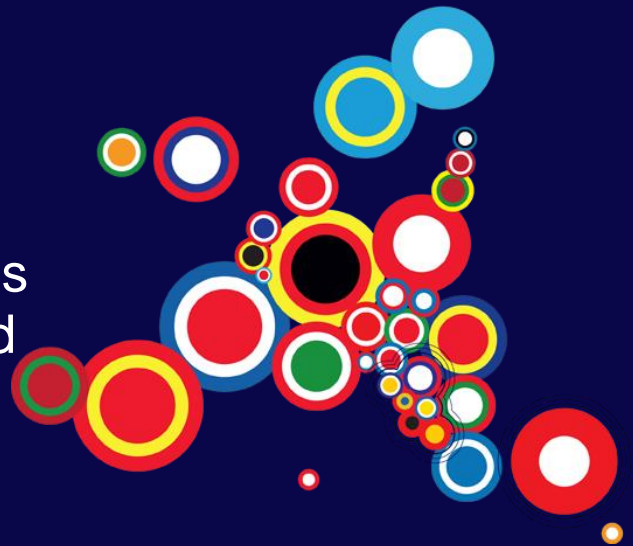




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

SERBIA

Support to the
Competitiveness sector
through the Western Balkans
Enterprise Development and
Innovation Facility
Guarantee Facility



Action Summary

This Action responds to the need to improve the functioning of the business sector in Serbia. Its aims is to improve the conditions for the development of small and medium size enterprises by providing better access to finance and to high quality advisory support, as well as by improving conditions for research and innovation.

More specifically, this action aims to facilitate SME's access to finance by developing fresh financial instruments and rolling them out in order to reverse the long trend of credit stagnation for SMEs in Serbia. The first expected result is the contribution to the increase of available funding for SME development, by setting up a special window for Serbia under the Guarantee Facility of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF).

Action Identification	
Action Programme Title	Country Action Programme for Serbia for the year 2016
Action Title	Support to Competitiveness sector through the Western Balkans Enterprise Development and Innovation Facility –Guarantee Facility
Action ID	IPA 2016/039919.10/Serbia/ Western Balkans Enterprise Development and Innovation Facility (WB EDIF) Guarantee Facility (GF)- Serbia Window
Sector Information	
IPA II Sector	Competitiveness and Innovation
DAC Sector	15110
Budget	
Total cost	EUR 20.000.000
EU contribution	EUR 20.000.000
Budget line(s)	22 02 01 02
Management and Implementation	
Management mode	Indirect Management. Delegation Agreement with the European Investment Fund (EIF)
<i>Direct management:</i> EU Delegation <i>Indirect management:</i> National authority or other entrusted entity	The management of the activity will be delegated to DG NEAR D5, who centrally manages the Delegation Agreement with the EIF. This activity will be incorporated into the existing Enterprise Development and Innovation Facility (EDIF) and more concretely the EDIF Guarantee Facility II (EDIF GF II)
Implementation responsibilities	Ministry in charge of economy
Location	
Zone benefiting from the action	Republic of Serbia
Specific implementation area(s)	N/A
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	31 December 2017
Final date for concluding delegation agreements under indirect management	31 December 2017
Final date for concluding procurement and grant	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation

contracts			
Final date for operational implementation	31 December 2028		
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	31 December 2031		
Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	X	<input type="checkbox"/>
Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	X	<input type="checkbox"/>	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	X	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

Serbia's economy faces manifold structural obstacles to growth, such as excessive state influence, underdeveloped private sector, administrative and regulatory barriers to business, poor infrastructure and low level of investment, substantial size of the informal sector and insufficient competition in some sectors¹.

To be able to change that, Serbia has to create a policy able to promote the development of competitive enterprises with sound operational capacity through a three-fold approach:

- a) Strengthen the ability of the economic policy makers to implement policies and legislation complying with EU Acquis;
- b) Increasing financial and advisory support to help SMEs and entrepreneurs;
- c) Increasing investments in knowledge and innovation.

Whereas previous IPA assistance has tackled the first point, the current Action will focus on contributing to the other two requirements. Serbia's Small and Medium Sized Enterprise (SME) base is relatively similar in structure to the EU, but its productivity is considerably lower. SMEs form the backbone of the economy and account for the vast majority of the private sector economy, whilst generating only around 34% of GDP (2013). Average Gross Value Added per employee in the European SME is 41.3² whilst in Serbia it counts for 10.9.³ The SME sector accounts for 99.8 % of all enterprises but generates only 55.2% and turnover and profit per employee. This is low compared to EU average making the Serbian SME sector uncompetitive.

