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**IMPROVING MICRO AND MACRO  
COMPETITIVENESS - PROBLEMS AND POSSIBLE  
SOLUTIONS**

*Edited by*  
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## HOW TO IMPROVE ENTREPRENEURSHIP IN THE REPUBLIC OF SERBIA?

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### **Abstract:**

*The aim of this paper is to define whether the entrepreneurship policy is efficient enough and whether the Government of the Republic of Serbia has created preconditions for entrepreneurship development. The research is based on quantitative and qualitative analysis. The quantitative analysis covered the indicators, such as: the share of SMEs in the basic indicators of economic activity (gross domestic product, employment and gross value added), the level of profit and profit margins of SMEs, share of SMEs in foreign trade, structure of SMEs by sectors, business demography, etc. The qualitative analysis is based on the analysis of policy implementation, which could be studied through country rating by different methodologies (Doing Business list, Global Competiveness Report, Global Entrepreneurship Index). The research results showed that the biggest problem for entrepreneurs in Serbia is still an inadequate business climate and affordability of financial services. The recommendations are defined as concrete economic measures, which have practical implications.*

**Key words:** entrepreneurship, policy, SMEs, business climate, access to financial services

*JEL classification: L26, L53; UDC 005.961:005.914.3(497.11)*

### **1. Introduction**

In the Republic of Serbia, small and medium-sized enterprises (SMEs) generate approximately 32% of gross domestic product and employ about 2/3 of the labour force of non-financial sector. SMEs make up 99.8% of registered business entities. On the other hand, SMEs generate just over 50% of the realized profit of non-financial and foreign trade. Very significant problem for SMEs sector is low level of productivity. Thus, the productivity of manufacturing sector is four times lower than the average of European Union member states (ERP, 2017, pp. 24). SMEs are not competitive enough; while a

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further aggravating factor is the fact that global economic crisis has a stronger influence on SMEs than on large companies.

Insufficiently developed entrepreneurship is also indicated by the position of Serbia on the international list of countries ranked according to the Global Entrepreneurship Index for 2017 (Global Entrepreneurship and Development Institute, 2017). Serbia's position on that list has worsened compared to last year by five places, so Serbia holds 79<sup>th</sup> place out of 137 surveyed countries. Despite some significant progress in the field of business conditions, thanks to which Serbia upgraded its position on the Doing Business list (World Bank, 2016) and rank based on the Global Competitiveness Index (World Economic Forum, 2016), the biggest problems (evidenced by the mentioned sources) are high para-fiscal charges (Serbian Association of Employers, 2014), high tax rates, inefficient administration and high administrative burden.

Another problem for entrepreneurs is difficult access to finances, as well as the lack of incentives to start their own businesses. According to the availability of financial services (an indicator of Global Competitiveness Index), our country is ranked only in 124<sup>th</sup> place in the world. Restrictions on SMEs' access to finances are: insufficient quality of banking sector's offer for SMEs, the lack of significant alternative channels for SMEs' access to funding, the limited impact of government programs and programs financed from foreign sources. Due to the limited scope of stimulating credit arrangements (subsidized loans, state guarantees, etc.), entrepreneurs (especially young people) are forced to rely on their own resources, which limits the possibilities for the development of their business ideas. Improvement of the business environment predictability and the SMEs financial support program, with an emphasis on reducing the cost of access to finances, are the recommendations of the European Commission (European Commission report on the progress of the Republic of Serbia for 2016, pp. 61).

This paper analyses the development of SMEs sector. The aim of the paper is to determine whether the adopted public policy of entrepreneurship is effective, i.e. whether the Serbian Government creates the conditions and provides incentives for the development of entrepreneurship. In accordance with the research results, the measures that should be taken to improve the status of entrepreneurs in Serbia are recommended.

Besides its introductory part, the paper has four chapters and a conclusion. The second chapter analyses the level of development of entrepreneurship and key factors for the development of entrepreneurship in Serbia. This chapter is used as a basis for defining the methodological framework of the research, which is presented in the third chapter. The fourth section presents the analysis of the entrepreneurship policy, with particular emphasis on the key factors for the further development of the entrepreneurship, which are defined within the second section. Finally, the conclusion presents findings and recommendations.

