanovic

Mr. Stojanovic has over three years of consulting experience with Deloitte Consulting in Consumer Business, Manufacturing and Public Sector industries, with main focus on organization and technology assessments, supply chain management, strategy & operations improvement initiatives and projects relating to cost savings opportunities. He is currently a

Senior Advisor to the Serbian Minister of Economy & Privatization regarding issues of privatization, corporate restructuring, industry policy and economic development. Furthermore, he is managing a team of consultants assisting the Ministry of Finance and Economy of Serbia to restructure the largest state-owned enterprises - a project sponsored by the UN Development Program. Mr. Stojanovic obtained both a BSc in Mechanical Engineering and MS in Operations Management from Stevens Institute of Technology. At the Pushkin Institute of Russian Language, he obtained a certificate of special study in Russian language & literature.

BIOGRAPHIES OF CLUSTER DELEGATES

Djuro Krneta

Djuro Krneta was born in 1950 and graduated in 1974 from the University of Belgrade, Faculty of Political Science, Department of International Relations. He was awarded a Master's Degree in 1989. His professional career started 1974 as Expert Collaborator serving until 1982. From 1982 through 1991 he worked as the Secretary and Deputy Secretary at LC Belgrade University and CK LCS for International Relations. In 1991 he became Special Counselor at the Ministry of Foreign Affairs. From 1991 through 1994 he served as Counselor at the Yugoslav Embassy in the Russian Federation. He is currently employed at Eurosalon as Deputy Manager. He is married and has a daughter.

Milena Mitic

Milena Mitic is an expert in food processing, particularly the processing of fruit juices, and has a broad knowledge concerning raw materials for the food industry, trading of food products, and export marketing. Since 1998, she has been an advisor for Fresh & Co. particularly as regards imports of raw material for juice production, including fruit concentrates, and the export of juices and frozen fruit. In this role, she is in constant contact with food processors and suppliers in order to purchase fruit and concentrate and to promote export opportunities. Prior to joining Fresh & Co., she held management positions in several other agri-business and food processing companies, including AWT International, PKIB Engineering and Cooperativa. Ms. Mitic received a BSc in Food Processing from Belgrade University, Faculty of Agriculture in 1975.

SERBIAN NATIONAL COMPETITIVENESS COUNCIL

“The National Council should help all of us in creating a vision of Serbia becoming a center of South Eastern Europe”

Prime Minister Zoran Zivkovic

The National Competitiveness Council will serve as the focal point for competitiveness-building activities in Serbia, reporting on key competitiveness issues and recommending policy actions required to enhance the country’s economic position. The Council’s specific functions include:

- Ensuring that there is a clear national strategy and direction for improving competitiveness within Serbia
- Providing guidance to, and coordination among, the competitiveness initiatives undertaken by different industry clusters and the government
- Focusing appropriate leadership on specific competitiveness issues, whether trade or investment related, affecting Serbia
- Ensuring that the general population is informed about competitiveness issues and understands the importance and implications of such issues

Reflecting the broad representation of its membership, the Council is expected to help guide and shape informed policy-making, industry action and business strategy through its regular statements, reports and meetings.

Structure

The Council consists of 26 leaders drawn from the private sector, government and civil society across Serbia. Thirteen members, including the Chairman, are drawn from the business community. Eight representatives from the government, including the Ministers of Agriculture, Economy & Privatization, Finance, International Economic Relations and Trade, sit on the Council as well. The Council’s membership, including the three-member Executive Committee, includes:

Industry	
Metalac	Dragoljub Vukadinovic, Managing Director (Chairman, Executive Committee)
Delta Banka	Draginja Djuric, Director
Energoprojekt	Pavle Vuckovic, Director
Fresh Co.	Živojin Đorđević, Director
Hemofarm	Miodrag Babic, President
Knjaz Miloš	Radenko Marjanovic, General Manager
National Savings Bank	Olivera Matic Brbora, Director
SAGA	Dušan Radmilac, Director

Sintelon	Dragan Žarkovic, Director
Stefani Univerzal	Đorđe Stevanovic, Director
Tigar Michelin	Dragan Nikolic, Director
Todor	Mirko Todorovic, Managing Director
Yubanka	Borislav Đokic, Director
Government	
Ministry of International Economic Relations	Dr. Goran Pitic, Minister (Executive Committee)
Ministry of Agriculture	Dr. Dragan Veselinov, Minister
Ministry of Economy & Privatization	Aleksandar Vlahovic, Minister
Ministry of Finance & Economy	Božidar Đelic, Minister
Ministry of Labor & Employment	Mr. Dragan Milovanovic, Minister
Ministry of Science, Technology & Development	Dr. Danilo Golianin, Deputy Minister
Ministry of Trade, Tourism & Services	Dr. Slobodan Milosavljevic, Minister
Chief of Cabinet to the Prime Minister	Nemanja Kolesar
Business Community Members at Large	
Serbian Chamber of Commerce	Radoslav Veselinovic, President
Regional Chamber of Commerce, Novi Sad	Dragan Lukac, President
Academia / Think Tanks	
Center for Liberal-Democratic Studies	Boris Begovic (Executive Committee)
G17 Institute	Milko Štimac, Director
Media	
Vreme	Miša Brkic
Foreign Investor Community	
Foreign Investors Council	Christoph Greussing, General Secretary

Activities

The Council will engage in a variety of activities promoting competitiveness issues and fostering greater competitiveness within Serbia. These activities include:

- Issuing public statements and recommendations on important competitiveness themes facing the country
- Publishing the annual Competitiveness Report and Competitiveness Leadership Directory
- Providing advice and support to government leadership and business on

- competitiveness strategies, programs and policy issues
- Convening the annual National Competitiveness Summit, as well as other forums addressing national industry, trade, investment or export priorities.

The Council, which will meet on a regular basis, will also undertake other activities as defined and agreed upon by the Executive Committee and the membership at large. The Council's Chair will brief the Prime Minister after each full Council meeting.

NATIONAL COMPETITIVENESS COUNCIL

Discussion Paper on the Council's Role & Operations

I. Measuring the Council's Success

The Council's mission is to ensure that the five conditions necessary for change exist in Serbia:

- Tension to overcome inertia without causing panic
- Receptivity to innovation and collaboration
- Guiding principles that are consistent with increasing general prosperity through improved competitiveness
- Insight necessary to ensure that Serbia makes decisions better and faster than its competition
- Leadership based primarily on the influence of reason, rather than the exercise of power or the passion of emotion

The Council will evaluate itself on an ongoing basis to assess whether these conditions are in place and the role that the Council played in addressing any identified deficiencies.

Performance Objectives 2003-2004

To ground this evaluation in practical, tangible things, the Council will set specific performance objectives for each year. In 2003-2004, the Council will pursue the following specific objectives:

- Establish benchmarks for measuring Serbia's competitiveness and provide quarterly updates to the nation; these benchmarks will be accompanied by relevant specific examples of Serbian competitiveness success to provide positive role models for the nation
 - Publish explicit competitiveness objectives using WEF and other metrics
 - Ensure key export clusters are organized to win greater prosperity
 - Explicit cluster competitiveness campaign, including specific performance objectives, clear strategies, and practical action plans
 - Clear engagement plans to coordinate resources of cluster and support outside the cluster
- Ensure that Serbia executes specific initiatives to address the national competitiveness action priorities
 - These issues will be discussed and agreed on Tuesday morning
- Host a national competitiveness summit in April, 2003 and plan for a subsequent national summit in 2004
- Ensure Council sustainability, including:
 - Meeting 6 times during 2003 (including the national summit) and provide updates to the nation from each meeting

- Arranging the availability to the Council of resources necessary to complete the Council's objectives for the year (e.g., formalizing relationships with research staff at one or more institutions to undertake measurement of the Serbian competitiveness benchmarks)
- Avoiding creation of duplicative or unnecessary administrative capabilities
- Publish a competitiveness leadership directory to facilitate coordination among individuals involved in various competitiveness initiatives
- Publish certified, audited accounts of Council activities and financial dealings once per year

These metrics are intended to measure the effectiveness of the Council in fulfilling its role in guiding Serbia's competitiveness efforts. They are not intended to measure Serbia's competitiveness – metrics for evaluating Serbia's competitiveness are addressed elsewhere.

II. Council Operations

General Activities

The Council will use indirect means, rather than direct control, to promote the five conditions for improving competitiveness. Consequently, the Council may employ any means that respect this principle and are useful for promoting one or more of the conditions for change.

The 2003-2004 performance objectives outlined previously indicate specific means by which the Council may promote conditions necessary for the nation to achieve its competitiveness objectives that period. The following list suggests other actions the Council may take:

- Public statements made through speeches, media communication or other means
 - e.g., National Competitiveness Summits, catalyzing newspaper features about Serbia's most competitiveness firms
- Commissioning and publishing of topical research and analysis
 - e.g., publishing national competitiveness benchmarks and competitiveness leadership directories
- Convening specific private, public and/or civic leadership to address important national competitiveness challenges that fall outside or beyond the scope of existing cluster or other leadership structures
 - e.g., creating a working team to coordinate WTO negotiation strategy with cluster export priorities
- Personal intervention by Council members to mediate friction or disagreements that significantly impede the national competitiveness campaign from proceeding with appropriate tempo
 - e.g., providing personal oversight to enable two clusters to cooperate to develop new exports while ensuring shared benefits, such as the creation of bio-pharmaceuticals by collaboration between the fruit and pharmaceutical clusters

- Guiding the priorities, actions, budget allocations and staffing of public, private or civic organizations to strengthen those organizations' abilities to fulfill their competitiveness responsibilities
 - e.g., reorganizing research staffs in ministries and universities to ensure faster delivery of higher quality competitiveness research to the Council and the nation
- Seconding specific resources from other organizations (with the providing organization's approval) to administer any of the Council's initiatives
 - e.g., arranging for regular, part-time staff support from industry associations and government ministries

Council Secretariat

The Council should be supported by a small administrative team of individuals seconded from public, private and civic organizations. These individuals, who may be selected from the organizations of Council members, will be rotated to ensure a balance between building and preserving institutional memory on the one hand, and providing fresh turnover and sharing of the administrative obligation on the other.

The administrative team will have a leader appointed by the Council's chairperson. The Secretariat will provide appropriate logistical and administrative support to the Council. The operational requirements of this team will be established once the Council's other parameters are agreed upon.

The Council will secure a small budget for administrative expenses from a mix of private and public sources. The budget for specific initiatives will be separately provided for and will not be drawn from the Council's administrative budget.

Operating Parameters

The Council's operation will be significantly dependent upon the preferences of the members. That said, it is possible to recommend a few key operating parameters:

- Council meetings will be scheduled for approximately one working day, taking into account the travel requirements and schedules of members
- The Council executive committee will have additional, more frequent meetings of shorter duration with the Secretariat as appropriate to ensure continuity of effort, preparation and communication
- The Council executive committee will meet with the Prime Minister after each Council meeting to provide a suitable briefing

It is expected that other operational guidelines will emerge over time.

SCEE PROJECT OVERVIEW

The Serbia Competitiveness and Economic Efficiency Project (SCEE) is an activity launched by Serbia's Ministry for International Economic Relations (MIER) and the private sector with support from the United States Agency for International Development (USAID) to assist the Serbian Government in assessing the country's competitiveness and promoting more productive and export-oriented industries.

The objective of this effort, which is undertaken in cooperation with Serbian business leaders and leading foreign investors, is to develop a Serbian-led competitiveness enhancing plan combining macroeconomic policies and legal reforms, micro-economic reforms, education, and competition policies strengthening private firms, institutions and the civil society in general.

The project, which began in October 2002, consists of four primary activities:

CLUSTER ACTIVITIES

The SCEE team is working with two industry clusters – the fruit and furniture sectors – to identify obstacles to their growth and develop practical short-term and longer-term steps to address their common concerns and increase collaboration between cluster members. The cluster activities, scheduled to last the duration of the project, are based, in part, on a national competitiveness audit, as well as trade and statistical research and analysis initiated by the project team.

NATIONAL COMPETITIVENESS SUMMIT

The National Competitiveness Summit, which will be a two-day high profile event showcasing the theme of competitiveness for the broader Serbian public, will mark the first formal convening of the National Competitiveness Council, and will promote commitments by key stakeholders to initiate competitiveness enhancing action steps. Taking place on April 1-2 in Belgrade, the Summit will involve over 150 leaders from the private sector, Government and civil society.

NATIONAL COMPETITIVENESS COUNCIL

The National Competitiveness Council (NCC), composed of leaders from business, government and civil society, will serve as the focal point for competitiveness-building activities and discussion in Serbia and provide an important forum for discussing critical related issues at the highest level. The NCC -- which will be chaired by a noted business leader – will travel to the US to meet with political, financial and intellectual leaders in April 2003.

COMPETITIVENESS SUPPORT FOR THE GOVERNMENT

On an ongoing basis the project team will provide competitiveness related advice and support to the Serbian Ministry for International Economic Relations and other Ministries, focusing especially on export and foreign investment related themes.

INTRODUCTION TO USAID IN SERBIA



ABOUT THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

USAID/SERBIA Mission

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The United States Agency for International Development (USAID) was created in 1961. USAID is an independent agency of the U.S. government that provides economic, development, and humanitarian assistance around the world in support of U.S. foreign policy goals.

The U.S. government reestablished diplomatic relations with the former Federal Republic of Yugoslavia in 1997. Since the establishment of the United Nations Mandate in Kosovo, the USAID program in Kosovo has been managed by a separate USAID mission in Pristina. USAID/Serbia was reopened in early 2000.

The USAID Mission in Serbia and Montenegro is under the direction of **James Stephenson, USAID/FRY Mission Director**. **Howard Handler** is the **officer-in-charge** resident in **Podgorica**. The USAID/FRY Mission has a total staff of 89 including US direct hires, US personal service contractors (USPSC) and FSN staff. The USAID Mission consists of a Controller Office directed by **Carolyn Bryan**, an Executive (Administration) Office, directed by **Heather Armstrong**, and four Program-related Offices:

- **The Economic Policy & Finance Office** responsible for economic policy, financial system reform and micro and SME finance programs is directed by **Bill Foerderer in Serbia** and **Andrew Vonnegut in Podgorica**.

- **The General Development Office** responsible for community and local development programs is directed by **Michael Enders in Serbia and Amy Nolan Osborn in Podgorica**.
- **The Democracy & Governance Office** responsible for NGO/civil society, rule of law, independent media, political party process and trade union programs is directed by **Katherine Stevens in Serbia and Dora Plavetic in Podgorica**.
- **The Program Office**, responsible for the Mission's strategy and for program coordination, is directed by **Alonzo Fulgham**.

USAID's program budget covers four program accounts: (1) Development Assistance, (2) the Child Survival and Diseases Program Fund, (3) International Disaster Assistance, and (4) Transition Initiatives. Additionally, USAID manages program funds under other accounts jointly administered with the State Department: Economic Support Funds, Support for Eastern European Democracies, and Assistance for the Independent States of the Former Soviet Union. Another assistance program, the P.L. 480 Title II Food for Peace Program, is administered by USAID, but falls under the Department of Agriculture's budget. USAID is organized into geographic bureaus responsible for overall activities in countries where USAID has programs and functional bureaus that conduct agency regional or worldwide programs. USAID has field missions in four regions of the world (Sub-Saharan Africa, Asia and the Near East, Latin America and the Caribbean, and Europe and Eurasia).

USAID provides assistance through partnerships with other organizations and individuals. Organizations carrying out USAID-funded programs typically fall into one of three major categories: non-governmental organizations (NGO); government entities (host country and U.S. government agencies); and public international organizations, such as U.N. agencies. The agency makes direct cash payments to some foreign governments and finances the provision of U.S. commodities, such as equipment and machinery, intermediate goods, and raw materials, to many foreign countries.

In addition, USAID funds other U.S. government agencies through interagency agreements to provide assistance overseas. USAID also obtains goods and services for delivery to beneficiaries overseas. It hires individuals and organizations to implement various development assistance programs, such as providing technical assistance, conducting research, providing policy advice, implementing community based assistance activities, and constructing infrastructure assistance activities. The term NGO includes for-profit firms, educational institutions, cooperative development organizations, and private voluntary organizations (PVO). PVOs are tax-exempt, non-profit organizations that receive voluntary contributions of money, staff time, or in-kind support from the general public and are engaged in voluntary, charitable, or development assistance activities. PVOs and NGOs can be U.S. based, international, or locally based in the host country.

USAID/SERBIA ECONOMIC POLICY AND FINANCE OFFICE

2003 PROGRAM SUMMARY

Background

After more than ten years of economic instability and contraction, a reformist government has charted a course based upon stabilization, restructuring and growth. In close coordination with the government and the donor community, USAID launched a series of targeted emergency initiatives in early 2001 to deliver economic triage to the banking and financial systems. A Strategy was approved in early 2002 and activities initiated and managed by the Economic Policy and Finance Office will focus on strengthening those institutions that will promote and sustain economic reform and the transition from a socialist to a market economy. USAID will work with and through Serbian counterparts in the executive, legislative and judicial branches of government; with NGOs, and other USG departments, notably the Departments of State, Treasury and Agriculture.

The constituents of the current economic policy and finance program are the following:

Banking System Stabilization and Reform

Serbia's banking system has been largely destroyed by endemic directed lending to state companies and Milosevic cronies, and embezzlement. The banking system currently comprises approximately 50 licensed banks, many of which are insolvent and will be consolidated or liquidated over the next several years. Seven banks were placed into liquidation, and banking licenses were revoked on June 14, 2001. The four big banks representing more than 60% of banking sector assets were placed into bankruptcy on January 2, 2002, and under the auspices of the Bank Rehabilitation Agency (BRA) they are being liquidated. Six more banks have been intervened and are now under "Special Supervision" of the National Bank.

At present, domestic banks remain on the sidelines of the financial system, with credit origination restricted to short-term working capital lines. Foreign banks are increasingly well-represented with a half dozen or more already licensed, and with others having opened representative offices. Like the domestic banks, foreign banks are not actively originating finance because of pervasive legislative and judicial obstacles, and because of issues associated with fundamental credit quality.

USAID's banking program comprises two elements: one, a stabilization effort, is focused on the assessment and resolution of the 27 largest banks representing roughly 85% of banking sector assets; the other promotes institutional and systemic reform and includes on-site, off-site and special supervision. The over-arching objective of both is to stabilize the financial system, and to promote long-term safety and soundness through the adoption of prudential banking practices.

Implementer:	BearingPoint
Procurement:	Contract(s)
Counterpart:	National Bank of Serbia
CTO:	W.S. Foerderer
Funding:	\$ 2.020 million (stabilization and assessment) -- Completion date – 2/28/02
	\$ 2.391 million (supervision and restructuring) -- Completion date – 4/30/03

Macroeconomic Reform and Central Bank Strengthening

This Activity is a follow-on initiative to the pre-existing Bearing Point (KPMG/Barents) project, and it is designed to assist the National Bank of Serbia (NBS) enhance and strengthen the operation, management and dispatch of all Central Bank functions in order to ensure a safe, sound and stable banking system. At the behest of the Central Bank and other donors, USAID's efforts will seek to introduce practices and procedures to the Central Bank that are consistent with Basle Core Principles and other relevant international standards. This activity will sustain focused effort on the introduction of risk-based examination and supervision. Under this activity a team of advisors will promote the institutional development of the Central Bank, as well as continue to strengthen its capacity to ensure the safety and soundness of the banking system through prudential oversight and regulation of licensed banks and other financial institutions.

In addition to the Central Bank, this activity will support broader macroeconomic reform of the financial system, specifically in the areas of pension and insurance. Ratification of the Constitutional Charter will precipitate significant institutional changes, such as the removal of insurance regulation from the Federal to the Serbian government. Recent ratification of Pension legislation affecting the Mandatory "pay-as-you-go" defined benefit system also sets the stage for the advent of a multi-pillar pension system, comprising schemes, as well as the potential for a mandatory defined contribution scheme. Taken together, significant effort must be invested to ensure that these non-bank financial sectors are well-regulated and sound. USAID will support such regulation and other institutional reforms as may be requested by the government.

Finally, this project comprises activities and tasks that will further strengthen the recently-created Anti-Money Laundering Commission (FIU, Financial Intelligence Unit). Established in the summer of 2002, the FIU has already realized significant results which distinguish from all other efforts in the region. In its first six months the fledgling institution has processed more than 30,000 currency transaction reports, 120 suspicious transactions reports, and has 5 investigations underway, and one conviction returned. The FIU is currently poised to join the Egmont Group, the international body convened to combat money laundering, financial crime and terrorist finance. If the FIU's application is approved in mid-2003, Serbia admission will mark the most rapid membership in the world.

This project will commence on or about April 18, 2003 and will continue for a period of three years. All tasks and undertakings will be closely coordinated with the Central Bank, the Ministry of Finance, and other related institutions, such as the Bank Rehabilitation Agency, and with other relevant and interested host country counterparts. The activity will cooperate with the World Bank and International Monetary Fund (IMF), both of which are actively engaged in the stabilization, restructuring and reform of the banking system.

Implementer: TBD
Procurement: Contract(s)
Counterpart: National Bank of Serbia, Bank Rehabilitation Agency, Ministry of Finance, Financial Intelligence Unit
CTO: W.S. Foerderer
Funding: Est. \$10.0 million
Est. Completion 3/31/04

Tax Policy and Administrative Reform

This activity will provide technical assistance to the Ministry of Finance (MOF) and to the Public Revenue Agency (PRA) in tax policy and administrative reform. Its goal is to further fiscal reform by enabling the MOF/PRA to formulate and implement a sound tax system. This activity, while focused on the PRA, will necessarily be closely coordinated with the effort to dismantle the Payments Bureau (ZOP) which is being led by the International Monetary Fund and the European Agency for Reconstruction.

Assistance to the PRA in tax administrative reform will seek to ensure that activities of control, determination and collection of public revenues are performed in accordance with all laws and regulations, and that they respect tax-payer rights and provide professional and other assistance in understanding and performing tax obligations. Improvements in fiscal capacity will enhance and encourage Serbia's transition to a market economy and support the growth of the private sector. Improved management adds much-needed transparency to revenue collection, thus aiding Serbia to combat corruption, the gray economy and financial crime.

This Activity will be jointly managed and implemented by USAID and the U.S. Department of Treasury, in cooperation with other donor initiatives. USAID/Serbia's activities are closely coordinated with the International Monetary Fund (IMF), the World Bank (WB) and the European Agency for Reconstruction (EAR) to ensure that technical assistance and training support IFI conditionalities and EU accession precepts. This Activity will coordinate with other US government agencies, other donors, and with public and private international organizations active in Serbia in order to ensure common objectives and policy approaches, and to avoid duplication of effort.

Implementer: BearingPoint
Procurement: Contract(s)
Counterpart: Ministry of Finance and Economy, the Public Revenue Agency
CTO: B. Vukasinovic
Funding: \$ 8.613 million
Est. Completion 9/19/05

Enterprise Restructuring and Privatization

A decade of sanctions and directed lending by state-banks to state-owned enterprises has produced an enterprise sector that is uncompetitive, overstaffed and largely bankrupt. Most firms are heavily indebted to the Ministry of Finance (tax arrears), and state-owned banks and utilities which are themselves the objects of restructuring, privatization and/or liquidation. Because of the relationship between enterprise and banking sector resolution, this activity was launched in August 2001 and will contribute to broad economic restructuring. The Government has evidenced significant commitment to this effort, passing primary and secondary enabling legislation, and by appointing investment banking and legal counsel for the first industrial sectors under the batch privatization process. USAID advisors, working in close cooperation with the Privatization Agency, have registered substantial progress in the restructuring of Zorka Sabac, a complex holding comprising 22 subsidiary companies. The first of the subsidiaries will be auctioned in April 2003, with the balance privatized by year-end. In addition, USAID has assisted in preparing seven textiles companies for auction, and this effort is also expected to be complete by yearend.

USAID will undertake this enterprise restructuring effort in close cooperation with the World Bank, the European Union and the British Department for International Development.

