



Key points

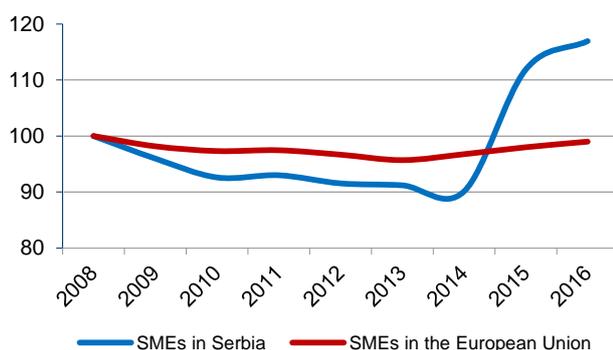
Past & future SME performance¹: The importance of SMEs for the economy has increased with the country's economic recovery. In 2016, only employment in the SME sector stayed below the respective pre-crisis levels (2008) which point to increased efficiencies and productivity within SMEs. As Serbia's economy continues growing by forecast 2% in 2017, SMEs are expected to contribute to and continue benefiting from this economic upswing.

Implementing the Small Business Act for Europe (SBA): Serbia made some progress in implementing the SBA, most notably by further strengthening support for entrepreneurship by organising a comprehensive policy initiative entitled 'The Year of Entrepreneurship 2016.' The measures adopted during this initiative continue to be implemented in 2017. Since 2008, every SBA area benefited from some kind of policy measure, but the results on average remain below the EU levels. Implementing policies effectively is key for further progress. To achieve this, policy measures need to be continually analysed and action plans need to be fully implemented to further improve the environment for SMEs.

SME policy priorities: Serbia needs to increase predictability in the SME business and administrative environment. To this end the country should develop performance measurements for policy making activities and put more emphasis on implementing the 'Think Small First' principle. It needs to assess the negative impact of widespread but unpredictable parafiscal charges on SMEs. The regulatory impact assessment and the SME test need to be systematically performed when making laws and bylaws. Further improving access to finance is needed to revitalise Serbian SMEs, as currently they are mainly using their own resources to fund expansion.

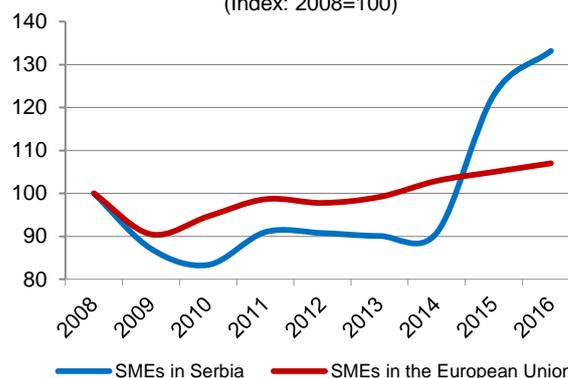
Number of persons employed in SMEs

(Index: 2008=100)



Value added of SMEs

(Index: 2008=100)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.

Table of Contents

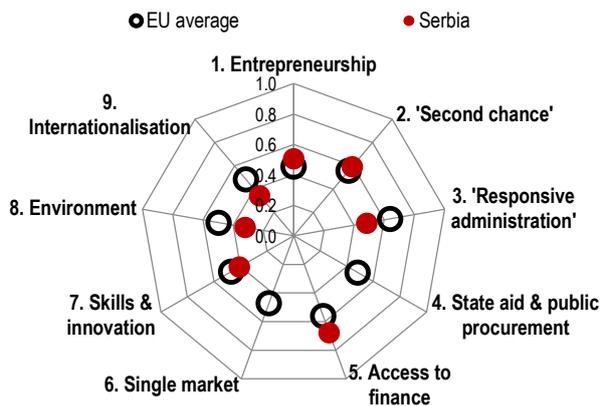
Key points	1
1. SMEs — basic figures.....	2
2. SBA profile	3
3. SBA principles.....	5
3.0 'Think Small First'	5
3.1 Entrepreneurship.....	5
3.2 'Second chance'	6
3.3 'Responsive administration'	7
3.4 State aid & public procurement	8
3.5 Access to finance.....	8
3.6 Single market.....	9
3.7 Skills & innovation	9
3.8 Environment.....	10
3.9 Internationalisation	10
4. Interesting initiative.....	12

