

Draft Study: "Micro-financial support to entrepreneurs beginners in Serbia"

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Situation in Serbia

- Comparing to other countries in transition, **Serbia is not adequately successful in creating new businesses and employment.** Self-employment percentage within total employment, not counting agriculture is about 5% in Serbia, while in Slovenia, Hungary, Poland and Czech Republic is 10% and in OECD and EU-15 countries is 14%.
- The Government has not made an overall survey so far that would show “entrepreneurial profile and market” in Serbia. So, there are no precise assessments of entrepreneur’s potentials and demand in Serbia.
- We can assess an approximate demand figures on the basis of monitoring only certain activities and programs made by the Government in recent years. Collected detailed data tell us that the **available financial start-up demand for support is significantly greater than current supply.**

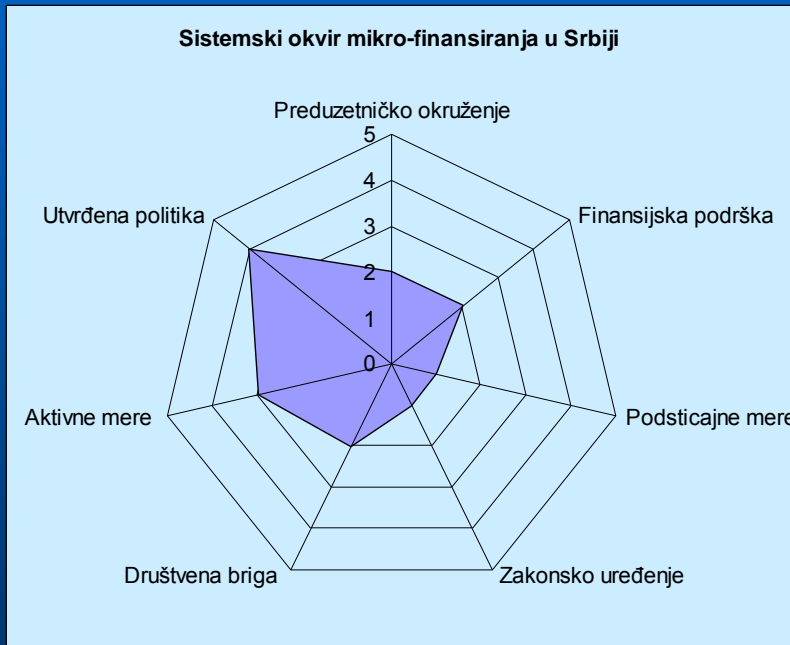


Objective of Study:

- *Assessment of current financial start-up support in Serbia, regarding:*
 - *the level of carrying out financial support compliant to outlined start-up policy priorities.*
 - *current institutional infrastructure*
 - *Identifying limiting factors concerning law regulations*
- *defining recommendations for establishing a more efficient micro-financial start-up support system*



Micro-financial (systematic) assessment of Serbia



Apart from fairly satisfactory (very) good *established policy* of enhancement for entrepreneurship, resolving employment problem, reduction of poverty and enhancement of self-employment (with mark 4 out of 5) and only partially well established *active measures* for enhancement to self-employment and entrepreneurship (with mark 3), other categories are very unsatisfactory, with marks 1 or 2 (*entrepreneurial environment, financial support and social care* with mark 2, while *enhancement measures and legislative environment* have mark 1).