Implementer: BearingPoint
Procurement: Contract(s)
Counterpart: Ministry of Economy and Privatization, Privatization Agency
CTO: B. Vukasinovic
Funding: \$ 1.998 million (Phase I)
 \$.745 million (Phase II)
Est. Completion 9/30/03

Economic Policy for Economic Efficiency

This project is designed to mobilize technical assistance and other resources that will deepen and institutionalize Serbia's economic restructuring and reform process by providing assistance in a number of interrelated issues/areas that are essential to accelerating economic transition.

- First, it will continue USAID's current work in the areas of commercial law and judicial reform. This work is key to establishing and enforcing the rule of law in commercial transactions, thereby creating the incentives for legitimate market behavior.
- Second, it will expand USAID's involvement into the following areas: economic policy formulation and implementation, accounting reform which is related to disclosure, transparency and therefore anti-crime/corruption, public education and information dissemination, government communications, and support for public procurement reform.

Progress in these areas will catalyze and underpin Serbia's economic reform agenda. Linking these efforts in a single project provides coherence to individual reform efforts being advanced by legislative, executive and judicial branch institutions in conjunction with non-governmental think-tanks and associations. These activities will enable the government to motivate and manage the economic reform process more effectively and efficiently. In addition, individual tasks and elements comprising this activity will contribute to USAID and the US Treasury's ongoing Technical Assistance (TA) programs in fiscal reform, banking, enterprise privatization, and WTO accession.

Activities under this project will spur private sector development and provide for increased public acceptance of reform, and greater access to decision-making. The project will enlist broader public participation in economic reforms, particularly by professional associations and think tanks. Accounting and public procurement reform will contribute substantively to reducing corruption by promoting transparency. This will result in greater economic efficiency and competitiveness.

The principal counterparts to this Task Order are the Serbian Ministry of International Economic Relations (MIER) and the Committee for Development and Foreign Economic Relations in the National Assembly of Serbia.

Implementer: IBM
Procurement: Contract
Counterparts: Ministry of International Economic Relations and the Committee for Development and Foreign Economic Relations in the National Assembly of Serbia
CTO: M. Piscevic
Funding: \$ 9.831 million
Est. Completion 8/31/05

Serbia Competitiveness and Economic Efficiency

This activity is providing assistance in building Serbian competitiveness that is associated with the broad macro-economy, as well as more specific issues tied to industries or firms themselves. The effort will be implemented by Booz Allen Hamilton (BAH), and its subcontractor on the Frontier which is headed by Michael Porter and Michael Fairbanks, both renowned worldwide for their innovation and cutting edge work in the area of national and regional competitiveness.

BAH and otF will assess the nation's competitiveness and its competitiveness potential. The analyses and examinations will integrate insights about Serbia's political economy with the experiences of other nations in a format that will allow leaders to enhance Serbia's competitive position in a global context.

Promoting Serbian competitiveness will generate sustained increases in productivity, resulting in more higher-paying jobs that will generally boost living standards and lead to greater prosperity. It is not a stand-alone discipline, but an interdisciplinary one, which aligns macroeconomic policies with broad legal and regulatory reform, education, competition policy and myriad other economic, business and social factors, to create a unified strategic plan in order to produce greater value-added for a country's citizens.

Overall, this Activity will contribute to broad economic restructuring in the Republic of Serbia that will lead from a centrally-planned economy to a decentralized market-oriented economy that is positioned to sustain the competitive pressures associated with accession into the European Union.

Implementer: Booz Allen Hamilton/on the Frontier
Procurement: Contract(s)
Counterpart: Ministry of International Economic Relations
CTO: M. Piscevic
Funding: \$ 1.908 million
Est. Completion 9/30/03

Serbia Enterprise Development Program

Based upon the success of the pilot Serbia Competitiveness for Economic Efficiency (SCEE) project, this new activity will build upon the early gains, seeking to further strengthen the National Competitiveness Council and the fruit juice and furniture clusters that were formed in the pilot phase. This activity will also promote competitiveness as a paradigm for economic and enterprise sector development that will fuel growth and job creation that lead to increased prosperity.

This project will commence on or about June 15, 2003 and will continue for a period of three years. All tasks and undertakings will be closely coordinated with the government which has adopted competitiveness as one pillar of its SME strategy, and by extension, its economic growth strategy. Whereas the Ministry of International Economic Relations was the principal counterpart to the pilot activity, this successor project will enlist the Ministry of Economy and Privatization under whose auspices enterprise sector development resides.

This activity was designed in close cooperation with the Serbian government, the international donor community, and the private sector. As such, the design reflects the ongoing activities of donors, such as the European Agency for Reconstruction, the World Bank, the International Finance Corporation/SEED office, GTZ and Swiss Development Corporation.

Implementer: TBD
Procurement: Contract
Counterparts: Ministry of Economy and Privatization
Ministry of International Economic Relations
CTO: A Zoric Krzic
Funding: TBD
Est. Completion 6/15/06

Real Estate Market Development in the Republic of Serbia

Over the last decade, the ex-Yugoslavia endured political and economic instability, high inflation, massive defaults and arrears, and economic sanctions. This has translated into protracted deterioration of living standards, and the inability of civil institutions to function effectively. As a corollary, the banking system has also deteriorated and does not perform financial intermediation or credit creation functions that are critical to Serbia's economic future. At present, investment in SMEs and household consumption are financed from family borrowings, if at all. Current estimates of broad money supply suggest that sizeable holdings exist outside the banking system in hard currencies.

Stewart International, a global leader in title insurance and other mortgage/home equity-related financial products, operates in countries worldwide, and will implement this activity. With Central European headquarters in Slovenia, Stewart has successfully worked to reform the land title and land registration systems in that country, and in others in the region.

In order to motivate lending, a secure title system and registration procedures are essential. Currently, mortgage origination is extremely shallow due to the uncertainty of land title, and the inability to perfect or execute upon a title. The Government of Serbia has established land reform among its highest priorities, and this activity supports the governments interests, and will serve as a foundation for mortgage and home equity finance market in Serbia (see below – Alternative Finance and Credit Mobilization).

This project will serve as the basis for the development of a mortgage market in Serbia by helping to establish clear perfectible title. Whereas USAID has worked actively to promote mortgage lending through the establishment of a mortgage bank, issues of land title or land registration are fundamental to USAID and other would-be mortgage originators.

Implementer: Stewart Information International Inc. (Stewart Title)
Procurement: Cooperative Agreement
Counterpart: Serbian Ministry of Urban Planning and Construction
CTO: M. Piscevic
Funding: \$ 4.527 million
Est. Completion 9/11/05

Increased Trade and Market Access

USAID is providing substantial assistance to the Federal, Serbia, and Montenegrin governments which are committed to free and open markets, and to renewed membership in the World Trade Organization (WTO) and other Euro-Atlantic structures. USAID launched this activity during the summer of 2001 in order to assist government to prepare its Memorandum of Foreign Trade Regime (MFTR) for presentation early in 2002 to the Geneva-based WTO Secretariat. Submission of the MFTR is the first step of a multi-year effort to re-join the WTO.

This effort will provide technical assistance preparing the Serbia & Montenegro for WTO membership in an orderly, organized, and rapid way. It is expected that by the conclusion of this project that the Serbia & Montenegro will have the institutional capacity to substantially observe all of its obligations as it becomes a full member of the WTO.

The Project will do this in the following ways:

- Assist in harmonizing Yugoslavia's legal frameworks with the requirements of the various WTO agreements;
- provide opportunities for expert technical consulting in the numerous WTO disciplines,
- support the preparation of documentation concerning the procedural aspects of the WTO accession process,
- train key individuals in both supporting and implementing institutions (for both government and non-government officials),
- help develop the next generation of trade experts through a limited internship program, and
- promote the dissemination of WTO related information to interested persons.

Implementer: IBM / The Services Group
Procurement: Contract
Counterparts: Federal Ministry of Foreign Economic Relations
Serbian Ministry of International Economic Relations
CTO: M. Piscevic
Funding: \$ 4.549 million
Completion date: 12/31/05

Alternative Finance and Credit Mobilization

At present, there is no domestic banking capacity to originate consumer, commercial or home equity loans, and foreign banks are focused principally on wholesale lending to foreign clients. It is unlikely that the remaining domestic banks will develop the internal controls, the systems or procedures to originate loans and provide financial intermediation to any appreciable segment of the banking market in the short term. Yet, the government has advanced an economic platform based upon investment, growth and employment that is predicated upon improved and expanded financial intermediation.

Donors, including the EBRD, GTZ, DFID, the World Bank and others are launching debt and equity facilities with aggregate pledged resources approaching \$100 MM. All have targeted the market strata comprising micro and small enterprises, with short-term loans ranging from approximately \$100 to \$100,000. The EBRD and the other donors will originate, disburse and service through the several remaining small banks (approximately three to four). Using existing small banks offers the potential advantage of ready start-up, but the few target banks are inexperienced in SME lending, have limited distribution capabilities, and have limited management and operations capability to administer multiple donor programs. Absorptive and management capacity will also be burdened because of the relatively large number of donor programs and the relatively few domestic banks capable of servicing them.

In response to the dire need for working and investment capital, USAID will invest in two facilities: a microfinance line through Opportunity International, and a Home Equity/Mortgage Finance facility that is in development.

Microfinance

In response to an unsolicited proposal, Opportunity International (OI), which manages microfinance facilities in Montenegro, Bulgaria and the region, was granted \$2 million to establish a similar facility in Serbia. OI was licensed as a Savings and Loan (Stedionica) on June 28, 2002 and is based in Novi Sad (northern Serbia). To date, Opportunity International has originated more than 700 loans, with more than 600 loans currently outstanding. OI has expanded southward, and has most recently established a presence in Kragujevac.

Implementer: Opportunity International
Procurement: Grant
CTO: A. Zoric-Krzic
Funding: \$ 2 million

Mortgage Finance

Since early in 2001, USAID has sought to establish and license a financial institution that would originate mortgage and home equity finance. This effort has not yet come to fruition, though USAID remains interested, and the basic premises remain valid.

Mortgage and home equity finance are powerful catalysts for economic growth, and ultimately for the broadening and deepening of the financial sector. New home purchase fuels demand for construction materials and services, both of which tend to be sourced domestically. Sixty percent of home equity finance in the region is used for investment in small and medium enterprise. By establishing the means to pledge commercial and residential dwellings, entrepreneurs liberate their capital, which contributes directly to growth and employment generation.

Having established successful mortgage and home equity banks from the Baltics to Bulgaria, USAID is uniquely positioned to provide the expertise to create an institution that will meaningfully contribute to Serbia's growth. Because of its significant prior experience, USAID will promote conforming origination and underwriting standards that will lead to asset securitization which is beneficial for the financial system, notably institutional investors such as insurance companies and pension funds.

Implementer: TBD
Procurement: Grant/Equity
CTO: W.S. Foerderer
Funding: \$5-10 million equity
\$ 1 million technical assistance grant

HOTEL INFORMATION

The Washington Hilton
1919 Connecticut Avenue NW, Washington, DC 20009
Tel: 1-202-483-3000 Fax: 1-202-232-0438

The Hilton Washington enjoys a magnificent garden setting that overlooks the capital city's impressive skyline. Conveniently located on fashionable upper Connecticut Avenue and near Georgetown, Adams-Morgan, Embassy Row, business district and all local points of interest. The Hilton Washington combines the feeling of a vacation resort with the convenience of a downtown hotel. This award winning property has a tradition of fine service that make it a truly first class hotel. All guest rooms feature luxurious furnishing and thoughtful amenities.

Unwind after a hectic business day or an intense day of sightseeing by taking a stroll through our gardens, refreshing yourself in our Olympic-style swimming pool, working out the kinks in the fully equipped fitness club, or enjoying a fine meal at the Capital Cafe or 1919 Grill.

The Charles Hotel
One Bennett Street, Cambridge, Massachusetts 02138
Tel: 1-617-864-1200 Fax: 1-617-864-5715

Situated in the heart of Harvard Square, the intellectual center of the nation, The Charles offers unobtrusive service, award-winning restaurants and contemporary décor in a historic yet energetic setting.

Located at the corner of JFK Street and Memorial Drive overlooking the Charles River, the site of The Charles was selected by John F. Kennedy as the site for his Presidential Library, to be close to his alma mater. However, the residents of Harvard Square questioned the potential commercialism that such a development would bring to the square, and instead the ten-story The Charles Hotel was built. The hotel is adjacent to Harvard University's JFK School of Government and JFK Memorial Park. Boston's world-class museums, theaters, and stores are easily accessible by the subway (the "T"), as are Boston's financial district, the North End, Beacon Hill, and Government Center.

In its 16-year history, the hotel has been host to celebrities, musicians, academics, politicians, presidents, and global and religious leaders. To many, The Charles represents the cultural and intellectual tradition that is the soul of Harvard Square.

The hotel's 293 spacious guestrooms reflect a passionate commitment to celebrate the spirit of our surroundings. The rooms combine Shaker-inspired aesthetic with modern touches. All rooms are equipped with Bose Wave radio, honor bars, robes, safe, down quilts, and color TVs in all bathrooms. Onsite services include the fully equipped Wellbridge Athletic Center with indoor pool, full-service concierge, personal computer rental, and laundry and valet same-day service.

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HOTELS

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SERBIA'S EMBASSY IN THE UNITED STATES

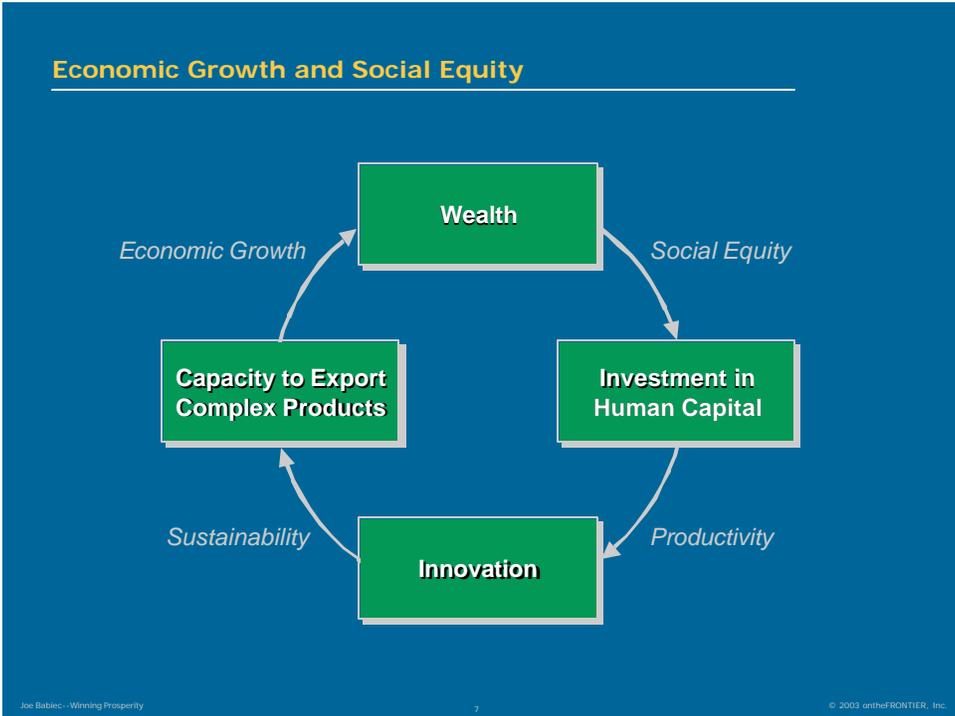
Embassy of the Republic of Serbia and Montenegro
2410 California Street, NW
Washington DC 20008
Tel: 1-202-462-6566

SPEECH THEMES FOR WEF MEETING IN ATHENS (MAY 2003) COMPETITIVENESS THAT CAPITALIZES ON SOCIAL VALUES

Background

Nations that achieve competitive advantages do not trade-off between economic growth and social equity. Achieving prosperity requires winning in competition by selling complex products and services to demanding customers anywhere in the world. Continuing to win over time requires continual innovation to update and create new competitive advantages. Innovation requires many things, but it mostly requires skilled and motivated people. Developing and retaining those people requires compensating them with rising salaries and training. This is the cycle that makes economic growth and social equity into reinforcing, not competing, objectives.

Economic Growth Through Social Equity



The following are examples of how Serbians have come together to improve their competitive position, while at the same time promoting social values.

National Competitiveness Council

In the formation of the National Competitiveness Council, a group of 27 Serbian leaders have come together to promote competitiveness-building activities throughout the country, which will bring greater prosperity to all citizens. Importantly, the Council consists of representatives of the private sector, government, and civic society, as each

of these segments of society has an important role to play in promoting greater competitiveness. In its deliberations and initiatives, the council will seek to build a consensus among these three elements so that not only is competitiveness boosted, but that the benefits, in terms of higher wages, job security, education, and fairness, are experienced by all members of society. In the council's view, the private sector will take the lead in building greater competitiveness. The government, no longer the master strategist, will now be an active partner with business and seek to create an environment in which businesses can compete. The voices of civic society members of the council will be important to ensure that Serbians have the proper skills and motivations to continually create new competitive advantages.

Furniture Design Center

A planned Furniture Design Center will promote Serbian design and Serbian designers domestically and abroad. In recent years, professional design in Serbia has been neglected, reducing local design to mere copies, while encouraging emigration of the best local designers who could not find innovative work in Serbia. The Design Center will create a business network among the best designers in the country (including both established, as well as young and promising, designers) and companies in Serbia and abroad. Designers in three areas -- furniture, textiles and graphic design -- will work together to promote original, world-class Serbian design and improve design skills. National awards will be organized to find and encourage new promising designers and showcase the importance of designers in the community. The Design Center will organize training with Serbian and international experts, organize internships for the best young designers, and create a recruiting agency to help designers in finding employment.

The goal of the center is to disseminate information, new designs and techniques into a larger community of Serbian designers. It will also provide local firms with the innovative capabilities necessary to compete globally. The result should be that more people are trained with marketable skills, the best talent stays in Serbia, and Serbians begin the process of increasing their wealth.

Fruit Training Centers

Members of the fruit cluster have identified training as one of their priority needs to improve competitiveness. To address that need, they have formed a task force which is now preparing business plans for the formation of regional training centers, each focusing on different fruit varieties. They will be self-sustaining through marketing and selling the fruit that is grown in the center.

The effect of hail and frost has been extremely damaging to the fruit growers in Serbia, and has very often ruined entire crops of apples and plums, leaving the farmers with no income other than insurance for that year. In addition, Serbian growers typically sell mulch and frozen fruit at 10% of the price of competing premium fresh fruit. To

address these and other problems, the training centers will introduce the latest technologies for frost and hail protection, fertilization, and packaging and marketing, as well as teach how to extend the harvest season, with a focus on new fresh varieties, using green houses.

The center will have a carefully devised curriculum that will help train local growers to replicate the new technologies at their own farms. Training will begin at soil testing and move to the end of the process of marketing and selling packaged products. These centers will not only train local farmers, but will also provide them with financial tools, through NGO organizations such as USAID's CRDA program or Opportunity International, to implement the technology.

The final effect of the training centers will be improved social standing of the farmers. Their income will increase due to higher prices for early and late fruits, especially if these are packaged and marketed properly. The training centers will also act as a form of social security, as they will ensure steadier incomes that are not so much at risk from the vagaries of nature.

Furniture Cluster Technology Benchmarking

The Furniture Cluster has significantly improved the level of trust and collaboration among member companies, thus promoting the mutual benefit of all:

- Cluster members are now rotating their meetings among the various participating companies, with each meeting starting with a tour of the production facilities. In this fashion they are building an understanding of the technology and capacity of the entire cluster. This openness and collaborative effort to improve the groups' competitiveness is in stark contrast to the secretiveness that has existed among these companies in the past.
- The cluster has established a database of information on existing equipment and capacity within the cluster, thereby enabling them to take larger orders and divide the work among participants. In the past, individual furniture companies had to turn down even moderately large orders due to limited capacity. This new initiative will improve overall capacity utilization.
- These companies have initiated regular information sharing on their plans to acquire new equipment and supply materials. This information will facilitate decision-making for technological investments, and provide opportunities for the outsourcing of certain operations, joint production, and other forms of cooperation. Through group purchasing they will have increased leverage with suppliers regarding prices and terms of payment and delivery.

SUMMARY OF MEDIA COVERAGE – APRIL 2003

Media Coverage of the National Competitiveness Summit

BETTER IMAGE FOR INVESTORS

Glas javnosti- 1.04.03

Main story is that the council is formed for competitiveness. Quoted Mr. Vukadinovic saying that a two-day summit will be take place which is a first step towards forming a strategy for competitiveness. Goran Pitic pointed out that the forming of the council represents a dialog between the government and the private and civil sector. A short-term goal is to increase exports where they already exist and the long-term goal is to promote it where it is not happening. Boris Begovic was quoted to say that if we solve the problem of competitiveness we have solved our problems for the future. He has emphases the importance of the public being aware of the reality of Serbia's business.

THE BIGGEST CHALLENGE OF SERBIA'S ECONOMY

Politika, 1.04.03

A national competitiveness council is formed out of the leading man from the private, government and civic sector. The story starts by mentioning the USAID project and announcing the two-day summit and who are the key speakers. Vukadinovic was quoted to say that the council's purpose is to get the business interested so that a strategy for competitiveness is made. He said that the government will be an active partner creating an atmosphere for fair play but also that businesses must be the ones to solve their own problems.

Pitic was quoted to say that the main aim of the council is to be a forum for ideas and ways to increase Serbia's exports. Businesses must be the ones who will be the key players in the making of the strategy for competitiveness said Pitic.

Boris Begovic was quoted as to say that the biggest problem of Serbia's business and society is non-competitiveness. The main thing we have to do is tell the public what the realty is. If we do not solve this problem we are in danger of not being admitted to international organizations said Begovic. The role of the civil society is to break the illusion that every rich man is a criminal and that someone has to loose in order for someone to gain. People need to realize that government cannot solve all their problems claims Begovic.

FIRST STEP TO INCREASING EXPORTS

Danas, 1.04.03

The government, businessman and civil sector formed a national council for competitiveness. This is part of the USAID project for economic reform in Serbia. Vukadinovic pointed out that the main role of the council is to interest businesses in how to raise exports. The problem of education of Serbia's business needs to be solved

as well. USAID will help us with this since they will organize professional training in the states. Pitic was quoted to say that without competitive business we have no competitive state. Pitic explained what the role of the government should be. Boris Begovic was quoted to say that the civil sector needs to say what the reality is to the public. Solving the problem of competitiveness we have solved a problem for our future.

THE TIME FOR PRUNES IS GONE

Vecernje Novosti, 1.04.03

A high quality Serbian product will enable us to conquer the global market; this is why a council for competitiveness has been formed out of the leading man in government, civil and private sector. The backbone of competitiveness is education, said Goran Pitic, without a competitive business we have no competitive state. Vukadinovic was quoted as to say that businesses need to be encouraged to make products of a higher standard. The time for prunes was over 150 years ago. The council only accepts hard work and innovation said Vukadinovic.

REFORMS ARE EVEN FASTER NOW

Vecernje novosti, 2.04.03

Zivkovic quoted the position of the National Bank of Serbia that needs to be legally formed. The monetary politics cannot be a burden on the businesses and the private banks. It has to have more of an ear for business. Zivkovic was quoted saying that privatization will not be stopped due to the state of emergency and that the plan for harmonization of relation between Serbia and Montenegro has been postponed until the end of April. 'Serbia is the most competitive in fighting organizes crime right now', said Zivkovic. He explained that the government should not dictate the conditions for increasing exports but ensure that the businesses are getting stronger and that the conditions for exports are there. 'The government will create the conditions for a fair game' said Zivkovic. The American ambassador was quoted as to say that America supports Serbia in every step and that the fight against organized crime will have a big echo in the international community which will lead to a better image of Serbia, said Montgomery.

THE GOVERNMENT, A PARTNER NOT A STRATEGIST TO BUSINESS

Glas, 2.04.03

The job of the government is to create the conditions for competitiveness and the conditions are stability and safety. The government cannot be a master strategist but an active partner in raising competitiveness said Zivkovic. He said to the general managers that they should not come to get business plans or to ask as what you should make, come to us if you have problems with tax or administration, this we will deal with. Goran Pitic was quoted as to say that government would work on standardizations, measures of non-custom protection and the raising of competitiveness of the financial sector which should lead to more foreign investment.

