

Sector fiche – IPA National programmes / Component I

(Maximum 25 pages / 1500 characters no space per page)

1. IDENTIFICATION

Title	Private sector development
MIPD Sector Code <i>The numbering is for the sake of EU statistics and does not need to correspond with the numbering in the beneficiary MIPD</i>	3. Private Sector Development
ELARG Statistical code	
DAC Sector code	25010
Total cost (VAT excluded) ¹	EUR 15.400.000
EU contribution	EUR 12.550.000
Management mode	Operations 1.1.1, 2.1.1, 2.1.2, and 3.1.1 are implemented under decentralised management Operation 3.1.2 is implemented under centralised management (joint management with the World Bank)
<i>Centralised mngmt:</i> EU Delegation in charge <i>Decentralised mngmt:</i> Responsible Unit or National Authority/Implementing Agency(ies)	Central Finance and Contracting Unit (CFCU) - Ministry of Finance and Economy, Department for Contracting and Financing of EU Funded Projects Programme Authorising Officer (PAO) – Assistant Minister at the Ministry of Finance and Economy, Head of Department for Contracting and Financing of EU Funded Projects Mrs. Natasa Simsic 20 Kneza Milosa St. Belgrade, 11000, Serbia +381 11 3612-787 natasa.simsic@mfp.gov.rs
Implementation management	Measures 1.1 and 2.1: Ministry of Finance and Economy Nominated SPO at the Ministry of Finance and Economy – relevant for measures 1.1 and 2.1: Mrs. Jelena Sedlacek, Head of European Integration Department, Sector for International Financial Relations and European Integration, Ministry of

¹ The total cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

	Finance and Economy Measure 3.1: Ministry of Education, Science and Technological Development Nominated SPO at the Ministry of Education, Science and Technological Development – relevant for measure 3.1: prof. Ph.d Radivoje Mitrović, State Secretary of Ministry of Education, Science and Technological Development
Implementing modality	Sector Based Approach
Zone benefiting from the action(s)	The Republic of Serbia

2 RATIONALE

Results and measures have been identified based on the strategic framework presented in the sections 2.1, 2.2.1 and 2.2.3 and have been prioritised accordingly, based on the recommendations and priorities of the EC, as expressed in the EC Reports for 2011 and 2012.

The EC Analytical Report (2011) and the Progress Report 2012 recommend further development of business and investment environment burdened by legal unpredictability/uncertainty and red tape. It highlights the importance of well-developed research and innovation capacity to support sustainable economy and knowledge-based society and development of infrastructure especially in underdeveloped areas. Several World Bank and OECD analyses as well as national documents such as Annual Reports on SMEs and Entrepreneurship also confirm importance of these issues with regard to improving overall competitiveness and economic growth. It also urges for further harmonisation of national legislation with EU acquis and its implementation/enforcement in sectors such as standardisation, conformity assessment, accreditation, metrology, market surveillance, etc.

In addition, selected results and measures are also compliant with recommendations from other relevant policy documents such as **Global Competitiveness** and **Doing Business Reports**. According to the most recent **Global Competitiveness Report (2012-2013)**, Serbia ranks 95 out of 144 nations. Serbia's placing among the lower ranked countries displays a performance that needs significant improvements and structural changes. In the 2012 World Bank's annual study on business environment **Doing Business Report**, with 1st being the best performer, Serbia ranked 89th out of 185 economies. Most of the indicators show that Serbia has had limited success in improving its business environment compared to the previous years while businesses still face a number of complex procedures.

Based on sector policies and strategies, midterm priorities and objectives for the Competitiveness sector are summarised in the inter-sectoral document, **Needs of the Republic of Serbia for International Assistance 2011-2013 (NAD)**, which represents the starting point and base for the programming of international development assistance. Identified measures within SF should contribute to achieving following NAD sector priorities and measures:

- *to increase competitiveness and export of enterprises* by **improving business environment** in which enterprises including SMEs function and **increasing investment in research and development** by focusing on cooperation between business and research communities;

- *to ensure effective competitiveness and market operations* by focusing on establishing a functioning market through the introduction of **full approximation of national legislation with the EU acquis** and **improved overall capacities** of quality infrastructure.

Other NAD relevant measures, such as **strengthening the development of small and medium-sized enterprises in the form of professional support** will not be supported through this SF since IPA 2012 will support quality professional support services through implementation of the Enterprise Growth Programme (EGP) and Business Advisory Service (BAS). In addition, **developing e-business and strengthening the utilisation of e-commerce** is already included in IPA 2012 as well and before continuation of further actions these operations should demonstrate first lessons learned.

Measures under this SF are directly linked and will build up on several important programmes such as: **USAID Business Enabling Project (USAID BEP)** and **Sustainable Local Economic Development Project (USAID SLDP)** aiming at improving the business enabling environment, supporting macroeconomic stability, further development of financial markets, and increasing business and financial management capacities within businesses and the Government; **Development of National Strategy for Quality Infrastructure Project** financed through long-term **GIZ ACCESS Private Sector Development Program** aiming at enhancement of the Quality Infrastructure (QI) through enhancing policy making capacities of the Ministry of Finance and Economy related to the EU accession process and industry needs, and strengthening the services of QI institutions for selected sectors; **Human Resource Development and Research - Innovation Serbia Project (IPA 2011)** aiming at strengthening of capacity of the Innovation Fund to develop and execute innovation financing instruments and reorganizing research institutes to better address the challenges of technology transfer.

2.1 LINKS WITH NATIONAL SECTOR OBJECTIVE(S) AND MIPD SECTOR OBJECTIVE(S)

The national Economic development sector corresponds to the Private Sector Development in the MIPD, and encompasses SMEs, R&D, competition, consumer protection, business related infrastructure, tourism, industry and trade. Comparing to MIPD Private Sector Development, public procurement is not considered part of the Economic development sector but falls under the national sector 'Public Administration Reform'.

The Need Assessment Document 2011-2013 (NAD) summarises the objectives and priorities identified in a number of strategic documents adopted by the Government of Serbia in this particular sector. In accordance with the NAD three mid-term objectives have been identified as the most important. The first one is to *increase competitiveness and export of enterprises* by **improving business environment** in which enterprises particularly SMEs function as well as to **develop and implement SME support mechanisms** that would help them to grow and access new markets. Furthermore, focus is on **increasing investment in research and development** through the development of the national technology transfer infrastructure and actions supporting cooperation between business and research communities. The second one is to *ensure effective competitiveness and market operations* by focusing on establishing a functioning market through the introduction of **full approximation of national legislation with the EU Acquis** and **improved overall capacities** of quality infrastructure, market surveillance and consumer protection institutions as well as institutions ensuring enforcement of competition (including state aid) and intellectual property policies. The third one is to *reduce disparities and promote balanced development* by focusing on development of **economic and business related infrastructure**

(including regeneration of brownfields) **and services**, as well as **strengthening the capacities of local and regional stakeholders** including their cooperation, particularly in underdeveloped areas, where the enhancement of these capacities is prerequisite for further investments, business growth and job creation.

On the other hand, most of the **Multi-annual Indicative Planning Document 2011-2013 (MIPD)** specific objectives in this sector correlates with the national objectives and priorities. Namely, one of the priorities of the MIPD is to *overcome the economic crises and improve its competitiveness* by focusing on **the improvement of business environment and business infrastructure** in order to stimulate domestic growth, increase exports and **attract foreign investment**. Also, support should be given to help Serbia move to an innovation driven economy (where the economy shifts to higher value added products) by **increasing investments in research and development** and upgrading innovation support services, building capacities of all innovation stakeholders and strengthening links between education, research institutes and business. Additionally, the MIPD underlines **development of public services and information businesses** that will increase efficiency, cuts costs and raise their competitiveness. Furthermore, **by improving competition, including state aid policies** and its enforcement institutions, Serbia will improve its market efficiency thus enabling enterprise competitiveness, creating a wider choice for consumers, helping to reduce prices and improving quality of products on the market. Finally, MIPD emphasizes the need to **facilitate socio-economic development and inter-municipal cooperation in the hinterland of the Danube and raise its visibility as an area of growth**. By focusing on that particular area and investing in its soft and physical infrastructure, the aim is to enable Serbia's Danube river bank municipalities to increase the competitiveness of the region, create new employment opportunities and raise the attractiveness of the Danube Serbia Region to foreign and local private sector investors.

2.2 SECTOR ASSESSMENT – POLICIES AND CHALLENGES

1. Business Environment

World Economic Forum's Global Competitiveness Report for 2012-2013 places Serbia at 95th position out of 144 countries, according to the Global Competitiveness Index. This is the same ranking as in the previous report. However, in some important aspects that form the complex Global Competitiveness Index, Serbia actually slipped lower than the previous year's low ranking. For example, Serbia was ranked 134th in burden of government regulation last year but 136th this year; in extent and effect of taxation 118th and 122nd respectively; in firm-level technology absorption 136th and 142nd; in company spending on R&D 130th and 132nd.

The most problematic factors for doing business that the companies have identified, inter alia include: Inefficient government bureaucracy, corruption, access to financing, foreign currency regulations, tax rates and tax regulations, inadequate supply of infrastructure, insufficient capacity to innovate, etc. Particularly unfavourable are the rankings under the 1st pillar – institutions, for example: Serbia ranks 126th when Government services for improved business performance are in question.

Chapter 20: Enterprise and industrial policy of the **Serbia 2012 Progress Report** stipulates that “further efforts are needed in relation to company registration, business incubators and access to finance for SMEs”

According to the latest **White Book 2012, Foreign Investors Council's Proposals for improvement of the business environment in Serbia**, most progress has been achieved in

the areas of e-commerce and intellectual property, followed by improvements in overall legal framework and fields of tobacco and telecommunications. Also, most recent cancellation of 138 quasi-fiscal charges is the step in the right direction. Unfortunately, it reiterates some of the recommendations that have already been tabled in previous White Books:

- Accelerate the rate of transition reforms with the dual goal of improving business conditions and bringing Serbia closer to the European Union;
- Reduce and simplify bureaucratic procedures at both the national and local level;
- Create conditions for market competition in a well-regulated market by providing equal rights to all competitors, as well as a proper regulation of monopolies;
- Intensify the fight against corruption, since this is seen as one of the most problematic factors for doing business in Serbia;
- Conduct a well-balanced economic policy that will be conducive to business and attract investment.

OECD's analysis EDIF (Enterprise Development and Innovation Facility) reform prioritization Serbia provides a short list of some 20-25 reform suggestions for each beneficiary economy in Western Balkans. Five main barriers to growth according to the OECD's targeted survey of high growth SMEs in June 2012, determined on a sample of 110 firms included: corruption and shadow economy, access to finance, public procurement, investment policy and promotion, and regulation.

The latest **Doing Business Report 2013** ranks Serbia the 89th out of 185 countries. This is a positive change in rank comparing to the previous year's 95th place.

The major improvement has been made in the area of Starting business – recording positive change in rank of even 49 places. Significant rise in ranking is also seen in the area of Resolving insolvency - 17 places up. It has to be noted though, that in this area, in spite of the progress, Serbia is still at 103rd place.

Moreover, there are still a lot of areas which need further improvement. For example, in the area of Enforcing Contracts, Serbia ranks 103rd, and in Paying Taxes ranking is much more unfavorable 149th. If we look at the Protecting Investors criterion, Serbia's rank is 82nd.

The analysis performed in 2012 by the USAID BEP project, which encompassed over 1000 firms in Serbia, 36% of which are doing business with public sector, has revealed additional obstacles for doing business. The findings, among other, include:

- Quasi-fiscal charges have the most negative impact on business competitiveness, sharing the first place with wage taxes and contributions;
- Although the businesses consider that the regulatory burden has decreased, the negative sentiment still prevails – 74% of them believe that the burden hasn't been reduced when comparing to the previous year, and that much more has to be done in improving this area.
- Businesses continue to suffer from “red tape.” A mere 7% of respondents claim to have spent less time, and only 3% claim to have spent less money, on dealing with regulatory issues, compared to the previous year;
- 14% of businesses believe that it is easier to obtain a building permit now (in 2012) than in 2011;

- Substantial cuts in the amount of time (52 percent) and money (22 percent) businesses spent on inspections have been made in 2012
- over two thirds (70.7%) of the companies are doing business within the boundaries of their hometown, while mere 6.7% are exporting to foreign markets;
- percentage of businesses (61%) claiming that personal and political connections influence the decisions in the public procurement procedures, remains worrying
- access to finance still represents an issue for the SMEs in Serbia. Two thirds of businesses predominantly use commercial banks as the sources of finance, while 25% of them borrow from family and friends. Other formal sources of finance are almost negligible, and their participation has actually decreased comparing to 2011. Other financial instruments (e.g. revolving loans, factoring, leasing, etc.), which are widely used throughout the countries with developed financial systems, are not sufficiently used in Serbia.

