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**THE STRATEGIC PARTNERSHIP BETWEEN
NGOs AND SMEs IN SERBIA**

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I. Background

Non-governmental organizations (NGOs) and small and medium-size enterprises (SMEs) have played a very important role in modern Serbian history, particularly since beginning of the nation's transition to democracy.

The NGO sector completed the first stage of its historic role in Serbia during the 20th century, but when the Milosevic era ended, NGOs were forced to find another mission. Many less-developed NGOs have failed in recent years due to a lack of new ideas and an inability to attract donors. However, some organizations have continued to prosper and have been instrumental in furthering the democratic-transition process. These NGOs possess the non-financial capacities needed to succeed.

Prior to the democratic changes that occurred in Serbia in 2000, one of the pillars of the Milosevic regime was state-owned enterprises (SOEs). The managers of these companies were carefully chosen and remained extremely loyal to the regime. They pressured workers to participate in organized political rallies and to demonstrate their support prior to the national elections.

The collapse of SOEs in the early 1990s enabled SMEs to assume a more prominent role in Serbian society even before democratic changes were instituted. Large state and socially owned companies laid off many employees after losing large consumer markets in other parts of the former Yugoslavia. During war times, the regular labor market was not attractive, so the SME sector gained greater appeal and was able to develop. Some of most advanced SMEs, however, owe their development to suspicious business transactions conducted over the last 15 years, including lucrative connections with top politicians. Although many observers expected the Serbian economy to flourish after the political changeover in 2000, the old monopolies remain powerful and threaten the emergence of the free-market economy. In short, it is fair to say the current SME sector in Serbia includes both enterprises that are politically supported and connected as well as those that have managed to survive without any political backing or largess.

The NGO sector could play a crucial role in furthering the development of the SMEs that have survived the previous regime without any direct or indirect political support. The NGO sector itself has developed significantly during the last 15 years and now has much to offer. Subsequently, NGO and SME partnerships are natural linkages, particularly since both types of organizations seek to operate according to free-market and democratic principles.

II. Human-Resources Development as Preparation for New Challenges

Human-resource development is one of the most important challenges facing transition-economy countries where the entire society and its old value system undergo significant change. Many economists incorrectly predict the costs and hurdles of economic transition because they neglect to consider the time and expense required for developing human resources. Unfortunately, Serbia has no significant experience with a market-based economy and the values needed to support it. As a result, Serbian intellectuals and academics were not prepared for the challenges posed by the transition and have been unable to embrace the necessary skills. Hence, one major obstacle facing the

country is the lack of talented, educated citizens who can assume the leadership roles necessary to propel Serbian society forward.

Fortunately, the NGO sector in Serbia organized itself and built a parallel existence separate from the official regime. The third sector devoted its energy to preparing for the post-Milosevic era and adopted the goal of training Serbia's next generation of leaders. Thousands of citizens participated in anti-Milosevic community-based activities, which in a sense provided an informal system of education in community development. International groups and donor organizations sponsored training sessions, leadership seminars and internship programs in the hopes of preparing this new class of leaders. It is this next generation of community leaders, who were active in the third sector during the overthrow of Milosevic, that Serbians hope will take on leadership roles in the government, business and institutions of higher learning. Serbians also are confident that this new leadership regime will not forget the third sector and will act as informal lobbyists for NGOs in the future.

III. Stages of NGO-SME Partnerships

The development of the SME sector was one of the strategic goals of the European Movement in Serbia (EMinS) prior to the country's democratic changes, and it remains a goal today. This development activity gained momentum during the Milosevic era through the organization of educational seminars focusing on the importance of the SME sector and business-development training. In addition, assistance with marketing and public relations was provided for existing SMEs engaged in EMinS activities. This period could be called the first, or pre-institutional, phase in the development of NGO-SME partnerships. The basis for this type of partnership is human-resource development.

EMinS's decision to prioritize the development of SMEs and to partner with the sector made sense strategically. EMinS is one of Serbia's most advanced and renowned NGOs and has a well-developed network. Although EMinS could have chosen other issues or partners that offered higher profile status, the logic behind its partnership with the SME sector was well-grounded for several reasons:

- Both NGOs and SMEs were banned from using official institutions or public facilities during the Milosevic era. The NGOs were a natural target for this discrimination, because they were the only public voice that dared to oppose the regime. The Milosevic government threatened them often and had no incentive to provide any support. SMEs suffered a slightly different fate. They were punished financially by the government and forced to pay excessive "fines and fees," which continued to increase when the regime faced a growing budget crisis.
- The NGO and SME sectors continued to suffer similar fates, even after democratic changes were instituted. Both sectors seem to be a low priority for the current government. Although the country is undergoing significant legislative changes, laws affecting both the NGO and SME sectors remain the same.

