BRITISH COUNCIL

British Embassy Belgrade

Supported by Swedish Institute

STUDY OF THE CHALLENGES THAT HINDER MSME DEVELOPMENT IN THE REPUBLIC OF SERBIA

Country Report for the British Council and Swedish Institute

www.britishcouncil.org

University of Hertfordshire UH

STUDY OF THE CHALLENGES THAT HINDER MSME DEVELOPMENT IN THE REPUBLIC OF SERBIA

Country Report for the British Council and Swedish Institute

Country Authors
Nigel Culkin and Richard Simmons
Enterprise and Business Development
University of Hertfordshire

BRITISH COUNCIL

British Embassy Belgrade

Supported by Swedish Institute

CONTENTS

LIST OF CHARTS

LIST OF TABLES

A 360° TOUR OF SERBIAN ENTREPRENEURSHIP

The Republic of Serbia (referred to as Serbia in this report) is situated at the crossroads between Central and Southern Europe, both geographically being in the Balkan peninsula and the Pannonian Plain; and, politically being a political nexus, or perhaps more correctly a competition point between Russia, the European Union and China. Politically, Serbia has been integrating internationally and is a member of the Council of Europe (CoE), Organization of the Black Sea Economic Cooperation (BSEC) and the Central European Free Trade Agreement (CEFTA). It has been negotiating EU accession since 2014.

Regional Role

Serbia is the largest of the Western Balkans states, and has had an historic role in the years of the Yugoslav Republic[1], an important regional role. This role may have evolved over the past twenty years, but its position, as a regional financial hub remains central, providing capital flows to other Western Balkans, which in 2016, stood at over US$1.6 billion or over 85% of inter- regional capital flows with the Western Balkans (IMF, 2017b).

Economic Drivers

Conventional Western Development paradigms such as, the “Washington Consensus” (Williamson, 2005) and EU action plans (e.g. for accession to the EU) can be summarised as including the privatisation of state assets, measures to reduce corruption and macro-economic stabilisation. This process, seeks to create conditions for inbound direct investment to transform the economy towards private sector growth (Wojciechowski, 2013). In this synthesis, emphasis on “supply side” measures such as market liberalisation, skills improvement, governance and the promotion of free market competition become the key roles of government.

By contrast Lin (2015) echoing Hume (1742) makes a powerful argument that development needs to be managed as “Comparative Advantage” shifts across sectors in response to investment, entrepreneurship and skills development. Lin cites developments in both China and Vietnam, as examples of this process being used to manage the transition - from the existing economic base – notwithstanding, large scale Foreign Direct Investment. These cases differ from South Korea and Japan - countries that both also “managed” their transition to building modern industrial economies - without largescale Foreign Direct Investment.

South Korea, Japan, China and Vietnam, demonstrate the importance of sectoral focus and support can offer in undertaking a transformation program. Notwithstanding risks that companies may choose to take any support, as an excuse not to innovate (Sauré, 2007), there are many post 1850 examples of countries developing through either, tariff or non-tariff barrier protection, or more relevant for this case, proactive state policy (Harris et al., 2015).

It is also clear that many “supply side” measures (tax simplification, skills enhancement, procedural improvements) are being implemented to help and are helping entrepreneurs. Less clear is any evidence of a sectoral development strategy that joins up entrepreneur policy, MSME policy, sectoral development policy and demand, branding and export support initiatives. In the classic “Washington Consensus” development model, we would expect such elements to flow largely from Foreign Direct Investments (FDI) associated with sales orders, raising standards, technology transfer, capital investment and skills uplift.

1 with the exception of Albania, which was not a part of the Yugoslav Republic

Foreign Direct Investment into Serbia

Inbound FDI flows are also a measure of which countries are actively engaged in supporting local economic development; although the data has to be treated with care as a significant part of these flows relates to the financial system (often through bond issues) and so may find its way into domestic consumption rather than fixed capital investment.

The main countries for inbound capital flows to Serbia in 2016, were the Netherlands and Austria, followed by Luxembourg and Russia. Luxembourg again looks like a financial system flow; whilst Russia can be firmly pegged as a flow to mainly fund investments in energy infrastructure (Bjelotomic, 2017). **Table 1** below shows the top 6 investing counties along with how their flows have evolved since 2011.

Table 1. Top Six Inward Investment Flows to Serbia (US$ Billions)

Rank	Source	2009	2010	2011	2012	2013	2014	2015	2016
1	**Netherlands**	2.87	3.14	3.23	3.10	2.82	2.88	2.21	2.48
2	**Austria**	3.48	2.93	3.33	3.17	3.47	2.44	2.64	2.29
3	**Luxembourg**	0.00	0.00	0.00	0.00	1.48	1.58	1.42	1.46
4	**Russian Federation**	0.39	0.62	1.50	1.78	1.78	1.55	1.20	1.37
5	**Italy**	1.34	0.99	1.31	1.07	1.31	1.04	0.98	1.21
6	**Germany**	1.05	0.95	1.05	1.17	1.37	1.13	1.03	1.08

Source: IMF (2017b)

Table 2 contrasts inward investment flows received from German to Serbia with those Germany sent to Poland over the same period.

Table 2. Relative investment flows from Germany to Poland and Serbia (US$ Billions)

Poland (US$ Billions)	2009	2010	2011	2012	2013	2014	2015	2016
German FDI	24.59	26.50	22.55	27.59	35.64	31.77	28.64	29.93
GDP	436.82	479.16	528.57	500.84	524.38	545.05	477.33	469.32
%	5.63%	5.53%	4.27%	5.51%	6.80%	5.83%	6.00%	6.38%
Serbia (US$ Billions)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
German FDI	1.05	0.95	1.05	1.17	1.37	1.13	1.03	1.08
GDP	42.61	39.04	46.49	40.73	45.52	44.21	37.16	37.75
%	2.46%	2.42%	2.26%	2.86%	3.02%	2.56%	2.78%	2.85%

Source: IMF (2017b; 2017c)

Whilst Serbia has benefited from inbound Foreign Direct Investment flows, in respect of the European Union, much of these flows has been "financial" in nature[2]. In terms of supply chain deepening flows from the EU (similar to that of Germany to Poland) these appear to be far more modest in Serbia, both in value and as a percentage of GDP. We know that Russia has invested mainly in energy assets. This leaves China.

China has stated that Serbia is a strategic "waypoint" in their global "One Belt One Road" initiative (China Investment, 2018). These investments are not reflected in the 2016 IMF inward investment data. However, they are expected to grow over time, especially as China invests in strategic infrastructure such as the on-going high-speed rail line to Hungry. The challenge is to ensure that there is a "network effect" as the new infrastructure is implemented, and that Serbia does not become a rapid transit corridor for Chinese goods to reach Northern European markets.

2 One notable exceptions is the Fiat Investment in the former Yugo automotive factory

Together these different interests and range of historic ties locate Serbia in a both interesting and somewhat challenging position, where it needs to balance competing interests from three great power blocks and at the same time use these as a spur to economic development (Krulj, 2017).

The Entrepreneurial Gap

The relative lack of FDI to deepen and build businesses that are integrated into complex pan EU supply chains deprives Serbia of a key development driver. To reiterate from above, large international companies investing in new plant and machinery and updating existing assets, smooth the adoption of international product and regulatory standards and grow and nurture their own network of supply MSME companies. They also provide an important source of orders and revenue, without which obtaining commercial finance becomes more challenging, as lenders like to see either, long lending track records or secure orders and future payment cash flows.

It is this gap that needs to be filled by entrepreneurs creating new businesses in sectors that have strong export potential and where a competitive advantage can be built.

Our Survey

Having identified the "entrepreneurial gap" there are two sides to filling it. First, there is the demand side of people who want to become entrepreneurs. To understand more about the "demand motivations" (a need highlighted in Bobić's 2017 study of Serbian Youth Entrepreneurship) we surveyed 100 prospective entrepreneurs. **Table 3** below sets out our entrepreneurs' aspirations as to which sector (by 2008 Standard Industrial Classification) they wish to enter

Table 3. Sectors of Choice

Rank	Serbia - Entrepreneur Preferences	%
Opportunity D riven		
1	Professional services	23
2	Manufacturing	7
3	Information and communication	5
4	Real estate activities	2
5	Energy and HVAC	1
Involuantry		
6	Personal Services	20
7	Retail and car repair	17
8	Food and accom services	6
9	Agriculture, forestry and fishing	6
10	Transportation and storage	4
11	Education	4
12	Admin services	2
13	Construction	2
14	Human health and social work activities	1
Totals		
	Opportunity Driven	38
	Involuantary	62

Rank	Serbia - Entrepreneur Preferences	%
1	Professional services	23
2	Personal Services	20
3	Retail and car repair	17
4	Manufacturing	7
5	Food and accom services	6
6	Agriculture, forestry and fishing	6
7	Information and communication	5
8	Transportation and storage	4
9	Education	4
10	Real estate activities	2
11	Admin services	2
12	Construction	2
13	Human health and social work activities	1
14	Energy and HVAC	1

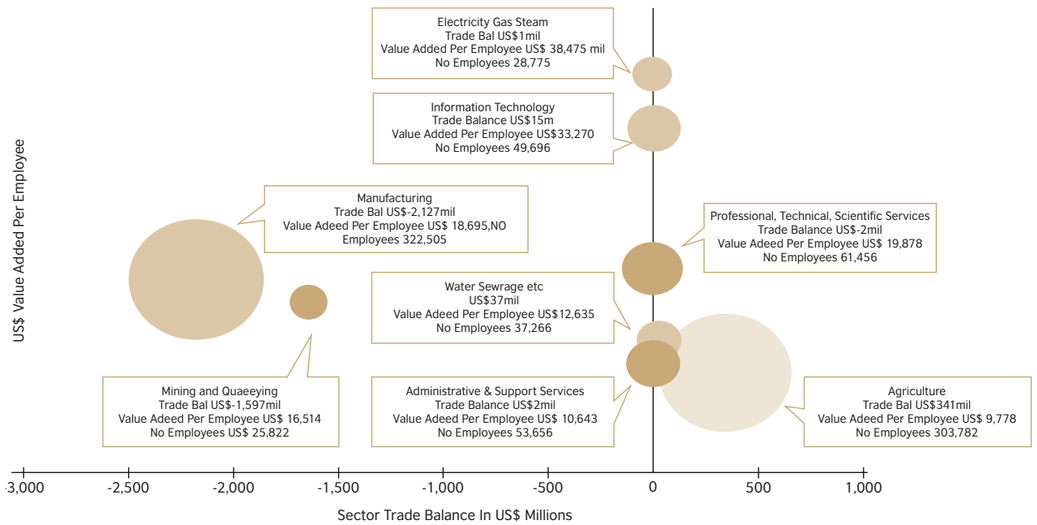
1. Our survey indicates that around 38% of Serbian entrepreneurs are opportunity-seeking entrepreneurs, with 62% largely involuntary. Contrasted to the region as a whole, this suggests that Serbia has a higher appetite for opportunity-driven entrepreneurship than other states in the Western Balkans.
2. This higher aspiration towards opportunity-driven entrepreneurship is reflected in the 52% who aspire to be entrepreneurs and 43% who wish to be self-employed (contrasting to the regional levels of 33% vs. 57%).
3. There is a higher preference for establishing a business in professional services in Serbia than other Western Balkan states, perhaps reflecting the larger size and regional importance of the Serbian economy, as well as the educational mix of the survey sample.
4. IT and Web businesses are only the target of 5% of our sample, emphasising that entrepreneurship covers much more than "silicon" focused businesses. There is however some indication that these businesses are more popular in Serbia than most other Balkan States, and this may reflect the efforts in terms of education, incubators, mentoring, awareness and networking events that are being made in Serbia.
5. Against this there is a risk that these businesses could become low cost outsourced technical "body shops" for North Europe companies looking to reduce their IT costs, rather than stand alone globally competitive IT / Web product companies (which if successful should command higher margins and be capable of sustaining higher growth rates). There is also a "brain drain" risk into Northern Europe for the most skilled staff.
6. Only 14% of our sample in Serbia was under 25 years old, suggesting that there could be a need to raise the entrepreneurial appetite of young people.

Aspiration vs Serbian Business Structure

Chart 1 below illustrates the current business sector structure in Serbia, along with their contribution to the trade balance. It is striking how key "involuntary" sectors are low value adding, perhaps due to difficulties in raising capital to enter other sectors.

Chart 1 Serbian Business Structure

Serbia Sectro US$ Per Employee Value Added vs Trade Balance
Bubble sized by number employees
2014 Data from Serbian Statistical Year Book



A key and obvious statement is that there are sectors other than IT and the web that can offer local, regional and global growth opportunities. Some of these sectors require Foreign Direct Investment and some do not. Some merely require orders, capability and smart marketing. To illustrate the opportunity, we highlight a few sectors.

The Rural Economy and Rural Tourism

This has been recognised by a number of initiatives including, but not limited to, the "new tourism" strategy for 2016 – 2025 (MTT, 2016) and the IPARD (MAEP, 2015) agricultural and rural development program. The tourism strategy in particular emphasises the importance of creating, growing and investing new MSMEs. The strategy alludes to poor take up of COSME and IPARD funding and funding guarantees (implicitly for MSMEs) and describes the difficulties entrepreneurs have engaging with these initiatives as follows: *"the landing page of the website for EU programmes and funds was translated. The documents and explanations provided only in English and the abundance of abbreviations that are clear only to the most informed, as well as the array of procedures have an off-putting effect on the vast majority"* (MTT, 2016: 76:77). The tourism strategy helpfully highlights the links to entrepreneurship, but feels that more could be added on specific measures to link the two.

