



Serbia

**Digital Economy &
Media Development**
Assessment report 2018



EXECUTIVE SUMMARY

The main objective of this assessment is to analyse the digital media landscape in Serbia, with the aim of outlining the potential for future investment in communication start-ups, media digitalisation and tech solutions; to support content production and pluralism; and to provide evidence-based guidance on which the Thomson Foundation can develop its strategy for media support in Serbia.

The assessment methodology combined available secondary data (reports, analyses, existing assessments) in the area of media and digital economy, publicly available raw online data (Eurostat, UNESCO, Eurobarometer), and 14 in-depth interviews with representatives of Serbian institutions, private and digital economy sectors, international community and media outlets. Additionally, information has been collected through informal meetings with representatives of the media, and through participation in different media and digital economy-related events in Serbia.

The following research questions will guide the assessment:

- What are the key investments needed to grow?

- What are the key impediments to investment they face?

- How do they see the audience shifting and market opportunities?

- What export and regional opportunities are there?

- How are they relating to other areas of the conventional media market?

As the main contextual factors driving the process of digital media development, this assessment takes into account the political situation, macroeconomic trends, the media situation and the expansion of the digital economy and ICT sectors in Serbia.

The political situation and democracy scores for Serbia have continuously deteriorated over the last four years. Governance performance has slightly decreased in recent years, and in comparison with other countries of the region Serbia is 'mid-developed.' Corruption remains a serious problem that affects public and economic life, and limits the possibility of further reforms. Serbia is top-ranked, along with Croatia, when it comes to media clientelism,

but results indicated serious problems and obstacles related to media operations.

There has also been no significant progress in the economic domain. Serbia has one of the lowest average rates in the region, but also a high unemployment rate, especially among young people. Only the ICT industry performs positively, when taking into account export and import figures. Serbian competitiveness is among the lowest in the region of south-east Europe. The most problematic areas for doing business in Serbia include tax rates, government bureaucracy and inefficiency, access to financing, corruption and tax regulation.

Freedom of expression and media freedom are among the biggest concerns. The media market is underdeveloped, monopolised and controlled by politics and private interests. Television dominates the market, and is still the most popular type of media. Serbian audiences increasingly read news online. Serbia is among the countries with the lowest level of trust in the media.



The Serbian digital economy is on the increase, ICT is becoming the wealthiest part of its economy, but most initiatives come from the private sector. While broadband is still in its early stage of development, Serbia is among global leaders when it comes to mobile phone subscribers. The Internet speed in Serbia is much slower than in Europe (almost 7 times) and 2 to 3 times more expensive per megabyte of data transmission. Due to the bad infrastructure, most of the ICT business is located in the big cities of Belgrade, Novi Sad and Niš. Serbia has the highest number of start-ups in the region, but their survival rate is low. There is a lack of continuous and substantial financial support for business, in the domains of research, pre-seed and seed phase.

The priority domains which the media need investments to succeed in the digital environment, include the following:

- In order to establish feasible operation models, the media in Serbia need a friendlier business environment, appropriate regulation and funding opportunities.
- Their staff need more know-how, digital skills and continuous mentoring to grow.
- In order to develop their internal capacities further and to maximise their influence, the media need to network and to establish cross-

sectional partnerships.

Key impediments for development:

- Broadband is underdeveloped and there is a huge gap between urban and rural areas.
- Current regulation does not provide favourable funding conditions for SMEs, start-ups and media organisations.
- Current state of the media and media freedom is not in favour of development, since most of the actors are struggling to survive.
- Mindset and stigma of failure are big obstacles for developing a business culture within business and media sectors.

When it comes to the media audience, there are several important trends and observations which need to be taken into account:

- There are dramatic changes in the Serbian audience, and media react only modestly to it.
- There is an increasing gap between 'old audience' and digital natives.
- There is a lack of a research culture, and the media - including start-ups - rarely use research to target their audience, tailor the content and develop their business plans.

Perspectives on export and regional

opportunities should take into account the following:

- Serbia is perceived as an incubator, a test-ground for different innovative ideas and patents.
- There is a limited or 'no production' for outside markets. Serbia is mostly outsourcing, developing technologies or providing support to big global companies.
- The Serbian market is small and underdeveloped, especially the traditional media market.
- There are significant external influences on the way in which media content in Serbia is created and presented to the public.

Relations to other areas of the conventional media market:

- The state of Serbia is preparing a new strategy for media sector development that will consider digital economy as an important driver.
- While the state is a dominant actor in the traditional media market, it lags behind private sectors in the digital economy.
- Only a few media organisations – mostly those operating on digital and online platforms – prioritise the development of their business models over independent status and content production.



1. INTRODUCTION

This assessment has two main objectives:

- The first objective is to overview and analyse the digital media landscape in Serbia, its current development, shortcomings and obstacles, with the aim of outlining the potential for future investment in communication start-ups, media digitalisation, and tech solutions in the domain of communication; to support content production and pluralism.
- The second objective is to provide evidence-based guidance on which the Thomson Foundation will develop its strategy for the next 10 years in this field.

Context: Political, economic and organisational factors

The current political and economic situation in Serbia is not in favour of media development. State capture, widespread clientelism, and constant decrease in media freedoms are usually cited as the main problems and obstacles (EU Progress reports, IREX Media Sustainability Index, Freedom House, Reporters without Borders, etc.). Economic and market conditions are not in favour of developing sustainable media, (politically and economically - in terms of ownership interest) which will produce and distribute content that is of high quality, fact-checked, reliable and trustworthy.

On the other hand, the Serbian digital economy is growing. The Serbian IT sector represents the fastest-growing segment of the Serbian economy. At the moment, this sector is not significantly affected with an adverse political situation, and impulses and initiatives come mostly from the private sector. According to the latest data, the IT services and products comprise the growing portion of Serbian exports in the last year, while the advent of digitalisation and technological development affects the media sector.

At an institutional level, the state of Serbia struggles to follow these new trends and private initiatives. In 2017 it established the Office for IT and E-government, in order to ensure the connectivity of various information systems, and to provide strong support and the basis for the development of Serbia's e-governance. The state has declared three priorities: to develop Serbia's own information systems which would reduce the country's dependence on "ready-made" and closed IT solutions; to provide easy and fast services for citizens; and to establish partnerships with the private sector, corporations, banks and fast-growing start-ups that are leaders in the IT sector.

“The current political and economic situation in Serbia is not in favour of media development”

Most of these are currently on standby, due to an inadequate regulatory and legal framework, which needs to be adjusted to the market and trends in the IT sector.

There are several substantial initiatives coming from the private sector which significantly shape the Serbian digital economy, such as the “Digital Serbia Initiative”, a non-profit private partnership launched by the leading tech companies in Serbia. Its mission is to focus on improving the framework and eco-system required to enable tech entrepreneurship and digital innovation in both industry and education in Serbia.

The founding members of the initiative are Infostud, Microsoft, Nordeus, Price Waterhouse Coopers, Ringier Axel Springer, Seven Bridges, Startit, Telekom Srbija and Telenor, while some banks joined the initiative later. As the main priorities in the sector, the initiative declared a product-oriented culture, learning from unsuccessful attempts, and fostering experience-exchange and partnerships, international collaboration, working with the state and its agencies, and building infrastructure, supporting hubs and developing networks beyond the capital city of Belgrade.

When it comes to the media sector, the leaders of the Serbian media market are slowly embracing the advent of digitalisation and tech development. Ringier Axel Springer Serbia, which is the publisher of the ‘Blic’, daily newspaper with the highest circulation in Serbia, is among the founders of the “Digital Serbia Initiative”. Corporations such as Ringier, Adria Media Group or Color Press Group are driven by profit and adopt business logic as a driver for success, but the majority of media in Serbia, especially local outlets, struggle to survive and cope with new technologies.

A case worth mentioning in this context is ICT Hub Serbia. This start-up eco-system which promotes the development of small businesses, recently started to support Serbian media through its media accelerator. In collaboration with USAID, it will provide support through knowledge, mentoring, developing hubs, establishing partnerships and supporting business models.

Assessment team, questions and methodology

The Assessment Team consisted of a team leader and two specialists – one in the domain of digital media, and the other in the digital economy and entrepreneurship. The Team undertook the work required to produce a report that will assess the state of the Serbian digital media sector, paying attention to the business aspect of media operations, the effects and potential relating to digitalisation, opportunities and needs for investments in infrastructure, capacity-building and content production.

The purpose of the assessment will also be to highlight urgent problems when it comes to potential external support for media and media-related business development, as well as the needs and possibilities for investment and partnership.

The following research questions will guide the assessment:

- What are the key investments needed to grow?
- What are the key impediments to investment they face?
- How do they see the audience shifting and market opportunities?
- What export and regional opportunities are there?
- How are they relating to other areas of the conventional media market?

The assessment methodology combined available secondary data (reports, analyses, existing assessments) in the area of media and digital economy, publicly available raw online data, and 14 in-depth interviews with representatives of Serbian institutions, private and digital economy sectors, international community and media outlets. Additionally, information and interpretations have been collected through informal meetings with representatives of the media sector, and through participation in different media and digital economy-related events in Serbia. A small-scale

Table 1 NATIONS IN TRANSIT SCORES: SERBIA (2014-2018)¹

	2014	2015	2016	2017	2018
Electoral process	3.25	3.25	3.25	3.5	3.5
Civil society	2.25	2.25	2.25	2.25	2.50
Judicial framework and independence	4.5	4.5	4.5	4.5	4.5
Corruption	4.25	4.25	4.25	4.25	4.25
Democracy score	3.64	3.68	3.75	3.82	3.96

Source: Freedom House (2018)

¹The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The Democracy Score is an average of ratings for the categories tracked in a given year

online survey among local start-ups has been conducted to detect their perceptions and needs on development issues.

Political situation and democracy scores continuously deteriorated in the last four years.

2. POLITICAL CONTEXT IN SERBIA

● Political situation and democracy scores continuously deteriorated in the last four years.

● Governance performance has slightly decreased in recent years, and compared with other countries of the region, Serbia is 'mid-developed.'

● Corruption remains a serious problem which affects public and economic life, as well as the possibility of further reforms.

● Serbia is top-ranked, along with Croatia, in aspects of media clientelism, but results indicated serious problems and obstacles related to media operations.

2.1. LEVEL OF DEMOCRACY

According to the 2017 Democracy index, Serbia is categorised as a flawed democracy, ranked as 66th in the world. Only Slovenia and Croatia are ranked better regionally (Economist Intelligence Unit, 2018).

The political situation in Serbia has significantly deteriorated in the recent period and negative trends have been noted on a continuous basis. The most affected fields, besides electoral process and democratic governments, include media freedoms. According to Freedom House, the democracy score in Serbia declined from 3.75 in 2016 to 3.82 in 2017 and 3.96 in 2018, which is the lowest level since 2005. This is the fourth consecutive year of decline in democratic scores.

Reports produced by the OSCE and local actors (the Centre for Research, Transparency and Accountability - CRTA) listed unbalanced media coverage of political actors and events, pressure on public sector employees, their families or friends, as well as abuse of administrative resources as factors that significantly skewed the political system and electoral process in Serbia during 2017.

Civil society in Serbia has been marked as a vibrant and lively, and the most progressive part of this country in regards to reforms and initiatives (Freedom House, 2018; Media Sustainability Index, 2018).

“Serbia is categorised as a flawed democracy, ranked as 66th in the world. Only Slovenia and Croatia are ranked better regionally”

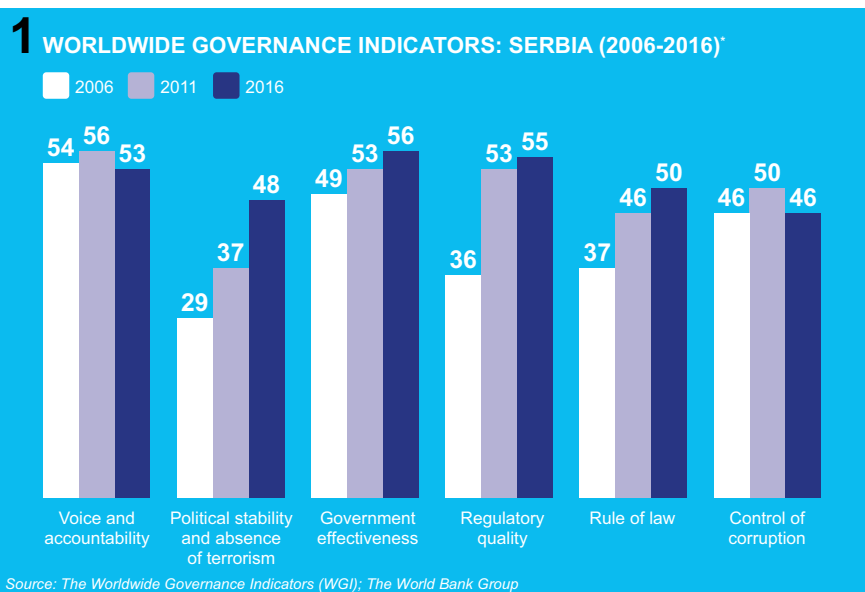
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2.2. GOVERNANCE

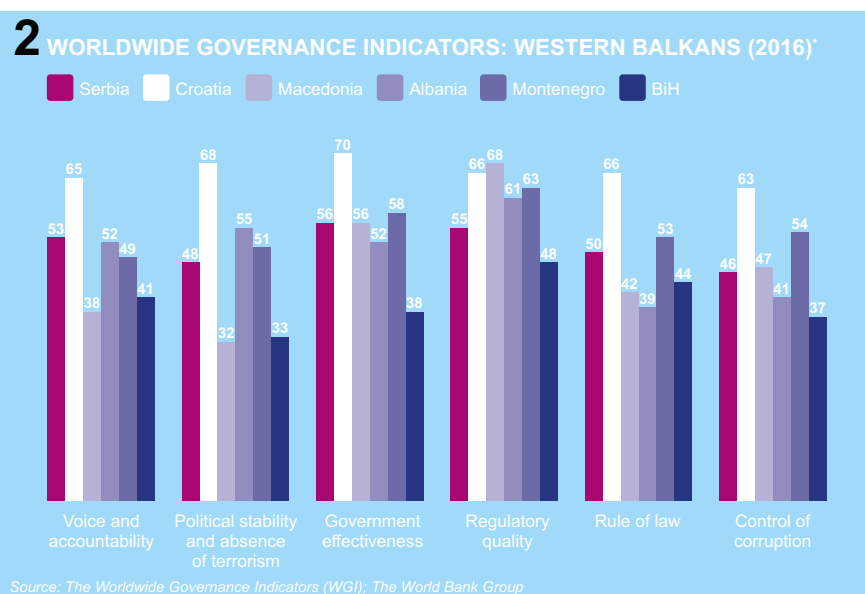
In this domain, Serbia demonstrated continuous progress within the last 12 years, but also some shortcomings and stagnations have been observed (in domains of accountability and control of corruption).

Taking into account regional perspective, Serbia is mid-ranked, with control of corruption and political stability being the weakest domains, and government effectiveness being the strongest (WGI, 2016).

Both, national and local democratic governance scores declined. Scores on national level declined due to the massive centralisation of power in the hands of incumbent President, while local level was affected by an increasing practice of switching allegiances and cooptation by the ruling party that distorts the will of the people and the outcome of elections. Last local elections in Serbia were held in an atmosphere of marked intimidation, with many local elections seeming neither free nor fair. As result, the ruling party the local government in 157 out of 170 local municipalities (Freedom House, 2018).



*Percentile rank: 0 – the lowest, 100 – the highest



*Percentile rank: 0 – the lowest, 100 – the highest

Table 2 NATIONAL AND LOCAL DEMOCRATIC GOVERNANCE: SERBIA (2014 – 2018)⁴

	2014	2015	2016	2017	2018
National Democratic Governance	3.75	3.75	4	4.25	4.50
Local Democratic Governance	3.5	3.5	3.5	3.5	3.75

Source: Freedom House (2018)

⁴The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The Democracy Score is an average of ratings for the categories tracked in a given year.

2.3. CORRUPTION PERCEPTION

Corruption remains a serious problem affecting public and economic life, and further reforms in the country. With score 41 (out of 100) and being ranked 77th (within the 180 countries worldwide), Serbia is among the most 'problematic' countries when it comes to corruption perception and tackling corruption.

Some relevant observations:

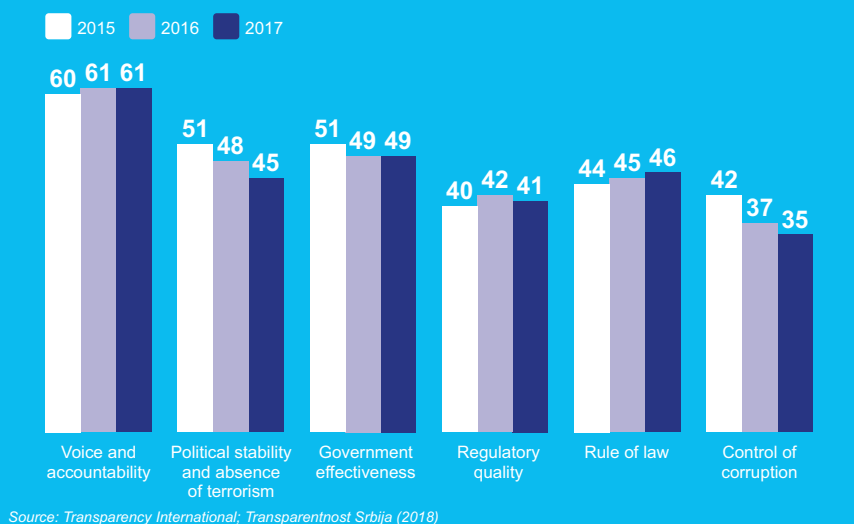
- In recent years, Serbia has strengthened the legislative and institutional framework for fighting corruption.
- This framework brings greater control in the area of public procurement, conflict of interest, financing of political parties, as well as increased capacity among the agencies responsible for investigating and prosecuting corruption.
- What is missing is effective enforcement of the existing anti-corruption legislation while oversight by the relevant public bodies is still weak.
- Results also indicate that countries with the least protection for press and civil society organisations (CSOs) also tend to have the worst rates of corruption, which is the case with Serbia.

2.4. POLITICAL CLIENTELISM AND MEDIA

According to Media Clientelism Index (MCI) Serbia has been marked, along with Croatia, as a country with considerable advantages in relation to other countries when it comes to the development of a regulatory and institutional framework, the impediments to clientelist practices and the appropriate availability and quality of data dealing with the media issue.

Although the ranking argues in favour of the media situation in Serbia, the results of the measurement show that we are a long way from the required, expected values. Recently, most of the countries deteriorated when it comes to media-related issues. Even in cases where all the instruments are in place, and the country, from an outsider's prospective, may look more advanced than others in comparison studies, things are not at a desirable level, and this is the case with Serbia (sources: Fairpress; Independent Association of Journalists from Vojvodina).

3 CORRUPTION PERCEPTION INDEX (CPI) 2015-2017*



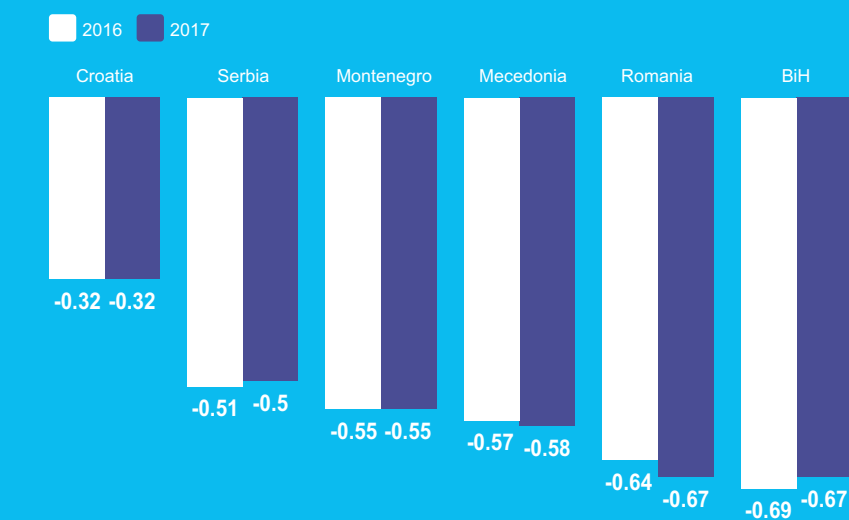
Source: Transparency International; Transparentnost Srbija (2018)

*The index, which ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people, uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean

“Last local elections in Serbia were held in an atmosphere of marked intimidation, with many seeming neither free nor fair”

— Freedom House, 2018

4 MEDIA CLIENTELISM INDEX (2016, 2017)*



Source: The Worldwide Governance Indicators (WGI); The World Bank Group

*MCI is a composite index that is based on 4 partial indexes, including regulatory and institutional capacities of the state to prevent particularism in creation of media policies (T1), practice in implementation of public policies (T2), state capacity to understand situation in media sector using data (T3), and social capacity to measure media reality (T4)



3. ECONOMIC TRENDS IN SERBIA

- No significant progress in economic domain.
- Among the lowest average rates in the region.
- High unemployment rate, especially among young people.
- Only ICT industry performs positively, when takes into account export/import.
- Serbian competitiveness is among the lowest in the region of South-East Europe.
- The most problematic areas for doing business in Serbia include tax rates, government bureaucracy, access to financing, corruption, and tax regulation.

There were no radical changes in Serbia's economy and its development within the last decade, with exception to negative affects by the global economic crisis in 2009 and floods in 2014. Some improvements have been noticed in domains of fiscal consolidation, privatisation and reproduction of public spending.