The study **Women entrepreneurship in Serbia for the 2010-2012 period**, produced in the framework of the project „Advancing Women’s Economic and Social Rights in Serbia and Montenegro“, implemented by UN WOMEN has shown that main obstacles for starting and running business for women entrepreneurs are finding financial resources, unfamiliarity with legal regulations, difficulties with finding clients, problems with collecting payments and like, that are common for both, women and men. Although it did not identify obstacles in business environment that are specific for women entrepreneurship, key recommendations focus on improving general business environment, streamlining support to female entrepreneurship in national strategies and introducing business support measures in favour of female entrepreneurship.

The Government of Serbia is firmly committed to the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union, in pursuit of its national policy objectives and reform agenda, on the path towards the EU. In addition, it is strongly committed to implementing regulatory, institutional and administrative reform in order to promote economic growth, improve business environment and facilitate FDI inflow to the country.

Implementation of the 2008 Government Strategy of Regulatory Reform helped decrease the regulatory burden on businesses, but much of the work is left unfinished or not started at all. By the end of the first quarter of 2012, the Government of Serbia endorsed 203 out of 304 recommendations for removing administrative obstacles for doing business from the Comprehensive Regulatory Review (“Regulatory Guillotine”) under the Strategy of Regulatory Reform 2008-2011. The remaining 101 recommendations that were not implemented cost businesses at least 59 million Euro annually. In the meantime, the National Assembly and the Government enacted several thousands of new laws, bylaws and other regulations, adding to the regulatory burden on businesses (often referred to as a “regulatory tsunami”).

To that end, one of the main priorities of the newly established Ministry of Finance and Economy, apart from fiscal consolidation and introducing stronger budgetary discipline, is creation of favourable business climate. Consequently, a high level Working group has been formed. Three main topics were covered:

1. Reducing quasi-fiscal burdens and taxes in order to reduce costs of and ease doing business of companies;

2. Reform of the public administration system which includes reduction of legislative burden and the operating costs of public administration bodies;
3. Reform of tax system and tax administration through improving legal and institutional framework.

The concrete results during the first three months of work by the Ministry included ruling out 138 previously introduced quasi-fiscal charges, which will enable the tax system to become simpler and more predictable, and hence eliminate the chaos that resulted from the introduction of these taxes. It is estimated that this measure will cut costs of doing business for over 300 000 SMEEs.

Under the new Law on determining the maximum salary in the public sector, the savings will be made through reducing excessive salaries in the agencies and public companies, i.e. through the compliance with existing level of salaries in the civil service. Also, an analysis of the existing public agencies has been done, according to which the decision has been made to abolish or merge some of those with overlapping functions. This has also contributed to the overall cost reduction.

The general rate of VAT has been increased from 18% to 20%, but for small and medium sized enterprises from the 1st of January 2013 there is the possibility to pay VAT only after the goods collection. This improves the business climate for small and medium-sized enterprises.

The new Law on Setting Deadlines for Settling Financial Obligations in Commercial Transactions has been prepared in wide consultation with business sector, adopted and entered into force on Marc 31st 2013. It will take into account delayed payments both between public sector and business operators and between businesses. It will also take into account the provisions from the EU Late Payment Directive. Moreover, it will impose additional responsibility on the ministers, mayors of the cities and municipalities, directors of the public enterprises, etc. to pay financial fines if they fail to respect the deadlines for payment stipulated in the Law. Overall, the adoption and implementation of this Law is expected to contribute to improving solvency of Serbian economy.

However, these are only the first steps in the long-term process of improving business environment in Serbia. The reforms need to be continued in the same direction and at the same pace.

The results of IPA support will complement the results from the efforts the Government is making in this sector through 2012 and 2013, thus creating the synergy effect.

2. National Quality Infrastructure System

Competitiveness of Serbian enterprises is closely connected with their ability to produce safe products, conformed to the requirements of relevant technical regulations and standards. An efficient and internationally recognized national quality infrastructure (NQI) system that provides Serbian enterprises and industries, with better conditions for implementation of technical regulations and standards for products and management systems (for: quality, environment protection, health and safety at work) is one of the prerequisites for the competitiveness of the Serbian economy.

Developed conformity assessment (CA) system in a country: testing and calibration laboratories, control organisation, inspection bodies and the national accreditation system ensure safety of products placed on the market and helps economic operators to accomplish requirements of the EU market. Furthermore conformity to the EU standards creates

confidence and facilitates access to other markets.

The main aim of developing harmonised CA infrastructure on the EU level is to avoid duplication and overlapping in testing of products which are prepared to be placed on the internal market. Certificates for products issued by a CAB accredited from national accreditation body (ATS) recognised by European Cooperation for Accreditation (EA) would be sufficient for placement of products on the EU market. It means that CA system in a candidate country like Serbia has to be aligned and internationally recognised.

The national system of accreditation in Serbia obtained verification by the regional organization for accreditation EA, what caused signing of a multilateral agreement on recognition (MLA) between of ATS and the EA in May 2012. Besides that, in October 2012 ATS signed MLA within IAF (International Accreditation Forum) and became full member of ILAC (International Laboratory Accreditation Cooperation). This means that mutual trust and acceptance of reports and certificates issued by Serbian accredited CABs (testing laboratories, medical laboratories, calibration laboratories, inspection bodies and certification bodies performing certification of products) has been achieved and that the Serbian accreditation system is regarded as equivalent to those of all other signatories to the EA and IAF MLA.

The low level of industry competitiveness comes also from **low level of quality and compliance of products with relevant technical requirements, which disable companies to participate in international product chains and markets.** According to the first findings of analysis of QI system in Serbia, done within GIZ ACCESS project, the reasons are: **insufficient implementation of standards, lack of technical knowledge in companies, lack of industry awareness about importance of fulfilment of requirements from international product and management system standards, lack of testing facilities (for example: missing designated bodies for implementation of new technical regulations, missing accredited labs used by market surveillance authorities etc.) what causes that products are tested abroad (i.e. in the region), which is time consuming and causes higher production costs in economically difficult times.**

In order to overcome these difficulties, it is crucial to increase awareness of enterprises and industry about importance of fulfilment of technical requirements for ensuring safety of products on national market and their better competitiveness on the European market. On the other side, it is very important to strengthen Serbian CA system, as one of the major element of NQI and a basic tool of checking whether products, services, materials, processes, systems and personnel measure up to the requirements of standards, regulations or other specifications. Beside of manufactures, from well developed CA system benefits also exporters, service providers, consumers and regulators. It means, after intensive legislative activity in Serbia in the field of QI from 2008 to 2012, which resulted with harmonized horizontal legislation and transposed New Approach Directives for number of products, the focus has to be put on: further improvement of compliance with EU requirements, enhancement of non-harmonized area, as well as on its effective implementation by economic operators.

According to first findings of GIZ ACCESS project on industry needs, companies **have strong interest to use testing capacities in Serbia, because of easier access to the local labs, time savings, lower prices than competitors in the region,** etc. On the other side findings from CABs and laboratory testing capacities analysis, and questions regarding their capacities to fulfil industries' test inquiries, shows that **disabilities to replay on industries request are originated 80% from aged and nonexistent testing equipment.**

In the last few years a significant effort was made in order to develop CA infrastructure. However the EC Progress report for 2012 (chapter 1 - free movement of goods) stated that in year 2012 non particular progress in CA system can be reported. This finding as well as the above mentioned facts confirms necessity to additionally invest resources in creating of suitable CA system.

3. Technology Transfer and Innovation

Serbia's position in key international benchmark indicators shows evidence of a low level of innovation activities and relatively weak international competitiveness. Compared to the EU27 average, the total expenditures for research and development (R&D) in relation to the GDP are very low but comparable to those in the EU10, mainly due to the **comparatively low R&D spending of the Serbian business sector**². Regarding the outcomes of R&D activities, Serbia performs significantly weaker than the EU countries on average as evidenced by the number of patents³ by public scientific-research organizations and corporate sector. The reasons for this substantial gap between the EU average and Serbia is the **lower efficiency of the Serbian R&D system** due to **limited institutional capacity, lack of commercialization expertise, a low level of public-private collaboration in R&D and lack of incentives** to do so.

The Strategy of Scientific and Technological Development of the Republic of Serbia (2010-2015) has defined Government objectives to increase financing for science and innovation and create a national innovation system in Serbia by **promoting applied research and technology transfer and creating partnerships between the public R&D sector and local industry**. It envisages goals of **reorganizing existing R&D institutes, ensuring application of knowledge-based innovations into products and services** that will enhance the Serbian knowledge-based economy and its competitiveness.

Regulatory and legislative framework for the implementation of the Strategy was established by the amendments to the Law on Research and Development and the Law on Innovation Activities in 2010 that defined intellectual property rights to encourage technology transfer and commercialization of academic R&D and established legal basis for operations of innovation support organizations and the Innovation Fund.

Institutional framework has been improved by establishment of the Innovation Fund in 2011 to support industry R&D projects and innovation in private sector enterprises as well as commercialization of R&D. Innovation Fund has been established by the Innovation Law as a sole and unique organization (*Sui generis*) to carry put the activities related to the funding of the preparation, execution and development of the programmes, projects and other activities in the sphere of implementation of the innovation policy with the mandate to act as an intermediary, related to the funding of the innovation activities financed by international organisations, financial institutions and bodies, as well as of domestic and foreign legal entities and natural persons, in particular in the spheres of science and technology established by the strategic documents as priorities.

Innovation Fund is currently implementing the Innovation Serbia Project and represents Serbia in the Western Balkan Enterprise Development and Innovation Facility (WB EDIF). The Innovation Fund has built the capacity to develop, execute and monitor innovation

² Sources: Eurostat, European Patent Office, World Intellectual Property Organization, Web of Science, Statistical Office of the Republic of Serbia and Erawatch

³ Source: Intellectual Property Office 2011

financing instruments for early stage development of innovative companies to address the lack of risk financing for developing innovative companies while stimulating business R&D expenditure. Independent international expert evaluation and decision process for the selection of projects for financing has been established through the Serbia Innovation Project and it is built into the Innovation Fund Statute and bylaws. While gender equality issues are currently not considered separately because the programs are implemented for the first time, 41 projects selected for financing to date have significant participation of women entrepreneurs (there are 14 women who have full or partial ownership of the supported enterprise and there are 16 companies with women in management positions).

In addition to increasing expenditures for R&D (by 22% in 2011), the effort to improve R&D infrastructure has been initiated through financial agreements with the European Investment Bank and Council of Europe Development Bank. The Serbian R&D Infrastructure Investment Initiative, which was launched in 2010, aims to create the necessary pre-conditions for improving human resources in sciences, raising research excellence and creating links between research and industry. The Government's 400 million EUR initiative is supported through financial agreements with the European Investment Bank (200 million EUR), the Council of Europe Development Bank (two agreements worth a total of 105 million EUR) and through national, regional and local co-financing. This initiative includes projects such as the Nanosciences Center in Belgrade, the Petnica Science Center (aimed at high school students), the Center for Promotion of Science, the Natural History Center in Svilajnac, non-commercial housing for researchers, 50 million EUR of new research equipment for all RDIs, consumables for R&D projects, science and technology parks (Belgrade, Novi Sad, Nis and Kragujevac) and other projects. As a result, the total number of researchers increased 28% compared to the previous funding cycle, collaboration with scientific diaspora has been improved by participation of 1024 researchers from diaspora in national R&D project and the scientific output in terms of internationally recognized publications continues to increase (a total of 4430 in 2011).

Despite significant investments in R&D infrastructure and ongoing efforts to create a national innovation system in Serbia to promote applied research and technology transfer and create partnerships between the public R&D sector and local private industry through the Innovation Fund, 2012 report of the National Council for Science and Technological Development (NCSTD) finds that the overall areas perceived as most problematic for innovation in SMEs include technology transfer from universities to the private sector and from abroad to Serbian universities and enterprises.⁴ Notwithstanding this progress, **further initiatives are needed to enable transfer of technologies from the public R&D sector into the private sector and to create an efficient national innovation system**⁵.

