



## REPUBLIC OF SERBIA

### EU for Competitiveness, Research & Development and Innovation

#### **Action summary**

*The Action will contribute to increased competitiveness of Serbian economy by achieving two specific priorities: investing in increasing SME business efficiency and their share in turnover, GDP and profitability and improving the eco-system for research and development. Firstly, the Action will focus on improving business environment; provision of access to finance for commercialisation of research and development (R&D); provide support to knowledge-based development of innovative enterprises; promote cooperation between public R&D institutions and private sector and enable access to finance for SMEs determined to acquire new technologies.*

*Under the second specific objective, the Action will also undertake a comprehensive mix of activities that will enhance research and development eco-system and support Government efforts in improving the mechanism for R&D competitive funding, by strengthening financial and administrative capacities to boost state of the art research and its relevance for society.*

<b>Action Identification</b>	
<b>Action Programme Title</b>	Country Action Programme for the Republic of Serbia for the year 2019
<b>Action Title</b>	EU Support to Competitiveness, Research & Development and Innovation
<b>Action ID</b>	IPA 2019/Serbia/ EU Support to Competitiveness, Research & Development and Innovation
<b>Sector Information</b>	
<b>IPA II Sector</b>	5. Competitiveness, Innovation, Agriculture and Rural Development
<b>DAC Sector</b>	25010
<b>Budget</b>	
<b>Total cost</b>	<b>EUR 193,000,000</b>
<b>EU contribution</b>	<b>EUR 76,500,000</b>
<b>Budget line(s)</b>	22.02 01 02
<b>Management and Implementation</b>	
<b>Management mode</b>	Direct and Indirect management
<b>National authority or other entrusted entity</b>	For Result 3: The Ministry of Finance/Department for Contracting and Financing of European Union Funded Programmes (CFCU) for the Direct grant with Innovation Fund For Results 1, 4 and 5: Indirect Management with the World Bank For Result 2.:EU Delegation to Serbia
<b>Implementation responsibilities</b>	For Results 1,2: Ministry in charge of economy For Results 3, 4, 5: Ministry in charge of science and technological development
<b>Location</b>	
<b>Zone benefiting from the action</b>	Republic of Serbia
<b>Specific implementation area(s)</b>	N/A
<b>Timeline</b>	
<b>Final date for concluding Financing Agreement(s) with IPA II beneficiary</b>	At the latest by 31 December 2020
<b>Final date for concluding delegation agreements under indirect management, procurement and grant contracts</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
<b>Indicative operational implementation period</b>	6 years following the conclusion of the Financing Agreement
<b>Final date for implementing the</b>	12 years following the conclusion of the Financing Agreement

<b>Financing Agreement (date by which this programme should be de- committed and closed)</b>			
<b>Policy objectives / Markers (DAC form)</b>			
<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Participation development/good governance	<input type="checkbox"/>	√	<input type="checkbox"/>
Aid to environment	√	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women in Development)	<input type="checkbox"/>	√	<input type="checkbox"/>
Trade development	<input type="checkbox"/>	√	<input type="checkbox"/>
Reproductive, maternal, newborn and child health	√	<input type="checkbox"/>	<input type="checkbox"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Biological diversity	√	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	√	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	√	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	√	<input type="checkbox"/>	<input type="checkbox"/>

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

Low competitiveness of Serbian enterprises is a result of challenges of the business environment faced by private sector. The Government has taken a comprehensive approach in addressing these challenges, aiming to reduce administrative costs by 15-20% until 2020<sup>1</sup>. This resulted in a significantly improved ranking in the Doing Business Report, from 91<sup>st</sup> in 2014 to 48<sup>th</sup> place in 2018. More than 100 administrative fees have been abolished and it was made easier to deal with construction permits. Starting a business has been made simpler, the reliability of the land administration system was strengthened and enforcing contracts was made easier. The tax administration reform is ongoing, but the companies are still faced with problems of discretionary judgment and legal interpretation of the tax administration in many cases<sup>2</sup> thus creating legal uncertainty and possible economic damage for enterprises. Digitalisation is one of the priorities of the Government and establishment of the Governments Office for IT and e-Government<sup>3</sup> has enabled digitalisation of many Government services, such as e-ZUP (e-LAP) and e-Recipe. However, the burden of government regulation is still significant, placing Serbia on 113<sup>th</sup> place in that area in the recent Global Competitiveness Report 2018-2019. **Serbian companies still perceive business environment as cumbersome and non-transparent, with administrative procedures and requirements particularly time-consuming and costly.** A significant progress in decreasing informal economy has been made, but its size remains considerable. The share of non-registered businesses is still significant, while the payments in cash and employment of informal employees make the major part of unfair competition<sup>4</sup>. The para-fiscal charges continue to pose an undue burden on economic operators<sup>5</sup>, VAT calculation and payment method create continuous financial strain on businesses, while closing the company remains long and costly<sup>6</sup>. Collection of claims remains one of the main issues for Serbian enterprises. On average, they collect their debts in 69 days and settle obligations in 118 days. The situation is particularly worrisome for micro companies- it takes those 117 days to collect the debts and 322 to settle obligations<sup>7</sup>. The court settlements in enforcing the Law on Payment Deadlines in Commercial Transactions<sup>8</sup> are lengthy<sup>9</sup>, thus deter the companies from starting proceedings. Consequently, the companies struggle to meet their day-to-day obligations, and cannot focus on further investments into their core business. The issues are further iterated in the latest NALED's Grey Book<sup>10</sup> with 100 selected recommendations related to red tape reduction and public sector efficiency improvements, resulting in limited survival rate of SMEs, their slower growth and expansion, as well as inability to enter the market with highly competitive products and services.

One of the elements of the business environment seriously affecting the competitiveness of Serbian enterprises is limited access to affordable finance. Over 69% of companies interviewed in USAID's Serbia Business Survey 2017 reported that they did not borrow to finance operations and growth. According to the same Survey, 84% of SMEs are financed from their own sources. Availability of domestic credit to the private sector as % of GDP places Serbia as 80<sup>th</sup>, while low level financing of SMEs puts Serbia on 95<sup>th</sup> place out of 140 countries<sup>11</sup>. The situation is particularly worrisome for small companies. **The financing gap based on the potential demand from, for example, micro enterprises in Serbia, is estimated between 938 – 1,036 EUR million**<sup>12</sup>. The micro-financing and venture capital investment are impeded by lack of legal framework, and the unfavourable offer of loans by the banking sector is caused by high requirements for collateral, low credit rating and limited transparency of financial statements of the loan applicants. Lack of affordable financing is preventing Serbian enterprises to modernize their production and to invest in innovation and commercialisation, resulting in low productivity with only 9.2 % of manufacturing having

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1 Secretariat for Public Policy, 2018

2Such as enforcement of the Law on Tax Procedure and Tax Administration, NALED Grey Book 2018

3 <https://www.ite.gov.rs/>

4 Shadow Economy in Serbia in 2017, NALED

5White Book 2018, FIC

6 For companies with assets and creditors

7 Report on business operations of Serbian economy in 2017, Business Registry Agency 2018

8 Official Gazette of Serbia No.119/2012, 68/2015, 113/2017

9 Business Registry Agency data, 2018

10 <http://uzmiracun.rs/obim-sive-ekonomije>

11 Global Competitiveness Report 2018-2019

12Ex-ante study to assess the potential future use of Financial Instruments to deploy IPA resources in support of Small and Medium-sized Enterprises (SMEs) in Serbia; EIB 2017

high and medium high-technology products.<sup>13</sup> This affects SMEs and particularly small companies with, for example, companies in the field of textiles, on average, using 35 years old machinery, followed by companies from the machine industry with equipment that is 34.5 years old<sup>14</sup>. Equipment, tools and other productive resources are the most obsolete in the region of southern Serbia (41 years) and the least obsolete in the region of Bačka (18.5 years) and in Belgrade (20.5 years)<sup>15</sup>. Consequently, SMEs have less chance of producing high quality products able to compete on international markets on the basis of quality, quantity and unit costs.

**Equally, the lack of affordable finance and support limits SMEs to invest in innovation and commercialisation.** Research and development activities represent only 20.7%<sup>16</sup> of Serbian companies' total expenditure for innovation and technology, with 18.9% of these expenditures spent on in-house research and development activities. Only 3.3% of all Serbian researchers are employed in the business sector. Only 1.8% of companies acquire research and development from public R&D institutions that are able to provide new technical knowledge needed in innovation activities oriented towards developing new technologies and for products very new to the market. At the same time, innovative and technology-driven start-up companies that have completed early prototyping and product development stages they face significant challenges after the product launch stage to secure additional funding for business. Those companies are not developed enough to attract domestic or international investors, and are lacking business and financial documentation, negotiation skills necessary to present their businesses, as well as networks or access to investors, necessary for raising capital. In 2016, the total early-stage venture investment in Central and Eastern Europe (CEE) was approximately 100 EUR million. In Serbia, the amount was only 1 EUR million, compared to over 5 EUR million in Bulgaria<sup>17</sup>.