1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Serbia		EU	Serbia		EU	Serbia		EU
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	288 843	96.0 %	93.0 %	363 950	30.5 %	29.8 %	3 456	20.7 %	20.9 %
Small	9 543	3.2 %	5.8 %	190 354	16.0 %	20.0 %	2 557	15.3 %	17.8 %
Medium-sized	2 114	0.7 %	0.9 %	218 462	18.3 %	16.7 %	3 177	19.0 %	18.2 %
SMEs	300 500	99.9 %	99.8 %	772 766	64.8 %	66.6 %	9 190	55.0 %	56.8 %
Large	473	0.1 %	0.2 %	420 017	35.2 %	33.4 %	7 515	45.0 %	43.2 %
Total	300 973	100.0 %	100.0 %	1 192 783	100.0 %	100.0 %	16 705	100.0 %	100.0 %

These are estimates for 2016 produced by DIW Econ, based on 2008-14 figures from the Structural Business Statistics Database (Eurostat). The values for Serbia are taken from the Statistical office of the Republic of Serbia (SORS). Value added is calculated based on the average exchange rate in the year 2016: RSD 123 for EUR 1. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

2. SBA profile²



Serbia made further progress in implementing the Small Business Act. Since 2008, Serbia has put in place policy measures addressing all SBA policy areas. Overall, Serbia continues to follow a positive trend, with a well-developed approach to SME policy.

In general, the indicators used to assess SBA performance show close to average performance compared to EU peers. This is consistent with the level of economic development in Serbia and its recent growth rates. However, in some areas, progress in comparison with last year needs to be treated with caution. SBA indicators measuring access to finance show progress but they do not show the full picture in the financial markets, in particular for SMEs, which remain dependent on their own resources.

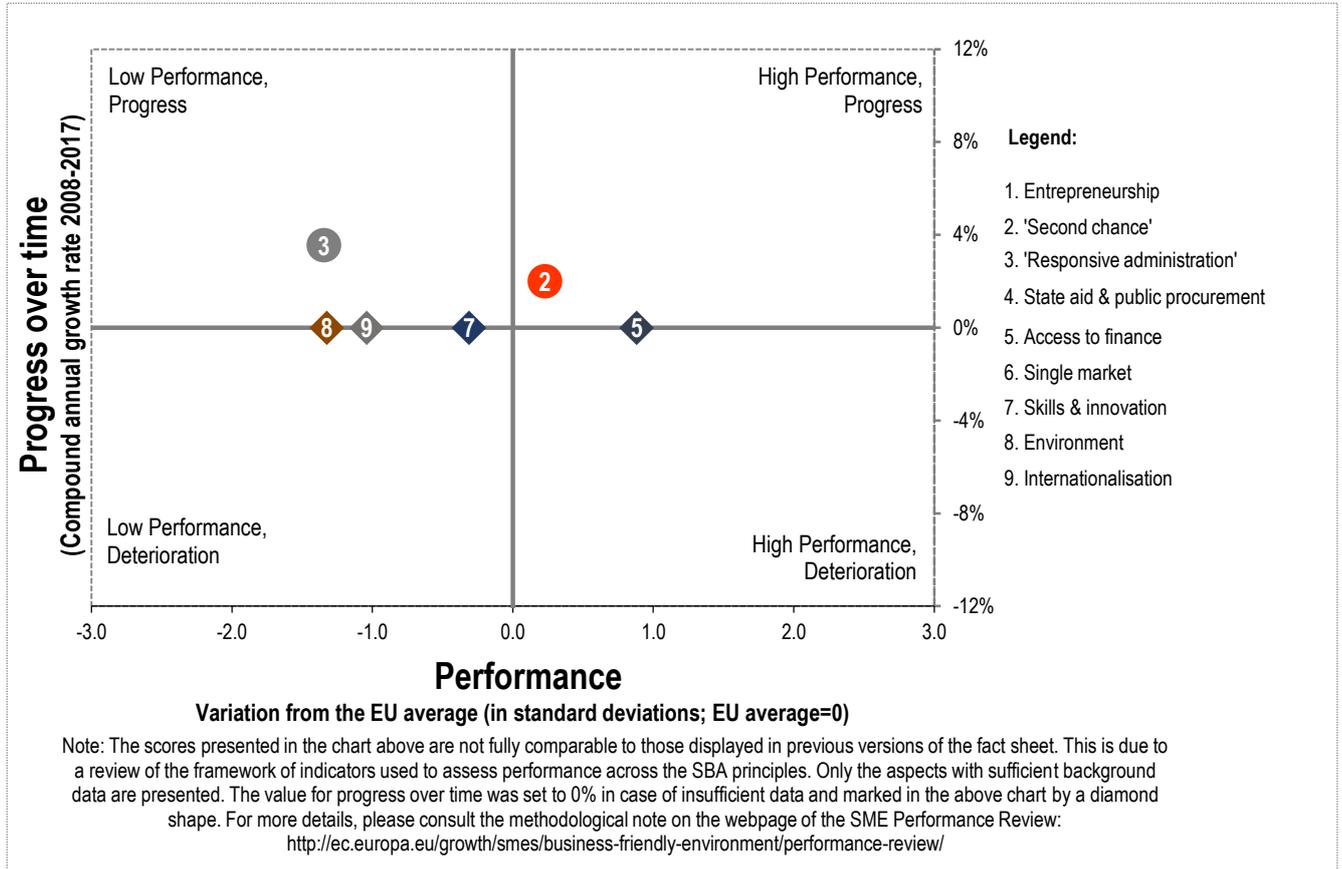
Therefore, SMEs continue to find it difficult and expensive to access finance. Similarly, in the area of state aid and public procurement, there are not enough indicators to assess performance, which points to policy weaknesses in this field.

