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# YOUTH ENTREPRENEURSHIP IN SERBIA

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Mapping barriers to youth entrepreneurship

Danijela Bobić



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## Abbreviations and acronyms

|           |  |
|-----------|--|
| AP        | Action plan                                      |
| BELEX     | Belgrade Stock Exchange                          |
| BSN       | Business Support Network                         |
| CA        | Customs Administration                           |
| DAS       | Development Agency of Serbia                     |
| EBRD      | European Bank for Reconstruction and Development |
| EIB       | European Investment Bank                         |
| FREN      | Foundation for the Advancement of Economics      |
| IF        | Innovation Fund                                  |
| ILO       | International Labor Organization                 |
| NBFI      | Non-bank Financial Institution                   |
| NEET      | Non in education, employment or training         |
| NES       | National Employment Service of Serbia            |
| MFI       | Microfinance Institution                         |
| SBAN      | Serbian Business Angels Network                  |
| SBRA      | Serbian Business Registers Agency                |
| SORS      | Statistical Office of the Republic of Serbia     |
| VC        | Venture Capital                                  |
| VET       | Vocational education and training                |
| USAID BEP | USAID Business Enabling Project                  |



## Before we start

### What are we looking at?

We are looking at *youth* and *entrepreneurship*.

By youth, we mean young individuals **aged between 15 and 30 years**. We map the barriers to entrepreneurship in this age group. However, statistical data sometimes do not correspond to this classification, and in such cases, we indicate this in a clear manner (e.g. 15-24).

For entrepreneurship, we refer to the definition of Professor Howard Stevenson: “Entrepreneurship is the pursuit of opportunity beyond resources controlled”. In formal terms, being an entrepreneur includes both legal forms in Serbia: “preduzetnik” (sole proprietor) as a legal form, as well as limited liability companies.

### What are we looking for?

We identify the *institutional and legislative barriers* that affect youth entrepreneurship in Serbia.

We take a snapshot of one piece of the entrepreneurial ecosystem puzzle. Just like in nature, the entrepreneurial ecosystem is a complex symbiosis of many bits and pieces -- individuals, entrepreneurs, institutions, legislation, finance, markets, culture, education, etc. In order to discover how to improve the ecosystem in Serbia, we should find our starting point. In this study, we focus on one part of this ecosystem, the Government’s influence on the entrepreneurial activities of youth.

### Which perspective are we looking from?

We look at barriers to youth entrepreneurship from two different perspectives: *different youth groups* and the *entrepreneurial life cycle*.

The mapping process is divided into several segments. We start from a birds’ eye view and a very brief snapshot of the general business environment in Serbia. Shortly thereafter, we zoom in on the obstacles particularly prominent for youth, compared to the general population. The three most important obstacles are elaborated in detail (availability of finance and access to capital; fiscal and para-fiscal system, and access to information and practical skills). The final zoom is on specific youth groups. Youth are not a homogenous group, so we investigate further specific obstacles faced by each of the youth groups.

Obstacles are divided according to the stage of development in the life cycle. Most of the obstacles are relevant throughout the entrepreneurial life cycle, but they exert crucial influence at certain stages. Three basic stages are observed: business initiation stage (planning stage); launch stage (newborn stage); and early-growth stage (stage of becoming established). The established and mature stages are beyond the scope of this analysis.



## SUMMARY

Much like their peers worldwide, youth in Serbia are faced with numerous challenges when entering the labor market. Figures from the Serbian labor market show a dire situation for young people, since the unemployment rate of this segment of population is almost twice that of the general unemployment rate. Moreover, half of those who *are* employed have a job that does not meet the basic criteria of “decent work” -- either the employment is informal, part-time, or the work requires qualifications lower than held by those performing it. Starting a business is one solution for those inclined towards entrepreneurship – and the percentage of such individuals among youth is 36%, higher than in the general population. However, the share of those who actually start a business is significantly lower. In addition to their lack of experience and the risk inherent to entrepreneurship, youth are greatly discouraged by the unsupportive business environment. Issues range from securing initial financing and the financial sustainability of a business, through an overregulated and unpredictable business environment, disloyal competition, lack of institutional protection, to lack of information. This report focuses on barriers stemming from the poor institutional and legislative environment.

While the same institutional and legislative issues affect every entrepreneur in Serbia, certain issues present significantly higher barriers for young people. The discrepancy originates from the fact that youth lack experience, capital and a proven track record - the essential elements for starting and running a viable business. These facts make youth more vulnerable and less adjustable, particularly in the domain of the three most difficult obstacles: *access to finance; fiscal and para-fiscal system; and lack of information, skills and mentorship*. External financial sources are often inaccessible and unstable, the complicated fiscal and para-fiscal system is increasing the already present uncertainty of the business environment, while the lack of information, business networks and mentorship makes progress difficult.

Access to finance is the single most important bottleneck for youth entrepreneurship. Youth are considered to be highly risky and are therefore off the radar for the majority of traditional financial institutions. On the other hand, alternatives to traditional financing, such as microfinance and venture capital, are still underdeveloped. The government is trying to tackle this issue by allocating certain funds through various state institutions, but they only have a marginal influence on overall access to finance for youth. Moreover, Government funds cannot and should not be the sole measure for solving the general issue of poor access to finance. The crucial missing element is alternative (non-financial) mechanisms that would increase the chances of obtaining financing from existing sources. These mechanisms would involve providing mentorship and support to young entrepreneurs, mitigating the risky nature of their newly started businesses.

The current fiscal and para-fiscal systems of Serbia are such that they contribute to the already unpredictable business environment throughout the country. Even though the most important fiscal instruments tend to stimulate the development of entrepreneurship, the fiscal system as a whole is non-transparent and unpredictable. On the other hand, para-fiscal charges are not only disproportionately high for what they are paid for, but are also numerous and frequently changing, making it extremely difficult for entrepreneurs to handle them. For a young person, it is both time- and money- consuming to identify the entire palette of various charges. Finally, tax procedures are complicated and expensive, while relevant institutions do not show systematic commitment to facilitating the procedures. Instead, Tax Administration officers often happen to play the role of police officers, instead of providing mentorship and support to inexperienced youth.

While providing initial capital is one of the biggest obstacles for youth when starting a business, skills and experience are critical for success or failure once the business is set up. Youth in Serbia lack the basic knowledge and practical skills necessary for entrepreneurship. This is partly due to the lack of experience inherent to their age, and partly due to the formal education system that does not prepare them for entrepreneurship in general. There is no adequate entrepreneurial education at any stage of formal education - neither in elementary and secondary schools, nor in universities. Regarding the informal education provided by Government institutions, relevant and high-quality business trainings, as well as mentorships, are usually ineffective, and unavailable to most youth.

Finally, obstacles for youth entrepreneurship are neither unique for all young people, nor equally burdensome throughout the entrepreneurial life cycle. In fact, obstacles are most pronounced during the first two stages of



the cycle - the intentional stage right before starting a business, and the launch stage which usually takes up the first two or three years of business development. At the same time, youth are not a homogeneous group, so certain obstacles impede some of them more than others. Young people with innovative and internationally oriented businesses are faced with outdated business environment which hampers their growth. They face severe issues with on-line payments, outdated laws and procedures, institutional persistence on the use of stamp, VAT refund delays, etc. This leads to a contradiction: instead of being supported and promoted, the most proactive youth sometimes feel forced to move to some other country with a more favorable business environment. Youth in vocational education and training would have more favorable starting point if there was an adequate legal framework regulating craft business. Young women, often young mothers, find it difficult to reconcile business and private life due to the lack of kindergartens. Youth with physical disabilities face with inadequate infrastructure of public institutions and inappropriate qualifications of public servants. The list goes on, and thus a tailor-made approach is needed to maximize entrepreneurial activity among youth. Understanding each step young individuals have to make when starting their own business, and particularly the obstacles they encounter along the way, would provide important insights that would help policy makers develop effective support mechanisms that would improve the currently unsatisfactory level of entrepreneurial activity among youth.

The Government has shown its intention to tackle the above issues through various strategies implemented during the previous period. However, these strategies are not being implemented fully. Likewise, the measures that *are* being implemented do not seem to be effective enough. This is mostly due to the lack of institutional capacity or lack of clearly defined priorities. Furthermore, there is a general lack of institutional coordination and systematic approaches to supporting youth entrepreneurship. Each relevant public institution is running its own programs without relation or harmonization with the others. Ultimately, they fail to create a synergetic effect. The underlining problem is that Government institutions neither understand the specific needs of youth, nor are they fully aware of the economic potential of entrepreneurship. This problem stems from the lack of relevant information on both youth and entrepreneurship - data on *existing* entrepreneurs are poor, while data on *potential* entrepreneurs are non-existent. Therefore, policy makers do not know how many individuals in Serbia would like to start their own business, who they are and what their ideas and concerns look like. Without being able to inquire about the problems and obstacles they face, it is almost impossible to create effective tailor-made policies.

While the legal framework could be improved, it is the institutional framework and implementation of the legal framework where the real issues lie. It happens that even when the relevant laws and strategies are in place, some of them fall short of full implementation, which is in effect similar to the situation without stimulant legal provisions. That might be either due to a lack of institutional capacity or a lack of oversight over the implementing institutions. Nevertheless, apart from the implementation issues, there are still series of laws that could be improved - particularly in a domain of international business operations. While young innovative entrepreneurs tend to compete globally, legal environment impedes them from such intentions by some outdated provisions.



## MAIN MESSAGES

- **Young people in Serbia have a rather unfavorable position in the labor market. As many as 36% of youth are unemployed, while almost half of those who are employed have a job that does not meet the basic criteria for “decent work”.**

*Entrepreneurship is part of the solution. However, its potential is being underutilized, mostly because youth feel discouraged due to the inexperience inherent to their age, or the unsupportive legislative and institutional framework.*

- **Young entrepreneurs face similar, but higher barriers than entrepreneurs in general. The gap stems from an even more pronounced lack of experience, lack of capital and lack of a proven track record faced by young entrepreneurs.**

*External financial sources are often inaccessible and unstable, the complicated fiscal and para-fiscal system is increasing the already present uncertainty of the business environment, while the lack of information and mentorship makes progress difficult.*

- **Access to finance is a much broader issue than generally perceived. The majority of young people cannot reach any potential external sources of finance.**

*Banks are often not a viable option, while alternative financing, though powerful, is still underdeveloped and has insufficient potential to reach to the general youth population.*

- **The fiscal and para-fiscal systems contribute to the existing uncertainty of the business environment, while the lack of information and skills widen the current gap.**

*Instead of mitigating these issues, the relevant institutions sometimes do rather the opposite - hold back or even disrupt business processes.*

- **While the legal framework could be improved, the institutional framework and implementation is where the real issues lie.**

*Relevant laws and strategies, although in place, are not being fully implemented, either due to a lack of institutional capacity or a lack of oversight over the implementing institutions. At the same time, some of the existing regulations are outdated, thus hindering the activities of innovative and globally-oriented firms.*

- **Despite the intentions demonstrated, Government support is still not sufficiently focused and properly targeted.**

*The current measures are not the most effective and do not reach a wide range of youth. Moreover, available detailed information on the obstacles entrepreneurs face is lacking, thus preventing the creation of effective support mechanisms.*





# INTRODUCTION

The latest global financial crisis still creates consequences worldwide. Although recovering, the world is faced with a significant downturn in the global economy. New entrants in the labor market – youth – are particularly bearing the brunt of the sluggish global economy (Schøtt, 2015). The average unemployment rate worldwide is 5.7%, while the youth unemployment rate is more than two times higher (12.8%)<sup>1</sup>. The situation is even worse in the EU, with the general unemployment rate at 8.5%, and the youth unemployment rate reaching as much as 18.7%<sup>2</sup>

Serbia faces even more pronounced trends. During last year, youth unemployment was more than twice that of the overall unemployment rate in Serbia (a 34.9% unemployment rate among individuals aged 15-24 vs. a 15.3% overall unemployment rate)<sup>3</sup>. Furthermore, the chances for youth to be employed are three times lower (ILO, 2015). At the same time, the quality of jobs for those who are employed often does not meet the criteria of the definition of “decent work”. A total of 47.4% of employed youth are informally employed (Marjanovic, 2016). Considering their earnings, 22.6% of all employed youth receive a net salary of 200 EUR, while two thirds have a net salary of up to 380 EUR. Additionally, the issue of underemployment complements the issue of job quality, referring to those part-time workers who would prefer to be engaged full-time. According to the official Labor force survey in Serbia, 20.8 % of employed youth are estimated to be engaged on a part-time basis. On the other hand, 18.8% of youth are over-qualified for the work they perform (Marjanovic, 2016). All of this leads to the issue of either a high share of unemployment, or poor quality and unsustainable employment. Furthermore, the lack of experience among youth is additionally marginalizing this segment of the population regarding the labor market.

Entrepreneurship could be part of the solution for youth unemployment. A total of 36% of young individuals in Serbia would prefer to start a business rather than be employed in the private or public sector (more than the country average for the general entrepreneurial spirit of 30%) (CEVES, 2012). However, entrepreneurial activity among youth is still low. Apart from the risk inherent to entrepreneurship itself, youth in Serbia face higher obstacles than entrepreneurs in general, and higher than youth in developed countries.

What should be the Government’s role and how can it stimulate youth entrepreneurship? The Government does not have a precise and evidence-based response to this question. Unfortunately, most Government programs and active measures thus far seem to be based on a vague perception of the situation, rather than proven requirements. The Government adopted several strategies targeting the promotion of entrepreneurship, dedicating funds and programs for this issue, and by doing so demonstrated the intention of tackling it. Nevertheless, there were not enough ex-ante studies that would identify the most effective measures. The search for any publicly available follow-up analysis that could evaluate the real success of the measures conducted, has shown that such monitoring does not exist.