Fast Fashion

One such area is niche "fast fashion". Global fashion retailing houses have moved from catalogues linked solely to seasons, into product ranges that can have very short life cycles and that ramp volume up or down in response to consumer taste. This change has led to moves into "Fast Fashion" (Taplin, 2014) and "Near Sourcing" (Hammer and Plugor, 2016). In this retail companies such as Zara (Tokatli, 2008) have structured outsourced supply chains to respond to fashion trends within weeks by both locating key value adding production elements near their markets and, demanding high levels of supplier flexibility. Serbia is already involved with some global majors such as Benetton (Bjelotomic, 2016) and there are healthy signs of demand pull growth (374% growth from 2001 to 2014) with some green shoots suggesting firms are starting to move up the value adding chain (Seeindustry, 2017). There are already web tailors in Northern Europe that measure for making "bespoke suits" and then outsource basic manufacture to a low cost "near source" manufacturer, and doing the final fit and finishing in the local Northern European country. Whilst textile incomes inn Serbia are challengingly low (Bjelotomic, 2016) driving up the value chain and directly linking producer and customer can offer ways to improved economic rewards.

Could there be a way of integrating the existing Serbian capability and successes with these newer "bespoke" trading forms especially through linking entrepreneurial start-ups across borders? Equally are there ways to help the brand image and marketing of local Serbian artisanal products as premium products globally? Successful initiatives have been led elsewhere. For example, raising skills though for example "cutting" courses as have previously been supported by the British Council (Roberts, 2013) combined with financing assistance (in the form of bid bonds, performance bonds, new technology leasing and working capital), artisanal product certification schemes (to raise global product awareness) and trade promotion in both promoting local artisan merchandise and in attracting foreign buyers can be helpful capability building exercises.
The possibilities in each sector will be different, but in a world where so much is changing so rapidly, each change throws up new opportunities. In the case of Fast Fashion, great internet capabilities transform the ability to ship drawings and designs around the world and network designers with producers. Serbia has fast 4G coverage (12th fastest in the world) but relatively limited coverage (Open Signal, 2017). Notwithstanding EU Inter- Region program attempts to improve MSME textile based trade with Bulgaria (IPAC, 2015), the textile industry does not seem to have an MSME component to its strategy.

Barriers

The "fast fashion" industry case we have just reviewed helps focus and confirm two key barriers to entrepreneurship in Serbia are the difficulties and costs of accessing finance, and secondly being able

to connect with national, regional and international markets. (SASME, 2017). **Table 4** provides an insight to the barriers in raising finance for established firms.

Table 4. Access to Finance Barriers

	Firms Facing Finance Constraint	Loan Rejected	Too Complex	Interest Rate	Collateral Needs	Poor Loan Terms (Amount / Time)	Expect No For Answer	Collateral Greater Than
Serbia	35%	4.9%	8.6%	74.1%	2.5%	2.5%	7.4%	100%

Source: Hauser et al., (2017)

For firms under 2 years old, life is considerably more difficult, as lenders like to lend against a track record and established assets. The authors have attempted to estimate the size of this funding gap, and suggest it is around €140 million Euro per annum. (methodology in in **Annex 1**). Closing this gap is in the view of the authors and others such as Bobić (2017) a significant issue.

The need to connect to markets outside the immediate locality is both a challenge and an opportunity. A detailed study on building cross border textile flows highlighted the gap in credible bodies to help Serbian MSME's in this activity (IPAC, 2015). Business owners were described as not wishing to participate in "clusters" or with business support organisations due to a lack of credibility of these organisations on the ground. This feels like another gap in the over infrastructure around supporting entrepreneurship and MSME growth.
One could envisage an MSME driven eco-system that could take artisan products and brand and package these for sale in export markets. Such an eco-system could offer a dynamic means of connecting Serbian specialist producers, into high-quality and profitable niches in high income consumer markets. Taking for example food products, there is much evidence that wealthy consumers are becoming more health, organic and "authentic" product concerned, at the expense of global brands (Daneshkhu, 2018).

Regulatory Environment

Serbia continues to have a proactive and very well-developed approach to policy on micro, small and medium-sized enterprises (MSMEs), with a forward-looking development strategy and a wide range of support services in place. The legislative review process is well advanced and regulatory impact assessment continues to consider MSMEs. Progress has been made on company registration and e-government services, although there is still much room for improvement. Access to finance remains a key obstacle to the development of the MSME sector. High levels of non-performing loans are a drag on lending activities and have weakened financial intermediation in recent years.

Serbia has made a number of improvements to support entrepreneurs over the past three years (World Bank 2018), which are summarised in **Box 1**.

Box 1 Improving the Environment for Entrepreneurs in Serbia
Serbia has taken steps to make the business environment more entrepreneur-friendly in some key areas:

Starting a Business: Serbia has made starting a business easier by reducing the signature certification fee and increasing the efficiency of the registry, reducing time for business registration and simplifying the process of starting a business by reducing the time required to register a company.
Registering Property: Serbia improved the reliability of its land administration system by implementing a geographic information system and simplified the property transfer process by introducing effective time limits.
Enforcing Contracts: Serbia has made enforcing contracts easier by a new law that broadens and clarifies the responsibilities of enforcement agents and the powers of the courts during the enforcement process.
Dealing with Construction Permits: Serbia made dealing with construction permits faster by implementing an online system and streamlining the process of obtaining technical conditions for building permits.
Paying Taxes: Serbia made paying taxes easier for companies by introducing an electronic system for filing and paying VAT and social security contributions and abolishing the urban land usage fee. It has also, however, increased the property and environmental tax rates.
Source: World Bank (2018)

Looking To The Future

Our review has left us with a feeling that entrepreneurship aspirations are positive. There are few problems with structural issues such as ease of forming a company, although important regulatory simplifications (for example in property registration) are still needed. The regulatory basics seem to be being developed.

Progress is being made on the education side. For example, the IF4TM project is looking to embed innovation elements in to Universities and is doing important work on amongst other elements of this very significant program "Creativity Centres", improving teaching innovation awareness and Intellectual Property formalisation. (IF4TM, 2017). Skills are being raised, professions such as IT are benefitting from new graduates. On the other hand, Vladimir Kostic, President of the Serbian Academy of Sciences and Arts highlighted that Serbia has the highest "Brain Drain" in the world along with 45.5% of students being "functionally illiterate" according to the 2012 PISA tests (Kostic, 2016).

This emphasises a triple challenge of (i) creating and supporting opportunity that harnesses this valuable resource locally, (ii) improving future educational outcomes to avoid 45.5% "illiterate" scores and (iii) providing "illiterates" with employment and education training opportunities.

Assessment

The finding has to be mixed. First the huge efforts that have been made to address the "supply side" with measures such as improving the MSME business registration environment, the support for innovation and R & D in universities (e.g. IF4TM), the high calibre skilled graduates, the support for nurturing an IT and web sector.

All of these and many more things need to be praised and affirmed.

There are however six significant gaps.

1. The relative lack of complex supply chain deepening Foreign Direct Investment has deprived Serbia of a crucial growth driver. The lack of this investment also casts doubt on the validity of a “vanilla” Washington Consensus based growth strategy. The “supply side” reforms most likely need to be complemented by sectoral initiatives (as was the case in say 1960’s Japan or 1970’s and 1980’s South Korea)
2. Sectoral initiatives such as “tourism” need to be joined up with “entrepreneurship” and export strategy initiatives into a cohesive whole, a road map with supporting pillars but executed by private sector entrepreneurs.
3. Access to finance, especially to seed finance is a key priority. Access to finance does not however live in an igloo; as Steglitz and Weiss (1981) rightly highlight, lenders don’t lend because they do not have enough quality information to understand the project. State supported loan guarantees and seed capital funds (which if well structure should be a long term profitable activity for the state); the promotion of angel networks and the attraction of venture capital funds can all help; but all of these require entrepreneurs to be able to articulate and “stand up” a good business proposition.
4. In the venture capital and private equity world uncertainty is sometimes reduced by entrepreneurs presenting externally “certified” business plans or “feasibility studies”. These studies cover much more than finance as they identify the customers, how they will be served, the marketing to these customers, the products to be sold, and the anticipated profit and cash flow streams. All of these are necessary for raising finance and all of these are necessary (intuitively or explicitly) for building a successful business. We note there seems to be little if any process or support resource focused at enhancing this vital entrepreneurial skill.
5. There are gaps in the “wholeness” of entrepreneurial support. Access to finance is one, the building of skills to build and develop even the simplest of business plans is another. Sector strategies are disconnected from entrepreneurial strategies. EU support programs sometimes require complex application procedures to be followed in English. Highly qualified graduates emigrate. Export promotion is not integrated to entrepreneurship, unique artisan products lack visibility in markets where they could earn foreign exchange. Business support organisations don’t have the grassroots credibility to build clusters. And so on an so forth.
6. One wonders if the entrepreneur focused initiatives are broad enough to include self-employment, and one wonders what additional measures could be taken to counter the negative image some have of entrepreneurs and business people

The Opportunity

Most of the six points above could be written about most places in the world, and these are points of challenge, not failure.

Entrepreneurial aspirations become reality through the coordinated and positive working of multiple factors (Isenberg, 2015). These factors are sometimes overt and sometimes hidden, and also combine uniquely for each individual success. It is a common mistake to assume that the state or some external organisation can sprinkle “magic dust” and make these elements come together into successful businesses. The orchestrator, and the key element in driving success, is the individual entrepreneur or entrepreneurial team, although others can help.

We believe that Universities however, can do far more than hosting and nurturing early-stage technology innovators (itself very valuable and being promoted by the IF4TM program). Universities can redefine themselves as “Entrepreneurial Universities”. With their range of highly relevant knowledge in both business-facing activities and technical development through science, engineering and technology schools, universities have key resources. Undergraduate and taught postgraduate courses are by necessity inwardly-focused to enable awarding of degrees. An entrepreneurial university, however, takes these teaching and learning capabilities and makes them outward-facing and demand-driven components of entrepreneurs’ personal active learning experience (Culkin, 2016).

The output of this process is the building of a diverse local community of vibrant, innovative, growing and entrepreneurial firms. The metrics for success relate to firm profitability and life, serial entrepreneurship, firm growth, innovation, and penetration or disruption of new and existing markets. Success in this area feeds back into the university’s research, on both technologies and business methods and strategies.
“University” status for the entrepreneurial program helps to attract appropriate mentors, because it offers the opportunity to publicise mentors’ careers and achievements. The university’s detailed engagement with business support organisations such as the local Chamber of Commerce opens new and exciting two-way learning and dialogue opportunities between local business and academia.
Finally, entrepreneurs and all involved with entrepreneurship be advised; success does not always come immediately. Sometimes failure can be considered success, if it enables learning that supports future success. Isenberg described failure as coming early and successes taking time. Entrepreneurs need to be encouraged to see that their road to success is exactly that: a journey, which can be shortened by taking certain shortcuts (Isenberg, 2015). The role of the entrepreneurial support program is to help propagate and develop these shortcuts for each business.

POLITICAL AND GEOGRAPHICAL BACKGROUND

The area formerly known as Yugoslavia, positioned at the crossroads of East and West, is a melting pot of ethnicities and religions. It is acknowledged that the area fragmentation commenced with the death of Josip Tito in May 1980. As a single entity, Yugoslavia's rich multi-culturalism was a source of contention, concluding in a series of bloody conflicts in the early 1990s. Following theses well-documented wars, it was the Dayton Accords (1995) that brought peace to the region and created constituent republics organized along ethnic and religious lines (Laurent, 2011).

The conclusion of the process saw the two republics of Serbia and Montenegro declared the formal Federal Republic of Yugoslavia in April 1992, which lasted for around twelve months when it was renamed and reformed as the state union of Serbia and Montenegro. This union lasted a further three years when Montenegro proclaimed independence in June 2006. The former Yugoslav autonomous province of Kosovo subsequently proclaimed independence from Serbia in 2008; however, while Kosovo is now a member of the World Bank and the International Monetary Fund, her neighbour, Serbia, along with a number of other countries, disputes Kosovo's claim to sovereignty. (Laurent, 2011; Roth and Banalieva, 2016).

Serbia is a landlocked nation. It borders Hungary to the north, Romania and Bulgaria to the east, the Republic of Macedonia to the south (referred to as Macedonia in the report), and Croatia, Republic of Bosnia-Herzegovina (referred to as Bosnia-Herzegovina in the report) and Montenegro to the west. It also borders the Republic of Kosovo (referred to as Kosovo in this report) to the south. Kosovo declared independence from Serbia in 2008,

Serbia has a population of 7,058,322, around 39% of the population of the Western Balkans (World Bank, 2017e). Around 24% of the population (1,683,962) lives in the capital city, Belgrade. The country has the largest economy in the region, with around 44% of 2015 regional economic activity (IMF, 2017c). This gives Serbia regional economic weight, and this is also reflected in inter-regional investment flows (IMF, 2017b).

Serbia has held EU Candidate Status (for accession) since 2012 (European Council, 2012) and has been negotiating its accession since January 2014. On the global stage, Serbia is generally mid-ranked in most indices. The Democracy Ranking Association[3] placed Serbia 46th out of 129 countries in 2016 and the Freedom in the World Index gave Serbia a rating of 78 out of 100 in 2016, just above the threshold of 70 for 'free' countries.

The Bertelsmann Transformation Index includes Serbia in *developing and transition countries*, and noted that there is political stability (the pro-EU Progressive Party has been in power since 2014) and democratic institutions are functioning within the country, but these are often inefficient due to frequent friction between departments, lack of adequate financial and human resources and the influence of political parties in the executive branch.