## **2. Key factors for the further development of entrepreneurship**

In practice, there are several methods usually used for the measurement of the enterprise development level as well as factors that largely contribute to the entrepreneurship development. This section will consider the level of development of entrepreneurship in Serbia, according to the Global Entrepreneurship Index, as well as key factors that are important to the development of entrepreneurship, based on the World Bank's Doing Business methodology and the World Economic Forum methodology for measurement of country competitiveness. In addition, the findings of some other relevant institutions reports and research studies will be used.

Global Entrepreneurship Index measures the intensity of the impact of various factors on the development of entrepreneurship in a country (Global Entrepreneurship and Development Institute, 2017). The index consists of three sub-indexes that reflect the attitudes, skills and aspirations of entrepreneurs and fifteen individual indicators. According to this index, the best placed are the United States, followed by Canada and Australia. According to the Global Entrepreneurship Index for 2017, Serbia is in 79<sup>th</sup> place (drop by 5 places compared to the last year) out of 137 surveyed countries. Compared to the neighbouring countries, Serbia is only better ranked than Albania (80<sup>th</sup> place) and Bosnia and Herzegovina (99<sup>th</sup> place). In relation to the level of economic development, the country's position under the criteria of entrepreneurship development suggests an inadequate entrepreneurial culture. Adverse business conditions decrease propensity to entrepreneurship because they reduce opportunities for recognizing chances for starting a new business, increase the fear of failure (increasing the risk of operations) and reduce support for the initiation and development of entrepreneurial activities. Indicators that measure entrepreneurial skills and entrepreneurial intentions (where Serbia has the lowest rank in relation to all countries in the region)

show the lack of institutional development and unfavourable general business conditions in the economy.

Compared to neighbouring countries (Albania, Macedonia, Montenegro, Bosnia and Herzegovina, Croatia, Hungary, Romania, Bulgaria), Serbia has a relatively good rank with regards to the sub-index that measures the attitude towards entrepreneurship, since entrepreneurs in Serbia better perceive business opportunities, entrepreneurs beginners have better skills necessary to starting a business, they network (connect) more and are more innovative in the development of new products and processes. The biggest weakness is related to the possibility of applying new technology, low skills of the workforce, the level of competition, opportunities for achieving rapid growth and internationalization of business, as well as the limited possibilities for funding by a venture capital fund.

According to the Doing Business Report (World Bank, 2016), Serbia is ranked in 47<sup>th</sup> position on the list of 189 countries, which is an improvement of 7 places compared to 2016 (54<sup>th</sup> rank in 2016). Compared to neighbouring countries, Serbia is only better ranked than Bosnia and Herzegovina (79<sup>th</sup>) and Albania (97<sup>th</sup> place). In the region, the best ranked is Macedonia (12<sup>th</sup>), followed by Romania (37<sup>th</sup>), Bulgaria (38<sup>th</sup>), Croatia (40<sup>th</sup> place) and Hungary (42<sup>nd</sup> place).

The greatest progress has been made in the area of issuing building permits, adoption of the new Law on Planning and Construction and application of electronic building permits, where Serbia has made progress from 152<sup>nd</sup> to 36<sup>th</sup> place. Furthermore, progress has been made in the field of registration in the real estate register (72<sup>nd</sup> to 56<sup>th</sup>), as well as the registration of companies (62<sup>nd</sup> to 47<sup>th</sup>). Consequently, Serbia is ranked as one of 10 countries in the world with the highest progress in reforms in 2016. However, there were some negative tendencies. For instance, the decline is registered in the indicator for connection to the electricity grid (from 73<sup>rd</sup> to 92<sup>nd</sup> place) and the execution of the contract (from 53<sup>rd</sup> to 61<sup>st</sup> place). Therefore, on average, 635 days are necessary for the execution of contracts in Serbia (30 days to initiate the procedure, 495 days for the judicial process itself, and 110 days to enforce a judgment), while the costs of the trial are above 40% value of the receivables. In the event of bankruptcy, the bankruptcy procedure lasts 2 years and debt collection is less than a third of the claimed amount. In addition, considering the judicial independence (sub-index in the Global Competitiveness Index) Serbia is in 122<sup>nd</sup> place out of 190 countries in the world.

According to the Global Competitiveness Index 2016/17, which is annually published by the World Economic Forum, Serbia has moved up by 4 places, taking 90<sup>th</sup> place among 138 countries. Considering the analysed group of countries, all countries except Bosnia and Herzegovina (107) are better ranked than Serbia (World Economic Forum, 2016).