**Due to limited access to finance for R&D, the cooperation between Serbian companies and R&D institutions remains weak.** The total share of spending for research and development in the gross domestic product (GERD) has remained staunchly below 1%<sup>18</sup> for years, with 0.90% in 2016<sup>19</sup>. The average annual total allocation for science is only around 140 EUR million<sup>20</sup>. The majority of funds (57%) have been coming from the State budget<sup>21</sup> and are directed towards the academic community. The Serbian RDI system could best be characterized as operating in a “make do” mode. The majority of RDI funding from the Government pays for researcher salaries leaving minimal funds for infrastructure, support functions, and investments to build the future of the institutes. Government funding is mostly allocated in a “fair share” process and thus is generally not “merit-based,” motivated by the goal of keeping scientists employed (and reducing the brain drain which has been a serious problem for the country). Researchers are rewarded almost entirely based on their ability to publish and that is one of the reasons why intellectual property (IP) is often ignored or undervalued within the RDIs. The research activities are funded directly by the Ministry of Education, Science and Technological Development through project-based funding<sup>22</sup>. With success rates of up to 90%, practically all applicants receive funding and the limited amount of resources allocated for research are split evenly across all, in a way that does not promote research excellence nor does it take into account its relevance for economic partners. **This is evident in the low and declining output of the Serbian research community as the number of publications has been declining since 2012 along with declining quality of these publications.**<sup>23</sup>

The Competitiveness sector as a whole received EUR 1.782 billion of budget funds in the 2015-2018 period, which amounts to average of 5.78% of the total budgetary funds allocated to all sectors.<sup>24</sup> In regard to the origin of resources, the Competitiveness sector was predominantly funded by allocation of the internal (national) resources. The funding from the internal resources amounted to 1.318 EUR billion, relative to 200

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13Report on SMEs, Ministry of Economy 2018

14In EU, the production machines are 15.5 years old (average)

15Entrepreneurs Union Survey, 2015

16Statistical Office of the Republic of Serbia Statistical Release 2017

17Ministry of Education, Science and Technological Development 2018

18 0.73% in 2013, 0.77% in 2014, 0.87% in 2015; Statistical Office of the Republic of Serbia 2017

19 Latest data available by EUROSTAT

20For comparison, Slovenia had a budget of 809 EUR million in 2016

21 45.52% in 2014, 46.8% in 2015, 47.5% in 2016; Statistical Office of the Republic of Serbia, Statistical Release 2017

22With the last call published in 2010, iterating the urgent need for new projects.

23H-index in Serbia is 149 compared to 205 in Bulgaria or 221 in Croatia; Source: Scimago (H index 1996-2016). Note: H index = country's number of articles (h) that have received at least h citations. H index measures both the scientific productivity and the apparent scientific impact

24 In the 2014-2017 period

EUR million funding from the external resources. In the structure of external funding, international loans generally dominated over international donations and EU assistance. The disbursement rate of the loans is 71%, which is the second highest disbursement rate among all other sectors. The largest amount of funds was allocated to Entrepreneurship and Competitiveness, and Research and Development and Innovation. Over the four years, 78% of total funds for the sector were allocated for these areas, showing the Government's strategic commitment towards private sector support and the knowledge-based economy. In the 2015-2018, EUR 70 million were allocated for that purpose. In 2019-2021, it is planned that the sector receives EUR 1.376 billion<sup>25</sup> of total allocations for all sectors. In the forthcoming three years, 9% (or 57 EUR million) of the internal resources allocation for the Entrepreneurship and Competitiveness will be directed for the development of entrepreneurship. It will include support to SMEs to purchase equipment, invest in business operations and increase competitiveness of their products and services. The Research Development and Innovation thematic area is going to continue its focus on creation of knowledge-based society with 78% of its funds allocated for science and research activities. The Government will further promote investments in science and technology parks, strengthening innovation capacity, as well as commercialisation of innovation.

Serbia needs to push for higher profitability and productivity gains and higher investment rates among its SMEs through continuing creation of business-friendly environment, by simplifying and strengthening business operations and improving the quality of services.

However, the enabling environment for businesses does not encompass only regulatory and administrative reforms. As part of the comprehensive approach, Serbia needs to continue to improve access to finance to SMEs and diversify existing funding mechanisms.

Serbia needs to further stimulate the 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<sup>26</sup>, development of products and services with high commercialisation potential and foster intellectual property development and protection.

A fully functional Innovation Fund has successfully implemented an ambitious Government agenda of investing in innovation capacity of SMEs. However, unless the Innovation Fund reaches a critical mass of 200 - 300 research and development projects at work annually, efforts will have little impact on the Serbian economy.<sup>27</sup> After the product launch stage, innovative companies still need additional funding for business development activities, and the capital requirements for these activities often arise prior to significant revenue generation, which can leave entrepreneurs in the so-called "Valley of Death" where traditional financing sources stay away. In addition, innovative companies need specialised expertise that will raise their chances of scale-up and further development, thus strengthening their capacity to attract private investors to invest in those companies by minimising their exposure risk.

Equally, Serbia needs to strengthen the excellence and relevance of research, by supporting the reform towards more internationally competitive research that is creating new scientific value for the purpose of economic development. The Government efforts in that direction have resulted in investments into innovative infrastructure and increasing the talent supply with employing more than 900 PhD students. Furthermore, the Government needs to reform the existing public research funding by making it more effective through highly competitive project-based funding while at the same time, providing performance-based core funding to the research institutions. Currently about 12000 researchers are engaged in 673 projects with a total value of 114 EUR million in 2018, but the distinction between institutional and project-based funding needs to be further iterated. At the same time, the ability and absorption capacity of the Public Research Institutions (PROs) to compete in highly competitive call for proposals is evident within Horizon 2020. So far, 323 projects<sup>28</sup> with Serbian participation have been funded with a total value of 70 EUR million (out of which 17 EUR million for SME projects), with Serbia's 12% success rate. Serbian PROs have also taken advantage of major investments through the National Investment Plan and EIB and CEB loans for research infrastructure, demonstrating their absorption capacity for the identified needs. Based on good international practice, Serbia has established an independent and professional Government institution to

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25 Compared to 1.782 EUR billion in 2015-2018

26 Ex-ante study to assess the potential future use of Financial Instruments to deploy IPA resources in support of Small and Medium-sized Enterprises (SMEs) in Serbia; EIB 2017

27 Estimation of the Effect of Participating in the Innovation Fund Financing Programs on Firm Performance; Lach, Parizat, Sumkin, Gayer, 2015

28 Out of 2500 applications in total

implement research funding (comparable to Science Funds, Councils or Agencies in EU Member States<sup>29</sup>) and adopted the Law on Science Fund for securing funding for the next three years. However, it needs further support in paving the way to knowledge-based society, able to meet the requirement of competitive markets.

## **OUTLINE OF IPA II ASSISTANCE**

This Action contributes to the Government's medium-term economic policy that seeks to promote economic growth by continuing the restructuring of the economy, improving further the business environment and expanding and modernising production capacities. Critical for the country's competitiveness are investments into knowledge society and entrepreneurship.<sup>30</sup> In this respect, this action is co-investing in the priority areas of business environment, SME technological improvement, research and development and innovation recognised in the two key subsector Strategies - Strategy for supporting development of small and medium-sized enterprises, competitiveness and entrepreneurship (2015-2020) and the Strategy for Scientific and Technological Development – Research for Innovation (2016-2020).

The Action is addressing the need of the sector to increase the competitiveness of the Serbian economy. Specifically, it addresses the need to strengthen the private sector's impact on the economy by increasing its business efficiency and their share in turnover, GDP and profitability. The Action will help businesses reduce administrative costs by improving business environment, thus empowering SMEs to focus on investment and core activities. It will strengthen SME capacity to absorb new technology, but also to innovate, cooperate with research and development organisations for the benefit of developing new products and services. With the combination of loans and incentives, the Result 2 will improve access to finance to existing SMEs in order to acquire new equipment to upgrade production capacities, enhance processes and improve product quality. Through grant incentives, the Action will encourage businesses to increase demand for innovation and research to commercialise their inventions. It will focus on the capacities for providing links between private-sector companies and public-sector research and development organisations to engage in joint research and development projects with the goal of creating new commercially viable products and services, as well as innovative pre-competitive technologies with significant market potential. In addition, Result 4 will help those innovative companies to reach out to investors, by accelerating their growth and strengthening their ability to access markets. Consequently, such modernisation and improvements to products and processes would translate as an associated improvement in productivity and quality, making Serbian companies more competitive.

Equally, through Result 5, the Action will enhance research and development eco-system and support Government efforts in improving the mechanism for R&D competitive funding, by strengthening financial and administrative capacities to boost state of the art research and its relevance for society.

## **RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES**

### **Indicative Country Strategy Paper (ISP)**

The proposed interventions are in line with the **Revised Indicative Strategy Paper for Serbia 2014-2020**, and its expected results:

- Overall environment for doing business improved through simplification of the regulatory framework and through harmonisation of legislation with the *acquis* will be improved by supporting the holistic approach of improving the business environment thus reducing the costs for enterprises.
- Functioning of the business sector, especially SMEs, improved, including by provision of better access to finance will be enhanced by supporting access to finance for SMEs focused on acquiring new technologies, increase in productivity and competitiveness on international markets.
- Quality and quantity of both public and private research and innovation increased to enable it to better contribute to economic development; will be affected by supporting the quality of research and development associated levels of innovation through building closer ties between public research and development and private sector, and encouraging innovation among SMEs, as well as promoting excellence in research. Boosting a national source of new high technology goods and

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<sup>29</sup>[https://www.scienceurope.org/wp-content/uploads/2018/02/20190107\\_SE\\_List\\_of\\_Members.pdf](https://www.scienceurope.org/wp-content/uploads/2018/02/20190107_SE_List_of_Members.pdf)

<sup>30</sup>Key note address by Serbian Prime Minister Designate Ana Brnabic, National Assembly June 2017

services originating from the outputs of innovative SMEs will be encouraged by providing financial support for their commercialisation activities and bringing their innovative ideas into products and services on the market.

### **SERBIA 2019 ANNUAL REPORT**

The proposed interventions are addressing the issues identified in the Serbia 2019 Annual Progress Report. The action will promote increased predictability in the business and administrative environment for SMEs. In particular the action will support better access to finance, since according to the Report “although the cost of borrowing for small and medium-sized enterprises (SMEs) has declined recently, they still face a number of challenges, including a volatile business environment and unfair competition”. The interventions are fostering further implementation of the Research for Innovation Strategy, and the cooperation between private sector and academia, as indicated in the Report.

