



STUDY OF THE CHALLENGES THAT HINDER MSME DEVELOPMENT IN THE WESTERN BALKANS

**Report for the British Council
and Swedish Institute**



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TERMS OF REFERENCE, APPROACH AND TARGET OUTCOMES

This study was commissioned by the British Council and the Swedish Institute to establish the need for a youth entrepreneurship programme in the Western Balkans, and design a roadmap to establish one if necessary. It follows and expands a European Union (EU) process designed to encourage youth involvement through an annual youth participation conference. In 2017, this initiative highlighted the need to support youth entrepreneurship through training, improved institutional support and access to finance (DG Enlargement, 2017).

The objective of this study is to identify training and development needs and propose an appropriate delivery framework to help young entrepreneurs build quality businesses. It takes account of the local entrepreneurial and small firm landscape. It emphasises *capability* and *linkage building*, recognising that the region has received modest amounts of foreign direct investment in the past ten years, mostly used to enhance productivity and build business capital. These modest levels of investment have reduced the important supply chain pull factor that large foreign direct *anchor* investments can often give to entrepreneurs (Gereffi, 2014) and micro, small and medium-sized enterprises (MSMEs).

There is wider evidence that 'best in class' well-managed supply chains can support entrepreneurial growth in firms by providing:

- assured customer orders (increasing certainty, which helps in raising external finance);
- community, encouragement and mentoring;
- innovation support;
- implicit protection in patent and intellectual property disputes;
- capability gap-filling through introducing appropriate partners; and
- encouragement to build open, sharing cultures.

Other entrepreneurial settings that have not been involved in such supply chains (such as some Silicon Valley disrupters) have sometimes benefited from 'smart' venture capital instead, which has provided some of these features. Evidence suggests, however, that smart venture capital has very limited reach or impact in the Western Balkans. The program set out in this report aims to incorporate initiatives to fill these gaps.

In this paper, economic growth and rising living standards are seen through the eyes of an individual entrepreneur, in a *bottom up* rather than *top down* approach. We aim to establish practical mechanisms, and build entrepreneurial competencies to manage real-world challenges. The shape of the delivery process is especially important in this, and needs to take into account the specific local challenges in the Western Balkans, and also that 'one size does not fit all'. It is therefore designed to be tailored to specific entrepreneurial needs across the region.

The resulting vision focuses on building economically-sustainable entrepreneurial ventures through a program of action learning initiatives developed specifically for the Western Balkans. The aim is to work in partnership with UK-based resources to deliver a positive international multiplier effect to local initiatives. Our focus on young entrepreneurs allows us to recognise the very special qualities young people can bring to the entrepreneurial process and help to support and unlock these by blending formal education, action learning and mentoring into a cohesive delivery program (Lackéus, 2015).

By supporting improved and flexible entrepreneurial education, we hope to create sustainable value-adding businesses that can trade internationally and will contribute towards achieving World Bank (2017d) Sustainable Development Goals SDG 4 (Quality Education), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry Innovation and Infrastructure). These goals are in turn linked to the UK Prosperity Fund (UK Government, 2017), which is linked to the National Security Strategy and

Strategic Defence and Security Review (UK Government, 2015) and the Department for International Development Strategy (DFID, 2017) aims 3, 4, 5, 6 and 9.

This report draws on three sources: -

1. A survey of potential entrepreneurs, to establish and understand their needs;
2. A review of the available statistical data to try to establish which economic environments support entrepreneurship; and
3. The learning and experience gained from other projects and academic literature, to avoid repeating mistakes.

The output is a set of recommendations that could form an action plan with associated delivery packages, embedded into and using local institutional frameworks wherever possible, proposing new business infrastructure where appropriate and suggesting partnership opportunities with UK economic actors and institutions.

IN A NUTSHELL

The Western Balkans is a region that is rich in contrasts, recovering from the Balkan Wars of the 1990s and looking for a better future. Some characteristics are common across the region, such as the importance placed on family and friends. Each state, however, is different and has its own aspirations and hopes. The 605 respondents in this study suggest that these aspirations are to build a better future for themselves and their families, to rebuild their nations, and to work collaboratively across borders. For example, one of our case study subjects was a female entrepreneur from FYR Macedonia who wanted to help forge an international business working with rural artisans in FYR Macedonia and Kosovo.

Most of our entrepreneurs saw themselves as self-employed rather than as entrepreneurs or businesspeople. The word “entrepreneur” still has some unfortunate connotations with wealthy and well-connected individuals, able to profit from their position or perhaps linked to less legal parts of the shadow economy¹. Supporting and raising levels of entrepreneurship requires an improved understanding of the concept, partly through teaching in schools and colleges, and partly through well-placed media coverage linked to successful case studies and perhaps awards programs.

Entrepreneurs in our sample were most likely to be between 25 and 45, using their skills and knowledge to improve their lot and provide for their families. There were few aspiring Bill Gates, Steve Jobs, or Larry Pages. Most wanted to open a business in retail, car repair, personal services (e.g. hairdressing) or, if qualified, professional services. There were some IT start-ups, especially in FYR Macedonia and Serbia but these were the exception, and by their very nature may benefit from a dedicated and targeted initiative.

These entrepreneurs may have big dreams, but are most concerned about putting bread on the table. An overriding theme in the case studies was the desire for safety and moderate risk. To succeed, entrepreneurs need to be able to assess and take risks, but their aspirations are often more limited. It is therefore important to build confidence, community and competences to enable entrepreneurs to develop the risk-taking capacity to seize opportunities, as many expressed a desire to do.

Other countries closer to the main European Union centres of economic activity (e.g. Poland) have benefited from higher levels of foreign direct investment than the Western Balkans, especially supply chain-related investment. The Fiat investment in the former Yugo car factory in Serbia is notable for its singularity and importance. Complex supply chain investments build their own supply chains, help transfer technology, increase innovation, help implement pan-European quality and regulatory standards and give entrepreneurs business and connections to help them raise finance. The Western Balkans, partly as a result of location and partly as a result of the Balkan Wars, missed out on the great post-Soviet Union reordering of European (especially automotive) supply chains. What we know is that, in terms of supply chain deepening flows from the EU (similar to that of Germany to Poland) there appears to be some modest levels reaching Serbia (in value and as a percentage of GDP). We also know that Russia has invested primarily in energy assets. This leaves China.

China has stated that Serbia is a strategic “waypoint” in their global “One Belt One Road” initiative, which are expected to grow over time. The challenge is to ensure that there is a “network effect” as the new infrastructure is implemented; and that Serbia in particular, and the rest of the region in general, does not become a rapid transit corridor for Chinese goods to reach Northern European markets. Together these different interests and range of historic ties locate the Western Balkans in a both interesting and somewhat challenging position, where it needs to balance competing interests from three great power blocks and at the same time use these as a spur to economic development.

¹ The shadow economy is defined as all market-based legal production activities that are deliberately concealed from public authorities to evade payment of income, value added, or other taxes or social security contributions; certain legal labour market standards (e.g. minimum wages, maximum working hours and/or safety standards); and particular administrative procedures, such as completing statistical questionnaires or administrative forms (Schneider, 2010)

We know that local GDP per capita levels are significantly below other former Eastern Bloc states, and a fraction of those in Western Europe. Capital accumulation opportunities are therefore restricted, and availability of seed capital and early stage finance are key. Lenders facing regulatory capital requirements that penalise small business lending (in comparison to, say, residential mortgage lending) price small business loans accordingly. An overwhelming majority of small business owners find these loans too expensive, so tend to rely on friends and family for finance. There is evidence that this constraint is hurting companies and restricting growth.

Even if a loan can be obtained, it often needs to be matched or exceeded by personal collateral. Banks do not have experience of lending to start-ups and early-stage businesses. Automation and global regulatory changes means that small firms are often dealt with by retail, rather than corporate, teams within the bank. In many cases, this restricts lending decisions to credit scores and remote loan officers. The days of the local bank manager, with wide local business knowledge, acting as lending officer for start-ups are largely gone. There is a gap between the lending decision and forward-looking local knowledge, and collateral is seen as the solution to this.

Facing these challenges, aspiring entrepreneurs have asked for help. They want support to connect them to markets and customers, improve their management skills, build the required technical competence to deal with the regulatory environment and finally, to obtain finance. They also want this support delivered flexibly, by combining formal training, mentoring and building collaborative networks. All these factors interact to create an opportunity to establish an integrated set of complementary initiatives that could address each issue but also add something extra, in the form of an entrepreneurial environment. This would foster start-ups, accelerate growth, and help connect entrepreneurs and markets. Program support would also lead to more sympathetic lending officer consideration.

This report brings together the testimony of 605 aspiring entrepreneurs, four in-depth case studies, experience from previous start-up and growth stage companies and knowledge from a wide variety of academic and public resources. We join the 605 aspiring entrepreneurs in thanking the British Council and Swedish Institute for making it possible for their voices to be heard. We hope this report will act as an inspiration to formulate and implement some simple initiatives that can be integrated and delivered by existing institutions to help hopeful entrepreneurs in the region.

SUMMARY OF OBSERVATIONS

No	Observation
1	<p>Under 25s lack entrepreneurship perceptions and aspirations</p> <p>One of our interviewees described entrepreneurship as for “big fish” who have at least one of money, business connections, political influence and links to the informal economy. It is risky, demands capital and can result in failure. Many people see that safer options may be more attractive, although potentially far less rewarding financially.</p>
2	<p>Aspirant entrepreneurs’ educational background differs by country</p> <p>The differences in aspirant entrepreneur educational background across the region may be a reflection of a known ‘brain drain’ (Zeneli, 2017) that is drawing graduates away from some countries and also engaging IT specialists to provide lower cost outsourced services for EU-based firms.</p>
3	<p>There is a large body of involuntary entrepreneurs</p> <p>Not all entrepreneurs are trying to build a “Google”. The evidence suggest that about three quarters just want to earn a stable living. These entrepreneurs tend to be focused on sectors with low barriers to entry and exit. This raises three questions:</p> <ol style="list-style-type: none"> 1. How can we help these aspiring entrepreneurs to improve their chances of building a long-term stable business? 2. How much do we understand about the needs of these entrepreneurs? 3. Can we help move some of these entrepreneurs towards opportunity-seeking?
4	<p>Ambition matters but Western Balkans entrepreneurs sense a ceiling</p> <p>Ambition is one of the key ingredients in delivering growth. There is, however, a lack of belief that an entrepreneur from the Western Balkans could globalise their product and achieve worldwide success.</p>
5	<p>Support measures need to align to local ecosystems</p> <p>Each business is different, and there is no “one size fits all”. Support measures will need to be adapted to fit each local ecosystem.</p>
6	<p>“Most popular” sectors are similar across countries</p> <p>The most popular sectors—retail, car repair, personal services and agriculture—are similar across all the countries of the Western Balkans. Beyond those sectors, there is a wide range of less popular sectors.</p>
7	<p>Age matters. Aspirations change with age and education</p> <p>Not all aspiring entrepreneurs are the same. Age and education matter, and drive different aspirations and risk appetite. Both these factors need to be taken into account in targeting initiatives.</p>
8	<p>Opportunity-driven entrepreneurs are mostly not IT-focused</p> <p>There is a perception that opportunity-driven entrepreneurship is focused on the hi-tech, internet and web markets. This is largely not the case in the Western Balkans, although FYR Macedonia has a higher level of aspiration in this area.</p>
9	<p>Most survey respondents aspire to be self-employed, not entrepreneurs</p> <p>The desire to be self-employed, rather than running a business or being an entrepreneur is striking. This may reflect a lack of confidence or ambition, or perhaps the views of survey respondents on businesspeople and entrepreneurs. It means that any entrepreneurship program needs to account for the number who aspire to self-employment.</p>
10	<p>Realised entrepreneurship rates differ by country</p> <p>There are similar aspirations in terms of sector, but realised entrepreneurship, as measured by limited liability company formation, differs by country. This may be partly because of choices about self-employment and company creation in different countries, although there is no specific evidence for this.</p>

No	Observation
11	<p>There is a clear set of support needs</p> <p>The main needs were around:</p> <ol style="list-style-type: none"> 1. Finding and expanding a potential customer base and targeting marketing to support this; 2. Developing management and business skills; 3. Understanding technical areas such as regulations; 4. Improving skills; and 5. Obtaining finance.
12	<p>Finding connections to markets is an entrepreneurial priority</p> <p>Finding customers is a priority, and assistance is sought to build customer links and networks.</p>
13	<p>Entrepreneurs want support to develop their management skills</p> <p>Respondents felt they needed to improve their management skills. This might be an opportunity to help transform aspirations from self-employment to running businesses.</p>
14	<p>Small firms feel constrained financially</p> <p>Small firms feel locked-out of finance, mainly because of perceptions of high interest rates, complex loan application processes and requirements for collateral.</p>
15	<p>There is a gap in seed and early stage financing provision</p> <p>There is general recognition that young companies are financially constrained, but may also offer the most rapid growth. Some measures have been established to help ease the flow of funds, such as the EU COSME guarantee framework, but these are small compared with the need.</p>
16	<p>Family and friends have special importance</p> <p>Family and friends provide essential support networks, especially for less technical issues. They are often a source of seed and early stage finance.</p>

OUR FINDINGS

The Brief

The British Council commissioned the University of Hertfordshire to work on a study with the following brief:

The Swedish Institute and the British Council (hereinafter jointly referred to as: the 'Clients') are currently preparing programmes that will target young leaders in various fields such as responsible business and entrepreneurship. The programmes are designed to strengthen the capacity of the participants by sharing concepts, practical tools and skills....Programmes will also focus on strengthening the competitiveness of small and medium sized enterprises in the Western Balkans....The focus ... is ... a pre-study designed to support the Swedish Institute and the British Council in designing and planning a leadership programme in the Western Balkans. ... There is a need for better understanding of the context and the challenges that hinder the development of small and medium sized enterprises.

Study Components

This study combines three strands to provide a view of the current landscape, and to identify some of the key themes and suggest ways in which these could be addressed in the Western Balkans. The three strands in the report are:

Economic and Political Background

First, we review the general political and economic background of the Western Balkans. This area is a long way from Europe's main economic centres (the so-called Golden Triangle of the Rhine, Paris and London, and the Spanish and North Italian "hot spots"). The region was also late entering the post-1990 economic integration of Central and Eastern Europe because of the Balkan Wars (Gapinski et al., 1989). These two factors have meant the region has had less foreign direct investment (Dunford et al., 2013; Eichengreen and Gupta, 2016; Kurtovic, 2014). There is a general agreement (known as the Washington Consensus) that economic regeneration emerges through (i) privatisation, the reduction of the state sector and liberalisation of regulations, (ii) improvements in governance and reduction in the informal economy, (iii) macro-economic stabilisation through reducing public sector deficits, (iv) foreign direct investment revitalising, retooling and reskilling the private sector to make it globally competitive (and where appropriate, include it in global supply chains), and (v) relatively free trade through membership of the World Trade Organisation and possibly the European Union's Single Market (Lin, 2015; Williamson, 2005).

The adjustment programs sponsored by the European Union to help candidate states accede to the European Union aim to combine economic reforms mirroring the Washington Consensus with regulatory alignment to the European Union, through the adoption of the *aquis communautaire*. Structural adjustment to enter the European Union is much easier for a European Union Candidate Accession State if large European companies establish new operations or revitalise ageing ones in the region. This requires adapting, updating and integrating operations and linking them to the wider company. This integration process ensures that supply chain components follow European standards and practices, and that working practices, plant and machinery are updated to meet current competitive practice. It also provides a sales outlet for products. These operations act as regenerative loci, building their own supply chains and nurturing small firms and entrepreneurs who work with them.

The Fiat investment in the Serbian Yugo factory is an excellent example of this. However, none of the major German automotive companies has moved into the region. Contrast this with the impact of these companies in Poland or the earlier Volkswagen investment in Seat. Major supply chain players act as

engines of innovation and growth, not only for themselves, but also for all around them. This is partly because of their economic power, partly by their power to enforce standards and improvements in product and partly through their ability to nurture and support small firm innovation clusters.

All of this is largely missing in the Western Balkans, as a result of historical accident, geographic location and timing. Once a supply chain is set (e.g. in Poland), it will take a major economic event to dislodge it. Some commentators hope that the One Belt, One Road initiative in China could support a transformation in north-south European flows, but it is not yet clear if this will be the case.

Any new initiatives therefore need to start from the current position, with relatively little foreign direct investment from supply chain anchor companies. We have to ask what is lost by the absence of these companies and how can this gap be closed.

Appetite for Entrepreneurship in the Western Balkans

The second strand of this report views issues from another perspective. Through a survey and interviews, we explored the views of 605 budding entrepreneurs at the “coal face”, to better understand them and their needs.

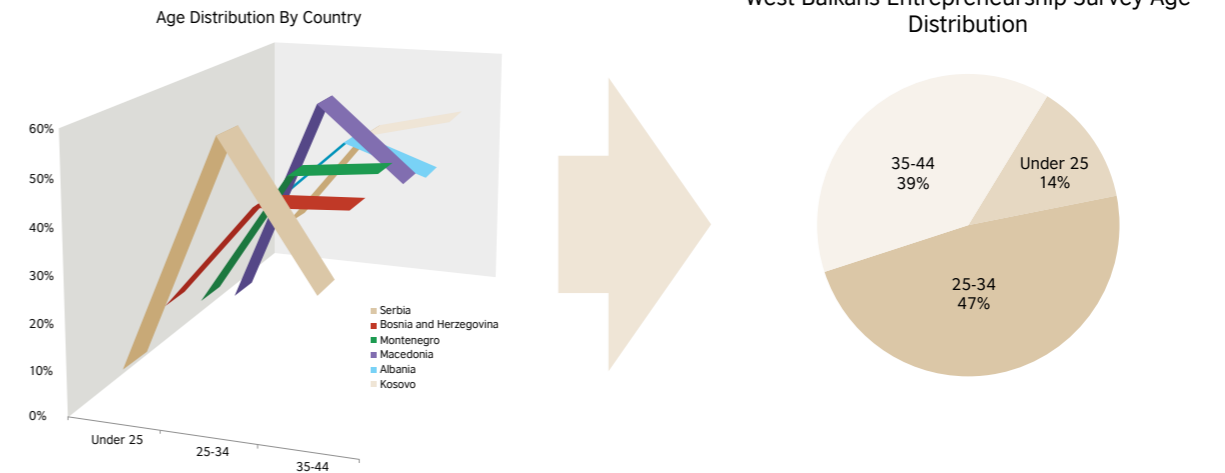
The first revelation is that although the Western Balkans is made up of separate nations, aspiring entrepreneurs share some similarities. They can be split into two groups:

- **Opportunity-driven entrepreneurs:** many of this group would be at home in TechCity in London, or Silicon Valley in California, and others share characteristics of non-tech transformational entrepreneurs such as the Reichmann family, who redeveloped part of Toronto and then went on to build Canary Wharf in London. These entrepreneurs are defined by their ability to see a gap in the market and seek to fill it. This report includes three case studies of these entrepreneurs, none of which are in high tech sectors, but all reflecting the entrepreneur’s desire to plug a basic commercial gap.
- **Involuntary entrepreneurs:** members of this group want to start a business or enter self-employment to give themselves financial security and feed their family.

There are a number of differences between the groups. Involuntary entrepreneurs are often older, perhaps unemployed, and have lower educational attainment. Many younger and more qualified people may also join this group, but others have a different perspective. These are the “opportunity-seeking” entrepreneurs, who tend to be in their mid- to late 20s to mid-30s, well-educated, cosmopolitan, passionate about their country (which is why they have not emigrated) and determined to do something different.

Chart 1 shows the age distribution of the aspiring entrepreneurs in our survey. There were fewer under 25s than older groups. Our qualitative research suggest that this may reflect (i) the poor reputation of entrepreneurship, including within the family home, (ii) a desire for safer, less risky jobs, and (iii) a lack of seed capital to start a business.

Chart 1. Age distribution



Source: Authors’ survey

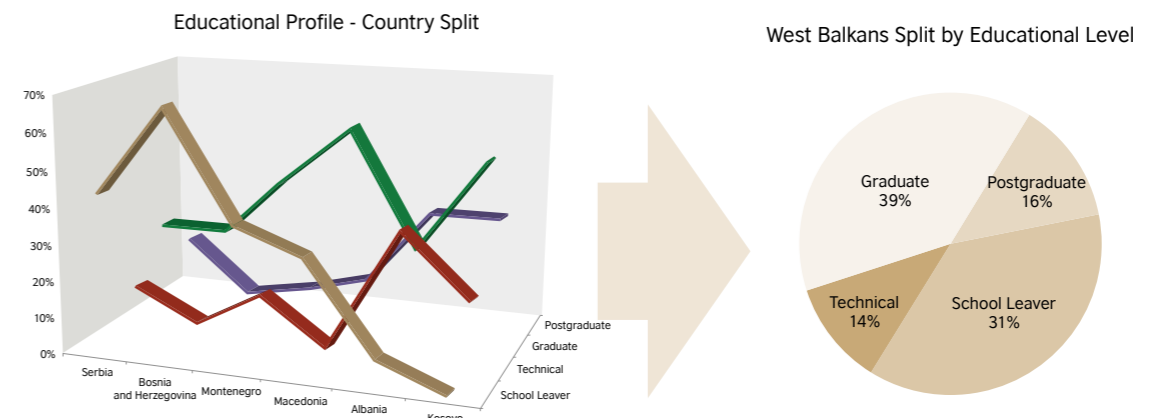
Observation 1: Under 25s lack entrepreneurship perceptions and aspirations

One of our interviewees described entrepreneurship as for “big fish” who have at least one of money, business connections, political influence and links to the informal economy. It is risky, demands capital and can result in failure. Many people see that safer options may be more attractive, although potentially far less rewarding financially.

There were significant inter-country differences in the educational background of aspiring entrepreneurs. The sample of 605 entrepreneurs—100 per country with 105 in FYR Macedonia—is small in comparison to the overall population. As with any study, there are risks in building the sample. The sample was sourced from previous telephone surveys in which respondents expressed an interest in entrepreneurship, plus a review of the commercial register and referrals from respondents. The prospects were additionally screened so all potential entrepreneurs were under 45, to fit the brief. Four individual entrepreneurs were chosen to participate in further in-depth discussions. They form the basis of the case studies in this report.

Chart 2 shows that the education level of aspiring entrepreneurs rises as we move south. The sample results for Kosovo did not include anyone whose highest level of education was high school, so the numbers from there need to be viewed with caution.

Chart 2. Educational background of aspiring entrepreneurs in the Western Balkans



Source: Authors’ survey

The Standard Industrial Classification is shown in Table 2.

Table 2. Entrepreneurial type classification

SIC Code	Industry Classification 2008 Rev 4.0	Entrepreneurial Classification	SIC	Comments
	Agriculture, forestry and fishing	IV Involuntary	A	
	Mining and quarrying	O Opportunity-focused	B	Large capital investments required
	Manufacturing	O Opportunity-focused	C	Large capital investments required
	Energy and HVAC	O Opportunity-focused	D	Capital investments required
	Water and waste	O Opportunity-focused	E	Large capital investments required
	Construction	IV Involuntary	F	
	Wholesale and retail, car and motorcycle repair	IV Involuntary	G	
	Transportation and storage	IV Involuntary	H	
	Accommodation and food service	IV Involuntary	I	
	Information and communication	O Opportunity-focused	J	
	Financial and insurance	O Opportunity-focused	K	
	Real estate activities	O Opportunity-focused	L	
	Professional, scientific and technical	O Opportunity-focused	M	
	Administrative and support service	IV Involuntary	N	Car leasing through to office cleaning
	Public administration	Public Sector	O	Not entrepreneurial
	Education	IV Involuntary	P	Private tutors to clubs and formal education system
	Human health and social work activities	IV Involuntary	Q	Care workers to healthcare centres and hospitals.
	Arts, entertainment and recreation	O Opportunity-focused	R	Individual artists to opening entertainment venues
	Other service activities	IV Involuntary	S	Personal services (e.g. hair dressing, computer repair)
	Households as employers	Domestic Labour	V	Should be nothing in this
	Extraterritorial organizations and bodies	Public Sector and NGOs	U	Should be nothing in this

Source: Adapted from UN Statistics Division (2008)

In total, 24% seem to be opportunity-driven entrepreneurs and the remaining 76% involuntary entrepreneurs. The top three sectors are retail, car and motorcycle repairs, other services—for example, hairdressing and computer repair—and agriculture-related activities. These all offer low barriers to entry for relatively low skilled entrepreneurs with little seed capital to open a business where they can earn a living (Gkypali and Roper, 2017).