With USD 38.300 millions of Gross Domestic Product (GDP), Serbia is ranked as 89th on the world scale. Croatia is 79th (USD 50.715 mil), Slovenia is 84th (44.709), while Albania, 124th, (11.864), Macedonia, 132nd (10.900), Kosovo, 147th, (6.650), and Montenegro, 157th, (4.374) are ranked below (World Development Indicators database, World Bank, 2018).

Major economic challenges in the country include:

- high unemployment rates and the need for private sector job creation;
- structural reforms of state-owned companies;
- strategic public sector reforms;
- need for new foreign direct investment;
- high level of corruption; and
- aging population (multiple sources).

Factors favourable to Serbia's economic growth include the economic reforms it is undergoing as part of its EU accession process and International Monetary Fund agreement,

a relatively inexpensive and skilled labor force (especially in ICT sector), and free trade agreements with the EU, Russia, Turkey, and countries that are members of the Central European Free Trade Agreement.

3.1. ECONOMIC DEVELOPMENT

Suffering from the global economic crisis and severe flooding in 2014, Serbia economy recovered slightly since 2015, with a minimal but a steady GDP growth, and with an estimation that average growth for 2016 – 2020 could be 3.6 % on annual basis (Economist Intelligence Unit, 2016).

Table 3 MAIN MACROECONOMIC INDICATORS: SERBIA (2013 – 2017)

	2013	2014	2015	2016	2017
Real GDP growth	2.6	-1.8	0.8	2.8	1.2
Exports (EUR mil)	13.937	14.451	15.728	17.385	4.383
Imports (EUR mil)	17.782	18.096	18.643	19.597	5.090
Public debt (% GDP)	59.6	70.4	74.7	71.9	68.1
Wages (EUR mil)	388.5	379.8	367.9	374.5	375.6

Source: National Bank of Serbia (2018)



Table 4 INDICATORS OF ECONOMIC DEVELOPMENT IN THE WESTERN BALKANS, INCLUDING SERBIA

	Population size	GDP per capita (2016)	GDP growth rate (2017)	Unemployment rate (2017, 2018)	Youth unemployment (2017, 2018)	Average salary in EUR (2017)
Albania	2.9	4.1	0.65	13.6	24.6	330
BiH	3.8	4.7	0.3	38.68	n/a	440
Croatia	4.2	12.1	0.1	12.3	25	813
Kosovo	1.8	3.7	3.2	30.6	55.9	330
Macedonia	2.1	5.2	1.2	21.9	n/a	372
Serbia	7.1	5.3	0.6	14.7	33.3	375
EU-average	510	25.6	0.6	8.5	17.7	1.520

Source: World Bank (2016, 2017); National bank of Serbia; www.tradingeconomics.com; IREX Media Sustainability Index (2016, 2017)

Serbia reduced the unemployment rate – comparing to 22.2 % in 2014, data from the last year (14.7 %) indicate some positive trends in this regard. What is still problematic is the high rate of unemployed youth (33.3 %) which is twice as high as in the EU. It used to be even higher – in 2015 it was 49.5 %, according to the World Bank. The youth unemployment rate was driven up by the financial crisis, which disproportionately reduced employment prospects for the younger population, and the economy has been unable to generate sufficient

work opportunities for youth since that time. Part of the explanation lies in the fact that Serbia has an increased number of freelancers (at least 100.000), - mostly young people who work remotely, from homes, cafes or co-working spaces or hubs, and are not employed through contracts. Another challenge for the state is to reform its formal education system to follow the needs of the market. Serbia has already developed policies and positive measures to increase the education for the ICT sector.

“The youth unemployment rate was driven up by the financial crisis”

“Serbia's ranking in the competitive markets is among the lowest in the region”

3.2. STRUCTURE OF ECONOMY

The economy in Serbia is based on manufacturing and this sector accounts for 25% of GDP, trade and services account for 18%, agriculture stands for 8.4%, and information and communication technology adds 5.1%.⁴

Manufacturing exports consist of motor vehicles (13.6% of exports, Fiat is the most notable example), food products (12.6% of exports) and, to a lesser extent, electrical equipment, rubber and plastic products, and basic metals (Statistical Office of the Republic of Serbia).

Serbia's power, telecommunications, and energy sectors remain under control of state owned enterprises. State-owned enterprises are widely viewed as a drain on public finances and are currently being restructured, with large employee layoffs planned within the public companies (Statistical Office of the Republic of Serbia; SME Assessment, Serbia, 2016).

According to the 2016-2017 ranking, the most competitive markets include Switzerland (score: 5.81), Singapore (5.72), and United States (5.70). Serbia's rank is among the lowest in the region of South East Europe (90th out of 136 countries on the global level), and only Bosnia and Herzegovina is below (107th). As it could be observed from the following table, markets in Montenegro, Croatia and Macedonia demonstrate better competitive potentials than Serbia, according to the GCI indicators.

The most important observations and evaluation findings per pillar:

Institutions: among the 21 indicators, Serbia has the best score when it comes to strengthening of investor protection, business costs of terrorism and business costs of crime and violence (4.4), while the weakest parts relate to protection of minority shareholder interest and burden of government regulation. Another sources also indicate the favourable and improving institutional environment for doing business in Serbia (European Investment Bank, 2016).

SOFTWARE SERVICES EXPORT

In 2017, Serbia exported ICT and software related services for the record of EUR 899 millions, with an increase of 21 % comparing to 2016 (EUR 740 million). ICT sector is the only one that recorded positive trade balance (export vs. import), which was in deficit for EUR 426 million in 2017 (+4.27 % comparing to the 2016).

(Source: National Bank of Serbia)

Exports amounted to \$14.883 billion in 2016, with major export goods being: motor vehicles (\$1.527bn), electrical machines (\$1.241bn), fruits and vegetables (\$0.806bn), cereals (\$0.701bn), machinery (\$0.669bn).

3.3. COMPETITIVENESS

The best way to capture trends, features and perspectives of Serbian economy, is to use and apply the indicators related to the Global Competitiveness Index (GCI). This GCI has been used and developed within the umbrella of the World Economic Forum and combines 114 indicators that capture concepts that matter for productivity and long-term country prosperity.

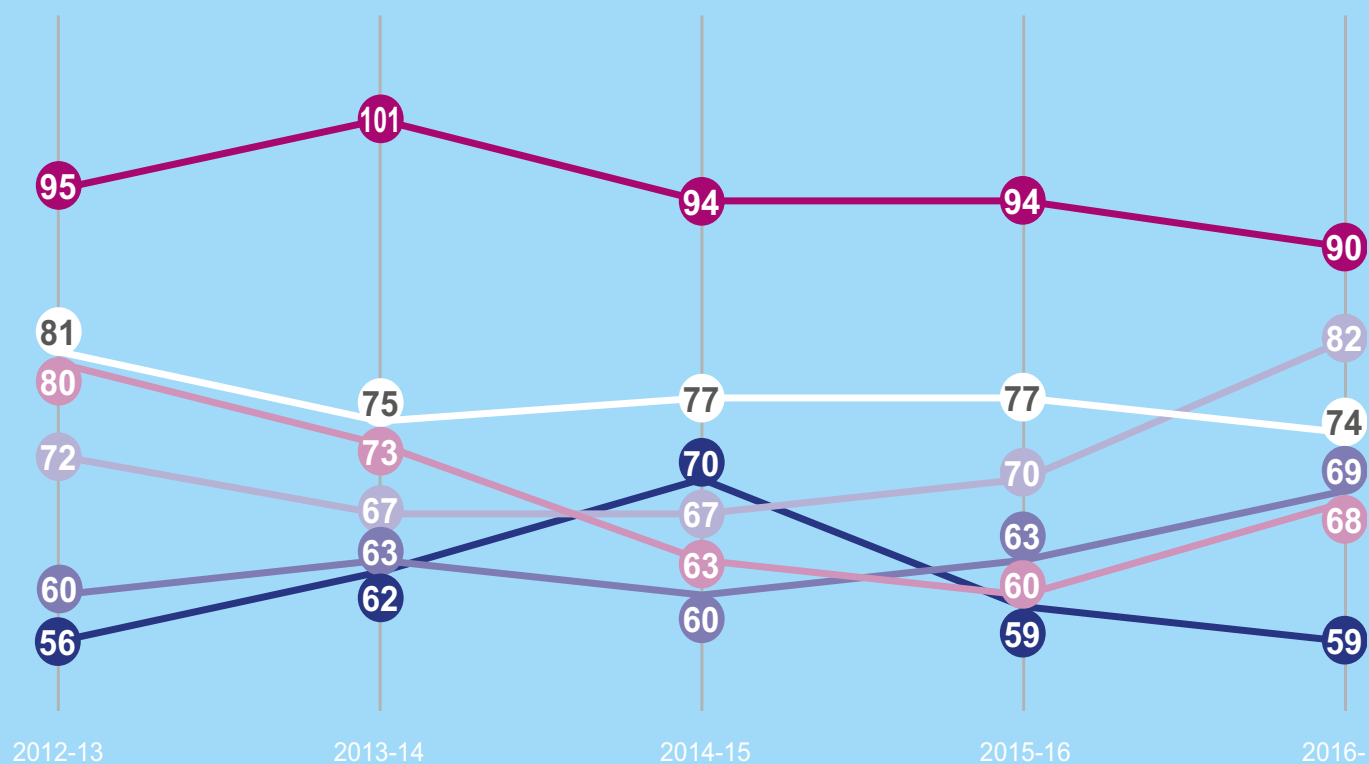
Infrastructure: out of 9 indicators, the best scored is the one related to fixed-telephone lines and mobile-cellular telephone subscriptions, while the weakest include quality of port infrastructure and quality of roads.

Macroeconomic environment: Serbia is the best ranked among all countries when it comes to inflation or annual % change, while gross national savings (% GDP) and government debt (% GDP) constitute the weakest part.

Health and primary education: HIV prevalence is the strongest part, while quality of primary education is the least rated indicator (Serbia is ranked as 77th among 138 countries).

5 GLOBAL COMPETITIVENESS INDEX: GLOBAL RANKS (2012 – 2017)

■ Serbia ■ Croatia ■ Macedonia ■ Montenegro ■ Hungary ■ Slovenia

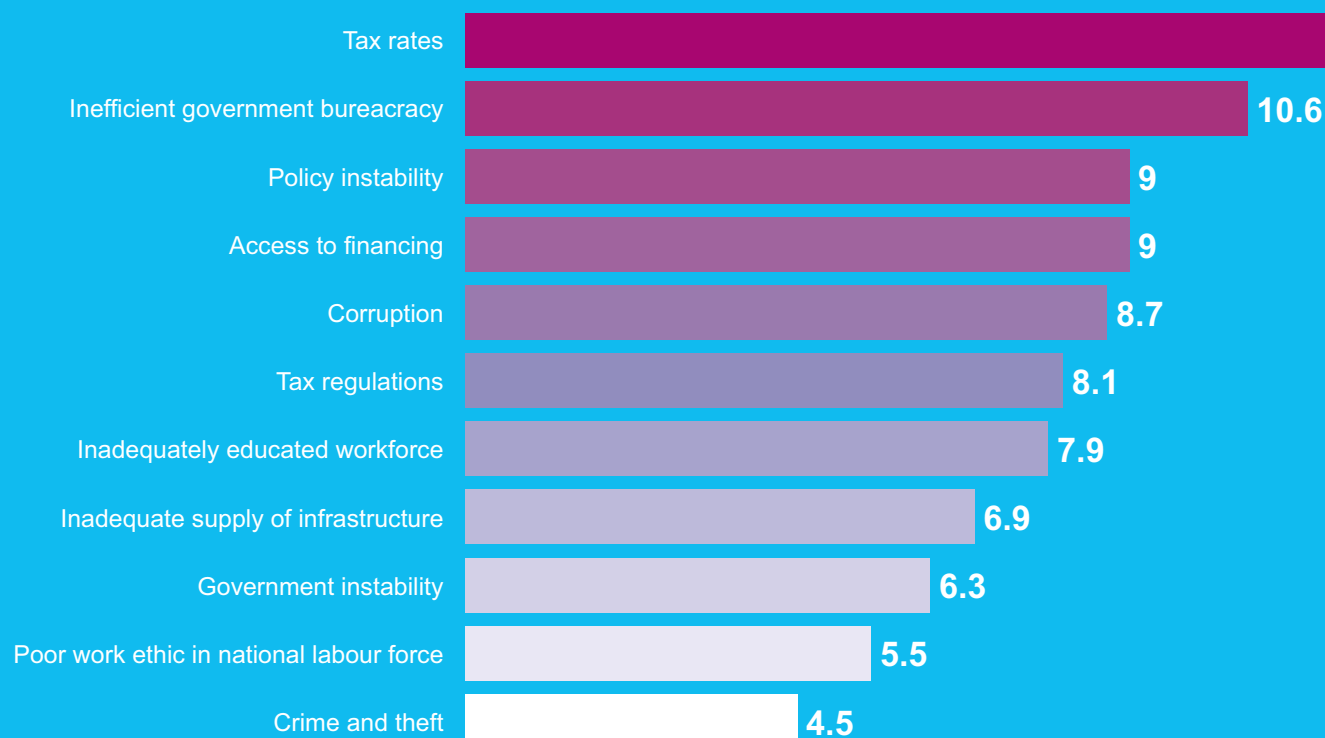


Source: International Monetary Fund; World Economic Outlook Database

“Serbia has the best score in business costs of terrorism and business costs of crime and violence”



6 THE MOST PROBLEMATIC AREAS FOR DOING BUSINESS (%) IN SERBIA 2016-2017



Higher education and training: Tertiary education enrolment rate (gross %) and quality of math and science education are ranked as highest, while extent of staff training and quality of management schools, internet access in schools and overall quality of education system are ranked pretty low, below the average.

Goods market efficiency: Imports (% of GDP) and complexity of procedures to start a new business are indicated as best, while the weakest indicators include extent of market dominance, intensity of local competition, agricultural policy costs and byer sophistication.

Labor market efficiency: Redundancy costs as weeks of salary are the strongest, and country ability to retain and attract talent are the weakest indicators.

Financial market development: Legal rights index and ease of access to loans are marked as best, while affordability of financial services and regulation of security exchanges are the weakest.

Technological readiness: in this pillar Serbia is ranked above its average scores, the best ranked indicators include mobile-broadband subscriptions, fixed-broadband Internet subscriptions and penetration of Internet users, while the firm-level technology absorption is the least developed field.

Market size: Also ranked above its average, and according to indicator related to exports (% of GDP) Serbia is ranked as 38 among 138 countries.

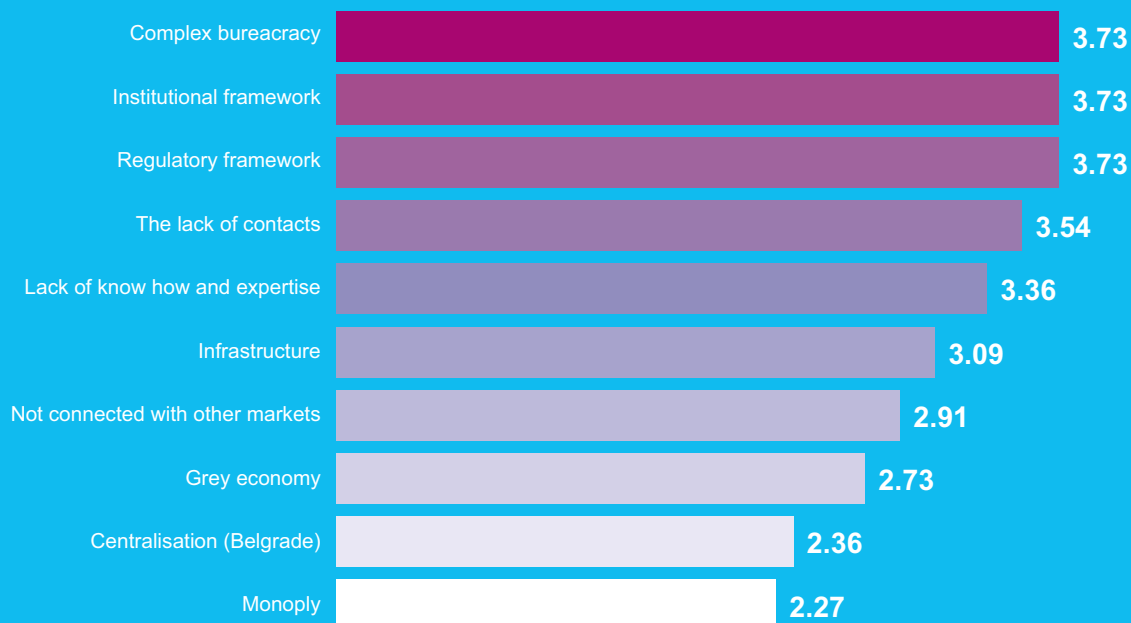
Business sophistication: While the Serbian technology sector exhibits a steady increase in innovation, with several leaders on the global scale (Nordeus, Seven Bridges, Frame), other sectors (agriculture, for example) have slowly adopted innovation logic. This is the least developed pillar and all indicators are below the average – local supplier quality is the best ranked (still 100th among 138 countries), while the nature of competitive advantage and willingness to delegate authority are the lowest ranked.

The most problematic areas for doing business in Serbia include tax rates, inefficient government bureaucracy, access to financing, corruption, and tax regulation.

Serbia holds 47th place on the World Bank's Doing Business list, and the same position for ease of starting a business. According to this source, taxation is one of the most significant obstacles, according to the Doing Business scale, that affects business in Serbia. Paying taxes is considered to be a rather cumbersome activity with 42 payments per year required, comparing to 19.2 payment which an EU and Central Asia average. Taxes on profits in Serbia are pretty high (16%) compared to the European and Central Asia average (10.8%), while some taxes are required to be paid on a monthly basis (Doing Business, 2016).

For start-ups that were surveyed for this assessment, the most problematic factors (both external and internal) for their business include complex bureaucracy, institutional and regulatory framework in Serbia.

7 THE MOST PROBLEMATIC AREAS FOR DOING BUSINESS FOR START UPS IN SERBIA*



Source: World Economic Forum, Executive Opinion Survey 2016

*We used scale for 1 – the least problematic, to 5 – the most problematic

“Problematic areas for doing business in Serbia include tax rates, inefficient government bureaucracy, access to financing, corruption and tax regulation”

4. MEDIA LANDSCAPE IN SERBIA

- Freedom of expression and media freedoms are among the biggest concerns.
- Media market is underdeveloped, monopolised, captured by politics and private interests
- Television dominates the market, and is still the most popular type of media in the country
- The Serbian audience increasingly reading news online
- Serbia is among the countries with the lowest level of trust in media

Table 5 MEDIA FREEDOMS – SCORE AND RANKS (2017)

	Score	Rank (2017)	+/- rank (2016)
Slovenia	21.70	32	+ 5
Bosnia and Herzegovina	27.83	62	+ 3
Croatia	29.59	69	+ 5
Albania	29.92	75	+ 1
Serbia	28.05	76	-10
Kosovo	30.45	78	+ 4
Montenegro	33.65	103	+ 3
Macedonia	35.74	109	+ 2

Source: Reporters without Frontiers (2018)

4.1. MEDIA FREEDOMS AND MEDIA ENVIRONMENT

According to the latest EU Progress Report (released on 17 April, 2018), freedom of expression and a lack of progress in its implementation is a matter of serious concern. The Report outlined the lack of a conducive environment for the exercise of media-related rights, with threats, intimidation and violence against journalists, and the lack of a proper response from state institutions to cope with this problem. In the recommendation part, the EU calls for full implementation of Serbia's laws, asking for more transparency in the ownership and funding of media outlets. In the domain of project co-financing of public interest in media content, there is a need for more transparent and fair procedures without interference by the state administration, especially at local level (EU Progress Report: Serbia, 2018).

According to Reporters Without Frontiers (report released on 25 April, 2018), the climate in Serbia (its rank is down 10 places to 76th) has become more fraught since Prime Minister Aleksandar Vučić was elected president in 2017. He uses the pro-government media to intimidate journalists working in other media outlets and investigative journalist networks who are accused of "treachery" and of being "spies in foreign pay". Serbia is the only country from the Western Balkans region that recorded such a large fall. Among other big falls for 2017, there are three other European countries - Malta (down 18 at 65th), Czech Republic (down 11 at 34th), and Slovakia (down 10 at 27th). All other countries from the region recorded an increase – Macedonia, Montenegro and Kosovo are still behind Serbia when it comes to global ranking.

Comparative insights over the last five years of reporting on Serbia through the Media Sustainability Index, show a decrease in trends in four aspects under concern (free speech, professional journalism, plurality of

news sources and business managements), while only the grade for supporting institutions increases (mainly due to the activity of CSOs and professional media associations).

4.2. MEDIA MARKETS

Media companies in Serbia operate under severe economic pressure. The average annual advertising market value in Serbia for 2016 was around EUR 176 million (Nielsen Audience Measurement), which cannot ensure the economic survival of all currently active media outlets. Compared to other countries of the region, the value of the Serbian market is lower than in Croatia (EUR 206 million), but bigger than in Slovenia (EUR 162 million), Macedonia (EUR 55 million), Albania (EUR 33.5 million), Bosnia and Herzegovina (EUR 33 million), and Montenegro (EUR 10 million) (data derived from Nielsen reports, IREX Media Sustainability Index). Television is still the most popular target for advertisers in all these countries.