In addition, the gaps identified in technology transfer practices of Serbian RDIs and academic institutions by the Serbia Innovation Project need to be addressed. In particular, **there needs to be increased focus on building expertise by which academic R&D can be commercialized and a cohesive national innovation system can be formed, as well as greater emphasis on providing financial incentives for engagement of academic R&D in support of enhancing the competitive position and profitability of Serbian enterprises.**

⁴ OECD Compact for SEE: EDIF Reform Prioritization, Serbia, October 2012

⁵ 2012 Report of the National Council for Science and Technological Development (NCSTD), the official government body in charge of following the implementation of the Strategy of Scientific and Technological Development of the Republic of Serbia (2010-2015), proposed to the Government for adoption before the end of 2012.

A. Limited institutional capacity in public sector R&D organizations and lack of expertise to engage in commercialization and technology transfer. Based on the study conducted by the World Bank under Component 3 of the “Innovation Serbia Project,” Serbian RDIs have limited experience in identifying and commercializing high value IP and have virtually no resources or incentives to conduct these activities. The World Bank study identified the need to establish technology transfer offices and build expertise that can provide direct support to RDIs as they begin to identify, protect and commercialize IP and also to provide long-term support to individual TTOs as needs evolve across Serbian RDIs and universities. Clearly, Serbian innovation support organizations such as technology transfer centers and business-technology incubators are few in number and limited in their capacity;⁶ mainly because, there is a limited or non-existent expertise to support their role in providing high value-added support for commercialization activities.

B. Low level of collaboration between public sector R&D organizations and private sector enterprises as well as lack of incentives for collaboration. Specifically, according to the “Conditions, needs and problems of SMEs 2011”, every seventh Serbian private enterprise performs innovative activities, and only **one out of fourteen** is engaged in innovation cooperation with other business entities or institutions. Additionally, a survey was performed by the EU funded “Improved SME Competitiveness and Innovation Project” (ICIP) showing that only 6% of the sampled enterprises used universities/research institutes for business support. This would suggest that Serbian private enterprises are not utilizing the traditional R&D providers to assist in the development of new technology-based products and services.

Further initiatives should build on this technical assistance and use the recommendations to create instruments that directly support joint RDI and industry projects. This is crucial to both improving the competitiveness of Serbia’s enterprises, but also in establishing the enhanced capacity of both RDIs and SMEs in participating in the EU’s next framework programme for research and innovation - Horizon 2020 or others.

Sector policy and strategy

A clear policy direction for competitiveness has been provided in the ***Strategy for Industrial Policy (2011-2012)*** that can be considered an overarching document. It has identified goals of industrial restructuring through dynamic and sustainable industrial growth and pro-active role of the Government. It emphasises the need for institutional set-up, improvement of the competitiveness of Serbian industry, faster development of entrepreneurship, exports increase and restructuring, reform of the education system in line with labour market demand, active and dynamic cooperation of science and industry, support to innovation, research and development, new investment in new products, employment and labour market policy reform, balancing Government’s role in stabilisation, development and social issues, development of the regional industrial centres and regional economic infrastructure, improvement in energy efficiency and environment protection. The Strategy envisages the process of consistent implementation of structural reforms and adjustments in order to create business environment where social partners (private enterprises, government institutions and civil organisations) work together to achieve abovementioned goals.

The Fiscal Strategy for 2013 with the projections for 2014 and 2015 has been prepared in October 2012. It comprises macroeconomic framework, fiscal framework, strategy for managing public debt and structural reforms in the given period 2013-2015. Under the

⁶ Assessment of the Knowledge Economy in Serbia and EBRD Investment Activities in the Country – Fraunhofer- MOEZ

structural reforms, particularly of the real sector, the Strategy focuses on improvement of business and investment environment, through reducing the costs and risks of doing business which will consequently strengthen private sector and encourage investment and employment. The Strategy also stipulates the need to achieve significant improvements, among other, in: harmonization of national legislation with the EU in order to create a better business environment and integration; reducing administrative barriers for businesses through comprehensive reform legislation to reduce operating costs and increase the competitiveness of the economy; abolition of quasi-fiscal levies that were burdening businesses and citizens, which were deemed unnecessary, and that the Law on compensations for use of public resources of common interest establishes the introduction and the method of determining the amount of any remaining charges; development of innovative activities on the basis of application of scientific and technological achievements; creating conditions for competition on the regulated market where all participants are equal, and adequately regulated monopolies; the introduction of competition in the infrastructure and utilities, and start partial or full privatization of public enterprises that carry out these activities and development of regional infrastructure for balanced regional development;

National strategies that can be considered sub sector strategies include:

The Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises (2008-2013) has been implemented on the basis of a five year Operating plan and a yearly budget allocation for its measures and specific programmes. The aim of the Strategy is to develop entrepreneurial economy based on knowledge and innovation which creates a sustainable, competitive and export oriented SME sector and is based on the Think Small First Principle. The Strategy was prepared in a consultative process directly including SMEs and their representatives aiming to address their needs. It is built on 5 pillars covering promotion & support for entrepreneurship and establishment of new enterprises, human resources for a competitive SME sector, financing SMEs and taxation of SMEs, competitive advantage for SME on export markets and legal, institutional and business environment for SMEs.

The Strategy of Scientific and Technological Development of the Republic of Serbia (2010-2015) has defined Government objectives to create a national innovation system by promoting applied research and technology transfer and creating partnerships between the public R&D sector and industry. It envisages goals of reorganising existing R&D institutes, ensuring application of knowledge based innovations into products and services that will enhance the Serbian knowledge based economy and its competitiveness.

Sector and donor coordination

Apart from Inter-ministerial coordination and cooperation through meetings of National Council for Economic Recovery and Working Groups for passing new pieces of legislation relevant for improvements of the situation in this sector, the coordination and harmonisation of donor activities in Serbia, with a particular focus on country ownership over coordinating aid-funded activities, is ensured under the leadership of the Serbian European Integration Office (SEIO) – Sector for Planning, Programming, Monitoring and Reporting on EU funds and Development Assistance.

Coordination of programming at the highest policy level is the responsibility of the Commission for Programming and Monitoring of EU Funds and Development Assistance. The Commission meets annually and is chaired by Vice Prime Minister in charge for European Integration. The Commission is composed of 11 ministers and the Director of the SEIO. The task of the Commission is to review draft documents that will be presented to

donors, suggest priorities for use of resources of international development assistance, and consider and make proposals to the Government on other significant issues related to the use and management of EU funds and development assistance.

The NIPAC and NIPAC Technical Secretariat have eight Sector Working Groups (SWGs) that prepared the Needs Assessment Document (NAD) for international assistance in 2011-2013, as the basis for identifying annual IPA I programmes, multi-annual IPA III-V programmes and bilateral donor projects. These SWGs comprise representatives from Line Ministries and other beneficiaries as the main actors in programming and project identification. The SWGs contribute to the identification and prioritisation of projects, ensuring sector and donor coordination, co-financing and analysis of project implementation. SWG for Competitiveness covers/corresponds to the MIPD Private Sector Development.

Within the recently improved Aid Coordination Mechanism, informal donor coordination groups will be rearranged and their work formalised based on increased national leadership. In addition to sector aid coordination groups, the mechanism envisages the following four cross-sector groups: Local Development, Regional Development, Roma Integration and Gender Equality.

The action plan for programming and reporting on international assistance is prepared annually by the NIPAC Technical Secretariat to ensure synchronisation with national planning and budgeting processes and to consider IPA programming specific requirements. By defining activities, timeframes and roles and responsibilities of relevant institutions, it serves as a tool for coordination and an instrument for aligning donor activities. ISDACON, as both a website and database of development assistance and priority projects, serves as a programming, reporting and communication tool.

Sector budget and medium term perspective

With the aim of increasing predictability of public financing for the budget users, as well as of improving transparency of the planning process in general, the Budget system Law prescribes the obligation of presenting the medium term expenditure framework as the three-year expenditure limits for budget users. According to the Fiscal Strategy for year 2013, with Projections for years 2014 and 2015, based on the medium-term macroeconomic projections and the targeted deficit for the respective years, the following funds are planned to be allocated from the state budget to the state institutions associated with the Private Sector Development sector⁷:

Total state budget expenditure limits for 2013-2015 (in EUR*)

Institution	2013	2014	2015
Ministry of Finance and Economy*	3.840.689.415	3.969.795.276	4.128.587.065

⁷ The data presented herewith originate from the Draft Fiscal Strategy issued by the Ministry of Finance and Economy in October 2012. This Draft is pending adoption by the Government and the subsequent submission to the National Assembly, the actions which will precede the adoption of the Law on Budget for year 2013 (15th December 2012, at latest). As at the moment of drafting of the present fiche the budgetary process is still ongoing, slight changes of expenditure limits per budget users can take place, however without effect to the overall state budget deficit.

Ministry of Regional Development and Local self-government*	56.963.294	59.241.823	61.611.497
Ministry of Foreign and Internal Trade and Telecommunication*	25.722.533	26.751.430	27.821.480
Ministry of Education, Science and Technological Development	1.235.535.720	1.284.957.160	1.336.355.440
Intellectual Property Office*	1.365.301	1.419.916	1.476.706
Ministry of Construction and Urbanism*	14.411.731	14.988.202	15.587.734
Serbian Investment and Export Promotion Agency	/	/	/
Innovation Fund	/	/	/
National Agency for Regional Development	/	/	/
Office for Regulatory Reform and Regulatory Impact Assessment	/	/	/

*Converted at the agreed budgeting rate of 119.6 RSD: 1 EUR

**Total budgets are presented referring to the general competences of Ministries and not only to area of Private Sector Development

The **strategic goal** of the Government economic policy on the medium-term 2013-2015 as outlined in the Fiscal Strategy is the ***acceleration of the European integration process*** of the Republic of Serbia, by undertaking activities leading to the initiation of accession negotiations and by implementing systemic reforms leading to the fulfilment of the Copenhagen criteria. To this end, the adoption of the necessary systemic laws shall be accelerated, as well as the implementation of the adopted legislation with the aim of establishing market economy, macroeconomic stability and suppression of the corruption and the organized crime. The document further clarifies that in order to fulfil economic and political criteria for membership to the EU, the resources shall be provided for strengthening of the administrative capacities and for the stability of institutions guaranteeing democracy, the rule of law and the protection of minorities, for the development of market economy and of its potentials to respond to the competition and market pressures from the EU, as well as for creating the stable economic and monetary surrounding.

Having in mind the above strategic goal of the country, the focus of the economic policy in the medium-term perspective shall be on the economic recovery of the country and on the creation of conditions for the sustainable and balanced economic growth based on the increase of investments and export, and leading towards the increase in employment and of the living standard. With this regards, the Fiscal Strategy outlines in particular the regional development policy as a special economic policy to be emphasized in the period 2013-2015 and aiming at increasing regional competition, decreasing regional disparities, reinforcing decentralization and providing strong linkages with other Government policies and with EU regional policy. When it comes to key sector policies, tourism is prioritized for the necessity

of improving the infrastructure of services and adding value and incomes from products provided within the touristic offer, as well as the scientific policy. To build the knowledge based society and economy, more investments are planned for infrastructure projects in the scientific area and of research and technology development. Public-private partnerships are going to be promoted as a driving force for boosting production and competition, as well as of structural linkage between science, education and economy. On the side of planned structural reforms, significant attention is going to be dedicated to strengthen entrepreneurial sector and improve business and investment climate with the view of reduction of costs and business risks.

Sector monitoring system

Sector performance should be monitored by sector outputs and consequent impacts that will be continuously monitored based on the existing strategies and action plans. Sector monitoring is currently under development. For time being sector monitoring for Economic development sector is based on two key mechanisms: system of performance indicators which have been developed to accompany the document "*Needs of the Republic of Serbia for International Assistance 2011-2013*" and on periodical review of the implementation of strategies and action plans relevant for the sector.

Result-based system of indicators accompanying document "*Needs of the Republic of Serbia for International Assistance*" defines baseline and target values (benchmarks) for a four-year period and will be revised annually. Indicators are linked with the relevant sector priorities and measures defined in the document, and are, to the extent possible, taken from sector performance frameworks described in the first paragraph. It is intended that this system of indicators is used in planning and monitoring of EU funds and development assistance and integrated in the relevant planning/ programming documents (including sector/ project fiches).