Providing the most effective, systematic support requires in-depth, evidence-based knowledge. This study confirms that, even though the word ‘entrepreneurship’ itself was overused and has ultimately become worn out, in reality there is a fundamental information gap regarding this issue. It is not fully clear *who* should be supported and *how* they should be supported.

“Mapping barriers in youth entrepreneurship” represents a baseline snapshot of entrepreneurship bottlenecks faced by youth in Serbia, focusing on the institutional and legislative framework. What is the real role and influence of public institutions regarding youth entrepreneurship today? Has the institutional framework been set up in an efficient and coordinated manner? Are institutions building labyrinths from the roads to

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<sup>1</sup> International Labour Organization statistics for 2016.

<sup>2</sup> Eurostat database for 2016.

<sup>3</sup> Statistical Office of the Republic of Serbia, the labor survey for Q3 2016. However, it is important to underline the uncertainty present in the basic SORS methodology for employment statistics. During the past several years, employment statistics have not been in correlation with other key macroeconomic trends. Both CEVES and FREN have addressed these issues.



entrepreneurship? Does the legislative framework allow for the activation of all existing possibilities? This study does not aim to present all issues in detail, but rather to shed light on the most important barriers. It should serve as a starting point for identifying basic solutions, and for necessary follow-up, in-depth studies. Finally, there is one important caveat -- the analysis of the role of formal education in youth entrepreneurship is beyond the scope of this paper. Instead, we focus on institutional and legislative barriers that take place after the period of formal schooling.

In order to provide better insight into this issue, the research methodology encompassed a combined approach - qualitative and quantitative. More than 110 semi-structured interviews have been conducted. Respondents cover all relevant aspects of youth entrepreneurship -- young entrepreneurs (more and less successful), policy makers, representatives of relevant Government and non-government institutions, financial institutions, etc. Finally, the analysis was complemented with results obtained from databases that cover the detailed performance of all Serbian companies.

The report is divided into four main segments. The first segment presents issues regarding entrepreneurial environment in general - ones that affect all businesses equally regardless of the entrepreneurs' age. A special focus in the second segment is placed on youth, highlighting issues particularly important for the young generation in entrepreneurship and focusing on the lack of funding, as well as the lack of experience and knowledge. This serves to produce analysis of which parts of the institutional and legislative framework widen the gap between youth and adults. The third segment introduces five youth groups, and an analysis of additional or specific obstacles of particular interest to each group. Youth is not a homogeneous category, and policies that aim to support them should be tailor-made to their most pressing needs. Throughout all three segments, insights are provided into the institutional and legislative framework, as a direct or partial source of certain bottlenecks - some of the bottlenecks are the result of inadequate or missing legislation, while others are related to certain institutional inefficiencies. Finally, barriers differ through the entrepreneurial life cycle. In order to have a firm stance on this issue, a "prioritization matrix" is introduced. The matrix maps the barriers along the entrepreneurial life cycle and highlights the influence and importance of each barrier along the way.



# GENERAL ENTREPRENEURIAL ENVIRONMENT IN SERBIA

The current social and economic environments of Serbia have been strongly influenced by the structures inherited from before the transition period, which started during the early nineties, as well as neoliberal policies after 2000, the effects of the 2008 global financial crisis and the second wave of the crisis in 2012. Despite the many negative factors, Serbia has managed to increase its GDP per capita (adjusted by PPP) from USD 6,165 in 2000 to USD 12,863 in 2015, become an EU membership candidate state and be among top ten European economies by GDP growth rate in 2013<sup>4</sup>. However, the overall economic environment in Serbia is still rather unfavorable. Economy is still characterized by low competitiveness on a global scale (94<sup>th</sup> out of 140 countries<sup>5</sup>), high public debt (76% GDP) and a rather high unemployment rate (15%)<sup>6</sup>.

Providing a stimulating entrepreneurial environment requires a detailed and holistic approach. The entrepreneurial environment is affected by all elements of the entrepreneurial ecosystem – Government policy, regulatory framework, institutions, finance, culture, education, human capital, local and global markets. We cannot create a better financial environment without a solid institutional and legal framework, or stimulate entrepreneurship only through legislative amendments without changes to the education system. As Professor Daniel Isenberg said “Reform won’t be truly effective in the absence of all the “softer” approaches (...) such as breaking down cultural barriers, educating entrepreneurs, and promoting success stories.” (2010). Therefore, an integrative approach is needed. However, this report does not aim to provide recommendations on how to create such an approach, but rather to explain the current entrepreneurial environment in Serbia.

Serbia was awarded a Doing Business Rank of 47 (out of 190) for 2017, 7 places higher than in 2016. Most of the improvement is owed to the facilitated acquisition of construction permits, where Serbia took 36<sup>th</sup> place, in comparison to 152<sup>nd</sup> place in 2016, as well as tax system improvements, reflected in an improvement of 20 ranking positions (from the 98<sup>th</sup> to the 78<sup>th</sup> place on the list). These trends provide solid evidence of Serbia’s intensive efforts to make its business environment more attractive for entrepreneurs. Most importantly, there has been a move of 15 places up the list (to 47<sup>th</sup> place) regarding the ease of starting a business – there are now 5 procedures an individual has to undertake in Serbia in order to set up a business, taking 7 days in total. On the other hand, Serbia moved 19 places down in the list regarding the ease of acquiring electricity and 8 places down in the list regarding enforcing contracts. Regarding the ease of getting a credit, although 2 places down the ranking list, Serbia is at 44<sup>th</sup> place, which does not seem bad. However, Serbia is lagging in probably the most important segment of this component - the degree to which collateral and bankruptcy laws protect the rights of borrowers. In fact, the current legislative framework<sup>7</sup> seems to favor lenders to borrowers<sup>8</sup>. Also, it does not differentiate between borrowers who deliberately avoid settling their liabilities and borrowers who are forced to do so due to a third party’s fault (be it a private entity or the state).

The most important barriers entrepreneurs in Serbia face in general are listed and described below:

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<sup>4</sup> World Bank

<sup>5</sup> Global Competitiveness Index 2015-2016

<sup>6</sup> Statistical Office of the Republic of Serbia

<sup>7</sup> Law on Enforcement and Security (2015)

<sup>8</sup> For example, when a borrower asks for a postponement of enforcement, a public executor holds the discretionary right to determine the duration of postponement (while the lender determines it on his/her own). Also, the borrower does not have the right to sell a collateral even before the decision on enforcement becomes valid.



## Importance and potential of entrepreneurship not fully recognized by the state

The Government of Serbia has proclaimed 2016 “The Year of Entrepreneurship”. It is an important step in a country where entrepreneurship has often seemed to be undervalued. However, it still seems that both existing and potential entrepreneurs in Serbia do not feel fully “recognized” and “detected” by the state.

First, data that would capture all entrepreneurs operating in Serbia is lacking, not to mention a *detailed* database that would describe their structure and characteristics, thus enabling us to identify their needs. Moreover, even a common definition of different types of entrepreneurs is lacking, and they are not adequately recognized within the legal framework. Without being able to classify and track entrepreneurs, we cannot create tailor-made policies that would target those that need support the most. The current policies are generic and the goals of the adopted Strategy for the development of SMEs and entrepreneurship are too broad, thus measuring the effects of such policies would not only be impossible due to the lack of data on entrepreneurs, but also due to the generality and broadness of policies.

Furthermore, there is no evidence on *potential* entrepreneurs in Serbia, i.e. the number of individuals who would like to start their own businesses, who they are, and what their ideas and concerns look like. Some of them are unemployed, and some of them would like to start a business in areas that suffer from high unemployment. These subgroups should be of special interest for state authorities and policies should be targeted to support them the most. However, without knowing who they are and without being able to inquire about the problems they face or the potential they see, it is almost impossible to create tailor-made policies.

Finally, Serbia is not part of the Global Entrepreneurship Monitor (GEM) – a worldwide study conducted by a consortium of universities from around 65 countries with the objective of analyzing the level of entrepreneurial activity in each country on a yearly basis. Serbia participated in the study for three years only (2007-2009), when it was represented by the Faculty of Economics from Subotica. Had Serbia continued to participate in the study, we would now be able to track entrepreneurial activity rates, assess entrepreneurs’ motivations and ambitions, target policy-making and measure the effects of implemented policies.

## Problem of choosing the right business form

The problem of being recognized in an adequate way partly stems from the fact that “preduzetnik” in Serbia is both an entrepreneur and a business form. Not all businesses registered as “preduzetnik” could be regarded as entrepreneurs in the essence of that word, nor do all entrepreneurs register their business as “preduzetnik”. Entrepreneurs also have the option of registering their business as a “d.o.o.” – a limited liability company. This is another problem faced by entrepreneurs: choosing the right form for their business. While the form of “preduzetnik” has a simpler and less costly registration process, lower fees, the possibility of choosing the mode of financial reporting, the possibility of opting for lump-sum taxation, a lower income tax rate, a lower social contributions rate, and simpler exit, the form of “d.o.o.” brings lower risks in the sense that there can be more than one owner and the company is liable with its assets only (not the whole personal property of the owners), as well as the greater possibility of expanding the business not only territorially, but also in terms of introducing new business activities.

## Overregulated and unpredictable business environment

One of the most important barriers that make people in Serbia reluctant to decide on running their own business is cumbersome bureaucracy and unstable regulatory environment. At this moment, running a business is regulated by 156 laws and over 250 by-laws, subject to frequent changes. A dozen bureaucratic procedures and the complicated acquisition of licenses and permits (especially construction permits) turn entrepreneurs away from realizing their ideas. If they decide to do embark on it, they often have to hire lawyers to interpret legal documents when setting up a business, and once it is set up, they have to keep up with frequent changes to the regulatory framework, published at least twice a week in an official gazette. Not only does such a practice take time and money for entrepreneurs, it also creates an overall uncertainty in the business environment, leading to lower entrepreneurial activity.



### **Unfair competition**

Unfair competition is an additional source of uncertainty when running a business. Small firms are inadequately protected and can easily be pushed out of the market by disloyal competition. Such a risk is especially pronounced in a country where almost a third of the GDP (30.1%) is earned in a grey zone (USAID and FREN, 2013), compared to 10-15% in developed countries. The Serbian Government adopted a National strategy for combatting the grey economy in 2015, and managed to increase tax revenues significantly, but it is still not known how the measures undertaken affected small and young businesses. Additionally, entrepreneurs are reluctant to enter the business world as there is a commonly held perception that both the private and the public sector are highly influenced by bribery (Serbia ranks 71th out of 168 countries on the Corruption Perception Index 2015). On the other side, the Law on Inspection Oversight adopted in 2015 has introduced improved detection of unregistered entities and increased order in doing business for all operating entities. However, the full implementation of this law will only start this year.

### **Lack of institutional protection (particularly for uncollectable receivables)**

Institutional protection is just as essential as the legal framework. Entrepreneurs are discouraged from starting any judicial processes, as they are costly, lengthy and unpredictable. There are no effective mechanisms for resolving disputes. Regarding contract enforcement, Serbia is ranked 61<sup>st</sup> (out of 190) on the World Bank Doing Business list, without improvement during the last two years. A particular reason why entrepreneurs feel unprotected is that nobody can guarantee that they will receive the money due from business partners in transactions. There is a large number of insolvent business entities in legal transactions, as well as companies that consciously go into bankruptcy in order to avoid paying their liabilities. In such an environment, it is difficult for a firm to predict financial flows, plan investments and design growth. Young firms are even more exposed to such problems, as they are often unable to identify unreliable partners. Moreover, there is no systemic solution for preventing such business entities from abusing somebody else's money and pushing their partners into liquidity problems.

### **Complicated exit**

The unpredictability of the business environment, uncollectible receivables and lack of support often lead to premature business shutdowns. However, even closing a business may be complicated and costly. Young entrepreneurs are often unaware of hidden risks and the potential inability to return and retain the money they invested in a business. An average liquidation process lasts between one and three years, depending mostly on the amount of unpaid claims. Debtors use every opportunity to avoid payments, so cases often go to court, which debtors also use to prolong the process and "buy time". A company undergoing the liquidation process is swamped with various costs: from high court fees (5 to 15 percent of the total value of the dispute), the costs of hiring a lawyer, to the costs of hiring official economic expert witnesses. These costs may erode a significant part of the uncollected claims (sometimes even more than a half).






## OBSTACLES AFFECTING ALL YOUTH

Youth face the same obstacles as others, but certain obstacles are much higher for them. This study reveals that even though there is no specific institutional or legislative issue that can be addressed exclusively to youth without affecting everyone else, a certain set of conditions presents a significantly higher barrier for young people.

Although youth possess more favorable educational preconditions than adults and have a higher intent regarding entrepreneurial activity, the share of those who actually start a business is lower than for adults (Schøtt, 2015). A recent Global Entrepreneurship Monitor (GEM) study on youth entrepreneurship reveals: “The youth, as a group, show significantly higher levels of entrepreneurial intention than the adults (1.6 times higher). In the older youth category, this intention translates into a relatively high level of actual entrepreneurial activity, while the young youth show a significant decline between entrepreneurial intention and entrepreneurial activity. Apart from other reasons, certain obstacles are higher than for adults.” This confirms the proposition that youth face a higher level of barriers that impede them in realizing the intention to start a business.

This study shows that two key issues lie at the root of the challenges faced by young people in entrepreneurship in Serbia: *lack of capital and lack of experience*. Both issues stem from their age, and are just as relevant for youth worldwide. However, the **legal and institutional framework in Serbia failed to narrow the existing gap, sometimes in fact rather opposite - contribute to widening it**. The lack of initial capital/collateral is contributed to inaccessible sources of finance in general. The World Bank Enterprise Survey (World Bank, 2015a) documents that entrepreneurs find that access to finance is one of the chief obstacles to establishing a firm in South East Europe. Insufficient funding was noted to be the biggest issue by far for their business operations by 36.9% of youth in Serbia (Marjanovic, 2016). On the other hand, while the lack of capital is critical for starting a business, practical skills are critical for business survival and ultimately – business success.