Past SBA recommendations were pursued on a selective basis. However, in 2016, the ministry responsible for SMEs launched a major initiative — Year of Entrepreneurship — which saw more comprehensive efforts to improve the situation for SMEs. In particular, the amount of grants to boost the most desirable SME activities was increased. These grants targeted investment, internationalisation and innovation. To improve the business environment, Serbia continued to implement its programme to combat the grey economy and started developing a comprehensive registry of administrative procedures, which will be later used as a basis for suggestions to simplify these same procedures.

Action have been undertaken to improve access to finance and the number of SMEs which have access to banking and non-banking financial instruments. However, the majority of SMEs still remain dependent on their own resources. IPA and COSME EU funds have been used to develop these new instruments, while the World Bank is working on optimising the functioning of the state-run Development Fund, which in the past invested heavily in failed public companies.

The Council for SMEs, the key government body to ensure that SME interests are taken into account in all policy areas, has been given a more prominent role, but its policy impact on 'Think Small First' has yet to be examined.

SBA performance of Serbia: state of play and development from 2008 to 2017³



3. SBA principles⁴

3.0 'Think Small First'

The 'Think Small First' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

During the reference period, an action plan to realise the Strategy for the support of development of SMEs, entrepreneurship and competitiveness (*Strategija za podršku razvoju malih i srednjih preduzeća, preduzetništva i konkurentnosti i akcioni plan za njenu realizaciju*) was adopted. The establishment of a Single Public Registry of Administrative Procedures and Other Business Conditions (*Jedinstveni registar administrativnih postupaka i ostalih uslova poslovanja*) is under way. The main objective is to reduce administrative costs by 15-20 % by 2020 (i.e. their lowering from 3.46 % of GDP to 3 % of GDP) as well as set up a Single Point of Contact where companies will be able to get all the information on their business activities in Serbia. The Registry of administrative procedures and other business conditions will be modelled on the registries that exist in several EU countries. In the third and final phase, that will take place in 2018, a public portal (registry) will be set up and all procedures will be optimised.

By establishing the web portal for businesses, the administrative procedures and other business requirements (all the necessary

data, application forms, and other information necessary for specific procedures) will become more easily available and accessible from a single point. In this way, the business sector can save a lot of time and money when filling and submitting numerous application requests. On the other hand, this initiative will ensure tighter collaboration between the business sector and the public administration on:

- simplifying administrative procedures and reducing public sector costs;
- better transparency;
- access to the information of public importance;
- better public administration to benefit businesses and citizens, i.e. better public service delivery.

The new action plan for 2017-2018 on tackling the grey economy, as part of the National Programme for Combating Grey Economy (*Nacionalni plan za suzbijanje sive ekonomije*) from 2015, was adopted in May 2017. The plan has 107 measures and will aim to better control financial flows in the grey zone, improve the functioning of the fiscal system and reduce administrative burden for businesses and citizens.

Since Serbia is a non-EU country there is no SME envoy, but within the Ministry of Economy there is an SBA Coordinator who is responsible for implementing the SBA.

