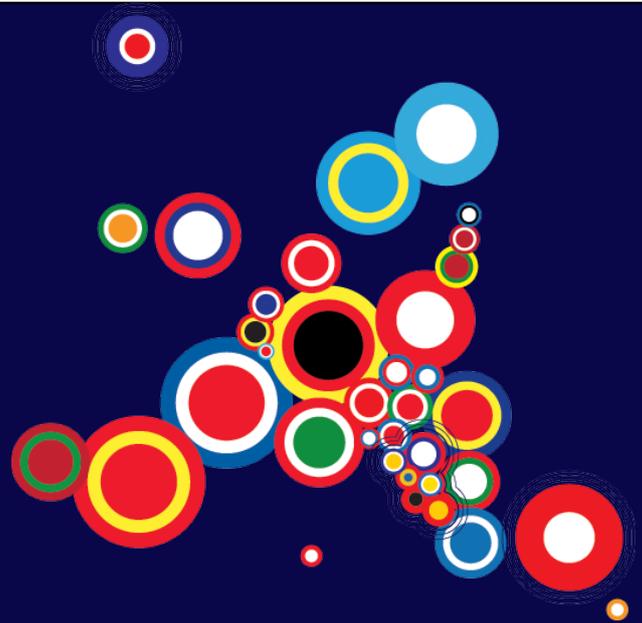




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

SERBIA

EU for Competitiveness through Innovation and Tourism Development



The Action will contribute to increased competitiveness of Serbian economy by achieving two specific priorities: investing in market driven innovation and technological readiness in small and medium enterprises and by promoting tourism development as an engine for economic progress. Firstly, the Action will focus 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 and enable access to finance for SMEs determined to acquire new technologies and meet EU standards.

Under the second specific objective, the Action will also undertake a comprehensive mix of activities in the tourism sub-sector as a pilot for the implementation of the Tourism Development Strategy of the Republic of Serbia 2016-2025, including raising capacities of institutions and relevant stakeholders to create, implement and evaluate tourism policies; valorise cultural heritage assets and provide support to tourism service/product providers, local municipalities and support organisations engaged in tourism related activities.

Action Identification	
Action Programme Title	Annual Action Programme for the Republic of Serbia for the year 2018
Action Title	EU for Competitiveness through Innovation and Tourism Development
Action ID	IPA 2018/041-250/6/Serbia/ EU for Competitiveness through Innovation and Tourism Development
Sector Information	
IPA II Sector	5. Competitiveness, Innovation, Agriculture and Rural Development
DAC Sector	25010
Budget	
Total cost	EUR 44,800,000
EU contribution	EUR 39,800,000
Budget line(s)	22.02 01 02
Management and Implementation	
Management mode	Indirect management for Result 1 (Activity 1.1 and 1.2) Indirect Management, Delegation Agreement for Result 1: Activity 1.3 and for Result 2.
National authority or other entrusted entity	The Ministry of Finance/Department for Contracting and Financing of European Union Funded Programmes (CFCU) for the Direct grant with Innovation Fund (Result 1:Activity 1.1 and 1.2) Delegation Agreement with the European Bank for Reconstruction and Development (EBRD) (Result 1: Activity 1.3) Delegation Agreement with Gesellschaft für Zusammenarbeit (GIZ) (Result 2)
Implementation responsibilities	For Result 1 (Activity 1.1 and 1.2): Ministry in charge of science and technological development For Result 1 (Activity 1.3): Ministry in charge of economy For Result 2 :(Activity 2.1, 2.2, 2.3, 2.4, 2.5): Ministry in charge of tourism For Result 2 - Activity 2.6: Ministry in charge of culture
Location	
Zone benefiting from the action	Republic of Serbia
Specific implementation area(s)	N/A
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by 31 December 2019
Final date for contracting, including the conclusion of contribution/delegation agreements	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
Indicative operational implementation period	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-	12 years following the conclusion of the Financing Agreement

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

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

According to the Annual Report for 2018, Serbia is moderately prepared on enterprise and industrial policy (*acquis* Chapter 20). The report shows that some progress was made on promoting entrepreneurship and facilitating access to finance for SMEs. Serbia has successfully completed the three-year fiscal consolidation programme that had been established through the Precautionary Agreement with the International Monetary Fund (IMF). Public debt has been steadily decreasing and the effectiveness of fiscal consolidation measures has been confirmed by reduced borrowing costs on the international financial market. This resulted in better state administration efficiency, improved legislation, increased labour market flexibility, and higher foreign direct investment inflows. Joint efforts of the Government supported by EU and bilateral donors in improving business environment placed Serbia on the impressive 43rd position in the 2018 Doing Business Report¹. In particular, the report showed significant progress in the areas of ease of starting a business, registering property and enforcing contracts².