There are three particular barriers Serbian youth face, all of them stemming not only from their age, but the institutional and legislative framework as well. They are the following:

-  **Barrier 1** -- Access to finance and capital
-  **Barrier 2** -- Fiscal and para-fiscal system
-  **Barrier 3** -- Information and practical skills

**Barrier 1** is related to the general and most constraining obstacle to youth entrepreneurship, referring to significant difficulties in obtaining capital when starting and developing a business. **Barrier 2** refers to the complicated and unpredictable fiscal and para-fiscal system, both time- and money-consuming. Finally, **Barrier 3** targets the information and skills gap youth in Serbia face.

The Government has recognized these issues as some of the most constraining obstacles to entrepreneurship in Serbia. It adopted a series of strategies, the most important one being “Strategy for SME Development, Entrepreneurship and Competitiveness 2015-2020”. However, a systematic determination to solve these issues still has not been proven. This is mostly due to the lack of institutional capacity, combined with a lack of clarity in the definition of priorities, related both to the issue of lack of information on existing and potential entrepreneurs. Strategies are often created based on the existing strategies of more developed countries, without taking into account the particularities of the Serbian business environment or the different cultural background. In practice, each of the identified general barriers demands a thorough analysis, understanding the implications of alternative measures and a coordinated institutional approach for successful implementation. Without a holistic approach, sustainable change cannot happen.



**Regarding youth entrepreneurship, fragmentation of Government support has always been more pronounced.** The Government does not understand the specific needs of youth and does not create tailor-made measures for supporting youth entrepreneurship in particular.<sup>9</sup> Although there are two strategies that try to deal with access to finance and access to knowledge regarding youth entrepreneurship (the abovementioned Strategy for SME Development, Entrepreneurship and Competitiveness 2015-2020 and the National Strategy for Youth 2015-2025), the solutions they offer are only partial and not applicable throughout Serbia. Likewise, there are a number of projects aimed at supporting youth entrepreneurship through various funds and educational programs, but they are not coordinated well.

The following three chapters present each of the three barriers for youth entrepreneurship development in Serbia, focusing on the institutional and legislative perspective. As access to finance is the largest obstacle, we shed particular light on it.

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<sup>9</sup> The gap becomes even wider regarding specific youth groups, to be elaborated in the fifth chapter.



## First barrier

## AVAILABILITY OF FINANCE AND ACCESS TO CAPITAL

*Access to finance is the single most important bottleneck for youth entrepreneurship. Youth are considered highly risky and are therefore off the radar for the majority of traditional financial institutions. This derives from the fact that they lack experience, collateral and a proven track record. Alternatives to traditional financing in the form of microfinance and venture capital, though still underdeveloped, cannot significantly resolve the issue of access to finance for youth. Even with the potential for alternative financing fully utilized, the majority of youth would still remain without any possible access to finance. The crucial missing element are alternative mechanisms that could improve the chances of obtaining financing for a considerably higher number of young people.*

Insufficient access to finance is a major challenge both for youth and for adults participating in the entrepreneurial scene in Serbia. **External financing of firms in general is still significantly inferior to self-financing.** Own funds are the source of 85% of the total financing of Serbian firms, while only 8% comes from banks. Furthermore, 68% of businesses report that they do not use external financing at all (BEP, 2016). At the same time, the lion's share of those that do refers mostly to large and some medium-sized companies, while over 60% of SMEs report challenges in obtaining finance. This is comparably much higher than the "30% of SMEs in middle income countries (and 15% in high-income countries) that report poor access to finance as a major constraint to their development" (CEVES, 2012).

However, this issue is even more pronounced for youth. In many cases, they do not possess their own capital. When they do find capital "internally", it is usually the first tier of investors, regarded as "family, friends, and fools". External financing, on the other hand, is largely inaccessible. Traditional financing is almost non-existent, while alternative financing is still underdeveloped.

### TRADITIONAL FINANCING

#### Commercial banks

The role of the banking sector in financing youth business is limited, since without proper collateral, youth are unlikely to obtain a bank loan. This particularly refers to the **initial stages of business development, when young people are mostly considered unbankable.** The majority of early-stage youth enterprises (over 90%) are micro firms that employ fewer than five people (Schøtt, 2015). At the same time, banks are largely uninterested in financing micro firms (CEVES, 2013). The reason is that banks do not have the infrastructure and more importantly – the incentive – to finance early-stage businesses, even exceptional ones. The transactional costs and risks are high, and potential gains comparably lower than in their usual portfolios. Only 6 out of 30 registered and active banks in Serbia finance youth entrepreneurship projects (BSN). Therefore, financing is predominantly based on EU and other foreign development funds such as EIB, EBRD, European Agency for Reconstruction and others.





Credit guarantee schemes are part of a solution for reducing the risk that banks face in the early stages of business development. The objective of credit guarantee schemes is to facilitate credit access for small companies with potentially lucrative projects, but insufficient collateral or credit history. For some time, the only national provider of guarantee schemes was the Development Fund of the Republic of Serbia, which did not show substantial results. This was confirmed by the fact that the last scheme offered in 2015 was approved for less than 10 firms during the entire year. However, in the past year, the Government has made significant improvements in providing guarantee schemes at the national level. There are three available grant schemes -- COSME, EDIF, and InnovFin, provided through EIB, ProCredit bank and UniCredit bank. However, the schemes are approved only for the later stages of developing a business, not for starting a business. Moreover, **youth very often cannot make use of the benefits of guarantee schemes due to the requirements.** These grant schemes are expected to boost access to bank loans for many SMEs, but will not contribute to starting a business. The requirements assume that a firm has operated profitably during the previous two years and possesses a first class mortgage. Since these requirements do not differ from those imposed by banks, guarantee schemes do not provide relief for young entrepreneurs regarding obtaining finance during the first few years of their business.

*However, is there an alternative for bank loans? Some, but once again, limited and not easily accessible.*

## ALTERNATIVE FINANCING

Alternative financing has a potentially important role in bridging the financial gap faced by youth, but it failed to reach its full potential mostly due to the missing legal framework. Alternatives to traditional financing refer to alternative debt-based financing (non-bank financial institutions - primarily microfinance institutions) and alternative equity-based financing (venture capital funds, private equity funds, business angels, etc.). However, their current role is limited. Alternative financing in Serbia still accounts for 16%<sup>10</sup> of total external financing (BEP, 2016). Considering the fact that external financing accounts for 15% of overall financing in Serbia, it is clear that alternative financing has a marginal role.

### Alternative debt financing

As stated earlier, commercial banks are particularly reluctant to finance the *first stages* of business development, so the **piece that is missing the most in the traditional financing scene are microloans** (loans that amount to less than EUR 5000). For example, out of 30 commercial banks, only Erste bank, Opportunity bank, ProCredit bank and UniCredit bank have microloans in their portfolio. Furthermore, among them, Opportunity bank is the only one dedicated entirely to microloans, with a particular focus on rural areas. Microfinance institution representatives pointed out that there was a huge gap between the need for microloans in Serbia and the supply offered by existing institutions. Estimates indicate 140.000 individuals per year would potentially opt for a microloan (BEP report on microfinance, 2014).

One piece of the puzzle that is particularly missing are **microfinance institutions**, as a type of NBFIs. Microfinancing is an alternative way to secure small loans for self-employment and entrepreneurship activities. The particular importance of microloans can be seen in rural and impoverished regions, where such lending activity can stimulate hundreds of local young people (BEP report on microfinance, 2014). There are currently only three microfinance non-bank institutions in Serbia –

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<sup>10</sup> In addition to the above alternative debt and equity financing, this share includes state institution loans, donations and grants.



AgroInvest, Micro-Development, and MicroFinS. However, they all operate through the platform of commercial banks, as there is no legal framework that would allow the non-bank non-depository sector to lend money. This increases costs, transferred into the interest rate paid by the borrower. Despite the will to adopt a Law on Microfinancing, announced several times during the past few years by different Government representatives, the Law has not been adopted to date. The lack of such a law represents an anomaly in Europe, where almost all countries have one, along with a law on non-bank financial institutions in general.

### **Alternative equity-based financing**

**Equity-based financing is still underdeveloped in Serbia, with only a few investment funds.** A palette of investors throughout various stages of the entrepreneurial life cycle -- pre-seed investors, seed investors, business angels, venture capital funds, private equity firms – that exists in developed countries, is lacking in Serbia. Such investors are highly important for youth entrepreneurship, particularly in the domain of technology, ICT and innovative sectors. Unfortunately, the equity investment scene in Serbia has a poor performance, even when it comes to funds investing in securities on the Belgrade Stock Exchange (BELEX). There are only 10 investment funds that invest in securities, with a capital of EUR 44.3 million. Half of the investment funds invest exclusively in shares on BELEX (EUR 7.3 million), while the remaining half invest in debt securities and bank deposits (EUR 37 million). None of them invests in youth entrepreneurship. It is worth mentioning that these investment funds were not founded by private capital, but rather by EU and other donor funds.

**The lack of private equity and venture capital activity is particularly pronounced.** The first Serbian private fund - ICT Hub Venture, was founded in January of this year with the aim to invest in early-stage tech companies. Even though this is a positive signal, overall venture capital market activity is still low. There are only four venture capital funds investing in startups in Serbia, with far less capital than other investment funds. At the same time, business angel activity is marginal, despite the fact that the Serbian Business Angels Network (SBAN) was established seven years ago. The existing legal framework is limiting the entry of more private investors, as it makes the investment process rather complicated and reduces the scope of alternative options the investors may be willing to use when joining the network. However, it is worth mentioning that even though there is widespread public belief that the missing legal framework is the sole reason for low VC activity in the Serbian capital market, this is only partially true. Leading experts in the sector agree that the other side of the coin is a lack of investment opportunities, noting that investors in general go where the opportunities lie. Moreover, the poor condition of the private equity market, further aggravated by weak contract enforcement and the existing Law on Bankruptcy, does not protect investors' capital well enough. Therefore, most potential private investors are highly discouraged from investing in Serbian startups, and rather opt to invest their money in countries with better regulation.

**There is a clear need for a completely new legal and institutional environment for equity-based financing.** Such an environment would include a legal framework that could provide more adequate alternatives for private equity and venture capital investments. The current Law on Investment Funds clearly regulates investments in listed shares and bonds, but does so only vaguely for venture investments in non-listed companies. The leading regulation on this matter should be either the Law on Venture Capital Investment in Serbia or an adequately adjusted Law on Investment Funds. Furthermore, there is an additional set of related legislative adjustments that would be needed to create a full-fledged venture capital investment scene in Serbia. These would imply introducing VC investments into the Law on Banks, introducing the possibility of equity investments by pension funds and insurance companies, introducing a Law on Local Investment Funds, etc. Our interviewees pointed out that a draft of the Law on Venture Capital was prepared several years ago, but has not been approved thus far. Finally, many developed countries introduced fiscal incentives for those who invest venture capital, as an effective measure for the promotion of equity-based financing.



## “MISSING MIDDLE” - YOUTH ACCESS TO FINANCE GAP

Even though microfinance and venture capital are usually cited as potential solutions for youth access to finance, the truth is somewhat different. Microfinance can create groundbreaking changes in poor and rural areas, where it tends to cover the agricultural and informal sector more. Venture capital plays a vital role in the startup<sup>11</sup> scene, referring to newly opened, innovative, fast-growing and often technology-oriented firms. The role of these sources of finance is undeniable and indispensable. Nevertheless, there is still a huge gap regarding youth that might not be targeted by any of these alternative sources of finance. Even if we consider an ideal scenario, with the adoption of an adequate legal framework, the solution for youth access to finance would still be partial. This study roughly estimates that<sup>12</sup>, in the short to medium term, **even with potential of alternative financing fully utilized, as much as 60% of youth would remain without access to external finance.** The remaining youth would have no access to any possible source of financing whatsoever, and would thus be prevented from starting a business.

**This “missing middle” youth has somehow managed to slip under the radar of the public and the Government. Even the professional public seems to underestimate the true size of this gap. Nevertheless, it is crucial that the Government is aware of the fact that most youth have almost no chances of receiving any financing for starting a business.**

## THE ROLE OF THE GOVERNMENT IN YOUTH ACCESS TO FINANCE

The Serbian Government has **recognized a general lack of finance available for starting and developing a business**, so it allocates certain funds through various state institutions. The leading institutions are the Development Fund, the Development Agency of Serbia, and relevant ministries – the Ministry of Economy, the Ministry of Education, the Ministry of Youth and Sport and the Ministry of Agriculture. Moreover, this year has been proclaimed the “Year of Entrepreneurship”, with funds dedicated to starting and developing businesses. The highest share of funds is dedicated to startup funds, loans for permanent working capital and loans for current liquidity. Funds dedicated exclusively to youth entrepreneurship were increased in 2016. They are accessible through DAS accounting for RSD 33 million, and the Ministry of Youth and Sport accounting for RSD 77 million.

However, the current Government approach seems to have a limited impact on general issue of youth access to finance. The measures target the young population only partially, and the final effects do not seem to be effective enough.

### Issues regarding the current Government approach

The focus of the current Government approach is on funds directed at entrepreneurial projects. However, such an approach **does not seem to have a wide and systematic impact on youth access to finance.** The funds only target tens of projects per year. Considering the magnitude of the issue, this does not contribute significantly to alleviating it. Most young people remain without any possible access to finance. Government funds are not, and cannot be, the sole measure for solving this general issue, and they only have a marginal influence on overall youth access to finance.