3.1 Entrepreneurship

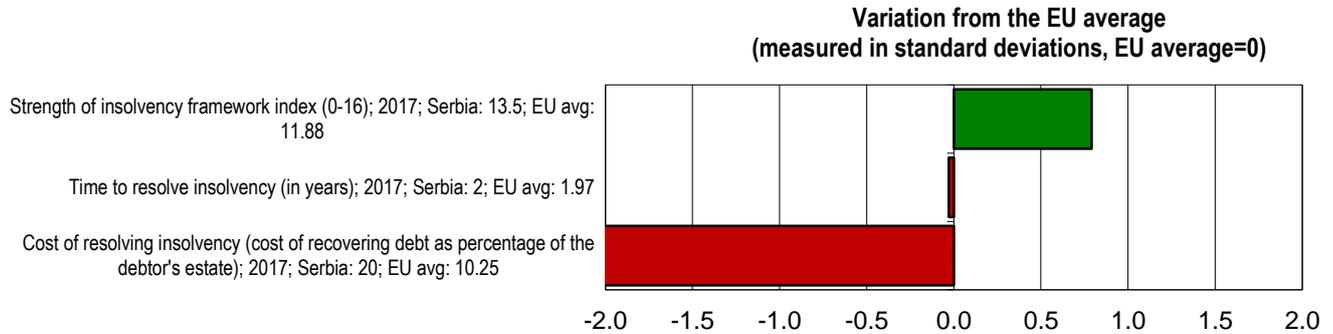
Serbia's score for entrepreneurship shows that its policies in this area are comparable with policies of EU peers.

During the reference period for the fact sheet, the government adopted the 'Proposal for the introduction of a dual education system in secondary vocational schools' and started preparations for the related law — expected to be adopted in 2017. It will support the development of practical skills for young people about to enter the labour market. The practical work experience is to be integrated into secondary education curricula, for qualifications profiles with a duration of three or four years.

Throughout 2016 and 2017, the government has provided financial support to Junior Achievement Serbia (JAS), the only

accredited provider of entrepreneurship education services in Serbia in secondary schools. With the support and guidance of business volunteers from the local business community, the JA Company Programme provides basic economic education for high school students. By organising and operating an actual company, students not only learn about how businesses function, they also learn about the structure of Serbia's market economy and the benefits it provides. In 2016, 220 schools participated in the JAS Programme, involving 3000 students with 150 companies being founded.

3.2 'Second chance'



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly.

Serbia's performance in this area stands roughly in line with the EU average, although the scores in individual indicators show a mixed performance. Both in Serbia and in the EU it takes two years on average to close a business. However, doing so in Serbia is twice as expensive as in the EU. The cost of resolving insolvency in Serbia amounts to 20 % of the debtor's estate, while the EU's average figure stands at 10.25 %. At the same time the Serbian insolvency framework is relatively strong.

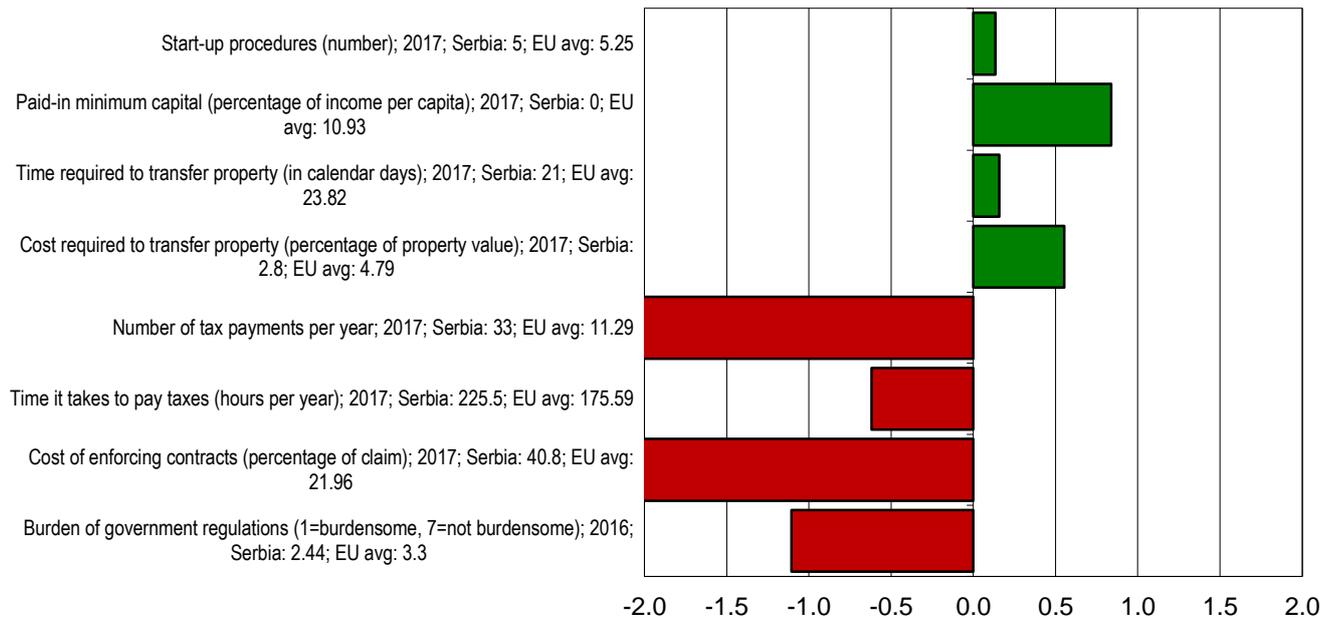
Since 2008 Serbia implemented policy measures to support equal treatment for business restarters and to put in place early warning mechanisms to help entrepreneurs avoid bankruptcy.