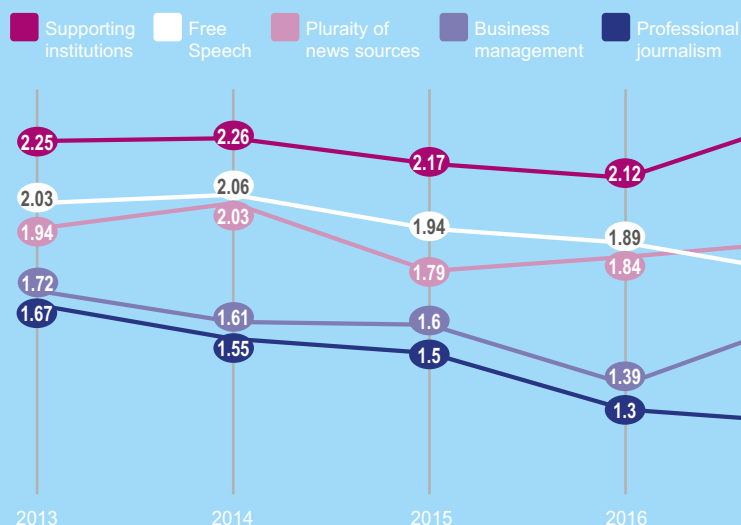
Due to a weak economy and chronic liquidity problems, the state is still considered to have an important role and impact on the media market. State controls the media through direct ownership (cases of dailies 'Večernje' and 'Politika', agency 'Tanjug'), but more increasingly through different models of state funding. For years, the state has been the biggest advertiser in the country through its Ministries, public enterprises and Republic agencies. The amount of total state aid on the market, as well as the manner, extent and effects of state funding of various media outlets is unknown. Apart of money available on media market, which is EUR 176 million (Nielsen), legal entities classified as media earned more than EUR 400 million in 2015 through different modalities (National Bank of Serbia), while the state is allocating more than EUR 15 million per year through the model of budget co-funding (multiple sources).

In the last 10 to 15 years, a large number of online media have been established in Serbia which operate at the local level and, to a greater or lesser extent, satisfy the needs of local communities for information. According to 2016 survey, the most important issues of public interest in different local areas of Serbia include: transparency in the work of local authorities, development of local economy, the status of national minorities and other vulnerable groups, unemployment, and ecology and environmental protection (Slavko Čuruvija Foundation et al., 2016).

Most of the online media in Serbia have their own FB account, the second most common network is Twitter, while YouTube channels come third. The biggest problems for media in Serbia include lack of money, lack of contributors and the closed nature of public institutions (Ibid.).

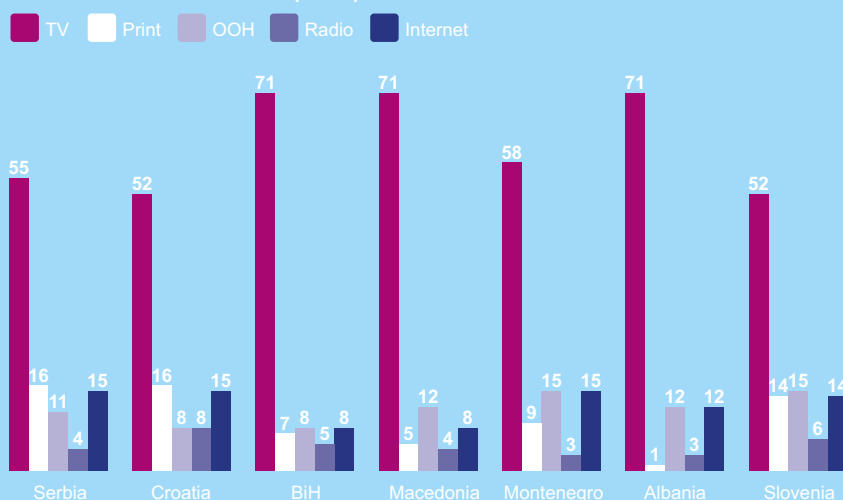
By the end of April, 2018, 632 online media operated on the Serbian market, and out of this number 600 have been registered. The most frequent form of their operation is civil society organisation (34 %), followed by limited liability company (33 %) and entrepreneurship (23.6 %). In the last four years the state of Serbia allocated RSD 293.9 million to support online media.

8 MEDIA SUSTAINABILITY INDEX: SERBIA (2013 - 2017)



Source: IREX Media Sustainability Index

9 PERCENTAGE OF MEDIA PER TYPE IN OVERALL MARKET VALUE: COMPARATIVE INSIGHT (2017)



Source: Association of Media, Serbia, 2018

“The EU calls for full implementation of Serbia's laws, asking for more transparency in the ownership and funding of media outlets”

Most of state-supported media are located in Belgrade (171), followed by Novi Sad (56), Niš (33), Subotica (21) and Čačak (17). The majority of money – RSD 91.8 million or 31 % - is allocated in Belgrade, RSD 35.7 million to Niš, while Novi Sad received RSD 33.18 million (SHARE, 2018).

In Serbia, most online media are dependent primarily on public funds (36%). The second most common are media outlets which are mainly maintained by commercial revenue from the media itself and other revenue from publishing (18%), and, as such, they provide, for example, press clipping services, computer maintenance, consulting or have pro table

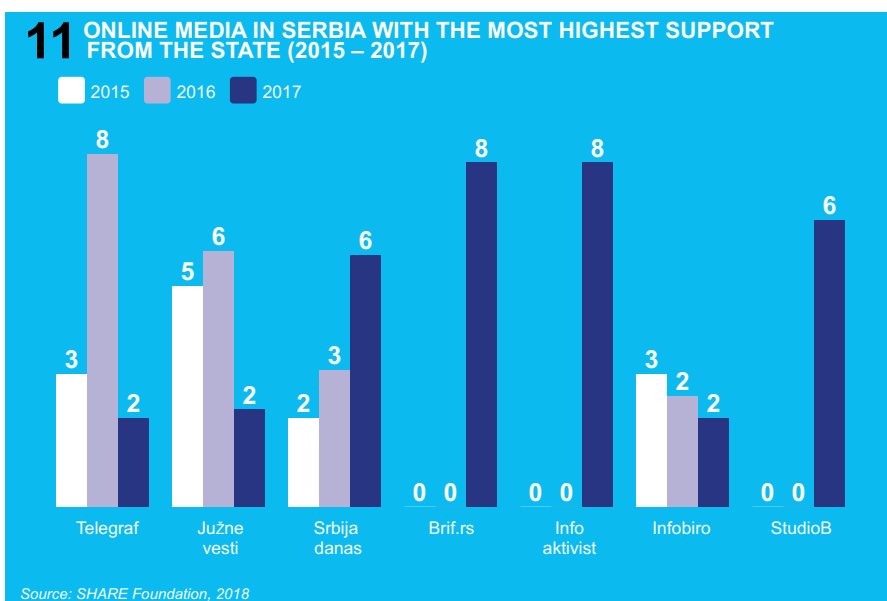
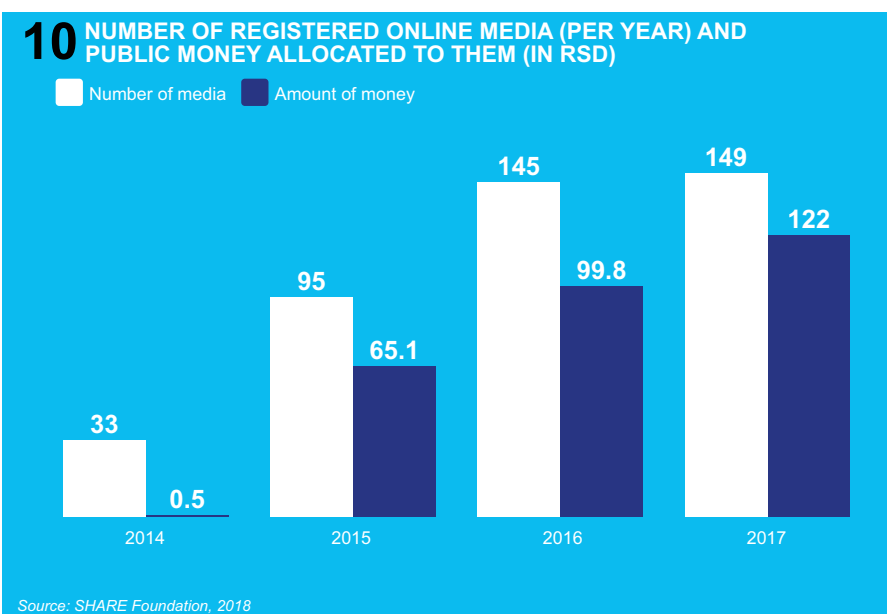
publishing activities. The largest expense for respondents in Serbia are salaries and fees for employees and freelance correspondents. The next most significant expenditures are the costs of site hosting, maintenance and development and the cost of purchasing equipment. Media in Serbia rarely pay for promotion on social networks (20.5 %) than online media in Croatia (20.5 %). While in Croatia the average monthly spending in 2016 was 130 EUR per outlet, in Serbia the case of 'Južne vesti' is unique since they are spending from 100 to 350 EUR per month, while the average for the rest was 19 EUR (Slavko Ćuruvija Foundation et al., 2016).

4.3. MEDIA OWNERSHIP

Majority of the media in Serbia are in private ownership.

- In print industry, there are two major media groups – Ringier Axel Springer which owns daily 'Blic', weekly 'NIN' and Adria Media Group, which controls daily 'Kurir' and weekly 'Newsweek', among others
- The biggest ownership concentration is presented in domain of electronic media, where three groups - Antena Group, Pink Media Group and the Public Broadcasting Service hold more than 50% of the audience share. Meanwhile, N1 television is owned by United group, the largest telecom provider in the region.

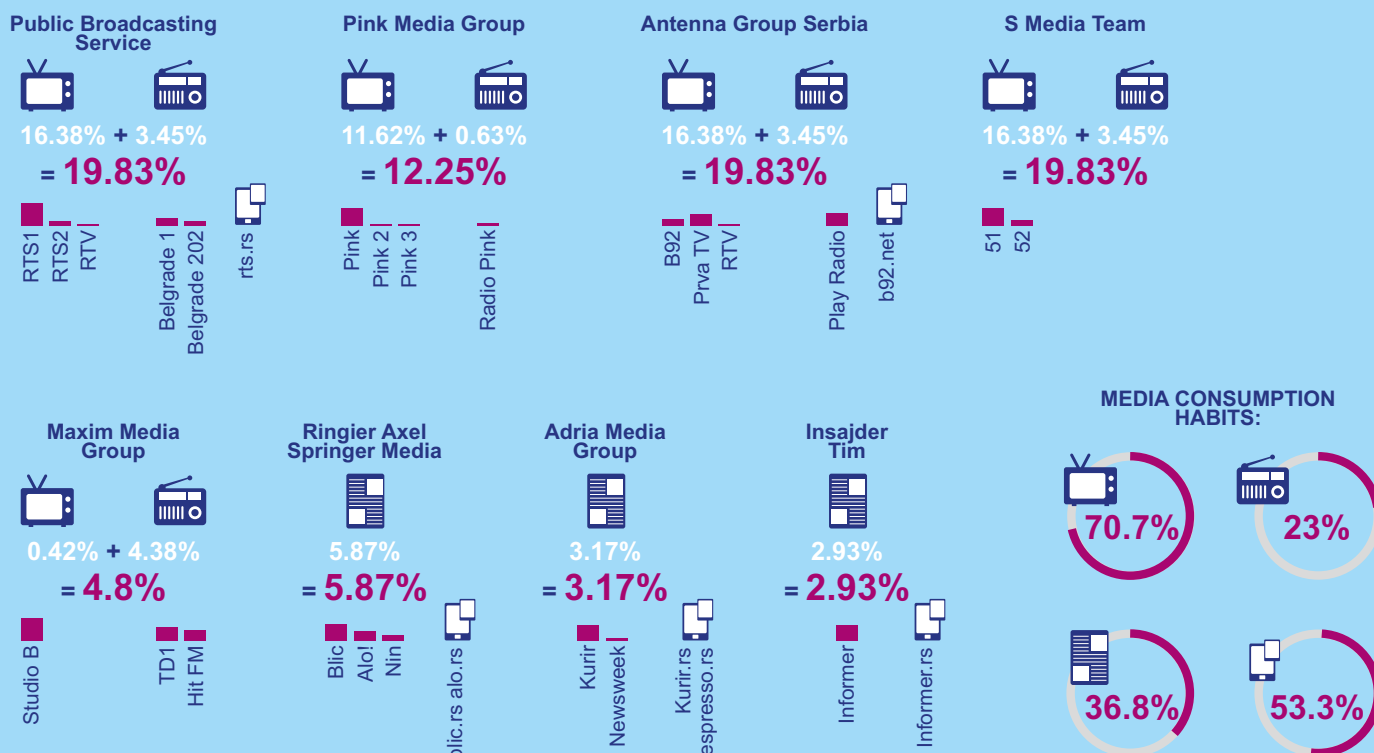
“Media in Serbia rarely pay for promotion on social networks”



12 CROSS-MEDIA CONCENTRATION

OWNERSHIP CONCENTRATION ACROSS DIFFERENT MEDIA SECTORS – TV, RADIO, PRINT AND ONLINE

TOP 8 RANKING IN SERBIA



Source: IPSOS, Nielsen Audience Measurements in Print, TV, Radio for 2016-2017; Gemius Online Audience Measurement for March 2017

- Three companies – S Media Team, Maxim Media and the Public Broadcasting Service – hold around 40% of the audience share in radio.
- In online sphere, most of the influential websites (such as 'Blic' or B92 web site) are owned by companies who already own media outlets in other sectors (Media Ownership Monitor).

Despite the private ownership, ruling elites have extremely high control over media through advertising and through influence through their owners, using other means of influence, with a consequence that despite external plurality (of ownership), editorial policies affected the lack of plurality and diversity within the content.

4.4. MEDIA AUDIENCE TRENDS

According to average TV viewing time measured in European countries in 2015 and 2016, Serbia is ranked second, as Serbian citizens spend approximately 5 hours per day watching television (Statista, 2018). TV is the

most popular medium in the region of Western Balkans, including Serbia, and media audience is highly concentrated around television which presents a serious risk to pluralism. In domain of TV, 62.5 % of audience are attracted by four dominant media groups (PSB – 23.2 %, Pink Media Group – 16.4 %, Antena Group – 15.3 %, and Happy TV – 7.5 %).

Consumption of online content: Serbian citizens mostly read news online (75.5 %) or search for the info about goods and services (75 %), while the least developed online activities include selling goods and e-banking.

When it comes to online news consumption, Serbia is below the EU average, while there was an increase in habits within the last three years.

In 2017, 64% of Serbian citizens watched online video every day, 15% every week, 4% every month, while 13 % never watched online videos (Adcombo, 2018).

“TV is the most popular medium in the region”

4.5. MEDIA LITERACY AND TRUST IN MEDIA

Media literacy: The recent research conducted by the Open Society Institute from Sofia, ranked Serbia far beyond the EU average when it comes to media literacy development. This means that state doesn't support substantially development of regulatory and legal framework for media literacy, neither provide enough support to field activities in this domain. As consequence, citizens of Serbia remained 'unequipped' and vulnerable to media influence, with limited developed capacities to critically engage with media content.

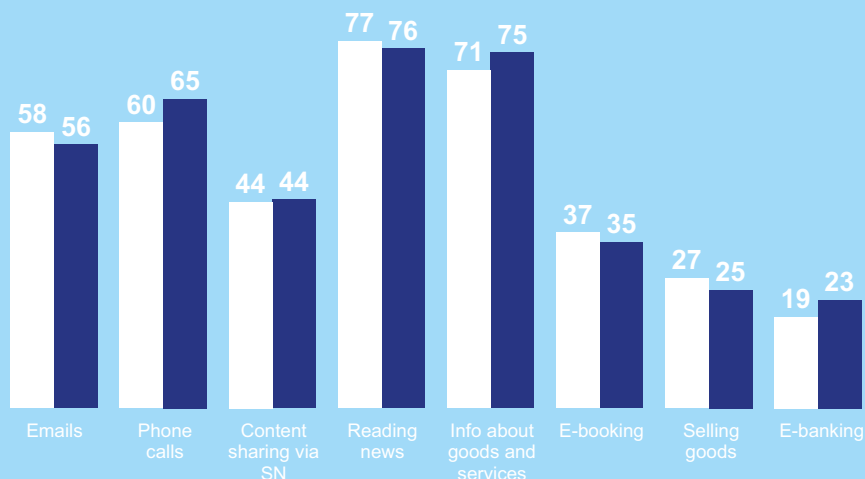
Trust in media: Serbia is ranked among countries with the lowest level of trust in Europe – only 11 % of citizens demonstrates high level of trust (21 % is the EU average, in Croatia 25 %), while 52 % of citizens tend not to trust in media, or demonstrated pretty low level of trust – same case is with Macedonia. Albania demonstrated an opposite trend – 42 % of citizens tend to believe media highly, while only 20 % of citizens have low level or no trust in media (EBU, 2018).

- Print media are the least trusted media in Serbia, and same goes for print media in Poland, Macedonia and Bulgaria, while the most substantial increase in print media has been noticed in Croatia,
- Comparing to developed European countries, where radio is on the rise, citizens tend not to trust in radio in the region of Western Balkans (Serbia, Macedonia are at the bottom),
- Citizens in Serbia also tend not to trust in TV, while in Macedonia and Montenegro trust level in TV significantly increased compared to 2016,
- Serbia is above EU-average in trusting the internet, Albania has the biggest level of trust among all European countries,
- Only Bulgaria, among all 33 surveyed countries, trust the social media – Serbia is above the EU average, but level of trust is still small (28 %) compared to Albania (42 %), Montenegro (33 %) and Croatia (32 %).

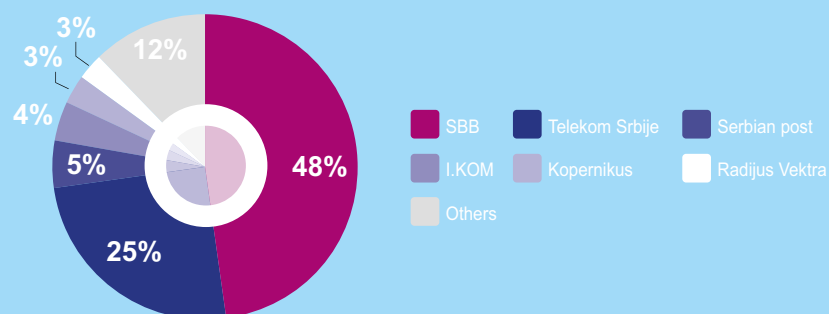
5. SERBIAN ICT-CENTRIC, INNOVATION AND START UP ECOSYSTEM: MAIN FEATURES

13 TYPES OF INTERNET USE (%)

2016 2017



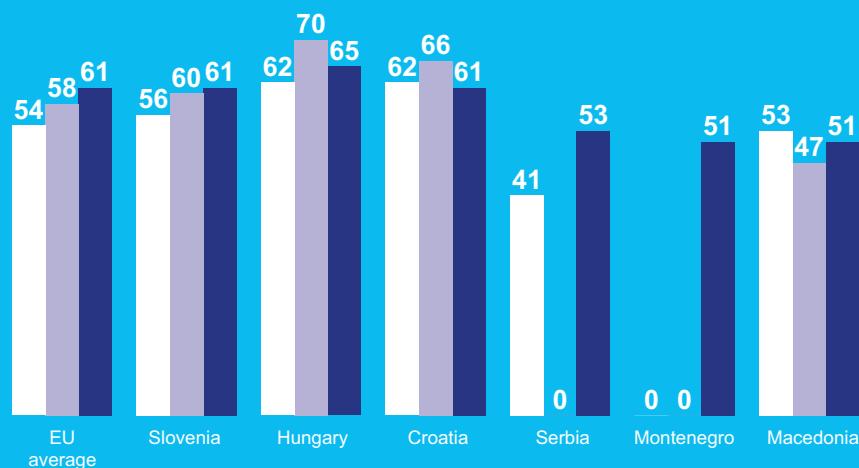
CABLE OPERATORS SHARE ON SERBIAN MARKET



Source: Serbian Central Bureau of Statistics (Eurostat method)

14 READING / DOWNLOADING NEWSPAPERS ONLINE (%)

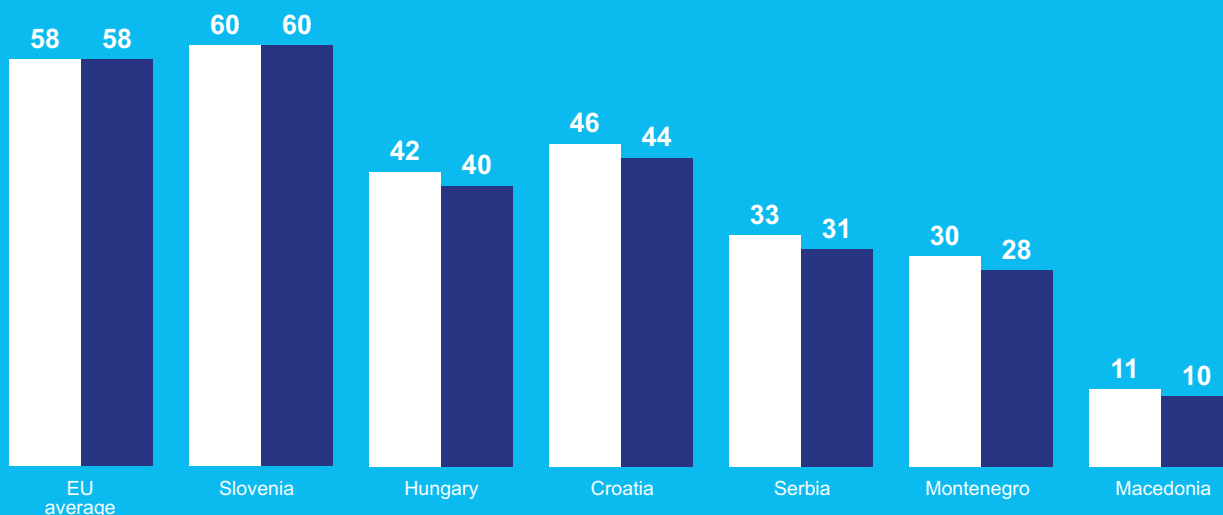
2015 2016 2017



Source: Eurostat

15 MEDIA LITERACY INDEX (2017 – 2018)

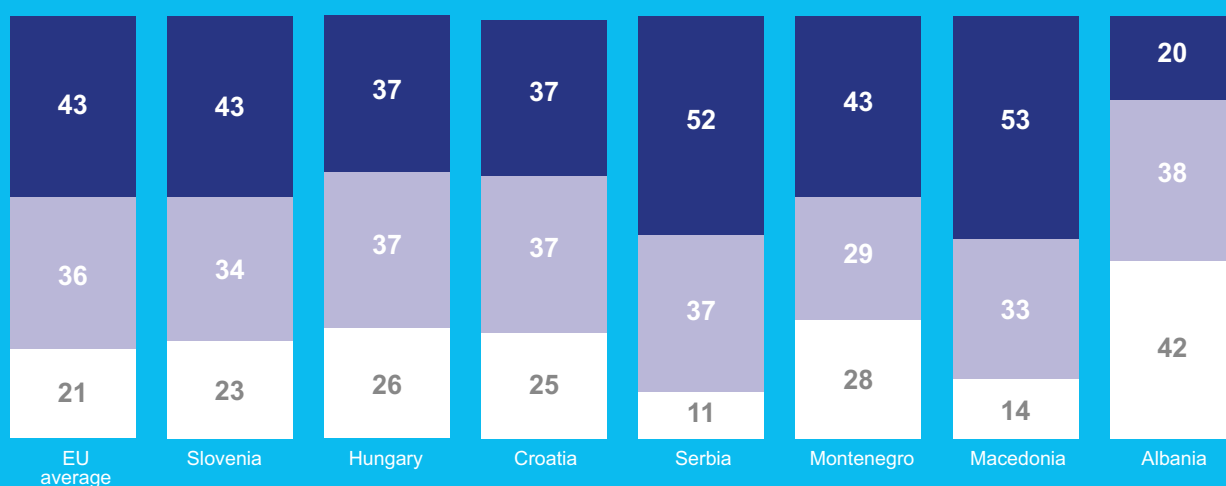
2017 2018



Source: Open Society Institute – Sofia

16 TRUST IN MEDIA (2018)

High level of trust Medium level of trust Low level or no trust



Source: European Broadcasting Union (2018)

5.