A WAY TO COMPETITIVENESS

Politika, 2. 04. 03

Zivkovic about the fight against organized crime and how this fight is one of the ways to raising competitiveness since a pre condition for it is stability and safety, none of which we can have if we have organized crime. The other conditions for raising competitiveness according to the Prime minister are privatization and market formed prices. He was quoted as to say how important the fight against corruption is and promised that the government will continue that fight as well.

A part in increasing competitiveness has to given to the National Bank of Serbia and the Serbian chamber of commerce said Zivkovic. He said to the general managers that they should not come to get business plans or to ask as what you should make, come to us if you have problems with tax or administration, this we will deal with. He promised that the government will continue to be patriotic, responsible and competitive and it will do all it can to help others be competitive.

The article went on to say that Joe Babiec spoke about the project and that Vukadinovic spoke about the role of private, civil and government sector in raising competitiveness. Stevanovic from Stefani Universal presented the first results on cluster work.

PATRIOTISM THROUGH COMPETITIVENESS

Danas, 2.04.03

Zivkovic on the role of government- it needs to create the atmosphere for competitiveness, it cannot be a strategist but a partner to business. He said the first thing that needs to be created is stability and safety. The premier told the businessman not to come to the government and expect their problems to be solved; we should all work on this together said Zivkovic.

The American ambassador said that Serbia will be rewarded for her fight against organized crime and that Serbia and Montenegro took up some serious steps in transition. "Serbia has the people, the resources, the motives and the geographical position to become the center of southeast Europe. The national council should help create a vision for that", added Montgomery and stresses the importance of orientating towards market economy.

Joe Babiec was quoted in the paper as to say that competitiveness means prosperity, which is more than macroeconomic stability. He stressed the importance of the government creating an atmosphere for market economy.

NATIONAL STRATEGY FOR COMPETITIVENESS BY THE END OF MAY

Politika, 3.04.03

Vukadinovic was quoted to say that a strategy will be made by the end of May. Vlahovic said that the main pre- requirement for exports is investment that can be

achieved through three steps: privatization, development of small and medium enterprises and attracting of foreign investors. The rest of the article deals with privatization of specific companies like Sartid and Zastava.

PRIVATIZATION AS A MEANS FOR COMPETITIVENESS

Glas, 3.04.03

An article that deals with privatization but the beginning of it Vlahovic was quoted as to say that the raising of competitiveness means the changing of the business structure of the country. We need more investments especially now that we have missed so many waves of investment that were happening during the nineties.

EXECUTIVE NEWSLETTER

Thursday April 3, 2003

USAID sets aside USD \$ 150 million for Serbia-Montenegro in 2003. The funds will be allocated for the further development of economic policy, democracy, middle-class society, and local government. According to James Stephenson, chief of USAID's Belgrade office, Serbia will be entitled to USD \$ 110 million while Montenegro will get USD \$ 40 million. Highlighting the fact that the Belgrade Competitiveness Summit had been supported by USAID, Stephenson also announced new projects for Serbia-Montenegro over the next few years valued at several hundred million dollars. According to Belgrade agency Tanjug, USAID has so far targeted producers of raspberries and furniture in Serbia, assisting them and the domestic economy to improve their competitiveness.

TV COVERAGE

1. During April the following station ran packages on the summit: BKTU, PINK TV, STUDIO B, RTS, B92, YU INFO – they all had quotes by the PM and the US Ambassador
2. April B92 ran two stories on the second day of the summit: a brief story in the evening news without any sound bites. A longer story ran in the evening economic program, with sound bites from Vlahovic. BIZ. JAPI, BKTU business program had a package with quotes from Vlahovic and a mention of Mr. James Stephenson and the funds that USAID allocated for Serbia and Montenegro.

DANAS, April 4, 2003

Belgrade – USAID and the Ministry for International Economic Relations started an action in which they want to form the clusters of fruit and fruit juices producers which will together work on export strategy. That was the main subject of the National Competitiveness Summit. On the subject we made an interview with Zivojin Djordjevic, the director of Fresh & Co., the leader in fruit juice production.

What do you expect of the cluster?

The will to do something of a kind existed for a while, but we didn't have conditions. The business climate is getting better, but we expect from the government to give us more space. Our diplomacy could also give its contribution for improvement of the image of Serbia because that will have an influence on consumers in other countries. The purpose of this association is clear - improvement living standard for all citizens, and that will happen if we sell our products out of country and get profit for ourselves, for companies and for country.

Who will make decisions in such a big group regarding the different levels of development of the companies within it?

All of us in cluster can recognize strategic advantage of Serbia with healthy fruit and special aroma. If we have the same healthy raw-materials we will all produce the juices with quality, and that is the aim. That is also the pre-condition for tolerance and democratic decision making.

Do you have any critics for the actual export strategy?

Till today, in 90% of cases Serbia has been giving the raw-materials, and some countries, for ex. Austria got profit of that. They said: our strategic advantage is that we have Serbia so near and we can import fruit from them. It is time to change that. The members of the cluster are competitors to each other in our country, but out of country we are all equal.

Fresh and Co is the leader in region in producing fruit juices. What is your prescription for success?

The one who starts a business has to have a vision of development by examining needs of market and by improving their work. We made double our capacities, and as the planned rate of growth of 35% on our market is too low, we projected the export growth of 200%. But all these parameters depend on the growth of consumption – if it is bigger, we will be bigger. This year that's much harder, because the local market is already oversupplied. Besides, we are not projected to be small, but to be the main players in region. Our competitors know that. That's why 6 years ago, we opened "daughter-companies" all over the region and sent our people to be our ambassadors which will animate the consumers out of country.

Is there a possibility that the members of cluster join together and make such a successful company?

That's why we joined together. It would be easier for all of us to divide the business costs. One of the ideas is to give about \$ 50 millions for strong international marketing campaign, called "The fruit in Serbia is the best on the planet". But first we have to

persuade someone who has 100 hectares of raspberries that he can use that potential better. The purpose of this campaign is to persuade the consumers all over the world that the fruit from Serbia is the best, it smells most beautifully and it has the best aroma. That is why we need big investments, but if we start now in couple of years we will have recognizable brand.

Which European countries are your biggest competitors in fruit production?

Italy and Spain are the leaders, but the fruit from these countries doesn't have the same quality as the fruit from Serbia. The quality of our fruit is in the fact that we couldn't invest a lot of money in procurement of new genetically improved seedlings. As we can see today that's the greatest asset. We have to make profit of that and to export it in EU countries, because 1/3 of these countries aren't fruit countries.

Is this cluster of fruit and juices producers open for all producers interested in it?

This cluster is open for everyone, from farmers and fruit plantation owners to final product makers. The only condition is to accept our producing and technical standards. That is, above all, avoiding of pesticides in fruit treatment and using adequate production technology. The worker training is also planned and all of this for the purpose of healthy fruit and juices production. There is an idea to include in cluster the producers of fruit based cosmetics.

DANAS, April 4, 2003

Belgrade – Problems in the wood production should be observed in the context of the general economy development strategy which as a priority underlines the export orientation, especially delicate in this industrial area, it was said yesterday at the session of the Wood producers committee of the Serbian Chamber of Commerce and Industry. It is especially underlined the weakness of producers to improve export performances. The liberalization of the local market and the lack of any export subventions, which should be at least the same as the import customs fees in the countries traditionally known as importers of our products, undermine all efforts of the local furniture exporters.

Beside the old-fashioned technology and the lack of engineer and trade staff in wood industry, we also have very bad credit conditions with unacceptably high rates. Especially when high world standards ask for the confirmation of additional investments. As an example of how this, once very powerful sector became weak we have the fact that Slovenia, last year, exported the furniture in the amount of \$ 1 billion 800 millions, while profit of only \$ 40 millions went on recorded in Serbia.

NEW PATRIOTISM

The Economist, April 7, 2003

The government of Serbia needs to make the conditions, and the companies by themselves must earn to be competitive, that is the message that the new Serbian Prime Minister Zoran Zivkovic and two Ministers, for Economy and Privatization, and for International Economic Relations, Aleksandar Vlahovic and Goran Pitic, sent to the new business unit and foreign investors brought together at the first two-days National Summit on Competitiveness, held last week in Sava Center. “Patriotism for the 21st Century is competitiveness” said Zivkovic. The concept of export strategy improvement continues the ideas of the late Prime Minister Zoran Djindjic (harmonization of relations with Montenegro, concept of social-trade economy, fight against the corruption and criminal, removing of administrative obstacles for business).

The government’s decision is to bring together within the National Committee of Competitiveness not only the managers of successful companies and Ministers, but also the representatives of civil society and Council of foreign investors (FIC). The cluster implies to the different forms of cooperation between company groups in one production segment (till today, due to the lack of money, only two clusters for fruit and furniture are chosen), which should provide reduced material procurement costs, more attractive and cheaper presentation on foreign markets, quality improvement of made in Serbia products, innovations and technology and education development. “For me, every product that brings profit is competitive” says Minister Pitic whose Ministry is entitled to the program managing financed by USAID.

The strategy of furniture cluster implies to the selection of European markets on which Serbian furniture producers should sell their brand and original products at increased prices and quantities than it is currently possible on the local market, says Dusan Radmilac, owner of Saga, one of 15 wood and furniture production representatives in cluster.

To become more competitive Serbian companies have to make new competitive advantages, says Joe Babiec, member of USAID Party SCEE. These advantages could be found in two places: within special businesses and in cooperation between different companies. The most competitive in the world understand the need to be organized in clusters – which implies to the mix of cooperation and competition. SCEE helps Serbian companies to adopt that philosophy. This philosophy of social prosperity based on competitiveness includes seven types of capital, but only one is financial. Physical profit sources, as equipment and natural resources are limited source, but the social forms of capital – culture, human resources, knowledge, and laws and regulations and organization that links different parts of society – they are unlimited. Investing in these types of capital produces more social wealth every day, said Babiec.

Media Coverage of the Delegation to the U.S.

ECONOMIC PRIORITY

Vecernje Novosti, 12.04.03

A high delegation of the government of Serbia went to the US today in order to intensify the American support in the field of competitiveness of Serbia's businesses. The article goes on to talk about who is representing our country from the government and who they are scheduled to meet, (American administration, bank representatives and IMF and World Bank officials). The article ends saying that the delegation will meet with big investment firms such as JP Morgan, Citibank and Alico.

THEY ARE LOOKING FOR OUR PROJECTS

Vecernje Novosti, 14.04.03

The first part of the article deals with the IMF and the World Bank. The second part talks about the other major theme of the trip saying that it was the raising of competitiveness of Serbia's businesses regionally as well as globally. Talks were held with people who have experience with this such as Michael Porter. Involved in this part of the program were the representatives of Serbia's businesses. In Boston the representatives of the Serbian government are expected to hold a presentation on Serbia after Djindjic.

FINANCIAL SUPPORT WILL CONTINUE

GLAS , 14.04.03

The article is based on the press release by the ministry of finance about the deals made with IMF and the World Bank. The last paragraph of the article talks about the economic delegation having successful talks with Citigroup that were focused on privatization and the development of telecommunications center in Serbia.

TRADE RELATIONS IN MAY

GLAS, 15.04.03

The article is based on an interview with Aleksandar Vlahovic in which he talked about the normalization of trade relations with America and the American interest in certain firms in Serbia such as Sartid and Ruma Guma. He goes on to mention the meeting with the director of Ex-Im Bank and the meeting with JP Morgan as well as other big American investor firms.

KEY SUPPORT

Politika, 15.04.03

The majority of the article deals with the talks with IMF and the World Bank as well as the donor conference. It is based on an interview with Pitic. When talking about the economics side of the government he is cited to say that they held successful talks with City bank, which were primarily about privatization and the development of the telecommunication sector in Serbia. The government also presented themselves to top

investment fund representatives and that was all organized by JP Morgan. The article goes on to mention that the economics delegation together with the members of the council for competitiveness was also in America and that the trip was organized by USAID. They met with representatives of the senate, big private sector investors as well as people from Ex-Im Bank.

BILLIONS IN THE FALL

BLIC, 19. APRIL

During their visit to the USA the government representatives talked to the World Bank about a new credit worth 80 million dollars. A positive answer is expected in the third week of May and the Director of the Board of IMF said on Thursday that he made a decision that a credit of 138 million dollars would be given to us in two phases. The minister for privatization Aleksandar Vlahovic announced all this.

Half of the sum that is expected from the WB will go to the private and half to the financial sector.

Goran Pitic, the minister for international economic relations has said that during his talks in the US he was told that the next donor conference could be held in September. There is an idea for the conference to be held in Belgrade. According to Pitic the money collected from donors would be used for the building of institutions, for energetic, transport as well as health and education. Answering a journalist question about how much money we would be expecting he said that we need another billion dollars so that we could get to the proposed sum that was set in October 2000. From that sum, a deal has been made for three billion and billion and a half of that has been spent. There were no political conditions that needed to be made.

CREDITS ARE COMING

Vecernje Novosti, 19.04.03

As Pitic and Vlahovic told us yesterday at a press conference there is space for contentment about the US trip. ' There are 4 reasons that took us to the US, said Vlahovic, ' one was to be there for the IMF and the World Bank spring sessions, which were used as a place for negotiations with the World Bank about getting credit for the restructuring of our businesses worth 80 million dollars. Talks were held about raising Serbia's competitiveness as well but also talks with the American administration and investors.

According to Vlahovic a deal was made with the world magazine Forbes so that the American business community can get the information about all the stuff that the Serbian government is doing.

Two days ago, the IMF allowed a two-phase credit for 138 million dollars and we are also expecting another credit from the World Bank sometime in May worth another 80

million dollars. Pitic spoke about the possibility of a donor conference being held in Belgrade in September.

For us the only thing that is important is for the 4 billion that was agreed in October 2000 to be delivered. A deal was made for 3 billion dollars so far and out of that a billion and a half has been spent- said Pitic. There were no political conditions placed on our delegation while in the US and the fact that we did not come back with any signed deals Pitic commented, ‘ Even during our last visit we did not come back with anything concrete but concrete deals were made afterwards’.

SUPPORT FOR SERBIAN BUSINESS

Glas, 19.04.03

Even though the time for the next donor conference has not been set yet we have agreed with the representatives of the World Bank and the IMF that it should be held beginning of September. They gave their full support for the idea and we are expecting the same response from the American administration, the European commission- said Goran Pitic as he returned from his trip to the US.

Pitic said that during the visit a plan of the reform of Serbia was presented in which special attention is given to the building of institutions reconstruction of state infrastructure, the development of private as well as financial sector.

Radovan Jelasic, the vice governor of the national Bank said that they protested about the American’s administration as well as Slovenia’s and Croatia’s blockade of the recently unfrozen funds for Serbian businessmen in American banks.

If you have in mind that the Slovenian and Croatian firms have no interest in this, it can not be looked at as a friend neighbor move. As far as the funds of the former Yugoslavia are concerned we have made a deal with the American administration for them to be unfrozen and distributed, we are waiting for a final decision now. I am expecting it to be within three weeks, said Jelasic, adding that a deal has been signed with the World Bank that gives us a credit of 80 million dollars and that it will be evenly distributed in the private and the financial sector.

Vlahovic said that the American house JP Morgan would be involved in the development of the Serbian financial market but that the government of Serbia is intending to take on talks with the London club as well. ‘Our dept to the London club is at a steady increase but there is no trade’ said Vlahovic and added that JP Morgan is already involved in the first citation of the privatized Serbian firms.

WE HAVE BROUGHT THE RATING OF SERBIA AND ITS REFORMS UP

Danas, 19.04.03

Pitic and Vlahovic were happy about their trip to the US saying that it brought the rating of the Serbian reforms but also to Serbia itself. They said that the leading Serbian businessman met with Harvard experts to share experiences. It was agreed to extend the program for Serbian competitiveness from the fruit and cluster to the pharmaceutical and textile industry. According to Vlahovic even though they did not come back with concrete deals they are expecting some interest in certain firms in Serbia. The article goes on to deal with the deal made with the IMF and the World Bank and finished with the idea of JP Morgan being involved in the negotiations with the London Club.

GREETING FROM AMERICA

The Economist, 19.04.03

The article talks about the deals with the IMF and the World Bank for the most part. According the Economist sources in the US the meeting with City bank was not about the project for privatization as it was suggested but it was just an introduction for both parties. The government representatives are clear about the fact that certain media reports are blown out of proportion especially the ones that are suggesting that American businessman will invest billions of dollars in Serbia. During the visit only the basic steps were made and some useful contacts were made but there are no results to show. The article goes on to talk about Kori Udovicki about her ministry and finishes with analysis of the National Bank and the relations with Montenegro.

ATTENDEES AT JOURNALISTS’ BRIEFING ON COMPETITIVENESS

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Culibrk Milan, Dnevnik, Novi sad paper	mob: 0638325428 e-mail: dnevnik@verat.net
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Biljana Todorovic, TV B92	mob: 0641181148 e-mail: biljant@b92.net
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Biljana Stefanovic, Radio free Europe	mob: 0638143905 e-mail: lela@yubc.net
Milan Kalezic, Blic, daily	mob: 0641458361

	e-mail: kalezicm@blic.co.yu
Marica Vukovic, Beta agency	mob: 0641716652 e-mail:
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Vesna Jelacic, Politika	mob: 0641695336 e-mail: vjelacic@politika.co.yu
Nebojsa Margetic, Agricultural paper	mob: 063259263 e-mail: p_list@eunet.yu
Contacts for foreign journalists:	
Fredrick Dahl, Reuters	mob: 063 331 613
Eric Jansson, Financial Times	mob: 063 227 514
Milica Cubrilo, Figaro	mob: 063 8244 946
Beatrice Ottaviani, ANSA	mob: 063 226 266
Petar Potocnik, Delo	mob: 063 282 261
Alex Todorovic, Daily Telegraph	mob: 063-653 052

**LIST OF ATTENDEES AT COMPETITIVENESS WORKSHOP
NOVEMBER 22, 2002**

Government:

1. Federal Ministry for International Economic Relations – Ms. Jasna Matic;
2. Serbian Ministry of International Economic Relations – Minister Goran Pitic, Ms. Gordana Lazarevic, Mr. Ernest Hercog, Mr. Branko Obradovic
3. Serbian Ministry of Economy and Finance – Mr. Janko Guzijan, Assistant to the Minister, Ms. Jelena Mijuskovic, Ms. Sladjana Todorovic
4. Serbian Ministry for Commerce and Privatization – Mr. Dragoljub Parezanovic, Assistant to the Minister
5. Serbian Ministry for Energy – Marijana Kolak, Advisor to the Minister
6. Nemanja Kolesar – Chief of Cabinet to the President of the Republic of Serbia
7. Serbian Ministry for Trade and Tourism – Minister Slobodan Milosavljevic
8. Serbian Ministry for Technology and Development – Minister Dragan Domazet, Ms. Borislava Jaksic.
9. National Bank of Yugoslavia – Mr. Branko Hinic and Mr. Milan Sojic, from the Governor’s cabinet.
10. Serbian Investment and Export Promotion Agency – Mr. Dusan Zivkovic, Director; Mr. Nemanja Atanaskovic; Mr. Milos Vesnic
11. Yugoslav Chamber of Commerce – Pavle Pasajlic, Vice-President; Jadranka Zenic Zeljkovic
12. Serbian Chamber of Commerce – Mr. Dusan Stakic, Director of the Center for Development, Mr. Mladen Obradovic, Advisor for Economic International Relations
13. Vojvodina – Mr. Rasa Elekovic, Mr. Miroslav Nikic, Advisors for International Economic Relations

Parliament:

14. Mr. Vlatko Sekulovic, Member of Parliament, Deputy Chairman of the Committee for Development and Foreign Economic Relations

Companies:

15. EPS – Mr. Ljubo Macic, Mr. Vladimir Djordjevic
16. PTT – Mr. Predrag Ristic, Chief of Marketing for Information Technologies, Ms. Nina Elezovic
17. Hemofarm – Mr. Nebojsa Vujovic
18. Tigar-Michelin – Mr. Dragan Nikolic
19. Tetra Pack – Mr. Jerome Bayle, Mr. Jovan Maksimovic

20. Center for Liberal Democratic Studies – Mr. Boris Begovic
21. G-17 – Ms. Aleksandra Brankovic
22. European Bank for Reconstruction and Development - Mr. Miljan Zdrale, banker
23. Policy and Legal Advice Center – Mr. Eugene Stuart
24. B92, Mr. Veran Matic, B92 – TV, Biljana Todorovic
25. Energoprojekt – Mr. Andjelko Kovacevic, assistant
26. Raiffeisen Bank – Mr. Alexander Witte, Head of Risk Management
27. Takovo – Veroljub Kovacevic – chief of Belgrade’s office
28. Bosnjacki Furniture – Mr. Dragoljub Bosnjacki, President, Ms. Tijana Bosnjacki, Designer
29. TERRA’S (Natural Food Association) – Mr. Dejan Zvekic.
30. Nektar – Mr. Bojan Radun, Commercial and Marketing Director.
31. Mr. Gary Collins, USAID Economic Policy for Economic Efficiency Project
32. Ekonomist Magazine – Mr. Vlastimir Stevanovic
33. USAID – Ms. Betina Moriera, Ms. Maja Piscevic, Ms. Bojana Vukasinovic, Mr. Bill Foerderer.
34. ‘Glas’ newspapers – Ms. Bojana Jager
35. NIN Magazine – Ms. Tanja Jakobi



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Serbia Competitiveness and Economic Efficiency Project
Project Workshop
Presentation by Michael Fairbanks, ontheFRONTIER
22 November 2002

Why prosperity matters...

There is a positive correlation between incomes and:

tolerance of others and support of civil liberties

openness toward foreigners ,

positive relationships with subordinates,

self-esteem ,

sense of personal competence,

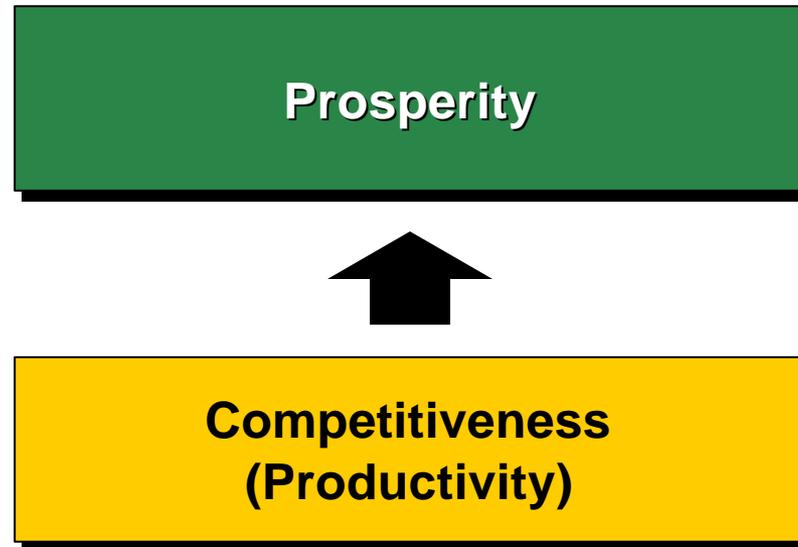
satisfactions with one's own life ,

the disposition to participate in community and national affairs,

and interpersonal trust

Alex Inkeles, Stanford University

Sources of Prosperity



- The most important sources of prosperity are **created** not inherited
- Productivity does not depend on **what** industries a region competes in, but on **how** it competes
- The prosperity of a region depends on the productivity of **all** its industries

Competitiveness Theory

What Is Competitiveness?