Immediately following the democratic changes, EMinS launched an initiative to institutionalize some of its support for SMEs. Through local EMinS branches, regional Agencies for the Development of SMEs and Entrepreneurship were established throughout Serbia. A coalition of regional stake holders led by NGOs received funding from the European Agency for Reconstruction for a project called “Non-financial support for SMEs in Serbia.” By 2002, seven regional agencies or centers had been founded. The establishment of each agency was a real victory, but at the same time, each posed distinct problems and had a different set of stake holders. In every case, local municipalities, NGOs, regional Chambers of Commerce, banks and SME associations all contributed to the early development of the institutions. The buy-in by these diverse stakeholders was evident from the fact that although the agencies were set up as limited-liability companies and required start-up capital, the investing agencies and entities signed legal documents declining to collect on potential profits.

Many NGOs leaders assumed management roles in the new organizations, thereby initiating the second, or institutional, phase in NGO-SME partnerships. Former NGO employees filled a leadership void that existed because no one had any previous experience with running these kinds of organizations. The ability of people trained in the NGO sector to transition to the new leadership positions indicates they were able to become flexible, strategic thinkers. This bodes well for the sector’s reputation. The cooperation between the regional agencies and the NGO sector grew stronger because the top-level management in these new institutions had previous experience with, and allegiance to, the NGO sector. There are other examples of how these relationships have become institutionalized as well.

In subsequent years, we can expect to see continued development of NGO-SME partnerships in Serbia through the third, or developed institutional, phase. The next natural step is likely to be the creation of joint companies, thereby strengthening the partnerships and creating financial dependence. The basis for this phase will be profit and income.

Table 1 summarizes the three phases of NGO-SME partnership and their basic characteristics.

Table 1: The NGO-SME Partnership

Phases of NGO-SME Partnership	Institutional Approach	Partnership Basis
The First Phase	Pre-institutional	Human-resource Development
The Second Phase	Institutional	Management
The Third Phase	Institutionally Developed	Profit and Income

IV. Achieving Third-Sector Financial Sustainability

In order to achieve financial sustainability, NGOs should diversify their funding sources by combining the following sources of support:

- Membership (statute-based)
- Sponsorship (image-based)
- Grants from domestic or international donors (project-based)
- Income from businesses (service-based)

Membership and sponsorship are the most traditional methods of financing used by many NGOs over the years. Although these methods provided initial sources of start-up funding, they have been unable to supply a sufficient base of sustainable income for long-term development because the sources (members and sponsors) have limited resources. In order to survive, NGOs must identify and secure alternative sources of funding.

Grant support, another major funding source for NGOs, proved to be short-lived. Grant money dried up immediately after the democratic changes, because many NGO recipients did not anticipate the need to revamp their missions so as to make them more relevant once the old regime was overthrown. Although some organizations survived the transition, their failure to change their missions and build new capabilities has led to their demise as well. All in all, a large number of Serbian NGOs have shut their doors, and Serbian citizens have suffered as a result. In retrospect, it is evident the third sector was needed not only for the overthrow of Milosevic but also to help alleviate and solve the problems the regime left behind.

Fortunately, some NGOs have continued to operate effectively in Serbia and have played an instrumental role in the transition process. These well-developed NGOs do have relevant missions and are able to attract donor funds, which are still essential for the survival of the third sector in the country.

Creating commercial entities or offering fee-based services are also important fund-raising strategies, because they:

- Allow organizations to be less donor-dependent
- Attract new members
- Build strong, diversified institutions
- Promote business practices and professionalism within organizations

In launching for-profit initiatives, NGOs face a number of legislative challenges, including existing laws that set down strict requirements for organizations seeking to maintain their non-profit status. One way an NGO can ensure its compliance with this legislation is by partnering with a for-profit institution.

NGOs must invest in human resources in order to achieve commercial success. It is extremely important to recruit and retain talented employees with some understanding of the private sector. In addition, NGOs can enhance their chances for success by forming national networks or at least partnering with other organizations, including SMEs.

