

REGIONAL ACTION PLAN

On improving the framework conditions for alternative finance
for start-ups and social enterprises

Serbia



Symbolic map

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Serbia

Regional Action Plan

(Output 3.1)

1. Introduction

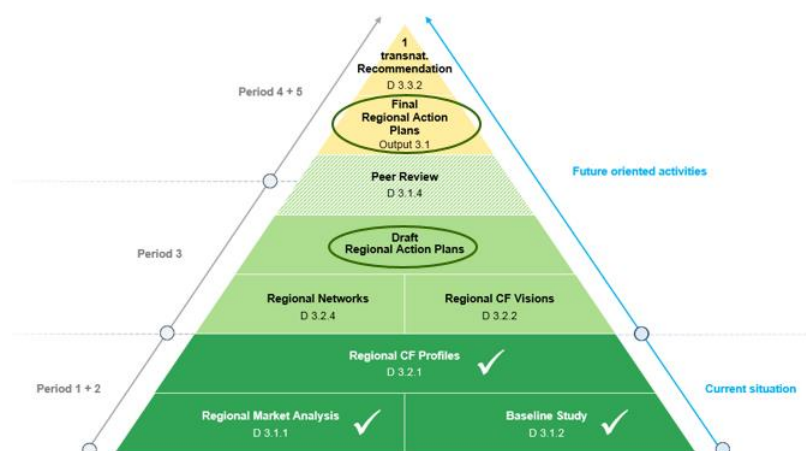
Within the CrowdStream project, each partner region has implemented a process of analysis of local conditions, stakeholder involvement and definition of long-term targets on Crowdfunding. These activities lead to the formulation of the Regional Action Plan (RAP) on the basis of the following inputs (available on <http://www.interreg-danube.eu/approved-projects/crowdstream>):

- Regional Market Analysis on Crowdfunding (D 3.1.1)
- Baseline study (D 3.1.2)
- Regional Profiles (D 3.2.1)
- Regional Stakeholder meetings (D 3.2.3)
- Regional Crowdfunding Visions (D 3.2.2)

The Regional Action Plan provides concrete measures for improving the access to alternative finance for innovative businesses and social enterprises. A peer review process was established to develop the final version of the Action Plans.

RAPs would be linked to the Pilot Actions that would be organized at partner region level in order to showcase solutions how public business support organisations can support CF campaigns of start-ups and social enterprises.

Inputs from the Regional Action Plans of all Danube area partner regions would feed into Policy recommendations aiming at improving the access to alternative finance for innovative businesses incl. social and creative entrepreneurs.



2. Main regional challenges and development needs

More than 20 national and local stakeholder meetings held between October 2017 and April 2018 showed an increasing interest in crowdfunding from the SMEs and entrepreneurs, and identified some of the key issues among the target groups - both for potential crowdfunders and campaign backers. Their assessment proved to be aligned with the SWOT analysis of regional CF potential.

Among the key deterring factors for those interested to run their own campaign is the extremely low success rates for crowdfunding campaigns (approximately 3% campaigns were successful in the period 2012 - 2016; and only 1% in 2017, although numbers vary depending on the chosen platform - Indiegogo & Kickstarter). Lack of adequate preparation of the crowdfunders, as well as lack of general population's recognition of crowdfunding campaigns as a mean to support local businesses and initiatives contributes to making marketing of CF campaigns more extensive and expensive than expected and with a lower reach in the wider community.

When campaigns reach their intended crowds, there are a number of challenges they need to address: general public in Serbia distrust internet payment models, the models themselves are limited and platforms are not familiar to the public (in CF campaign you need to pay directly on the CF platform, otherwise the platform does not see and recognize your contribution) and the public is mostly oriented at supporting humanitarian and charity campaigns; to which startup or product development can hardly be a match in terms of urgency or life-saving capacity.

Crowdfunding has been developing in Serbia without specific regulation, and still requires campaigners to navigate through a complex gray zone, regulated by a number of other laws which apply indirectly to some of the CF practices, but remain unfriendly and more burdensome than they should be. Both campaigners and BSOs have recognized the need to addressing this legal framework and creating either a new and specific law and regulations or creating a set of public policies which would enable easier CF campaigning and provide incentives for using CF as a way to attract capital for business and SME development, both from the local investing communities, as well as from the international markets.

Overall, the analysis of the regulations, enabling environment and including the qualitative data received by relevant stakeholders, led to identifying three main challenges, defined and explained in this document

Main Challenge #1: Lack of crowdfunding knowledge, skills and supporting eco-system for preparation and delivery of successful crowdfunding campaigns

As identified in the SWOT, lack of general CF knowledge can be attributed to the low number of successful campaigns, jointly with the challenge that in previous years CF was mostly used by those in urgent need of capital, which led to irresponsible and inadequate campaign preparations and deliveries by those crowdfunders, and subsequently to worsening of the general statistics. According to Belgrade Chamber of Commerce and Development Agency of Serbia companies are not familiar with benefits of CF, and are not willing to invest in self-education on CF nor in

conducting the CF campaign on their own, meaning that they require a bigger and more supportive ecosystem to assist them were they to venture up in CF campaign implementation.