The monitoring system under decentralised management of IPA (DIS) is defined in detail in relevant Manuals of Procedures. System is based on a set of monitoring committees examining relevant monitoring reports - IPA Monitoring Committee, Sectoral Monitoring Committees (TAIB MC being one of them) and Sectoral Monitoring Sub-Committees (SMSCs). SMSCs will be examining IPA monitoring reports on activities funded through first IPA component per sector (it is envisaged that 8 SMSCs will be functional in the following sectors: rule of law; public administration reform; civil society, media and culture; transport; energy and environment; economic development; human resource development and agriculture and rural development). Progress in achieving the target values per indicator set in the relevant sector / project fiches will be included in the relevant monitoring report and examined at the SMSC and TAIB MC meetings.

Institutional setting

According to the Law on Ministries, the sub-sectors included in the Competitiveness sector in the Republic of Serbia are predominantly addressed by the following institutions: Ministry of Finance and Economy, Ministry of Regional Development and Local Self-Government, Ministry of Education, Science and Technological Development, Ministry of Foreign and Internal Trade and Telecommunications, National Agency for Regional Development, Office for Regulatory Reform and Regulatory Impact Assessment, Serbian Investment and Export Promotion Agency, Innovation Fund and Intellectual Property Office. The main actors in the consultation mechanism with CSOs are Sector Civil Society Organisations (SECOs). SECO is

a consortium of CSOs of maximum three partners, where one is clearly defined as a lead partner.

Macro-economic context and Public Financial Management

According to the Fiscal Strategy and the macro-economic indicators presented therein, it is obvious that at the end of the year 2012 Serbian economy is in the recession. In general, the negative tendencies started with the second wave of economic crisis in the second half of year 2011, and continued throughout 2012 (the evident slow-down of the economic activities and of export and import of goods, the increase of fiscal and current account imbalances, growth of inflation, decrease of employment, dinar deterioration, decrease of foreign exchange reserves and of crediting activities in the banking sector, the increase of the share of the non-performing loans in the debt portfolio, etc.). The stagnation of economic activities at the EU Member states, the recession in the countries of EURO-zone, and particularly in the countries of the region, strongly affected Serbian economy being heavily dependent exactly on those trade partners. This shall continue to represent major external risk for the national economy, but the comparative anticipations are such that the recession shall decelerate during 2013, while modest growth in economic activities and employment can only be foreseen in the horizon of year 2014. The Fiscal Strategy forecasts a macroeconomic scenario with real GDP growth at average rate of 3.2% per year over the period 2013-2015.

The prospects of economic recovery and growth are based on the projections and expectations of the increase of export, of savings in public sector, of productivity and of competition, as well as on the anticipation of the economic recovery of the markets of EURO-zone. As presented in the Fiscal Strategy, the macro-economic stability is the key pre-condition for fulfilling the outlined **priorities of economic growth and the increase of employment and of the living standard** in the Republic of Serbia. In that sense, a strict coordination of fiscal and monetary policy in the following three years is of crucial importance for macro-economic stability and for the decrease of macro-economic imbalances (inflation, fiscal deficit, current account deficit). The prevailing orientation is therefore towards undertaking rational economic policies and on the acceleration of structural reforms. Fiscal policy shall focus on the decrease of fiscal deficit by introducing changes in tax policy and mostly through fiscal adjustments on the expenditure side in line with the rules of fiscal responsibility. Monetary policy shall aim at attaining targeted inflation and on carrying out the floating exchange rate regime. In parallel, structural policy shall promote reforms leading to increasing productivity and export capacities, improving the business environment and attracting potential foreign investors, as well as reforms in the public sector. With this regards, a particular challenge for the economic policy shall be to ensure the financial incentives for the most effective programs, particularly in agriculture, energy sector and in infrastructure. By strengthening the rule of law, suppressing the systemic corruption and with mitigation of the rigidity on the labour market, a better investment climate is to be created. Complementary special economic policies to be emphasized in the medium-term perspective are: policy of protection of competition, active population policy increasing birth-rates, balanced regional development policy, social policy (guaranteeing social rights and inclusiveness); Key sector policies towards which more substantial financial resources are going to be allocated, are again closely interlinked with the aims of economic growth and employment and presented as follows: agricultural policy, mining and energy, transport, telecommunications, tourism, health policy, education and science.

Envisaged structural reforms of the public sector are of great influence to the efficient **management of public finances**. The principal legal bases for the public financial

management in the Republic of Serbia are set out with the Budget System Law which is assessed rather positively in terms that it “provides for many of the essential components of a sound budget system⁸”. In the recent years (2010/2011), important new institutes such as medium-term expenditure framework and fiscal responsibility rules, have been introduced to streamline the management system. However, the implementation of those new concepts has not been fully exercised, largely because of the challenges the state faced with the financial crisis, and due to incremental approach in introducing the changes in practice. In addition to this, a significant reform potential is to be seen in the recent amendments of the Budget System Law (BSL)⁹. One of the major changes concerns the broadening of the definition of public finances, which previously referred exclusively to budget (local and central level) funds and did not encompass the totality of revenues/incomes (for example, the so-called own, or proper revenues of some public sector institutions were left out of the system of managing the public finances and of the treasury single account). The system and the Law as amended in September 2012, now provide for a more comprehensive approach in planning, spending and reporting on public funds and as such create conditions for a better control of spending in the public sector. Likewise, the amended BSL has incorporated system changes concerning the approach in establishing and charging of various taxes, levies and duties affecting particularly the private sector. Namely, the assessments carried out with this regards, revealed that much of the fiscal duties were being introduced in opaque and unpredictable manner. The amended BSL establishes fairly transparent principles in introducing such financial charges and obliges for the subsequent adjustment of other pieces of legislation not aligned with the outlined principles; Further on, in line with the recommendations of the EC DG BUDGET, the definition of the managerial accountability has been adjusted, while in anticipation of the conferral of management powers for decentralized management of EU Funds, a new budget reserve has been introduced in order for Serbia to cope with the requirements of accreditation criteria.

Notwithstanding those improvements in the budget system, the public expenditure management still remains short of a consolidated plan for reforming the public expenditure management, which would focus exactly on implementing reforms that have already been agreed and launched. In 2010 Public Financial Management in the Republic of Serbia has been reassessed in accordance with the Public Expenditure and Financial Accountability (PEFA) methodology¹⁰. A basis is therefore now available for information and monitoring of PFM, for planning of the reform strategy and capacity development programme. Assessment of the PFM institutions, processes and systems, has been carried out in several important areas: budget credibility; transparency and comprehensiveness; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; external scrutiny and audit; and donor practices. A standardised scoring system is applied in the structure (sub-elements) of each of the topics, so that weaker scoring directly signals the necessity to concentrate efforts on improvements in a medium-term perspective. The PEFA Report recognises the dependency between PFM reforms and the EU accession agenda and recommends a more systematic approach and stronger specific leadership to ensure consistency of future PFM reforms.

⁸ SIGMA Assessment for Serbia, published in March 2012.

⁹ The Law on Amendments to the Budget System Law was adopted by the Parliament on September 25th and published in the Official Gazette No. 93/12, September 28th, 2012.

¹⁰ The Republic of Serbia PEFA Assessment and PFM Performance Report 2010 has been published in November 2010

Sector assessment

The Government of Serbia is firmly committed to the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union, in pursuit of its national policy objectives and reform agenda, on the path towards the EU. The needs for international assistance of Economic development sector for 2011-2013 have been fully articulated by the Sector Working Group for Competitiveness, and described in the "Needs of the Republic of Serbia for International Assistance 2011-2013 (NAD)", adopted by the Government in February 2011. Apart from the consultations with relevant national institutions (held within the abovementioned eight sector working groups), the process of drafting the sector chapters of the NAD included consultations with representatives of civil society organisations, the donor community and local self-government. The consultation process was based on a number of sector-specific meetings, in order to present draft documents and discuss recommendations and input provided by CSOs, donor community representatives and local self government. Recommendations provided were taken into consideration and are reflected in the final text of the document.

The process of IPA 2013 programming extended the already established consultation process developed on a sector basis during the preparation of the NAD 2011-2013 and the IPA 2012 programme preparation. Strategic approach to the programming process has been improved through more systematic approach in identification of the priority needs and earlier involvement of all relevant stakeholders in programming process, including civil society organisations.

A strategic (or gap) analysis has been conducted to identify priority areas relevant for the IPA 2013 programme. The strategic (or gap) analysis has been conducted through a range of actions including analysis of the correlation between the NAD 2011-2013, the MIPD 2011-2013, the analysis of EC Opinion on Serbia (Analytical Report) 2011 and Progress Report 2012 correlation with on-going and proposed 2012 assistance. Analysis has been carried out through the framework of Sector Working Groups (SWG) (SEIO, Line ministries, the EUD representatives and Civil Society Organisations) that have discussed the key messages derived from the abovementioned strategic documents. On the basis of this cross-checking strategic analysis, SWGs during the consultation process have identified a number of IPA I 2013 priority areas for this sector (also commented by the EUD and DG Enlargement) which have been used as basis for development of the SF.

In order to avoid a risk of appearance of overlaps between strategic documents Government of Republic of Serbia has undertaken in-depth analysis. As a result, General Secretariat published a document on Analysis of strategic documents in Serbia with recommendations on improvements of overall strategic framework. With regards the strategic framework for Economic development sector, the analysis underlined the need for development and adoption of umbrella Strategy on economic development of the Republic of Serbia, with a view to align with EU strategic documents in this area. Consequently, it should be also considered merging of some of the existing strategies with new umbrella Strategy.

In general terms, besides already implemented improvements, for full implementation of the sector approach it will be necessary in the coming period to create a unified methodology for the development of strategies, review existing strategic framework in relation to the new financial perspective 2014-2020, improve monitoring and evaluation requirements with a focus on results and consequently contribute to improvement of the strategic planning, improve planning of the national budget by linking strategies and action plans with the budget planning and avoid any overlap of responsibilities between different institutions. Finally, it is

necessary also to ensure a constant development of project documentation, since without ready projects strategy cannot be implemented.

3 DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE IPA SECTOR SUPPORT

To contribute to improving the competitiveness and stimulate domestic growth, enterprise internationalisation and investment

According to the MIPD 2011-2013, Serbian companies face large challenges in increasing their competitiveness and export potential. Support is needed in **order to help Serbia improve its business environment, attract foreign direct investment and increase exports. Assistance should also be given to help Serbia move to an innovation driven economy and to align with Europe 2020 targets.**

Therefore, the overall IPA sector support aims to strengthen the role of public sector in **creating preconditions for modernisation and growth of Serbian economy by focusing on business environment, competitiveness of enterprises, as well as R&D and innovation capacities and cooperation.** The identified measures will especially focus on *strengthening the business environment in which the enterprises especially SMEs operate* by implementing an Action plan for improving business environment. Additional mechanism that would serve enterprises to enhance their productivity and export capacity will be the *provision of conformity assessment infrastructure*. Thus, support will directly contribute to the MIPD specific sector objectives of **promoting the establishment of SMEs; strengthening the regulatory and administrative environment for doing business and increasing the competitiveness of Serbian enterprises and industry in the EU market.** The sector support will also focus on creating a *strategic framework for R&D and innovation*, and promoting *cooperation between research institutions and private sector* in order to build research and strengthen SME capacities to innovate and **increase (business) investments in R&D.** The results of IPA support will complement the results from the efforts the Government is making in this sector, especially in the business environment improvement, creating the synergy effect.