- The Serbian digital economy is on the increase. ICT is becoming the wealthiest part of its economy, but most initiatives come from the private sector
- While broadband is still in its early stage of development, Serbia is among global leaders when it comes to mobile phone subscribers
- The Internet speed in Serbia is much slower than in the EU (almost 7 times) and 2 to 3 times more expensive per megabyte of data transmission
- Due to the bad infrastructure most of the ICT business is located in big cities, Belgrade, Novi Sad and Niš
- Serbia has the highest number of start-ups in the region, but their survival rate is low
- There is a lack of continuous and substantial financial support for business, in domains of research, pre-seed and seed phase

5.1. DIGITAL ECONOMY: CONTEXT AND KEY TRENDS

Digital economy is considered as a “green” economy since it promotes the principles of sustainable development. Its impact on the environment is expected to be subtler and more positive than is the case with traditional industries (Initiative Digital Serbia – Manifesto, 2017).

Serbia is classified as typical upper-middle GDP country, and when it comes to ICT it has a medium developed market structure and medium developed market institutions (EBRD, 2014). Key challenges include the privatisation of the fixed line incumbent Telekom Serbia (there was a failed attempt to privatise company in 2015), increase of the competition in the field line, continuous development of telecommunication and broadband infrastructure, and modernising and adjusting the regulatory framework (which was aligned with the 2009 regulatory framework).

The most profitable segment of Serbian Telecom is fixed line, but its profitability recorded permanent decrease in scope and the value. On the other hand, potential of the mobile network and multimedia hasn't been used fully. For example, Serbian Telecom recorded an increase of 4 % in this segment, comparing to Montenegro in which public telecom operator (mtel) recorded an increase of 172 % when it comes to number of users of its multimedia services (Ratel, 2017).

5.2. DIGITAL ECONOMY AND ICT SECTORS: KEY INDICATORS

Analysis of digital economy and ICT sector in Serbia, according to the EU Conceptual Framework for Monitoring the Digital Economy and EBRD priority areas, include the following indicators - ICT sector and Research, Development and Innovation; Connectivity; Integration of digital technology (connectivity and digital skills, internal processes, engagement with partners and customers – use of social media); eCommerce; Trust, Security, Data Protection and Privacy; Use of Internet ; Consumption of online content; Children's internet use; Internet use and working conditions; Human capital, and Digital Public

EBRD ASSESSMENT: SERBIA AND WESTERN BALKANS REGION

- Apart from Serbia and Croatia, penetration of telecommunications services is low by EU standards, very low in Albania.
- Fixed-line penetrations reach the EU average in Serbia and Croatia, Albania the lowest.
- Montenegro, Albania and Serbia have the highest rate of mobile subscriber penetration.
- Broadband services are still at an early stage, all countries are below the EU average, Croatia and Montenegro have the highest and Albania the lowest.
- Most of the countries implement the EU 2003 framework, with exception of Croatia (the EU 2009 framework) and Bosnia and Herzegovina (the EU 1998 framework) which is lagging behind.
- With exception to Croatia and Montenegro, in other countries there were noticed a state ownership in main telecom operators.
- Market conditions for wired services are improved in all countries with exception to BiH. Fixed number portability has been implemented, exceptions are Serbia and Albania.
- Market conditions for wireless services are being improved, with a strong competition and growth in mobile markets.
- The switch of analogue broadcasting has been completed in all countries with exception to Albania, BiH and Macedonia (EBRD, 2014).

Services. Some of these indicators will be briefly presented here.

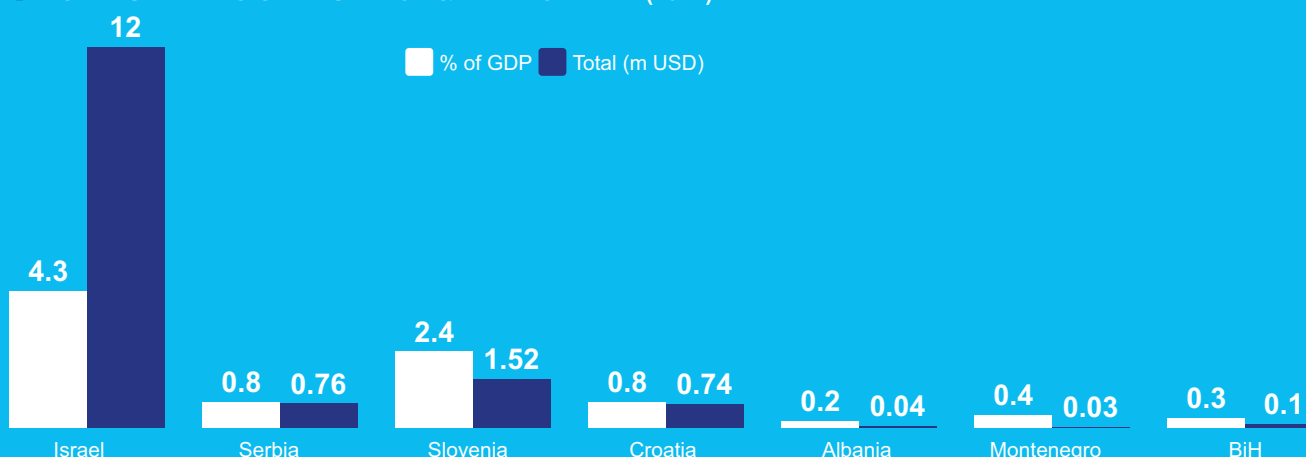
5.2.1. ICT SECTOR AND RESEARCH, DEVELOPMENT AND INNOVATION

Value: Taking into account period from 2006 to 2017, the value of Serbian ICT sector skyrocketed from EUR 150 million to more than EUR 450 million last year. Overall value of the ICT sector in Serbia in 2017 was EUR 470

million, while in 2016 the value was – 441.8. Also the overall investment in telecommunication sector increased from EUR 319 million (2016) to EUR 335 million in 2017 (sito.rs).

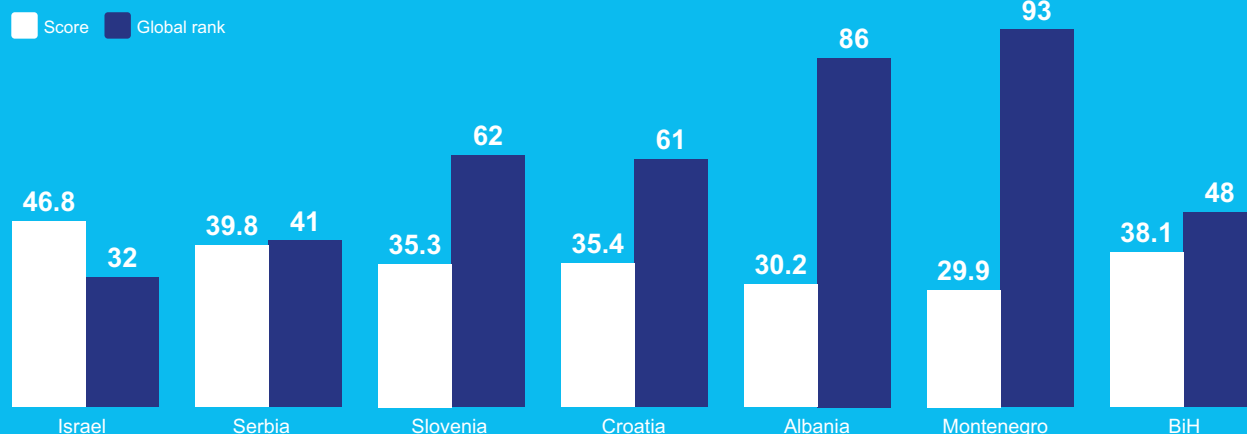
Employment: ICT presented about 1.4% of the total workforce in Serbia. According to the latest data, in 2016 more than 21.500 persons were employed in the ICT sector (comparing to 19.400 in 2015), with more than 10 % of growth. According to multiple sources (Serbian officials, interviews), there is a need for more than 15,000 ICT specialist on the labor market at the moment.

17 TOTAL SPENDING ON RESEARCH & DEVELOPMENT (2017)



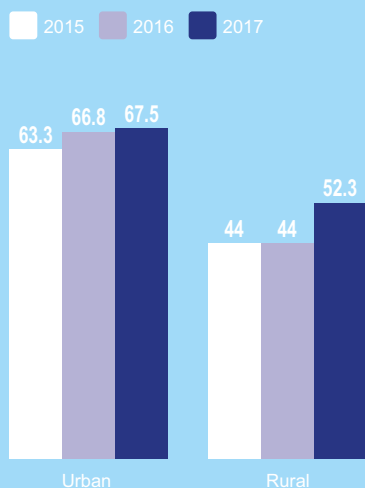
Source: UNESCO Institute for statistics

18 GLOBAL INNOVATION INDEX (2017)



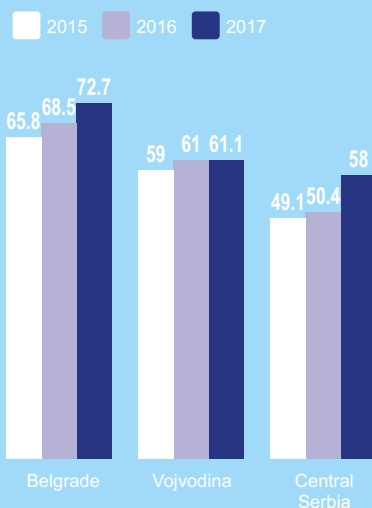
Source: www.globalinnovationindex.org

19 HOUSEHOLDS WITH ACCESS TO BROADBAND INTERNET – URBAN AND RURAL (%)



Source: Central Bureau of Statistics

20 HOUSEHOLDS WITH ACCESS TO BROADBAND INTERNET – BY TERRITORY (%)



Source: Central Bureau of Statistics

“Serbia has one of the highest rates of mobile subscriber penetration”

These are not highly sophisticated profiles (programmers, developers) but persons skilled to assist public and local administration with basic, online or e-related, tasks (administrator of web pages, simple data analysis, etc.). Those who poses sophisticated skills are usually employed by foreign companies and either move abroad for big salaries either work from Serbia remotely, also for salary that is far higher than the country average is.

Research and development: Gross Domestic Expenditure on R&D in 2014 was 0.77 % of GDP, with gross expenditure on R&D at 301 million € (42 € per capita). In 2015 Serbia had 178 patent applications by led through the Patent Cooperation. According to the latest data, Serbia as well as other countries from the region (Slovenia is an exception) lag behind the world leaders (see comparison with Israel).

Innovation: This is also the pillar in which Serbia need to develop more, PCT patent applications per million inhabitants is ranked as the best, while capacity for innovation and companies spending on R&D are the weakest (Global Competitiveness Index). In domain of innovations, with grade 35.3 Serbia is ranked lower than Slovenia and Croatia, and even Montenegro.

5.2.2. CONNECTIVITY

According to the Serbian Central Bureau of Statistics, 61.9 % of households in Serbia had an access to broadband Internet connection in 2017, and there is a trend of steady increase comparing to 2016 (57.8 %) and 2015 (56 %). There is a significant difference between rural and urban households in Serbia, as well as between capital and other parts of the country.

According to the ITU, the setting for mobile broadband is promising. In just one year, operators developed 4G networks delivering 4G coverage to 95% of population. In 2015, Serbia successfully completed digitalization of terrestrial television. Serbia is the only country that has made both digital dividends free at the moment of its switchover to digital broadcasting (ITU, 2017).

5.2.3. E-COMMERCE

In Serbia, there is significant increase in the use of Internet for ordering goods and services and the use of e-banking services, but Serbia still lags behind developed countries.

On the other hand, this indicator (e-Commerce) is problematic when it comes to their use of online tools in the business sector. Relevant researches point out that only 40.2% of companies with access to the Internet were engaged in purchasing goods or services online, and that 20.9% of the companies were

approached through the Internet to deliver goods or services (multiple sources, interviews).

5.2.4. USE OF INTERNET AND SOCIAL MEDIA

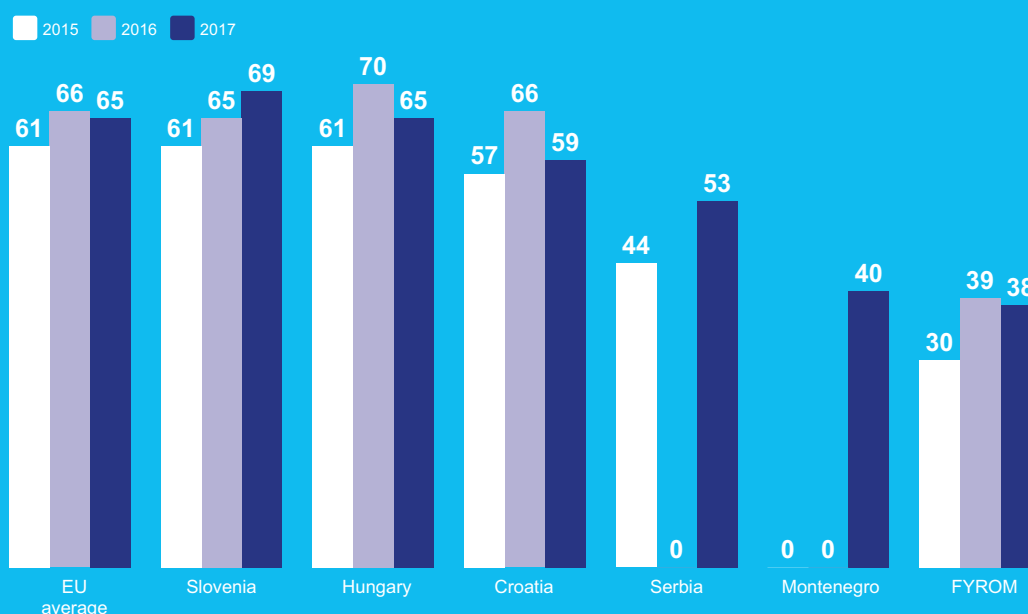
Access to internet: Multiple sources indicate that 68.1 % of households had an access to Internet in 2017. Most households with an access to Internet are in Belgrade 77, 8% of households owns a PC, in Vojvodina 66,2% and in Central Serbia 65,3%. More than a half (52%) of households owns one computer, while 45% owns two computers (Serbian Central Bureau of Statistics; Eurostat).

Social media use: Serbia is below the EU average, and mid-ranked in the region of Western Balkans. This indicator includes creation of user profiles, posting messages or other contribution to Facebook, Twitter, Instagram. It also includes all individuals, with no age restriction.

According to multiple sources (OECD, Statista, World Bank), currently in Serbia there are 3,58 million users, while predictions show that this number will increase to 3.77 in the next 3 years.

The most popular social media in Serbia is Facebook (90 % of citizens are using it in 2017, comparing to 3.05 % for Twitter and 1.92 % for Pinterests (statcounter.com)).

21 GOODS AND SERVICES ORDER VIA INTERNET (%)



Source: Eurostat

5.2.5. INTERNET USE AND WORKING CONDITIONS

According to the Serbian Central Bureau of Statistics, 98.6 % of enterprises in Serbia have a broadband Internet access. While use is not problematic, the broadband speed connection in Serbian enterprises has been considered as an obstacle. According to the Europe 2020 Strategy for jobs and growth, speed above 30 Mbit/s is considered to be a high speed broadband network.

According to the International Telecommunication Union, the Internet in Serbia is, on average, much slower than in Europe (26.3 versus 178.0 kbps) and 2 to 3 times more expensive per megabyte of data transmission (ITU, 2017).

There is a lack of investments in infrastructure due to the complex ownership over it – all connections (cables, etc.) below the ground are under the jurisdiction of Serbian post (state company), connection that are installed above the ground are controlled by Serbian Electro distribution (state company), while third important stakeholder, also state owned, is Serbian Telecom.

5.3. ECOSYSTEM ASSESSMENT CANVAS: DIGITAL ECOSYSTEM IN SERBIA

The strongest part of Serbian digital ecosystem includes vision and strategy (grade 7.7, out of 10) and policy and regulation (7.6), while the weakest are capital and resources (4.1), according to the 2017 ITU assessment.

Vision and strategy: Main challenges include identification of businesses opportunities; creation of mechanisms to find partners and functional cooperation models. At the level of state, there is no a strategy on digital transformation, but state recently established an Office for e-Government and IT, as well as Ministerial IT Council.

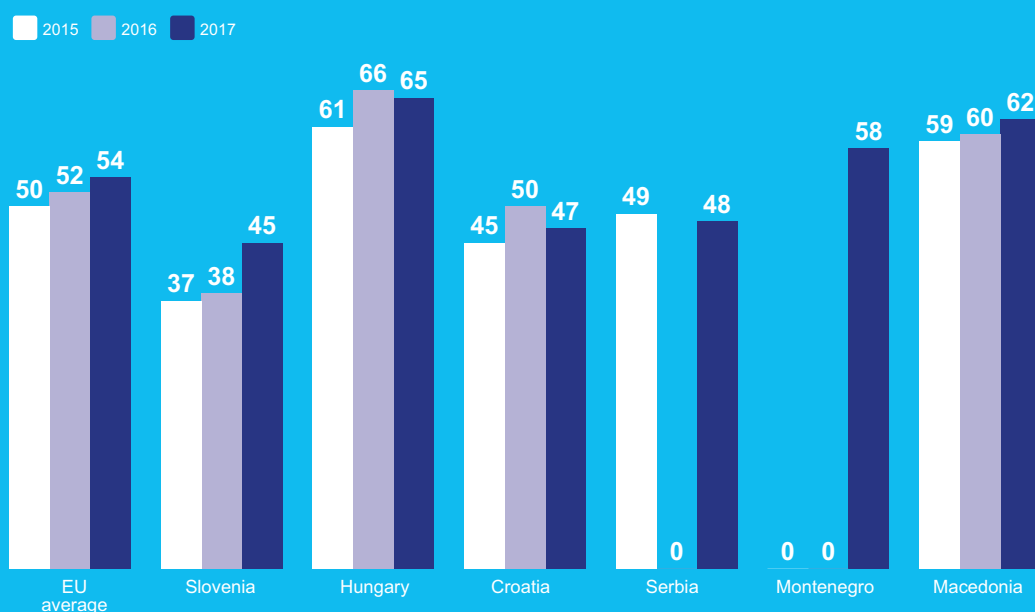
Policy and regulation: Current framework, that includes a range of statutory documents, is heavily influenced by the EU accession and the EU Digital Agenda. Some of the current legislation is considered to be obsolete and not in harmonisation with the EU acquis. In relation to innovation and intellectual property, Serbia has adopted the Strategy for the Development of Information Technology Industry for the 2017-2020. Ambitious goals contained in this document, are not supported by an appropriate

action plan, due to which most of the anticipated activities have not yet been carried out. Action plan adopted in January 2018 has quite a modest budget and does not meet the ambitious expectations of the Strategy (ITU; interviews). Another important documents in this field include the Strategy for Public Procurement 2014 – 2018, the Economic Reform Program for the 2017-2019 period, and the Strategy for Smart Specialisation of the Republic of Serbia that is in a preparation phase.