Observation 2: Aspirant entrepreneurs' educational background differs by country

The differences in aspirant entrepreneur educational background across the region may be a reflection of a known 'brain drain' (Zeneli, 2017) that is drawing graduates away from some countries and also engaging IT specialists to provide lower cost outsourced services for EU-based firms.

Table 1 ranks the sectors in which entrepreneurs wish to start businesses. The major sectors accounted for 95% of the responses².

Table 1. Sector preferences

Rank	Type	Sector (Top Level Standard Industrial Classification 2008)	Total	Cum %	Serbia	Bosnia and Herzegovina	Montenegro	Macedonia	Albania	Kosovo
1	IV	Wholesale and retail trade; repair of motor vehicles and motorcycles	27%	27%	17%	34%	33%	22%	29%	26%
2	IV	Other service activities	15%	41%	20%	20%	18%	3%	9%	18%
3	IV	Agriculture, forestry and fishing	14%	55%	6%	20%	30%	9%	5%	12%
4	O	Professional, scientific and technical	12%	67%	23%	6%	13%	12%	6%	13%
5	O	Manufacturing	9%	76%	7%	6%	1%	24%	3%	10%
6	IV	Accommodation and food service	8%	83%	6%	4%	4%	4%	25%	4%
7	O	Information and communication	3%	87%	5%	2%	0%	11%	0%	1%
8	IV	Education	3%	90%	4%	5%	0%	9%	1%	1%
9	IV	Administrative and support service activities	3%	93%	2%	1%	1%	2%	7%	4%
10	IV	Transportation and storage	2%	95%	4%	2%	0%	0%	6%	2%
11	IV	Construction	2%	97%	2%	0%	0%	1%	2%	8%

Source: Authors' survey

² These sectors follow the Standard Industrial Classification (SIC, 2008) and have also been classified to show the type of entrepreneur attracted to the sector. O represents a sector dominated by opportunity-seeking entrepreneurs; and IV one dominated by involuntary entrepreneurs.

Observation 3: There is a large body of involuntary entrepreneurs

Not all entrepreneurs are trying to build a “Google”. The evidence suggest that about three quarters just want to earn a stable living. These entrepreneurs tend to be focused on sectors with low barriers to entry and exit. This raises three questions:

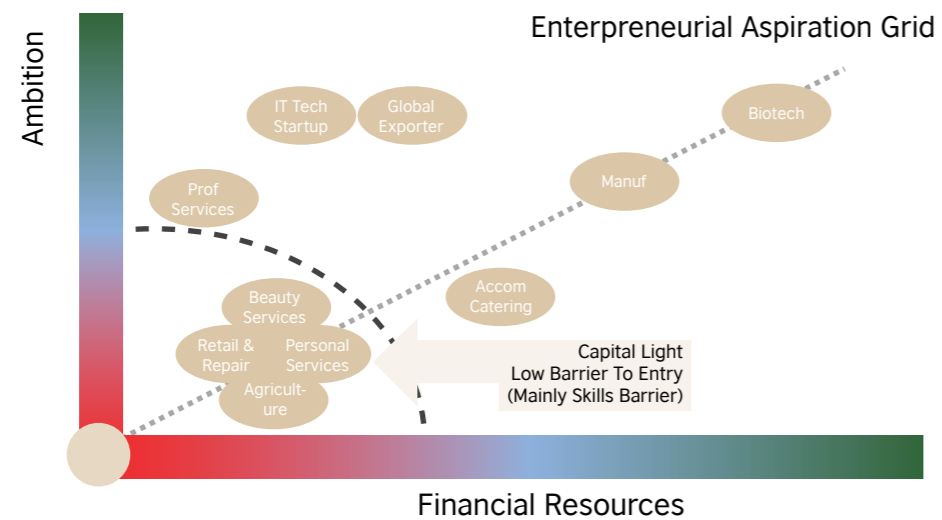
How can we help these aspiring entrepreneurs to improve their chances of building a long-term stable business?

How much do we understand about the needs of these entrepreneurs?

Can we help move some of these entrepreneurs towards opportunity-seeking?

Chart 3 looks at entrepreneurial aspiration, to help assess how ambition and financial resources combine to suggest sectors to aspiring entrepreneurs.

Chart 3. Entrepreneurial aspiration



Source: Authors

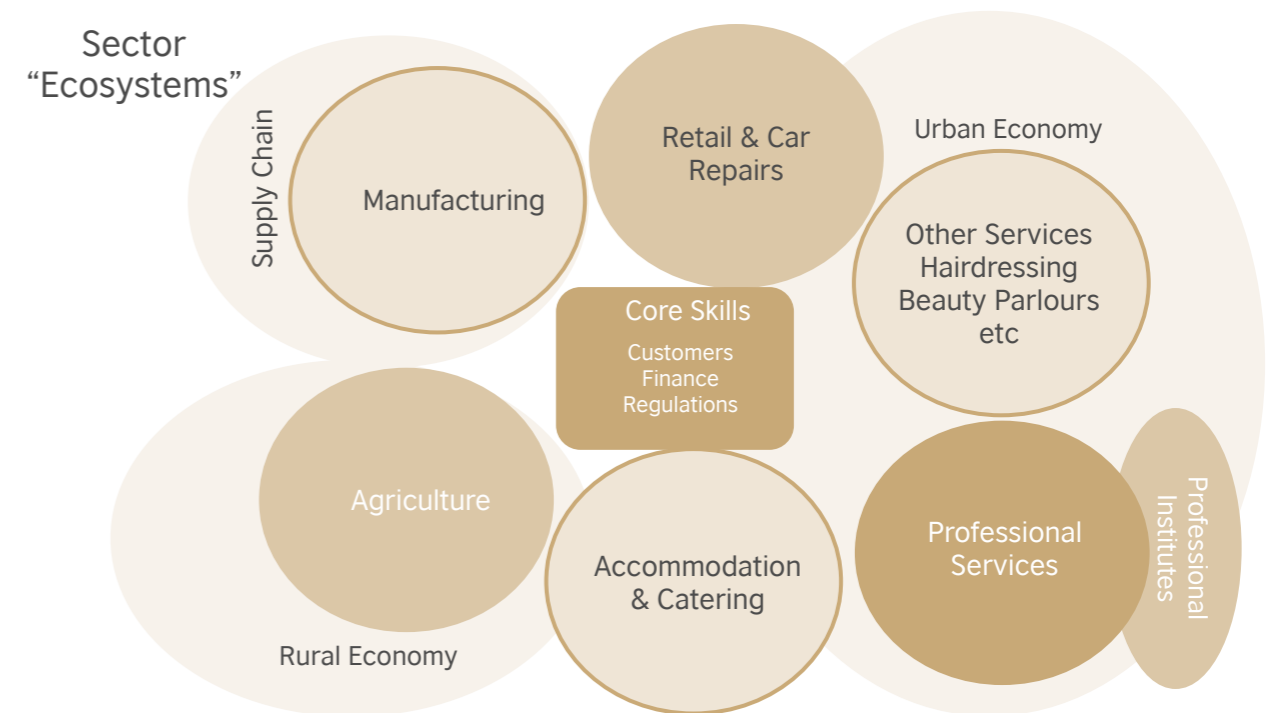
This chart suggests that it is not clear whether aspiring entrepreneurs are constrained by finance or ambition. The case studies showed evidence that finance is a significant issue, but there are also constraints to ambition. There were exceptions, but these constraints seemed to centre around a belief that global markets are not open to entrepreneurs from the Western Balkans. Ambition is important in driving success (Levie, 2014), and entrepreneurs who are ambitious are more likely to succeed. UK longitudinal data on small and medium-sized enterprises and entrepreneurship suggest that entrepreneurs who work in goal-focused teams, rather than being self-employed or in family-only firms, will be far more successful in achieving growth (Saridakis, Lai, Muñoz Torres and Mohammed, 2017).

Observation 4: Ambition matters but Western Balkans entrepreneurs sense a ceiling

Ambition is one of the key ingredients in delivering growth. There is, however, a lack of belief that an entrepreneur from the Western Balkans could globalise their product and achieve worldwide success..

It is important to secure the home market before seeking to conquer the world. **Chart 4** locates Western Balkan entrepreneurs in their own “home eco-system”. This chart aims to help understand how support can be crafted to match individual sector needs.

Chart 4. Economic ecosystems



Source: Authors

Observation 5: Support measures need to align to local ecosystems

Each business is different, and there is no “one size fits all”. Support measures will need to be adapted to fit each local ecosystem.

Our first review of the data looked in percentage terms. **Table 3** shows the data restated by numbers.

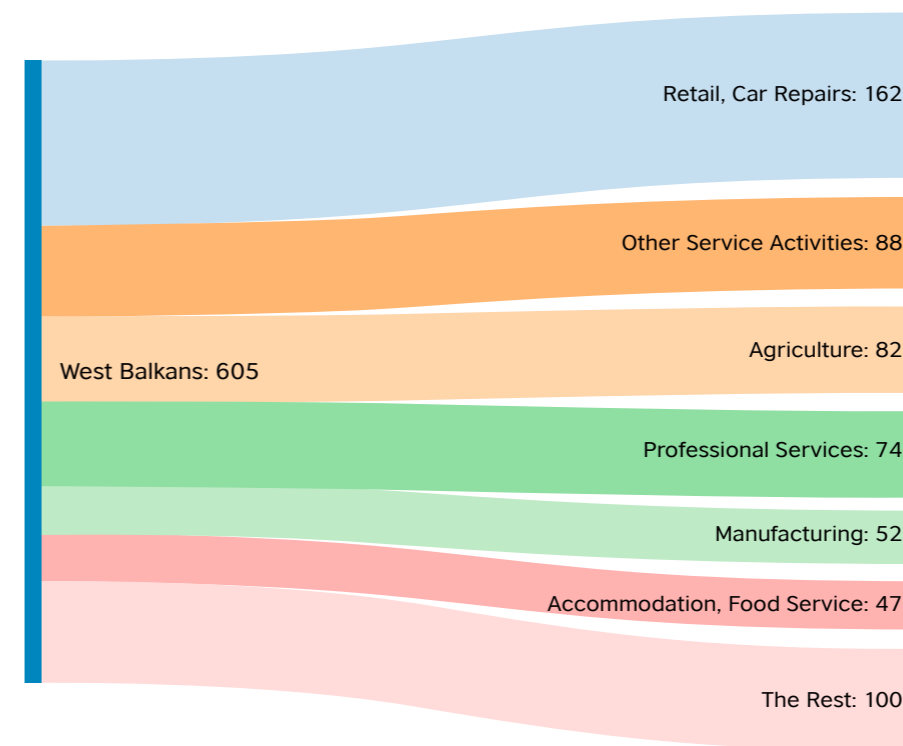
Table 3. Sectoral split of entrepreneurial aspirations (number of observations)

Rank	Standard Industrial Classification 2008 High Level Sector Numbers of People (Total 605)	No higher education after school leaving age			Technical qualification or higher			Total
		Under 25	25-34	35-44	Under 25	25-34	35-44	
1	Wholesale and retail trade; repair of motor vehicles and motorcycles	9	30	31	14	53	25	162
2	Other service activities	10	14	11	8	30	15	88
3	Agriculture, forestry and fishing	5	11	18	3	18	27	82
4	Professional, scientific and technical activities	2	4	0	3	38	27	74
5	Manufacturing	2	4	11	2	17	16	52
6	Accommodation and food service activities	1	4	4	7	17	14	47
7	Information and communication	0	2	3	3	9	3	20
8	Education	0	3	1	2	6	8	20
9	Administrative and support service activities	1	1	2	4	5	4	17
10	Transportation and storage	2	0	1	1	4	6	14
11	Construction	0	2	0	2	5	4	13
12	Human health and social work activities	0	0	0	0	5	0	5
13	Real estate activities	0	0	0	1	1	2	4
14	Electricity, gas, steam and air conditioning supply	0	1	0	1	0	2	4
15	Water supply; sewerage, waste management and remediation activities	0	0	0	0	0	2	2
16	Arts, entertainment and recreation	0	0	0	1	0	0	1

Source: Adapted from UN Statistics Division (2008)

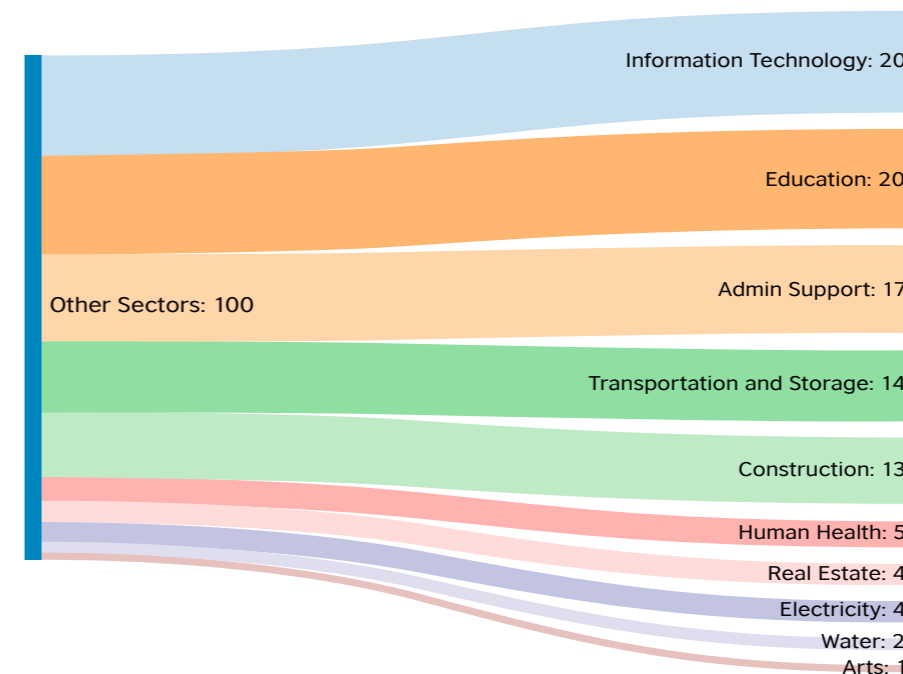
We looked at the top sectors to see whether they were common across the whole region. The results are in **Chart 5**, and **Chart 6** shows the split across 'other' sectors.

Chart 5. Main sectors across the region



Source: Authors' survey

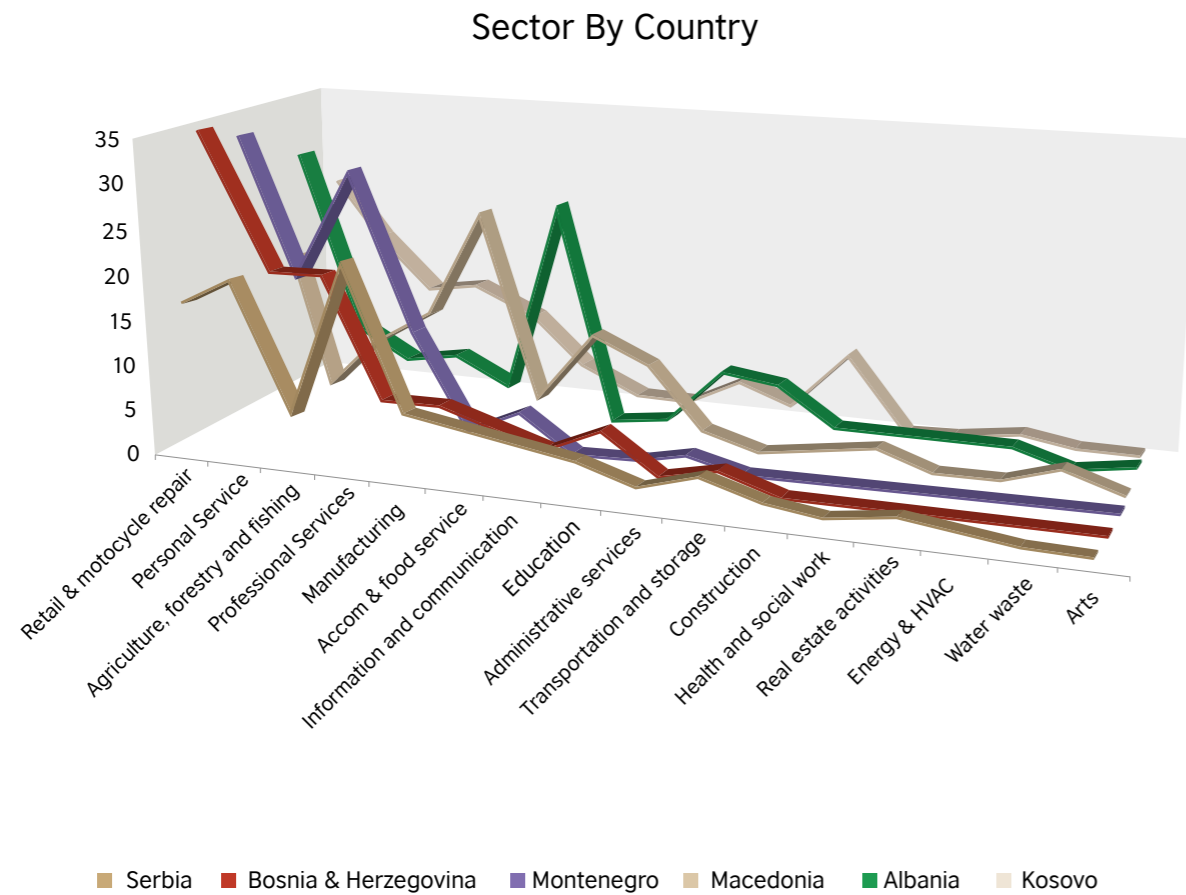
Chart 6. "Other" categories across all countries (observations)



Source: Authors' survey

The picture for the top three industries is comparable across all the countries in the region. **Chart 7** shows preferences across all sectors.

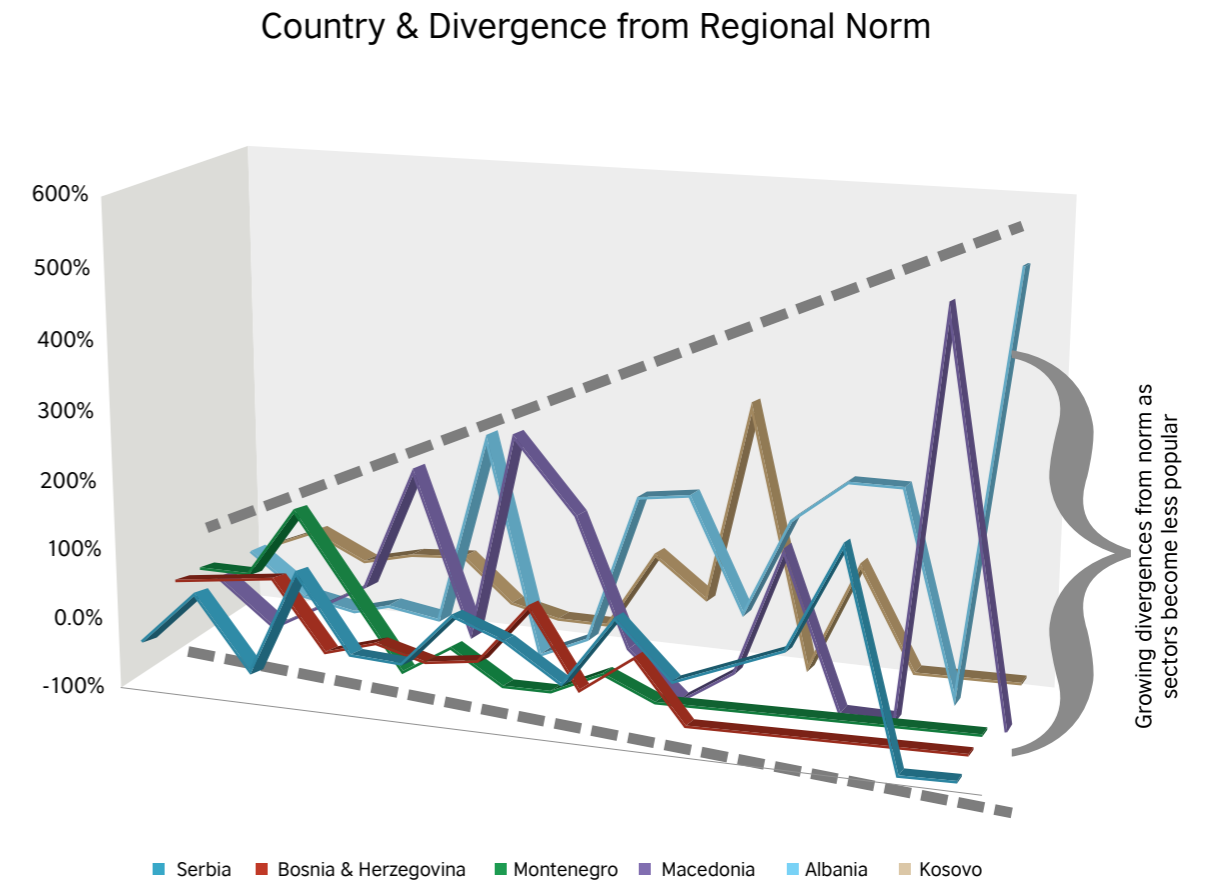
Chart 7. Entrepreneurial sector preferences across countries



Source: Authors' survey

Chart 7 shows that sector choice becomes more diverse away from the principle sectors. **Chart 8** shows that divergence from the regional norm also grows in each country as sectors are selected less frequently³.