Area	Mark	Criteria	Explanation
Entrepreneur's environment	2	What is the business and social environment like, what is institutional support to entrepreneurship like?	The level of development of institutional infrastructure is insufficient. Agency for non-financial support to MSPP development is established (State Agency with regional network agencies/centers for MSPP development), but not on all Serbian territory. Institutions for financial support are being outlined and established but only in its initial faze. Economic legislative environment and other regulations do not contain any specifics of micro enterprises' management.
Financial support	2	What is the support to micro-financial institutions like and from which capital resources does it come from?	Apart from the regulating utility from Budget for the Fund for Developing Serbia and NSZ, and Fund for Developing Vojvodina, there are no other sources or funds for financial start-up and self-employment support program. MFI bankroll comes only from donators given irreversibly as humanitarian aid.
Enhancement measures	1	What are current (tax and other) incentives and enhancements for self-employment, new employment and start-up?	Current tax and financial incentives for new employment are created for the requirements of attracting direct foreign investments, that have no real effects on small investors nor start-up.
Legislative environment	1	How does the legislative environment regulate micro-financial institutions' management?	There are no specific law regulations concerning the founding and management of micro-financial institutions. The new Bank Act does not refer to "and other financial institutions". Active MFI in Serbia, strictly and formally speaking, are dealing de facto out of law, applying "pursuantly" law regulations that refer to financial business with "Association of citizens" status.
Social care	2	Which are current measures and activities that are functioning in solving the problem of limiting poverty and for vulnerable social groups?	There is a very limited number of measures and a low activity of social care for the poor and vulnerable social groups, because of lack of necessary financial resources, and because of limited budget resources and lack of other financial resources.
Active measures	3	Which active measures are implemented for enhancement of self-employment and entrepreneurship?	NSZ is implementing a program of active measures for self-employment but only for the unemployed, and even that with insufficient total budget and a low separate amount of financial resources for these purposes.
Established policy	4	How are policies concerning enhancement of entrepreneurship, limiting poverty, solving the problem of unemployment, etc, defined?	Many strategies are brought that define policies of each category, but only in some of them were operationalized by defining annual action plans and program implementation, with a general assessment that the actual implementation did not take place because of lack of (undefined and/or unattained) necessary instruments for their implementation.



Institutional infrastructure for start-up support

- I – Public Sector:
 - Fund for development of Serbia
 - Fund for development of Vojvodina
 - Fund for development of Leskovac Municipality
 - National Employment Service
 - *State Agency for development of MSPP**
 - Guarantee Fund (RS)
 - Guarantee fund for Vojvodina
 - Guarantee fund "Alma Mons"
 - Guarantee fund of Leskovac Municipality
 - Fund for augmentation of employment (SFRJ)
- II – Private Sector:
 - bank sector
 - leasing companies
 - investment funds
 - other
- III – Non-profitable sector
 - NVO
 - regional and donation initiatives
 - *Network of regional agencies/centers for support of MSPP* development*



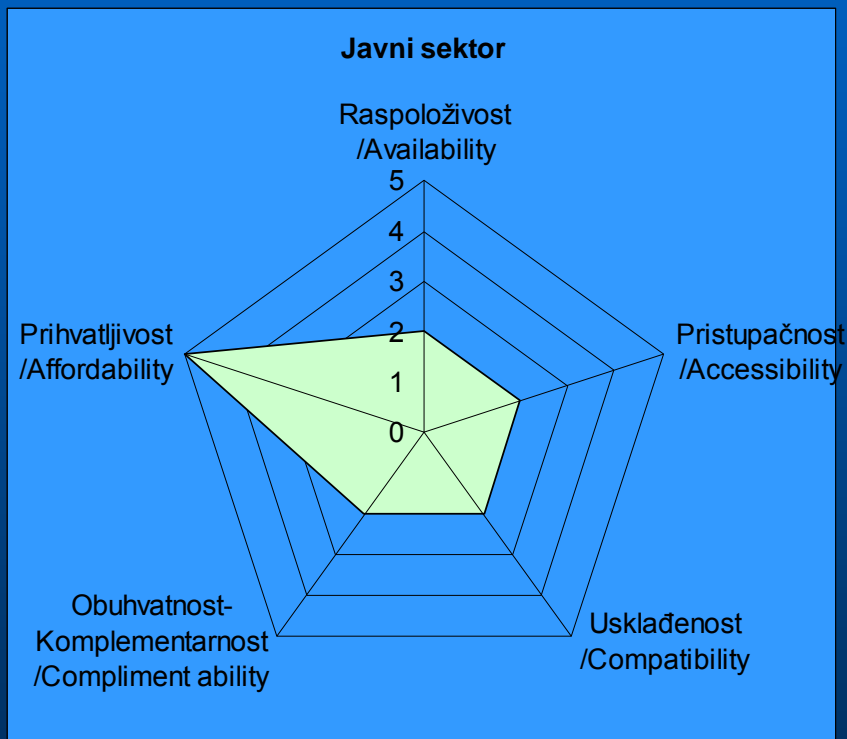
Categories of financial support to start-up and self-employment