**The crucial missing element are alternative, non-financial mechanisms that could improve the chances of obtaining financing for a significantly higher number of young people.** Leading innovations on a sustainable and more inclusive access to finance for youth, propose a more personalized and participative approach to non-financial support as an alternative to traditional types of collateral, that guarantee to expand access to capital for young entrepreneurs. The underlying idea of support is to reduce the effective element of risk for youth and improve their repayment rates, thus providing access to more traditional sources of finance, as well (YBI, 2012). The

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<sup>11</sup> A “startup” is probably one of the most misused terms, both in the public and professional sphere in Serbia, referring to the “start of doing business”. However, the global meaning of the word applies exclusively to newly emerging, fast-growing businesses that aim to meet a marketplace demand by developing or offering an innovative product, process or service. Even though it usually refers to IT firms, not all newly opened IT firms can be considered startups. This is why VC is not suitable for the IT industry in general.

<sup>12</sup> Rough approximation based on CEVES calculations.



current Government approach in this aspect is partial and inadequate, although it could be substantial. There are non-financial Government program services in place dedicated to the promotion of entrepreneurship, consisting of training and mentorship programs. However, they are not tailored to youth, nor do they have the right targeted approach. These programs should be well-deigned to fundamentally eliminate youth gaps, have an individual approach and provide youth with high-quality, practical knowledge.

**An additional obstacle to non-financial support is the lack of cross-sector partnerships.** There is no inter-institutional coordination. Each institution has its own list of priorities, programs and active measures to tackle certain issues, unable to create any synergy and strongly improve youth access to finance. Some of the best practices in European countries assume cooperation between private and public institutions -- different Government institutions, the Chamber of Commerce and the private sector. Their effectiveness was particularly proven in local communities (YBI, 2012).

Nevertheless, it is worth mentioning that due to low Government coverage, **direct financial support could have an important role, primarily in promoting the most innovative young firms in Serbia.** However, the applied method of support can be crucial. First, it is important to underline the priorities for support through public funds. Their impact on youth as a whole, without proper prioritization, is rather marginal. The principle “let’s support anyone and anything” very often leads to “supporting no one”. The highest payoff for financial Government support could be achieved by focusing on young firms that have fast-growing potential. However, the method of allocation of public funds should be questioned and analyzed. Most correspondents underline that Government institutions do not have sufficient capacities to effectively allocate funds to the best projects, and thus should not play the role of venture capitalists directly. This is particularly because, to date, Government was accused of transparency issues by most correspondents. Contrary to this, a large number of western European countries have opted for co-funding schemes, rather than for providing funds directly to startups.



## Second barrier FISCAL AND PARA-FISCAL SYSTEM

*The fiscal and para-fiscal system of Serbia seems to contribute to the already unpredictable business environment. Even though the most important fiscal instruments in Serbia tend to stimulate the development of entrepreneurship, the entire fiscal system is non-transparent and unpredictable, due to frequent changes. On the other hand, para-fiscal charges are not only disproportionately high for what they are paid for, but are also difficult for entrepreneurs to catch up with and to pay all of them. Finally, tax procedures are complicated and expensive, which makes youth altogether reluctant to start their own business.*

The fiscal and para-fiscal system is rather inefficient and demotivating for starting a business. The most important problem is that it **contributes to the already unpredictable environment**. For a young person, it is both time- and money- consuming, and often almost impossible to identify and pay the entire palette of different charges. The current fiscal and para-fiscal system is set so that it “pounces on” a young firm from its first breath, regardless of its actual activity, first contract realization or first cash inflow. With this amount of charges, it is often challenging for a young person to preserve the limited initial capital. On the other hand, the system itself is too complicated and, for inexperienced youth, difficult to tackle. Relevant institutions often take on the role of “police”, rather than “mentoring the entrance process”. In such an environment, youth can be pressured and discouraged by the treatment of institutions, rather than encouraged right from the early stages of business. The first three years are critical and the most influential for youth, and should not be wasted on administrative work, but rather on business development.

*What are the biggest issues for youth in this regard during the first three years?*

### **The fiscal burden, though stimulating in general, is relatively burdensome for youth**

The fiscal system in Serbia tends to stimulate entrepreneurship in general. Compared to the European level, the leading fiscal instruments are less burdensome. For youth, on the other hand, certain fiscal charges seem to be a great burden, particularly during the first three years of business development. This refers to salary contributions and property taxes.

#### **Salary contributions**

Contrary to widespread public opinion, the total tax burden on labor is not higher than in EU countries. In order to obtain a relevant comparison with other countries, salary contributions should not be analyzed separate from other costs of labor, and should be counted as a share of the profit, and not of the net salary. Taking that into account, the total labor tax and contributions as a percentage of profit in Serbia amount to 20.2%, somewhat below the average in Europe & Central Asia (20.4%) and far beyond the average for OECD high-income countries (24.1%)<sup>13</sup>.

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<sup>13</sup> Doing business, 2017



However, the almost non-existent relief from fiscal charges during the business start-up period has a particular impact on the youth. Given Serbian economic conditions, and youth difficulties in access to finance, salary contributions can melt the entire initial capital during the first few years of running a business. The average initial capital in Serbia for newly opened firms in 2015 was EUR 5,000<sup>14</sup>. Assuming that the owner is the only employee of a firm, the total minimal monthly payments out of his salary are 280 EUR. Taking into account only the contributions, the owner should pay EUR 1,300 per year. This could lead to the erosion of most of the initial capital during the first three years due to salary contributions only. To avoid high contributions on salaries, owners oftentimes choose to enter the grey zone by not registering their employees, or registering them at minimum wage, while paying the rest of the salary “in cash”. For youth in business, this is an important obstacle, as they face difficulties in attracting employees, especially motivated and the skilled ones. Other expenditures that should also be accounted for are costs of accounting, property tax and other local municipal para-fiscal burdens, bureaucratic costs, etc. The key point being that little is left for business development, market penetration, etc.

Unlike Serbia, certain European countries are rethinking the current tax regime, particularly for innovative startup firms. The latest to do so was Latvia, whose Parliament passed an innovative startup law, entering into force in early 2017. The law envisages two tax plans for a firm: either a flat rate per employee for minimal social benefits, regardless of salary paid; or a zero rate of all social and personal contributions, for employees with higher qualifications, with a doctors/masters degree or more than five years of experience.

### **Value Added Tax payment dynamics - “Busting the myth”**

The most frequently cited barrier by a vast number of entrepreneurs and studies is the legal provision of Value Added Tax (VAT) payment dynamics. The dilemma is the following -- should entrepreneurs be obliged to pay VAT the moment an invoice is issued, or when they receive, a cash inflow based on that invoice? Most of the expert public share the opinion that VAT should be paid after the cash inflow, since this represents a high financial burden, and since the inflow is usually uncertain due to the unpredictable environment. Since the collection of sales revenues can last for months, paying VAT at the moment an invoice is issued creates serious liquidity issues.

Changes in the Law on VAT in 2013 allowed SMEs to pay VAT after the collection of sales revenue. Namely, SMEs that have an annual turnover below RSD 8 million can benefit from more favorable payment dynamics. Even though this law provision does not fully resolve the problem, the vast majority is still uninformed of this option, and thus do not use it.

### **Numerous and unpredictable para-fiscal and administrative charges**

The current business environment in Serbia involves over 280 para-fiscal charges, administrative taxes, potential penalties and other charges. An additional problem is that these charges vary across sectors and municipalities. Zooming into some of the sectors reveals that an average agricultural firm is obliged to pay 48 to 64 fiscal, para-fiscal and administrative charges per month; in tourism and hospitality 52 - 63; and in the metal processing sector 45 – 60. Finally, if a firm is located in city centers like Belgrade, Novi Sad, Nis, or Subotica, the number of charges increases even further.

Even though the Government has made some progress regarding para-fiscal charges during recent years, they still present problems for youth. The new Law on Local Self-Government Financing abolishes one of the highest

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<sup>14</sup> Serbian Business Register Agency database.



para-fiscal charges, the so-called “firmarina”<sup>15</sup> for firms that generate annual revenues below RSD 50 million. Nevertheless, para-fiscal charges are still numerous, difficult to identify, and unpredictable in the amount. As much as 36% of firms claimed the biggest issue with para-fiscal charges stems from the fact that there are no counter-services, products or rights, while 24% noted the issue of unpredictability, and 18% the amount of these charges (NALED, 2014).

Young people without experience and skills find it very difficult to identify all of the numerous para-fiscal charges. Additionally, the charges are not even constant at an annual level, but vary significantly. Examples can be found among certain municipalities, with the practice of frequent changes of local charges. Those changes are mostly unannounced, and therefore impossible to anticipate. In such an environment it is hard to predict future expenses, plan financial flows or raise the required capital on time. For example, the public company “Poslovni prostor”, increased rent prices for the months that followed during the past year by 50%, without an announcement. The users who rent these office spaces are often small sole proprietors (e.g. hairdressing salons), unable to adapt easily to these changes and are forced into bankruptcy.

As most of the significant para-fiscal charges are associated with local-level policies, it is the local municipalities that play an important role in setting up a healthy local eco-system that should be stimulating, rather than discouraging or even hostile.

#### Box 2: Local governments and the local economic environment\*

##### The local eco-system

Our research reveals significant differences in the approaches of different local governments and their effect on the local economy. There are examples of “exceptional” local municipalities, promoting a proactive approach in strengthening local capacities and local businesses. Through their strategic approach they provide various sets of incentives for local businesses, participation in local governance for local firms, an active role in information capacity building, public-private partnerships, etc. Others, on the other hand, do not have concrete and consistent approaches to their local economies. However, there are minimum conditions every local municipality should meet, such as security and predictability, as well as transparency and simplicity of the local eco-system.

##### *Security and predictability*

Firms often operate in an unpredictable local business climate, faced with constantly changing regulations, especially regarding para-fiscal charges. Local fees and taxes increased by as much as 104.5% in total during the post-crisis period, 60.9% higher than the inflationary increase during the same period. Moreover, unpredictability is further boosted by the possibility of retroactive changes in the amount of para-fiscal charges.

##### *Transparency and simplicity*

In Serbia, every firm faces tens of local charges. At the same time, there is little effort by local governments to increase transparency, and ease identification and allocation of all the charges a firm has to pay. Furthermore, the process of deciding on the level of charges is not sufficiently transparent. Entrepreneurs argue that rates of local fees and taxes are based on budget needs, not on real economic strengths and capabilities of local firms. However, there is not enough data on why certain charges vary so much among municipalities. Disparity can even be seen in municipalities within the same region, with similar geographical and economical positions.

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\* The position of Local Municipalities in terms of local fees and taxes is primarily presented herein.

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<sup>15</sup> “Firmarina” was among the highest para-fiscal charges, related to displaying the firms’ label/name on a building.



## **The tax administration is often hostile to young entrepreneurs**

The Tax administration (TA) is an important determinant of the unpredictability of the entire tax system in Serbia. According to various competitiveness rankings, tax procedures in Serbia are complicated and expensive, create a fertile ground for corruption and encourage an already substantial gray economy.

The Tax Administration is perceived by entrepreneurs as an enemy. Most of the interviewees note that they would rather avoid any contact with this institution. For example, firms that export their products have the right to get a VAT refund. However, the TA has a practice of sending the inspection to firms claiming VAT refund, which can last for days and almost block their business operations. Refund itself is sometimes received weeks later than regulatory framework allows. Consequentially, firms rather choose not to use their right of VAT refund for exports, even though it influences their liquidity and profitability.

Entrepreneurs note that tax officers very often play the role of police officers, and are often unable to distinguish between unintentional and deliberate mistakes. Inexperienced young entrepreneurs happen to make unintentional mistakes, due to the lack of information and complicated tax procedures. Nevertheless, consequences are prompt and can sometimes be severe. The Tax administration often promptly blocks the account of a company even for the smallest of debts. Removing it may last for weeks, while a blockade that lasts longer than 5 days can lead to the abolition of a tax ID number. Young entrepreneurs sometimes have to pay the full price for this due to the inefficiency of the TA. Inspection officers lack a more proactive and unnecessarily strict approach to all missteps, and underestimate the value of providing solutions rather than looking for a punishment.

Entrepreneurs further underline the sometimes unequal treatment of different companies by tax officers. There are cases when tax officers do not differentiate between small and big violations. Until recently the biggest violations were committed by companies in the grey zone, not tackled appropriately by the Tax Administration and inspection. After the Law on Inspection Oversight was adopted in 2015, the situation has improved. Nevertheless, our interviewees have the impression that firms in the grey zone are still under the radar, compared to some regular small firms. Moreover, they note that micro and small firms are under much more rigorous control compared to some, as they call, “privileged” large or public companies.





### Third barrier ACCESS TO INFORMATION AND PRACTICAL SKILLS

While providing initial capital is one of the biggest obstacles for youth when starting a business, skills and experience are critical for their success or failure. Youth lack relevant information and skills to start and run a business, as well as access to business networks. On the other hand, relevant and high-quality business trainings, as well as mentorships, are mostly unavailable to youth. Even though the Government has shown an intention to tackle these issues through relevant strategies, most of the support seems to be inadequate and insufficient.

Youth lack basic information and practical skills necessary for entrepreneurship. This is partly due to the inexperience inherent to their age, and partly due to the formal education that does not prepare them for entrepreneurship in general. There is no adequate entrepreneurial learning through formal education in elementary and secondary schools, or in universities. Although Entrepreneurship was introduced as a pilot subject several years ago and was financed by donors in 200 vocational schools, the coverage was insufficient, and the program itself faced sustainability issues (SIPRU, 2015). Nevertheless, even after formal education, there is a lack of non-formal educational programs (through adequate trainings and mentorships) to compensate for the shortcomings of formal education.

Even though this problem was not created, and therefore cannot be solved by the Government only, various strategies were adopted committing the Government to contributing to a solution to the problem: “Strategy for SME Development, Entrepreneurship and Competitiveness for the period 2015-2020”, “National Strategy for Youth for the period 2015-2025”, as well as more specific strategies: “Strategy of Education Development 2020”; “National Strategy for Gender Equality (2016-2020)”, etc. These strategies and relevant action plans involve a number of interventions: introduction of entrepreneurial education at all levels of the education system; teacher education and training for entrepreneurship; development of a non-formal education system for the improvement of practical knowledge and skills, etc.