Chart 8. Divergence between countries



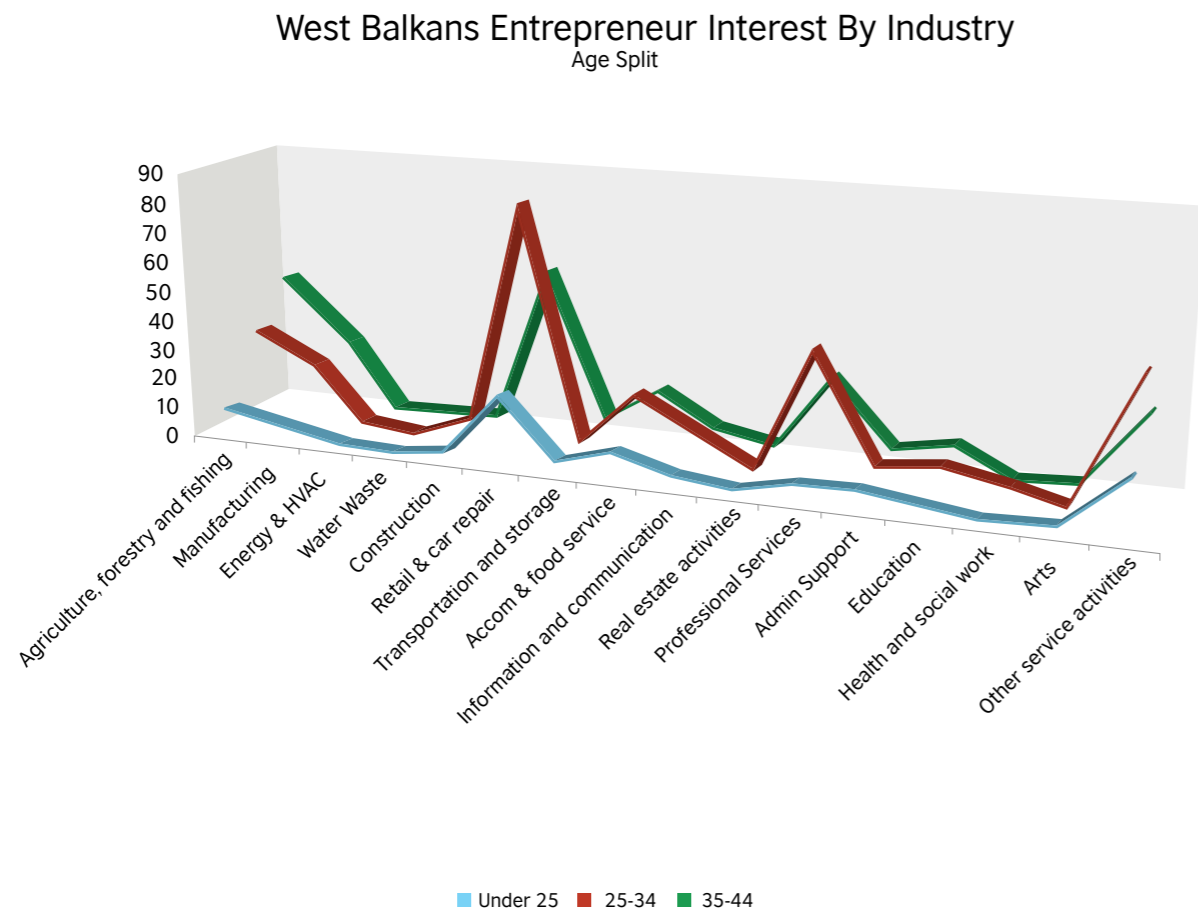
Source: Authors' survey

Observation 6: “Most popular” sectors are similar across countries
 The most popular sectors—retail, car repair, personal services and agriculture—are similar across all the countries of the Western Balkans. Beyond those sectors, there is a wide range of less popular sectors.

Age and experience have been identified as important determinants of micro- and small firm growth. Within reason, entrepreneurs with more experience (and therefore older) can build faster-growing firms than those with less experience (Nichter and Goldmark, 2009). **Chart 9** shows entrepreneurial aspirations broken down by industry and age across the region. The age segment between 25 and 34 dominates the profile, suggesting that age and related experience are significant for entrepreneurial aspiration.

³ The divergence could be affected by the sample size, as “tail” sectors have a low response count, exacerbating percentage deviation.

Chart 9. Age distribution by industry



Source: Authors' survey

Aspiration, unsurprisingly, also evolves with age and experience. For example, professional services is likely to be more suitable for more experienced entrepreneurs.

Observation 7: Age matters. Aspirations change with age and education
 Not all aspiring entrepreneurs are the same. Age and education matter, and drive different aspirations and risk appetite. Both these factors need to be taken into account in targeting initiatives.

We also separated out the opportunity-driven sectors and ranked them in **Table 4**. Only 3% of entrepreneurs aspired to create a classic high-tech start-up, which is well-placed to raise seed and early stage venture capital only. Our survey suggests that even opportunistic businesses are not well-adapted to the pan-European venture and seed capital markets.

Table 4. Aspiration in opportunity-driven sectors

Rank	Type	Sector (Top Level Standard Industrial Classification 2008)	Total	Cum %	Serbia	Bosnia and Herzegovina	Montenegro	Macedonia	Albania	Kosovo
1	0	Professional, scientific and technical	12%	12%	23%	6%	13%	12%	6%	13%
2	0	Manufacturing	9%	21%	7%	6%	1%	24%	3%	10%
3	0	Information and communication	3%	24%	5%	2%	0%	11%	0%	1%

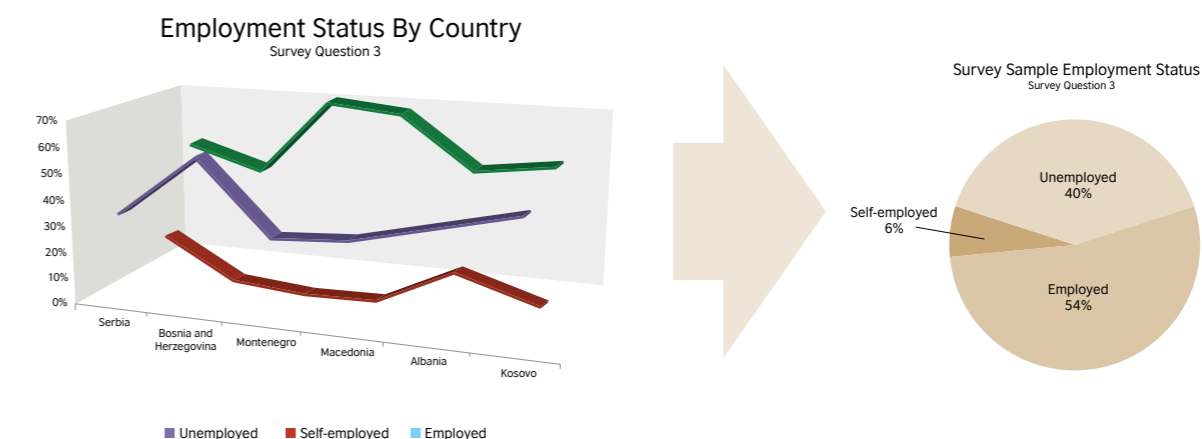
Source: Adapted from UN Statistics Division (2018) and authors' survey

Observation 8: Opportunity-driven entrepreneurs are mostly not IT-focused

There is a perception that opportunity-driven entrepreneurship is focused on the hi-tech, internet and web markets. This is largely not the case in the Western Balkans, although FYR Macedonia has a higher level of aspiration in this area.

Chart 10 shows employment status by country. The main survey cohorts were either employed or unemployed, rather than self-employed, even though self-employment is important economically in several countries.

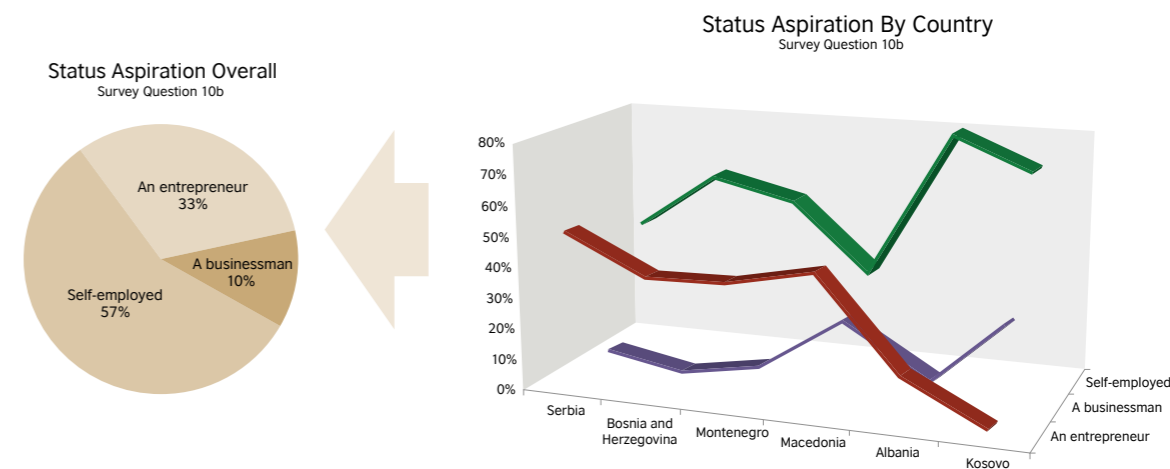
Chart 10. Employment status of the survey sample



Source: Authors' survey

The current employment status of most survey respondents contrasts significantly with their aspirations. Many wished to be self-employed, which fits with their stated motivational preference to both make money and find financial security. **Chart 11** shows survey respondents' aspirations for their future employment status. It again shows marked national differences. Entrepreneurship aspiration varies by country, perhaps showing that some societies anecdotally correlate entrepreneurship with extreme wealth, the use or misuse of powerful connections and activities associated with the "shadow" or "informal" economy.

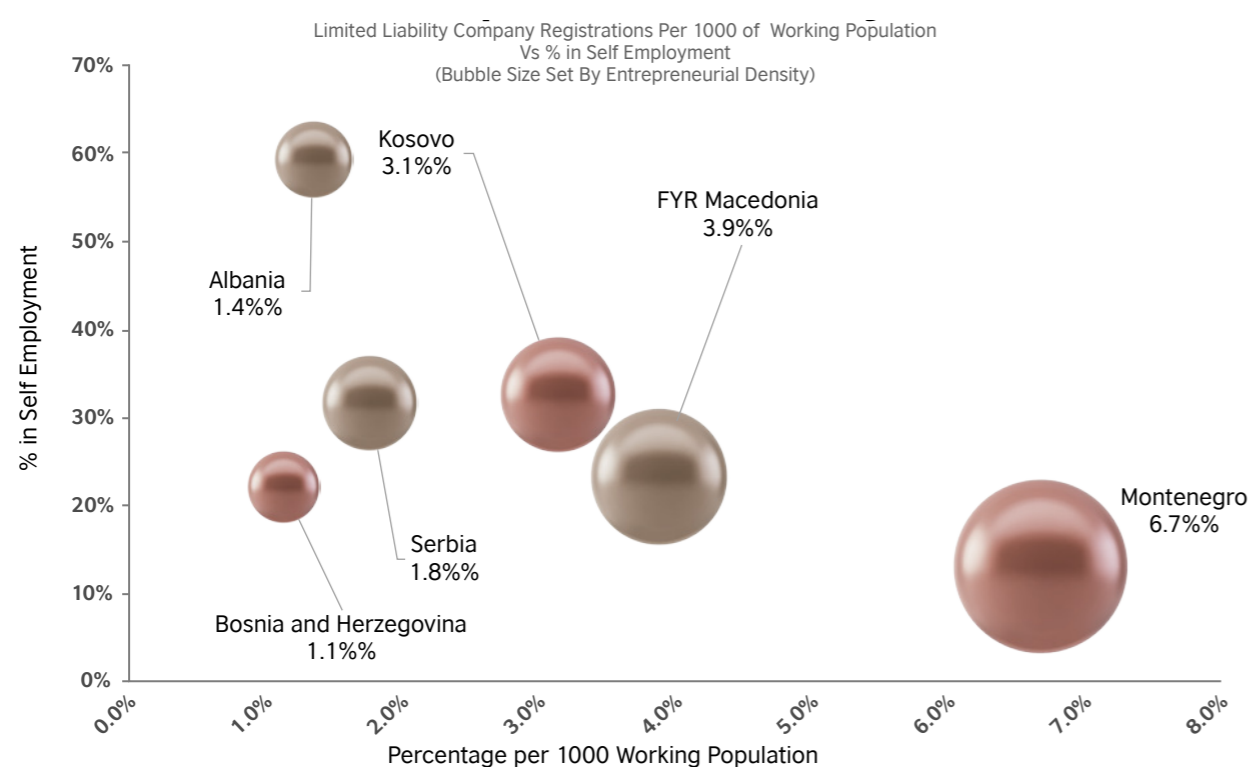
Chart 11. Aspirational employment status



Observation 9: Most survey respondents aspire to be self-employed, not an entrepreneur
 The desire to be self-employed, rather than running a business or being an entrepreneur is striking. This may reflect a lack of confidence or ambition, or perhaps the views of survey respondents on businesspeople and entrepreneurs. It means that any entrepreneurship program needs to account for the number who aspire to self-employment.

Chart 12 shows significant differences between countries in realised entrepreneurship rates, defined as the number of new limited companies per 1000 head of working population.

Chart 12. Entrepreneurial density



Source: ILO (2018); World Bank (2017g)

Table 5 looks at the evolution of self-employment over the region since 2010. The data are patchy, and in some cases, may have been subject to significant revision, but the self-employment numbers look stable or in gentle decline. This masks an inevitable churn of people in and out of self-employment.

Table 5. Self-employment in the Western Balkans

	000s Employees	2010	2011	2012	2013	2014	2015	2016
Albania	Total Employees	1,167	1,159	1,133	1,024			
	Self Employed	661	666	715	609			
	% Self Employed	56.6%	57.5%	63.1%	59.5%			
	Change Self Employed		5	49	-106			
Bosnia Herzogivna	Total Employees	620	610	591	613	624	622	605
	Self Employed	176	163	185	170	117	136	134
	% Self Employed	28.4%	26.7%	31.3%	27.7%	18.8%	21.9%	22.1%
	Change Self E mployed		-13	22	-15	-53	19	-2
FYR Macedonia	Total Employees	637	645	650	678	690	705	723
	Self Employed	181	182	174	190	184	184	174
	% Self E mployed	28.4%	28.2%	26.8%	28.0%	26.7%	26.1%	24.1%
	Change Self E mployed		1	-8	16	-6	0	-10
Montenegro	Total Employees	174	163	164			175	176
	Self E mployed	32	17	14			20	23
	% Self E mployed	18.4%	10.4%	8.5%			11.4%	13.1%
	Change Self Employed		-15	-3			6	3
Serbia	Total Employees	2,397	2,253	2,228	2,310	2,559	2,558	2,719
	Self Employed	777	678	677	749	811	770	851
	% Self Employed	32.4%	30.1%	30.4%	32.4%	31.7%	30.1%	31.3%
	Change Self E mployed		-99	-1	72	62	-41	81
Kosovo	Total Employees			225		221	211	232
	Self Employed			34		76	63	75
	% Self Employed			15.1%		34.4%	29.9%	32.3%
	Change Self Employed						-13	12

Source: ILO (2018)

Observation 10: Realised entrepreneurship rates differ by country

There are similar aspirations in terms of sector, but realised entrepreneurship, as measured by limited liability company formation, differs by country. This may be partly because of choices about self-employment and company creation in different countries, although there is no specific evidence for this..

Table 6 draws on this to estimate the number of potential start-ups and entries into self-employment. The data for start-ups come from the World Bank and the estimate for self-employment is based on a 5% entry and exit from self-employment each year.

Table 6. Estimated number of Western Balkans entrepreneurs per year

Economy	Number of New Limited Liability	New Self Employed Estimate
Albania	2679	30,000
Bosnia and Herzegovina	2814	7,000
Kosovo	3993	4,000
FYR Macedonia	5686	9,000
Montenegro	2818	1,000
Serbia	8236	43,000

Source: Authors' own calculations; ILO (2018); World Bank (2017g); Serbstat (2016).

Wider Societal / Economic Context

The third strand of this report looks outwards to see the context in which the survey respondents are working and how this fits with the results of our survey. For example, in FYR Macedonia, survey respondents counter-intuitively suggested that they did not see trade credit as a big potential help to their business. This is easier to understand in the context of a wider body of sources that tell us that for small and medium-sized enterprises in FYR Macedonia, trade credit has been plagued with default and non-payment (Risteska et al., 2014; Janeska et al., 2016).

Training and Support Need

Table 7 shows the support needs identified by entrepreneurs, and these in turn relate to the overall Western Balkans context.

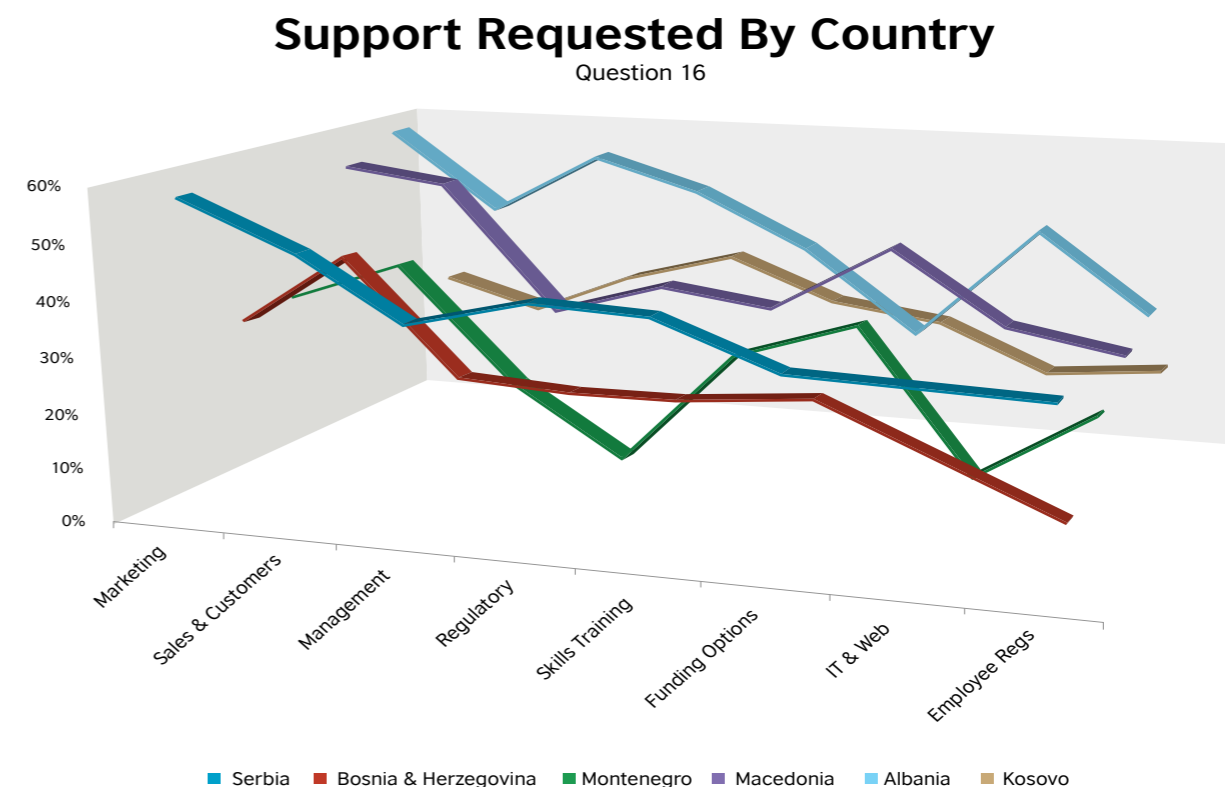
Table 7. Support and training needs

Rank	Question 16 Responses	Total	Serbia	Bosnia and Herzegovina	Montenegro	FYR Macedonia	Albania	Kosovo
1	Marketing	44%	58%	32%	33%	55%	60%	26%
2	Sales and Customers	42%	50%	45%	40%	52%	45%	21%
3	Management	33%	38%	24%	19%	30%	56%	29%
4	Regulatory	32%	43%	23%	6%	35%	50%	34%
5	Skills Training	32%	42%	23%	27%	32%	40%	26%
6	Funding Options	31%	34%	25%	34%	45%	25%	23%
7	IT and Web	25%	33%	16%	7%	31%	46%	14%
8	Employee Regs	22%	32%	7%	21%	28%	31%	16%

Source: Authors' survey

These support needs vary significantly by country (**Chart 13**).

Chart 13. Support needs by country



Source: Authors' survey

Observation 11: There is a clear set of support needs

The main needs were around:
 Finding and expanding a potential customer base and targeting marketing to support this;
 Developing management and business skills;
 Understanding technical areas such as regulations;
 Improving skills; and
 Obtaining finance.

Getting access to a market and growing a customer base are important for all new businesses, but these issues may be especially pertinent in the Western Balkans. The region has suffered from the division and mistrust sown by the Balkan Wars of the 1990s, and lack of trust inevitably limits cross-border flows and transactions. The region is also remote from many of the main European markets and has not benefited from the same levels of inward investment (as a percentage of GDP) as other countries such as Poland. Building customer networks, including ones that work inter- and extra-regionally, will be a long-term challenge.

Observation 12: Finding connections to markets is an entrepreneurial priority

Finding customers is a priority, and assistance is sought to build customer links and networks.

Survey respondents felt that they needed to develop their management skills. These skills could, for example, help them prepare plans and materials to use in raising finance.

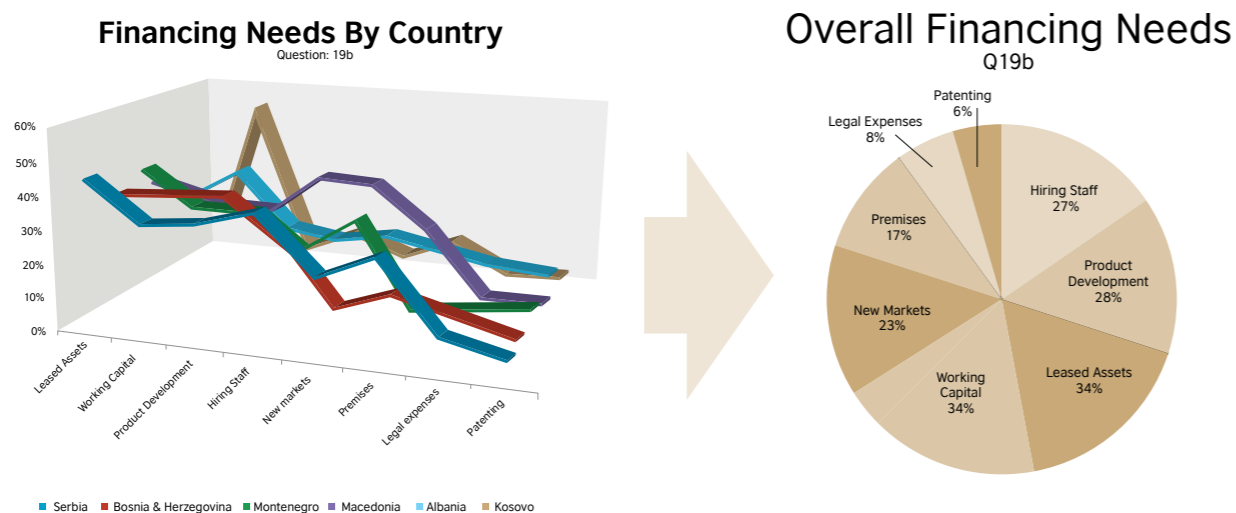
Observation 13: Entrepreneurs want support to develop their management skills

Respondents felt they needed to improve their management skills. This might be an opportunity to help transform aspirations from self-employment to running businesses.

Access To Finance

Access to finance is an issue in both the literature and in particular countries, such as FYR Macedonia. Our case studies reinforced the sense that access to funding is a significant obstacle. **Chart 14** shows that working capital is the main finance need. Some commentators have argued that there is no supply problem: finance is available, but there is a shortage of good projects and entrepreneurial demand (EBRD, 2015; EIB, 2016; EIB, 2017). Our survey results suggest that aspiring entrepreneurs may see this assessment as unrealistic.