3.2 SPECIFIC OBJECTIVE(S) OF THE IPA SECTOR SUPPORT

The overall objective of IPA sector support will be achieved by focusing on the following MIPD sector objectives:

- **To improve the regulatory and administrative environment for doing business in Serbia.**

Indicators:

- *Improvement of Serbia's ranking in the World Bank's annual Doing Business Report.*

- **To increase the competitiveness of Serbian enterprises and industry in the EU market**

Indicators:

- *Increased export of goods and services (% GDP);*

- **To increase investment in research and innovation**

Indicators:

- *Rate of enterprise creation and abilities to innovate;*
- *Improved cooperation between SMEs, R&D institutions and educational institutions;*

3.3 RESULTS

Result 1: Improved and more foreseeable business environment

Indicators:

- *Action plan for improving business environment adopted and implemented*

Result 2: Improved level of recognition of National Quality Infrastructure system aiming to increase international competitiveness of Serbian industry

Indicators:

- *Number of “new approach directives” transposed into national legislation according to the NPAA (chapter 1)*
- *Action plan for “non-harmonized area” adopted and implemented*
- *Coverage of harmonized technical legislation with CABs capable to perform CA according to European standards*
- *Products marked in accordance with Serbian technical legislation*
- *Number of accredited CABs in accordance with new accreditation schemes and procedures for accreditation*
- *At least 7 product groups covered with testing/certification capacities in Serbia*

Result 3: Enhanced system for supporting innovation and technology transfer

Indicators:

- *At least 5 innovation support organizations (ISO) and/or R&D organisation adopt and implement technology transfer practices*
- *At least 5 technologies transferred by R&D organizations*
- *At least 5 new products or services developed*
- *R&D and Innovation Strategy and Action Plan adopted and implemented*
- *Infrastructure Roadmap and Action Plan adopted and implemented*

3.4 MEASURES/OPERATIONS TO ACHIEVE RESULTS

Measure 1.1: Implementation of the Action plan for improving business environment and recommendations for further improvements in this area

This measure will support implementation of the priority reforms and activities from the Action plan for improving business environment in Serbia, which is envisaged to be prepared

and adopted by the Government during 2013. The activities will focus on reducing the legal, regulatory and administrative obstacles for doing business in Serbia, making the business environment more favorable and foreseeable.

The measure will have clear focus on key challenges that businesses and investors are facing in Serbia. It will define concrete answers to the key issues identified, among other, in World Bank's Doing Business Report for Serbia.

This Action plan will be based on conducted analysis and diagnostics of the past and ongoing initiatives (both Government and donor led), aiming to improve business environment in Serbia. Therefore, it will build upon the results of previous reform activities in this field: the Government activities, especially the Ministry of Finance and Economy, achievements of the Office for Regulatory Reform and Regulatory Impact Assessment, reforms implemented within USAID BEP and other related projects. It will at the same time concentrate on the most critical aspects identified in the latest reports, such as Serbia 2012 Progress Report, World Economic Forum's Global Competitiveness Report, World Bank's Doing Business Report, Foreign Investors Council's White Book – recommendations for business environment improvement in Serbia, and other relevant business surveys and reports.

Ministry of Finance and Economy will with the support from USAID BEP project, initiate and lead the process of preparation of this Action plan in wide partnership consultation, including all relevant stakeholders in each phase of the process. Therefore, the Action plan will elaborate priority interventions in order to overcome identified gaps and obstacles and hence improve business environment in Serbia. It will particularly focus on the following, not exclusive, list of areas: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Given that the Action plan will finally define the areas of focus within this measure, there needs to be certain flexibility in this regard.

The **mechanism** for preparation of the Action plan will be the inter-ministerial Working group, which will also include the representatives from the private sector, relevant projects, think-thanks, business organizations, etc. This preparation and further implementation will be done in close cooperation with the Office for the Regulatory Reform and Regulatory Impact Assessment, given that it has been very actively included in this area in previous years through working on the "legislative guillotine" process.

The **measure** will, therefore **support implementation of agreed key interventions in respect to business environment.**

In parallel, the **additional analyses and provision of recommendations** as to how to **continue with the reforms in the area of business environment** will be **prepared under this measure.** This analysis will be gender sensitive and include recommendations for elimination of potential obstacles in business environment for women entrepreneurship. In order to ensure sustainability and continuity of operations, all recommendations and potential revisions of the Action Plan, as well as monitoring and evaluation of the results, will be used to provide inputs for future interventions in this area.

The measure will be implemented through one operation.

Operation 1.1.1: The service contract will cover the support to implementation of the Action plan for improving business environment. Additionally, and in parallel to this, it will analyze the ongoing activities and changes in the area of business environment, recommend the potential amendments to the Action plan, and propose additional interventions related to

improving business environment.

Measure 2.1: Support to industry development through strengthening capacities of authorities in charge of NQI and providers of conformity assessment (CA) services

The measure will focus on further improvement of compliance with European requirements and full implementation of harmonized technical regulations, as well as approximation with the EC product legislation revised after the adoption of the “2008 new legal framework” and fine tuning of the horizontal legislation. Furthermore, it is essential to enhance non-harmonized area through identification of gaps and overcoming possible contradictions in national legislation (according to articles 34-36 of the Treaty on functioning of the EU i.e. and Directive 98/34).

The measure will additionally enhance CA system and capacities of providers of requested testing and certification services in respect to industry needs (for example MD, LVD, MID, NAWI, PED, PPE, CPD/CPR, ATEX and other directives). It will also raise awareness on importance of implementation of EU new and global approach, technical regulations and standards, as it is a crucial for EU aligned modern management of national CABs.

Besides that, the measure will improve implementation of selected EU New Approach Directives requiring CE marking by economic operators. The measure will cover rising of industry awareness about importance of fulfilment of technical requirements, using products’ and processes’ standards for improvement of their national and international competitiveness. This will be carried out by providing public awareness activities to representatives of manufacturers and retailers to be able to implement EU technical regulations at company level, it means to meet the EU’s product and production requirements (CE marking), aiming to better prepare them to benefit from future ACAAs.

Recognition of Serbian QI will be improved, higher level of products’ quality and safety will be achieved and consequently access of Serbian products (covered by New Approach directives) to the EU single market will be facilitated. As the competitiveness of Serbian companies will be enhanced, realisation of planned activities within this measure will bring Serbia substantially closer to the future ACAAs.

The measure will be implemented through two operations:

Operation 2.1.1 Twinning will cover TA to the MFE and quality infrastructure institutions (mainly DMDM and ATS), CA system and industry/economic operators. Activities within this Operation will comprise following:

2.1.1.1. Support to MFE in legislative activities

a) Approximation with latest EU product legislation, revised in order to fully reflect changes given in “2008 New goods package”, such as: "ATEX" Directive: 94/9/EC; Electromagnetic Compatibility Directive: 2004/108/EC; Low Voltage Electrical Equipment Directive: 2006/95/EC; Measuring Instruments Directive: 2004/22/EC; Non-Automatic Weighing Instruments Directive: 2009/23/EEC; Lifts Directive: 1995/16/EC;

b) Review of all requirements in non-harmonized area, by preparation of Action plan for non-harmonized area. It should help MFE to coordinate process of identification of gaps and overcoming possible contradictions in national legislation in order to secure that technical regulations justified on grounds of public security, the protection of health and life of humans, animals or plants, shall not preclude prohibitions or restrictions on imports or exports, as stipulated by Article 36 of the Treaty functioning of the EU. It should also raise capacities of

Ministries on implementation and enforcement of the Regulation 764/2008/EC and enhance the mechanisms for implementation of principles of Directive 98/34/EC.

c) Revision/fine tuning of the horizontal legislation after analysis of market functionality of the legal framework identified gaps;

d) Improvement of Sector for Quality Infrastructure capacities to provide support to the economic operators in application of technical regulation. It should enhance capacities of Sector for Quality Infrastructure to provide answers to enquiries of economic operators on EU directives transposed in Serbia, relevant national legislation, relevant harmonized standards, classification of products concerning legal compliance (Identification of relevant product legislation), choosing the right conformity assessment procedure, etc.

e) Design of solution for future database (for upgrade of existing software) (with all relevant stakeholders involved in preparation and implementation of technical regulations), as an information instruments for functioning of future Enquiry Point, according to EU, WTO and CEFTA requirements. When Serbia becomes a member of WTO, Sector for QI will be Enquiry Point for all technical regulation in Serbia, according to Law on Technical Requirements for Products and Conformity Assessment. Sector for QI will be obliged, according to the EU/WTO rules, to inform foreign companies and institutions about Serbian technical regulations in preparation phase, as well as, domestic companies and institutions, about foreign technical regulations in preparation phase (function of notification). Additionally, this Enquiry Point, will also have role of Product Contact Point, according to EU Regulation 764/2008/EC, which will provide EU companies with information on relevant Serbian technical regulations. Development of comprehensive database and operating system for exchange of information between creators and implementers of technical regulations is crucial for facilitation of free movement of goods.

2.1.1.2. Support to industry in priority sectors to increase the quality, safety and competitiveness of their products through raising their awareness about importance of fulfillment of technical requirements and using of product and process standards for their national and international competitiveness (such as products covered by MID, NAWI, ATEX, LIFTS, RTTE, etc.)

Raising awareness activities (info sessions, publications and TV broadcast campaign) will cover further priority areas:

- selected EU New Approach Directives
- explanation of requirement from standards
- conformity assessment modules/procedures
- EC Declaration of Conformity and CE marking
- use of harmonized standards

2.1.1.3. Support to CA system

Support to DMDM, ATS and CABs, a potential notified bodies, especially in potential ACAA sectors, for building their capacities to implement new technical regulations, standards, test methods, expanding the scope of their accreditation if it would be necessary when purchasing new equipment etc.)

Support will comprise:

- Training of potential notified bodies on EC legislations and EN standards.
- Identification of major technical gaps at selected potential designated bodies
- Preparation of a number of potential notified bodies to be granted extension of accreditation and recognition by the designation authority.
- Establishment of official contacts with European notified bodies
- Support to ATS to develop new accreditation schemes and procedures for the purpose of designation of CA bodies, to train assessors on EC legislations and on how to conduct assessments on notified bodies relevant to EC Legislations and EN standards, in priority areas, etc.

Operation 2.1.2 The supply contract will procure equipment for performing of conformity assessment, prioritized on the basis of industry needs, in line with the technical specification developed through project under GIZ ACCESS program. Detailed information about GIZ ACCESS activities, are provided in Needs Assessment for the Supply Contracts document. The subject of supply contract will include delivery, installation and putting into operation of equipment, operation manuals, training and after-sales services for a two year period. The supplies must fully comply with the technical specifications set out in the tender dossier.

Measure 3.1: Creating a comprehensive R&D and innovation strategy and assisting technology transfer

This measure will address lack of expertise in technology transfer practices of Serbian public sector R&D organizations and academic institutions, with a particular focus on: building expertise by which academic R&D can be commercialized; providing access to financial incentives for engagement of academic R&D in support of enhancing the competitive position and profitability of a Serbian enterprises by introducing financial instrument that directly supports joint public sector R&D organizations and private industry projects. The measure will contribute to the awareness and capacities of R&D and innovation support organizations in applying for EU Programmes including Horizon 2020. It includes the following:

1. Technical assistance to innovation support organizations such as technology transfer centers and incubators, R&D organizations and related entities in working with private enterprises and international R&D partners, on a variety of issues. These would include **protection of the IP, evaluation of the commercialization potential, preparation of project proposals and development of commercialization strategies**. In addition, the technical assistance will provide **support for public sector R&D and innovation organizations interested in establishing the functions of technology transfer centers**; thus, contributing to building long-term capacity of the public sector R&D to engage in commercialization and technology transfer activities. The creation of the centralized technology transfer facility will be considered.

Accordingly, the assistance will provide access to professionals who understand the ultimate objective of new innovation R&D – that is, to bring the technology to the marketplace. So, they should have experience in commercialization of R&D and understand the dynamics of the so-called “Triple Helix” of bringing business, government and academia, as well as other players, together in cooperation facilitating creation of new technologies. The experts will include both international and selected local members, with the latter bringing Serbian professional insight and perspective and the former contributing to cross-fertilization of ideas and capacity-building of needed skills in Serbia. In addition, the assistance should contribute to capacities of these organizations in applying for EU grants.

To take advantage of economies of scale, the technical assistance would be affiliated with the Serbian Innovation Fund, and management and staff of the Fund would provide administrative operational and functional support.

2. Grant scheme to stimulate collaborative R&D of public sector R&D organization with private sector enterprises with emphasis on international collaboration (e.g, through participation of export oriented enterprises or international companies operating in Serbia). The grant scheme will support eligible consortia applying with collaborative R&D projects between Serbian R&D organizations and private sector enterprises at all stages of the R&D cycle, but be led by the needs of the private sector enterprises involved. The grants up to EUR 300,000 will be designed to support the public sector R&D organizations in ways to encourage all stakeholders to increase their collaborative activities and to foster closer links as well as to utilize existing infrastructure in public sector R&D institutions. Co-financing of 30-50% of the total project value will be required, while majority of financing will support collaborative R&D activities. In addition to supporting R&D and commercialization activities, the grant scheme will place an emphasis on international collaboration of the R&D organizations with industry or international partners and researchers in the Serbian diaspora. Percentage of each grant will be allocated for incentives for gender equality and inclusion of diaspora. The development and preparation of the grant scheme will be supported by Component 1 of the Innovation Serbia Project building on the Innovation Fund's capacity developed under this component to implement calls for proposals in line with the best international practice including the international peer review and independent international expert panel selection and decision process.