However, the Government failed to introduce quality programs that would fully meet the needs of youth, mostly due to a lack of finances or capacities. Government support includes trainings and mentorship programs, but only targets partial issues, focusing mostly on the legal and technical aspects of business development. Finally, there is no inter-institutional cooperation, thus many institutions have overlapping programs.

The following section presents barriers that originate from the inexperience of youth, along with Government responses aimed at providing support.

#### **Lack of information**

Most of the entrepreneurs interviewed note that they lack adequate, sufficient and timely information regarding doing business. Part of this issue lies with the entrepreneurial culture in Serbia, entrepreneurs’ skills and willingness to obtain the necessary information, etc. However, part of the responsibility lies with the institutions - there is a lack of basic infrastructure for providing information, capacity and motivation within institutions to provide potential entrepreneurs with sufficient knowledge.



The existing informational gap is further exacerbated by the **complicated and frequently changing legislative framework and tangled and insufficiently transparent procedures**. As mentioned above, doing business is regulated by 156 laws and over 250 by-laws. These regulations are not only numerous, but also difficult to interpret. It is extremely demanding for a young person to perceive and understand all the important requirements and procedures. They often have to hire various consultants (e.g. legal consultants, tax consultants, etc.) to interpret legal documents when starting a business, while they have to keep up to date with frequent changes to the regulatory framework, published at least twice weekly in an official gazette. Thus, the overly expensive and complicated legislation is creating an informational gap. However, public institutions could bridge this gap by providing adequate, concise and useful information. One example can be found in the lack of clear information for choosing the right legal form when starting a business. Young entrepreneurs very often find it hard to distinguish the real advantages and disadvantages of each legal form. For example, those who decide to become a “preduzetnik” bear financial liability up to the amount of their total assets (including their entire private property), while a “d.o.o” entrepreneur is only liable up to the value of the firm’s assets.

### **Lack of practical skills**

With a good start and solid business model, the best qualifications and the highest level of education do not guarantee entrepreneurial success (Jacqueline Kew, 2011). Without solid entrepreneurial skills, newly established businesses can fail just as quickly as they start working. The Serbian Government has established various programs dedicated to successfully starting a business, while programs for running one are mainly lacking. This represents a major problem for entrepreneurship development, bearing in mind that a proper skillset includes not only product development skills, but also business skills (UNCTAD, 2012).

**Programs aimed at providing practical skills do not seem to be sufficiently effective.** They are led by various Government institutions, such as the Ministry of Youth and Sport; National Employment Service; Development Agency of Serbia; local municipalities and their Youth Offices; etc. However, nearly all of them are dedicated to starting a business, focusing on the skills required to meet the administrative requirements and formally establish a company. At the same time, there are almost no trainings dedicated to developing skills necessary for business development. Most trainees are not taught how to recognize a market opportunity; how to develop an idea; how to find buyers; how to raise funds; how to develop a product or service; how to attract buyers, etc.

The private and public sector seem to have radically different approaches to business training. For example, the National Employment Service (NES) is organizing a two-day training entitled “The road to being a successful entrepreneur”. It includes a motivational part and detailed instructions on how to register a business (day one), and writing an effective business plan (day two). Local municipalities and their youth offices carry out similar trainings focusing on developing a business plan and the legal form of the firm, in order to start a business. Our interviewees note that both programs tend to be too academic, without sufficiently detailed real-life case studies. If there are any, they are usually international case studies with no direct implications for Serbia. Additionally, workshops seem to be rather formal and lack a true participative approach. A radically different approach can be found in the practice of domestic incubator centers. The Belgrade ICT HUB has a seven-month program covering the entire range of skills essential both for establishing and running a successful business. The program covers a number of topics: idea development, the legal framework in Serbia, customer development, product development, seizing market opportunities, sales traction and growth, startup financing, fundraising and a “demo day”. This approach is not only more tailor-made, but also involves more significant participation by the trainees.

Finally, **a lack of internal institutional capacities to provide effective trainings and support** to young entrepreneurs is also noted. Most of the time, trainings are held by institutional officers without a license or significant relevant experience on the matter. Some of the interviewees note that trainers are not fully capable of providing high-quality trainings. Moreover, they have the impression that the trainers themselves would not be skilled enough to start their own business. This is significantly reducing the quality of training. Regarding the NES, their permanently employees provide the trainings. Youth offices in local municipalities bring in legal experts, rather than experienced entrepreneurs.



## Lack of mentorship

In Serbia, little importance is placed on mentorship, which is certainly an important factor for business failure or success. In fact, apart from knowledge and skills, confidence in the ability to start and run a business is what determines entrepreneurial activity and entrepreneurial success (Kelley et al, 2015). There is no adequate mentorship platform in Serbia. **Public institutions seem to misinterpret the term “mentorship”** and narrow it down to specific, short-term consulting services exclusively.

There are two mentorship programs, initiated by two Government institutions: Development Agency of Serbia (DAS) and National Employment Service (NES). However, thus far they have not managed to fully adopt good mentorship practices. The most important problems related to their programs are the following: programs are short-term instead of long-term; they are limited in time rather than by achieved performance; and they do not cover the entire lifecycle of business development. The mentorship program initiated by the DAS is limited in time: a minimum of 25 hours and a maximum of 50 hours per entrepreneur. The program includes three segments: diagnostics (financial analysis, interview with the owner, SWOT analysis and identification of key issues), planning (more in-depth analysis and preparation of an action plan) and implementation. This approach tends to be more of a short-term reconstruction plan, rather than mentorship. The whole process is limited in time, and in most of cases does not provide for final implementation. On the other hand, NES mentorship assumes a visit to a firm, an interview with the owner, a diagnosis of the current state, problem identification and suggestions on overcoming it. This NES activity is even more limited in time, and the entire program lasts for two days (five hours per day). Both programs tend to be rather formal, and less aimed at the achieved performance. The programs are not flexible or adjusted to the needs of the participants. Finally, there is no evidence on the success of these programs, nor data on the mentees after participation in the program.

What these mentorship programs fail to achieve is a broader personal and professional empowerment of an entrepreneur. However, there is one case in Serbia that could be used as a good practice example. “Creative mentorship” is an excellent example of a well-designed mentoring platform intended to improve the personal and professional development of future leaders in the field of culture. It has a very individualized approach aimed at matching talented and dedicated youth working in culture with the most suitable mentors in regards to their personal aptitudes. Individual work between mentees and mentors is highly personalized and adjusted to the personal and professional needs of mentees.

Finally, there is **a general lack of institutional coordination and systematic approach** in supporting youth entrepreneurship. Each relevant public institution is running its own programs, without relation or harmonization with the others. Ultimately, they fail to create a synergetic effect. This is especially pronounced at a local level. Local NES offices provide trainings for self-employment; local DAS offices (former local offices of the National Agency for Regional Development) have mentorship programs; while Youth Offices in local municipalities cover trainings on starting a business. None of these institutions has any inter-connected programs, while most of them overlap.



## OBSTACLES AFFECTING SPECIFIC YOUTH GROUPS

The focus in this segment will be placed on different youth groups and the most prominent obstacles they face. These obstacles are additional to the obstacles faced by youth in general, as identified above. Youth is a highly diverse group, and it needs a tailor made approach both regarding observation and support. This report will analyze the following five youth groups: highly skilled youth, youth in vocational education and training (VET), youth not in education, employment or training (NEET), young women and socially vulnerable youth.

Youth is not a homogeneous group. Barriers to entrepreneurship differ for different groups within the youth population. Therefore, a tailor-made approach is needed in order to maximize entrepreneurial activity among youth.

### ■ **Highly skilled youth**

*The legal and institutional framework, as well as administrative procedures, are not fully adjusted to the circumstances of an increasingly globalized and rapidly changing market. Highly skilled youth, willing to work in innovative industries where global orientation, quality and flexibility are the main determinants of competitive advantage, find the rigid and outdated business environment of Serbia inhibiting for their entrepreneurial endeavors.*

### ■ **Youth in vocational education and training (VET)**

*Most of the barriers VET youth face stem from the flaws of the current legal environment and unavailability of relevant information for fresh graduates. The single most important problem is the lack of a law regulating craft business. Such a law should serve to set up a registry of all craftsmen operating in Serbia, and define clear guidelines on becoming recognized as a professional. Likewise, there are no professional associations of craftsmen, representing important instruments of knowledge transfer and experience exchange.*

### ■ **Youth not in employment, education or training (NEET)**

*As much as 24% of youth in Serbia are NEET, particularly in rural areas and among young women. These individuals are often socially and economically excluded, and thus at risk of further exclusion. The major issue is that they are invisible to state institutions, making it difficult to create tailor-made support mechanisms for their inclusion.*

### ■ **Young women**

*Despite improvements in terms of harmonization of legislation with the EU, women still face inequality issues regarding both social and economic inclusion. Low entrepreneurial activity among young women stems predominantly from particularly significant issues in obtaining finances, as well as from difficulties in reconciling work and private life.*

### ■ **Socially vulnerable youth**

*The legal framework related to the inclusion of socially vulnerable individuals is mostly aligned with the EU acquis, but, although this group is not legally discriminated, in reality it often feels so. Namely, there are certain issues in the implementation of the legal framework – either due to social prejudices or due to the lack of institutional capacity (be it human resources or physical infrastructure).*



## HIGHLY SKILLED YOUTH

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**The Government and business environment are incapable of keeping pace with highly skilled youth.** While highly skilled youth are running a sprint, public institutions and certain legislative solutions are constantly putting up hurdles that keep slowing them down. Under highly skilled youth we consider innovative, quick-witted youth with fast-growing and globally oriented business models. Their businesses can refer to either a product or a service, be it an IT or an innovative manufacturing firm. In innovative industries, where global orientation, high quality and flexibility are the main determinants of competitive advantage, a rigid and outdated business environment severely hampers the growth and development of such businesses. Much of the rigid legislation was introduced in the past to guarantee the stability and security of the legal and monetary system. However, this system is not adjusted to modern circumstances. Fortunately, highly skilled youth never give up in pursuing their entrepreneurial intentions and succeed despite the obstacles created by the system. Nevertheless, the institutional and legislative framework are inhibiting the globalization of their business activity. The outdated legal framework, institutional requirements and procedures fail to fully provide quality adaptation to the radically altered circumstances and an increasingly globalized market.

Namely, most of the barriers faced by highly skilled youth refer to those that significantly hinder and hold back international business operations. In an environment of very intense global competition, the institutional and legislative framework should at least ensure unimpeded business operation. The most prominent obstacles faced by highly skilled youth are described below.

### Obstacles to on-line payment

Serbian firms that operate globally and base their business models on a web platform often face issues when it comes to on-line payments. Although some important changes made in October 2016 allowed linking a PayPal account with a firm's bank account, there are still issues with PayPal due to the Law on Foreign Exchange Payments, strictly prohibiting payments in foreign currency among residents of the Republic of Serbia. The problem lies in the fact that the residency of individuals cannot be determined through the PayPal platform, thus making it impossible to systematically prevent breaking the law. Similar platforms, such as Skrill and 2Checkout, face the same issue. Due to the rigidity of the system, firms operating in Serbia bear the risk of criminal charges and penalties in case of any payments between residents.

On the other side, only five commercial banks provide on-line credit card processing. Moreover, the process is complicated and expensive, the service is not available to all firms, and it is up to the banks to decide which firms they will provide it to (depending on the firm's turnover and the bank's assessment of risk). Most importantly, the credit card processing platforms do not meet the customers' needs, since they are not modernized, adjustable or user friendly. Most of the IT firms interviewed in this study emphasize that payment procedures through these platforms are complicated, involving transfers from the main website to another website, or similar unnecessary steps. Highly competitive markets require single-click web payments.

### Administrative barriers

Outdated and obsolete public administration procedures in Serbia represent an important inhibitor of entrepreneurial activity among highly skilled youth. Likewise, even when procedures do come to be simplified, institutions often do not implement them, sticking rather to the old rules. The most representative example of this (mal)practice is the use of a stamp. For example, the Company Law does not oblige a firm to have a stamp in order to be registered, and the Law on Electronic Documents states that neither a stamp nor a signature are necessary on issued invoices. However, in reality, public institutions do not recognize documents as valid if they are without a stamp. Likewise, if a firm needs to justify the inflow of foreign currency, it is impossible to do so if the invoices do not have a stamp. All this represents a real obstacle for international business affairs, since legal systems in developed countries do not require the existence and use of stamps or signatures on invoices.



Furthermore, our administration does not recognize contracts concluded on web platforms in the form of “Terms of Use” agreements. Most web sites that provide a service or a product, such as social networks, advertising services or stores selling copyrighted works, assume the signing of a contract through the acceptance of a “Terms of Use” agreement in case of conducting transactions, regulating the rights and obligations between two parties in detail. Unlike modern administrations, the Serbian administration requires separate contracts for each transaction, signed and stamped. A good example is a domestic website for buying and selling graphic designs (GreenDesign.rs), where local entrepreneurs match buyers and sellers. There can be dozens of transactions on such a platform, transactions can take place between people who may be anywhere in the world, and some of the transactions can be minor in value, which means that providing a separate agreement for each transaction would be extremely cumbersome. Such a practice would be considered an anomaly in the developed world, where the “Terms of Use” *de facto* represent a contract.

### Customs administration issues

The Custom Administration (CA) is creating obstacles for companies that base their business models on selling abroad with the option of returning products if a customer is not satisfied. However, each time a product is returned to the company, the CA treats it as an import, implying that the company is obliged to pay customs duties. Those interviewed for this study note that CA officers sometimes open packages and even damage the products. They can also retain the goods at customs or physically take them over, without bearing any responsibility. Such practices clearly hinder business activities in a world where the option of returning a product is a *sine qua non* of modern trade.