For the 2018 – 2020 period, a cumulative GDP growth rate of 11.4% has been projected, determined by the growth of domestic demand through the recovery of private consumption and the intensification of investment activity. **The key preconditions for achieving the envisaged medium-term scenario remain preserving fiscal stability, continuing the restructuring of the economy, further improvement of business environment and expanding and modernising production capacities**³. In particular, the Government is planning to fulfil the preconditions and increase competitiveness by investing in digitalisation, education, knowledge society and entrepreneurship, and by utilising its development potential in culture and tourism⁴. Investments in research, technological development and innovation (RTDI) and tourism are priority areas that are going to be directed mainly through implementation of the **three key subsector Strategies**.

The encouragement of small and medium sized enterprise (SME) development in Serbia is continued through the implementation of the *Strategy for supporting development of small and medium-sized enterprises, competitiveness and entrepreneurship (2015-2020)*. The development of innovative SMEs and innovation activities, boosting technological improvement and commercialisation of research is promoted by implementation of *the Strategy for Scientific and Technological Development – Research for Innovation (2016-2020)*. The Government's commitment in implementing these two strategies is highly visible through the implementation of the Competitiveness and Jobs Project funded through a EUR 89.5 million-loan agreement with the World Bank⁵. Finally, the *Tourism Development Strategy of the Republic of Serbia (2016-2025)* has been implemented through investments in tourist infrastructure, tourist valorization of cultural assets, promotion, and improvement of tourist offers and funding of individual priority tourist products. However, national funds are still limited to cover the needs of the abovementioned sub-sectors, and the EU contribution will allow the improvement of the outcome by applying the principle of additionality.

In the field of enterprise development the SMEs are provided with incentives through the Government programme “Decade of Entrepreneurship”, as well as donor funds streamlined to support the implementation of the Strategy⁶. In 2017, the total value of the Programme was RSD 18 billion, with more than 30 strands available in the form of grants, loans, guarantees, export insurance, trainings and mentoring, encompassing different thematic areas⁷. The reform in the monetary policy resulted in the lower interest rates for Serbian Dinar⁸ (RSD) lending to businesses, but still, the second highest scored⁹ factor identified, as the most

¹ Out of 190 economies, published by the World Bank

² See Lessons learned and link to previous financial assistance for detail

³ Fiscal Strategy for 2018 with projections for 2019 and 2020, Ministry of Finance 2017

⁴ Key note address by Serbian Prime Minister Designate Ana Brnabic, National Assembly June 2017

⁵ See Lessons learned and link to previous financial assistance for detail

⁶ See Lessons learned and link to previous financial assistance for detail

⁷ Self-employment, start-ups, tourism service providers development, innovation, technology transfer, youth, women entrepreneurship, etc.

⁸ The weighted average rate on new dinar enterprise loans stood at 5.9% in September 2017, almost unchanged relative to June. The rates were trimmed for investment loans (by 1.0 pp to 5.7%) and current assets loans (by 0.3 pp to 5.5), while rates on other loans edged up 0.5 pp to 6.1%. “Trends in Lending: Third Quarter 2017” National Bank of Serbia 2018

⁹ With score 12.5; from the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings. “Global Competitiveness Report (2017-2018)”, World Economic Forum

problematic for doing business, was access to finances – both for existing and new companies. The SME loans represent around 30% of total corporate loans in Serbia¹⁰. Over 69% of companies interviewed in the 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. The unfavourable offer of loans by the banking sector is caused by the high demands for collateral, low credit rating and limited transparency of financial statements of the loan applicants¹¹. On the other hand, banks do not seem to be proactive enough in trying to increase SMEs’ financial knowledge and the capacity to submit solid loan applications and the ability to successfully spend the loan as planned. The European Bank for Reconstruction (EBRD) implemented the 2010-2015 “Private Sector Support Facility for the Western Balkans”, with 3 Serbian banks joining for credit lines of EUR 30 million. With the support to SMEs during application and implementation, all funds were fully disbursed, proving a sufficient appetite for this kind of financial service as demand greatly exceeds the supply.