The grant scheme is envisioned to contribute to building long-term relationships of the public sector R&D organizations with local and international industry partners operating in Serbia by reducing their risk in engaging in collaborative R&D projects in Serbia and by provide access to existing R&D infrastructure and scientific expertise. It is expected that the grant scheme will also result in establishment of best practices in collaborative R&D in public sector R&D organizations, based on the requirements of the international markets by inclusion of the export oriented enterprises and international companies operating in Serbia. Furthermore, it will enhance capacity of the Serbian research community in cooperating with the private sector with the goal of creating a pipeline of new technologies coming out of public sector research organizations and establishing best practices in commercialization of academic research.

This measure represents another critical component in the institutional infrastructure necessary to build an innovation, knowledge-based economy in Serbia.

Additionally, this measure will support the development of a new post 2015 strategy for R&D and innovation, its action plan and implementation modalities on the basis of which, a cohesive national innovation system can be formed.

It is envisioned that component 1 and 2 will build on the already established capacity of the Innovation Fund through Serbia Innovation Project to design, implement and monitor grants schemes thorough an international peer review and independent expert panel decision process as well as to establish expert support for grant end recipients to be financed through a grant scheme.

Innovation Fund has been established by the Innovation Law in 2006 to provide financing for innovation from both national and international sources of financing with the mandate under the Innovation Law to work with international financial institutions and organizations, donors

and private sector on programs and projects in the sphere of implementation of the innovation policy as well as to act as an intermediary, related to the funding of the innovation activity from the funds of international organisations, financial institutions and bodies, as well as of domestic and foreign legal entities and natural persons, in particular in the spheres of science and technology established by the strategic documents as priorities.

3. The new R&D and Innovation strategic document will consider recommendations of the NCSTD on the improvement of the national R&D and innovation system and will build on the results of the implementation of the current Strategy that expires in 2015. The Strategy will include the results of Component 3 of the Innovation Serbia Project, which analyzed Serbia's research and development institutes, provides TA to volunteer RDIs interested in undergoing institute upgrading to engage in technology transfer and commercialization and provided technical input to the Government's future RDI sector reform program based on lessons learned from the aforementioned technical assistance program. It should provide an excellent starting point for developing a new post 2015 strategic framework for Serbian R&D, which is more focused on innovation and creating a knowledge-based economy. The new strategy on R&D until 2015 will consider and provide emphasis on gender equality and include concrete actions in this direction.

The new document will also align Serbia's national efforts with those of the Western Balkans Regional Research and Development for Innovation Strategy (MB IPA 2010) in efforts to achieve greater economic impact of R&D activities.

This activity will include the preparation of a roadmap for research and development infrastructure to support Serbia in identifying research infrastructure projects of national and regional importance in accordance with the objectives of European Strategy Forum for Research Infrastructure (ESFRI), of which Serbia is an active member. The research infrastructure roadmap will help maximize the effects of investments made under the HETIP¹¹ project, as well as through the Serbian R&D Infrastructure Investment Initiative supported through financial agreements with the EIB and CEB. Furthermore, the measure will provide technical support to the Ministry of Education, Science and Technological Development to implement regulatory and operational recommendations.

Operation 3.1.1: Contracting Authority (CFCU) will sign a direct grant agreement with the Innovation Fund to support collaborative R&D projects. It will be concluded in accordance with article 190 (1) (f) RAP due to its highly specialised technical competence, high degree of specialisation and sole legal and administrative power of the Innovation fund in this area.

Operation 3.1.2: A contribution agreement (Administration Agreement) with the World Bank (activities 1 and 3) will cover assistance for preparation of R&D and Innovation Strategy including Action plan and Infrastructure Roadmap and building capacities of R&D and innovation support organizations. It will also include World Bank supervision of project implementation.

3.5 OVERVIEW OF PAST OR ONGOING ASSISTANCE, LESSONS LEARNED, MECHANISMS FOR DONOR COORDINATION/SECTOR WORKING GROUP AND/OR POLICY DIALOGUE

¹¹ High Education Teaching Infrastructure Project (EU HETIP) is a joint project of the Ministry of Education, Science and Technological Development of the Republic of Serbia and the European Union for whose implementation the EU has secured 22 million EUR from the IPA financial instrument for Serbia.

According to Serbia's Inter Sectoral Development and Aid Coordination Network (ISDACON) database, it is estimated that a total amount of almost EUR 189 million was actually disbursed in assistance from the international donor community to the sector in Serbia, in the period 2007-2011.

In the six annual programmes since 2007, IPA component I has financed projects in economic development sector, focused on the effective operation of markets: strengthening the market surveillance system for non-food and food products, through transposing EU directives, establishing an appropriate management system, harmonising guidelines for inspectors and delivering training, and raising public awareness; enhancing consumer protection in Serbia, with help in drafting enforcement legislation, facilitating institutional cooperation, developing information systems for policy makers and implementing an information campaign on consumer rights; and supporting the enforcement of intellectual property rights. IPA assistance is also improving the quality, range and availability of business support services, supporting cluster development, supply chain development, export promotion and innovation within SMEs and technology transfer through an enhanced institutional framework, improvement in the business support infrastructure, strengthening conformity assessment structure and development of instruments for financing SMEs innovations as well as supporting activities linking tourism potential to economic development, identifying the attractiveness of tourism products and positioning Serbia within the global tourism market. Promotion of national growth by increasing the competitiveness of Serbian SMEs, supporting firms to attain international standards and certification, supporting sales and marketing (trade shows and market research), creating industry groups and associations, stimulating business clusters, establishing cooperative network of public and private actors, and encouraging e-government through website standardisation have been supported by donors, such as Germany, Austria, Denmark, Italy, Slovakia, Switzerland, United States and the World Bank.

Previous assistance related to the measure 1.1 Implementation of the Action plan for improving business environment and recommendations for further improvements in this area

In the ongoing projects, challenges identified in the MIPD and EC Analytical Report on Serbia have been addressed. The need to tackle complex procedures and red tape has partly been envisaged by bilateral assistance through various Government and donor initiatives. These initiatives included World Bank's support to Regulatory reform ("Regulatory Guillotine") which ended in 2011, and the ongoing **USAID Business Enabling Project (USAID BEP) and Sustainable Local Economic Development Project (USAID SLDP)** aiming at improving the business enabling environment, supporting macroeconomic stability, further development of financial markets, and increasing business and financial management capacities within businesses and the Government.

World Bank has supported the Council for Regulatory Reform and the Comprehensive Regulatory Reform Unit in the process of the so called „regulatory guillotine“ which has operationally started in 2009 with the aim of reducing administrative costs of doing business and improving administrative efficiency. CRR Unit has forwarded 340 recommendations to the regulatory bodies, and so far 196 have been implemented by either putting out of force inefficient legislation, or amending and improving the existing Acts and Regulations, saving annually approximately 120 million euro. Remaining 36 are in the process of adoption, 72 are not adopted, and additional 36 are refuted, The estimation is that there will be approximately 30% less legislation, nearly 25% reduction of the cost of doing business and between 150 and 200 million euro annual cost savings upon the implementation of all recommendations.

The USAID BEP is a five year demand driven programme worth \$ 15.5 million based on the priorities of the private sector and Serbian Government. The project is implemented through the annual Work Plans and the current issues project is addressing within the business environment component are related to improvement of inspections operation and organization, reduction of quasi fiscal burdens to businesses, support to implementation of the Law on Enforcement, streamlining construction permitting, reduction of employing workers burden, improving access to finance for SMEs, and public private dialogue improvement. Furthermore, strengthening legislation, policy and coordination capacities at the central level will partly deal with the need to combat late payments and will complement recent legislative changes undertaken by the Government¹².

Results achieved in the first year and the half of the programme is the following:

Improve Inspections operations and organization: Strategy for Inspections Reform has been developed, Model Law has been drafted, and both documents were discussed and vetted with business community and majority of business inspectorates. In addition the MoJSA has formed the Working Group in charge of drafting Inspections Law; Inventory of para-fiscal charges conducted with recommendations for removal or reduction of such charges; Newly Fiscal Council support provided to monitor Government budget decisions; New Capital markets Law and by-laws adopted and implemented, the Working Group fomed within the MoFE to harmonize all Capital Market related laws – work in progress; Draft Concept of the Law on Construction developed; new Strategy for Regulatory reform developed with the aim to remove specific impediments to business growth; New code of Corporate Governance adopted; Draft Law and by-laws on Enforcement drafted and Security and training to Enforcement Officers conducted; Draft Law on Factoring adopted by the GoS and is in Parliament; Seven roundtables of Business Associations, Trade Unions and the MoL conducted, identifying all necessary changes of the labor law and reaching consensus on a nuber of issues; Comprehensive Study on Constraints to Access to Finance published and launched.

The USAID BEP cooperates closely with the line ministries, and the plan is to use their expertise and experience to **prepare analysis of the current situation in business environment** in Serbia, in all areas of Project's work, and **to make and prioritize recommendations** as to how to improve the ranking of Serbia in WB's Doing Business report. This is to be done in line with all Government's and other donors' initiatives and results achieved in this field. The results of the analysis and the proposed recommendations are to be incorporated in the proposed measure for improving business environment.

The USAID BEP also supported National Alliance for Local Economic Development (NALED)¹³ to prepare the inventory, analysis of effects, recommendations for reform of the system of non-tax and quasi - fiscal charges in Serbia. This analysis is an attempt to provide, for the first time, a comprehensive overview of non-tax burdens payable by businesses in the Republic of Serbia; to give an initial assessment of the effects of these burdens; and to present businesspeople and public finance policymakers with possible directions of reform.

¹² Government has adopted a Regulation partly aligned with the Directive on combating late payment in commercial transactions

¹³ The National Alliance for Local economic Development (NALED) is an independent association of businesses, local governments, and nongovernmental organizations working together to create a business friendly environment in Serbia. The Alliance was established in March 2006 within USAID's Municipal economic growth Activity with the support of the Serbian President and the U.S. Ambassador. To date, NALED has brought together over 130 members, among them some of the most successful companies in Serbia, as well as reform-oriented and proactive nongovernmental organizations.

NALED is annually issuing the Grey book - Recommendations for removing administrative obstacles to doing business in Serbia, with the idea to identify administrative obstacles and procedures unnecessarily imposed on the business sector. Also, the idea is to find the simplest solutions for their solving with the assistance of SME and Corporate Companies from Serbia. Significant part of these recommendations (received directly from the representatives of the business sector) has been incorporated in the work of Comprehensive Regulatory Reform Unit, thus ensuring the link with the Government and increasing the chances for their implementation.

The USAID SLDP is a five year programme (2010-2015) worth \$ 22 million supporting municipalities, businesses and civil society organizations to move beyond city-by-city solutions in favor of cooperative, inter-municipal approaches to improving public services and invigorating their economies. The Programme will provide support to business enabling environment through the assistance at the local, sub-national and national level. It will support the Business Friendly Certification Program, increase business community involvement in the inter-municipal partnerships: in refining the local development priorities and contributing to the development of modern concepts of corporate social responsibility and private-public partnership as well as to increase the level of investments, thus increasing the number of jobs in partner municipalities.

Results achieved in the first year and the half of the programme is the following:

8 inter-municipal partnerships have been formed with 32 municipalities; 24 inter-municipal initiatives have been launched in the area of regional touristic development, agriculture, industrial zones and waste management; capacities of 4 inter-municipal partnerships have been increased in planning and preparation of the projects and attracting investment; citizen participation has been ensured in 4 inter-municipal partnerships; contribution was provided in law making process in following areas: managing utility services, public property, referendum and citizen initiatives, PPP and concessions; 4 guides for establishing PPPs and one guide for involving citizens in decision making at local level; 1 inter-municipal partnership received recommendations for improving business climate at local level.

Support to SME development (proposed for IPA 2012) is almost EUR 7.9 million project with two components related to the strengthening of SME performance by providing quality professional support services and improving e-business environment. Through component one the EBRD (EGP/BAS) will provide specific SME demand-driven support and develop business advisory service market while component two will propel the development of e-business by strengthening the legal and institutional framework, developing the technical environment and fostering the use of electronic trade between businesses through the introduction of e-Services for businesses.

