

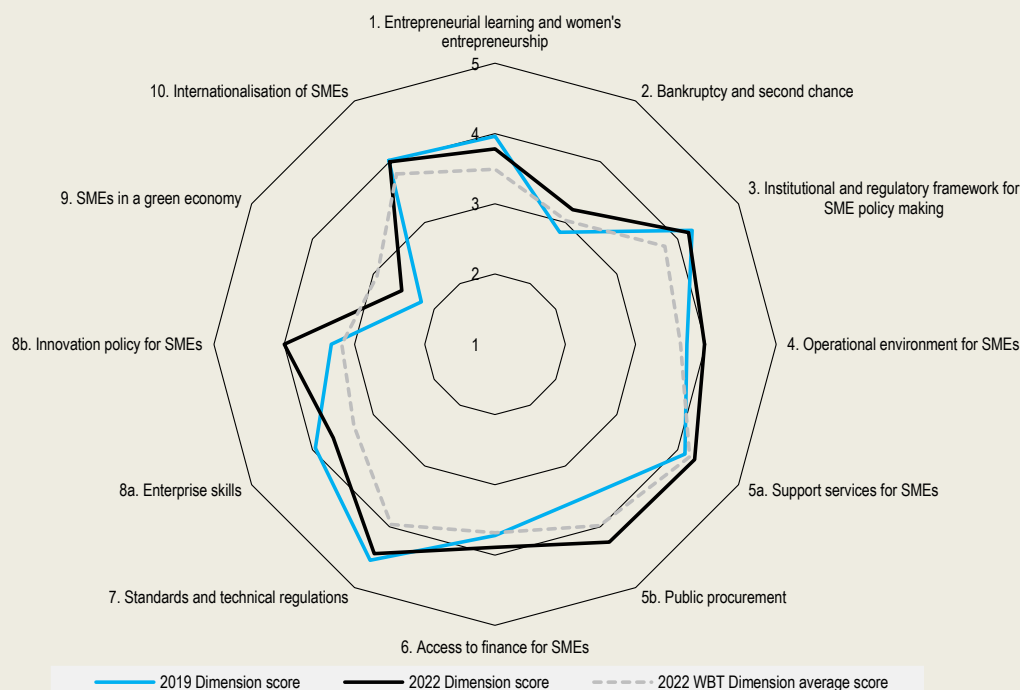
18

Serbia: Economy Profile

This chapter covers the progress made by Serbia in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Serbia's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Serbian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 18.1. Small Business Act scores for Serbia (2019 and 2022)



Serbia has made good progress in implementing the Small Business Act since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 18.1). The economy is committed to continuously improving its business environment and ranks among the top three economies in almost all dimensions. Serbia has achieved its highest average scores in the following areas: operational environment for small and medium-sized enterprises (SMEs); support services for SMEs; public procurement; access to finance for SMEs; standards and technical regulations; and innovation policy for SMEs, where it also outperforms the WBT average.

Main achievements

- **Serbia's new e-Uprava portal for digital services was launched in February 2020**, and the government made progress in rolling out digital services for businesses. Starting a business has become more accessible and transparent thanks to optimised electronic registration as well as centralised and digitalised business licensing processes within the e-Uprava portal. Businesses' perception of digital government services in Serbia has significantly improved, as evidenced by the latest Balkan Business Barometer Survey, where 62% of respondents, the highest share in the region, expressed satisfaction when asked about their opinion of digital government services in 2021, compared to 35% in 2019.
- **The government made considerable efforts to address challenges in accessing business support services (BSSs) faced by SMEs, especially those in the early stages of development.** The Development Agency of Serbia (RAS) implemented the Promotion of Entrepreneurship and Self-Employment Programme to encourage the development of early-stage entrepreneurship in the economy. In addition, the government intensified its collaboration

with international partners to boost the scope and range of provided BSSs, which now include assistance in adhering to EU standards, greening and business expansion.

- **Access to finance for SMEs has eased in Serbia** owing to impactful regulatory measures to address legacy obstacles in the financial industry, including foreign-indexed loans and high levels of impaired loans. Amid the COVID-19 pandemic, several steps have been taken to ensure liquidity, and two sovereign credit guarantee funds have been established, which have seen good uptake.
- **The innovation policy framework and availability of financial support have been further strengthened.** Further progress has been made to reinforce the economy's strategic policy framework for innovation, and implementation capacity has been boosted through the establishment of a dedicated Science Fund. Financial support, including through allocations from the state budget, has increased significantly, with the new Science Fund complementing funding provided by the Serbian Innovation Fund. In addition, some indirect financial support measures have been introduced.
- **Serbia made noteworthy progress in reducing barriers to trade and conforming to EU standards.** Following the adoption of the new Customs Law, resulting in a significant simplification of customs procedures and the implementation of a centralised system of customs clearance, Serbia's trade legislation improved in its harmonisation with the EU *acquis*. To facilitate further SME integration into global value chains (GVCs), the government implemented the Supplier Development Programme, which aims to boost SME indirect participation and inclusion into GVCs through becoming suppliers for multinational enterprises (MNEs).

The way forward

- **Develop a fully-fledged early warning system as an insolvency prevention measure to maintain a healthy SME ecosystem.** The government should provide SMEs with access to an early warning tool to red flag identified financial distress signals and recommend adequate remediation. The economy could start by further developing its existing mentoring and advisory services to extend the programmes offered to SMEs in financial distress.
- **Introduce a comprehensive legal framework to facilitate the uptake of non-bank financial instruments.** Even though the Serbian financial sector is relatively mature by regional standards, legislation on microfinance would encourage its introduction in a regulated manner, benefiting otherwise unbankable microenterprises while maintaining tight regulatory oversight. Further amendments to the Law on Factoring, coupled with awareness-raising in partnership with the financial sector, would support the development of factoring.
- **Establish comprehensive monitoring and evaluation of all programmes related to entrepreneurial learning and SME skills, including a strong gender focus.** A high-quality and co-ordinated approach to monitoring and evaluation is needed to measure progress towards the impacts outlined in linked strategy documents. This work should be supported by consistent gender-disaggregated data gathered from government-financed SME support and training actions and should inform a gender impact assessment of the current approaches to enterprise skills and support. This will address and seek solutions for the current challenges faced by women across the labour market and entrepreneurship.
- **Enhance financial support to encourage SME greening.** The government should also consider facilitating SMEs' access to finance for green projects by including green criteria in existing financial instruments, such as the two dedicated SME credit guarantee schemes established in 2020. Going forward, the Green Fund could expand its scope and include specific financial programmes to support SME greening. Moreover, Serbia would need to upscale training to support sustainability, circular economy and green transition of SMEs.

- **Build trust in e-commerce practices among customers and SMEs.** Serbia has a well-developed legislative e-commerce framework in place; however, the uptake of e-commerce practices among SMEs remains low. Strengthening trust in e-commerce is key to the successful integration of customers and SMEs into online sales channels. Strengthening data protection and ensuring the security of online transactions warrants further efforts. Although Serbia implemented support programmes aiming to address these challenges, room for improvement remains.

Economic context and role of SMEs

Economic overview

Serbia is an upper-middle-income economy with a population of 6.9 million as of 2021, making it the most populated of the Western Balkan economies (World Bank, 2022^[1]). Its per capita gross domestic product (GDP) by purchasing power parity stood at USD 18 255 in 2020 (in constant 2017 international dollars), having decreased by approximately USD 50 since 2019 (World Bank, 2022^[1]). Although dominated by the services sector, which accounts for 51.5% of GDP and 57% of employment, Serbia is the most diversified of the Western Balkan economies. Industry holds the second-highest value added to GDP at 26.4%, roughly half of which is manufacturing, while agriculture, forestry and fishing generate only 6.0% of GDP. Employment is also highly diversified, with industry accounting for 27.4% of the total workforce, with the highest growth in the information technology (IT) sector, while agriculture accounts for 15.6% of formal employment, higher than any neighbouring economies (SORS, 2021^[2]).

Serbia's economic situation quickly stabilised after the 2008 financial crisis, allowing for steady growth since 2015, driven mainly by surges in private investment, which increased by 30 percentage points from 2014 to 2020, evened out inflation and declining public debt (OECD, 2021^[3]). Serbia was among the least affected economies in Europe by COVID-19, with a mild contraction of only 0.9 percentage points in 2020 owing to strong pre-crisis momentum, sizeable and timely fiscal and monetary support measures, the sectoral structure of the economy and a relatively low average stringency of containment measures as well as positive results in agricultural production and the construction sector (Box 18.1) (European Commission, 2021^[4]). The economy showed a solid economic rebound at 7.4% GDP growth in 2021 fuelled by strong recovery in the production of automotive supplies, a recovery of private consumption and the implementation of government support measures, and is expected to increase to 4.3% in 2022 (European Commission, 2022^[5]).

Box 18.1. Serbia's COVID-19 recovery programme

Although Serbia's economy was negatively impacted by the COVID-19 pandemic and accompanying lockdown measures, the impact was one of the lowest rates in the region. Serbia's overall positive outcome, evidenced by a GDP contraction of only 0.9 percentage points in 2020, is the best result in the Western Balkans and Turkey (WBT) region after Turkey, due to quick policy responses from the government and heavy fiscal intervention by the Central Bank.

As part of its recovery, Serbia provided three economic support packages to mitigate the impact of COVID-19, the first having been launched in March 2020 in the amount of EUR 3.3 billion, with the last being presented in May 2021 in the amount of EUR 2.2 billion. While the sum of the combined economic support packages was the highest in the Western Balkans, totalling approximately EUR 8 billion, implemented responses were relatively narrow compared to other Western Balkan economies; for example, by not introducing a public loan guarantee, direct cash transfers to households, or deferral of households' and businesses' fixed costs. Nevertheless, the government provided specific economic support measures throughout the pandemic:

- **Subsidies:** The government enacted support measures in each economic recovery package to preserve existing jobs by providing all entrepreneurs and employees of micro, small and medium-sized companies with 50-60% of the minimum wage. The third support package later allowed large companies to benefit from similar subsidy measures in the amount of 50% of the minimum net salary for January 2021 per employee. Serbian financial support also targeted vulnerable populations with one-off financial assistance for all pensioners and public sector health workers. The right to state aid for wage subsidies was reserved for those companies that

did not reduce the number of employees by more than 10 percentage points and implemented measures that barred all companies receiving direct state aid from making any dividend payments until the end of the year 2021.

- **Cash support:** Both the first and second support packages provided universal cash transfers to each citizen over 18 years old. One-off fiscal support was later provided for several vulnerable groups, including public sector health workers, the unemployed and all pensioners, as well as additional payments for employees in the most affected sectors such as travel, hospitality and art. Financial incentives in the form of a one-off EUR 25 payment for vaccinated citizens were enacted to encourage immunisation.
- **Tax measures:** In April 2020, Serbia instated a deferment of personal income tax (PIT), corporate income tax (CIT) and social security contributions for all private companies, as well as deferments of corporate income tax advance payments. The Ministry of Finance also implemented a moratorium on enforcement and interests on tax debt under rescheduling agreements and a 10% reduction of the interest rate on tax debt. Value-added tax (VAT) exemptions on goods and services for public health institutions during the state of emergency were also enacted.
- **Monetary measures:** In April, the National Bank of Serbia (NBS) cut the policy rate from 1.75% to 1.5%, decreasing it again in June to 1.25% and provided moratoriums on all repayments under bank loans and financial leasing agreements. Serbia also provided interventions in the foreign exchange (FX) market to preserve the relative stability of the dinar exchange rate against the euro. To maintain stability in the secondary market of securities, the NBS mandated the permanent purchase of dinar government securities from banks and included dinar corporate bonds in the list of securities that were subjected to monetary operations, in turn supporting the corporate market development.
- **Credit support:** The government established a EUR 2 billion Guarantee Scheme in April 2020, providing guarantees to commercial banks for loans covering liquidity maintenance and operating capital of large firms. Another EUR 220 million credit line was opened by the Development Fund of the Republic of Serbia to support micro, small and medium-sized enterprises (MSMEs) with loans in the amount of between RSD 10 million (approximately EUR 85 000) to RSD 120 million (approximately EUR 1 million), depending on enterprise size. Loans support meant SMEs profited from a 24-36-month repayment deadline, a 12-month grace period and an annual interest rate of 1%.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues primarily with regard to the public health sector, employment, social protection and private sector support were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021^[3]; 2021^[6]); Official Gazette of the Republic of Serbia; (2022^[7]); Institute of Public Health of Serbia (2022^[8]); Government of Serbia (2022^[9]); European Commission (2021^[10]).

Since 2010, Serbia's exports of goods and services have almost doubled, from 26.3% of GDP to approximately 53.6% in 2021, supported by increases in foreign direct investment (FDI), particularly in export-oriented manufacturing (Table 18.1). Manufacturing exports have risen by nearly 52 percentage points since 2015, and in 2019 they accounted for 65% of total exports. Service exports, driven by the information and communication technology (ICT) sector, grew by 16 percentage points per year between 2017 and 2019 and accounted for 30% of total exports in 2019 (SORS, 2021^[2]). The economy experienced a 3.2 percentage points contraction in exports in 2020, the lowest in the WBT region, due to acute declines in trade of automotive and metal industries and the production of electrical equipment, rubber and plastics, of which many enterprises were MSMEs (European Commission, 2022^[11]; Government of Serbia, 2021^[12]). Serbia's cross-border trade also recovered to pre-pandemic levels after imports and exports of goods and services dropped by roughly 4 percentage points and 6 percentage points in 2020, respectively, but

rebounded with an approximate 6% increase in both categories in 2021 (European Commission, 2022^[5]). Serbia also has significant potential to boost its export-driven growth in the coming decade by maintaining macroeconomic stability and addressing several key constraints to investment at the regulatory level and growth in the tradable sector, such as heavy dependence on GVCs and low integration in domestic supply chains.

Table 18.1. Serbia: Main macroeconomic indicators (2016-21)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth ¹	% year-on-year	3.3	2.1	4.5	4.3	-0.9	7.4
National GDP ²	EUR billion	38.7	42.0	48.2	49.0	50.71	
GDP per capita growth ²	% year-on-year	3.9	2.6	5.1	4.9	-0.3	..
Inflation ¹	% average	1.1	3.1	2.0	1.8	1.6	4.1
Government balance ¹	% of GDP	-1.2	1.1	0.6	-0.2	-8.0	-4.1
Current account balance ¹	% of GDP	-2.9	-5.2	-4.8	-6.9	-4.1	-4.4
Exchange rate RSD/EUR ¹	Value	123.09	121.41	118.27	117.86	117.58	117.57
Exports of goods and services ¹	% of GDP	47.3	49.3	49.3	50.8	47.6	53.6
Imports of goods and services ¹	% of GDP	53.3	57	58.9	60.8	56.3	62.0
Net FDI ¹	% of GDP	5.2	6.2	7.4	7.7	6.3	6.8
External debt ²	% of gross national income (GNI)	73.7	76.1	65.5	66.8	74.4	
International reserves of the National Bank ¹	EUR million	10.2	10.0	11.3	13.4	13.5	16.5
Gross international reserves ¹	Ratio of 12 months imports of goods and services moving average	6.2	5.4	5.4	5.7	6.1	6.0
Unemployment ¹	% of total active population	10.9	14.5	13.7	11.2	9.7	11.0

Sources: 1. European Commission (2022^[5]); 2. World Bank (2022^[13]).

High fluctuations in Serbia's inflation since the 2008 crisis show the economy's vulnerability to global shocks, having fluctuated between 6% and 16% before stabilising at the target Serbian Central Bank's target of 3% +/- 1.5% in 2014 (OECD, 2021^[3]). In the wake of the COVID-19 pandemic, the economy had the second-highest inflation increase in the region in 2021 at 4.1% annually, reaching a high of 9.6% in April 2022, driven primarily by price hikes in food and non-alcoholic beverages, clothing and footwear, and transport (SORS, 2022^[14]). However, inflation is expected to decrease in mid-2022 while interest rates have continued to decline, decreasing to under 1% in 2021 (European Commission, 2022^[5]).

Public investment in Serbian infrastructure has been rising since 2019, when the economy launched its national investment plan, promising more than EUR 5 billion for road infrastructure, EUR 200 million for tourism infrastructure and EUR 274 million for water transport. Despite a slight spike in government debt as a percentage of GDP in 2020 and 2021, increasing investment in the economy's infrastructure has not greatly impacted central government deficits, which have been declining from 67.7% of GDP in 2016 to 51.9% in March 2022 (NBS, 2022^[15]). Private investment has also seen strong growth in recent years.

Serbia is one of two WBT economies to lower its unemployment rate in 2020 despite the pandemic, with the highest decrease at 1.5 percentage points from 11.2% in 2019 to 9.7% in 2020¹ (Table 18.1) (SORS, 2022^[16]). Annual employment growth remained positive in most sectors, with a particularly strong performance in the ICT sector at 11.5% growth, the professional, scientific and technical activities sector at 6.5% and administrative and support services at 6.3% (European Commission, 2022^[11]). Serbia's employment rate peaked at 50% in Q3 and Q4 in 2021, accompanied by relatively low levels of unemployment at 10.5% and 9.8%, respectively. Serbia also saw positive trends in levels of informal

employment, with an increase of 26 000 participants in the formal labour market and a decrease of 33 100 participants in informal employment (SORS, 2022^[17]).

However, despite positive progress in stabilising employment during the pandemic, high levels of long-term unemployment, a share of youth not partaking in employment or education, and low levels of labour force participation of women and other vulnerable groups underpin structural deficiencies in Serbia's labour market (OECD, 2021^[3]). The adverse position of women compared to men in the labour force is evidenced by a 15.2 percentage point lower rate of employment, a 1.9 percentage point higher unemployment rate and a 15.9 percentage point higher population outside of the labour force in 2021 (SORS, 2022^[16]). Youth unemployment was also overshadowed by the positive overall growth of the labour market, with unemployment for those aged 15-24 having decreased by 12 percentage points compared to 2020 (SORS, 2022^[16]). Emigration remains an issue for the region of which Serbia is no exception. Although Serbia is one of two Western Balkan Six (WB6) economies to attract migrants from neighbouring economies, migration has continued to increase since 2010, with an emigration rate of 10% in 2020, primarily due to low wages, difficulties producing needed skills, a challenging business climate and underdeveloped social and health infrastructure (OECD, 2022^[18]).

Business environment trends

Despite the difficult circumstances surrounding the pandemic, significant reforms continued to be implemented that improved the business environment in Serbia, with important progress made in easing regulatory burden. Improvements have been made in facilitating the issuance of construction permits, registering property, making it easier to pay tax, and better protecting minority investments (European Commission, 2022^[5]). The government identified 2 600 burdensome administrative procedures at both the central and local government levels in need of streamlining through its renewed SME Strategy and a newly created ePapir programme, aiming for the simplification of these procedures and the creation of a single register of administrative procedures. The register was launched in 2021, and by the end of the same year, 269 procedures had been simplified and 52 digitalised, with the simplification of 501 procedures being partially implemented. This allowed for increased quality and transparency of the overall regulatory environment, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.05 in 2020, significantly lower than the OECD average of 0.063, indicating that the economy has lessened barriers to trade and maintains only a handful of restrictions, notably in the air, transport and insurance sectors (OECD, 2020^[19]).

Simpler business procedures have resulted in surges of new legal entities in the amount of 39 000, of which 9 000 were companies, and decreases in the number of legal entities removed from the register in 2020. Improvements to the tax scheme have also been made, with laws on income tax and corporate tax having been updated at the end of 2020, somewhat reducing the tax wedge on salaries and, in turn, supporting the creation of new businesses (European Commission, 2021^[4]). Meanwhile, access to financing for SMEs has improved since the last assessment. In its fight against the informal economy, the authorities established a working group and information system for inspections under the auspices of the labour inspectorate. Co-ordination efforts concerning inspections, standardised methods and data availability have been improved and were being used by 44 inspection services by the end of 2021. These updates have also led to a public system where irregularities in investigations at the central and local levels can be reported by citizens (European Commission, 2021^[20]).

Although improving, Serbia's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (Box 18.2). These include increasing the transparency and predictability of regulations that affect business, reducing red tape and corruption, and levelling the playing field for all actors in the economy. According to the 2019 Business Environment and Enterprise Performance Survey, Serbian firms face notable challenges in dealing with the administration, including obtaining licences and permits and dealing with the

tax administration (World Bank, 2020^[21]). Despite improvements to the tax environment, para-fiscal charges remain numerous, steep and non-transparent, undermining the predictability and stability of Serbia's tax system. Moreover, contract enforcement also remains weak and troubled by overburdened commercial courts.

Bureaucratic deficiencies in the form of red tape, political interference and limited public administration efficiency hamper the business environment. Serbia continues to decrease in ranking in Transparency International's corruption perceptions index, from 87th place in 2018 to 94th in 2020 and 96th in 2021 (Transparency International, 2022^[22]). However, Serbia is one of the pilot economies of the joint OECD-SIEMENS initiative that addresses specific corruption issues in the region by applying international standards and supporting the design and implementation of actionable policy recommendations.

Box 18.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes (ERPs) that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement countries, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on policy reforms that are key to the ERPs of the EU accession candidates at both the regional

and economy-specific levels. The Small Business Acts delve into the specific barriers to progress in ten policy areas that are essential to applying the larger objectives of the ERP programmes like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021^[10]).

EU accession process

Serbia began its EU accession journey in 2008 after the adoption of a European partnership for Serbia and its Stabilisation and Association Agreement (SAA), shortly after which it formally submitted its application for EU membership in 2009. The SAA came into force in September 2010, and Serbia was granted EU candidate status in March 2012. Accession negotiations began in December 2013, and as of February 2022, Serbia has opened 22 out of 35 negotiating chapters, the last 4 chapters of which were opened in December 2021 as part of the cluster on green agenda and sustainable connectivity. To date, Serbia has provisionally closed two chapters (Chapter 25 on Science and Research in 2016 and Chapter 26 on Education and Culture in 2017). No changes in the degrees assigned to Serbia's preparation of the chapters have been noted since the 2019 enlargement report; however, at the Intergovernmental Conference held in June 2021, Serbia officially accepted the revised enlargement methodology that emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process (European Commission, 2021^[23]).

According to the European Union's 2021 enlargement report for Serbia, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Since the last enlargement report, Serbia has adopted a strategy and action plan for industrial development until 2030 that emphasises enhancing the skills of its workforce to move the economy in the direction of knowledge-based industries. After the finalisation of the strategy to support the development and competitiveness of SMEs and entrepreneurs in 2020, the economy has begun the process of establishing a new strategy to create a conducive environment for small and medium-sized businesses, particularly those in innovation industries. However, Serbia needs to continue its efforts on harmonising legislation with the *acquis*, particularly in regard to regulations on combating late payments in commercial transactions as well as other regulatory barriers (European Commission, 2021^[4]). In this regard, Serbia should concentrate on:

- making further efforts to improve the predictability of the business environment, with the emphasis on involving business more directly in the process of regulation
- adopting a new SME and entrepreneurship policy strategy
- reallocating budgetary resources for FDI incentives to financial and technical support to SMEs.

Further progress in the accession process and Serbia's eventual joining of the European Union will strongly depend on further aligning itself with the benchmarks concerning rule of law set out in Chapters 23 and 24 on Judiciary and Fundamental Right and Justice, Freedom and Security, respectively. Moreover, the progress will also be subject to further normalisation of Serbia's relations with Kosovo.^{††} The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Serbia to meet the requirements related to several critical chapters of the *acquis* and ultimately further its negotiations for accession to the European Union.

^{††} This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

EU financial support

The European Union remains the largest provider of financial assistance to Serbia, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 2.7 billion provided to Serbia by the European Union between 2007 and 2020 under the Instrument for Pre-accession Assistance I and II, the European Union is providing an additional EUR 122 million for the first year of IPA III for the period 2021-27 to invest in human capital, promote better governance and rule of law, boost the private sector, and enable green priorities such as sustainable transport, clean energy and environmental and climate action (European Commission, 2022^[24]; 2021^[25]).

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. In addition to the European Union's infrastructure support for a gas interconnection with North Macedonia, the Trans-Balkan Electricity Transmission Corridor, which will provide electricity transmission to Serbia, will help the economy's transition from coal. The implementation of an environmental investment programme in Serbia to modernise wastewater treatment plants in large and medium-sized towns while establishing regional waste management systems will also support sustainable and green infrastructure solutions. EU investments also extend to transport infrastructure, including the advanced "Peace Highway" connecting Nis with Pristina in Kosovo and the rehabilitation of rail routes connecting Belgrade with Pristina and the Port of Bar in Montenegro (European Commission, 2020^[26]).

Serbia was the fifth candidate economy to join the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME, 2014-2020) in 2015, under which it benefited from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021^[27]). In addition to Serbia's participation in the European Union's Research and Innovation programmes since 2007, the economy is also a part of the Horizon 2020 programme, allowing Serbia access to the project's EUR 95.5 budget to help develop projects, technologies and conduct research and activities that will contribute to tackling global challenges. Serbia has excelled under the programme, quadrupling its performance since 2014, making it the most successful Western Balkan participant with the highest success rate of retained proposals at 11.37%. The economy has been particularly successful in the domains of ICT and Agricultural research, as well as scientific co-operation in the area of energy, due in part to progressing implementation of its Smart Specialisation Strategy (2020-2027). Serbia's participation in the SMEs portion of Horizon 2020 is one of the highest in the region, with almost 4 000 applications, close to 600 participants, and over 400 signed grants for a total of EUR 134.9 million of EU funding distributed primarily to research organisation (36.9%), followed by private for-profit enterprises (30.6%) and higher or secondary education institutions (22.1%) (European Commission, 2021^[28]). In 2021, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union (European Commission, 2021^[29]).

SMEs in the domestic economy

The classification of SMEs in Serbia is engrained in two pieces of legislation, the first being the Law on Accounting and Auditing, which defines enterprises by the number of employees for purposes of accounting and financial reporting, and the Decree on Rules for Granting State Aid which controls the allocation of state funding based on enterprise size. While the categories of both regulations conform to the EU standard definition of SMEs by employee size, with the exception of microenterprises under the

decree on granting state aid, they diverge on other criteria concerning annual income and assets (Table 18.2). In 2021, The Statistical Office of Serbia amended its methodology to omit entrepreneurs from data collection on SMEs, significantly decreasing the number of businesses considered as MSMEs, making some data on the matter incomparable to that of previous years.

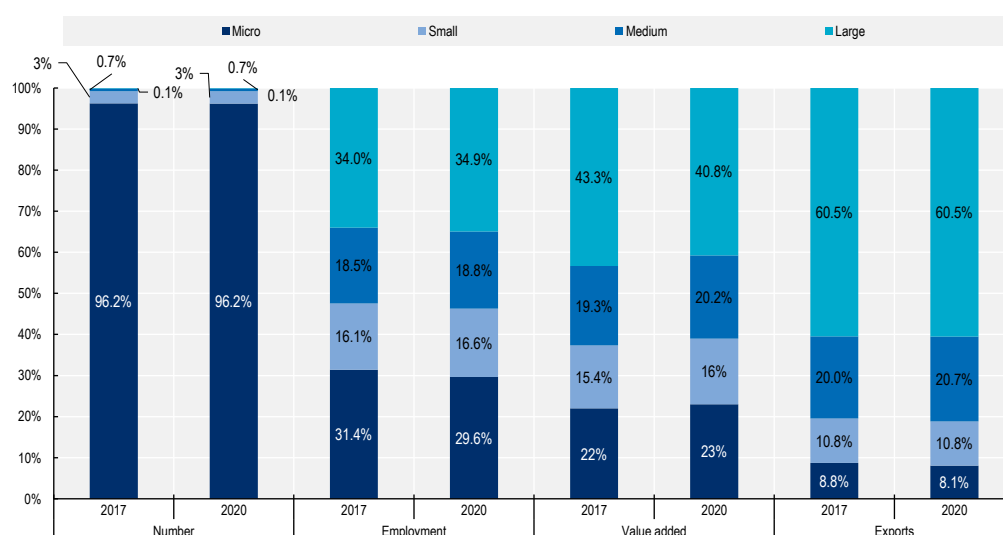
Table 18.2. Definition of micro, small and medium-sized enterprises in Serbia

	EU definition	Law on Accounting and Auditing	Regulation on Rules for State Aid Granting
Micro	< 10 employees = EUR 2 million turnover or balance sheet	< 10 employees < 0.7 million operating revenues < EUR 0.35 million circulating assets	Not applicable
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < EUR 8.8 million operating revenues < EUR 4.4. million circulating assets	< 50 employees ≤ EUR 10 million turnover or balance sheet
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < EUR 35 million operating revenues < EUR 17.5 million circulating assets	< 250 employees < EUR 35 million operating revenues < EUR 17.5 million circulating assets

Sources: Official Gazette of the Republic of Serbia (2021^[30]; 2021^[31]).