Indicator definition for assessment of micro-financing categories:

- **availability** – in which categories and to what extent this financial support is contained, and is it always present, does it and to what extent match with client's necessities – ***Is it always there and is it sufficient***
- **accessibility** – to what extent is the supply present in close surrounding and is it adjusted to the capabilities of the client so that he can use it fairly fast and simply, e.g. and is it reasonably accessible to clients (e.g. from perspective of complexity of procedure and time) – ***Is it "at hand"***
- **affordability** – to what extent are conditions and criteria to use financial support compatible with client's needs and capacities, i.e. to what extent are the financial support categories realistically affordable for the clients, (e.g. from perspective of amount of money, interest rates, period of repayment, type of guarantee, etc.) – ***Is the price affordable***
- **compatibility** – is it and to what extent the financial support compatible with other forms of support, i.e. to what extent are the clients in a position to combine it with various other financial resources to their benefit, (e.g. from perspective of possibilities to create pondering financial resources from public, private and non-profitable sector) – ***Is it compatible and does it have advantages or disadvantages in using them***
- **Complement ability** – is it and in which way is financial support conditioned by non-financial support and under which conditions – ***Are there additional advantages or expenses***



Assessment of financial support from public sector



Availability (2)

Resources are not available throughout a year, they are offered periodically through public competition, compliant to annual fund programs. There is no certainty that they are going to be implemented nor can be established when one could count with certainty on resources.

Accessibility (2)

Competition procedures are complicated and centralized, with a minimum or no influence at all of local institutions on decision making process. Except for NSZ that has a solid territorial coverage, others are out of clients' residing area.

Compatibility (2)

Resources are strictly for outlined purposes and this decreases the flexibility of its use and financial management.

Complement ability (2)

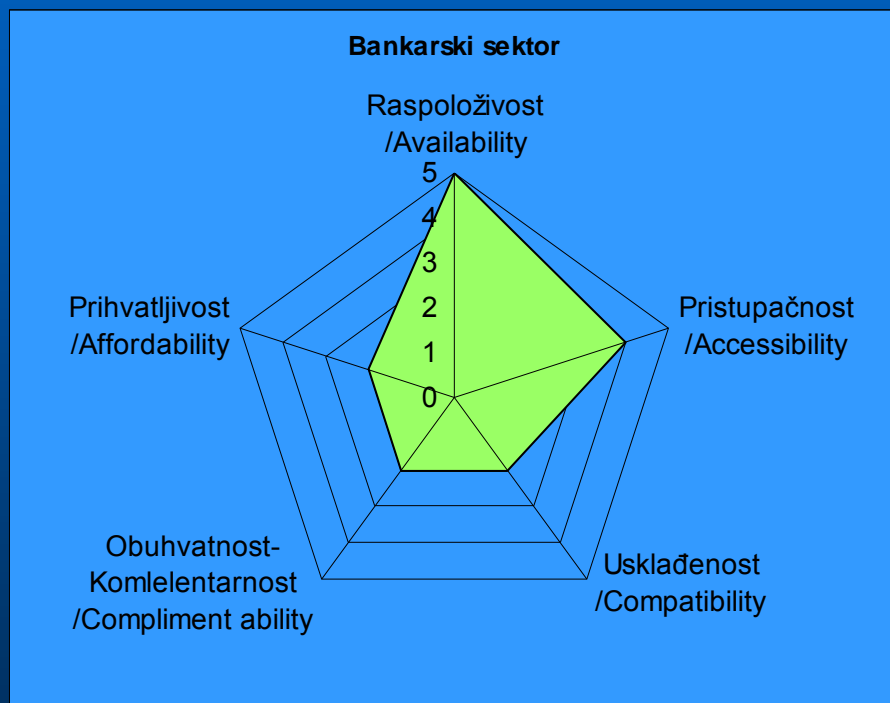
Consulting support is poor and usually limited to formal requirements concerning competition procedure. Very high expenses, conditioned by centralized procedure.