During the reference period for this fact sheet, no important new policy measures were adopted or implemented.

The government announced its intention to pass amendments to the bankruptcy law and to the corporate tax law to reduce the cost of dealing with insolvency.

3.3 'Responsive administration'

Variation from the EU average
(measured in standard deviations, EU average=0)



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

'Responsive administration' refers to public administration being responsive to the needs of SMEs.

Serbia's administration performance has improved since the last review. Four out of eight indicators are performing above the EU-average: start-up procedures, paid-in minimum capital, and time and cost required to transfer property.

The number of tax payments per year has fallen from 42 in 2016 to 33 in 2017, but is still well above the EU average of 11. The time it takes to pay taxes is also above the EU-average: 225 vs 175 hours per year. The indicator that performs the worst remains the cost of enforcing contracts which in Serbia is almost twice as costly as in the EU: 41 % of claims against 22 % of claims.

Since 2008, Serbia introduced policy measures that responded to two SBA recommendations: the single point of contact for

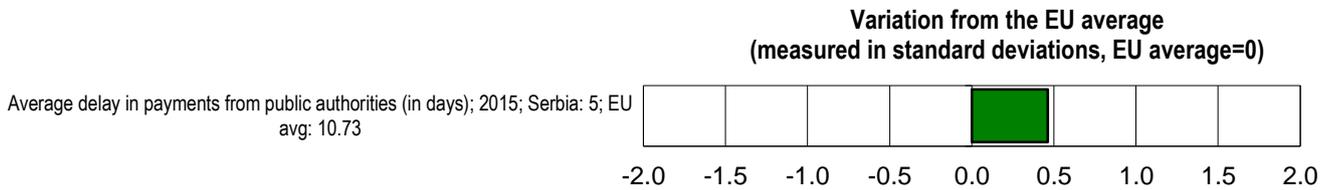
start-ups has been introduced and improvements were made to the process of interaction between businesses and government services.

The Tax Administration's electronic services have continuously improved. In 2017 there are plans to:

- establish a sector for services;
- increase the Contact Centre's role;
- analyse in detail all types of work performed by the desk audit.

Regarding inspections, in line with the action plan, e-inspector software is planned to be developed by end-2017. This should harmonise the inspection procedures and allow for joint training of inspectors and prosecutors so they can better detect and sanction operations in the grey economy.

