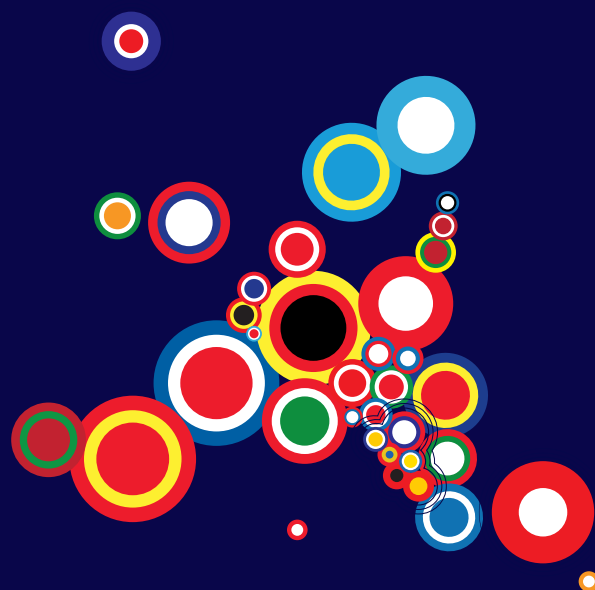




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

SERBIA

Support to the Competitiveness sector



Action Summary

The Action will result in identifying the proper management and funding system for the implementation of financial instruments available to SMEs. It will result in enabled business incubators to provide services to SMEs that should correspond to enterprises' needs. Also new products and services will be developed through research commercialisation in the SMEs. In addition, it will result in strengthening of institutional and administrative capacities to move closer to the requirements of Internal Market.

Consequently, the competitiveness and innovation of Serbian enterprises within a well-functioning market economy will be increased. Specifically, the need to strengthen the private sector's impact on the economy by increasing its ability to compete in global markets, its capacity to innovate and by ensuring the integrity of the national open market will be addressed.

Action Identification	
Programme Title	Annual Action Programme for Serbia (2014)
Action Title	Support to the Competitiveness sector
Action Reference	2014/032-79.05/Serbia/Support to the Competitiveness sector
Sector Information	
IPA II Sectors	<i>Competitiveness and Innovation</i>
DAC Sector	25010
Budget	
Total cost (VAT excluded) ¹	EUR 7 150 000
EU contribution	EUR 5 000 000
Management and Implementation	
Method of implementation	Direct management for Result 1 Indirect management for Results 2, 3 and 4
<i>Direct Management EUD</i> <i>Indirect management:</i> Responsible Unit or National Authority/Implementing Agency	In the case of Direct Grant and Result 1 of the Action EU Delegation is in charge for the arrangement with EIB ² Central Finance and Contracting Unit (CFCU) - Ministry of Finance, Department for Contracting and Financing of EU Funded Projects
Implementation responsibilities	For the Result 1 - Senior Programme Officer at the Ministry in charge of economy For the Result 2 - Senior Programme Officer at the Ministry in charge of economy For the Result 3 - Senior Programme Officer at the Ministry in charge of science and technological development and the Innovation Fund For the Result 4 - Senior Programme Officer at the Ministry in charge of trade and the Commission for the Protection of the Competition
Location	
Zone benefiting from the action	Republic of Serbia
Specific implementation area(s)	N/A
Timeline	
Deadline for conclusion of the Financing Agreement	31 December 2015
Contracting deadline	3 years after the signature of the Financing Agreement
End of operational implementation period	6 years after the signature of the Financing Agreement

¹ The total action 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.

² Direct Grant on the basis of article 125.7 of the Financial Regulation

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

One of the most frequently articulated problems in performing business activity in Serbia is a lack of available, accessible and diverse finance. Poor access to finance affects the majority of SMEs, both the ones operating on the domestic market as well as exporters. Financing of business development is mainly carried out through informal sources (family, friends) diminishing the chances for serious investments into the manufacturing and production base, including adoption of new technologies. When financing does occur through formal resources it is mainly for short term use (liquidity). The **costs of finance for enterprises in Serbia are high** due to high interest rates, more profitable lending areas for banks (such as government bonds), complexity of procedural compliance and low diversity of financial system. **Banks are risk averse, particularly with SMEs and there are limited alternative sources of formal finance.** Venture capital, equity finance, guarantee funds, business angels, factoring and micro finance institutions that often represent more efficient and frequently used models of delivery in the EU are underdeveloped in Serbia. Therefore, the **Action should support identification of a proper management and funding system for the implementation of financial instruments** through the preparation of the *Ex ante* assessment as required by Article 37 (2) of the Common Provisions Regulation (CPR) and in line with the “*Ex-ante* assessment methodology for Financial Instruments in the 2014 - 2020 programming period”. The *Ex-ante* assessment will assess present financial instruments and identify existing market/funding gaps. Based on the findings, an Investment Strategy will be developed and appropriate financial instruments for Serbian SMEs will be proposed.

Serbia’s exports are dominated by raw products and semi-finished goods, which have relatively low market value and are at the low end of the global value chains (GVC). In the foreign trade of the non-financial sector, SMEs participate in 56.8% of total trade and account for 51.1% of exports and 60.2% of imports. According to OECD calculations, **only 3% of Serbia’s total manufacturing export is in high-technology products**; this being much lower than the EU 27 average of 16%. The data analysed provide evidence that Serbian enterprises have **insufficient ability to adjust to market changes and have low share of high value added products**. It is necessary to improve a weak Serbian export offer through the increased quality of their products and services as well as supporting start-ups with export and growth potential based on high quality goods and services. Traditional business support services and organisations are slow in adapting to these new strategic business attitudes and should increase their capacity to catch up with the latest developments. Most of the incubators cannot help (innovative) SMEs to acquire knowledge and equipment necessary to have high quality products/service. Internal capacity of the more successful incubators to provide specialised advisory services are on a low level, and the offer is limited to trainings, mainly covering business planning, assistance with the registration of business and basic administrative services. General services they provide **need to sit alongside value added services** (such as innovation management advice, IP advice, market replication/market penetration, demonstrator projects etc.)³ as well as providing support to tenants in: accessing finance and becoming fit to get financing (to meet the needs of every category of entrepreneurs throughout their development cycle) and boosting their innovation potential and productivity gains. Provision of the high value added services should help both start-up and growing enterprises to develop quality products and services and become part of the Global Value Chains in the long run.

Acquiring different export structure in Serbia depends also on the commercialisation of domestic research through increased technology transfer and associated innovation activity. According to the Global Competitiveness Report (2013-2014), Serbia has limited capacities in almost all aspects of innovation. Serbia is ranked 118 of 148 on the availability of latest technologies, while the low capacity of Serbian companies to absorb technologies places the country on the 137th place (out of 148). Only 14% of R&D is undertaken in the business sector even though this figure may not capture the entire R&D performed by businesses. By contrast, a total of 55% of R&D is carried out in higher

³ As guided by the Draft Thematic Guidance Fiche for Desk Officers Competitiveness of small and medium sized enterprises (SME) , DGRegio 2014

education institutions, which makes higher education institutions the largest R&D performers in Serbia. **The business sector plays a more limited role in innovation** in Serbia compared to the EU where it is the main R&D driver and accounts for more than 60% of R&D performed.⁴ Only one in five companies marketed a new product/service in 2012, i.e. introduced a new production process⁵. One in seven had cooperation with other business entities or institutions in the field of innovation. Furthermore, only 6% of researchers are employed in the business sector compared to the EU where 45% of researchers work in firms.