The crucial efforts needed during implementation included (i) facilitating SME access to advice by supporting implementation of advisory services to improve SME’s competitive position, productivity and growth, and (ii) increasing the awareness and knowledge of SMEs about the benefits of compliance with the EU standards and Directives¹². With the support to SMEs during application and implementation, all funds were fully disbursed, proving a sufficient appetite for this kind of financial service as demand greatly exceeds the supply.

The Annual Report for 2018 noted that some progress was made with regard to innovation policy (Chapter 25). Serbian companies spend 20.7%¹³ of their total expenditure for innovation and technology on research and development activities¹⁴, which is evident from Serbia’s 107th position¹⁵ in the recent Global Competitiveness Report 2017-2018 of “Company spending on R&D”. Out of that, 18.9% is spent on in-house research and development activities with only 3.3% of all Serbian researchers employed in the business sector¹⁶. Only 1.8% of companies acquired research and development from outside sources, such as public research and development institutions that are able to provide new technical and methodical knowledge needed in innovation activities. Due to limited access to finance for research and development, as well as significant cost and risk of investment in research and development activities, the cooperation between Serbian companies and research and development institutions remains weak, with low level of high technology goods and services originating from the outputs of national research and development.

Even though the quality of scientific research institutions is regarded as satisfactory with its 47th place, the university-industry collaboration in research and development is low, in 95th place out of 138 countries¹⁷. This is reflected in the low sophistication of products and services with high tech products making only 9% of total export value, compared to the average of 26% in the total exports of EU 28. Diminishing of the abovementioned weaknesses already started during the implementation of the previous Strategy cycle between 2010-2015, and has continued with the contribution from EU, other donors and International Financing Institutions (IFIs)¹⁸. However, Serbia still needs to motivate its existing higher education sector to gain the ability to realise economic profit from its research work and create stronger ties with innovative private sector. It needs to stimulate creation and growth of innovative enterprises based on knowledge through private sector start-ups or spin-offs by providing financing for market-oriented innovative technologies, products and services with high commercialisation potential. Support to the commercialisation of research and development and further knowledge-based development of innovative enterprises is needed, as well as strengthening of collaboration between private sector and research and development institutions ranging from early stage to commercially mature technologies, products and

¹⁰ “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” – Final Report, European Investment Bank March 2017

¹¹ “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” – Final Report, European Investment Bank March 2017

¹² The EU Directives have been identified at the beginning of the SME Competitiveness Support Facility programme as having critical importance and urgency of implementation by SMEs in the Western Balkans regions, and Serbia in particular

¹³ Statistical Office of the Republic of Serbia Statistical Release 2017

¹⁴ Indicators of innovation activities 2014-2016, Statistical Office of the Republic of Serbia, Statistical Release 2017

¹⁵ Out of 138 countries

¹⁶ In 2013, there was 75.2% of researchers in higher education, 21.4% in scientific institutes, and only 3.3% in the business sector compared to EU where almost 37% of all researchers are working in the business sector. Research for Innovation Strategy 2016-2020

¹⁷ Global Competitiveness Report 2017-2018

¹⁸ Details on the projects are presented in the Lessons learnt and links to previous assistance section.

services. Innovative companies have to be supported to gather the knowledge in areas of relevance for their technology development, market opportunities and further company's development.