The Report of the European Commission of the Republic of Serbia for 2016 (EC, 2016) noted that the access to finances is still problematic and represents a key obstacle to the development of entrepreneurship. Moreover, it is estimated that the para-fiscal levies are huge burden to business. It has been suggested to improve the business environment predictability, including the continuation of the so-called "regulatory guillotine" and further support to the SMEs programs, with an emphasis on the necessary reduction of costs for access to finances.

According to the findings of the White Book for 2016 (FIC 2016), the biggest progress was achieved in the field of real estate and construction, and in four areas of the general legal framework, such as protection of competition and consumers, state aid and public notaries, as well as field of legislation that more closely defines the economic activities in the sectors of telecommunications, oil and gas, and private insurance. According to foreign investors, the least progress was observed in the areas of tax and labour regulations, as well as in the field of law relating to foreign currency transactions, bankruptcy and protection of whistle-blowers, but also in the field of legislation that more closely defines business activities in the sectors of food and agriculture, insurance, and hygiene products in the household and cosmetics.

USAID BEP's Annual Survey of 1,000 Businesses (USAID, 2016), showed that the opinion among entrepreneurs regarding all elements of the regulatory framework was that para-fiscal charges (fees and taxes), taxes and contributions, value added tax, tax administration, as well as the informal economy and administrative procedures have the most negative impact. According to the NALED research, in 2014 there were 384 non-tax charges, out of which 247 were para-fiscal (fees and charges) that burdened operations totalling to 1.97% of gross domestic product (NALED, 2017). According to the findings of survey of USAID, the administrative burden in 2014 compared to 2010 decreased by 15%, but remained inappropriately high and amounted to 3.46% of gross domestic product (USAID, 2016). Key recommendations from

the Grey Book 9 relate to the need for reduction of income taxes, social contributions and other levies, followed by a more efficient administration and e-Government (NALED, 2017).

According to the study regarding the problems of young entrepreneurs (Filipović et al, 2016a, pp. 79), one of the biggest problems is a long waiting period for decision on taxes and contributions for a lump sum taxation that is usually longer than two years. Most entrepreneurs pay their obligations under the old decision, but when they receive the new decision from the Tax Administration, they are usually informed that they should pay a higher amount in the short term, which makes their business more uncertain. If there is a reduction in the volume of their business, entrepreneurs are required to pay tax under the previously estimated level of income and only after six months they can apply for a change. In the case of overpaid amounts of taxes, companies have their funds blocked on the basis of taxes, without the possibility of money return, but records are kept on the overpayment. In certain cases, when there is an interruption of business continuity due to the lack of work (often in the creative industries), the problem is that there is no possibility to repeatedly "freeze" the status and consequently release entrepreneur from the obligation to pay taxes. Furthermore, entrepreneurs complain that there are significant differences in determining the amount of "flat tax" by municipalities in Serbia. The basis of calculation of taxes and contributions is the average gross salary defined by the Statistical Office of the Republic of Serbia. The basis is then reduced or increased in accordance with relevant criteria. However, the branch offices of the Tax Administration of Serbia interpret and apply the criteria differently so that similar businesses pay different amounts in different cities / municipalities (NALED, 2016).

### **3. Research methodology and hypothesis**

The aim of the research is to determine whether the entrepreneurship in Serbia is sufficiently developed, or whether the measures of entrepreneurship policy are well defined and implemented effectively.

The basic hypothesis is that entrepreneurship in Serbia is still underdeveloped. The preliminary finding for this main hypothesis could be the rank of our country in international ranking lists of countries, which is created based on the Global Index of entrepreneurship, the World Bank Doing Business report and Global Competitiveness Index. In comparison to the neighbouring countries



(Hungary, Romania, Bulgaria, Macedonia, Albania, Montenegro, Bosnia and Herzegovina and Croatia), the Republic of Serbia is only better ranked than Bosnia and Herzegovina and Albania.

This hypothesis will be further supported with analysis of quantitative data that indicate the level of development of entrepreneurship. First of all, for the purposes of testing hypotheses, the analysis of the following development indicators will be carried out: total number of SMEs, the participation of SMEs in the basic indicators of the economy (gross domestic product, employment, gross value added), profit and profit margins, share in foreign trade, structure of SMEs by sectors, business demography.