Affordability (5)

Capital price is subsidized and below inflation rate.



Assessment of financial support of banking sector



Availability (5)

Loan supply is extensive always available

Accessibility (4)

Network of bank branches is broad and has a good territorial coverage

Compatibility (2)

Loan is conditioned in such a way that client is committed to the bank

Complement ability (2)

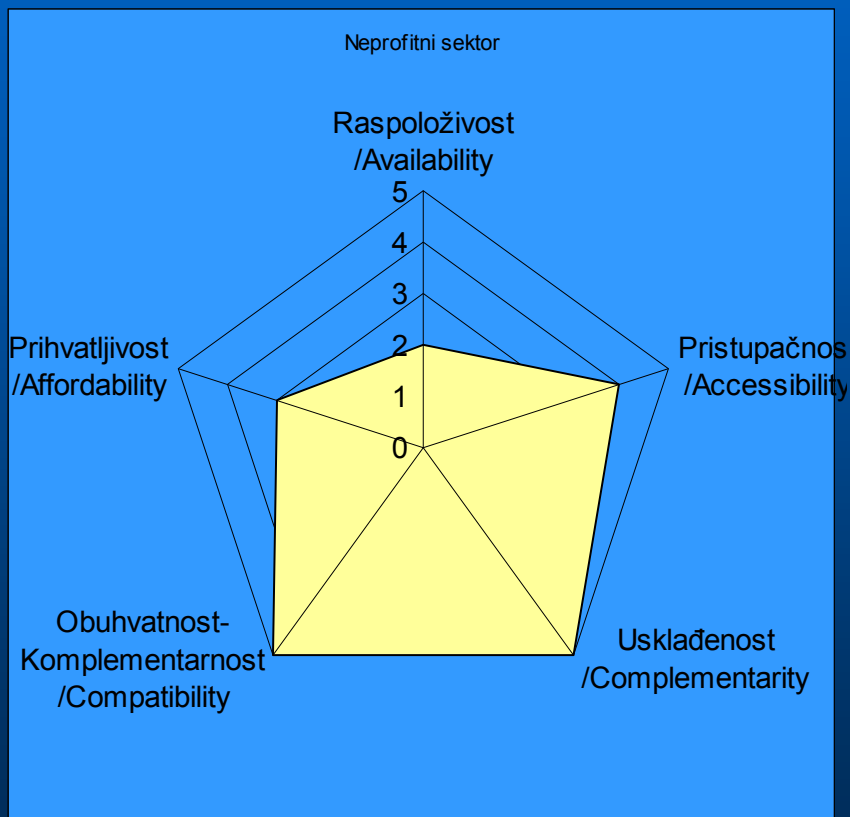
Some banks offer technical support in making cash-flow, business plan, etc, for bank risk estimation purposes, but does not cover significant consulting support to the client

Affordability (2)

Price of capital is too high, effective interest rates overlap profit margin.



Assessment of financial support of non-profitable sector



Availability (2)

Amount of available resources is limited and far from demand

Accessibility (4)

Loan agents go to clients and make direct communication.

Compatibility (5)

Loan offer is designed in such a way that its allocation complements client's needs. Flexible use of loan is complemented to current financial situation and client's business.

Complementarity (5)