Serbia **needs to stimulate further creation and growth of innovative enterprises** based on knowledge through private sector start-ups or spin-offs by providing financing for market-oriented innovative technologies, products and services with high commercialisation potential. Support to the commercialisation of R&D and further knowledge-based development of innovative enterprises is needed, as well as the establishment of collaboration with international partners and the increase in the number of technology based companies and prepare them for additional investment opportunities. Innovative companies have to be supported to gather the knowledge in areas of relevance for their early technology development, identify and quantify their market opportunities, conceptualise commercialisation strategies and plan their company's development. Consequently, high quality products and services will be created, competitive enough to enter the international markets and become part of the Global Value Chains.

The competitiveness sector suffers from systemic problems, and as a result, breaches of competition contribute to higher prices and a low quality of goods and services. This is to an extent the result of a low level of understanding and knowledge of competition in the private sector. Furthermore, companies habituated to this kind of behaviour will not be ready to compete successfully on the EU internal market, while entry of new players is made more difficult. Up to this point the focus was placed on the harmonisation and alignment of relevant legislation with the EU legislation but not sufficiently on its enforcement and implementation. In this sense, there was no significant attention given to the low and weak capacities of companies who are also a relevant part of the enforcement issues specifically in relation to corporate and competition compliance if the anticompetitive behaviour and practices on the market are to be substantially changed.

The Commission for Protection of Competition (CPC) is the subject of an ongoing IPA 2011 project in the field of competition law and policy upgrading which aims to ensure an improvement of the CPC and enforcement records of the national courts and cooperation with other authorities, respectively. Despite the fact that the Case Management System (CMS) is expected to be functional by the end of 2014, it is not linked to, and lacks coordination with, the European Competition Network Circa Intranet System. Linkage and coordination with this system would improve case handling by means of access to the same, or similar, cases across competition protection bodies in the EU and the adoption of good EU practices. Additionally, the CMS and database proves to be an effective model which offers the possibility of transferring good practices and experiences to market and other inspections in e.g. consumer issues. To date, no attention has been given to the fact that sectorial legislation may have a negative effect on competition and lead to abuse of dominant position and closing of the market. As sectorial legislation is harmonised and gradually aligned with the general rules of competition, there is a danger that regulators will fail to grasp the extent and limitations of *ex ante* regulation. Sector analyses up to this point have not been methodologically satisfactory, as a result of a lack of an adequate methodology and application of econometrics and econometric models, applicative economic methods such as widely recognised standardised tests for sector analysis and case handling. In terms of legal drafting, the logic was to merely ensure harmonisation, when modernisation e.g. incorporation of settlement procedure into law was neglected. Even though, in line with the Article 73(2) of the SAA, all interpretative instruments of TFEU including EC and ECJ decisions need to be in their essence embedded in the Serbian legal system, this has not yet been recognised as paramount and no effort was invested.

⁴ Establishing a Competence Technology Centre in Serbia, OECD 2013

⁵ Conditions, needs and problems of SMEs 2012, NARD 2013

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

Indicative Strategy Paper 2014-2020 for Serbia (the Strategy Paper)

This Action is designed to address the following **sector** specific results:

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

This result will be addressed under this Action by preparing the *Ex-ante* assessment which will assess present financial products and instruments and identify existing market gaps as well as the Investment Strategy thus opening space in the long run for the establishment of the most appropriate management and delivery system for implementation of financial instruments.

2. *Quality and quantity of both public and private research and innovation increased to enable it to better contribute to economic development;*

This result will be addressed under this Action by stimulating and ensuring a national source of new high technology goods and services originating from the outputs of innovative SMEs by providing financial support for their commercialisation activities and bringing their innovative ideas into products and services on competitive market.

3. *Overall environment for doing business improved through simplification of the regulatory framework and through harmonisation of legislation with the *acquis*;*

This result will be addressed under this Action by further harmonisation of legislation and policies with the EU *acquis* in the area of competition. In addition extensive capacity building activities will be implemented in order to ensure proper and effective implementation and enforcement of aligned legislation.

Enlargement Strategy and Main Challenges 2013-2014

The enlargement strategy⁶ emphasised that in regards to the economic criteria, Serbia has made some progress towards establishing a functioning market economy. Serbia needs to make significant efforts in restructuring its economy so as to cope in the medium-term with the competitive pressures and market forces within the Union. Serbia needs to continue improving the business environment and should make strong efforts to develop a competitive private sector. The functioning of market mechanisms is hampered by legal uncertainty and corruption. The informal sector remains an important challenge.

This Action is focusing on strengthening the competitive private sector by reducing major obstacles: lack of finance for investment, insufficient support services for SMEs and low private investment in innovation and strengthening the market enforcement capacities and mechanisms.

Progress Report 2013

The **Progress Report 2013**, stressed that Serbia should focus on strengthening the capacity of the judiciary to assess complex competition cases. Additionally, it urged stronger competition advocacy, as well as strengthening the capacity of the CPC since the problem of the conflicting legislation adopted without consultations with CPC was noted. Further liberalisation in specific sectors (e.g. transport, infrastructure, postal and telecommunication services, broadcasting, agriculture, environment and energy) was identified as needed.

The Action Document will also support activities which address the Progress Report findings that: (i) Public and private investments in research remain low; (ii) National research capacity and the implementation and monitoring of the actions envisaged remain to be improved.”⁷ The activities under result 3 will help innovative SMEs gain access to necessary financial resources for commercialisation of their innovation, thus increasing public and private investments in innovation and research.

⁶ Page 28 and 29

⁷ Page 53

The Progress Report emphasised that further efforts were needed in relation to company registration, business incubators and access to finance for SMEs⁸. Support to business incubators envisaged under Result 2 will provide SMEs with adequate tailor-made and value added services necessary to improve productivity and boost their growth. Finally, activities under Result 1 should give, in the long run, Serbian SMEs access to new or/and improved financial instruments based on the Investment strategy.

Small Business Act (SBA)

The Action Document addresses the issues defined in The Small Business Act for Europe aiming to promote SMEs' growth by helping them tackle the remaining problems that hamper their development.

The Action is directly focussing on several "Think Small" principles, namely facilitating SMEs' access to finance, helping SMEs to benefit more from the opportunities offered by the Single Market, upgrading knowledge and skills, innovation, and supporting SMEs and their participation on markets.

Europe 2020

The Action aligns well with the Europe 2020 strategy for smart, sustainable and inclusive growth by investing in research and innovation. It is also well aligned with the main SEE 2020 themes of competitiveness, innovation and knowledge economies.

National Plan for the Adoption of the Acquis (NPAA) for 2014-2018

The NPAA denotes that Serbia will place additional attention on the implementation of its R&D and innovation policy towards the "Innovation Union initiative". Moreover, a strong emphasis is being placed on leveraging private sector investment in R&D to address SME-specific problems and provide support for innovation in SMEs with high growth potential. This corresponds with the activities that will be supported under this Action Document.