### **A CREDIBLE ENLARGEMENT PERSPECTIVE FOR AND ENHANCED EU ENGAGEMENT WITH THE WB**

The interventions are corresponding to the “credible enlargement perspective for and enhanced EU engagement with the Western Balkans” by addressing low competitiveness and productivity of Serbian SMEs and their limited access to finance. They are contributing to the Commission’s flagship *Initiative to enhance support for socio-economic development* by supporting access to finance of SMEs and research and innovation and are fostering interventions for the implementation of the Action Plan in Support of Transformation of the Western Balkans’ and its actions 3.3<sup>31</sup>, 3.4<sup>32</sup>, 3.5<sup>33</sup>.

The proposed interventions are addressing the needs identified in the **new Needs Assessment Document (NAD) 2019-2025 Situation Analysis** in regard to:

- Fostering further improvements of the operating environment for businesses in Serbia to give them greater certainty through a framework that is easier to understand and is more predictable
- Provision of tailor-made funding mechanisms for SMEs to invest in scaling up and development/modernization of service/manufacturing solutions to increase their productivity
- Turning the outputs of state-of-the-art national research into marketable innovation and enhance the collaboration and technology transfer between R&D institutions and SMEs, supporting the growth acceleration of companies that have passed the commercialization stage, as well as strengthening the capacities of the RDI system and its institutions to create, implement, monitor and evaluate evidence-based policies for innovation development and promoting an innovation system that responds to the needs of the economy, attracts the best scientists and innovators, and promotes R&D excellence.

### **WESTERN BALKANS REGIONAL STRATEGY FOR INNOVATION**

The action is directly contributing to the implementation of the 2 intermediate goals of the Strategy: 1) Promote Research-Industry Collaboration and Technology Transfer and 2) Enable Business Investments in Research and Innovation and in the Creation of Start-Ups.

### **ECONOMIC REFORM PROGRAMME FOR 2019-2021 (ERP 2019-2021)**

The action is focusing on the priority measures identified in ERP. The ERP 2019-2021 is prioritising improvement of SME access to finance (Structural Reform 9) and implementation of regulatory reform through elimination of the unnecessary and the simplification of administrative procedures and improvement of public services provided to businesses (Structural Reform 12). It is focusing on establishment of an efficient model for science funding, greater support to business innovation, as well as stronger links between the business and academic community, resulting in higher private sector investment (Structural reform 15).

### **SMALL BUSINESS ACT FOR EUROPE (SBA)**

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31 Strengthen measures to support private sector development, including a scheme supporting start-ups across the region and support efforts aimed at smart specialisation.

32 Increase access to finance and harness the growth potential of small and medium-sized enterprises.

33 Further integrate the Western Balkans into existing EU knowledge networks and support research and innovation capacity building for an effective participation in the EU's Framework Programmes



The SBA is pointing out “Only around 3 out of 10 SMEs in the EU indicated in 2007 that they have new products or have income from new products. Therefore, it is important “to better integrate SMEs into the research community and foster the links between universities and SMEs”<sup>34</sup>, with this action directly targeting the mentioned challenges. The action is focusing on the “Think Small” principle of “Promote the upgrading of skills in SMEs and all forms of innovation”<sup>35</sup> aiming to “encourage investment in research by SMEs and their participation in research and development support programmes, transnational research, clustering and active intellectual property management by SMEs.”<sup>36</sup>

### **National strategies**

The Result 1 identified in this document is directly linked to **the National Priorities for International Assistance 2014-2020 (NAD)** Competitiveness sector priorities of “Improving the quality of products and services and raising levels of productivity by focusing on constant improvements in products and services of Serbian companies to increase their competitiveness and ability to meet international standards”; and “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 objectives of the Action Document will allow the coherent implementation of the key sector strategies. The Action Document’s overall objective of increasing the competitiveness of Serbian economy is clearly linked to the Strategy and Policy for Industrial Development (2011-2020) since it establishes the ground for investment in higher levels of production and better quality of products and services as well as research and development associated levels of innovation.

The interventions are in line with the National Plan for the Adoption of the Acquis (NPAA) measures related to fostering business environment, access to finance for SMEs, support to innovative companies, their collaboration with public research organisations, and promotion of R&D excellence.

The interventions are implementing the **Research for Innovation Strategy (2016-2020)** (RDI Strategy) and its Strategic Objectives: 2) Strengthening the connection between science, economy and society to encourage innovation; 3) Establish a more efficient system of science and innovation management in the Republic of Serbia; 6) Increasing investment in research and development through public funding and encouraging the investments of the business sector in research and development.

Also, the interventions are implementing the **Strategy to support the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020)** (SME Strategy): **Pillar 1:** Improvement of business environment Dimension 1: Establishment of stimulating regulatory framework in accordance with demands and abilities of SMEs **Pillar 2:** Improvement of access to sources of funding Dimension 3: Improvement of the ability of SMEs to access various sources of funding; **Pillar 4:** Enhancing the sustainability and competitiveness of SMEs Dimension 1: Improvement the efficiency of the institutional support to business operations and development of SMEs and entrepreneurship Dimension 3: Improvement the functionality of the national innovation system.

### **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

The activities in this action are complementary to those planned under the IPA 2020 Action on Integrated Sustainable Territorial Development Programme, which focuses on improving competitiveness at local level. In particular, complementarity will be assured with the Result 2, which is focusing on tailor made grants for start-ups and micro enterprises in previously selected underdeveloped/devastated municipalities.

The proposed intervention under Result 1 is a direct continuation of the EU funded “*Simplification of Administrative Procedures and Regulations – ePapir*”. The project is part of a comprehensive reform aimed at improving business conditions and reducing administrative burden on the economy. The goal is to collect, optimise, make publicly available and digitise all administrative procedures and other business conditions and reducing administrative costs by minimum 15-20% by 2020. The intervention under Result 1 will focus on administrative requests that will be collected optimised, made publicly available and digitised.

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34page 14, Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions “Think Small First” A “Small Business Act” for Europe

35page 4, Ibid

36page 14, Ibid

The proposed intervention under Result 2 represents the scaling up of the Government *Programme for purchase of equipment for MSEE*<sup>37</sup>, implemented jointly by the Ministry in charge of Economy and Development Agency of Serbia, in partnership with commercial banks and leasing companies. This programme, which has been successfully implemented since 2013 blends the grant component (25%) with commercial loan or leasing from financial institutions (at least 70%) and MSEE contribution (5%), in a way that allows partner financial institutions to provide favourable leasing options and loans that use pledge on movable assets as principal collateral. The intervention will be complemented with technical support to the Ministry in charge of Economy and the Development Agency of Serbia to optimise their programmes. The intervention under Result 2 is complementing the *IPA 2018 EU for Competitiveness and Innovation (Activity 1.3)* that is improving access to finance to existing SMEs in order to introduce EU standards thus upgrade production capacities, enhance processes and improve product quality.

The Action Document' activities under Results 3 and 4 are a direct continuation of previous IPA projects. The Government's commitment to the continuation of such projects is reflected in the capacities assigned for implementation in the Innovation Fund, as well as gradual increase of funding by the relevant Ministry respecting the principle of additionality of IPA funds. The IPA interventions linked to this one are as follows<sup>38</sup>:

The *IPA 2011 Innovation Serbia Project (ISP)* was successfully completed in 2016. Under the Project, the Innovation Fund implemented two grant schemes – Mini Grants and Matching Grants – for stimulating research and development in small private-sector enterprises, start-ups and spin-offs. Four Calls for Proposals were successfully launched with EUR 6 million committed for financing 41 Mini Grants (approximately EUR 3 million) and 11 Matching Grant projects (approximately EUR 3 million). Through the project, the Innovation Fund has supported 48 technology-intensive enterprises by providing financing for 52 research and development projects, thus sponsoring 300 high-end jobs and enabling engagement of 90 highly qualified research and development advisors. More than 30 national and 20 international patent applications have been filled and numerous international collaborations established by the ISP beneficiaries<sup>39</sup>.

However, “52 projects in 4 years is too small a number to have an impact on the economy. Unless Innovation Fund reaches a critical mass of 200 - 300 research and development projects at work annually, efforts will have little impact on the Serbian economy”<sup>40</sup>. Consequently, Serbia has been programming the subsequent actions in order to take advantage of the lesson learnt from the ISP IPA 2011 project.

*IPA 2013 Serbia Research, Innovation and Technology Transfer Project (SRITTIP)* is under implementation. The SRITTIP leveraged the institutional capacity built at the Innovation Fund and the enterprise innovation programmes piloted under the ISP as well as lessons learned. It is targeting the collaboration between public and private sector research and development through the Technology Transfer Facility (TTF) within the Innovation Fund, and the Collaborative Research and Development Grant Scheme (CGS). TTF is currently building a pipeline of projects with 15 project applications and 11 invention disclosures for evaluation. The response to the first Call for Proposals of the CGS programme launched in June 2016 was strong – it received 96 applications of which 74 were found to be eligible by the Innovation Fund and 27 were preselected. Only 14 applicants were awarded the CGS grant due to the lack of funds. The project is still in implementation but it is already proving sufficient demand and absorption capacity for such support. The proposed Action Document will supersede SRITTIP and build on its results in the area of collaboration and technology transfer, as well as strategic planning activities for the research and innovation sector.

*IPA 2014 Support to the Competitiveness sector* will build on the success of the ISP project and currently ongoing *Competitiveness and Jobs Project* since the demand for financing innovation in SMEs and new product/service development has substantially exceeded the money that was available under the abovementioned project<sup>41</sup>.