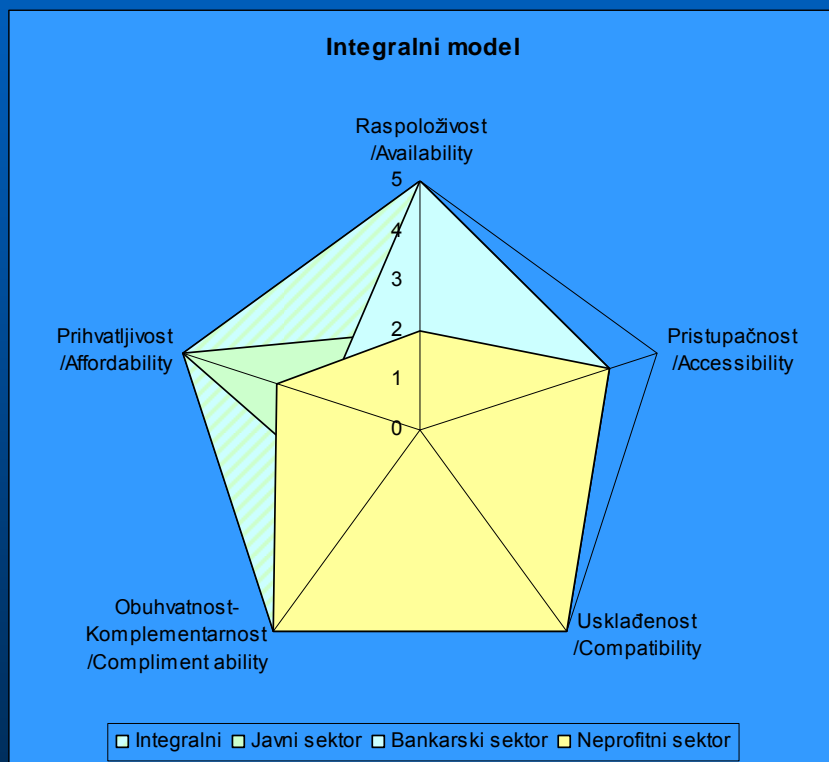
Consulting support is wide-ranged and profound and it covers cash-flow projection, running finances, business information and linkage, etc.

Affordability (3)

Price of capital is relatively high but within profit margin limits



Projection of integral / interactive model of financial support



Complement ability of prime interests:

- public sector to maximize implementation of established policy objectives, in this case, to create as many businesses and jobs as possible with available (limited) resources;
- private sector to make a margin with as little risk as possible and with as big a profit as possible in micro-crediting of start-ups
- non-profitable sector to ensure its own (financial) self-sustainability through contributing to the implementation of social objectives



Analysis (and assessment) of legislative environment

- Law regulations in Serbia covering this sector, concerning public, i.e. state institutions, is clear and precise, and it enables public sector, within its competencies, to execute micro-credit activities in accordance with its objectives and/or interests.
- On the other hand, to be honest, law regulations in this sector is clearly designed in such a way that it encourages the monopoly of banking sector, it *prohibits liberty of entrepreneurship* through micro-crediting as well as founding and operating of micro-financial institutions in private and non-profitable sector.



Assessment of legislative environment's influence on MFI's position

Consequences of (non)regulated legislative environment bring up following *bad attributes*:

- Legal position of MFI on financial market is illegal (Association of citizens);
- The form of their activities through commissioned contracts with banks is tolerated so far by NBS;
- Ownership of loan capital that they run is not outlined (it is not known who owns fund resources)*;
- Management structures are not sufficiently qualified to run a financial institution;
- Qualification structure of the employed and their skills do not match the requirements of a financial institution.
- Managing risks and rigid procedures are also the weakness of these organizations.

*Although those organizations have contracts with capital owners (donators) that enables them to run and transact the resources, it is still not clear who is the titular of ownership: founders of association, all employed from the beginning till today, all members of society or someone else. It is therefore an open question what would happen to the capital in case the association closes or change the form of organizing. Current solution in normative regulations is that it is Association Assembly's decision.



Opinions and suggestions of round tables

- There is a need to continue organized and coordinated shared activities of crucial actors of policy on a national and local level in order to further systematically develop defining promoted policy of micro-financial support to self-employment and start-up;
- Micro-financial support to start-up that is implemented through Fund for Development of Serbia has many flaws of which the following are the most typical:
 - (a) availability of resources is not constant (based on competition, once a year);
 - (b) limited availability for clients,
 - (c) centralized approach in considering the applications and deciding;
 - (d) lack of coordination with non-financial support;
 - (e) lack of monitoring and analysis of effects.

- There is a need to decentralize support program which denotes not only giving the information, examining and sending the documents “out of Belgrade” but taking decisions on a local/regional level too;

To use existing organizations on a local level to implement the program, including raising their capacities in accordance with their needs, and not establishing new institutions while others are already in operation.