According to the latest Global Competitiveness Report (2015-2016) the factor⁴ identified as the most problematic for doing business was access to finance. The Serbian companies are highly reliant on internal sources of finance i.e. 85% of SMEs are financed from their own sources, both in the case of working capital (73%), and investments (69%)⁵. Only 10% of the total financing comes from banks (the same as last year but down from 23% in 2012). The unfavourable loans by the banking sector are characterised by high interest rates, high demands for collateral and lack of long-term loans. This is even more the case for high risk related businesses such as newly formed enterprises/entrepreneurs.

Research shows that external sources of finance are used by only 38% of SMEs⁶, whereas 60% stated that they have a need for credit⁷. On the other hand, the commercial banks are risk adverse and more interested in investing in the safe government bonds than lending to small and medium enterprises. Furthermore, 30% of entrepreneurs find the required documentation for obtaining a loan complicated and time consuming and 22% cannot secure the loan⁸. 70% of entrepreneurs find the interest rates extremely high⁹. This resulted in further decline of demand, with only 16% of businesses getting new credit in the last 12 months (down from 21% last year, and 25% in 2013). The average loan requested by enterprises was 23.000 EUR, compared to 35.000 EUR in 2013¹⁰.

Despite the problem in the SMEs access to finance, Serbian SMEs have demonstrated their capacity and appetite for lending schemes. The guarantee scheme available to SMEs under the Western Balkans Enterprise Development and Innovation Facility (WB EDIF)¹¹ allowed benefiting from reduced collateral requirements for new loans for investment and/or working capital. In the period of 9 months, a credit line

¹ Joint Conclusions ECOFIN, May 2015

² In 000 EUR

³ Ibid

⁴ With score 14.8; from the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings. Global Competitiveness Report (2015-2016), World Economic Forum 2015

⁵ USAID's Survey of 1000 companies

⁶ Ibid

⁷ Ibid, compared to 52% in 2014

⁸ Financing of small and medium enterprises in Serbia, Institute of Economic Sciences and Chamber of Commerce and Industry, 2012

⁹ Conditions, needs and problems of SMEs 2013, NARD 2014

¹⁰ Survey of 1000 companies, USAID 2015

¹¹ First Loss Portfolio Guarantee in 2014 through UniCredit Bank Serbia under the WBEDIF.

close to 30 MEUR covered by the guarantee was implemented¹². The good reception of this type of product indicates the high needs of Serbian SMEs concerning access to external sources of funding. Therefore, under this Action, a specific window for Serbia will be created under the WB EDIF to accommodate the absorption and capacities and address the needs of the country.

OUTLINE OF IPA II ASSISTANCE

This Action will contribute to the improved competitiveness and innovation of Serbian enterprises and to strengthened private sector impact on the Serbian economy by increasing the ability of the enterprises to compete in global markets and their capacity to innovate.

The action includes one specific objective:

1. To improve SME's access to finance. Increased finance availability is expected to lead to foster competitiveness through greater capacity of the enterprises to make investments in new technologies, product development or market expansion activities. In order to achieve this, the action will support the opening of a specific window for Serbia under the existing SME Facility - WB EDIF to accommodate the absorption capacities and address the needs of Serbia's SMEs.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

Indicative Country Strategy Paper

The Action addresses the following Country Strategy Paper's Competitiveness sector result:

1. *Functioning of the business sector, especially SMEs, improved, including through better access to finance.*

This target will be addressed by supporting greater diversification and access to finance for SMEs and accelerating institutional support for SMEs.

Enlargement Strategy and Main Challenges 2014-2015

The Enlargement strategy noted that due to the limited progress Serbia has made towards establishing a functioning market economy, a wide range of structural reforms needs to be implemented, and highlighted the importance of the economic reforms for growth and reduction of unemployment.

In order to achieve this, the strategy notes that EU support should be oriented toward, among other things, better access to finance for micro, small and medium size companies, improved performance of local companies through provided advisory support and enhanced business consultancy services and upgraded environment for high-tech and innovative companies.

The strategy notes that the impact of these activities will be a better business environment, increased investments in SMEs and effectiveness at company level. This would eventually lead to a more sustainable private sector able to cope with the competitive pressures and market forces within the Union.