The majority of funds for research and development (57%) have been coming from the State budget¹⁹ and are directed towards the academic community. In spite of the vast base for research, Serbia has 2,800 researchers per one million inhabitants, which is significantly lower than the EU average of 5,500 researchers²⁰. Their work on the projects funded by the Government is still dominated by the research papers. Out of the total number of results achieved, 88% are research papers published in international or national journals with peer-review, with 4,898 papers published in 2014²¹. Additionally, the Serbian Intellectual Property Office received only 213 patent applications in 2016, compared to, for example, Austria, with 2,040²² in the same year. The majority of funds are directed towards human resources, with only 3.2% spent on material costs necessary for testing and prototype development. The lack of funds significantly reflects on the commercialisation of research that requires testing and prototype development. This affects the scope and the quality of research, and hence the excellence and the application of results achieved²³. Higher education sector needs further support in creating a culture that is more favourable towards conducting applied research with commercialisation potential by partnering with the private sector and the need to look for non-budgetary sources of revenues for the future²⁴. Through "hands on" projects and partnership, Serbian higher education institutions and public research organisations will acquire skills to commercialise their ideas, as well as gain knowledge to encourage and meet the demand for new technology in the business sector.

In the area of tourism in recent years, there has been a significant Government commitment to remedy the sub-sector deficiencies with support of EU and bilateral donors. Tourism is a complex subsector requiring many players to be involved in delivering the wide range of facilities and services combined to provide the overall visitor experience. Majority of actions were directed towards realisation of the Danube Serbia tourism potential through investments in infrastructure, cultural assets restoration and strengthening of the tourist offer provided by SMEs. However, the implementation of the previous Tourism Development Strategy 2006-2015 was fragmented, with lack of systematic coordination and cooperation of relevant stakeholders at national, regional and local level. Furthermore, the efforts didn't result in attracting desired level of investment in tourism (part from Belgrade), either from private sector or IFIs. Therefore, Serbia needs a new approach in the form of comprehensive interventions in pilot areas aiming at implementation of the Tourism Development Strategy of the Republic of Serbia (2016-2025)²⁵ through a capacity building for institutions, investment in touristic and cultural assets and incentives for service providers.

Serbia's position in the Travel and Tourism Competitiveness Report²⁶ for 2017 is modest, standing at 95th position out of 136 destinations. It scores relatively well on Health and Hygiene (42nd) and ICT readiness (57th) but is placed low on issues such as "Prioritisation of Travel and Tourism" (116th) that is measuring the extent to which the government actively promotes and orchestrates the development of the tourism sector or "Cultural resources and business travel" (71st) measuring the tourist valorisation of cultural resources. There is a fundamental need for leadership in tourism but also for collaboration and partnership in the way it is developed and delivered. To be able to address the weaknesses identified in the Travel and Tourism Competitiveness Report and to implement the actions envisaged in the Strategy, the Government needs to have strong capacity within its institution responsible for tourism issues able to drive the planned actions towards strategic objectives, attract private investment in tourism, measure its impact on economic development, as well as coordinate and steer the stakeholders' participation.

¹⁹ 45.52% in 2014, 46.8% in 2015, 47.5% in 2016; Statistical Office of the Republic of Serbia, Statistical Release 2017

²⁰ EUROSTAT 2016

²¹ Down from 5,633 in 2012, Research for Innovation Strategy 2016-2020

²² European Patent Office data 2016

^{23,23} Consequently, the funds that the scientific research organisations realise on the market are 25.1%, which is well below the EU average of 63%; Research for Innovation Strategy 2016-2020

²⁴ Funds for financing the reform in the amount of EUR 49.3 m are provided by the 2018 Budget Law; Economic Reform Programme (ERP) 2018-2020

²⁵ The 2018 national budget anticipates EUR 16.2 million for the activities of capacity building for institutions, investment in tourist assets and incentives for service providers. Equally, the 2018 national budget allocation for improvement of the protection system of cultural assets envisages EUR 23 million.

²⁶ Published by the World Economic Forum, 2018

Equally, Serbia's tourism industry is relatively small by international standards²⁷, with direct contribution to Serbian economy amounting to 2.3% of total GDP in 2016 and generating 38,000 jobs (1.9% of total employment).²⁸ The total contribution to GDP (including wider effects from investment, the supply chain and induced income impacts) was amounted to 6.7% of GDP and supported 99,500 jobs, nearly three times greater than its direct contribution showing the wide potential of tourism impact on the economy. The foreign currency revenue amounted to USD 1,248 billion, placing tourism on the second place in the Serbia's service sector.