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<sup>37</sup>More details on the programme in Annex X

<sup>38</sup>For implementation timeline see annexed Gantt chart

<sup>39</sup>Data from Innovation Fund, 2017 and Implementation Completion and Results Report (TF071742) on a Grant in the Amount of EUR, 8.4 million (USD 11.9 million equivalent at time of signing) to the Republic of Serbia for the Innovation Serbia Project ; August 25, 2016

<sup>40</sup>Estimation of the Effect of Participating in the Innovation Fund Financing Programs on Firm Performance, Lach, Parizat, Sumkin, Gayer, 2015

<sup>41</sup>There were 471 applications by 326 companies for both programmes in total; Innovation Fund data 2017

*IPA 2016 Support to Competitiveness and Innovation* will provide enterprises with high quality advisory services and hands-on industry specific expertise through EBRD business support programme. The Action will also strengthen the capacities of the Science and Technology Park (STP) Belgrade to offer better services for innovation and research and development activities among companies. It will directly complement the proposed Action by contributing to the policy mix of financial incentives and soft measures aiming to boost investment in research and development and better cooperation between private and the public research and development sector.

*IPA 2018 EU for Competitiveness and Innovation (Activities 1.1 and 1.2)* focuses on provision of access to finance for commercialisation of research and development (R&D); provide support to knowledge-based development of innovative enterprises; promote cooperation between public R&D institutions and private sector.

*The Serbia Competitiveness and Jobs Project (C&J)* is financed through the Loan Agreement between the World Bank and the Republic of Serbia. One of the goals of the C&J is to support Serbian SME competitiveness in the period from 2016-2018 through the C&J component A.3 “Program for innovation” This component is referring to innovation programmes of the Republic of Serbia i.e. supporting the operations of the IF and its Mini and Matching Grants Programme and supporting the IF’s TTF service lines and operations including implementation of voucher scheme for start-ups and companies in need of research and development-type activities provided by research and development institutions

The ongoing *Western Balkan Enterprise Development and Innovation Facility (WBEDIF) and its Enterprise Innovation Fund (ENIF)* is improving the access to finance for innovative SMEs. However, it does not envisage support for building national capacities to manage and implement these instruments. Furthermore, the investments that WB EDIF is aiming are of a large scope of up to EUR 1.5million under EIF and up to EUR 2 million under ENIF. On the other hand, the activities related to Result 2 of the Action Document are focusing specifically on improving the national capacities for the private sector research and development activities funding and a smaller scale investment complementary to the SMEs that are making 99% of Serbian companies.

The IPA project *EU for Serbia- Financing for SMEs* conceived within the scope of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) Guarantee Facility (GF), dedicated solely to Serbia, as the “WBEDIF GF Serbia Window”. The objective of the WBEDIF 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 and innovative SMEs and start-ups.

In November 2017, Banca Intesa and EIF have signed an agreement stipulating the next phase of the *InnovFin Guarantee Facility* intended for innovative SMEs in Serbia. The previous one signed in 2016 resulted in the EUR 25million loans taken by 150 companies in the following two years; Banca Intesa will be able to grant EUR 100million in loans to innovative companies with the help of the EIF’s guarantee.

*Capacity Building for Technology Transfer for the Western Balkans* from Multi beneficiary IPA aims to support and strengthen the technology transfer and innovation ecosystem in the countries of the Western Balkans. It will involve all actors ranging from academic institutions to early stage investors to science parks to spin-out companies to policy makers. The beneficiaries will be able to strengthen their skills through trainings on Intellectual Property Rights, technology transfer investment readiness, as well as exchange of best practice, and will be able to use the knowledge during the application process from the proposed Action Document.

At the same time, activities under Result 3 and 4 of this Action Document is moving further by increasing innovative SME’s access to finance and strengthening innovation support. It will complement Serbia’s participation in COSME<sup>42</sup>.

*The World Bank loan* that is to be signed shortly is complementing the Result 5 of this Action Document. The loan will provide technical assistance and financing for the Science Fund programs/activities that

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<sup>42</sup>Started in January 2016

include competitive basic science grants, applied research grants with incentives for promoting linkages between the private sector and R&D community, incentives for enhancing collaboration with EU (e.g., Horizon 2020, Horizon Europe) and other international programs, and Smart Specialization Strategy and infrastructure support for public research institutions. The estimated financing amount for these is US\$36 million. Activities will support strengthening the governance, organizational structure, monitoring and evaluation (M&E) and other key institutional aspects of the Science Fund, following in part the methods used for the successful establishment of the Serbia Innovation Fund. The project will also support designing Science Fund financing programs based on international best practices. Finally, an activity focused on skills of researchers to access international financing and collaboration opportunities will be designed and integrated into the programs of the Science Fund. A Serbian diaspora researchers program, to incentivize collaboration with international institutions and Serbia-based researchers, is also being currently considered as an activity to be funded under the World Bank project, and to be closely connected to the Science Fund.

While the Government has already taken important legal and organizational steps to establish the Science Fund, and is on track to launch initial programs in June 2019, the impact and sustainability of the Science Fund depends on gradual development of capacity and sequential introduction of new programs, based on lessons from early evaluation. This World Bank project will support the MoESTD and the SF in the prioritization and development of the programs. As the MoESTD has in the past funded all research activities, careful consideration will be made as to how and when to transfer responsibilities for each program from the MoESTD to the SF, as the SF builds capacity. Prior to launching new programs, work will be done on ensuring that appropriate governance and decision-making structures are modelled on international best practices.

## 2. INTERVENTION LOGIC

### LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS				SOURCES OF VERIFICATION	
	INDICATORS NAME	BASELINE	MILESTONES (2024)	TARGETS (2027)		
To contribute to increased competitiveness of Serbian economy	World Bank Doing Business Report – Distance to frontier, score Global Competitiveness Index (score)	73.32 (2018) 60.9 (2018)	73.69 63	64.9	World Bank Doing Business Report Global Competitiveness Report	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS				SOURCES OF VERIFICATION	ASSUMPTIONS
<b>SO 1:</b> To increase business efficiency <sup>1</sup> of Serbian SMEs <b>R1, R2, R3, R4</b>	Share of SMEs in the total turnover/Gross Domestic Product (GDP)/ profit of economy	65.6% / 56.7% / 50.6% (2018)	66/57 / 52	68 / 60 / 56	Report on Small and Medium Sized Enterprises (annual, Ministry in charge of Economy)	Macroeconomic and fiscal stability is ensured Steady Government support to improving business environment
<b>SO 2:</b> To enhance the eco-system for research and development <b>R5</b>	Ratio between institutional and competitive funding of Public Research Institutions (PRO)	80/20	70/30	60/40	Ministry in charge of Education, Science and Technological Development Annual Report	Government incentives for private sector and private investments remain at its current
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS				SOURCES OF VERIFICATION	ASSUMPTIONS
<b>Result 1:</b> Increased coordination of reforms in area of business environment and optimisation of administrative environment for enterprises	Technical requirements from different pieces of legislation mapped, optimised and organised according to types of business activities	0 (2018)	70%	100%	Ministry in charge of Economy Annual Report	Optimisation of administrative requests is embedded in the business environment reform Financial institutions have sufficient interest in participating in the Government programme for SMEs
<b>Result 2:</b> Scaled up and technologically improved production	Change of turnover of supported companies	0 (2018)	+10%	+15%	Development Agency of Serbia Annual Report	

<sup>1</sup>Comprising of turnover, GDP and profitability of SMEs

capacity solutions among micro and small enterprises and entrepreneurs						
<b>Result 3:</b> Increased innovation capacity and growth of SMEs	Number of new products/services that reached the market	40 (2018)	80	120	Innovation Fund Annual Report Ministry in charge of Education, Science and Technological Development Annual Report Ministry of Education, Science and Technological Development Annual Report  Ministry in charge of Education, Science and Technological Development Annual Report	SMEs are willing to invest in development of innovative products/services
<b>Result 4:</b> Established system for SME growth acceleration	Value of early-stage venture investment	1 million EUR (2016)	20 million EUR	25 million EUR		Firms participating in acceleration program will be interested in receiving dilutive private equity
<b>Result 5:</b> Improved excellence of scientific research	Number of publications in Top journals	1000 (2018)	1100	1265		There is a pool of private investors interested in investing into participating firm who lack adequate investment facilitation or information  Strong interest by faculties and R&D institutions in Science Fund grant programs

## DESCRIPTION OF ACTIVITIES

### **Result 1: Increased coordination of reforms in the area of business environment and optimisation of administrative environment for enterprises**

The interventions under this Result envisage the continuation of the improvement of business environment and tackling the challenges the businesses face in their daily operations. It will be developed as a flexible platform facility that could systematically tackle the identified problems on a continuous base and assure coordination of different activities in this field performed by the Government, donor community and private entities. For example, it would complete the support necessary for the functioning of the Unified Public Register of administrative procedures and other business requirements (UPR) in terms of optimization of administrative requests, but would also have the capacity to address business environment challenges of public administration interacting with entrepreneurs. The action would be an implementing hub for ongoing and planned interventions ranging from establishing a single public register of administrative procedures and other business conditions, simplifying administrative procedures in different areas, to optimization and digitalization of different procedures and would secure synergy of results.<sup>44</sup>

#### *1.1 Creation of platform for coordination of the business environment reform*

The activity should improve coordination and support the existing dialogue mechanisms through working groups and become a non-formal platform to understand the pace of reform in the business environment. It will include the mapping the activities in the business environment alongside with an up to date assessment of the effects of these activities, different actors (donors, IFIs, Government etc.) and needs. It will include the provision of services of a technical secretariat to the coordination forum. This new function should not require the formation of a new institution, but will rather draw from existing dialogue mechanisms in the sector. The new mechanism will involve all institutions with competencies within the business environment area, in charge for coordination of interventions in this area as well as their financing (budget funds, loan funds, donor funds).

#### *1.2 Continuation of the E-paper project*

The activity will focus on the collection, optimisation, digitalisation and making publicly available all administrative requests and administrative procedures, aiming to achieve a predictable business environment. It will support the establishment of single points of contact with the aim of a reliable public administration, with improved quality of public services provision, improves communication between authorities, organisation and exchange of data.