In 2017 and 2018 we witnessed an increasing interest among the key target groups (startups, SMEs, entrepreneurs, creative industry) to implement crowdfunding campaigns as a more strategic tool in their overall building of operations and business plans, but the challenge of easily accessible information and sufficient know-how on delivering a successful campaign remains and requires CF to become a mainstream tool in financial matrix. Becoming mainstream a tool would require all stakeholders, and primarily BSOs to promote CF as a marketing and financial tool to the entrepreneurs, SMEs and other key groups in their networks on a wider level and continuously.

Up until 2018 there were no service providers in Serbia which could provide the necessary know-how, resources and skills both for education on CF and CF campaign management; nor there was an online/virtual space which contained all relevant information on CF resources, campaigns, educational content and how-to manuals and in Serbian. In 2017 a regional service provider - Brodoto agency was introduced to the market; as an agency experienced in rewards-based crowdfunding and with developing capacity for equity and lending forms of CF. German-Serbian Initiative for Sustainable Development and Growth recognized the potential for CF as a tool to contribute to the development of the local economy and supported Brodoto in building of a website dedicated to crowdfunding in Serbia - www.crowdfunding.rs; as well as jointly organizing three Crowdfunding Academies (intensive trainings for CF campaign preparation) and two editions of Belgrade Crowdfunding Convention - events gathering 20+ speakers and 200 participants to discuss trends, opportunities and next steps for CF. Through this initiative the challenge of lack of awareness and know-how is already heavily targeted, but in order to take wings - other players in the ecosystem need to be educated and engaged as well.

Main Challenge #2: Crowdfunding is not recognized among the wider population and the target groups as a funding tool for startups, SMEs and other relevant target groups (especially in the field of technical, social and science innovation).

Despite the small number of successful crowdfunding campaigns in the region, there have been campaigns which were successful, not only in gathering the needed funds, but also in reaching new markets, customers and communities and engaging existing communities and audiences. However, the extent of those marketing efforts have not been seen much in the mainstream media, which remain the key tool to promoting CF to wider audiences and general public. Existing success stories are being used as a tool to promote CF in general, which could then create more interest from the media to promote those businesses and products which are using CF as a financial and marketing tool. In 2018 we have witnessed growing media coverage for crowdfunding campaigns and reports on crowdfunding in general, which created more visibility. But the main driver of media attention remains successful crowdfunding campaigns, which makes making CF more known and accessible a tool a priority number one.

Main Challenge #3: Existing legal framework and accompanying administrative, tax and custom burdens are not supportive of further crowdfunding development.

As a startup, entrepreneur or SME delivering a CF campaign, you need to make sure you are following all legal procedures which could create challenges for your implementation after the campaign or more tax burdens. For innovative startups in early stages, but for CF campaigners in general, a legal entity - profit or non-profit is recommended rather than going through the process as a private person. The process of receiving funds is complicated because funds can directly be received only from Indiegogo, because Serbian campaigns are not eligible on other platforms, which means that Serbian businesses need to open legal entities in another country or go through third-party legal entities from countries in which those platforms operate - which create more legal and administrative burden for campaigners. In both cases - be it that the money is coming from a platform or a foreign legal entity - the funds need to be classified according to Codebook for grounds of collection of funds from abroad, which are limiting and require businesses to classify it as e-payment. For now, there have not been many challenges with the tax authorities, but there are two issues with this process:

1. Banks reserve the right to ask for more clarifications and data, because of the Law on preventing money laundering, which entered into force in April and is very rigid and unfriendly for alternative financial products. This is the data and documents campaigners cannot provide, because platform have very limited options - they usually only provide an online receipt, which makes it challenging to communicate if the bank clerk is not familiar with the CF concept.

Besides this as the core issue, there are other burdening procedures, of which most problematic one is the procedure that the campaign organizer is obliged to submit to the bank, on the same or following day as of the date of receiving the notice from the bank, data necessary for executing the payment (i.e. to clarify from whom and on what grounds are they receiving the money), and to present a document as evidence if this is prescribed as a condition for executing the payment.

Banks are currently implementing procedures related to the control of the origin of money based on the Law on the Prevention of Money Laundering and Financing of Terrorism and they are the bearer of the obligation of implementing actions and measures to know and monitor client operations that, among others, include collection of information on the purpose and intent of transactions and other data in accordance with this law. The foreign bank/ other payment institution collecting money from the backers through the crowdfunding platform also performs risk assessments and implements measures related to the prevention of money laundering.