The overall demography of businesses in Serbia has seen slight but numerous changes since the last assessment (Figure 18.2). Micro enterprises witnessed an approximate 1.8 percentage point decrease in the number of employees, while large enterprises witnessed an approximate 0.9 percentage point increase. The makeup of value added saw a larger difference between 2017 and 2020, with MSMEs witnessing increases of approximately 1, 0.6 and 0.9 percentage points, respectively, while large enterprises experienced a decline of roughly 2.5 percentage points. Regarding exports, micro enterprises experienced a decrease of 0.7 percentage points, which was absorbed by an increase in exports of medium-sized enterprises.

Figure 18.2. Business demography indicators in Serbia (2017-2020)



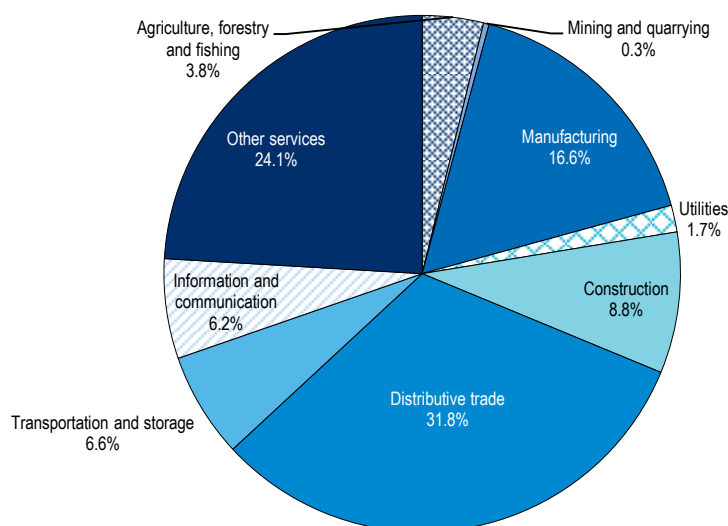
Note: Entrepreneurs, as natural persons who independently perform activities, are included in micro enterprises for this figure.

Sources: Ministry of Economy of the Republic of Serbia, (2021^[32]), Report on Small and Medium Enterprises in Serbia for 2020, Ministry of Economy of the Republic of Serbia, (2018^[33]), Report on Small and Medium Enterprises in Serbia for 2017, https://privreda.gov.rs/sites/default/files/documents/2021-08/lzvestaj_MSPP_2017.pdf

When it comes to female participation in the SME landscape, although women owned 31.7% of entrepreneurial companies in 2019, women-owned businesses receive five times fewer subsidies than male-owned companies, in part due to indirectly discriminate restrictions such as programmes that focus predominately on manufacturing, processing and export activities that have traditionally low levels of women's participation (National Alliance for Local Economic Development, 2019^[34]).

Serbia's composition of SMEs by sector remains one of the most balanced in the region, with the lowest portion of SMEs in the distributive trade sector. Nevertheless, the distributive trade sector, which includes wholesale, retail trade, and repair of motor vehicles and motorcycles, continues to dominate the Serbian business scene at 31.6%, increasing by 4.4 percentage points since 2017 (Figure 18.3). Other services, which comprise accommodation and food, real estate, administrative, professional, science, technology and innovation and other activities, follows as the second-highest number of SMEs in Serbia, albeit witnessing a decrease of approximately 4 percentage points since 2017. SMEs in the transportation and storage industry have also declined by about 3.5% in the same period, while the information and communication, construction and manufacturing sectors have witnessed slight increases of 2.1%, 1.6% and 1%, respectively.

Figure 18.3. Sectoral distribution of SMEs in Serbia (2017-2020)



Note: The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification

Source: (SORS, 2021^[35]) Enterprises in the Republic of Serbia by size, <https://www.stat.gov.rs/en-US/publikacije/publication/?p=13150>

Geographically, about 31.7% of enterprises were located in Belgrade in 2020, followed by 25.9% in the district of Šumadija and West Serbia and 24.9% in Vojvodina (Table 18.3). The number of enterprises in Šumadija and West Serbia and South and East Serbia has remained largely unchanged since 2017, whereas the share of enterprises in Belgrade and Vojvodina saw a 1.1 and 0.4 percentage point decrease, respectively, in the same period. Microenterprises accounted for the vast majority of companies in all districts, at over 95% of total enterprises in each district of Serbia. The number of large enterprises throughout the economy only accounted for less than 1% of total companies in all districts.

Table 18.3. Number of registered companies in Serbia by enterprise size and district (2020)

District	Enterprise size, by employment					Share of total number of enterprises	
	0-9	10-49	50-249	250+	Total	2017	2020
Belgrade	128 025	4 898	1 049	239	134 211	32.6%	31.7%
Vojvodina	96 455	3 194	742	156	100 547	25.3%	24.9%
Šumadija and West Serbia	101 186	2 645	584	120	104 535	26.0%	25.9%
South and East Serbia	62 719	1 450	341	69	64 579	16.1%	16.0%
Serbia	388 385	12 187	2 716	584	403 872	100.0%	100.0%

Note: Entrepreneurs, as natural persons who independently perform activities, are included in microenterprises for this table. Sums may be less than 100 due to the approximation of values.

Source: Ministry of Economy (2021^[32]).

Assessment

Description of the assessment process

The Small Business Act (SBA) assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Economy, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Statistical Office of the Republic of Serbia. These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets in October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Economy. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Serbia was held on 8 December 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Serbia. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Serbia, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile of Serbia were made available to the Government of Serbia for their review and feedback in March 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of

development commensurate with OECD good practice (Table 18.4). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes in the last assessment cycle, please refer to Annex A.

Table 18.4. Description of score levels

Level 5	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation.
Level 4	Level 3 plus evidence of a concrete record of effective policy implementation.
Level 3	A solid framework addressing the policy area concerned is in place and officially adopted.
Level 2	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
Level 1	No framework (e.g. law, institution) exists to address the policy topic concerned.

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

There is significant scope for increasing the number of women entrepreneurs in Serbia, with early-stage entrepreneurial activity across the population measured at 5%, which is half the EU average. Female early-stage entrepreneurial activity is only 2.8%, compared to an EU average of 7.5%.

Serbia scores high in entrepreneurial learning and women's entrepreneurship in this assessment period and is above the average for the region (Table 18.5). However, a small drop in score is observed compared to the previous assessment mainly due to limited progress made in the women's entrepreneurship sub-dimension.

Table 18.5. Serbia's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.46	3.43
		Implementation	3.77	3.51
		Monitoring and evaluation	4.01	2.73
		Weighted average	3.72	3.33
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.60	3.97
		Implementation	3.76	3.83
		Monitoring and evaluation	3.00	3.11
		Weighted average	3.86	3.73
	Serbia's overall score for Dimension 1		3.78	3.49

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Serbia has progressed in the practical implementation of entrepreneurial learning, with the entrepreneurship key competence now evident in examples of curriculum at all levels of education, training and higher education. There has been a stronger focus on developing student co-operatives as a tool for entrepreneurial education.

For women's entrepreneurship, progress has been more limited. While the score for planning and design is strong, the scores for implementation have been affected by a new focus on actions for women's entrepreneurship that support sustainable and green transformation, which are not yet available. Detailed insight into the role of gender focal points across specific ministries is also lacking. The evaluation report for women's entrepreneurship is also not yet available publicly, and there is a need for deeper insight into

how this evaluation has been used to adjust the design and implementation of women's entrepreneurship (Table 18.6).

Table 18.6. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Strengthen the co-ordination of government policy actions for lifelong entrepreneurial learning	The Council for SME, Entrepreneurship and Competitiveness played a central role in implementing the 2015-2020 SME Strategy linked to these themes. The strategy is planned to be followed with a new strategy (European Commission, 2021 ^[4]). There is no information regarding the evolution of the role or responsibilities of the Council for SMEs, Entrepreneurship and Competitiveness.	Limited
Reinforce the new role of the teacher as a facilitator of students' entrepreneurship key competence development	There is continued provision of in-service teacher training supporting the entrepreneurship key competence, such as the training of 3 000 teachers by the Association of Business Women. However, there is no evidence of inclusion of content relevant to the development of the entrepreneurship key competence in pre-service teacher training courses.	Limited
Pay special attention to progress in developing key competences across levels of education	Progress has been made in integrating the entrepreneurship key competence across levels of education, such as with the expansion of practical entrepreneurial experiences available via the Junior Achievement and the school co-operatives programmes. However, these programmes are not yet available to all learners, and there is a lack of practical teacher guidance on how to integrate the entrepreneurship key competence as a cross-curricular competence.	Moderate
Ensure better co-ordination and consolidation of government policy actions for women's entrepreneurship	The role of the Coordination Body for Gender Equality is important in bringing together different areas of government. However, a lack of formally recognised members from non-government stakeholder organisations remains. Gender sensitivity checks are still not consistently applied, and there are no ministry-based gender focal points. Coordination with the National Commissioner for Equality should be undertaken to ensure consistency.	Limited
Improve policy evaluation	Progress has been made with the inclusion of gender questions in business registration and public procurement tenders, though this remains a policy priority, and more work is needed. There is no comprehensive evaluation of women's entrepreneurship actions, the responsibility for which should be linked to a national partnership body.	Moderate

The entrepreneurship key competence is a policy priority, but co-ordination at the national level is lacking

The new Strategy for the Development of Education 2030 (Government of Serbia, 2021^[35]) was adopted in 2021 and highlights the importance of EU competence frameworks, such as EntreComp, and emphasises the cross-linkages with other policies (such as smart specialisation and artificial intelligence) and the need to align education and training systems to match these. The development process of the Smart Specialisation Strategy (2020-2027) (Government of Serbia, 2020^[36]) identified the need to strengthen entrepreneurial education, particularly in higher education. The recent Industrial Policy Strategy (2021-2030) also advocates for a stronger emphasis on entrepreneurial education. However, no multi-stakeholder policy partnership is responsible for overseeing or co-ordinating the implementation of entrepreneurship key competence development as a cross-government policy area. A range of national and local stakeholders are active in this work, with policy links to multiple government policy areas, illustrating a clear need to identify a co-ordination body to support implementation.

Current national policy actions focus on teachers, practical experiences and higher education

In the Education Strategy Action Plan (2021-2023) (Government of Serbia, 2021^[37]), three actions highlight entrepreneurship key competence development. The first is to provide accredited training on activities that

develop students' entrepreneurial and financial competence. The second is to expand the school co-operatives programme² to 500 co-operatives across the economy. The third is to develop guidelines for the inclusion of entrepreneurial education modules in higher education.³ These actions are being practically implemented through government channels, such as the provision of guidance on the development of student co-operatives and the offer of professional development training available to all teachers at primary and secondary levels.⁴ This training builds on previous work by the Association of Businesswomen, which delivered training to over 3 000 teachers in 2019.⁵

Moving forward, there is potential to expand action to where more work is needed to embed the entrepreneurship key competence in student learning experiences. These include the provision of pre-service teacher training on key competence development; national guidance for existing teachers on how to implement entrepreneurship as a cross-curricular key competence at each stage of education; and information on how to assess learning outcomes related to entrepreneurship cross-curricular competence. Information is not available on how monitoring or evaluation will be used at the school or system level to understand the change created through actions to support entrepreneurship education.⁶ There is also no clearly defined multi-stakeholder national partnership whose remit includes overseeing and co-ordinating the implementation of policy and actions for the entrepreneurship key competence.

Objectives within the national Smart Specialisation Strategy are driving the development of entrepreneurial education in higher education

The Smart Specialisation Strategy Action Plan for 2021-2022 (Government of Serbia, 2020^[38]) has a set of detailed actions addressing entrepreneurial education across higher education, having identified this need during the research work into the needs of the four priority sectors.

In 2020, the Ministry of Education, Science and Technological Development (MoESTD) issued a call for projects to support the development of curricula in higher education institutions with a focus on developing entrepreneurial skills among students, aligning courses to labour-market needs, increasing digital learning and improving co-operation between higher education institutions, businesses and communities (requiring the inclusion of guest speakers from businesses and/or communities). The result was that 41 projects were approved in 2020 with a total budget of RSD 13 million (approximately EUR 110 000), and RSD 17 million (approximately EUR 144 000) were allocated for 2021.

Another Action Plan commitment was to develop criteria for new curricula to include entrepreneurship skills.⁷ This is due to be completed in mid-2022. Led by the National Entity for Accreditation and Quality Assurance for higher education, this has the potential to offer strategic guidance on why and how to embed entrepreneurship key competence development across multiple academic areas.

Information is not yet available on the progress or impact of these actions, nor on how these actions will link to wider developments across other levels of education. This emphasises the importance of co-ordination at the national level to oversee actions across multiple strategies and initiate a comprehensive approach to monitoring and evaluation.

Entrepreneurship is integrated into the formal curriculum through a mix of cross-curricular approaches, supported by practical entrepreneurial experiences

A range of government publications and laws⁸ define the entrepreneurship key competence as a cross-curricular competence at primary and lower secondary, upper secondary and vocational education levels. Within the core curriculum, entrepreneurship is included primarily from the economics perspective rather than the broader-based entrepreneurship key competence approach.⁹ However, there has been a positive focus on the inclusion of practical entrepreneurial experiences that offer learners the opportunity to apply and develop the entrepreneurship key competence.

In practical terms, within primary and lower secondary, entrepreneurship is a cross-curricular key competence to be developed across all subjects, but there is no clear guidance for teachers on the cross-

curricular approach. Students can, however, benefit from practical entrepreneurial experiences delivered via Junior Achievement Serbia¹⁰ and the nationally supported programme of student co-operatives (Government of Serbia, 2019^[39]). At the secondary vocational education level, there is a specific course on entrepreneurship, but it is not known whether this course explicitly includes learning outcomes related to the entrepreneurship key competence. Alongside this, practical entrepreneurial experiences are again delivered through the school co-operatives programme and Junior Achievement Serbia. Information is not available on the full reach of these practical programmes, reflecting the overall lack of focus on monitoring and evaluation across this sub-dimension.

In the previous assessment, there had been advances towards a new Education Quality Framework and testing to explore how to include the entrepreneurship key competence into this framework. It is unclear how this work has progressed during this assessment period and whether it has been implemented at the system level.

The co-operatives-based practical entrepreneurial learning programme is expanding

The school co-operatives programme is worthy of specific focus due to its innovative nature as a national government initiative. Currently active across around 120 schools at primary, secondary and vocational levels, the recent Education Strategy includes a commitment to expanding the use of school co-operatives to 500 schools by 2023. The focus of this programme is to encourage schools to establish student co-operatives to develop students' entrepreneurial spirit, develop an understanding of solidarity, create positive attitudes towards work and connect teaching with the world of work.

The government has put in place a legislative framework to support the creation of student co-operatives by schools, including a rulebook (Government of Serbia, 2021^[40]) to guide their formation, management and termination. The 2019 teacher training project led by the Association of Businesswomen and financed by MoESTD developed a national guidance document to support practical implementation as well (Government of Serbia, 2019^[39]). There is further scope to provide guidance on entrepreneurial learning outcomes of student involvement in these learning experiences and the potential to share practice opportunities at both national and international levels, showcasing an innovative approach to using the co-operatives' entrepreneurial education model. This would also allow practices to be shared between schools and teachers to evolve practices. In addition, it could be an opportunity to recognise excellence in entrepreneurial education through national awards for school co-operatives and wider activities.

There is a strong policy focus on women's entrepreneurship, but mechanisms are needed to support co-operation and co-ordination of actions

During this assessment period, Serbia published the new National Strategy on Gender Equality (2021-2030) (Government of Serbia, 2021^[41]). The national strategy targets and promotes women's entrepreneurship through a priority placed on the economic empowerment of women, to improve the economic position of women and reduce the gender gap in economic participation and the labour market. A broad set of measures within the strategy addresses systemic support for women entrepreneurs at all stages of business development, as well as developing the availability of gender-disaggregated data, awareness campaigns and opening more targeted support for women. It also emphasises the need for a specific focus on areas where women are under-represented, such as green and circular, renewable energy, digital and knowledge economies. Though limited actions are ongoing for digital economy initiatives,¹¹ targeted programmes appear very limited in scope.

However, there is a gap in the policy landscape with the yet to be renewed SME Strategy, which for the 2015-20 period, was an important driver of women's entrepreneurship interventions targeting the closure of the gender gap in the economy. While the government work programme¹² now includes gender-specific actions to support women's entrepreneurship in response to the Gender Equality Strategy commitment, it

will be vital to frame these actions within a renewed SME Strategy addressing the whole SME ecosystem. Wider strategies focusing on women's entrepreneurship include the Employment Strategy (2021–2026) and the Smart Specialisation Strategy (2020–2027), where commitments underline those outlined in the National Strategy on Gender Equality (2021–2030).

With this range of actions across multiple policies, co-ordination is needed to understand and evaluate the progress and impact of actions across these policies. The Coordination Body for Gender Equality is responsible for following the Gender Equality Strategy, and within this lies the area of women's entrepreneurship. However, this body is made up of government representatives¹³ only and does not offer the multi-stakeholder partnership approach needed to provide a more complete representation of the committed national non-government actors involved in supporting and driving forward women's entrepreneurship. The Association of Businesswomen and the Chamber of Commerce and Industry are particularly active in implementation, sharing and celebrating practice,¹⁴ often alongside international organisations, including UN Women and the United Nations Development Programme (UNDP). This wider engagement has become more important since the onset of the COVID-19 pandemic, as research from partners has formed an important body of evidence showing the negative impact of the pandemic on women entrepreneurs.¹⁵

There is an ongoing need to expand gender sensitivity checks and the availability of gender-sensitive data across policies and programmes related to women's entrepreneurship

Ensuring a balanced gender perspective across different policy areas and building up gender-disaggregated data are highlighted as priorities in the National Strategy on Gender Equality (2021–2030). Two recent government decisions have already moved this forward. The first is a 2021 amendment to the Law on Companies to include the gender of the person or persons registering a company.¹⁶ The second is a decision by the Public Procurement Office of Serbia to include a box indicating the gender of a tenderer at the Public Procurement Portal; this is important to understand progress made toward the gender mainstreaming of the public procurement process. These are significant steps towards more complete gender-disaggregated data on the growth of women's entrepreneurship.

However, there is as yet less evidence of progress toward a comprehensive gender sensitivity check on policies and programmes. An example is the recent focus in Serbia on the equality of employed women vs self-employed women¹⁷ in terms of social protection policies for paternity and maternity entitlements. The National Strategy on Gender Equality (2021–2030) highlights the importance of gender sensitivity checks in all policy areas and funding programmes, though no gender focal points are yet in place within ministries. The need is echoed by the Employment Strategy (2021–2026), which emphasises a gender-sensitive approach to creating gender-balanced results based on gender-disaggregated data. This is a process that would support skills, labour market and entrepreneurship policy by providing an evidence base for policy and guiding monitoring and evaluation efforts towards more complete and gender-based skills intelligence and gender impact insights.

The way forward for Dimension 1

- **Identify relevant multi-stakeholder national partnership bodies involving relevant government ministries, private and non-governmental actors, and assign them a clearly defined responsibility to lead efforts to implement, monitor and evaluate: 1) entrepreneurial learning across all levels of education and training; and 2) women's entrepreneurship.** For women's entrepreneurship, this can be an opportunity to expand the Coordination Body for Gender Equality to include formally recognised members from the non-governmental sector and represent all relevant strategy areas. For entrepreneurial learning, this may be linked to a multi-stakeholder education partnership or the co-ordination body that is put in place to lead a renewed SME

Strategy. Both bodies should have explicit responsibility for mapping, monitoring and evaluating these policy areas, including a comprehensive stakeholder mapping approach to ensure effective engagement of all relevant actors and their associated implementation for entrepreneurial learning and women's entrepreneurship.

- **Develop teacher guidance on how to integrate the development of entrepreneurship as a cross-curricular key competence (aligned to EntreComp) at all levels of compulsory education, supported by regular and accessible in-service teacher training opportunities.** While there has been good provision of training, the ongoing development of quality guidance for teachers, illustrated with practical examples across different curriculum areas, will strengthen the focus on cross-curricular implementation. Comprehensive guidance ensures a common understanding of how the entrepreneurship key competence approach can be embedded into teaching, learning and assessment at the level of schools, teachers and curriculum areas. One example of effective practice to support entrepreneurial learning development at the level of schools is seen in the Walloon region of Belgium, as described in Box 18.3.

Box 18.3. Supporting the development of entrepreneurial schools in Belgium

In Belgium, the French-speaking community of Wallonie launched an initiative to support entrepreneurial schools that use a whole-school approach to developing the entrepreneurship key competence across the culture and learning within a school. The regional government supports this work through SOWALFIN (Société wallonne de financement et de garantie des PME), the national agency responsible for developing an entrepreneurial ecosystem and supporting entrepreneurs. It is part of a wider government commitment to using EntreComp to underpin programmes relating to entrepreneurial learning in education, employment and start-ups, as part of their involvement in the EntreCompEurope partnership.¹ The call is open to schools across both primary and secondary levels and aims to develop new approaches to developing and embedding entrepreneurial learning across schools, working with a student-led design philosophy.

The whole-school approach has been used in other regions and countries, including southeast Europe, to great effect. The South East Centre for Entrepreneurial Learning (SEECEL)² worked across multiple economies in southeast Europe to support school-based approaches to entrepreneurial learning at all levels, with similar models being used now in different parts of Europe, such as Wallonie. The concept of creating school-based teacher teams to drive forward change is proven through extensive research to be a highly effective route to positive impact.³ Underpinning the approach is the connection to EntreComp, which is being used as the common understanding of the entrepreneurship key competence, alongside the student-led and experiential approach being promoted through the call, which is in line with the methodologies that are most aligned with developing EntreComp competences.⁴

Supporting school-based approaches can strengthen and build school and teacher capacity to design and deliver entrepreneurial learning through the cross-curricular approach. It can also provide a stronger base from which a school can develop strategic actions supporting entrepreneurial learning for inclusion in their school plan.

1. For more information, see www.entrecompeurope.eu.

2. SEECEL is no longer active. An impact report can be found at <https://zdoc.pub/download/community-impact-success-seecel-inspiring-thanks-entrepreneu.html>.

3. See research by John Hattie on collective teacher efficacy at <https://visible-learning.org/2018/03/collective-teacher-efficacy-hattie/>.

4. For more information, see *The EntreComp Playbook*, which outlines a range of effective teaching and learning methods for developing the EntreComp competences, at <https://op.europa.eu/en/publication-detail/-/publication/a9772d3b-dd0b-11ea-adf7-01aa75ed71a1/language-en>.

Source: SOWALFIN (2021^[42]).

- **Ensure all pre-service teacher training actively builds expertise in cross-curricular entrepreneurship key competence development.** There is an opportunity to future-proof the training of new teachers through active inclusion of key competences into their curriculum, through actions to align pre-service teacher training to the practical needs of the national curriculum (see Box 18.4 for a good practice example from the United Kingdom). The training approach should be based on comprehensive needs analysis, mapped to curriculum content, and the practical implementation into concrete teaching practice should be monitored and evaluated as a follow-up of the training.

Box 18.4. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes, with a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."¹

Serbia has progressed in the delivery of in-service teacher training, but there is a significant need to focus on the provision of pre-service teacher training and aligning the needs of the national curriculum to the content of university-based training for new teachers.

1. For more information on the Curriculum for Wales, see <https://hwb.gov.wales/curriculum-for-wales> (accessed on 20 January 2022).

Sources: Welsh Government (2017^[43]); Penaluna, Penalune and Polenakovikj (2020^[44]); Weicht and Jonsdottir (2021^[45]); McCallum et al. (2018^[46])

- **Strengthen gender sensitivity checks and the provision of gender-disaggregated data across policies and programmes relating to women's economic empowerment.** This should include a focus on gender-sensitive budgeting. This area of action is a clear priority for both the Employment Strategy (2021–2026) and the National Strategy on Gender Equality (2021-2030) and can create real impact in terms of system-level visibility and tracking of the ongoing impact of actions on the position of women in the economy and the labour market. This process should be harmonised with relevant international standards, including UN gender indicators¹⁸ and Eurostat.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Serbia, as in other Western Balkan economies where small and medium-sized economies make up a large share of total businesses, effective liquidation and discharge procedures are particularly important as they can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress (OECD, 2021^[47]).

Serbia increased its overall performance under bankruptcy and second chance since the previous assessment. Its performance increased from 2.84 in 2019 to 3.21 and is performing above the WBT average of 3.03. Moreover, with a score of 3.62, Serbia is the second-best performer after Turkey in the bankruptcy procedures sub-dimension.

Table 18.7. Serbia's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		2.80	2.74
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.50	3.47
		Performance, monitoring and evaluation	3.80	3.23
		Weighted average	3.62	3.38
	Sub-dimension 2.3: Promoting second chance		2.00	1.96
Serbia's overall score for Dimension 2			3.21	3.03

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Serbia has improved its performance since the 2019 assessment. Although a fully-fledged early warning system (EWS) is yet to be developed to maintain a financially healthy ecosystem for SMEs, prevention of insolvency is regulated through two sets of measures: 1) the already existing voluntary settlements under the Law on Consensual Financial Restructuring (Government of Serbia, 2015^[48]); and 2) the new business advisory and mentoring services provided to SMEs by the Development Agency of Serbia (RAS, 2020^[49]) and the Chamber of Commerce and Industry (CCIS)¹⁹ (CCIS, n.d.^[50]) (Table 18.8).

Amendments to the legislative framework on bankruptcy proceedings, proposed during the assessment period, aim to address existing bottlenecks linked to the duration and costs of bankruptcy procedures. However, the amendments have not tackled some important elements, such as shortened, simplified reorganisation proceedings for SMEs and debt discharge rules. Moreover, access to second-chance

programmes for SMEs is still lacking, limiting the opportunity to change the current cultural stigma linked to entrepreneurial failure.

Table 18.8. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	An early warning system is still missing. On a positive note, Serbia succeeded in reducing the number of newly opened bankruptcies thanks to the Law on Consensual Financial Restructuring and the government providing advisory and mentoring services, although they target the prevention of bankruptcies indirectly.	Limited
Enhance co-ordination between different institutions	The newly proposed amendments to the legislative framework on bankruptcy proceedings increase the role of the Bankruptcy Supervision Agency in collecting and disseminating information between multiple parties in the bankruptcy proceeding. However, standard provisions covering all aspects of the bankruptcy framework are still missing, especially in the preventive phase.	Moderate
Further simplify parts of the bankruptcy legislation	At the time of drafting, the government proposed amendments to the bankruptcy legislation to reduce the case duration time and allow electronic sales of assets from the bankruptcy estate. However, as these have not been adopted yet, the impact on the current assessment is limited and will be analysed in the next assessment cycle.	Limited
Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure	No progress was made in reducing the cultural stigma attached to failure in business. The legal framework neither provides for debt discharge of honest entrepreneurs nor clearly distinguishes fraudulent from honest entrepreneurs. No awareness campaigns promoting a fresh start upon bankruptcy have been recorded during the assessment period.	No progress

Serbia is improving its insolvency legislative framework

Similarly to other Western Balkan economies, in 2009, Serbia aligned its Insolvency Law with the United Nations Commission on International Trade Law (UNCITRAL) (2004^[51]) Legislative Guide on Insolvency Law. The law regulates formal court bankruptcy liquidation and reorganisation procedures, providing a solid legal framework for the economy.