#### *1.3 Business environment facility*

The activity predicts non-earmarked funds that will be used for urgent, non-foreseen actions to support the reform in the area of business environment. The implementing partner will propose the methodology for the selection of priorities that will include a transparent decision making mechanism on the actions to be taken. The decision making mechanism will include the relevant national institutions that have an appropriate mandate related to business environment and coordination.

### **Result 2: Scaled up and technologically improved production capacity solutions among micro and small enterprises and entrepreneurs (MSEE)<sup>45</sup>**

Activities<sup>46</sup> under this Result will support MSEE's to overcome the technological gap and upgrade equipment in order to allow them to modernize their production, expand capacities, create jobs and be more competitive on the market. This support targets a group of enterprises facing the biggest

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<sup>44</sup>Simplification of Administrative Procedures and Regulations - e-PAPER; GGF Support for simplifying administrative procedures for the improvement of the business environment in the Republic of Serbia; IPA 2013 Support to Business Environment Improvement Project; GIZ Simplification / Optimization of Selected Administrative Procedures; UK funded Improving the Business Environment

<sup>45</sup>More details on the Government programme is provided in Annex 3

<sup>46</sup>Proposed interventions are complementary to interventions under Result 2 of the IPA 2020 AD Integrated Sustainable Territorial Development Programme that are focusing on tailor made grants for start-ups and micro enterprises in previously selected underdeveloped/devastated municipalities.

investment challenge on the market, since it refers to micro and small enterprises, whose business owners do not possess enough real estate for mortgage-based investment loans. Its structure enables banks to exclude a mortgage when they give investment loans for SMEs. This is crucial for MSEE's, having in mind that most of them do not own real estate, and the value of real estate is relatively low in Serbia, especially outside of Belgrade.

### *2.1 Implementation of the Program for supporting micro and small enterprises and entrepreneurs (MSEE) for equipment*

The program is structured to operate, as much as possible, in accordance with market conditions, in cooperation with commercial banks, and to achieve the highest possible leverage (multiplying effect at least 4 times), as well as to transfer benefits to MSEE's. The Ministry in charge of economy is implementing the programme in cooperation with the Development Agency of Serbia and selected business banks and leasing companies. MSEE's that meet the Program requirements and that are approved the loan or financing by banks / leasing companies involved in the realisation of the Program, can acquire the right to a grant up to 25% of the net value of the purchase of production equipment. MSEE's are obliged to provide a contribution in the amount of 5% of the net value of the production equipment, while the remaining 70% will be provided from the loans of commercial banks or financial leasing of leasing companies involved in the implementation of this program. This activity will be implemented on a two-year rolling basis. The Programme will be implemented through a two-phase process:

*Phase 1-* The selection of the commercial banks and leasing companies that will participate in the implementation of the program will be performed by the Commission for Evaluation and Selection of Applications of Banks and Leasing Companies, established by the Minister in charge of economy. The selection is done in a simple and transparent manner. Offers from financial institutions are ranked based on the offered interest rates for the different loan duration and the top-rated financial institutions for all duration periods are selected. In order to encourage competition, at least 5 banks / leasing companies are selected every year.

*Phase 2-* Upon receiving the application for a grant and a request for loan or financial lease, the bank or the leasing company assesses the application of the business entity and makes a preliminary decision on acceptance or refusal. The bank or the leasing company submits the information on all received grant applications with a proposal for approval or refusal along with an explanation of the reason for the refusal and with all the necessary documentation to the Commission for awarding grants on a weekly basis. The Commission is formed by the Decision of the Minister in charge of economy. It is important to underline that the Commission is performing only the checks on the formal validity. Applications that meet formal criteria are approved on a first-come-first-served basis.

The program procedures have been defined in line with national regulations and are endorsed by the Decree adopted by the Government on a yearly basis. Although there are no specific references in the national public procurement law which refer to grant contracts, the program procedures are prudent, and they follow principles of sound financial management. Hence, it is not envisaged to make any major modification in order to align the procedures with the PRAG rules. Since the potential risk, having in mind the target group of beneficiaries and the equipment, has been assessed as low, there are no specific requirements to prove environmental protection compliance and rules of origin. Compliance with EU standards and legislation for equipment is secured at a more general level, since the national legislation is aligned with all the principles and essential requirements of relevant EU directives on machinery. Although minor modification to the programme procedures, which do not affect the application and evaluation process and procedures, might be introduced based on the proposal of the TA, it will not be possible to implement simultaneously the program with both national and IPA funds if a major modification in order to align with PRAG rules is required.

### *2.2 Support to Ministry in charge of economy and DAS to implement the programme*

The Program for purchase of equipment has already developed procedures for implementation, trained staff in the Ministry of Economy (MoE) and the Serbian Development Agency (DAS). MIS development is ongoing and the pilot phase is planned for 2020.



The TA under this project should support the institutional strengthening and capacity building of the MoE and DAS, necessary for the smooth implementation of the Program. The TA should perform the overall external check of all procedures and provide recommendations for further improvements and support for implementation of recommendations. The activity should support the overall impact evaluation of the Program implementation in the period 2013-2019, and include the provision of all necessary tools to enable a more efficient cross-checking of data provided in the applications and adjusted with recommendations for improvement, received from the TA (MIS, licenses to business data base).

The national funding from the state budget (Ministry in charge of economy budget line) will be implemented through the already established system (as described above). It amounts to 16 million EUR (corresponding to the current two year projections in the State Budget foreseen for the realisation of the Program for supporting MSEE for equipment). The co-financing sought from the EU, to be implemented through a direct grant to DAS, amounts to 11 EUR million, with 1 EUR million foreseen for capacity building (Activity 2.2).

### **Result 3: Increased innovation capacity of SMEs<sup>47</sup>**

Activities related to SME capacity to innovate would focus on the commercialization of R&D and further knowledge-based development of innovative enterprises, creation of innovative enterprises based on knowledge via private sector start-ups and/or spin-offs, as well as to promote cooperation between public scientific research organizations and private sector to improve research capabilities. These interventions are the continuation of the existing Mini/Matching Grant Scheme Programme and the Collaborative Scheme Programme as one of the mechanisms for implementation of the Ministry of Education, Science and Technological Development innovation policy and the RDI Strategy. The programmes have been implemented by the Innovation Fund, a body exclusively established by the Law on Innovation Activity to provide funding for innovation in enterprises and supporting the implementation of innovation policy. In the period 2013-2019, EUR 28.5 million has been spent for those programmes.

#### *1.1 Implementing the grant scheme for innovation projects*

It will focus on the commercialization of research and development and further knowledge-based development of innovative enterprises, establishment of collaboration/partnerships with international companies/organisations, fostering the establishment of new and strengthening the existing companies, by positioning them to access venture capital markets, creation of innovative enterprises based on knowledge via private sector start-ups and/or spin-offs, by providing financing for market-oriented innovative technologies, products and services with high commercialisation potential. It will create a pipeline of new technologies coming out of private sector research activities, establish best practices in commercialisation of research and lay down the infrastructure for the development of innovations and knowledge-based economy in Serbia.

#### *1.2 Implementing the grant scheme for collaborative research and development (R&D) projects*

It will promote and incentivise cooperation between private sector companies and public science, research and development organisations in order to improve research capabilities and to engage in joint scientific R&D projects. It will also strengthen SME capacities to innovate and increase business investment in research and development and further create new commercially viable products and services, as well as innovative precompetitive technologies with significant future impact and market potential. It will include eligible activities such as support the creation of the new intellectual property with commercial and practical applicability. All stages of technological development, ranging from early stage to commercially mature technologies, products and services from all fields of science and technology will be considered for financing.

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<sup>47</sup>More details are provided in Annex 4 and Appendix

### *1.3 Strengthening capacities of the Ministry in charge of Education, Science and Technological Development and Innovation Fund*

The interventions 1.1 and 1.2 will be accompanied with the support to the Ministry in charge of Education, Science and Technological Development and Innovation Fund to further strengthen their capacities as the national innovation policy maker and implementer. It would support the Ministry in the design and implementation of R&D sector/institutional and new reforms programs and the development of a robust monitoring and evaluation framework for its policies and programs, including institutionalization/execution of the Smart Specialization Strategy. The focus of support for the Innovation Fund would be on raising its capacities to adapt its programs to the changing needs of sub grant beneficiaries, as well as the modification and/or introduction of related new instruments for promoting stronger linkages between the SMEs and R&D community, and with international actors and Smart Specialization Strategy- such as early small stage proof of concept (POC) grants, incentives for collaboration with EU (e.g., Horizon 2020, Horizon Europe) and other international programs.

#### **Result 4: Established system for SME growth acceleration**

The existing mini and matching grants programs have shown a strong demand for grant financing by innovative companies at the idea and prototype stages, however, a sub-segment of innovative firms has the potential for high growth that is currently not nurtured. Because the mini and matching grants serve a wider population of innovative companies with a variety of models and possible growth paths, capacity building is limited to a week-long enterprise training applicable to all firms. Only companies with the highest growth potential are suitable for early stage equity (e.g. angel or VC) investment, due to the high risk involved and the resultant dependence of these financing models on significant multipliers (e.g. 10x) of at least some investments. To identify and nurture such companies, a highly competitive selection procedure is necessary (including participation of private co-investors), along with intensive mentoring during the program, and support for companies raising follow-on capital during and after the program. While the mini and matching grants programs have clearly inspired a number of private sector initiatives (none of which existed at the inception of the mini and matching grants programs), the ecosystem can be further strengthened by capacity building in topics related to high-growth firms for local entrepreneurship ecosystem intermediaries, as well as through more active outreach to early stage equity investors, and training for investor networks (including local, regional, and diaspora networks), all of which are features of the proposed acceleration program.