Serbia Report 2015

The activities under this action address the key findings of the Annual report for 2015, and contribute to the goal of stimulating private investment by establishing schemes to support lending to SMEs and research activities in companies. The action will support the creation of more predictable instruments of state support to the private sector, and will benefit both foreign and domestic investors and promote redirecting of state support towards support to SMEs and research and development.

Economic Reform Programme for 2015-2017

This action is focusing on the priority measures identified in the Economic Reform Programme for 2015-2017. The priority measure 3.3.1 describes access to finance for SMEs and entrepreneurs. Priority 3.2.3 puts emphasis on the adoption of a new policy and legal framework for research and innovation to boost long term increase in the quality of research and the development of research organisations.

¹² Data provided by the Ministry of economy, 2015

National strategies

The overall and specific objectives identified in this Action are directly linked to priorities set out in the National Priorities for International Assistance (NAD) document, under the Competitiveness sector.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

Lessons learned

Evaluation reports conducted for the needs of the Serbian European Integration Office in 2014 have shown that financial assistance in the competitiveness sector produced positive results contributing to the capacity of the Government to improve the environment for doing business.

The key lesson learned from previous interventions is that the sustainability of development assistance remains dependent on the Government's capacity to incorporate achieved results into its policy interventions. For this reason, political willingness to support the institutions and services developed with such assistance is essential¹³. Low cooperation at national level (ministries responsible for economy, education and science, and R&D institutions) together with lack of joint interventions in the field of innovation resulted in insufficient impact of delivered assistance, limited effectiveness and sustainability¹⁴.

Recommendations stemming from these evaluations show that development assistance should continue to focus on: developing the quality of business advisory services including advising on innovations and technology transfers to private sector entities; export promotion and market penetration; Foreign Direct Investments (FDI) and internal investments; development of business infrastructure and increasing productivity.

Development assistance should also support government initiatives to develop a knowledge-based and innovation-driven economy that will benefit from the new market opportunities. Creating a business-friendly climate should remain an absolute priority for future development assistance.

Previous assistance

Under the IPA Multi-Country programmes, assistance has been provided across the Western Balkans since 2012 through the Western Balkans Enterprise Development & Innovation Platform ("WB EDIF") – with a specific mandate to catalyse private sector development. WB EDIF is structured as a virtual Platform with 4 specific pillars, the first three of which use financial engineering instruments (debt and equity) to allow for access to finance to the SMEs in the region, whilst a fourth pillar would support capacity building and structural reforms (i.e a technical assistance, or as it was later renamed, the "Support Services" pillar).

The Guarantee Facility ("GF") represents one pillar under WB EDIF, the purpose of which is to improve SMEs access to finance and potentially lower the related costs. The benefits from the GF can take a number of forms and thus respond to the key constraints in each beneficiary. In general terms, the GF is expected to potentially improve the investment climate mainly by: allowing longer loan maturities, permitting lower cost of borrowing for SMEs, reducing collateral requirements and expanding lending to riskier SMEs.

It is within the flexible spirit of WB EDIF that, following good results of the first phase of implementation of the GF, a special window for Serbia is planned within this Action.

At the same time, the activities described in this document are moving further in tackling the identified needs by increasing SME's access to finance, strengthening innovation support both through increased capacities and improved legislation. It will complement Serbia's participation in Competitiveness and SMEs Programme (COSME¹⁵) since the financial instruments in COSME are designed to provide added value to other financial instruments in the country. The activities related to innovation will continue the work on strengthening institutions to increase the number of innovative products and services in the SME sector.

¹³ SIDA, Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia per sector, Final Report

¹⁴ Sector specific evaluation "Technical Assistance for the Evaluation of the Competitiveness sector in the Republic of Serbia"