Talent and champions: The Serbian market and ICT sector absorbs the vast majority of graduates from 40 higher education organisation that produce ICT profiles. There is a further need for more specific profiles in this area – according to the official info, state need cc. 15.000 ICT specialists – and the state of Serbia started recently to offer subventions to educate this profiles. In line with slow but ongoing reforms in formal sector, private digital sector in Serbia offers numerous opportunities for informal and practical learning of the most important ICT skills. Private sector is in urgent need for these profiles, and state pace of reforms is pretty slow comparing to their immediate needs.

The following four components are still underdeveloped in Serbia.

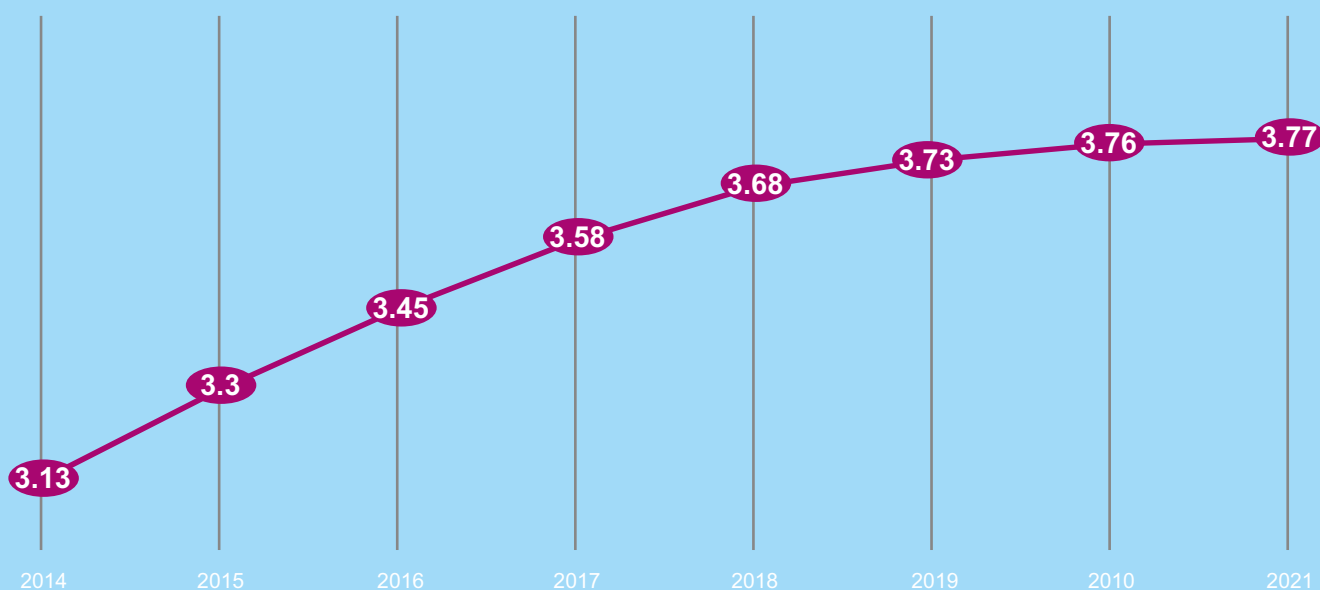
22 CITIZENS PARTICIPATING IN SOCIAL NETWORKS (%)



Source: Eurostat

23 FORECAST OF SOCIAL NETWORKS USERS IN SERBIA (MILLIONS)

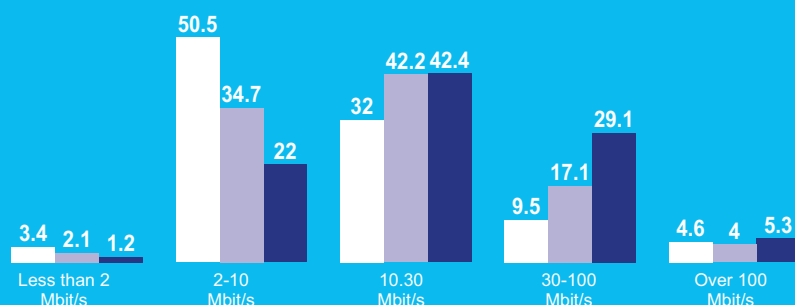
■ Social network users



Source: eShopWorld, Statista

24 BROADBAND CONNECTION SPEED IN ENTERPRISES, SERBIA (%)

■ 2015 ■ 2016 ■ 2017



Source: Serbian Central Bureau of Statistics

Infrastructure and programs: There is a huge gap between urban and rural areas, especially between capital (Belgrade), some other big cities (Novi Sad, Niš) and the rest of Serbia. Access speeds and introduction of new technologies could be faster. State has a plan to invest in increasing broadband access penetration and also to connect more than 150.000 households to a fibre network within the next two years. At soft level, there is a need for more training and events, and concert efforts of public and private sphere to induce the changes. Serbia is competitive on regional level in this regard.

Culture and communities: Champions of innovations come from the private sector. Private firms and growing incubators and accelerators

are increasingly active in the area of research and fundraising. There is a growing attention in investment sector when it comes to Serbia. Main challenges include stable funding to ensure basic research and prototyping, supporting entrepreneurs at their basic level, and providing mentorship.

Networks and markets: Local IT companies developing their own products need finances during the business cycle – from product patents, market entry and for maintaining the operation. Computer software (Nordeus is the leader) is one of Serbia's main exports and it reached USD 450 million in 2016. There is a need for more structural and systematic support for local business to expand their products outside.

Capital and resources: Serbia declaratively encourages public and private collaboration to drive innovations in digital sphere. One of the biggest obstacle for ICT industry is the limitation of adequate models and opportunities to support an early-stage funding for local start ups and their business. In this area the most active player is ICT Hub Venture with its EUR 1 million annual fund, Telekom Serbia has its start ups accelerator programs, South Central Ventures with its EUR 40 million also supports Serbian start ups with already developed idea. Traditional loans and funds provided by the state are directed to SME's. Serbia lacks active and experienced angel investors.

Main stakeholders per sector in Serbia:

Public sector: Prime Minister Office; Ministry of Trade, Tourism and Telecommunications, Agency for electronic communications and postal services; Academic Network of the Republic of Serbia; Telecom Serbia, Office for IT and e-Government; Ministry of Education, Science and Technological Development; Ministry of Public Administration and Local Self-government; Public Utility Company 'Informatika.'

Entrepreneurs: ComTrade, Nordeus, RT-RK, Microsoft Development Program, Roaming Networks, Logo, Saga, Infostud.

Financial institutions: Serbian Innovation Fund; Balkan Venture Forum; Serbian Private Equity Association; Serbian Business Angel Network; SEE ICT Potkrovlje Hub; ICT Hub, business incubators in Belgrade, Novi Sad and other cities (approximately 15 incubators); StartLabs (first Serbian/USA accelerator and seed fund).

Academia: Faculty of Electrical Engineering University of Belgrade; Faculty of Mechanical Engineering University of Belgrade; Technical University in Novi Sad; Faculty of Computing University of Belgrade; Faculty of Organizational Sciences University of Belgrade; Faculty of

Mathematics University of Belgrade; Faculty of Transport and Traffic Engineering University of Belgrade.

Business networks: Initiative Digital Serbia; Vojvodina ICT Cluster; ICT Network Serbia; Nis Cluster of Advanced Technologies; ICT Cluster of Central Serbia; SEE ICT.

Media: Axel Ringier Springer; Adria Media Group; Radio-television of Serbia; Color Press; N1; Netokracija; Simplicity; KRIK; BIRN.

5.4. SERBIAN START UP SCENE

Serbia has a wealthy and growing start-up community. According to some estimates, there are more than 600 start ups active in Serbia, or 89.4 per 1 million of inhabitants, and that positions Serbia as one of the most flourishing environments in the region of SEE (behind Slovenia and Croatia, in line with Macedonia).

Comparing to the big and the most successful Serbian start ups, the majority of local start ups still need initial support (pre-seed or seed support) to develop ideas and their business plan. This is something where local governments, not only in Serbia but in the region of Western Balkans, are struggling to provide support, due to

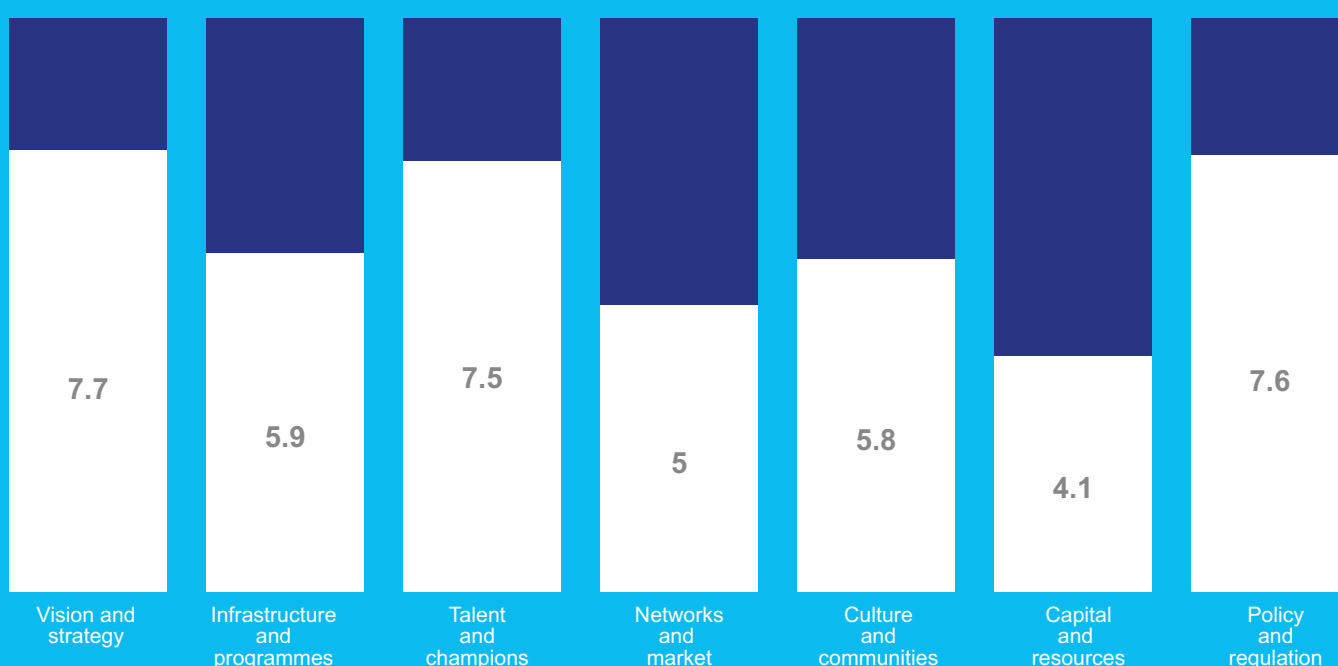
the lack of knowledge, bad regulatory framework and complex bureaucracy and institutional rigidness. Additionally, the lack of equity (the 'equity gap') for seed- and early-stage support is especially unfavorable for the development of local startups and impacts their survival rate. The development cycle of the startups in the region seems to be that of a large number of seed and smaller early stage startups, but only a handful of successful later stage startups that emerge later with the development of the whole ecosystem (ACB Accelerator report, 2017).

It could be roughly estimated that in the last year (2017) around 200 start ups appeared in Serbia at their basic (idea) level. Out of this number at least half are unregistered and some dropped even before entering acceleration and other similar programs. In the absence of any register or research on this, it could be only estimated from multiple sources that in Serbia per year there is around 100 news start ups that reach their early stage business. Start up's survival rate is far lower (10 % up to 20 %) than the one for Small and Medium Enterprises which is 61.8 %, according to the Serbian Chamber of Commerce.

As could be observed from graph 27 (page 29), the most problematic issues seem to be related to funding.

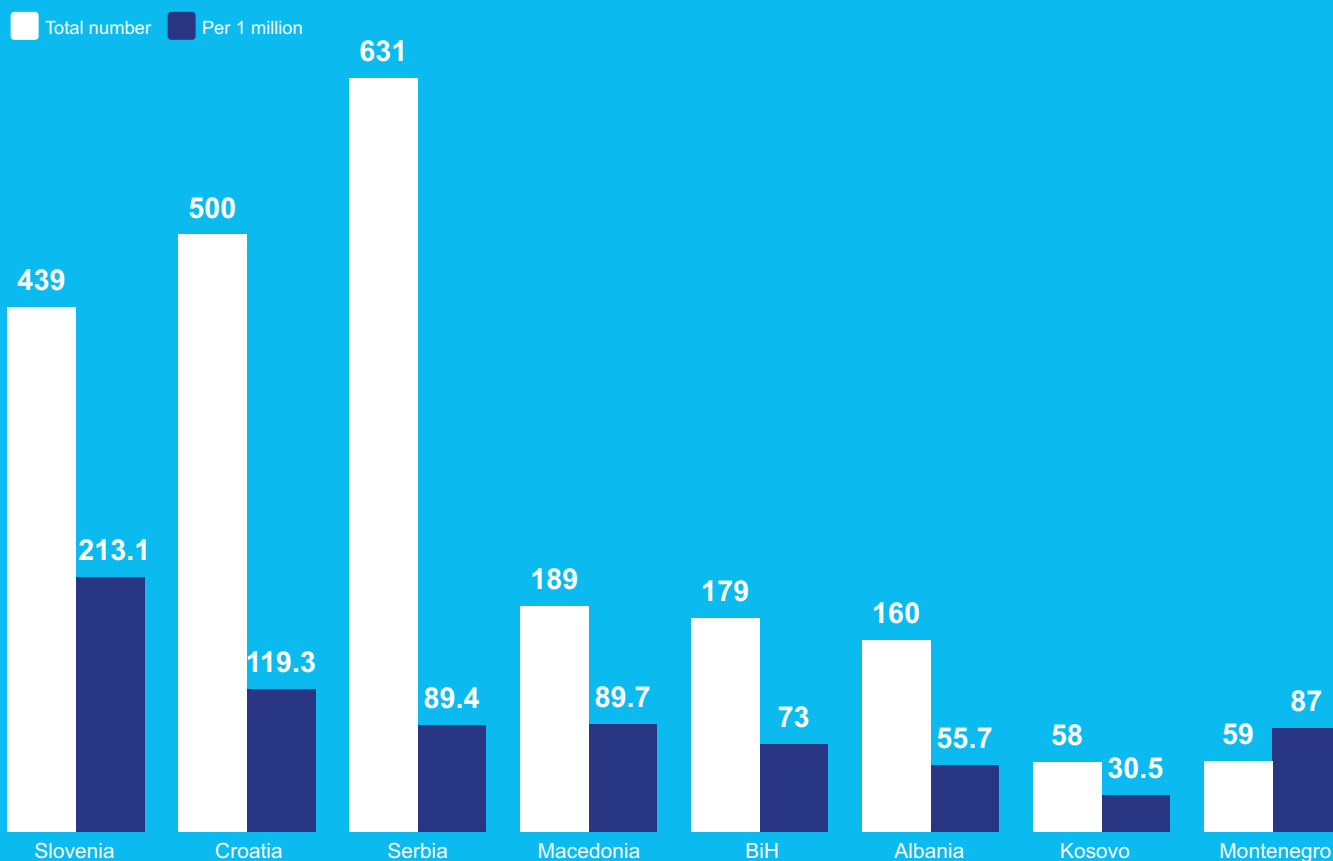
25 ASSESSMENT OF COMPONENTS ESSENTIAL TO BUILD A DIGITAL ECOSYSTEM: SERBIA

0 = Lower grade 10 = Highest grade



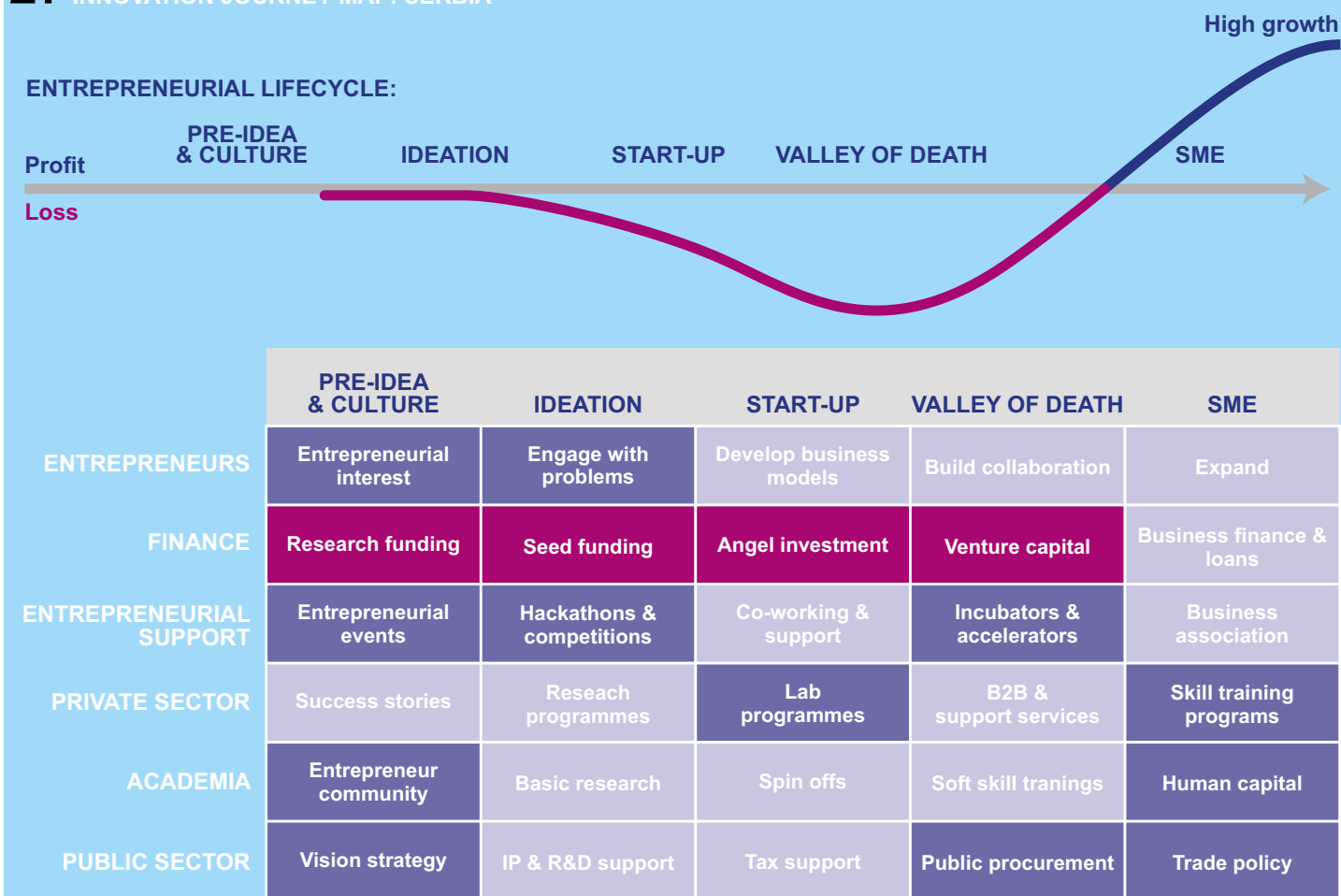
Source: ITU, 2017

26 START UPS – TOTAL NUMBER AND NUMBER PER MILLION INHABITANTS (2017)



Source: F6S, World Bank, and ACB Accelerator

NORDEUS Belgrade, Serbia	SEVERN BRIDGES Cambridge, USA/Belgrade, Serbia
► Founded in 2010	► Founded in 2010
► Gaming	► Biotech / health tech
► More than 160 employees	► 300-350 employees
► Providing the highest quality social gaming experience worldwide. Top Eleven Football manager as the most known brand	► The biomedical data analysis company accelerating breakthroughs in genomics research for cancer, drug development and precision medicine
► Business to clients (B2C) model, learning from add placement and in-game sales	► Business to government (B2G) model
► Revenues: EUR 12 million (2012), EUR 15 million (2013), EUR 6 million (2014), EUR 7.5 million (2015), EUR 11 million (2016)	► Revenues: less than EUR 50,000, EUR 200,000 (2014), EUR 350,000 (2015), EUR 1.5 million (2016)
► Initial capital claimed to be \$100,000, founder's capital	► Total of EUR 48 million capital raised – EUR 3 million seed round and EUR 45 million Series A



Source: ITU, 2017: 14

* The Innovation Journey Map sets out at-a-glance the work that needs to be done within the ecosystem to harness innovation on a transformative journey from pre-ideation to high growth. It describes each stakeholder's roles in support of entrepreneurs and innovators at each stage of the lifecycle. The color-coding identifies areas which are well-supported (light purple), inadequate (dark purple) and missing / weak (dark pink)

“In Serbia, there are around 100 new startups each year that reach their early stage business”

Serbian start ups lack appropriate and established financial support in the domain of research funding, seed funding, angel investment and venture capital. According to multiple sources, the lack of research, testing business ideas, their sustainability on the market taking into account competition, innovativeness or uniqueness of idea, is the least supported in Serbia, and there is need for more systematic financial support in this area.

Small scale online survey conducted for this assessment among Serbian start ups, indicate that most deal with IT-related issues, such as web services or SaaS options, but also in tourism, services and agriculture.