In relation to the Law on Protection of Competition, the NPAA envisions amendments, while bearing in mind the current level of legal transposition and the relevant administrative and judicial practices, further strengthening of the legal framework through the adoption of by-laws is planned to be achieved in the forthcoming period until 2016.

National Priorities of the Republic of Serbia for International Assistance 2014-2017 with projections until 2020 (NAD)

The activities and results identified in this Action document are also directly linked to three priorities set out in the NAD for the Competitiveness sector. NAD Priority 1 'Raise levels of productivity and improve the quality of products and services', correlates with Results 1 and 2 in the Action document by focusing on constant improvements in products and services of Serbian companies to increase their competitiveness and ability to meet international standards.

The activities planned under this Action to achieve Result 3 are in line with the NAD Priority 2 'Improve innovation levels and enhance quality of public and private contributing to the development of Serbia as knowledge based economy through focusing investments on applied research and development'.

The activities planned to achieve Result 4 of this Action are in synergy with the NAD Priority 3 'Improve operating environment for doing business, with emphasis on evidence based policies and regulatory simplification through focusing on transposition and enforcement of the EU acquis in the area of competition'. In parallel, this Action will support creation of business-enabling environment through interventions in the current administrative and regulatory frameworks to help Serbia become a country where it is easy to invest, innovate and create businesses. Consequently, an easier access to the market will be provided.

The Action also permits the coherent implementation of several key sector strategies, namely:

⁸ Page 37

(Draft) Strategy for the Development of Entrepreneurship and Competitiveness and its Action plan

The Action will directly contribute to the implementation of the draft Strategy and its Action plan. More precisely, activities under Results 1, 2 and 3 of the Action will contribute to the following Strategy pillars, dimensions and measures: P2 D2 M1 'Development of new financial instruments', P4 D1 'Strengthening innovation activities among SMEs (M4)', P4 D2 M2&M4 'Development of business infrastructure for innovative SMEs in terms of strengthening incubators and their provision of high value added services'. The Action Specific objective 2 will contribute to the first strategic goal of the draft Strategy (creation of a friendly business environment) as well the sixth strategic goal (increasing entrepreneurial knowledge and initiatives).

Strategy of Scientific and Technological Development (2010-2015)

The activities planned to achieve Results 1 and 3 focus on the defined Government objectives of increasing financing for science and innovation and creating 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. Furthermore, the Action will promote the application of knowledge-based innovations into products and services that will enhance the Serbian knowledge-based economy and its competitiveness as identified in the national Strategy.

SECTOR APPROACH ASSESSMENT

Strategic Framework

Due to the multi-faceted nature of the sector, the strategic framework for competitiveness in Serbia is complex. The relevant strategies cover the full breadth of the sector and include: aspects of SME development, R&D and innovation, ICT development, foreign direct investment, intellectual property rights, state aid, business environment and services. The strategic framework established by these strategies is sufficient to paint a comprehensive picture of the current situation in the sub sectors and the strategic direction for the future. Beside sector strategies, there are multi-sector strategies, namely: the Fiscal Strategy for 2014 with projections for 2015 and 2016, the National Spatial Plan and the National Plan for the Adoption of the *Aquis* (2013-2016). The General Secretariat of the Government jointly with the European Integration Office has made a series of recommendations for the improvement of sector strategic framework. A consultation on strategic planning at sector level has been carried out through the Sector Working Groups and has led to proposals for a coherent and comprehensive strategic framework for the Competitiveness sector that meets common quality standards, concentrates assistance, maximises impact and takes account of cross-sector synergies.

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 & social development. The strategy refers specifically to manufacturing and competition, corporate governance, R&D, innovation and ICT. The starting point is the country's overall economic goals - stimulating export-led production in high value industries to create new jobs and tackle endemic and long-term employment. The Strategy sets the overall direction for the whole sector, whilst the four sub-sector strategies which cover 'entrepreneurship and competitiveness', 'R&D and innovation', 'ICT' and 'market regulation' can be regarded as vertical pillars underpinning this broad strategy; the four pillars are described below:

1. The Government's role in giving **entrepreneurship** a helping hand should cover all dimensions in a comprehensive strategic vision. This would embrace the scope of the strategies on SMEs and competitiveness including business environment, but also take a wider perspective, including stimulating entrepreneurs (including unemployed) to start-up in business, growth of existing and innovative enterprises, supporting other forms of business infrastructure where there is both industry-led demand (linked to exporting) and gaps in supply (fully occupied or unsuitable premises),
2. The replacement for the **scientific and technological development (STD)** strategy may provide the full coverage of **innovation** themes, including R&D, technology transfer, strengthening links between research and the private sector, including the links to IPR protection (within universities and research institutes), enterprise and industry (including the

needs of priority sectors, and the role of FDI in bringing new concepts and technologies to Serbia), and the human resources and social development sector (specifically, higher education). The 2015-2020 strategy will widen its scope from its predecessor by placing more emphasis on STD within the private sector.

3. **ICT development** will cover both infrastructure and applications having in mind their natural link, along with support for telecommunications and IT companies so that the priorities, financial implications and synergies in channelling public resources to private sector development in the sub sector can be considered comprehensively.
4. **Market regulation** will cover efforts to create a functioning and competitive market economy, having in mind the deep structural reforms needed for the completion of the EU accession process and the related legal harmonisation requirements. Areas of the acquis of specific importance are: free movement of goods, services and capital, competition, including state aid, intellectual property rights, and company law. It will target the desired adjustments in both the public and the private sector.

The activities proposed in the Action sit alongside national funding and other international assistance to support mainstream public spending on policy reforms and economic development.

Sector Lead Institution and Capacity

The Ministry in charge of economy independently or in cooperation with other ministries encompasses the subsectors covered by corresponding EU legislation on Competitiveness: Chapter 1: Free movement of goods, Chapter 3: Right of establishment & freedom to provide services, Chapter 6: Company law, Chapter 7; Intellectual property law, Chapter 8: Competition policy, Chapter 10: Information society & media, Chapter 20: Enterprise & industrial policy, Chapter 25: Science & research, Chapter 28: Consumer and health protection. The Ministry is in charge of EU negotiation preparations in Chapter 1, 4, 20 and it coordinates activities of all relevant institutions within the sector regarding preparation, implementation and supervision of support programme for the abovementioned sub-sectors.

Furthermore, its competences are related to structural adjustments for large companies, investment promotion, craftsmanship, SME and entrepreneurship including economy focused innovative entrepreneurship and IT, competitiveness improvement, standardisation, technical directives, accreditation. In addition, the Ministry in charge of economy represents the body responsible for the implementation of the activities under Result 1 and Result 2.

The Ministry in charge of science and technological development contributes to the competitiveness sector by stimulating research focused innovation entrepreneurship and development of innovation system. The Innovation Fund is embedded in the competitiveness sector and contributes to its development through supporting the Ministry in charge of science and technological development in formulation and implementation of innovation policy, provision of funds for innovation in enterprises, monitoring, reporting and evaluation of innovation policy. In addition, it represents the body responsible for the implementation of the activities under Result 3.