- Competitiveness has emerged as the preeminent issue in every nation — for companies and governments
- Upgrading a nation's export competitiveness requires a shared understanding of competitiveness within the nation
- Competitiveness is not simply:
 - Government subsidies
 - A favorable exchange rate
 - Positive balance of trade
 - Cheap labor
 - Low inflation rate
- Rather, competitiveness is the productivity with which resources are deployed
 - Human resources
 - Capital
 - Physical assets
- Since competitiveness relies on productive deployment of resources, industry sectors and their firms compete, not nations
 - Government has a partial but significant role in creating the platform from which firms compete

The Global Economy

The New Focus on Competitive Advantage

Old Mental Model

Macroeconomic Focus

Protected Markets

Access to Leaders

Financial Capital

Hierarchy

Economies of Scale

Government as Master Strategist

Paternalism



Scarce Resources

Redistributes Limited Wealth

New Mental Model

Microeconomic Focus

Competition and Globalization

Business Productivity

Human and Knowledge Capital

Meritocracy

Agility

Shared Vision and Collaboration

Innovation



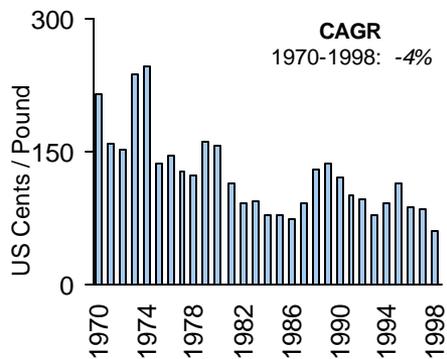
Increased Productivity

Creates New Wealth

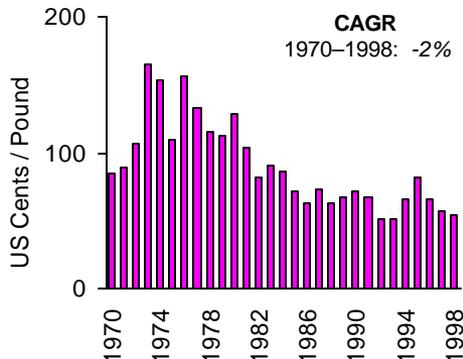
Avoid Over-dependence on Basic Factors

Declining Basic Commodity Prices, 1970–1998

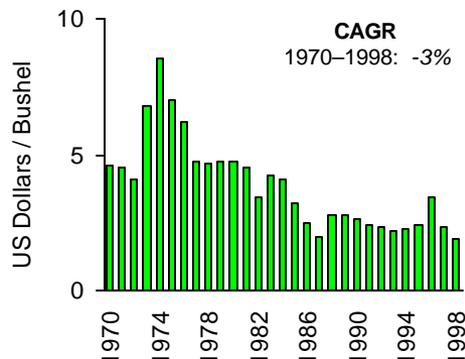
Copper



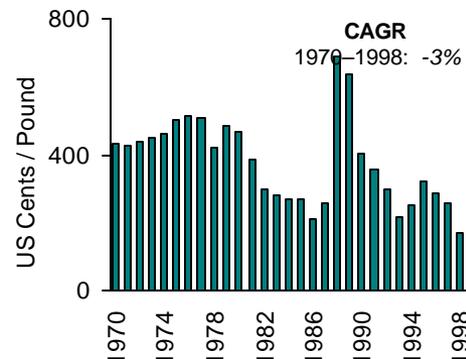
Cotton



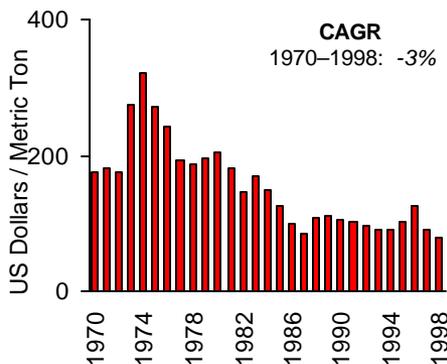
Maize



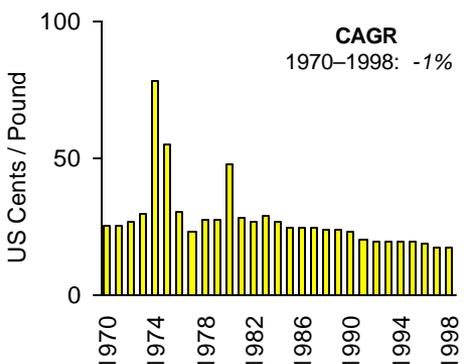
Nickel



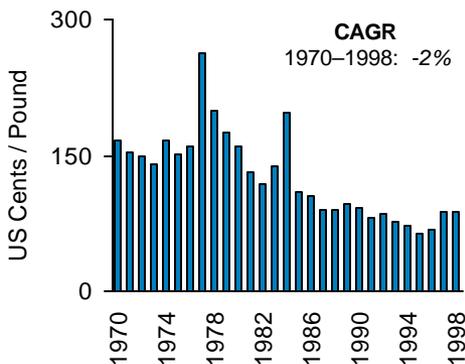
Sorghum



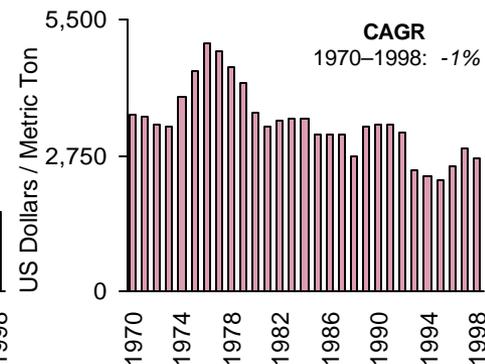
Sugar



Tea



Tobacco



Building Prosperity through Competitiveness

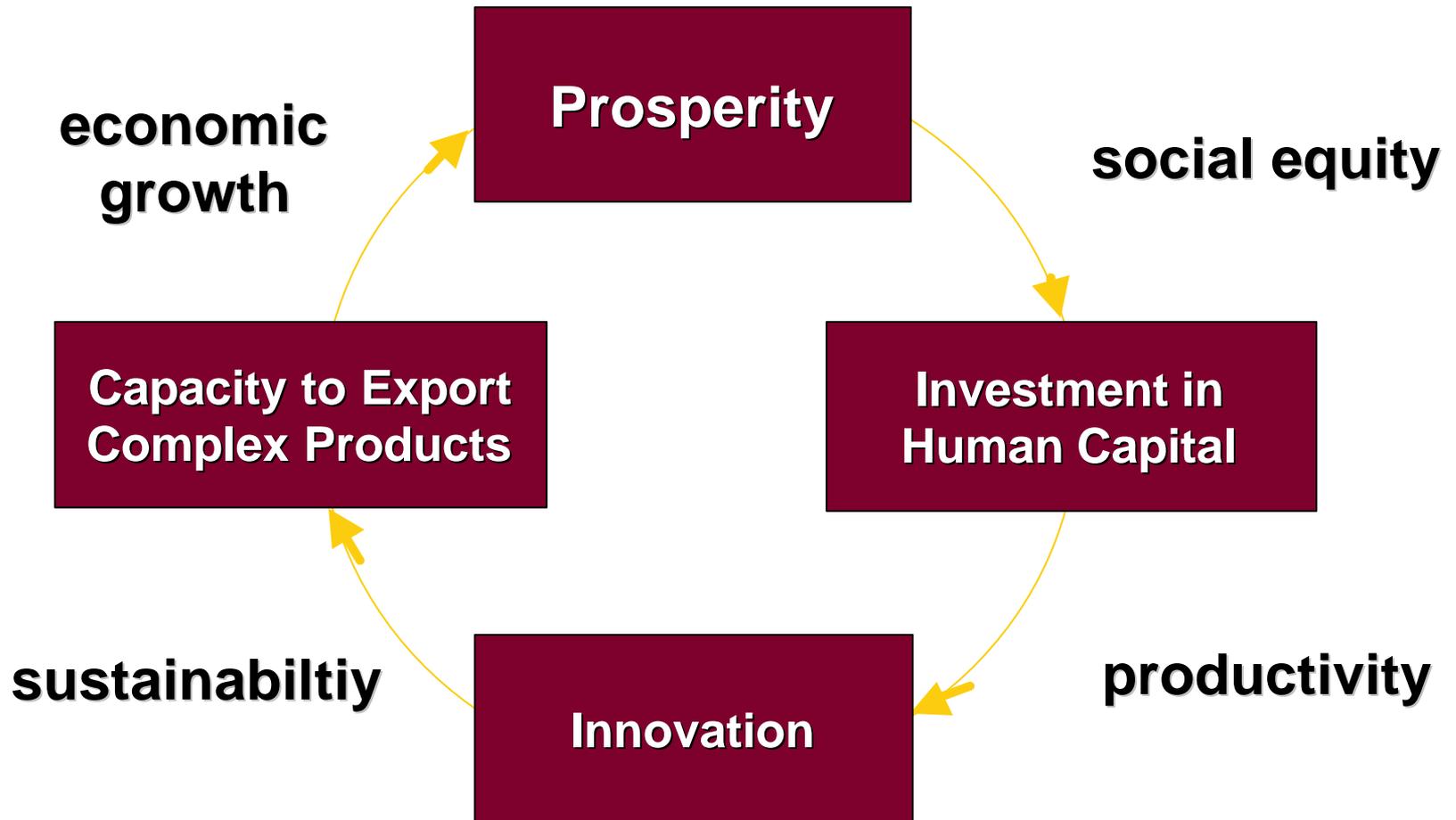
Seven Forms of Capital

	<u>Representative Elements</u>	<u>Representative Examples</u>	
Social	Cultural	<ul style="list-style-type: none"> Tangible Articulations Norms <i>Mental Models</i> 	<ul style="list-style-type: none"> Architecture, Music, Language Range of Acceptable Behaviors <i>Trust, Wealth Creation Attitudes, Long-Term Thinking</i>
	Human	<ul style="list-style-type: none"> Health and Population Education and Training Attitudes and Motivation 	<ul style="list-style-type: none"> Nutrition, Medical & Mental Health Primary & Secondary, Technical Self-responsibility, action-orientation
	Knowledge	<ul style="list-style-type: none"> <i>Qualitative, Quantitative Data</i> <i>Frameworks and Concepts</i> <i>Knowledge Generation</i> 	<ul style="list-style-type: none"> <i>Statistics, Opinions, Records</i> <i>Theories, Processes, Procedures</i> <i>Universities, R&D, Market Learning</i>
	Institutional	<ul style="list-style-type: none"> “Good, Clean Governance” Justice System <i>Connective Organizations</i> 	<ul style="list-style-type: none"> Transparency, No Hidden Costs Property Protection, Predictable Regulations <i>Chambers of Commerce, Unions</i>
Physical	Financial	<ul style="list-style-type: none"> Financial Systems <i>Private Wealth</i> <i>Public Wealth</i> 	<ul style="list-style-type: none"> Banks, Stock Markets <i>Bank Deposits</i> <i>Bank Reserves, Taxes, Duties, Macroeconomic Stability</i>
	Man-made	<ul style="list-style-type: none"> Transportation, Communication Power Water and Sewerage 	<ul style="list-style-type: none"> Roads, Ports, Telephone Systems Electric Grids, Generation Capacity Pipelines, Pumping Stations
	Natural Endowments	<ul style="list-style-type: none"> Environmental Issues <i>Raw Materials</i> <i>Climate and Location</i> 	<ul style="list-style-type: none"> Conservation, Restoration <i>Agricultural, Mineral, Petroleum</i> <i>Proximity to Markets</i>

Source: World Bank, OnTheFrontier

Building Prosperity through Competitiveness

Economic Growth and Social Equity



Building the New Model

Roles of the Public and Private Sector

Private Sector

- Accept responsibility for leading industry agenda
 - Resist “parentalizing” government
- Recognize that the competition is not “the store next door” but overseas competitors
 - Foster industry cooperation
- Treat employees as an asset, not an expense
 - Invest in training to upgrade employee skills
- Learn to trust public sector

Public Sector

- Accept responsibility to support the private sector
 - Resist creating a “master strategy”
- Develop partnership with private sector to help them compete internationally
 - Marketing, public investment
- Create public educational institutions that train residents to excel in their jobs
- Learn to trust private sector

DEVELOP AND ACT UPON A SHARED VISION

Government Policy Towards Employment Job Creation

- Increasing the number of jobs is a **central priority** for many governments

Job Creation policies

- Subsidies to create jobs
 - Wage subsidies
 - Foreign Direct Investment subsidies



- Jobs are costly and often unsustainable

Competitiveness policies

- Creating the conditions for productivity and cluster development
 - Improving the efficiency of infrastructure
 - Cluster-based training
 - Improving the flexibility of labor markets



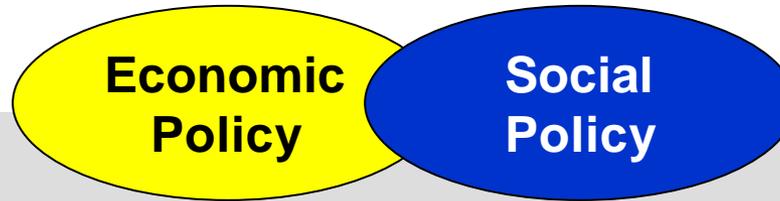
- Healthy clusters generate competitive jobs that are sustainable



- There is no easy answer to job creation; short-term solutions are costly and do not often succeed in the long run

Integrating Economic and Social Policy

- In the new thinking on competitiveness, there is **no inherent conflict** between economic and social policy



- A **productive and growing economy** requires:
 - Rising skill levels
 - Safe working conditions
 - Healthy workers who live in decent housing in safe neighborhoods
 - A sense of equal opportunity
 - Assimilation of underemployed citizens into the productive workforce
 - Low levels of pollution (pollution is a sign of unproductive use of physical resources)
- “Social” policies must be **aligned with productivity** in the economy and prepare and motivate citizens to **succeed in the market system**

Environmental Regulation and Competitiveness

- Competing based on weak environmental standards **perpetuates low incomes**
- Corporate pollution is a sign of **inefficiency**: resources have been used unproductively

Firm

- Wasteful land use
- Inefficient extraction of resources
- Incomplete material utilization
- Unnecessary waste
- Unnecessary energy use

Customer

- Discarded packaging
- Usable materials discarded in products
- Products that waste energy

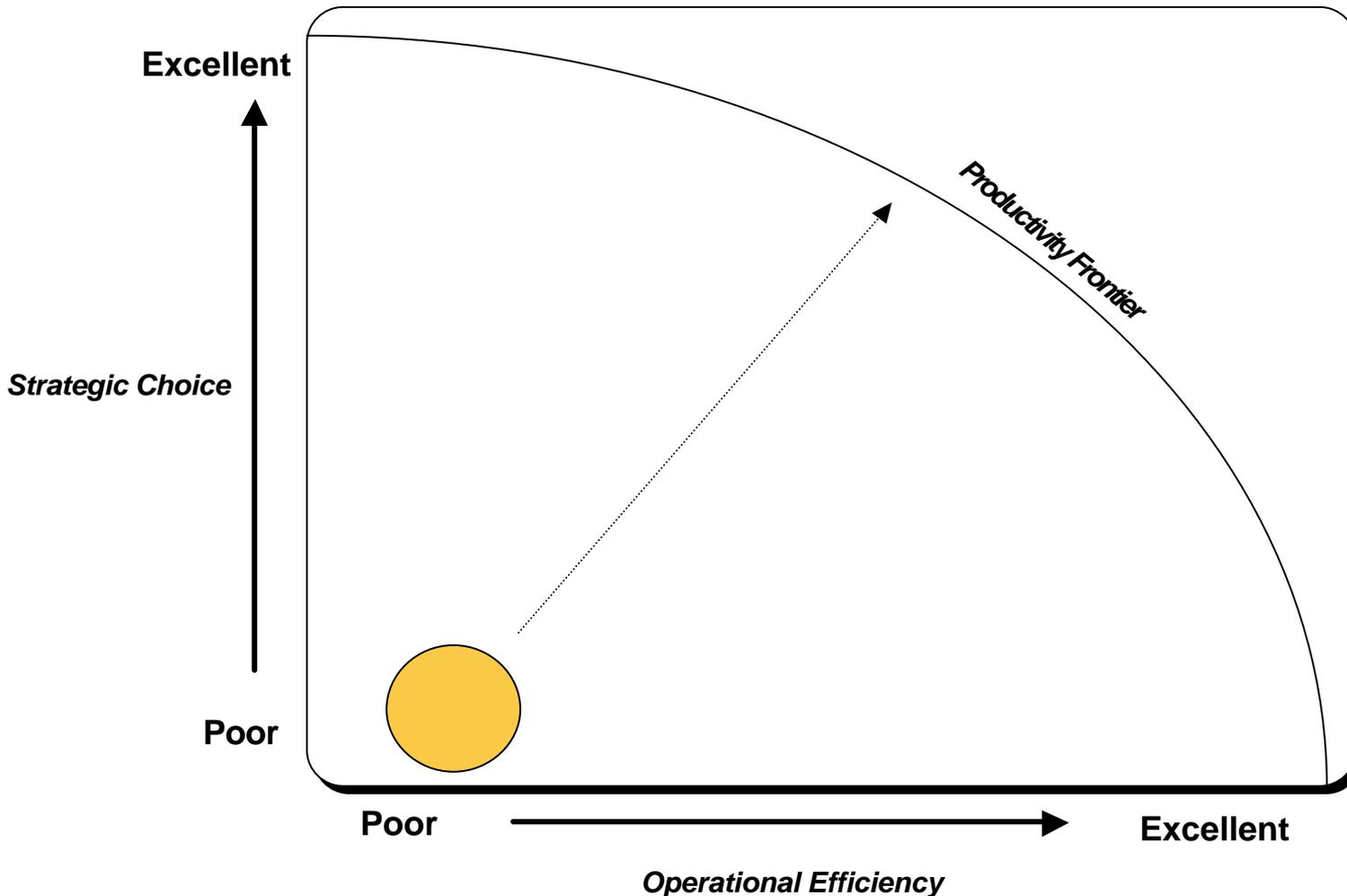
- The need to control or treat pollution causes companies to perform activities that add cost but create **no customer value**
 - e.g., handling, storage, processing, disposal
- Pollution is a reflection of **unsophisticated technology** and **weak management**



- **Strict environmental regulation** stimulates the upgrading necessary to achieve advanced economic development

The Productivity Frontier

The productivity frontier can be defined as a line that divides the companies that are profitable in a sustainable way and those that are not profitable. A company's position vis-a-vis the productivity frontier is determined by cost, quality and strategic differentiation in its target market



Source: Professor Michael E. Porter

Determinants of Company Performance



Operational Efficiency

How to Compete

- Achieving excellence in functions, such as
 - Production
 - Sales
 - Distribution
- Eliminating waste and achieving more output from existing resources
- Improving operational effectiveness is necessary to achieving superior profitability, but it is **not sufficient**
 - Absolute but not relative improvement
 - Competitive convergence

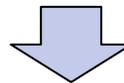
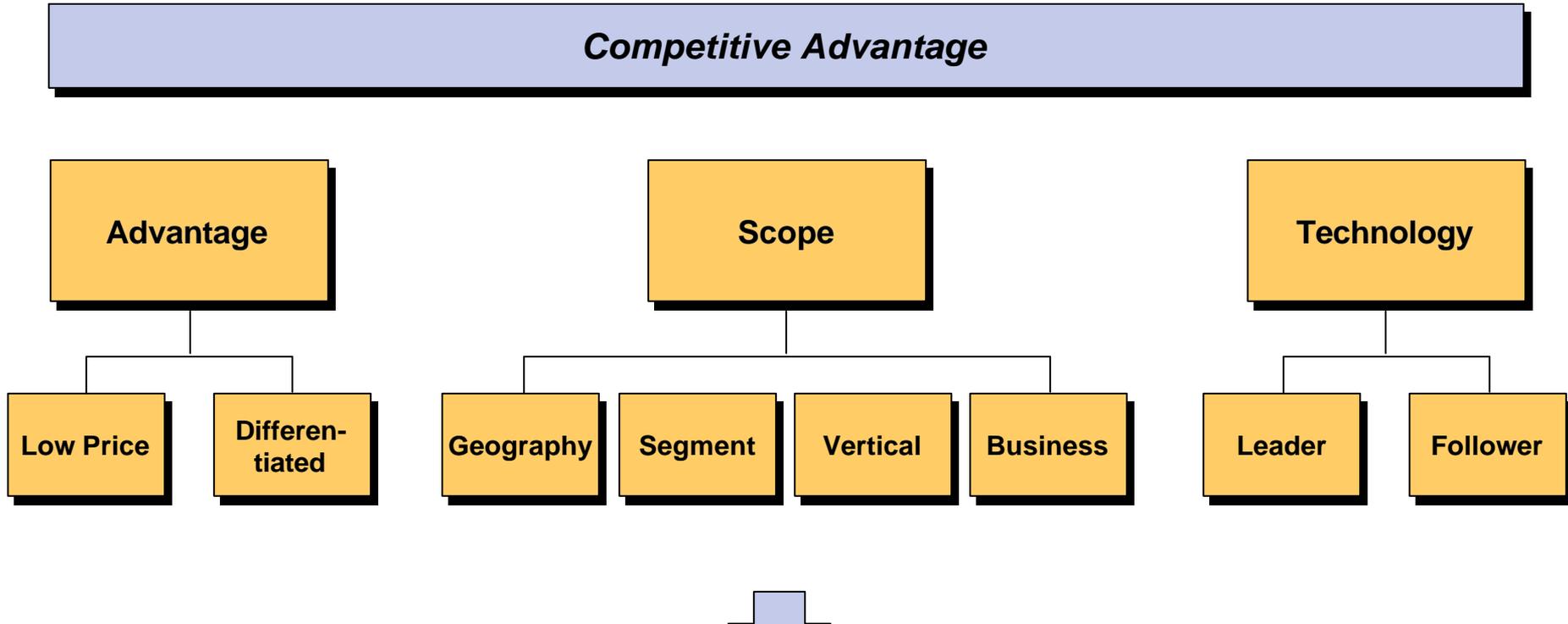
Determinants of Company Performance



Where to Compete

- Creating a **unique** and sustainable competitive position for the company
- Identify **activities** that reinforce the strategy selected
- Make clear **tradeoffs / choices** vis-a-vis competitors
- Demonstrate **discipline** to stick with the strategic direction adopted

