



2021 SME COUNTRY FACT SHEET'S BACKGROUND DOCUMENT

SERBIA


1. Introduction

Small and medium-sized enterprises (SMEs) in Serbia enjoy good access to credit and benefit from fast and simple export procedures. In addition, starting a business in Serbia is fast, simple and cost-effective. However, Serbia still faces a low level of entrepreneurial activity and other challenges, such as the low sustainability performance of SMEs. Existing programmes to help SMEs become international need to be stepped up to reach a higher number of beneficiaries.

To help mitigate the negative economic effects of the COVID-19 pandemic, Serbia implemented three financial packages to the tune of RSD 249.4 billion (around EUR 8.15 billion) to support the economy and population. The measures included direct support to the private sector, deferment of labour taxes, social security and corporate income tax contributions, a state guarantee scheme for bank loans to SMEs, and universal cash transfers to individuals. As a result, the Serbian economy has been moderately affected by the COVID-19 pandemic. In 2020, GDP declined by an estimated 1.0%¹, while total employment even increased by 1.9%². SME value added fell by 0.3%, a slight decline compared to most COSME countries³. The hardest hit sectors were the *accommodation and food services* sector and the *wholesale and retail trade* sector, with SME value added declining by 4.7% and 3.9% respectively. In contrast, SMEs in the *manufacturing* sector and in the *information and communication* sector performed strongly, with value added growing by 4.9% and 4.0% respectively.

SMEs play a key role in the Serbian 'non-financial business economy'. In 2018, they generated 57.2% of value added and 66.1% of employment, slightly exceeding the respective EU averages of 52.9% and 64.9%. However, the average productivity of SMEs, defined as value added per person employed, was only EUR 12 800, well below the EU average of EUR 41 600. Serbian SMEs employed an average of 2.9 people in 2018, significantly less than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2018



	Number of enterprises			Number of persons employed			Value added		
	Serbia		EU-27	Serbia		EU-27	Serbia		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	309 487	95.8%	93.3%	458 216	32.7%	29.6%	4.455	21.5%	18.7%
Small	10 743	3.3%	5.7%	215 877	15.4%	19.7%	3.192	15.4%	17.0%
Medium-sized	2 428	0.8%	0.9%	252 082	18.0%	15.8%	4.209	20.3%	17.3%
SMEs	322 658	99.8%	99.8%	926 175	66.1%	65.2%	11.856	57.2%	53.0%
Large	536	0.2%	0.2%	475 625	33.9%	34.8%	8.862	42.8%	47.0%
Total	323 194	100%	100	1 401 800	100%	100%	20.718	100%	100%

Source: These data are based on data provided by the Statistical Office of the Republic of Serbia.

2. Key strengths

Access to credit for SMEs in Serbia improving

Commercial banks are focusing increasingly on SME lending. In 2019, only 4.5% of SME loan applications were rejected in Serbia – significantly below the EU average and a considerable improvement since 2017, when this rate stood at 8%⁴.

Other factors have contributed to easier access to credit for SMEs. Serbia significantly lowered its interest rates in recent years – from 9.5 percent in January 2014 to 1.25 percent in September 2020⁵. In addition, the coverage of credit information systems has expanded, enabling more businesses to build their credit history. All Serbian SMEs are now registered with the credit bureau⁶.

The government has launched several public financial support programmes since 2019. This includes the Ministry of Economy's investment and guarantee measures for SMEs⁷ – a programme that support the purchase of equipment (*Programi malih i srednjih preduzeća za nabavku opreme*⁸) – and the EU PRO development programme, funded with EUR 25 million, which provides financial support to SMEs for developing the private sector in the country⁹.