2. Tax authorities may classify all the income received through a crowdfunding campaign as profit for services delivered and tax it 15%; even though in most cases these funds are used for product development and first product sales, and the businesses have little to no profit from the campaign.

Specifically, the tax in question is corporate income tax, which is calculated and paid against the achieved business income, as a difference between income (both that from the campaign and other based on the sale of the products and services of the company) and expenses. Thus a

company collecting money through a campaign must calculate and pay corporate income tax in accordance with the Law on Corporate Income Tax, i.e. it must calculate the money collected through the campaign as income when calculating the basis for corporate income tax.

On the other hand, with regards to a reward that represents a product by the legal person behind the campaign organizer and something that is, most frequently, being promoted by this campaign, we speak of advance sales of products. This foreign- currency influx is taxable, also in the manner and in accordance with the Law on Corporate Income Tax. The basis for the corporate income tax is taxable income. The corporate income tax rate is proportional and uniform and amounts to 15%.

Regarding the advance sale of products, it is important to keep in mind that the provisions of the Law on Value Added Tax. The subject matter of VAT taxation are the delivery of goods and provision of services performed by the taxpayer in Serbia with a reimbursement as a part of their business activities as well as the import of goods to Serbia. A difference must be made in whether the relevant product (perk) is exported abroad, or delivered to backers in Serbia.

With regards to the sending of products, the campaign organizer acts differently depending on whether the perks are being sent to backers from Serbia or abroad. Furthermore, there is a difference depending on whether the goods are being sent by a natural or a legal person, thus a natural person may send the perk as a gift, while a legal person sends their product with an invoice. Finally, the size of the package also dictates the method of sending, thus there is a difference in whether it is sent as a parcel or a letter post item - both of which carry different costs and potential customs issues.

3. Visions

Based on identified main challenges, visions were defined as a way to enable easier roadmapping of goals and processes required to create a supportive and enabling environment and ecosystem for CF in Serbia.

Vision #1: Education and Awareness Raising

By the end of 2020, stakeholders (students, youth, entrepreneurs, SMEs, startups, researchers, etc) would acquire the knowledge to better understand crowdfunding mechanisms and skills to create campaigns, while, at the same time, the general public in Serbia would embrace its concept and support crowdfunding projects to a greater extent.

Vision #2: Business Support Organizations as Service Providers

Business support organizations would be the first to acquire the necessary knowledge and skills to support campaigners and to offer their services to crowdfunding campaigners coming from Serbia.

Vision #3: Crowdfunding Accelerator Program

Developed Crowdfunding Accelerator Program until 2020 which would help every interested party to build and launch a crowdfunding campaign through intensive training with experts.

4. Proposed actions to address the regional challenges

Main challenges and visions identified in this Action Plan served as guiding principles in defining and developing actions which would directly tackle and provide results and goal of making CF a mainstream and successful tool for entrepreneurs, startups and SMEs driving innovation in Serbia.

We have developed three core actions which, if implemented should contribute and ensure realization of defined visions. A fourth action is defined as well, and consists primarily of addressing the legal framework for crowdfunding.

Action 1: National platform and educational program for all things crowdfunding.

The platform would serve as the point for all relevant stakeholders - general public, media, crowdfunders, backers, BSOs and contain information and resources on campaign planning and delivery, processes for not only reward-based but other types of crowdfunding as well, directory of crowdfunding service providers, directory of platforms and eligibility and means for usage for Serbian based entities. The platform would bring together all existing resources and know-how already created and published; engage and partner with all BSOs and other stakeholders in promoting CF, as well as partner with key media organizations which would deliver more CF stories to the general population.

The platform should be developed in 2019, and engage Center for Technology Transfer of University of Belgrade, Brodoto, all relevant ministries and BSOs already on board during this process (the complete list can be find in the summary of Stakeholder meetings).

Firstly, a consultation process with all stakeholders would take place to ensure that the platform contains all information and resources necessary.

Secondly, platform would be developed and filled with content as agreed in the consultation process.

Thirdly, media would be identified which should be carriers of CF promotion, and collaboration with media and BSOs would take place to ensure promotion of the platform and CF in general among their key target groups. Media would engage in promoting new success stories and CF as a financial tool in general to the wider audiences; while BSOs would include CF in their presentations, educational and accelerator programs as a recommended tool for marketing and access to finance.

In order for these actions to be sustainable, there are two key outcomes that need to result from the consultation process in 2019:

1. Identifying the leading organization to carry the weight of the entire process
2. Identifying the leading organization to provide further education and support to the crowdfunders

Action 2: Further development of CF Network

In order to further develop the enabling and supportive ecosystem of providers and stakeholders supporting the CF development in Serbia, more BSOs as key stakeholder for startups and entrepreneurs driving innovation would firstly, receive the necessary education and supporting system (in the form of platform and accompanying trainings) and secondly, a network would be used to support them in delivering that know-how further.