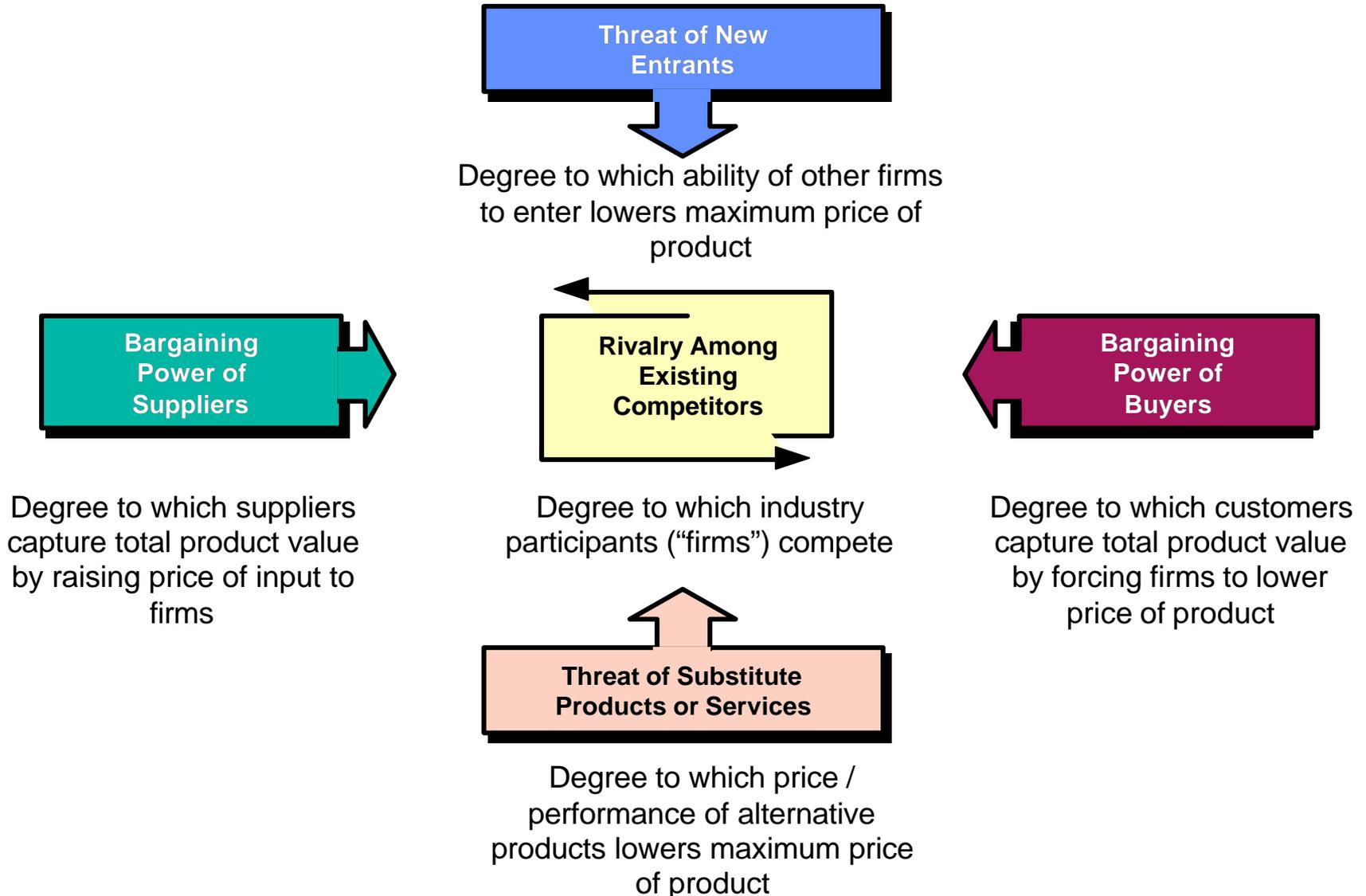
Strategy: Company Choice



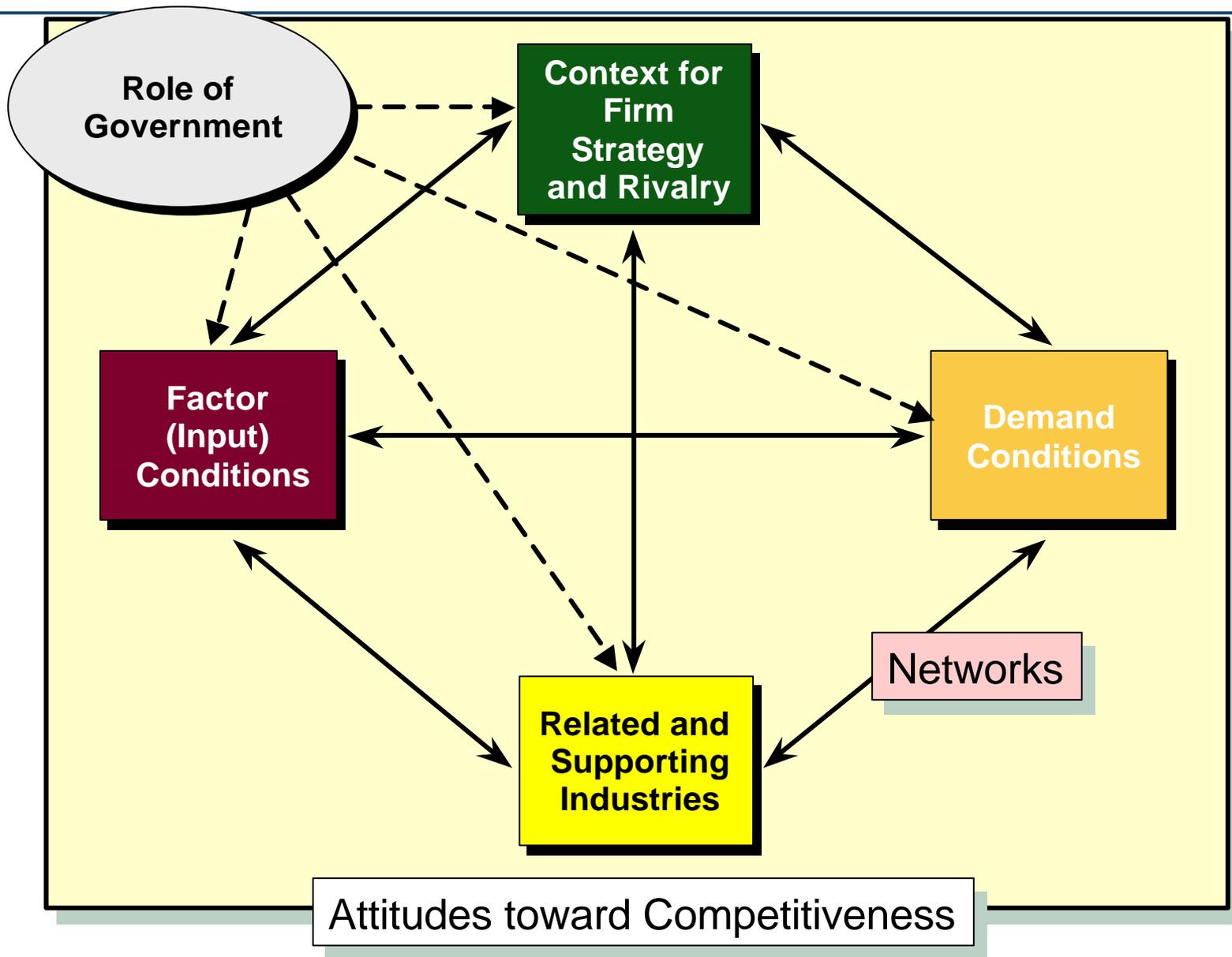
Strategy is the conception and execution of an integrated set of choices, based on customer needs, that identify and establish the positioning and the competitive advantages necessary to beat the competition and achieve financial and non-financial goals

Strategy, Positioning and Sustainable Advantage

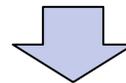
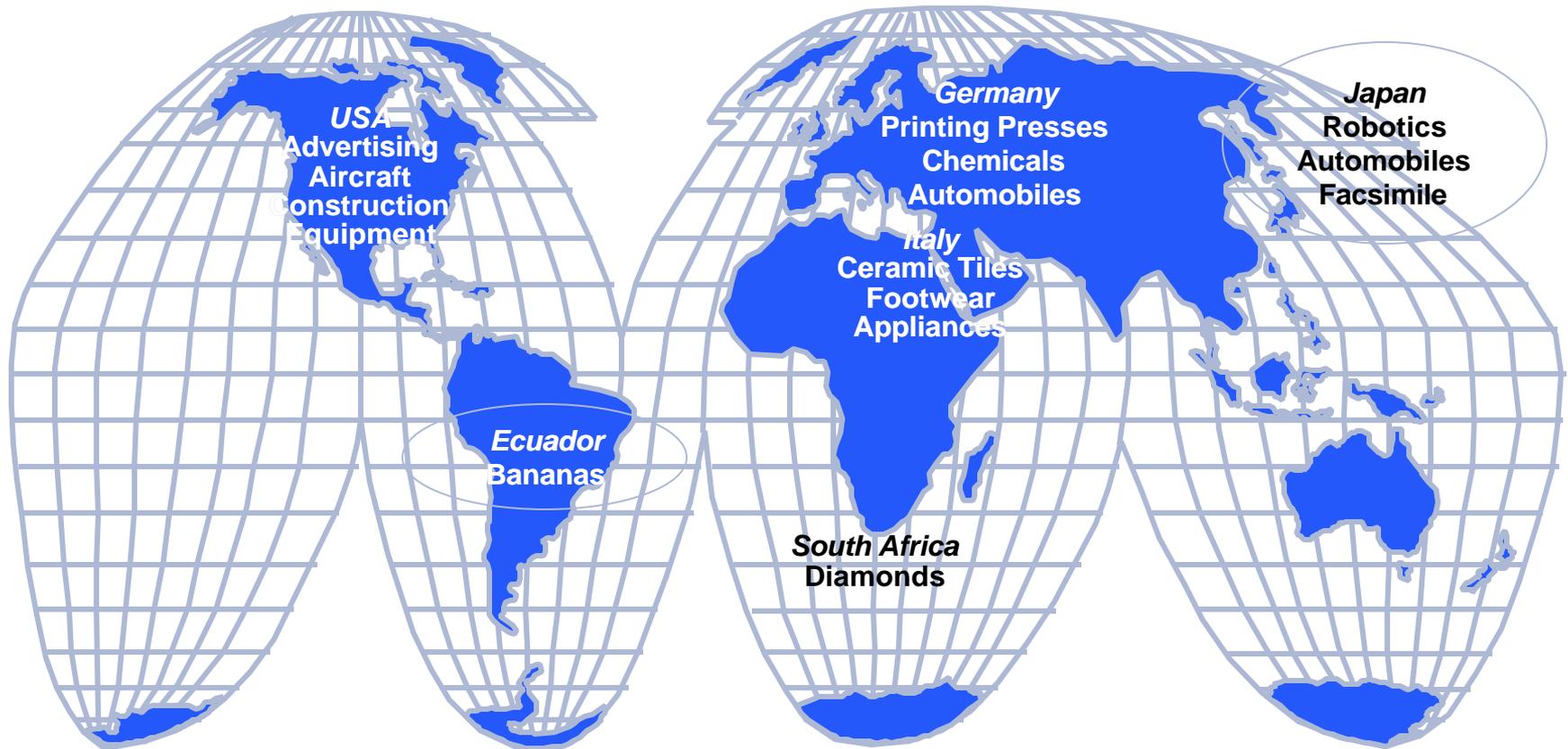
Determinants of Profitability: Industry Structure



The Diamond



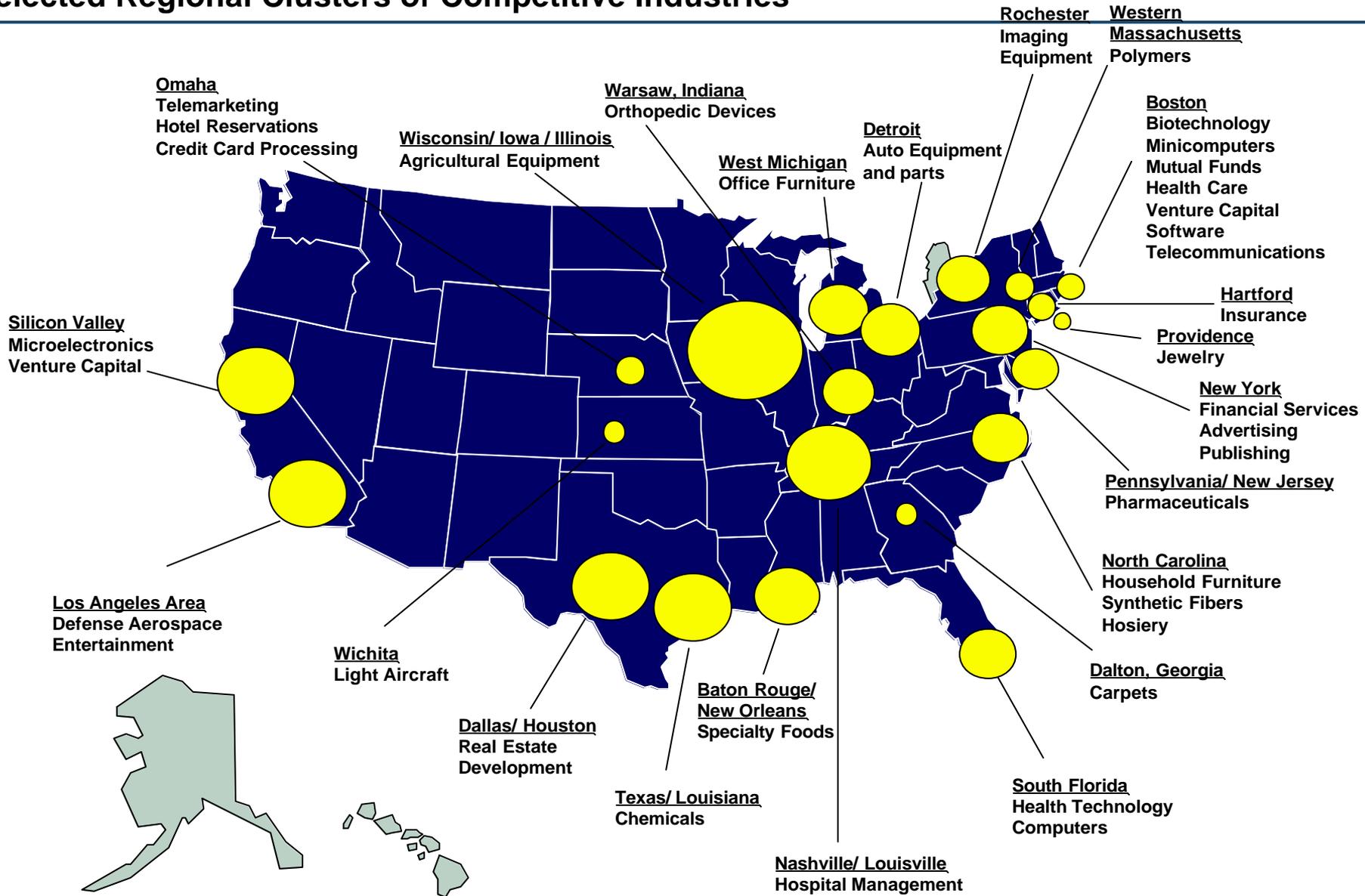
Competitiveness Theory: Competitive Cluster Examples



- Nations have very different natural resources, macroeconomics and management cultures
- Learning and innovation at the level of the cluster and firm drive competitiveness

Competitiveness Theory

Selected Regional Clusters of Competitive Industries



Cluster Definition

A cluster is a geographic concentration of companies and related institutions in a specific sector. A cluster frequently includes:

- *universities*
- *industry associations*
- *specialized suppliers*
- *government agencies*
- *other organizations that provide training, education, research and / technical support*

What are clusters and why are they important

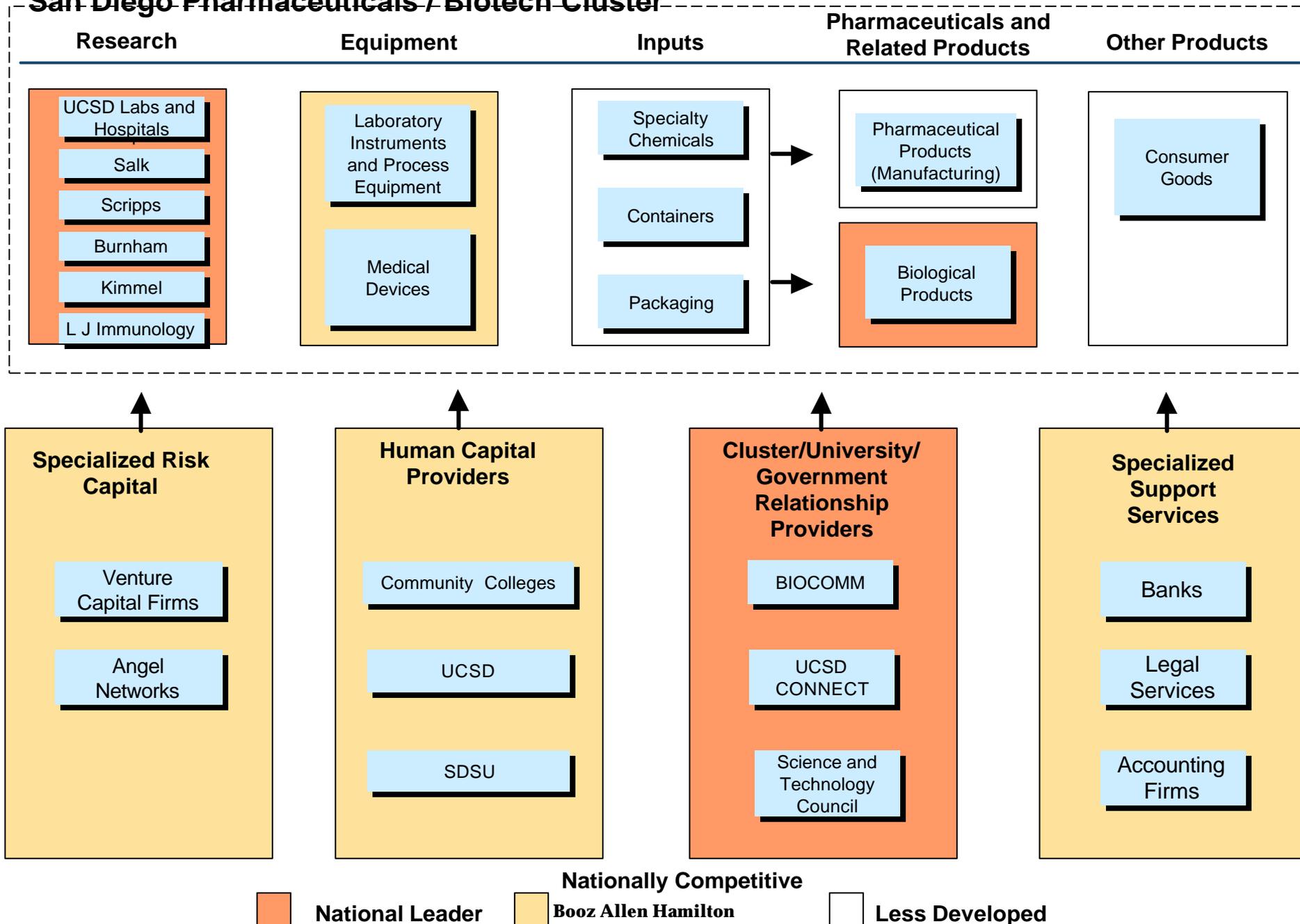
Benefits of Clusters

- Grouping companies and related institutions provides **better access** to data and specialized employees, public goods and information.
- Complementarity among companies and other institutions can be better exploited by **reducing the cost of developing new products and services**
- The increase in communication and strong competitive pressure among local rivals increases the skills of the companies and **incentivizes innovation**
- Strong and numerous links within the cluster permits an **accelerated innovation process**.

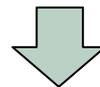
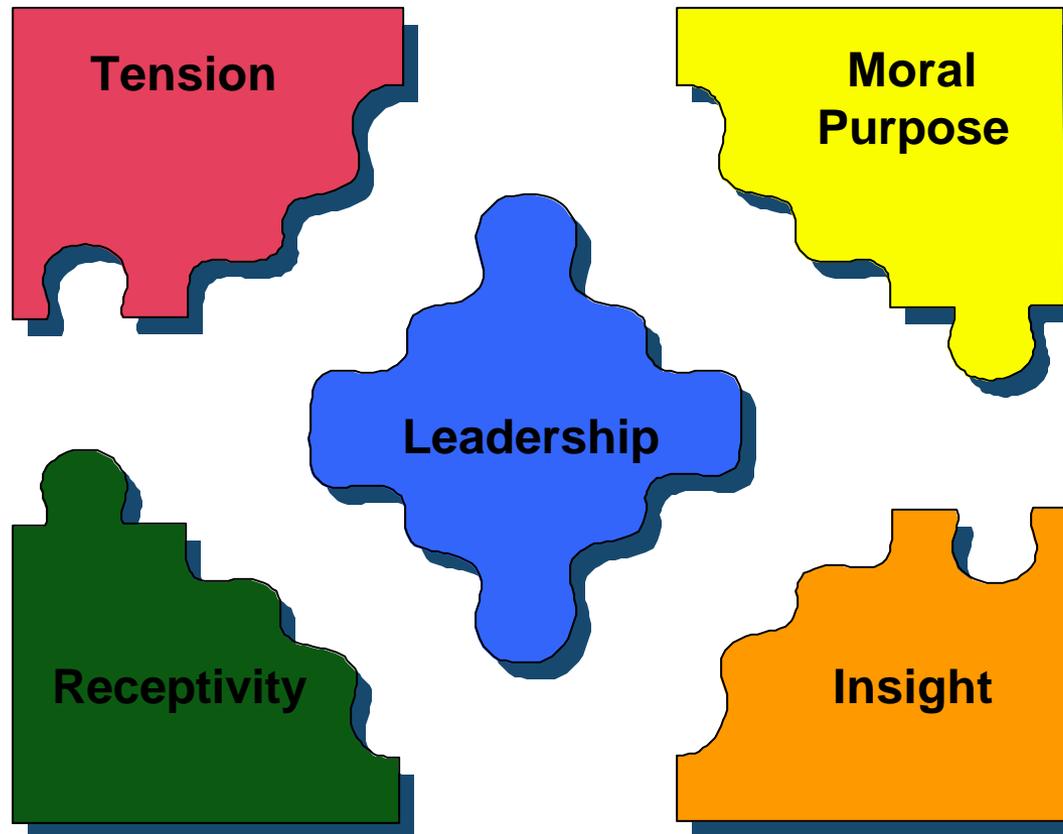


Clusters help increase innovation and productivity

San Diego Pharmaceuticals / Biotech Cluster



Considering the Intangible Context: Preparedness for Change



Source: *Plowing the Sea*, Fairbanks and Lindsay, HBS Press 1997

It is crucial to understand a country's current preparedness in terms of the five conditions for dramatic change, and study what levers may exist to influence them

Ekonomist, December 2002 Issue
Translation of Interview with Michael Fairbanks

Michael Fairbanks, Chairman of the Board of *ontheFRONTIER*

The cow is not to blame

The first task of the private sector is to find a good market and sell sophisticated programs – tourism and production of fruit juices are realistic opportunities.

Members of the Serbian Government’s economic team and a select circle of Serbian businessmen have recently, on an early November morning, listened to a story of a disobedient Colombian cow which is to blame for everything. It was so stupid that it did not respect the electrical wire, so the peasants had to brand it every now and then. Even when it was slaughtered it posthumously continued to create problems because its branded skin could not be used for making either first-class Italian purses or the super cheap Chinese ones. Thus, Colombia never managed to win over buyers for its mediocre purses on the American market. Michael Fairbanks, who told this story, is the chairman of the board of OTF – *ontheFRONTIER*. “The cow story” is one of Fairbanks’s tricks to win over listeners for his theory that the easiest thing to do is to blame someone else but yourself, and that the beginning of any successful strategy is to thoroughly cleanse one’s head of prejudice, especially prejudice which sounds like truth.

E: Many leaders of poor countries are convinced that they have nothing more attractive to offer to foreigners than cheap labor, an unconquered market and the assets that geography has given them. How do they react when you tell them that they’ve got it all wrong?

Michael Fairbanks: I always wonder whether the message which I want to put across will offend or repel people. But years ago I concluded that it is not my job to be politically correct, or to feed people’s prejudices, but to tell them that I have studied these issues in many places around the world and that my job is to tell them the truth. After 13 years of work and 30 countries where I have held seminars, like the one in Serbia today, I am still surprised that no one was offended and that they always invite me to come again. OTF focuses on countries which have recently come out of terrible crises and want to reintegrate in the world economy. We are working in very difficult places, like Columbia was at the time of narcotic king Pablo Escobar, Rwanda after the genocide, Tatarstan after it seceded from the USSR. Serbia is an easier case than many

others. Still the fact that I am in this country is not really good news, as since I am here, there must be some problems.

E: You are saying the exact opposite of what the multinational companies are telling us here in Serbia – that our key comparative advantage is cheap and educated labor?

Michael Fairbanks: Foreign investors may want to come to Serbia because of low wages but that doesn't mean that at the same time you want to attract them with the same issue. On the contrary, your attitude could be that this is the best country for them to transfer their production to, even if the wages of local workers were high. In Massachusetts we have far more foreign investors than you do in the whole of Serbia and we have significantly higher wages, but foreign investors keep coming as Massachusetts is a great place for innovations.

E: The annual turnover of some of these multinational companies is ten or a hundred times higher than the gross domestic produce of Serbia. How can the arguments of such a weak country “defeat” the arguments of big companies?