Previous assistance related to the measure 2.1 Support to industry development through strengthening capacities of authorities in charge of NQI and providers of conformity assessment (CA) services

Technical assistance to Quality Infrastructure Institutions in the Republic of Serbia (from October 2008 to December 2010) (CARDS 2006). The overall objective of project was to assist Republic of Serbia in meeting the requirements of the SAA in the area of free movement of goods. The purpose of project was to assist Republic of Serbia with the adoption of the policies and legislation harmonized with EU Acquis. Project had 4 components: 1. Assistance to the Ministry, 2. Standardization – support to the Institute for Standardization of

Serbia (ISS), 3. Accreditation – Support to the Accreditation Body of Serbia (ATS) and 4. Metrology – Support to the Directorate of Measures and Precious Metals (DMDM).

Realized project activities per project component are: First component, assistance to internal reorganization of Sector for QI in the Ministry, drafting of Law on Accreditation and performed training activities. Within second component, assistance to ISS, were performed following activities: development of document management system (detailed technical specification and software) prepared ISS for full implementation and certification of ISO 9001 and ISO/IEC 27001; ISS participated as an Observer in selected CEN/CENELEC Technical Committees and enhanced skills of ISS staff, through performed training activities. Third component – Accreditation – implementation of corrective actions from the first pre-peer assessment report which means that ATS was fully prepared for signature of EA MLA Agreement; in cooperation with component 4. Metrology, a joint accreditation pre-assessment was performed (ATS + internationally recognized EU accreditation body); prepared and performed awareness raising campaign. Fourth component – Metrology – design and implementation of long-term plan of inter-laboratory comparison covering all physical and chemical quantities of relevance to DMDM and its customers; 4 inter-laboratory comparisons were performed; DMDM was prepared for two accreditations and enhanced skills of DMDM staff, through training activities. Within this project, some metrology equipment has been procured (detailed list of equipment is in the Annex 7 – Tables with information about supplied equipment for DMDM under CARDS 2006 project)

Project Quality Infrastructure (QI) in the Western Balkans and Turkey (this project started in the frame of CARDS 2006, than was extended within MB IPA 2008 and MB IPA 2011) is focusing to facilitate harmonisation of legislative framework and implementing mechanisms in field of free movement of goods. Following activities was performed: 1. Independent expert assessments of progress in main QI fields; 2. conducting regional proficiency testing exercises by inter-laboratory comparisons in priority sectors; 3. Practical training courses in various QI fields; 4. work of cooperation committee and other networking-building activities. Some conclusions, in the almost seven years of regional project activities, after completion of project within IPA 2008, are: Progress is evident throughout the region in all project sectors but there is a still a lot to be done specifically in the fields of market surveillance (MS) and CA. Moreover, awareness was raised on the new issues of QI and cooperation has started also among the administrations of the countries involved in the project. The capacity and skills of their staff was enhanced, and more participants than expected took part in the process. The Single market as a real growth engine within the European economy remains a clear political priority of the EU. The New Legislative Framework is one of the visible sign of this policy, who emphasizes on reforms to accreditation and market surveillance within the EU. Improving coordination systems, increasing political importance given to transposition of the Single Market Directives, developing incentives for timely and correct transposition, correct application and better enforcement of the single market legislation are considered crucial. At regional level, this needs greater emphasis on ensuring transparency and smooth co-operation between the ministry with most responsibility in this area (generally the ministry of economy or equivalent) and those other ministries with responsibility for transposition and implementing EU technical regulations. In the new economic strategy “Europe 2020”, the European Commission reiterated as a key priority the further reduction of the transposition deficit of Single Market Directives, the cornerstone of Chapter 1, which includes the Quality Infrastructure system. Candidate and potential countries preparing for accession to the EU must further develop their administrative and

technical capacities needed to support the implementation of the Acquis in the QI fields and it is recommended that this should continue to be strongly supported by the EC.

Development of National Strategy for Quality Infrastructure (QI) Project financed through long-term **GIZ ACCESS Private Sector Development Program** (3 years agreed, additional 6 years planned), is focusing on enhancement of the Quality Infrastructure (QI) through enhancing policy making capacities of the MFE related to the EU accession process and industry needs, and strengthening the services of QI institutions for selected sectors. First phase (from 2011 to 2013) of the project comprises two components:

Component 1: Preparing of long-term QI development document based on findings of overall analysis of current situation (analysis of industry needs with regard to conformity assessment (CA) („demand side“), analysis of CABs capacities for implementation of the new technical legislation (“provider side”); assessment of the NQI Institutions and analysis of functionality of a new legal system of NQI). According to results of industry and CABs analysis, in the scope of strategic development priorities in Serbian economy, this project should provide assessment of needs for CA equipment with detailed technical specifications and mechanisms for their use (for purpose of supply component of within measures 2.1.).

Component 2: benchmarking of NQI with EU countries - overview of QI in Europe – institutional and legal framework; building of an advisory “Quality Infrastructure Council”; awareness raising activities; assistance to MFE in transposition of MID, NAWI and Pre-packages Directives and preparation for ACAA negotiation process. It also includes technical support to the Serbian Metrology Institute (DMDM), Serbian Accreditation Body (ATS) and Serbian Standard Institute (ISS). Additionally, the project will prepare recommendation for further development of Serbian QI which will be used for defining the scope of technical assistance within measure 2.1.

In line with the project work plan the analysis of CABs capacities for implementation of the new technical legislation ("provider side") has already been finalised. The analysis of industry needs with regard to CA ("demand side") has been finalised. Following the results of this analysis GIZ ACCESS project will support MFE, to prepare list of needed equipment, and after that detailed technical specifications of missing/necessary testing equipment. In addition, activities under this Project include analysis which should provide information on the possible mechanisms for defining of future availability of equipment (placement, maintenance, use of equipment, main contracting conditions between the Ministry for Finance and Economy, as the owner, and users of equipment, price calculation for usage of the equipment by CAB and industry, CAB selection criteria in case that purchased equipment should be installed in the existing CAB and other issues) in Serbia. All these issues will be resolved with strong respect of free market of CA services and without distortion of competition between CABs, aiming that industry is provided with good services for testing and certification of products, with reduction in costs, what will increase their competitiveness. Regarding planned activities with ATS, ISS and DMDM, till the end of 2012, following project activities has been realized: analysis of current situation and needs of ATS with special focus on EA-MLA, analysis of the Control and Surveillance Sector of DMDM (including the regional Control and Surveillance Sections) training needs analysis are performed, developed training programs and partly implemented.

Second phase of GIZ ACCESS program is agreed and will be implemented from 2013 to 2016. The main areas of cooperation will be implementation of recommendations identified during the analysis, carried out for the purpose of drafting the “National strategy for QI for the period 2014-2020”.

Strengthening of the Serbian system of Market Surveillance for non-food and food products (IPA 2010) - the purpose of this multi stakeholder's project (started on 16 July 2012) is to contribute to the market surveillance system (MSs) in Serbia to be able to effectively and efficiently perform its tasks and responsibilities under the new legislation for product safety and food safety, and to protect against products that pose serious threats to health, safety, and the environment. Expected results of project are: enhancing the technical capacity of beneficiaries to implement new rules and regulations for product safety in Serbia, aligned with EU Acquis; facilitating and managing change in strategy development of MS authorities and improving cooperation as well as coordination; facilitating and managing change in the operational field by enhancing the market inspectors' (practical, general, legal, risk assessment, inspection skills, etc.) understanding of legal and theoretical aspects of the new regulations. In regard to QI, to achieve above mentioned results, it is plan to perform following project activities:

- Activity 1.1: Capacity-building of Ministry staff on transposed EU directives and regulations and training of market inspectors for implementation Serbian rulebooks for LVD, EMC, MD, what will support preparation for future ACAA agreement.
- Activity 1.2: Transposition of EU directives - transposition of "Old Approach" directives covering textile, footwear and crystal-glass.
- Activity 2.2.: Development and partly implementation of MIS (Management information system) as an instrument for improvement of daily market inspection activities and cooperation with policy and decisions makers.

Previous assistance related to the measure 3.1 Creating a comprehensive R&D and innovation strategy and assisting technology transfer

The Western Balkan Enterprise Development and Innovation Facility project financed by MB IPA/EIB/EBRD (EUR 142.000.000) is aiming to improve access to finance for innovative SMEs, as well as, to establish four complementary mechanisms of support for SMEs which will significantly improve opportunities for SMEs to access funds from banks, as well as potentially reduce the costs of borrowing thus increasing their capacity to innovate and develop new technologies. This Facility, which should become operational by the end of 2013, will also, through its technical assistance component address the challenges with the regulatory framework in the region poses on the operations of private venture capital and private equity funds. Business innovation and SMEs capacity in this area will be influenced by the projects Improved SME competitiveness and innovation, Integrated innovation support programme.

Improved SME Competitiveness and Innovation Project – ICIP (IPA 2008; EUR 3.000.000) in the component relevant for innovation has implemented activities on capacity building of Business Innovation Support Organisations (BISOs) in order to provide general and specialist innovation services which would improve enterprise competitiveness and enforce cooperation between R&D organisations and SMEs. The project is also conducting innovation scanning of enterprises to access innovation potential of Serbian enterprises and provide inputs for improvement of innovation policy, as well as to provide adequate pipeline for future financial instruments that support innovation. In addition, the project will provide support to SMEs to facilitate their access to EU and other innovation funds, such as applications for replicable eco-innovations solutions.

Results achieved in the first year and the half of the programme is the following:

The capacity building programme was designed at two levels: Specialist workshops for Key BISOs, incorporating a strong element of Train the Trainer, with the purpose of ensuring improved capacity and competence of BISOs to provide general and specialist innovation services which would further improve the competitiveness of enterprises. In particular, the Key BISO training sought to cover the full innovation cycle as a depth that would allow participants to understand, apply and transfer skills to other organisations and SME clients. Non-Specialist workshops to raise awareness and improve the capacity of those attending to develop a culture of innovation in Serbia. In total, 19 trainings were delivered and 188 employees in BISOs were supported.

The project is also conducting innovation scanning of enterprises to access innovation potential of Serbian enterprises and provide inputs for improvement of innovation policy, as well as to provide adequate pipeline for future financial instruments that support innovation. In addition, the project is providing support to SMEs to facilitate their access to EU and other innovation funds, such as applications for replicable eco-innovations solutions. This support is provided in form of trainings, but also in form of drafting project proposals and coaching. ICIP supported BISO in accessing EU funds, such as TEMPUS or FP7, and build capacities of those institutions to enable them to actively participate in those funds in the future, too. ICIP actively promoted collaboration of scientific and research institutions and private sector through the 18th coaching sessions. Project team prepare the qualitative evaluation of the business incubators in order to provide inputs for development and implementation of incubators policy in Serbia.

Integrated Innovation Support Programme (IPA 2010; EUR 3.000.000) is focusing on development of the institutional capacity and new financial instruments/programmes for efficient support to innovative SMEs and technology transfer. The project will provide direct support to 300 enterprises, of which 20 will receive in-depth support, in encouraging technological innovation, connect innovative SMEs with BISOs through develop of technology brokers as a new support mechanisms and extend innovation activities to local level and integrate them with the national level structure. In addition, project will support development of equity financing instruments, such as venture capital, business angels and mezzanine financing schemes and implementation of voucher schemes.

Results achieved and expected results

- Policy Brief – ‘best practice’ resources introduced, detailed recommendations for SME support process including development of the database with more than 700 companies.
- Support to 300 innovative SMEs initiated in order to improve production processes and technology upgrading; 20 SMEs out of 300 would receive in depth support for specific innovative needs.
- Serbian Business Angels Network supported to achieve European Business Angels Network membership and board appointment
- Innovation activities extended to local level and integration with the national level structures initiated. Identification of local access points and regional initiatives finalized. The Integration process with national level structure expected through establishment of at least 10 local access points and at least five local initiatives.
- Client management system for tracking the 300 innovative SMEs and the 100 Finance SMEs developed

The Human Resource Development and Research “Innovation Serbia Project” (IPA 2011) worth EUR 8.400.000 and lasting three years has three goals. The first is to build the capacity of the Innovation Fund to develop and execute innovation financing instruments. Two grant schemes were already developed through this component and are being executed. In addition, this project has enabled the establishment of the Innovation Fund’s independent and international investment committee, as well as using international peer review for project evaluation. The first component also envisages development of two additional grant schemes, which will be used in the preparation of financial instruments anticipated by Measure 3.1. of this this document. The second component of the Innovation Serbia Project aims to provide financing for early stage development of innovative companies while stimulating business R&D expenditure. This component address the lack of risk financing for developing innovative companies, however additional mechanisms are needed to address the transfer of knowledge from academic institutions to businesses. The first call for proposals under this component has been completed with 11 companies selected for financing out of 58 that registered. Two additional calls for proposals are currently open, with high private sector interest in applying. The third component is technical assistance that will propose how to reorganize research institutes to better address the challenges of technology transfer and working with industry and should provide an excellent starting point for developing a new strategic framework for R&D which is more focused on innovation and creating a knowledge based economy.