CF Network would serve as the peer supporting system, and would provide the necessary education. Range of trainings and workshops would be held in Belgrade and innovation centres in Serbia (Novi Sad and Niš) in order to create enough know-how of the BSOs on CF. The crowdfunding platform defined and delivered through Action 1 would serve as the all-encompassing tool for all crowdfunders and a resource BSOs can use as well.

Network should develop further in a way to include more BSOs directly working and providing programs and content for SMEs, entrepreneurs and innovators. Also, it would be open to BSOs coming from the academia, public administration and private sector.

Additional crowdfunding trainings would take place in 2019, at a stage where crowdfunding platform is already being developed. Late 2019 should already have new members of CF network supporting crowdfunders, and supporting each other.

BSOs themselves would be responsible to transferring know-how within their systems, as well as to their users; while the CF Network would serve as the supporting system in that process. For that to be sustainable the leader of the Network would be established. The sustainability does not require for a network to be an independent legal entity, but it would require creating a set of goals and rules of conduct for all members, as well as a leading organization which would ensure all Network activities are conducted and mission and vision supported and implemented.

Action 3: Crowdfunding Accelerator Program for different types of crowdfunding campaigns would be created, tested and operational by 2020.

University of Belgrade created the Accelerator Program in 2018 for educating and preparing all those interested in social issues, tech innovations, creative industry and others, to deliver their own crowdfunding campaigns. In 2019 this program should be further developed to include not only rewards-crowdfunding, but also equity crowdfunding, and should contain modules relating to intellectual property, legal and tax; as well as to provide navigation system for startups and SMEs to deliver their crowdfunding campaigns in the existing legal gray zone, so as not to wait for the public policies and legal framework to be updated to be more favourable for the crowdfunding.

The Crowdfunding Accelerator would be tested through campaigns delivered in first two quarters of 2019, after which a refined curriculum and program should be defined and developed, so as to ensure all CF matters are covered in the educational program. The Crowdfunding Accelerator 2.0 should be launched in Q4 of 2019, and should be delivered by the CF Network.

For the program to be sustainable, as of 2020, the CF Network members, i.e BSOs should become Accelerator Program providers and executors in their local communities and ecosystem.

Action 4: Advocating for changes in the legal framework and policy incentives for CF

As described in the Main challenge 3 - existing legal framework is mostly not supportive for CF.

The public policy recommendation developed through the project, and mostly focused on equity crowdfunding need to be advocated for using a wide platform - consisting of CF Network, media partnerships and other international stakeholders which would promote CF in 2019 through their operations.

Additionally, already developed and identified policy recommendations for rewards-based crowdfunding, outlined in the GIZ supported study of Reward-based crowdfunding in Serbia would be advocated for jointly with equity public policy recommendations. It is important to keep these processes together, as these different types of crowdfunding relate to different stages of development for startups and SMEs and their innovative solutions, and are therefore both highly relevant as marketing and financial tools. These discussions would take place throughout 2019, but would be initiated in the first part of 2019 as part of the discussion on alternative investment funds which would be regulated through a separate law and opened for public discussion in March 2019.

5. Further recommendations to improve regional and transregional framework conditions

When analyzing the overview of CF in Serbia, there are some notable trends and opportunities which should be addresses through existing actions, as a secondary and tertiary goals, as they would create a bigger and more sustainable impact:

- More focus should be placed on including regional and local innovation centers and stakeholders, especially among the BSOs as key program and education providers for startups, SMEs and entrepreneurs in general. By ensuring their participation and engagement, we would create a bigger and more diversified pool not only for the advocacy and education providing segments of this action plan, but also a bigger pool of entrepreneurs and SMEs which could get more capital and marketing on different markets through this model.
- Existing global platforms should be used to a greater extent in the next few years but not necessarily long term - especially for equity crowdfunding campaigns. It means that more attention needs to be drawn to different platforms and their capacity at this stage, so that they can be exploited better. One of the strategic decisions in the previous years has been to not focus on creating national platforms, which is a decision which can be changed in 2019 and 2020 when a bigger pool of SMEs and startups who could contribute from it is created. To start a national platform and make it successful would require building investing network in Serbia, which is a process that cannot be sped up and done without the wider support of the more mainstream stakeholders - such are institutional investors, VC funds and banks; which is another thing to be considered.
- Mainstreaming CF needs to be done through a holistic approach - those who are working on developing it need to be aware of how it fits the wider financial matrix and CF should not be recommended to all and any, but education should be open to all, while incentivised for CF campaigns should be those SMEs, startups and other crowdfunders which have the potential to be success stories and further fuel for mainstreaming CF. These actions are required so as to ensure that the success numbers grow, and statistics becomes more connected to actual capacity and potential for CF in Serbia.