¹⁵ Starting in January 2016

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To increase the competitiveness and innovation of companies in Serbia.	<ul style="list-style-type: none"> •Ranking of the Republic of Serbia in the World Bank's Doing Business Report. 	Doing Business World Bank Report,	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
SO 1: To improve access to finance for SMEs by fostering better conditions for lending by financial intermediaries, such as better loan maturities, lower costs for borrowing, reduction of collateral requirements and expansion of loans to riskier SMEs.	<ul style="list-style-type: none"> • Percentage of the new SME portfolios of the selected financial intermediaries that is absorbed in the timeframe of the programme. •Percentage of SME loans in the overall loan structure. 	Report on SMEs and Entrepreneurship/ Annual/ Ministry in charge of economy, Annual Report of STP Beograd	Financial institutions and Government committed to and actively promoting SMEs and facilitating conditions for their growth,
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Result 1: Access to credit and transfer of a range of benefits to SMEs in Serbia are improved by providing guarantees to eligible financial intermediaries to encourage them to build up new portfolios of SMEs transaction	<ul style="list-style-type: none"> • Number of FIs selected for the Guarantee window • Percentage of the portfolio volume built by the FIs in the agreed timeframes. • Number of SMEs participating in the Serbia window 	EIF Report	SMEs are interested to use the funds for investing in new products and services, Financial institutions are interested in participating,

DESCRIPTION OF ACTIVITIES

Result 1: Access to credit and transfer of a range of benefits to SMEs in Serbia are improved by providing guarantees to eligible financial intermediaries to encourage them to build up new portfolios of SMEs transaction

Planned Activities:

Activity 1.1: Implementing the guarantee scheme and enhancing the capacities of SMEs to access different sources of financing

The activity has been conceived within the scope of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) Guarantee Facility (GF), however dedicated solely to Serbia, the "WBEDIF GF Serbia Window".

The objective of the WB EDIF GF Serbia Window is to increase access to, and availability of, finance for SMEs in Serbia, as well potentially lower the related costs. In general terms, the GF is expected to potentially improve the investment climate mainly by allowing longer loan maturities, permitting lower cost of borrowing for SMEs, reducing collateral requirements and expanding lending to riskier SMEs.

The guarantee instrument envisaged for WBEDIF GF Serbia Window has the same features of the guarantee product already offered under the WBEDIF GF in the Region. It is a First Loss Portfolio Guarantee whereby the EIF would cover 70% (i.e. the guarantee rate) of the final loss for each loan which defaults under a newly established portfolio. Overall the guarantee is capped at a maximum of 25% of the total losses incurred in the portfolio (i.e. the guarantee cap rate).

The Serbia EDIF window of the GF is fully complementary to the regional facility, and responds to the high demand which was generated by the first operation of the EDIF for Serbia. Data of the first operation for the, show that the funds allocated to the first operational agreement with Financial Intermediaries in Serbia, have been allocated in less than a year, proving the appetite of the market for such type of support. More than 240 companies benefitted from the scheme. The average loan amount was 108,980 EUR, with the maturity period of 2.3 years. The EIB's recent "Assessment of financing needs of SMEs in the Western Balkans countries: Country Report Serbia" showed that there are around 300 thousand enterprises active in the SME sector, 96% of these belong to the micro segment. The analysis shows that the demand for loans by SMEs is estimated at around EUR 4.5bn (amounting to 14% of 2014 GDP and 28% of 2014 aggregate bank loans). Among the general SMEs segment, banks are reported to have a stronger preference for financing larger SMEs with loans of EUR 50,000 or more, meaning that the larger SME market is well supplied. Loans to micro enterprises, on the other hand are severely underserved. In terms of demand, this is at a healthy level and with a large focus on short term working capital. Only 38.2% of enterprises reported not needing a loan, which is well below the 51.1% average for Eastern Europe and Central Asia.

The analysis shows that there is need for the expansion of schemes which allow SME loans of less than EUR 50,000, longer term loans and loans based on less collateral, making the present window for Serbia a significant need. The EIF will take all measures to ensure that the scheme provided under the Multi-Country section and the specific Serbia window are fully complementary, in terms of outcomes and results.

The proposed Guarantee Facility at national level will address access to finance as one of the burning issues of private sector development. It will be fully complementary to the grant scheme for SMEs which is part of the IPA 2016 Action for Local development. The local development programme will address the needs of those companies in the less developed areas of Serbia that will not be eligible for the loans under the WBEDIF GF Serbia Window, since their financial status and market position is extremely weak.