The Bankruptcy Supervision Agency (BSA), which is primarily in charge of monitoring the development of the bankruptcy administrator profession and maintaining oversight over the work of licensed bankruptcy administrators, collects and disseminates bankruptcy-related data. It reported that the number of bankruptcy procedures (suspended and concluded) decreased by 54% from 2019 (555) to 2021 (255) (Bankruptcy Supervision Agency, 2022^[52]), which could be partially explained by the COVID-19 pandemic and the related government response measures. Over the same period, the average duration of bankruptcy proceedings dropped from 1.05 years in 2019 to 0.27 years in 2021, indicating an increased performance in resolving insolvency (Bankruptcy Supervision Agency, 2022^[52]). However, these numbers should be carefully observed in the aftermath of the pandemic so as to draw solid conclusions on the insolvency trend.

Since 2009, Serbia has amended its legal framework several times to resolve specific implementation issues and introduce new policies. The latest proposed amendments (to the Law on BSA and the Bankruptcy Law) from January 2021 are currently under parliamentary debate, with no timeline for implementation.

The amendments under the Bankruptcy Law provide that disputes could be resolved by other courts in the case of urgent bankruptcy proceedings. The proposed amendments also introduce the general and special list of bankruptcy administrators and define delicensing clauses. Moreover, they allow the bankruptcy judge to release the property under lien to the secured creditors if it is not included in the reorganisation plan. The proposed changes to the Bankruptcy Law also introduce expedited submission of claims in 60 days

instead of the current 120, and foresee shortening of the proceeding for the voting of a pre-packaged bankruptcy plan upon its submission from the current 90 to 60 days, which sets a new benchmark for the shortest reorganisation hybrid proceeding in the WBT region. The amendments to the Law on BSA introduce a completely new electronic portal to sell the assets from the bankruptcy estate during an electronic auction. Overall, the legislative changes envisaged are a step in the right direction, but remaining issues are still to be addressed, such as SME fast-track reorganisation/liquidation and discharge of debt of honest entrepreneurs.

The current legal framework allows for a pre-packaged hybrid reorganisation and a regular court-driven reorganisation procedure. Both procedures are finalised through the confirmation of a reorganisation plan by an insolvency judge and, as such, are under the court's authority. A reorganisation plan is possible if it provides a more favourable settlement for creditors in relation to bankruptcy and can be submitted simultaneously with the proposal for initiating bankruptcy proceedings. The plan can include debt rescheduling, change of maturity, interest rates or other loan terms, credit or other claim or security instrument, and debt write-off. From January 2019 until May 2021, 73 reorganisation proceedings were initiated, out of which 57 involved pre-negotiated reorganisation plans, while 3 were adopted. The restructured debt in reorganisation plans adopted in this period amounted to EUR 303.5 million, with EUR 3.1 million disputed receivables (EBRD, 2021^[53]).

The Law on Consensual Financial Restructuring, enacted in 2011, provides the possibility of a voluntary financial restructuring based on mediation and overseen by the CCIS. A total of 55 cases have occurred since the enactment in 2011 until the end of June 2021. Out of these cases, 23 were successfully completed, of which a multi-creditor agreement on consensual financial restructuring was concluded in 18 cases. With the support of the CCIS, bilateral agreements were concluded in five cases (EBRD, 2021^[53]).

Little progress has been made regarding preventive measures

An EWS is still not established in Serbia. However, under the DanubeChance2.0 EU Interreg project²⁰ (2018-2021), the government offered business advisory services to a certain number of companies in financial distress that participated in the project. In parallel, solvent SMEs have been offered a range of advisory and mentoring services by international development co-operation partners. These support services are targeted at increasing SMEs' competitiveness and improving their financial management and indirectly contribute to the prevention of insolvency.

Second-chance programmes are still lacking

Serbia did not promote second chance in this assessment cycle, similarly to the 2019 assessment. There is a lack of policy that encourages or ensures the reintegration of honest entrepreneurs into the economy. Even though the Strategy for Supporting the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020) highlights the importance of second-chance policies, no concrete measures were included in the strategy's action plan (Ministry of Economy, 2015^[54]). Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it clearly define honest entrepreneurs.²¹

The way forward for Dimension 2

- **Develop a fully-fledged early warning system as an insolvency prevention measure to maintain a healthy SME ecosystem.** The government should provide SMEs with access to an early warning tool to red flag identified financial distress signals and recommend adequate remediation. It could start by further developing its existing mentoring and advisory services to extend the offer of the programmes to SMEs in financial distress. Box 18.5 offers two models to introduce an EWS.

Box 18.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.
This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
 - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
 - If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
 - If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
 - Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (2021^[55]).

- **Finalise the digitalisation of liquidation proceedings by introducing the electronic sale portal covered under the new draft amendments.** Digitalising the liquidation process would enhance transparency, save time and costs of the currently lengthy liquidation procedure, anticipate potential conflicts between the creditors' committee and protect creditors' rights as claims are recovered from the best market price reached at a competitive bidding procedure. This

could be achieved by introducing e-auctions, as planned under the amendments, and automatic e-distributions mechanisms.

- **Improve the formal bankruptcy reorganisation proceedings.** The government should consider solving the issue with the obstruction of reorganisation plan voting by holdout and dissenting creditors by applying the analysis of the best interests of creditors. The insolvency judge should consider the possibility of confirming the reorganisation plan – as if they have voted for the plan (cram down) – if the creditors receive higher recovery of their claim than they would have in liquidation.
- **Introduce simplified bankruptcy proceedings for SMEs.** SMEs have small scales of business and simpler operations. It is thus recommended to consider admissibility to short-track proceedings for SMEs with a maximum debt set at a certain threshold, determined based on the average size of the economy's micro and small-size firms at the time of filing for bankruptcy. Requirements for restructuring plans should also be simplified. Administrative proceedings should be financially affordable for SMEs, and the procedure should be simplified, e.g. there is no need for a creditors' committee. Simplified and fast-track procedures are particularly relevant in the aftermath of the COVID-19 pandemic as they might allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment.
- **Promote second chance to honest entrepreneurs.** The economy should promote second chance as an option for honest entrepreneurs so they can start anew and thus reduce the cultural stigma related to business failure. The legal framework should provide for the debt discharge of honest entrepreneurs. The policy should clearly distinguish fraudulent from honest entrepreneurs and be widely promoted through public awareness campaigns promoting a fresh start upon bankruptcy.

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Therefore, when designing policies that impact the private sector, policy makers should consider the unique needs of SMEs, especially given their importance for the economy in terms of employment, value added and business demographics.

SMEs represent a higher share of value added (57.2%) and employment (66.1%) in Serbia than the EU average. It is therefore particularly important to “think small first” when designing and implementing SME policies. The COVID-19 pandemic affected Serbian SMEs, especially in the accommodation and food services and retail trade sectors. SMEs in Serbia continue to suffer from high administrative burdens as well as from unfair competition stemming from the informal economy (European Commission, 2021^[56]).

Serbia’s performance in Dimension 3 (4.18) has remained largely unchanged since the last assessment (when it was 4.24), chiefly thanks to its already high starting point and well-advanced policy framework (Table 18.9).

Table 18.9. Serbia’s scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.60	4.28
		Implementation	4.10	3.96
		Monitoring and evaluation	4.00	3.81
		Weighted average	4.23	3.03
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.32	3.84
		Implementation	4.10	3.47
		Monitoring and evaluation	4.10	2.95
		Weighted average	4.17	3.48
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.24	4.00
		Private sector involvement in PPCs	4.30	3.92
		Monitoring and evaluation	3.50	3.10
		Weighted average	4.12	3.79
Serbia's overall score for Dimension 3			4.18	3.79

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Serbia has made progress in implementing its SME policy framework since the last assessment, namely by completing the implementation of its SME Strategy and action plans for combating the informal economy. The ePapir programme, launched in 2019, aims to improve the business environment by significantly reducing the administrative burden for companies. Financial and promotional support for the development of SMEs and entrepreneurship has continued to rise, in line with the government’s “Decade of Entrepreneurship” initiative, announced in 2016. The government has also introduced new guidelines for conducting regulatory impact assessments (RIAs), notably introducing the SME Test as a separate procedure. While there is room to improve the existing mechanisms for controlling the quality of RIA, the government has made plans to improve the quality of RIA in the next few years. The framework for conducting public-private consultations is the same as in the previous assessment. While it is theoretically

strong, the quality of consultations with and engagement of SMEs are not yet at a consistently high level (Table 18.10).

Table 18.10. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve monitoring of SME policies and start evaluating their effectiveness on the ground	A final monitoring report was conducted for the Strategy for Supporting the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020), showing an implementation rate of 68.3% of activities. While the report gives an accurate account of which areas were best implemented and which suffered delays, there is no summary of the conclusions and recommendations, which would have been useful for drafting the next SME Strategy. These will be included in the ex post analysis of the strategy, which will be conducted before drafting the next strategy.	Moderate
Make RIA findings binding for line ministries	The regulatory impact assessment (RIA) methodology was updated in February 2019; however, it does not make it compulsory to implement the recommendations from the RIA reports for the institutions proposing the legislation – i.e. the Public Policy Secretariat's role remains the same, and its findings are still not binding for line ministries, which can choose not to align their RIA with the findings provided they give justification. While the Public Policy Secretariat also frequently contacts line ministries informally before issuing a formal opinion, the overall degree of quality control has yet to show tangible, consistent results in improving the quality of RIA.	Limited
Enhance the quality of the PPC process	The use of an urgent procedure for passing laws, one of the key issues in the effective use of public-private consultations (PPCs), has significantly declined since the last assessment. The government has launched a new online portal for PPCs, integrated into the e-Uprava portal for digital services, to improve the transparency and effectiveness of the PPC process. However, this has yet to yield tangible results, and quality control of PPCs remains weak, without a central institution charged with overseeing the process and producing regular reports on the use of PPCs across various institutions.	Moderate

The implementation of SME policies has further advanced

Since the previous assessment, the implementation period of Serbia's Strategy for Supporting the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020) has come to an end. The Council for SMEs, Entrepreneurship and Competitiveness, formed in 2015 and recomposed in 2017 to co-ordinate the realisation of the strategy, has not been actively involved in this regard, while the monitoring of the government's SME policies was carried out under the auspices of the Action Plan for the Implementation of the Government's Programme and its related goals. The strategy's final monitoring report shows an overall strong level of implementation, with 68.3% of activities being fully implemented. The strongest progress was made in Pillar 3 (continued development of human resources) and the weakest, with the largest share of non-implemented activities, in Pillar 6 (support to entrepreneurial spirit and youth and women's entrepreneurship). Many of the strategy's target values in key indicators, such as the growth of the SME sector and rise in international rankings,²² have been achieved (Ministry of Economy, n.d.[57]). The government began work on a new SME Strategy in the last quarter of 2021, whose development will be supported by the conclusions drawn from an ex post analysis of the previous strategy. The government plans to complete the development of the new strategy and its action plan by the end of 2022. Building on the momentum from the Year of Entrepreneurship initiative launched in 2016, and its subsequent transformation into the "Decade of Entrepreneurship" (2017-2027), the government created an Entrepreneurship Portal in 2018 (<https://preduzetnistvo.gov.rs>), allowing a more centralised and user-friendly access to information on starting a business, available support programmes, digital services for SMEs and promotional campaigns, including success stories for aspiring entrepreneurs. In line with the campaign's goals, the overall level of support to SMEs through various programmes has increased, despite re-allocations of funding to more immediate support measures in 2020 in light of the COVID-19 pandemic.

The latest analysis conducted by the National Alliance for Local Economic Development observes a significant reduction of the informal economy, from 21.2% of GDP in 2012 to 15.4% in 2017 (NALED, 2019^[58]). Serbia further advanced the implementation of its framework for combating the informal economy. Building on the National Plan for Combating the Grey Economy, adopted in 2015, and its subsequent action plans, a new action plan was adopted in 2019, and 71.2% of its activities²³ have been implemented (NALED, 2021^[59]), with the greatest share in the areas of promoting fair competition, legal entrepreneurship and employment and increasing the awareness of citizens and businesses of the importance of fighting the informal economy. In line with this latest action plan, the “eInspektor” system, a unified platform for the various inspectorates to improve the co-ordination of inspection activities and facilitate reporting by citizens, was further developed, connecting 44 inspectorates in total by 2021 (European Commission, 2021^[20]). In 2021, the government implemented a fiscalisation reform, starting a transition to digital invoicing, which should also help reduce the informal economy. The government was working on the next Programme for Combating the Grey Economy (2022-2025) and its first action plan (2022-2023) at the time of drafting.

Additional efforts have been made to improve the business environment by reducing the administrative burden for companies

In line with the SME Strategy’s first pillar (improving the business environment), the government launched the ePapir programme in 2019, aiming to create a single online register of all administrative procedures for businesses (Box 18.6). So far, over 2 600 procedures have been identified at the level of both the central government and the government of the Autonomous Province of Vojvodina, and in April 2021, a Law on the Register of Administrative Procedures (Official Gazette of the Republic of Serbia No. 44/2021-9) was adopted, providing the necessary legal framework for the register to be developed (Ministry of Economy, n.d.^[57]). The ePapir programme’s action plan for 2019-21 foresaw the simplification of 592 administrative procedures and the digitalisation of 100 procedures. By the end of 2021, 269 procedures had been simplified and 52 digitalised, with the simplification of 501 procedures being partially implemented. While these are strong results in terms of implementation, they fall short of the programme’s targets for the period.

Box 18.6. Serbia’s ePapir programme

In July 2019, the government of Serbia adopted the Programme for the Simplification of Administrative Procedures and Regulations (2019-2021), also known as ePapir. The programme is a result of the goals defined in the Strategy for Regulatory Reform and the Improvement of the Public Policy Management System (2016-2020), the SME Strategy (2015-2020), the National Programme for the Suppression of the Grey Economy, and other top-level policy documents.

Managed and co-ordinated by the Public Policy Secretariat, ePapir’s objectives relate to identifying and simplifying administrative procedures for businesses. As a result of the programme, in June 2021, a Register of Administrative Procedures for Businesses was created, linked to the government’s e-Uprava portal for digital government services (<https://rap.euprava.gov.rs/privreda/home>). The overall benefit expected once the programme is fully implemented is estimated to be around EUR 4.5 million.

ePapir is an example of good practice for other regional economies in the sense that it combines the process of simplifying administrative procedures with their digitalisation, processes which are often looked at and tackled separately. This parallel digitalisation and simplification can be seen as a first step toward designing digital services with the end user’s experience and needs in mind (see Dimension 4 on operational environment for SMEs). This goal features strongly in Serbia’s Public Administration Reform Strategy’s (2021-2030) component on service delivery, whose goal is to

encourage the development of services tailored to users' needs and ensure their continued review and adaptation to fit these needs.

Source: Information provided by the Serbian government for this assessment. For more information, see <https://epapir.rsip.gov.rs>.

These efforts to improve the business environment are encouraging; however, other obstacles remain, such as the high level and number of para-fiscal charges, which could benefit from rationalisation as is being done in other regional economies (such as Montenegro and North Macedonia).

The SME Test has been introduced, but the use and quality control of regulatory impact assessments could be improved further

In February 2019, Serbia updated its methodology on public policy management, thereby introducing the SME Test²⁴ to its RIA methodology as a mandatory separate procedure for all legislation that is deemed to have an economic impact and, therefore, a potential impact on SMEs. Guidelines for conducting the SME Test have been developed and are available on the Public Policy Secretariat's (PPS) website. They include detailed instructions on when and how to conduct the SME Test and are in line with European Commission's methodology. While this constitutes a solid basis for more frequent and detailed examination of impacts on SMEs in ex ante policy making, it is not yet consistently applied (European Commission, 2021^[20]).

Although RIA is mandatory for all legislation that goes through the regular procedure in Serbia and is overall consistently applied, its quality and comprehensiveness leave significant room for improvement, with the main issues being in options analysis and ensuring that impacts in all prescribed areas are considered (OECD, 2021^[60]).

RIA quality control is carried out by the PPS, which regularly provides feedback on RIA conducted by line ministries before proposals are submitted to the government for adoption. However, this feedback is not binding, as line ministries have the option of justifying a lack of alignment with the PPS's opinion. While the PPS also frequently contacts line ministries informally before issuing a formal opinion, the overall degree of quality control has yet to show tangible, consistent results in improving RIA quality.²⁵

In November 2021, the government adopted a Programme and Action Plan for Improving Public Policy Management and Regulatory Reform (2021-2025). The document's introductory analysis section contains a summary of RIA submitted to the PPS for review and identifies the main challenges civil servants face in conducting complete and effective RIA: identifying the effects, costs and benefits of policy options and mechanisms for monitoring and evaluation. This analysis is a step in the right direction and could serve as a foundation for more regular reporting on the use of RIA. Activities to increase institutional capacity for conducting effective RIA have been reduced due to the COVID-19 pandemic, and the number of trained officials remains low (OECD, 2021^[60]). This has been recognised as a challenge in the programme, which includes actions to increase administrative capacity and the know-how of civil servants, as well as to improve the overall quality of RIA and specifically improve the use of RIA for determining impacts on SMEs through the SME Test (PPS, 2021^[61]).

Efforts have been made to improve the state of public-private dialogue, but consultations continue to suffer from a lack of quality control and engagement

To raise the level of public-private dialogue in Serbia, the Public-Private Dialogue for Growth project, implemented by the National Alliance for Local Economic Development and the United States Agency for International Development, continued to organise thematic working groups on sectoral policies (such as agriculture and taxation) as well as training for civil servants and businesspeople in conducting effective PPCs. The latest survey conducted within the scope of the project in 2019 revealed that there is significant room for improvement in engaging the business community in public-private dialogue, as 66% of the

businesses surveyed indicated that they were not familiar with practices for public-private dialogue in Serbia (NALED and Ipsos, 2019^[62]). In the same survey, 38% of businesses presented a favourable view of public-private dialogue in Serbia, a share similar to that in the more recent Balkan Business Barometer survey (42%). However, although the result is higher than the Western Balkan regional average (22% positive view), there is still room for improvement (Regional Cooperation Council, 2021^[63]).

The share of laws passed through an urgent procedure, therefore bypassing the requirement for PPCs – a major concern in the previous assessment – has declined considerably over the assessment period, with the share of all legislation proposed by the government that was passed through urgent procedure declining from 36% in 2018 to 12% in 2021 (Open Parliament, n.d.^[64]). Nevertheless, despite this positive development, obstacles to making full use of Serbia's framework for PPCs remain. One of these is the short duration of consultations, giving stakeholders a limited time frame to provide their input (European Commission, 2021^[20]). Another issue is the lack of quality control of PPCs, which would ensure that they are consistently applied by different line ministries and institutions in line with Serbia's theoretically solid framework. While reporting on consultations is a mandatory part of the legislative process, no institution oversees the PPC process or monitors and evaluates the overall use and quality of PPCs, which could allow priority areas for improvement to be identified.

In December 2021, the government launched a new online portal for PPCs (<https://ekonsultacije.gov.rs/>), integrated into the e-Uprava portal for digital government services, to improve the transparency and inter-institutional co-ordination of PPCs. Replacing an earlier portal that allowed stakeholders to participate in public debate as part of the legislative process (<https://javnerasprave.euprava.gov.rs/>), the new portal should allow stakeholders to participate in the policy-making process from the moment of drafting of documents all the way to their adoption. The PPS, General Secretariat of the Government and Ministry of State Administration and Local Self-Government are charged with overseeing the use of the portal, which should lead to improved inter-institutional co-ordination regarding the use of PPCs. This development presents an opportunity to strengthen the quality control of PPCs and introduce regular monitoring and evaluation of the PPC process.

The way forward for Dimension 3

- **Introduce regular monitoring and evaluation of the use of regulatory impact assessment.** Currently, the use of RIA by various line ministries in Serbia is done on an ex post basis when preparing new policy documents or updating the RIA methodology every few years. While this is a solid foundation, the evidence base for improving RIA could be further strengthened by introducing more frequent reporting, as some other regional economies, such as Montenegro (Box 18.7), have done. These reports should focus on the main challenges observed by civil servants in conducting RIA, with the goal of identifying priority areas for capacity building.

Box 18.7. Montenegro's reports on the quality application of RIA

Conducting regular reporting of the RIA process with a focus on qualitative indicators is key to measuring progress in building institutions' capacities for conducting useful and evidence-based analysis.

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the evolution of its quality.

As in some other WBT economies, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs conducted was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made compared to previous years in these different areas.

In the latest report, the ministry identified that 68% of RIA conducted in 2020 was noted as "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA on these areas.

The work done by the PPS of Serbia as part of the introductory analysis of the Programme and Action Plan for Improving Public Policy Management and Regulatory Reform (2021-2025) is a strong foundation for qualitative monitoring and evaluation of RIA. Serbia could benefit from conducting analytical reporting on the use of RIA by different ministries on a more regular basis, to better inform policy making by measuring progress at more regular intervals.

Source: Montenegrin Ministry of Finance, (2021^[65]).

- **Strengthen quality control and introduce reporting on the public-private consultation process.** Now that an updated portal for PPCs has been established, the government would greatly benefit from assigning an institution oversight and co-ordination of line ministries' use of it. This institution would regularly report on the adherence to PPC quality standards by different line ministries, identify priority areas for improvement and explore possible solutions for the lack of engagement of the private sector. Indicators measuring adherence to quality standards and stakeholder engagement (allowing for specific monitoring of SME engagement) could be integrated into such a report. Albania recently introduced aggregate reporting on PPCs conducted across all institutions and can provide an example of good practice (Box 18.8).

Box 18.8. Albania's reporting on public-private consultations

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

Starting in 2021, every six months, line ministries publish reports summarising the PPCs that they have held. The reports are available on the online PPC portal (<https://konsultimipublik.gov.al>) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on the respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

Serbia could take inspiration from this system, as it would allow the government to measure the consistency of ministries' use of PPCs, but also the quality of the overall PPC process across different ministries.

Sources: Reports available on Albania's online portal for PPCs: <https://konsultimipublik.gov.al>; Council of Ministers of Albania (2021^[66]).

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

For a small, open economy like Serbia, increasing the availability of digital services for SMEs – including business registration and licensing – as well as improving the efficiency of administrative procedures – including tax compliance procedures – will be key to improving the operational environment by saving time and resources.

Serbia has improved its performance in delivering digital services for SMEs since the last assessment (when it scored 3.52), mainly due to improvements in co-ordination and in monitoring and evaluation of the policy framework for the rollout of digital services. Serbia's performance on company registration and business licensing has also improved since 2019 (Table 18.11).

Table 18.11. Serbia's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.70	4.28
		Implementation	3.64	3.33
		Monitoring and evaluation	3.00	2.48
		Weighted average	3.80	3.40
	Sub-dimension 4.2: Company registration	Planning and design	4.80	4.42
		Performance	4.30	3.93
		Monitoring and evaluation	4.75	4.06
		Weighted average	4.68	4.18
	Sub-dimension 4.3: Business licensing	License procedures	3.80	3.88
		Monitoring and streamlining of the license system	3.90	3.73
		Weighted average	3.85	3.80
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Serbia's overall score for Dimension 4			3.98	3.64

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Despite delays in implementing its previous policy framework for the rollout of digital government services, Serbia has taken stock of these challenges and developed a new framework with the E-Government Development Programme (2020-2022). The rollout of digital services for businesses has continued, and progress has been made in strengthening the key enablers of digital government, such as government data interoperability, electronic signature and data openness. Co-ordination for better digital service delivery has improved, and the government has integrated plans to improve the monitoring and evaluation of digital service performance into the policy framework.

The company registration framework has been further simplified since the last assessment, thanks to increased interoperability and optimised electronic registration. Great progress was achieved in centralising and digitalising business licensing within the e-Uprava portal, which should increase accessibility and transparency.

Taxes on labour income put a high burden on self-employed entrepreneurs, but they can benefit from a lump-sum tax regime that reduces their tax compliance costs. Tax compliance costs have decreased due to the use of digital services, the introduction of simplified tax administration procedures and efforts to increase tax literacy among SMEs (Table 18.12).

Table 18.12. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue to expand the use of digital authentication to widen the range of available e-services	The number of digital services requiring e-signatures is increasing, and the government has made efforts to improve the accessibility and ease of use of e-signatures, notably by enabling their use through a mobile application using cloud technology.	Strong
Introduce electronic distribution and nomination of licence officers	While Serbia has established an e-licence portal, electronic distribution and the nomination of a licences officer have not been introduced. Granting licences remains the competence of different institutions.	Limited
Implement simplified tax regimes by measuring the effective burden created on SMEs	No evaluation has been carried out using tax return data to analyse whether the design of the lump-sum tax creates bunching of the self-employed below the simplified tax regime threshold and/or below the thresholds of each of the regime's turnover classes.	Limited

Despite delays in implementation, the rollout of digital government services has continued and has improved businesses' perception of digital government services

The Serbian government has conducted an ex post analysis of the implementation of the E-Government Development Strategy (2015-2018) since the last assessment to lay the foundation for the continuation of the policy framework for the development of digital government services. The analysis concluded that implementation suffered from delays and difficulties related to monitoring and evaluation.²⁶ Namely, the final Action Plan (2017-2018) suffered from poor implementation, with only around a third of its measures fully implemented. However, despite these delays, significant progress has been achieved in the development of digital government. As a result, Serbia's performance in several international rankings, such as the United Nations' e-Participation Index (measuring satisfaction and engagement of stakeholders through digital means) and Online Service Index, improved during the strategy's implementation period,²⁷ reflecting a significant improvement in the coverage and quality of digital services (Ministry of Public Administration and Local Self-Government, 2020^[67]).

Serbia has modernised its online e-Uprava portal for digital services, which has existed since 2010, by launching an updated version in February 2020. The portal has over 150 services for legal entities, of which over 45 are fully transactional (sophistication level 4).²⁸ The portal aims, through its continuous development, to serve as a one-stop-shop for business services. Several key services for businesses, such as declaring and paying taxes and social security contributions, registering a business, and an increasing number of licensing procedures, can be completed fully on line and are available on the portal, while the digitalisation of other services (for instance, services related to the cadastre) is ongoing as part of the E-Government Development Programme (2020-2022) and the ePapir programme for simplifying business regulations (see Dimension 3 on institutional and regulatory framework for SME policy making).

In line with the rollout of these key digital services for businesses through the e-Uprava portal, businesses' perception of digital government services in Serbia has significantly improved, as evidenced by the Balkan Business Barometer Survey, where 62% of respondents, the highest share in the region, expressed satisfaction in 2021, compared to 35% in 2019²⁹ (Regional Cooperation Council, 2021^[63]).

A new framework for developing digital government has been adopted, aiming to improve monitoring and evaluation mechanisms for digital services

In June 2020, the government adopted and is currently implementing the E-Government Development Programme (2020-2022), inspired by the lessons learnt from its predecessor, the E-Government Development Strategy (2015-2018). Activities which were not implemented during the previous period were carried over, and monitoring and evaluation was strengthened through the introduction of concrete performance indicators for measuring progress. Namely, the programme aims to have 80% of digital services available through the e-Uprava portal at sophistication level four, allowing for fully transactional services which can be completed fully on line. The programme takes a multifaceted approach to the development of digital government, and its specific objectives include improving the government infrastructure for data interoperability and legal certainty for users, increasing the accessibility of digital government, and promoting the use of open data.

Within the goal of improving transparency and accountability and strengthening monitoring and evaluation of the Public Administration Reform Strategy (PARS 2021-2030), the Ministry of State Administration and Local Self-Government has created an online portal³⁰ to track the implementation of the strategy's goals, measures and activities in real time. This portal includes the PARS 2021-2030 component on service delivery, therefore strengthening the visibility of progress in the advancement of digital government for stakeholders.

Since the last assessment, the role of the E-Government Co-ordination Council was absorbed by the Council for Public Administration Reform. Namely, the E-Government Co-ordination Council was established in 2017 and was charged with co-ordinating the implementation of digital government reforms. It was also the primary forum for engaging with non-governmental stakeholders in the design of policy documents for digital government. The Council for Public Administration Reform was established in 2021 and has broader responsibilities and more high-level political membership,³¹ providing an opportunity for more coherence and political legitimacy to digital government reform efforts. In parallel, a dedicated Inter-Ministerial Project Group ensures co-ordination of line ministry representatives at a management level. The E-Government Development Programme (2020-2022) foresees the creation of a similar council for co-ordinating implementation at the level of local self-government units. The creation of such a body would be a positive step in ensuring that the availability of digital services that depend on local administrations is harmonised across Serbia.