The EU has launched a number of policies and initiatives to bring the Western Balkans in line with standards of entry. The European Commission Report on EU Enlargement Policy also identified a number of issues that need to be addressed to bring Serbia in line with EU standards of entry (European Commission, 2018). The report found that all *the Western Balkan countries now have a historic window of opportunity to firmly and unequivocally bind their future to the European Union* (P2) and Serbia, in particular was the current frontrunners in the process - along with Montenegro – and had made progress against the criteria and was moderately prepared in public procurement, statistics, monetary policy and financial control. It also had a good level of preparedness in relation to company law, intellectual property, science and research, education and culture and customs but needed to

3 The Democracy Ranking Association is an independent organisation based in Austria, which publishes an annual global ranking of democracies, based on the quality of democracy, other characteristics of the political system and performance of non-political dimensions (gender, economy, knowledge, health, and environment).

make further improvements in investment planning and infrastructure investment, alignment with foreign and security policy and compliance with the Stabilisation and Association Agreement in relation to safeguarding issues on some agricultural products, State Aid control and fiscal discrimination. Overall,

The EU's enlargement policy speaks to a strategy to strengthen the Union by 2025. With strong political will, delivery of real and sustained reforms, and definitive solutions to disputes with neighbours, Serbia and Montenegro could potentially be ready for membership by this date (EC, 2018).

ECONOMIC BACKGROUND

Overall Economic Environment

Serbia has a GDP of USD 41.3 Billion (constant 2010 value), the largest in the Western Balkans (World Bank, 2017b). The economy has a significant manufacturing sector (26% of GDP), and other important sectors include trade and services (18% of GDP), agriculture (8% of GDP), and information, communication and technology (5% of GDP). The economy has grown, albeit variably, over the last eight years.

Table 1 shows the post-2008 GDP growth rate for Serbia. The financial crisis of 2008 is likely to have been the main cause of the negative growth rate in 2009 (as in most economies in the region, aside from Albania and Kosovo) although Serbia also faced the challenge of Kosovo's separation. The separation appears to have had a marginal effect on GDP growth. In 2008, Kosovo contributed USD 5.69 billion toward the total Serbian GDP of USD 40.49 billion. The following year, Serbia's GDP had dropped only slightly to USD 39.23 billion.

Table 5. GDP growth rate

2008	2009	2010	2011	2012	2013	2014	2015	2016
5.4	−3.1	0.6	1.4	−1.0	2.6	−1.8	0.8	2.8

Source: World Bank (2017b)

Serbia has a high but improving unemployment rate of 13.3% of the working-age population (compared to 24% in 2012). There is particularly high youth unemployment, reaching 34.9% in 2016 (down from 51.1% in 2012 [ILO, 2017a]). According to Bobić (2017), Serbians face a number of obstacles in starting a business. The business environment is outdated, which hampers growth, and there are severe issues with online payments, and outdated laws and procedures. Unfortunately, instead of being supported and promoted, the most proactive young people sometimes feel forced to move to other countries with more favourable business environments (Moder and Bonifai, 2017).

Serbia also has a large shadow economy.[4] A USAID report entitled *Formalizing the Shadow Economy in Serbia: Policy Measures and Growth* (2013) estimated that it represented around 30% of GDP in 2010. One study (Lane and Myant, 2007) suggested that a key cause could have been restrictive regulations.

Reform of the tax administration was announced in January 2018 by the Serbian Finance Minister, Dusan Vujovic, and this should be a positive move. The plan includes setting up 35 offices across the country, investment in a new IT platform and discretionary rights for tax inspectors to waive corporate tax *'providing the company has invested this money in production'* (Serbian Monitor, 2018).

In terms of purchasing power adjusted GDP per capita, Serbia is the second most prosperous country in the Western Balkans, behind Macedonia. Its growth rate in terms of purchasing power, however, has been modest and is the second lowest in the region, with only Macedonia experiencing slower growth. Adjusted purchasing power USD per capita is shown in **Table 2**.

Table 6. Purchasing power adjusted current USD per capita income

2008	2009	2010	2011	2012	2013	2014	2015	2016	9 Yr Growth	4 Yr Growth
11,922	11,842	12,099	12,968	13,108	13,772	13,806	14,112	14,725	23.5%	6.9%

Source: World Bank (2017a)

4 The shadow economy is defined as all market-based legal production activities that are deliberately concealed from public authorities to evade payment of income, value added, or other taxes and social security contributions; certain legal labour market standards (e.g. minimum wages, maximum working hours and/or safety standards); and certain administrative procedures, such as completing statistical questionnaires or administrative forms (Schneider et al., 2010)

The European Union is Serbia's biggest trading partner with 66% of exports and 63% of imports (IMF (2017b). There are relatively modest inter-regional exporting patterns. For example, only 8% of all exports are to Bosnia-Herzegovina, Serbia's biggest regional trading partner (Commission on EU Enlargement Policy) while 5% of exports go to Russia (European Commission, 2016). **Table 3** shows a continuing improvement in the balance of payments current account, reflecting the increase in exporting volumes.

Table 7. Percentage surplus or deficit on balance of payments

2008	2009	2010	2011	2012	2013	2014	2015	2016
−21	−6.2	−6.4	−8.6	−11.5	−6.1	−6	−4.7	−4

Source: IMF (2017b)

Foreign direct investment, mostly from EU countries, has been important to Serbia, although the data are not granular enough to determine which sectors have benefited. The Coordinated Direct Investment Survey (CDIS 2016) of the International Monetary Fund (IMF) shows that total investment into Serbia was USD 14.7 billion in 2016, making it the region's biggest recipient of foreign direct investment (IMF, 2016). Key stakeholders in inward investment are the Netherlands (USD 2,484 million), Austria (USD 2,228 million), Luxembourg (USD 1,456 million), Russia (USD 1,369 million) and Italy (USD 1,213 million).

Serbia is itself an outward investor, primarily into other countries in the Western Balkans. Of a total USD 3,021 million, regional recipients were Bosnia-Herzegovina (USD 823 million), Montenegro (USD 676 million), and Slovenia (USD 389 million) and smaller investments further afield included USD 157 million into Russia and USD 101million into Bulgaria.

Table 4 shows that investment flows peaked in 2013, and then gradually reduced to USD 14.7 billion in 2016.

Table 8. Foreign direct investment in Serbia (USD billions current prices)

2009	2010	2011	2012	2013	2014	2015	2016
17.5	15.7	17.1	16.5	20.1	16.6	14.0	14.7

Source: IMF (2017b)

Note: These figures represent outwards flows from counterpart countries
Domestic consumption has grown steadily and more consistently than GDP since 2011, as shown in **Table 5**. Gross capital formation has also started to accelerate since 2014 (see **Table 6**), suggesting potential for future improvements in total factor productivity growth.

Table 9. Final consumption expenditure in Serbia (constant 2010 USD billions)

2009	2010	2011	2012	2013	2014	2015	2016
8.62	8.83	8.45	8.57	8.71	8.91	9.22	9.56

Source: World Bank (2017c)

Table 10. Gross capital formation (constant 2010 USD billions)

2008	2009	2010	2011	2012	2013	2014	2015	2016
12,460	7,804	7,288	8,324	8,563	7,950	7,916	8,524	9,109

Source: World Bank (2017d)

Role of Micro, Small and Medium Enterprises (MSMEs)

As part of the transformation of the Serbian economy, an Industrial Development Strategy (2011–2020) was devised in 2011, with an overriding goal to establish a National Innovation System to combine:

(1) Research and development and education systems;
(2) Innovation and technological capacity of the economy;
(3) Public administration (policy support); and
(4) Channels of absorption and diffusion of knowledge and innovation.

The Serbia Research, Innovation and Technology Transfer Project was funded by a EUR 6.9 million Innovation Fund, and included three stages:

- **Stage 1:** To create a National Technology Platform based on existing capacities and knowledge, and a platform for interaction between industry and science;
- **Stage 2:** To provide support for innovation in low-tech industries where there was potential for the introduction of technologically less demanding high output innovations; and
- **Stage 3:** To build communities based on research, development and innovation. The flagship was the Pomurje Technology Park, which opened in 2013 and created a community of more than 140 companies, and over 50 partnership faculties, institutes, schools and other research units. By the end of 2017, it had 11 significant projects in progress.

The government also developed a Strategy for the Support for Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for 2015 to 2020, and an Action Plan for its implementation. This sets out targets and support infrastructure (described more fully in the section, **Current Government Policies on Entrepreneurship**) to support growth and increase the number of MSMEs by 35,000 (approximately 10%) over five years. Implementing this strategy has been difficult because of the poor links between research institutions and the MSME community. Halfway into the five-year strategy, there is no official progress toward the stated growth goals.

Fundamental improvements to policy, structure and administration also have yet to materialise. The European Commission's (2016) *Economic Reform Programme for Serbia 2017–2019* stressed the need to improve tax rates, address the inefficiencies of government bureaucracy and stabilise policy, reduce the shadow economy and improve access to finance, all of which were core areas of reform identified in the current government strategy. A German Federal Ministry for Economic Cooperation and Development Report (2017) also suggested that the Serbian government did not understand the specific needs of young people. There are projects to support young entrepreneurs, with various funds and educational programs, but these are neither tailor-made nor well-coordinated (Bobić, 2017).

MSMEs account for around 60% of all jobs but less than 50% of value added in Serbia (EU Commission SBA Fact Sheet, 2016), compared with the EU averages of 67% and 57%. Micro-firms make a particularly small contribution, providing only 10% of value added, 11 percentage points lower than the EU average (OECD, 2016).

Table 7 shows the Serbian business structure for companies, by the number of people they employ. There are also 228,467 self-employed people, or 52% of all enterprises. The distribution by size reflects the typical skew toward micro-businesses: they make up 86% of MSMEs, but only employ 20% of workers, whereas businesses with more than 50 employees employ 43% of all workers but make up just 3% of enterprises. Overall, 41% of businesses can be regarded as 'opportunity-focused' (defined as professional and technical or requiring high capital investment), but among medium-sized businesses, this rises to 60% (OECD, 2016). This contrasts with our survey sample, with just 35% in opportunity-facing businesses.

Table 11. MSME structure

			Number of employees			
		Total	1 to 9	10 to 49	50 to 249	250 +
Total number of personnel employed		1,025,273	208,746	181,933	215,874	418,720
Total number of enterprises		86,138	74,446	9,127	2,084	481
ENTREPRENEUR OPPORTUNITY FOCUSED	**Mining and Quarrying**	320	249	46	15	10
	Manufacturing	16,391	12,761	2,570	849	211
	Electricity, gas, steam and air conditioning supply	761	684	44	27	6
	Water supply, sewerage, waste management and remediation	864	554	150	133	27
	Professional, scientific and technical activities	11,416	10,446	846	114	10
	Information and communication	4,336	3,765	460	89	22
	Real estate activities	1,043	973	51	18	1
	Total: opportunity focused businesses	35,131	29,432	4,167	1,245	287
ENTREPRENEUR HOUSEHOLD FOCUSED	**Construction**	7,293	6,254	809	192	38
	Wholesale and retail trade, repair of motor vehicles and motorcycles	32,196	28,941	2,787	390	78
	Transportation and storage	5,232	4,440	640	118	34
	Accommodation and food service activities	3,123	2,652	403	64	4
	Administrative and support service activities	3,163	2,727	321	75	40
	Total: Household focused businesses	51,007	45,014	4,960	839	194

Source: Statistical Office of the Republic of Serbia 2017 (2015 Data)

The 2015 manufacturing strategy recognised that Serbian enterprise is still lagging behind in many areas. Technology is seen as a possible key growth sector for Serbia, as the global ICT market continues to evolve towards outsourced software engineering, offshore systems design and integration. Serbia is well-placed both geographically and structurally to provide a lower-cost, reliable alternative to more established markets, according to Jure Galic, Consul for Economic Affairs for Serbia in Germany[5]. Serbia ranks 40th on the list of global software exporters. In 2013, it exported around EUR 230 million in software services, a 30% increase on the previous year. Across Eastern Europe, and in the Western Balkans in particular, Serbia is an attractive outsourcing destination, and outsourcing accounts for most employment in the software sector. Until it joins the EU, most Serbian software developers are likely to stay in the country[6].

Many western technology firms have chosen Serbia for outsourced operations because of a high level of talented and motivated programmers with a European mentality and good language skills, but at significantly lower hourly rates than Northern Europeans. Every year, more than 1,500 IT specialists graduate from universities in Serbia. Engineering education is particularly strong, with approximately 33% of university graduates coming from technical schools. ICT is taught in 35 higher education institutions (TeamFinland, 2017; Hartwell and Sidlo, 2017).

5 http://serbiabusinessdaystuttgart.talkb2b.net/page/23/Program
6 TeamFinland https://www.marketopportunities.fi/it-sector-in-serbia

A 2016 report from the European Investment Bank (EIB), *Serbia: Assessment of financing needs of SMEs in the Western Balkans,* noted that new technology-led businesses are taking advantage of investment opportunities to build successful enterprises[7]. These have knock-on benefits to surrounding business communities, and importantly, build bridges between academic and commercial requirements. They therefore achieve the planned outcomes in the government's SME strategy.

The IT sector (which only accounts for six of the aspiring Serbian entrepreneurs in our survey) has enjoyed external support to grow. For example, the EIB continues to support projects to provide faster internet in schools and digitization within SMEs. By the start of 2018, a new round of funding of EUR 347 million had been agreed, plus two investment grant contracts (EUR 70 million) together with new loan agreements, EUR 30 million with Banca Intesa (to be spent on supporting SMEs), EUR 60 million with Erste Bank and EUR 50 million with the Societe Generale Bank (Politika, 2018). There are a number of very active IT hubs in Serbia. According to Madžarević (2017), the most active are:

- StartIT (https://startit.rs/ (http://startit.rs/);
- ICT Hub (http://en.icthub.rs/(http://en.icthub.rs/);
- Impact Hub (http://belgrade.impacthub.net/(http://belgrade.impacthub.net/); and
- Business Incubator Novi Sad (http://inkubator.biz/rs).