(*Example: RC for development of MSPP "Zlatibor", together with 9 municipalities of Zlatibor region, is preparing a program for economic development for next three years to the stage of project. In order to make this activity more efficient, a program board is elected which is consisted of municipal representatives in charge for economic development and they make decisions on most important issues).*



Past lesson – Experience of other (EU countries in neighborhood)

- Efficient micro-financial support to start up conditioned / determined by:
 - (non)regulated by legislative environment for establishing and running micro-financial institutions;
 - Developed institutional infrastructure for entire non-financial and financial support to MSP;
- Effects of micro-financial support would be significantly stronger providing:
 - It is integrally built-in into policy of enhancement of entrepreneurship;
 - MFI dealing open for free entrepreneurship



Suggestions for improvement of public sector policy in supporting start-up

It is necessary, as a change of pace, to combine the activities of public institutions using the following principles:

- Partnership of public sector institutions,
- Functional link between non-financial and financial support,
- Decentralized approach in determining loan decisions,
- Introducing “financial agent” in process of giving the loan,
- Link loan resources with resources allocated for active measures for employment, establish monitoring



Opinions and suggestions

Opinions:

- *Current micro-financial support does not fulfill demand and does not implement objectives of outlined policy of start-up support;*
- *Current institutionalized infrastructure is not rounded-up nor is it fully outlined and not built up;*
- *Micro-financial support within public sector is centralized and fragmented;*
- *There is no corresponding link between financial and non-financial start-up support;*
- *Micro-financial start-up support typifies lack of equity, royalty and capital venture, including business angels;*
- *Micro-financial sector in Serbia is underdeveloped;*
- *Local initiatives of start-up support are improvised because the legal structure is not regulated;*
- *Legal regulations limit the possibility of establishing the development of necessary micro-financial infrastructure;*

Suggestions:

- *It is necessary to outline the legal structure by introducing Act on MFI, i.e. on non-depositary financial organizations/funds;*
- *Raising financial resources, necessary for micro-financial start-up support (funding), is the responsibility of public sector;*
- *Building up institutional micro-financial infrastructure has to be based on partnership of public, private and non-profitable sector, respecting their complementarity and respective comparative advantages;*
- *Establishing principles of decentralization in implementing micro-financial start-up support, using along available capacities on regional and local level;*
- *System of efficient start-up support has to establish overall, aligned and rounded up link between financial and non-financial support, from informative one initially, to monitoring and mentoring ones in its implementation;*



Annex: Initial bases of legal regulation of the position of MFI and its activity

<i>Name of Act:</i>	<i>Act on non-depository micro-financial institutions (MFI)</i>
<i>Status:</i>	<i>Non-profitable and non-depository financial organizations</i>
<i>Function:</i>	<i>Intercede to place micro-loan for someone else and for someone else's interest Cannot operate independently (take a loan) on financial markets on his/her name and for his/her interest</i>
<i>Founding conditions:</i>	<i>Similar to conditions for NGOs, with a pre-contract for obtaining micro-financial resources In case of closing, discontinuing, after paying off creditors, the rest of assets go to local authorities</i>
<i>Registration:</i>	<i>Ministry of Finance or Ministry for State and Local Administration</i>
<i>Supervision:</i>	<i>NBS and Internal Revenue Department</i>
<i>Special condition:</i>	<i>One member of MFI supervising board is appointed by territorially local unit of revenue department and at least one more member of NSZ</i>
<i>Assets and sources:</i>	<i>Necessary resources for setting up and for initial activities are to be raised by founders and donators, with clear distinction of resources and allocated assets, to business own assets of MFI and fund assets for micro-crediting Sources of fund micro-loan resources: Donations and soft loans</i>
<i>Business activity:</i>	<i>Non-profitable revenues can be used only for covering current expenses and business promotion Interest cannot be the source of own revenues and fix assets Own revenues are made out of: agreed commission of the provider of micro-credit line, revenues made out of services given to micro-credit users, etc.</i>



THANK YOU FOR YOUR ATTENTION

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