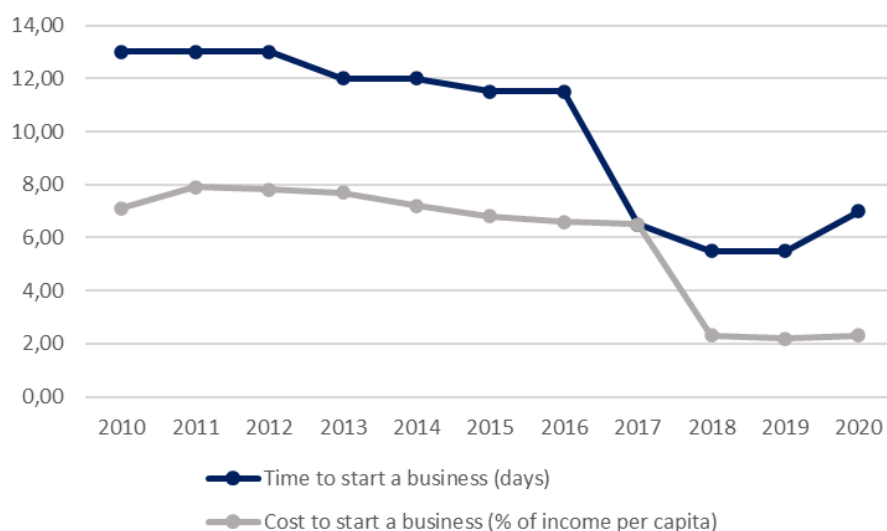
Nevertheless, start-ups in the country still face difficulties in raising funding – more than half of them rely on their own funds and have not raised any external funding¹⁰.

Starting a business in Serbia is fast, simple and cost-effective

According to the World Bank's latest Doing Business report, it takes just 7 days to start a business in Serbia. Although this indicator fell in 2020 compared with the previous year, it has largely improved since 2016 and is below the EU average of 12 days.

The cost of starting a business in Serbia as a share of income per capita – which currently stands at 2.3% – is also lower than the EU average of 3%. There has also been a noticeable improvement in this indicator since 2017. In addition, paid-in minimum capital is not required¹¹.

Figure 2: Time and cost to start a business



Source: World Bank's Doing Business, 2020¹²

The improved operational efficiency of the Serbian Business Register Agency may have played a role in improving the conditions for creating a business.

Serbian SMEs benefit from fast and simple export procedures

According to the World Bank's Doing Business report, border compliance procedures in Serbia only take 4 hours – half the EU average. Costs related to border compliance in Serbia are also significantly below the EU average. Overall, it takes 12 days to export, which is in line with the EU average¹³. High-quality standards and technical regulations may contribute to this good performance in cross-border operations.

However, Serbia still has room for improvement in other indicators related to international trade. It requires more documents to import and export goods than the EU average, and the costs to export and import per container are also significantly higher¹⁴.

Serbia has a strong insolvency framework

Serbia's already strong insolvency framework further improved in 2020 and is now rated much better than the EU average¹⁵. Indeed, Serbia made resolving insolvency easier by requiring creditors to approve the appointment of the insolvency representative and provide them with the right to information on the financial status of the debtor.

However, the cost to resolve insolvency in Serbia – which is currently 20% of the debtor's state – is twice the EU average and still needs to be improved¹⁶.

3. Key challenges

Inefficient public administration and an unpredictable business environment present a major obstacle to developing entrepreneurship in Serbia

Once a company starts working, business regulations do not always seem to be business-friendly. Administrative procedures are numerous and burdensome, often with overlapping authorities. For example, local firms have to make 33 tax payments per year (Doing Business 2020), twice as many as regional firms. The numerous parafiscal charges remain high and non-transparent, lacking rationalisation. This undermines the predictability and stability of Serbia's tax system and hampers local economic development. Business predictability is negatively affected by the lack of full transparency in the adoption of legislation on business-related matters.

The business environment should be further strengthened by cutting red tape and improving the predictability of legislation and its implementation. The widespread shadow economy remains a major impediment to the development of a strong corporate sector and the creation of a functioning market economy. Businesses identify corruption and problems in exercising the rule of law as key obstacles to the investment climate and economic development. Foreign direct investment continues to receive generous public support, while other firms, in particular domestic SMEs, are left in a less favourable position. Further efforts are needed to improve the transparency, assessment and prioritisation of public investments.