The total number of tourists in in Serbia in 2017 was 3.08 million (12.1% increase comparing to 2016), showing a steady, but modest increase throughout years.²⁹ The tourist visits are mainly concentrated in the Danube wider area (or Danube Serbia³⁰ as identified by the European Union Strategy for the Danube Region - EUSDR). Out of the total number, over 1.15 million visited the two major cities of Belgrade and Novi Sad with average stay of 3.3 days by domestic and only 2.1 days by foreign tourists. During that time, 74.4% of tourists have visited Belgrade's cultural and historical heritage and 30.1% engaged in cultural or entertainment event,³¹ proving Belgrade's appealing offer for tourists of all backgrounds. The tourists have been showing a significant interest in one of the most recognisable buildings in Belgrade and one of the top 10 tourist and cultural attractions of Serbia - the National Theatre with 150,000 visitors annually.

In 2017, the number of tourists (1,104) who visited the Theatre as part of the organised sightseeing tour doubled, compared to 2015 (555), and the tourists praised the visit as the best ranked, not only in Belgrade, but in the entire lower Danube area. The Theatre is part of the "European route of historic theatres", a network of European theatres that had been established by 1920 and are rich in cultural and historic importance, representing the joint cultural roots of European theatres and their heritage. It is the only opera and ballet theatre in Central Serbia for the target group of nearly 4 million citizens. However, its operational capacity to diversify its offer is deteriorating due to decay of facade and outdated equipment. Old equipment is diminishing the efficiency of the building thus limiting its ability to profit from investing in new services and the possibility to diversify and increase the number of events. Consequently, this landmark of the Serbian capital needs new investments to be able to match its importance for cultural identity, social impact and tourist valorisation.

At the same time, only some 122,000 foreign tourists visited the eastern part of Danube Serbia area - Eastern Serbia³², despite its rich cultural heritage and natural attractions³³. Eastern Serbia is part of the Danube that over centuries represented a natural border of the Roman Empire with archaeological remains developed in tourist products such as "Roman Emperors Route" and "The Fortresses on the Danube", with UNESCO World Heritage site and heritage of great significance³⁴ as the highlight³⁵. The area offers visits to the National Park Djerdap and the Stara Planina Mountain, as well as tourist products such as wine and monastery routes, unique Rajacke pivnice³⁶ and various geothermal spas. In recent years, the public investments in tourism in the area have increased significantly, with EUR 2.5 million invested in port infrastructure for cruise ships admission³⁷, ongoing road investments³⁸ and approximately EUR 1 million in preservation of different cultural heritage sites³⁹. However, the area needs further incentives to be able to provide comprehensive tourist products and experiences, enticing to a modern tourist. On average, tourists stayed in Eastern Serbia for only 1.8 days, showing the area is not providing sufficient accommodation or enough experience for a longer stay. This is significantly confining the possibility for greater revenue generation in the service sector and the development of SMEs.

²⁷ The global industry accounting for more than 9% of world GDP, and employing around 235 million people directly or indirectly

²⁸ TRAVEL & TOURISM ECONOMIC IMPACT 2017 SERBIA WTTC, 2017

²⁹ In 2010, the total number of tourists was 2,010,000; Statistical Yearbook of the Republic of Serbia 2013

³⁰ Population of the 11 districts of Danube-Serbia was 4,183,483 compared to total number of inhabitants of Serbia, 7,186,682 (excluding Kosovo and Metohija), according to the 2011 Census results.

³¹ According to the Survey conducted by the national Tourist Organisation in 2017

³² Statistical Office of the Republic of Serbia Publication, 2017

³³ Part of Lower Danube destination identified in the Strategy for Tourism Development 2016-2025

³⁴ Fetislam and Smederevo Fortress

³⁵ Felix Romuliana

³⁶ Identified also in the Wine Route Branding Study Soul of the Balkans funded through the IPA CBC Programme Bulgaria-Serbia project "Veni, Vino, Vici"

³⁷ Data from the Ministry of Trade, Tourism and Telecommunications, 2018

³⁸ Paracin- Zajecar road has been refurbished, while Nis- Kladovo reconstruction is been financed from the World Bank loan

³⁹ Data from the Republic Institute for Cultural Heritage Protection and the Ministry in charge of culture