Less than half of them took part in different pitches to get funds, and those who got funds mostly get up to EUR 10.000 (54.5 %) or between EUR 80.000 and 150.000 (27.3 %). Majority of surveyed start ups used their own

funds to start their business (81 %), while minority relied on donations (27 %), investments and bank credits (18 %). Those who invested their own funds spent different amount of money, as it could be observed from the graphs on the next page.

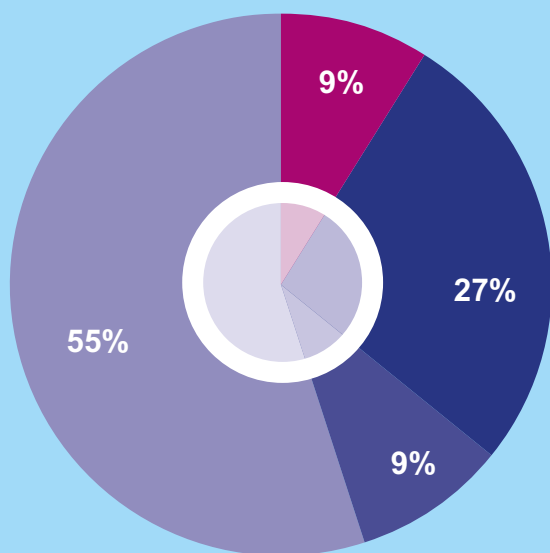
Most of the initiative in Serbia comes from the private sector (Initiative Digital Serbia is an example), with regular events, meetings and conferences providing opportunities for young entrepreneurs to exchange experiences. Examples of good cooperation are partnerships between ICT Hub and Novi Sad Business incubator, but also a recent partnership between ICT Hub and USAID-supported program ‘Strengthening Media Systems’ to establish media accelerator to support media in their business operation. The program has been officially announced at the beginning of May, 2018.

5.5. FINANCIAL SUPPORT TO START UPS IN SERBIA

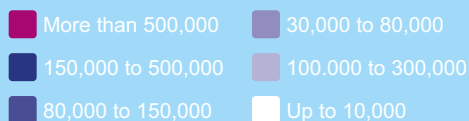
5.5.1. STATE SUPPORT TO START UPS

Due to the shortcoming presented in previous section (the lack of funding, research, and continuous support in pre-seed and seed phase), supporting small business becomes the strategic orientation of the state of Serbia. State support business with small credits (up to 30.000 EUR) and with more flexible and favorable conditions than banks are providing. This is the way how state support small and medium enterprises, and this model could be easily replicated to start ups. To support small business and foster entrepreneurship, the state declared 2016 as

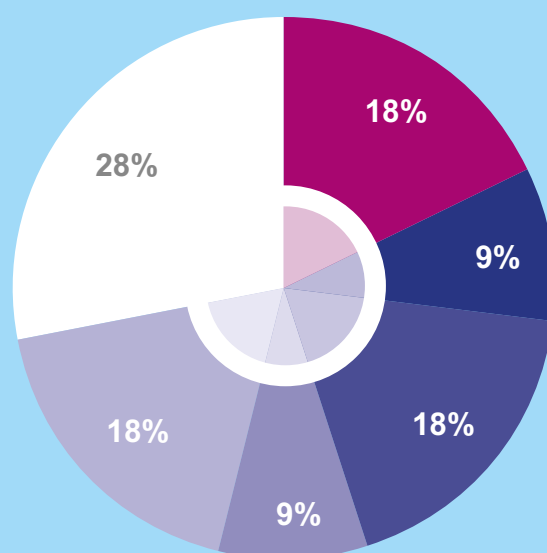
28 HOW MUCH FUNDS THEY GOT THROUGH INVESTMENTS



Euros:



29 HOW MUCH OF THEIR OWN MONEY THEY INVESTED IN BUSINESS



Euros:

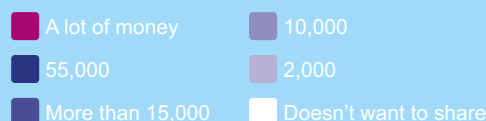


Table 6 INSTRUMENTS WITHIN THE DECADE OF ENTREPRENEURSHIP

Serbian Development Agency (RAS)	Science and Technology Park (STP)
► Established in 2016	► Established by the Serbian Government, City of Belgrade and the Belgrade University
► Formally coordinates 16 regional development agencies in Serbia	► To create favourable environment for IT entrepreneurship
► In 2016 concluded 22 investment contracts to bring EUR 236.8 million and open 16.000 jobs	► Belgrade Incubator of Technical Faculties (BITF) – main instrument to support start ups
► Supported more than 1.600 SME projects with EUR 7.5 million	► 70 High tech start ups, 45 new technologies/services, 10 patent applications, 3 clusters/networks established, 1 service center

the Year of entrepreneurship, and extended it to the Decade of Entrepreneurship, announced various support programs (more than 30) and allocated EUR 150 million for financial support in 2017. Main stakeholders within the program include ministries, agencies, the chamber of commerce, international donors, socially responsible companies, business associations, and CSOs. Science and Technology Park (STP), Serbian Innovation Agency (RAS), and Serbian Innovation Fund become the most significant instruments within the Decade.

There is a room for further improvement, as stressed in the 2018 EU Progress Report. Serbia has to increase predictability in the business and administrative environment for SMEs by developing performance measurements for policy-making activities and put more emphasis on implementing the 'think small first' principle. Also, the regulatory impact assessment and the SME test need to be systematically performed when making laws and bylaws" (chapter 20, EU Progress report).

Serbian Innovation Fund represents an example of successful story. It has been located in the Science and Technology Park in Belgrade. It was established in 2011, with the support of the World Bank and the EU Commission. From 2011 until 2016, the fund awarded EUR 6 million to 52 innovation projects. As result, the revenue of companies which were awarded increased by 62 %, 300 mostly high-end jobs were created and the total exports of these companies rose from EUR 0.59 million to EUR 3.10 million. A total of 33 national patent applications were led by Innovation Fund's as well as 25 international patent applications.

“To support small businesses and foster entrepreneurship, the state of Serbia declared 2016 as the Year of Entrepreneurship”

FREELANCERS, COWORKING SPACES AND IT HUBS

More than 100.000 freelancers currently work in Serbia, and this is the way the majority of ICT specialists in Serbia begin their careers. Most freelancers work remotely, from their home, but there is also a growing number of co-working spaces in Serbia where they can rent a table, chair or part of the space to interact with other freelancers. By the end of March, 2018, there were 24 such spaces in Serbia – the oldest one was established 6 years ago (Deli.rs).

Table 7 INNOVATION FUND SERBIA

Serbian Development Agency (RAS)	Science and Technology Park (STP)
► Grants of up to EUR 80,000	► Grants of up to EUR 300,000 for maximum 2 years' period
► Aims to stimulate the creation of innovative knowledge-based start-ups and/or spin-offs in the private sector	► For enterprises that require significant financial resources for the implementation of the development cycle of technological innovation
► Supporting development of innovative market-oriented technologies, products and services with significant commercial potential	► To cover the high costs of the transfer of research into a commercially viable product
► At least 15 % secured by the applicant	

Source: Innovation fund; interviews



In 2017, the Innovation Fund has renewed its two hallmark programs – the Mini Grants Program and Matching Grants Program, intended for private micro and small companies engaged in the development of technological innovations with a clear market need and potential for commercialization. The Mini Grants Program, with grants of up to EUR 80,000, aims to stimulate the creation of innovative knowledge-based start-ups and/or spin-offs in the private sector by providing financing for development of innovative market-oriented technologies, products and services with significant commercial potential. It is designed to support the survival of companies during the critical phase of research and development and to allow Serbian entrepreneurs to grow effective business capacities through which they will launch their innovations on the market. The minimum of 15% of the total Approved Project Budget is to be secured by the Applicant from other, preferably private sector sources, independently of the Innovation Fund. The Matching Grants Program, with grants of up to EUR 300,000 for maximum 2 years period, is

designed for enterprises that require significant financial resources for the implementation of the development cycle of technological innovation and to cover the high costs of the transfer of research into a commercially viable product.

EXPANDING TO MARKETS ABROAD

According to survey results, start ups from Serbia need support to expand their business to foreign markets (54 %), to research and develop their business ideas (18 %), and to test and develop their projects (18 %).

5.5.2. NON-BANKING SUPPORT

As it is the case with other countries in the region, Serbian financial markets, risk capital and business angels are not developed to follow the needs of the growing start ups industry. One of the most sensitive issues for Serbian entrepreneurs and start ups related to definition of optimal structure of capital which includes optimal level of use of both, own funds and funds gathered through investments.

Table 8 overviews the programs and mechanisms of funding provided by the state, either solely either through partnership with the European institutions.

5.5.3. INVESTMENTS FROM PRIVATE SECTOR

There are no many local venture capital funds from Serbia, but number of big VC funds from Europe and around the globe shown interest to support business ideas in Serbia.

Table 8 LIST OF PUBLIC SUPPORT PROGRAMS FOR SME AND START UPS IN SERBIA

Program	Instruments / purpose	Funds	Period
COSME (Programme for the Competitiveness of Enterprises and SME)	<ul style="list-style-type: none"> ▶ Instrument for credit guarantees Providing risk capital for investing funds that support SME 	<ul style="list-style-type: none"> ▶ EUR 2.3 billion 	2014 - 2020
Serbian Development Fund	<ul style="list-style-type: none"> ▶ Credit support ▶ 1.5 to 3 % - interest rate on annual level ▶ 7 year, with 1 year of grace period for investment projects 	<ul style="list-style-type: none"> ▶ 300.000 RSD (minimum) ▶ 7.000.000 RSD (maximum) 	Ongoing
Program to support entrepreneurship by providing financial support for start ups	<ul style="list-style-type: none"> ▶ Credit ▶ For infrastructure ▶ To purchase equipment ▶ Working assets (up to 20 % of entire investment amount) 	<ul style="list-style-type: none"> ▶ Individuals: 400.000 RSD (minimum, 120.000 non-refundable, and 280.000 credit) 3.000.000 RSD (maximum, 900.000 RSD non-refundable and 2.100.000 RSD credit) ▶ Companies: 400.000 RSD (minimum, 120.000 non-refundable, and 280.000 credit) 6.000.000 RSD (maximum, 1.800.000 RSD non-refundable and 4.200.000 RSD credit) 	2017 -
Program to support innovative micro-, small- and medium enterprises and entrepreneurs	<ul style="list-style-type: none"> ▶ Support to culture of investment of SME ▶ Improving the competition Support the innovation 	<ul style="list-style-type: none"> ▶ Co-funding up to 50 % of project costs ▶ Maximum grant is up to 1.000.000 RSD ▶ The entire program budget is RSD 30 million 	Ongoing
Program to support SME development, through the European Bank for Reconstruction and Development	<ul style="list-style-type: none"> ▶ Assistance to entrepreneurs in different business stages including the market research, strategic planning, quality management, certification, etc. 	<ul style="list-style-type: none"> ▶ Grants 	Ongoing
Development Agency of Serbia	<ul style="list-style-type: none"> ▶ 116 projects (start up ideas) ▶ Education on how to start and manage the business, how to make business plans, how to search for non-refundable financial support for business ideas, providing mentoring in an early stage of developing of business idea. 	<ul style="list-style-type: none"> ▶ 80.000.000 RSD 	2016 -
Program to support competition capacities of SME, through Serbian Development Agency	<ul style="list-style-type: none"> ▶ To develop entrepreneurship, business environment and increase the competition competences of SME ▶ To develop business infrastructure <ul style="list-style-type: none"> • Component 1: Capacity building for SME • Component 2: Support to networking • Component 3: Support to create the supplier's chain 	<ul style="list-style-type: none"> ▶ Component 1: RSD 30 million ▶ Component 2: RSD 40 million ▶ Component 3: RSD 30 million 	Ongoing

Table 9 SOME NOTABLE INVESTMENTS IN SERBIAN START UPS (2015 – 2018)

Fund / investor	Start up / targets	Location and period	Amount (per investment)	Areas to be supported
South Central Ventures	City expert	Serbia	700.000 EUR	Real estate
ICT Hub Venture EUR 1 million (annual)	20 start ups total List of supported include: ► GiftsUwish ► Publito ► Good Game ► Arena ► Karate Do ► BlockTalents ► Analytica One	Serbia 2017 - 2019	30.000 EUR	Technology start ups, eSports, games, blockchain, employment
Metavallon (Greek accelerator) EUR 35 million	40 projects will be supported	Central and Eastern Europe	n / a	Machine learning, artificial intelligence, internet of things, robotics, SaaS/Cloud, big data analysis, VR, blockchain
South Central Ventures + individuals working with Goldman Sachs, HSBC, Deutsche Bank and GTECH	Trade Core	Serbian company expanding its business to Asian and Israeli market	USD 3 million	Developing specific platform and tools for clients on global market of finances and capital
Eleven 2.0 (Bulgarian accelerator) EUR 6 million	20 x pre-seed investments (early phase)	Serbia and South East Europe	► EUR 100.000 (pre-seed) ► EUR 200.000 (additional financial support) ► >EUR 500.000 (seed round)	Mostly supporting hardware development, B2B softwares, SaaS
Sherman capital (Hong Kong)	Review Network	Serbia	USD 1 million	Blockchain technology that includes legal, marketing, networking aspects from a global market
South Central Ventures + other investors	dryTolls, Novi Sad (part of Alchemy)	Serbia	USD 1 million	Seed investment to enlarge and empower local team in Serbia (chemistry industry) SaaS platform, neural networks and machine learning
Microsoft Ventures + other investors	Frame	Serbia and USA	USD 16 million	Empowering offices in Nis and Belgrade, and expanding to Asian markets Shifting from desktop application and software tools into cloud
South Central Ventures	LittleDot	Serbia	n / a	Enabling online access to medical experts in real time to get conseils and information on child care

“In 2014, the first local investment fund, StartLabs, was created to support the development of IT start-ups”

Serbian companies and start ups have additional opportunity to apply for funds through venture capital mechanisms provided by the EU institutions, European Investment Fund that created Western Balkan Enterprise and Innovation Facility (WBEIF). WBEIF contains funds of EUR 40 million for an early phase support and VC fund of EUR 55 million for to expand business and additional EUR 25 million as for to secure business of SME.

In 2014, first local investment fund, StartLabs Fund, was created with an aim to support an early phase of development of IT start ups, and it was established by local entrepreneurs.

In 2015, South Central Ventures (SCV) has been established under the umbrella of Enterprise Innovation Fund (ENIF) to support business in the region of Western Balkans, with an annual budget of EUR 40 million. SCV very soon become one of the leading investing entity for already developed business ideas in Serbia (see Table).

Other notable funds that operate in Serbia include the ICT Hub Venture (Serbian fund, exclusively oriented to this country), ABC Accelerator (Slovenia), Techcelerator (Romania), InnoEnergy (Poland), etc.

The following Table shows some of the recent (from 2015) and most notable investments by private funds in Serbian start ups.

Overview of the fields supported by private funds, indicate that content is not considered as something that deserves support, but it is rather perceived as an – added value!

5.6. ENTREPRENEURS IN SERBIA: PROBLEMS AND PERCEPTIONS

According to the Economic Institute research, the biggest obstacles for entrepreneurship in Serbia include:

- Undeveloped entrepreneur culture and environment (floating regulations, non-adequate control of doing business, administrative challenges),
- Lack of needed entrepreneur knowledge and skills, information on the process and procedures to register business in Serbia,
- Need for mentoring that will include advice on how to register business, make business plans and access necessary information,
- Taxes, especially in the initial phases when the business is established and still under development (Economic institute, 2016).

This coincided with results of the survey conducted in 2016 among 739 entrepreneurs by the Serbian Chamber for Commerce.

Selected findings from this research have been presented here.

T10 List of successful start ups in Serbia¹²

GiftUwish	Publito	TruckTrack
<ul style="list-style-type: none"> ▶ iOS, Android and web-based app for crowdfunding gifts ▶ 30.000 EUR investment from ICT HUB in 2017 ▶ Operating in US, and have participated on the Collision conference in New Orleans 	<ul style="list-style-type: none"> ▶ A Platform-as-a-Service providing advanced Video & Image APIs for developers of websites and applications ▶ 30.000 EUR investment from ICT HUB in 2017 ▶ The founding team is very experienced, having founded a few startups in the early 2000s 	<ul style="list-style-type: none"> ▶ Provides a suite of tools to help trucking businesses ▶ They have raised 3 investments so far, totaling at 285.000 € ▶ A well-recognized startup in Serbia, active since 2013
Content Insight	TeleSkin/MySkin/SkinZ	City Expert
<ul style="list-style-type: none"> ▶ A SaaS editorial intelligence suite providing information on how to have more effective and efficient content production ▶ They have received a total of \$1.5 million in 5 investment rounds so far ▶ Founded in 2014, CI has 24 employees and developed international customer base 	<ul style="list-style-type: none"> ▶ Mobile and software solution for identification of health issues with skin ▶ They have raised more than \$200.000 of investments ▶ One of the oldest living startups in Serbia, founded in 2007 	<ul style="list-style-type: none"> ▶ Introduces new technologies and business approach to the real estate sector ▶ Founded in 2015, one of the first investments made by South Central Ventures, with 700.000 € in seed capital ▶ They are now looking to scale outside of Serbia
FishingBooker	CubeTeam	Farmia
<ul style="list-style-type: none"> ▶ Online marketplace that enables users to list and book shipping trips worldwide ▶ Their main markets are the US and Central America, with an aim to spread in Australian market ▶ It has been bootstrapping since it was founded in 2013 	<ul style="list-style-type: none"> ▶ Business information and credit risk services company ▶ Founded in 2012, they have raised \$1.000.000 for their B2B platform from SCV in 2017 ▶ Business in Serbian market, but plan their expansion within SEE region 	<ul style="list-style-type: none"> ▶ An online livestock marketplace that helps farmers and buyers to trade in a more efficient, cost effective and secure way ▶ They have raised around \$300.000 of investments from different sources

Source: Innovation fund; interviews

¹²Boxes in pink are those that deal (indirectly or directly) with media and communication

Main characteristics of young entrepreneurs: include creativity and innovative approach (32 %), readiness to take risks (27 %), connections and networking with other entities (20.5 %), good organisational skills (19.5 %), while only 1 % considered good formal education as important (Chamber, 2016).

Information on business opportunities: More than half (55 %) surveyed in 2016 are well

informed about opportunities, while 45 % said they are not. Among the most frequent reasons of not being informed properly, they listed the lack of unique source to provide information on entrepreneurship, lack of websites and online forums to assist young entrepreneurs, lack of awareness and promotion of entrepreneurship in media, lack of information on deficit profiles, not properly systematised information on procedures and documentations needed to start business.

Only 15 % of surveyed are informed about state program to support business, 58 % are partly informed, while 27 % are not informed at all.

Sources of education: 31 % are getting the knowledge following the global trends, 30 % from friends who are already implementing their business, 19 % through attending the seminars, 14 % consulted the literature on business, while 6 % through the system of formal education.

Level of realisation of their business idea:

44 % have business idea but still did not take necessary steps to implement it, 22 % are attending seminars and preparing business plans, 16 % start with their business less than 12 months prior to survey, while 13 % has their business going on. Only 19 % have their company registered, while 10 % are in the process of registering. Among the reasons for not registering the company, they mentioned the unstable business environment, lack of funds and knowledge how to get funds, and the lack of initiative among youth.

Area of business: 35 % belongs to the sector of services, 26 % to IT sector, 9 % to commerce, 6 % to agriculture, and 5 % in tourism.

Initial capital: 71 % consider their own capital, that is limited, to be the most reliable, 18 % will rely on private institutions, 8 % on the state, and only 3 % on banks. They have dominantly negative perception of the banks – 41 % doesn't think banks have a good business model for entrepreneurs, 34 % doesn't know, 23 % considers banks have partly developed model, while only 2 % considers banks to have a well developed model for entrepreneurs.

6. KEY INVESTMENTS NEEDED (QUESTION 1)

What are the priority domains you need investment or external assistance for?

To establish feasible operation models, media in Serbia need a more friendly business environment, appropriate regulation and funding opportunities

Their staff need more know-how, digital skills and continuous mentoring to grow

To develop their internal capacities further and maximise their influence, media need to network.

They also need to establish cross-sectional partnerships and collaborations.

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companies has been available for a short period of time and the entire ecosystem for this type of funding is still under development.

- Venture fund is available, but mostly for start ups and already developed ideas, and media are not considered as potential target for this type of investment.

The equity funding in Serbia is still in its pilot stage. Given the dynamic nature of the digital economy in Serbia, it is difficult to estimate a financing gap for equity funds at a given point in time. There is a need for additional resources of small, non-donor, grant financing for early stage business, such as grants offered by the Innovation Fund (mostly designed for SME) and, for example, the ICT Hub (targeting start ups). There are no similar grants related to media or content production, neither media owners nor managements are aware about this opportunity.

Funding is something where local governments in Serbia and the region of Western Balkans, have been struggling to provide support, due to the lack of knowledge, ineffective regulatory framework and complex bureaucracy and institutional rigidity.

- For start ups, including communication and media innovative projects, the key investments include pre-seed and seed funding (from 10.000 to 30.000 EUR),

- For media outlets, or companies with developed publishing practices, there is a need to fund the scale up phase, to help them spread already established practices.

Media industry is not attractive for big investors and venture capital in Serbia. Most of the media outlets are unable or indecisive to invest in their own development.

"I had to decide whether to invest in new video equipment or new android app. If I had a web developer employed, it would have been much easier to deal with the web changes on an everyday basis. However, I have never returned 20.000 euros invested in my web site several years ago and I decided to change my business plan and turn to video production. We still have to see if it was the right decision". (Petar Gredelj, owner and director, Benchmark.rs).