The Ministry in charge of trade holds the responsibilities within the competitiveness sector in the field of: trade, the flow of goods as well as market supply and prices, competition protection, consumer protection, telecommunications, postal services, e-business, information society and electronic communication and inspection in the area of trade, including consumer protection and tourism. The Commission for Protection of Competition is a control body responsible to ensure the enforcement of the competition policy and competition protection laws. The Ministry in charge of trade represents the body responsible for the implementation of the activities under Result 4.

Sector and donor coordination

Strong inter-institutional cooperation and coordination in the sector has been ensured through the Sector Working Group (SWG)⁹ that prepared the Sector Planning Document for 2015-2017 and the Action Document for 2014.

⁹ Act on establishing the SWG from 5.11.2012. No: 119-01-68/2012-03.

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, Public body in charge of intellectual property and Public body in charge of gender equality.

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.

The SWG also acts as Competitiveness Sector Monitoring Committee (SMC) when it includes representatives of the Ministry in charge of finance, specifically from the National Fund and the CFCU, meaning that the composition of the SWGs and SMCs are the same.

Sector Budget and medium term perspective

Important steps in the direction are being undertaken with preparations for programme budgeting which is legally mandated to be introduced in year 2015 for all budget beneficiaries. Currently 14 institutions are implementing programme based budgets as a pilot for the 2015 introduction. In the Competitiveness sector, the Ministry of Trade, Tourism and Telecommunications is one out of the 14 pilot institutions that are currently implementing the programme based budget. The 2015 budget, which is currently being developed, will be based on the programme budget methodology. The programme budget will facilitate planning and prioritisation processes within the Government, as well as enable easier monitoring of budget spending through greater transparency.

In accordance with the Programme Budgeting Instructions (PBI), the pilot 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.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

According to the ISDACON database¹⁰, the competitiveness sector is among the largest recipients of assistance from the international donor community over the period 2007-2012 with estimated total disbursement amounting to EUR 993.46 million.

In the seven annual **programmes 2007-2013, IPA component I** financed projects in the competitiveness sector worth around EUR 120.83 million which focused on the effective operation of markets and covered the following areas: strengthening the market surveillance system 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 also improved the quality, range and availability of business support services, export innovation within SMEs and technology transfer through an enhanced institutional framework, improvement in the business support infrastructure, and development of instruments for financing SMEs innovations.

The SIDA Report on "*Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia*"¹¹ found that the relevance of past assistance was very high and in line with the national strategies and donor objectives and produced results which contributed to targeted objectives in the competitiveness sector. The SIDA Report found that there was a high level of efficiency in the implementation of projects from this sector. However, the impact of the assistance was evaluated as low partially due to the ongoing global economic crisis. Despite this the evaluation noted some positive examples such as the removal of business barriers and the provision of direct support to the

¹⁰ www.evropa.gov.rs

¹¹ SIDA, Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia per sector, Final Report

private sector. Sustainability of development assistance was considered as medium, and was highly dependent on the Government's capacity to incorporate achieved results into policy interventions, or the political willingness to support the institutions and services developed with assistance.

The sector specific evaluation "*Technical Assistance for the Evaluation of the Competitiveness sector implemented and financed by IPA Programme and other Donors in the Republic of Serbia*" on the other hand, found that the interventions in the sector efficient and the capacity of the central institutions increased as a result of direct capacity strengthening activities and also through participation in the managing and implementing the projects/ programmes.

However, the evaluations emphasised that the issues encountered in the previous actions included an unstable legislative, political and institutional setting which diminished the positive effects of support interventions on SMEs. 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 sustainability. Consequently, the efforts have been focused on improving and stabilising the environment and empowering national institutions to take full responsibility for implementation.

Moreover, in cases related to the internal market, IPA was noted as giving momentum to further alignment and institutional change when such was necessary. To note a few examples: market surveillance, consumer protection and state aid. However, as there was no national policy, coherence was not established. While this shows the strong impact of IPA on the extent to which Serbia is able to align itself with the *acquis* in these areas, it also points in the direction that a number of key decisions as to the institutional set up of the particular policy fields have not being taken sufficiently fast by the Government.

The evaluation "*Technical Assistance for the Evaluation of the Competitiveness sector implemented and financed by IPA Programme and other donors in the Republic of Serbia*" recommended further improvements in the system that will ensure access to finance for SMEs investments needed to ensure their competitiveness. Notwithstanding, more account should be given to (innovation-related) national programmes when designing donor-supported grant schemes.

The evaluation recommended that development assistance should continue to focus on: developing the quality of business advisory services to private sector entities; export and market penetration, technology transfer and increasing productivity and innovation that is market oriented. Development assistance should also support government initiatives to develop a knowledge-based, innovation-driven economy (technology transfer, strengthening links between research and the private sector) to access well- identified and informed new market opportunities. The evaluation also stressed the importance of achieving efficient and transparent market and recommended strengthening capacities of all economic operators. Support priorities should focus on ensuring fair competition, creating a predictable and transparent legal system,¹² fighting corruption (particularly interference with foreign investors) and reform of the public administration. Finally, the evaluation stressed the need to further strengthen the government capacities for market surveillance, product safety and consumer protection.

The recommendations from the evaluation are embedded in the programming process of IPA 2014-2016, with specific activities in this Action serving as their follow up and mitigation of encountered challenges.

¹² There are cases of partial implementation of the legislation, which create instability and insecurity in doing business.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION		
To increase the competitiveness and innovation of companies within a well-functioning market	Summary Innovation Index Legislation aligned with the acquis and effectively implemented (Progress)	- Source: Innovation Union Scoreboard - EC Progress Report		
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS	
To improve access to finance and high value added service for companies	SO 1: Number of new products or services developed by SMEs	- Annual Progress Report/ Ministry in charge of science - Annual Report/2018/CPC	Support to the development of innovative high quality products and services and commercialisation of research remains high on the Government agenda Strengthening the capacities of the CPC will lead to decrease in the number of breaches of competition rules	
To improve market integrity and environment conducive to market operators	SO 2: Number of decisions issued by CPC			
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS	
Result 1: Proper management and funding system for the implementation of financial instruments identified	Ex ante assessment produced	- Action Final Report/2016/Ministry in charge of economy		
Result 2: Business incubators enabled to provide high value services to SMEs rules	Number of incubators/SMEs receiving support Number of new services for SMEs developed in the incubators	- Action Final Report/2018/Ministry in charge of economy - Report on SMEs and Entrepreneurship/ Annual/ Ministry in charge of economy	Developed services are corresponding to enterprises' needs Local and national stakeholders are committed to ensure sustainability of the facilities and services	
Result 3: New products and services developed by SMEs through research commercialisation	Value of grant scheme funds absorbed by SMEs Number of SMEs receiving grant scheme funds	- Annual Report/ 2018/IF	Developed products and services have the potential to succeed on the market	
Result 4: Improved capacities of market operators and regulators to reduce the number of breaches of competition rules	Number of legislative acts regulating competition and in line with new NPAA for 2014-2018 and screening report drafted Number of studies dealing with sectorial legislation developed Methodology for sector analysis and application of econometrics models provided to the CPC Number of codes of practise developed	- Annual Report/ 2018/CPC	Market operators and regulators, businesses,, judiciary and civil servants are willing to actively participate in the activities.	
ACTIVITIES		MEANS	OVERALL COST	ASSUMPTIONS
Activities to achieve Result 1: Analysis of market failures, suboptimal investment situations and investment needs Assessment of the added value of the FI Estimate of additional public and private resources to be potentially raised by the financial instruments Assessment of lessons learned from similar instruments and ex-ante assessments carried out in the past Proposed investment strategy Specification of expected results		Direct Grant with EIB	Total budget for the Action - EUR 7 150 000 IPA II budget – EUR 5 000 000	Competitiveness and Entrepreneurship Development Strategy including Action Plan adopted in line with the Small Business Act;