Serbia has low entrepreneurial activity

Early-stage entrepreneurial activity in Serbia is rather low at 5%, which is half the EU average. The difference is even greater for female early-stage entrepreneurial activity – it amounts to only 2.8%, against an EU average of 7.5%¹⁷.

Interestingly, despite the weak performance of these indicators, 22% of the Serbian population intends to start a business in the next 3 years – above the EU average of 15.6%¹⁸.

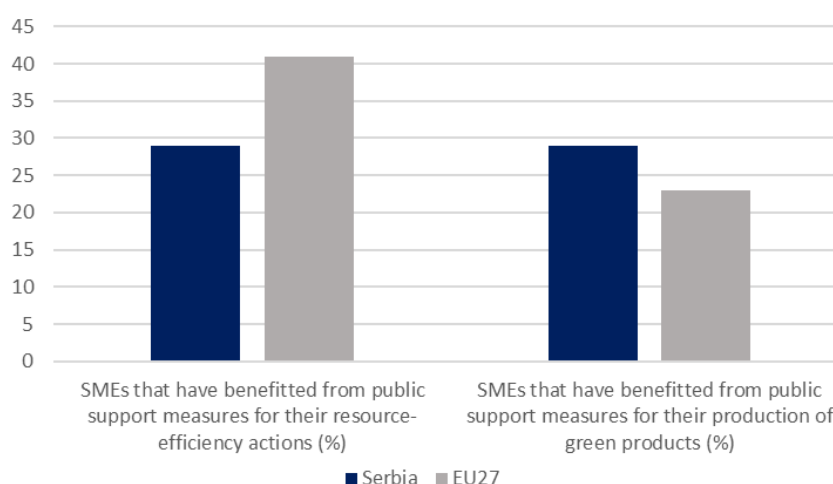
In recent years, there have been some measures to support the development of SMEs and entrepreneurs and the overall development of the private sector – such as the EU PRO development programme or PowerUP, a programme co-financed by the EU that offers support to start-ups and helps them improve their business models, build resilience and prepare for growth¹⁹.

Serbian SMEs lag behind in sustainability

Only 72% of Serbian SMEs have taken resource efficiency measures and only 17% of them offer green products and services – significantly below the respective EU averages of 89% and 25%²⁰.

National expenditure on environmental protection in Serbia remained low in 2019 at only 0.5% of GDP²¹, against an EU average of 1.9% in 2018-2019²². In line with this reduced investment, only 29% of SMEs have benefited from public support measures on resource efficiency. However, the share of Serbian SMEs that have benefited from funding to produce green products or services is above the EU average.

Figure 3: SMEs that have benefitted from public support measures on resource efficiency or to produce green products (%)



Source: Eurobarometer survey of SMEs and the environment, 2017²³

SMEs can finance projects to increase their sustainability through an entrepreneurship promotion programme (*Program podsticanja preduzetništva kroz razvojne projekte*) that also covers investments in energy efficiency projects²⁴. However, the Serbian Green Fund, which supports environmental projects set up in 2017, only focuses on large infrastructure projects and does not offer incentives for SMEs.

Mixed results on digital transformation for Serbian SMEs

Serbian SMEs lag behind in the uptake of digital solutions. Only 27% of them use enterprise resource planning software to share information between different functional areas, compared to 35% in the EU²⁵. In addition, only 18% of SMEs use cloud services²⁶.

However, SMEs in Serbia are active in e-commerce. The COVID-19 pandemic could accelerate the expansion of e-commerce. According to the Statistical Office of the Republic of Serbia, 35% of Serbian SMEs sell online and 24% purchase online²⁷, against EU averages of 16.6%²⁸ and 26 %²⁹ respectively. At 11%, total turnover from e-commerce sales is in line with the EU average³⁰.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Serbian companies demonstrated their resilience during the COVID-19 pandemic, with more than three-quarters of them not cutting staff and 12% even hiring more staff (USAID, 2020). The sectors hardest hit by the COVID-19 crisis were hospitality, retail, real estate, and professional services³¹. The measures to support the private sector during the crisis included payments of non-refundable grants to SMEs in May-July and August-September 2020. In addition, 900 000 employees in SMEs received minimum wages from the government during this period³².