In addition to the basic hypothesis, there is also a hypothesis which should show whether the government's efforts to improve entrepreneurship are sufficient. Therefore, the analysis on entrepreneurship policy will be conducted, which includes an analysis of the strategic document that defines entrepreneurship policy, analysis of programs for entrepreneurship support financed from the state budget as well as the European Union funds. In order to test this hypothesis, the activities will be analysed which are covered by the Program of Economic Reforms 2017/19. The entire analysis will be used for defining recommendations for measures that would contribute to the development of entrepreneurship, primarily in the area of improving the business climate and access to finances.

#### **4. Results and discussion**

##### *4.1. Quantitative indicators of SMEs sector in Serbia*

In Serbia, 324,600 companies operate representing 99.8% of the total number of business entities (SMEs Report, 2016). The most numerous are micro companies<sup>3</sup> (96.4%), while according to the form of the organization the most numerous are entrepreneurs (71.7%) and limited liability companies (26.6%). The share of SMEs in gross domestic product of Serbia is around 32%. Considering non-financial sector, SMEs have employed 65.7% of workers; have

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<sup>3</sup> According to the Law on Accounting, micro legal entities are considered as entities that do not exceed two of the following criteria: 1) the average number of employees 10; 2) Operating income 700,000 EUR in RSD counter value; 3) average value of business assets 350,000 EUR in RSD counter value.

the share in the total turnover of 66.3%, and the share of 57.7% in overall gross added value. However, the high share of SMEs sector in the basic indicators of the economy (number of enterprises, employment and gross domestic product) is the result of the slow dynamics of structural reforms and development problems of large economic systems, not the high level of development and competitiveness of SMEs.

In the total profit of non-financial sector, SMEs have the share of only 52.4%. The highest share of profit is generated by companies organized as limited liability companies (81% of the profit of SMEs). Profit and profit rate of SMEs is still below the value of large enterprises.

In the foreign trade of the non-financial sector, SMEs accounted for 51.2%. Compared to 2008, there was an increase in exports of 54.1%, while imports decreased by 0.8%. Although the coverage of imports by exports increased in SMEs, it is still significantly lower than in large enterprises (58.4% compared to 96.2% in 2015). SMEs' coefficient of exports is twice lower compared to large enterprises, which indicates that the sector is not sufficiently export-oriented. In the total number of companies which perform export in 2015, SMEs accounted for only 4.4%.

Low export competitiveness of SMEs sector is associated with low productivity which is 4.7 times lower than the average productivity of the European Union member states. An additional aggravating circumstance is the fact that the global economic crisis had a higher negative effect on the business performance of SMEs than on large enterprises (Table 1). Micro and small companies are in the most unfavourable position; they recorded the negative productivity growth rate (-13.5% and -9.6%, respectively). Compared to 2008, the competitiveness of SMEs sector decreased because of the reduced average cost of wages (-1.6%), while labour productivity remained unchanged, with a decline in average employment (-2.2%). Generally, the research showed that economies with higher progress in transition reforms experienced higher negative impact of global economic crisis in comparison with economies which were not liberalised their economies (Filipović & Miljković, 2014, pp. 37).

*Table 1 Productivity, cost of wages and employment in SMEs*

	2008	2009	2010	2011	2012	2013	2014	2015	Average, %
Productivity	1,365	1,260	1,331	1,334	1,385	1,290	1,352	1,368	0
Cost of wages	795	739	692	670	679	650	655	708	-1.6
Employment, in thous.	940	872	814	786	782	768	761	801	-2.2

Source: Report on Small and Medium-Sized Enterprises and Entrepreneurship, 2016.

The largest numbers of SMEs operate in the trade sector and manufacturing industry. Companies from these sectors dominate in all business indicators (comprising 44.7% of businesses engage 55.8% of employees generate 65% of turnover and generate 50.8% of gross added value). The manufacturing industry is dominated by companies with a low level of technological complexity whose products are characterized by a low added value, the lower price and profit margin and a weak competitive position on the external market. SMEs with high and medium-high technology make up only 9.3% of the total number of SMEs, employing 15.7% of workers, creating 20.6% of their sale, 21.7% of gross added value and generating 22% of export and 33.4% of SMEs import.