<p>Activities to achieve Result 2: Development of the support programme based on the ACCESS analysis of business incubators Design trainings and workshops for business incubators in line with their needs and objectives Development of set of services for business incubators in the university centres Development of set of services for business incubators aiming to increase self-employment on local level Establishing of good practice cooperation with successful incubators in the EU</p>	<p>Service contract</p>		<p>Entrepreneurship Development Strategy including Action Plan adopted in line with the Small Business Act; National R&D and Innovation Strategy and Action Plan adopted; Needs assessment of current supply and demand for value added services provided by incubators and other business innovation support organisations Secured commitment of local and national stakeholders (faculties, universities, local self-government, enterprises, media)</p>
<p>Activities to achieve Result 3: Implementation of the grant scheme programme for innovation - Preparation and publishing of the call for proposal, - Workshops for potential applicants, - Evaluation of applications, - Training of successful applicants on implementation procedures, - Monitoring of projects selected for financing Project management Information, publicity and visibility</p>	<p>Direct grant for the Innovation Fund</p>		<p>National R&D for Innovation Strategy and Action Plan adopted; Sustainability of Innovation Fund ensured; Evaluation and selection procedure for project selection agreed and sustainable</p>
<p>Activities to achieve Result 4: Draft (by)laws regulating competition in line with new NPAA for 2014-2018 drafted (indicative list of sectors includes: motor vehicle and financial services sectors) Assess the screening reports in the sector of competition and ensure necessary legal or institutional adjustments and modernisations e.g. introduction of a settlement procedure Research and analyse ECJ case law, EC and practices of member states' competition authorities; Research and draft studies on sectorial market legislation in the competition area and studies on sectorial markets (sectors to be determined on the basis of screening report; indicative list may include telecommunications, transport, energy, wholesale and financial services) Draft a comprehensive methodology for sector analysis and application of econometrics models Design and implement training programme and raising awareness activities for regulators, judiciary businesses associations and market operators Upgrade the CMS and ensure coordination with the ECN Circa Intranet system Provide support to the transfer of good practices from the CMS of the CPC which is under development to sectorial regulators, market and other inspections Providing expert support to traders in developing various codes of practices (self-regulation) Promotion of the culture of competition through visibility and awareness raising (media campaigns, brochures and national and local events)</p>	<p>Twinning contract</p>		<p>Successful implementation of IPA 2011 project on competition.</p>

ADDITIONAL DESCRIPTION

This Action **contributes** to addressing the need of the sector **to increase the competitiveness and innovation of Serbian enterprises within a well-functioning market economy**. Specifically, it addresses the need to strengthen the private sector's impact on the economy by increasing its ability to compete in global markets, its capacity to innovate and by ensuring the integrity of the national open market.

As a consequence of the activities under results 1, 2 and 3, the Action will reach **an objective** of improving **access to finance and high value added service for companies** as long as enterprises are utilising the provided financial instruments and high value added services. The objective itself, together with the assumption that support to the development of innovative high quality products and services and commercialisation of research remains high on the Government agenda, will contribute to increase the competitiveness and innovation of Serbian enterprises as mentioned above.

As a consequence of activities under result 4, the Action will reach **an objective** of improving **market integrity and environment conducive to market operators**. It is assumed that by strengthening the capacities of relevant institutions, there will be a decrease in the number of breaches of competition rules.

Result 1: Proper management and funding system for the implementation of financial instruments identified

The Action will result in the development of the *ex-ante* assessment in line with requirements of Article 37 of the Common Provisions Regulation (CPR).

Activities and assumptions under Result 1: The envisaged activities will focus on identification of the most needed financial products/instruments including the investment gap contributing to the competitiveness of Serbian SMEs as well as the assessment of management and delivery options based on market assessment.

According to the EU Common Provisions Regulation (CPR), support of financial instruments shall be “based on an *ex ante* assessment which has established evidence of market failures or suboptimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported”. The *ex-ante* assessment should contain the analyses of market weaknesses for each type of financial products available as a source of financing to SMEs. After the market failures are identified and assessed, the Investment Strategy will be developed. The aim of the Investment Strategy is to propose the appropriate financial products to mitigate market weaknesses identified by the market assessment.

Successful implementation of these activities relies on securing the support and involvement of various public institutions and the private sector that should be ensured through proper planning communication activities.

Ongoing projects linked to Result 1 and activities

The U.S. Agency for international development - **USAID Business Enabling Project (USAID BEP)** is supporting further development of financial markets, and increasing business and financial management capacities within businesses and the Government. The project is supporting the improvement of business environment notably by tackling the para-fiscal charges¹³ and actions towards simplifying the regulatory environment. USAID BEP will be further complemented with the IPA 2013 project “*Strengthening the business environment, infrastructure and innovation*” which will support the implementation of the priority reforms and activities from the Action plan for improving business environment in Serbia. The activities will focus on reducing the legal, regulatory and administrative obstacles for doing business in Serbia, making the business environment more favourable and foreseeable. BEP is working with Serbian counterparts in implementing an active reform agenda focused on improving fiscal strategy, budgeting, and debt management¹⁴ that is directly linked with the new EU Enlargement Strategy. The project is further focused on analysis of

¹³ See http://www.bep.rs/english/news_2014_04_30-1_en.php

¹⁴ See http://www.bep.rs/english/news_2014_04_30-2_en.php

Serbia's system for SME financing and is providing the necessary input for the activities related to result 1.

USAID BEP is also estimating financial market impacts of establishing a regulatory environment that enables non-bank financial institutions needed to expand the range of financing sources available to Serbian businesses.

The *ex-ante* assessment will take into account the **Programme for the Competitiveness of Enterprises and small and medium-sized enterprises-COSME and HORIZON 2020-the Framework Programme for Research and Innovation**, since the financial instruments in those programmes are designed to provide added value to other present or/and possible financial instruments in beneficiary countries.

The Western Balkan Enterprise Development and Innovation Facility-**WB EDIF** project is improving access to finance for innovative and high growth SMEs and offering complementary financial engineering instruments addressing the entire range of their financing needs. It is also addressing the challenges the regulatory framework in the region is posing on the operations of private venture capital and private equity funds. However, WB EDIF does not envisage support for building of national capacities to manage/implement these instruments.

Result 2: Business incubators enabled to provide high value services to SMEs

The Action will result in enabled business incubators to provide services to SMEs that should correspond to enterprises' needs and reach the objective mentioned above assuming local and national stakeholders are committed to ensure sustainability of the facilities and services.