The StartIT hub plans to educate 100,000 young leaders across 12 cities in Serbia by 2020, and it has secured the largest backing in the history of crowdfunding campaigns in the region[8].

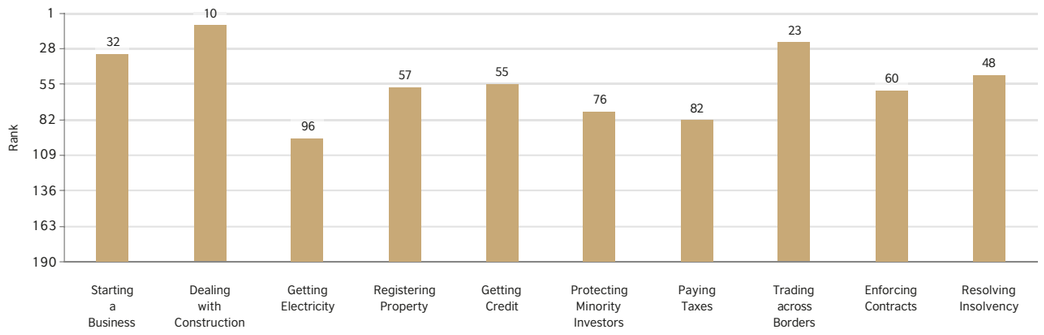
In many cases, technology enterprises choose Belgrade to outsource their activities, to skilful programmers possessing excellent English language skills but with lower hourly rates to their EU compatriots[9]. As the entrepreneurship system further develops through formal and informal education, more successful Serbian enterprises can be expected in the future. These companies may well follow in the footsteps of Nordeus, which created the cross-platform game for football managers, Top Eleven. The company's CEO and Founder, Branko Milutinović, recently tweeted that 23 different nationalities now live and work in Belgrade, with the UK contributing ten of those staff. Overall, Serbia is ranked 90th in the global competitiveness rankings (European Commission, 2016).

Ease of Doing Business

The Doing Business Report (World Bank, 2018) ranked Serbia 43rd globally for ease of doing business in the country in 2018, an improvement of four places from 2017. It has therefore already met one of the government's strategy targets, to be in the top 60 by 2020. A number of metrics are used to generate these rankings, including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Serbia's rankings for each of these is shown in **Chart 2**.

7 http://gdeinvestirati.com/2016/06/10/srbija-neto-izvoz-sektora-veci-od-zelezare-fiata-zajedno/
8 On its Kickstarter page, StartIT announced that 449 backers had pledged a total of USD 107,954 during the month-long campaign (Nov–Dec 2015 [http://kck.st/2BCGccJ]).
9 In addition to mandatory English, Serbian students also receive a full and classical education in, natural and technical sciences, which is highly respected internationally (see http://www.ibe.unesco.org/sites/default/files/Serbia.pdf).

Chart 2. Doing business in Serbia



Source: The World Bank, 2018

The Global Entrepreneurship Index 2018 (GEDI) provides another comparative measure based on different components of entrepreneurship. This puts Serbia 74th out of 137 countries, with the strongest area being start-up skills (*does the population have the skills necessary to start a business based on their own perceptions and availability of tertiary education*?), and the weakest being risk acceptance (*are individuals willing to take the risk of starting a business? Is the environment relatively low risk or do unstable institutions add additional risk to starting a business?)*.

In recent years, the introduction of a number of reforms has helped. For example, the minimum capital requirement was eliminated in 2012, and in 2017, the speed of new business registration was improved. A number of other important reforms have also been introduced relating to taxation (e.g. introducing an electronic system for filing and paying VAT and social security contributions) and abolishing the urban land usage fee.

Business and science parks provide an important resource network for new and high-growth firms. These parks are now regular features of government R&D policies, as targeted measures to provide an appropriate *physical infrastructure* for the encouragement of economic development in deprived and depressed localities. One component of the Interreg Project funded by the European Bank for Reconstruction and Development speaks to this capacity building activity; Smart Factory Hub is a programme to help manufacturing companies embrace and develop novel technologies, e.g. digitized production and improved processes. Five science and technology parks and five business and technology incubators have been registered in the Register of Companies for Infrastructural Support for Innovation Activities, led by the Ministry of Education, Science and Technological Development (Pomurje Technology Park, 2017).

Box 2 describes some of the problems associated with business/science/technology parks.

Box 2
Despite a certain number of new institutions established in Belgrade, Novi Sad, Niš and Kragujevac, in the past five years (eight business and technology incubators, four science and technology parks, and four technology transfer centres), there is still a shortage of infrastructural support for innovation in Serbia. Organizations providing infrastructural support for innovative activities often do not have enough capacity, either human or financial. A large number of business and technology incubators have been established to support spin-off and start-up companies, but they are often part of donor initiatives with no long-term and sustainable funding. These institutions promote the emergence of new competitive companies that promise high added value and equitable regional development. Incubators support the realization of entrepreneurial ideas, the creation and development of enterprises, a stimulating environment, subsidised leases of premises and administrative, intellectual and other services for their tenants. Technology parks bring together business development, research and operations of new technology companies, offering a supportive environment consultancy, easy exchange of information, transfer of knowledge, and the necessary infrastructure (Pomurje, 2017).

In October 2017, an initiative was agreed to construct a 320-hectare Chinese-Serbian industrial park near Pupin Bridge in Belgrade, financed by three big Chinese banks: Export-Import, Development Bank and Construction Bank, with expressions of interest from over 40 major Chinese companies. The aim is to help keep young engineers in Serbia and accelerate the economic and technological development of the country. It will also show that Belgrade is a smart industrialisation centre, which will facilitate the development of nanotechnology, biotechnology and the application of innovation and IT systems. The vision is to make the park “the most modern around”, and a feasibility study suggests it will support 1,000 hi-tech companies, and could provide jobs for some 10,000 people.

EDUCATIONAL SYSTEM

The National Youth Strategy (NYS) for the period 2015–2025 identifies nine strategic goals for the future prosperity of young people in Serbia. Its success will be measured by improvements in:

- Employability and employment of young women and men;
- Quality and opportunities for acquiring qualifications and development of competencies and innovation of young people.

Serbia continues to have a skills shortage. The World Economic Forum's Global Human Capital Report ranks Serbia 114th globally for availability of skilled employees, 58th in the world for the skill of its workforce and just 70th for the skill base of its future workforce. This indicates a clear disconnect between the education system and commercial skills requirements.

There are endemic and fundamental problems at the root of this issue: almost half of the Serbian population over the age of 15 left the education system after primary school. The need to create a dialogue, working partnerships and initiatives between education and industry was recognised by the Serbian Government in the SME Development Strategy and Action Plan 2015–2020, which also acknowledged the country's low position in the World Economic Forum's rankings of 106th (out of 144) for both quality of education system and availability of training services. This poor position exists despite an improvement programme that started in 2008 to prepare Serbia for accession to the European Union. This programme was designed to introduce more effective evaluation processes, teacher training and quality standards across the education system within a nationally-recognised framework. The 2009 Law on Fundamentals of the Education System sought to embed these principles and make connections between education and employment (European Training Foundation, 2017).

However, evidence suggests that these attempts have not addressed the problems within the education system. Various pilot projects gave positive results, but no broad actions have been rolled out and there has been little improvement in training systems as a result. The skills shortage is exacerbated by the existence of a brain drain of highly-skilled Serbians leaving the country. It is difficult to pinpoint the scale of the problem, but it is acknowledged that this could be significant and may be the result of corruption and political problems rather than the economic obstacles to doing business (World Bank, 2017).

INTERNATIONAL ACTORS AND SUPPORT

The key external key actors include:

European Union, through accession preparations.

The World Bank, through dedicated projects.

The European Bank for Reconstruction and Development, which focuses on larger projects and has been responsible for a number of funding programmes to support SME growth including the SME Competitiveness Support Facility. This provides support for local lenders in their financing efforts. The EBRD has started 214 projects in Serbia, with EUR 4,538 million invested into the country (2015). Of the current EUR 2,244 million portfolio, 35% is in infrastructure, 24% in financial institutions, 20% in industry, commerce and agribusiness and 20% in energy. This portfolio is much less infrastructure-focused than in other Western Balkans countries. The EBRD was particularly active in 2015, though large amounts were still invested in 2016–17. Another key programme, Interreg Europe, helps regional and local governments across Europe to develop and deliver better policy. It aims to ensure a maximum return on investment from the EUR 359 million round of funding provided by the EBRD for 2014–2020.

The IMF, which made a further round of funding available to the government, totalling EUR 1.05 billion, although these funds have not been fully drawn down (though initially accessed for wage bonuses and pension improvements).

Current Government Policies on Entrepreneurship

There is a major medium-term framework of government policy in this area, the strategy for support for development of small and medium-sized enterprises, entrepreneurship and competitiveness, covering the period from 2015 to 2020 and the Action Plan for its implementation**.**

This strategy emerged from a recognition that previous strategies had not been fully effective. It shows a commitment to the creation of infrastructure to facilitate growth, and support and nurture SME development in Serbia. It contains two main principles: “think small first” and the necessity to maintain continual dialogue and cooperation with representatives of SMEs and entrepreneurs about issues relevant to their operation. The new strategy is also aligned with EU policy in this area, as defined by the Small Business Act (SBA) for Europe, and sets out six strategic goals (pillars), each with specific intended actions, and in line with SBA principles:

Pillar 1: Improvement of business environment

SBA principles:

2: Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3: Design rules according to the “Think Small First” principle
4: Make public administrations responsive to SMEs’ needs

Pillar 2: Improve access to sources of financing

SBA principle:

5: Adapt public policy tools to SME needs
6: Facilitate SMEs’ access to finance and develop a legal and business environment supporting timely payments in commercial transactions

Pillar 3: Continuous development of human resources

SBA principle:

1: Create an environment in which entrepreneurs and family businesses can thrive

Pillar 4: Strengthening sustainability and competitiveness of SMEs

SBA principles:

5: Adapt public policy tools to SME needs
8: Promote the upgrading of skills in SMEs and all forms of innovation
9: Enable SMEs to turn environmental challenges into opportunities
10: Encourage and support SMEs to benefit from the growth of markets

Pillar 5: Improve access to new markets

SBA principle:

7: Help SMEs to benefit more from the opportunities offered by the Single Market

Pillar 6: Development and promotion of entrepreneurial spirit and the encouraging of entrepreneurship among women and young people, and social entrepreneurship

SBA principle:

1: Create an environment in which entrepreneurs and family businesses can thrive

As part of the process of strategy implementation, a newly formed council for small and medium-sized enterprises, entrepreneurship and competitiveness was established, including both Government Ministers and industry experts. A series of indicators was provided to review and monitor progress towards goals. It is difficult to find any official reviews, but mid-term progress on selected indicators suggests that, with the exception of Financial Markets, the strategy is on course (**Table 8**).

Table 12. Selected indicators

Indicator	Start point data	Midpoint Latest data available Jan 2018	2020 target	Source of information
Total number of SMEs	315,412	441,000*	350,000	Report on SME enterprises (Bureau of Statistics of the RS)
Serbia's global ranking	91 (2015)	90	Among top 60	World Bank Doing Business Report
Global competitiveness ranking	94 (2014-2015)	78	Among top 60	Global Competitiveness Index
Financial market development ranking	98/144 (2014-205)	101	Among top 60	Global Competitiveness Index
University education and training	74/144 (2014-2015	59	Among top 60	Global Competitiveness Index

*SME and self-employed figures are historically represented inconsistently: it is likely that the 2013 start point under-represented self-employed numbers. **Table 8** shows the number of enterprises in 2015, the most recent published data, although top line figures for 2016 are now available.

SME policy is mainly channelled through the RAS Development Agency of Serbia, streamlining and replacing the activities of the former Serbia Investment and Export Promotion Agency (SIEPA) and National Agency for Regional Development (NARD). Current programmes include:

- **Support Programme for the Development of Business Incubators**, which aims to establish a number of business incubators to give fast and easy support to new entrepreneurs across Serbia. The support will range from networking opportunities, organisation of training, use of premises and business advisory services.
- **Support Programme for the Development of Innovative Clusters**, to help towards the cost of developing joint innovative projects, testing prototypes and setting the regulations and guidelines for this cooperation (http://ras.gov.rs/en/sme-development/projects).

Government incentives to encourage entrepreneurship

As a part of the Serbian Year of Entrepreneurship in 2016, the Serbian government promised a number of incentives for entrepreneurs, though in reality these were limited to:

- a 25% grant to cover the costs of purchasing new equipment for existing businesses; and
- A reduced (15%) corporate tax rate.

In December 2017, the same website[10] announced the launch of the Green Innovation Vouchers Scheme for Serbia. This was funded by the European Bank for Reconstruction and Development (EBRD)[11] and seeks to boost innovation capacity among SMEs working on green technologies and resource efficiency, by linking them to local R&D service providers. The cooperation will enable SMEs to raise environmental performance and competitiveness. Green Innovation Vouchers are grants that help SMEs cover 90 per cent of eligible R&D service costs, up to EUR 20,000. The R&D service will enable SMEs to develop new or existing products, services and processes, to improve resource efficiency, supporting the transition to a green economy.