Furthermore, there is a high concentration in the field of foreign trade where more than 4/5 of foreign trade activities are carried out in the processing industry and wholesale and retail. The export manufacturing industry is dominated by products with a low technological complexity. The share of low technological products in SMEs export is 78.7%, while their share is 50.7% in export of large companies. Even though there are a number of risks and uncertainties related to high degree of currency substitution, there is no statistically significant evidence regarding effects of currency substitution on exchange rate depreciation volatility (Petrović et al, 2016a, pp. 38; Petrović, 2016b).

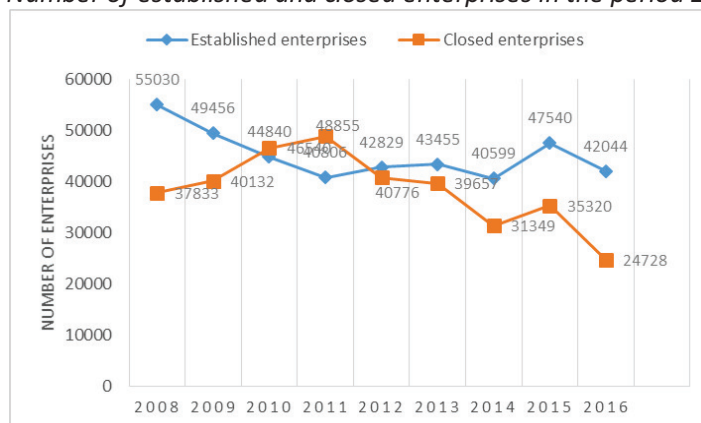
Insufficiently developed SMEs sector is indicated by the fact that only 18.2% of SMEs out of all non-financial sector companies, is registered in tradable sectors. This group of SMEs employs 22.8% of the workforce, generates 21.8% of revenues and 18.4% of gross value added of the non-financial sectors of the economy, which is half of the share of SMEs operating in the non-tradable sectors of the economy. Grouping SMEs in non-tradable, mainly service sectors, which are characterized by relatively lower investments in fixed assets and faster turnover, indicates the low financial and economic performance of

the SMEs development and the need for changes in the sectoral structure in favour of the development of SMEs from the tradable sector, whose products are involved in international trade.

Even though domestic banking sector attracted a huge share of foreign capital and have a prominent role in the growth of national economy (Filipović et al, 2016b), a credit loans are not simulative enough for SMEs so there is declining trend. According to data for 2016 (USAID, 2016), as many as 68% of entrepreneurs do not take loans or used other sources of external financing, while this share was 62% in 2015, and only 31% in 2011. At the same time in middle-income countries of the European Union, over 60% of entrepreneurs used external sources of financing. However, the research conducted on 27 transition economies showed that countries which were more open towards external financing have recorded a higher level of indebtedness (Filipović et al, 2015).

Positive shift in the SMEs sector can be noticed on the basis of indicators of business demography. Since April 2016, when implementation of the Law on Inspection Control began, an increase by 18.8% was recorded in the number of newly registered businesses, while at the same time the number of closed companies decreased by 17.3% (ERP, 2017, pp. 29). The ratio of the number of established and closed business entities (net-effect) is 1.8:1 and indicates that 18 new entities are established for every 10 closed business entities. The positive net effect has been realized since 2012, while in the period 2010-2012 the net effect was negative (larger number of closed relative to the number of established companies). The negative trend appeared immediately after the escalation of the global economic crisis. The largest number of companies deleted from the Register of Business Entities occurred during the implementation of the provision on automatic bankruptcy (the Law on Bankruptcy) when 16,572 companies were deleted from the Business Register. Application of the automatic bankruptcy was cancelled in mid-2012. Due to the blocked business account for a period longer than two years (Art. 91 of the Company Law) even 13,355 of shops were deleted in 2013 and 2,146 in 2014. Since 2011, an increase has been noticed in the number of newly established enterprises and reduction in the number of closed enterprises (Figure 1). However, the indicators of business demography are still favourable compared to 2008.

Figure 1 Number of established and closed enterprises in the period 2008-2015



Source: Report on Small and Medium-Sized Enterprises and Entrepreneurship, 2016.