### Fiscal barriers

Internet-oriented firms face unfavorable fiscal treatment in terms of marketing costs. Namely, according to the Law on Corporate Income Tax, marketing spending is recognized as a cost up to the maximum amount of 10% of total revenues. Any amount of marketing expenses that surpasses this limit cannot be recognized as a cost, and is thus added to the tax base, consequently increasing the overall amount of taxes paid. In the context of web-based business models, establishing a business on a website, a web shop, advertising on other sites, portals, social networks, etc., marketing expenses represents a regular business cost, rather than exclusively a marketing cost. For such companies, these costs will always exceed the limit of 10% of total revenue. In developed countries such as the United States this issue is addressed by establishing balance sheet items that are “common and fixed for a particular industry”, allowing adjustments for different business models and different sectors. In the case of internet business models, where there are no costs of machines, raw materials, etc., most internet-related charges would be recognized as regular costs, leading to an adequate calculation of taxes due. The current practice in Serbia pushes internet-oriented firms into the gray zone and towards tax evasion. This legal provision is a remnant of the past, introduced to prevent possible money laundering issues. However, times have changed, and therefore legislation should change as well.



## Lack of Government support to innovations

In addition to lacking financial resources for supporting innovations, it would seem that the Government of Serbia is failing to offer adequate support even when financing *is* in place. When an innovation fails, the loss is borne only by the innovator, whereas when an innovation is successful, it brings benefits to all of society. Although budget funds dedicated to research and development have increased to 0.9% of the GDP in 2014 and 1.05% of the GDP in 2015, this was not the case - they have not even exceeded the share of 0.5 % of the GDP.

The lack of funding for innovation and boosting the growth of highly innovative businesses is forcing such firms to move abroad. One example is the displacement of tens of our companies to Bulgaria just because of funding provided by the “Eleven” Accelerator. This example is regarded by experts as an alarm signal for the Serbian Government to create mechanisms to retain innovative potential within its borders. The Government dedicated several programs in 2016 to supporting innovation through the Development Agency of Serbia: development projects, loans for ICT innovation, financing of innovative projects, technology transfers, etc. Although the results of these programs are still unavailable, certain shortcomings in the approach are already notable. For example, the only public institution possessing an adequate methodology for the allocation of such funds dedicated specifically to innovations – the Innovation Fund of RS - did not receive any funds for innovative projects in 2016.

## YOUTH IN VOCATIONAL EDUCATION AND TRAINING

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Vocational education and training (VET) schools are three-year and four-year schools that provide students with practical skills and prepare them to enter the labor market immediately upon graduating. While three-year VET profiles were in high demand until 20 years ago, they seem to be devalued at the moment, representing only 19% of total enrolment in vocational schools. On the other hand, four-year VET profiles are still in high demand, as they represent the remaining 75% of primary school graduates who enroll in vocational schools. This report will focus on three-year VET profiles, due to the fact that many four-year VET graduates proceed to universities and therefore make up a different youth group.

In the past, three-year VET profiles were an important driver of economic growth and entrepreneurial activity in Serbia, while nowadays they are being replaced by highly educated individuals and/or machines. When considering methods for boosting our economy, we seem to be forgetting the importance of a VET workforce, especially of youth.

Although VET students should be able to start working immediately upon finishing high-school (as that is the final level of education in their academic life), this is not the case. VET schools do not provide them with enough practical knowledge, not to mention skills, for starting their own business. For example, a 2014 study by the Union of Employers of Serbia showed that only 4.12% of VET students considered themselves as possessing skills and knowledge for a real-life job, while more than 86% said they did not possess any practical knowledge.

The situation regarding entrepreneurship is somewhat different for schools and educational profiles that underwent a reform as of 2001. All newly developed or modernized VET curricula, designed to be outcome-based, have incorporated the subject of entrepreneurship in the teaching plan. Teachers have undergone specific training in order to teach this subject. The question remains if entrepreneurship can be taught through one subject or if those competences should be developed in a cross-curricular form.

The same is true for acquiring practical skills. Newly developed and modernized educational profiles, developed during the past 2-3 years, have a larger amount of practical learning phases, mostly in companies. This leads to better practical skills among graduates and possible employment in companies where they attend practical lessons. The profiles chosen for modernization are those in demand on the labor market, with the aim of narrowing the gap between supply and demand.



Considering the poor education system and lack of state support, it is not surprising that among the already high share of 47% of unemployed youth aged 15-24, as many as 65% are youth with secondary education<sup>16</sup>. Most of them have completed VET, as vocational schools account for over three-quarters of the secondary school education system in Serbia. The majority of all unemployed VET youth registered with the NES is looking for work within the fields of mechanical engineering and metal processing (96,325); economics, law and administration (80,315); and catering and tourism (65,254)<sup>17</sup>.

Since the focus of this paper are legal and institutional barriers (not educational ones), and since most VET youth are looking for a job in the field of mechanical engineering and metal processing, we will focus mostly on craftsmen, but with a reference to all VET youth.

Most of the barriers faced by VET youth stem from flaws in the current legal environment and a lack of clear information. The single most important problem is the lack of a law regulating craft business, which has been in draft form for six years now.

#### **Lack of a registry of craftsmen.**

Developed countries, such as Germany, have a registry of all craftsmen, indicating how many craftsmen are required per capita and per territory. Such a system prevents situations where certain craftsmen have to close their business due to the overconcentration of a profession within a certain area. VET youth in Serbia do not have the option of being informed about competitors or regional needs - precisely due to the lack of a registry. Therefore, if they decide to start their own crafts business they are exposed to higher risks than VET youth in developed countries. Another important benefit of a registry of craftsmen would be to facilitate decision-making among students regarding the profiles they would like to specialize in. The registry would enable them to see which specializations are deficient and which are overcrowded.

#### **Lack of clear guidelines on becoming recognized as a professional.**

Before the Second World War, craftsmen in Serbia received a professional certificate (“majstorsko pismo”) that was proof of their expertise. Obtaining such a certificate was possible only after several years of honest work in the profession upon finishing a VET school. Nowadays, lacking such a certificate, young craftsmen do not know how to become recognized as reputable professionals in their respective fields, and know even less about how to open their own professional workshops. This creates discomfort among young people, who already feel less confident in starting a business than adults.

#### **No professional associations.**

In addition to losing professional certificates, Serbia has also lost the professional associations that used to exist for almost every craft profession. Such associations were not only issuing professional certificates, but were also issuing guidelines and support to young craftsmen when starting their career. Young craftsmen would feel secure and confident in starting their own business soon after finishing school. They knew how to perform their work in an honest and professional manner, building their reputation with each new step.

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<sup>16</sup> Statistical Office of the Republic of Serbia, 2015

<sup>17</sup> NES, 2015





## YOUTH NOT IN EMPLOYMENT, EDUCATION OR TRAINING

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Youth not in employment, education or training (NEET) represents a special group of vulnerable youth, mostly excluded from the labor market, while at the same time frequently invisible to state institutions. Most NEET youth reside in rural areas, some of them are early dropouts. The crucial issue is that there are no valid and detailed data on the exact number and characteristics on this group of youth. However, a recent study on youth unemployment underlines that as much as 25% of young people belong to this group (Marjanovic, 2016). Therefore, it is very important to shed light on all issues faced by this group, along with their needs. Given their marginalized status in society and any systematic education system, they show a high tendency towards unemployment. Therefore, they face a significant risk of potential social exclusion. Entrepreneurship could represent a partial solution to this issue. However, they are considered highly unmotivated, and without access to the necessary learning opportunities.

NEET youth represent a global issue. However, this problem is even more pronounced in Serbia. Regarding the EU, 12% of young people aged 15–24 were not in employment, education or training – a negligible decrease compared to the figures for 2014 (12.5%) and 2013 (13%). In absolute numbers, around 6.6 million young people in the EU belong to the NEET category (EuroFound, 2016). On the other hand, 24% of youth in Serbia are NEET. They are particularly present in rural areas and among young women. A total of 29.1% of youth in rural areas are NEET, compared to the 20.6% in urban areas. Similarly, 26.1% of young women are NEET, compared to 21.9% of young men (Marjanovic, 2016).

One major obstacle regarding NEET youth is related to their invisibility to state institutions. The problem arises due to the fact that a high share of NEET youth are not registered with any state agency. These are the ‘missing’ NEET, very difficult to reach and, as a result, hard to integrate into the labor market. In the long term, they are at potential risk of becoming deeply excluded. The recent study on NEET diversity reveals: “While more than half of NEETs are unemployed and about 70% of these would like to work, just 57% of NEETs are registered with public employment services.” (EuroFound, 2016).

It is important to underline that NEET youth are not a uniform group of youth, but rather diversified. However, the lack of adequate and detailed data prevents the Government from creating the right policies, suitable for their needs in particular. This is emphasized in the above EuroFound study: “While all NEETs share the common feature of being young people who are not accumulating human capital through either the labor market or education, the various groups within this category have very different characteristics and needs. This has important consequences for policy responses. Although governments and social partners have rightly set targets to reduce the overall NEET rate, their interventions may fall short unless some attempt is made to understand the subgroups covered by the concept and to meet their specific needs”(EuroFound, 2016). With information about the size and characteristics of each subgroup, governments could also better understand how to prioritize their actions.

One segment of NEET youth refers early school drop-outs. Early drop-outs are a serious problem, leading to a lack of skills, qualifications and employment prospects. Moreover, such youth lose contacts, become distanced from the social environment and lose self-confidence, thus becoming further exposed to a greater risk of poverty, as well as to remaining NEET. The problem of early drop-outs is most severe in rural areas, where most NEET youth in Serbia reside. In those areas, their integration is hindered by a lack of infrastructure. Infrastructure and transportation problems impede access to schools, which further leads to issues regarding access to information. (UNICEF, 2011)



## YOUNG WOMEN

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Women represent the largest vulnerable group in Serbia. They face issues of inequality regarding both social and economic inclusion. Significant improvements have occurred during the past decade in terms of the harmonization of legislation (Constitution of the RS, Anti-Discrimination Law; Law on Gender Equality, Labor Law) and relevant institutions with the principles of gender equality as defined by key international frameworks. However, a lot more remains to be done in practice. Women in Serbia, including young women, still face a degree of gender inequality.

The Report on the Gender Equality Index (2016) reveals that “Serbia is 10% behind half-way to gender equality. The Serbian Gender Equality Index reveals that gender inequalities are prominent in Serbia and indicates that Serbia is lagging behind the EU-average in overall gender equality.” (SIPRU, 2016). The report further notes that (in addition to knowledge and time) the largest gap in equality lies precisely in the areas of work and money. This manifests through lower participation in work activities and poorer working conditions on the one hand, and less access to money and capital on the other.

There are 16.4% of unemployed women in Serbia, compared to the 14.3% of unemployed men. The gap is even more pronounced among young people (15-24) – there are 35.8% of unemployed young women in contrast to the 27.3%<sup>18</sup> of unemployed young men. The gap is also significant regarding entrepreneurship. Among all registered companies, only 26% are partially or entirely owned and run by women (Babovic, 2012). However, CEVES’s research on entrepreneurial attitudes revealed that the difference in entrepreneurial intent is not that significant. Namely, 27% of women in Serbia stated they would rather start their own business than work for a salary in the private or public sector. On the other hand, 33% of the men stated the same.

The Serbian Government has recognized the need for undertaking active measures for the economic empowerment of women. Two relevant strategies are in place: National Strategy for Gender Equality (2016-2020); and Strategy of Support for the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020). Both strategies propose active measures regarding women’s employment and women’s entrepreneurship, starting from broader goals and converging towards similar sets of measures, especially with regards to women’s entrepreneurship – improvement of statistical monitoring and research on women’s entrepreneurship, and active measures regarding access to finance, education and promotion of women’s entrepreneurship. The Strategy for Gender Equality goes a step further and proposes measures for promoting women in social entrepreneurship, and women’s entrepreneurship in rural areas.

However, the major conclusion is that **there are fewer issues regarding the legislative framework itself, and more issues with the lack of its effective implementation and unclear institutional coordination.** This conclusion is based on the analysis of the action plans of the two above-mentioned strategies through a comparison of the contents of the action plans and their actual implementation thus far. This study will underline the biggest issues faced by young women in entrepreneurship today, and indicate the current dynamics of the implementation of these strategies.

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<sup>18</sup> Statistical Office of the Republic of Serbia, the labor survey for II quarter 2016.



### **Lack of information on women's entrepreneurship**

There is a general lack of information regarding women in entrepreneurship. There is a lack of information both on current women entrepreneurs, as well as potential future ones. The current Law on the Business Registers Agency and Law on Personal Data Protection do not oblige owners to provide gender-related information. Therefore, there is no precise information on the current gender structure of the private sector in Serbia, or the characteristics of firms owned by women. On the other hand, due to the lack of annual surveys for Global Entrepreneurship Monitor, the Serbian Government knows very little about potential female entrepreneurs. Both of the above strategies address this issue and propose an annual survey on women's entrepreneurship. However, there has not been any detailed survey of women's entrepreneurship in Serbia during the last several years. Such research would be fundamental for uncovering specific obstacles faced by women in business, as well as their needs. Without it, it is hard to expect the Government to be able to create tailor-made policies for these women.

### **Access to finance**

Young women, like youth in general, face difficulties in obtaining initial capital. There is a significant gender property gap in Serbia, with women far less frequently being owners of any movable or immovable property (Babović, 2012). An analysis in central Serbia showed that only in 18% of the cases were women the owners of land, in 15% of the cases were they the owners of residential and housing space, and in 19% the owners of business premises. Without collateral, it is hard to obtain a loan. Most of the young women interviewed noted that if they did not own enough capital, family support would have been crucial for their business development. Two thirds of the women entrepreneurs started a business with their own savings or family money. Only 3.5% of them obtained a credit loan (Babović (2), 2012). This issue is most noticeable in rural areas, therefore young women in such areas are far more dependent on their parents or husbands.