Activities and assumptions under Result 2: The activities will support business incubators by improving the existing support services system and in particular by helping to adjusting their offer to meet demand, improving demand quality and providing new value added services. The activities will also focus on creating an adequate system of support services in the newly established incubators. One set of activities will be directed towards incubators located in the university centres to strengthen their capacity in providing high value added services for start-ups with high potential for growth. The second set of activities will focus on existing incubators located outside university centres and enable them to provide more general services for start-ups local, production based SMEs with special focus on reducing youth and women unemployment.

Successful implementation of these activities depends on the secured commitment of local and national stakeholders (faculties, universities, local self-government, enterprises, and media) and the adoption of strategic documents: Strategy for the Development of Entrepreneurship including Action Plan in line with the Small Business Act that is currently in public consultation process, and National R&D for Innovation Strategy and Action Plan. The Needs assessment of current supply and demand for value added services provided by incubators will be performed with the support of GIZ ACCESS project and should be finalised by second quarter 2014.

Ongoing projects linked to Result 2 and activities

The ongoing **GIZ ACCESS II Project** financed by the German Government is supporting the Serbian institutions by preparing an in depth analysis of demand and supply of business incubators thus ensuring successful preparation and implementation of the activities under the Result 2. The analysis should collect data of the current state of business incubators in Serbia. This section will create a kind of an ID for each incubator and the general context in which the Serbian incubators work. On the basis of the ID, a methodology for the analysis and recommendation will be proposed. The analysis is then evaluating the performance of individual incubators and recommends the improvements, which primarily relates to the SWOT analysis and priority interventions. Currently, the project has performed a qualitative evaluation of 11 Technology and Business Incubators in Serbia based on quantitative data from questionnaire and desk research. SWOT analysis has been prepared for each incubator. The assessment of the willingness to change and adequate support from founders is being particularly weighted. A set of benchmarks for the founders will be set to ensure their commitment and future sustainability of the supported incubators. Finally, a Roadmap for future development of business incubators in Serbia will propose activities necessary for the development of business incubators in Serbia. Specific recommendations for different categories of incubators will be

developed. The categories certainly include the technology start-up (both ICT and other technology sector) companies in technology incubators, and those that are focused on local, production based SMEs as well as social incubators. The preliminary scanning of the incubators showed that each one has its specificities. The implementation of activities listed under Result 2 will partly implement the Roadmap developed by GIZ ACCESS II project.

The ongoing **Serbian R&D Infrastructure Investment Initiative** to improve R&D infrastructure will complement the activities under Results 2. It has been creating the necessary pre-conditions for improving human resources in science and raising research excellence. The Government's EUR 400 million initiative is supported through financial agreements with the European Investment Bank (EUR 200 million), the Council of Europe Development Bank (two agreements worth a total of EUR 105 million) and through national, regional and local co-financing.

This initiative includes creation of infrastructure for new incubators and technology and science parks. Part of the activities under Result 2 will focus on strengthening the capacities of the newly built facilities.

Result 3: New products and services developed through research commercialisation in the SMEs

The Action will result in the development of new products and services through research commercialisation in the SMEs proven that developed products and services have the potential to succeed on the market and contribute to increased competitiveness of Serbian economy.

Activities and assumptions under Result 3: The activities will support the Innovation Fund to provide financial and technical assistance to innovative SMEs applying for market-oriented innovative technologies, products and services with high commercialisation potential. The Direct grant for the Innovation Fund will implement a grant scheme programme for SMEs and provide the successful applicants with support in the implementation of their individual projects. The Innovation fund will be in charge of the preparation and publishing of call for proposal of the planned grant scheme that will support market oriented innovative technologies and their commercialisation. Workshops with potential applicants will be organised to help them understand the requirements of the call and eligibility of their proposals. Once the call is closed, an evaluation will be conducted to select the best projects. The grant scheme programme will support individual applications submitted by SMEs. The funding under the grant scheme will include eligible activities such as (the list is not exclusive): development of innovative technologies, products and services, promotion of usefulness and uniqueness of the innovation, its IP position and market potential and international collaboration of innovative SMEs. Furthermore, it will enhance capacity of the Serbian SMEs with the goal of creating a pipeline of new technologies coming out of private sector research activities and establishing best practices in commercialisation of research. Once the evaluation is conducted, it is crucial to train the successful applicants on the implementation of their project. The successful applicants will be trained by the Innovation Fund to ensure smooth implementation that will be monitored through on the spot and ex ante checks. The final beneficiary of the Direct grant will be the Innovation Fund with innovative enterprises (start-ups and spinouts) as end recipient of the grant scheme programme.

Successful implementation will depend on the adoption of the National R&D for Innovation Strategy and Action Plan, ensured sustainability of the Innovation Fund and sustainable evaluation and selection procedure for grants agreed before the start of the project.

Ongoing projects linked to Result 3 and activities

The ongoing IPA 2011 **Innovation Project Serbia** is helping innovative SMEs to further develop their products and services. So far, 53 projects with value of EUR 6 million were financed. The Innovation Fund recently completed the 4th call for proposals for the Mini and Matching Grant programmes with continued strong interest from the enterprise sector. The successful applicants from the first call have completed their projects with significant results. For example, out of 23 projects financed in 2012 with value of EUR 2.62 million, already 10 projects have resulted in 9 national and 4 international patent applications, 4 trademarks applications, 2 intellectual property protection

applications and 5 product certifications¹⁵. 35% of the financed applicants have collaborated with the R&D institutions in implementing their projects. Furthermore, there was a significant increase in the participation of spin off companies in the call. The Innovation Fund has delivered training to grant applicants and is currently identifying other training opportunities thus creating mechanism to support applicants and strengthening its capacities to launch, evaluate and monitor the implementation. The results of the IPA 2011 project will directly influence the activities under the Result 3, since the demand for financing innovation in SMEs and new product/ service development has substantially exceeded the money available under the current Programme¹⁶.

IPA 2013 **Strengthening business environment, infrastructure and innovation** and its measure 3.1 **Creating a comprehensive R&D and innovation strategy and assisting technology transfer** will address lack of expertise in technology transfer practices of Serbian public sector R&D organisations and academic institutions. It will focus on a) building expertise by which academic R&D can be commercialised; and b) provide financial incentives for engagement of academic R&D in enhancing the competitive position of Serbian enterprises by introducing financial instrument directly supporting a joint public sector R&D organisations and industry projects. The project is in synergy with the activities under Result 3 since both are promoting knowledge based society. The IPA 2013 project is focusing on technology transfer of public R&D institutions, while activities under Result 3 are more focused on innovative SMEs. Consequently, support to both groups of beneficiaries will directly contribute to creation of competitive economy based on innovation and knowledge.

The ongoing **Higher Education Teaching Infrastructure Programme (HETIP)** aims to refurbish 27 high education institutions in Serbia, at five public Universities and to deliver sophisticated and state of the art specific scientist equipment and modern ICT equipment. The Project is funding renewal of laboratories, research cabinets, study rooms and communal facilities for 27 Serbian public faculties in: Belgrade, Novi Sad, Kragujevac, Niš, Kraljevo, Novi Pazar, Bor, Vrnjačka banja, Čačak, and Leskovac. The activities implemented under Result 3 of the Action will complement the results of HETIP by supporting innovative SMEs driven collaboration with public R&D institutions that have benefited from purchased equipment.