Finally, an additional non-financial obstacle is the lack of cross-sector partnerships. There is no inter-institutional coordination. Bobić (2017) recently argued that each institution has its own list of priorities, programs and active measures to tackle problems, so synergy opportunities are missed (2017). In her 2013 book, *The Entrepreneurial State: debunking public vs. private sector myths,* Mazzucato stimulated a much-needed debate about the role of the state in fostering long-term innovation-led economic growth. She demonstrated that most of the best practices in North America and Europe assumed cooperation between private and public institutions, in which Government institutions have shaped and created markets (Mazzucato, 2013).

10 http://www.godinapreduzetnistva.rs/Naslovna.aspx
11 GIVS is funded by the Austrian DRIVE (Delivering Resource Efficiency Investments) Program. Implementation of the scheme is supported by the Central European Initiative (CEI).

BANKING SYSTEM AND ACCESS TO FINANCE

There are 30 banks in Serbia, and these are the main source of SME finance. Around 10 of these banks compete intensively for SME business, though with the exception of a few outliers, most banks in Serbia are prepared to offer loans to SMEs (European Investment Bank, 2016). For innovative and high-growth firms, access to financial instruments based on investments in company capital is particularly significant (e.g. capital or mezzanine investments). In the European Union, public suppliers of mezzanine financing include supra-national institutions. For example, the European Investment Fund's (EIF) Mezzanine Facility for Growth (MFG) is a EUR one billion fund granted by the EIB to the EIF to be invested in hybrid debt /equity funds throughout Europe, to play a catalytic role in this market segment (OECD, 2015). In Serbia, however, because of the restrictive conditions attached to bank loans, including a minimum of one year's trading financial statements, start-ups and smaller enterprises are often excluded from accessing finance. Most loans are also short-term, with SMEs finding it difficult to access long-term loans (European Investment Bank, 2016).

There are differing opinions of the banking system's ability to provide sufficient credit to the SME sector. The EIB estimates that the total supply of loans available to SMEs (through programmes financed by the EU) is approximately EUR 7.4 billion. It suggests that there is therefore no significant funding gap, with an abundant supply of loans available (European Investment Bank, 2016). Banks, however, may not have sufficient incentive to provide these lines of credit to their small business customers, limiting uptake. The Q3 2017 statement from the National Bank of Serbia shows that banks have come under pressure to ease their credit requirements, but there has been no increase in demand from SMEs, perhaps because they are unaware of the changes.

The need to improve access to finance was one of the key objectives of the Government's SME Development Strategy and Action Plan 2015–2020, recognising that SMEs were at a disadvantage and that the Serbian financial services marketplace was not competitive. Serbia's ranking for various indices supports this:

- Availability of financial services 98th globally
- Accessibility to financial services 110th
- Access to loans 121st
- Availability of venture capital 132nd

Source: Global Competitiveness Report of the World Economic Forum for 2014-2015 (144 countries measured)

The European Commission also believes that access to finance is a key issue for SMEs in Serbia, outlining concerns on the matter as:

"The rolled over measure on improving access to finance for SMEs remains a priority and needs to be put into place with fewer delays than so far. As part of their macroeconomic stabilisation efforts, the government and the central bank have addressed many issues concerning access to finance for SMEs. The main remaining challenges include strengthening equity finance providers, making EU-based funds easier to access, and putting risk capital in place to support SMEs and start-ups. The measure deals with these challenges and proposes to develop a regulatory framework for microfinance. However, there is no information on how this new microfinance regulation could help the market and whether there is interest among financial institutions to engage in such lending. In addition, the regulatory framework for new financial instruments, such as venture capital funds, crowdfunding, etc., also needs to be upgraded."

Source: European Commission - Economic Reform Programme of Serbia 2017–2019

Microfinancing is not easily available in Serbia even though it is an important alternative for weaker companies, which often cannot meet the requirements for funds or loans from projects co-funded by the European Union. The three organizations that operate in this field within Serbia (Agroinvest, Micro Development Fund and MicroFinS) receive financial support from international donors. However, they

are not allowed to place funds directly, and have to use guarantee deposit schemes brokered through commercial banks, which significantly complicates the procedure and raises the price of these funds for their end users[5] (Government SME Development Strategy 2015–2020). Some indication of the finance gap is shown in **Table 9**.

Table 13. The finance gap faced by SMEs in Serbia

	Number	Euros	%	Millions Euros				
	No SMEs	Av Loan	%SMEs Needing A Loan	Total Demand	Seed Year 1 Est. Demand	Early Stage Year 2 Est. Demand	Total Early Stage Est. Demand	%Early Stage
Serbia	280,845	25,753	61.8%	4,470	88	141	229	5.1%

Source: Authors' calculations; ILO (2017); IMF (2018); World Bank (2017f)

Table 10 highlights the main barriers to obtaining finance in Serbia. Collateral requirements are usually around 100% of loan value (Moder and Bonifai, 2017).

Table 14. The main barriers to obtaining finance in Serbia

	Firms Facing Finance Constraint	Loan Rejected	Too Complex	Interest Rate	Collateral Needs	Poor Loan Terms (Amount / Time)	Expect No For Answer
Serbia	35%	4.9%	8.6%	74.1%	2.5%	2.5%	7.4%

Source: Moder and Bonifai (2017)

Guarantees under the EU COSME program are available within Serbia, as are other European programs supporting research and development, innovation and the development of asset-leasing services. Two other relevant funds are:

- **Enterprise Expansion Fund: s**upporting the expansion of SMEs with high growth potential in the Western Balkans.

- **Support Services Facility:** technical (non-financial) assistance to Western Balkan governments to implement policy reforms that support innovative and high growth SMEs.

State funds and guarantees include:

- Credit lines secured by state guarantees such as Apex loans by the EIB.
- Export Credit and Insurance Agency (ECIA) Fund for Development loans, short-term loans, factoring, guarantees and insurance claims based on export operations as well as subsidized loans for liquidity, permanent working assets and investments; Fund for Development is almost the only institution in Serbia offering credit lines to start-ups (although primarily focused on larger businesses).

Equity Capital: a limited amount of risk capital is available to SMEs in Serbia. Examples of providers include.

- Start Labs, providing investment of roughly EUR 50,000 for 10–15% stakes in early stage start-ups.
- The Enterprise Innovation Fund, a regional fund managed by SC Ventures, with EUR 19 million in capital. It started operations in 2015, aiming to invest around EUR 1–2 million in the technology sector.
- Blue Sea Capital, which provides private equity funding to consumer-oriented businesses.
- SEAF Opportunity Serbia Fund, a global investment management fund focusing on SMEs that has recently starting investing in Serbia, with no particular industry focus.

Source: European Investment Bank (2016)

Business Angels Networks: Several angel investors operate in Serbia, although there are no effective networks to connect these investors and start-ups. The Serbian Business Angels Network (http://www.bitf.rs/cms/item/clubs/en/networks/sban.html) is the first organisation of this type in Serbia, suggesting this form of finance may become more readily available in the future.

Leasing: Leasing is rarely used in Serbia and accounts for less than 2% of all lending. At the end of Q3 2017, there were 16 lessors operating in Serbia, of which four key players have 59% market share: Intesa Leasing, Sogelease Srbija, Raiffeisen Leasing; Unicredit leasing Srbija. Five leasing companies have less than 1% of market share and are performing poorly. Their presence in the market appears to be a strategic move by their parent organisations, because local lending is only a small proportion of their balance sheets (National Bank of Serbia, 2017).

LOCAL SUPPORT ORGANISATIONS

European Bank for Reconstruction and Development

http://www.ebrd.com/work-with-us/advice-for-small-businesses/serbia.html
The European Bank for Reconstruction and Development works through partners when dealing with smaller companies, providing a network of consultants and advisers who can be accessed on a co-payment basis.

Balkan Environmental Association

http://benaweb.gr/
The Balkan Environmental Association is a think tank advising on ways to improve the environment of the Western Balkans. They work with SMEs, for example hosting conferences to help them develop in a more sustainable way.

Balkan Small Business Association

http://www.mbb-org.eu/en/
Based in Bulgaria, the Balkan Small Business Association works regionally (including in Serbia), primarily with small businesses that have some sort of craft focus, to provide training and business support. They publish a number of studies giving views on how businesses should promote themselves.

European Training Foundation

http://www.etf.europa.eu
The European Training Foundation (ETF), based in Turin, is an established European Union agency that focuses on enabling vocational training for both entrepreneurs and workers in developing countries. It provides online resources and runs workshops across several countries. It has been operational since 1994. In Serbia, the ETF has worked to build better systems for lifelong learning.

Enterprise Europe Network

http://een.ec.europa.eu/about/branches/serbia
The Enterprise Europe Network is a co-operative of business centres and foundations supported by the European Commission to disseminate relevant information to SMEs. There are a number of branches across Serbia, and the network helps SMEs with advice, support and opportunities for international partnerships.

SECO Entrepreneurship Program

http://bit.ly/2CNGbTV
The Entrepreneurship Program aims at strengthening the entrepreneurship ecosystem in six targeted countries. The program works with relevant ecosystem organizations and supports them in improving their business model and acceleration pro- grams and thus their performance.

Social Impact Lab

http://socialimpactlab.co/en/programs/sia
Social Impact Lab runs workshops to help attract young people to entrepreneurship, capping interest with a competition for business ideas and innovation that has a EUR 6000 prize fund. It has recently started working in Serbia.

Association of Business Women in Serbia

http://www.poslovnezene.org.rs/en/
The Association of Business Women in Serbia provides networking services and news for female entrepreneurs. It runs a number of projects to promote the role of women in business, both to government and private sector businesses.

Institute of Human Resource Management of Serbia

https://www.linkedin.com/company-beta/3527630/ / http://www.ihrms.rs/ (in Serbian)
An organisation that connects human resources professionals, providing support, training and networking opportunities.

Serbian Association of Small and Medium Enterprises

http://srb-smeasoc.org/en/about-us-2/
Provides networking opportunities and some training conferences, but generally focuses on lobbying and policy advice for the Government and European institutions.

Peer to Peer Networks

Peer to peer networks are essentially online and newer. It is likely that more will develop in the near future, but a key network is StartUs magazine (https://magazine.startus.cc). This is a magazine and online hub that aims to connect entrepreneurs across Europe. The magazine will often feature articles about issues affecting Serbia, and allows SME owners and employees to connect with each other. The website also contains a job board.

SURVEY RESULTS: THE ENTREPRENEUR PERSPECTIVE

Introduction

A programme of primary research, with telephone interviews among potential and new business start-ups was undertaken specifically for this project across the six Western Balkans states to provide a regional overview of entrepreneurial activity, and explore individual experiences of setting up and running a business. The programme allows us to look individually at each market, and compare the experiences and attitudes of entrepreneurs in Serbia to those of their peers across the region. As part of this programme, 100 interviews were carried out in Serbia from mid-December 2017 to early January 2018.

A combination of methods was employed for sampling. The fieldwork team have ongoing B2B research that has been running over the past two years. Respondents who started their business less than two years ago were drawn from that base for our target audience. In addition to this, the public database of registered businesses was used to add in additional respondents, who had already started a business. For example, in Serbia the APR (http://www.apr.gov.rs/eng/Home.aspx). For prospective entrepreneurs, we used a combination of random sampling supplemented by using “seekers” to pre-recruit respondents, and used the snowball method, which is useful with i) the ability to recruit hidden populations; and ii) the possibility to collect primary data in a cost-effective manner.

The questionnaire was designed on the basis of the original Call for Proposals, discussions with the Client, analysis of previous studies across the Western Balkans and our own experiences; it was then pre-tested on a small group of local entrepreneurs and signed off with the Client. Data collection for this research was run through a CATI survey and the databases were then pre-cleaned before being provided to our team for analysis. Once received, data was checked and cleaned to ensure respondents validity and data quality. All countries were then merged into a single data source (supplied) and data profiles were created for each market cut by a variety of variables to look at the data in greater depth. These profile sets were then used to inform the creation of the quantitative reports that are shared with the Client.

Profile of respondents

For the purposes of this report, we refer to these respondents as entrepreneurs. It is, however, pertinent to appreciate how those involved in start-ups see themselves, as this may well be an indicator of their growth perspective and future success. In Serbia:

- 52% described themselves as entrepreneurs;
- 43% described themselves as self-employed; and
- 5% described themselves as businesspeople.

Respondents were equally split between those intending to start a business in the next 12 months (50%) and those who had set up a business in the last two years (new start-ups). Of those who already ran their own businesses, 30% were employing two or more members of staff.

The survey focused on entrepreneurs under the age of 45. Within the Serbian sample:

- 10% were under 25 years old;
- 60% were aged 25–34; and
- 30% were aged 35–44 (**Table 11**).

Table 15. Age band and level of education by self-description

Q1: Which age band do you fall into?	Total	Entre-preneur	Business person	Self-employed
Sample size	100	42	5	49
Under 25	10%	10%	20%	9%
25-34	60%	56%	80%	63%
35-44	30%	35%	0%	28%
Q2: What is the highest level of education you achieved?				
No higher education after school leaving age	44%	42%	20%	49%
Technical qualification or higher	56%	58%	80%	51%

The highest level of education achieved, and self-description by age is shown in **Table 12**.

Table 16. Level of education and self-description, by age group

Q2: What is the highest level of education you achieved?	Total	Under 25	25-34	35-44
Sample size	105	7	58	40
No higher education after school leaving age	31%	86%	21%	38%
Technical qualification or higher	69%	14%	79%	63%
Q10b: Would you describe yourself as:				
An entrepreneur	52%	50%	48%	60%
A businessman	5%	10%	7%	0%
Self employed	43%	40%	45%	40%

Respondents were generally e-connected and engaged with the world socially and for business. On a daily basis, they stayed abreast of news/current affairs via:

- online media via desktop or laptop 50%
- online via smart phone 52%
- printed media (publications/press) 23%

They also engaged with a range of current affairs, for instance, news and events relating to their business sector (73%), the local economy (63%), national politics (59%) and foreign affairs (55%).