RISKS

Result 1: To implement an EDIF Guarantee facility window for Serbia

Risk	Mitigation Measure
Insufficient interest of SMEs.	The assessment of the WB EDIF shows that the interest by the local level SMEs remains high. The pilot EDIF operation in Serbia demonstrated an increase from 49% of utilisation of the portfolio of 30 million Euros initially offered under EDIF to Serbia, to a total of 92% in the space of 9 months in 2015. The best practices and lessons learned from this experience should be utilised, including the awareness raising among SMEs of the existence of the opportunities for funding and to inform about all features of the guarantee through the Government business support institutions, Chamber system and in particular through the participating banks. Finally, the EIF will not charge the participating financial institutions the commitment fee unless they are unable to build up at least 90% of the agreed portfolio volume.
Financial institution(s) are reluctant to participate in the implementation of the action.	Awareness of the benefits of the facility, practices and experiences from the first EDIF operation in Serbia and practices in the region should be organised through the Association of Serbian Banks and through direct contacts of the implementing institution with the National Bank of Serbia, Ministry of Finance and financial institutions.
Low additionality of the facility, in case participating FIs do not provide better lending conditions to final beneficiaries	FIs will be required to confirm that they have passed on part of the benefit of the guarantee to the beneficiaries, via enhanced access to finance conditions.

CONDITIONS FOR IMPLEMENTATION

Financial institutions and Government committed to and actively promoting SMEs and facilitating conditions for their growth.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The Ministry in charge of economy is final beneficiary responsible for the implementation of the activities..

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

Result	Method of implementation	Justification
Result 1	Indirect Management with international organisation WB EDIF	The results will be implemented in indirect management by entrusting budget implementation tasks to an identified entity according to Art. 58.1.cii, and 60 of the FR. This implementing body has to be able to rapidly mobilise efficient procurement and project management procedures. The EIB Group (EIF) has significant experience in the design, establishment and management of the financial instruments and the development of methodological guidelines for the ex-ante assessment of such instruments. Although funds will be provided from national IPA, the implementing mechanism will remain the same as for the regional scheme under WB EDIF.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

Monitoring of the progress in sector support implementation will be done in accordance with the rules and procedures for monitoring under indirect/direct management and in line with relevant Manuals of Procedures.

IPA II monitoring process is organised and led by the National IPA Coordinator (NIPAC) and Body for Coordination, Programming, Monitoring and Evaluation (BCPME). The NIPAC is the main interlocutor between the Serbian government and the EC regarding strategic planning, co-ordination of programming, monitoring of implementation, evaluation and reporting of the overall IPA assistance and is responsible for ensuring the linkage of IPA assistance to the EU accession process. NIPAC monitors the process of programming, preparation and implementation as well as the sustainability and effects of programmes aiming to improve these processes, timely identification, remedying and alleviation of potential issues in the process of programming and implementation of Actions.

With the support of BCPME, NIPAC is responsible to establish, chair and organise the work of the IPA Monitoring Committee (IPA – MC) and submits to the EC annual and final reports on the overall IPA implementation. In addition, NIPAC will establish, chair and organise the work of the IPA Sectorial Monitoring Committees (SMCs), prepare regular monitoring reports for the Government and the EC based on the reports drawn up by the institutions responsible for implementation, it reports on the formulation and implementation of Actions, monitor the fulfilment of preconditions for the initiation of public procurement procedures and organise the process of evaluation of IPA support. The NIPAC submits regular reports to the IPA MC and reports envisaged to include information on status and progress in implementation of all relevant sector support in that respective sector. In addition the NIPAC submits reports to the SMC for examination. Monitoring process envisages participation of various stakeholders such as EC/EUD, NIPAC/BCPME, final beneficiaries, CFCU, NF, AA and other institutions and civil society organisations.

For the WB EDIF Guarantee Facility, the monitoring takes place through semi-annual reports and through presentations in the Platform Advisory Group (PAG) which takes place twice per year. The PAG oversees the Guarantee Facility product as well as the other products implemented under the Platform. The PAG is comprised of representatives from the various IFIs participating in the Platform and all seven Western Balkan economies.

In line with the IPA II Implementing Regulation 447/2014, an IPA II beneficiary who has been entrusted budget implementation tasks of IPA II assistance are responsible for conducting evaluations of the programmes it manages.

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

INDICATOR MEASUREMENT

Indicator	Baseline (2015)	Target 2020	Final Target (2025)	Source of information
Ranking of the Republic of Serbia in the World Bank's Doing Business Report	91	Among top 60		World Bank's Doing Business Report
Percentage of funding (of the new SME portfolio of the selected financial intermediaries) that is absorbed in the timeframe of the programme.	0	90 by end of the programme	90	EIF report
Percentage of SME loans in the overall loan structure	18	30	45 %	National Bank of Serbia
Number of FIs selected for the Guarantee window	0	2	n/a	
% of the FI new portfolio of SMEs that is in accordance with EIF standards of diversification, transfer of benefits to SMEs etc.	0	90	n/a	EIF Report
Number of SMEs participating in the Serbia window ¹⁶	0	900	1000	EIF Report

¹⁶ This number is calculated based on the existing product, and the new product will be customised to Serbia, so numbers may vary accordingly.