Chart 14. Financing needs

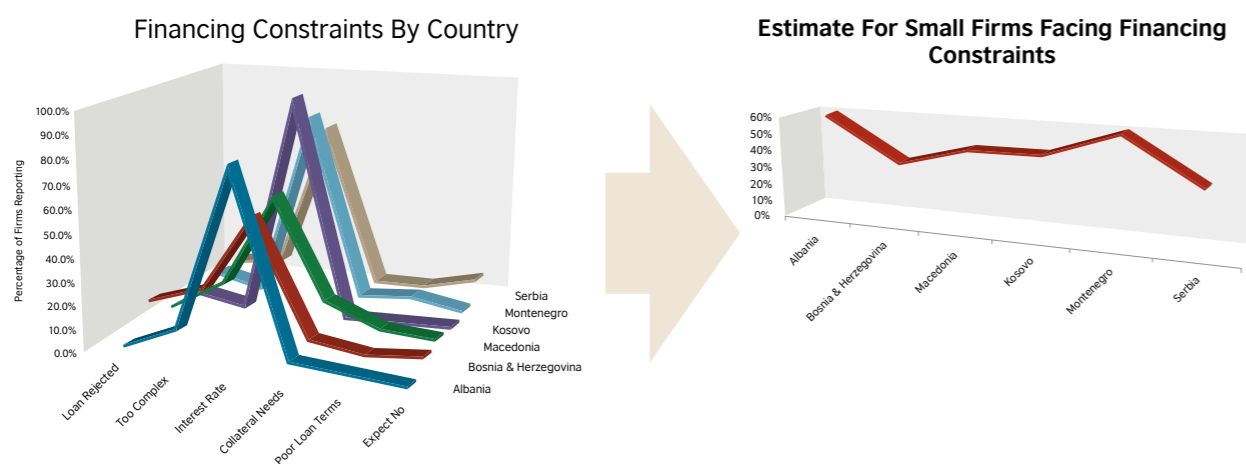


Source: Authors' survey

Aspiring entrepreneurs in the Western Balkans are generally not in sectors with access to venture capital, and even if they are, may find it difficult to connect. They are therefore dependent upon banks for loans.

Chart 15 is derived from survey data from a 2017 study sponsored by the European Central Bank, and shows that small firms face significant lending constraints.

Chart 15. Small firm financing constraints (firm data)



Source: Moder and Bonifai (2017)

These data are also shown in **Table 8**.

Table 8. Small firm financing constraints (firm data)

	Firms Facing Finance Constraint	Loan Rejected	Too Complex	Interest Rate	Collateral Needs	Poor Loan Terms	Expect No For An Answer
	%	%	%	%	%	%	%
Albania	60	2	11.8	80.4	3.9	2	0
Bosnia and Herzegovina	35	14	20.7	55.2	5.2	1.7	3.4
Kosovo	45	5	16.4	58.2	13.4	4.5	3
FYR Macedonia	45	4	0	95.7	0	0	0
Montenegro	60	7	2.3	84.1	2.3	4.5	0
Serbia	35	5	8.6	74.1	2.5	2.5	7.4

Source: Moder and Bonifai (2017)

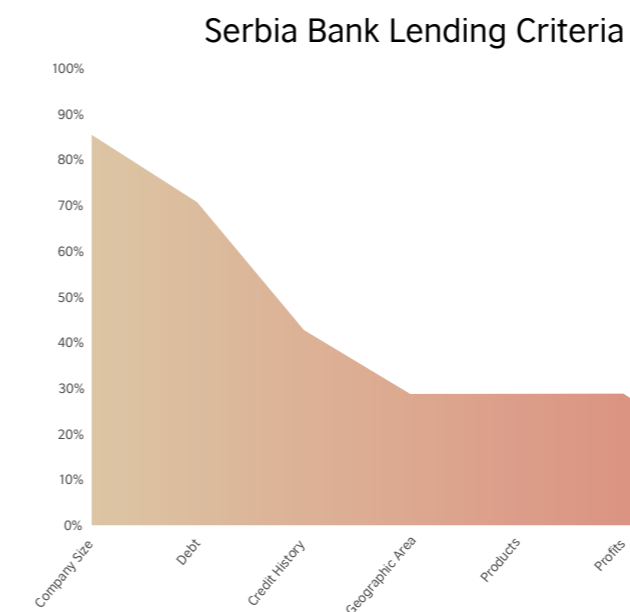
These information issues have been previously recognised and described (Stiglitz and Weiss, 1982). Leitner (2016) used BEEPS (2018) data covering thousands of small firms in the Western Balkans and found that financing constraints significantly negatively affected firm growth. This was particularly true for firms that felt excluded from the lending market, and so did not apply for loans at all. This effect was far more important than loan rejections, which tended to be rarer.

Observation 14: Small firms feel constrained financially

Small firms feel locked-out of finance, mainly because of perceptions of high interest rates, complex loan application processes and requirements for collateral.

There is evidence that banks restrict lending for firms that are less than 2 years old, and then slowly build up lending as they develop a relationship. Young firms in general grow faster than older ones, and firm growth is affected by difficulties accessing finance (Leitner, 2016). **Chart 16** shows a view of how bank lending decisions are made.

Chart 16. Bank lending criteria in Serbia



Banks rely on collateral to hedge their credit risks. Mutual Credit Guarantee Societies that are able to inject their guarantees to reduce bank “risk weighted assets” can help lending flows (Yaldiz Hanedar, Broccado and Bazzana, 2014).

There is evidence that banks still require collateral even if it is not a credit requirement – labelled as so called “lazy banks” (Duarte, Matias Gama and Esperança, 2016).

There is some evidence age is important (younger firms find access to credit more difficult (Rahman, Rahman and Belas, 2017).

Source: World Bank (2012)

Western Balkans Entrepreneurial Capability Report

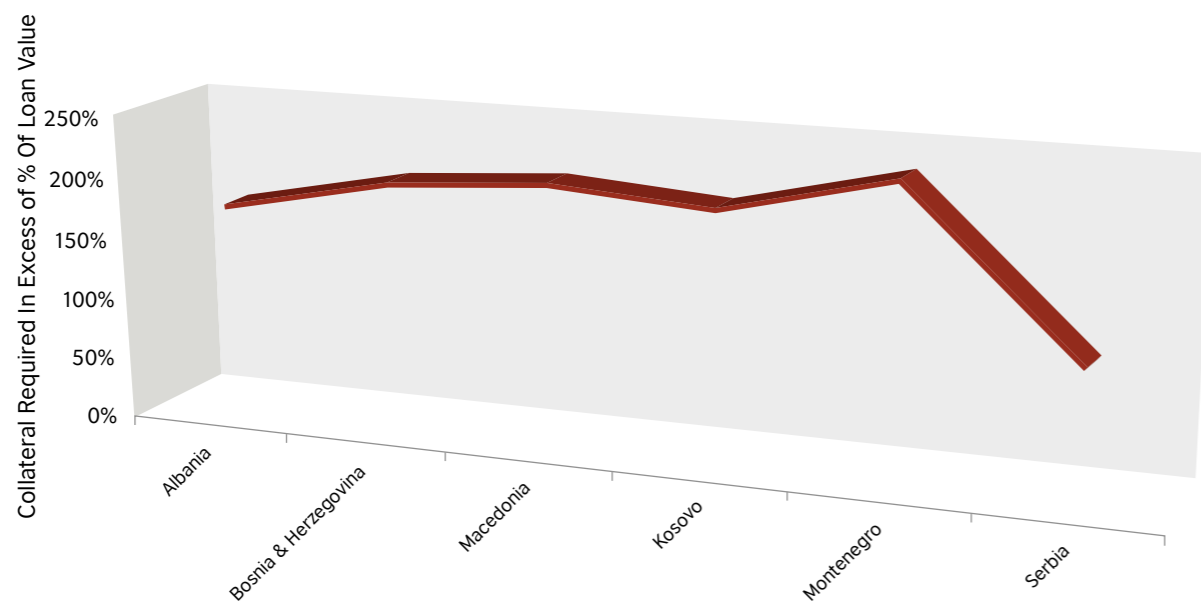
As automated credit scoring has replaced relationship lending practices, it has become harder for banks to assess which entrepreneur or project will succeed. Small companies have been separated from their larger peers, and are managed by bank retail teams, rather than corporate teams (World Bank, 2012). Credit allocation is increasingly automated through credit scoring (World Bank, 2012) and smaller companies are more expensive to lend to under the Basel Capital Accords framework, implemented through the EU Capital Requirements Directives. Within the regulatory and cost framework, banks do not have the necessary information to make a lending decision, and will therefore tend to say no. They must also price the loan using regulatory capital costs, making it uneconomic for entrepreneurs even if granted. This has led to credit for small and medium-sized firms being more expensive and less available than for larger firms (Rahman et al., 2017).

Banks like to lend to firms with business track records, which start-ups do not have. They also charge start-ups a high interest rate relative to other borrowers and tend to demand collateral.

Chart 17 shows the value of collateral required by country. Some state bodies will guarantee loans, such as the European Union COSME program, which provides guarantees for working capital or physical investment normally up to 150,000 EUR, and up to 500,000 EUR in the Western Balkans (WBEDIF, 2018). This helps to address the collateral issue, but not the interest rate.

Chart 17. Collateral required for small firm loans

Small Firm Collateral Requirements By Country



Source: Moder and Bonifai (2017)

The expectation (EU Commission, 2017c) that loan guarantees may free lending volumes in the range of 20 to 30 times the guarantee volume may be ambitious. It also seems to have been reduced to about double for the Western Balkans region. Current expectations are that the guarantee will free around 110 million EUR, suggesting a guarantee capability of around 50 to 60 million EUR, although the terms of the initiative are unclear (WBEDIF, 2018).

We have tried to formulate some idea of the demand for loans. First, if self-employment rates are broadly static, this will mask an annual turnover as new people become self-employed and others leave self-employment. For the purposes of the calculation, we assume this turnover is 5%, and that new entrants require 3 months of per capita GDP to cover their start-up costs until they can break even. Both these assumptions are open to debate, and further study is recommended. We used the

number of new firms registered per annum and assumed the start-up of a firm (that is, more than self-employment) will require a seed capital of 5,000 EUR. **Table 9** estimates seed capital needs by country.

Table 9. Seed capital estimate

Economy	Number of New Limited	New Self Employed Estimate	Euro Per Cap GDP 2015	Seed Per Limited Liability	Seed Per Self Employed	Limited Liability Seed	Self Employed Seed	Total Est Seed Req
Albania	2,679	30,000	3,280	5,000	820	13,395,000	24,600,790	37,995,790
Bosnia and Herzegovina	2,814	7,000	3,489	5,000	872	14,070,000	6,106,259	20,176,259
Kosovo	3,993	4,000	2,922	5,000	730	19,965,000	2,921,811	22,886,811
Macedonia, FYR	5,686	9,000	4,046	5,000	1,011	28,430,000	9,102,698	37,532,698
Montenegro	2,818	1,000	5,388	5,000	1,347	14,090,000	1,346,977	15,436,977
Serbia	8,236	43,000	4,365	5,000	1,091	41,180,000	46,922,483	88,102,483

Source: Authors' calculations; ILO (2017); IMF (2018); World Bank (2017g)

Table 9 only covers financing needs for year 1. The need is likely to be anything between the same again and double for year 2, when some will drop out, some will stay the same and struggle to survive, and some will grow. Growing companies will require more substantial financing and move towards overall loan demand norms. Our overall estimates for seed and early stage financing needs are set against estimates from a European Investment Bank study in **Table 10**.

Table 10. Overall annual financing need estimates for small and medium-sized firms in the Western Balkans

	Number	Euros	%	Millions Euros				
				Total Demand	Seed Year 1 Est. Demand	Early Stage Year 2 Est. Demand	Total Early Stage Est. Demand	%Early Stage
Albania	111,059	35,668	36.0%	1,426	38	62	100	7.0%
Bosnia and Herzegovina	186,341	34,409	51.5%	3,302	20	44	65	2.0%
Kosovo	45,985	30,507	52.2%	732	23	53	76	10.4%
Macedonia, FYR	70,453	45,052	40.1%	1,273	38	102	139	10.9%
Montenegro	22,313	47,519	52.8%	560	15	49	64	11.5%
Serbia	280,845	25,753	61.8%	4,470	88	141	229	5.1%
Regional Total In Millions Euro				11,763	222	451	673	5.7%

Source: Authors' analysis; Hauser, Dolgaya, Revenko and Kortenbusch (2016)

A guarantee of 50 to 55 million EUR looks modest when compared to a seed and early stage annual financing requirement of more than 650 million EUR.

Observation 15: There is a gap in seed and early stage financing provision

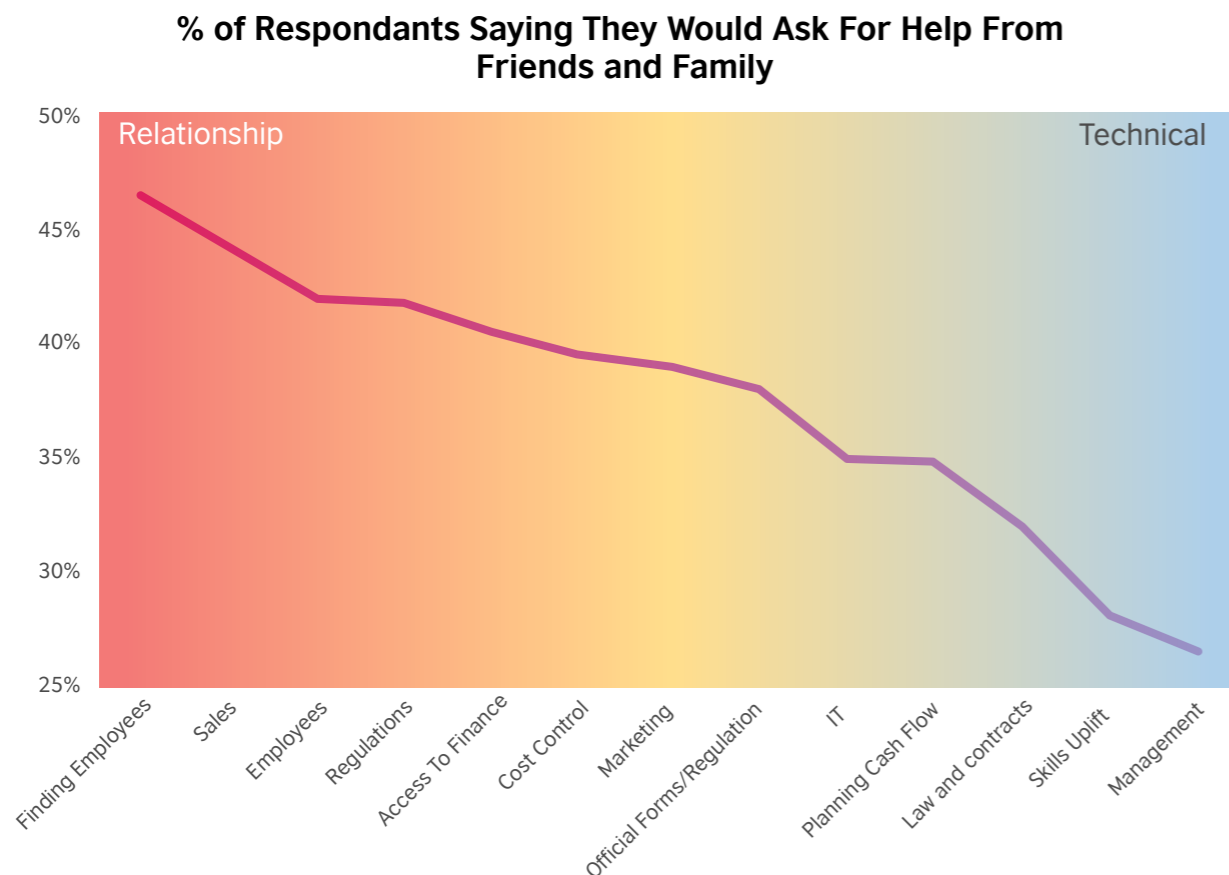
There is general recognition that young companies are financially constrained, but may also offer the most rapid growth. Some measures have been established to help ease the flow of funds, such as the EU COSME guarantee framework, but these are small compared with the need.

There is some venture capital provision and a few business angel networks, with moves to connect these to wider individual country diasporas. Both venture capital and angel network provision are, however, thin, as well as sector-focused. They are therefore unlikely to help to bridge the finance gap for lower technology, self-employment start-ups and very early stage companies. To complete the picture, there is European R and D and innovation funding available, but again, this is unlikely to address the funding gap for lower technology and self-employed start-ups.

Support Mechanisms

One of our case study respondents noted that society in the Western Balkans is still rooted in family and extended family. It is therefore not surprising that many entrepreneurs rely on friends and family for support. **Chart 18** shows how this dependence is related to the technical complexity of the issue.

Chart 18. Reliance on support from friends and family



Source: Authors' survey

Observation 16: Family and friends have special importance

Family and friends provide essential support networks, especially for less technical issues. They are often a source of seed and early stage finance.

Conclusions

1. The Western Balkans cannot rely on large volumes of inward investment and integration into complex supply chains to “pump prime” entrepreneurship and evolution of small and medium-sized enterprises.
2. Something needs to fill the gap, but that “something” is still evolving.
3. The region contains a large group of “involuntary” entrepreneurs as well as a more select group of “opportunity-driven” entrepreneurs.
4. The involuntary entrepreneurs generally aspire to work in sectors with low barriers to entry and exit. These therefore have a higher “churn rate” than other sectors.
5. Much entrepreneurship is focused on self-employment aspirations, possibly in some cases as a way to find employment.
6. Entrepreneurship as a term is often associated with either privileged, wealthy and well-connected individuals or with activities in the informal economy, some bordering on illegality.

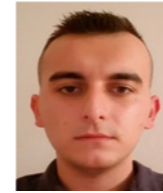
7. Each country in the region is different, with Albania and Kosovo being particularly distinct from the other states.
8. Overall aspirations are local and national rather than global, with many entrepreneurs aiming to ensure a stable income and provide for their family.
9. Few opportunity-driven entrepreneurs aspire to work in high tech, the web or IT, although there are likely to be some potential stars waiting to emerge.
10. Education and age are key drivers in aspiration.
11. Entrepreneurs in all countries want help finding customers and positioning their business.
12. Access to finance and developing management skills were important themes.
13. Entrepreneurs rely on friends and family for help, but find this route less than perfect for technical issues.
14. More technical issues such as regulatory compliance prompt aspiring entrepreneurs to look for help.
15. Both survey and case studies showed that entrepreneurs want help to be delivered in a flexible way, including mentoring.

Finally, a striking feature in both the survey and the case studies was the willingness of the entrepreneurs to admit that they lack key skills, and need help and mentoring to attain them.

CASE STUDIES

Case Study 1. Themed Wedding Complex

The Entrepreneur: Žarko Cvijić



Žarko is a 24 year old graduate. He worked for a government institution for some years after graduating, but has now felt the “entrepreneurial call” to start his own business. He is clear that he wants to build something in his home town and not follow the path of so many well-qualified local young people who have left to find work in Germany and other European Union states.

The business: A new wedding hall in the Banja Luka⁴ region.

Strategic positioning: A premium hall for the “wedding experience of a lifetime”, and the only wedding hall locally that can offer themed weddings. As a premium location, it is expected to be able to charge 10% over the current market price. Competitive advantages come from:

- Quality of decoration, experience and service;
- Ability to offer themed weddings; and
- Modern look and feel to attract millennial customers.

Key supporters: His family, who already have an agricultural business and are doing all they can to help Žarko establish his own business, by offering him support and land on which he can build the venue.

Unhelpful advice: Žarko has found that when he asks people for an opinion on the project, many of them wait for the person next to them to speak and then agree. In his experience, it makes no difference if the original opinion is negative or positive, others will always copy it.

Tactical marketing: To make the product visible to customers through Facebook, Twitter, Instagram, YouTube, TV, billboard and press advertising. Žarko notes that “this type of customer is different and much more complicated than the usual single customer of an agricultural business”.

Top Three Needs

- **Finance:** Žarko has his seed capital and land, but he needs additional finance to build the hall and pay for the marketing and start up. A local bank might offer finance, but would want to secure the loan against the land. Žarko would like to know if there is any other financing available, maybe from the funds available to EU candidate states?
- **Reducing risk:** Žarko is willing to take risks but wants to find a way to avoid losing everything. He might benefit from working with an independent expert to prepare and rank the risks and possible mitigating actions, or from involving a sleeping equity partner like a venture capital fund, so that he does not risk taking all the losses.
- **A great architect and design service:** To make sure his wedding hall has the best possible design.

Anticipated time before trading: 2 years to raise the cash and build the wedding hall.

⁴ Banja Luka has a population of nearly 200,000 and is the second largest city in Bosnia and Herzegovina. It currently has four wedding halls, which all offer traditional services.

Case Study 2. Opening Global Markets

The Entrepreneur: Tatjana Zhupanoska



Traditional Macedonian brooch, a silver filigree butterfly.

Tatjana is a highly motivated opportunity-driven entrepreneur who wants to build a global custom jewellery business for handmade local products, from local artisans. Her partner is a Macedonian lawyer, now living in the US, and Tatjana is hoping to establish her products in a premium niche there. Initial work on the opportunity was funded via a grant from USAid, meaning that the business now has all the legal structures and most of the initial thinking to be ready to start.

The business: Artisan filigree jewellery

Strategic positioning: Developing a niche market for silver filigree² jewellery. Competitive advantage comes from having:

- Unique handmade items;
- Ability to offer custom designs; and
- An affordable premium niche.

Consciously ethical: The business is committed to sourcing products from local artisans in FYR Macedonia and Kosovo, ensuring they are paid when the products are sent, and integrating them and their trade into local vocational skills programs.

Her key partner: Tatjana has a close and trusted friend and mentor in the United States who is helping open the market there. They have synergistic skills, and working together gives them capabilities and reach in both the Western Balkans and the United States.

Unhelpful advice: People who tell her that it is not possible to build a global business from FYR Macedonia.

Needs

- **Finance:** Tatjana needs access to finance to fund the working capital, brand development and marketing to build the business.
- **Mentoring:** Both partners want a dedicated mentor who identifies with the business and can support them through the start-up and growth phases. Tatjana stressed the need for a long-term relationship.
- **Marketing:** Tatjana would like someone to carry out a critical review of her branding and marketing plans
- **Business / execution plan:** It would be helpful to have someone walk through the main planning elements to confirm the business plan.

Anticipated time before trading: The business is ready to launch. The brand is established, the market assessed, the product defined, and the initial distribution identified.

Valuable advice: Don't lose time, start trading now!

Tatjana's advice to others : Make sure you can trust those you are working with. Trust is key.

Case Study 3. Building A Leading Edge Consultancy

The Entrepreneur: Ivan Djordjevic



Ivan is currently working for a marketing-orientated professional services group in Serbia. He plans to leave this group and start out on his own so that he can use his professional training as a psychologist and pursue business areas where he feels he can make a significant contribution.

The business: A “One Stop Shop” consultancy that develops and builds “best in class” web and mobile app user experiences. Ivan's goal is to build his own consulting business that can offer user experience, user research and design capabilities. It would be a one-stop audit, advice and design service for a company with either an existing or new product.

Strategic positioning: In today's technology-driven world, Ivan is looking to move customer web and mobile app experiences to the next level, by blending his training in psychology with his knowledge of user experience, to enrich customer experience and open new web app opportunities. Ivan believes that integrating psychology into the web experience and combining this with technologies such as augmented reality is a niche area that is in its infancy but has exceptional potential.

His plan: Ivan is looking to focus his work, and build his client and business networks by making an initial move into self-employment. Self-employment is the first step as it offers a low capital route to start developing his business.

Obstacles: Despite having a dynamic IT culture, it is difficult to build a new global professional services business from Serbia because:

- Many talented technicians are either being used as out-sourced contractors to reduce costs for Western European and North American IT companies or have been sucked into the professional migration or “brain drain” from Serbia to richer EU states.
- In Serbia, entrepreneurship does not have the same prestige as it has elsewhere, and it is viewed as an activity for the rich or well-connected.
- Linked to the prestige issue, potential entrepreneurs want to avoid “all or nothing” risks. This risk appetite contrasts to West Coast USA, where failure evokes memories of Thomas Edison who when asked about his 1,000 failures to design a light bulb, is reported to have said “I didn't fail 1,000 times. The light bulb was an invention with 1,000 steps.”