START-UP ENVIRONMENT

The Serbian start-up ecosystem is still in the development stage. Start-ups face difficulties in raising funding – more than half of them rely on their own funds and have not raised any external funding³³.



DIGITALISATION OF SMES

In recent years, the government has launched several policy measures to improve the digital capacities of SMEs in the country. In 2019, the Ministry of Economy launched a programme to support the digital transformation of SMEs – which currently has 600 SMEs in the implementation phase³⁴. In 2020, the Centre for Digital Transformation, in cooperation with the German Development Cooperation (GIZ), launched the SPEED 2.0 programme, which offers support to SMEs from all industries to create and implement a digital transformation strategy³⁵.



ACCESS TO FINANCE

EU programmes (e.g. Europe's programme for SMEs called COSME, Western Balkans Enterprise Development & Innovation Fund, InnovFin, European Fund for Strategic Investments, European Investment Bank) have made significant investments to improve access to finance for Serbian SMEs. Only the COSME programme supported SMEs, with EUR 1.3 billion provided in 2014-2020³⁶. Perceptions on access to public financial support have significantly improved over the last decade³⁷.

¹ GDP data is based on provisional data from Eurostat. Available at:
<https://ec.europa.eu/eurostat/databrowser/view/tec00115/default/table?lang=en>

² Total employment is based on data from the State Statistical Office of the Republic of Serbia. Available at:
<https://publikacije.stat.gov.rs/G2021/PdfE/G20211014.pdf>

³ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 data from the Statistical Office of the Republic of Serbia as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). Due to data constraints, for 2020, only value added data can be estimated (data for employment and number of enterprises are only available up until 2018).

⁴ European Commission (2019), *Survey on the Access to Finance of Enterprises (SAFE)*, available at:
http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm

⁵ National Bank of Serbia (2020), *Historical overview of the money market interest rates of the National Bank of Serbia*, available at: https://nbs.rs/documents/monetarna-politika/istorijski_pregled.xls

⁶ World Bank (2020), *Doing Business ranking*, available at:
https://www.doingbusiness.org/en/data/exploreeconomies/serbia#DB_gc
[https://www.doingbusiness.org/en/data/exploreeconomies/serbia - DB_ri](https://www.doingbusiness.org/en/data/exploreeconomies/serbia-DB_ri)

⁷ Ministry of Economy, Government of the Republic of Serbia (2020), *Programs of small and medium enterprises for the purchase of equipment*, available at: https://privreda.gov.rs/javni_pozivi/javni-poziv-za-dodelu-bespovratnih-sredstava-u-okviru-programa-podrske-malim-i-srednjim-preduzecima-za-nabavku-opreme-u-2020-godini/

⁸ Ministry of Economy, Government of the Republic of Serbia (2020), *Programs of small and medium enterprises for the purchase of equipment*, available at: https://privreda.gov.rs/javni_pozivi/javni-poziv-za-dodelu-bespovratnih-sredstava-u-okviru-programa-podrske-malim-i-srednjim-preduzecima-za-nabavku-opreme-u-2020-godini/

⁹ Government of the Republic of Serbia (2019), *EU PRO, Public call for project proposals for the procurement of equipment and introduction of services for entrepreneurs, micro and small enterprises (CFP 10 - 2019)*, available at: <https://www.eupro.org.rs/ktext/drugi-javni-poziv-za-podnosenje-predloga-projekata-za-nabavku-opreme-i-uvodjenje-usluga-za-preduzetnike-mikro-i-mala-preduzeca>

¹⁰ Digital Serbia Initiative (2019), *Start-up scanner: How are start-ups doing in Serbia?* Available at:
https://www.dsi.rs/wp-content/uploads/2020/01/Startup-skener_2019_ENG.pdf

¹¹ See Note 6.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at:
<http://www.gemconsortium.org/data/key-aps>

¹⁸ Ibid.