As a result of the nature of the mini and matching grant programs and their more general target population, the participation by private equity investors has been modest and passive (an awarded company is required to have secured 15-30% of budget funds from private sources, but this includes the founder's own funds). In contrast, the interventions under this Result will be much more competitive and will ensure participation of private equity investors at the selection stage, and allowing investors and mentors to follow a company's performance closely over a period of time, and thus enabling them to make informed investment decisions.

#### *4.1 Establishment of the Co-financing Facility*

The Innovation Fund would administer the facility, targeting technology companies with products/services that are at the early or growth stages of commercialization. Co-investment grants are likely to range between 100-300,000 EUR, matching 15%-50% of private equity investor commitments at the time of decision (i.e. previous private or self investments alone do not make projects eligible for grant financing), and between 10 and 20 companies would be expected to receive the co-investment in the first year. Funds are co-invested at the time of decision, and private investors are directly involved in co-investment decisions, as part of selection committees. Eligible co-investors will include angel individuals and syndicates, seed funds, accelerator funds, VC funds, or other early stage equity investment groups.

#### *4.2 Strengthening capacities of stakeholders to implement and manage the Co-financing Facility*

The activity complementing the Co-financing Facility will consist of a cohort based, 12-week program of intensive training and mentoring of the selected companies with sector-specific mentors, followed by another 3-6 months of periodic (at least twice-monthly) investment facilitation by

mentors. The companies will benefit from intensive courses covering project and people management practices, strategy development and execution, market entry, partnership development, fundraising, extensive technical assistance in negotiating with individual investors. The intervention will also support angel group/network creation and deal flow development by cultivating and supporting an organized angel investment community, and working with science and technology parks, incubators, accelerators, hubs, and other entrepreneurship support organizations to identify promising entrepreneurs and to improve their investment readiness.

To ensure long-term sustainability, the intervention will include training for the Innovation Fund staff on acceleration, as well as a knowledge transfer component for other (including private) entrepreneurship intermediaries (such as hubs, labs, incubators, seed funds, etc.), enabling such entrepreneurship support organizations with the ability to implement acceleration programs and strengthen partnerships with investors as well as knowledge transfer and training for Serbian entrepreneurship support organizations and investors interested in learning and introducing acceleration techniques in the future. Following the completion of IPA co-financing, the SME growth acceleration program will continue as a regular activity of Innovation Fund supported by the Government, private and angel investors.

### **Result 5: Increased relevance and excellence of scientific research<sup>48</sup>**

The key priority for the Ministry in charge of Education, Science and Technological Development<sup>49</sup> is to make the Science Fund<sup>50</sup> fully functional in order to introduce a framework for competitive financing of scientific and applied research projects. The Parliament has adopted the Law on the Science Fund, acting director has been appointed, with the task to make the Fund operational. The new Science Fund will be able to conduct highly competitive calls for proposals for research grants and to perform independent and expert decision-making based on international peer-review. By supporting the best research, the Science Fund will also leverage public R&D spending to forge business-academia relations and incentivize private sector R&D investments. Furthermore, the new set of changes to the Tax Law will provide tax breaks for investment into R&D for the private sector. Through monitoring and evaluation, the Science Fund will constantly re-evaluate its instruments to ensure their effectiveness and impact. This Action Document will include the following activities:

#### *5.1 Support in designing incentives for further R&D sector reforms and reinforcing of public R&D institutions*

The activities under this Result would support designing incentives for further R&D sector reforms and reinforcing of public R&D institutions, public research financing through SF specific programmes, and would include technical support for direct grant implementation.

#### *5.2 Implementation of specific grant scheme programmes to boost funding of public sector research*

The Science Fund programs/activities are expected to include competitive basic science grants, competitive applied research grants with incentives for promoting linkages between the private sector and R&D community, Serbian Diaspora Program to include leveraging diaspora for the betterment of research, incentives for enhancing collaboration with EU (e.g., Horizon 2020, Horizon Europe) and other international programs, and Smart Specialization Strategy and infrastructure support for R&D organisations.

A highly competitive matrix (or mix) of programmes will be put in motion as defined by the new legislation framework - Science Fund Law, and the new Law on Science and Research. This transition will be achieved in five steps. First, the capacity of Public Research Organisations (PROs) will be improved through the “Infrastructure” programme aiming to prepare the institutions for hosting and successfully implementing projects and that will be done according to the research infrastructure road

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<sup>48</sup>More details provided in the Annex 5

<sup>49</sup> Policy Mix Peer Review Report on Serbia

[https://danube-inco.net/object/document/18797/attach/D4\\_32\\_Policy\\_Mix\\_Peer\\_Review\\_Serbia\\_final.pdf](https://danube-inco.net/object/document/18797/attach/D4_32_Policy_Mix_Peer_Review_Serbia_final.pdf)

<sup>50</sup> Annex 3

map and priorities of the Research and Innovation Strategy for Smart Specialisation<sup>51</sup>. Reinforced PROs are expected to be closer to European standards both in their administrative and operational capacity. Secondly, the best researchers will be supported through Ideas and Development programmes. Ideas programme will support “blue-sky” science (i.e. basic research with no immediately apparent commercial application, but that is nonetheless necessary for the overall scientific research system) and will directly contribute to Serbia’s global competitiveness in science.

Projects will be designed around the best ideas coming from the best researchers after rigorous international evaluation. The Cooperation program will boost participation and competitiveness of Serbian researchers in European programmes. The Development programme will focus on applied research. The most promising technologies will be identified and their capacity increased. Results of these projects will be complementary to other proposed support mechanisms, mainly through the Innovation Fund, to grow and reach the market. The Strategy programme by its top down approach will answer very concrete issues of different sector policies adopted by the Government in accordance with Strategy of Scientific and Technological Development of the Republic of Serbia and Research and Innovation Strategy for Smart Specialisation. Finally, upon successful implementation of Infrastructure, Ideas, Development, Strategy and Cooperation programmes all of remaining programmes will be launched in full capacity.

The national funding from the state budget (Ministry in charge of Education, Science and Technological Development budget line) will be implemented through and by the Science Fund (as described above) and is amounting to 95.5 EUR million. The co-financing sought from the EU that will be implemented with the World Bank support, amounts to 31.5 EUR million.

## **RISKS**

### **Result 1:**

<b>Risk</b>	<b>Mitigation Measure</b>
Lack of institutional cooperation	Development of the platform facility

### **Result 2:**

<b>Risk</b>	<b>Mitigation Measure</b>
Global trends in changes related to interest rate	Implementation of a balanced ratio of grants/ loans

### **Result 3**

<b>Risk</b>	<b>Mitigation Measure</b>
Changing needs of applicant companies, caused by changes in the ecosystem (e.g. increased presence of private investors)	Flexibility (range) of program design based on regular evaluations of programs
Commercialization capabilities of awarded sub grant beneficiaries	Providing specific training and acceleration to sub grant beneficiaries
Sufficient quality of received applications	The applicants of the grant schemes will be supported by the Innovation Fund throughout the application process: open doors, business plan preparation workshops, spreading awareness and working with stakeholders and private sector partners

### **Result 4**

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<sup>51</sup>Guide on Research and Innovation Strategies for Smart Specialisation. <http://s3platform.jrc.ec.europa.eu/s3-guide>

<b>Risk</b>	<b>Mitigation Measure</b>
Insufficient number of companies deemed by private co-investors to have high growth potential deal-flow at the intended financing stage	Flexibility (range) of financing levels; regular evaluation of programs
Insufficient investor interest in participation	Early and sustained outreach to individual networks and funds; involvement of investors in design and selection decisions

### **Result 5**

<b>Risk</b>	<b>Mitigation Measure</b>
Sufficient quality of received applications	The applicants will be supported by the Science Fund throughout the application process: open doors, spreading awareness and working with stakeholders
Overly complex operational structures in early years of the Science Fund operations	Enforcement of international best practice; regular evaluations through technical support

### **CONDITIONS FOR IMPLEMENTATION**

**Result 1:** Condition: None

**Result 2:** Condition: - Concluded agreements with commercial banks

**Result 3:**Condition: - Approval secured for additional Innovation Fund staff position, based on the workload analysis, to ensure operational capacity for managing the grant schemes

**Result 4:** Condition: - Approval secured for additional Innovation Fund staff position, based on the workload analysis, to ensure operational capacity to manage co-financing facility

**Result 5:**Condition: - Science Fund established and functional (with ensured operational, financial and implementation capabilities)

- Adopted Law on Science and Research
- Research infrastructure Road map adopted
- Research and Innovation Strategy for Smart Specialisation - RIS3 adopted

### **3. IMPLEMENTATION ARRANGEMENTS**

#### **ROLES AND RESPONSIBILITIES**

The institutional arrangements for implementation of activities, which will contribute to the achievement of the Action Results, are<sup>52</sup>:

**Result 1** The final beneficiary is the Ministry in charge of Economy in cooperation with the Secretariat for Public Policy (SPP), while end recipients are business entities.

**Result 2** The final beneficiary is the Ministry in charge of Economy in cooperation with the Development Agency of Serbia (DAS), with micro and small enterprises as end recipients. The Ministry in charge of Economy will be in charge of the preparation and publishing of call(s) for proposals of the planned grant scheme. Once the call(s) are closed, an evaluation will be conducted.

**Result 3** The final beneficiary is the Ministry in charge of science and technological development in cooperation with the Innovation Fund (IF), while end recipients are SMEs. The IF will be in charge of

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<sup>52</sup>As per definition from the Decree on the Management of EU Pre- Accession Assistance (IPA II) for the Period 2014-2020, Article 2.10 and 2.11; Official Gazette of the Republic of Serbia 86/15

the preparation and publishing of call(s) for proposals of the planned grant scheme that will support market oriented innovative technologies and their commercialisation. Workshops with potential applicants that are end beneficiaries (enterprises, research and development and innovation (RDI institutions) will be organised to help them understand the requirements of the call and eligibility of their proposals. Once the call(s) are closed, an evaluation will be conducted to select the best projects. Similarly, the IF is the final beneficiary for IPA II projects mentioned under Lessons learnt and link to previous and on-going assistance.