More than one in three of these new businesses were setting up or had set up in opportunity-focused sectors (defined as technical, professional and creative arenas or requiring high levels of capital investment), rather than household-focused businesses (directly servicing and selling to households, or producing goods which will be used by households) (**Table 13**).

Table 17. Business activity by sector

Business activity		Total
Sample size		100
Opportunity-focused	Professional, scientific and technical activities	23%
	Manufacturing	7%
	Information and communication	5%
	Real estate activities	2%
	Electricity, gas, steam and air conditioning supply	1%
Household-focused	Retail/consumer services/catering	41%
	Wholesale and retail trade; repair of motor vehicles and motorcycles	17%
	Other production/trade/construction/transport	8%
	Agriculture, forestry and fishing	6%
	Agriculture, food production and trade	5%
	Accommodation and food service activities	6%
	Transportation and storage	4%
	Education	4%
	Health care	3%
	Construction	2%
	Administrative and support service activities	2%
	Human health and social work activities	1%
	Other service activities	20%

Business scope and operations

Most new businesses surveyed had domestic fields of operation within Serbia (two out of five work only within their local areas) but even for young businesses such as these, almost one in four export goods or services abroad, mainly outside the Balkans (**Table 14**). Opportunity-focused businesses are much more likely to export, whereas household-focused businesses almost always operate domestically, though they are more likely to import goods and services.

Table 18. Field of operations

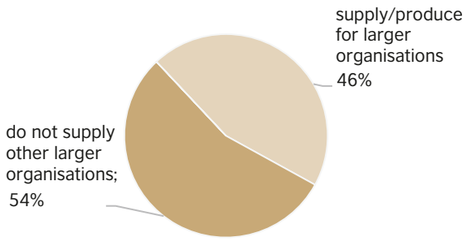
Q9: Do you (expect to)...	Total	Opportunity focused businesses	Household focused businesses
Sample size	100	38	62
▪ **Operate only within Serbia**	75%	61%	84%
Q9c: Where do you operate within Serbia? Sub Sample size	75	23	52
At a national level	41%	52%	37%
At a local level	59%	48%	63%
▪ **Export goods/ services to other countries**	22%	39%	11%
▪ **Import goods/ services from other countries**	9%	3%	13%

Working within a supply chain

Almost half of the businesses in the survey supply larger organisations, with no real differences between opportunity-focused and household-focused businesses.

Chart 3. Businesses as suppliers

Q6: Does your business make products or supply services that will be used by other, larger, organisations?



The key industry sectors in which these businesses operate are shown in **Table 15**.

Table 19. Sectors of operation

Q6a: Which industry sectors does your [intended] business service or supply?	Top 5 sectors
Sample size	42
Business Services	43%
IT/Communications	17%
Consumer Goods	12%
Perfumes/Cosmetics	12%
Textiles	10%

Business trading models

Most businesses in the survey interacted with customers face-to-face, but just over half also have an online presence of some kind (such as a servicing, sales or information platform) (**Table 16**). This is, however, primarily a cash-based economy, particularly for trade/production-led businesses, with 84% accepting cash payments.

Table 20. Accepted forms of payment

Q7. Does (will) your business ….?	Total	Opportunity focused businesses	Household focused businesses
Sample size	100	38	62
Have a digitally (online) interface with customers	57%	66%	52%
Have a telephone based interface with customers	39%	37%	40%
Service your customers face to face/ in person	87%	79%	92%
Q8: And do (will) you accept payments …?			
Sample size	100	38	62
Online (via payment cards)	57%	61%	55%
Over the telephone (via payment cards/ bank debits)	23%	24%	23%
Through automated bank credits/ cheques	20%	18%	21%
In cash	84%	74%	90%

Motivation for setting up a business

The motivation behind setting up a business may well be an indicator of future success. There is often more than one reason for starting up, but an underlying theme was the pursuit of long-term financial security and independence (**Table 17**).

Table 21. Motivation for setting up a business

Q10a: What are your key motivations for setting up your own business?	Total	Self-description		
		Entrepreneur	Businessperson	Self-employed
Sample size	100	52	5	43
Opportunity to make money	63%	60%	100%	63%
To build financial independence	55%	58%	80%	49%
Utilising skill sets	51%	48%	60%	53%
Providing long term financial security for family	46%	42%	60%	49%
Offset unemployment	38%	35%	40%	42%
Natural progression	33%	33%	20%	35%

For 51% of start-ups, their specific business activity was a natural choice to follow their profession or skillset, and a further 9% were taking over a family business. **Table 18** shows that opportunity, ease of set-up and low-cost entry also drive the choice of some start-up activity.

Table 22. Reason for sector choice

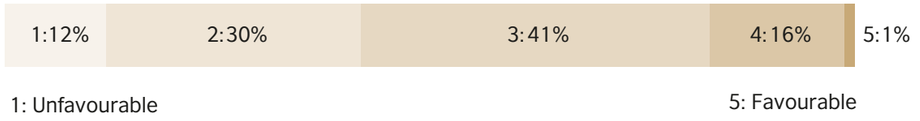
Q5b: Why have you chosen to start a business in this specific activity?	Total
Sample size	105
It is my profession/ skill set	51%
Encouraged by family/ The experience of others	28%
It is easy to set up a business doing this	20%
There are incentives available to set up a business doing this	20%
I am seizing a good opportunity	18%
It is cheap/ low cost to set up a business doing this	14%
Continuing/ extending a family business	9%

Perceptions of the Business Climate and Business Confidence

The process of actually setting up the business was swift; 98% had taken less than six months to register their business and obtain any necessary licenses. However, respondents felt that the current (domestic) business climate was somewhat challenging.

Chart 4. Perceptions of business climate

Q11a. From your position, how would you describe the business climate in this country?



Entrepreneurs perceived a number of contributors to an unfavourable business climate, including:

- Low standard of living and consumer spending power 50%
- No state assistance/incentives/guarantees 36%
- Taxes 31%
- Administration, bureaucracy 12%
- Competition (from larger organisations) 5%

(Q11b: in what way is the business climate unfavourable for businesses? Sample size 42)

This is linked to entrepreneurs' perceptions of the barriers to business growth, which relate to market/ economic pressures (competition and consumer spending) rather than legislative and bureaucratic constraints (such as taxes and administration costs).

Table 23. Barriers to setting up a business

Q12. What do you perceive is the biggest barrier to (setting up) (growing) a business? (open ended, grouped responses)		
Rank	**Sample size**	97
1	**Economic situation, crisis, small purchasing power**	41%
2	**High taxes, administration, paperwork**	29%
3	**Many Competitors**	12%
4	**Poor market/lack of buyers**	7%
5	**Fear, the risk of failure**	4%
6	**Lack of support from the state and municipalities**	3%
7	**Problems with finding qualified staff**	2%

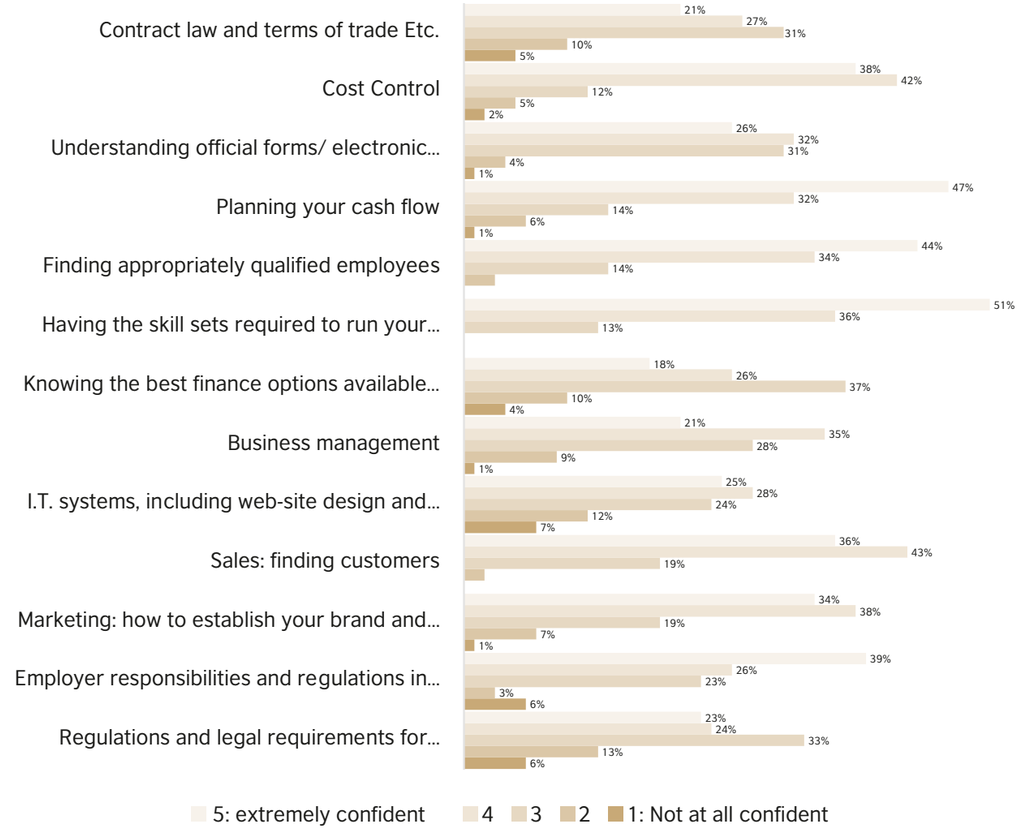
Levels of confidence

Barriers to growth identified by respondents were generally external to their business, rather than internally generated. **Chart 5** shows that entrepreneurs were quite confident about most aspects of setting up and running their businesses, especially those areas which they control.

They were less confident about regulatory and bureaucratic measures and identifying the best finance options.

Chart 5. Levels of confidence in aspects of business

Q13. How would you describe your own level of confidence in each of these aspects of setting up/running a business? (Sample size 100)



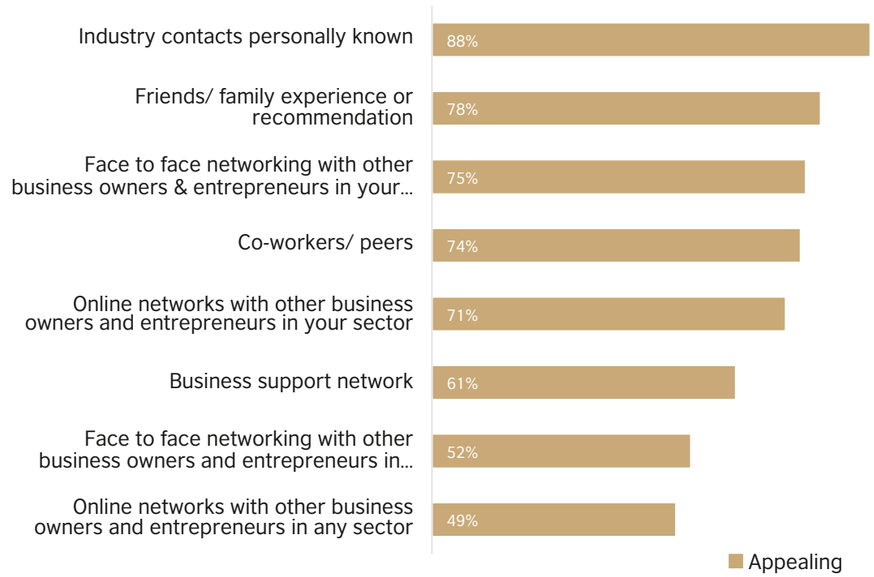
Advice and Support

In our survey, entrepreneurs indicated they are more likely to turn to those around them in the first instance for advice and support, and feel that advice from those closer to their own experience/ business activity is better (**Chart 6**). Interacting face-to-face is ideal, but many entrepreneurs also find online resources appealing.

The appeal of engaging with like-minded individuals resonates strongly with the findings of the British Council's programme: *encouraging youth entrepreneurship in the Western Balkans project September 2015–March 2016* and suggests that there would be a large potential audience for local, targeted programmes and resources that can successfully improve skill acquisition, preparedness and motivation among young entrepreneurs.

Chart 6. Sources of advice and support

Q14. Here are some sources that people might turn to for support and advice when setting up and running a business. Please tell me how appealing each one is to you? (Sample size: 100)



Young entrepreneurs often work in isolation, without ready access to expert business advice, and their trusted advisers are often 'subject specific' (**Table 20**).

Table 24. Trusted advisers

Q18. Who are your most trusted advisers?	Total
Sample size	100
Personal friends and family	48%
My college/employees	16%
Accountant	11%
Bank manager/financial adviser	11%
Lawyer	10%

Chart 7 shows that despite stated levels of confidence, new and prospective business owners recognise the need for support and training, particularly in relation to marketing and sales activities. One in three respondents felt the need to understand more about the options available to them.

Chart 7. Desired training and support

Q16. If you could access training and support on any of the following, which would you be likely to take up? (Sample size 100)

Our respondents reinforced the need for a range of mechanisms through which they could access advice and support (**Table 21**). Financial incentives made an obvious appeal, to facilitate business cost control and expenses, but there was a strong appetite for opportunities to engage with peers and mentors in a face-to-face environment, whether in a networking or learning capacity. Online resources were also seen as useful for obtaining advice.

Table 25. Helpful forms of advice and support

Q17. What form of advice and support delivery would be helpful to you?		Ranking
Sample size	100	
In-person training courses	71%	1
Peer-to-peer support	47%	2
On-line resources e.g. downloadable content; online training and chat facility	45%	3
Networking	43%	4
Financial incentives	42%	5
Mentoring	34%	6
Access to incubators/innovation hubs	20%	7

Future ambitions

Respondents were very optimistic about their growth and development plans over the next two years (**Table 22**). The majority were planning to expand business product or service lines and invest in business assets and staff.