3.4 State aid & public procurement



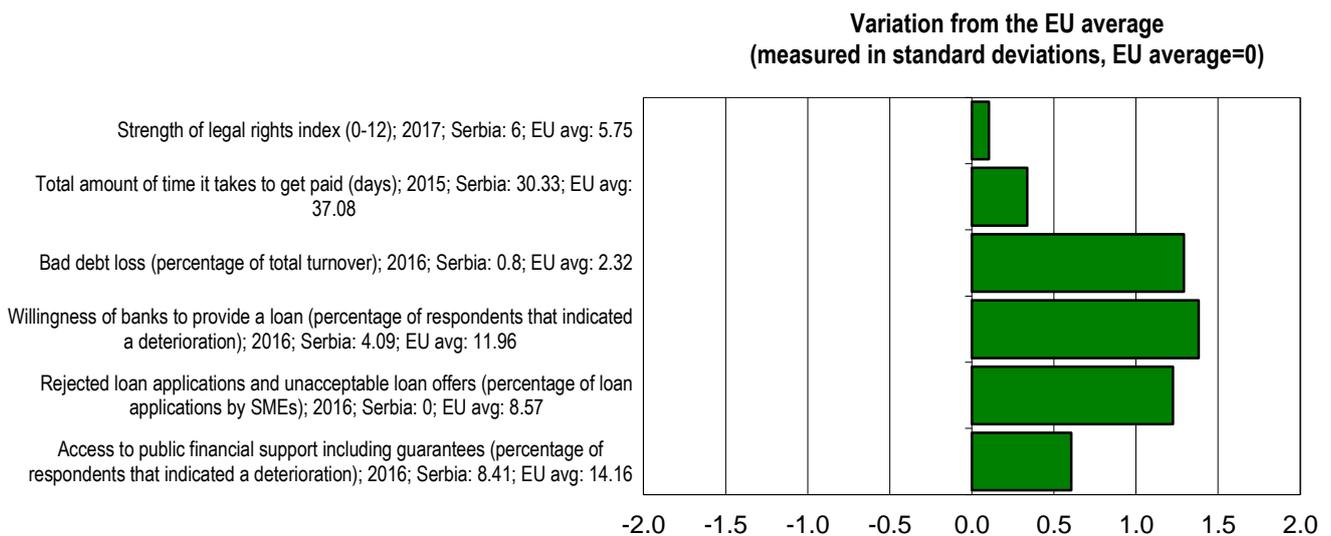
Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

The average score for state aid & public procurement could not be established because there are no recent data for Serbia in this SBA area.

The single indicator available in this area, measuring the delays in payments from public authorities, showed an above average performance. Serbian public services pay their invoices approximately 5 days after their due date. Since 2008, the Serbian government implemented a number of SBA recommendations, introducing policy measures in support of SMEs. These included e-procurement solutions, the possibility of dividing big tenders into small lots, as well as a centralised process for government purchases.

During the reference period, Serbia adopted the programme for a standardised set of services to micro, small and medium-sized enterprises (*Program standardizovanog seta usluga za mikro, mala i srednja preduzeća koji se sprovodi preko akreditovanih regionalnih agencija*). Accredited regional development agencies receive state funding to cover the provision of consulting, education, information and promotion services to SMEs.

3.5 Access to finance



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Serbia's performance in providing access to finance for SMEs has improved in the last few years.

Compared with previous years, all indicators are better. Strength of legal rights index went up (even above the EU average), while

bad debt loss as a percentage of total turnover is significantly lower. Also the willingness of banks to provide loans is higher as well as access to public financial support including guarantees as the percentage of respondents that indicated deterioration was lower in 2016 than before (data for 2013 was provided in last year's SBA Fact Sheet).

This means that the Government is addressing the SBA recommendations in the area.

The Ministry of Economy' portal provides valuable information on the financing available. This includes funding from various

3.6 Single market

There were no data available for this SBA principle for Serbia.

The main focus of policy efforts in this field was on the use of standards. The Serbian government has taken steps to help SMEs to participate in standardisation, to use patents and trademarks, and to make use of trade promotion organisations to boost exports to the single market.

During the reference period the government adopted the 'Strategy for the improvement of the quality infrastructure

sources, such as the European Investment Fund and COSME programme.

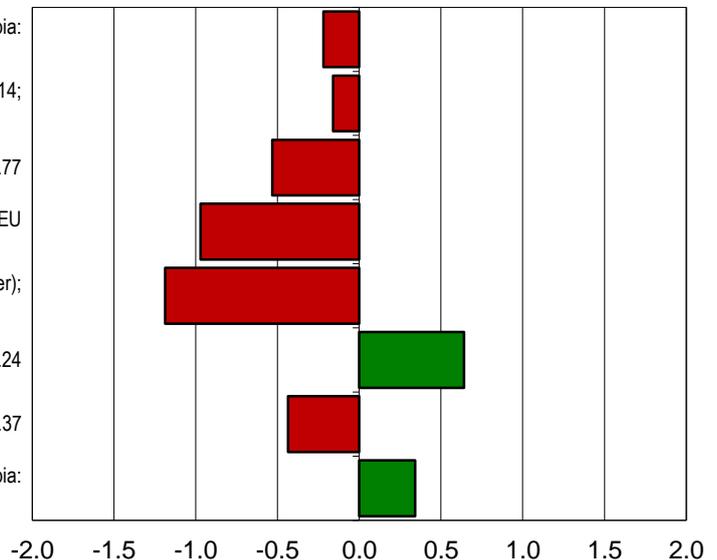
system in the Republic of Serbia for the 2015-2020 period' (*Strategija unapređenja infrastrukture kvaliteta u Republici Srbiji za period 2015-2020*). The action plan to implement the strategy is still to be adopted.