The survival rate of enterprises (how many business entities established in a given year are operative in the next two years) shows that 64.5% of companies established in 2013 exist in first two years of operation, while a higher survival rate is observed for entrepreneurs (65.7%) in relation to companies (61.8%). On the basis of the number of new business entities in the period 2008-2015, it can be concluded that, on average:

- about 63% of new businesses survive in the first two years of operation;
- enterprises have a higher rate of survival (around 86.3%) than entrepreneurs (57.2%);
- survival rates of business entities are still lower than at the beginning of the global economic crisis.

More positive net effect, more favourable rates of establishment and closing of enterprises in relation to entrepreneurs indicate that a larger number of companies is established as a response to the perceived market opportunity, unlike entrepreneurs who establish their business out of necessity (e.g. self-employment). At the same time, a higher survival rate in companies suggests that companies are better adapted to market conditions, have higher business capabilities and better position on the market in relation to entrepreneurs.

#### *4.2. Entrepreneurship policy and measures which should be taken for development of SMEs sector*

Entrepreneurship policy is defined in the Strategy for Supporting the Development of Small and Medium-Sized Enterprises and Entrepreneurship for the period from 2015 to 2020 (Government of the Republic of Serbia, 2015). Besides the Strategy, the Action plan was also adopted for the implementation of the Strategy for the period 2015/16. At the beginning of 2016, the adoption of the Action Plan for 2016/17 was announced as well as a series of measures that should contribute to better conditions for business and entrepreneurship development. However, the Action Plan has not yet been adopted. Meanwhile the Department for Development of Small and Medium Enterprises has started drafting the Action Plan for 2017 with projections for 2018. Adoption of a new Action plan is essential because it should define all measures, actions, responsible institutions and deadlines for implementation of the Strategy.

In the meantime, based on the Law on Investment (Official Gazette of RS, No. 89/2015), the Development Agency of Serbia was formed as the most important executive institution responsible for the implementation of policy entrepreneurship. In addition, the Development Fund, the Agency for Export Insurance and Financing, Innovation Fund and the National Employment Service have a significant role in the implementation of entrepreneurship policy.

The Strategy for Supporting the Development of Small and Medium-Sized Enterprises and Entrepreneurship for the period from 2015 to 2020 is a key strategic national policy document in the field of entrepreneurship, which defines the framework, objectives, priorities and measures for promoting development of micro, small and medium enterprises and entrepreneurship. The framework of measures, which should encourage the development of entrepreneurship, is defined by six pillars relating to:

1. Improving the business environment;
2. Continuous development of human resources;
3. Strengthening the SMEs sustainability and competitiveness;
4. Improving access to finances;
5. Improving access to new markets;
6. Development and promotion of entrepreneurial spirit and encouraging entrepreneurship of women, youth and social entrepreneurship.

Each of the six pillars has the defined dimensions with priority measures for future activities. All these measures should be operationalized in the accompanying Action Plan for the implementation of the Strategy, where the following will be defined for each measure: activity, the competent institution, implementation time frame, an indicator and source of financial support. Main indicators for monitoring the implementation of the objectives of the Strategy are: an increase in the number of SMEs to 350,000, an increase in the number of employees to 950,000, and reaching an average annual growth rate of gross value added of 3%. The first external performance evaluation of the implementation of the Strategy is planned for 2018 (Government of the Republic of Serbia, 2017).

Despite the fact that entrepreneurship policy is defined and responsible institution is created, there is a problem in the implementation of policy due to lack of corresponding Action plan for implementation of the Strategy. The adoption of the Action Plan is crucial because it has to define concrete measures for ensuring the improvement of the business environment as a prerequisite for private sector development, better access to finances, improvement of human resources, improvement of the competitiveness on external market and the development of women's and youth entrepreneurship.

The adoption of the Action Plan is particularly important for the further implementation of programs for supporting entrepreneurship development. For instance, 33 different programs were launched during 2016 without a clear insight into the effects of the realization of the objectives defined in the Strategy. Incentives are grouped into support for start-ups and support for growth through investment, innovation and internationalization. Program support for entrepreneurship in 2016 involved the programs of financial and non-financial support for which was allocated a total sum of 16 billion dinars, out of which 4.4 billion dinars was non-refundable funds. For the year of 2017, support was announced for 34 programs totalling to 18 billion dinars.