Table 26. Future ambitions

Q19a. How likely will you be to access the following over the next 2-3 years? % saying likely/very likely		Ranking (most likely)
Sample size	100	
Product or service development costs	68%	1
Hiring staff	65%	2
Purchase or leasing of business assets (equipment, vehicles etc.)	63%	3
Premises/ office relocation	58%	4
Opening new markets at home or abroad	55%	5
Legal expenses	34%	6
Patenting	22%	7

Unsurprisingly, business growth was perceived to be largely dependent upon the development of a customer base. Even with growth plans, fewer than one in three entrepreneurs surveyed identified the need for an injection of capital to achieve growth (**Table 23**).

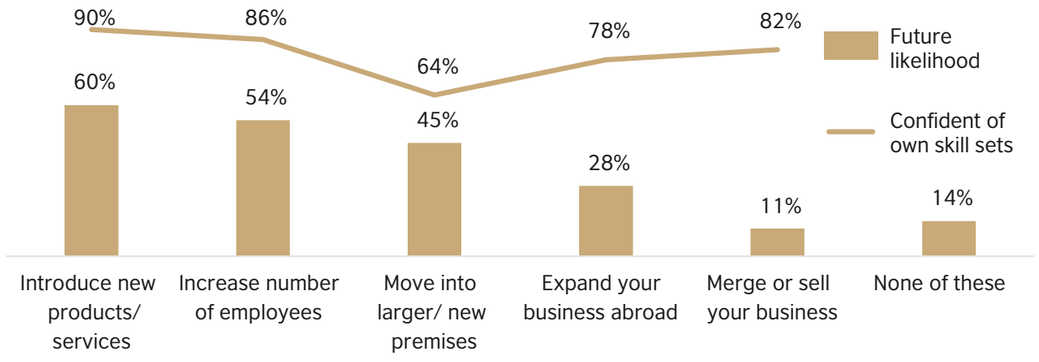
Table 27. Drivers for future success

Q23. Thinking about the next 2-3 years, what do you perceive to be the key drivers for success in your business?	Total	Ranking
Sample size	100	
More customers	69%	1
Product/service development	51%	2
Increased skill sets / employee training	47%	3
Capital injection	31%	4
Change of premises	18%	5

Our survey respondents were ambitious for the future, and for the most part confident in their ability to achieve their ambitions (**Chart 8**). This can only be seen as positive for the future, but ambition also needs to be supported with advice and access to finance.

Chart 8. Confidence and ambition

Q24a. Thinking ahead 2 - 3 years, it is your ambition to do any of the following?
Q24b. At this stage, how confident are you that you have the knowledge and skills sets to enable you to do this?



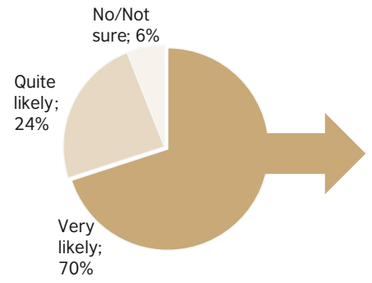
Sample size 100

Access to Finance

Seven out of ten entrepreneurs in the survey were very likely to need access to finance over the next few years to fund growth or further investment plans (**Chart 9**).

Chart 9. Access to funding

Q19. How likely are you to seek funding in the next 2 to 3 years? (Sample size 100)

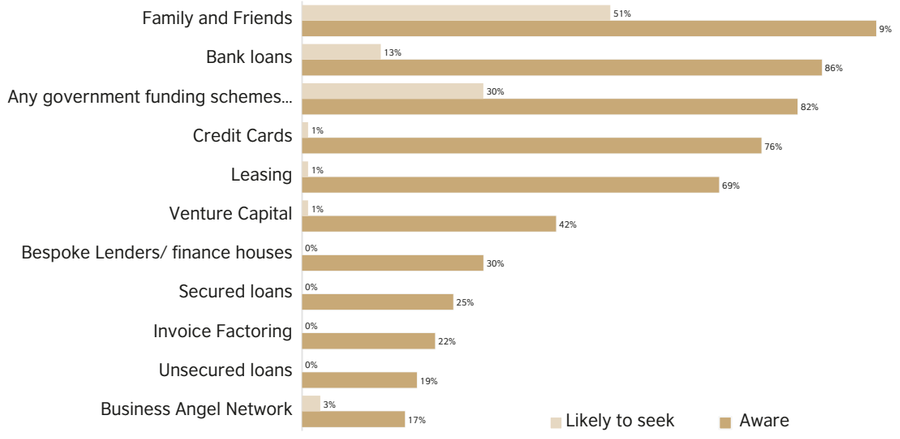


Q19b. What do you envisage you will need funding for? (Sample size 94)		
1	Purchase or leasing of business assets	45%
2	Hiring staff	39%
3	Product or service development costs	35%
4	Working capital /cashflow	33%
5	Premises/ office relocation	30%
6	Opening new markets at home or abroad	22%
7	Legal expenses	10%
8	Patenting	5%

In total, 53% of entrepreneurs considered it difficult to secure funding, and only 11% considered it easy (Q23c). It is therefore worth asking where entrepreneurs are likely to obtain funding. **Chart 10** shows that awareness of government grant schemes is high, but there is low awareness of more specialist business funders. Entrepreneurs may be aware of a range of funding providers, but in practice, they are most likely to turn to informal sources such as family and friends. Government assistance schemes are much more likely to be used than bank loans.

Chart 10. Awareness and use of forms of funding

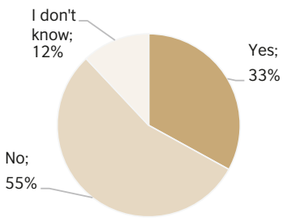
Q20. Which of these forms of funding are you aware of? (Sample size 100)
Q21a. Which form of funding would you be most likely to seek? (Sample size 100)



Finally, access to trade credit could be helpful to one in three businesses: 33% of respondents felt that they could expand their business if they had access, and most of these felt it could provide a fair or great boost to their business (**Chart 11**).

Chart 11. Desire for trade credit

Q8b. Would your business expand if you could offer trade credit? (Sample size 100)



This concludes the findings of the primary research undertaken specifically for this project, involving 100 telephone interviews with new or prospective business start-ups in the Republic of Serbia. Fieldwork was undertaken in December 2017 and January 2018.

REFERENCES

Briefing European Parliamentary Research Services (2016), Democracy Index. Retrieved from: http://www.europarl.europa.eu/RegData/etudes/ATAG/2016/581959/EPRS_ATA%282016%29581959_EN.pdf and further sourcing https://freedomhouse.org/report/freedom-world/freedom-world-2016.

Belgrade Crowdfunding Convention (2017). Retrieved from: http://socijalnoukljucivanje.gov.rs/en/the-first-belgrade-crowdfunding-convention-held/

Bjelotomic, S. (2016). "The revival of the textile industry in Niš", Serbian Monitor: Belgrade. Retrieved from: http://serbianmonitor.com/en/investing-in-serbia/24829/the-revival-of-the-textile-industry-nis/

Bjelotomic, S. (2017). "Truth about Russian investments in Serbia", Serbian Monitor: Belgrade. Retrieved from: http://serbianmonitor.com/en/featured/35567/truth-about-russian-investments-serbia/

Bobić, D. (2017). Youth entrepreneurship in Serbia - mapping barriers to youth entrepreneurship. Centre for Advanced Economic Studies, Belgrade. Retrieved from: http://odskoledoposla.org/wp-content/uploads/2017/05/Mapping-barriers-to-youth-entrepreneurship.pdf

China Investment (2018). "One Belt, One Road Initiative Forges New Relations with Serbia", Beijing: China, Reported in "China Go Abroad". Retrieved from: http://www.chinagoabroad.com/en/article/one-belt-one-road-initiative-forges-new-relations-with-serbia

Culkin, N. (2016). Entrepreneurial universities in the region: the force awakens? *International Journal of Entrepreneurial Behavior and Research, 22(1),* 4-16.

Daneshkhu, S. (2018). "Consumer goods: big brands battle with the 'little guys'", Financial Times: London. Retrieved from: https://www.ft.com/content/4aa58b22-1a81-11e8-aaca-4574d7dabfb6

Democracy Ranking Association (2016). Global Democracy Ranking. Retrieved from: http://democracyranking.org/wordpress/rank/democracy-ranking-2016

EBRD (2017). European Bank for Reconstruction and Development, investment data. Retrieved from: http://www.ebrd.com/where-we-are/serbia/data.html

Economist Intelligence Unit Democracy Index (2016). Retrieved from: https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex2016

Economist Intelligence Unit (2015). Article: Politics and economics of brain drain, June 10. Retrieved from: http://country.eiu.com/article.aspx?articleid=1083238892&Country=Serbia&topic=Economy&subtopic=Fo_6

Emerging Europe (2017). China Agrees to Build High-Tech Business Park in Serbia. Retrieved from: emerging-europe.com/in-brief/china-agrees-build-hi-tech-business-park-serbia/

Entrepreneurship Development Institute (2017). Global Entrepreneurship Index: Serbia. Retrieved from: http://thegedi.org/countries/serbia

EU Commission (2016) "European Commission,2016 Communication on EU Enlargement Policy" European Commission: Brussels. Retrieved from https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20161109_strategy_paper_en.pdf

European Investment Bank (2016). "Serbia: Assessment of financing needs of SMEs in the Western Balkans countries", European Investment Bank: Luxembourg. Retrieved from: http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_serbia_en.pdf

European Training Foundation (2010). "Education and Business Serbia". Retrieved from: http://www.etf.europa.eu/webatt.nsf/0/C12578310056925BC12577CA003710D9/$file/NOTE8ANDRT.pdf

European Council (2012). "Serbia is granted EU candidate status", European Council: Brussels. Retrieved from: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/128445.pdf

European Micro Finance network (2018). Names of micro finance organisations operating in Serbia. Retrieved from: http://www.european-microfinance.org/index.php?rub=microfinance-in-europe&pg=microfinance-by-country&cpg=39

European Commission (2016). Economic Reform Programme of Serbia 2017-2019. Retrieved from: http://www.mfin.gov.rs/UserFiles/File/strategije/ERP%202017%20-%202019%20final_Eng.pdf

Government of Serbia (2010). Industrial Policy of Serbia- New Approach and Goals 2011-2020. Retrieved from: http://www.eu-pregovori.rs/files/File/documents/skrining/bilateralni/prezentacije/pg20/pg20_1.pdf

Government of Serbia (2016), National Programme of Integration with the European Union. Retrieved from: http://www.mei.gov.rs/eng/information/questions-and-answers/national-program-for-integration-of-the-republic-of-serbia-into-the-european-union-npi/

Hammer, N., and Plugor, R. (2016). Near-sourcing UK apparel: Value chain restructuring, productivity and the informal economy. *Industrial Relations Journal, 47(5-6),* 402-416.

Harris, R., Keay, I., and Lewis, F. (2015). Protecting infant industries: Canadian manufacturing and the national policy, 1870-1913. *Explorations in Economic History, 56,* 15-31.

Hartwell, C. and Sidlo, K. (2017). *Serbia's cooperation with China, the European Union, Russia and the United States of America*, study for the European Parliament, Directorate-General for External Policies. Retrieved from: http://www.europarl.europa.eu/cmsdata/133504/Serbia%20cooperation%20 with%20China,%20 the%20EU,%20Russia%20and%20the%20USA.pdf

Hauser, P., Dolgaya, T., Revenko, S., and Kortenbusch, M. (2016). *Assessment of financing needs of SMEs in the Western Balkans countries. Country report: Albania*. Regional Studies and Roundtables, European Investment Bank (EIB).

Hume, D. (1742). Of Money, Included in "Essays, Moral, Political, and Literary" 1742. II.III.3, Eugene F. Miller, ed. Indianapolis, IN: Liberty Fund, Inc. 1987. Liberty. Retrieved from http://www.econlib.org/library/LFBooks/Hume/hmMPL26.html

IF4TM (2017) "IF4TM Project Results". Retrieved from: http://www.if4tm.kg.ac.rs/article/project-results/table-20172018.html

ILO (2017). "Employees By Status", International Labour Organisation: Geneva. Retrieved from: http://www.ilo.org/ilostat/faces/ilostat-home/download?_adf.ctrl-state=1dk6b4s0b4_62&_afrLoop=296250666539916#!

ILO (2017a). Unemployment rate by age. International Labour Organisation: UN: Geneva. Retrieved from: http://bit.ly/2CNRWKa

Innovation Fund (2016). Serbia research innovation and technology transfer project. Retrieved from: http://www.innovationfund.rs/serbia-research-innovation-technology-transfer-project/

IMF (2018). "GDP Per Capital: Current US$ Prices", IMF: Washington. Retrieved from: http://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD

IMF (2017). IMF Staff Completes Final Review Mission to Serbia. Retrieved from: https://www.imf.org/en/News/Articles/2017/11/07/PR17425-IMF-Staff-Completes-Final-Review-Mission-to-Serbia

IMF (2017b). Foreign Direct Investment Flows (CDIS). Retrieved from: http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sId=1482331048410

IMF (2017c). GDP Current Price Data, Retrieved from: http://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD/POL

IPAC (2015) "Export Strategy For Textile And Clothing Industry In The Cross-Border Region Of Serbia – Bulgaria" IPA Cross-border Cooperation. Retrieved from: http://aler.rs/files/Export_Strategy_for_the_textile_and_clothing_industry_in_the_cross-border_region_Serbia-Bulgaria_ENG.pdf

Isenberg, D. (2011). Entrepreneurs and The Cult of Failure. *Harvard Business Review:* Brighton MA, USA, April 2011 pp 36.