Furthermore, the ongoing **Serbian R&D Infrastructure Investment Initiative** to improve R&D infrastructure will complement the activities under Results 3. It has been creating the necessary pre-conditions for improving human resources in science and raising research excellence. 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, EUR 50 million 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 **Western Balkan Enterprise Development and Innovation Facility - WB EDIF** project is improving access to finance for innovative and high growth SMEs and offering complementary financial engineering instruments addressing the entire range of their financing needs. It is also addressing the challenges the regulatory framework in the region is posing on the operations of private venture capital and private equity funds. However, WB EDIF does not envisage support for building of national capacities to manage/implement these instruments. Furthermore, the investments that WB EDIF is aiming are of a large scope of up to EUR 1.5 million under EIF and up to EUR 10 million under EEF. On the other hand, the activities related to Result 1 and 3 of the Action are focusing specifically on improving the national capacities of the private sector financing and a smaller scale investment complementary to the micro and small enterprises that are making 99% of Serbian companies.

Result 4: Improved capacities of market operators and regulators to reduce the number of breaches of competition rules

The Action will result in improved capacities of market operators and regulators to reduce the number of breaches of competition rules.

¹⁵ Annual Report 2012, Innovation Fund

¹⁶ There were 460 applications in the four calls for applicants

Activities and assumptions under Result 4: The screening report and possible benchmarks for opening the negotiating chapters are to be accounted for and therefore, a certain amount of flexibility should be envisioned in this matter. Activities aiming at further development of the system and the capacities for combating anti-competitive practices will lead to an improved implementation of EU-harmonised policies which will in return contribute to the creation of a well-functioning market economy. Bearing in mind the (expected) results of ongoing IPA 2011 project, further alignment of the legislation is necessary in the sense of EC and ECJ case law, but also to account for practices of competition authorities across the EU. From a general approach the focus should shift to sectorial market legislation on the basis of the screening report, which may raise the need for thorough studies of the issues. Additionally, the CPC is in need of an adequate methodology for sector analysis and the application of econometrics and econometrics models in order to perform the work adequately. Trainings and workshops for businesses, market operators as well as regulators and judiciary (Administrative Court, Supreme Court, Public Prosecutor's Office) are aimed to further capacity building and awareness rising. In addition, there is a necessity for a variety of codes of conduct between traders across sectors, which requires expert support. The CMS will be finalised by the end of the year and as such needs to be upgraded and interlinked with the ECN Circa Intranet system so as to enable cooperation with other authorities which will in turn improve the CPC and national courts' enforcement records. Additionally, CPC would become a qualified ECN member. As the CMS offers benefits for other institutions as well, there should be a transfer of good practices to e.g. sectorial regulators, market and other inspections. Previous experience showed that visibility is necessary in order to draw the attention of the wider public and engross them in the goal, which draws the conclusion that in the promotion of the culture of competition, awareness raising media campaigns and local, regional and national events need to be organised.

Ongoing projects linked to Result 4 and activities

In the process of legal harmonisation, assistance was not provided only by sectorial projects, but also by horizontal projects such as the **Policy and Legal Advice Centre (PLAC)**. Its horizontal nature proved particularly helpful in providing assistance in cases where urgent interventions were needed (e.g. after poor assessments by the EC in the Annual Progress reports) and in cases of sectorial areas which were not covered by other existing technical assistance.

The IPA 2011 **Capacity Building and IT Assistance to the Commission for the Protection of Competition** was initiated with the objective of improving Serbia's capacity to take up the obligations deriving from the SAA in the field of competition specifically targeted the institutional capacity of the Commission for Protection of Competition in order to achieve a more efficient enforcement of competition policy and consequently, benefits for all actors on the market as well as consumers, while activities under Result 4 will further focus on the capacities of other administrative bodies and courts as well as the private sector.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

This Action Document under IPA II assistance will be implemented and managed in accordance with the rules and procedures under both Direct and Indirect Management and in line with respective legislation and Manuals of Procedures. In regard to the competitiveness sector, the Ministry in charge of economy (SLI), the Ministry in charge of science and technological development, the Ministry in charge of trade, NIPAC TS and CFCU as Contracting Authority are responsible for preparation, implementation, monitoring and evaluation of actions related to competitiveness sector. Other actors, such as the NAO/NF, and AA, have specific roles in the implementation process in line with respective legislation.

The Ministry in charge of economy is the main institutional stakeholder of activities under Results 1 and 2. Besides the Ministry in charge of economy, the following institutions will be responsible for the implementation and are the main institutional stakeholders: the Ministry in charge of science and technological development and the Innovation Fund for the activities leading to result 3, the Ministry in charge of trade as institution responsible for general competition policy and the Commission for Protection of Competition as institution responsible for the enforcement of the competition policy and competition protection laws for the activities under Result 4.

The Sector Working Group (SWG) for competitiveness sector is responsible to propose relevant measures and activities in the competitiveness sector as explained under section Sector Approach Assessment.

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

Result 1 Proper management and funding system for the implementation of financial instruments identified

The activities under the result will be implemented through the Direct Grant with European Investment Bank, under Direct Management by EUD, and in line with “*Ex-ante* assessment methodology for financial instruments in the 2014-2020 programming period”, published by the European Commission.

The Ministry in charge of economy is responsible for the implementation of activities to achieve Result 1. There is no national financing foreseen for the result 1.

Result 2 Business incubators enabled to provide high value services to SMEs

The activities will be implemented through one service contract. The project purpose is to raise the capacities of the Serbian business incubators, so the technical assistance seems the most appropriate implementation model.

The Ministry in charge of economy is responsible for the implementation of activities to achieve Result 2. National financing foreseen for the result 2 in the amount of EUR 150 000 will be secured by the Ministry in charge of economy.

Result 3 New products and services developed by SMEs through research commercialisation

The activities will be implemented through a **direct award – grant contract** for the Innovation Fund. The Innovation Fund was established by the Innovation Law to provide funding for innovation in enterprises and supporting the implementation of innovation policy. Furthermore, its capacities have been strengthened by the ongoing support implemented by the World Bank.

The Ministry in charge of science and technological development and the Innovation Fund are responsible for the implementation of activities to achieve Result 3. National financing foreseen for the result 3 in the amount of EUR 2 000 000 will be secured by the Ministry in charge of science and technological development.

Result 4 Improved capacities of market operators and regulators to reduce the number of breaches of competition rules

The activities will be implemented through a twinning contract. The Ministry in charge of trade and the Commission for the Protection of the Competition are responsible for the implementation of activities to achieve result 4. There is no national financing foreseen for this result of the Action.

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 management and in line with relevant Manuals of Procedures. Manuals of procedures include detailed procedure for monitoring on different levels with clear responsibilities and deadlines in the monitoring process.

IPA II monitoring process is organised and led by the NIPAC/ NIPAC TS. National IPA Coordinator (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 Sector programmes aiming to improve these processes, timely identification, remedying and alleviation of potential issues in the process of programming and implementation of Action documents.