6.1. MAIN NEEDS AND OPPORTUNITIES

Need 1: Tailored funding for media business and content development

Comparing to big and the most successful businesses, majority of start ups in Serbia still need initial support (pre-seed or seed support) to develop idea and their business plan. Same goes for media, especially those established for online and digital operation. Both lack continuous and systemic funding, including:

- Seed and pre-seed money, which stands for an early investment to support business (in the case of start ups) or business model development (in the case of media) until it can generate its own cash. Considering this as a risky investment, only few actors (mostly private or corporate) provide this kind of support.

- Private equity aimed to support later stage

In this domain innovative media projects, as well as start ups (including those related to content development) need more friendly environment and better regulations to get necessary funds.

In this regard, the state of Serbia set its priorities in supporting digital businesses in three areas - education, regulation and infrastructure. In domain of funding, the state aims to improve the current regulation. Several new laws and acts were adopted to modernize and enable more feasible business operation, and make business procedures easier and more accessible. For example, by the law, the invoice does not have to include the stamp and it does not have to be in paper as it used to be, and this represents a kind of a business revolution in Serbia. The main idea of relaxing business procedures is to allow all companies and digital companies as well to run their businesses easier.

Need 2: Know how & mentorship

The most important investment in media is related to education of staff. Most often, people on decision-making positions are not fully digitally literate and often do not understand the business in a changing environment. This is a part of the larger problem of Serbian digital economy which is in permanent need of educated staff – according to some estimates, in 2018 the Serbian digital market needs more than 15.000 profiles of this type. This has been recognised as a state priority and Serbia has already developed measures to maximise the production of these profiles at local universities (more working places for these profiles are supported through the state's budget, etc.). On the other hand, investing in digitally literate media professionals is not recognized as a state priority and this remains a challenge that media industry needs to tackle in the upcoming years. There is another problem experienced by some media outlets:

“Media industry is not very popular among IT experts, so they are usually outsourced by this specific media organisation. The organisation simply cannot afford those working places, because IT experts of that kind would rather choose to get employed within the ICT sector than within media organisation.” (Dragana Žarković Obradović, director, BIRN)

There is a need for permanent education of employees in the media, either through specific trainings or interactive workshops, or through

mentoring. Editors and journalists in local media need digital skills and knowledge necessary to change the way of how their outlets operate and adapt to the market needs. The skills brought in by experts from other fields (digital economy, ICT, foreign experts, etc.) and the transfer of knowledge are clear benefits for media outlets and community in general.

Media are struggling, because their employees often do not understand the trends, neither are ready to operate in line with the digital logic. There are structural and organisational problems within the media – while corporate and big media work within traditional, massive and inefficient structures, local media in Serbia usually lack human resources and stable business structure.

In order to attract more attention from investors and become more relevant on the market, the media need to innovate their approaches and to create digital content in a different way, including the selection of top stories and the way of how the information are presented on their web sites. They also need mentoring provided by experienced developers, editors and digitally literate trainers to improve their practices. Creation of media acceleration hubs (similar to the one established within the ICT Hub) would foster media development and provide mentorship in this direction. Mentors should be selected among digital marketing and IT leaders - hi tech companies and persons - who are predominantly young, educated in informal sector and through practice. These people understand and fully operate in line with business logic and global market rules, setting the rules all stakeholders have started to follow, and the state of Serbia aims to regulate.

Need 3: Networking, partnership and collaboration with other sectors

Experiences from Serbia, and its ICT sector, show that examples of good practice are those connecting the market and the science, collaborative projects of private companies and academic institutions. Media are rarely part of such collaborations, and mostly those belonging to the biggest corporations (Axel Ringier Springer, Colour Press Group, etc.) recognise the advantage of partnerships, collaboration and networking with other successful sectors.

Majority of media outlets do not participate in emerging digital community and different

initiatives in Serbia, and therefore local media sector in Serbia, remains isolated from ongoing trends. Media need connections and support by the leading digital and marketing companies in order to create common interest and synergy, so that both can benefit from this collaboration. There are just a few examples of such partnership in Serbia.

Media outlets and media market agencies need people with expertise in social media, those who fully understand their potential. Since most media are not able to employ social media experts or offer them a part-time or honoraria contracts, they often need external support to collaborate with experts and to establish partnerships with stakeholders with expertise in these fields.

6.2. EXAMPLES OF GOOD PRACTICE

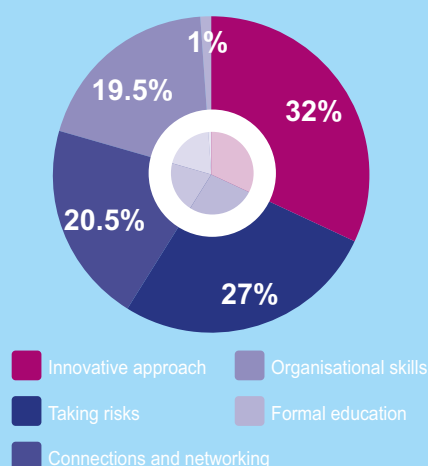
Axel Ringier Springer, the publisher of daily 'Blic' and weekly 'NIN', has initiated and has been actively participating in the Digital Serbia Initiative. This is a private, non-profit organization, leading the transformation of Serbia into a digital society. The Initiative aims to create a business environment that serves innovation, to strengthen education, to support entrepreneurship and companies' operation in their initial and growth phases, and to initiate dialogue with all important stakeholders including the state.

BIRN plans to use drone filming to make a series of online videos, with background data, on the new highway in Serbia that is under construction.

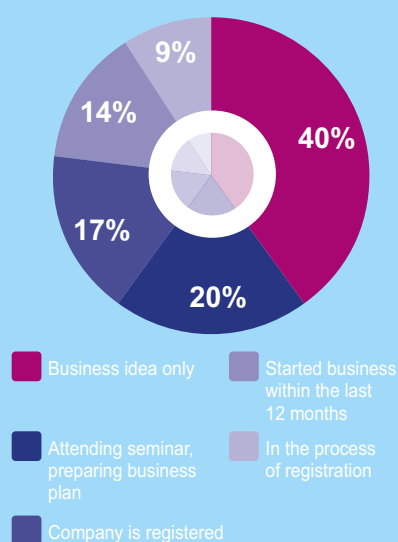
There is an emerging model of 'web only media', such as 'Netokracija', that develop and operate in line with sustainable funding model. These media could be used as a model of good practice and provide mentorship for other media that struggle with development of their own business models.

“People designing and leading social media for N1 are needed, people who will, like on CNN, check tweets, make social media videos, do social publishing etc. These kind of services need to be developed, as well as Facebook live streaming – but for that, reporters need more quality mobile phones, we need more money in general to make Facebook streaming work. Also, one person should be employed only for Facebook and Twitter, the other for social media video”. (Nikola Stojić, web editor, N1).

30 QUALITIES OF ENTREPRENEURS



31 LEVEL OF REALISATION OF THEIR BUSINESS IDEA



SIMPLICITY AND 'JUŽNE VESTI'

One of the most prominent regional web portals in Serbia, 'Južne vesti' ('Southern News') has often been referred to as successful online media that develops its business model in close cooperation with the IT sector. Their founder is the IT company from Niš, 'Simplicity', with expertise in online marketing, business consulting and visual digital arts.

In order to keep their editorial policy independent from its founder, the portal and the company have developed a set of internal documents and mechanisms. Additionally, 'Južne vesti' expanded their business model by introducing advertising activities and through collaboration with the leading donors and international organisations in Serbia.

For several interviewees in this research, collaboration between 'Simplicity' and 'Južne vesti' is significant and serves as a successful example of doing business since it provides benefits for both — a know-how related to business and financial security for the media, and added value and additional visibility for the company.

“The most important investment in media is related to education of staff. Often, people in decision-making positions are not fully digitally literate”

INFOSTUD: THE CASE OF POLOVNIAUTOMOBILI

Infostud is online business company, with more than 300 employees, and several highly successful businesses developed mostly for the market in Serbia, but also covering other markets in the region. They have 12 different businesses as part of their corporate activity, with education, employment, real estate, insurance, and the used car as the most successful. Polovniautomobili is their online business that enables people to search for used cars in Serbia, and the region, to compare offer, car performances, to watch videos and consume useful content to any car- or traffic-related topic may be relevant for them. Today, the website is among top 5 visited in Serbia, it developed many advanced options and popular contents for their users, and its popularity is growing.

“Before, we had to chase journalists to report on car industry, used cars and similar topics, but today we have emerged as leaders in this sector and journalists are calling us for advice, comments, asking for information... We have capacity to research, to produce highly relevant content based on trends we regularly follow, and what media and wider public recognize. For us, content of good quality is crucial, it is an added value for our business. From a bare website for advertising, we have developed into a reliable source of information related to car industry, we produced a TV show with one local media, managed to be more visible in public, developing marketing activities, and we can say we are constantly emerging.” (Petar Stakić, manager of corporative communications at 'Infostud').

Polovniautomobili has a potential to grow and to export their business outside Serbia because the portal covers the topics of universal interest. Another benefit from such investments is the development of their internal capacities to work with big data analysis and to use data science to develop business.

7.

- Serbia is the leader in number of mobile phone users, but broadband development is still at the lowest stage.
- Current regulation does not provide favourable funding conditions for SMEs, start-ups and media organisations.
- Current state of the media and media freedoms is not in favour of development, since most of the actors are struggling to survive.
- Mindset and stigma of failure are big obstacles for developing a business culture.

“In order to attract investors and become more market relevant, media businesses need to innovate their approaches and create digital content in a different way”



Serbian Innovation Fund was successful to provide mini grants and matching grants in supporting young start-up companies and those already existing with the aim to make them sustainable on the market. From the companies financed by the Fund through these programs, almost all of them still exist on the market.

All-in-one tech portal 'Benchmark' decided to invest in web development several years ago, changing the web site structure, but had realised the investment was wrong as the site popularity did not improve. Its owner took a bank loan and invested in online video, taking into account that web photo wasn't sufficient content for its public. "Benchmark" has successfully developed its business, having more than 20.000 followers on YouTube.

'Color Press Group', leading print publishing company in Serbia, invested in acquisitions of existing magazines, such as 'Gloria' (taken over two years ago), looking into the regional market to see what is interesting and what needs to

be done. Also, the company publishes licensed magazines and invests in event business (e.g. supporting and organising open festivals in Belgrade, Novi Sad, Nis, buying small wooden houses for open street festivals).

7. KEY IMPEDIMENTS THEY FACE (QUESTION 2)

What are the key impediments to investment in media, start ups and SME (based on existing knowledge and experience)? See box 7, previous page.

7.1. MAIN CHALLENGES

The most problematic areas for doing business in Serbia include tax rates, inefficient government bureaucracy, access to financing, corruption and tax regulation. Also, for the state, one of the main challenges is the lack of knowledge of people in relevant ministries and other institutions. Therefore, the state needs to look upon the examples of other successful

countries which have managed to develop good models of digital societies, like Israel and the countries of the EU. People represent a great potential, but they often show resistance to change. This has been especially noted in the market itself: for example, the National Bank of Serbia adopts the changes in regulation regarding the stamp on documents, but banks still advise their clients to use the stamp, which may be a huge problem for business development.

Challenge 1: Infrastructure

Serbian broadband network is modestly developed and slow comparing to the EU and global average. The administrative capacity of the Ministry of Trade, Tourism and Telecommunications on these issues continues to be inadequate. A law on electronic communications aimed at alignment with the 2009 EU regulatory framework, as well as a law on broadband and the Next Generation Networks Strategy until 2023, based on the Digital Agenda, have yet to be adopted.

“Superste.net is a platform that brings together young, creative and determined people who need support”

SUPERSTE PLATFORM

Superste.net is a platform that brings together young, creative, brave and determined people who need support, knowledge, resources and tips to turn their activist ideas into reality. The Superste.net initiative encompasses the various socially responsible activities of Erste Bank and its partners. They seek to support innovative and new ideas for projects in the fields of culture, arts or education in order to contribute to the development of society in the long run. From 2017, one of its programs – Superste Club - became a place of gathering for content creators - young people who deal with visual communications, design, video, journalism, social networks, interventions in space and other content. Program doesn't offer sponsorship or credits, there is a separate line to support business within a bank, but it offers mentorship, visibility, and some limited resources – up to 500.000 RSD within its program Centrifuga, and 200.000 RSD as part of the Superste Club.

SUPERSTE

Rade nas
ideje



There is also a disproportion between urban (capital Belgrade, Novi Sad and Niš) and other areas within a country in terms of connection quality and access to the Internet. According to international criteria (e.g. the Digital economy index), Serbia has shown slight improvements in various fields, except in terms of connectivity, i.e. in broadband, where it has been ranked as next-to-last. There is a lack of investments in infrastructure due to the complex ownership over it – all connections (cables, etc.) below the ground are under the jurisdiction of the Serbian Post (state company), connections installed above the ground are controlled by the Serbian company for distribution of electrical energy (JP Elektroprivreda Srbije, state company), while third important stakeholder, also state-owned, is the Serbian Telecom (Telekom Srbija).

4G network is quite good, covering 95% of the mobile networks, and the 5G network is being planned. Also, fibre-to-home is being built by Telekom, now covering 6-8% of households, but a lot more needs to be done and invested.

On the other hand, Serbia is considered to be among the global leaders when it comes to use of mobile phones, and this represents its comparative advantage for investments.

“Serbia is considered to be among the global leaders when it comes to the use of mobile phones, and this represents its comparative advantage for investments”

Challenge 2: Non favourable funding opportunities

Projects, initiatives and other efforts within the entrepreneurial eco-system face problems in acquiring funding for their business ideas. The state of Serbia failed to create a policy framework to create an environment and funding mechanisms for entrepreneurship. Most of the current measures are of a reactive character. The state reacts mainly to solve problems regarding employment or to provide subsidies to educate deficient profiles, but still without a clear strategy of how to embrace technological advantages from the ICT sector to foster entrepreneurial culture and business in general.

“Start-ups need legal ways to register subsidiaries in Serbia, and to be awarded grace periods for tax until they show sufficient growth.” (Digital Serbia, 2017).

Serbia is modestly prepared in the area of taxation and this is the field the EU is putting pressure on since reform of the tax administration has been slowed down. In 2018, the priority for Serbia in this field include the implementation administration reform program to further simplify tax procedures, streamline the tax administration's activities and ensure sufficient human and IT resources, improve tax collection and combat the informal economy.

There are some successful mechanisms (such as the Innovative Fund) to support SME business, but it seems to be insufficient to meet demand side on the Serbian scene.

Companies from Serbia, including SME, start ups and potentially media (they lack experience in this field) are facing the problem of misperception while looking for funding opportunities abroad. Serbia has a large potential regarding technology and knowledge, but the companies often face rejection when they say where they come from, as Serbia has been still associated with wars and instability.

Restrictive bank sector: Limited opportunities for small and medium, as well as media business (also small and medium), to seek funds in bank sector. Conditions for funding are not favorable, and there are no mechanisms to fund new business or start ups. Entrepreneurs and media representatives do not see banks as desired source of funding. There are exceptions, ERSTE bank is good example for this.

RECOMMENDATIONS FOR TAX SUBSIDIES FOR SME

The following policies and measures to support SME and innovation sector are proposed:

- Reduction or abolition of profit tax for newly established companies for a limited period;
- Income tax deduction and social contributions for newly created jobs for a limited period of time;
- introducing a tax credit for taxes and salary contributions for the first two working years for start ups;
- introduction of other types of tax credits to support investments in research and development.

This set of measures are of general character and will directly contribute to increase of seed, start up and venture capital investments.

(Source: Seven, Serbian Venture Capital)

Alternative models of funding (equity based models, seed, business angel, venture capital), that are based on a private capital, are not developed neither legally recognised. The State of Serbia needs to subsidise these models by enacting more favourable tax policies and to rise awareness among potential users.

In this domain, Serbia has to adapt and adjust its regulatory and policy framework by combining hard and soft mechanisms. The former regards to the adoption of the new laws, system of state support and subventions, while the latter relates to long-term periods and include development of entrepreneurship culture, creating platforms for individual and community development. Four key segments in which the state should develop its capacities include:

- Access to capital and alternative sources of funding (equity, venture, seed),
- Introduction of tax benefits and capital gains to support venture capital investment, to regulate VC funds, and this could be done by changing the current legislation or adopting the new one.
- To reform continuously its educational system in order to foster entrepreneurship,
- To develop entrepreneurship ecosystem, through public – private partnership, to support small and medium business.

Challenge 3: Low trust in media and decrease in media freedoms

Current state of the media and media freedoms are not in favour of development, since most of the actors are struggling to survive.

Media sector is lagging behind other sectors in Serbia, especially behind the ICT sector and generally remains isolated from the influence and benefits of the digital economy.

Media market in Serbia is small but oversaturated; there is no sufficient advertising money for all existing outlets; public funds are available but distorted (project co-funding of the content of public interest); there are a lot of 'grey zones' and non-transparent funding (through advertising agencies, public procurement, etc.).

There is a fuzzy and non-transparent media ownership, the lack of public interest orientation in media related policies, several influential media companies have monopoly on the market,

while majority of the media sector is captured by the political and economic interests.

Level of trust in both, traditional and online media is declining, and Serbia is ranked at the bottom in Europe.

Television is still the dominant type of media with the biggest share on the market. Online news is less important and modestly consumed compared to TV. Many online newsrooms like 'Blic.rs' and 'B92.net' have reached the number of end users and face challenges to develop further and to seek opportunities for exponential growth. Also, the profitability of having the digital first is under question. Digitalisation on several levels – infrastructural, production and distribution – remains a big challenge for Serbia.

THE STIGMA OF FAILURE

While some media try to replicate the experiences of Serbian start ups in searching for adequate business models, most of them are discouraged with the fact that only 10% of start ups survive and develop into a stable business. The failure is the nature of entrepreneurship and it usually happens when taking risks to set up a business. There is a need for a wider support to start ups and innovative ideas in media sectors, by the state, by private sector and by investors.

START UPS: CONTACTS THE BIGGEST PROBLEM

According to survey among Serbian start ups the biggest problems for them include the lack of contacts and the lack of experiences in taking risks. The least problematic aspects are skills since most of the surveyed start ups consider they are 'equipped' properly with necessary skills.

Challenge 4: Resistance to change (mindset)

In the media sector, most of the top management and decision-making positions are held by persons who do not understand the essence of online journalism, digital economy and neither employ the tools of digital marketing or use the key performance indicators to measure performance and effects of their operation. In local media, including newly established online media, staff are not digitally aware and digitally literate. 'Independence' represents their main selling point, but is not attractive for donors anymore, neither can be a good basis for a business model. Editors and journalists are reluctant to leave their comfort zones in which they have been operating for years.

Interviewees from the media sector believe that main road for the development is related to mobile applications and short videos, as mobile phones represent the primary 'screen' Serbian public uses the most to consume the content:

"We have to think of mobile phones as of sources of information. For example, why don't we develop vertical videos for mobile phones as we already have horizontal formats and we have to turn around our phones all the time? Or subtitling our videos on mobile phones when we are

using it on public transport without headphones. However, we need to invest 3-4 hours of our technician's time to subtitle a short video". (Nikola Stojić, web editor, TV N1)

7.2. EXAMPLES OF GOOD PRACTICE

According to web editor of TV N1, for example, the CNN has been looked as a role model as it creates 4 types of videos depending on the platform. Such practice has been recognized as a possible solution, i.e. to make videos according to the platform of distribution (it would also attract more viewership).

CNN primary rule – digital first – has been changing the mind set of journalists and it has been slowly incorporated into the television business in Serbia as well, particularly on N1 as an exclusive affiliate regional partner of the CNN. It means that all videos made for TV should be put on the web first, or remaining videos suitable for web can be transferred to the web. Journalists on the field are also communicating the information for the web and the newsroom is trying to improve the digital first rule overall.

Making connections with successful companies on the market has been proved as a successful business for some digital media. For example, after having problems to build up the site traffic, the 'Benchmark' has oriented to work with leading mobile phone companies and IT companies in Serbia to test and promote their mobile phones on the web site. Technical specifications, as well as those related to usage, performance and price are being tested by the 'Benchmark' experts and discussed in online videos. The company managed to boost its popularity and now has been cited by world known companies (e.g. Motorola).

8. PERCEPTION ON THE AUDIENCE SHIFTING AND MARKET OPPORTUNITIES (QUESTION 3)

What are your relation with audience? Do you follow the trends on media market? Do you conduct your own or use existing research?

8.

There are dramatic changes in the Serbian audience, and media modestly react to it

There is an increasing gap between 'old audience' and digital natives

There is a lack of research culture, and media including start ups rarely use research to target their audience, tailor the content and develop their business plans

DIGITALISATION OF RADIO

In 2015, Serbia ended the process of transition from analogue to digital TV transmission and met the ITU deadline. At the moment, one of the biggest challenges will be the digitalisation of radio, as the chosen standard is not efficient and the process costs too much (more than digital TV). The problem will be experienced by listeners, users, because all radio sets will have to be changed. Comparing to the rest of Europe, where public radio gained popularity and trust, it is not highly relevant media in Serbia and the rest of the Western Balkans. But it has potential.

"The radio needs live streaming of Facebook in order to attract more audience. However, the streaming itself is not enough, we need to know how to use it in a more creative way, especially if we know the competition is growing every day".

(Tamara Vučenović, editor, Radio Belgrade).

8.1. MAIN CHALLENGES AND OBSERVATIONS

Challenge 1: Segmentation / fragmentation of public

The Serbian population increasingly turns to digital and online sources (more than 50%). Digital disruption will only accelerate as the younger audience of digital natives embraces new methods of consumption, sharing and

engagement and lives by an ethos that is opposed to paying for consumption (digitalnewsreport). There is a gap between traditional and new content consumers.