When it comes to the EU programs supporting the development of entrepreneurship, Serbia participates in the Horizon 2020 program, and since January 2016 in the COSME program. COSME and Horizon 2020 are interconnected with the common aim to help development of the Small and Medium-sized enterprises. While the Horizon 2020 is focused on start-ups and innovative companies in the phase of establishment, COSMO is more focused

on companies in the phase of growth and development. As part of the Horizon 2020 program, an agreement was signed with Procredit Bank, while an agreement is expected to be signed soon with one of the banks for the COSME program. In late November 2016, Erste Bank signed a new contract on guarantee which aims to provide support to micro-enterprises in Serbia in the EU Program for Employment and Social Innovation (EASI).

#### *4.2.1. Activities in the area of improving business environment*

Reforms in the area of labour inspection services, tax administration, the fight against the grey economy and the effective implementation of adopted legislation have been initiated in order to improve business environment. In addition, the Program of Economic Reforms for 2017/19 defines several activities that the Government intends to implement and thus contribute to the improvement of the business climate. The most important new structural reform involves the formation of a unified public registry of administrative procedures that should allow a transparent review of all administrative procedures and associated costs (fees, taxes, etc.). The Ministry of Trade, Tourism and Telecommunications prepared a project proposal for the establishment of a single registry, which would be financed from IPA funds. In addition, National Secretariat for Public Policy began preparation of all necessary documents in order to start the enumeration phase of administrative procedures.

Furthermore, the draft Law on the services defines the establishment of a single electronic contact point as part of a single register, which is also one of the obligations under the Services Directive 2006/123/EC. In this way, all the information needed for starting and operating a business would be in one place. In addition, it is anticipated that some procedures can be completed electronically.

The Economic Reform Programme 2017/19 indicates that the Law on Charges for Usage of Public Resources and the Law on Electronic Document, electronic identification and trust services for electronic transactions are in the preparation phase. The first phase of the tender procedure for the selection of consultants for providing services is completed within the "Support to Implementation of the Action Plan for Improving Business Environment" project and it would be additional support for improvement of business environment.



The simplification of legislation, the introduction of standards for measuring administrative burdens, testing the impact of regulation on small and medium enterprises and portals of administrative requirements are some of measures defined in the Strategy of Regulatory Reform and Improvement of the Public Policy Management System for the Period 2016-2020. The general aim is to reduce the administrative burden to 3% of gross domestic product by the end of 2018.

All these activities are in line with further reforms of public administration and the introduction of e-system of administration, which should ensure the transparency and predictability of business environment. In addition, it is necessary to continue with implementation of measures against the grey economy and improvement of tax inspections, which together should ensure the full effect of the reforms. However, besides a quasi-fiscal burden, a huge problem for businesses is high taxes and social contributions. Therefore, it is necessary to consider tax incentives for investment in innovative sectors, which would foster the competitiveness and export orientation of the economy.

#### *4.2.2. Activities in the area of improving SMEs' access to finances*

In addition to standard instruments of financial support, which are implemented through the Development Fund and the Agency for Export Insurance and Financing, joint programs with commercial banks are also developed. For example, the Support Program for small businesses for purchasing equipment represents a combination of commercial bank loans with a grant of 25% of the value of equipment.

In order to improve the SMEs' access to finances, the EDIF project named "Western Balkan Enterprise Development and Innovation Facility" was launched. The aim of the project is to improve the SMEs' access to finances in the Western Balkan region, as well as to improve conditions for the development and creation of new innovative companies that have high growth potential, by encouraging the creation of venture capital funds.

The Economic Reform Programme 2017/19 defined that the first tranche of the "Apex loan for SMEs and other Priorities III/A" of the European Investment Bank is realized in the amount of EUR 150 mil. The Financing Agreement on APEX Loan III/B is signed while the document with detail conditions of the loan

is still in progress. At the same time, the European Investment Bank will carry out a study in order to consider the actual needs, shortcomings and draft a proposal for investment strategy for the introduction of financial instruments for SMEs. For this purpose, a survey was conducted on a sample of 2000 small and medium-sized enterprises on their needs for improving the funding. IPA 2016 has foreseen EUR 20 million for guarantee schemes, which will be implemented through the EDIF platform, while funds are requested for the implementation of financial instruments.

The new APEX loan for additional EUR 200 million is planned within the observed period (2017-2019). Furthermore, the implementation of the project for establishing IPA 2016 financial instruments is also planned, as well as the development of a legislative framework for the establishment of microfinance institutions, with the further development of the market of microfinance institutions.