The Government has recognized this issue and has proposed positive discrimination towards women (in both of the above-mentioned strategies) regarding all existing government programs for entrepreneurship and SME development. They set a mandatory quota of a minimum of 30% to 50% of funding to be allocated to women entrepreneurs and announced the introduction of special support programs dedicated exclusively to women, such as guarantee schemes. One program dedicated to the development of women, youth and social entrepreneurship is active in 2016. Funds dedicated to this program amount to RSD 110 million, with 30% to be allocated to women's entrepreneurship. There are separate quotas for youth and for women, and young women should choose between these categories when applying (they cannot be vulnerable under multiple grounds). No results are available to date regarding this program.

### **Reconciliation of work and private life**

Young women sometimes find it difficult to balance their private and business life. Only 15.5% of women entrepreneurs are young women (19-30), while 61% of them are middle-aged women (31-49) (Babovic (3), 2012). Although not the sole reason, a partial cause for this could be inadequate social policies that failed to adjust sufficiently to the increased participation of women in the labor market. The Strategy on Gender Equality is proposing a European model of reconciliation between work and private life – the provision of affordable services of daycare and extended stay for children under the age of seven; improvement of the organization of care for the elderly; encouraging men to participate equally in family responsibilities, etc. However, family and household care are still mostly left to women, especially in rural areas. Young female entrepreneurs noted the lack of public kindergartens and gerontology centers. In cases where they cannot place a child in a public kindergarten or an elderly person in a public gerontology center, they have to pay for private services or take care of them on their own. Although the Government provides subsidies for families obliged to pay for private kindergartens, they remain more expensive than public ones. Faced with this issue, young women entrepreneurs often have to reduce their business commitments, either in terms of money or time.



### Young women in rural areas

Young women in rural areas face an additional set of obstacles - they lack information on business opportunities, business network, knowledge and practical skills necessary for running a business. They are mostly uninformed about any active measures by central and local authorities in terms of self-employment and entrepreneurship - 76% of unemployed women have never heard about any active labor market measure, while only 13% of them have participated in some of the programs of the National Employment Service (UNICEF, 2011). The UNICEF study further notes that as many as 60% of women in rural areas have either no education or elementary education only.

Both of the above strategies propose measures for initiating business networks and mentorship programs for women entrepreneurs, but the Strategy on Gender Equality also proposes coordinating activities on providing access to non-formal education for the development of women's entrepreneurship in rural areas. The most significant institutional support in this regard is obtained through the Development Agency of Serbia, the National Employment Service and the Development Fund of Serbia. However, this support is either partial or temporary. Moreover, these institutions are often insufficiently informed of the needs of youth in rural areas and have no mechanisms for the promotion of entrepreneurship. On the other hand, local institutional infrastructure is not sufficiently coordinated for covering a larger territory. There is an obvious need for local centers that would provide for the continuous transfer of knowledge, centers for occasional networking events and exchange of experiences.

## SOCIALLY VULNERABLE YOUTH

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The economic empowerment of socially vulnerable youth is particularly important in the process of their social inclusion. By becoming employed, they become active participants in society and contributors to the quality of social and economic life. Although not all young and socially vulnerable individuals are capable of becoming entrepreneurs, those who are should be encouraged to do so. As two of the subgroups are those most likely to start their own business, we will focus on them: youth with physical disabilities and Roma youth. At the moment, there are 3,900 youth with physical disabilities and 11,590 Roma youth registered with the National Employment Service (NES). However, the number is probably higher, as not all of them are registered with the NES.

In addition to acceptance by society, socially vulnerable youth should be offered state support, primarily through supportive legislative and institutional frameworks. The Parliament has adopted a number of relevant laws and strategies aiming to promote and encourage the economic empowerment and economic inclusion of socially vulnerable youth: Law on the Professional Rehabilitation and Employment of Persons with Disabilities, Law on Social Assistance, Law on the Prevention of Discrimination against Persons with Disabilities; Strategy for the Social Inclusion of Roma 2016-2025, a draft Strategy for the Improvement of the Status of Persons with Disabilities 2016-2020, etc. Unfortunately, the current legislative, and particularly the institutional framework of Serbia do not seem to adequately recognize this need, or fail to meet it due to a lack of finance, capacity or motivation. However, this study reveals that most of the legislative and institutional issues do not *suppress*, but rather *discourage* entrepreneurship among socially vulnerable youth.

The most prominent barriers faced by socially vulnerable individuals when intending to start a business are the following:



### Issues in regaining the right to social assistance if the business fails

Social assistance recipients capable of and willing to start their own business are often discouraged from doing so. Namely, the current Law on Social Assistance prescribes that the moment an individual receives the first contribution from their business, they automatically lose the social assistance they have been receiving from the Ministry of Labor, Employment, Veteran and Social Affairs. In case their business fails, they have to go through the entire process of applying for social assistance again, a complicated and lengthy undertaking. The problem of losing the right to social assistance is even more pronounced among young members of the socially vulnerable population, as their probability of failure is usually higher and the expected time for becoming financially independent longer.

### Asymmetric information.

As socially vulnerable people represent a specific population, it is not unusual to receive different information regarding their self-employment from different institutions. Even state bodies that deal specifically with policies targeted at the socially vulnerable population happen to not be aligned regarding certain issues. Therefore, socially vulnerable individuals, especially youth, can easily be misled when trying to obtain information for starting a business. For example, one of the most common cases where mistakes are made is regarding *the right to home care services and assistance* upon participation in the labor market. Namely, potential entrepreneurs are often informed they would lose this right if they start to work. However, that is not the case. Although they do lose social assistance benefits once they set up a business, they do not lose the right to home care services and assistance they receive based on their physical disability, not their financial status.

### Unrecognized by the state.

Although several laws deal with the employment of socially vulnerable groups (while fewer do with entrepreneurship), the socially vulnerable population is not specifically mentioned in the umbrella strategic document aimed at supporting entrepreneurship - "Strategy for the Development of SMEs and Entrepreneurship". The strategy deals with "social entrepreneurship", which ultimately need not relate to the socially vulnerable population. Moreover, certain socially vulnerable individuals are not registered in state records at all, due to their lack of personal documents and ID numbers, as well as some cases of lacking a Unique Master Citizen Number (mostly Roma children who cannot be legally recognized if their parents do not have personal documents).

### No private funds aimed at the socially vulnerable population.

Regarding *public* funds, the Government has allocated certain budget funds for subsidies for self-employment of the socially vulnerable population.<sup>19</sup> Subsidies are issued in the form of one-off payments – RSD 200,000 per user. In addition to financial help, there are two-day professional support programs and entrepreneurial trainings. However, those programs are generic and not adjusted to the particular needs of socially vulnerable individuals.

On the other hand, there are no special *private* financial schemes or investment funds targeting socially vulnerable youth willing to start their own business. These young people are disadvantaged when applying for funds from private sources, since they usually need more time to apply, and/or assistance with the application process (either due to a lack of knowledge or physical disability). Moreover, the majority of them have the skills for low-profile jobs rather than the high-tech jobs targeted by start-up funds.

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<sup>19</sup> National Action Plan for Employment 2016



## Prejudice and discrimination.

Both categories of socially vulnerable people covered by this paper report feeling discriminated in some manner. Discrimination occurs not only by the state (the legislative and institutional framework), but also by society (prejudice). Mainly due to certain inherited values, Serbian society exhibits a lot of prejudice towards different groups of disadvantaged people, without realizing that this is leading to further exclusion. Although both the disabled population and the Roma population are recognized by the Government Anti-Discrimination Strategy 2013–2018<sup>20</sup> as two of the nine vulnerable social groups exposed to discrimination the most, a substantial foundation for essential equality is still lacking. Moreover, according to the Ombudsman (2014)<sup>21</sup>, the positive discrimination measures envisaged by the Constitution as a means of overcoming the extremely adverse socio-economic situation of the socially vulnerable population are being implemented to an insufficient extent (either in the legislative framework or in practice).

In addition to the above barriers faced by youth when starting a business, there are several additional barriers specific to the analyzed subgroups of socially vulnerable youth.

**YOUTH WITH PHYSICAL DISABILITIES** belong to the disabled population, comprising 10% of the overall population of Serbia. This population has a low income level and is at risk of social exclusion. Although the legal framework of Serbia does not discriminate this subgroup, the implementation of this framework often does – either due to social prejudice or due to the institutional infrastructure (institutions unequipped to meet their needs). Namely, despite the supportive legislation that attempts to prevent further disadvantaging those who are already disadvantaged and to provide them with support, in reality the majority of the disabled subcategories feel excluded. The most prominent obstacles specific to youth with physical disabilities are the following:

- **Inadequate infrastructure of public institutions.** While many institutions in Serbia only provide access by stairs and no possibility for wheelchairs access, even more of them lack tactile paving for blind or visually impaired people. Moreover, some of them do not even allow guide dogs to enter, despite there being no physical obstacles for this. This is a small example, but it serves to illustrate a larger point.
- **Inappropriate qualifications of staff working in public administration.** The best example of inappropriate skills and qualifications in public administration is the lack of staff capable of communicating in sign language. Although the Law on the Use of Sign Language, adopted in early 2016, prescribes that each public institution should secure an interpreter when communicating with deaf or hearing-impaired people, this is not yet the case in practice. Therefore, if willing to start a business, these people have to bring their own interpreters whenever communicating with public administration. Moreover, they need to bring their interpreters even when participating in trainings organized by public institutions.
- **No priority in queuing.** As e-government is not fully operational yet, physically disabled people still have to go from desk to desk and queue whenever needed. They do not have any priority when dealing with public administration, so they have to rely on the good will of others waiting in line.

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<sup>20</sup> Strategy of Prevention and Protection from Discrimination, Official Gazette of RS, No 60/13

<sup>21</sup> Second National Report on Social Inclusion and Poverty Reduction (2014)



**ROMA YOUTH** face specific discrimination issues, not only based on their lower education and living standards, but also rooted in prejudice. Although such obstacles do not stem from objective reasons, they still hinder the business activities of Roma youth. Certain studies reveal there is a lot of unused potential for Roma entrepreneurship in Serbia. The majority of Roma youth already operate as entrepreneurs, collecting recyclable products and selling them to certain recycling companies, but they mostly do it in the gray zone. Starting a legal business is hindered by two obstacles faced by Roma youth, in addition to all the other obstacles faced by socially vulnerable youth:

- **Lack of knowledge and skills.** Most Roma youth have completed elementary or secondary education, with a small fraction of highly educated persons. Thus, they find it hard to recognize business potential and are usually not familiar with administrative and practical procedures for starting and running a business. This lack of knowledge and awareness prevents Roma youth from entering the legal system and taking the risks of unknown. On the other hand, they are not even aware of the risks of working in the gray zone, so they choose to enter it or remain, if already operating there.
- **Lack of conditions for securing finances.** The Strategy for the Social Inclusion of Roma (2016 - 2025) indicates that significant number of good ideas proposed by Roma persons is never realized due to their inability to meet the preconditions for obtaining a loan. Most Roma youth and their parents live in illegal facilities. Such properties cannot be used as collateral when applying for a loan. On the other hand, Government funds aimed at supporting Roma entrepreneurship are insufficient and often do not focus on the right Roma groups, since some of them lack IDs and are not registered in any state system.



## ENTREPRENEURIAL LIFE CYCLE

Young people face a number of obstacles throughout the business development process. Most of the obstacles are present throughout the *entrepreneurial life cycle*, but some exist (or are more pronounced) during the initial stages, while others are found in the development stages. This report highlights the three stages of the lifecycle where youth are particularly vulnerable: initiation stage, launch stage and early growth stage. The expansion and maturity stages were not analyzed, since they are equally challenging regardless of age. The focus is not on overall challenges, but rather on those identified previously in the report. The prioritization matrix on the following page provides visual insight into the degree of influence each of the obstacles has. Comparisons are made for each obstacle during various stages of the lifecycle, not between the obstacles themselves.

### Business initiation stage

During the initiation stage, individuals transform their intentions into concrete business actions. However, the majority of potential young entrepreneurs fail to make the transition from a *potential* to an *actual* entrepreneur. This is largely due to the fact that young people in Serbia feel discouraged by the lack of necessary information and the difficulties in obtaining initial capital. Inexperienced youth very often find it hard to recognize the best market opportunities. For example, due to the lack of clear and unambiguous information, youth often find it hard to decide on the type of a business or legal form they would like to establish, as they are unaware of the true advantages and disadvantages of each. However, the single most important barrier in this stage, and the barrier that determine the probability of an actual start, is securing initial financing. The vast majority of youth start a business by their own funds. This study reveals that there is large number of young people with business idea, but who feel discouraged due to the inexperience with fund raising and the lack of actual alternatives in access to finance.

The unsatisfactory level of realized entrepreneurial ideas among youth also has to do with the underlying motive for starting a business. Those who start a business based on an opportunity, rather than out of necessity, are more inclined to persist and succeed in their intentions. Nonetheless, even though seizing an opportunity is outlined as the most frequent motive among youth willing to start their own business, there are still 64% of them who consider “necessity” as one of the most important reasons for starting a business (CEVES, 2014). Therefore, providing information on opportunities to a wider population of youth can have a critical influence on the number of those who actually start a business. However, in reality, although some information is available, it is often not transparent enough or not easily accessible. At the same time, professional mentorship is almost inexistent at this stage, so it mostly narrows down to the immediate environment (friends and family).

### Launch stage

The Launch stage involves the period starting immediately after the registration of a firm. It is the period when young entrepreneurs feel particularly uncertain about their business, especially during the first two years when the survival risk is the highest. In fact, one in four companies in Serbia do not even survive the second year after registration.<sup>22</sup> Particular concern is liquidity and scarce capital for investments, which is additionally burdened by fiscal and para-fiscal charges. In addition to finances, skills and experience are the factors critical for success or failure during this stage. Unfortunately, both formal and non-formal education in Serbia fail to provide relevant and high-quality business trainings.