According to the World Tourism Organisation (UNWTO) research, 37% of all travel has a cultural component proving significant economic potential of cultural heritage assets. However, cultural heritage locations/destinations need to be efficiently preserved, presented, marketed and able to offer complementary products and services to provide a complete hospitality experience for a modern tourist in a form of comprehensive tourist products. Eastern Serbia has been lagging behind in that respect and the tourist valorisation of its rich cultural (especially Roman) heritage remains limited due to poor tourist infrastructure and low quality of tourist offers. As part of the “Roman Emperors Route” tourist product, the area of Felix Romuliana has seen an increase of 11% in the number of visitors in 2016⁴⁰, but the total number of 30,800 visitors that focus on a half-day trip to the location is still insufficient to have a significant impact on tourism development. The same applies to Smederevo and Fetislam fortress (Kladovo) that are part of the “Fortresses on the Danube” tourist product, with 28,647 and 22,350 tourists respectively, in 2016. Smederevo Fortress (on the tentative UNESCO list) is the last great creation of the Serbian military construction, while Fetislam is a medieval fortress dating from the Ottoman period built on the ruins of the fortress from the Roman period⁴¹. During their stay in the area of both sites, most tourists were interested in visiting more attractions or going to local restaurants, wine cellars, in renting bicycles, etc.⁴². This indicates that, the cultural heritage sites, if well developed and maintained, can have a spill-over effect for other tourist attractions nearby, as well as influence the development of local SMEs and entrepreneurs and impact local employment.

OUTLINE OF IPA II ASSISTANCE

This Action contributes to 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 capacity to innovate, cooperate with research and development organisations and develop new products and services. Through grant incentives, the Action will encourage businesses to increase demand for innovation and research to commercialise their inventions. Result 1 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, providing support to knowledge-based development of innovative enterprises, as well as innovative pre-competitive technologies with significant market potential. With the combination of loans, incentives and advice, the Result 1 will improve access to finance to existing SMEs in order to introduce EU standards thus upgrade production capacities, enhance processes and improve product quality. It will improve SMEs’ access to finance but also bring them closer to EU standards and provide advisory services to improve their competitive position, productivity and growth.

Consequently, such modernisation and improvements to products and processes would translate as an associated improvement in productivity and quality, making Serbian companies more competitive.

This Action entails a number of comprehensive activities that will jointly allow authorities at local and national level to gain the knowledge, capacities, experience and insights necessary to successfully implement the Tourism Development Strategy of the Republic of Serbia (2016-2025) in the long term. In order to be able to achieve this, the selected activities include a comprehensive number of tourism development components, focusing on 2 pilot areas: less developed region of Serbia with rich cultural heritage (lower Danube area) but also key touristic sites in Belgrade, through institutional support, infrastructure development and local stakeholders strengthening, and in particular:

- Supporting the institutions to strengthen their role in planning, implementation and coordination of the Strategy
- Investing in refurbishment/protection of cultural heritage sites and attractions
- Improving the quality of tourism services and tourist offer accompanying the supported cultural heritage sites to be developed into attractive tourist products.

Enabling the stakeholders to plan, implement and monitor, as well as to coordinate with other sub-sectors will help establish best practices, set-up long-term processes and organisational and institutional framework that will be then disseminated and used for the implementation of the Strategy in other areas of Serbia. By developing the capacities at national and local level, the stakeholders will be able to independently and

⁴⁰ Compared to 2015

⁴¹ Both locations are on the European Euro-Velo bicycle route network - 20,000 cyclists pass the track annually, data provided by RARIS

⁴² The Wider Benefits of Investment in Cultural Heritage- Case Studies in BiH and Serbia”, Council of Europe 2015

sustainably use this knowledge in the future. The activities will also include conservation and restoration works of the selected heritage assets in the pilot areas and infrastructure improvements that will strengthen the sites' appeal as tourist attractions. In addition, the "soft" support for collaborative projects between all stakeholders in tourism will complement the infrastructure investment and create unique tourist products as a precondition for further investments. These pilot areas were selected due to the relevance of the tourist attractiveness of the location (aggregation into one area was encouraged), tourist potential and potential for positive spill-over effects upon job creation, further direct investment of private sector and economic development to be replicated in other regions of Serbia and tourist destinations identified in the Tourism Development Strategy of the Republic of Serbia (2016-2025). Infrastructure related interventions proposed in this Action document are indicative, and the initiation of activities is subject to thorough checks of their maturity in conformity with standards for any infrastructure projects financed from the EU. They were selected by the Beneficiary institution and in coordination with MEI based on the key requirement of a direct link to the Tourism Development Strategy of the Republic of Serbia (2016-2025).