The E-Government Development Programme (2020-2022) has measures to develop the user support and feedback collection processes for digital services, which are currently limited to rating overall user satisfaction of the portal. This should improve the monitoring and evaluation of the performance of digital services to allow the government to identify which issues users are facing in view of improving digital services. The government's ePapir programme (see Dimension 3 on institutional and regulatory framework for SME policy making), which aims to streamline and simplify the 100 most frequently used services for businesses, is a first step towards designing digital services with the end user's experience and needs in mind. This objective features strongly in the PARS 2021-2030 component on service delivery, whose goal is to encourage the development of services tailored to users' needs and ensure they are continuously reviewed and adapted to fit these needs.

Progress has been made in strengthening the key enablers of digital services for businesses, such as data interoperability, e-signature and open data

Interoperability of government-collected data has advanced, with an increase in the number of registers interconnected through the government service bus, from 23 in 2019 to 28 in 2021, including the Central Population Register (OECD, 2021^[60]). The government has defined advancing interoperability and strengthening government infrastructure for data exchange as a priority under the first objective of the E-Government Development Programme (2020-2022) and has plans to digitalise other registers and further integrate them through the establishment of a metaregister, which would facilitate automatic data exchange within the public administration, saving time for businesses through the increased application of the once-only principle.³²

The availability of electronic signatures, a key enabler for accessing more secure digital services, has improved, namely through the increase in the number of certified providers of qualified electronic certificates, necessary for e-signatures, and through the introduction of electronic national ID cards containing qualified electronic certificates. The government has also tried to improve the accessibility and ease of use of e-signatures by enabling its use via a mobile application using cloud technology.³³

Since the last assessment, the availability of open data on the government open data portal (data.gov.rs) has greatly increased. The number of datasets on the portal increased from 85 in 2019 to 1 790 in 2022, and the number of institutions publishing data on the portal increased from 22 to 109 over the same period. The government has established criteria for open data publication, annotation and organisation to facilitate its reuse, and datasets are provided in machine-readable formats. Users can use the open data portal to interact with the publishing institutions if they have questions on a particular dataset, a level of transparency that is not visible in Serbia's regional peers. Data and examples of open data reuse are collected and shared through the portal, and the government has made efforts to promote and stimulate its reuse by the private sector through initiatives such as innovation challenges, open calls for projects and other educational and promotional activities. This objective is notably present in recently adopted sectoral documents, such as the Strategy for the Development of Artificial Intelligence (2020-2025), which focuses on promoting the reuse of available open data by start-ups and SMEs to drive the creation of innovative products and services and support the development of technologies based on artificial intelligence (Government of Serbia, 2020^[68]).

Company registration has been further simplified since the last assessment

Entrepreneurs can register their companies through the Serbian Business Registers Agency (SBRA), which operates as a one-stop-shop in its physical offices and on line, according to the "silent-is-consent" principle.³⁴ The SBRA provides companies with a tax identification number together with their company registration code. Moreover, thanks to increased interoperability, since 2020, the SBRA is also in charge of submitting relevant applications for mandatory social insurance on behalf of companies (only available to sole proprietors prior to 2020). This has reduced the length and complexity of company registration.

Online registration, in operation since 2018 for sole proprietors and single-member, limited liability companies, was made fully available to multi-member limited liability companies in June 2019. The electronic registration fee has been reduced to less than EUR 50 for limited liability companies and less than EUR 10 for sole proprietors. While a qualified electronic signature is still required to register a company, the process has been further simplified with the 2021 Amendment Law on Procedure of Registration with the Business Registers Agency.³⁵

Full digitalisation of company registration is ongoing for all company types and processes (incorporation of all legal forms of companies, changes, liquidation, issuing of electronic excerpts, etc.) and is expected to be finalised by 2023. In line with digitalising processes, monitoring reports and evaluation mechanisms on company registration are available and under the responsibility of the SBRA.

Business licensing has been centralised, and digitalisation is underway

Serbia has achieved great progress in centralising business licences as part of its ePapir programme, launched in 2019 to create a single online register of all administrative procedures for businesses (see Dimension 3 on institutional and regulatory framework for SME policy making). As part of measure 1.4 of the programme (“Providing preconditions for the digitalisation of procedures”), starting from 2019, all 1 301 licences granted by different institutions were classified and compiled within a single list,³⁶ increasing their accessibility and easing the administrative burden on businesses. The list of all licences is available on the online register compiling all administrative procedures for businesses, established in 2021 as part of the larger e-Uprava platform (<https://rap.euprava.gov.rs/privreda/home>). While the newly established portal serves as a single entry point for licences and permits, the services offered remain largely informational, and competences in granting licenses remain scattered among several institutions.

Delays in obtaining a licence can be costly to entrepreneurs, adding uncertainty and additional costs to much-needed business transactions. According to the latest data available, 9 days were required to obtain an import licence, 93 for an operating licence and 85 for a construction permit, the last two being considerably higher than the WBT averages (11, 24 and 72 days, respectively) (World Bank, 2019^[69]). The government, under the umbrella of the Public Administration Reform Council, established in 2021 for the digitalisation of administrative procedures,³⁷ is currently in the process of digitalising licensing processes, allowing businesses to apply and pay for their licences on line. As of 2022, two transactional digital licensing services are available on the portal (for construction permits and electricity licences). Increasing the number of transactional services should reduce the burdensome number of procedures, requirements, paperwork and costs related to obtaining a licence, which remains a big or very big obstacle for 29% of Serbian businesses (Regional Cooperation Council, 2021^[63]).

Serbia introduced a set of tax measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery

The measures that were introduced to mitigate the impact of the COVID-19 crisis were available to all businesses, including SMEs. PIT and CIT payments, as well as social security contributions (SSCs), were temporarily deferred, and interest was not charged on the deferred tax liabilities (Government of Serbia, 2020^[70]). Under certain conditions, unincorporated businesses and corporations that dismissed less than 10% of their employees received fiscal support during the crisis could benefit from a reduction in employer SSCs. In addition, goods and services for health purposes were exempt from VAT, while businesses selling these products continued to receive an input credit for the VAT incurred on their inputs.

Taxes on labour income put a high burden on self-employed entrepreneurs

Self-employed workers are subject to a 37.8% SSC rate levied on the SSC base, which is business taxable income. Moreover, the standard PIT rate is 10%, up to a maximum of six times the average annual wage, then a 15% PIT rate applies to taxable income exceeding this threshold (IBFD, 2021^[71]). As high taxes on labour may create disincentives to work in the formal sector, Serbia could consider introducing a more progressive PIT rate schedule and reducing SSCs on low-income self-employed entrepreneurs to reduce the tax burden they face.

CIT incentives are available to incorporated SMEs and larger businesses

In Serbia, the standard CIT rate in 2021 was 15%. All businesses are allowed to deduct from the CIT base twice their research and development (R&D) expenses (IBFD, 2021^[72]). In addition, CIT losses can be carried forward up to five years, which is aligned with rules implemented in the other economies in the region.

Self-employed workers can benefit from a lump-sum tax regime that reduces compliance costs

A self-employed entrepreneur qualifies for the lump-sum tax regime if his/her annual turnover in the year preceding the current fiscal year does not exceed RSD 6 million (approximately EUR 51 000), if the business is not VAT registered, does not have outside individual investors and does not operate in specific business sectors such as wholesale and retail, hotels and restaurants, real estate, financial intermediation, or advertising and market research. Overall, more than 30% of unincorporated businesses are registered under the lump-sum tax regime. Those businesses are mainly taxi drivers, legal professionals, hairdressers and programmers (OECD et al., 2019^[73]). The lump-sum amount paid under the tax regime varies across business sectors, which indirectly takes into account the profitability of SMEs, as profitability tends to vary across business sectors. This design feature constitutes good practice as it enhances equity across SMEs in different sectors. The lump-sum amount also varies across levels of turnover of SMEs within each business sector and across locations. The simplified tax regime in Serbia is, therefore, a hybrid type of lump-sum tax regime; the tax liability is a lump-sum amount that varies across sectors, brackets of turnover and location. Finally, further analysis of the lump-sum tax regime could assess whether the self-employed are bunching below the RSD 6 million (approximately EUR 51 000) threshold rather than growing into the regular PIT regime in order to minimise their PIT liabilities.

High social security contributions and relatively low taxes on personal capital income create a tax-induced incentive for SMEs to incorporate

The effective tax rate on labour income is higher than the effective tax rate on capital income, which consists of the combined effect of the CIT paid at the corporate and personal shareholder level. Therefore, owner-managers of closely held corporations face a tax-induced incentive to receive remuneration in the form of lower-taxed capital income (i.e. dividends) rather than a higher taxed salary. In addition, corporations face higher non-tax costs than unincorporated SMEs, so the incentive to incorporate may result in extra costs for SMEs. Moreover, the economy may collect fewer tax revenues when businesses incorporate just to minimise their tax liability.

The VAT system does not foresee many tax simplification measures

Businesses with an annual turnover exceeding RSD 8 million (approximately EUR 68 000) have to register for VAT. Voluntary registration for VAT is possible for businesses with lower turnover, provided they remain VAT liable for at least two years. In 2021, the standard VAT rate was 20%, and the reduced VAT rate was 10% (IBFD, 2021^[72]). Businesses with an annual turnover in the previous 12 months below RSD 50 million (approximately EUR 425 000) that have been registered for VAT purposes during that time period are allowed to use cash accounting for VAT purposes, provided VAT returns were filed, and VAT liabilities were paid on time in the preceding year. Serbia could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes.

Tax compliance costs have decreased due to the use of digital services, the introduction of simplified procedures and efforts to increase tax literacy

E-filing is widely used for tax returns in Serbia, which can reduce compliance costs for SMEs. PIT, CIT and VAT returns must be filed on line, and the electronic procedure to e-file tax returns is free of charge. Businesses are required to make tax pre-payments frequently, which may result in additional compliance costs. PIT and CIT returns are submitted on an annual basis, but businesses, regardless of their size, are required to make monthly tax pre-payments.

Serbia has made efforts to increase tax literacy amongst businesses, which can significantly decrease SMEs' tax compliance costs. The tax administration has organised meetings and seminars with business associations and has launched a communication campaign via phone calls, emails and flyers to share information on tax policy and tax administration procedures. SMEs can find information on the tax

administration's website, which classifies tax regulations according to the type of taxpayer. The services developed by the Serbian Ministry of Finance help SMEs with their tax administration obligations.

The way forward for Dimension 4

- **Ensure that SME-specific data are collected when improving the user feedback system for digital services.** When improving feedback channels, it would be important to ensure differentiated data collection for feedback by businesses and, more specifically, to differentiate feedback by enterprise size class to see if SMEs experience specific challenges. To go a step further, production-related data (such as usage patterns, number of transactions, etc.) can be collected to understand the underlying reasons for businesses' satisfaction or dissatisfaction with a given service and identify areas for improvement. Box 18.9 shares Norway's example of developing a monitoring and evaluation system through its online services portal.
- **Strengthen co-ordination between e-Uprava authorities and institutions in charge of issuing business licences to improve interoperability.** While Serbia has achieved great progress in centralising business licences within its e-Government portal, competences in granting licences are still fragmented between different institutions. Serbia could establish a specific department within e-Uprava to be in charge of co-operation with all institutions responsible for issuing licences. This would improve interoperability, interplay and data sharing with all institutions involved. Going further, this department could be responsible for granting licences that do not require the competent authority's approval, which could increase transparency and enhance effective monitoring and streamlining of licences.
- **Rebalance the tax burden of unincorporated and incorporated SMEs to limit the tax-induced incentive for SMEs to incorporate,** for instance, by lowering SSCs, increasing the progressivity of the PIT and increasing the tax rates levied on capital income at the personal shareholder level.
- **Evaluate the tax burden faced by SMEs at the threshold between the lump-sum tax regime and the standard personal income tax regime.** The aim should be to design a coherent tax system that incentivises businesses to operate in the formal economy and SMEs to grow into the regular PIT regime, for instance, by using business tax returns.
- **Develop a comprehensive strategy to ease tax administration procedures for SMEs, by assessing the remaining hurdles and increasing tax literacy for SMEs, for instance, through business surveys.** Serbia could evaluate whether the monthly tax payment obligation creates cash-flow problems for SMEs and results in high compliance costs; if so, the tax pre-payments could be made less frequent instead.

Box 18.9. Norway's Altinn portal

Altinn (altinn.no) is Norway's digital one-stop-shop for businesses and citizens. Launched in 2003, the portal has undergone several iterations and has developed into a one-stop-shop for digital services, providing over 1 000 digital services and forms, as well as a platform for government design and iteration of public services. The Brønnøysund Register Centre, as the institution responsible for managing Norway's digitalised registers, is in charge of managing and developing the platform, in co-ordination with line ministries and in consultation with end-users.

Altinn is connected to Norway's National Population Register and Register of Legal Entities, allowing it to monitor the use of the platform, as well as individual services, by both businesses and citizens dynamically. This allows the Norwegian government to identify potential gaps in service use as well as where additional outreach efforts might be necessary (among which business categories, in which geographic area, for example).

Altinn's success has led to it being used by 100% of businesses for filing tax returns and annual accounts, and some 99% of businesses for declaring and paying VAT.

Altinn is an example of how the interoperability of government data can strengthen monitoring and evaluation. The platform has automatic access to key information about its users, as such information is collected automatically.

While this requires a high level of interoperability and data security, something which the WBT economies are working towards, it provides an example of how a platform for digital services can monitor the use of the services directly. Some WBT economies already collect data on the use of services through their portals automatically and would benefit from expanding the range of indicators collected (in the case of businesses: size class, sector of activity, etc.) without necessarily making this data collection automatic (users could enter the information themselves initially).

Source: OECD (2020^[74]).

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

Accessible and targeted BSSs are crucial for SMEs in Serbia, where SME competitiveness can still be significantly improved. Comprehensive government support, encompassing both financial and non-financial measures, is the most effective in smaller, open economies like Serbia. In light of the COVID-19 pandemic, broad, far-reaching support is particularly important for SMEs to survive and grow locally and internationally.

Serbia remained slightly above the regional average in this dimension, scoring 4.28, close to its score of 4.12 in the last assessment. The economy outperformed the regional average in implementing public BSSs and maintained relatively high scores in the area of monitoring (Table 18.13).

Nevertheless, in order to commit to a successful implementation of the SBA, more improvements are needed in privately provided BSSs and their evaluation.

Table 18.13. Serbia's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	4.43	4.17
		Implementation	4.57	4.24
		Monitoring and evaluation	4.33	3.88
		Weighted average	4.48	4.15
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	4.60	4.63
		Implementation	3.70	4.21
		Monitoring and evaluation	4.20	3.84
		Weighted average	4.07	4.26
Serbia's overall score for Dimension 5a			4.28	4.20

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There has been no change in Serbia's legal and strategic framework for government-provided BSSs. Serbia's SME Development Strategy (2015-2020) was successfully concluded in 2020, resulting in improved access to finance for SMEs and an increased number of support programmes and grants. A new SME Strategy, which was being drafted at the time of assessment, is set to include a more focused list of priorities. The strategy is due for adoption by the end of 2022. In line with the new Strategy for Industrial Development (2021-2030), Serbia aims to transition to gaining a more skills-based advantage. However, to achieve that, SMEs require tailored BSSs to upgrade. The lack of a systematic assessment of training needs and demand for BSSs might hamper these efforts. Nevertheless, there are solid monitoring and evaluation foundations upon which Serbia can build on its analysis, especially in the area of public BSSs.

Private BSS providers in Serbia undergo extensive accreditation procedures to receive the status of an Accredited Regional Development Agency; however, the process has its limitations, as only limited liability companies that are majority-owned by local governments are eligible.

Since the previous assessment, Serbia has made moderate progress in matching its offer to the demand for BSSs based on an ex post evaluation (Table 18.14). However, there is still room for improvement in assessing SME training needs and demand for particular BSSs.

The economy did not advance on implementing two other recommendations from the last cycle related to introducing an online portal informing SMEs about private support available and the extension of the accreditation procedure. On this last point, however, there is institutional will to include more private-sector providers in the process in the future.

Table 18.14. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Better tailor BSSs to SMEs' needs in line with the training needs analysis results	Serbia has a good structure to assess SME needs through feedback given after each implanted programme and support measure. However, stronger efforts are needed in analysing training needs and the level of entrepreneurship skills among SMEs.	Moderate
Extend the accreditation procedure to include more private-sector BSS providers	At the time of assessment, accreditation can only be granted to limited liability companies that are majority-owned by local governments.	No progress
Introduce tools, such as an online portal, to help SMEs navigate and find private consulting services that would address their needs	There is currently no centralised portal to inform SMEs about private consultancy services available on the market.	No progress

With no change in the regulatory framework governing BSS provision, Serbia made progress in BSS programme implementation

Since the previous assessment cycle, there has been no change in Serbia's regulatory framework governing BSS provision. The SME Development Strategy (2015-2020) provided a strategic framework for the public provision of BSSs. Following its successful implementation, a new strategy was in the drafting process at the time of assessment. The government does adopt and implement the Standardised Set of Services annually, which aims to provide training and advisory services for SMEs at a local level.

A special directorate in the Ministry of Economy (the Sector for Development of Small and Medium Enterprises and Entrepreneurship) and a dedicated BSS agency (the Development Agency of Serbia [RAS]) provide SME support in Serbia. In addition, the Council for SMEs Entrepreneurship and Competitiveness, created in 2017, is responsible for legal and economic initiatives to support SMEs, particularly relating to the fiscal system, the labour market and access to funding. Serbia continues to establish Accredited Regional Development Agencies (RDAs), which provide various forms of non-financial support for SMEs.

Within the scope of the Standardised Set of Services,³⁸ in 2020, 235 trainings were held, and 2 581 persons were trained (of which 1 437 were women). Some 136 promotional activities were held, and 1 187 hours of advisory services were provided for 597 users (Ministry of Economy, 2022^[75]). Government-provided mentoring services, elaborated in co-operation with the Japanese International Co-operation Agency, have enjoyed a boost in uptake since 2018. In 2018, there were 103 beneficiaries, with the number increasing to 119 in 2019 and 166 in 2020. The increase is explained by an augmented supply of BSSs

and available consultants, which signals more technical support provided for SMEs during the COVID-19 pandemic in 2020.

Furthermore, RAS implemented the Promotion of Entrepreneurship and Self-Employment Programme to encourage the development of early-stage entrepreneurship in the economy. Start-ups in Serbia still struggle with accessing public funding (European Commission, 2021^[4]), so to address this issue, the programme provides grants and loans³⁹ targeting youth entrepreneurs and business entities younger than two years. Given that early entrepreneurial activity in Serbia amounts to 5%, this programme is particularly well targeted (European Commission, 2021^[76]). Over the course of the programme, the CCIS organised 75 trainings with a total of 878 participants.

Among women, the percentage of early entrepreneurial activity amounts to 2.8% (European Commission, 2021^[4]). To improve this, the CCIS, the German Gesellschaft für Internationale Zusammenarbeit (GIZ) and six women in business associations⁴⁰ across Serbia have joined forces to implement the project “Let’s become stronger – Building on knowledge to succeed”. The project consists of mentoring and training support services for women-owned enterprises, especially SMEs. The participants are trained in market access, foreign expansion, digitalisation, standardisation and certification, and negotiation (CCIS, 2020^[77]). In the project’s first phase, 63 entrepreneurs attended 6 training sessions and 12 mentoring workshops. There were 47 business-to-business online meetings with 26 businesswomen and 11 large retail enterprises.⁴¹

In addition, Serbia expanded its collaboration with international development co-operation partners to further improve access to finance and BSSs. The European Bank for Reconstruction and Development (EBRD) provided a EUR 20 million loan to UniCredit Leasing Serbia to support domestic SMEs in investments to boost their competitiveness and reach EU standards. The project consists of financial and non-financial support, such as technical and advisory services ranging from assistance in adhering to EU standards, greening and business expansion.⁴² In addition, the EBRD launched the SME Advisory Support⁴³ programme in 2019. The project aims to boost Serbian SMEs’ competitiveness and provide them with tailored counselling to assist them in the areas of access to finance, management and innovation. To date, the project has assisted 116 SMEs.

As 2016, hailed as the Year of Entrepreneurship, was extended into the Decade of Entrepreneurship, the uptake of BSSs has remained relatively high since the last assessment cycle. The regularly updated Entrepreneurship Portal⁴⁴ continues to contribute to higher awareness and uptake of government-provided services. The website contains information about relevant support programmes from different public institutions, as well as varied training videos and a search engine for RDAs, incubators and technology parks.

Lack of training needs analysis causes a skills mismatch, hindering the shift to knowledge-based industries

Adopted in 2020, Serbia’s Strategy for Industrial Development (2021-2030) envisages a transition from a lower-skilled workforce cost leverage to a skills-based advantage (Government of Serbia, 2020^[78]). Providing high-quality education to the labour force will have a direct impact on the successful integration of SMEs into GVCs and lead to higher productivity. Strengthening core skills and developing digital literacy will prove to be crucial in the shift to a skills-based economy in Serbia (World Bank Group, 2020^[79]). In addition, aptly tailored instruments to support SME skills development and increasing their innovation capacity are key elements to developing a skilled workforce.

However, in order to provide customised BSSs for SMEs, training analysis and assessment of the supply and demand for BSSs need to be conducted. Since the last assessment cycle, Serbia has not performed a systematic, regular study of the BSSs needed by SMEs. This can contribute to skills mismatches, which remain prevalent in Serbia (European Commission, 2021^[76]). Training needs analysis and anticipation is a vital tool in preventing mismatches with the labour market. Sourcing data on which skills are in demand

and which skills are needed to expand a business is necessary for effective policy making (ILO, 2020^[80]). To aptly respond to labour-market requirements, the government needs to assess the skills in demand and ensure their provision and development through the educational and vocational system. In doing so, skills gaps can be addressed, and the government can gain a helpful tool to monitor and evaluate both labour-market conditions and the SME landscape.

The government conducts an ex post evaluation of the support services requested by SMEs per region (CCIS, 2020^[81]). This practice, conducted ex ante, would constitute a comprehensive basis for the assessment of training needs in each region, as well as demand for particular BSSs. The evaluation includes a distinction between early-stage microenterprises and SMEs and more mature companies, which is a good step to tailoring the BSSs to the SMEs' stage of development.

Similarly, Serbia moderately advanced in including SMEs and other stakeholders in the policy design procedure, which is another step in the right direction. During the ongoing drafting process of the new SME Strategy, the materials for consultations are available through the e-government portal, through which stakeholders can provide feedback. Nevertheless, this might not be enough for SMEs to be fully integrated into the regulation drafting process. The exclusion of SMEs in policy making and lack of insight into their training needs and demand for BSSs can result in inadequate measures to support SME development and stall the transition to a knowledge-based economy.

Monitoring mechanisms are in place, but systems vary between private and public BSSs

Serbia has a well-established system for feedback collection from public BSSs' beneficiaries, facilitating monitoring and evaluation efforts. SMEs provide feedback and evaluation after each programme, as well as periodically through surveys conducted by RAS. The inputs are later taken into account to adapt to SME demand and implement suggestions to improve support services. Since the last assessment cycle, the government adopted a decision to obligate all state entities, including local governments, to inform the Ministry of Economy about SME support measures planned for implementation. The decision increases the transparency and accountability of state institutions and will positively affect monitoring BSS provision and effectiveness. The Standardised Set of Services programmes are also subject to evaluation by the RDAs, taking into account SME feedback.

One notable example of adapted monitoring mechanisms in place comes from the Council for Youth Entrepreneurship. The CCIS established the council with the aim of assisting SMEs in their first five years of operations. Choosing the five-year timeframe to monitor newly created SMEs is noteworthy as it gives the government insight into the viability of the enterprise in the long run. The survival rate of SMEs is equal to 60% after three years, 50% after five years, and just over 40% after seven years (OECD, 2019^[82]). Providing new SMEs with support in the first five years of operation ensures the enterprise survives longer and increases productivity.

There is room for improvement in terms of monitoring privately provided BSSs, as the government does not keep track of how many private BSS providers are operating in the market. There is also no centralised informational portal to raise awareness about private support services among SMEs nor a publicly available database of private service providers. As emphasised in the last assessment cycle, the lack of a centralised portal containing data on the private provision of BSSs can create information asymmetry among SMEs. Government support to identify the most suitable provider and assistance in obtaining services can prove significant in improving information accessibility (OECD et al., 2019^[73]). Due to the lack of data collection and failure to keep track of private BSS providers, monitoring proves less effective than in the case of public BSSs.

A limited accreditation procedure for private BSS providers hampers progress and reduces availability for SMEs

Private provision of BSSs is within the scope of RDAs. Accreditation powers are within the scope of work of the RAS. Any limited liability company that is majority-owned by a local government can apply for the accreditation to provide BSSs. The consultants within the RDAs are accredited by extension. While the approach of using the services of accredited consultants within the RDAs is noteworthy, it has some limitations, which were also addressed in the previous assessment cycle (OECD et al., 2019^[73]), namely the prohibitive approach to accrediting privately-owned companies and granting them RDA status.

The fact that the accreditation system is limited to limited liability companies that are majority-owned by local governments hinders the private provision of BSSs. It is only with government ownership of an enterprise that an entity can become an RDA and start providing support services for SMEs. As indicated in the last assessment's recommendations, SMEs would have a wider range of assistance available to them should accreditation also be given to privately-owned companies.

The Standardised Set of Services requires BSS beneficiaries to use the services of accredited consultants. RAS has a list of certified mentors who are employed in accredited RDAs at SMEs' disposal. The MSME Digital Transformation Support Programme for 2019 also relies on the use of accredited consultants to assist SMEs in their digital strategy development.

The process of granting RDA status has slowed since the last assessment cycle, partly due to the COVID-19 pandemic. In 2016 and 2018, there were 14 and 16 RDAs, respectively (OECD et al., 2019^[73]). In 2019 and 2020, that number amounted to 17, with the last RDA accredited in April 2019. While this may partly be attributed to the pandemic, which halted RAS operations in 2020, it can also point to the process being restrictive for privately-owned companies.

The way forward for Dimension 5a

- **Continue efforts to match business support service (BSS) supply with demand from SMEs.** Introduce a more thorough analysis of training needs among SMEs to better match government-provided services to what is needed in the sector, on top of applying feedback from previous programmes in future programme design. Introducing a self-assessment tool for SMEs to indicate their stage of development, as well as their BSSs demand and training needs, could lead to more aptly targeted and, therefore, more effective support services (Box 18.10).
- **Invite an independent institution to conduct a thorough review of public and private BSSs.** Independent assessment of the impact of available BSSs programmes according to key performance indicators would amplify Serbia's already well-developed monitoring and evaluation system for public BSSs and further improve the monitoring for private BSSs, which do not hold the same degree of scrutiny. By introducing an independent review, the government would gain a more comprehensive view of the BSS landscape in the economy and avoid overlap and duplication of programmes and services.
- **Extend the accreditation procedure to include more private-sector BSS providers.** While the accreditation system in Serbia is noteworthy, it lacks inclusivity of consultants and service providers, which are privately owned, as opposed to majority-owned by local governments. Building on the already operational accreditation system for RDAs, the government could introduce an accreditation system for the private sector, allowing a greater degree of variety for SMEs and ensuring a high quality of private BSSs. Introducing education and experience requirements would be a good first step for extending the accreditation practice to private providers. Both the government and international development co-operation partners should conduct a survey of SMEs' current needs relating to BSSs and tailor the accreditation requirements, such as experience or education, to the survey's results. Interagency co-operation between the

government, RDAs and recognised educational and professional associations would enhance the accreditation system and make it more inclusive and comprehensive.

- **Introduce government tools to assist SMEs in accessing privately provided BSSs.** At the time of the assessment, Serbia did not have a centralised portal to inform SMEs about the private BSSs available to them. The government could assist SMEs in selecting a private provider, which is the most suitable, however with caution not to cross a line of recommending one in particular. The database should be available to the public free of charge and promoted among SMEs through awareness-raising initiatives.

Box 18.10. Business support services in Ireland

Ireland has a comprehensive strategic framework for government provision of BSSs. As a first point of information, SMEs can access an online portal to assist them with support measures tailored to every stage of development. Upon entering the website, SMEs are asked probing questions, which aim to establish the level of support needed by sector, stage of development and location. “Supporting SMEs Online” is a comprehensive first step for SMEs aiming to access particular BSSs. This approach is also a useful tool for SMEs to self-assess their need and demand for BSSs, contributing to better-targeted support measures.

Like Serbia, Ireland’s provision of BSSs is executed through a number of government-operated agencies. These agencies largely rely on external private-sector consultants to support SMEs. Ireland has a network of Local Enterprise Offices, which are available on a walk-in basis, greatly facilitating access to advisers and BSSs. Start-ups and microenterprises can make an appointment for tailored counselling through a Business Advice Clinic and access private-sector consultants available for mentoring sessions. Services from private-sector providers are monitored from the angle of efficiency, effectiveness and SME satisfaction.

Serbia could replicate this approach, using its established network of RDAs and extending their skills to support microenterprises and newly formed SMEs. Expanding the support provided by RDAs to include similar “clinics” for SMEs to have access to private-sector consultants available free of charge would provide entrepreneurs and SMEs with a more comprehensive support package.

Source: OECD (2019^[82]).

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increased participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore consider the unique needs of SMEs, as they are disproportionately affected by complex procedures and often discouraged by the effort needed to take part in these procedures, for an uncertain outcome.

A significant increase in the value of contracts awarded by means of negotiated procedure without prior publication was reported in Serbia (15% of the value of contracts) in the second half of 2020. In the opinion of the Public Procurement Office, this was caused by the COVID-19 pandemic and the need to contain its consequences by the contracting authorities (OECD, 2021^[60]). The pandemic probably also affected co-ordination between various institutions responsible for public procurement (OECD, 2021^[60]).

Serbia scores 4.25 for this dimension, which is the second-best score in the region (Table 18.15). It also represents significant progress compared to 2019, when it scored 3.52, one of the weakest in the region. This improvement is mainly due to the adoption of the new Public Procurement Law (Government of Serbia, 2019^[83]), which provides for equal treatment of all economic operators (and the abolishment of domestic preferences), the establishment of an electronic procurement system (a new public procurement portal) as well as improvements in the organisation and conduct of review procedures. On the other hand, there have been a number of setbacks and challenges, such as a significant increase in the value and number of contracts awarded without a call for tender, the application of special procedures for major infrastructure projects or the award of contracts on the basis of international agreements with third economies instead of applying general public procurement regulations.

Table 18.15. Serbia's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Serbia	WBT average
Dimension 5b: Public procurement	Planning and design	4.69	4.16
	Implementation	4.32	4.15
	Monitoring and evaluation	3.40	3.27
	<i>Weighted average</i>	4.25	3.98
Serbia's overall score for Dimension 5b		4.25	3.98

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The Program of the Development of Public Procurement in the Republic of Serbia for 2019-2023 (Public Procurement Office, n.d.^[84]) was adopted by the government in November 2019. In December 2019, the new Public Procurement Law (PPL) (Government of Serbia, 2019^[83]) was adopted and entered into force in July 2020. The new PPL is highly compliant with the EU 2014 Procurement Directives and removes the shortcomings of the previous legislation, in particular as related to the application of domestic preferences. Since July 2020, the transparency of the public procurement system has been ensured by the new Public Procurement Portal (Public Procurement Office, n.d.^[85]), which is used for communication between contracting authorities and economic operators, submission of requests and tenders by electronic means (e-submission), and their electronic evaluation.

The Law on Special Procedures for the Implementation of the Project of Construction and Reconstruction of Line Infrastructure Structures of Particular Importance to the Republic of Serbia (Ministry of Construction, Transport and Infrastructure, 2020^[86]) was adopted in February 2020. It applies to the main

infrastructure projects, usually of high value and international interest, and provides a few major derogations from the PPL, undermining the effective implementation of the PPL. It is not EU-compliant (OECD, 2021^[60]). Exemptions and derogations provided therein significantly reduce the transparency of the contract award process (OECD, 2021^[60]). In addition, in the case of projects based on international or bilateral agreements (outside the scope of the PPL), the selection of contractors and contract management often lack transparency. Intergovernmental agreements with third economies are used as justification for restricting competition and derogation from the basic PPL and the *acquis* (European Commission, 2021^[20]) (Table 18.6).

Table 18.16. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<p>Further align national legislation with EU rules and international best practice:</p> <p>Ensure that economic operators have access to public procurement on an equal footing regardless of their origin</p> <p>Remove restrictions on subcontracting, such as limiting the maximum share of the procurement contract that may be subject to subcontracting</p> <p>Extend the respective time periods for applying for public procurement legal protection measures in line with the EU Remedies Directive</p>	<p>The new Public Procurement Law (PPL) was adopted in December 2019: it enables all economic operators access to public procurement contracts regardless of their origin – provisions on domestic preferences were deleted; the 2019 recommendations concerning alignment of the legislation were implemented.</p> <p>The new PPL is compliant with the European Union's 2014 Public Procurement Directives and contains a plethora of solutions to enhance the participation of SMEs, in particular as regards documentary evidence. The new PPL, unlike the 2012 PPL, does not provide for limitations concerning the share of contracts which may be subcontracted.</p> <p>Review procedures envisaged in the new PPL are compliant with EU requirements, in particular as regards the applicable time periods and decisions of the procurement review body.</p> <p>Adoption of the Law on Special Procedures for the Implementation of the Project of Construction and Reconstruction of Line Infrastructure Structures of Particular Importance to the Republic of Serbia, adopted in February 2020, is, however, a major setback as regards aligning Serbia's procurement rules to the EU requirements. The law, applied to major infrastructure projects, provides for a number of derogations from rules on transparency, competition and legal protection.</p> <p>Moreover, in the case of projects carried out based on international or bilateral agreements, the procedure for selecting the contractor, selecting and awarding design contracts, preparing and controlling planning and technical documentation, project management, supervision of the project, execution of works, and technical inspections of the structure are to be governed by the rules defined in those agreements rather than those in the PPL.</p>	Strong
<p>Introduce a fully electronic public procurement system, including communications as well as tender submissions or requests to participate by electronic means</p>	<p>A fully electronic procurement system was introduced. The new Public Procurement Portal was launched on 1 July 2020 and ensures fully electronic communication between contracting authorities and bidders, including for the submission of bids. The 2019 recommendations concerning e-procurement have been implemented.</p>	Strong

The public procurement market covered by transparent rules is shrinking and less competitive

The value of the public procurement market in Serbia shrank to 6.88% of GDP in 2020, from 8% in 2019, whereas the average number of bids in 2020 was 2.6 per tender, which is a bit lower than the 3 average bids in 2019 (European Commission, 2021^[20]). In comparison, in the early 2000s, the average number of bids per procurement procedure was eight to nine (PPO, 2003^[87]). The value of contracts exempted from public procurement procedures has significantly increased, from EUR 450 million in 2019 to EUR 1.7 billion in 2020 (European Commission, 2021^[20]). The share of procedures without previous publication of a contract notice in 2020 amounted to 7.42% but was much higher in terms of the value of

contracts awarded through such procedures, at 23.28% (PPO, 2020^[88]). Contracting authorities are predominantly using price as the only award criterion. The share of contracts awarded based on the best price-quality ratio decreased from 10% in 2019 to 5% in 2020 (European Commission, 2021^[20]). SMEs represented 85% of all economic operators applying for contracts through the Public Procurement Portal in 2020, and the share of contracts awarded to SMEs in 2020 amounted to 79% for contracts awarded under the previous PPL and 45% for contracts covered by the new PPL.⁴⁵

The regulatory framework is EU-compliant as regards the Public Procurement Law but allows for special regulations for major infrastructure projects

The public procurement regulatory framework is based on the principle of competition, the prohibition of discrimination, transparency, equal treatment of economic operators, proportionality, and cost-effectiveness and efficiency. The new PPL is highly compliant with the 2014 EU Procurement Directives and removes the shortcomings of the previous legislation, in particular preferential treatment of domestic bidders. The PPL requires the application of mandatory grounds of exclusion and enables contracting authorities to apply optional grounds of exclusion (compliant with EU requirements). Economic operators who are subject to exclusion may use a so-called “self-cleaning” mechanism by adopting various measures to demonstrate their reliability to the contracting authority.⁴⁶ The new PPL provides various solutions to support the participation of SMEs in procurement processes. Contracting authorities may divide contracts into lots and, in the case of procurements exceeding the EU thresholds, they have an obligation to justify a decision not to do so. In principle, fulfilment of criteria or requirements set by contracting authorities may be proved by submission of a standardised self-declaration (based on the EU European Single Procurement Document), which as a preliminary proof replaces documents or certificates issued by public institutions and third parties. Only the bidder whose offer is evaluated to be the best is requested to provide supporting documents before the conclusion of a procurement contract. Such documents are not required, however, if the value of the contract is less than RSD 5 million (approximately EUR 43 000).⁴⁷ The PPL also contains provisions on the reliance of bidders (candidates) on third-party resources,⁴⁸ subcontracting⁴⁹ and joint bidding (submission of a tender by a group of economic operators).⁵⁰

The PPL also contains provisions related to sustainable procurement (as provided for in the EU Procurement Directives) and allows or even requires environmental or social considerations to be taken into account. Those provisions relate to describing the object of the procurement, requirements concerning qualification or award criteria, or contract performance conditions.

When performing public procurement contracts, economic operators are obliged to observe obligations concerning the protection of environmental, social and labour laws and duties stemming from collective agreements, as well as with the provisions of international law related to the protection of the environment and social and labour rights.⁵¹ The PPL contains provisions concerning reserved procurement⁵² as well as the application of labels in the description of the object of the procurement, i.e. requiring that goods or services fulfil special environmental or social characteristics.⁵³ Economic operators are subject to exclusion from public procurement procedures due to a breach of binding environmental, social or labour legislation.⁵⁴ Social or environmental requirements can also be included among the criteria for selection of the best tender.⁵⁵ Compliance by the bidder with the relevant obligations is also assessed in the procedures to verify whether the tender is not abnormally low.⁵⁶ Finally, the PPL and its implementing regulations regulate specific procedures for social and other special services.⁵⁷

These very positive recent developments in Serbia’s public procurement system are affected, however, by the adoption of the special law mentioned above. This special law is applied to line infrastructure projects which normally are of high value and international interest, called “special importance projects” (Ministry of Construction, Transport and Infrastructure, 2020^[86]). The procurement necessary for implementing such projects is, in principle, conducted on the basis of the PPL, but with some major modifications and exceptions, such as those related to prior notices, the manner of proving mandatory and additional conditions for participation in the public procurement procedure, deadlines for the submission of bids, and

a possibility to conclude the contract without respecting a standstill period (OECD, 2021^[60]). Moreover, in the case of projects carried out based on international or bilateral agreements, the procedure for selecting the contractor, selecting and awarding design contracts, preparing and controlling planning and technical documentation, project management, supervision of the project, execution of works, and technical inspections of the structure are to be governed by the rules defined in those agreements (OECD, 2021^[60]). In general, application of the PPL's provisions with regard to such projects is quite limited. The lack of transparency in procurement under this special law and bilateral agreements is perceived to be a major obstacle in procurement development by Transparency Serbia (OECD, 2021^[60]).

The institutional set-up ensures support to contracting authorities and economic operators, but monitoring is insufficient for some major infrastructure projects

The Public Procurement Office (PPO, n.d.^[89]) is responsible for providing expert assistance to contracting authorities and economic operators; and preparing guidelines, manuals and other publications in the field of public procurement. It operates a call centre (helpdesk) which allows economic operators and contracting authorities to ask questions on public procurement procedures as well as on the use of the Public Procurement Portal.

Monitoring the participation of SMEs in the public procurement market has been improved. Contract award notices must now disclose whether the awarded economic operator is an SME or not. These data enable further defining activities to improve the level of SMEs' participation in public procurement. The new Public Procurement Portal should allow the PPO to collect data on the participation of microenterprises and SMEs in public procurement procedures, the number and value of the contracts awarded to them as well as other parameters in accordance with the new features of the portal. The PPO is obliged to provide information about the level of participation of SMEs in the public procurement market in its annual reports. Indeed, thanks to the establishment of the new Public Procurement Portal, more information about economic operators is now available; for instance, according to information provided by the PPO in 2020, SMEs represented 85% of bidders and were awarded contracts valued at almost 50% of the procurement transactions carried out through the Public Procurement Portal. However, the PPO does not monitor or gather data on procurement conducted under the special law (OECD, 2021^[60]). Those contracts and their values are not included in the annual reports, and their importance and influence on the procurement system cannot be properly assessed. The same is true for contracts concluded on the basis of international agreements (OECD, 2021^[60]). This lack of information does not allow a proper assessment of the impact of those rules on the public procurement market, and in particular, how it affects the participation of SMEs.

The transparency of the procurement system is ensured by the new Public Procurement Portal. The portal was developed with the support of an EU technical assistance project and was launched on 1 July 2020 at the same time as the new PPL. The portal is comprehensive and designed to support the entire public procurement process by enabling electronic communication among all parties involved at all stages of the procedure. Access to the portal is free of charge and allows users to conduct only those public procurement activities allowed under the PPL. It helps the PPO report on whether contracting authorities are fulfilling their duty to prepare and publish annual public procurement plans; prepare statistical reports about the functioning of Serbia's public procurement system; manage the portal and report on its performance; and track public procurement system operations.

Legal protection of the rights of economic operators is ensured, but effective review mechanisms are suspended for some major infrastructure projects

All economic operators having or having had an interest in obtaining a contract, irrespective of the value of the procurement and type of procedure, have the legal right to challenge the contracting authorities'/entities' decisions. The time limits for challenging the decisions, called the standstill period, and the mechanism for ensuring the ineffectiveness of the contracts are in line with the requirements of the *acquis*. The Republic Commission for Protection of Rights in Public Procurement Procedures (RCPRPP,

n.d.^[90]) is the first-instance independent review body in Serbia for both public procurement and public-private partnership/concessions procedures. It is an autonomous institution and is accountable only to the National Assembly.

The review procedure consists of two steps. The first step is a preliminary procedure conducted by the contracting authority/entity. The second is a procedure before the RCPRPP. The person seeking legal protection must pay a fee in the amount prescribed by the PPL, depending on the stage of the procedure and its value. Fees collected from the submission of appeals are relatively high, in particular with regard to low-value procurements.⁵⁸ High fees may discourage economic operators, and in particular SMEs, from seeking justice. There is a risk that due to the reluctance of economic operators to challenge the decisions of contracting authorities, some infringements of public procurement will remain undetected and without remedy.

The RCPRPP must take a decision on the request for legal protection within 30 days of the date of receipt of the complete documentation. Due to specific regulations, some major infrastructure projects are exempted from the obligation to suspend a procedure in the case that a request for protection of rights is submitted to the RCPRPP (OECD, 2021^[60]). Legal protection of bidders' rights is, thus, not fully ensured in those cases (OECD, 2021^[60]).

The way forward for Dimension 5b

- Promote the practical application of non-price criteria for the award of public contracts, in particular sustainable public procurement criteria, and by providing more support to contracting authorities (Box 18.11). This support should include informing public purchasers about the shortcomings and limitations of applying the price as the only award criterion, presenting advantages of quality criteria and providing practical advice by means of good practice examples, standard models and evaluation formulas. Finally, the application of quality criteria should be a prominent topic of training for procurement officers.

Box 18.11. Support to contracting authorities for applying non-price criteria

The EU Public Procurement Directive requires that contracts be awarded to the most economically advantageous tender from the point of view of the contracting authority.¹ This tender can be chosen based on price or cost alone or on the basis of the price-quality ratio when non-price criteria are also taken into account. According to the EU rules, preference between these two options is left to the discretion of the contracting authority. EU countries may, however, decide that contracting authorities may not use price (cost) only or restrict it to certain categories of contracting authorities or certain types of contracts.² Indeed, some economies use this option by introducing, for example, the maximum weight the price factor can have among the evaluation criteria.³ Other economies recommend a plurality of criteria to assess other elements of the offer than just the price.

Application of the price-quality criterion enables contracting authorities to obtain customised, innovative goods or services that perform better in terms of quality, with broader economic, social and environmental impacts. Although more expensive when simply comparing the purchase price, procurement based on price-quality criteria may be more cost-effective in the longer term, when the full life-cycle cost is considered². The use of the best price-quality criteria instead of the lowest price is often recommended as a tool to help SMEs gain an equal footing to public contracts. It is assumed that while SMEs may be at a disadvantage in delivering off-the-shelf mass products, they may be able to offer higher quality products or services or better adjust to the needs of the contracting authorities. However, the application of non-price criteria is not simple. Contracting authorities often have difficulty formulating

proper and meaningful quality criteria, including those involving strategic public procurement (green, socially responsible and innovative) and establishing a relevant link with the subject matter of the procurement.

In the **Slovak Republic**, the Public Procurement Office (PPO) is aware that non-price criteria are rarely used by contracting authorities due to a lack of knowledge for correctly applying and setting this type of award criteria. The Slovak PPO, therefore, established a Responsible Public Procurement project, financed by the European Economic Area and Norway Funds. The project's main goal is to increase awareness of price-quality criteria through methodologies and training to help contracting authorities set conditions correctly and thus increase value for money.

In **Poland**, the PPO's website contains a section dedicated to disseminating good practices in the field of public procurement. Contracting authorities that are more experienced in applying quality criteria may share their experience with other procurement practitioners by participating in a contest organised by the PPO on the best examples of quality criteria. Winning submissions, chosen by the PPO, are published on the PPO's website with practical comments.

To increase the application of price-quality criteria, the Serbian authorities, and in particular the PPO, should provide more support to contracting authorities. This support should include informing them of the shortcomings and limitations of applying price as the only award criterion, presenting the advantages of quality criteria and providing practical advice through best practice examples, standard models and evaluation formulas. Finally, the application of quality criteria should be a prominent topic of training for procurement officers.

1. Article 67 of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18.

2. *ibid*, Article 67 (2).

3. For example, Croatia, Lithuania and Poland.

Sources: OEAP (2019^[91]); Observatoire économique de la commande (2019^[92]); de Bas, P. et al (2019^[93]); European Commission (2021^[94]); Slovak Public Procurement Office (n.d.^[95]); Polish Public Procurement Office (n.d.^[96]).

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance is critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement private-sector financing, without crowding it out.

Like elsewhere across the world, the COVID-19 pandemic exacerbated the situation in Serbia, bringing access to finance to a sudden halt, especially for smaller firms that do not have large financial buffers. This required a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Within this context, Serbia has made some progress in facilitating access to finance for SMEs since the last assessment. Overall, Serbia's score has improved slightly, to 3.89 (Table 18.17), up from 3.72 in 2019. Notably, improvements have been made in capital market development and increasing efforts to facilitate start-up finance.

Table 18.17. Serbia's scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 6: Access to finance	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.20	4.27
		Registers	4.40	4.63
		Credit information bureaux	5.00	4.37
		Banking regulations	4.80	4.09
		Stock market	3.80	3.23
		Weighted average	4.47	4.20
	Sub-dimension 6.2: Bank finance	Bank lending practices and conditions	3.50	3.23
		Credit guarantee schemes	2.60	2.61
		Weighted average	3.15	2.98
	Sub-dimension 6.3: Non-bank finance	Microfinance institutions	2.00	3.37
		Leasing	3.70	3.24
		Factoring	3.50	2.71
		Weighted average	3.04	3.09
	Sub-dimension 6.4: Venture capital	Legal framework	3.70	2.73
		Design and implementation of government activities	3.00	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	2.83	2.40
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.00	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	2.60	2.50
Serbia's overall score for Dimension 6			3.89	3.68

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Access to finance for SMEs has eased in Serbia owing to impactful regulatory measures to address legacy obstacles in the financial industry, including foreign-indexed loans and high levels of impaired loans. Amid

the COVID-19 pandemic, several steps have been taken to ensure liquidity, and two sovereign credit guarantee funds have been established, which have seen good uptake. Nevertheless, access to credit continues to be disproportionately costly for smaller companies. Little progress has been made to diversify sources of finance, and significant gaps in the legal and regulatory framework continue to impede the development of microfinance and factoring. In contrast, several steps have been taken to introduce equity-based finance opportunities for start-ups, resulting in the adoption of a new Law on Alternative Investments, and legislation aimed at regulating crowdfunding is under preparation. No progress has been made to enhance financial literacy, and Serbia's previous dedicated strategy has expired. The economy's new Capital Market Development Strategy, however, does address elements of financial education.

Table 18.18 provides an overview of key actions undertaken in response to the recommendations outlined in the previous assessment.

Table 18.18. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Step up implementation of the Dinarisation Strategy	Dinar-denominated loans and deposits have increased since the last assessment, and further measures have been introduced to encourage dinar lending. Efforts need to be sustained to ensure momentum is maintained as COVID-19-related credit enhancement measures, which particularly supported local currency lending, will gradually be phased out.	Strong
Diversify sources of finance for SMEs	Uptake of non-bank financial instruments, with the exception of leasing, remains subdued amid an incomplete legal framework, while steps have been taken to broaden the range of equity-based finance. A new Law on Alternative Investments was adopted in 2021, embedding venture capital into a solid legal framework. Work is also underway to introduce legislation for crowdfunding.	Moderate

Serbia has a well-developed legal and regulatory framework in support of access to finance, ensuring financial stability and a gradual de-euroisation of the economy

Banking regulations have been aligned to Basel III principles since 2017, while amendments to the Bankruptcy Law, currently under preparation, aim to address existing bottlenecks linked to the duration and costs of bankruptcy procedures, thereby expected to further strengthen Serbia's legal framework for secured creditors. Progress has been made in implementing the NBS Dinarisation Strategy, first adopted in 2012 and revised in 2018. Foreign currency loans and deposits, or those indexed to the euro, continue to remain high, but the share of local currency loans and deposits is increasing (37% of loans in mid-2021) – in particular for corporate loans – amid measures to encourage local currency lending. Additional requirements on banks to discourage foreign currency lending, however, have been postponed, entering into force during 2022.

A solid infrastructure is in place to assess the creditworthiness of borrowers. A cadastre covering the entire territory, and a registration system for pledges over movable assets, have been in place for many years and are actively used by the banking sector. In 2019, the registry for movable assets was expanded to include contracts of sale and pledge agreements, and the registration of movable pledges is expected to be digitalised in 2022. Both systems are available on line, however, only to registered users. A private credit bureau, operational since 2004 under the initiative of the Serbian Association of Banks, covers 100% of all adults. It includes information from non-bank financial institutions but does not yet include information from retailers and utility providers. Nevertheless, Serbia's unique legal framework requiring personal consensus for any credit search somewhat impacts availability and usage.

Progress has been made to enhance capital market finance. The Law on Capital Markets was amended in 2020 to simplify listings, while a Capital Market Development Strategy and action plan were adopted in

2021, with the support of the EBRD. While successful showcases of initial public offerings are limited, the Belgrade Stock Exchange has increased its focus on encouraging SME listing in recent years and has launched a smart listing market for start-ups, though no listings have been made to date. In 2018, 20 companies expressed interest in raising capital via the Belgrade Stock Exchange through a joint project with the EBRD aimed at raising awareness and equipping SMEs with the knowledge and technical skills to access capital market finance. This has not yet yielded any results.

Access to finance has somewhat eased, though a limited level playing field continues to obstruct SME access to credit

Bank lending continues to dominate the financial sector, accounting for over 90% of total assets. The industry has further consolidated since the last assessment due to mergers and acquisitions, though the number of foreign banks has increased as a result of the privatisation of the largest remaining state-owned bank. Lending has accelerated amid continuously decreasing interest rates, although rates continue to be disproportionately higher for SMEs than for larger businesses. In response to the COVID-19 pandemic, the NBS intervened with targeted monetary policies to ensure the liquidity of the banking sector, which included purchases of government securities and swap auctions as well as a moratorium on payments. As a result, credit growth stood at 7.7% in March 2021, while SMEs accounted for over two-thirds of total corporate loans (European Commission, 2021^[20]). At the same time, further efforts have been made to reduce the legacy of high levels of non-performing loans, which stood at less than 4% in mid-2021 compared to 10% at the end of 2017, thereby further contributing to the strong performance of the banking sector.

In addition, in 2020, Serbia issued a new Law on Establishing a Guarantee Scheme, which enabled the creation of two dedicated SME credit guarantee schemes, aimed to help mitigate the impact of COVID-19 on the local economy and designed to guarantee loans for a combined amount of EUR 3 billion. Both guarantees include favourable lending conditions and additional incentives for banks to issue loans denominated in local currency. This has significantly contributed to the overall dinarisation trend in the local financial market, as described above, and boosted lending. Disbursement of the guarantees has progressed well, reaching over 25 000 SMEs by the end of 2021.

Serbia's Development Agency also offers financial support programmes. In 2021, the agency's overall budget for SME financial support scheme was around EUR 20 million, including for the purchase of equipment, start-ups and, since 2021, female and youth entrepreneurship.

Serbia has been a major beneficiary of the Western Balkans Enterprise Development and Innovation Facility. Since 2018, when it became the first beneficiary of a European Investment Fund national guarantee facility, the economy has received by far the largest number of investments under the Enterprise Investment Fund's direct investment facilities, reflecting the size of the economy, but also suggesting a solid level of investor readiness of Serbian companies.

Alternative sources of finance remain below potential, but efforts are underway to facilitate start-up finance opportunities

No progress has been made to diversify access to finance by encouraging the uptake of non-bank financial instruments. No steps have been taken to facilitate microfinance, despite previous plans to establish a legal framework for non-bank, non-deposit credit institutions, which would embed microfinance institutions' activities into a legal framework. A working group established in 2016 to review microfinance continues to monitor market developments but has not made any recommendations. A legal framework for leasing and factoring is in place, and amendments were introduced to the Law on Factoring in 2018. Recommendations made by the EBRD to further improve the framework are yet to be reflected. Leasing has gained some momentum, and assets have doubled since 2016, accounting for RSD 126.5 billion (approximately EUR 1.08 billion) at the end of Q3 2021, compared to RSD 93 billion (approximately EUR 790 million) at the end of 2018, and accounting for 2.2% of total financial sector assets (NBS, 2021^[97]). However, as

elsewhere in the region, leasing remains mainly used for vehicles. In contrast, uptake for factoring has decreased during the same period, from RSD 29 billion (approximately EUR 247 million) to RSD 24 billion (approximately EUR 204 million), further underlining shortcomings in the existing legislation (NBS, 2021^[97]).

Several steps have been taken to develop equity-based finance. A new Law on Alternative Investment Funds, which entered into force in May 2020, regulates both venture and private equity investments, clearly defining the types of investments, restrictions, time frames and calculations for subscriptions. This is an important milestone in Serbia's broader efforts to build an environment conducive to start-ups and innovation and builds further on work already done by the Serbian Innovation Fund. In addition, regulation on crowdfunding is currently under preparation and expected to be adopted by the end of 2022. In the medium term, this will further diversify financing opportunities for start-ups. Lastly, in 2020, the government adopted a new Law on Digital Assets, thereby enabling the development of digital assets, including through crowdfunding.

Efforts to promote financial literacy have somewhat stagnated

Little progress is evident regarding enhancing financial literacy levels of SMEs. The NBS's Financial Education Strategy (2016-2020), one of the first dedicated strategies in the region, has expired without plans to develop a successor, though the new Capital Market Strategy includes some aspects of financial education. The NBS continues to operate Tvoj Novac,⁵⁹ a web portal providing information about different financial products, banking terminology, loan calculators and other saving advice. During the pandemic, however, outreach and awareness-raising activities have been halted and had yet to resume at the time of writing.

The Association of Serbian Banks also actively supports the development of financial literacy. In 2018, together with the MoESTD and in collaboration with VISA, it launched an initiative to raise financial literacy in education. Subsequently, a handbook for primary school teachers was produced to introduce financial literacy into early education. However, to date, financial education has not been included in the national curriculum. The Association of Serbian Banks also disseminates other information material via its website.

The way forward for Dimension 6

- Continue implementing the Dinarisation Strategy. Maintain efforts made under the framework of the Dinarisation Strategy to sustain the gains as temporary COVID-19-related credit enhancement measures supporting dinar lending are gradually being phased out. Timely enforcement of the financial market requirements to discourage foreign currency lending, coupled with continued awareness-raising about the risks of foreign exchange exposure, especially for unhedged SMEs, will be important to maintain the momentum.
- Showcase the opportunities of capital market finance. In line with the new Capital Market Development Strategy, increase efforts to raise awareness about capital market finance opportunities and showcase successful initial public offerings. In addition, Serbia should seek to strengthen its investor base and further align local capital markets with the objectives and regulatory framework of the European Union's Capital Market Union. In the medium- to long-term, this could provide more non-collateral-based financing options for firms and could also help improve the reputation of the dinar as a long-term store of value, thereby supporting the implementation of the Dinarisation Strategy.
- Introduce a comprehensive legal framework to facilitate the uptake of non-bank financial instruments. Even though the Serbian financial sector is relatively mature by regional standards, legislation on microfinance would encourage the introduction of this type of finance in a regulated manner, benefiting otherwise unbankable microenterprises while maintaining tight regulatory

oversight. Further amendments to the Law on Factoring, coupled with awareness-raising in partnership with the financial sector, would support the development of factoring.

- Identify existing shortcomings in raising the financial awareness of SMEs. A comprehensive evaluation of the recently expired National Strategy for Financial Education Strategy (2016-2020) would help to identify shortcomings and lessons learnt from the implementation of the strategy. Such a review could also include a baseline assessment of the current level of financial education, particularly amongst SMEs, which should be conducted in line with international best practices.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, a high level of alignment with the *acquis* is a pre-condition for recognition of an economy's procedures and institutions by the relevant European QI bodies and associations.

Serbia sold two-thirds of its exports to the European Single Market in 2020, compared to 60% in 2010 (Eurostat, 2021^[98]). Hence, like the other WBT economies, alignment of its QI legislation and implementation with the *acquis* and procedures is very important for its economy. Furthermore, having the most developed QI system in the region is also a source of competitiveness for Serbian firms, as they have the largest scope of conformity assessment services available in the national market.

Serbia maintained its rank as the Western Balkan economy with the second highest score after Turkey in this Dimension at 4.44 (Table 18.19), which slightly lower than in 2019 (4.55). Serbia's performance remained comparable to the previous cycle as the economy continues to have a high degree of legislative alignment with the *acquis*, and its QI institutions have also further expanded their services and awareness-raising activities. The slight deterioration in score is due to a stronger focus on the evaluation process across sub-dimensions.

Table 18.19. Serbia's scores for Dimension 7: Standards and technical regulation

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	–	4.33	3.90
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	5.00	4.38
		Standards	5.00	3.77
		Accreditation	4.33	3.89
		Conformity assessment	4.71	4.26
		Metrology	4.38	4.13
		Market surveillance	4.47	3.96
		Weighted average	4.71	4.07
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	4.47	3.88
		SME participation in developing standards	3.50	3.21
		Financial support to SMEs	2.80	3.57
			Weighted average	3.59
Serbia's overall score for Dimension 7			4.44	3.96

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Overall, there has been moderate progress in the area of technical regulations and standards. Most notably, Serbia adopted a new Law on Technical Requirements and Conformity Assessment in May 2021 (Ministry of Economy, 2021^[99]), which introduced the Serbian conformity mark and important aspects such as the presumption of conformity procedure, further aligning its procedures with the *acquis*.

While not established yet, Serbia has made some preparatory steps towards the recommended establishment of a product contact point (PCP) that provides information about the requirements of technical regulations, with a particular focus on EU regulations (Table 18.20). Article 35 of the Law on Technical Requirements for Products and Conformity Assessment, which entered into force on 14 May 2021, provides the legal basis for the establishment of the PCP. Serbia is currently preparing an additional law specifically related to the PCP and is developing a single digital service tool for the efficient operation of the PCP. The PCP is expected to be operational by the end of 2022.

Progress regarding further regional co-operation on QI has been limited. While CEFTA (Central European Free Trade Agreement) announced that a mutual recognition agreement of technical regulations in selected priority sectors was planned until the end of 2021 (CEFTA, 2021^[100]), no new information has been published on this process so far. In addition to the regional co-operation within CEFTA, Serbia has bilateral co-operation agreements with some other Western Balkan economies (e.g. Montenegro), which enable the exchange of experts and joint training. However, these were already in place during the previous assessment.

There has been some progress regarding the translation of standards, which was the final recommendation from the 2019 assessment. The share of European standards remains stable at 10%, as previously reported in 2015. This can nonetheless be regarded as an improvement as the number of adopted European standards has increased substantially over the past years. Furthermore, the Institute for Standardisation of Serbia (ISS) provides a list of all standards undergoing translation and reports on the status of the translation process (ISS, 2021^[101]).

Table 18.20. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Explore collaboration with regional peers as a cost-effective way to ensure the provision of quality infrastructure services	In May 2021, CEFTA announced the conclusion of mutual recognition agreements of technical regulations in selected priority areas until the end of 2021, but this process has not been concluded yet. Serbia has bilateral co-operation agreements with its neighbouring economies in accreditation and standardisation (e.g. Montenegro).	Limited
Establish a product contact point	Serbia's new Law on Technical Requirements for Products and Conformity Assessment, adopted in May 2021, provides the legal basis for the adoption of the product contact point (PCP). Serbia is currently preparing an additional law specifically related to the PCP and is developing a single digital service tool for the efficient operation of the PCP, which shall be operational by the end of 2022.	Moderate
Increase the number of standards in Serbian	The share of translated standards remains at 15%, which can nonetheless be regarded as progress as the absolute number of adopted European standards increased over the past years. The Institute for Standardisation of Serbia has a list of all the standards undergoing translation and reports on the current status of each document.	Moderate

Note: CEFTA: Central European Free Trade Agreement.

Quality infrastructure is well-embedded in national strategy documents, but the strategy itself needs updating

Serbia's National Programme for the Implementation of the *acquis* (Ministry of European Integration, 2018^[102]) is the main document guiding its harmonisation process with the *acquis*. The chapter on the free movement of goods displays a table with the remaining horizontal and sectoral legislation to be aligned with timelines for each law. In addition, Serbia adopted an Industrial Policy Strategy (2021-2030) (Government of Serbia, 2020^[78]), which also states the additional harmonisation of quality standards and

industrial regulation with the *acquis* as an objective to increase the competitiveness of the Serbian economy. Despite QI apparently being a priority in Serbia's high-level strategy documents, its five-year QI Strategy, which expired in 2020, has not yet been renewed. As there have also been many new developments in QI in the European Union, such as the new Regulation on Market Surveillance in 2019 and the European Commission's 2022 Standardisation Strategy, an expired strategy poses the risk of the national policy objectives not being aligned with the most recent regional or global developments.

Regarding support programmes for exporters, the Serbian Development Agency (RAS) launched a pilot programme that supports product adaptation costs related to regulatory requirements. This pilot is currently restricted to the wood and food sector but will be expanded to other sectors in 2022.

There is a high degree of alignment with the acquis, but further broadening of accreditation services may require additional staff and resources

Serbia has achieved a high degree of alignment with the *acquis*, as around 75% of EU regulations have been transposed into Serbian legislation (International Trade Administration, 2021^[103]). In standardisation, Serbia continues to maintain a very high adoption rate of CEN/CENELEC (European Committee for Standardisation/European Committee for Electrotechnical Standardisation) standards, which increased from 98% to 99% during the assessment period. Furthermore, in 2020, the ISS adopted 2 032 European standards with a complete translation, which is an increase of 33% compared to 2019. Furthermore, courses on standardisation and QI are provided in educational institutions at both the university and vocational education levels.

In May 2021, Serbia also adopted an amendment of the Accreditation Law that further specifies the duties and the independence of the Accreditation Body of Serbia (ATS). Serbia has signed the European Co-operation for Accreditation Multilateral Agreement in six out of the nine accreditation fields, which is the second-highest share in the WBT region after Turkey. During the reporting period, the ATS also applied for an extension of scope for the field of "Proficiency Testing providers", and the European Co-operation for Accreditation conducted its assessment for this field in November 2021. Furthermore, the ATS is currently developing an accreditation scheme in the area of validation and verification. As there are no reference materials producers yet in Serbia, there is currently no need for developing accreditation services in this field. Despite the extension of its activities and the increase of accredited conformity assessment bodies under its supervision, ATS staff only increased by 1 employee, from 40 to 41, during the assessment period. Given the increased scope of supervision, strengthening its human resources would be desirable, as the ATS also suffers from a lack of experts for accrediting testing laboratories (European Commission, 2021^[20]). While understaffing may not be an imminent risk, it can have an impact on the completion of work plans and quality in the medium and long terms.

The number of accredited conformity assessment bodies increased by 16% during the assessment period (from 628 to 727). The obligations regarding certificates for conformity, which had constituted a technical barrier to trade, were repealed by Serbia for most directives. However, a small number of certificates of conformity still apply to imports of goods such as drones and toys and construction products such as cement and steel for the reinforcement of concrete and screws (European Commission, 2021^[20]).

The Directorate of Measures and Precious Metals (DMDM) continues to be a member of all major metrology associations (the European Association of National Metrology Institutes, WELMEC and the International Organisation of Legal Metrology) and recently became a member of the Hallmark Convention, which is an international treaty between states on the cross-border trade in precious metal articles. While a new Law on Precious Metals was adopted in 2021, the amendment process of the Metrology Law is still ongoing. The DMDM currently has 103 staff members, which is an increase of 10 employees compared to the previous assessment. Overall, metrology services were available without disruption during the COVID-19 pandemic, and the DMDM has also started to increasingly digitise its processes as part of the national e-government programme. Regarding the strategic framework, as metrology forms part of the

expired QI Strategy (2015-2020), an updated strategy that takes into account the most recent developments in metrology and sets new targets for the coming years would be important.

Market surveillance activities decreased during the COVID-19 pandemic, as the number of inspections more than halved, from 7 459 in 2019 to 3 409 in 2020. This is partially due to the lockdown from 22 March 2020 to 6 May 2020, which created additional demands for the Market Inspectorate, which carried out 2 059 reactive actions to monitor the COVID-19 provisions. The Market Inspection Unit of the Ministry of Trade, Tourism and Telecommunication publishes annual work plans, a safety checklist for many products as well as a digital registry that lists all unsafe products, which allows for a keyword search and other filter functions. Compared to other WBT economies, this is a very broad information offering which informs both consumers and producers of the prevailing safety requirements.

Access to standards broadened in collaboration with the chamber of commerce and financial support is available via Serbian Development Agency

Serbia's performance in raising awareness continues to be high compared to the other WBT economies. To raise awareness outside the capital, the ISS operates six information centres in the towns of Subotica, Novi Sad, Kragujevac, Valjevo, Nis and Zajecar since 2018. Furthermore, companies can view standard documents free of charge at the premises of the Serbia Chamber of Commerce, which has a vast network of 17 representations in the economy. Both the Chamber of Commerce and the ISS organise training events on the implementation of standards. The ISS also started to publish a quarterly newsletter in 2021.

To further increase the participation of SMEs in the development of standards, the ISS amended its internal rules to allow SMEs to participate as observers in the national technical committee meetings and organised online committee meetings. Observing or even actively participating in the standards development process can be very beneficial for SMEs, as they are able to bring their experience into the development of a standard and raise awareness of elements that are very important for them. This, in turn, can make it easier for them to comply with the standard once it is published.

The Serbian Development Agency's Export Promotion Company Support Program offers financial support that also covers implementation-related costs of standards. More specifically, up to 60% of the costs (capped at around EUR 25 000 per firm) can be reimbursed under this programme. There is no information on this programme on the ISS or TEHNIS websites, which would be beneficial as these are the main websites informing about standards and technical regulations in Serbia.

The way forward for Dimension 7

- **Improve interlinkage of information about existing quality infrastructure support for firms.** The Serbian Development Agency has various export support services funded by several international development co-operation partners. Many of those programmes have components that help companies comply with international standards, but they are not always communicated across the different QI institutions. Creating a support programme registry, as is done in Turkey (Box 18.12) or listing these projects directly on the TEHNIS platform and promoting them through the communication channels of the ISS would further improve the exposure of these programmes.
- **Update the Quality Infrastructure Strategy.** Serbia has documented its main objectives for the alignment with the acquis and for the extension of its QI services in the National Programme for Integration and further underlined its importance in the National Industrial Policy Strategy (2021-2030). Consequently, it would be important to renew its expired QI Strategy to specify its QI-related objectives in more detail and provide guidelines for the different QI institutions.
- **Increase translation of standards and continue to improve SME committee participation.** ISS has been making important progress by amending rules to foster the participation of SMEs, but additional steps should follow to assure sufficient participation in standards development. For example, financial support for travels or third-party presentations via SME associations could be

introduced to assure that SMEs more easily participate or at least have their interests represented in technical committees. To also improve access, full-text translation of standards should be prioritised as 15% still represents a small share of translated documents. ISS could consult its members to identify the standards for which translation is most relevant.

Box 18.12. A search engine that lists all government support programmes in Turkey

All WBT economies have some form of (export) support programme that assists firms, either financially or through some in-kind services, to meet the requirements of international standards or regulations. However, these projects are offered by a large array of institutions, such as ministries, special agencies, business or trade associations, or projects directly managed by international development co-operation partners. It is, therefore, often very difficult for firms to even know about all of the programmes and support lines that exist.

To address this information access challenge, Turkey's Ministry of Industry and Technology has developed a website that lists a total of 257 government support programmes across different agencies and which allows users to search for these programmes using keywords as well as institutional or geographic filters. Each search entry contains the name of the programme, a status indicator showing whether the programme is still active or not, application deadlines and dates, as well as a direct link to the key documents that describe the programme. Users are able to share this information via email or social media, and there is also a direct contact form where one can ask questions or send comments about the programme.

The possibility to filter the different support programmes by institution or geography makes this a very useful tool, as it allows firms to quickly identify which support programme may be relevant for them. The platform's second success factor is its direct embedment of documents, which lowers the search costs for firms, as they have the key information directly available on the platform without having to browse the respective agencies' webpage. Hence, while having some upfront set-up costs, once it is in place, such a platform greatly reduces search costs while improving the visibility of government support programmes, particularly for agencies or institutions whose website is not so frequently visited by firms.

As Serbia also has a variety of support programmes offered by many different agencies or ministries, such as the Serbian Development Agency, the Serbia Chamber of Commerce as well as ministries, having such a platform may also be beneficial for Serbian firms seeking financial or technical support. To create economies of scale, it makes sense to list all government support programmes, not only those relating strictly to SMEs or export development.

Source: Turkish Ministry of Industry and Technology (2021^[104]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and economies.

The Serbian economy is recovering from the challenges of the COVID-19 pandemic, which negatively affected the SME community and, disproportionately, women and youth in an economy where these demographic groups are already disadvantaged in the labour force (World Bank, 2021^[105]). The overall picture for enterprise skills in Serbia is good, however, with comprehensive support for enterprises at different phases of their development and a reasonable range of thematic training available to support the skills of both founders and employees.

Serbia's score for this dimension is lower overall than in the previous assessment (when it scored 3.95) (Table 18.21). The reasons for this are linked to the evolution of the assessment towards a focus on digitalisation, sustainability, the circular economy and the green transition. This change illustrates the areas still needing further development in Serbia. Recent statistics show a lack of digitalisation, for example, with only 27% of Serbian SMEs using advanced digital software, compared to 35% across the European Union.⁶⁰ The timing of the assessment also just precedes the development of the new SME Strategy where actions related to priority themes are anticipated; its publication is expected by the end of 2022. Nevertheless, Serbia remains one of the regional leaders in this area.

Table 18.21. Serbia's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Serbia	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.75	2.86
	Implementation	3.88	3.85
	Monitoring and evaluation	3.00	2.67
Serbia's overall score for Dimension 8a		3.66	3.32

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Activity supporting enterprise skills development and implementation slightly deteriorated since the last assessment (Table 18.22), and expansion of the training offer or increased co-ordination is not evident. There is strong provision of support, mentoring and financial subsidies for those seeking to become self-employed, as well as support for businesses seeking to grow. Skills intelligence is available and is used to inform policy development, though there is no national database of indicators nor a coherent approach combining quantitative data and evaluation of relevant actions.

Table 18.22. Implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Strengthen the role of the Council for SMEs, Entrepreneurship and Competitiveness	The Council for SMEs, Entrepreneurship and Competitiveness remains active, though information is lacking on the evolution of its role and responsibilities.	Limited
Consolidate all available monitoring and evaluation data	This remains an area where a co-ordinated approach to monitoring and evaluation across the different agencies involved could provide a valuable evidence base for policy development.	Limited
Prepare evaluation reports	Progress is observed in this area, with a comprehensive <i>ex post</i> analysis of the 2011-2020 Employment Strategy and a commitment to producing an <i>ex post</i> analysis for the 2015-2020 SME Strategy.	Moderate

Skills intelligence is underdeveloped and requires a co-ordinated, system-level approach

The recently launched Industrial Policy Strategy (2021-2030) (Government of Serbia, 2020^[78]) highlights the growing skills gap in Serbia, while wider strategies, such as the Employment Strategy (2021–2026) (Government of Serbia, 2021^[106]) and the Smart Specialisation Strategy (2020-2027) (S3) (Government of Serbia, 2020^[36]) address the need for enterprise skills. The research behind these strategies, such as the *ex post* analysis of the Employment Strategy (2021–2026), highlights a need to monitor and evaluate the economy's skills intelligence. There is a lack of a national skills intelligence framework to bring together relevant data sources, which reduces insight into Serbia's skills gaps and mismatches. For example, the Economic Reform Programme does not yet focus on training for specific sectors, nor does it highlight training to support the skills needs of S3 priorities. A move towards more comprehensive skills intelligence is needed to guide matching lifelong learning to the national and local needs of SMEs and the labour market and to ensure the skills needed to support priority sectors identified in the S3.⁶¹

There is a good quality offer for enterprise skills at the national level, with a need to develop a stronger focus on digital and green themes

Start-up training is provided by different government providers, including the National Employment Agency⁶² and RAS.⁶³ There is a comprehensive offer from the National Employment Agency to encourage and support aspiring and new entrepreneurs, providing financial subsidies,⁶⁴ mentoring and start-up training as an active labour market measure for the registered unemployed. This is a commitment in the Action Plan (2021–2023) (Government of Serbia, 2021^[107]) that accompanies the new Employment Strategy (2021–2026) (Government of Serbia, 2021^[106]), which links support from the National Employment Agency and RDAs. Entrepreneurship subsidies are granted via a business plan assessment, and priority is given to the following unemployed categories: under 30s, women, workers who have been made redundant, the Roma and people with disabilities.

RAS leads the delivery of SME training through the Standardised Set of Services for SMEs programme in collaboration with accredited RDAs, which is also of good quality and covers four groups of standardised services: information, training, consulting and promotions. Moving forward, enterprises will need a new breadth of training, including on the standard themes of green transition, sustainability and digitalisation from the outset.

There is a need to upscale training to support sustainability, the circular economy and the green transition, with only 72% of SMEs taking resource efficiency measures, compared to an EU average of 89%, and only 17% offer green products and services, compared to 25% across the European Union. The Development Fund offers grants to entrepreneurs or MSMEs for diverse business improvements, including new software or IT equipment, or to support energy efficiency by purchasing new machines or equipment.⁶⁵

Practical training for enterprises and their employees on sustainable business practices, resource efficiency or the circular economy is rather limited (see Dimension 9 on SMEs in a green economy). There are commitments toward training for SME employees in the Roadmap for Circular Economy in Serbia (Government of Serbia, 2020^[108]), but evidence is not yet available on implementation. A stronger emphasis on the green transition and the green economy would widen the potential to expand green industries and technologies in Serbia.

On the other hand, innovative actions are taking place to drive digitalisation in Serbia. New strategies have been developed to support digitalisation and related themes, including the Strategy for Digital Skills Development (2020-2024) (Government of Serbia, 2020^[109]), which is closely aligned with DigComp.⁶⁶ It includes actions to develop digital competences needed in the labour market, including for SME employees. The Strategy for the Development of Artificial Intelligence (2020-2025) (Government of Serbia, 2020^[68]) was also launched during this assessment period.

Two national initiatives support digitalisation for enterprises. First, there is the Speed2.0 initiative, which is a set of tests developed by the Centre for Digital Transformation on digital immunity, digital competitiveness and artificial intelligence (AI) readiness,⁶⁷ which enables companies to gain insight into how ready they are for the digital transformation required in the post-COVID business environment. Second, the Digital Transformation Support Programme for MSMEs, funded by RAS in co-operation with the Centre for Digital Transformation, offers access to a consultant to support an assessment of digital needs in the MSME, development of a digital transformation strategy and support for the practical requirements identified in the strategy.⁶⁸

While these actions are important and provide significant support to SMEs, there is no wider evidence of practical training for SME employees in digital competences. SME employees can be catalysts of digital change if they are upskilled to support SME digitalisation. It is expected that this would be addressed and monitored within the upcoming SME Strategy and would align closely with commitments in the Strategy for Digital Skills Development (2020-2024) to deliver training for SME employees.⁶⁹

While there is evidence of monitoring and evaluation of training provision, this is not comprehensive nor collated to provide a more rounded picture of results and impact arising from government-financed provision. Gender-disaggregated data are not widespread in the monitoring process, nor has there been a gender impact assessment on the implementation.

Quality assurance across the provision of business advice and support is an ongoing challenge

While the provision of business advice and support is good, the practical implementation and user experience can vary in quality. Any informal training provider or business consultant can offer services; there is no requirement for providers to supply evidence of their expertise; and there is no provider accreditation process. With no mechanisms in place to address or monitor the quality of delivery, learning outcomes may not be consistent or adequately verified. Furthermore, skills certification is fragmented, localised, and often not aligned with the national qualifications framework. Improving skills certification would support a more transparent picture of learning levels and learning outcomes. While quality assurance across diverse providers can be challenging to introduce, there can be benefits for the end-user in terms of validation, recognition and portability of lifelong learning activity, including for SME employees.

The way forward for Dimension 8a

- **Designate a body to lead the co-ordination and development of an action plan for SME skills intelligence.** While skills intelligence is being developed in Serbia, there is a need for a co-ordinated approach to understanding current and future skills needs. A more comprehensive, system-level approach, such as a national SME training needs assessment and analysis of skills mismatches across key sectors (including but not limited to S3 priority

sectors), would support better alignment of lifelong learning and SME training provision to match labour-market needs. Clearly defined indicators for SME skills intelligence would guide future monitoring and evaluation of SME skills at all levels. This should be supported by a comprehensive action plan approach to developing, implementing, monitoring and evaluating actions.

- **Expand existing training to include courses related to green and digital transition for SME employees.** This should include the themes of sustainability for SMEs, resource efficiency and the circular economy, and the implementation of the commitments to support employee digital skills made within the Strategy for Digital Skills Development (2020-2024). To widen access to these offers, action could be taken to include links to training offers available to employees through the enterprise portal.⁷⁰
- **Develop quality assurance mechanisms to ensure quality delivery of SME training for both entrepreneurs and employees.** Suggested routes could be to create a centralised registration system of training providers that has specific requirements concerning expertise and training accreditation and includes a competitive bidding process, or through the more expensive route of creating a national accreditation framework (see Box 18.13 for an example from Ireland).⁷¹ This work could be linked to wider strategic priorities. In the sphere of digital skills development, the Strategy for Digital Skills Development (2020-2024) has identified the need for certified or accredited training programmes in the field of digital skills and a self-assessment tool for citizens.⁷²

Box 18.13. Skillnet Ireland: Providing structured access to SME training with built-in quality assurance and evaluation

Skillnet Ireland was created to develop and implement government-financed training initiatives in Ireland. It is a non-profit company supported by annual funding from the Irish Department of Education and Skills. It acts as a facilitator and funding agency for over 100 training networks across the country, structuring, supporting and co-ordinating their efforts to provide effective and tailored training relevant to enterprises and their local contexts.

Each training network is run by a contracted organisation, usually an industry federation or a business association. Each one is responsible for identifying and implementing training, monitoring and evaluating delivery, and sharing good practices.

Skillnet Ireland and its training networks act as a broker between education and companies. Companies with similar needs are networked together and make a proposal to Skillnet explaining their need for skills development. If Skillnet accepts, then Skillnet provides a grant of 50%, with the other 50% coming from the network of companies itself. Skillnet matches the skill need with their educators' network; provides mentoring, coaching and ongoing strategic support; and independently evaluates every training programme. They are also responsible for providing performance indicators and quality standards for training activities engaged in by companies.

All training is delivered by external training providers selected through a competitive tendering process, ensuring quality assurance is built into the process. Skillnet is a significant network, reaching 6% of all companies in Ireland.

The training networks facilitate training that is more tailored to SMEs rather than large companies. Bringing companies together with similar needs offers a route to pooling resources and brings down the costs for each participating SME. Evaluation is built in, as is the quality assurance process, to ensure effectiveness and impact.

The process strengthens SME ecosystems by bringing SMEs together into groups based on skills needs. It offers structured skills development for founders and staff, tailored to their requirements. It is time-efficient as Skillnet identifies the training providers. Finally, as mentioned above, evaluation is built in, as is the quality assurance process, to ensure effectiveness and impact.

Sources: Skillnet Ireland (2021^[110]) and Capgemini Invent, European DIGITAL SME Alliance, Technopolis Group (2019^[111]).

- **Establish comprehensive monitoring and evaluation of all programmes related to SME skills, including a strong gender focus.** A high-quality and co-ordinated approach to monitoring and evaluation is needed to measure progress towards the impacts outlined in linked strategy documents. This work should be supported by consistent gender-disaggregated data gathered from government-financed SME support and training actions and should inform a gender impact assessment of the current approaches to enterprise skills and support. This will address and seek solutions for the current challenges faced by women across the labour market and entrepreneurship (Government of Serbia, 2020^[112]).

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

In Serbia, enhancing innovation has been a policy priority for several years now, and the economy has made further progress in encouraging SME innovation since the last assessment, improving its score from 3.33 in 2019 to 4.00 in 2022 (Table 18.23), thereby overtaking North Macedonia but continuing to perform below Turkey. In particular, progress has been made with regard to further strengthening the innovation policy framework and the availability of financial support.

Table 18.23. Serbia's scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.62	3.81
		Implementation of innovation policy	4.40	3.31
		Co-ordination of innovation policy	4.12	3.30
		Weighted average	4.41	3.46
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.96	3.27
		Technology extension services for established SMEs	2.55	2.14
		Weighted average	3.40	2.82
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.68	3.81
		Indirect financial support	2.60	2.26
		Weighted average	3.85	3.19
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	4.00	2.85
		Institutional infrastructure for business-academia co-operation	3.88	2.99
		Intellectual property rights	3.80	3.05
		Weighted average	3.91	2.95
Serbia's overall score for Dimension 8b			4.00	3.18

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The European Innovation Scoreboard 2021⁷³ classifies Serbia as an emerging innovator, scoring higher than all other WBT economies. Further progress has been made to strengthen the economy's strategic policy framework for innovation, and implementation capacity has been boosted through the establishment of a dedicated Science Fund. Despite the increasing complexity, however, co-ordination across different stakeholders charged with implementation and strategy oversight has not been amended. Progress has been made to strengthen the ecosystem for innovation; however, measures in this area focus strongly on start-ups. Financial support, including from the state budget, has increased significantly, with the new Science Fund complementing funding provided by the Serbian Innovation Fund. In addition, some indirect financial support measures have been introduced. Steps have also been taken to strengthen linkages

between academia and businesses, but results have yet to materialise, and further efforts will be needed to stimulate co-operation.

Table 18.24 provides an overview of measures Serbia has taken in response to the recommendations for this dimension made in the previous assessment.

Table 18.24. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Scale up financing for innovative SMEs by introducing indirect financing instruments	Funding availability for innovative SMEs and research and development (R&D) has increased substantially in recent years. The Innovation Fund operates large-scale and diverse support programmes, and the newly established Science Fund, supported by a new Law on Science and Research, is expected to administer more than EUR 40 million worth of grants between 2020 and 2024. Some progress has been made in introducing indirect financial support measures in the form of innovation-favouring procurement and tax relief on R&D for start-ups; however, overall investments into R&D remain stagnant, at around 0.9%.	Strong
Further improve co-ordination of innovation policies	Implementation of the policy framework continues to be complex, with multiple ministries, advisory bodies and implementation agencies involved. Compared to the previous assessment, the number of stakeholders has increased (the Science Fund and the Council for Encouraging the Development of Digital Economy, Innovation, High-tech Entrepreneurship and Digitalisation in Business), but the co-ordination mechanism has not been revised.	Limited
Improve monitoring and evaluation in all government programmes	An independent evaluation of some of the Innovation Fund's programmes in 2020 has confirmed the effectiveness of the Innovation Fund as an implementation tool for Serbia's innovation policy framework, and the fund continues to implement projects with a strong monitoring and evaluation methodology in place. However, further efforts are needed to expand this best practice to other government programmes and to ensure that lessons learnt are incorporated into existing measures and reflected in the design of new tools.	Moderate

Innovation policy implementation is guided by a strong and comprehensive framework

Serbia has a well-developed policy framework supporting innovation and has made further progress since the last assessment. The new Strategy on Scientific and Technological Development of the Republic of Serbia for the period 2021-2025, "Power of Knowledge", was adopted in February 2021, succeeding the previous Innovation Strategy. It complements the Smart Specialisation Strategy (2020-2027), adopted in 2020 with the support of the European Commission's Joint Research Centre, as well as the Strategy for the Development of Artificial Intelligence, adopted in 2019 for the period 2020-2025. In addition, in 2021, the Strategy for the Development of Start-up Ecosystems was adopted for the period 2021-2025 and aims to create a national strategic framework to increase the number and quality of domestic start-ups.

Co-ordination of implementation of the innovation framework remains somewhat complex. While the MoESTD leads the overall design and implementation of innovation policy and is responsible for budget allocations in this area, the Ministry of Economy leads in some aspects. Horizontal co-ordination is supported by the National Council for Science and Technological Development, which mainly focuses on scientific research, and the Council for Encouraging the Development of Digital Economy, Innovation, High-tech Entrepreneurship and Digitalisation in Business, newly established in 2021 under the auspice of the Prime Minister. Nevertheless, some monitoring is in place, and Serbia's statistical office implements biannual innovation surveys, which is an important tool to ensure that policy implementation is regularly monitored and action plans can be adjusted in a timely manner. However, to date, there is no independent evaluation mechanism in place, except for the Innovation Fund, which engaged an independent evaluator

for its programmes in 2020, gradually aligning Serbia's innovation policy framework with international best practices.

A main development since the last assessment is the establishment of a dedicated Science Fund in 2019, which – together with the Innovation Fund – is Serbia's key vehicle for innovation, science and technology policy implementation. The Science Fund was established in accordance with a new legal framework, comprising the Law on Science and Research and the Law on the Science Fund, which introduces a shift in the financing model for scientific research towards competitive and performance-based funding. The Innovation Fund, established in 2011, continues to implement finance schemes in support of innovation at full capacity, managing an annual budget of approximately EUR 20 million, including around EUR 10 million from the state budget for 2021. While the Innovation Fund predominately focuses on supporting innovation in the economy, the Science Fund's main objective is to foster research excellence. This holistic approach to addressing both the demand and supply sides of innovation is expected to significantly boost innovation activities in the medium term.

The institutional support structure is centred around start-ups, especially in ICT

Numerous incubators exist across Serbia, especially in Belgrade, but also in some of the main university hubs, such as Novi Sad, Nis, Kragujevac and Zrenjanin. Specifically, and as a major advancement compared to the 2019 cycle, systemic support has been provided to create an ecosystem for start-ups, with a particular focus on ICT to support Serbia's ambition to become an international tech hub. As a result, between 2018 and 2019, numerous innovation start-ups and smart city centres were established. A study aimed at mapping the incubation ecosystem, supported by the European Union between 2019 and 2021, identified nearly 40 active incubators; however, it also suggested that not all incubators focus on innovation. In late 2021, the Innovation Fund launched a new Enterprise Acceleration programme, Katapult, to provide acceleration services and early-stage funding to innovative start-ups. Under this programme, beneficiaries undergo an intensive three-month training to launch their ideas and are supported with a small start-up grant and additional co-financing within 24 months. Apart from this initiative, no accelerators operate in Serbia, suggesting the need to introduce more tailored measures to support early-stage companies beyond their initial start-up to fill this gap.

Financial support for innovation has reached scale

Further progress has been made to scale up financial support for innovation activities, predominately channelled through the Serbian Innovation Fund. Funding has increased significantly since 2011. This is a welcoming and important move toward the long-term sustainability of the Innovation Fund's operation and Serbia's commitment to supporting the creation of a knowledge economy. In total, over EUR 43 million have been approved under 5 programme initiatives until 2021, supporting over 1 100 beneficiaries, most notably through the Innovation Fund's flagship mini and matching grant programmes. In response to the COVID-19 pandemic, in early 2020, the fund launched a call to support innovative ideas focused on health and well-being that had potential for scale and to combat the pandemic. Twelve such projects were awarded for a total of EUR 500 000. In addition, the Innovation Fund introduced a new Proof of Concept Programme to support research projects aimed at commercialisation and testing of technological readiness, thereby adding a seventh product to its portfolio.

In line with best practice, and stemming from the significant international capacity building the fund has received since its establishment, all project applications are reviewed following an independent and transparent evaluation process, and are regularly monitored. In 2020, an independent evaluation of five of the Innovation Fund's programmes confirmed good performance but suggested that further efforts were needed to fully align operations with Serbia's strategic framework.

While direct financial support continues to be the main focus of Serbia's innovation support approach, some progress has also been made to introduce indirect financial incentives to companies to invest in R&D

through tax relief. However, these remain somewhat untargeted and mainly serve start-ups. In addition, in 2019, public procurement procedures were amended to favour innovation.

Efforts to stimulate collaboration between the industry and research have increased, but this remains the weakest link in Serbia's innovation system

Progress has been made in this sub-dimension, notably through increased availability of financial support to stimulate R&D and co-operation between businesses and research institutes. Despite these efforts, overall investment in R&D remains stagnant at around 0.9% of GDP (European Commission, 2021^[20]), although the impact of the newly created Science Fund may accelerate investments in the coming years.

Since 2016, the Innovation Fund has provided targeted support to increase co-operation between the private-sector and research institutes. It provides both competitive, collaborative grant schemes to support larger SMEs to engage with scientific researchers on joint technological projects with a realistic commercialisation strategy, as well as innovation vouchers, which were introduced in 2017. Capped at around EUR 7 000, these co-finance research and laboratory services for SMEs. To date, nearly 50 projects have been financed under the competitive co-operation grant scheme, and over 840 vouchers have been awarded. The Innovation Fund also runs a technology transfer office, which complements four others established at Serbia's main universities. These technology transfer offices, however, remain largely unutilised by businesses.

The Science Fund is expected to complement existing measures and further increase linkages between research and entrepreneurship. It is currently implementing four separate research programmes, covering the development of AI, research collaboration with Serbia's diaspora and R&D projects, and supported 85 research projects in 2020 alone. Within two years of operation, the fund's budget has already doubled, to almost EUR 20 million, including significant contributions from the state budget.

Further progress has been made in strengthening the infrastructure to encourage collaboration. The network of science and technology parks has expanded since the last assessment, with such parks now operative in Novi Sad, Nis and Cacak, in addition to the flagship one in Belgrade. The science and technology park in Belgrade now hosts a large number of start-ups, but the link to academia is not always evident. Numerous competence centres and independent technology institutes operate in more urban areas, though their outreach to and utilisation by the private sector remain limited.

Lastly, some progress has been made in strengthening intellectual property rights to incentivise scientific researchers to share their inventions and collaborate on commercialisation. Revisions to the Patent Law have brought Serbia's intellectual property legislation broadly in line with the *acquis*, covering both research in R&D institutes, at universities and in private companies, and guaranteeing an equal split of proceeds from commercialised intellectual property between the creator and the organisation holding the patent.

The way forward for Dimension 8b

- **Strengthen co-ordination in design and implementation oversight of innovation policy.** Serbia's multi-layered and sophisticated policy framework requires close co-ordination among all stakeholders and implementation bodies. A clearly defined mandate for the newly established Council for Encouraging the Development of Digital Economy, Innovation, High-tech Entrepreneurship and Digitalisation in Business would help define its scope of work, especially vis-à-vis the National Council for Science and Technological Development.
- **Incorporate a strong focus on innovation into the new Strategy for the Development of Start-up Ecosystems.** This should aim to include a focus on start-ups beyond the ICT sector to ensure a balanced and inclusive mix of policy objectives and implementation to support both entrepreneurship in this strategically important industry and innovation more generally.

- **Further align the focus of the Innovation Fund and Science Fund to the strategic objectives of the innovation framework.** Serbia should ensure that the financial schemes offered by the two institutions are highly complementary and that lessons learnt from the Innovation Fund are incorporated into the programming of the Science Fund. If well-designed and tackling priorities in a co-ordinated manner, in combination, Serbia's Innovation Fund and Science Fund are a powerful tool to maximise the impact of the efforts already underway and address outstanding obstacles to innovation through both supply and demand.
- **Raise awareness about soft measures to incentivise innovation.** While progress has been made in providing indirect financial and non-financial support to foster firm innovation, further efforts are needed to disseminate information and explicitly link indirect incentives to innovation. For instance, this could be done through the platform of the Innovation Fund and via targeted information campaigns in collaboration with business associations.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021^[113])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021^[114]).

Air, water, and soil pollution have culminated in Serbia in recent years, pointing to the need to rethink economic growth and ensure it does not cause further environmental degradation, which becomes even more important in the post-COVID-19 context. The pandemic has put additional pressures on Serbian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Serbia's score has increased since the last assessment (2.53 in 2022 compared to 2.21 in 2019) but remains below the WBT average (Table 18.25). Although some progress has been achieved in the design of its framework for environmental policies targeting SMEs, Serbia needs to ensure effective implementation of greening policies and scale up its incentives and instruments for SME greening.

Table 18.25. Serbia's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	4.11	3.87
		Implementation	2.35	2.81
		Monitoring and evaluation	1.95	2.47
		Weighted average	2.80	3.06
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	2.85	3.06
		Implementation	2.13	3.02
		Monitoring and evaluation	1.91	2.12
		Weighted average	2.30	2.85
	Serbia's overall score for Dimension 9		2.53	2.94

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Since the last assessment, environmental policies have been mainstreamed into various strategic documents in Serbia. Great emphasis has been put on the transition to a circular economy since the adoption of the Roadmap for Circular Economy in Serbia in 2020 (Government of Serbia, 2020^[108]), and

co-operation with the CCIS has been further amplified in this regard. However, implementation of green measures included in Serbia's previous SME Development Strategy (2015-2020) has remained largely limited, in part due to the lack of co-ordination between the various institutions in charge. Financial support available to SMEs for their greening projects, including in their post-COVID-19 recovery, has remained limited, and the funds available are mostly ad hoc and based on support from international development co-operation partners. While green public procurement is gaining momentum in Serbia, most non-financial tools have rarely been proven beneficial for SME greening (Table 18.26).

Table 18.26. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a co-ordination body or a unit for SME greening	No specific co-ordination body has been developed. There is no institution responsible for all green policies targeting SMEs (including the recent developments for a circular economy). Measures foreseen under the previous SME Strategy have not been implemented.	No progress
Target the demand side when developing SME greening policies, i.e. focus on raising awareness and providing advice and guidance to SMEs in adopting environmentally sound practices	Although there is no body formally in charge of raising awareness and the government's actions in this regard have been limited, the Chamber of Commerce and Industry of Serbia (CCIS) has been active in providing advice and guidance to SMEs. The CCIS is involved in a project to facilitate partnerships between businesses regarding the circular economy. Guidelines and informative documents are available in relation to green policies for SMEs. The CCIS has launched a circular economy portal to share best practices between businesses.	Moderate
Enhance financial support to SME greening	Some ad hoc financial support for installing solar panels has been made available to SMEs. However, the Green Fund still does not cover SMEs, and financial support is mostly available through support from international development co-operation partners.	Limited

Green policies targeting SMEs are increasingly mainstreamed into strategic documents, but the lack of a co-ordination body hampers proper implementation

Several recently adopted strategic documents include green policies targeting the private sector, in part driven by the long-awaited adoption of the Law on Climate Change in 2021.⁷⁴ In addition to the Roadmap for Circular Economy in Serbia (2020), which serves as a guiding document outlining courses of action for the transition from a linear to a circular economy (Box 18.14), the Industrial Policy Strategy (2021-2030) (Government of Serbia, 2020^[78]) and the Programme for the Introduction of Cleaner Production⁷⁵ (planned to be adopted for the 2023-25 period) envisage sustainable, green and resource-efficient industrial production. The latter also promotes eco-efficient products, services and processes as well as resource efficiency by prescribing preserving raw materials, water and energy, and reducing the amount and toxicity of all emissions and wastes. Drafting the revised SME Strategy for the upcoming period began at the end of 2021 and should include environmental considerations in one of its main pillars as well.

Box 18.14. SMEs and the circular economy in Serbia

SMEs are important for achieving nationwide objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Serbia, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

Serbia was the first economy in the Western Balkans to prepare its Roadmap for Circular Economy in 2020, an important document that sets the guidelines for the transition toward a circular economy. The roadmap aims to initiate a dialogue between decision makers and representatives of industry, academia and civil society to encourage industry to innovate, increase market opportunities for production through circular business models, create new jobs and improve business while preserving the environment. The roadmap is accompanied by a communication plan that contains measures to raise companies' awareness of the circular economy and whose main goal is to inform and involve as many actors as possible and thus achieve broad social consensus for implementation.

The Programme for Circular Economy Development (2022-2024) was in the final stage of adoption at the time of writing. One of its objectives will be to support SMEs in the transition to a circular economy.

Circular economy has been increasingly included in strategic documents following the adoption of the roadmap. For instance, the Action Plan for the Industrial Policy Strategy (2021-2030) has a specific pillar on the promotion of circular economy and the education of business entities, including SMEs.

Several activities have been carried out to implement and raise awareness on circular economy principles, in particular as part of two projects undertaken by the CCIS:

The Academy for Circular Economy is an intensive programme intended for business representatives, established as a pilot project in 2018 and re-conducted in 2019 (with 40 participating companies), with a goal to empower them to initiate positive changes in line with circular economy principles, discover new opportunities to create additional lines of revenue and exchange practices of resource efficiency. Given the expressed interest of business representatives in the Academy, CCIS plans to reorganise it in 2022 and 2023 with a focus on 'green managerial' positions. Funds are provided by international development co-operation partners (UNDP, GIZ) and the Ministry of Economy.

The Digital Platform for Circular Economy was launched in March 2021 (<https://circulareconomy-serbia.com/>). This platform contains a Circular Economy Hub that serves as a virtual classroom on the topic of the circular economy. It aims to improve companies' knowledge of circular economy potential, related activities in the European Union, available grants and financial support. The hub also includes a "green alliance", a virtual space intending for companies to network, connect and create new business collaboration and good practice examples. The hub currently counts 42 business members.

Sources: OECD (2021^[3]; 2021^[114]).

The Ministry of Economy and the Ministry of Environmental Protection are in charge of the development of SME greening policies. However, the lack of a co-ordination body for SME greening policies and corresponding funds hampers proper implementation and monitoring of these policies. According to the government, there is limited staff and funds to provide environmental guidance for SMEs. Moreover, no overarching budget specific to environmental policies targeting SMEs has been mobilised. In this regard, implementation of green measures set out in the previous SME Strategy (2015-2020) has remained limited, such as awareness-raising activities or expert support on eco-innovation projects planned for the period.⁷⁶

Business associations are involved in developing and implementing SME greening policies, in particular in providing environmental advice and guidance

While a co-ordinated approach between relevant ministries is lacking, business associations, in particular, the CCIS and its regional offices, are increasingly involved in implementing green measures and providing greening guidance to SMEs. The CCIS has been particularly active in implementing measures of the Roadmap for Circular Economy in Serbia and is facilitating partnerships among businesses (Box 18.14).

As part of its Eco-portal, the CCIS provides web-based guidance tools and information on green policies, which are useful to address barriers related to the lack of SMEs' awareness of green opportunities and obligations (OECD, 2021^[114]). Guidelines on audit schemes and those on how to measure the carbon footprint of products (the latter in line with the international standard ISO 14067) are also available to SMEs. Moreover, a brochure on green tools has been available since 2019 and includes guidelines on eco-labelling, environmental management standards and green public procurement (CCIS, 2019^[115]). However, the lack of data on the uptake of these tools by the private sector hampers their proper evaluation.

The Ministry of Environmental Protection collaborates with the Cleaner Production Centre of the Faculty for Technology and Metallurgy of the University of Belgrade, established in co-operation with the United Nations Industrial Development Organisation back in 2007, also active in encouraging and raising awareness on cleaner production. The centre organises regular awareness-raising events and has, to date, conducted energy audits for 70 companies (including SMEs) and trained more than 60 experts on resource-efficient and cleaner production. In order to support companies in post-COVID-19 recovery, the centre has developed a survey for companies that aims to identify their specific needs to improve economic and environmental performance in light of the crisis. The survey will be analysed in collaboration with the Ministry of Environmental Protection in the second half of 2022.

Limited financial incentives are available for SME greening, including as part of post-COVID-19 economic recovery programmes

The government does not provide any long-term financial incentives for the greening of SMEs and has not included greening aspects as part of its financial schemes to mitigate the impacts of COVID-19. SMEs are still not covered by the Green Fund, re-established in 2017, as it focuses on large and mainly infrastructural projects. Nevertheless, since 2020, SMEs have had access to two ad hoc programmes⁷⁷ of the Ministry of Economy, which provide non-refundable funds for the purchase of solar panels and solar power plants. As part of these programmes, in 2021, around EUR 705 000 of non-refundable funds were awarded to 25 companies. Moreover, the EBRD provided a EUR 20 million loan to UniCredit Leasing Serbia in 2021 to support local SMEs in investing in boosting their competitiveness, with more than half of the total loan amount aiming at financing investments and technical assistance in green technology and energy efficiency.⁷⁸

Although some non-financial tools for SME greening are gaining momentum, their implementation remains limited

The Law on Public Procurement (2019) considers the environmental impact of procured goods, highlighting that the government should opt for products and services that do not harm the environment and that contribute to energy savings. Specific guidelines for green procurement, aligned with EU recommendations, were drafted by the PPO in 2019 (PPO, 2019^[116]). Moreover, in line with the Law on Public Procurement's Action Plan for 2021, specific training was organised in this regard in December 2021 by the PPO with the UNDP's support to educate the contracting authorities and equip them with practical tools and examples to facilitate the application of green public procurement. While environmental aspects have still not been used in public procurement in Serbia (NALED, 2021^[117]), these new developments should stimulate green products and services offered by all companies, including SMEs.

In addition to the guidelines on eco-labelling offered by the CCIS, the government has a functioning national eco-labelling system that contains label criteria for 16 product groups.⁷⁹ However, as of 2021, only two companies (larger enterprises) owned eco-labels for a total of seven product groups.

Regulatory instruments (such as performance standards, privileges in the permitting process or inspection frequencies) remain non-existent in Serbia.

The way forward for Dimension 9

- Ensure effective implementation of SME greening measures through cross-sectoral co-ordination. While green policies targeting SMEs have been increasingly mainstreamed in strategic documents, their translation into concrete actions and activities has remained limited. Given the cross-cutting nature of greening measures, Serbia should enhance its co-ordination mechanism with the drafting of the new SME Strategy to ensure proper implementation of measures. This role could be assumed by RAS, in close co-ordination with the Ministry of Environment. Whichever unit is entrusted with this task, it should ensure efficient and effective co-ordination of policies and corresponding funds among various government institutions to avoid duplication and to increase the uptake of the measures.
- Consider introducing regulatory instruments into the SME greening policy mix. First, Serbia could envisage the introduction of performance standards as part of its soon-to-be adopted Programme for the Introduction of Cleaner Production. For instance, the Fit for 5580 proposals by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for the building and transportation sectors, among others, which are of relevance to SMEs (European Commission, 2021[118]). Second, the government could introduce special regimes for low environmental risk installations, the vast majority of which relate to SMEs, particularly those that have adopted environmental management systems. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some economies use “general binding rules” that ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such a requirement (such as in the United Kingdom) (OECD, 2021[114]). The frequency and scope of inspections, monitoring and reporting could also be reduced for those SMEs with a more successful environmental record.
- Enhance financial support to SME greening, in particular in the context of the COVID-19 pandemic. As recommended in the previous assessment, the Green Fund should expand its scope and include specific financial programmes to support SME greening as well. Financing SMEs’ renewable energy equipment or energy-efficiency products could become crucial for their recovery in the post-COVID-19 recovery phase if they are provided with the necessary incentives (UNECE, 2020[119]). Moreover, the government might consider facilitating SMEs’ access to green finance by connecting greening aspects to existing financial schemes. In 2020, Serbia issued the Law Establishing a Guarantee Scheme, which enabled the establishment of two dedicated SME credit guarantee schemes⁸¹ to mitigate the impact of COVID-19. Serbia could include green criteria in these credit guarantee schemes to facilitate SMEs’ access to green finance.

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

Serbia is a small open economy with high growth potential, especially through export-oriented policies and internationalisation, which are essential components of deepened regional integration and inclusive growth. Reducing barriers to trade and supporting SMEs in their expansion efforts can significantly contribute to Serbia's competitiveness, which was considerably affected by the COVID-19 pandemic, putting additional pressure on SMEs to maintain liquidity and expand operations. Government support for internationalisation, both in the form of financial assistance and capacity building, can boost SMEs' productivity and competitiveness while allowing them to build back better and shift to innovative solutions.

Serbia performed relatively well under the internationalisation dimension, particularly in the area of export promotion. The economy made notable progress in implementing GVC programmes. However, monitoring and evaluation under all three sub-dimensions warrant intensified efforts.

The overall score (4.00) remained stable compared to the last assessment cycle. There was a slight decrease in sub-dimensions 10.1 and 10.2 due to missing key targets from the SME Strategy (2015-2020). The new SME Strategy was being drafted at the time of assessment. Nevertheless, Serbia advanced under sub-dimension 10.3, establishing a solid legislative framework for the promotion of e-commerce (Table 18.27).

Table 18.27. Serbia's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.65	4.61
		Implementation	4.37	4.24
		Monitoring and evaluation	3.67	3.65
		Weighted average	4.31	4.23
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.00	3.88
		Implementation	4.28	3.57
		Monitoring and evaluation	3.00	2.70
		Weighted average	3.94	3.49
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.67	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	3.00	3.29
		Weighted average	3.20	3.32
	Serbia's overall score for Dimension 10		4.00	3.80

Note: WBT: Western Balkans and Turkey.

State of play and key developments

In line with Serbia's strategic documents, such as the SME Development Strategy (2015-2020) and the newly adopted Industrial Policy Strategy (2021-2030), the government has advanced in implementing

internationalisation programmes. Despite falling short of achieving key export promotion targets, Serbia progressed in assisting SMEs in integrating into GVCs, especially through promoting SME linkages with MNEs' supplier networks. Moreover, in line with the last assessment's recommendations (Table 18.28), Serbia implemented a new Supplier Development Programme, which includes financial support for SMEs, as well as a limited degree of advisory services. Absorption capacity and lack of targeted technical assistance to SMEs remain challenges for Serbia. However, with its developed network of special economic zones, there is a sound infrastructure to enhance knowledge and technology spillovers. In addition, Serbia further strengthened its legal framework for the promotion of e-commerce, with special emphasis on cross-border online trade.

Table 18.28. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase SMEs' awareness of the programmes available for export promotion	Serbia made progress in increasing awareness and uptake of export promotion activities through both the Development Agency of Serbia and the Chamber of Commerce and Industry of Serbia's online portals and services.	Strong
Design supplier development programmes	The Government of Serbia launched a comprehensive Supplier Development Programme that aims to create and strengthen links between SMEs and MNEs and facilitate SME integration into GVCs.	Strong
Aim for strong and comprehensive monitoring and evaluation using concrete measures and key performance indicators to conduct long-term impact assessments of programmes	Little progress has been made in the area of monitoring and evaluation. While export promotion programmes are monitored, the Development Agency of Serbia does not benefit from an independent review and does not keep a public record of all support beneficiaries.	Limited
Develop programmes that promote e-commerce	Since the last assessment cycle, the government has implemented the Programme for E-commerce Development for 2019-2020 in collaboration with the United States Agency for International Development (USAID). The Government plans to conduct a review of the programme's implementation by the end of 2022.	Strong

Serbia strengthened its strategic framework for export promotion but fell short of meeting key targets

Export promotion in Serbia is outlined in several strategic documents, mainly the SME Development Strategy (2015-2020) and the newly adopted Industrial Policy Strategy (2021-2030) (Ministry of Finance, 2021^[65]). The government has increasingly recognised the importance of SME internationalisation in both strategies, including the new SME Strategy, which was being drafted at the time of assessment. The strategy is due for adoption by the end of 2022. To further strengthen the strategic framework for export promotion, Serbia included dedicated provisions to broaden the domestic export base and seamlessly integrate into GVCs. The Industrial Policy Strategy (2021-2030) envisages quantifiable targets⁸² relating to a clear shift to a more innovation-based economy and higher value added of the export base. In light of Serbia being relatively advanced in export promotion and integration into GVCs, and having well-developed special economic zones (SEZs), the targets are rather conservative and modest.

The target realisation of the SME Strategy (2015-2020) was mostly successful, especially in the area of boosting SME competitiveness and improving the quality of local suppliers.⁸³ However, Serbia did not meet key targets relating to export promotion. The strategy envisioned improved access to foreign markets. The share of exporters in the SME sector reached 3.8% in 2020, and the total share of exports in the total turnover of SMEs amounted to 9.2% in 2020, falling short of the established targets of 7% and 14%, respectively. Out of 35 activities planned under this pillar,⁸⁴ 27 were realised over the course of the

strategy, which amounts to 77.1%; 5 were partially implemented; and 3 were not realised at all (Government of Serbia, 2020^[120]).

The reason behind falling short on export targets might be that Serbian SMEs still face obstacles in exporting their goods and services, mainly due to the important regulatory burden faced by businesses. Most SMEs quote a lack of clear procedures, complex requirements, low infrastructure capacity and difficult inspection procedures (UNECE, 2021^[121]). Serbia undertook measures to remedy the outstanding issues exacerbated during the COVID-19 pandemic by posting health and customs clearance measures on line, facilitating transit through international co-operation agreements and the regional green corridor⁸⁵ (UNECE, 2020^[122]).

Serbia intensified its export promotion efforts, but the programmes implemented vary in effectiveness

RAS implements export support programmes according to its annual work plans, regulations set in the public calls, and guides for the implementation of support programmes. SMEs are informed on how to qualify for financial support and the procedures of the selection process. In addition to RAS, export promotion activities are also supported by the CCIS. The efforts of both organisations to inform SMEs about available support mechanisms, raise awareness about foreign market expansion and provide educational and informational services are notable and constitute an improvement since the last assessment cycle. The intensified public-private sector collaboration greatly contributes to improving the effectiveness of tailor-made BSSs delivery by facilitating the pooling of resources for the implementation of targeted actions (tapping into the benefits from the economies of scale, reduced administrative transaction costs, etc.). These efforts are also in line with OECD best practices and recommendations from the previous assessment (OECD et al., 2019^[73]).

Since the last assessment cycle, RAS has implemented two programmes to assist SMEs in their foreign expansion. The SME Internationalisation Programme⁸⁶ promotes individual participation in international fairs and provides institutional support to export-oriented SMEs aiming to increase their volume of foreign trade. While the programme can help increase awareness about Serbian products worldwide, participation in trade fairs and missions might not directly contribute to increasing SMEs' exports. That can be due to either management quality, heterogeneity of firms in accessing information, or the nature of trade events attended (Alvarez, 2004^[123]). In addition, RAS is implementing the Export Promotion Programme,⁸⁷ which offers co-financing for consulting services support in foreign market access and positioning, capacity building in export promotion and improving production capabilities. The programme seems better aligned with the government's priorities of shifting to higher value-added exports and creating a more knowledge-based economy. Moreover, 51% of surveyed Serbian companies quote lack of export capacity as the reason for not exporting their goods and services; therefore, the programme is better targeted to improve their know-how and provide them with tailored guidance (Balkan Barometer, 2021^[124]).

The government made noteworthy progress in reducing barriers to trade and conforming to EU standards

Reducing and overcoming trade barriers was one of the main targets of the SME Development Strategy (2015-2020), and its implementation was mostly successful. The new Customs Law came into force in June 2019, resulting in a significant simplification of customs procedures and a centralised customs clearance system.⁸⁸ The new law is a welcome development in harmonising national trade legislation with the *acquis*. Serbia has made considerable progress in that respect, especially within the scope of the implementation of the SME Development Strategy (2015-2020). The government intensified its efforts to further harmonise technical regulations with EU standards, adopting over 99% of European product standards through the ISS (Government of Serbia, 2020^[120]). Serbia has a well-developed mechanism to ensure conformity with EU standards,⁸⁹ which includes conformity assessment bodies,⁹⁰ which ensure the safety of products available on the market. Though the system is well-developed and allows for increasing

the number of conformity assessment bodies,⁹¹ the ATS faces capacity shortfalls due to limited resources. Furthermore, regional co-operation is lacking in the area of mutual acceptance of results issued by Serbian conformity assessment bodies, as the results are not recognised in Bosnia and Herzegovina and North Macedonia (UNECE, 2021^[121]).

Linkages between SMEs and MNEs are at the centre of Serbia's efforts to integrate into GVCs

Since the last assessment cycle, the government has placed stronger emphasis on SME integration into GVCs, particularly in terms of promoting linkages between SMEs and MNEs. The government strives to create a conducive business environment by enhancing SME performance and competitiveness, targeting sectors⁹² with higher technology complexity and value added. As Serbia's economic complexity is already the highest in the Western Balkan region, this is a well-targeted measure to further diversify the economy's export base (OECD, 2019^[125]). Furthermore, it is in line with the newly adopted Industrial Policy Strategy (2021-2030), which envisions domestic SMEs becoming suppliers for larger enterprises and MNEs in order to integrate and move higher up the GVCs.

RAS implemented the Supplier Development Programme, which aims to boost SME participation and inclusion in GVCs through collaborating with MNEs. The programme covers mapping the needs of MNEs and matching them to the potential SME suppliers. In order for SMEs to match the high-quality requirements of MNEs, the programme envisions subsidising equipment procurement, upgrading production facilities and additional advisory support, ranging from assistance in production optimisation, management and certification. Despite the programme being a good first step, it seems to lack capacity building and training activities for SMEs. Technical assistance in matchmaking, networking and reaching MNEs is crucial for SMEs to connect to foreign investors (OECD, 2022^[126]). While the programme does offer a degree of advisory services, it focuses more on the procurement of machinery and investing in tangible assets. Focusing on investing more in intangible assets could extend the government's support to equip SMEs with longer-term solutions. The programme was launched in 2019 and concluded with 19 contracts signed between SMEs and MNEs. In 2020, it was severely affected by the COVID-19 pandemic in terms of implementation and participation. In 2020, 13 SMEs signed contracts with larger enterprises, while in 2021, this number decreased to 9. The government set a clear target for the number of SMEs becoming suppliers of MNEs: the target value was set at 9 and 12 for 2022 and 2023, respectively. Therefore, Serbia is well on track to achieve the strategy's goals (Government of Serbia, 2021^[127]).

The government has already taken steps to protect both SMEs' and MNEs' intangible assets and know-how. The Intellectual Property Office has implemented an action plan related to the intellectual property (IP) aspect of GVC integration. The government organised workshops and seminars on the importance and manner of protection of IP and services of Intellectual Property Diagnostics for SMEs and informed SMEs on the manner of protection, procedure and documents for protection at the national and international levels. Emphasising the transfer of intangible assets between larger firms and SMEs facilitates vertical integration (Atalay, Hortaçsu and Syverson, 2014^[128]), thus allowing Serbian SMEs to benefit from technology transfers, R&D capital and know-how. Serbia should ensure that SMEs have sufficient capacity to absorb the innovation and know-how resulting from potential spillovers. This capacity results not only from a firm's prior endowments but also from its productivity and access to finance and skill-development activities; thus, government support is a vital element in facilitating knowledge transfers between MNEs and SMEs (OECD, 2022^[126]).

Absorption capacity in Serbia can be further developed by leveraging the SEZs within the economy

Serbian SEZs already provide good institutional and physical infrastructure to enable smooth and productive knowledge transfers between MNEs and SMEs. Some of the SEZs have instituted R&D centres

within the zones and established collaborations with local universities to promote capacity building and linkages between companies and academia. As one of the leaders in SEZs in the Western Balkan region, Serbia has a unique opportunity to create vertical linkages between foreign investors and domestic suppliers. Its network of SEZs contributes to the presence of interconnected SMEs and the increase in specialisation, which in turn can result in intensified knowledge spillovers. However, many foreign companies tend to take advantage of their already established foreign supplier network, frequently bringing it to the SEZs. In order to create productive linkages between MNEs and local SMEs, Serbia needs to place more emphasis on improving supplier quality and reliability (OECD, 2017^[129]). This can take the form of supporting certification and standardisation, capacity building, or upgrading production facilities, with the goal of stimulating competition between potential domestic suppliers to meet the requirements of MNEs.

Although e-commerce enjoyed a boost among consumers during the COVID-19 pandemic, it did not spill over to SMEs

In 2020, 36.1% of Serbians used e-commerce.⁹³ In 2021, that percentage increased to 42.3% (Statistical Office of Serbia, 2021^[130]), signifying a boost in online consumption. However, this trend did not lead SMEs to increase their online engagement, particularly in the area of cross-border e-commerce. Only 23% of SMEs quoted e-commerce as a viable tool to mitigate the effects of the pandemic (UNECE, 2020^[122]). Moreover, the majority of SME engagement through e-commerce aimed to increase domestic sales rather than cross-border trade.⁹⁴

Despite a fairly well-developed legislative framework, SMEs seem reluctant to engage in cross-border e-commerce sales. In 2019, the Ministry of Trade, Tourism and Telecommunications adopted a new Law on Trade and Amendments to the Law on E-commerce. The new law is a comprehensive document, including previously unregulated aspects of e-commerce, such as definitions of an online store, expressing the price in foreign currency, regulating drop shipping and mystery shopper practices. Therefore, it is not the lack of regulation that creates a barrier to e-commerce. Scarce support in meeting international requirements, equipment procurement and e-commerce-specific advisory support were quoted as the main obstacles (UNECE, 2020^[122]).

The government has taken measures to address the obstacles Serbian SMEs face in optimising e-commerce. Since the last assessment cycle, Serbia has launched a Programme for E-commerce Development for 2019-2020 and adopted an action plan for its implementation. The project is carried out in collaboration with USAID Co-operation for Growth Project. The programme's target groups are SME e-commerce traders, female populations in the field of e-commerce, companies providing postal services, consumers and inspection bodies. The goal of the programme is to remove technical barriers to e-commerce by building trust, strengthening the position of e-traders in the e-commerce market and developing logistics processes in e-commerce. While the programme addresses the obstacles quoted by SMEs, it lacks advisory support and capacity-building activities. The government plans to assess the impact of the programme by the end of 2022.

The way forward for Dimension 10

- **Intensify capacity building and advisory support for SMEs that aim to export and integrate into GVCs.** As lack of capacity is the main deterrent quoted by Serbian SMEs in their efforts to export and become suppliers for MNEs within the SEZs, the government could intensify its provision of training and capacity building within and beyond the SEZs, especially in the area of foreign expansion, market access, certification and standardisation, as well as incorporating innovative and digital practices. Such services should be tailored according to the results of regular and systematic training needs analysis and demand among SMEs. Expanding the range of the Supplier Development Programme to include broader and more targeted advisory and counselling support for SMEs would complement the programme's procurement of tangible assets and provide

SMEs with comprehensive, across-the-board support for more successful integration into GVCs (Box 18.15).

Box 18.15. Portugal's Clube de Fornecedores (Suppliers Club)

Portugal's Suppliers Club aims to integrate local SMEs into GVCs by leveraging MNEs located in the country. Through private and public entities, it targets both SMEs and start-ups and delivers a package of support services to help them collaborate with foreign companies. The project acts as a business-to-business (B2B) matchmaking service to identify the potential of the most productive partnerships.

MNEs that link with local SME suppliers provide them with advisory and consulting support to enhance the transfer of know-how, technology and information. SMEs are also entitled to financial support through the Portugal 2020 initiative. The goal is to upgrade SMEs' technological capabilities and meet the needs of investing MNEs. The programme has been successful in Portugal, with many MNEs boosting their engagement with domestic SMEs. Volkswagen, Bosch and Peugeot have all created their suppliers clubs in Portugal, contributing to a more resilient and flexible local economy.

While Serbia has implemented numerous initiatives to assist SMEs in integrating into GVCs, capacity building and advisory support are still lacking. While the Supplier Development Programme offers a degree of counselling, it focuses more on tangible assets procurement. For Serbian SMEs to take full advantage of the spillovers from FDI and collaborate with MNEs, they need to improve their absorption capacity. The Suppliers Club in Portugal focuses on both financial and non-financial support while emphasising the ability of domestic SMEs to upgrade their technological skills and capabilities. Serbia could leverage its well-developed network of SEZs and create supplier hubs with a clear focus on improving SMEs' ability to absorb technology and knowledge transfers.

Sources: OECD (2022^[126]) and European Commission (2019^[131]).

- Build trust among SMEs in e-commerce activities and offer capacity building for digitising their sales channels. E-commerce enjoys a relatively well-developed legislative framework in Serbia. However, the uptake of e-commerce practices among SMEs remains suboptimal, despite its popularity among consumers. While Serbia has already reinforced its legal framework, it could also further strengthen data protection and e-payment systems. Further developing SMEs' digital skills and promoting digital literacy can also prove crucial to increasing the adoption of e-commerce practices among SMEs.

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Notes

1. Annual percent change in unemployment rate for 2019 is 0.1% higher than the EU average as the data for 2010-20 has been updated to reflect the new methodology concerning the Labour Force Survey (LFS) in line with the EU Regulation adopted in 2021. Previous data for unemployment rate before revised methodology was implemented was 10.4% to 9.0%. The data presented in this section has therefore been amended and is now considered comparable to the 2021 data gathered from the LFS.
2. The Education Strategy Action Plan (2021-2023) commitment is to expand the number of school co-operatives from 150 currently to 500 by 2023. This relates to the programme of school co-operatives working at the system level.
3. This Education Strategy action on higher education seems to link to the policy measures introduced in Objective 3 of the Smart Specialisation Strategy (2020-2027) to introduce education focused on innovation and entrepreneurship.
4. Training on entrepreneurship education is included in the national catalogue of training provided by the Institute for the Advancement of Education. See <https://zuov.gov.rs/lista-programa-od-javnog-interesa-koje-resenjem-odobrava-ministar/>.

5. For more information on wider actions supporting entrepreneurship education taken by the Association of Business Women of Serbia, see <http://poslovnezene.org.rs/category/aktuelni-projekti/page/2/>.
6. There is a recent bylaw that provides guidance on school-level evaluations; see www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/ministarstva/pravilnik/2019/10/2/reg. However, there is no available information on the specific areas of educational content or pedagogy that will be evaluated through this process and how this is presented at the system level.
7. See Activity 3.2.1 on p. 72 of the Smart Specialisation Strategy Action Plan (2021-2022) (Government of Serbia, 2020^[38]).
8. These include the Law on the Foundations of the Education System, the Law on Pre-School and Primary Education, the Law on Secondary Education and the National Youth Strategy (2015-2025).
9. This refers to the broader-based understanding of the entrepreneurship key competence in the 2018 update of the European Key Competence Framework (European Commission, 2019^[131]), where the entrepreneurship key competence was aligned to EntreComp. For practical information on EntreComp, see McCallum et al. (2018^[46]).
10. For more information, see <https://www.ja-serbia.org/preduzetnicko-obrazovanje/programi-za-osnovne-skole/>.
11. For an example of an action supporting the digital economy, see <http://poslovnezene.org.rs/2020/05/jacanje-kapaciteta-preduzetnica-za-digitalizaciju-poslovnih-procesa-i-pruzanje-savetodavne-i-tehnicke-podrske-za-lansiranje-na-trziste-brendiranih-tradicionalnih-prehrambenih-proizvoda-iz-jugozapadn/>.
12. The Government Work Programme 2020-2022 includes actions related to start-up support for women (2.2.1) and actions (2.4.6) to increase the participation of women in innovative entrepreneurship, with a target of 20 projects per year in 2021 and 2022. See <https://rsjp.gov.rs/en/news/action-plan-for-the-implementation-of-the-governments-program-for-the-period-2020-2022-adopted/>.
13. For information on the establishment of the Co-ordination Body for Gender Equality, see <https://www.rodnaravnopravnost.gov.rs/sr/o-nama/institucionalni-okvir>.
14. The Association of Businesswomen has run the Success Flower competition for women's entrepreneurship over the past 15 years; see <http://poslovnezene.org.rs/2021/08/do-15-avgusta-2021-produzen-xv-jubilarni-konkurs-cvet-uspeha-za-zenu-zmaja/>.
15. According to "Women entrepreneurship in the time of the COVID-19 pandemic", researchers interviewed a sample of 93 women entrepreneurs, which showed that 76% of women-owned companies have been negatively impacted by the pandemic and women spent additional time on domestic responsibilities and family care instead of time they would otherwise have spent working in their businesses. See <https://www.library.iien.bg.ac.rs/index.php/jwee/article/view/1309>. This was backed up by a UN Women study that found that two in five women had to reduce their business workload in response to the pandemic; see <https://www.secons.net/publications.php?p=118>.
16. For more information, see www.parlament.gov.rs/upload/archive/files/cir/pdf/zakoni/2021/1800-21.pdf.
17. For information on recent public discourse where national family organisations demanded amendments to the Law on Financial Support to Families with Children (2018), where levels of support differentiated between self-employed and employed women, see

<https://www.rts.rs/page/stories/sr/story/125/drustvo/4636356/preduzetnice-porodiljsko-mame-su-zakon.html>.

18. For more information, see <https://gender-data-hub-2-undesa.hub.arcgis.com/>.
19. The new support measures for SMEs (business advisory and mentoring services to improve SME financial management) are based on projects funded by international development co-operation partners (e.g. the European Union, the Japan International Cooperation Agency and the United States Agency for International Development).
20. The DanubeChance2.0 EU Interreg project in particular aims to facilitate improved policy learning between policy makers and government agencies; research institutes and universities; financially distressed enterprises currently involved in insolvency procedures, or entrepreneurs who have already gone bankrupt but are ready for a fresh restart; business accelerators; and the public. The project promotes preventive restructuring measures, awareness of second-chance opportunities and enables a support ecosystem for honest restarters. It was implemented from July 2018 to June 2021.
21. The current international consensus on the definition of “honest” versus “dishonest” entrepreneurs presumes that an honest entrepreneur has not conducted voidable fraudulent or preferential transactions or been penalised by tax authorities or charged by a court for criminal activities. An honest failed entrepreneur should get discharged of all possible forms of debt.
22. The number of SMEs in Serbia grew by 20% between 2015 and 2019, representing 324 600 and 391 681 companies, respectively. Serbia’s rank in the World Economic Forum’s Global Competitiveness Index rose from 94th to 72nd place over the same period. Additionally, the estimated real annual growth rate of SME turnover increased from -2.9% in 2008-13 to 5.7% in 2015-19.
23. Activities fully implemented and activities partially implemented or ongoing at the time of reporting.
24. The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to the potential impacts of a regulation on SMEs. Examination of SME aspects in RIA is the starting point of the SME Test methodology, and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf.
25. While the share of RIA for which the PPS provided a positive opinion did somewhat increase from 2019 to 2020, the overall number of RIA conducted was lower, so this improvement cannot yet be considered a trend.
26. Namely, performance indicators to measure progress were lacking.
27. Despite the lack of performance indicators in the initial design of the strategy, the ex post analysis chose to focus on the evolution of Serbia’s position in several international rankings to measure the impact of the strategy’s implementation. Namely, in the United Nations’ e-Participation Index, which measures stakeholder satisfaction and engagement through digital means, Serbia’s position improved from 81st in 2014 to 38th in 2018. Moreover, Serbia’s Online Service Index ranking increased from 0.39 to 0.73 over the same period, translating into a significant improvement in the coverage and quality of digital services.
28. The level of sophistication of online services used by the Office for IT and e-Government in Serbia is aligned with the European Commission’s classification and can be divided into five levels: 1) Information: The web pages provide the user with informative material for the transaction of a

- demand; 2) One-way interaction: The web pages provide the applications in electronic form and the user can download, fill in and deposit them to the public sector; 3) Two-way interaction: Apart from the informative material, the user can fill in an electronic form and electronically submit their data; 4) Transaction: At this stage, the electronic gate provides the user with the possibility of fulfilling demands, of completing transactions; 5) Personalisation: The supplier of services can perform actions with the fundamental objective to make the electronic platform more user-friendly. In addition, the service supplier can upgrade the services or provide the services automatically without the need for the citizen to do anything (European Commission, 2006^[132]).
29. Based on the combined share of “completely satisfied” and “tend to be satisfied” responses to the Balkan Business Barometer survey’s question: Could you please tell me how satisfied are you with each of the following in your place of living – Digital services currently provided to business by public administration?
 30. See <https://monitoring.mduls.gov.rs>.
 31. The Council for Public Administration Reform is composed of line ministers and directors of state institutions, while the Coordination Council for E-Government was composed of representatives of line ministries and more technical-level staff, under the chairmanship of the prime minister.
 32. The once-only principle aims to ensure that users of digital services only need to provide certain information to the government once, which is then shared among administrations through the government’s interoperable data exchange network.
 33. For more information, see <https://eid.gov.rs/en-US/qualified-electronic-certificate-in-the-cloud>.
 34. If the SBRA fails to answer a request within the prescribed five-day time frame as detailed in the relevant legislation, consent to the request is automatically conferred (Provisions of Article 19 of the Law on the Procedure of Registration with the Serbian Business Registers Agency, *Official Gazette of the Republic of Serbia*, Nos. 99/2011 and 83/2014).
 35. As envisaged by the provision of Article 11, Paragraph 3 of the Company Law (*Official Gazette of the Republic of Serbia*, Nos. 36/11, 99/11, 83/14-other law, 5/15, 44/18, 95/18 and 91/19), “Signature notarisation on a Memorandum of Association, in the case of a digitised document, may be replaced by a qualified digital signature, or a qualified electronic stamp of a person authorised to authenticate signatures, manuscripts and transcripts under the law governing the certification of signatures, manuscripts and transcripts.”
 36. The register containing information on all available licences can be found at <https://preduzetnistvo.gov.rs/elektronska-evidencija-poslovnih-licenci-2>.
 37. The Public Administration Reform Council replaced the Coordination Council for E-Government in 2021. It gathered on four occasions in 2019 but did not convene in 2020 (OECD, 2021^[60]).
 38. In 2020, the Standardised Services Set allocated RSD 38 028 351 (approximately EUR 324 000) for SME support. In 2021, the budget amounted to RSD 48 899 606 (approximately EUR 408 000) (Ministry of Economy, 2022^[75]).
 39. The Entrepreneurship Development programme provides youth and start-ups consisting of grants and loans of up to RSD 150 000 000 (approximately EUR 1 277 000) and RSD 350 000 000 (approximately EUR 2 980 000), respectively. A total of 251 applications were approved in 2020.
 40. These include the Association of Business Women “Nadezda Petrovic” Cacak; the Association of Business Women “Ilinka Ilic” Kraljevo; the Association of Business Women “EVE” Valjevo; the Association of Business Women “Vizija” Kragujevac; the Association of Business Women Nis; and the Association of Business Women “Danica” Leskova.
 41. Data has been taken from the assessment questionnaire filled out by relevant contributors.

42. For more information, see <https://www.ebrd.com/news/2021/ebd-and-eu-support-sme-competitiveness-in-serbia-.html>.
43. The project has a budget of EUR 2.2 million and is due to be finalised in December 2022.
44. For more information, see <https://preduzetnistvo.gov.rs/>.
45. Information provided by the Public Procurement Office. In 2020, two different PPLs were applicable – the new PPL started to be applied as of July 2020; the Public Procurement Portal enabling the collection of more information on economic operators also became operational in July 2020.
46. PPL, Article 113.
47. PPL, Article 119 (2).
48. PPL, Article 130.
49. PPL, Article 131.
50. PPL, Article 135.
51. PPL, Article 5 (4).
52. PPL, Article 37.
53. PPL, Article 102.
54. PPL, Article 111.
55. PPL, Article 132.
56. PPL, Article 143.
57. PPL, Article 75.
58. In accordance with the PPL, a flat rate of RSD 120 000 (ca. EUR 1 000) is applied if the estimated value of procurement is below the threshold RSD 120 million (ca. EUR 1.02 million), above the threshold of RSD 120 million, the fee amounts to 0.1% of the estimated procurement value but cannot be higher than RSD 1.2 million (EUR 10 200).
59. See <https://tvojinovac.nbs.rs/cirilica>.
60. For more information, see European Commission (2021^[76]).
61. The Smart Specialisation Strategy (2020-2027) has been launched and implementation is ongoing. S3 priorities have been identified as: 1) food for future; 2) information and communication technologies (ICTs); 3) creative industries; and 4) future machines and manufacturing systems. The Ministry of Education, Science and Technological Development is leading the S3 process. For more information, see <https://pametnaspecijalizacija.mpn.gov.rs/>.
62. For information on the start-up training programme provided by the Employment Agency, see www.nsz.gov.rs/live/trazite-posao/edukacija/obuka_za_zapo_injanje_sopstvenog_posla.cid257 (accessed on 20 February 2022).
63. For more information on the programme of standard services for MSMEs and entrepreneurs, see <http://ras.gov.rs/razvoj-preduzetnistva/projekti-1/program-standardizovanog-seta-usluga-za-mikromala-i-srednja-preduzea-i-preduzetnike> (accessed on 20 February 2022).
64. The one-off subsidy amounting to RSD 250 000 (approximately EUR 2 000 per beneficiary, with RSD 270 000 [approximately EUR 2 300] for those with disabilities) is payable on establishment of a sole proprietorship, co-operative or other form of enterprise as long as the founder is employed

- in it. Implementation is monitored for 12 months and in 2021, the planned number of beneficiaries was 3 500, of which there was a target to reach 100 persons with disabilities.
65. For more information, see <https://fondzarazvoj.gov.rs/lat/proizvodi/podrska-investicijama-u-privredi> (accessed on 20 February 2022).
 66. For more information on DigComp, the European reference framework for the digital key competence, see https://joint-research-centre.ec.europa.eu/digcomp/digital-competence-framework-20_en.
 67. For information on digital immunity, digital competitiveness and AI readiness tests, see <https://cdt.org.rs/programi> (accessed on 20 February 2022).
 68. For more information, see <https://preduzetnistvo.gov.rs/programi/podrska-digitalnoj-transformaciji-mmssp/> (accessed on 20 February 2022).
 69. In the Strategy for Digital Skills Development (2020-2024), Commitment 3.2.4 calls for the establishment of special measures for investment in SME employees' digital skills. This would be realised through the introduction of education programmes for SME employees in the field of digital skills through the allocation of ICT vouchers, training at the request of employers, etc.
 70. See <https://preduzetnistvo.gov.rs/>.
 71. For more insight into how governments fund and organise SME training and consultancy, see ILO (2017^[135]).
 72. See Section 3 of the Strategy for Digital Skills Development (2020-2024).
 73. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the member states of the European Union and regional neighbours. It allows policy makers to assess relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.
 74. In March 2021, Serbia adopted the Law on Climate Change it had prepared in 2018. By adopting the law, Serbia confirmed its unequivocal commitment to further economic growth based on the reduction of GHG emissions, which will achieve its greater competitiveness in the long run (OECD, 2021^[3]).
 75. The programme was conceived as a new document but represents a logical continuation of the Strategy for the Introduction of Cleaner Production (adopted in 2009), whose last action plan expired in 2015. Adoption of the programme has been pending since 2019.
 76. Support measures for the SME greening part of the SME Development Strategy (2015-2020) included the organisation of awareness-raising workshops on eco-innovation and the green economy, and the provision of expert support to those companies preparing eco-innovation project proposals for Horizon 2020.
 77. Entrepreneurship promotion programme through development projects and a support programme for SMEs for the purchase of equipment.
 78. SMEs can use the funds to upgrade technology, processes or services, particularly those related to product quality, health and safety and EU environmental requirements. SMEs can also obtain technical assistance, including EBRD advisory support, and once they have successfully completed their investment, will be eligible for a cashback grant of 15% of the total loan amount, both of which will be funded by the European Union.
 79. The *Rulebook on Closer Conditions, Criteria and Procedure for Obtaining the Right to Use Eco-Label, Elements, Appearance and Manner of Using the Eco-Label for Products and Services* is

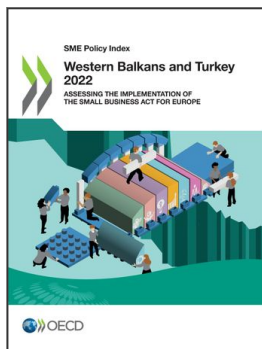
currently in force (Official Gazette of RS, No. 49/2016). The rulebook was prepared in accordance with the requirements of the EU Regulation (EC) no. 66/2010 of the European Parliament and of the Council of 25 November 2009 on the EU Ecolabel.

80. The European Commission has launched the first tranche of its Fit for 55% measures that will support Europe's climate policy framework and put the European Union on track for a 55% reduction in carbon emissions by 2030, and net-zero emissions by 2050. The interconnected proposals cover areas of climate, land use, energy, transport and taxation to bring them into line with the targets agreed in the European Climate Law. For instance, proposed targets by 2030 include a 55% reduction of emissions from cars, a 50% reduction of emissions from vans, a 3% renovation of the total floor area of all public buildings annually and a benchmark of 49% of renewables in buildings. More information can be found at https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en.
81. One of the schemes amounts to EUR 2.5 billion made available for liquid SMEs, while the other (EUR 500 million) aims to support SMEs experiencing a more than 20% drop in revenue between 2019 and 2020, or those that are at risk of default.
82. Target values for the number of companies to undergo training in export promotion and shift to higher value-added production: 2021–25 companies; 2022–30 companies; 2023–50 companies.

Target values of exports of the processing industry in EUR millions: 2021–16 500; 2022–17 600; 2023–19 000.

Target values for the number of new Serbian companies to become a supplier for MNEs: 2021–6 companies; 2022–9 companies; 2023–12 companies.
83. The targets of improving the quality of local suppliers and boosting competitiveness are measured by Serbia's position in the Global Competitiveness Index of the World Economic Forum (World Economic Forum, 2019^[133]).
84. The fifth pillar of the SME Development Strategy (2015-2020) entails improving access to new markets.
85. Regional green corridors were launched to facilitate the supply of goods between the European Union, CEFTA and Western Balkan economies during the COVID-19 pandemic.
86. RAS offers up to 40% of co-financing of related costs. The total budget of the programme is RSD 40 million (approximately EUR 340 000).
87. The budget allocated to the initiative amounts to RSD 150 000 000 (approximately EUR 1 276 000). The project is ongoing, as the public call for applications closed in February 2021.
88. Centralised customs clearance indicates a customs declaration of goods can be submitted at a local customs office for goods that are presented at another customs office within the European Union.
89. The government prepared Draft Laws on Technical Requirements for Products and Conformity Assessment, Law on Amendments to the Law on Accreditation, Law on Metrology and Law on Precious Metal Objects, which all aim to increase conformity with EU standards and help SMEs integrate into GVCs.
90. The conformity assessment bodies are within the purview of the ATS.
91. To date, the ATS accredited 732 conformity assessment bodies.

92. The sectors targeted were the automotive industry, machinery, wood processing, furniture production, metal processing, the rubber and plastics sector, home appliances manufacturing and the electronic systems sector.
93. Individuals who have used e-commerce in the last three months.
94. Some 32% of SMEs used it to expand sales to domestic markets, while 26% used it to start domestic sales through the e-commerce channel.



From:

SME Policy Index: Western Balkans and Turkey 2022

Assessing the Implementation of the Small Business Act for Europe

Access the complete publication at:

<https://doi.org/10.1787/b47d15f0-en>

Please cite this chapter as:

OECD (2022), “Serbia: Economy Profile”, in *SME Policy Index: Western Balkans and Turkey 2022: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/e4ae95d5-en>

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