



European Employment Observatory

EEO Review: Self-employment, 2010

Serbia

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1. Introduction

Self-employment in Serbia has significantly increased in both absolute and relative terms throughout the last decade. However, its steady growth was largely a result of push rather than pull factors. The process of transition and enterprise restructuring which was reinforced after the passage of the Privatisation Law in 2001 has brought about rapid decline in wage employment. This has been partially compensated for by the dynamic growth of self-employment, but many, if not most, of the self-employment jobs created in the past decade could be seen as last-resort employment, rather than as a sign of a favourable business climate and flourishing entrepreneurial inclinations.

The Government has tried to actively promote self-employment as an attractive, modern alternative to standard wage employment. One of the most important early strategic documents, the Poverty Reduction Strategy Paper from 2003, explicitly identifies self-employment and the development of small and medium enterprises as key factors in reducing unemployment and creating a more flexible and dynamic labour market. A lot of attention has been paid to supporting self-employment and small businesses through the creation of institutions and specialised agencies, and the introduction of various programmes and subsidy schemes. On the other hand, despite some improvements, the overall business climate has remained relatively hostile towards self-employment.

According to Labour Force Survey data, self-employment has increased from below 450 000 in October 2005 to just over 500 000 in October 2009. The corresponding share of self-employment as a percentage of total employment for the adult population (15+) has increased from 16.4 % in 2005 to 19.3 % in 2009. Data on formal non-agricultural self-employment from an establishment survey (RAD-15)¹, however, shows a slight drop within the same period, from 228 000 in September 2005 to 211 000 in September 2009. The two surveys are not really comparable though and furthermore they both have had methodological changes in how data is collected which makes it difficult to observe real trends over time.

After the start of the economic crisis in Serbia (October 2008), self-employment remained rather resilient, confirming it is predominantly last-resort, and hence counter-cyclical, character. In the meantime, faced with the sudden stop in foreign direct investment (FDI) which further deepened macroeconomic imbalances, policymakers have shifted their attention towards the development of a new growth model for the next decade, based on export orientation and re-industrialisation. In such a discourse, the promotion of self-employment can have only a very limited, subsidiary role.

2. Assessment of national Labour Market policies and recovery measures

The Strategy for the Development of Small and Medium Enterprises and Entrepreneurship was adopted in 2001, as one of the first strategic documents of the first post-Milosevic Government. Early in the 2000s, a comprehensive network aimed at promoting business creation and self-employment was established, with the primary objective to facilitate the transfer of redundant workers to micro/small/medium enterprises, but also intending to assist

¹ In Serbia, firms, institutions and organisations report to the national statistical office (SORS) about their employee numbers and their average wages on a monthly basis. RAD-15 is a survey covering a sample of small firms and self-employed workers and is undertaken semi-annually.

genuine entrepreneurs in starting up or expanding their businesses. This network comprises financial and non-financial institutions.

Among the non-banking public financial institutions that offer preferential loans or guarantees to micro and small/medium firms the most important are the Development Fund of Serbia, the Guarantee Fund of Serbia, and the Development Fund of the Province of Vojvodina. Commercial banks have also played a role, some of them specialising in SME support thanks to grants and preferential loans from international donors and financial institutions. Microfinance, on the other hand, has remained underdeveloped because of a lack of legislation (Brkanovic et al., 2007), with the National Bank of Serbia until recently continuously opposing the introduction of a law regulating microfinance. A couple of NGOs were nevertheless tacitly allowed to act, however negligible, as microfinance institutions.

The National Employment Service (NES, hereafter) has been the leading institution in subsidising self-employment through self-employment grants. A number of international organisations such as the International Labour Organization (ILO), the United Nations Development Programme (UNDP), the United States Agency for International Development (USAID), the Austrian Development Agency (ADA) etc. have also, often in coordination or cooperation with the NES, provided self-employment grants.

Regarding non-financial support, two major networks were developed: regional agencies and support centres for small and medium sized enterprises (SMEs) on the one hand, and business centres of the NES on the other. The National Agency for the Development and Support of SMEs and Entrepreneurship was created already in 2001, and a network of 15 regional agencies was established within several years, thanks also to donors' support. More recently, financing and coordination problems have called for rationalisation of the support system, and in February 2010 a new national Agency for Regional Development emerged as the legal successor of the SME Agency, incorporating also parts of the Ministry of Economy. However, despite the organisational changes the remit of the new agency with regard to SME and entrepreneurship support remains basically unchanged. Financial and staffing constraints have also stalled full development of the business centres of the NES – although they are at least effective in delivering mandatory start up instruction courses to the beneficiaries of self-employment grants.

Subsidies of the NES have been the single most important publicly financed vehicle for the creation of formal self-employment jobs. The design is simple and attractive enough – lump sum grants, typically worth between EUR 1 000 to EUR 2 000 are given based on an approved business plan, with the condition that beneficiaries remain formally self-employed (with a registered shop or firm and regularly paying taxes and social security contributions) for at least two years. In the past eight years, almost 35 000 jobs have been subsidised in this way, although the number of beneficiaries varied greatly from year to year, reaching its peak in 2005, when almost 10 000 self-employment grants were allocated. In recent years, the number has stabilised at around 5 000.

In addition, lump-sum advance disbursement of the full eligible amount of unemployment benefit for registered unemployed workers who start their own business has been stipulated by the Employment and Unemployment Insurance Law. On average, some 500 additional self-employment subsidies based on full advance unemployment benefit payments were approved annually, thus bringing the overall number of self-employment grants provided by the NES in

the past eight years to around 40 000. This makes self-employment subsidies the most widespread job subsidy in Serbia, followed by employer subsidies for creating new employment. At their peak in 2004 and 2005, self-employment subsidies comprised over 50 % of the total budget for active labour market policy programmes (Arandarenko and Krstic, 2008), and then gradually declined to its current share of around 20 %.

Self-employment subsidies are typically available to all registered unemployed persons, subject to regional quotas within the overall budgetary constraints of the NES, although members of vulnerable groups and the long term unemployed are prioritised. In 2007 and 2008, a special separate experimental programme, supported by the UNDP and the ADA, called Severance to Job was operational. It was specifically aimed at older workers who lost their jobs in the process of privatisation. The most popular component of this programme was a self-employment subsidy (that required a symbolic amount of matched funding out of individual's severance payment to indicate their determination to invest in their own future employment), with a total of some 1 500 beneficiaries receiving this subsidy.

Despite the relatively long tradition of self-employment grants, going back to 1995 (Popovic and Savic, 2005), no full-blown net impact evaluation of these programmes has been conducted yet in Serbia. Still, these active labour market programmes are popular with the grant recipients and surveys tend to report very high levels of satisfaction among the beneficiaries (for example Medium Gallup, 2007). Since 2007, the NES checks the survival rate of beneficiaries' businesses six months after the expiration of their contractual obligation to remain self-employed, and it is always above 80 %. Medium Gallup research found survival rates of over 50 % even among the beneficiaries whose contractual obligation expired three years before. An 'indicative' macroeconomic impact assessment, comparing the total level of public spending on self-employment programmes with overall self-employment trends (including informal self-employment), has also tentatively indicated that increased spending on self-employment subsidies has a positive impact on aggregate self-employment numbers (Arandarenko and Krstic, 2008), but authors admit that this correlation could largely be coincidental, and that self-employment growth during the transition is driven by powerful autonomous factors. A recently completed net impact evaluation of the Severance to Job programme (Nojkovic and Vujic, 2010) has also found that self-employment subsidies have a significant positive impact on the labour market outcomes of beneficiaries, compared with the control group. However, a major limitation of this evaluation is that it was, because of administrative requirements, conducted very soon after the end of the programme, with many participants still having contractual obligations to remain self-employed.

The staff of the NES often emphasise that in practice the main purpose of self-employment subsidies is to encourage formalisation of already existing informal activities (i.e. registering as self-employed), rather than to create entirely new jobs, for which the amount of the subsidy is typically not enough. This is an interesting aspect worthy of a more detailed research. If true, this 'formalisation' function implies that a standard quasi experimental net impact evaluation of self-employment subsidies alone would probably find very modest net impact and a large deadweight effect, while a societal cost-benefit analysis might report much more favourable results. In any case, since this reasoning is purely hypothetical, conducting a large scale, carefully designed net impact evaluation of self-employment programmes should be the priority for the NES in the near future.

3. Quality of self-employment jobs

The structural characteristics of self-employment in Serbia seem to fully confirm the ILO notion of self-employment as 'vulnerable employment'. This is especially true if the widest definition of self-employment is used, comprising formal and informal, agricultural and non-agricultural self-employment, inclusive of helping family members. However, it is also completely relevant to the narrowest possible definition, comprising only formal non-agricultural self-employment, for which semi-annual data are available through the expanded establishment survey.

As Table 1 in the Annex shows, according to LFS data the share of self-employment as a percentage of total employment has increased, regardless of which definition of self-employment is used. According to the narrowest LFS definition (self-employed and with no employees or unpaid family helpers), the share of self-employed as a percentage of total employment increased from 16.4 % in 2005 to 19.3 % in 2009, while according to the most encompassing definition, self-employment increased from 28.7 % to 31.7 % during the same period. Preliminary data for April 2010 show a further increase to 22.8 % and 34.4 % respectively, suggesting that indeed self-employment remains resilient during the crisis, unlike other forms of employment, which continue to show a rather dramatic decrease.

As in most other countries, self-employment is dominated by men, who account for around three quarters of all self-employed workers. Women are in a significant majority only among family helpers, comprising around 70 % of that group. Self-employed persons have on average significantly lower education than salaried employees. Around 40 % of all persons with primary education or less are self-employed, which is twice as high as the share of persons with primary education or less in the overall employed population. On the other hand, self-employed workers are just slightly underrepresented among the overall employed in terms of secondary education. Finally, the share of self-employed people with higher education is only around 10%. The educational distribution of the self-employed is somewhat bimodal rather than normal, with farmers having mostly primary education or less, and self-employed professionals such as lawyers, dentists, artists and the like having tertiary education.

Given the sectoral and educational structure of self-employment, as well as data on income from work which are also available in the LFS, it is clear that the overall quality of jobs in the self-employment sector is much lower than in the public sector and in the private corporate sector.

Moving to formal non-agricultural self-employment, the trends in self-employment are becoming less favourable, especially after the start of the economic crisis in October 2008. While a slow but stable increase in formal self-employment saw some 30 000 further people register as self-employed between 2005 and 2008, a sharp drop of over 80 000 persons was recorded within only a year, by September 2009. However, this drop is primarily a result of methodological change in the recording of self-employment. While until October 2008 the Statistical Office relied solely on administrative registers, more recently it has turned to the Health Insurance Fund records that reflect only those workers whose mandatory health insurance contributions were paid. Still, since a moderate diminishing trend in formal self-employment was recorded in all three semi-annual surveys after the mentioned methodological change, it would still be correct to conclude that the crisis has left its mark on

formal self-employment, although to a significantly lesser extent than suggested by the unadjusted establishment survey trend.

Again, the quality of jobs in formal self-employment is significantly lower in comparison to wage employment. Although the establishment survey does not collect data on the income of self-employed workers, tax collection data from the Ministry of Finance (which are not publicly available) suggest that over three quarters of self-employed workers and their employees receive minimum wage or less. Of course, there is a widespread practice of tax evasion, including double payrolls (paying a minimum salary and topping it up with cash-in-hand). Still, even if informal parts of wages are accounted for, such as in the LFS, the wage advantage of salaried employees remains significant.

What are the main reasons behind the poor overall quality of jobs in the self-employment sector? Why do huge parts of it operate informally or semi-informally? Why is the job-creation capacity within the sector extremely limited? Several factors have been identified as most critical in impeding the growth of the self-employment sector.

Firstly, heavy taxation affects non-agricultural self-employment. Within the current effectively flat tax system in Serbia, labour tax wedges (share of taxes of total labour costs) for self-employed persons and their employees earning minimum wage or less are very high – currently standing at around 37% for a person earning the minimum wage. High minimum mandatory social security contributions are a major impeding factor for the formalisation of many informal low-wage jobs. Local non-labour taxes represent an additional burden.

Secondly, lack of favourable financing opportunities is an issue. Access to credit for self-employed persons or micro and small firms is typically conditional on offering collaterals and bank guarantees. Collateral loans are difficult to obtain because most real estate is yet to be recorded in the land register. In a heavily Eurised economy, bank loans are expressed in hard currency equivalents, transferring the exchange rate risk to the borrower. Furthermore, microfinance institutions are practically entirely absent. Indeed, the Ministry of Finance in cooperation with the National Bank is currently preparing a new law which should by the end of 2010 for the first time introduce microfinance in Serbia.