Uncertainty present at the start of something new (entering a new business or a new field of expertise) is additionally aggravated by the inadequately regulated business environment. The business environment in Serbia is characterized by a large number of insolvent business entities, or ones consciously avoiding to pay their liabilities. Young entrepreneurs are usually unable to identify unreliable partners and are often trapped by uncollectable receivables. Therefore, they are very often pushed into the insolvency zone and forced to enter business disputes. Moreover, the current fiscal and para-fiscal system of Serbia places even greater pressure on

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<sup>22</sup> CEVES calculation of the survival rates of firms based on the SBRA database.





the liquidity of young firms, since charges are numerous, unpredictable and costly for businesses that are not yet fully established.

### Early-growth stage

After the launch stage, those who survive put all of their efforts into growing business. Challenges to growth in Serbia are numerous, therefore it is not surprising that not many businesses manage to achieve a dynamic performance. Namely, one in three companies has a flat growth rate, with only marginal changes over the years. The majority of these companies are ones operating out of necessity, without particular growth intentions. However, even those who seek opportunity, often do not manage to do so. Among existing forms, 20% have growth above 10% per year, with as many as 4.3% exhibiting dynamic growth, with an average annual growth above 40%. Most of them are related to highly skilled professionals and have a strong international orientation.

Challenges to growth are more pronounced for young people than the general population, since their inexperience often fails to ensure the right balance of growth opportunities, cash flow and finance necessary to support growth. Only exceptional youth with proven business models can fully rely on either traditional financing or alternative financing through venture capital or business angels. However, most young entrepreneurs note that there are insufficient easily accessible financial products suited to their needs.

The following pages present a “*barriers to youth entrepreneurship map*”, locating barriers along the entrepreneurial lifecycle. All the obstacles identified above are highlighted throughout the lifecycle, depending on their influence at each stage. It is important to mention that it is not the barriers that are compared to one another, but rather the intensity of each obstacle throughout the observed lifecycle. The lines in the map indicate the presence of the obstacle through different stages of the lifecycle. If the obstacle does not have a particular effect on youth during a given part of the lifecycle, it does not appear. The colors are related to the types of obstacles, while the shades are related to their relative significance in the lifecycle. The stronger the influence, the darker the color. The picture in front of each obstacle indicates if the issue predominantly lies with the legislative or the institutional framework. The map is divided into two parts. The first part refers to the general environment, and the obstacles affecting all youth. The second part of the map narrows the focus to barriers affecting specific youth groups. Barriers are listed in the same way and in the same order as previously analyzed in this study.



## Mapping barriers to youth entrepreneurship

### GENERAL BARRIERS TO ENTREPRENEURSHIP

- Entrepreneurship importance and potential not fully recognized by state
- Problem of choosing the right business form
- Overregulated and unpredictable business environment
- Disloyal competition
- Lack of institutional protection (particularly for uncollectable receivables)
- Complicated exit

### OBSTACLES AFFECTING ALL YOUTH

#### Availability of finance and access to capital

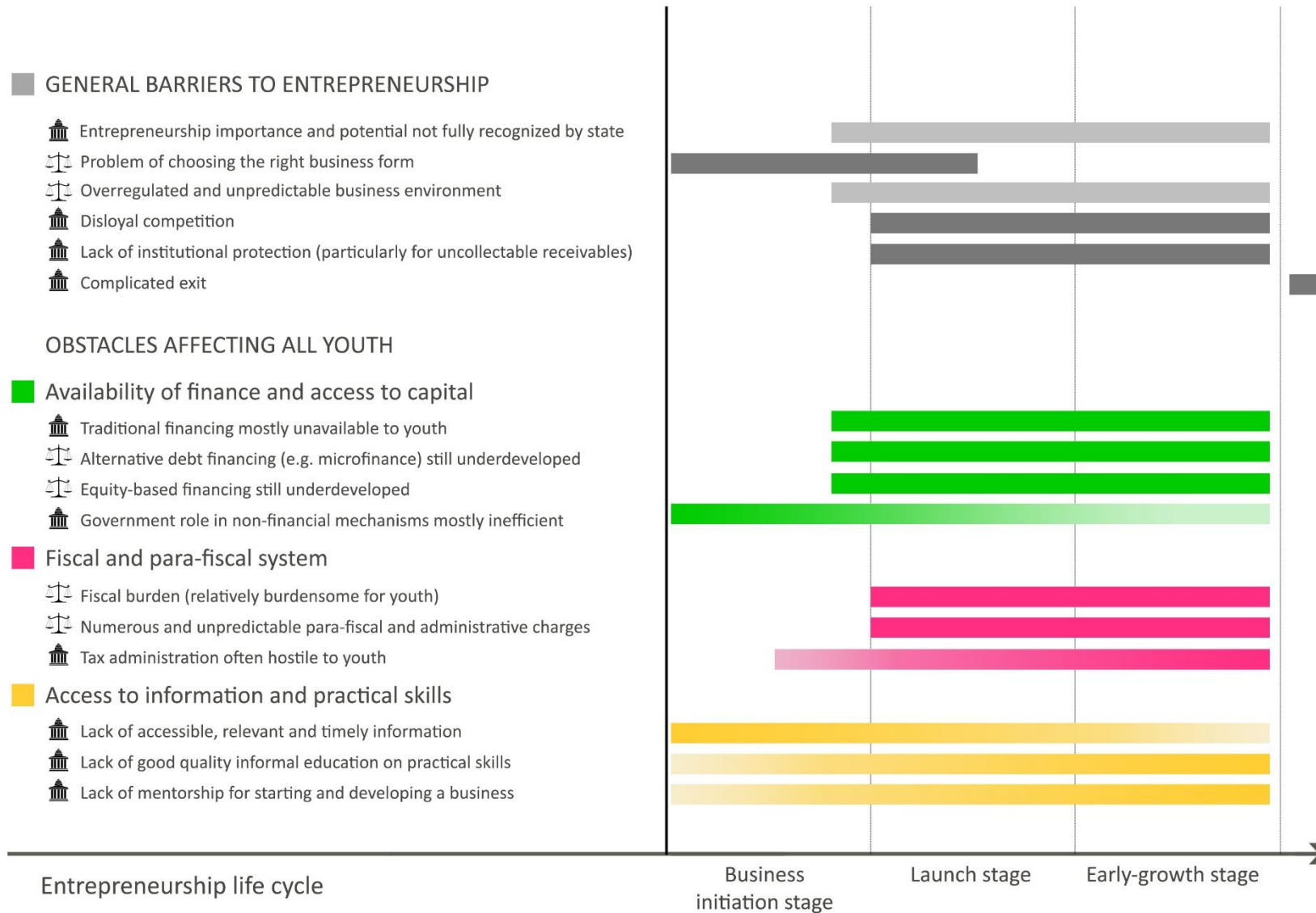
- Traditional financing mostly unavailable to youth
- Alternative debt financing (e.g. microfinance) still underdeveloped
- Equity-based financing still underdeveloped
- Government role in non-financial mechanisms mostly inefficient

#### Fiscal and para-fiscal system

- Fiscal burden (relatively burdensome for youth)
- Numerous and unpredictable para-fiscal and administrative charges
- Tax administration often hostile to youth

#### Access to information and practical skills

- Lack of accessible, relevant and timely information
- Lack of good quality informal education on practical skills
- Lack of mentorship for starting and developing a business





# Mapping barriers to youth entrepreneurship

## OBSTACLES AFFECTING SPECIFIC YOUTH GROUPS

### Highly skilled youth

- On-line payment obstacles
- Internet-oriented firms impeded by fiscal charges
- Specific customs administration barriers
- Internet-oriented firms impeded by fiscal charges
- Lack of Government support to innovations

### Youth in vocational education and training

- Non-existence of registry of craftsmen
- Lack of clear guidelines on becoming recognized as a professional
- No professional associations

### Youth not in education, experience or training

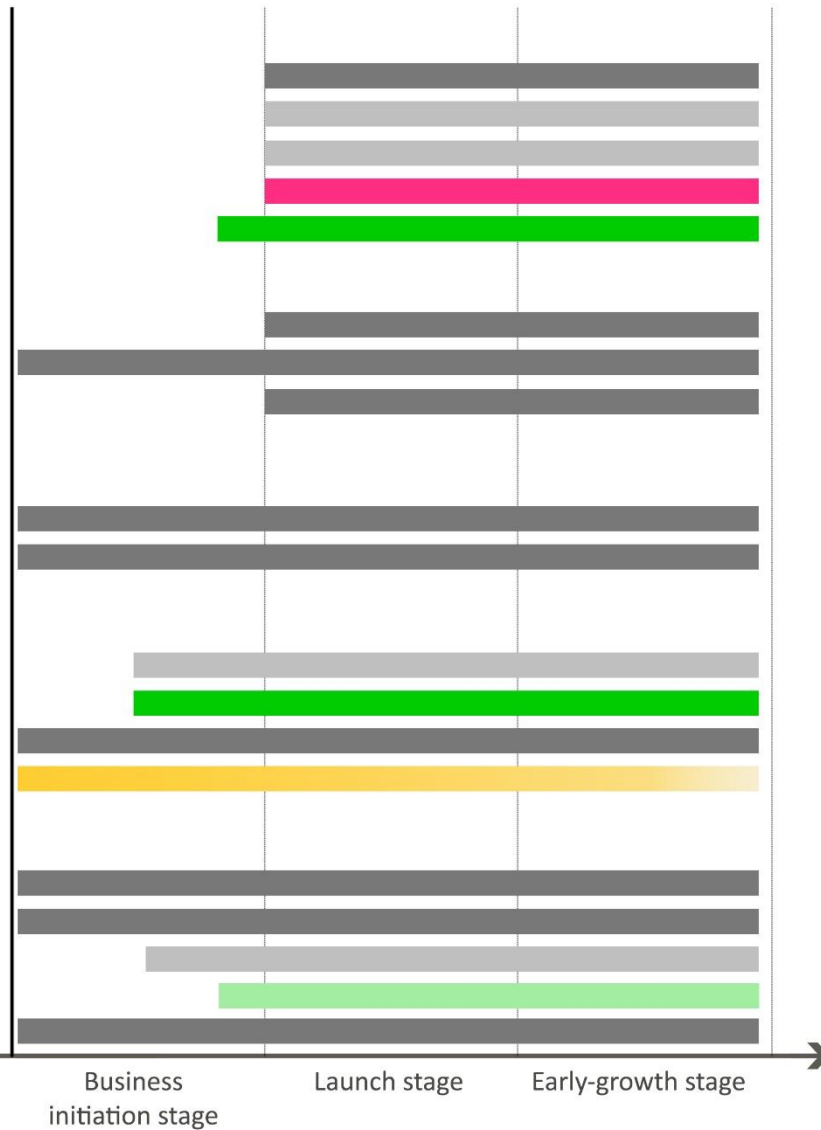
- Absence of any information on this youth group
- Lack of (targeted) institutional support

### Young women

- Lack of information on women entrepreneurship
- Pronounced difficulties in access to finance
- Reconciliation between work and private life
- Young women in rural areas burdened by additional set of obstacles

### Socially vulnerable youth

- Losing the right to social assistance upon inclusion in the labor market
- Asymmetric information between institution and these youth group
- Insufficiently recognized by state
- No private funds aimed at socially vulnerable population
- Existence of prejudices and discrimination



Entrepreneurship life cycle

Business initiation stage

Launch stage

Early-growth stage



## ANNEX 1: Methodology note

The methodology was two-fold. During the first phase, it included detailed desk research and the mapping of all relevant reports, analyses and documents on youth entrepreneurship and entrepreneurship in general. This phase set a baseline for the second phase, involving a series of interviews with relevant stakeholders. Interviews were intended to contribute to the existing knowledge on youth entrepreneurship in Serbia, and upgrade it with a more comprehensive approach. More than 110 semi-structured interviews have been conducted. Over 80 interviews were face-to-face, while more than 30 interviews were telephone. The sample of stakeholders for interviews was divided into three groups with the goal of integrating three different and important perspectives on this issue. The three perspectives are as follows:

- Government representatives -- Interviews with policy makers and representatives in relevant Ministries, Government institutions, both at the national and local level, the National Bank of Serbia, etc.
- Entrepreneurs -- Interviews with young entrepreneurs themselves, both with successful and less successful young entrepreneurs.
- Expert stakeholders -- This perspective was more comprehensive, and tended to combine and understand two opposite sides of the coin. It included interviews with experts on this issue, representatives of non-governmental organizations, etc.

The perspective of Government representatives included understanding of the current institutional and legislative situation, good practices implemented to date, and realistic short-term and long-term room for improvements. On the other hand, entrepreneurs provided real-life views of the same issues, identifying the most pressing obstacles and ways they managed or failed to handle them. Finally, we have included analyses by experts having experience in collaborating both with entrepreneurial perspectives on the one hand, and legislative and institutional perspectives on the other. In order to gain a comprehensive insight into the issue of youth entrepreneurship, it was necessary to cross-reference all three perspectives and improve the analysis of reports and documents on youth entrepreneurship.

The gap identification research process involved a mapping process as the basic and fundamental approach. First, we set the framework of the map and its pillars, thus defining the scope of the analysis and its priorities. Thereafter, through the mapping process we identified institutional, legislative, financial, and other conditions and obstacles faced by different groups of youth from the moment they create a business idea and decide to start a business, through business growth and up to development. We abstracted “the common denominator” for all groups -- gaps that were common for youth in general. We then addressed the obstacles relevant for particular youth groups. Finally, we created a prioritization matrix to compare the significance of the barrier at different lifecycle stages. Obstacles do not have the same impact during different business development stages. Therefore, we highlighted which development stage is influenced the most by each obstacle.



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