**Result 4** The final beneficiary is the Ministry in charge of science and technological development in cooperation with the Innovation Fund (IF), while end recipients are SMEs.

**Result 5** The final beneficiary is the Ministry in charge of science and technological development in cooperation with the Science Fund (SF), while end recipients are Serbian researchers. The SF will be in charge of the preparation and publishing of call(s) for proposals for the planned programmes. Once the call(s) are closed, an evaluation will be conducted to select the best projects.

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

See annex.

### **4. PERFORMANCE MEASUREMENT**

#### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

Monitoring the progress of implementation will be done in accordance with the rules and procedures for monitoring stipulated in the IPA II Implementing Regulation and Framework Agreement between the Republic of Serbia and the European Commission on the arrangements for implementation of Union financial assistance to the Republic of Serbia under the Instrument for Pre-Accession Assistance (IPA II).

The overall progress will be monitored by means of several sources:

- **Result Orientated Monitoring (ROM) system** (led by DG NEAR): This will provide, as necessary and required, an independent assessment of the on-going or ex-post performance of the Action.
- **IPA II Beneficiary's own monitoring:** IPA II monitoring process is organised and led by the NIPAC, supported by the NIPAC TS/ BCPME. NIPAC is the main interlocutor between the Serbian government and the European Commission regarding strategic planning, co-ordination of programming, monitoring of implementation, evaluation and reporting on the overall IPA II assistance. NIPAC monitors the process of programming, preparation and implementation, as well as the sustainability and effects of programmes, aiming to improve these processes, ensure timely identification, remedying and alleviation of potential issues in the process of programming and implementation of Actions. Through the support of the NIPAC TS/ BCPME, the NIPAC prepares 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 of Action, the fulfilment of preconditions for the initiation of public procurement procedures, the implementation of Action, its sustainability and effects, and organises the process of evaluation.
- **Self-monitoring performed by the EU Delegation:** This is part of the annual assurance strategy process and is done based on the ex-ante risk assessment of actions/contracts considered riskier.
- **Joint monitoring by DG NEAR and the IPA II Beneficiary:** the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly (at least once a year) monitored by the IPA Monitoring Committee. It will be supported by Sectoral Monitoring Committees which will ensure monitoring process at sector level. The results of monitoring will be used in the policy-making process to propose programme adjustments and corrective actions.

Monitoring process envisages participation of various stakeholders, such as EC/EUD, NIPAC, NIPAC TS/ BCPME, NAO, NAO SO, NF, Contracting Authority- CFCU, Final Beneficiaries, AA, and other institutions and civil society organisations.

Having regard to the nature of the action, an ex-post evaluation(s) will be carried out for this action or its components via independent consultants.

The evaluations will be carried out following DG NEAR guidelines on linking planning/programming, monitoring and evaluation<sup>53</sup>. A Reference Group comprising the key stakeholders of this action will be set up for every evaluation to steer the evaluation process and ensure the required quality level of the evaluation outputs as well as the proper follow up of the recommendations of the evaluation.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that it includes numerous components concerning the accession process.

The Commission shall inform the implementing partner at least 6 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the IPA II beneficiary and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the IPA II beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

## **5. SECTOR APPROACH ASSESSMENT**

### *Sector Policy Framework*

Due to the multi-faceted nature of the sector, the strategic framework for competitiveness in Serbia is complex. The relevant sub-sector strategies cover the full breadth of the sector. 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. Consolidation of the strategic framework was performed by the national institutions in charge of sector policies through the methodological guidance of Public Policy Secretariat and with the support of IPA and donor actions coordinated by MEI. Further improvements of the strategic framework were introduced through adoption of the Action plan for the Strategy on Scientific and Technological Development of the Republic of Serbia in the period 2016-2020 by the Government of Serbia. Additionally, the financing sources for all interventions have been identified providing for a platform to coordinate funds from different financing sources (state budget, loans and donor funds). Work on the Research Infrastructure Roadmap has been completed, with the support of IPA 2013 Serbia Research, Innovation and Technology Transfer project. The Roadmap has been adopted in December 2018 and will represent in the future the main document for planning of research related infrastructure investments. 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.

### *Sector Lead Institution and Capacity*

The Ministry in charge of economy is the lead institution within the Competitiveness Sector, with respect to sector policy coordination, while planning, programming and monitoring of EU funds and other assistance is led and coordinated by the Ministry of European Integration. The Ministry in

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<sup>53</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near\\_guidelines.zip](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_guidelines.zip)

charge of economy has a wide scope of competences which are managed through its internal organisation departments, and are covering the following competitiveness areas: economic development, privatisation, quality infrastructure, entrepreneurship and competitiveness development and business registers administration and monitoring. The Ministry 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 and accreditation. Other key partners relevant for this Action are the Ministry in charge of science and technological development, Innovation Fund.

#### *Sector and donor coordination*

The Sector Working Groups (SWGs) have been established in order to achieve efficient and coordinated process of programming and coordination of international development assistance, especially IPA, as well as to provide the basis for the implementation of sector approach. The primary role of the SWG for Competitiveness Sector is to ensure adequate forum for sector policy dialogue and reliable basis for effective planning and programming enabling strategic focus and prioritisation, complementarity of various interventions and optimisation of different sources of funds. It thus improves the coordination and management of international development assistance and increases its effective absorption while ensuring a transparent and inclusive dialogue among relevant stakeholders.

#### *Sector Budget and medium-term perspective*

As of 2015 all line ministries are required to produce programme budgets. Budget beneficiaries are obliged to submit three-year projections in the course of the annual budget cycle. Fiscal strategy sets the medium-term budget limits per budget beneficiary, which allows for the estimates of sector budgets on the basis of individual annual budgets for the institutions. There is 100% coverage of programme budget at the level of budget beneficiaries, and an increase in coverage among LSG units preparing the budget based on the programme budgeting methodology (for the first half of 2017 the coverage was 60.69%). There is also an increase in the harmonisation of the programme structures of budget beneficiaries with the “Instructions for preparation of programme budgets” (82% in 2016)<sup>54</sup>.

From 2015 to 2017, significant progress has been made through:

- Improved harmonisation of budget structures of budget beneficiaries
- Improved programme information
- Introduced gender sensitive indicators
- Training courses delivered for budget preparation and reporting
- Performance-based reporting that started in 2017

The programme budgeting mechanism developed in instructing and coordinating with the budget beneficiaries can already be qualified as very instrumental for consolidating the fiscal discipline and for the transparency of public expenditure. However, there is yet no full-fledged mid-term, sector-based budgetary planning process that could be used to develop mid-term expenditure frameworks.

#### *Sector monitoring system*

The public administration of Serbia is not equipped with general methodology, guidelines, manuals and IT system for monitoring and evaluation and they have been developed on a case-by-case basis. Evaluation is done ad hoc, without methodology. There is no internal capacity to carry out evaluation, and this refers both to sector and sub sector level. Reporting mechanism on sub sector level is not harmonised and there is no reporting mechanism on the sector level.

Monitoring activities in the Competitiveness Sector were implemented in accordance with the procedures on decentralised/indirect management, including regular reporting on implementation of

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<sup>54</sup>Implementation of the PAR Action Plan 2015-2017, Ministry of Public Administration and Local-self Government 2018



IPA II Actions on the result level (from the FB institutions to NIPAC TS/BCPME through Result of Action Monitoring Reports drafted quarterly). Based on inputs received, NIPAC TS/BCPME has been in charge of drafting the SMC Report, which was the subject of discussion on SMCs. Having in mind the state of play of IPA II actions implemented indirectly by the Republic of Serbia, discussion of the Competitiveness SMC was mostly confined to the progress in contracting, measures aimed at acceleration of the procedures leading to contract signature and coordination with ongoing and planned interventions within the Sector. SMC meetings held in May and November 2018 included discussion on implementation of IPAI and IPAI projects managed indirectly by the Republic of Serbia. All recommendations given by the SMC were transferred to higher-level committees (TAIB Committee and IPA Monitoring Committee) and there was regular follow-up on their implementation.

## **6. CROSS-CUTTING ISSUES**

### **GENDER MAINSTREAMING**

In 2016, Serbian Government adopted a National Strategy for Gender Equality 2016 – 2020 with an accompanying Action Plan for its implementation, as the main strategic document for promotion of gender equality in the Republic of Serbia. This Action document is contributing to the Strategic objective 2: To increase equality of women and men and improving the status of women, by improved economic position of women and position at the labour market. In Serbia, women remain under-represented as entrepreneurs. When they do choose to become entrepreneurs, they cite better work-life balance more often than men as the main motivation for starting a business. As they frequently divide their time between working and caring women's businesses are usually on a smaller scale and in a limited range of sectors. They often have less experience when they start up a business and are also less likely than men to borrow money to finance their business. Equally, realities on the ground prove that women's perspective in science and technology will become more important in the times to come. In 2016, more women obtained their PhD degree (57%) than men (43%). Women constitute a majority in most areas of education and men outnumber women in engineering, construction, services and production. Men have a higher representation among researchers by 4%. Women participate most in the medical research (60%) and least in technology and engineering (37%). In most age groups, women have higher computer literacy rates<sup>55</sup>. This Action will pay special attention in raising awareness of female entrepreneurs on the benefits of better access to finance, as well as mainstream gender issues in the Result 2,3,4 related programming documents. Wherever possible, initiatives that specifically contribute to gender equality in access to innovation support will be included.

### **EQUAL OPPORTUNITIES**

Based on the fundamental principles of promoting equality and combating discrimination, the benefits of the Action will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Equal participation of women and men will be secured through appropriate information and publicity material, in the design of the Action and accessibility to the opportunities they offer. The principles of equal opportunities are duly taken into account throughout the project cycle and the Action will promote an environment that is conducive and enabling to gender equality, ensuring equal participation of women and men in all Action activities, as well as taking into account promotion and participation of people with disabilities.