Thirdly, although the overall business climate in Serbia is improving, the World Bank's 2009 'Doing Business' survey still rated Serbia as 90th worldwide. Moreover, aspects which are more important for micro firms and entrepreneurs, such as starting and closing a business, paying taxes and registering property, were rated even lower.

4. Conclusions

Self-employment has been of extreme importance in smoothing unfavourable employment trends during the last decade, and has continued to play, and even strengthened that role throughout the crisis. However, as a consequence the quality of self-employment jobs has not been improved and these jobs remain last resort options for most labour force participants.

The National Employment Service has a relatively long tradition of subsidising self-employment, and evaluations and beneficiary satisfaction surveys typically show the positive impact of self-employment grants at both micro and macro levels. However, a large scale net impact evaluation of self-employment subsidies is long overdue, in order to better inform the NES and policymakers about the real effects of the programme, and contribute to its effectiveness in the future.

The trend of a reduction in self-employment subsidies is noticeable since 2007. A thorough evaluation of the full set of programmes and measures of various institutions supporting self-employment and micro enterprises is needed, so that a new optimal policy mix is designed, to compensate for the decline in self-employment grants and to accompany the new development prioritisation, which gradually emerges under the label of ‘new growth model’ in the Serbian economy. This new policy mix would need to facilitate better access to credit, including microfinance, lower labour taxes and improve the overall business climate.

The key goal with regard to self-employment in the next decade should not be quantitative, given the above-average share of self-employment as a percentage of total employment, but clearly qualitative, requiring improved quality of self-employment jobs and improved structural characteristics of self-employed workers.

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Annex**Table 1. The dynamics of self-employment, 2005-2010**

	Oct-05	Oct-06	Oct-07	Oct-08	Oct-09
Self-employed	563 448	529 224	534 824	660 628	591 500
Men	429 059	413 531	409 781	482 911	425 592
Women	134 390	115 692	125 043	177 717	165 908
Self-employed without employees	447 853	410 953	423 733	539 588	501 014
Men	340 956	321 189	331 217	394 391	359 313
Women	106 898	89 764	92 516	145 197	141 701
Employees (with self-employed)	115 595	118 271	111 091	121 039	90 486
Men	88 103	92 343	78 564	88 520	66 280
Women	27 492	25 928	32 527	32 520	24 207
Helping family members	219 802	180 624	180 081	241 024	228 275
Men	67 346	55 472	47 528	63 488	68 511
Women	152 456	125 152	132 553	177 536	159 765
Farmers including family helpers in agriculture	586 708	501 937	501 676	589 240	537 231
Men	341 419	303 581	300 063	322 512	303 634
Women	245 288	198 356	201 614	266 728	233 597
Shares					
Employed (15+)	2 733 412	2 630 691	2 655 736	2 805 307	2 590 188
Self-employed without employees	447 853	410953	423733	539588	501014
Self-employed including employees	563 448	529 224	534 824	660 628	591 500
Self-employed, including employees and helpers	783 250	709 848	714 905	901 652	819 775
Employed (15+)					
Self-employed without employees	16.38 %	15.62 %	15.96 %	19.23 %	19.34 %
Self-employed including employees	20.61 %	20.12 %	20.14 %	23.55 %	22.84 %
Self-employed, including employees and helpers	28.65 %	26.98 %	26.92 %	32.14 %	31.65 %

Source: Labour force survey, 2005-2009, Statistical Office of Republic of Serbia

Table 2. Formal self-employment trends, 2005-2009

	Sep-05	Sep-06	Sep-07	Sep-08	Sep-09
Total	531 359	572 170	572 991	567 572	484 615
Private entrepreneurs	230 000	242 000	245 000	245 000	211 000
Employees	300 000	330 000	328 000	323 000	274 000
Men	301 251	330 072	329 513	326 161	278 489
Women	230 108	242 098	243 478	241 411	206 126

Source: RAD-15 (Extended establishment survey), 2005-2009, Statistical Office of Republic of Serbia