"New generations are not interested in the media content; digital generations are not looking for media as primary source of information like older generations, so this gap needs to be bridged".
(Dragana Žarković Obradović, director, BIRN).

Consumers of news and other relevant media contents increasingly rely on sharing and referrals from social media networks (Facebook is the most popular) and this provides an opportunity for various entities (CSOs, start ups, companies and small business) to reach the audience with their own information and to further diversify the offerings available to Serbian consumers.

"We have to be where our listeners are, meaning new platforms, Facebook. The radio station has managed to attract younger people via the content sharing on Facebook, but we also must start using Instagram as soon as possible if we want to attract new audience with interesting photos and videos." (Tamara Vučenović, editor, Radio Belgrade)

According to relevant data gathered by one

media outlet, the audience rarely reads the news published on their website to the end (this is related to desktop version): for example, at the homepage readers don't go under the second scroll (only 30% of web site visitors do). These trends can severely influence the banners position at the homepage and the whole website and consequently the overall TV business.

One significant factor in changing audiences is decline in radio's position as a news medium. Except for two public service broadcasters (Radio Belgrade and Radio Novi Sad) none of the national radio stations even features significant news programs. Even the renowned Radio B92 in 2015 became all-music Play radio.

Play radio, together with Radio S, dominates the Serbian market and broadcast only flash

news during the day.

Not only media sector, but state, regulators and other traditional market players are struggling to keep pace with the digital changes. Digital natives are becoming the primary audience for majority media while traditional media, especially print and radio, are losing their audience. The mobile media market is growing fast and there is a kind of a fear that the desktop is going to be left out in the near future.

Finally, the audience is not just a consumer of the media world, it is becoming an actor by actively selecting news content (and therefore changing the gatekeeping role of the media), and by producing or sharing news originating from social media and peer groups (which subverts the agenda setting and watchdog role of traditional media).





OPPORTUNITY: VIBER NEWSFEED ON SERBIAN LANGUAGE?

Serbia is ranked among top countries in the world when it comes to use of mobile phones and mobile applications. Majority of mobile phone users, of different ages, actively use Viber application for communication purposes. Viber, therefore, represents a promising and trusty platform for upgrading its basic communication- and message-exchange functions into a news supplier for Serbian citizens.

Challenge 2: Connection with audience & clients

According to the existing data (Digital Sustainability, 2016), more than half of online media outlets have no defined target audience and they address – if they are local – all citizens living within their region or specific territory.

Media rarely invest efforts to target specific audience, to tailor content for their needs and expectations or to perform niche reporting.

Most of the media do not consider audience shifts as a guideline for their further business plans. They rarely consider this as an opportunity to monetise content as social media platforms usually capture revenue that otherwise might go to the local media organisations.

Media rarely use existing research, or use their own, to detect the needs and expectations of their audience.

Only few media outlets permanently communicate with their audience, and educate them on how to use their services, consume

their content and interactively engage with them.

Audience reacts on changes in the digital media, but they rarely consume analytical and long online articles. Media therefore seek to invest in multimedia content - video, photo, shorter texts – and attractive and smart content. One of the biggest challenges is to get from the page view to page interaction, to make the reader click on another headline or link provided within the content.

Challenge 3: Lack of research culture

At general level, investment in research and development is at very low level in Serbia. This affects not only the media industry, but the IT industry and start-up community as well.

Research lack substantial support from the state level, and most successful research entities or organisations develop their capacities and research activities through collaboration with international actors.

Most of the media and start ups, rely on research to develop their business models.

COLOR PRESS GROUP

'Color Press Group' is successful print publishing company, owned by Robert Čoban. It publishes more than 60 magazines and has also started with event business and organization of festivals and conferences. They decided to cancel magazines that lost audience (e.g. all magazines for men were shut down) and decided to print only what the audience is interested in. Therefore, CPG has examined the market and researched audience and found out that there is a huge love for Russia among Serbian citizens – so the company started to publish the monthly magazine "Russian doctor", which is now very popular. The main idea was to go with the trend and to try to invest in it. The easy thing with CPG is that they print their own magazines and do not depend on other publishing companies, like most print outlets in Serbia do. The company is quite influential on six national markets in the region of the former Yugoslavia.

BETA NEWS AGENCY

BETA News agency adapted part of its content for English-speaking targeted audience, which mostly include embassies and international organizations. They plan to create specific sections or packages (Dossiers, Briefings) to present their clients the filtered and digested news from Serbia. This way, they attracted clients that are able to pay and that are look for specific content and interpretation of the most important political and economic events. Beta has an active network of collaborators within the region of Western Balkan, and more than 20 years of experience of reporting.

"Only few media from Serbia order market and trend researches from our agencies. Among those who order I am not sure how many of them really use these research to guide their development. Good example is rebranding of 'B92' radio into a 'Play' radio. They rely on market research, tailor their program schema to meet the expectations of public. They target mostly young and urban public, and as result 'Play' is one of the most popular radio stations in Serbia at the moment," (Dejan Radosavljević, IPSOS Strategic Marketing).

Media in general should think more of how to understand the audience and to adapt to changes in audience. The key question is where the audience is. The media should think about the content but more in terms of audience.

8.2. EXAMPLES OF GOOD PRACTICE

Some media outlets in Serbia learned how to adapt and to take advantage of the changing circumstances in the digital age. In case of legacy media, several outlets managed to build popular and live online websites (such as Blic, B92), while others have fully embraced online and digital platforms as a primary channel for their operation (examples include Južne vesti, Balkan Investigative Reporting Network – BIRN, Centre for Investigative Journalism of Serbia – CINS, that won the 2017 European Press Prize, and Crime and Corruption Reporting Network – KRIK). The last three organizations, are not traditional media outlets, but have been considered as examples of trustful, investigative and brave journalism.

There are other examples of good practice, like KRIK in Serbia invested its efforts, time and funding to create a supportive audience community; Infostud, as addition to its business with used cars (polovniautomobili.com), created a site 'Moja garaža' ('My Garage') with user-generated content contributing to consolidation of their own community and increasing the trust and traffic on the main website. Netokracija regularly educates their clients on how to use their online services and how to benefit from content they regularly produce.



9.

Serbia is perceived as an incubator, a testing ground for different innovative ideas and patents

There is no production for the outside market. Serbia is mostly out-sourcing or providing support

The Serbian market is small and underdeveloped, especially the traditional media market

There are significant external influences external influences

On TV N1 web site – which is regional such as the TV station - the stories with the highest viewership and readership are those genuine stories made by their journalists and not those taken from the news agencies and that could be found everywhere. Sometimes, web editors of TV N1 allow audience to suggest topics to be covered, either through e-mail or through news comments. They recently launched an English version of their website. However, only 2 people per each newsroom in Belgrade, Zagreb and Sarajevo are working on the English version of the site – all of them are journalists covering around 20 news per day and even less during weekends. They need more journalists to be able to cover more stories in the English version.

TV N1 has also changed the app, shifting the homepage from the most important news to news in chronological order because the

audience research has shown news are more read when in chronological order (and they realized people go back to the web site more frequently then), which is better for the overall business plan.

ICT Hub and USAID-supported program 'Strengthening Media Systems', led by IREX Serbia, aim to establish the Media Accelerator program to help traditional media build digital strategies, products, services in order to follow actively audience trends, expand their operation, and adequately monetize it. Program will last from 2018 until the 2021.

9. PERSPECTIVES ON EXPORT AND REGIONAL OPPORTUNITIES (QUESTION 4)

What are the most important services and products Serbian media and creative industry can offer for other markets?

9.1. MAIN CHALLENGES AND NEEDS

Challenge 1: Perception

Serbia, as well as other countries in the region, is perceived as an incubator for innovations or polygon for testing and patenting different ideas for other, more developed or promising markets.

This is good on a short and mid-term basis, since investors may support innovations and patents in their early stage development with limited resources and low expectations. In the long term this is not good for Serbian start ups and local media, since they are not perceived as potentials for larger investments.





THE CASE OF 'ALCHEMY': BUYING PEOPLE AND KNOWLEDGE

In 2017, start up from Novi Sad – dryTools, has been merged with the Silicon Valley based Alchemy. Following the merger, the overall technology and the whole local team in Serbia will now become part of Alchemy. Prior to this South Central Ventures and other investors, invested \$ 1 million in dryTool to enlarge and empower their local team in Serbia.

“Prior to investment, they worked in chemistry industry and have been specialized in SaaS platform, neural networks and machine learning. Now, after merge with Alchemy, they are not existent anymore, neither they work the same thing they used to do prior to investment. I can only conclude that big players bought people and their knowledge.” (Srđan Verbić, FEFA, and former minister for education in Serbian Government, 2014 – 2016).

Taking into account the context of media assistance, many models of support and imported models of good or failed media practices from Serbia has been taken as a 'lesson learned' for interventions in other parts of the world. The most notable case is media support to media development in Ukraine.

Challenge 2: Exporting knowledge, not concrete products

With an exception of 'Nordeus' that has worldwide known product – manager soccer game for social networks, most of the successful organisations, enterprises and start-ups do not produce any specific products for markets outside Serbia, or outside the Western Balkan region.

“The most successful global companies are not looking for sophisticated profiles in Serbia. They don't need people here to produce something, they are rather developing and testing new technologies. Or constructing something that is already produced elsewhere. These are the profiles of local people they mostly look for,” (Ivan Minić Burek, the most influential blogger in Serbia).

Local companies or individuals (mainly freelancers with IT knowledge) are perceived and used as 'outsourced' staff since Serbia is considered to be 'a country with a cheap, but sophisticated and needed skills' in domain of IT, programming and digital business.

“When company applies for a grant, the solution they propose must be innovative on the international market as well, so it is important that domestic companies have broader knowledge on what is needed on the regional and international level, not only the inner-country market.” (Natalija Sandić, Innovation Fund Serbia)

Challenge 3: Regional markets are small

The Serbian market is small and non-competitive. As continuously reported by relevant sources (for example, the Media Sustainability Index) revenues generated from advertising across all platforms in Serbia, or in other countries of the region, are not sufficient to support the existing media market.



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10.

The state of Serbia is preparing a new strategy for media sector development that will consider the digital economy as an important driver.

While the state is the dominant actor on traditional media market, it lags behind private sectors in domain of digital economy.

Only a few media, mostly those operating on digital and online platforms, prioritise development of business models over independent status and content production.

It is also politically captured, and most of the money-flows are directed to 'suitable' media through informal channels.

Serbia is connected with other markets in the region, especially Croatian and Bosnian and Herzegovinian.

There is room for investment and growth on this regional plan, but it is limited and there is no room for exponential growth. The majority of investors use companies from Serbia and the Serbian market to test some ideas and to export the most successful elsewhere (Israel, India have been mentioned multiple times during interviews).

When it comes to investment in media content, language is an advantage in the case of Western Balkan markets.

Challenge 4: External influences

While regionalisation is not something essentially bad for the sector, there is a rise of Russian-generated content that distorts the market and erodes the notion of balance, objectivity and professionalism. For example, Sputnik news agency, which is offered as a free service to local media in Serbia, supplies all major media with content and spin-off information. Such a sponsored and free content is dumping the competition on the market.

10. RELATION TO OTHER AREAS OF THE CONVENTIONAL MEDIA MARKET (QUESTION 5)

What are the most prominent differences among digital economy and conventional media market?

10.1. MAIN CHALLENGES AND NEEDS

Challenge 1: New strategy will go beyond traditional notion of media

The traditional media landscape in Serbia is regulated in line with EU principles and standards. In 2018 the highest priority of the state of Serbia in this segment is the preparation and adoption of the media strategy that will set up development priorities in the media sector for the next five-year period. The digital economy is considered to be one of the drivers of media development, as well as an opportunity for innovation and media business and it will be included in this strategic document. The Serbian government announced the beginning of this process in the second half of April, 2018, and asked all relevant stakeholders including international (OSCE Mission to Serbia), local traditional (media associations and interest groups), as well as non-traditional (CSOs, digital media community, experts) to take part in the process. The first draft of the document will be announced during September, 2018, and made available for public discussion. Final adoption is planned for December, 2018.

Serbia does not have an IT-specific tax policy, so all incentives are more general, which is also one of the key problems. The digital economy sector is highly affected by an inefficient tax system in Serbia. At the moment, the new law on alternative innovative activities is going through the preparation phase.

Challenge 2: State dominance vs. private initiative

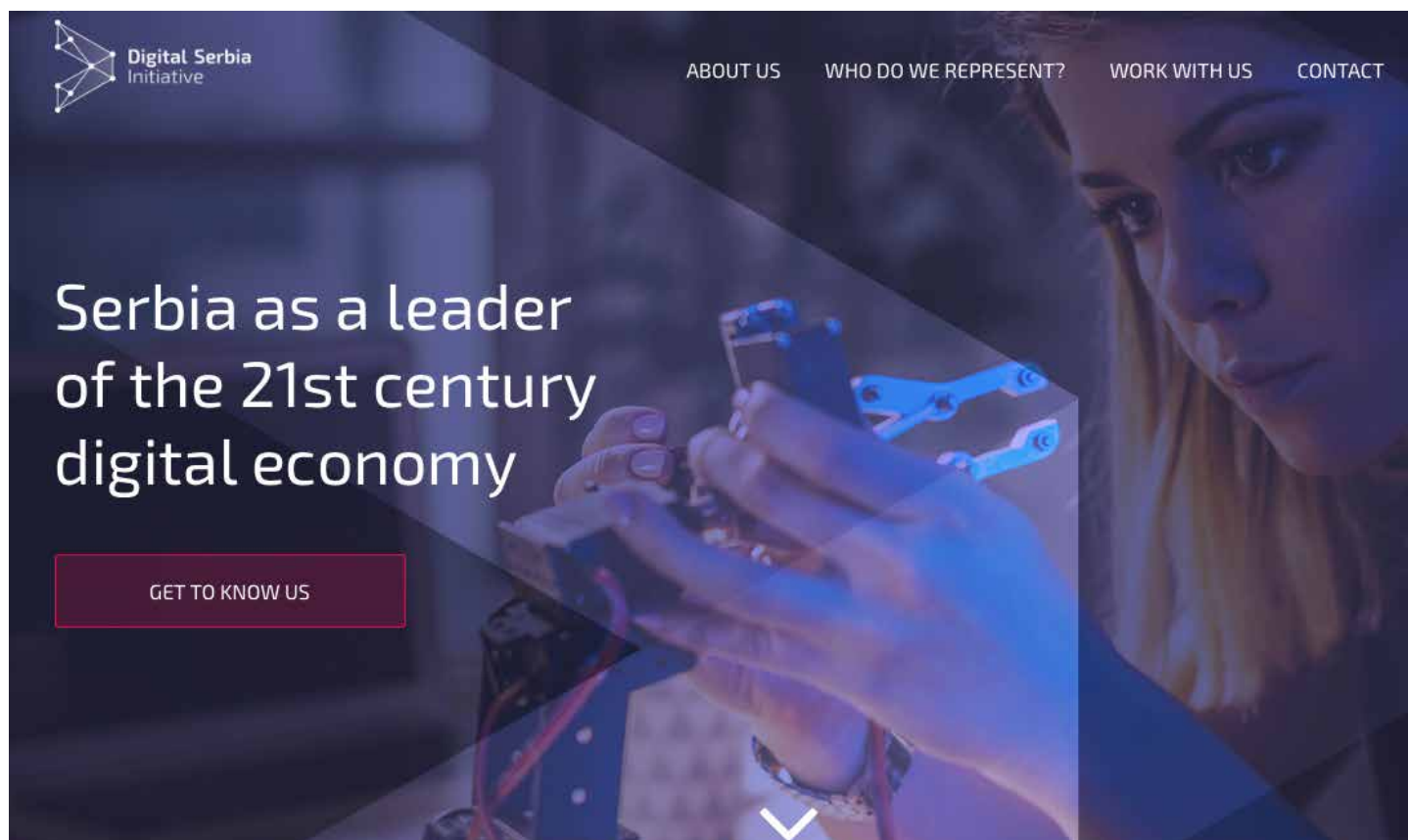
In the traditional media sector, the state is the dominant actor, and this could be observed at several levels. At policy-adoption level, state actors and institutions are dominant in the stage of adoption and implementation of policies which regulate the media sector. In practice this means that state actors (prime minister, ministries, majority in the parliament) can unilaterally adopt new laws and regulations and amend existing laws without non-institutional actors being involved. On the other hand, non-institutional and traditional actors (media associations, media expert groups, and CSOs) have pretty limited leverage potential.

In policy-making process, they have had an important role in identifying problems whose solutions are formulated in legal texts and which have become part of the media policy. Their impact is marginal in the policies' adoption, but they have an important contribution in monitoring the implementation of adopted policies. However, the results of such monitoring processes have not been acknowledged by the government and other state institutions. This corresponds with the findings that the systems of policy-making in the Western Balkans are mainly focused on the phase of law development, with poorly developed stages that involve their active implementation and monitoring. Another area in which the state

exercises its dominance is the funding regarding the traditional media sector. As the large body of existing analyses of the media sector in Serbia indicates, there is a number of informal channels through which the state has been financially supporting the media, using them to serve their political and economic interests.

On the other hand, in the domain of the digital economy, the real drivers of the process are corporations and successful digital and IT companies from Serbia. They are leaders in the sector, and the state of Serbia lags behind when it comes to expertise, resources and institutional capacities. The Initiative Digital Serbia aims to impact the regulatory and legal change targeting the fields of e-payment and e-identity as priorities for the business interests of their members.

They already have a working group, consisting of leading legal experts, to propose concrete changes or new regulations in the sector. They have established partnerships with the state entities, the Prime Minister's office, National Bank of Serbia and the Serbian Chamber for Commerce, to jointly find solutions. The state of Serbia, at the moment, has no capacity to solely deal with these challenges and therefore needs the support from private and international sectors.



“Digital media represents an alternative way to enable citizens' direct participation in the information flow”

Challenge 3: Business vs. donor logic

Compared with the SME and start-up sector in terms of incorporating a pure business logic, the media in Serbia are not predominantly driven by this logic. Traditional, especially local media, often use the label of ‘independence’ as their selling point, in spite of the fact that donors are not interested in providing a grant-based support as they used to during the nineties, when the political situation was different. On the other hand, the biggest donors are looking to support media business in other ways – either to support the development of an environment which is friendly to media operations, or through direct support to media outlets to develop their internal capacities for business operations.

Taking into consideration the fact that public and commercial media operating on traditional platforms are significantly influenced by political and economic interests, online and digital media represent an alternative way to enable citizens' direct participation in the information flow, content creation and to provide them with an opportunity to be adequately informed. To be influential and sustainable, these media need assistance in developing their business models. Different funding options -- public funding, donations, advertising, sponsorships, and other options to create their incomes – could be considered, but for sustainable development, neither of these options can work by themselves. Instead, a combination of various income sources should be recognised and stimulated. Compared to traditional media, newly-emerged digital media are more open to experiment with different business opportunities and are open to assistance and suggestions.

Beside state support through project co-funding for the content of public interest, which remains the main source of income for the majority of outlets, the media explore opportunities of

how to become self-sustainable by providing their own services in addition to the content production, as well as through digital advertising activities, and crowdfunding, which has become very popular recently. As the majority of interlocutors said, they need external support and mentoring in this field.

CROWDFUNDING: THE CASE OF RADIO SHOW ‘ALARM’

‘Alarm’ is a satirical radio show founded in 2014 by two prominent journalists - Daško Milinović and Mladen Urdarević (known as Daško & Mlada). It was aired on different radio stations (As, B92, O radio), and gained huge popularity among young people in Serbia.

They present a satirical and engaged programme which is critical towards political elites. In 2016, they decided to leave traditional media platforms and to start broadcasting on Internet radio, using crowdfunding as a main source of income.

They use the platform ‘Patreon’ to collect funds, as well as PayPal and direct payments into their account. So far they have attracted more than 400 people to support their project, and they collect around \$2,050 per month. This has contributed to the sustainability of the show in less than one year.

To attract supporters, the authors continuously publish their calls and announcements on social networks, produce attractive graphic designs, and consider ‘word of mouth’ to be an important factor. Through permanent engagement, ‘Alarm’ has created a loyal and very active community. The authors address the key factors which affected the success of this model, such as ‘to be or not to be’ message to their audience, engagement with their community, and the overall political context. Part of the reason why they left traditional media was associated with constant political pressures and the non-friendly climate for media business and journalism.

ANNEX

List of interviews

1. Nenad Paunović, advisor for digitalisation, the Office of the Prime Minister of Serbia
2. Irini Reljin, state secretary, Ministry of Telecommunications and Information Society, Republic of Serbia
3. Srđan Verbić, FEFA, former Minister for education in Serbian Government (2014 – 2016)
4. Natalija Sandić, program manager and international cooperation, Innovation Fund Serbia
5. Petar Stakić, Infostud, corporative communication manager / Initiative Digital Serbia
6. Petar Gredelj, Benchmark, technology and digital innovations
7. Dejan Radosavljević, IPSOS Strategic Marketing
8. Srđan Đurđević, OSCE Mission Serbia
9. Marko Mudrinić, Netokracija, editor
10. Ivan Minić, leading blogger and digital influencer in Serbia, www.burek.com
11. Nikola Stojić, web editor on N1
12. Robert Čoban, Color Press Group, owner
13. Dragana Žarković Obradović, BIRN, director
14. Tamara Vučenović, editor, Radio Belgrade (radio show Digital icons)

Additionally, representatives of SHARE foundation, former web editor on B92, BETA News Agency owner, and representatives of Digital Serbia have been consulted.

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