5. SECTOR APPROACH ASSESSMENT

Sector Policy

Due to the multi-faceted nature of the sector, the strategic framework for competitiveness in Serbia is complex. The existing Industrial Strategy, with certain improvements, can be considered as the overarching strategy for the competitiveness sector in Serbia. It covers a broad remit including energy, environment and human resources and social development. The Strategy sets the overall direction for the whole sector, whilst the four sub-sector strategies covering ‘entrepreneurship and competitiveness’, ‘R&D and innovation’, ‘ICT’ and ‘market regulation’, can be regarded as vertical pillars underpinning this broad strategy. The activities proposed in the Action sit alongside national funding and other international assistance to support mainstream public spending on the policy reforms and economic development. Furthermore, the Economic Reform Program for the period from 2016 to 2018 has been adopted by the Government of Serbia in March 2016, and prepared by the Ministry of Finance through the broad range of consultations at all levels with the support from the Public Policy Secretariat (PPS), which was coordinating the part of program related to the priority structural reforms. It provides the medium-term framework for macroeconomic and fiscal policies, as well as specific priority structural reforms which directly remove obstacles to economic growth and increase competitiveness of the economy.

Sector Lead Institution and Capacity

The ministry in charge of economy has a wide scope of competences which are managed through its internal organization departments, and are covering following competitiveness areas: economic development, privatization, quality infrastructure, entrepreneurship and competitiveness development and business registers administration and monitoring. The Ministry's competences are related to structural adjustments for large companies, investment promotion, craftsmanship, SME and entrepreneurship including economy focused innovative entrepreneurship and IT, competitiveness improvement, standardization, technical directives and accreditation.

The ministry in charge of science and technological development plays an important role in framing and stimulating research focused innovation entrepreneurship and development of innovation system, as well as promotion of research towards new technological solutions, as segments of competitiveness development.

Sector and donor coordination

Strong inter-institutional cooperation and coordination in the sector has been ensured through the relevant Sector Working Group (SWG)¹⁷.

The SWG for competitiveness sector includes the following institutions: Serbian European Integration Office, National Bank of Serbia, the Ministry in charge of economy, the Ministry in charge of trade, tourism and telecommunications, the Ministry in charge of finance, the Ministry in charge of agriculture, the Ministry in charge of science and technological development, the Ministry in charge of labour and employment, Standing Conference of Towns and Municipalities and Intellectual Property Office.

The representatives of the donor community also participate in the SWG meetings based on the needs and requirements of each SWG meeting and take part in consultation processes for analysing sector priority goals, measures and operations supported by EU funds and other international assistance.

Sector Budget and medium term perspective

The programme budgeting is legally introduced in 2015 for all budget beneficiaries. The programme budget facilitates planning and prioritisation processes within the Government, as well as enables easier monitoring of spending through greater transparency.

¹⁷ Act on establishing the SWG from 5.11.2012. No: 119-01-68/2012-03.

In accordance with the Programme Budgeting Instructions (PBI), the programme based budgets are structured through programmes and activities/projects. A programme budget is developed in line with medium-term beneficiary's plans and other strategic documents related to their competencies. A programme is a set of measures undertaken by budget beneficiary in line with its key competencies and medium-term objectives. Each programme is made up of independent yet closely interlinked components, activities and/or projects, set up objectives and developed indicators.

6. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

The project will aim to address gender equality and broader gender related issues as an increasingly important component of the transition process, in particular in terms of helping to better realise the potential of women to contribute to economic development in emerging markets. Although currently there is no gender disaggregated data on which indicators could be built in order to track the benefits from the support to be provided under this action, the action itself will contribute to the establishment of this data set, allowing for better targeting of the gender equality goals in future programmes of SME development in Serbia.

EQUAL OPPORTUNITIES

Women still face a degree of gender discrimination in the business community. Women's dual role as business owners and as the primary family caregiver in Serbian society means that they generally have less time to devote to training and related activities needed to maintain the competitiveness of their businesses. Within the Action, steps will be taken to tackle these issues: provision of services will contribute to greater competitiveness of women's enterprises; development of the new financial instruments for SMEs and entrepreneurs will take into account the needs and the position of female entrepreneurs.