The strategy provides guidance on development objectives for the next decade, taking into account current industry needs a in quality infrastructure throughout Europe.

3.7 Skills & innovation

Percentage of SMEs introducing product or process innovations; 2014; Serbia: 28.28; EU avg: 30.9
Percentage of SMEs introducing marketing or organisational innovations ; 2014; Serbia: 32.86; EU avg: 34.89
Percentage of SMEs innovating in-house; 2014; Serbia: 22.99; EU avg: 28.77
Percentage of innovative SMEs collaborating with others; 2014; Serbia: 4.91; EU avg: 11.22
Sales of new-to-market and new-to-firm innovations (percentage of turnover); 2014; Serbia: 7.94; EU avg: 13.23
Percentage of SMEs selling online; 2014; Serbia: 21.51; EU avg: 17.24
Turnover from e-commerce; 2014; Serbia: 7; EU avg: 9.37
Percentage of persons employed that have ICT specialist skills; 2014; Serbia: 20.71; EU avg: 18.83

Variation from the EU average
(measured in standard deviations, EU average=0)



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Serbia's performance in this area has continued to be in line with the EU average and since 2008 this has been the second-best area in terms of progress.

Also since 2008 the government's policy efforts have been focused on this SBA area where they addressed the main SBA recommendations.

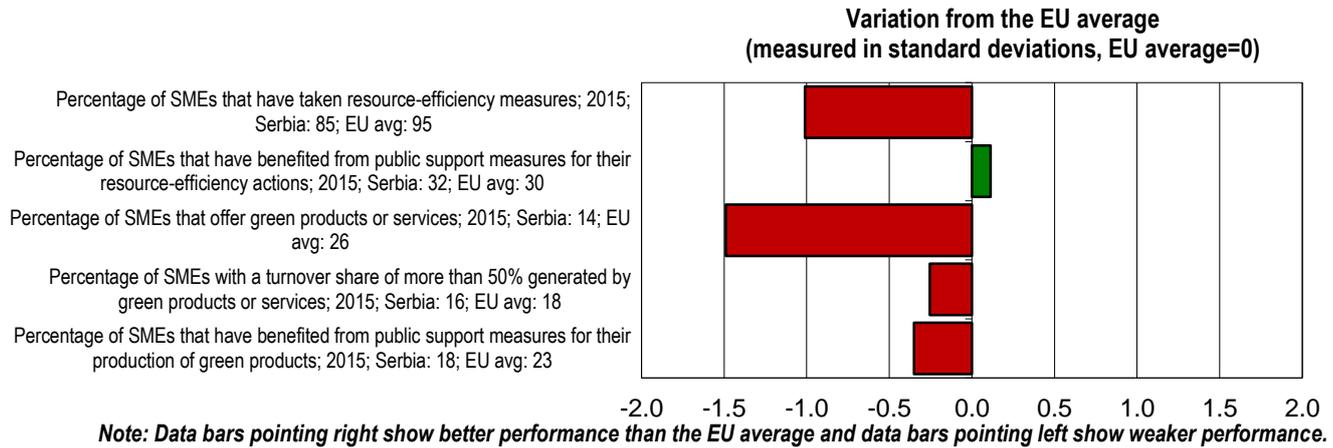
Some of the indicators are falling such as the percentage of SMEs introducing marketing or organisational innovations, which fell by more than 7 percentage points to 32.86 %. The same

happened to sales of new-to-market and new-to-firm innovations (percentage of turnover) that fell by more than 4 percentage points. The percentage of innovating in-house SMEs also fell. Both of the newly-introduced indicators, related to ICT skills, stood in line with their average EU levels.

During the reference period no new significant measures were implemented. Although the Strategy for scientific and technological development for the 2016-2020 period —

'Research for innovation' — was adopted over a year ago a concrete set of measures (Action Plan) is still missing.