Through the support of the NIPAC TS, the NIPAC is responsible to establish the monitoring procedure and roles and responsibilities of the institutions in the programming and monitoring process. Furthermore, with the support of NIPAC TS, 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 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 Sector programmes and Action Documents, monitor the fulfilment of preconditions for the initiation of public procurement procedures and organise the process of evaluation of IPA support to sector programmes. 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/ NIPAC TS, SPO/IPA Unit, CFCU, NF, AA and other institutions and civil society organisations per need

INDICATOR MEASUREMENT

Indicator	Description	Baseline (year)	Last (year)	Milestone 2017	Target 2020	Source of information
1. Summary Innovation Index	Comparative assessment of the EU Member States' innovation performance	0,358 (2013)		0,375	0,4	Innovation Union Scoreboard Report
2. Legislation aligned with the acquis and effectively implemented	The analysis that illustrates the overall improvements in the harmonisation/ implementation of the relevant EU Acquis	"Some progress" in 2013 EC annual progress report		"Good progress" in 2017 EC annual progress report		Progress Report
1. Number of new products or services developed by SMEs	New products and services developed by SMEs	N/A	10			Annual Report/2018/Ministry in charge
2. Number of decisions related to cartel cases and restrictive agreements issued by CPC	CPC initiates proceedings and issues decisions related to the breaches of competition rules	4	8			Annual Report/2018/CPC
1. The Ex ante assessment report produced	Ex-ante assessment Report should identify market failures or suboptimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported	N/A	Ex-ante assessment Report produced			Action Final Report
1. Number of incubators/SMEs receiving support	Number of Incubators/SMEs that have been provided with non-financial support by the incubators	N/A	5/40			Action Final Report
2. Number of new services for SMEs developed in the incubators	Number of services provided by incubators	N/A	3			Action Final Report
1. Value of grant scheme funds absorbed by SMEs	Total amount disbursed and used by the innovative SMEs that have successfully implemented their actions	N/A	100%			Final Reports of the grant scheme projects Final Report of the Direct Grant by Innovation Fund
2. Number of SMEs receiving grant scheme funds	Number of innovative SMEs that have been successful with their project applications and have received funds from the grant scheme programme	N/A	50			Final Reports of the grant scheme projects Final Report of the Direct Grant by Innovation Fund
1. Number of legislative acts regulating competition and in line with new NPAA for 2014-2018	Number of legislative acts drafted with the support of the Action	N/A	3			Action Final Report
2. Number of studies dealing with sectorial legislation developed	Number of studies dealing with sectorial legislation developed	N/A	4			Action Final Report
3. Methodology for sector analysis and application of econometrics models provided to the CPC	Methodology for sector analysis and application of econometrics models	N/A	Methodology developed			Action Final Report

4. Number of codes of practices developed	Codes of conduct between traders across sectors	N/A	3			Action Final Report
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5. CROSS-CUTTING ISSUES

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

N/A

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

Competitiveness Action will take into account Civil Society inputs by means of the SECO mechanism. SEIO established a consultation mechanism with the civil society organisation (CSOs) to enable more inclusive and transparent dialogue, consultation and communication with all relevant stakeholders in the Competitiveness sector. This mechanism is based on the consultative process with Sectorial Civil Society Organisations (SECOs) and serves as a platform that enables exchange of information and contribution of CSOs in relation to planning development assistance, particularly programming and monitoring of the Instrument for Pre-Accession Assistance. Civil society actors will also benefit from improved cooperation between the Government, and socio-economic partners and civil society organisations, to support strategic planning and future programming including partner consultation.

The SECO indicates a consortium of maximum three CSOs as partners, one of which is clearly indicated as leading partner¹⁷. SECO is composed of the CSOs that have significant experience with public advocacy, analyses and research in the sector, as well as experience in direct work with service providers and beneficiaries. They are influencing public policy due to their successful networking and partner work with other local and international civil society organisations well as constructive cooperation with state institutions and the constant monitoring of their work. Members of SECO are participating at the SWG meetings based on the needs and requirements of each SWG meeting and takes part in consultation processes for analysing sector priority goals, measures and operations for financing from EU funds and international assistance. 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.

ANTI-CORRUPTION

Anti-corruption National Strategy (2013-2018) and accompanying Action plan, envisages preparation of integrity plans as preventive measure in fight against corruption, enabling institutions to apply self-control in the implementation of their competences. In the Competitiveness Sector, the following institutions have developed their Integrity Plans: Ministry in charge of economy, Ministry in charge of finance, Ministry in charge of science, Ministry in charge of trade, Innovation Fund and Commission for Protection of Competition.

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

To some extent 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 are taken to tackle these issues: provision of high value services through business support organisations will contribute to greater competitiveness of women's enterprises; development of 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 at the level of Sector Planning Document results and will be incorporated into the performance monitoring of the sector.

¹⁷ 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.

6. SUSTAINABILITY

The achieved results will set the strategic direction in tackling the issue of achieving coherent national support service scheme aiming at creating jobs, business activation, attracting knowledge and boosting economic development. By creating a coordinated and more effective mix of services such as available finance, specific advice and appealing legislative framework, a sustainable support system will be created. 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 and the repayments will be used for the same purpose. The mobilisation of private resources, financial sector involvement and high leverage effect together with the flexibility of the instrument to the actual needs of the market will ensure high demand while the systemic approach will increase cooperation and trust between different sectors.

The sustainability of support to business support organisations and incubators will be pursued by setting up a clear methodology for ensuring the sustainability with measures embedded in the action activities and/or in an ex-post monitoring and evaluation system. The action will insist on setting up a binding cooperation and commitment from the local self-governments and universities gearing the process and ensuring its effectiveness. The Government, being committed to increasing capacities of the Serbian innovation system will assume responsibility to streamline all innovation support programmes thus making the proposed grant scheme sustainable.

With regards to the creation of a functioning market economy and implementation of the EU acquis, the achieved results will entail strengthened administrative systems, capacities and processes introduced for the implementation of the new rules. These new systems, capacities and processes will be embedded in the Serbian institutional setting in the course of support, after which they will continue to function as an integral part of the domestic administrative system. Awareness rising among the business community will underpin the institutional and administrative efforts, through better understanding of the new rules and a culture of compliance which will thus be supported. Finally, as Serbia's progress in all of these areas of the acquis will be closely monitored during the EU accession negotiations, as well as through the competences of the EC and ECJ upon accession, sustainability of the results achieved through the support will be ensured in the long run.

7. 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 beneficiary, and shall be funded from the amounts allocated to the Action. Integral part of each activity in the Action will be the definition of communication strategy and related visibility activities. These activities will be carried out in order to raise the profile of the activities, increase awareness among various target audiences and to ensure successful communication of information about the operations and results that will be accomplished.

All actions and tools will be fully aligned with the EU visibility guidelines "Communication and Visibility Manual for EU External Actions". Through the development of a communication strategy communication objectives will be set, enabling successful identification of visibility activities (in order to pull existing resources and create maximum impact when directed to the target groups). Furthermore, in the communication strategy the beneficiary will identify target groups (as recipients of the information); identify key messages (to be transferred to targets in a way to motivate them to perceive information in desired manner) and set up the communication approach.

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. Visibility actions should also promote transparency and accountability on the use of funds.

The following actions and tools should be carried out: definition of visual identity standards; preparation of written materials (factsheets, training compendia, manuals, etc.); production of branded material (panels, folders, promotional material); website; events (trainings, retreats, workshops, round tables, initial and closing events).