Michael Fairbanks: Let those companies in and tell them: “You may have come because of low wages. Help us to perfect these people's knowledge and raise their wages in the next two or three years, and we, as state management and the private sector, will show you it was worth it. We will make such an economic environment, in which your company will have high productivity and room for ever increasing wages. And these big companies will respect that, as they like people with such a sophisticated way of thinking. To those companies that say: “No thank you, we are only here for one reason, and the moment you become expensive we are moving to Macedonia”, you can simply say thank you and send them back.

E: Does that mean that we in Serbia should see Macedonia as our strongest competitor in the region?

Michael Fairbanks: The smaller a unit is, the easier it is for it to cope with the mistakes inherited from the past – that is a recipe that can help Serbia to prosper. But do not underestimate Macedonia which is even smaller so it can learn even quicker.

E: What is your impression of Serbia? This is your second visit in the last two months.

Michael Fairbanks: The economic part of the Government is very young and highly competent. They seem to know what they don't know, which is the best possible combination for a government. I also think they enjoy the trust of the citizens which will ensure a “honeymoon” period for them to make some very important moves. If they do not achieve results in a year or two, the opportunity which exists now will be gone.

E: Although people are educated and open for new ideas their heads are often filled with confusion. Our private sector wants to be independent and believes in its vitality, but still it often expects the State to pave the way.

Michael Fairbanks: I agree. How to fight this confusion? You should find people with the capacity for innovations and show that example to everyone. Others will imitate them and later they will find their own solutions. We will find that in Serbia 10 to 20 percent of the private sector has excellent ideas and knows how to make a good product and find new markets. That is just my estimate, as I still don't have real insight in the situation, but our job is to have 50 or 70 % of such people in the structure. That is the way for the country to prosper.

E: You must have heard that Serbia is well-known for a specific type of innovativeness. Brands like Levis, Nike and others are being copied here very successfully? Could this type of innovativeness be transformed into what you are looking for?

Michael Fairbanks: It is possible. When you imitate something, operationally you become very efficient, but you also become very bad in determining your company's strategy. If your mind is open to ideas and if you think "I am good at production, but I could improve my selection", then you can immigrate from the wrong into the right zone. Unfortunately, if you are very successful in forgery, then there isn't much pressure to give it up. Foreign companies will not want to come to a place where their products are being stolen, and also successful forgery gives the wrong impression on how to succeed. It is therefore the first task of the government to protect people's innovations and physical property by law. The first task of the private sector is to find a good market and sell sophisticated products. That should be the Serbian innovation. With a small population, leaving a big crisis, this country is entering a period when it could make some good decisions and become a very prosperous place in 10 to 15 years.

E: One of your recipes for finding a competitive product is to look around us and find something that is very sought after on the local market. The first thing that comes into mind in Serbia is the frightening demand for cigarettes. Could Serbia invent a cigarette which is better than that of Philip Morris or JTI?

Michael Fairbanks: I don't like the cigarette idea, as it is a health hazard. Maybe it would secure cash inflow in the short term, but in the long run it would destroy the human resources of this country. If someone asked me whether I would like to work in the tobacco industry, I would tell them that I do not. I hope the tobacco industry is not a key part of Serbia's strategy.

It is good that we have good news in Serbia, like the possibility for development of tourism, combinations of interesting monasteries and archeological finds, probably the best region for production of fruit juices which could be developed into very interesting

brands. These are all preconditions for setting healthy foundations, which are good both for the country and consumers.

E: What does this winning combination look like?

Michael Fairbanks: Tourism is an excellent example: the interest of distributors and tour-operators is for the local product to be a recognizable brand, to have high quality and to be very profitable. International package operators are happy to be able to sell a destination like Monaco in the US as an average tourist spends 15,000 dollars a day (*sic*) there. A mid-size operator is pleased if he can sell Israel in the US, as an average tourist spends 16 days in that country. If we could create such a destination in this part of the world where an American tourist would spend ten days and spend 500 dollars a day, it would be in the interest of the big global distributors and Serbia.

E: Not many people believe that Serbia is an interesting tourist destination?

Michael Fairbanks: Not alone, but smartly packaged with Montenegro and Macedonia. One can see some of the most beautiful monasteries in the world, here. If we create a product which will include all three countries, with the same high quality of transportation and accommodation, guides educated in history and archeology, we can create a wonderful, expensive product to sell in the US and western Europe.

Jovana Ducic and Jasna Matic*

Improving Competitiveness Through Cluster Work The Serbian Experience

Montenegro Competitiveness Conference

June 23-27, 2004

* Ducic and Matic are consultants on the USAID Serbia Competitiveness & Economic Efficiency Project

♦ DISCLAIMER: This paper presents the opinions of the authors only and is not meant to represent the position or opinions of the USAID nor of the SCEE Project

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Summary

Competitiveness has become one of the most popular and most widely sought after macroeconomic and microeconomic concepts in the past ten years. Achieving competitiveness through clusters is now the prevalent method in both developing and developed countries in the world. In this paper we will examine components of cluster based competitiveness building as they are applied in two industry clusters in Serbia: the Wood Processing Cluster and The Fruit Processing Cluster. We will look at challenges these two groups face, long-term strategies and short-term actions that they have agreed to pursue and the results they have achieved so far.

1. Competitiveness

Competitiveness, a concept that in recent years has been very widely used is often misunderstood. What is competitiveness? The definition we stand for is 'creating prosperity more productively in the market'.

Competitiveness is about being productive and efficient at the same time ensuring prosperity for all. Productivity per se does not secure competitiveness if efficiency and strategic differentiation are missing. Competitiveness must rely on strategic choices and it must be based on innovation and unique products. The goal of being competitive for one country is a higher standard of living for its citizens.

Not so long ago students were taught only about comparative advantage. Countries, regions and companies were supposed to rely on available natural resources, and improve productivity and efficiency in order to sell to as many customers as possible, at the lowest possible price.

But then Michael Porter formed a different concept. He introduced the idea of competitive advantage and competitive strategy. The strategy that relies on differentiation and deliberate choice of a different set of activities aimed to deliver a unique mix of value to specific customers and markets. The goal of competitive strategy is to maximize the value for both the customer and the producer. It maximizes the value of the goods and services for the target customer by servicing their requirements to the maximum. As a consequence, customers are willing to pay a high price, thus providing a high value for the producers, or service providers. Resources used to produce such highly differentiated, unique and innovative goods and services become a source of competitive advantage. These resources include a number of physical, but much more so human capital assets.

In great majority of developing countries national strategies are based on using natural resources and taking advantage of low prices and wages, not creating anything unique and innovative. These countries are using their comparative advantage, merely selling their natural wealth. Countries that aim to achieve prosperity and economic growth have to develop a competitive strategy for producing different and innovative products and create competitive advantage in order to sustain it.

In the last decade competitiveness has become an important issue for both developed and developing countries. Developing countries are learning about competitiveness from those better developed, hoping that it will secure them dynamic and stable economic growth. But, the growth is often very slow.

In order to improve competitiveness, a country needs to create a shared long-term vision and satisfy a series of complex conditions. Success in improving national competitiveness can be achieved only if a country can gain support of all citizens for the process of economic reforms. The reform process must be led by businesses, with the civil and public sector as an active partner in that process.

2. What are clusters?

Competitiveness is built from grass-roots and not from the top. No country can be internationally competitive without competitive companies. National competitiveness depends on micro level productivity and efficiency.

A company can enhance its competitiveness through a wide range of activities, most of all by accelerating innovative products and productivity within the firm. But there is limit to the activity that can be performed by one firm. A significant part of competitive advantage lies outside the firm. In 1990 Prof. Michael E. Porter described how locally based networks of firms in the same industry, called clusters could constitute a source of competitive advantage.

Porter's¹ definition of a cluster is: "A cluster is a geographically proximate group of companies and associated institutions in a particular field, linked by commonalities and complementarities."

Companies can perform much better when working together with a group of interconnected companies, suppliers, service providers and institutions relevant to their businesses, within clusters.

¹ Professor Michael E. Porter, Harvard Business School, is a leading authority on competitive strategy and the competitiveness and economic development of nations, states, and regions

Efficiently organized clusters have proved to be particularly innovative and able to compete successfully in the global market. Smaller firms can benefit more than large from participating in a cluster, especially regarding innovation, i.e. research and development. Large firms may share learning that occurs in different parts of the firm, helping them learn faster and improve competitiveness. Small firms have a challenge in this investment intensive activity, and clustering can help them maintain competitiveness.

An array of benefits companies can have from being part of a cluster include:

- Easy access to specialized suppliers, services and human resources
- Information spillovers
- Flexibility and fast change reaction due to extreme specialization
- Faster innovation adoption
- Attraction of higher quality investments
- More focused government policy

Regions with highly developed clusters tend to be more competitive, productive and prosperous than other regions. Results from the Cluster Mapping Project² show that for the U.S. as a whole, although employment in traded clusters amounted to 33 per cent of total employment, they commanded 44 per cent of income, and their productivity was found to be 82 per cent higher than the average of the country.

3. How to achieve competitiveness through clusters?

Clusters play a major role in building national competitiveness. An efficient cluster can create necessary grounds for inter-firm cooperation and specialization, enhance private-public dialogue, give rise to external economies (supplies of raw materials, machinery, etc), and accelerate innovation. Clusters tend to attract a large pool of talent and specialized workforce, and increase the level of individual companies' tacit knowledge, or know-how. All in all, a cluster allows small and medium enterprises to compete globally thanks to a better access to information and specialized resources, flexibility and rapid adoption of innovations.

² Michael E. Porter (2001)

Even though clusters are a common reality in all economies, not all industries tend to cluster. Petroleum industry, for example has no tendency to cluster.

We should also be aware that having clusters is no guarantee for ever-growing competitiveness, success and prosperity of a nation. To be a determining factor of success for one of the nation's industries clusters must have sufficient size in terms of market share and specialization. Furthermore, there are whole clusters that are declining. Some clusters are outperforming others that have longer tradition and broader variety of supporting activities. The key to competitive success of a cluster is a good competitive strategy.

Typical activities in a cluster based competitiveness effort include:

1. Developing a cluster
2. Understanding relative position
3. Developing cluster cooperation
4. Investing in customer learning
5. Exploring forward integration
6. Improving private-public dialogue
7. Developing a common vision

In this paper we will examine challenges, long term competitive strategies and short term competitiveness improvement action plans of two industry clusters in Serbia: Wood processing cluster and Fruit processing cluster³

3.1. Developing a cluster

A cluster is a non-planned phenomenon that develops naturally, and evolves over time. It's evolution can be influenced through different measures, but it is extremely difficult to create it from scratch. Many public, civil and private initiatives are in the past ten years focusing on clusters, their analysis and development.

When trying to improve cluster cooperation in a formalized way, it is important to understand who is a part of a cluster before establishing a formal organisation. At the initial phases it is common to start with shallower organization and then deepen it later on. That is in line with a natural process in which, as economies advance, clusters develop and deepen to include specialised inputs, components, machinery and services as well as associations, institutes, etc.

³ The SCEE project that started in November 2002, is formally engaged with those two clusters.

In our Wood processing cluster example, the cluster includes producers, associations, institutes, universities. After six months of working with these members, a stage is achieved when it becomes obvious that raw material suppliers should be included (such as Srbijašume). There is also a need to improve design and market development capacities.

The Fruit cluster includes fruit growers, cold stores, fruit processors, juice producers, associations, research institutes, universities, exporters, that is represent a deep cluster. Yet, the cluster needs more supporting activities especially in terms of market research, new market penetration, product development and logistics activities. One recent addition to the cluster includes a standardization bureau and a certification agency, which were invited to join the cluster as the members recognized a need to define and update quality standards and obtain internationally recognized certificates.

3.2. Understanding relative position

Understanding relative position of the cluster in the business environment is crucial for its further development. The cluster has to understand its weaknesses and strengths in order to eliminate weaknesses and use its strengths in a way that ensures prosperity. The relative position can be examined and shown in a framework known as Porter's Competitive Diamond⁴. Four attributes comprise the Diamond:

1. Factor condition - Porter divided factors into non-key factors (such as unskilled labour, land, natural resources, etc.) and key or specialised factors (such as skilled labour, capital infrastructure). He argues that only specialised factors can generate sustained competitive advantage because they are not easy to duplicate and makes a strong statement that lack of resources actually helps countries to become competitive
2. Demand condition - Local demand represents a strong push-up for domestic companies because sophisticated demand and close proximity to such consumers allow companies to better and quicker understand the needs of the consumers.
3. Firm strategy, structure and competition - Strong clusters enable advantages like acceleration of innovations, knowledge spillovers, economies of scale, etc.
4. Related and supporting industries - Strategy, structure and competition are very important factors that influence the business environment. With a joint strategy companies can be much better off while intense rivalry among local industries can be more motivating than foreign competition.

⁴ Michael E. Porter (1998)

We will show the example of understanding relative position through Porter' Diamond on the fruit cluster⁵.

Government- WEAK

- + Good recognition of the importance of the fruit cluster
- Have not established national organic certification process

Strategy, Structure, and Competition – WEAK

- 90% of exports are commoditized frozen fruit
- Intense competition to sell to international buyers
- + Serbian raspberries have a good reputation for sweetness and size in Europe
- Do not have the most advanced cultivation techniques

- + Good climate
- + Low cost of labor
- + Fruit has exceptional sweetness, low acidity

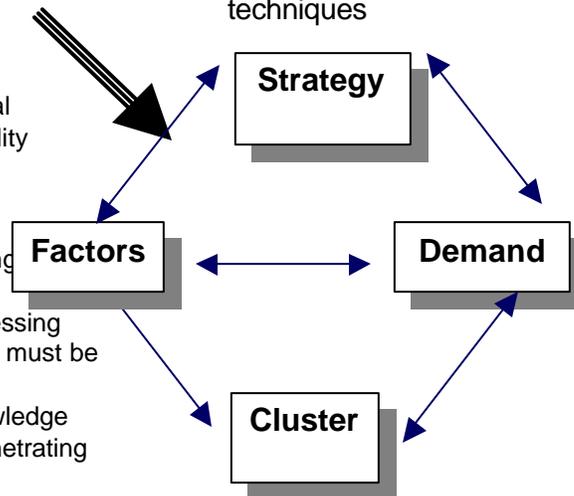
Advanced Factor

WEAK

- + Good local packaging capability
- Top of the line processing and juice machinery must be imported
- Lack of market knowledge
- Unfamiliar about penetrating new markets
- Little financing available to allow forward integration or expansion

Demand - MODERATE

- Little demand for sophisticated jams, yogurts, sorbets
- Little willingness to pay extra for organic products



Cluster - WEAK

- Constant conflict and distrust between farmers, cold stores, and wholesalers about prices
- Limited cooperation among farmers
- Limited cooperation among cold stores
- Limited cooperation among wholesalers
- No certification for organic or HACCP production
- Very few quality assurance programs

Even with a quick look at the picture we can conclude that the strongest point in the fruit cluster is the attribute that does not drive competitive advantage, that is basic factors are strong. Though very important for building competitiveness, they are not innovative and are most easily imitated. They lead to competition on price only, when not accompanied by adequate advanced factors, cluster capacities and competitive strategy.

In our fruit cluster, advanced factors, cluster capacity, strategy, structure and competition together with a government role are all weak. There is no highly sophisticated demand on the local market, so local producer are not forced to make original and innovative products. They would have to make significant improvement

⁵Based on the research conducted by the SCEE team

when approaching foreign markets with more sophisticated demand. Cooperation and trust among cluster members is at a low level and the cluster must work on conflicts resolution and distrust alleviation.

Advanced factors are relatively weak and this is the area where the cluster must focus. Tetra Pak provides good local packaging capabilities for fruit juices that is internationally competitive and this example shows how FDI can have positive influence on the cluster performance.

It is obvious that the cluster needs to improve knowledge about foreign markets. After realising the weaknesses, the fruit cluster is investing in customer learning in order to improve advanced factors.

Most producers are producing the same basic product for exports and therefore they are competing on price instead on innovation. More than two hundred exporters are fighting to export just frozen fruit packed in bulk, where no differentiation is possible. The problem is just aggravated by lack of quality assurance, internationally recognized certificates and frequent breach of contract that is difficult to sanction within current regulatory framework.

Exporters are independently penetrating foreign markets without adequate prior market research, or any joint effort or strategy. To increase export prices and volumes fruit cluster members need to develop a shared strategy, cooperating and joining resources in an effort to penetrate foreign markets while remaining competitors in the local market.

Government's role in promoting fruit cluster is also weak. The Government understands importance of the cluster but does not support it in the way it should. Though the organic law was adopted, no national organic certification process is in place. One of the biggest problems exporters face - breach of long term contracts triggered by price fluctuations, needs to be eliminated by adopting and enforcing adequate regulation.

3.3. Developing cluster cooperation

The most important item a successful cluster needs to achieve is trust and cooperation among its members. Without willingness to share information and knowledge companies will not be better off than by working individually. As our experience from working with wood and fruit processing clusters says this is the hardest obstacle a cluster has to overcome.

At the initial phases of the wood-processing cluster, companies did not understand the benefit of making a cluster. In the last decade they were forced to fight for themselves and every attempt to cooperate with the others failed. They were accusing each other

for the failure but at the end of the day all of them suffered. Companies were not willing to share any information they had about foreign markets, latest technology and design trends, their capacities and technology achievements.

For a large number of actions they could have undertaken, they thought the Government should help and they waited for its support. But there is a limited role the Government should play in improving competitiveness. The Government should only support articulated strategy of the industry.

After careful and studious work with the project, the companies understood benefits of forming a strong cluster and the role of the cluster in developing micro and national competitiveness. They were assured that confidential information about the company need not to be disclosed to other members but that there is a scope of information they can and should share.

Finally they are at a stage where factory tours of the member companies are organised once a month, enabling cluster members to understand each other's capacities and learn about new technologies. They are sharing information on machinery and raw materials needs, to leverage their buyers' power in a joint purchasing process. In this way they can achieve economies of scale, which is one of the most important benefits a strong cluster can accomplish. Understanding cluster capacity is a prerequisite for contracting and meeting large orders, since cluster members are mainly small companies.

Realising how much they can achieve by working together, the cluster members are now deepening cluster's structure, following a normal path in the cluster development process.

3.4. Investing in customer learning

As we pointed out in the example of Porter's Diamond of the Fruit cluster (and the fruit cluster is not an exception to the rule), there is limited or no market knowledge available within the cluster. Companies produce not knowing what customers' preferences are. They enter new markets without much knowledge of the incumbent competition, their positioning and consequently no adequate strategy.

Market research is an activity that is perfect for successful cooperation of the cluster members. Expensive for one company, market research becomes much more affordable with group financing. Members can be sceptical about conducting the research on local markets where they compete with each other, but they are very willing to cooperate in researching foreign markets. Both Wood and fruit clusters are developing survey questions to assess which markets and strategies are most viable.

The research approach they adopted has the following components: (fruit cluster example)

- Developing action-based survey questions
- Supporting increase in exports of higher value fresh fruit and fruit products
- Creating best approach for aggressive penetration of foreign juice markets
Informing strategic decisions on the positioning
- Identifying key drivers for future branding campaign
- Testing purchase criteria in foreign markets for
 - Juice
 - Fresh fruit
 - Packaged Frozen Fruit
- Testing demand and price premium for organic and healthy fruit products

In the first stage the survey will cover wholesalers in the EU and the neighboring countries. A web based survey is being administered to more than one hundred purchasers in order to determine competitive landscape and relative position of Serbian fruit and juices in the respective markets.

The second phase will examine consumers' preferences to determine market penetration strategies and key elements for the branding campaign.

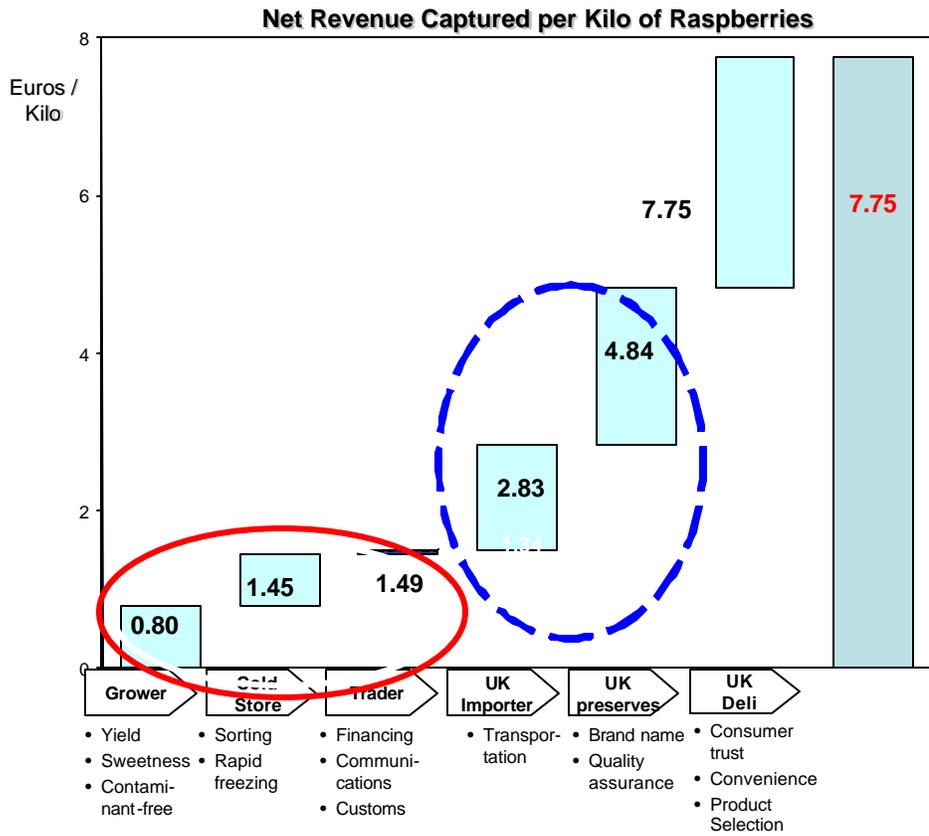
3.5. Exploring forward integration

Competitiveness of an individual company, cluster or a nation can be improved by developing forward integration. Companies that restrict their operations to lower phases of production can lose a great deal of profits and usually end up operating on razor thin profit margins.

By getting closer to the customers through forward integration, companies can learn more about them and the requirements they are looking to satisfy. As a result companies become able to better meet customers' needs and create more value for customers and themselves alike. We can conclude that every cluster needs to pursue forward integration opportunities in order to maximize the value of its operations.

We will show the example of raspberry value chain explored, starting from Serbian growers up to UK delicacies shops⁶.

⁶ Based on research conducted by the SCEE team



Source: Interviews with growers associations and exporters in Serbia; UK preserve manufacturer

We can see from the graph that the profit margins are growing as we move along the value chain. Serbian growers, cold stores and exporters are barely covering their costs, while fruit importers, processors, and retailers from the UK extract much more value for themselves, but also provide more value to their customers. Importer ensures just-in-time delivery of fruit, thus carrying out the processor's inventory management system. The processor provides the same inventory management services for the retailers, while at the same time leveraging its reputation, i.e. brand name to ensure quality of its products. Retailers provide value to the end-users by guaranteeing accessibility, availability and quality of this product.

It is clear that the cold stores will create much more value if they enter higher levels of processing and sell final products directly to EU retailers. The same distribution pattern exists in other clusters and in other industries, and forward integration would equally improve their competitiveness and prosperity.

3.6. Improving private-public dialogue

Public-Private dialogue on issues related to economic development is a specific relationship between Government, business community and civil society, that includes universities and other supporting institutions.

Cluster is a very useful form for articulating one industry's strategy and needs, maintaining a constructive dialogue with the government and cooperation with civil society institutions. Government's role is to facilitate implementation of the strategy that was formed on the micro level and not to make one. Civil society institutions and universities should provide insight into the latest achievements in the science. This dialogue is usually missing or at best is ad hoc and scarce. In every day activities these groups usually do not cooperate and even preclude each other's activities. Research institutions and universities work independently from the industry. Government is not informed about the industry needs and vision (if there is one) and it is pursuing its own policy.