All of these activities are necessary, but not sufficient for improving SMEs' access to finances. Bearing in mind that microfinance itself implies a higher level of risk for banks, and that the amount of funds (as a rule) is inadequate for starting a business, which is financially demanding, in addition to the Law on Microfinance, it is necessary to adopt a special Law on Risk Financing. The Law on Risk Financing should introduce new alternative models of financing, such as equity based model - seed, start-up, business angels, venture capital and private equity. This separate law should define: forms of organization and the issues of establishment, scope of business activities, legal status and financial issues of risk funds, and ensure compliance with other corresponding laws.

In addition, other legal solutions should help create a basis for tax incentives for investments in technology start-ups and innovative firms (for example), because this will boost the desired growth of the industry. This measure should not be limited only to high-risk funds or investors in risky funds, but it also should be applied to companies which invest in certain categories of newly established companies (for example investments in innovative companies). This would encourage large companies to invest in small companies, either because of direct benefits from connectivity and innovative technological products in their value chains, either because of the possibility that investment could be treated as the opportunity cost of paying income tax.

## 5. Conclusion

The analysis shows that entrepreneurship in the Republic of Serbia is underdeveloped. Although the SMEs sector has a high share in the basic indicators of the economy (number of enterprises, employment and gross domestic product), business performance has been unsatisfactory yet. First of all, productivity of SMEs sector in Serbia is four times lower than the average of the European Union member states. Second, the share of SMEs in the total number of export companies accounts for only 4.4%. Third, the largest numbers of SMEs operate in the trade sector and low technology manufacturing industries, while only 9.3% of SMEs use medium and high technology in their production. Fourth, only 18.2% of SMEs is active in tradeable sectors, which implies higher investment and competitive advantages on external market.

Based on the analysis, it was found that the biggest restrictions to the development of entrepreneurship are inadequate business climate and difficult access to finances. Taking into consideration all the elements of the regulatory framework, the most negative impact on business is exerted by para-fiscal charges (charges and fees), income taxes and social contributions, the value added tax, tax administration, grey economy and administration procedures. Given the already envisaged formation of a public registry of administrative procedures and the adoption of the Law on Compensation, which would greatly reduce quasi-fiscal costs, it is necessary to examine the possibility for certain amendments to regulations in the area of taxes on income and social contributions. Some of the solutions may be that certain categories of newly registered entrepreneurs (especially young people without work experience in the first year after graduation, and an entrepreneur who is registered as unemployed) in a certain period of time, are offered some incentives, such as: tax exemption on income and social contributions, tax credits for income tax and social contributions, reduction of tax rate on income for the jobs created in the newly established companies set up by young entrepreneurs, etc.

A huge problem is access to finances and underdeveloped offer of financial products and services for SMEs, and therefore a declining trend is recorded in approved businesses loans. However, without external financing of business, it would be very difficult to move from micro into the category of medium-sized and large enterprises. The absence of the so-called "micro finance institutions" was emphasized several times in the last two years, but the Law on Micro

Financing has not yet been adopted. In order to overcome difficulties in access to financing sources, it is necessary to set up a special Law on Risky Funds, which will introduce the possibility of investment by venture capital, "business angel investment", etc. It is necessary to define clear rules and create a legal basis for tax incentives for risk capital through: the Law on Innovation Activity, the Company Law, the Law on Insurance and Voluntary Pension Funds, and the Law on Banks.

Prerequisite for implementation of the Strategy for Supporting the Development of Small and Medium-Sized Enterprises and Entrepreneurship for the Period from 2015 to 2020 is the adoption of the new Action Plan. The new Action plan should define concrete measures for ensuring the improvement of business environment as a prerequisite for private sector development, better access to finances, improvement of human resources, improvement of competitiveness of exports and development of women and youth entrepreneurship.

In addition to the dedicated spending of funds, it is very important to provide criteria for monitoring of the effects of programs for entrepreneurship support financed from the budget. Therefore, it is recommended that in the next period the state entrepreneurship support programs must focus on a limited number of measures with adequate funding and maximum effect, which inevitably means that the effects of each program should be monitored and controlled separately. It is also necessary to implement a monitoring system for SMEs instruments. In particular, attention should be paid to the decline in the research outcome and financial support for innovation, as it negatively affects the competitiveness of the private sector.

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