Kostic (2016) "Serbia ranked number 1 in the world by brain drain", Inserbiatoday: Belgrade. Retrieved from: https://inserbia.info/today/2016/08/serbia-ranked-number-1-in-the-world-by-brain-drain/#

Krstić, G., Schneide, F. USAID (2013), Formalizing the Shadow Economy in Serbia: Policy Measures and Growth Effects, p.48. Retrieved from: **http://pdf.usaid.gov/pdf_docs/pnaec461.pdf**

Krulj, V., (2017) "Serbia torn between EU attraction and China ambitions", Financial Times: London. Retrieved from: https://www.ft.com/content/f1570558-bffb-11e7-b8a3-38a6e068f464

Lane, D. and Myant, M. (2007). Varieties of Capitalism in Post-Communist Countries, Retrieved From: https://books.google.co.uk/books?hl=en&lr=&id=48NyCwAAQBAJ&oi=fnd&pg=PP1&dq=Varieties+of+Capitalism+in+Post-Communist+Countries&ots=OMb8WqJLnH&sig=bC2V4CUCmzooNC1VsmpFyR9sq-M#v=onepage&q=Varieties%20of%20Capitalism%20in%20Post-Communist%20Countries&f=false

Laurent, J. C. (2011). The seven states of the Former Yugoslavia: An evaluation. Retrieved from https://www.iwp.edu

Lin, J. Y. (2015). The Washington Consensus revisited: a new structural economics perspective. *Journal of Economic Policy Reform, 18(2),* 96–113.

Ministry of Youth and Sports (2015). National Youth Strategy. Retrieved from: http://www.mos.gov.rs/wp-content/uploads/download-manager-files/Nacionalna%20strategija%20za%20mlade%20-%20ENG.pdf

MAEP (2015). "IPARD Programme For 2014-2020", Ministry of Agriculture and Environmental Protection: Belgrade. Retrieved from: http://ec.europa.eu/transparency/regdoc/rep/3/2015/EN/3-2015-257-EN-F1-1-ANNEX-2.PDF

MTT (2016). "Tourism Development Strategy Of The Republic Of Serbia 2016 – 2025", Ministry Of Trade, Tourism And Telecommunications: Belgrade. Retrieved from: file:///C:/Users/Richard/Documents/West%20Balkans/TOURISM%20DEVELOPMENT%20STRATEGY%20OF%20RS%202016-2025.pdf

Moder I. and Bonifai N. (2017). “Access to finance in the Western Balkans”, Occasional Paper #197 Sept 2017 European Central Bank: Frankfurt. Retrieved from: file:///C:/Users/Richard/Documents/West%20Balkans/ECB%20West%20Balkans%20Access%20To%20Finance%20.pdf

National Bank of Serbia (2018). https://www.nbs.rs/internet/english/57/57_3/FLIII.2017.pdf

OECD (2008). New standards for compiling national accounts. Retrieved from: http://www.oecd.org/std/na/new-standards-for-compiling-national-accounts-SNA2008-OECDSB20.pdf

OECD (2016). SME Policy Index, Western Balkans and Turkey, Assessing the Implementation of the Small Business Act for Europe. Retrieved from: http://www.etf.europa.eu/web.nsf/pages/SME_Policy_Index_WBT_2016_EN

Open Signal (2017). “The State of LTE (November 2017), Open Signal: London. Retrieved from: https://opensignal.com/reports/2017/11/state-of-lte

Roberts J. (2013). “Snip, tuck”, Financial Times: London. Retrieved from: https://www.ft.com/content/6720cafa-80fd-11e2-9908-00144feabdc0

Politika (2018). New Round of EIB Grant funding. Retrieved from: http://www.politika.rs/sr/clanak/397554/EIB-spremna-da-podrzi-digitalizaciju-u-Srbiji-i-uvodenje-brzog-interneta-u-skole

Republic of Serbia (2015). SME Development Strategy and Action Plan 2015-2020, retrieved from: http://www.privreda.gov.rs/wp-content/uploads/2017/01/Strategija-I-Plan_eng_poslednje.pdf

Roth, A. V., and Banalieva, E. R. (2016). A temporal bracketing perspective on the internationalisation propensity of SMEs from post-communist transition economies. *International Journal of Business and Emerging Markets, 8*(3), 228-254.

SASME (2017) “Serbian Association of Small and Medium Enterprises” Belgrade. Retrieved from: http://srb-smeasoc.org/en/about-us-2/

Saure, P. (2007). Revisiting the infant industry argument. *Journal of Development Economics*, *84(1),* 104-117.

Schneider F, Buehn A, Montenegro CE (2010). New estimates for the shadow economies all over the world. *International Economics Journal J 24(4*), 443–461

Seeindustry, (2017) “Textile industry in Serbia”, SEE- Industry Market: Sofia, Bulgaria. Retrieved from: http://see-industry.com/industrial-statiieng.aspx?br=71&rub=441&id=1567.

Serbian Monitor (2018). Vujovic: We are reforming Tax Administration. Retrieved from: **http://serbianmonitor.com/en/economy/41196/vujovic-we-are-reforming-tax-administration/**

Statistical Office of the Republic of Serbia (2017). Serbia Statistical Yearbook. Retrieved from: http://pod2.stat.gov.rs/ObjavljenePublikacije/G2017/pdf/G20172022.pdf

Stiglitz, J., and Weiss, A. (1981). Credit rationing in markets with imperfect information. *American Economic Review, 71*, 393–410.

Taplin, I. M. (2014). Global commodity chains and fast fashion: How the apparel industry continues to re-invent itself. Competition and Change, 18(3), 246-264

TeamFinland (2017). *Market Opportunities: IT sector in Serbia*. Retrieved from: https://www.marketopportunities.fi/it-sector-in-serbia.

Tokatli, N. (2008). Global sourcing: Insights from the global clothing industry—the case of zara, a fast fashion retailer. *Journal of Economic Geography, 8(1),* 21-38.

Williamson, J. (2005). The strange history of the Washington Consensus. *Journal of Post Keynesian Economics, 27(2),* 195–206.

Wojciechowski, L. (2013). The determinants of FDI flows from the EU-15 to the Visegrad Group Countries - a panel gravity model approach. *Entrepreneurial Business and Economics Review, 1(1),* 7–22.

World Bank. (2012). Bank Lending to Small and Medium Enterprises: The Republic of Serbia. Washington, DC. World Bank. Retrieved from: https://openknowledge.worldbank.org/handle/10986/12796.

World Bank (2013). Western Balkan Region R&D Strategy for Innovation. Retrieved from: http://www.worldbank.org/en/country/serbia/overview#4

World Bank (2017). Serbia GDP trend data. Retrieved from: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=RS&view=chart

World Bank (2017a). “Purchasing Parity Adjusted Constant Price US$ Per Capita GDP”, World Bank: Washington. Retrieved from: https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?end=2016&locations=RS

World Bank (2017c). “Consumption at constant 2010 US$ prices”, World Bank: Washington. Retrieved from: https://data.worldbank.org/indicator/NE.CON.TOTL.KD

World Bank (2017d). “Gross Capital Formation at constant 2010 US$ prices”, World Bank: Washington. Retrieved from https://data.worldbank.org/indicator/NE.GDI.TOTL.KD

World Bank (2017e). “Population Ranking”, World Bank: Washington. Retrieved from: https://data.worldbank.org/data-catalog/Population-ranking-table

World Bank (2017f). “Entrepreneurship – Doing Business Survey 2017”, World Bank: Washington. Retrieved from: http://www.doingbusiness.org/data/exploretopics/entrepreneurship

World Bank (2017g). New Businesses Registered. Retrieved from https://data.worldbank.org/indicator/IC.BUS.NREG?view=chart.

World Bank (2017). Serbia Research, Innovation and Technology Transfer Project. Retrieved from: http://projects.worldbank.org/P145231/?lang=en&tab=financial

World Bank (2017). Doing business report on Serbia. Retrieved from: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Profiles/Country/SRB.pdf

World Economic Forum (2015). What GDP revisions reveal about the shadow economy. Retrieved from. https://www.weforum.org/agenda/2015/02/what-gdp-revisions-reveal-about-the-shadow-economy/

World Economic Forum (2017). Global Competitiveness Report. Retrieved from: https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018

World Economic Forum (2017). The Global Human Capital Report. Retrieved from: https://www.weforum.org/reports/the-global-human-capital-report-2017

ANNEX I – ESTIMATION METHODOLOGY FOR EARLY STAGE LOAN DEMAND

Overview

We have sought to separate out the loan demand for an MSME or a self–employed person's first two years of operation. This is often the most difficult and challenging period to fund, because lenders suffer from extreme information asymmetry. These businesses lack an audited trading/tax declaration record, credit rating data is likely to be sparse and the lending officer may have no detailed sector or local environment knowledge. The problems of information asymmetry have been highlighted by Stiglitiz and Weiss (1981).

We have sought to estimate this "funding gap" by adopting a "bottom up" approach, estimating funding needs for MSMEs and self-employed people differently, on the basis that their funding needs are likely to differ. Our estimates are very rough and need further research and rigorous testing. We have included them because they are indicative pointers to the sufficiency or otherwise of existing schemes to support entrepreneurs in their first two years of activity.

Self-Employment

Self-employed people were an important component of our survey results. We assumed that each self-employed person would require seed capital or initial finance equal to three months of the 2015 euro current price per capita GDP for their home country. We took the data for this from the IMF (2018). We converted USD from the IMF date to Euro at 1.1998 USD = 1 EUR (an approximate 2017 year-end rate). The number of new self-employed people is based upon 5% of the self-employed population joining/leaving self-employment each year. The self-employed numbers were from the International Labour Organisation (ILO, 2017).

MSMEs

For new MSMEs, we assumed a blanket requirement of EUR 5,000 for their start-up capital needs in the first year. For the number of businesses being registered, we relied on World Bank data (World Bank, 2017g).

Year One Seed Capital

Taking these together, we calculated the seed (or first year) capital requirement by country, shown in **Table A.1**.

Table A.1 Western Balkans seed capital requirement for first year of operations

Number of New Limited	New Self Employed Estimate	Euro Per Cap GDP 2015	Seed Per Limited Liability	Seed Per Self Employed	Limited Liability Seed	Self Employed Seed	Total Est Seed Req
2,679	30,000	3,280	5,000	820	13,395,000	24,600,790	37,995,790
2,814	7,000	3,489	5,000	872	14,070,000	6,106,259	20,176,259
3,993	4,000	2,922	5,000	730	19,965,000	2,921,811	22,886,811
5,686	9,000	4,046	5,000	1,011	28,430,000	9,102,698	37,532,698
2,818	1,000	5,388	5,000	1,347	14,090,000	1,346,977	15,436,977
8,236	43,000	4,365	5,000	1,091	41,180,000	46,922,483	88,102,483
				Total	**131,130,000**	**91,001,017**	**222,131,017**

Source: Authors

Year Two Calculation

For year two, we assumed that 25% of the new MSMEs would reach the growth phase, and that those MSMEs would require the average MSME loan value for their country. The average MSME loan value was taken from Table 11 in Hauser et al. (2016).

For the remainder of companies and self-employed people, we made the blanket assumption that those that survived their first year would have grown but not have reached full cash self -sufficiency. They were therefore likely to require additional finance equal to the entire (for all firms) amount required in the first year. These parameters give the calculated requirement for Year 2 in **Table A.2**.

Table A.2. Year 2 start-up finance requirement

Number of New Limited Liability companies	New Self Employed Estimate	Average Loan Size	%Year 2 Full Loan Demand	Total Fast Growers	Total Rest	Grand Total Year 2
2,679	30,000	35,668	25%	23,888,643	37,995,790	61,884,433
2,814	7,000	34,409	25%	24,206,732	20,176,259	44,382,991
3,993	4,000	30,507	25%	30,453,613	22,886,811	53,340,423
5,686	9,000	45,052	25%	64,041,418	37,532,698	101,574,116
2,818	1,000	47,519	25%	33,477,136	15,436,977	48,914,112
8,236	43,000	25,753	25%	53,025,427	88,102,483	141,127,910
			Total Year 2	**229,092,968**	**222,131,017**	**451,223,985**

Source: Authors

Total First Two Year Finance Requirement vs Total MSME Lending By Country

We took these findings and combined them into **Table A.3**, then compared them to overall MSME lending in each Western Balkans state. The overall MSME lending figures come from Table 14 in Hauser et al. (2016).

Table A.3. Total entrepreneur first two year finance requirement vs total MSME lending by country

Number	Euros	%	Millions Euros				
No SMEs	Av Loan	%SMEs Needing A Loan	Total SME Loan Demand	Seed Year 1 Est. Demand	Early Stage Year 2 Est. Demand	Total Early Stage Est. Demand	SME Loan Demand % Early Stage
111,059	35,668	36.0%	1,426	38	62	100	7.0%
186,341	34,409	51.5%	3,302	20	44	65	2.0%
45,985	30,507	52.2%	732	23	53	76	10.4%
70,453	45,052	40.1%	1,273	38	102	139	10.9%
22,313	47,519	52.8%	560	15	49	64	11.5%
280,845	25,753	61.8%	4,470	88	141	229	5.1%
Regional Total In Millions Euro			**11,763**	**222**	**451**	**673**	**5.7%**

Source: Authors

ISBN 978-0-86355-906-8

© British Council 2018
The British Council is the United Kingdom's international organisation for cultural relations and educational opportunities.

www.britishcouncil.org