Some things Ivan values: Ivan is very positive about the technology incubation and networking scene in Serbia, and greatly values being able to build collaborative relationships in his chosen sector.

Needs

- **Connection:** To like minds from diverse backgrounds, such as designers and web developers, so that they can come together as a team to build a blockbuster app.
- **Feeling of safety:** To ensure that any entrepreneurial move is not a life time “all or nothing” experience.
- **Global openings:** Ivan would like to see openings that value the innovation and excellent quality available from Serbia, and allow cross-country networking to ensure products meet global customer aspirations.
- **Support:** To find out if he is in the right team with the right product, and whether they can expand nationally and even globally.

For now ...

Ivan is building his future step-by-step, and is committed to working closely with an existing colleague to build his business offer rather than relocating to another European country, even if the climate is easier there.

Case Study 4. Bringing “Best Practice” To Insurance Claims Management

The Entrepreneur: Aleksandar Salević



Aleksandar is a 25-year-old postgraduate engineer from the University of Belgrade³. Following a period of travel that included working in the United States, he returned to Serbia to work for a risk and damage evaluation agency. After a year, he realized he had the skills and temperament to branch out and create his own business. He had always thought of himself as entrepreneurial and was keen to work for himself in Belgrade, once he had gained some experience. Firms in Belgrade currently act as outsourced claims adjusting and processing services for insurers, but do little else to build good relationships with clients.

The business: A corporate insurance policy loss adjuster, advocate and negotiator working for the policy holder to increase claim payouts and reduce overall insurance costs.

Strategic positioning: The policy holder’s expert, providing services to corporate policyholders such as independent third-party validation, contesting evaluations made by assessors employed by insurers underwriting policies, and helping to negotiate policy details.

Product offer:

Bespoke risk management system for corporate clients;
Great customer service developed from his experience of working in both the US and Serbia, which has given him a clear understanding of good and bad customer service;
Claims and policy administration services, assessing insurance claims made by policyholders and settling claims; and
Value appraisals on current and proposed insurance contracts.

Key Supporters: Aleksander’s close family have started a number of small enterprises, and his wider family are offering him access to their expert networks. He is also working with two partners from his final year at the University. All three were near or at the top of the class and Aleksander believes that as a team they have much potential to grow a significant business.

Unhelpful advice: People who are only in it for the money. He believes that is no way to build a business.

Top Three Needs

- **Regulatory approvals to gain a foothold:** Gaining qualifications and licences, winning initial business, and the need to establish a reputation for quality service are all barriers to potential new entrants to the industry.
- **Finance:** Aleksander has seed capital and access to an office, but needs additional finance to market the start-up. A bank could provide a loan, but interest rates make that unfeasible. He would benefit from access to alternative financing, maybe from funds available to EU candidate states.
- **Growing in a challenging environment:** the local market has medium barriers to entry. Capital intensity is low. Despite the presence of some large agencies, there are a number of small enterprises, showing that scale is not essential for success. The market is highly dependent on skilled, or at least appropriately qualified labour. He would like to grow, but although the Government has promised to help small firms, he has yet to locate any real assistance.
- **Access to networks:** Aleksander and his team have potential consumer clients lined up, but business-to-business is more complex. It requires building relationships in a raw and under-developed market, as well as building up the brand, and he would like some support and advice.

Anticipated time before trading : 6 months to access the market, raise finance and equip the office.

POLITICAL BACKGROUND

The Western Balkans Nations

The Western Balkans is a group of six countries, all at different stages of development, but unified by four factors: -

1. The countries were all involved in the Balkan Wars of the 1990s;
2. All countries show characteristics of four different social and racial groups:
 - a. Serbian (Slavic-linked and often religiously Orthodox) ethnicity, religion and customs;
 - b. Croat (Slavic-linked and often religiously Orthodox);
3. Albanian, with ethnic roots based in a mix of tribes (Illyrians, Dacians or Thracians) with relatively few genetic links to the Slavic races, and both Sunni and Shi’a Muslim with a sizable Christian minority; and
4. Slavic-linked but religiously different (mainly Muslim) Bosniaks;
5. The region is the meeting point for European, Russian and Ottoman ambitions. It has been the source of many conflicts over the centuries, including the start of the First World War;
6. Historically, the countries were a gateway route for both military ambition and migration from Ottoman lands.

The Western Balkans are divided rather than unified, and were bypassed during the post-Soviet era 1990s reconstruction, because of the Balkan Wars. Geographically the area is strategic as the southern land gateway to Europe, but it has been marginalised by both terrain and location.

Geo-Political Focus on Stability

Historically, and for over 500 years, the Western Balkans have been a point of conflict between empires, civilisations and religions. The First World War was triggered after the 1914 assassination there of Archduke Ferdinand. Earlier, the great Ottoman Empire expanded into Europe through the Balkans, with a colonisation that became entwined with different ethnicities, religions and the ambitions of different families set in the context of an emerging conflict between Ottoman, Austro-Hungarian and Russian influences. The region has been described as a perpetual and violent melting plot where some sort of conflict was never far away (Radenko, Žarko and Marijan, 2015).

As a political project, the European Union has aimed to provide a framework to favour economic growth at the expense of nationalist tensions. Since 2008, this mechanism has come under increasing strain, as economic growth rates have disappointed, living standards have often stagnated, there has been opposition to the mass migrations that have followed EU expansion and the German welcoming of refugees has been mirrored by the rise of nationalist parties and populism. The Western Balkans have suffered by being late to the party as a result of the post-Yugoslavia wars in the 1990s and seeking to modernise and become part of a more nationalistic post-2008 European Union. Despite all the challenges, the populations of the Western Balkan states aspire to the peace, stability and economic living standards of Western Europe. To quote former US President Woodrow Wilson, “No one can ... love his neighbour on an empty stomach”.

ECONOMIC BACKGROUND

Other areas of Eastern Europe have seen continued convergence between their per capita incomes and those of Western European countries. Per capita GDP in the Western Balkans, however, has stagnated at about 30% of the West European norm since 2008 (IMF, 2017d). There has been some limited progress, but estimates suggest it will take about 60 years for the Western Balkans to catch up with the average Western European per capita income at today's growth rates (World Bank, 2017h).

The growth trajectory over the early years following the end of the Balkan Wars was rapid, with a slow-down in growth after the 2008 financial crash (IMF, 2015; World Bank, 2017h). Each country has a different growth performance. **Table 11** shows the US dollar per capita GDP, in 2011 constant USD prices.

Table 11. USD 2011 constant price per capita income for Western Balkan countries

Country	2000	2008	2012	2016	Growth 2000/ 2008	Growth 2008/ 2012	Growth 2012/ 2016
Albania	5,669	9,154	10,370	11,359	61.5%	13.3%	9.5%
Bosnia and Herzegovina	6,325	9,824	9,929	11,327	55.3%	1.1%	14.1%
Kosovo	4,605	7,497	8,333	9,332	62.8%	11.2%	12.0%
Macedonia, FYR	8,621	11,044	11,550	13,055	28.1%	4.6%	13.0%
Montenegro	10,397	14,559	14,066	15,725	40.0%	-3.4%	11.8%
Serbia	7,985	12,916	12,899	13,723	61.8%	-0.1%	6.4%

Source: Authors, using data from World Bank (2017a)

The balance of payments current account (reflecting trade flows) shown in **Table 12** highlights the significant deficits over the period 2000–2016. **Table 13** shows that much of this trade deficit was caused by a dramatic rise in both household and state consumption.

Table 12. Western Balkans trade deficits as a percentage of GDP

Country	2000	2003	2006	2008	2009	2013	2016
Albania	-7.1	-7.7	-6.1	-15.8	-15.9	-9.3	-7.6
Bosnia and Herzegovina	-7.1	-19.2	-7.9	-14.1	-6.4	-5.3	-4.5
Kosovo	-20.1	-8.1	-7.2	-16.2	-9.2	-3.6	-9.8
FYR Macedonia	-1.8	-3.9	-0.4	-12.8	-6.8	-1.6	-3.1
Montenegro	no data	-6.8	-31.3	-49.8	-27.9	-14.5	-19
Serbia	-1.9	-7.2	-9.6	-21	-6.2	-6.1	-4

Source: IMF (2017a)

Table 13. Consumption expenditure in millions 2010 constant US dollars

Country	2000	2003	2006	2008	2009	2013	2016
Albania	3,213	4,842	7,608	11,731	10,846	11,480	10,637
Bosnia and Herzegovina	6,952	11,219	13,685	20,144	18,309	18,583	16,446
Kosovo	0	0	4,494	6,112	5,865	7,078	6,718
FYR Macedonia	3,486	4,839	6,557	9,631	9,009	9,656	8,827
Montenegro	905	1,724	2,811	5,097	4,318	4,486	4,215
Serbia	6,142	20,237	29,172	46,647	41,118	42,360	33,847

Source: World Bank (2017b)

Investment also rose and fell but not so steeply, as can be seen in **Table 14**. The more modest rise in investment suggests that the increase in the trade deficit reflected a consumption boom in the years leading up to the financial crisis in 2008 (IMF, 2015). This, in turn, was the result of an expansion

in bank credit in those years, which largely funded consumption, rather than investment increases. The trade deficit was mainly funded by inbound banking capital flows from parent companies to subsidiaries, but this abruptly stopped in 2008, leaving a legacy of weak local bank balance sheets and tightening lending conditions⁵ (IMF, 2017d).

Table 14. Gross capital formation in millions 2010 constant US dollars

Country	2000	2003	2006	2008	2009	2013	2016
Albania	1,855	2,850	3,468	3,911	3,949	3,459	3,640
Bosnia and Herzegovina	0	0	2,815	4,638	3,324	3,229	3,984
Kosovo	0	0	1,215	1,563	1,733	1,801	2,076
FYR Macedonia	1,401	1,474	1,738	2,407	2,393	3,006	3,300
Montenegro	0	0	0	1,502	1,018	861	1,153
Serbia	2,901	6,605	8,619	12,460	7,804	7,950	9,109

Source: World Bank (2017c)

Some important direct foreign investments were made in the period. For example, Fiat transformed both the local factory and its local supply chain when it invested in the former Yugo works in Zastava, Serbia, in 2008 (World Bank, 2017h). Investments such as this reinvigorated local capabilities and provided anchors to local supply chains, including small and medium-sized firms.

Rent-Seeking Rather Than Entrepreneurial Business Environment

The World Bank (World Bank, 2017h), the International Monetary Fund (IMF) (IMF, 2015) and the European Union (European Commission, 2017a) have all described the Western Balkans as a challenging business environment dominated by inefficient state-owned enterprises, significant regulations and corruption. It is therefore a rent-seeking rather than entrepreneurial environment. Economic rent can be defined as payments to a capital holder that are in excess of the marginal product of products produced by that asset. For example, rents paid on fertile land can include an element above the least productive producer on the same land, as the overall price is set by this producer (Ricardo, 1815). The surplus over the profit required to be in the industry is known as the economic rent.

Predatory Entrepreneurship and Economic Rent Extraction

Economic rent can now be extracted by (i) monopoly (or in some cases oligopoly); (ii) licenses reflecting “regulatory capture” by vested interests; and (iii) by mis-sold services or products such as complex derivative contracts provided to small and medium-sized firms (as has happened in the UK). An unscrupulous entrepreneur can, for example, try to corner the market in certain licences and then extract economic rents from working companies that need access to these licences. This activity does not increase productivity, provide new products or raise added value. Instead, it acts as an overhead, reducing added value in productive firms. In some parts of the Western Balkans, the term “entrepreneur” is generally seen as synonymous with “predatory entrepreneur”, although the actual definitions are quite different. Predatory entrepreneurs are rent-seeking and entrepreneurs seek growth and innovation. Correcting this misconception could be helpful in raising the status and aspirations of those seeking to become entrepreneurs.

Many people also define capitalism as meaning “private ownership”, distinct from public ownership, but this definition too is incorrect. We define capitalism as:

Using the market mechanism to allocate scarce capital resources to the best and most innovative firms and their ideas; with success being measured by increases in productivity, sales, market share and profitability.

⁵ Commentary from the IMF is misleading on the dynamics of the bank sector, mistakenly suggesting that lending capacity comes from “loanable funds” rather than credit creation subject to (i) capital reserves under Basel Process international banking regulations, (ii) liquidity constraints to back-created loan volumes, and critically (iii) capital inflows to finance any consequent trade deficit. The ultimate constraint is arguably the trade balance, which was funded by inbound capital flows. In the Western Balkans, this was largely spent on consumption rather than made available for capital investment.

Current social and regulatory structures in the Western Balkans can risk imposing economic rents on the profit or surplus cash generated by genuine innovative firms, as a result of rent-seeking by powerful actors and petty officials. The IMF, World Bank and European Union are clear that this unsatisfactory situation needs to be corrected.

Major Institution Interventions

External institutional focus from organisations such as the EU, IMF and World Bank has largely focused on:

- (i) removing large company inefficiency through privatisation;
- (ii) improving governance to reduce the informal economy, crime and corruption;
- (iii) support for infrastructure improvements,
- (iv) encouraging improvements to legal frameworks; and
- (v) encouraging regulatory simplification (e.g. European Commission 2017a; IMF, 2015; World Bank, 2017h).

There has also been some important work on entrepreneurship by national bodies such as the British Council and the German Federal Ministry for Economic Cooperation.

In a rent-seeking state, privatisation risks introducing **predatory entrepreneurship**, as asset purchasers buy assets, strip out the labour costs and then break them up to make a quick return. Some important successes such as Fiat’s 2008 investment in Serbia provide models of a good privatisation process.

A 15-Year Roller Coaster

Since 2000, and the end of the post-Yugoslavia wars, economic development has focused on the institutional, legal, political and structural changes necessary to allow accession to the European Union. Part of this process can be described as taking on board the *aquis communautaire*, or the legal rules that govern operation of the European Union, a second and in some senses more immediate element of the transition is activity to turn the Western Balkans into functioning market economies. This includes privatisation of state assets, measures to reduce corruption and macro-economic stabilisation. This process, sometimes called the Washington Consensus, is expected to create conditions for inbound direct investment to transform the economy towards private sector growth (Wojciechowski, 2013).

West Serbian inward investment accelerated in the period from 2000 to 2008, but was mainly concentrated in the service sector (Estrin and Uvalic, 2014), with percentages ranging from 50% in FYR Macedonia to 73% in Serbia. Substantial amounts of this investment went into building a local banking system, and this in turn funded a consumer boom. Investment that found its way into gross capital formation mainly ended up in construction activity rather than in reequipping and building new productive capacity (European Commission, 2009). This period, which saw economic expansion, was typified by a domestic credit boom driving household consumption and not investment (European Commission, 2009). Balance of payments current account deficits grew but were funded by inbound capital flows. The 2008 financial crisis ended the capital flows and resulted in consolidation, as we have already noted.

ECONOMIC DEVELOPMENT NEEDS FOR ENTREPRENEURS AND SMALL AND MEDIUM-SIZED FIRMS

A Sustainable Development Model

The World Bank (2017e) defines sustainability as based on three pillars: economic growth, environmental stewardship and social inclusion. This report focuses on just one of these pillars, economic growth, albeit in the implied context of the other two. To provide a measurable outcome, we define entrepreneurial or small firm economic growth as:

“The ability after 3 calendar years of operation (or longer in some circumstances such as medical device, pharmaceutical or biotech innovation businesses) to generate positive net operating cashflows after including all (including implicit) capital and entrepreneurial costs and removing the financial benefits of any subsidies received.”

Implicit capital costs include an imputed capital charge for any own capital invested that is not receiving dividends, and entrepreneurial costs include any time or salary and rewards that are not being paid to the entrepreneur at the time of evaluation (see **Table 15**).

Table 15. Sample cash flow presentation to assess economic sustainability

	Year 1	Year 2	Year 3	Year 4	Year 5	
O pening Cash						
Plus						
Cash from Sales						
Cash from Loans						
Cash from Equity						
O ther inbound cash						
L ess						
Payments to Suppliers						
Wages and Salaries						
Taxes and Public Payments						
Interest						
D ividends						
O ther payments						
Closing Cash						Reconciles to Bank Statements
L ess						
Allowance For Late Payments						Calculated allowance for payment delays - can be negative or positive against a standard payment delay (30 days?)
Imputed Capital Charge						Proxy dividend rate against "own capital"
Imputed Entrepreneur Charge						Reflects and deferred payments to entrepreneurs
O pening Cash						
N et Cash Generated						This is the sustainability measure

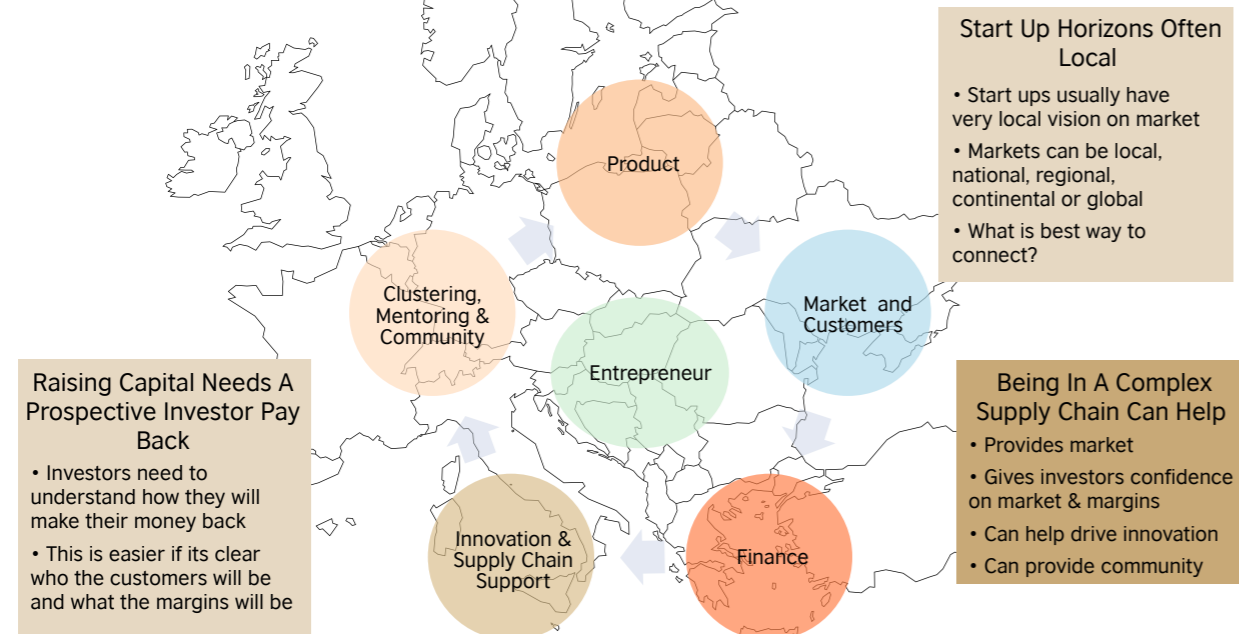
Source: Authors

Small Firm / Entrepreneurial Success Factors

The work of entrepreneurs needs to be set in the context of their market(s), because this dictates their possible customers, potential geographic spread, competitor offerings, innovation rates, anticipated margin structures and investor anticipation of potential paybacks. **Chart 19** summarises some challenges faced by new entrepreneurs.

Chart 19. The entrepreneur's world

An Entrepreneur's World



Products and Strategic vs Tactical Marketing

Successful businesses need customers, and customers want products that add value to their lives. Products add value by meeting customers need(s), which in turn vary. For example, some consumers want the most fashionable or desirable product, others want a classic from a brand known for its solidity, to make a statement that they are supporting a cause (e.g. organic food; sustainable packaging), a product that makes life easier (e.g. a home automation system), or one that reduces costs by doing something differently.

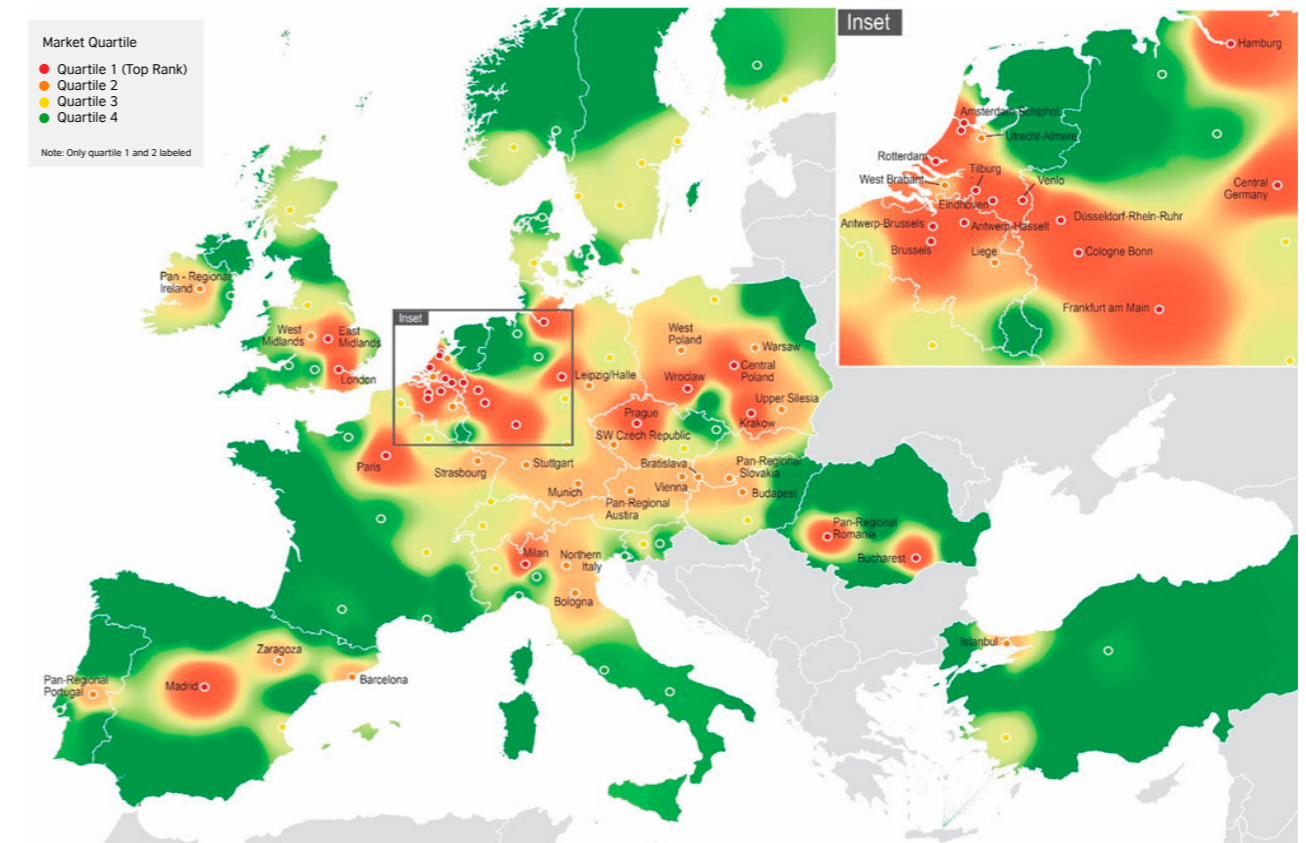
To be successful, entrepreneurs must satisfy a customer need better than their competitors, or show customers a new need (Aghion and Howitt, 1992). Strategic considerations require a long-term view that seeks to arrange business and products in the most appropriate market niche. Tactical considerations require making the best of today's product offering and exposing it to the market in the most effective manner (following from Coman and Ronen, 2007).

Entrepreneurs running small firms can partially outsource some of the strategic and tactical management challenges by becoming members of a complex supply chain. Evidence from the German automotive sector shows how collaboration across the supply chain as a whole has led to improved competitiveness and product sets from supply chain members (Buchmann and Pyka, 2012). As large automotive firms invest in new plants in new territories, they have taken some supply chain capabilities with them and generate others locally, creating a complex nested set of relationships (Sturgeon et al., 2008). Large plants created through foreign direct investment create employment in the plant, but also, and critically, start to build their own local supply chains, helping small local firms to grow. The

Western Balkans is (see **Chart 20**) somewhat remote from the main European centres of economic activity.

Chart 20. European business hot spots

Exhibit: Europe's Most Desirable Locations by Market



Source: Prologis (2017)

Foreign Direct Investment Created Anchor Firms In The Western Balkans

As we have already observed, much of the foreign direct investment in the Western Balkans went into services, and especially the banking sector, which then fuelled an unsustainable consumer boom.

Table 16 compares the relative foreign direct investment flows in Serbia and Poland.

Table 16. Relative investment flows from Germany to Poland and Serbia

Poland (US\$ Billions)	2009	2010	2011	2012	2013	2014	2015	2016
German FDI	24.59	26.50	22.55	27.59	35.64	31.77	28.64	29.93
GDP	436.82	479.16	528.57	500.84	524.38	545.05	477.33	469.32
%	5.63%	5.53%	4.27%	5.51%	6.80%	5.83%	6.00%	6.38%
Serbia (US\$ Billions)								
German FDI	1.05	0.95	1.05	1.17	1.37	1.13	1.03	1.08
GDP	42.61	39.04	46.49	40.73	45.52	44.21	37.16	37.75
%	2.46%	2.42%	2.26%	2.86%	3.02%	2.56%	2.78%	2.85%

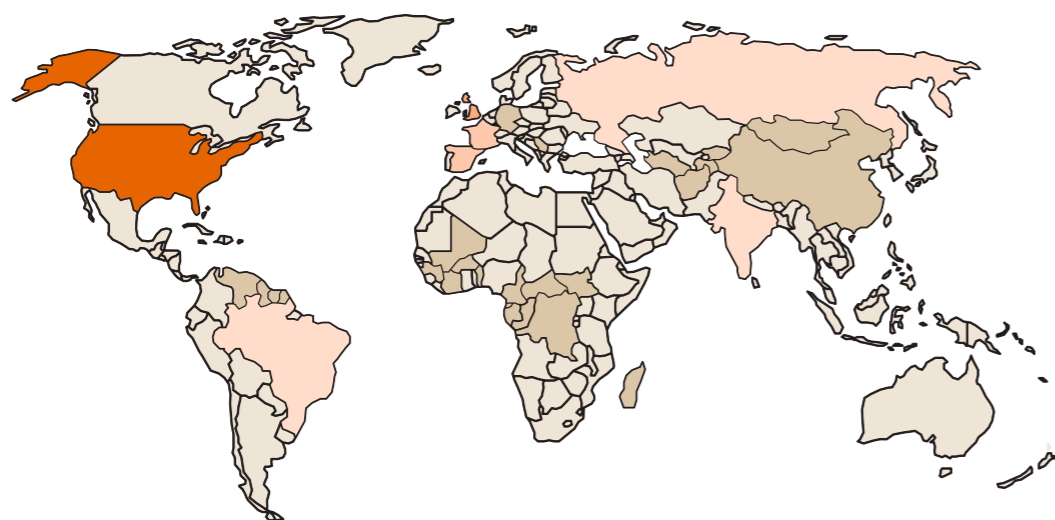
Source: IMF (2017b; c)

It is commonly accepted that Germany, as the EU's largest manufacturing country, is the 'economic engine' of continental Europe, perhaps followed by France and Italy. **Chart 21** shows that relatively little German foreign direct investment flows to the Western Balkans, and **Chart 22** shows direct investment flows into the Western Balkans (including their sources).

Chart 21. Map of 2016 German foreign direct investment flows

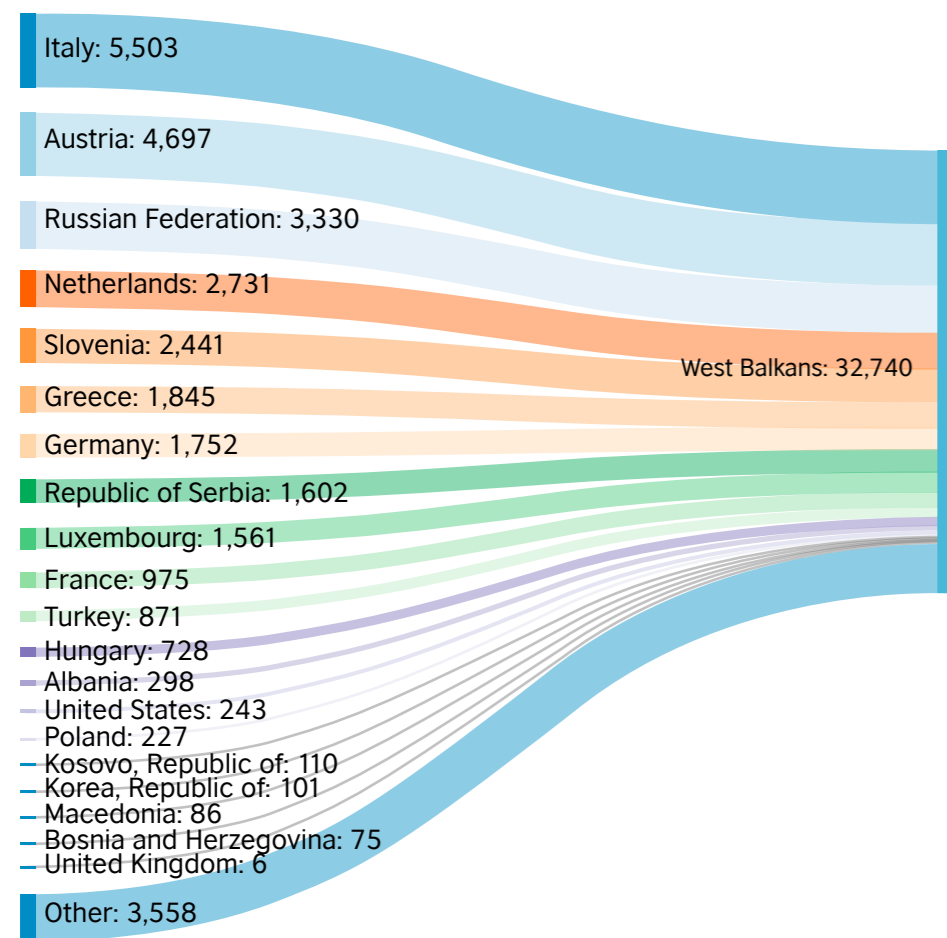
German Foreign Direct Investment Flows 2017

Heat Map - darker shading indicates higher volume
(US Dollars at Current Prices, Source IMF, 2017b)



Source: IMF (2017b)

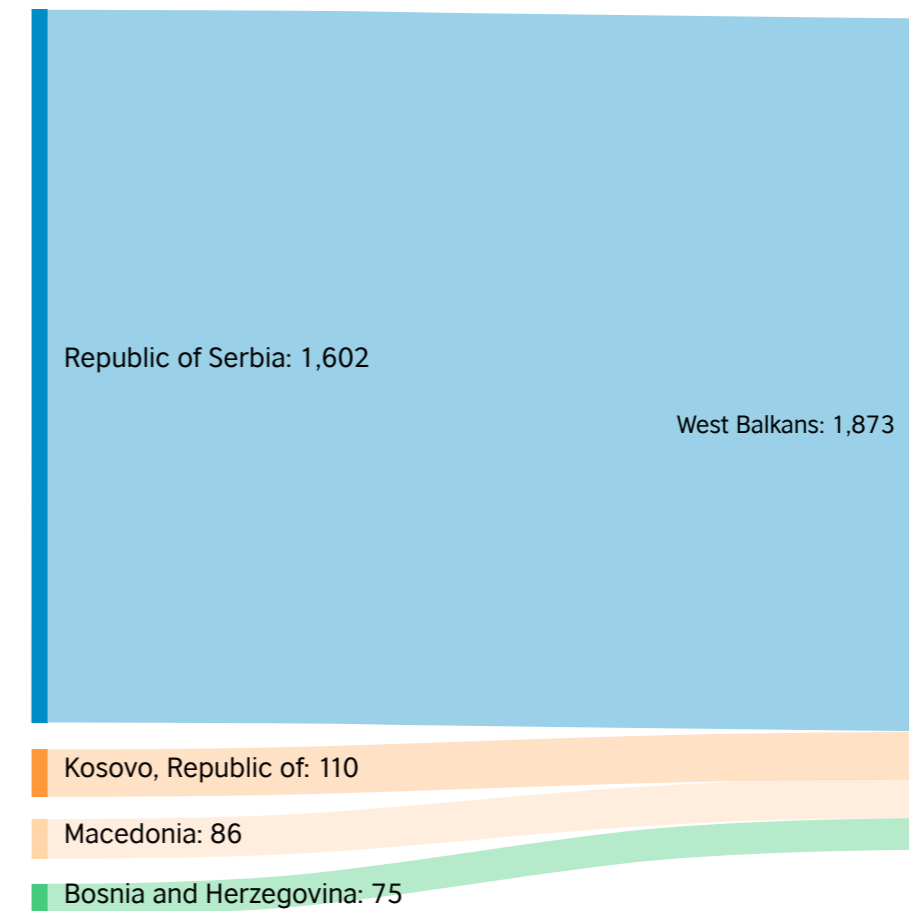
Chart 22. 2016 direct investment flows into the Western Balkans (USD millions)



Source: IMF (2017b)

The chart shows flows from the Netherlands and Luxembourg that are likely to be repurposed financial flows, routed through financial funds in these jurisdictions. These therefore probably show “asset management”-type investment rather than investment in new capital assets, but the data is not sufficiently granular to prove this. From a cursory view of banking statistics for Serbia (BIS, 2017), much of the Austrian inbound capital flow is probably financial in nature rather than focused on new capital investment. **Chart 23** shows investment flows within the Western Balkans, which are very modest in comparison to the flows from outside the region.

Chart 23. Internal regional capital flows 2016 (USD millions)



Source: IMF (2017b)

The investment flow data suggest that with some notable exceptions such as the Fiat investment in Serbia, the Western Balkans cannot rely on a model of business anchored in foreign direct investment flows. This begs the question of how else growth and entrepreneurship can be anchored.

Alternative Anchors for Innovative Entrepreneurship

Growth and economic improvement result from “innovative entrepreneurship” investing new capital to introduce new products to new markets. Entrepreneurs and small firms need some focus, an anchor upon which they can build growth.

This may come from several sources, such as being a member of a complex supply chain with an enlightened supply chain lead firm, through a strategic venture capitalist who works with the firm to develop their business model, or a market opportunity where the ability of a firm to connect with a customer need drives the internal processes (Gilad and Levine, 1986; Grilo and Irigoyen, 2006).

Box 1 describes some of these models.

Box 1 Start-Up Support Models

Enlightened Supply Chain
 Supply chain managers develop the businesses that they need. For example, when Boeing started the Boeing 787 Dreamliner development program, it developed the main assemblies (wings, fuselage etc.) through subcontractors. The approach aimed to extend supply chain innovations introduced by Toyota and other Japanese automotive firms. The initial program, working on a “hands off” contractual basis, started to fail and required the introduction of a Boeing-based central supply chain function. This started to build and nurture innovation and social relationships across the supply chain. This intervention had a significant cost (rising from six to ten billion USD) but fostered the essential collaborative partnerships across the supply chain and delivered the aircraft (Tang, Zimmerman and Nelson, 2009).

Strategic Venture Capitalist
 Internet search megalith Google started small in the mid-1990s, but attracted two key venture fund investors in its 1999 25 million USD second round financing, Sequoia Capital and Kleiner Perkins Caufield and Byers. In addition to providing money, Sequoia also provided a market by linking Google to Yahoo. Google provided search facilities for Yahoo from 2000 until 2004, when Yahoo acquired Google competitor Overture. Kleiner Perkins Caufield and Byers provided an introduction to Eric Schmidt, the CEO who developed Google’s business model to deliver profitability (O’Shaughnessy, 2017).

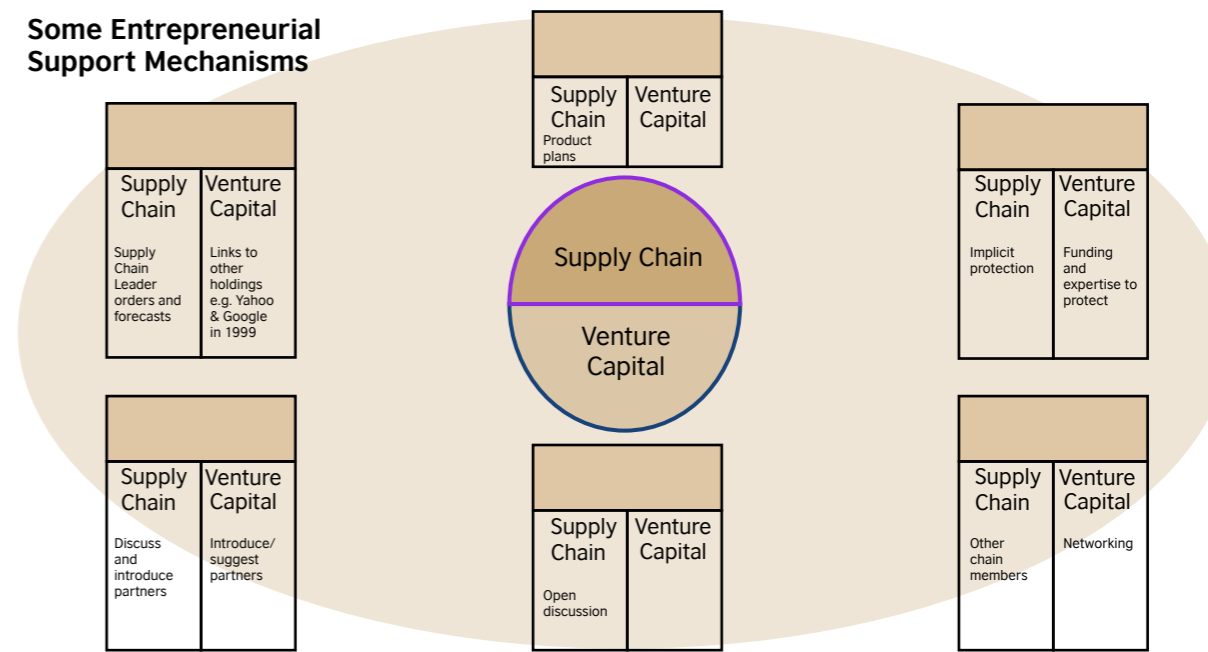
New Market Opportunity
 In 2009, a little-known private Finnish games manufacturer was facing a cash crisis. The company had been manufacturing and selling games since 2004, via big distributors. The management team worked on developing a game for download through the rapidly emerging App Stores. Their big break came when Apple agreed to feature the game Angry Birds on the UK App Store in 2010, combined with the launch of a free “lite” version and a YouTube video (Cheshire, 2011). Success was almost instant, and then became driven by the market, although this came after years of hard learning.

Companies benefit from participating in business communities, as they can draw on information, knowledge, support and business that helps them grow and develop. Communities provide specific skills and technical developments, but also access to “soft” cultural and networking learning that can help in building collaborative businesses (Barnes and Liao, 2012).

Cooperation is rewarded by improved order rates, cash flows and profitability (Cruz and Liu, 2011).

Chart 24 suggests how some of these factors are developed and supported by major business actors such as supply chain managers or venture capitalists.

Chart 24. Entrepreneurial support mechanisms



Source: Authors

Can the state provide a substitute for a missing anchor? The evidence on this is mixed and controversial. The UK government in the 1970s had a strategy of “picking winners”, but this failed in the face of British Leyland, the Meriden Motorcycle Cooperative and De Lorean cars. It did, however, produce Inmos (see **Box 2**).

Box 2 Inmos

Inmos was a UK company founded in 1978, and largely financed by the UK government through the National Enterprise Board. It aimed to bring microchip design and manufacture to the UK. The design work for early memory products happened in the USA with production in Wales. Later, the Transputer parallel processing chip was designed in Bristol. The company manufactured and sold memory products, and established a leading position in the SRAM market in the early 1980s. In 1984, Inmos was sold to Thorn EMI, giving the UK government a profit of £30 million on its investment of £65 million (Selwood, 2007). Thorn EMI had neither the financial weight nor the management understanding to develop the Transputer, although it found a promising market in graphics cards and printer technology. Eventually the company was sold and merged into Thompson Electronic (then SGS Thompson). Various spin-off businesses developed in the Bristol area and helped build competence in this area (Selwood, 2007). A key issue in the failure to develop Inmos to become a global player was the lack of understanding in both government and top management of the markets and technology (Dyerson, 1992).

Entrepreneurial Success Conditions

Boxes 1 and 2 highlight the importance of appropriate support for entrepreneurs (Ballinger and Rockmann, 2010; Brint, 2017). The guiding principles to determine the support are outlined in **Table 17**.

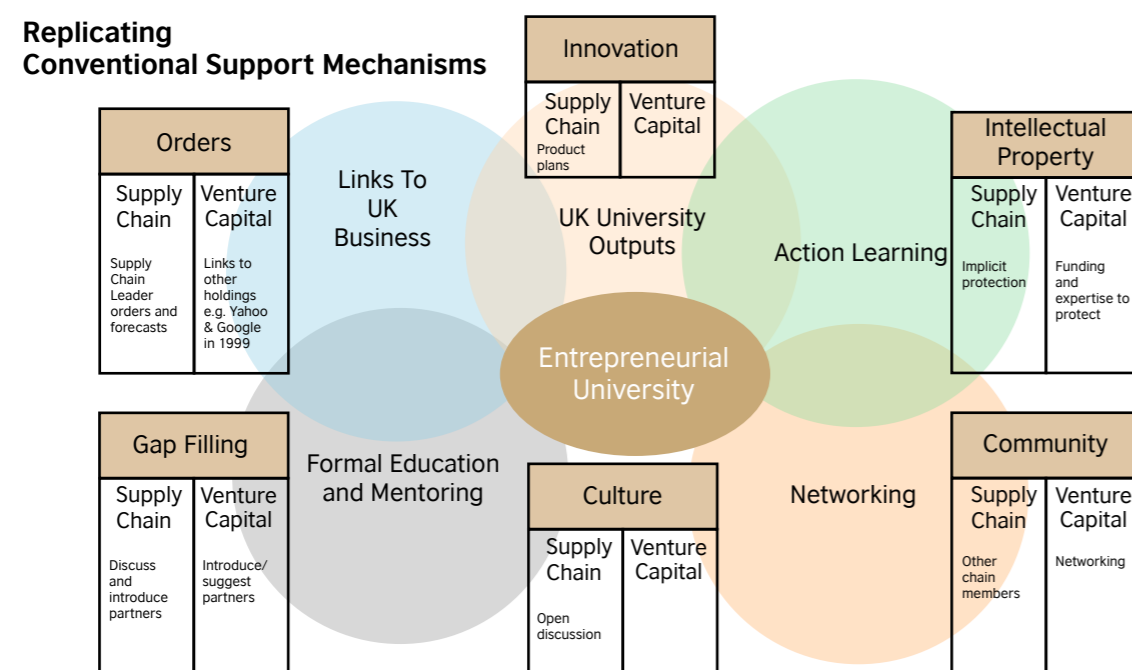
Table 17. Some suggested guiding principles

No	Guiding principle	Some examples of what not to do
1	Support must meet the entrepreneur where they are, by working in their language and linking to their markets	Do not expect mentors from big companies to understand the issues and pressures on small business Do not expect a mentor whose skill is in finance to be able to advise on protecting emergent technology intellectual property
2	Each support component must add value to the entrepreneur's world	Do not force an entrepreneur to learn things that are not relevant. Entrepreneurs are busy, and their commitment to listen is earned by adding value to help them in the challenges they face.
3	Encourage an open learning process that allows businesses to adapt to correct mistakes.	Do not assume that an entrepreneur's business plan is similar to a company budget and try to force correction against variance. An entrepreneur's business plan is a road map and adaptable if the terrain turns out to be different from expected.
4	Emphasise the benefits of collaborative working – teams that work well deliver more than individuals on their own.	Do not reinforce defensive cultures that repel outsiders or assume that everyone else is a fool or a threat. Entrepreneurial pressures to deliver can often tempt entrepreneurs to cut themselves off, but they may need inspiration and help from those around them.
5	Make sure mentors realise they too are on a journey of discovery and learning, and that shared learning builds respect and trust.	Do not pretend the educator or mentor knows everything. In entrepreneurial situations, everyone can learn.
6	Value the words "help" and "I need to find better resources"	Do not expect everyone to grow with the business. People and skills that were once crucial can easily become less relevant or obsolete. Do not handle this aggressively. Most entrepreneurs are very loyal to those who were with them in the early days.

This framework has potential to be developed into a work program, but this will need closer examination of the landscape of small and medium-sized firms in the Western Balkans. This could draw on both official data and the results of our survey.

Delivering a successful framework requires learning from previous successes and seeing how experience from these can be applied to the situation in hand (Borozan and Pfeifer, 2014; Posnett, 2015; Littera et al., 2017). **Chart 25** suggests a framework for delivering this support in the Western Balkans.

Chart 25. Western Balkans support context



Source: Authors

LOOKING TO THE FUTURE

Historically, one of Tito's successes was to allow an MSME sector to develop in Yugoslavia in certain non-strategic sectors, including agriculture, catering, crafts and tourism, even though the rest of Eastern Europe was managed by Soviet Central Planning (Gapinsky et al., 1989; Liotta, 2001). Unlike Russia in 1991, but like Poland in 1990 (Chepurenko and Vilenski, 2016), Yugoslavia therefore had experience of running and growing MSMEs when the Soviet Bloc fell. Commentators have found that MSMEs generally have two main needs, apart from support in managing state bureaucracy:

- (i) training in entrepreneurship skills; and,
- (ii) access to finance (e.g. Stefanovića et al., 2009).

In 2017, Bobić found that these issues, along with the cumbersome and bureaucratic nature of the State, were key barriers to youth entrepreneurship in Serbia. There are more specific barriers for particular groups, such as people with disabilities or low educational attainment, and women. There is, however, an entrepreneurial or small business culture, and it is therefore a question of nurturing and affirming existing "green shoots".

Major Challenges

Our survey among aspiring entrepreneurs and review of the situation in the Western Balkans have identified a number of challenges. These are:

- The status of entrepreneurship and its confusion with "predatory entrepreneurship";
- The difficulty of building a customer base and connecting to wider markets;
- Relatively low levels of inward investment and the region's remoteness from main European supply chains, which deprive the entrepreneurial community of a key source of business, innovation and access to finance;
- Poor access to venture and angel capital;
- The perception that entrepreneurship is mainly hi-tech, which is not the case in this region;
- The need to develop management skills; and
- The shortage of specific technical knowledge about regulatory issues.

Possible solutions have previously been identified by the British Council (British Council, 2016) in a report on young entrepreneurs in the Western Balkans. This chapter follows up some of those solutions, but with a focus on the entrepreneur, rather than how to embed entrepreneurship into existing institutions. There is significant crossover with the previous report, and the two can be seen as looking at the same issues from different perspectives.

Raising The Status of Entrepreneurship

Our case studies and survey work confirmed that there are difficulties distinguishing *entrepreneurship* from *predatory entrepreneurship*. Entrepreneurship is seen as only available to rich and well-connected people, or to powerful players in the shadow economy. It is important to change perceptions, and make clear that entrepreneurship is about creating innovative businesses with products that "excite and delight" customers, rather than drawing on high level connections and substantial pre-existing wealth.

The British Council (2016) suggested that engaging students with entrepreneurship concepts and activities may help. Programs targeted at school students and undergraduates can help to deepen

understanding of entrepreneurship, and encourage practical experimentation through awards ceremonies. Initiatives run by the Peter Jones Foundation⁶ in the UK offer some helpful examples.

Suggestion 1. Improve the status of entrepreneurs through educational intervention

Introduce entrepreneurship awareness teaching to encourage early entrepreneurial experimentation. Modules should be made available in schools and undergraduate courses, and effort rewarded with awards. Encourage a risk-taking culture that sees any failure as a lesson on the road to success.

Publicising entrepreneurial awards and local success stories via social and mainstream media can also raise the status of entrepreneurs. One very practical suggestion would be to create a social media group for each major centre of population and ask every entrepreneur to link to it on their website. Ideally, each social media group should be sponsored by the local Chamber of Commerce, linking entrepreneurs to their local Chamber.

Suggestion 2. Build local social network pages hosted by the local Chamber of Commerce and promote local entrepreneurship awards

Encourage all entrepreneurs to link their websites to the local Chamber of Commerce, making the local Chamber a focal point to facilitate local entrepreneurial networks. Each local Chamber of Commerce should also build and host a local business directory, with links from the directory to the social networking pages, and run local awards events to reward the best local entrepreneurs. These award systems should be linked to themed awards (for example “Climate Change Entrepreneur of the Year”), and media coverage should be coordinated to promote awareness of entrepreneurship.

Growing Entrepreneurs into Businesspeople

Our survey results showed that only 11% of our respondents aspired to become businesspeople, 33% entrepreneurs and 57% self-employed. Entrepreneurs are, by definition, simply businesspeople who innovate. These findings suggest that there is some misunderstanding about the nature of being a businessperson. It may be that people link the term ‘businessperson’ with a stereotype of the powerful deal-maker, rather than the risk-taking innovator described by Schumpeter (1934) and Keynes (1936). There needs to be a universally accepted definition of the term “businessperson”.

Our study also identified both “opportunity-focused” and “involuntary” entrepreneurs. This distinction was expressed in slightly different terms by Smith and Miner (1983), who identified entrepreneurs as either “craftsmen” or “driven by opportunity”. Craftsmen are focused on their product and their customer, and opportunity-driven entrepreneurs pursue a bigger vision, and innovate to command an attractive niche in the market. Both types of entrepreneur are, however, businesspeople, and therefore need the skills to run a business.

Entrepreneurship needs to blend customer-focused innovation with business competence. Neither of these is sufficient without the other. Both entrepreneurship and running a business (being a businessperson) are misunderstood. A businessperson running an entrepreneurial company is the inspirer, the innovator, and the deal maker, but also the person running the business to drive profit and positive cash flow.

Large organisations can separate the different roles, but small companies and new entrepreneurs do not have this luxury. They need to become effective businesspeople from day one. The good news is that the key skills for this can be learned, and any gaps can be filled through recruitment or by using external services. The starting point must be to define a “businessperson”.

⁶ The *Tycoon in Schools* program is a good example <http://www.peterjonesfoundation.org/about-us/our-work/tycoon-schools>

Suggestion 3. Promote a common and positive definition of “businessperson”, particularly for those running MSMEs

We propose the following definition:

“An MSME businessperson has the interpersonal, technical and financial skills to (i) decide upon a product that customers want, and (ii) provide it at a price that customers can afford and that is competitive with alternative offers, and the necessary skills to translate (i) and (ii) into a profitable business that generates cash.”

Becoming a Businessperson who can Create Business Success

It is important to identify the skills that businesspeople need to create business success. A study of Canadian business (Chamberlain et al., 2010) examined 3,701 firms over 34 service sectors, to identify levels of innovation and critical success factors in the period 2001–2003. The factors contributing to success were ranked, with the top factors being (i) exciting and delighting customers, (ii) quality control, and (iii) ensuring that staff had appropriate skills and inexperienced staff learned from others. To “excite and delight” customers in a service sector means having great staff who deliver a top quality product. Interestingly, access to venture capital trailed in the results in non-ICT or mining firms, probably because venture capitalists tend to have less interest in low-capital, lower-return service industries.

The challenges and therefore the blend of skills required varies by industry. Some success factors will therefore depend on the sector in which the business operates. Where success factors differ radically, it is likely that different support elements will be required. Lower technology industries such as retail or servicing and repair tend to be less dependent on locality than higher technology industries such as ICT, which have a preference for being closer to academic institutions. ICT and communication technology firms are also far more likely to be innovators than, for example, scientific consulting services firms.

Some skills are core and are required in all capitalist system businesses. For example, anyone running a business needs to understand cash flows, financial planning and accounting, so that they know when they are making money. They also need to know which regulatory frameworks apply, even if they are not experts on every detail. It is also highly likely that the people running MSMEs will want to know how their product compares to others in the market, what is their competitive edge and how can they find more customers and grow. Entrepreneurs tend to operate alone, or in small teams, so any process to help develop aspiring entrepreneurs into businesspeople needs to start with the entrepreneur as the decision-maker.

Suggestion 4. Entrepreneurs must decide what support they need

In designing a program to develop aspiring entrepreneurs into MSME businesspeople, each aspiring entrepreneur needs to “own” and take responsibility for deciding what additional help and skills they need.

Constructing a Program To Improve the Skills of Aspiring Entrepreneurs

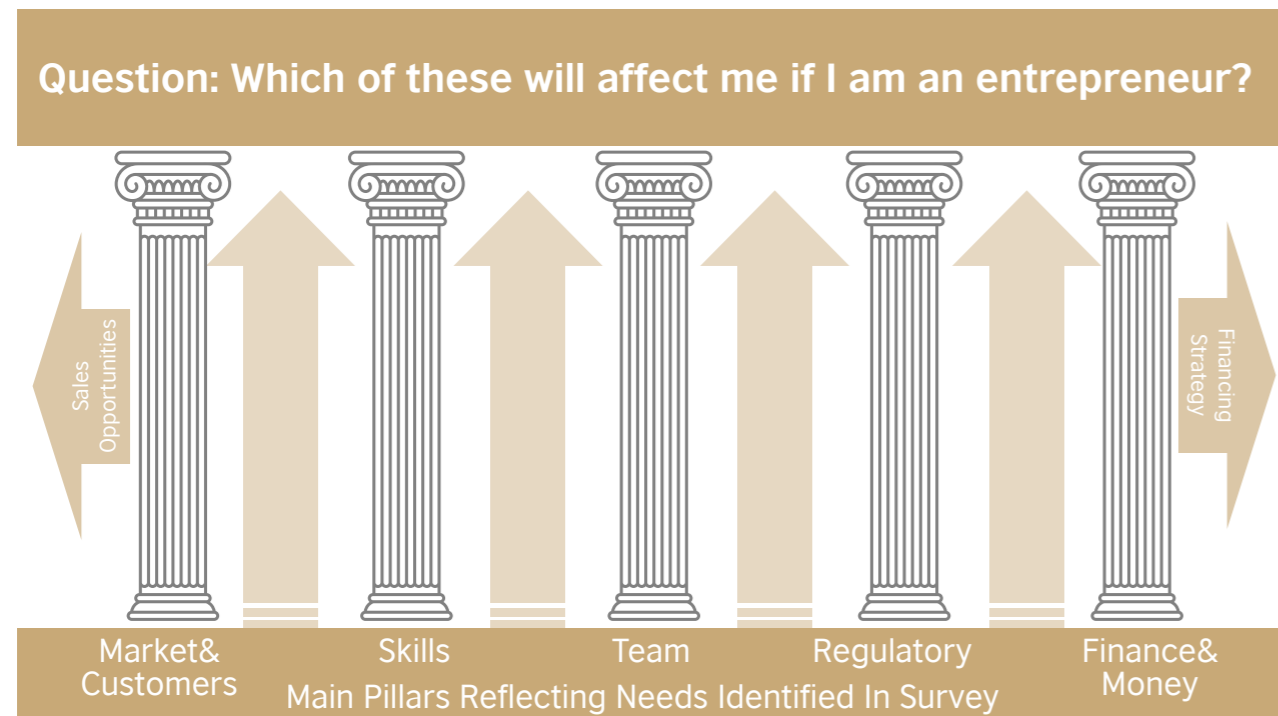
“One Size Fits Nobody” ... How do I know which size fits me?

An aspiring entrepreneur will often just want to start their business. In a simple business, say trading vegetables at a market stall, the necessary lessons will be clear very quickly. First the stall has to have the right position in the right market, so customers know it is there, then the product must be competitive in both price and quality, and third, the mark-up has to cover the costs of the day (the products on the stall, the rental for the space in the market and any products that do not sell). Finally,

there has to be enough of a surplus to provide an income for the stall holder. If any of these are wrong, the impact is immediately visible and things can be changed the next day. Most new businesses, however, are more complex than trading at a market, and both costs and risks rise with complexity.

We suggest that it may not be helpful to provide a wide range of courses for entrepreneurs to choose. Instead, there needs to be a rapid learning or screening process to help entrepreneurs understand their needs. **Chart 26** shows the different areas and challenges that may be relevant for entrepreneurs. Entrepreneurs will also face multiple time pressures, so support arrangements will need to align to both needs and available time.

Chart 26. Potential issues facing entrepreneurs



Source: Authors

Whether entrepreneurs are opportunity-driven, involuntary or a “craftsman”, they want to make an income, and will probably have some skills shortages. Most will also want to make sure they are following a sound direction of travel in their business.

To identify where help is most needed, we suggest that aspiring entrepreneurs should be offered a “health check” on their thoughts and plans, to identify areas where they could benefit from assistance and to boost their confidence in their plans. This health check could be viewed as trying different size options to find the best fit.

Chart 27 sets out this process.

Chart 27. Stylised health check process

The Screening Experience A weekend’s journey through entrepreneurship

Plenary Sessions

- Program Structure and Objectives
- Modular structure
- How to sign up and delivery process
- Program experiences from current and previous entrepreneurs
- Wrap Up & Feedback

Group Works

- Entrepreneurs are assigned to groups that combine business from different sector (no competitor threat)
- Each Entrepreneur presents their product/business idea to the group in one session and then in a separate session their team
- Moderated discussion gives group feedback on strengths and weaknesses

Elective Sessions

- Sales Strategies & Tactical Marketing
- Strategic Marketing
- Regulatory
- Finance
- Positive thinking
- Mentoring and outside advice

Individual

- Individual goals and objectives (15 mins)
- Program elements (1 hr)
- Program member responsibilities and expectations (15 mins)
- Sign up papers (15 minutes)
- Any other issues (15 minutes)

Source: Authors

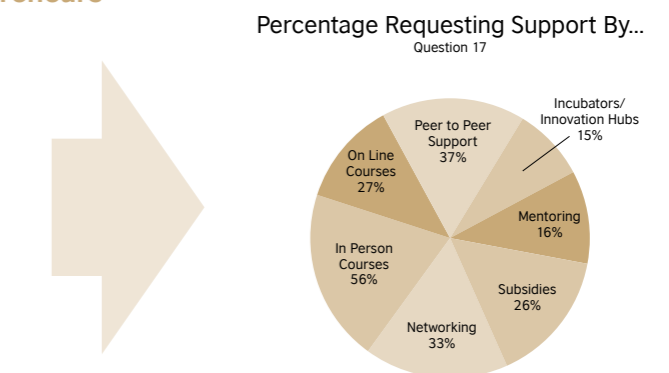
Suggestion 5. Enable entrepreneurs to identify their needs

Provide a structured process for entrepreneurs to talk through their business ideas and identify their development needs. Ideally, entrepreneurs could attend screening weekends to help them understand their business and their needs.

Building Individual Support Programs

Chart 28. Support preferences for entrepreneurs

Aspiring entrepreneurs were asked how they would like support to be delivered. They clearly value human interaction, but were concerned about allocating and managing time across many activities. Task overload is an everyday hazard and reality for an entrepreneur. Support therefore has to deliver what entrepreneurs perceive they need in the most effective and time optimal manner.



Source: Authors’ Survey

Each business has different needs, and the aim of the screening day would be to focus and match these needs to specific program elements. Following Michael (2006), our support and learning framework is based on ensuring project work and learning is focused on a goal that is aligned to a business imperative for the entrepreneur. This goal needs to be clearly expressed and articulated at the outset, as this greatly increases the chances of successful learning.

For example, an entrepreneur might identify the need to build a tactical marketing campaign to prospect new customers. The formal teaching would look at options and methods to execute this, and

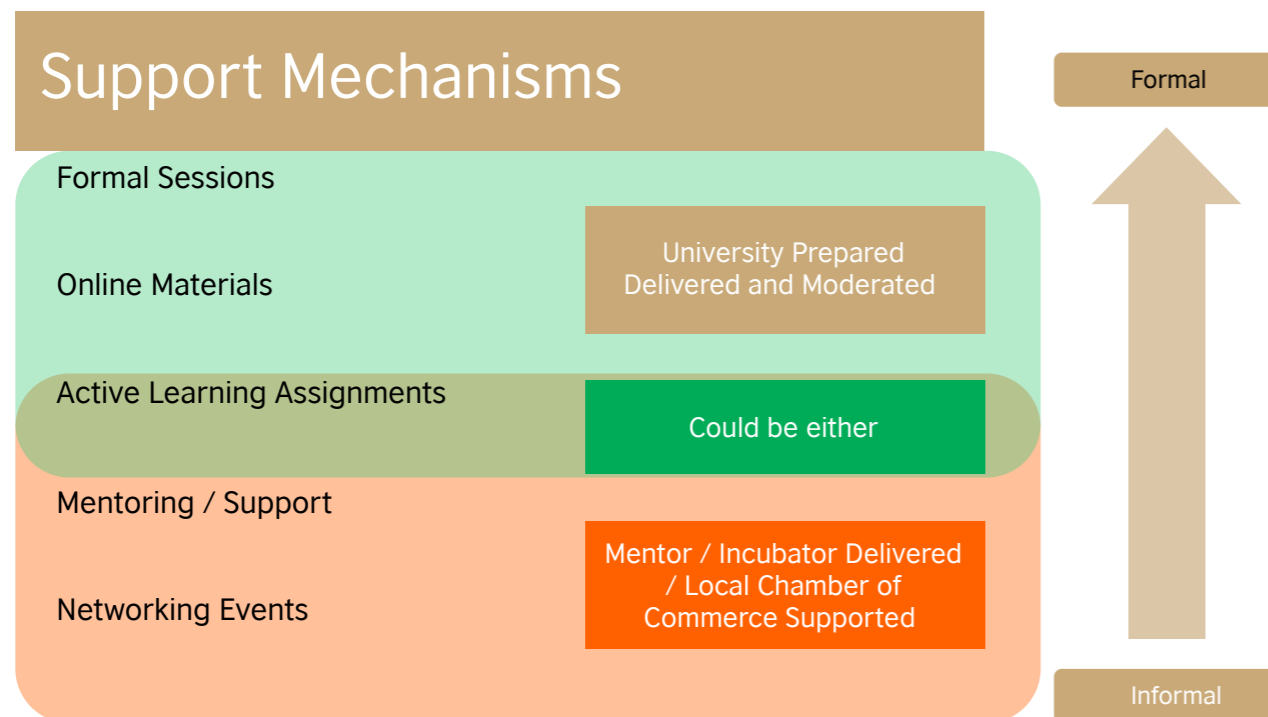
the practical work and deliverable would be to develop a tactical marketing plan for the business that could then be reviewed and adjusted with course supervisors and mentors.

The learning elements will be delivered through a variety of mechanisms, such as:

1. Online training courses created by universities, complemented by project work directly related to the entrepreneur's business and formal teaching weekends;
2. Active Learning assignments based on the prospective entrepreneur's business; and
3. Formal mentoring, informal networking, and where appropriate incubation.

To fit entrepreneurial time constraints and ensure optimal resource use, support must be delivered flexibly from existing resources. The suggested support framework is shown in **Chart 29**.

Chart 29. Support mechanisms



Source: Authors

Suggestion 6. Support needs to be focused on MSME objectives, and flexibly delivered

The nature of entrepreneurs and the time pressures on them mean that support needs to be delivered as flexibly as possible, mixing formal with informal and blending practical with taught skills. In effect this is a “two birds with one stone” strategy, enabling entrepreneurs to learn and develop key skills while building their business.

Formal instruction can often be delivered online in the form of a series of quality “mass open online courses” (open to all). Supervision should be based around Active Learning assignments created jointly by formal teaching and mentoring staff. Active Learning is developed partly in formal sessions and partly in mentored sessions. The outputs of the Active Learning activities should be focused on the individual business and the barriers perceived by that entrepreneur.

This approach will build specific skills within an entrepreneurial culture that evangelises advance thinking and planning (but not procrastination) as key risk reduction weapons. This risk reduction is enhanced by a commitment to continual status review. Entrepreneurs will be encouraged to ask whether their plans are working, and if not, whether they need more time, amendment, or rethinking

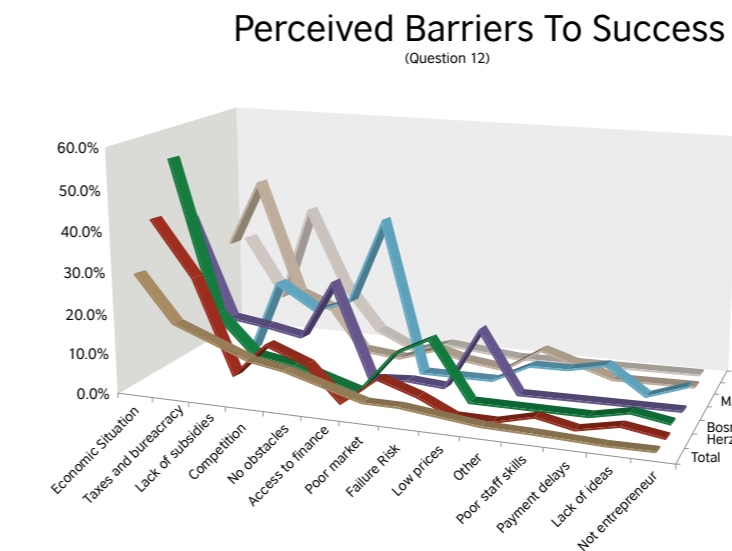
completely, because “You cannot dig a hole in a different place by digging the same hole deeper” (De Bono, 1970).

Suggestion 7. Encourage entrepreneurs to pursue continual learning and improvement

By propagating a culture of active learning, realistic planning and continual execution, entrepreneurs should be encouraged to learn continuously, and particularly to learn to identify the point at which it is best to shift direction if the current plan is failing.

Charts 30 and 31 show the barriers perceived by our aspiring entrepreneurs.

Chart 30. Perceived barriers to success



- Countries have some striking differences, but main themes seem to be:
- Securing customers and business in face of poor economy and competitive response;
 - Lack of subsidy (and in some places lack of finance);
 - Some perceive no barriers.

Source: Authors' Survey

Chart 31. Perceived barriers to success (2)

Rank	Barrier	Total	Serbia	Bosnia and Herzegovina	Montenegro	Macedonia	Albania	Kosovo
1	Economic Situation	30.5%	41.2%	54.1%	35.0%	0.0%	27.0%	28.0%
2	Taxes and bureaucracy	18.7%	28.9%	16.3%	12.0%	0.0%	43.0%	13.0%
3	Lack of subsidies	15.2%	3.1%	7.1%	11.0%	19.0%	15.0%	35.0%
4	Competition	11.3%	12.4%	5.1%	9.0%	13.3%	12.0%	16.0%
5	No obstacles	9.5%	9.3%	2.0%	24.0%	16.2%	1.0%	4.0%
6	Access to finance	6.7%	0.0%	0.0%	0.0%	38.1%	0.0%	0.0%
7	Poor market	3.8%	7.2%	10.2%	1.0%	0.0%	3.0%	2.0%
8	Failure Risk	3.5%	4.1%	15.3%	0.0%	0.0%	1.0%	1.0%
9	Low prices	2.7%	0.0%	0.0%	16.0%	0.0%	0.0%	0.0%
10	Other	1.8%	0.0%	0.0%	0.0%	4.8%	6.0%	0.0%
11	Poor staff skills	1.7%	2.1%	0.0%	0.0%	4.8%	3.0%	0.0%
12	Payment delays	1.2%	0.0%	0.0%	0.0%	6.7%	0.0%	0.0%
13	Lack of ideas	0.7%	2.1%	2.0%	0.0%	0.0%	0.0%	0.0%
14	Not an entrepreneur	0.7%	0.0%	0.0%	0.0%	3.8%	0.0%	0.0%

Source: Authors' Survey

Access to finance is especially important in FYR Macedonia

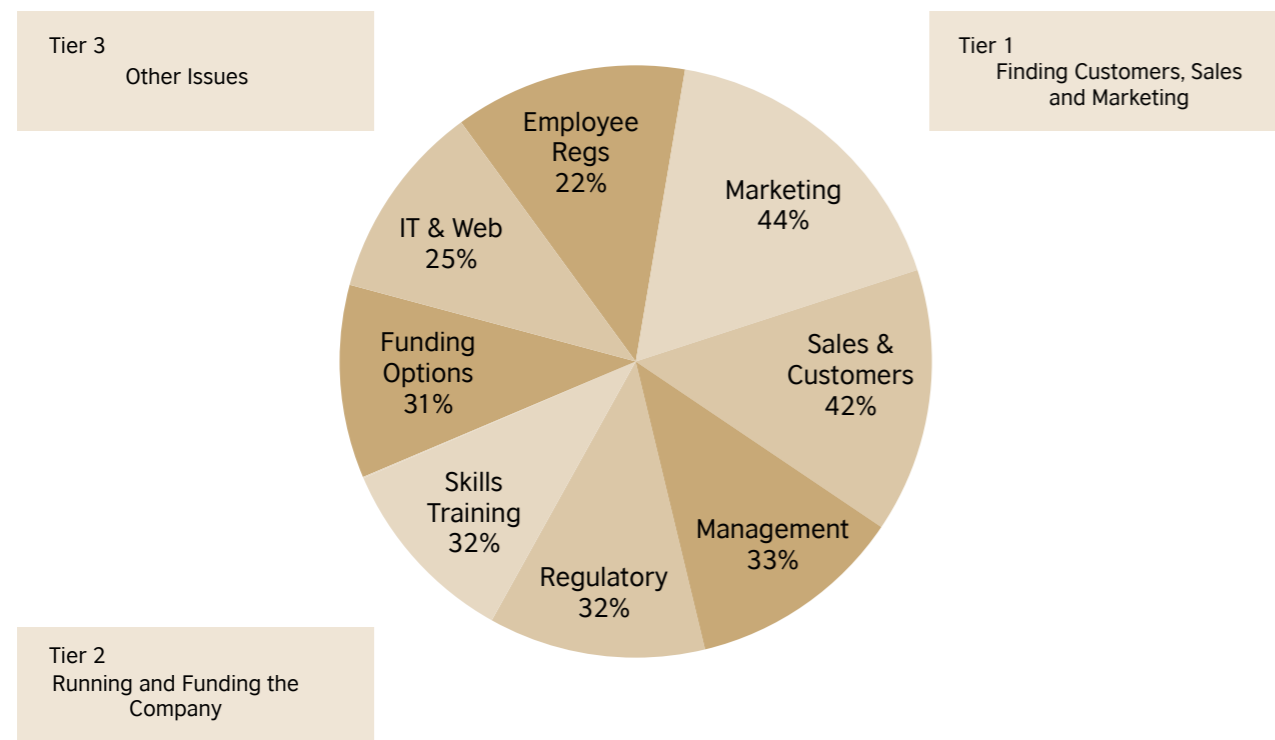
Chart 32 shows how these barriers are translated into “needs” in the minds of our aspiring entrepreneurs. These needs split into three areas:

1. Skills required to find customers, drive sales and build marketing plans;
2. Skills required to run a company – management, knowledge of regulatory environments and finding funding; and
3. Other skills, for example, IT and websites and how to deal with employment law.

