

PERFORM

Performing and Responsive Social Sciences

Research Evidence Contributes to Tax Reliefs for Young Entrepreneurs



Fewer than 8% of young people in Serbia decide to start their own business. A major constraint to their operation is a high tax burden. In 2016, Serbia's Ministry of Youth and Sport and research organisation the Economics Institute worked together to address this issue, providing evidence and advocating for a change to tax law to allow 2000 EUR savings on taxes for new entrepreneurs. PERFORM facilitated the process by creating a mechanism for collaboration between the Ministry and the research institute.

The Challenge

In Serbia, 36% of young people are out of work, making it one of the most serious issues that policy makers have to tackle. Self-employment is also quite low - only 7.8% of young people run their own businesses. With the labour market offering very few options for the youth, why is it that young people are not turning more to entrepreneurship and creating their own job opportunities?

To answer this question, the Ministry of Youth and Sport (MoYS) wanted to commission research that would analyse the conditions in which young entrepreneurs do business in Serbia. The evidence would help to inform new policies to improve these conditions and ultimately contribute to a decrease in youth unemployment.

However, commissioning such research is not straightforward. Traditionally, social science evidence has not been used much in policymaking processes in Serbia. There are no mechanisms that facilitate collaboration between policy makers and researchers, and there is often a lack of trust between the two communities.

While Serbian ministries have commissioned similar types of research studies in previous years, they were often limited by rigid public procurement procedures, which favour exclusively quantitative over qualitative indicators. This often resulted in the lowest bid winning regardless of the quality offered. Additionally, the procedures are so complicated that they turn off policy makers from hiring research groups all together.

To help bridge the gap between policy makers and the social science research community, PERFORM has been working with the Public Policy Secretariat (PPS) to design pilot initiatives to help build structures and mechanisms to foster collaboration. In 2016, the MoYS proposed a pilot initiative in the hope it would help them answer their questions about youth unemployment. During the pilot, PERFORM played a critical role in building relationships between the Ministry and the Economics Institute in Belgrade.

The Change

From April to September 2016, the Economics Institute analysed the existing regulations for entrepreneurs in Serbia and other countries, and conducted focus groups with young Serbian entrepreneurs to assess key barriers to self-employment. The [study](#) identified a range of issues affecting young entrepreneurs, including lack of a supportive environment, lack of entrepreneurial knowledge and skills, underdeveloped financial support, and a high tax burden.

The current tax burden for entrepreneurs in Serbia goes up to 44.22% of revenue, compared to 21.13% in Germany and 25% in Croatia. This poses a major obstacle for young people to start their own business.

The research team proposed several measures to overcome these issues:

- Introducing a regulatory framework for venture capital investments
- Tax incentives
- Amendments to the relevant law that would, for instance, enable using PayPal for both effecting and receiving payments in foreign currency
- Introducing a non-formal education programme of Student Companies in secondary schools.

Armed with this concrete research evidence, the Ministry of Youth and Sport and its strategic partners were able to advocate for changes to the business environment to accommodate the needs of young entrepreneurs. Subsequently, a working group was formed that drafted amendments to the law exempting newly established entrepreneurs from paying personal income tax for up to 10 employees in the first two years of doing business.



Research results presented at the youth conference in Belgrade

Impact

In December 2017, the National Assembly of the Republic of Serbia adopted these amendments, and the new laws will be implemented as of October 2018 and will affect those who start a new business by the end of 2020. Just in the first year, these measures could benefit up to 8,000 new entrepreneurs, bringing them savings of a minimum of 250,000 dinars (2,100 EUR) on taxes and social contributions.

But the benefits of PERFORM's pilot projects go beyond the change in legislation. The success of this intervention underlines the importance of using research evidence in formulating effective policies. The process was a learning experience for both the Ministry and the Institute on how the two sides operate, what their capacities are, and how to work together on formulating the research question in order to ensure high quality output. The excellent cooperation established between the

research and policy institution, through the effective facilitation of PERFORM, serves as a good practice model to be considered when creating a formal mechanism of cooperation.

The process facilitated by PERFORM and PPS provided much more flexibility in the selection procedure of researchers, while remaining transparent. It allowed a series of consultative meetings between the Ministry and the research institution while the research work was ongoing, resulting in higher quality research evidence which the Ministry could then use for effective advocacy. The process significantly contributed to the building of trust between researchers and policy makers.

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“Through the effective facilitation of PERFORM, we were able to establish an open communication with the Ministry and for the first time work together with MoYS on defining the research proposal and methodology.” – Sanja Filipovic, Researcher at the Economics Institute

Another outcome of the pilot initiative was the recognition that the youth sector needs a new mechanism of cooperation between researchers in the youth field. Consequently, an initiative for the establishment of the National Network of Youth Researchers was launched. The future Network would gather around 15 researchers in the youth field, who would be a valuable source of capacity, knowledge and expertise when it comes to collecting evidence needed for decision-making processes as well as evaluation of impact of the project activities supported by the MoYS.



Focus group discussing the need for a national network of researchers dealing with youth issues

Next steps

The Ministry of Youth and Sport continues its advocacy efforts with the line ministries to adopt other recommendations proposed in the research study. While MoYS is one of the rare ministries that allocates budget funds for research on a regular basis, it was the PERFORM pilot initiative that helped them realise the full effectiveness of evidence-informed policymaking, and the importance of including researchers earlier in the process, during the formulation of research proposal and methodology.



“Our research organisations have huge capacities for conducting not only scientific but also policy research studies and we should rely on them much more than we have in the past. Collaboration of social scientists and policy makers needs systemic improvement and more attention.” – Bojana Perovic, Advisor at the Ministry of Youth and Sport

Following the success of the first cycle of pilot projects, PERFORM and PPS launched a second round at the end of 2017 and are currently facilitating the implementation of eight policy-oriented research topics, commissioned by six policy institutions and conducted by eight research teams.

Additional Sources

- 25/12/2017 [Improving the Business Environment for Young Entrepreneurs](#)
- 22/09/2017 [Supporting MoYS in Establishing a National Pool of Researchers](#)
- 11/06/2017 [Improving the Environment for Youth Entrepreneurship](#)
- 09/03/2017 [From Pilots to Good Practice – Evidence-Informed Policy Making in Serbia](#)
- 26/10/2016 [Research Study on Position of Young Entrepreneurs Presented](#)
[Evidence-Based Policy Making Pilots](#)
[Study: Analysis of Regulatory Framework of Entrepreneurship for Young Entrepreneurs](#)