The Serbian R&D Infrastructure Investment Initiative which was launched in 2010 aims to create the necessary pre-conditions for improving human resources in sciences, raising research excellence and creating links between research and industry. The Government’s 400 million EUR initiative is supported through financial agreements with the European Investment Bank (EUR 200.000.000), the Council of Europe Development Bank (two agreements worth a total of EUR 105.000.000) and through national, regional and local co-financing. The initiative includes projects such as the Nanosciences Center in Belgrade, the Petnica Science Center (aimed at high school students), the Center for Promotion of Science, the Natural History Center in Svilajnac, non-commercial housing for researchers, EUR 50.000.000 of new research equipment for all RDIs, consumables for R&D projects, science and technology parks (Belgrade, Novi Sad, Nis and Kragujevac) and other projects. The initiative will also create long term national capacity for management and purchase of R&D equipment and consumables. The projects are also being promoted through the European Strategic Forum for Research Infrastructure (ESFRI) and used to leverage Serbia’s participation in European Research Infrastructure Consortia (ERIC’s) as the established mechanism for creating regional and pan-European research infrastructure initiatives.

Western Balkans Regional Research and Development for Innovation Strategy (MB IPA 2010) has the goal of building on the existing collaboration in the area of R&D and innovation between the EU and the Western Balkan Countries and creating a regional strategy in this area. The initiative for the creation of this strategy was signed by all Western Balkan ministers in charge of science in 2009. The World Bank and the EU signed an agreement to implement a technical assistance program for the development of this strategy. The strategy will identify priorities in terms of legal requirements, infrastructure, education and training, policies and programs to be implemented by the beneficiary entities. The value added of the proposed technical assistance is twofold. First, the focus will be on how to increase the economic impact of research and development (R&D) in the Western Balkans. Secondly, the technical assistance will have a comprehensive approach integrating the three axes of the knowledge triangle, namely education, research and innovation. The first draft of the strategy

will be available in the fall of 2012, following the launch meeting in December 2011, and a series of regional workshops which have been held.

Current mechanisms for coordination in the sector of competitiveness with the beneficiary country and/or other donors and for policy dialogue have been described in the section 2.2.2.

3.6 SUSTAINABILITY

The improvements achieved in the sector will set the strategic direction in tackling unfavourable business environment. By creating a framework and implementation mechanisms in relevant institutions, a sustainable support systems will be created. The system for SME support will help SMEs to overcome the challenges they are currently facing and strengthen their prospects for increasing productivity and raising their competitiveness on the market. Efficient and sustainable capacity of Serbia's quality infrastructure to carry out conformity assessment activities and promote introduction of technical standards among industry will be developed. Increased capacities of innovation system will create preconditions for development of innovation and technology transfer.

Regarding measure 1.1/Operation 1.1.1. Sustainability will be ensured through the Government and other stakeholders' commitment towards improving economic situation in the country in general, and creating better and more foreseeable business environment in particular.

Regarding Measure 2.1./Operation 2.1.1. Know – how and all material related to industry awareness activities and promotion activities will be transferred to employees of MFP and other quality infrastructure institutions in order to be able to perform those activities regularly after project completion.

Regarding Measure 2.1./Operation 2.1.2. - Financial sustainability of supplied equipment – the selected CABs/LABs with whom MFE signed contract for using of equipment will continue to charge for services and this revenue will be re-invested to maintain equipment and replace components as necessary. Certain amount of the money for maintenance of equipment supplied for DMDM would be also allocated in national budget, since the DMDM is governmental institution.

3.7 ASSUMPTIONS AND PRECONDITIONS¹⁴

Identified assumptions which are relevant at the level of IPA sector support objective are:

- Political relations with EU consolidated and strengthened.
- Government remains committed to the implementation of reforms related to the private sector development including business and investment environment.

Assumptions which are relevant on the level of sector support results are:

- Relevant stakeholders (SMEs, business associations, research institutions, etc) willing and capable to cooperate in preparation of Action plan

¹⁴ Assumptions are external factors that have the potential to influence (or even determine) the success of a project but lie outside the control of the implementation managers. Such factors are sometimes referred to as risks or assumptions but the Commission requires that all risks shall be expressed as assumptions. Pre-conditions are requirements that must be met before the sector support can start.

- Efficient coordination of relevant/responsible public institutions
- Grant applicants have sufficient management and financial capacities

Regarding Operation 1.1.1. the pre-condition for contracting is the formal adoption by the Government of the Action Plan for Business Environment, including sequencing of measures, financial needs and institutional responsibilities, as well as an inter-ministerial steering group (with all relevant stakeholders), which is set up and operational to monitor implementation of the Action Plan.

Regarding operation 2.1.2, the pre-condition for tender launch is provision of the "Declaration of acceptance of conditions for using and maintenance of equipment" (signed by all intended beneficiaries of supplies) to the Contracting Authority. Also, provision of the equipment for CABs needs to be in line with the state aid provisions and does not lead to market distortion

4. IMPLEMENTATION ISSUES

4.1 INDICATIVE BUDGET

Overall cost (VAT excluded): EUR 15.400.000

EU contribution: EUR 12.550.000

Indicative budget (amounts in EUR) (for decentralised management)

SECTOR TITLE			SOURCES OF FUNDING										
			TOTAL EXPENDITURE	TOTAL PUBLIC EXPENDITURE	IPA CONTRIBUTION		NATIONAL PUBLIC CONTRIBUTION					PRIVATE CONTRIBUTION	
	IB (1)	INV (1)	EUR (a)=(b)+(e)	EUR (b)=(c)+(d)	EUR (c)	% (2)	Total EUR (d)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (e)	% (3)
Measure 1.1			2.500.000	2.500.000	2.250.000	90	250.000	10	250.000				
Operation 1.1.1 - Service contract	X		2.500.000	2.500.000	2.250.000	90	250.000	10	250.000				
Measure 2.1			6.000.000	6.000.000	5.400.000	90	600.000	10	600.000				
Operation 2.1.1 - Twinning contract	X		1.000.000	1.000.000	900.000	90	100.000	10	100.000				
Operation 2.1.2 - Supply contract		X	5.000.000	5.000.000	4.500.000	90	500.000	10	500.000				
Measure 3.1			6.900.000	5.900.000	4.900.000	71	1.000.000	14,5	1.000.000			1.000,000	14.5
Operation 3.1.1 - Direct Grant	X		4.400.000	3.400.000	2.400.000	54,5	1.000.000	22,7	1.000.000			1.000,000	22.7
Operation 3.1.2 - Contribution Agreement	X		2.500.000	2.500.000	2.500.000	100							
TOTAL IB			10,400,000	9,400,000	8.050.000	77,4	1.350.000	13	1.350.000			1.000.000	9.6
TOTAL INV			5,000,000	5,000,000	4.500.000	90	500.000	10	500.000				
TOTAL SECTOR SUPPORT			15,400,000	14,400,000	12.550.000	81,5	1.850.000	12	1.850.000			1.000.000	6.5

NOTE: DO NOT MIX IB AND INV IN THE SAME OPERATION ROW. USE SEPARATE ROWS

Amounts net of VAT

- (1) In the Operation row, use "X" to identify whether IB or INV
- (2) Expressed in % of the **Public** Expenditure (column (b))
- (3) Expressed in % of the **Total** Expenditure (column (a))

4.2 INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN PER QUARTER)

Operations	Start of Tendering/ Call(s) for proposals	Signature of contract(s)	Activity Completion
Operation 1.1.1 - Service contract	T+1Q	T+3Q	T+13Q
Operation 2.1.1 - Twinning contract	T+1Q	T+3Q	T+10Q
Operation 2.1.2 - Supply contract	T+1Q	T+4Q	T+10Q
Operation 3.1.1 - Direct Grant	/	T+1Q	T+13Q
Operation 3.1.2 - Contribution Agreement	/	T+1Q	T+13Q

Measures/operations will be implemented through one service contracts, one twinning and one supply contract, a contribution agreement with the WB and direct grant for the Innovation Fund.

4.3 CROSS CUTTING ISSUES

4.3.1 *Equal Opportunities and non discrimination*

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. All contractors shall be requested to provide monitoring data recording the participation of men and women in terms of expert inputs (in days), as a proof of equal participation of men and women during the implementation phase.

4.3.2 *Environment and climate change*

The measures under this sector do not have a direct impact to the protection of the environment. However, whenever possible, all environmentally friendly technologies and environmental policies will be strongly promoted in all tender documentations developed as part of the implementation of the measures.

4.3.3 *Minorities and vulnerable groups*

The programme will be sensitive to minority issues and will ensure access for all ethnic groups to resources and services. The needs of minorities will be considered as an integral part of the programme.

4.3.4 *Civil Society/Stakeholders involvement*

Aiming to include Serbian civil sector in development assistance planning in a substantial way, SEIO decided to establish a consultation mechanism with civil society organisations in the end of 2010. The so-called Sector Civil Society Organisation (SECO), where each SECO was to represent one sector, has been established in all MIPD sectors including private sector development. During 2012 SECOs as representatives of their associated

networks participated in development of SIF/SFs by taking part in sector working group meetings composed of line ministries and other state bodies by providing inputs for identification of the needs and development of sector (gap) analysis. SECO for Competitiveness covers/corresponds to the MIPD Private Sector Development.

4.4 [SECTOR MONITORING, EVALUATION AND AUDIT] (*only decentralised management*)

Monitoring of the progress in sector support implementation will be done in accordance with the rules and procedures for monitoring under Decentralized Management (DM), as specified in the DM Decree and DM Manuals of Procedures. Manuals of procedures include detailed procedure for monitoring on different levels (contract, sector support/project, IPA TAIB Sub-Committees, IPA TAIB Committee, IPA MC), with clear responsibilities and deadlines in the monitoring process. Specifically, it is envisaged that on the spot checks (monitoring visits, verification checks and supervisory checks) will be performed throughout the implementation process by the SPO and CFCU, as part of the contract management activities, while regular monitoring of the implementation will be done through the Steering Committee meetings and regular reporting by the Contractor. In addition, IPA monitoring process organized and lead by the NIPAC/NIPAC TS includes regular meetings of Monitoring Committees on different levels, examining relevant monitoring reports and providing recommendations for ensuring delivery of planned results, as well as follow up of their implementation. With regards to the monitoring of sector support, it is envisaged that responsible SPO submits a Sector Support Monitoring Report to NIPAC twice a year, in a prescribed template. After quality check, NIPAC TS prepares the TAIB Sub-Sector Monitoring Report to be examined by the relevant Sector Monitoring Sub-Committee (SMSC), in this case-SMSC for Economic development. Report examined by the SMSC is envisaged to include information on status and progress in implementation of all relevant sector support/ projects in that respective sector. Depending on the issues/ problems identified, conclusions and recommendations of the SMSC may be taken forward to the TAIB MC and ultimately, the IPA MC. Monitoring process envisages participation of various stakeholders such as EC/EUD, NIPAC/ NIPAC TS, SPO/IPA Unit, CFCU, NF, AA and other institutions and civil society organizations per need.

Evaluation and audit of sector support will be done in accordance with the Decentralized Management rules and procedures, defined in the DM Decree and DM Manuals of procedures. In line with IPA IR, Manuals of procedures envisage responsibility of the national authorities to provide for the IPA Interim evaluation, while other types of evaluation (ex ante, ex post, thematic, etc) may be initiated by national institutions on ad hoc basis and per need. With regards to the audit, procedures on internal controls under decentralized management regulate in detail various types of audit to be performed (internal and external), audit planning, carrying out of audits, following up on audit recommendations and reporting on follow up activities.