¹⁹ Deloitte (2020), *PowerUp: Strengthening the capacity of early-stage companies in the Western Balkans*,

available at: https://www2.deloitte.com/rs/sr/pages/powerup/program-za-mala-srednja-preduzeca-start-up-kompanije-o-programu.html?fbclid=IwAR3_tSVYTFZ0rH_iIt97TkuptlCT0pmZ4w29vpxbd37VOBP2Uq2Z9IX2uMU

²⁰ European Commission (2017), *Eurobarometer survey of SMEs and the environment*, available at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

²¹ Statistical Office of the Republic of Serbia (2020), *Monetary environmental accounts*, available at: <https://www.stat.gov.rs/en-us/oblasti/zivotna-sredina/monetrani-racuni-zivotne-sredine/#:~:text=In%202019%2C%20total%20expenditures%20for,than%20in%20the%20previous%20year>

²² Eurostat (2020), *Environmental protection expenditure accounts*, available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Environmental_protection_expenditure_accounts#National_expenditure_on_environmental_protection

²³ Ibid.

²⁴ Development Fund of Serbia (2020), *Entrepreneurship promotion program through development projects*, available at: https://privreda.gov.rs/javni_pozivi/javni-poziv-za-dodelu-bespovratnih-sredstava-u-okviru-programa-podsticanja-preduzetnistva-kroz-razvojne-projekte-u-2020-godini

²⁵ Eurostat (2019), *Integration of internal processes*, available at: https://ec.europa.eu/eurostat/databrowser/view/ISOC_EB_IIP_custom_373801/default/bar?lang=en

²⁶ Statistical Office of the Republic of Serbia (2020), *Use of ICT in enterprises in the Republic of Serbia*, available at: <https://www.stat.gov.rs/oblasti/upotreba-ikt/upotreba-ikt-preduzeca/>

²⁷ Statistical Office of the Republic of Serbia (2019), *Use of ICT in enterprises in the Republic of Serbia*, available at: <https://publikacije.stat.gov.rs/G2019/Pdf/G201916014.pdf>

²⁸ Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises. Share of SMEs selling online*, available at: http://ec.europa.eu/eurostat/web/products-datasets/-/isoc_ec_eseln2

²⁹ Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises. Share of SMEs purchasing online*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_ebuyn2&lang=en

³⁰ Eurostat (2018), *E-commerce sales*, available at: https://ec.europa.eu/eurostat/databrowser/view/isoc_ec_eseln2/default/bar?lang=en

³¹ The World Bank (2020), *Labor market trends in the Western Balkans*, available at: <http://documents1.worldbank.org/curated/en/318211590693118258/pdf/The-Economic-and-Social-Impact-of-COVID-19-Labor-Markets.pdf>

³² Ministry of Finance (2020), *Economic Measures Programme*, available at: <https://ras.gov.rs/uploads/2020/04/program-01-web.pdf>

³³ Digital Serbia Initiative (2019), *Start-up scanner: How are start-ups doing in Serbia?* Available at: https://www.dsi.rs/wp-content/uploads/2020/01/Startup-skener_2019_ENG.pdf

³⁴ Centre for Digital Transformation, Serbian Chamber of Commerce (2020), *Programs*, available at: <https://www.stat.gov.rs/en-us/oblasti/zivotna-sredina/monetrani-racuni-zivotne-sredine/#:~:text=In%202019%2C%20total%20expenditures%20for,than%20in%20the%20previous%20year>

³⁵ Center for Digital Transformation, GIZ (2020), *Success Story Catalog Digital Transformation Center*, available at: <https://cdt.org.rs/assets/Speed-1-0-uspesne-price.PDF>

³⁶ European Union (2020), *Finance and Funding*, available at:

https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance/search/en/financial-intermediaries?shs_term_node_tid_depth=2320

³⁷ European Commission (2019), *Survey on the Access to Finance of Enterprises (SAFE)*, available at: http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm