ENABLING ENVIRONMENT FOR YOUTH ENTREPRENEURSHIP IN THE WESTERN BALKANS

Regional Report



W/EBAYES

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Executive Summary

The Regional Report on Enabling Environment for Youth Entrepreneurship in the Western Balkans offers a comparative overview of key policy challenges regarding financial support, government policies, physical and professional infrastructure, and social norms that affect business environment for youth in the Western Balkan countries. The report is based on the desk research carried out in each of the countries, followed by consultations with relevant stakeholders both individually and within the National Fora on Youth Employment established under this project in each of the countries as platforms for structural dialogue among key stakeholders in the field. The data was also discussed within the Regional Forum on Youth Entrepreneurship held in Durres in November, 2018 by representatives of public institutions, business sector and civil society organizations from the region dealing with employability and entrepreneurship issues.

Although there are differences among the countries, the results show that there are some common policy challenges in this area. Youth in Western Balkan countries are apprehensive about starting their own business and taking risk, and afraid of failure. Surveys show that some of the key obstacles and limitations for youth starting a business is securing the start-up capital, lack of support in their immediate surroundings, complex administrative procedures, inadequate access to professional support and mentorship, limited duration of programs run by the government and non-governmental organizations (NGOs), lack of education on entrepreneurship, lack of business contacts among youth, unstable political and economic situation in the country, underdeveloped entrepreneurial culture and mentality, etc.

Lack of funds and difficulties in securing funding are among the most common limitations cited by youth with regards to launching a business. They mostly rely on friends and family for funding, especially during the stage when they are registering a business. They generally think that obtaining funding from other sources, such as commercial banks and funds, is difficult and complicated.

Over the past few years, youth entrepreneurship is increasingly treated as one of the government's strategic priorities, especially in terms of addressing the high unemployment rate of youth in all the Western Balkan countries. However, youth in Western Balkan countries see bureaucratic procedures as one of the obstacles to starting a business. Young entrepreneurs are struggling because of the lack of information about registering a business and legislation that regulates their operations. There are many regulations and they are often very complicated.

Youth who want to start and develop their own business have access to mentors and professional support through various programs offered by government institutions and NGOs. However these services vary in scope and continuity among countries and programs. When it comes to the development of entrepreneurial infrastructure, it is important to note the availability of business incubators in the Western Balkan. Unfortunately, data is scarce and limited in scope, which means that in some cases we do not know the exact number of incubators in a country, their geographical distribution, the number of users, and affordability of the services they offer.

Social norms, as a component of any entrepreneurial environment, can either encourage or hinder new business ventures, i.e. business activities of youth. Available data show that society does not adequately encourage youth entrepreneurship.

About the project/Introduction

The importance of youth entrepreneurship can be demonstrated through creating opportunities for self-employment and youth employment in general, which on the other hand largely depends on the business environment and the economy of a country. One of the key evidence-based messages regarding youth entrepreneurship in the Western Balkans relates to the necessity of improving relevant indicators for enabling environment, such as ease of starting a business, access to mechanisms and incentives for start-ups and promotion of good practice.

The Regional Report on Enabling Environment for Youth Entrepreneurship will address four topics relevant for enabling environment for young entrepreneurs: financial support, government policies, physical and professional infrastructure, and social norms.

They have been chosen taking into account the importance of these topics outlined in the relevant strategic documents and previous research studies which indicate that they could be effective in improving skills for youth entrepreneurship in the Western Balkans region.

This Report is produced within the project **WeB4YES – Western Balkan Civil Society Organisations for Youth Employment Support**, supported under the framework of the *Civil Society Facility and Media Programme 2016–2017 Consolidating Regional Thematic Networks of Civil Society Organisations by the European Commission*. The Project represents a regional-scale initiative designed to deliver innovative approaches and provide young people in the Western Balkans region opportunities for employability enhancement and employment. Apart from the report on Enabling Environment for Youth Entrepreneurship, report about the Entrepreneurial Learning is also developed within the project. Previous regional reports within this project included Youth Employability and Active Labour Market Measures for Youth.

The report Enabling Environment for Youth Entrepreneurship in the Western Balkans will review **key policy issues regarding financial support, government policies, physical and professional infrastructure, and social norms**.

Methodology (approach to data collection and analysis)

In the process of data collection, **desk research was conducted** using a predetermined questionnaire form. The questionnaire form consisted of a set of questions related to different aspects of youth entrepreneurship policies in each of the countries and ensured the consistency and comprehensiveness of country reports as well as comparability of data. The research team involved did not undertake original surveys or research for the purpose of this report, hence, in some cases there is no information available because it was not collected or because it was not obtainable due to low transparency issues, and this is emphasized in the report.

In addition to desk research, the researchers who conducted the analysis also **consulted relevant stakeholders** individually and within the National Fora on Youth Employment which have been established within this project as platforms for structural dialogue among key stakeholders in the field. The stakeholders consulted included representatives of key public institutions, civil society organizations and the business sector.

Approach used in the analysis was to examine the **legislative and institutional framework** in each of the countries regarding the environment for youth entrepreneurship, i.e. financial support, government policies, infrastructure and social norms.

Throughout the analysis, **examples of good practise** in terms of effective responses to policy issues from the Western Balkan countries were identified and analyzed. Moreover, the **areas with the largest potential for regional cooperation** in the area of youth entrepreneurship were identified. On the basis of the conducted analysis, general **framework recommendations** were formulated. The recommendations are formulated for the regional level, while in the next phase the specific national policy recommendations will be created.

State and Development of Youth Entrepreneurship in the Western Balkans

Understanding the current state and development of entrepreneurship of youth in Western Balkan countries is very challenging, due to scarce data from surveys and official statistical data provided by the government. Data that we do have show that youth in Western Balkan countries are apprehensive about starting their own business and taking risks, and afraid of failure.

Surveys show that some of the key obstacles and limitations for youth starting a business is securing the start-up capital, lack of support in their immediate surroundings, complex administrative procedures, inadequate access to professional support and mentorship, limited duration of programs run by the government and non-government organizations (NGOs), lack of education on entrepreneurship, lack of business contacts among youth, unstable political and economic situation in the country, underdeveloped entrepreneurial culture and mentality, etc.

According to the Global Entrepreneurship Monitor for Bosnia and Herzegovina (BiH) in 2012¹, youth start their businesses mostly out of necessity, as opposed to opportunity. Youth in BiH have very little self-initiative, and experts believe that youth are less like to self-employ and prefer to work for an employer. This implies that youth who do start their own business do so because they had to, due to a lack of other potential sources of income. Youth are mostly apprehensive about starting their own business. When they do start a business, they learn as they go, from their own experience and relationships, and not in the education system. This claim is substantiated by a 2013 survey conducted by the Institute for Youth Development KULT², which revealed that young people in Federation of Bosnia and Herzegovina (FBiH) who would start their own business lack the financial and professional support.

A similar situation was noted in Kosovo where youth are more likely to find a job in any company (preferably in the public sector) rather than launching their own businesses. Even though there are some, however limited, state incentives for self-employment and entrepreneurship, there are many other obstacles to starting a business such as low standard of living and consumer spending power, high taxes, competition from larger organizations, small market – low possibilities of regional cooperation.³

A survey conducted by LIBEK (2015) 4 states that 35% of respondents in the 20-29 age group in Serbia are planning to start their own business within the next three years, while other respondents have no such plans. This survey revealed a clear connection between those who are not planning to start their own business, and those who fear business failure. The majority of respondents (89.6%) believe that the business culture in Serbia does not foster an entrepreneurial spirit.

Data from the Directorate for Investments, Development of SMEs and Managing EU Funds of the Ministry of Economy of Montenegro show that entrepreneurs after all do include young people – in 2017 in Montenegro 17.4% of entrepreneurs were young (under 35), and ownership structure of 24.7% of SMEs included young people.

Data from Global Entrepreneurship Monitor available for the 2008-2012 period, http://www.cerpod-tuzla.org/index.php/bs/gem/gem-izvjestaji

² Na putu ka politici prema mladima FBiH – Analiza stanja i potreba mladih u Federaciji Bosne i Hercegovine 2013.; Institut za razvoj mladih KULT, Sarajevo, 2014.

³ UNDP – Analysis of public pulse – Challenges and mindset of youth in Kosovo

⁴ Preduzetnička kultura kod mladih, LIBEK, 2015, https://libek.org.rs/uploads/files/1430826083.07D72SKz-VROwmgKG.pdf

An interesting survey⁵ conducted in Albania reveals that 53.6% of graduates consider starting up business, 5.8% of graduates have started their business, while 0.91% graduates are successful in their enterprise. An empirical test carried out on the data gathered from questionnaires demonstrates that two entrepreneurship education variables are found to have statistically significant relationship on the inclination towards entrepreneurship: family business background and entrepreneurship education. The findings imply that prior exposure to entrepreneurship education has a positive effect on students' attitudes toward a career in entrepreneurship and on perceived behavioural control or entrepreneurial self-efficacy. At the same time, individuals' prior exposure to entrepreneurship in practice, both direct and indirect through their family background in business, is significantly linked to their attitudes, norms, and perceived behavioural control regarding entrepreneurship. More specifically, having a self-employed father is significantly related to the students' positive attitudes, stronger norms, and greater self-efficacy with respect to entrepreneurship.

In North Macedonia, motives for starting a business are mostly a desire to build a financial independence, opportunity to make money, utilizing skill sets, providing long-term financial security for family and unemployment.⁶

Social norms, as a component of any entrepreneurial environment, can either encourage or hinder new business ventures, i.e. business activities of youth. When it comes to social norms, it is important to consider the general attitude of the society towards entrepreneurship, and the status of entrepreneurs in the society, whether entrepreneurship is considered a viable career choices for youth, how youth perceive the support provided by the society, the role of parents, society's perception of failure in launching and running a business and how it affects youth, the attitude of media towards young entrepreneurs and how helpful older entrepreneurs are to youth. Unfortunately, not much research was done on these issues in the Western Balkan, and data that could shed light on the current situation are very scarce and limited. As such, they leave too much room for generalizations and interpretations, which may not reflect the actual situation.

Recommendation

Government institutions should support continuous primary research on all aspects of the entrepreneurial environment for youth in order to provide an official and public database for adequate policy measures and actions. Priority should be given to research studies regarding bureaucratic procedures, providing favourable infrastructure and overall encouragement for young people to start new business ventures. Ministries of economy, chambers of commerce, as well local authorities should have leading roles in these researches and providing data, while civil society organizations can have a supportive role in this process.

It is necessary to promote examples of good practice and create a positive attitude towards young entrepreneurs who launched successful businesses. Legislation and other strategic documents should be modified in order to make the positive attitude as the outcome. It is necessary to raise consciousness about the contribution of business owners to economic development and to promote entrepreneurs as the key generators of new jobs. Entrepreneurs, authorities providing financial incentives and different international and local programs of support for entrepreneurship should promote entrepreneurship and improvement of entrepreneurial spirit through modern channels of communication, such as YouTube, Facebook, and Instagram etc. as the ones more appropriate for youth.

Kume A., Kume V. and Shahini B. (2013) Entrepreneurial characteristics amongst university students in Albania. European Scientific Journal (The research is based in a survey which focuses on entrepreneurial attitudes and intentions of students at institutes of Higher Education in Albania. The research group surveyed 519 students from universities in Tirana (public and private).

⁶ https://www.britishcouncil.mk/sites/default/files/country_report_republic_of_macedonia.pdf

Available Financial Support to Youth Entrepreneurship

Lack of funds and difficulties in securing funding are among the most common limitations cited by youth with regards to launching a business. They mostly rely on friends and family for funding, especially during the stage when they are registering a business. They generally think that obtaining funding from other sources, such as commercial banks and funds, is difficult and complicated.

According to the results of the Global Monitor for 2012⁷ for BiH, the majority of young people (21-34 years old) who launched their own business were helped by their families, relatives and friends (rating of 3.81 out of 5.0). According to the ILO report Labour Market Transitions of Young Men and Women in Montenegro⁸, only one in ten self-employer persons used a loan to launch a business, and almost half (46.8%) of the respondents stated that they borrowed money from family or friends, one fourth (24.4%) had their own savings, and 19.5% said they didn't need money. Statistical data from Serbia supports this, with 71% of young entrepreneurs stating that they had their own source of funding⁹. The importance of support provided by families and friends is evident in the fact that almost 51.4% of young entrepreneurs launched their businesses thanks to this support, and 18.2% used their own savings.¹⁰

All Western Balkans countries have many commercial banks and microloan organizations. However, the loans that they offer mostly **do not include any special conditions and facilities for youth starting their first business**. For instance, a lower interest rate, offered by banks, is not an actual facility if youth are being asked to provide mortgages or guarantors. For youth aspiring to own a business, the start-up capital is the biggest issue, i.e. the percentage of the deposit they are required to make or provide as a guarantee for the loan. Whether this amount of money exceeds what may reasonably be expected for youth to have in their savings, or they are required to mortgage real estate that are most likely owned by their parents, and not youth themselves, the result is an almost insurmountable obstacle that requires them to go into debt to start a business. For instance in Serbia, out of the 30 commercial banks only four of them include microloans in their portfolio and only one is entirely focused on microloans, especially for rural areas. Representatives of microloan institutions pointed to the substantial discrepancy between the demand for microloans in Serbia and the supply of such loans by microloan institutions.

Another obstacle is the fact that youth have to compete with more experienced entrepreneurs, owners of SMEs with more experience in running a business.

According to national reports of partner organizations, it appears that in all Western Balkans countries, excepting Kosovo where there are no available data, **financial incentives provided by government institutions for youth launching and running businesses are very much present**, in terms of frequency, their focus on youth as a target group and the amount of funds allocated and invested in supporting them. Incentives exist at all levels of government, primarily at state level, but also at the local level, and specifically for Bosnia and Herzegovina at the entity and cantonal levels.

⁷ Data of the Global Entrepreneurship Monitor available for 2008-2012, http://www.cerpod-tuzla.org/index. php/bs/gem/gem-izvjestaji

⁸ International Labour Office, Labour Market Transitions of Young Men and Women in Montenegro, 2016

⁹ Analiza rezultata istraživanja o potrebama potencijalnih i postojećih mladih preduzetnika u Republici Srbiji, Služba za mala i srednja privredna društva Privredne komore Srbije i Privredni forum mladih, Belgrade, 2016

¹⁰ Analiza regulatornog okvira preduzetništva tri najperpektivnije delatnosti, sa predlogom pojednostavljenja poslovanja za mlade preduzetnike, Ekonomski Institut, Belgrade, 2016

For instance, in Albania the Municipality of Tirana provides funds to young entrepreneurs between 18 and 35 years of age by awarding grants for launching businesses or expanding current businesses. In Montenegro this type of support is more modest, and differs among municipalities.

Incentives are provided individually or jointly by competent ministries (youth, entrepreneurship, employment, economy, etc.) and other government institutions such as employment services (*Example 1*).

Example 1.

The National Employment Service (NSZ) in Serbia provides unemployed persons with grants for starting their own businesses in the amount of 180,000 to 200,000 dinars. In 2017 they awarded a total of 3680 incentive funds, of which 956 self-employment incentive funds were awarded to youth under 30, who pursuant to the National Employment Action Plan 2017 belong in the difficult-to-employ category and are prioritized in active employment policy measures.

The self-employment incentive funds are awarded in a lump sum of 180,000 dinars, i.e. 200,000 dinars for self-employment of worker fired as surplus, or 220,000 dinars for unemployed persons with disabilities, for starting a business that will formally employ the founder. Multiple employees are eligible for these incentives too, by starting a business for the purpose of self-employment. If several unemployed persons join together, in accordance with the law, each individual submits a request for self-employment and access to incentive funds in the amount of 180,000 dinars, i.e. 200,000 dinars for employing workers fired as surplus or 220,000 dinars when the request is submitted by persons with disabilities.

Information about the effects and sustainability of the launched business is scarce, since there are no monitoring data, or evaluations of government programs, measures and incentives.

Alternative funding types and models such as business angels, crowd-funding and others are still underdeveloped. **They are not recognized by law**, and there are no obvious efforts to set up relevant regulations and mechanisms. Domestic entrepreneurs with surplus capital do not recognize these options as business and investment opportunities; or they are not sufficiently informed or motivated. However, there are some business angels, although there is not much information about how they work or the results they achieve. Examples include the business angels network of the Innovation Center Banja Luka in Bosnia and Herzegovina and CEED Macedonia Business Angels Club in North Macedonia, both of which are members of the European Business Angels Network (EBAN).

A significant source of financial support are domestic and international non-government and government organizations, agencies and institutions from foreign countries, who support the development of the economy and entrepreneurship through their regular or special programs, initiatives and activities, often in cooperation with domestic government institutions (*Example 2*.)

Youth interested in becoming entrepreneurs have access to some regional programmes, such as COSME, European Union's Programme for the Competitiveness of Small and Medium-Sized Enterprises (SMEs) with a 2.3 billion EUR budget for the 2014-2020 period, which

¹¹ Politike i mere podrške za razvoj preduzetništva u Srbiji - Neophodnost promena", Seven, Belgrade, 2016

Example 2.

Albanian-American Development Foundation (AADF): The mission of the foundation is to facilitate the development of a sustainable private sector economy and a democratic society in Albania, and to contribute to stability in South Eastern Europe. The AADF sponsors the following programs to further its mission: education for sustainable development; entrepreneurship; leadership development; and support for cultural tourism and eco-tourism. The Albanian-American Enterprise Fund (AAEF) was established pursuant to the Support for Eastern Europe's Democracy Act of 1989 (SEED Act). Incorporated in 1995, the AAEF's primary purpose is to promote private sector development in Albania.

The Fund was created with a committed capital of US\$30 million, which was administered as a grant by the United States Agency for International Development (USAID). The Fund's reach and visibility has extended well beyond modest initial financial resources. With a capital base of just US\$30 million, the AAEF has directly invested US\$109 million in 77 investments in 40 companies. Over 7,000 new jobs have been created and over US\$2 billion has been contributed to Albania's GDP by current and former portfolio companies. During the time that the Fund was the owner of the American Bank of Albania, US\$977 million in financing were provided to companies in Albania which contributed US\$2.2 billion to the Albanian GDP.

can be used by Serbia and Bosnia and Herzegovina. Also, there is Erasmus for Young Entrepreneurs, an international exchange programme that provides new or potential entrepreneurs with an opportunity to learn from experienced entrepreneurs, and is available in Serbia, Bosnia and Herzegovina, North Macedonia and Montenegro. Unfortunately, there is no available information of the extent to which youth use these programmes.

Another important issue is lack of financial literacy of most young people. Future young entrepreneurs should adopt the knowledge about the basic financial terms and mechanisms through formal and/or non-formal education, which will be later useful for their businesses.

Recommendation

Alternative sources of funding for youth businesses, such as business angels and crowd-funding, should be regulated by law. Access to existing sources of funding should be improved by providing various loan facilities. Information about financial incentives should be provided to young people through all available means of information, such as one-stop shops, face-to-face communication or online support, especially ones provided by the government. Financial sources should be available in smaller and rural areas, not only in capital cities. Financial literacy of youth should be well improved through formal and/or non-formal education in order for them to understand basic financial terms and mechanisms, and use them later on for their businesses.

Government Policies in Supporting Youth Entrepreneurship

Over the past few years, youth entrepreneurship is increasingly treated as **one of the government's strategic priorities**, **especially in terms of addressing the high unemployment rate of youth in all the Western Balkans countries**.

For instance, in 2016 the Government of the Republic of Serbia launched a project Year of Entrepreneurship, and in 2017 they started their project Decade of Entrepreneurship, offering a wide variety of different state-sponsored programs aimed at strengthening entrepreneurship, helping new entrepreneurs or those who already have a business, and provide financial and non-financial support for the long-term development of entrepreneurial spirit. Although the project is not intended exclusively for youth, it is an opportunity for them too, as one of the target groups, and is often promoted in this context.

The chapter "Employment and Labour Market" in the Economic Reform Program 2018-2020 created by the Directorate for Economic Planning and adopted by the Council of Ministers of Bosnia and Herzegovina, contains youth self-employment measures. The chapter "Business Environment and Reducing Informal Economy" contains the following measures: developing the entrepreneurial infrastructure, amending some of the current laws, such as the Law on Stimulating Small Economy Growth and developing new laws such as a law on tourism, etc.

Kosovo's National Development Strategy 2016-2021 also includes support to youth entrepreneurship through fostering an environment conducive to innovation and competitiveness.

Chart 1 contains the relevant legal and strategic framework in the Western Balkan countries

Chart 1. Legal and strategic framework for youth entrepreneurship in Western Balkan countries

Country	Laws and strategic documents regulating youth entrepreneurship				
Albania	 Employment and Skills Strategy 2014 – 2020 "Higher skills and better jobs for all women and men"; National Youth Action Plan 2015-2020; The Business and Investment Development Strategy 2014-2020; National Strategy for Development and Integration 2014-2020 				
Bosnia and Herzegovina	 Development Strategy for the SME sector in BiH 2009-2011; Project for Developing SMEs in FBiH; Action plan for implementing the project «Developing SMEs in FBiH» for 2016-2018; Development Strategy for SMEs in Republika Srpska 2016-2020; Development Strategy of BiH 2010-2014; Development Strategy of Federation of BiH 2010-2020; Law on Stimulating the Development of Small Economy in Federation of BiH; Law on Stimulating the Development of SMEs in Republika Srpska; Law on Stimulating Economic Development of Brčko District; Reform Agenda for BiH 2015-2018 				

Country	Laws and strategic documents regulating youth entrepreneurship				
Kosovo	 National Development Strategy 2016-2021; Strategy of the government of Kosovo on development of SMEs 2012 - 2016 (with vision on 2020) 				
North Macedonia	 Entrepreneurial Learning Strategy of FYR Macedonia 2014-2020 The National Strategy for Small and Medium-Size Enterprises 2018 - 2023 The Strategy for Innovations in the Republic of Macedonia 2012 - 2020 Program for Competitiveness, Innovations and Entrepreneurship 2018 Competitiveness Strategy with Action Plan of the Republic of Macedonia 2016-2020 				
Montenegro	 Strategy for lifelong entrepreneurial learning 2015-2019; Youth Strategy 2017-2021 with Action Plan for 2017; Vocational Education Development Strategy 2015-2020; Development Strategy for Micro, Small and Medium Sized Enterprises in Montenegro 2018-2022; Youth Law (Official Gazette of Montenegro, 42/16); Economic reform program for Montenegro 2016-2018; Development directions for Montenegro 2015-2018 				
Serbia	 National Youth Strategy 2015-2025; Strategy for supporting the development of SMEs, entrepreneurship and competitiveness 2015-2020; National Employment Action Plan for 2018; Education development strategy in Serbia until 2020; Strategy for development and government support to IT industry; National priorities for international aid in the Republic of Serbia 2014-2017 with projections until 2020; Employment and Social Reform Programme 				

However, youth in Western Balkan countries see **bureaucratic procedures as one of the obstacles to starting a business**. Young entrepreneurs are struggling because of the lack of information about registering a business and legislation that regulates their operations. There are many regulations and they are often very complicated. According to a survey conducted by the Institute for Youth Development KULT¹², youth in FBiH look favourably on self-employment programs and incentives for launching businesses. However, they cite the complicated administration as one of the drawbacks. According to young people, it takes at least 6 months to complete the registration process, which uses up the majority of the funds they receive. According to results of the Global Entrepreneurship Monitor for BiH 2010-2012, new and growing businesses are struggling with bureaucracy, legal obligations and regulations.

Chart 2 shows the conditions for starting a business in the Western Balkan countries, according to data from the Doing Business Report 2018. The number of days and procedures listed in the chart shows that starting a limited liability company is fastest in North Macedonia, Serbia, Albania and Kosovo. North Macedonia, Kosovo and Montenegro have the lowest costs.

¹² Towards a Youth Policy of FBiH – Survey on the Position and Needs of Youth in FBiH 2013; Institute for Youth Development KULT, Sarajevo, 2014

Chart 2. Indicators from the Doing Business Report 2018 on ease of doing business in the Western Balkan countries

Country	Ease of doing business ranking (1-190)	Starting a business – ranking (1-190)	Number of days for starting a business	Number of procedures for starting a business	Cost of starting a business (% of income per capita)
Albania	65	45	5	5	12,0
Bosnia and Herzegovina	86	175	65	12	7.7
Kosovo	40	10	5,5	3	1%
North Macedonia	11	22	7	4	0,1%
Montenegro	42	60	10	6	1,5%
Serbia	43	32	5,5	5	2,3%

In Albania, BiH, Kosovo and North Macedonia, there are no specific tax breaks exclusively for youth and their businesses. Since 2018, Serbia has tax breaks for new businesses, which include youth: lower corporate tax for the first two years from the day the company was founded; lower contributions for obligatory social insurance for the first two years from the day the company was founded; non-taxable income was increased to 15,000 dinars. In Montenegro, tax facilities are mostly in the form of a stimulus available to business owners who start their companies in a municipality's business zone or in municipalities that are classified as underdeveloped. Pursuant to the Law on Corporate Tax¹³ in economically underdeveloped municipalities in Montenegro newly founded businesses are exempt from paying calculated corporate tax for the first eight years. Pursuant to the Law on Income Tax¹⁴ the calculated income tax for the first eight years is reduced by 100%.

Fiscal and parafiscal taxes are a special burden on the economy, and youth businesses. For instance, the current business environment in Serbia contains 280 parafiscal taxes, administrative taxes, potential fines and other charges. All of these differ among municipalities and sectors, which presents an additional problem. Focusing on particular sectors shows the following: an average agricultural business is required to pay 48 to 64 fiscal, parafiscal and administrative charges a month; for businesses in tourism and hospitality the number of charges ranges from 52 to 63, and from 45 to 60 in the metal industry. Furthermore, if the business is located in a city centre such as Belgrade, Novi Sad and Subotica, they pay even more taxes and fees. Entrepreneurs in BiH mostly cite the following taxes and fees that burden them: administrative charges, general service charges, special water service charges, tourism board membership fees, Foreign Trade Chamber membership fees, forest protection fee, road use tax, environmental protection fee.

¹³ Law on Corporate Tax, Official Gazette, 40/2008, 86/2009, 40/2011 – second law, 14/2012i 61/2013 and 55/2016.

¹⁴ Law on Income Tax, Official Gazette, 86/2009, 40/2011 – second law, 14/2012, 6/2013, 62/2013, 60/2014, 79/2015 and 83/2016.

¹⁵ Preduzetništvo mladih u Srbiji - Mapiranje prepreka za preduzetništvo mladih, Danijela Bobić, Belgrade, 2017

¹⁶ Analiza parafiskalnih nameta u Bosni i Hercegovini – kako kreirati registar parafiskalnih nameta i izrada nacrta registra, International Burch University, Sarajevo, 2014

Pecommendation:

It is necessary to develop a stimulating tax treatment of young entrepreneurs by introducing specific measures and facilities by the authorities following the examples of countries with good practice; simplify and improve the transparency of procedures for starting a business; strengthen the role of local communities and local administrations in supporting young entrepreneurs. Institutions that award incentives for developing entrepreneurship should monitor and evaluate the awarded incentives in order to design measures that will be appropriate in practical terms. Stronger connection and cooperation should be established between government and non-government sector in order to support entrepreneurship even better, in the form of all kinds of consultations about defining policies or legal solutions.

Physical and Professional Infrastructure in Supporting Youth Entrepreneurship

Access to communication networks (phone, internet...) for business owners and young entrepreneurs is not complicated or expensive in Western Balkan countries. Utilities are also relatively affordable for business owners. However, access to utilities varies by country. According to the Global Entrepreneurship Monitor for BiH 2010-2013, experts believe that a new and growing business can get connected to utilities within a month (rating 3.34 (2010), 3.34 (2011) and 3.37 (2012) out of 5.0). Getting connected to the electrical grid takes an average of 125 days in Serbia¹⁷. Other utilities can be connected faster, e.g. water can be connected within 30 days. In North Macedonia, a connection to the electrical grid takes 97 days¹⁸. In Montenegro, connections are made in 4 steps. Getting connected to the electrical grid is one of the main obstacles for businesses in Albania, where it takes 6 procedures, 77 days and the cost is 491.4% of income per capita. In Kosovo, one of the obstacles is access to the water supply system, which is not developed in all areas.

Youth who want to start and develop their own business have access to mentors and professional support through various programs offered by government institutions and NGOs. However these services vary in scope and continuity among countries and programs.

Serbia has two mentorship programs initiated by two government institutions: Development Agency of Serbia and the National Employment Service. However, they have thus far not been able to adopt a good mentorship practice, for the following reasons: the programs are short-term and not long-term; they have time constraints: minimum 25 and maximum 50 hours per entrepreneur. The program comprises three segments: diagnostics (financial analysis, interview with the owner, SWOT analysis and defining key problems), planning (more detailed analysis and development of action plan) and implementation. This approach is more akin to a short-term reconstruction plan than to mentorship. The entire process is limited by time, and in most cases does not include plans for final implementation. On the other hand, the mentorship provided by the National Employment Service includes visits to companies, interview with the owner, diagnosis of the current situation. identification of problems and suggested solutions. This activity is subject to even stricter time constraints, and the program lasts for two days (5 hours a day). Both programs have a tendency of being fairly formal and are focused less on performance. The programs are not flexible or tailored to the needs of the participants. Finally, there is no evidence of how successful these programs are, or any data about users of the mentorship services after their participation in the program.¹⁹

Bosnia and Herzegovina does not have a systematic approach to providing mentorship and professional support to youth who are starting or managing their business. Government programs in this area are scarce and sporadic. One positive example is "Mentoring Services for Business in Small Economy" of the Federal Ministry of Development, Entrepreneurship and Crafts. The Ministry issues a public call for small economy businesses as defined by the Law on Stimulating the Development of Small Economy and the Law on Crafts and Similar Activities with headquarters in FBiH, in private ownership and majority-owned by a citizen of BiH, with at least one employee with an indefinite term employment contract. The monitoring process relies on the methodology of the FBiH Ministry of Development, Entrepreneurship and Crafts, developed in cooperation with the Japanese

¹⁷ http://www.doingbusiness.org/data/exploreeconomies/serbia#getting-electricity

¹⁸ https://www.britishcouncil.mk/sites/default/files/country_report_republic_of_macedonia.pdf

¹⁹ Preduzetništvo mladih u Srbiji - Mapiranje prepreka za preduzetništvo mladih, Danijela Bobić, Belgrade, 2017

International Cooperation Agency (JICA). The methodology defines steps that the expert – mentor takes in direct contact with the person running the business, for a certain number of hours (50 per user) at the user's premise (no less than 75% of the total number of planned hours). The person running the business and the mentor look at the operations, find reasons for current problems or obstacles hindering development, define growth potential, and use their assessment of the situation to prepare a development plan or project.

In Montenegro, all information about starting businesses is available to youth at the Directorate for the Development of SMEs. The portal "Asistent" provides all the information about procedures and the documents needed to register a business, register employees, value added tax, etc. In Podgorica, youth can look for information at the Bureau for Economic Cooperation and Support to Business Community of the Capital. In North Macedonia, one notable example is the cooperation between the United Nations Development Programme (UNDP), Ministry of Labour and Social Policy and the Employment Service Agency of the Republic of North Macedonia, which provides youth with mentorship during the development and implementation of the business plan. Kosovo has similar mentorship programs run by the Ministry of Labour and Social Welfare and the Ministry of Culture, Youth and Sports. The government of Albania, however, does not provide mentorship programs – all such programs are run by the NGO sector.

When it comes to the development of entrepreneurial infrastructure, it is important to note the availability of business incubators in the Western Balkans. Unfortunately, data is scarce and limited in scope, which means that in some cases we do not know the exact number of incubators in a country, their geographical distribution, the number of users, and affordability of the services they offer.

Serbia currently has more than 30 incubators, but not all of them are operational. There are 17 functional, classic incubators in Belgrade, Novi Sad, Subotica, Kragujevac, Zrenjanin, Valjevo, Užice, Prokuplje, Kruševac, Vranj, Pirot, Bor, Majdanpek, Kladovo, Požarevac and Bački Petrovac, 3 registered but inactive, and three other municipalities have initiatives to start an incubator.²⁰ They are present in almost all regional centres in the country, and it can be said that they are evenly distributed. On the other hand, there are private, modern incubators focused on innovation, creativity and information technology, such as the "Impact Hub" from Belgrade, "Startit" from Belgrade, "Nova iskra" from Belgrade, "In centar" from Belgrade, "Deli" from Niš and "Mokrin House" from Mokrin.²¹

There are 5 business incubators in Montenegro. One is located in the southern part of Montenegro (Bar), three in the central region (Podgorica, Nikšić and Cetinje) and one in the north (Berane). For instance Business Center of the Capital is currently incubating 8 businesses. These businesses are provided with rent-free facilities for two years and free-of-charge accounting services for one year.

According to data from 2015 from the web portal www.poslovnookruzenje.ba run by the LEDnet network – Network for Economic Development in Bosnia and Herzegovina, twelve business incubators in BiH are managing 21339.72 m² of business space. Since 1998, business incubators generated more than 160 businesses and 1304 jobs, they regularly fill the budget of BiH and contribute to the socio-economic stabilization of BiH citizens. Some of the users export significant amounts of added value products.

Nevertheless, the BiH government has yet to create a comprehensive, long-term and systematic support program. The sustainability of business incubators is the sole responsibility of the founders, which are municipalities and the Government (Brčko District) in 8 cases, and the NGO sector in 4 cases. Other levels of government and funds for supporting the

²⁰ http://www.bitf.rs/cms/item/clubs/sr/networks/incubators.html

²¹ https://www.mojafirma.rs/baza-znanja/poslovni-inkubatori-kao-podrska-razvoju-preduzetnistva/

development of entrepreneurship did not get involved in forming business incubators, funding their sustainability, or providing program and financial support to forming new business incubators. Numerous analyses identified a lack of detailed policies for establishing and developing business incubators. There is nothing that defines the responsibility for creating quality plans, programs for supporting the development of business incubators, the lack of funds for promoting business incubators, excellence centres in technological parks. In BiH it is still unclear who business incubators belong to as instruments of local economic development.

North Macedonia has 8 incubators. Two of them work on a regular basis, and six of them are usually project/donor driven. Kosovo is in a similar situation, with 3 notable business incubators: Innovation Center Kosovo, Unicef Innovations Lab Kosovo, Innovation Center Gjakova. In Albania, there are several positive examples of business incubators, but they are mostly located in larger Albanian cities, such as Ofiçina, Albanian Innovation Accelerator and UK-Albania Tech Hub.

Recommendation

It is necessary to improve the current entrepreneurial infrastructure and establish a systematic and continuous mentorship approach to young people who are starting their businesses or are developing an already registered business. Young people must be able to turn to competent institutions and organizations for any kind of help they need in developing their business plans, interpreting the legal aspects of starting a business, and other activities. When it comes to business incubators, they should focus more on supporting and encouraging simple, common and traditional business ideas as more realistic ones, instead of requesting innovative business ideas of their users.

Conclusions and Recommendations

First of all, understanding the current state and development of entrepreneurship of youth in Western Balkan countries is very challenging, due to scarce data from surveys and official statistical data provided by the government. The importance of youth entrepreneurship can be demonstrated through creating opportunities for self-employment and youth employment in general, which on the other hand largely depends on the business environment and the economy of a country. One of the key evidence-based messages regarding youth entrepreneurship in the Western Balkans relates to the necessity of improving relevant indicators for enabling environment, such as ease of starting a business, access to mechanisms and incentives for start-ups and promotion of good practice. Although there are some specifics regarding the business environment in each of six Western Balkan countries, problems and challenges that need to be addressed are very similar. Based on the identified policy issues, a broad set of recommendations which address them can be proposed.

- 1. Government institutions should support continuous primary research on all aspects of the entrepreneurial environment for youth in order to provide an official and public database for adequate policy measures and actions. Priority should be given to research studies regarding bureaucratic procedures, providing favourable infrastructure and overall encouragement for young people to start new business ventures. Ministries of economy, chambers of commerce, as well local authorities should have leading roles in these researches and providing data, while civil society organizations can have a supportive role in this process.
- 2. Alternative sources of funding for youth businesses, such as business angels and crowd-funding, should be regulated by law. Access to existing sources of funding should be improved by providing various loan facilities. Information about financial incentives should be provided to young people through all available means of information, such as one-stop shops, face-to-face communication or online support, especially ones provided by the government. Financial sources should be available in smaller and rural areas, not only in capital cities. Financial literacy of youth should be well improved through formal and/or non-formal education in order for them to understand basic financial terms and mechanisms, and use them later on for their businesses.
- 3. It is necessary to develop a stimulating tax treatment of young entrepreneurs by introducing specific measures and facilities by the authorities following the examples of countries with good practice; simplify and improve the transparency of procedures for starting a business; strengthen the role of local communities and local administrations in supporting young entrepreneurs. Institutions that award incentives for developing entrepreneurship should monitor and evaluate the awarded incentives in order to design measures that will be appropriate in practical terms. Stronger connection and cooperation should be established between government and non-government sector in order to support entrepreneurship even better, in the form of all kinds of consultations about defining policies or legal solutions.
- 4. It is necessary to improve the current entrepreneurial infrastructure and establish a systematic and continuous mentorship approach to young people who are starting their businesses or are developing an already registered business. Young people must be able to turn to competent institutions and organizations for any kind of help they need in developing their business plans, interpreting the legal aspects of starting a business, and other activities. When it comes to business incubators, they

should focus more on supporting and encouraging simple, common and traditional business ideas as more realistic ones, instead of requesting innovative business ideas of their users.

5. It is necessary to promote examples of good practice and create a positive attitude towards young entrepreneurs who launched successful businesses. Legislation and other strategic documents should be modified in order to make the positive attitude as the outcome. It is necessary to raise consciousness about the contribution of business owners to economic development and to promote entrepreneurs as the key generators of new jobs. Entrepreneurs, authorities providing financial incentives and different international and local programs of support for entrepreneurship should promote entrepreneurship and improvement of entrepreneurial spirit through modern channels of communication, such as YouTube, Facebook, and Instagram etc. as the ones more appropriate for youth.



Appendix 1: The Form for Country Reports on Enabling Environment for Youth Entrepreneurship

- 1. Please provide the following information that will help up get a general overview of the state of youth entrepreneurship in your country.
 - 1.1. What is the attitude of youth when it comes to launching their own business?
 - Are they afraid to launch a business, or are they not afraid to take risks? Why
 is this so?
 - Do young people start businesses out of necessity to earn a living, or out of opportunity – to increase their income, implement their ideas, take on challenges and succeed?
 - 1.2. List 5-10 **key obstacles and limitations** that make it harder for youth to engage in entrepreneurship. Why don't youth launch their own businesses?
 - 1.3. List and describe some of the successful models/programs/measures for supporting youth in starting and managing a business. They may include participation by the NGO sector or the business sector or participation and cooperation by several of the mentioned sectors.
 - 1.4. Are there some **regional or European programs for young people** that youth from your country are eligible for?
- 2. Please provide information about the available financial support to young entrepreneurship in your country.

As sources of data, we recommend surveys of youth entrepreneurs and youth in general, statistical data of domestic competent institutions and organizations or international sources such as the Global Entrepreneurship Monitor²².

- 2.1. Describe the extent to which youth rely on **their own sources of funding** when starting their business (personal funds, parents, extended family, friends...).
- 22 State
 - what is the availability and how favorable are the loans (from banks, microcredit organizations, foundations...) for starting and managing youth businesses and/ or businesses in general;
 - do youth use loans to launch and manage their own businesses, and how satisfied are they with the conditions for using loans.
- 2.3. State and describe:
 - what types of financial incentives by the government are provided for youth launching businesses i.e. for self-employment (grants or loans, etc.);
 - · what levels of government are providing these measures and programs;
 - which institutions in your country are competent for offering and implementing these programs;
 - how often are these programs and measures implemented (regularly every year / sporadically...) and are the funds substantial;

²² https://www.gemconsortium.org/

- what is the success rate of such programs and measures what are the effects and sustainability of businesses started by youth.
- 2.4. State and describe:
 - what is the availability and frequency of use of funding sources from business angels for launching youth businesses;
 - what is the availability and frequency of use of funding sources from private lenders - crowdfunding for launching youth businesses;
 - are there other sources of funding that youth use for launching businesses.
- 3. Please provide information on whether government policies in your country encourage the launch of youth-owned businesses.
 - 3.1. Is youth entrepreneurship, i.e. self-employment a **priority policy of the government** in your country?
 - 3.2. Are there **laws and strategies** regulating youth entrepreneurship? List the laws and strategies.
 - 3.3. How many days and procedures does it take, and how much does it cost to register a business in your country? (Use data from the Doing Business Report published in 2018).
 - 3.4. How do **youth perceive bureaucratic procedures and legal requirements** connected with launching and managing a business?
 - 3.5. What are the **tax obligations** of newly-launched businesses? Are there specific tax breaks for youth-owned businesses?
 - 3.6. Are there government support programs that provide youth with the **opportunity to obtain new technology** they need for their businesses? Describe the programs or provide an example.
- 4. Please provide information on the physical and professional infrastructure supporting the launch of youth-owned businesses in your country.
 - 4.1. Is **the cost of access to communication networks** (phone, Internet...) too high for youth who just launched their own business? How do youth perceive these costs?
 - 4.2. Is the cost of **basic utilities** (gas, water, electricity, sewage) too high for youth who just launched their own business? How do youth perceive these costs?
 - 4.3. How fast can a new company get their **utilities connected** (connection to the gas, water, electrical and sewage network)?
 - 4.4. What **expert support** is provided to people launching businesses? What **mentor-ship support** is provided to people during the first (few) years of their new business?
 - Are there **government programs** providing expert and mentorship support?
 - Do youth use expert support by commercial service providers, e.g. accountants, private consulting agencies etc. and is the support adequate and tailored to their needs?

- 4.5. Are there info points, physical or online (government-provided or non-governmental) where youth can get expert assistance and guidelines for launching and running a business?
- 4.6. Does your country have **business incubators** that help youth who want to launch a business or who already launched it?
 - If you have this information, please state the number of business incubators.
 - What is their geographical distribution in your country?
 - · Are their conditions adequate and favorable?
 - · To what extent do youth use business incubators and are they satisfied?

5. Please provide information about social norms when it comes to youth launching businesses in your country.

- 5.1. How does the society generally perceive entrepreneurship, i.e. owning your own business?
 - What is the view of entrepreneurship as a career choice for youth?
 - · What status in the society do entrepreneurs and young entrepreneurs have?
- 5.2. How do young entrepreneurs feel the **society perceives them** (judges them; supports them...)?
- 5.3. How do parents perceive entrepreneurship as a career choice for their children?
- 5.4. How does the **society perceive youth who fail at starting a business**, i.e. fail at successfully running it?
- 5.5. What is the attitude of the media towards young entrepreneurs and entrepreneurship in general? Are positive stories promoted? Is entrepreneurship promoted as a career choice?
- 5.6. To what extent do **established**, **"older" entrepreneurs support young entrepreneurs** and can you give an example of how they do it?

6. Framework Recommendations

Please provide draft recommendations on how to address the issues regarding the enabling environment for youth entrepreneurship in your country as well as at the level of the WB region. The recommendations should propose the action on national or WB level that addresses the problems and assigns responsibilities for implementation.