MINORITIES AND VULNERABLE GROUPS

The impact of the Action on equality of opportunity will be factored into its implementation, as will also tackling discrimination against minorities and other vulnerable and disadvantaged groups. Indicators for equal opportunities will be identified and will be incorporated into the performance monitoring of the sector.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

SEIO has established a consultation mechanism with the civil society organisations (CSOs) to enable more inclusive and transparent dialogue, consultation and communication with all relevant stakeholders in all of the sectors eligible for external financial assistance in Serbia, as per the NAD document. This includes the competitiveness sector. This mechanism is based on the consultative process with Sectorial Civil Society Organisations (SECOs), per each Sector. It serves as a platform that enables exchange of information and contribution of CSOs in relation to planning development assistance, particularly programming and monitoring of IPA. The SECO constitutes a group of three CSOs which act as partners, with a leading partner¹⁸. The SECO CSOs have the mandate to represent all other CSOs which have an interest in or are working in the specific sector. The selection of the representative CSOs is based on their experience with public advocacy, analyses and research in the sector, as well as experience in direct work with service providers and beneficiaries.. The members of SECO participate directly at the Sector working group meetings organised by SEIO and take part in consultation processes for analysing sector priority goals, measures and operations for financing from EU funds and international assistance. Their obligation is to ensure that the opinions, comments and views of the

¹⁸ The leading partners for the Competitiveness Sector are NALED, Association of SMEs and Entrepreneurs and Foundation for the Advancement of Economics. The Competitiveness SECO network is composed of 31 civil society organisations.

CSOs in the sector they represent are heard and incorporated to the extent possible in the processes related to IPA and other donor funding. Other relevant stakeholders (agencies, private, academic sector, CSOs, etc.) can participate at the SWG meetings based on the topic, needs and requirements of each Sector Working Group meeting. In the implementation of the action, CSOs will be actively involved in the implementation of activities, such as through the participation in the local business advisory services, dissemination events, awareness raising and others.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The action has no specific components that address concerns related to environmental and energy efficiency. Companies participating in the action are expected to be adhering to relevant environmental standards. As far as possible, the approach toward the SMEs will be such as to encourage environmentally responsible business operations and approaches.

7. SUSTAINABILITY

The achieved results contribute to achieving a coherent national support service scheme that aims at creating jobs, business activation, attracting knowledge and boosting economic development. The action will create a coordinated and more effective mix of services, including available finance, specific advice and a sustainable support system. The system will help enterprises to overcome the challenges they are currently facing and strengthen their prospects for increasing productivity and raising their competitiveness in the global markets.

The sustainability of the financial instruments will be ensured through their revolving character. The program will be developed in such a manner that the Financial intermediaries participating in the scheme will be required to use a percentage of the loan repayments for the same purpose. It is expected that the mobilisation of private resources, financial sector involvement and high leverage effect, together with the flexibility of the EIF instrument, which caters to the actual needs of the market, will ensure high demand. It is also expected that the systemic approach will increase cooperation and trust between different sectors (enterprises, financial sector, public authorities). Analysis performed by the EIF based on data obtained from their first operation in Serbia, with the Unicredit bank, showed that by December 2015, at which point 92% of the portfolio of EUR 30 million was used, there were 241 SMEs participating in the scheme. The cumulative number of employees of these SMEs benefiting from the scheme was 5,508 persons. The analysis shows that demand for these services is high, in terms of short term working capital, although lesser so for investment loans. Only 38% of SMEs responded in the survey that they did not need a loan. The demand is highest in the agriculture sector, trade and in the technology sector. The prospects, according to the macroeconomic analyses show that in view of Serbia's accession process, the fiscal consolidation measures prompted by the IMF, and the exit from the financial crisis, there is potential for annual growth for Serbia of up to 3,6% in the period until 2020, which is welcome for SME development, meaning a higher demand for the financial instrument.

8. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be the responsibility of the IPA II beneficiary, and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed. The implementing partners (EIB) will have a legal obligation to implement the EU visibility guidelines and procedures.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at

highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

It is the responsibility of the beneficiary to keep the EU Delegation fully informed of the planning and implementation of the specific visibility and communication activities.

The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sectoral monitoring committees.