3.8 Environment



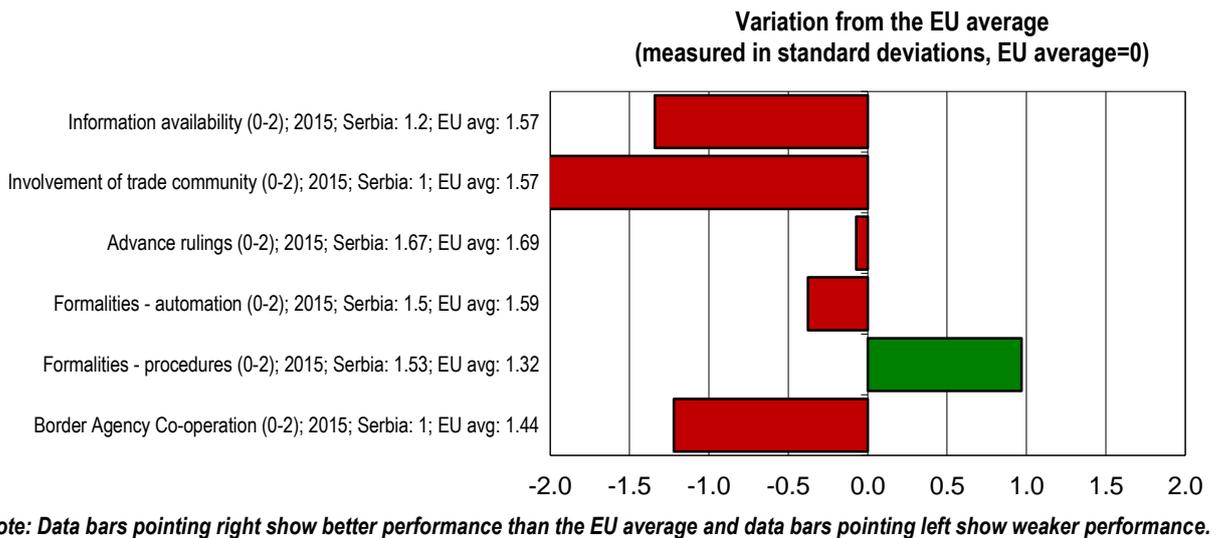
Serbia continued to underperform compared to the EU average in this area. The overall performance in most individual indicators deteriorated.

Since 2008, data show a lack of progress made in this SBA principle. While some policy measures incentivising energy

efficiency and use of renewable resources of energy were put in place, their outcomes are not shown in the available figures.

No significant measures were adopted, implemented or announced during the reference period for this fact sheet.

3.9 Internationalisation



Serbia's performance in the area of internationalisation continued to be below the EU average. The most important trading partners were Germany and Italy.

Since 2008 the Government has put in place policy measures addressing all SBA recommendations, but their effectiveness is limited.

After the 'Serbian Investment and Export Promotion Agency' was closed in early 2016 its tasks were taken over by the 'Serbian Development Agency' including those promoting SME exports.





4. Interesting initiative

Below is an example of an initiative from Serbia to show what governments can do to support SMEs:

Year of entrepreneurship

The national project, 'Year of Entrepreneurship 2016' was launched in March 2016, joining up the efforts of the Government of the Republic of Serbia and the Ministry of Economy, and numerous institutional partners, most notably the Chamber of Commerce.

A package of assistance programmes for entrepreneurship, and to mobilise all segments of the public, society and the state, was developed to support a competitive economy based on the ideas of private initiative, entrepreneurial spirit, and social consensus on encouraging these values and long-term policies. In total, 33 assistance programmes were rolled out which contained various forms of financial and non-financial support.

The European Commission and the World Bank supported the initiative through intensified policy dialogue and by implementing numerous projects in the area of SMEs.

Reference: RAS — Razvojna Agencija Srbije

Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures considered relevant. They do not and cannot reflect all measures the government has taken over the reference period.

SME Performance Review:

https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/sme-performance-review_en

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs for the EU line show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>. As from 2015, the graphs for Serbia are calculated based on values provided by the Statistical Office of the Republic of Serbia. Serbia changed the methodology for registering employment in 2015; therefore the increase in values could be considered a break in the series.

² The 2017 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

³ The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'think small first' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

⁴ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. Only those measures were selected which are expected to have the highest impact in the SBA area in question.