### **MINORITIES AND VULNERABLE GROUPS**

The Action will in no way cause any harm to the rights of any individuals, including minorities and vulnerable groups.

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

The cooperation with Civil Society Organisations (CSOs) is facilitated by the Government's commitment as part of its European Agenda. Regarding the mechanisms for dialogue, two official mechanisms exist: (i) Office for Cooperation with Civil Society; and (ii) Sectorial Civil Society

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<sup>55</sup>Women and men in Serbia 2017, Statistical Office of the Republic of Serbia

Organisations - SECO for the processes of IPA programming. Both are examples of good practices in terms of CSO representation in general.

The Government Office for Cooperation with Civil Society is the main institutional mechanism for the support of developing the dialogue between the Government and CSOs through offering support to its institutions in understanding and recognizing the role of CSOs in policy shaping and decision making processes.

The Office for Cooperation with Civil Society has also established the mechanism that allows involvement of CSOs in negotiations on the accession of the Republic of Serbia to the European Union. CSO participation in this process so far included monitoring of explanatory screenings, participation in the preparation of the bilateral screening for some negotiating chapters and participation in briefing meetings that followed bilateral screenings.

In addition, NIPAC TS - MEI established a consultation mechanism with the civil society organization (CSOs). This mechanism is based on the consultative process with Sectorial Civil Society Organizations (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 (IPA). The Platform for participation and monitoring the negotiation process with the EU, i.e. the National Convention on the European Union (NCEU) has also been established as a permanent body for thematically structured debate on Serbian accession into the European Union, between representatives of the governmental bodies, political parties, NGOs, experts, syndicates, private sector and representatives of professional organisations.

Furthermore, the National Convention on the EU (NCEU) was established primarily as body with the aim to facilitate cooperation between the National Assembly and civil society during the process of the EU accession negotiations. The cooperation is established in accordance to the good strategic cooperation between the highest Serbian legislative body and chosen representatives of civil society, which was enforced by the Resolutions of National Assembly from 2004 and 2013.

CSOs will be included directly into the implementation of a number of activities within this Action. A significant contribution to the implementation of this Action is expected from the side of the CSOs, especially from those affecting tourism and local development. A number of active CSOs have been working in these areas, and their knowledge, lessons learnt and practical experiences from the field are valuable sources of information for the design and implementation of activities. Furthermore, they serve as an important platform to check the progress against the real needs on the ground. For this reason, the communication and coordination with the CSOs will be an integral feature of the contracts.

## **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

EU has a longstanding commitment to address environmental concerns in its assistance programmes (as part of a wider commitment to sustainable development). Environmental aspects are always considered in providing EU support and there will be no exception to this rule by ensuring that none of the funded interventions will have harmful impact on the environment.

## **7. SUSTAINABILITY**

Sustainability is primarily guaranteed through the fact that all activities stream out of the existing national level policies and legislation and they are defined to support the implementation of the policies.

The PPS coordinates the regulatory reform that aims to improve the business environment through the simplification and elimination of administrative procedures and their digitalisation, promotion of public services, reduction of costs borne by the business sector, and establishment of a single portal with all information needed to do business in the Republic of Serbia. The reform is implemented through the e-PAPER project but it is simultaneously being included in the regular work of public administration. The sustainability of the reform will be guaranteed through the adoption of the Law on the Single Registry of Administrative Procedures and Other Business Conditions. The Law will set the legal basis for the establishment and functioning of the registry and set up the system of

coordination and quality assurance of the registry's content and services provided through it to the business sector and citizens. The PPS will be responsible for the quality of information and services, and the ITE Office for the technical maintenance of digital services. In order to ensure sustainability of the electronic database already in place as well as the establishment and functioning of the registry, the PPS has been granted an approval to build up its capacities by employing additional 10 civil servants. The PPS will set up a special organisational unit in charge of ensuring the quality of public services, and reliability and update of data contained in the registry, which will all be enforced through a prepared Decision on the maximal number of public administration employees. In addition, the project support is provided till the end of 2021 to bridge the potentially critical period before the single registry of administrative procedures and other business conditions is operational, and to digitalise the first 100 administrative procedures for the business sector and 50 procedures for the citizens. Finally, adopted strategic documents ensure establishment of the single registry of administrative procedures and other business conditions.

The Program for purchase of equipment was designed in 2013 with the support of the USAID BEP project. The initial amount allocated from National Budget was 100 million RSD and 78 applications were supported. Due to the great demand for the Program, each year the funds allocated by the national budget increase, as well as the number of supporting applications. In 2019, 1 billion RSD were earmarked, which is 10 times the amount of the initial one. This amount was distributed within 4 weeks period, which demonstrates enormous interest of MSEE. For 2019 additional funds from National budget will be allocated. The Law on the Budget System stipulates that direct beneficiaries are obliged to propose Priority financing areas for the coming year and projections for following 2 years. The Ministry of Economy proposed the Program 1509- Support to the Development of Competitiveness of the Economy, the project 4002-Support to the development of entrepreneurship, which encompasses the Program for purchase of equipment, the Program for start ups and the Development program, and the amounts envisaged for 2019, 2020 and 2021 are 1,7 billion RSD, 1, 87 billion RSD and 2,057 billion RSD respectively. At the same time, based on practice and experience from the previous years, procedures are being improved in terms of transparency of processes, simplification of application forms, cooperation with banks/leasing companies. The MIS is in the final stage of development, in cooperation with GIZ, which will significantly improve the efficiency of the program. The program has been implemented by a highly experienced staff from the Ministry of Economy, DAS and banks/ leasing companies.

The achieved Result 3 and 4 will be the continuation of Serbia's strategic direction in tackling the issues of low research and development investment, weak cooperation between academia and private sector and access to finance. The Results 3 and 4 will accompany a coherent support scheme aiming at creating high tech jobs, innovative business creation, attracting knowledge, introducing new technology and boosting economic development. By creating a coordinated and more effective mix of access to finance, 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 developing new products and services and raise their competitiveness in the foreign markets.

The sustainability at the grant scheme programmes level will be ensured through increased national contribution thus increasing future prospects for this type of innovative SMEs financing. The fact that the activities under Result 1 are corresponding to market needs will ensure high demand while the systemic approach will increase cooperation and trust between different actors. In terms of the Innovation Fund's sustainability, their key activities include the following phases: preparation of the schemes and promotion, evaluation of applications and monitoring of implementation. In piloting IPA 2011 and IPA 2013 programmes the IF staff built their capacity in preparation, promotion and managing the schemes. Specifically, in the last couple of years, IF has focused on improving the application documents, manuals and procedures, leading to overall optimisation and clarity. Therefore, the current capacity for this aspect of operations is adequate. IF has already established an effective, transparent and efficient independent evaluation process (including international peer review assessment and the international Investment Committee evaluation and approval). The IF's role in the evaluation process is primarily the coordination of the work of peer reviewers and the Investment Committee. Transparency will be further strengthened with the participation of CFCU and

the Ministry in charge of science and technological development as observers in the evaluation process. The budget increase will lead to a higher number of projects and will predominantly affect the monitoring process conducted by IF. Currently, the IF has 20 full time employees. The IF will be able to employ 8 additional full time permanent employees. The active supporting role of the Ministry in charge of science and technological development will enable the IF to increase its operational capacity required for implementation and monitoring of multiple schemes at the same time. In addition, through IPA 2014, the IF should receive assistance in the form of 2 people that will support the IF in monitoring activities associated with implementation of IPA 2014. Recognizing the importance of these programs for the Serbian economy, in 2018 the Government, through the Ministry in charge of Education, Science and Technological Development allocated €6.6 million for the IF's financing programs under the Competitiveness and Jobs Project. The Government further dedicated additional budget financing, with the IF's total 2019 budget expected to exceed €2 million. This indicates strong commitment by the Government for ensuring sustainability of programs introduced through the IF to date.

Efforts to ensure sustainability of Result 5 will be informed by the positive experience of the Innovation Fund. These will include a) financing decisions made by an expert body with international members, b) design of funded programs so as to reflect both best practices but also the specificities of the Serbian research system, c) management of intellectual property and know how that protect the public investment and incentivizes institutions and researchers to commercialize their results, and d) development of monitoring and evaluation (M&E) systems and impact assessment frameworks for all programs managed by the Science Fund.

## **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 Contracting authority and the separate contractors and shall be funded from the amounts allocated to the Action. National authorities will be closely associated with the implementation of the communication and visibility aspects of 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 Commission (DG NEAR) will have to be followed.

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. Accordingly, the beneficiaries must recognise the funding by the EU and implement specific information and communication activities designed to raise the awareness of specific or general audiences of the EU support, as well as of the results and the impact of this support.

Targeted communication activities will be designated to ensure the visibility of support, of beneficiaries, achievements and the fact of EU funding. By its nature, the Action includes multiple public events and awareness rising activities, such as promotional and info-days, kick-off and closing ceremonies, events at the occasion of signing contracts, etc. All the events shall be organised in a manner to promote joint visibility features of the Action and to inform the broader audience on objectives and achievements of the Action by timely involvement of the media and via broadcasting through appropriate communication channels. Planning and implementation of the specific visibility and communication activities will be done by implementing partner and main beneficiaries, while the EU Delegation to the Republic of Serbia will be timely informed.

When it comes to grant beneficiaries at local level, they will be provided with the appropriate models and shall be expected to elaborate and implement communication and visibility plans as the integral part of project activities. Grant beneficiaries shall be constantly advised and guided by the Implementing partner and main beneficiaries on the visibility issues. Likewise, they will be

encouraged to publish periodically the results of their grant in the local magazines and media, which shall contribute to the promotion of the Action. All relevant project data, information, announcements will be published on the main beneficiaries' web site while the implementing partner shall create a website dedicated to the implementation of this Action.