Serbia and Montenegro are the perfect example. Government is accusing businesses for being inefficient and unproductive, although the Government is doing everything to help them. The businesses think that they are not getting the support they deserve and which is provided to companies in other countries. Universities and civil sector do not have their say.

As we said at the beginning of the paper, no economic development can be achieved without support of all the citizens. The dialogue is a necessity. Clusters can help in changing the relationship between companies and the government, from confrontation and demands to cooperation and collaborative actions.

One of the ways to improve the dialogue and cooperation is to form a council which will allow dialogue mechanism among the public, private, labor and academic sectors on the steps necessary to build economic and social competitiveness. Through direct policy recommendations based on studies and activities, the government is given a clear, well-substantiated and reinforced program of actions to enable competitiveness, and lead to rapid economic growth and improved living standards. This form of maintaining an ongoing dialogue among the three main society components is becoming more and more frequent in both developing and developed countries in the world. In the United States, for example, council recommendations generally involve the areas of education, training, technology, trade policy, private investment and infrastructure.

In our fruit cluster example businesses have expressed their specific needs for training, legislation and infrastructure needed to improve competitiveness of Serbian fruit and juices. These include more hands-on training for engineering students, technology education for farmers, marketing education for exporters, use of regional airports for more rapid transport of fresh fruit, organic food regulation, quality standards and HACCP and organic certifications.

Members of the wood cluster articulated the need for training in technology and particularly in design, fair standards in compliance with EU standards and infrastructure.

These examples show how the dialogue and cooperation among private and public sector does not have to be about protection and subsidies but about collaborative actions which can enhance national and micro competitiveness.

3.7 Developing a common vision:

Any transformational change process within one entity requires four elements in order to be carried out successfully. To initiate the process there must be a tension, or pressure for change. The capacity for change must be present to enable the change. Some short term actions are needed to create momentum. But the crucial element needed is a shared vision of all constituencies involved.

Without a shared vision, or a common long term strategy every effort is doomed to fail. An initiative may start strongly and have some immediate success, but it will quickly fade out without a shared vision of the goal ahead.

Wood cluster has agreed to develop branded and designed wood products and provide more complete design experience to customers in EU and US markets in addition to neighboring countries in Eastern Europe. Shared vision has helped them to address the obstacles they are facing. In order to develop original Serbian design, cluster members are forming the Design Center which will gather already established and young

designers in the attempt to provide better training and boost originality. Not less important is the ability to penetrate foreign markets which can be enhanced by working and learning together.

Fruit cluster members have had misunderstandings and some discussion before they agreed on a common long term strategy that was able to include all of their ambitions and plans for the future. They decided that they would produce healthy tasty Serbian fruit and fruit products, that would be available anytime and anywhere. This common goal has enabled them to mobilize their resources and initiate a number of short term actions that lead to its achievement.

Conclusion

Competitiveness can be developed in different ways. However, there needs to be a common vision of all parties included. Therefore clusters seem to be an adequate mechanism to do it. From our experience, cluster work brings together different participants and interests very efficiently. The process picks up slowly, but later on accelerates and intensifies, branching out to address numerous issues in all related areas.

Our experience with the two industry clusters in Serbia: the Wood Processing Cluster and The Fruit Processing Cluster leaves us optimistic that other clusters can follow their path, effectively addressing challenges they face, and building successful joint long-term strategies.

Literature review:

- 1) Porter, M. (1998), *The Competitive Advantage of Nations*. New York: The Free Press.
- 2) Porter, M. (2001), *Clusters and Competitiveness: Findings from the Cluster Mapping Project*, Institute for Strategy and Competitiveness, Harvard Business School

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BUILDING COMPETITIVENESS

SIEPA Training Session

July 3, 2003

Serbia Enterprise Development Project

BUILDING COMPETITIVENESS

1. WHAT IS COMPETITIVENESS

- DIFFERENCE BETWEEN COMPETITIVE AND COMPARATIVE ADVANTAGES
- MEASURING COMPETITIVENESS: WEF RANKING
- COMPETITIVENESS IMPLICATIONS ON WEALTH

2. WHAT ARE CLUSTERS

- EXAMPLES OF COMPETITIVE CLUSTERS IN THE WORLD
- OUR CLUSTER EXPERIENCE

3. HOW TO ACHIEVE COMPETITIVENESS

- CHALLENGES FOR IMPROVING COMPETITIVENESS
- DIVERSIFY FROM BASIC FACTORS
- INVEST IN CUSTOMER LEARNING
- UNDERSTAND RELATIVE POSITION
- EXPLORE FORWARD INTEGRATION
- IMPROVE PRIVATE-PUBLIC DIALOGUE
- DEVELOP CLUSTER COOPERATION

4. HOW SIEPA AND SCEE CAN COOPERATE

WHAT IS COMPETITIVENESS

Competitiveness is creating prosperity more productively in the market

Three competitiveness perspectives:

- companies
- industries
- national economies

WHAT IS COMPETITIVENESS

DIFFERENCE BETWEEN COMPETITIVE AND COMPARATIVE ADVANTAGES

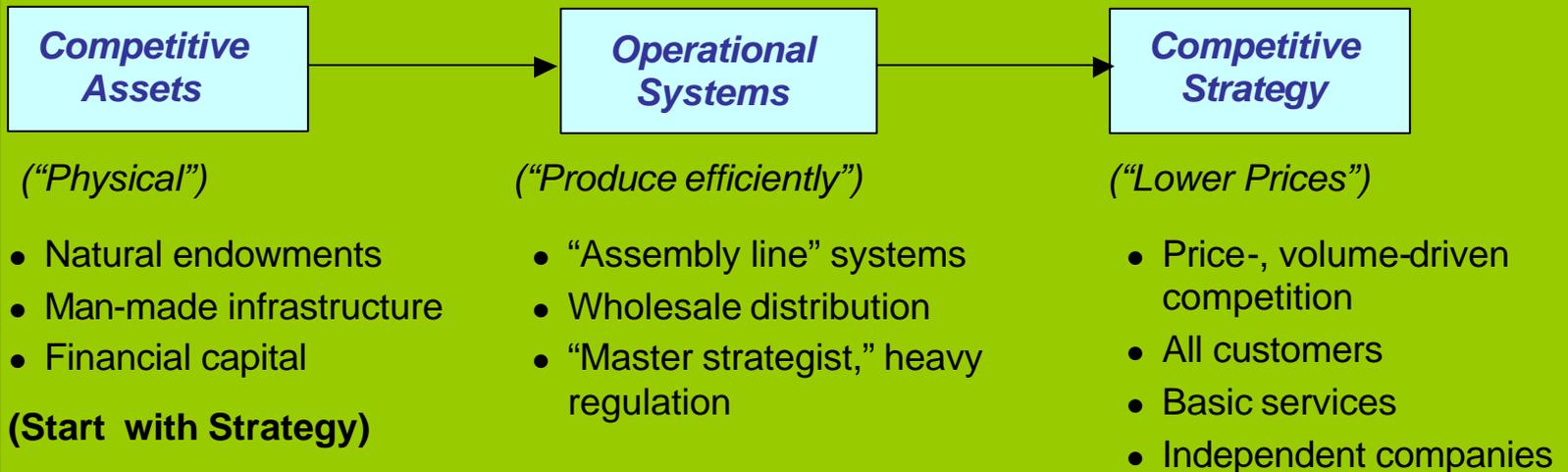
- Comparative advantage means creating prosperity based on natural endowments and prices
- Competitive advantage means creating prosperity based on vision, strategy and innovations

WHAT IS COMPETITIVENESS

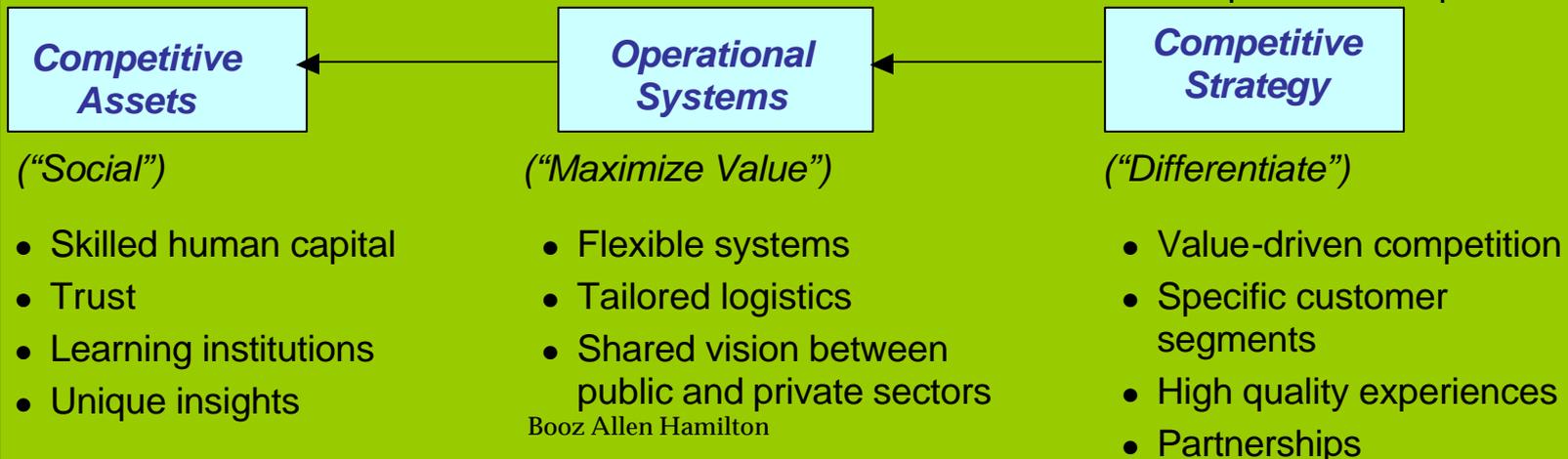
DIFFERENCE BETWEEN COMPETITIVE AND COMPARATIVE

ADVANTAGES

Old Model (Start with Assets)



New Model (Start with Strategy)



WHAT IS COMPETITIVENESS

MEASURING COMPETITIVENESS

- Economic growth
- Jobs
- Prosperity

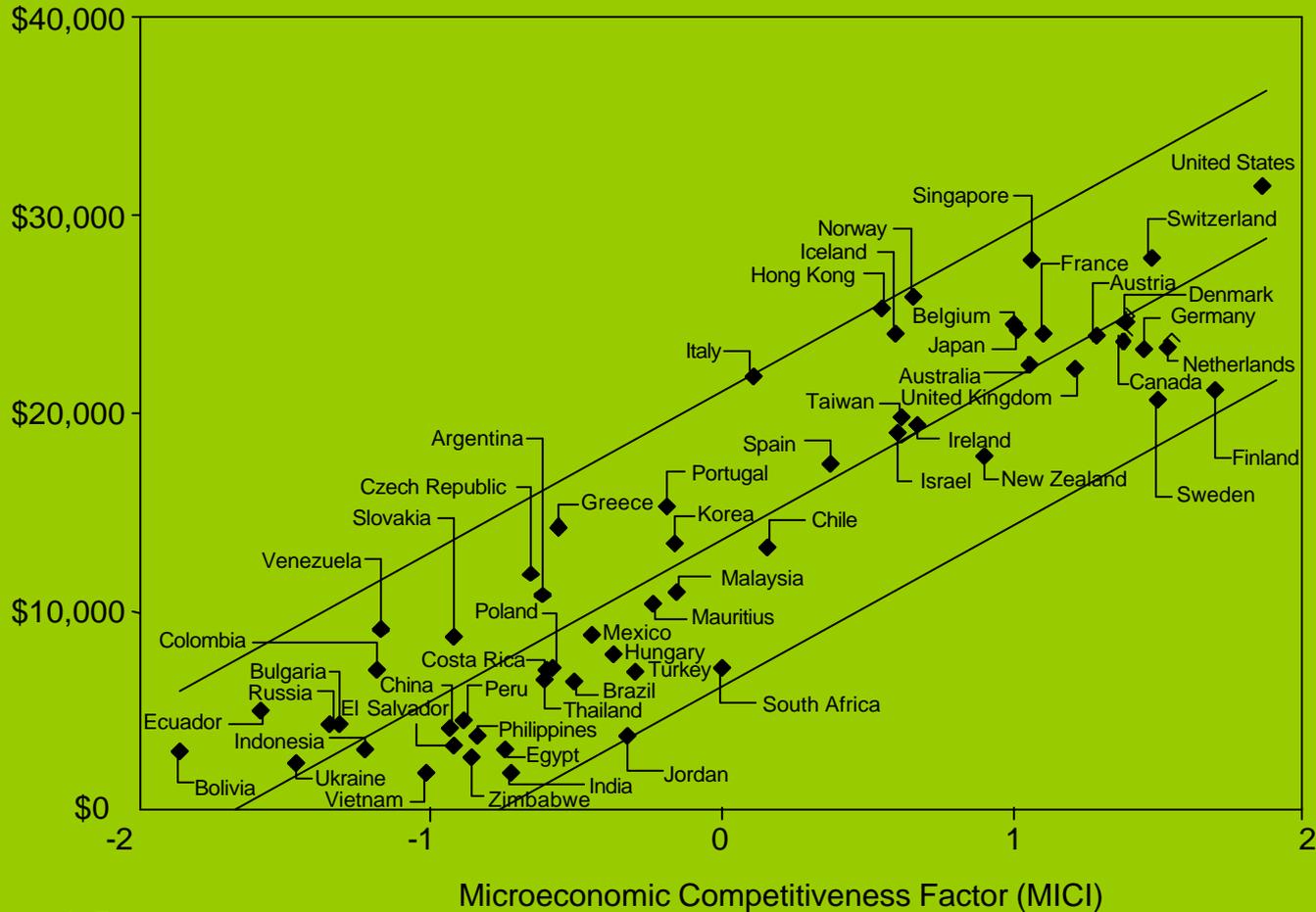
WEF Ranking:

Using Executive Opinion Survey and statistics, WEF annually forms GCI rankings (based on macroeconomic indicators to estimate prospects for growth) and MICI rankings (based on microeconomic indicators to assess current productive potential)

WHAT IS COMPETITIVENESS

COMPETITIVENESS IMPLICATIONS ON WEALTH

GDP per Capita
(Current Dollars
Adjusted for
Purchasing
Power Parity)



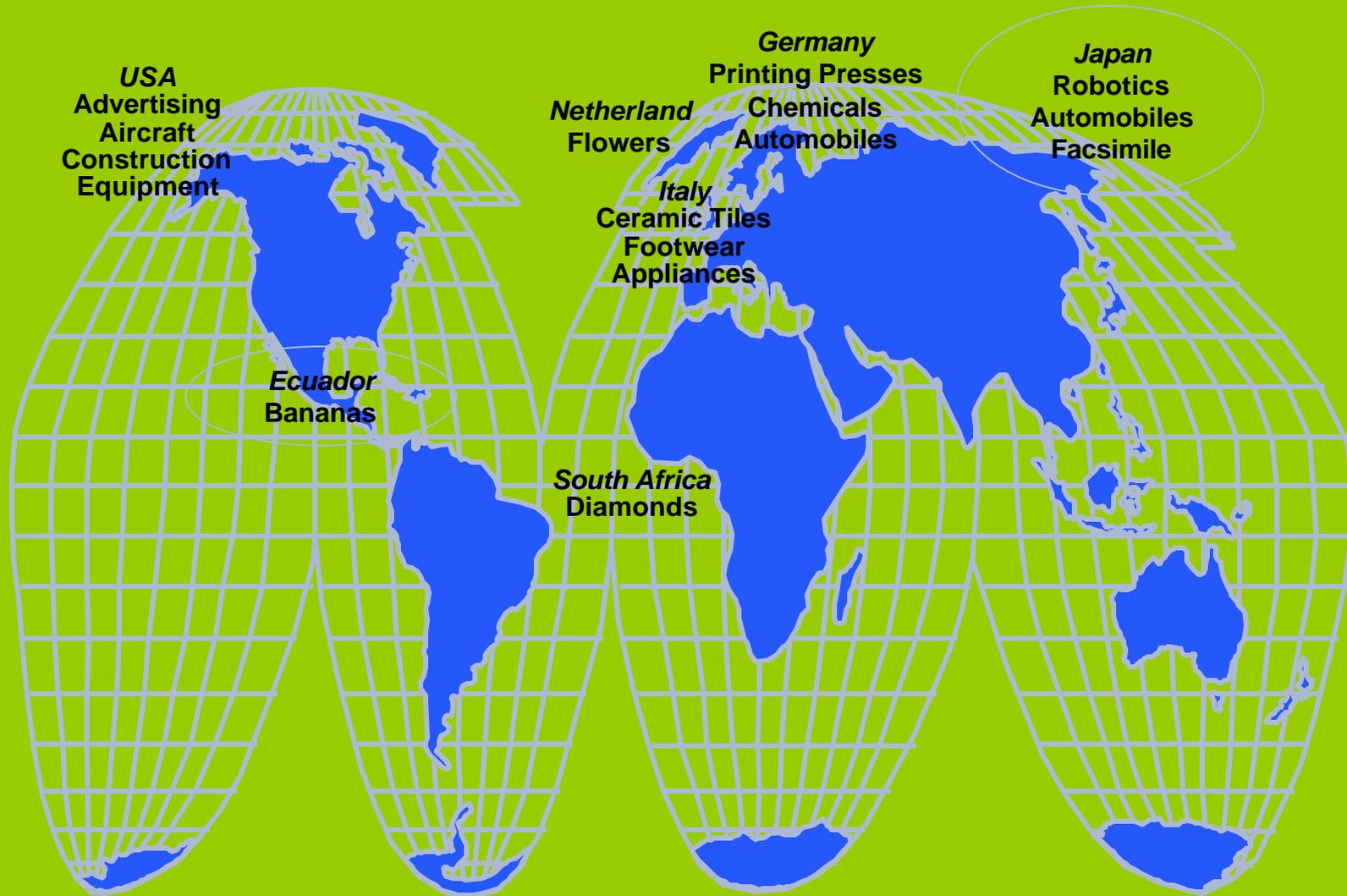
Source: M. Porter, World Economic Forum

Booz Allen Hamilton

WHAT ARE CLUSTERS

- Competitive advantages exist in two places. First, within individual organizations, and second, by companies and related associations, known as clusters.
- According to Professor Michael Porter of the Harvard Business School, clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region.
- Clusters arise because they collectively increase productivity with which companies can compete.
- The development and upgrading of clusters is an important agenda for governments, companies, and other institutions to increase prosperity.

COMPETITIVE CLUSTER EXAMPLES



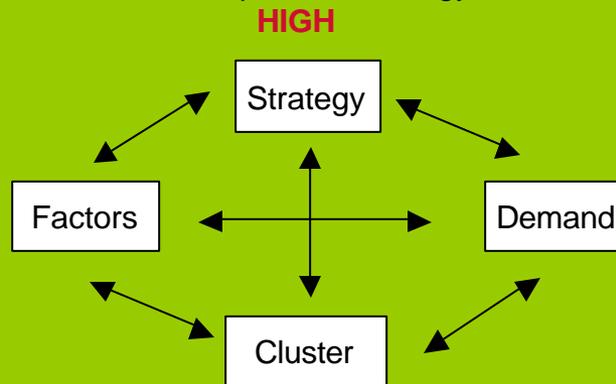
COMPETITIVE CLUSTER EXAMPLES

DUTCH FLOWER CLUSTER

- + Favorable proximity to European markets
- + Low transport costs to European markets
- + Gas relatively inexpensive
- + High productivity of workers
- Heated greenhouse cultivation essential; government considering energy levy
- Expensive land
- Fertilizer and pesticide emissions to the soil, air, and water meet increasingly stringent environmental standards
- High labor costs
- Scarcity of labor
- + Excellent roadway and airport network
- + Advanced computer networks to track auction transactions (95% of production goes through auctions)
- + Extensive advanced training courses and research; adequate capital to fund research
- + Many growers have in-house research facilities

HIGH

- + Heavy domestic rivalry (9,350 cut flower nurseries, 1900 exporters)
- + Technology leaders
- + Differentiated product strategy



- + High local demand-- 61% of families buy flowers at least once every 4 months
- + Strong local demand for new products

HIGH

- + Logistics coordinated through auction houses; two largest auction houses account for 81% of production
- + High proportion of costs incurred by grower offset by extremely efficient logistics system
- + Research and technology from related sectors, i.e. vegetables
- + Shared distribution channels with flower bulb and tree nursery sectors
- + Strong position in breeding and propagation
- + Information and innovation pass quickly through network of sectors

HIGH



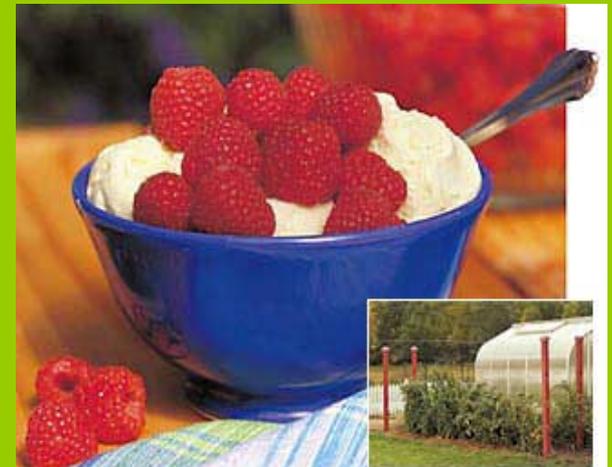
Dutch compete on the basis of advanced factor conditions and an extremely efficient logistics system

OUR CLUSTER EXAMPLES



Furniture, construction material and flooring cluster

Fruit and fruit juices cluster



HOW TO ACHIEVE COMPETITIVENESS

CHALLENGES FOR IMPROVING COMPETITIVENESS

Serbia MUST:

- Increase the productivity of its companies
- Increase exports of high value products
- Build clusters in high priority sectors
- Improve companies' access to and productive deployment of financing
- Attract strategic foreign investments
- Employ existing and modern technologies and innovate
- Invest in human capital
- Consolidate institutions and leadership
- Promote public education on competitiveness