Chart 32. Percentage expressing needs for particular support

Summary Needs -% Expressing Need

Responses to Question 16



Source: Authors' Survey

Our aspiring entrepreneurs want assistance to (i) build their sales, customer acquisition (and retention) and marketing plans; (ii) develop the skills and resources (including financial) to run and grow their company; and (iii) manage technical issues such as the web or employment law. Both case study comments and the survey results suggest that entrepreneurs value interpersonal contact and learning by engaging with experts, mentors and peers. Three further elements also emerged. First, the case studies showed that aspiring entrepreneurs want to reduce their personal risk. Second, both the case studies and survey showed a need to build entrepreneurs' confidence in their own abilities. Third, our research suggests a need to substitute for the market and innovative pull of belonging to a global supply chain.

The Entrepreneurial Support Space

Formal learning, action-based assignments, mentoring, information-sharing and business networking will be easier if there is a single place providing entrepreneurial support. These places are sometimes called “incubators” or “accelerators”, and are often associated with provision of office space, perhaps coupled with some mentoring or advice.

The survey results suggest something broader may be more appropriate in the Western Balkans. We suggest it may be helpful to establish a place to provide entrepreneurs with a “safe haven”, where

they can network with other entrepreneurs (current, former and aspiring), and participate in learning, including through a regular program of events designed to broaden horizons. This would be linked to or provided by an “anchor institution” for entrepreneurial activity, such as an entrepreneurial university (Culkin, 2016), which would act as a non-profit locus for entrepreneurial activity in the region.

Suggestion 8. Build an “anchor” entrepreneurial space in each region

Provide a place in each region where entrepreneurs can access training and support resources, network with others and engage with appropriate mentors.

The “Entrepreneurial University”

Most universities would claim to be outward-looking and entrepreneurial. Brint (2017) provided a valuable insight into the role of universities in actively engaging and sponsoring innovators, including supporting the top 50 innovations in the past 50 years. Stanford on the US West Coast, for example, is famous for its close links to the Silicon Valley technology community, and provided early support to Google as a university research project (O' Shaughnessy, 2016).

Entrepreneurial universities, however, do more than hosting and nurturing early-stage technology innovators. Universities have a range of highly relevant knowledge in both business-facing activities (though business schools) and technical development through science, engineering and technology schools. Undergraduate and taught postgraduate courses are by necessity inwardly-focused to enable awarding of degrees. An entrepreneurial university, however, takes these teaching and learning capabilities and makes them outward-facing and demand-driven components of entrepreneurs' personal active learning experience (Culkin, 2016).

The output of this process is the building of a diverse local community of vibrant, innovative, growing and entrepreneurial firms. The metrics for success relate to firm profitability and life, serial entrepreneurship, firm growth, innovation, and penetration or disruption of new and existing markets. Success in this area feeds back into the university's research, on both technologies and business methods and strategies.

“University” status for the entrepreneurial program helps to attract appropriate mentors, because it offers the opportunity to publicise mentors' careers and achievements. The university's detailed engagement with business support organisations such as the local Chamber of Commerce opens new and exciting two-way learning and dialogue opportunities between local business and academia.

Suggestion 9. Nurture outward looking “entrepreneurial universities”

Develop an outward-looking ethos in nominated “entrepreneurial universities”, to complement their standard formal teaching, degree-awarding and research functions. Measure the “entrepreneurial university” component by its contribution to establishing and growing small entrepreneurial and innovative firms in the area.

Turning Aspiration into Reality

Entrepreneurial aspirations become reality through the coordinated and positive working of multiple factors (Isenberg, 2015). These factors are sometimes overt and sometimes hidden, and also combine uniquely for each individual success. It is a common mistake to assume that the state or some external organisation can sprinkle “magic dust” and make these elements come together into successful businesses. The orchestrator, and the key element in driving success, is the individual entrepreneur or entrepreneurial team, although others can help.

Success will not come immediately. Sometimes failure can be considered success, if it enables learning that supports future success. Isenberg (2011) described failure as coming early and successes taking time. Entrepreneurs need to be encouraged to see that their road to success is exactly that: a journey, which can be shortened by taking certain shortcuts. The role of the entrepreneurial support program is to help propagate and develop these shortcuts for each business. We now give a few examples as to how this process could work in practical terms.

Chart 33 suggests a teaching module to help aspiring entrepreneurs drive sales, **Chart 34** suggests some elements for a marketing skills module, and **Chart 35** describes learning about access to finance.

Chart 33. Proposed sales skills module

Sales Skills & Sales Connections

Objective: Understand the sales process and relationship ladder, identify potential customers and develop negotiating skills

Sample On Line Modules

- Reaching Your Customers (sales outlets, online channels and distributors) Target Outcomes: list out possible outlets - and identify where you talk directly with your customers and where you rely on others to do it for you
 - Customer Acquisition and Retention (sources and costs). Target Outcomes: retaining a happy customer usually cheaper than finding a new one; estimate own acquisition costs.
 - Cost To Serve (some customers cheaper to serve than others). Target Outcomes: estimate how much your customers cost to keep happy (what offer do you need to make to excite and delight your customers).
 - Negotiation (search for the win-win, tactics, trial closure and full closure) Target Outcomes, prepare for a group session role play
- Relationship Ladder (how to be specified and recommended) Target Outcomes: identify who can recommend and specify you to end customers

Sample Group Sessions

- Negotiation Role Play
- New sale
 - Angry customer with failed product
- “These are my customers and this is how I am going to reach them”
- Customer types/modes of acquisition/Sales Channels
 - Relationship ladder
 - Costs to serve

Enhance customer acquisition and selling skills to complement existing acquisition routes and capabilities

Who Do You Ask For Help To Find Customers? Survey Question 15		
1.	Friends and Family	44.3%
2.	Co-workers/peers	38.1%
3.	Industry contacts personally know	32.0%
4.	Online with businesses in any sector	23.7%
5.	Face to face in any sector	20.6%
6.	Online with businesses in same sector	19.6%
7.	Face to face in same sector	13.4%
8.	Serbian Business Support Network	12.4%
9.	Other	2.1%
10.	Eur Bank Reconstruction & Development	1.0%

Source: Authors

Chart 34. Proposed marketing skills module

Marketing

Objective: Understand strategic and tactical marketing, build a strategic marketing plan and construct product launch plan

Sample On Line Modules (1 hr Each)

- Strategic Marketing 101 (market definition & sizing, competitor analysis, positioning and branding) Target Outcomes: Marketing situation analysis, strengths and weakness analysis and opportunity matrix
- Tactical Marketing (4x1 units) (launch plan, four “P’s - Product, Place, Promotion and Price). Target Outcome: build launch plan.
- Digital Marketing (web advertising, social media, blogging, email campaigns, web design). Target Outcome: build a digital campaign.
- Customer Profiling (customer types, drivers and how this links to market research; database lists). Target Outcomes: How to build a list of target customers to contact
- Customer Service As A Marketing Tool (complaint and returns handling). Target Outcomes: Transforming complainers into loyal customers.

Sample Group Sessions

- Marketing Situation Analysis
- Competitor & Market Analysis
 - Branding and Positioning Plan
 - Strengths and Weaknesses
- Launch Plan
- Digital Marketing Plan

Who Do You Ask For Help In Marketing Survey Question 15		
1.	Friends and Family	39.0%
2.	Co-workers/peers	33.0%
3.	Industry contacts personally know	28.0%
4.	Online with businesses in any sector	25.0%
5.	Face to face with business in any sector	19.0%
6.	Online with businesses in same sector	13.0%
7.	Serbian Business Support Network	12.0%
8.	Face to face with businesses in same sector	12.0%
9.	Bank of Reconstruction and Development (Bosnia)	6.0%
10.	Other	3.0%
11.	Macedonian Entrepreneurship Agency	1.0%

Source: Authors

Chart 35. Proposed module on access to finance

Access To Finance

Understand strategic and tactical marketing, build a strategic marketing plan and construct product launch plan

Sample On Line Modules

- Finance Strategy (types and sources of finance) Target outcomes: Understanding finance sources/costs.
- Raising Equity (1) business plan, valuations. Target outcomes: Understand elevator pitch, pitch desk and business plan.
- Raising Equity (2) (selecting target funders) Target outcomes: build a target funders list.
- Raising Equity (3) (process, contact, presentation, term sheets, shareholder agreement) Target outcomes: Understand funding process
- Valuation (valuation methods). Target outcomes: Understand ways to value a business
- Leasing Target outcomes: Understand types of leasing and availability
- Asset Based Finance Target outcomes: Understand invoice factoring

Sample Group Sessions

- Elevator Pitch
- Pitch Desk
- Fund Raising Role Play

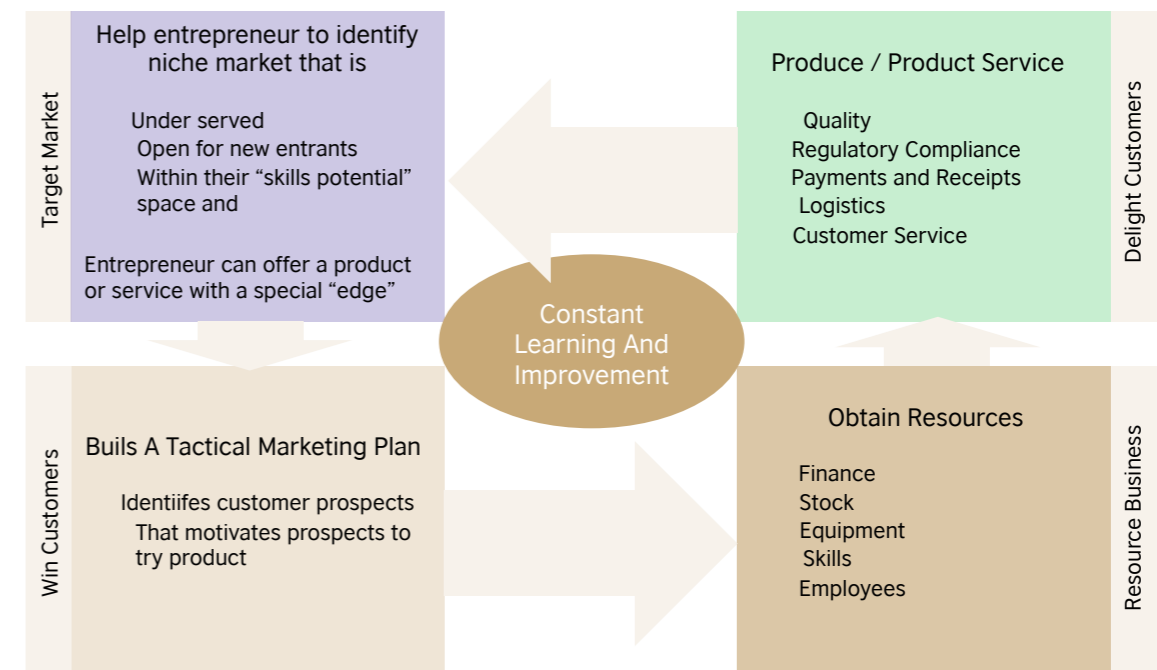
Who do you ask for help to access finance? Survey Question 15		
1.	Friends and Family	40.5%
2.	Co-workers/peers	32%
3.	Online with businesses in any sector	24.2%
4.	Serbian business support sector	19.6%
5.	Face to face with business in any sector	19%
6.	Face to face with business in same sector	15%
7.	Industry contacts personally know	15%
8.	Online with businesses in same sector	14.4%
9.	Bank for Reconstruction and Development (Bosnia)	8.5%
10.	Other	7.2%
11.	Macedonian Entrepreneurship Agency	3.9%
12.	Montenegro Agency for SMEs	1.3%

Complement Existing Capabilities

Source: Authors

Chart 36 shows the entrepreneurial process, and **Chart 37** the role of the entrepreneurial university in this.

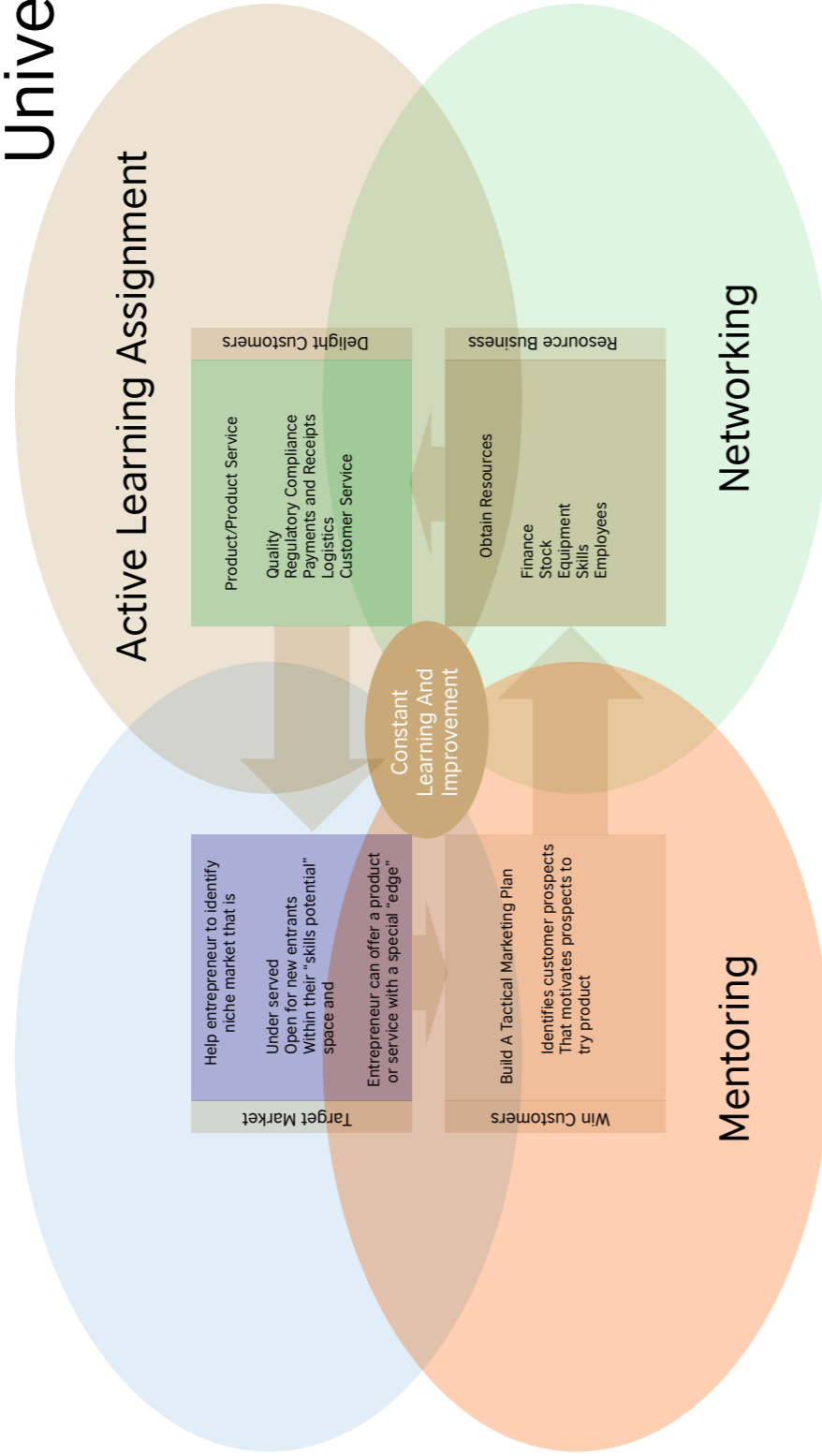
Chart 36. Entrepreneurial process



Source: Authors

Chart 37. The nurturing role of the entrepreneurial university

Nurturing Our Entrepreneur Under The Umbrella of An “Entrepreneurial University”



Source: Authors

Three Possible Deliverables

This process is designed to deliver some important tangible elements.

Deliverable 1. Pre-Start-Up Screening

Entrepreneurs need to understand if their aspirations could work as a business. To do so, they need to understand markets, identify customers and their needs, define possible products and services and combine these into a view of the potential business. Identifying ideas that are unworkable early on saves later failure and may help to identify better alternatives. This deliverable goes some way to addressing aspiring entrepreneurs' desire to reduce their risks. This process aims to ensure that start-ups grow, rather than failing in years one or two.

Deliverable 2. Entrepreneurial Confidence

Confidence comes from knowing how the business will acquire customers and that it has a competitive edge. This provides support at times when there seem to be more challenges than immediate successes.

Deliverable 3. Potential For Easier Access to Finance

A considered and costed business plan provides something for entrepreneurs to show lenders or capital providers to give them confidence. This confidence can be substantially raised if the entrepreneurial university develops a certification framework with local lenders, to give lenders confidence in the process used to develop plans.

There are good examples of this working in practice. Sufi (2009) demonstrated that financial markets are more accepting of debt for a company with a Ratings Agency score. The independent review gives investors more confidence in the firm's ability to service debt. Bosch and Steffen (2010) showed that in the absence of certification, investor syndicates (where more than one investor buys issued debt) can also add confidence and provide a certification effect to help encourage others to buy the debt. Personal experience suggests that the same effects work in the private equity and venture capital markets, where some less obvious ventures can be made more interesting to investors by having accountant-verified feasibility studies or business plans.

There is also scope for the entrepreneurial university to host a community currency network, like the Sardex community currency used in Sardinia. This provides free working capital to local MSMEs who are network members, to enable trade between them. The results in Sardinia have been positive (BBC, 2018) and this type of network may help where initial working capital is either too expensive or difficult to obtain.

Suggestion 10. Develop a business plan certification standard to help access to finance

Business plan certification to a known standard reduces risk to lenders and investors. Developing a locally-acceptable certification standard could help improve access to finance.

SUMMARY SUGGESTIONS / DELIVERABLES

No	Suggestion
1	<p>Improve the status of entrepreneurs through educational intervention Introduce entrepreneurship awareness teaching to encourage early entrepreneurial experimentation. Modules should be made available in schools and undergraduate courses, and effort rewarded with awards. Encourage a risk-taking culture that sees any failure as a lesson on the road to success.</p>
2	<p>Build local social network pages hosted by the local Chamber of Commerce and promote local entrepreneurship awards Encourage all entrepreneurs to link their websites to the local Chamber of Commerce, making each Chamber a focal point to facilitate local entrepreneurial networks. Each Chamber of Commerce should also build and host a local business directory, with links to the social networking pages, and run local awards events to reward the best local entrepreneurs. These award systems should be linked to themed awards (for example "Climate Change Entrepreneur of the Year"), and media coverage should be coordinated to promote awareness of entrepreneurship.</p>
3	<p>Promote a common and positive definition of "businessperson", particularly for those running MSMEs We propose the following definition: <i>"An MSME businessperson has the interpersonal, technical and financial skills to (i) decide upon a product that customers want, and (ii) provide it at a price that customers can afford and that is competitive with alternative offers, and the necessary skills to translate (i) and (ii) into a profitable business that generates cash."</i></p>
4	<p>Entrepreneurs must decide what support they need In designing a program to develop aspiring entrepreneurs into MSME businesspeople, each aspiring entrepreneur needs to "own" and take responsibility for deciding what additional help and skills they need.</p>
5	<p>Enable entrepreneurs to identify their needs Provide a structured process for entrepreneurs to talk through their business ideas and identify their development needs. Ideally, entrepreneurs could attend screening weekends to help them understand their business and their needs.</p>
6	<p>Support needs to be focused on MSME objectives, and flexibly delivered The nature of entrepreneurs and the time pressures on them mean that support needs to be delivered as flexibly as possible, mixing formal with informal and blending practical with taught skills. In effect this is a "two birds with one stone" strategy, enabling entrepreneurs to learn and develop key skills while building their business.</p>
7	<p>Encourage entrepreneurs to pursue continual learning and improvement By propagating a culture of active learning, realistic planning and continual execution, entrepreneurs should be encouraged to learn continuously, and particularly to learn to identify the point at which it is best to shift direction if the current plan is failing.</p>
8	<p>Build an "anchor" entrepreneurial space in each region Provide a place in each region where entrepreneurs can access training and support resources, network with others and engage with appropriate mentors.</p>
9	<p>Nurture outward looking "entrepreneurial universities" Develop an outward-looking ethos in nominated "entrepreneurial universities", to complement their standard formal teaching, degree-awarding and research functions. Measure the "entrepreneurial university" component by its contribution to establishing and growing small entrepreneurial and innovative firms in the area.</p>
10	<p>Develop a business plan certification standard to help access to finance Business plan certification to a known standard reduces risk to lenders and investors. Developing a locally-acceptable certification standard could help improve access to finance.</p>
Some Possible Deliverables	
1	<p>Pre-Start-up Screening Entrepreneurs need to understand if their aspirations could work as a business. To do so, they need to understand markets, identify customers and their needs, define possible products and services and combine these into a view of the potential business.</p>
2	<p>Entrepreneurial Confidence Confidence comes from knowing how the business will acquire customers and that it has a competitive edge. This provides support in the inevitable moment when there seem to be more challenges than immediate successes.</p>
3	<p>Potential For Easier Access to Finance A considered and costed business plan provides something for entrepreneurs to show lenders or capital providers to give them confidence. This confidence can be substantially raised if the entrepreneurial university develops a certification framework with local lenders, to give lenders confidence in the process used to develop plans.</p>

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About The Report Authors

Nigel Culkin is Professor of Enterprise and Entrepreneurial Development at the University of Hertfordshire. He has published widely in the areas of small business leadership, entrepreneurial universities, graduate entrepreneurship and the creative industries, as well as leading projects for UK and overseas government agencies, large multinational organisations and research councils. In 2014, he was elected to the post of President at the Institute for Small Business and Entrepreneurship (ISBE); and, in 2015, was invited to join the prestigious Peer Review College at the Economic and Social Research Council (ESRC). He is a regular attendee at the UNCTAD Expert Meeting on entrepreneurship and building productive capacities, held in Geneva.

Richard Simmons is an economist with enduring expertise in MSMEs as innovation engines. He has a strong belief in market solutions, with interests in growth processes, ethical financing and dynamic (including monetary) equilibrium in an entrepreneurially driven and financially sophisticated world. Formerly holding senior regional and global management roles in various leading-edge high technology and medical device firms, he has lived and worked globally. He now advises a senior global investor based in Riyadh and is a Researcher at the University of Hertfordshire.

The report authors new book, will be available in May 2018.

Culkin, N. and Simmons, R. (2018). *Mastering Brexits Through The Ages: Entrepreneurial Innovators and Small Firms -The Catalysts for Success*. Emerald Publishing.

(Footnotes)

1 **Banja Luka** has a population of nearly 200,000 and is the second largest city in [Bosnia and Herzegovina](#). It currently has four wedding halls, which all offer traditional services.

2 Filigree jewellery has very ornate metalwork designs and is an ancient art that started in Mesopotamia, was popular in Etruscan times and in more recent times has been associated with a geographical band stretching from Bodrum in Asiatic Turkey through European Turkey and into the Balkans.

3 Belgrade is located in Serbia with an insurance market dominated by non-life business (76.3%). Motor claims represented about 50% of total Q1 2017 claim payouts of around 66 million EUR, giving an estimated claims volume of around 250 million EUR on an estimated premium income of around 0.5 and 1 billion EUR (source xprimm.com).

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