V. NGOs Business Initiatives

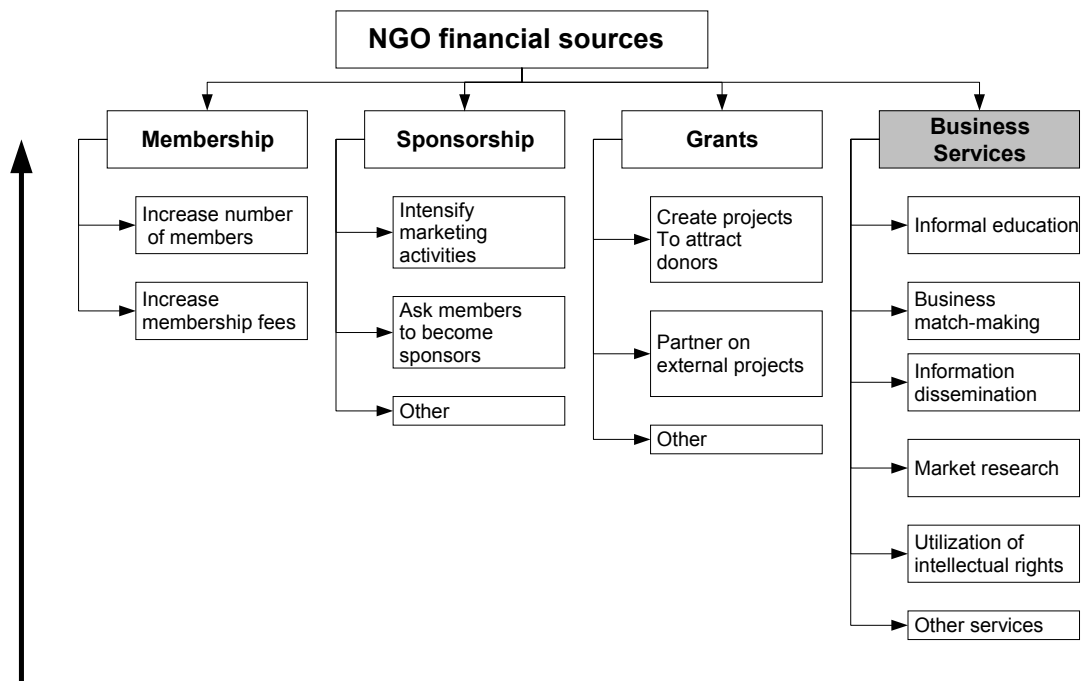
Some well-developed NGOs have small-business enterprises or profit-oriented departments within their organizations. This is evidence of the natural link between NGOs and SMEs. In recent years, these for-profit NGO programs have helped to promote the development of the SME sector across Serbia.

NGOs that are developing and marketing products and services for the private sector should focus on their most valuable resource – people. In addition to human-resource talent, NGOs with local and regional branches can leverage their extensive networks, which also are attractive to the private sector.

The most important services NGOs can provide to SMEs include:

- Providing informal education
- Facilitating partnership match-ups
- Disseminating information
- Conducting market research
- Imparting expertise and local knowledge

Graph 1 illustrates various financial sources and methods through which funds can be raised.



Graph 1: NGOs sources of financing

Informal education is a very attractive service that NGOs can provide for SMEs. NGO experts can offer training to people interested in business and SME development in areas such as:

- Entrepreneurship
- Business-plan development

- Management
- Marketing and sales
- International communications

NGO-led training has the advantage of being more flexible and practical than that offered by more traditional educational institutions. Furthermore, NGO leaders who have established relationships of trust with SMEs through prior partnerships enjoy greater credibility. It is evident there is a market for this type of training.

For many SMEs, identifying reliable business partners is the key to long-term success. Good partners are not only important during the business-development phase but also during production and marketing. NGOs that are well-connected and have extensive networks of business contacts and partners can act as facilitators for matching up businesses and SMEs throughout Serbia.

NGOs can collect and disseminate information within the SME sector and create databases of SMEs operating in the country, in effect offering one-stop shopping for information on the sector. NGOs also can disseminate information on behalf of SMEs to the business community. For example, one NGO has created a database listing all functioning SMEs as well as general contact information, electronic brochures and event announcements.

With their nationwide presence and networks, many NGOs are well-suited to conduct market research for SMEs and could easily provide more comprehensive data at lower costs than some professional marketing agencies. The expertise of “think-tank” NGOs is also in demand, although organizations are reluctant to charge fees for sharing their intellectual capital. As an alternative, they could ask for in-kind donations or barter for different services with SMEs in return for their expertise.

NGOs generally have better administrative capabilities and often have space and facilities that SMEs lack. This presents NGOs with the opportunity to market their administrative services and the use of their facilities to SMEs at market price.

VI. Recommendations

Fostering the development of the NGO and SME sectors will help to further the democratic process in Serbia. The growth and cooperation between these sectors will create a large pool of financially and politically independent citizens and institutions.

The creation of partnerships between these two healthy sectors of Serbian society is another essential element for successful transition. Academic think tanks must work with economics practitioners in the field and vice versa.

The Serbian government must make the creation, adoption and implementation of laws that aid the development of the NGO and SME sectors a priority. These two sectors play an important role in helping the government identify and solve problems affecting large portions of the population on a regular basis. These economic issues include unemployment, foreign relations and general reforms. Creating a legal environment that guarantees the health of these sectors is important.

In short, all sectors of Serbian society must cooperate in facilitating the nation's successful democratic transition.

ABOUT THE AUTHOR

ROBERT MOLNAR has born in 1967 in Zrenjanin, Yugoslavia (today Serbia&Montenegro). He finished his master degree work in 1998. at hometown University "Mihajlo Pupin" on "The Decision Making System Model Development in the process of SMEs creation" issue.

Actively took part in NGO sector creation in Serbia through European Movement in Serbia network and established its local branch in Zrenjanin in 1997. as a first local branch in Serbia. Since that time actively participate in European Movement activities mostly by his project engagement and as an Executive Board member. His project "Info center for SMEs" has been developed and joined to another one supported by EAR under the name "Regional Center for SMEs and Entrepreneurship Development – BANAT, Ltd." throughout are institutionalized his 6 years efforts , in 2002. Since Regional Center has been established he is its director.

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Molnar solely or as a coauthor has published 6 books and more than 30 related articles mostly in domestic publications.

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