HOW TO ACHIEVE COMPETITIVENESS

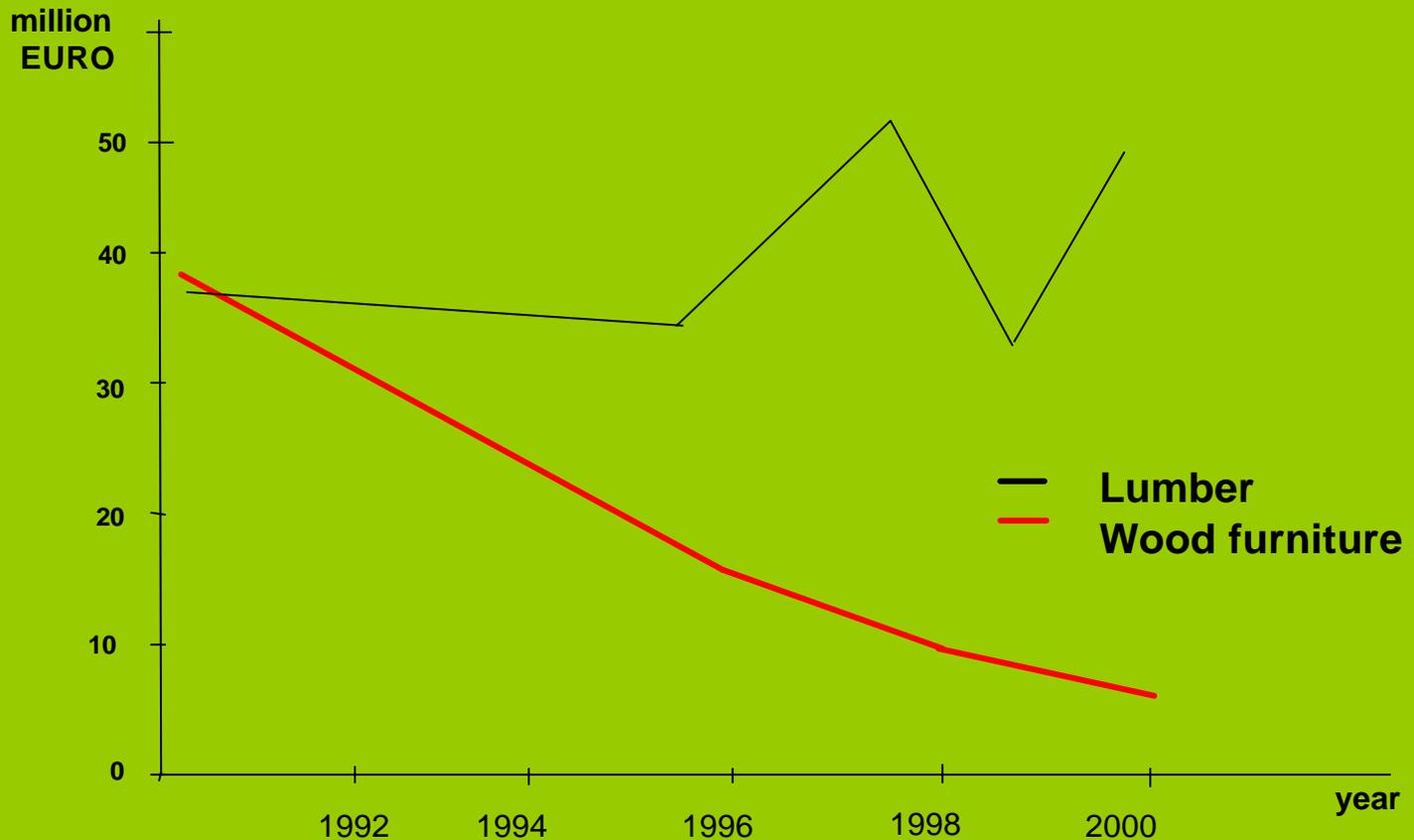
BUILDING CLUSTERS

- DIVERSIFY FROM BASIC FACTORS
- INVEST IN CUSTOMER LEARNING
- UNDERSTAND RELATIVE POSITION
- EXPLORE FORWARD INTEGRATION
- IMPROVE PRIVATE-PUBLIC-CIVIL SECTOR DIALOGUE
- DEVELOP CLUSTER COOPERATION

HOW TO ACHIEVE COMPETITIVENESS

DIVERSIFY FROM BASIC FACTORS

Furniture and Lumber Exports from FR Yugoslavia



HOW TO ACHIEVE COMPETITIVENESS

INVEST IN CUSTOMER LEARNING

The example of market research conducted by the fruit cluster

Initial survey results

Key selection criteria:

- Consumer trust
- Convenience
- Variety
- Brand
- Taste
- Attractive packaging
- Healthy
- Price

Status

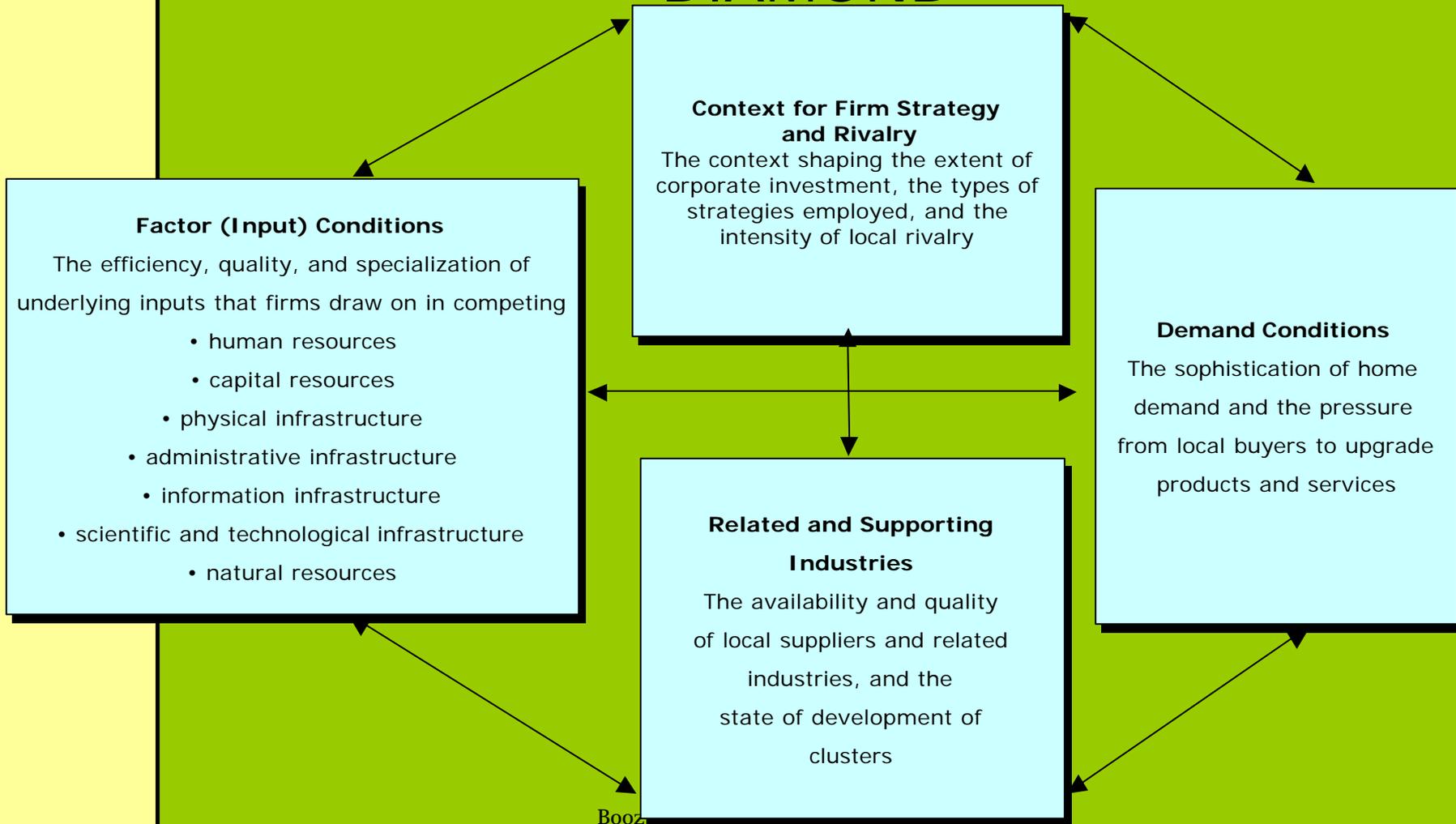
- Survey of fruit juice wholesalers in progress
- Will conduct end user survey in selected market

Research Approach:

- Developing action-based survey questions
- Supporting increase in export of higher value fresh fruit
- Creating best approach for aggressive penetration of foreign juice markets
- Informing strategic decisions and testing purchase criteria in foreign markets
 - Juice
 - Fresh fruit
 - Packaged Frozen Fruit
- Test demand and price premium for organic and healthy fruit products
- Identify key drivers for future branding campaign

HOW TO ACHIEVE COMPETITIVENESS

UNDERSTAND RELATIVE POSITION – PORTER'S DIAMOND



UNDERSTAND RELATIVE POSITION

SERBIAN RASPBERRY EXAMPLE

Government- WEAK

- + Good recognition of the importance of the fruit cluster
- Have not established national organic certification process

Basic Factors- STRONG

- + Fertile soil
- + Good climate
- + Low cost of labor
- + Fruit has exceptional sweetness, low acidity
- Difficult to export

Advanced Factor WEAK

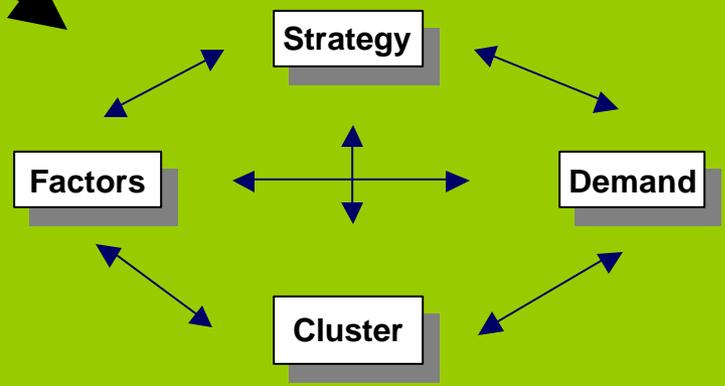
- + Good local packaging capability
- Top of the line processing and juice machinery must be imported
- Lack of market knowledge
- Unfamiliar about penetrating new markets

Strategy, Structure, and Competition – WEAK

- + Serbian raspberries have a good reputation for sweetness and size in Europe
- 90% of exports are commoditized frozen fruit
- Intense competition to sell to international buyers
- Do not have the most advanced cultivation techniques

Demand - MODERATE

- Little demand for very sophisticated jams, yogurts, sorbets
- Little willingness to pay extra for organic products



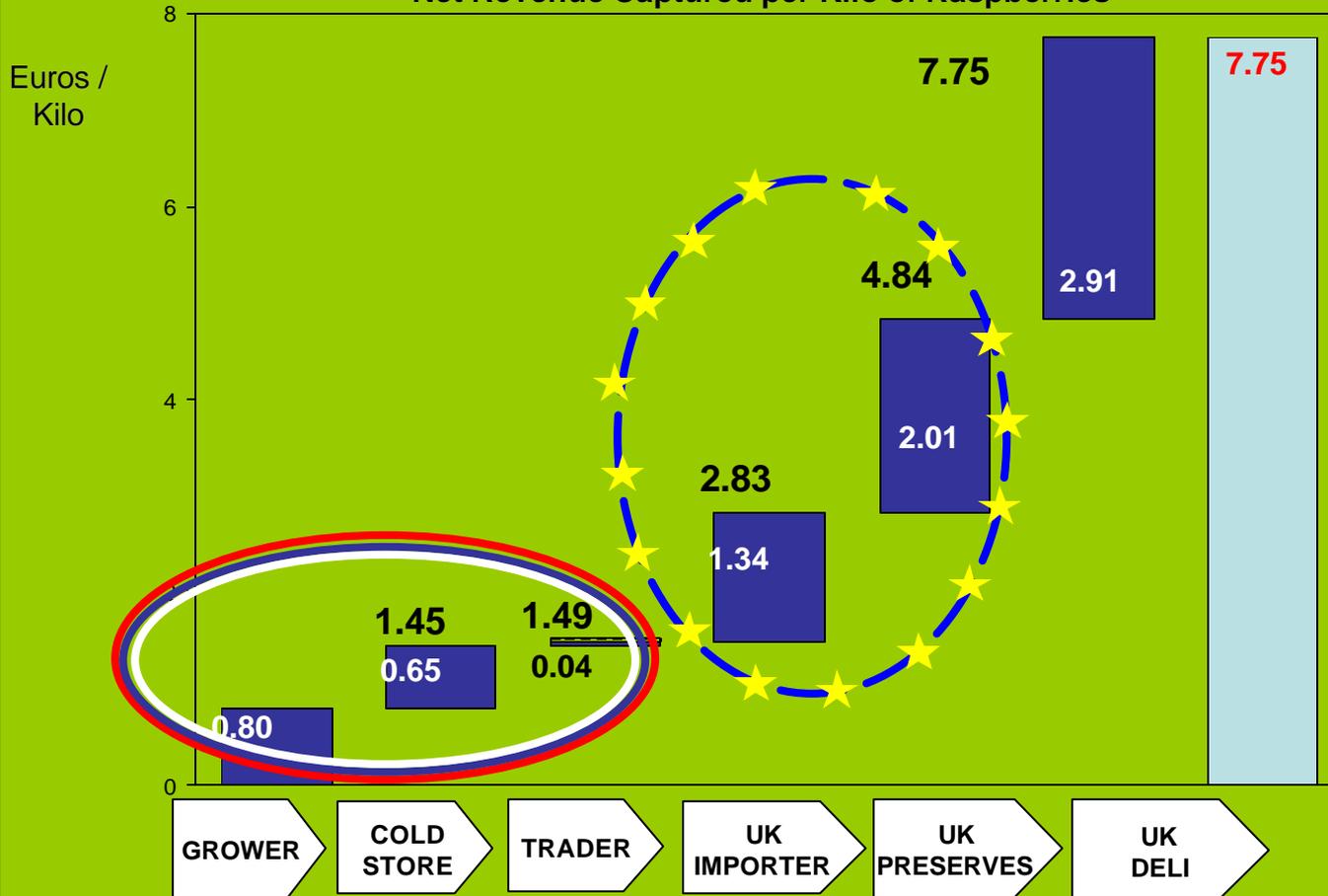
Cluster - WEAK

- Constant conflict and distrust between farmers, cold stores, and wholesalers about prices
- Little financing available to allow forward integration or expansion
- Limited cooperation among farmers
- Limited cooperation among cold stores
- Limited cooperation among wholesalers
- No certification for organic production
- Very few quality assurance programs

HOW TO ACHIEVE COMPETITIVENESS

EXPLORE FORWARD INTEGRATION

Net Revenue Captured per Kilo of Raspberries



HOW TO ACHIEVE COMPETITIVENESS

IMPROVE PRIVATE-PUBLIC-CIVIL SECTOR DIALOGUE

➤ Businesses must lead in building competitiveness with an active role of the Government and support of the civil sector

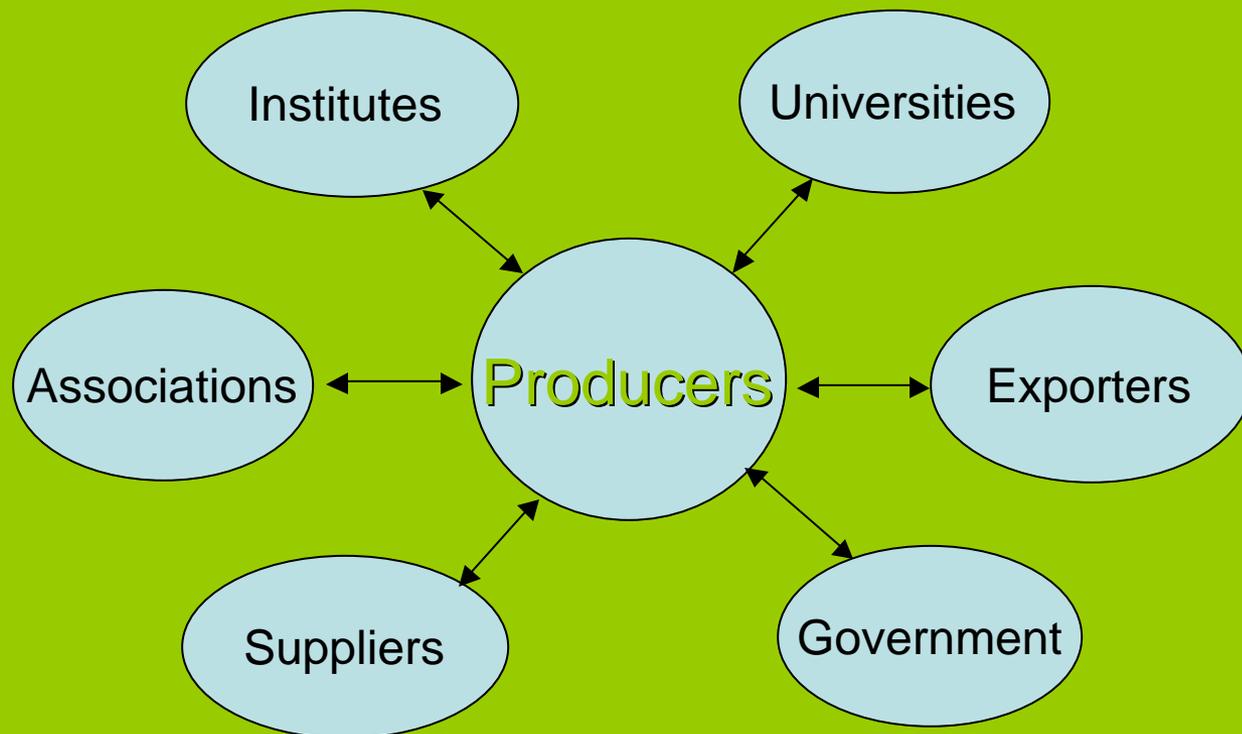
➤ National Competitiveness Council as a way of improving private-public dialogue :

The National Competitiveness Council (NCC), composed of leaders from business, government and civil society, serves as the focal point for competitiveness-building activities in Serbia and provides an important forum for discussing critical issues relating to this theme

HOW TO ACHIEVE COMPETITIVENESS

DEVELOP CLUSTER COOPERATION

Working together, the public, private and civil society sectors can be more effective than working independently



HOW SIEPA AND SEDP CAN COOPERATE

What SEDP is doing?

- Supporting National Competitiveness Council
- Helping to develop and promote National Strategy
- Facilitating cluster work
- Conducting public awareness and public education campaign on competitiveness issues

HOW SIEPA AND SEDP CAN COOPERATE

Export promotion:

- Learn about cluster products and export potential
- Conduct basic market research for European, US and other markets
- Educate businesses about penetration strategies
- Provide information on regulatory requirement for specific markets
- Provide support for marketing campaigns
- Facilitate trade show and fair participation
- Coordinate efforts with national embassies abroad and foreign embassies in Serbia

HOW SIEPA AND SEDP CAN COOPERATE

Investment promotion:

- Analyze cluster technology and know-how needs and preferences
- Identify potential partners and approach selected companies
- Provide information on investment opportunities: companies, regulatory environment, market potential in order to attract best investors

CLUSTER SUMMARY FOR THE NATIONAL REPORT ON SMES

The Serbia Competitiveness & Economic Efficiency (SCEE) Project, funded by USAID, is being implemented by Booz Allen Hamilton and the OTF Group. The goal of the project is to develop a more competitive Serbian economy that leads to economic growth, with increases in exports, jobs and prosperity. Cluster development has been a cornerstone of this initiative, and their progress has underscored the challenges and achievements of Serbian clusters in general.

There are three major achievements from current cluster activity. First, participating firms are developing trust among members to jointly address challenges that would be difficult to address individually. Second, both the furniture and fruit clusters are jointly gathering intelligence on targeted foreign markets, focusing on raising the quality of their products and operations, improving design capabilities, and establishing training centers to promote improvements in technology - with dissemination of technical and market information. Third, by working together, these firms are setting an example for all Serbian industries on the benefits of cluster-based activity. Although the trust level of Serbian leaders is very low, due to a public education with cluster firms, several firms such as those in the construction and textile industries have recently met to discuss the benefits of cluster collaboration. This progress will expedite cluster activity in the near future.

The primary challenge will be to develop a supporting network that generates continual innovation in order to increase revenues and jobs. In addition to improving product quality, this will require upgrading supply chain links and in certain cases creating those links. An example is the Serbian fruit producers, which intend to compete against fresh French and Chilean berry growers/ sellers in Europe. This includes changing berry varieties, increasing fresh quantity, improving fresh berry packaging and upgrading the cold store capability throughout the current logistics systems. This will require either local firms learning at a rapid rate or introducing the right type of foreign investment, where the investors are partners of the local firms. The ultimate goal is to have local links in a supply chain that both exports premium products by enabling innovation and by providing the environment for continual, rapid learning and information dissemination.

Although the first challenge of developing trust and not relying on the government has had some success, the ultimate success of the cluster development project will occur when members move to higher productivity levels and sell more valuable products on international markets. The challenge is to maintain momentum by learning about specific segments and creating products and services that meets those segments' needs. This will require developing an action-oriented cluster network. As the furniture and fruit clusters are learning, meeting this challenge requires businesses to take the lead in developing competitiveness, with enabling activity from government and civic society.

Helping Serbian Businesses Gain a Competitive Advantage

Serbian Businesses are taking steps to boost their exports and increase their productivity with support from the US Agency for International Development (USAID)

Over the past seven months, the Serbian competitiveness initiative has grown to become one of the country's most dynamic and talked-about private sector development programs. The publicity surrounding the National Competitiveness Summit, held in early April in Belgrade, and the formation of the high profile National Competitiveness Council has brought competitiveness to the forefront of the nation's economic reform program, with both the Government and the private sector demonstrating an increased commitment to boosting the competitiveness of Serbian businesses in the global market.

U.S. consulting firm Booz Allen Hamilton, along with its implementation partner, ontheFrontier, has been privileged to be closely involved in this competitiveness initiative through the USAID-funded "Serbia Competitiveness & Economic Efficiency (SCEE) Project." The USAID SCEE team has provided the underlying technical assistance necessary to shape and direct the competitiveness initiative over the last several months. This assistance has led to the fruit and wood industry clusters developing aggressive export-oriented growth strategies, the formation of the National Competitiveness Council and the convening of the first National Competitiveness Summit.

"The Serbian patriotism of the 21st century should be competitiveness."

Prime Minister Zoran Zivkovic, speaking at the National Competitiveness Summit, held in Belgrade, April 1-2, 2003

The SCEE initiative has also closely supported the efforts of Serbia's Government, including Minister of International Economic Relations Goran Pitic, in its ongoing efforts to reintegrate Serbia's economy into the broader E.U. and international markets. Minister Pitic addressed members of the American Chamber of Commerce in Yugoslavia (AmCham) at a breakfast meeting in March co-hosted with the USAID SCEE project. At the breakfast Mr. Pitic remarked: "Business must lead the way to raising productivity and increasing exports....Government is no longer the master strategist, but must work in partnership with business to create an environment for business development."

AmCham is an important ally in the competitiveness movement, with many of AmCham's members helping to demonstrate the way forward for Serbia's industries and business leaders. In recognition of its role in competitiveness-enhancing activities, AmCham President Sasa Trisic was asked to speak to the more than 200 business, government and civic society leaders assembled at the SCEE supported National Competitiveness Summit in early April.

The Summit occasioned the formal announcement of the National Competitiveness Council comprised of 27 leaders from business, government and civil society. Executives of firms such as Sintelon, Hemofarm and Yubanka sit on the Council, which is chaired by Dragoljub Vukadinovic, the managing director of Metalac, a leading Serbian exporter of cookware. From the government side, the Council includes the

Ministers from the key economic ministries, as well as those from Labor, Agriculture and Science & Technology. Over the coming months the Council will assume its role as the focal point for competitiveness-building activities in Serbia. Importantly, the Council will publish a National Competitiveness Strategy outlining goals for the nation and begin to focus attention on promoting the development of competitive industry clusters.

Also spotlighted at the Summit were the new export-focused growth strategies of the fruit and wood industry clusters, which have been supported by the SCEE team. Both clusters are formed by a group of forward looking managers who are joining together to address common business problems, forge new export strategies and share in the implementation of productivity enhancing measures. Mr. Djordje Stevanovic, a member of the Fruit cluster and the chief executive of Stefani Univerzal (one of Serbia's leading raspberry exporters) noted in his remarks at the Summit that through the work of his cluster, various industry members have pooled their resources to do market research in Western Europe in order to increase exports by \$50 million over the next 5 years.

The SCEE Project also sponsored a delegation of Serbian leaders on a trip to the United States April 12 – 18. Included were members of the National Competitiveness Council, cluster representatives, as well as Ministers Goran Pitic, Aleksandar Vlahovic, Kori Udovicki and Bozidar Djelic. The trip provided an opportunity for the ministers to send a clear message to the international community that the Government's economic reform program was continuing and to promote Serbia is an attractive location for investment. Other members of the delegation were able to meet with a number of well known thought leaders on competitiveness issues to develop their thinking with regard to a national competitiveness strategy, to set priorities for Serbia's competitiveness action plan, and to define the role of the NCC.

Given their shared aim to improve the business climate and performance in the Serbian private sector, the SCEE project and AmCham look forward to increasing their co-operation in the coming months to support competitiveness-building efforts at the national, industry and firm levels. In particular, both groups have pledged to forge even closer links between Amcham members and Serbian firms participating in the export-focused clusters --- thereby helping to foster market learning and investment promotion within specific industries and, in the long-run, improving the prosperity of Serbians across the country.

If you would be interested in learning more about the competitiveness initiative or the SCEE project, please send an email to nsk@scee.org.yu or call 011-3224-110.