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

Indicative Country Strategy Paper (ISP)

The Action Document addresses the following ISP Competitiveness sector results:

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

The target will be addressed 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. Boosting a national source of new high technology goods and 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.

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

This target will be addressed by supporting access to finance for SMEs focused on acquiring new technology, research and development, as well as SMEs in tourism interested in developing and improving their products and services as part of national tourist products.

Serbia 2018 Annual Report

The Action Document is addressing the issues identified in the Serbia 2018 Report. The document will promote increased predictability in the business and administrative environment for SMEs. In particular the action will support better access to finance, which according to the Report "remains costly and is a key obstacle to further development of the sector".⁴³

A credible enlargement perspective for and enhanced EU engagement with the WB

This Action Document is in line with the 2018 Commission's Communication that is identifying "many structural weaknesses, with inefficient and rigid markets, low productivity, limited access to finance, leading to low competitiveness and high unemployment. Overall, the levels of investment and growth rates are insufficient to significantly reduce the gap with the EU." The Action Document is 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. Interventions in the tourism sub-sector are complementing the above mentioned flagship initiative by focusing on SMEs and activities that will trigger creation of jobs and employment, and at the same time, complementing the *Initiative to support reconciliation and good neighbourly relation* by investing in cultural heritage sites that are part of the Western Balkans and European heritage. The Action Document is complementing the Commission's plans to "boost entrepreneurship and innovation, the Commission will roll out a scheme supporting technology transfer and start-ups across the region and support efforts aimed at smart specialisation, as well as the circular economy". The Action

⁴³ Page 75, PR 2018

Document is fostering interventions for the implementation of the Action Plan in Support of Transformation of the Western Balkans' and its actions 3.3⁴⁴, 3.4⁴⁵, 3.5⁴⁶.

Western Balkans Regional Strategy for Innovation

The Action Document 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 2018-2020 (ERP 2018-2020)

The Economic Reform Programme for Serbia (ERP) 2018-2020 identifies the issues such as “limited access to funding sources and incentives to run their own businesses” in the SME sector, thus reducing their ability to contribute to a significant improvement in the competitiveness and economic development of the country. Similarly, “insufficiently efficient model of financing support to science, lack of support for business innovations, inadequate connection between business and academic community, “brain drain”, availability and introduction of digital technologies, products and services” is limiting the RDI sub-sector. At the same time, the document is emphasizing “a challenge to further economic growth is the development of the service sector with a special emphasis on raising the level of knowledge and skills in this area, development of tourism (which increases foreign exchange inflows and employment rate, and improves the quality of life of the population)”. The Action Document is focusing on the priority measures identified in the Economic Reform Programme for 2018-2020.

Small Business Act for Europe (SBA)

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”⁴⁷, with this Action Document 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”⁴⁸ 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.”⁴⁹

European Union’s Strategy for the Danube Region (EUSDR)⁵⁰

The Strategy identifies a number of challenges related to huge socioeconomic disparities in the Danube region, along with opportunities of “... a striking cultural, ethnic and natural diversity. This requires a modern tourism offer and infrastructure, so that both the guest and host can profit.”⁵¹ The Action Document is directly contributing to a number of Priority Areas, Priority Areas and targets of the Strategy.

Europe, the world's No.1 tourist destination – a new political framework for tourism in Europe⁵²

The Action Document is in line with the Communication’s priorities of stimulating competitiveness in the European tourism sector, developing sustainable, responsible, and high-quality tourism and consolidating Europe's image as a collection of sustainable, high-quality destinations.

Towards an integrated approach to cultural heritage for Europe⁵³,

⁴⁴ Strengthen measures to support private sector development, including a scheme supporting start-ups across the region and support efforts aimed at smart specialisation.

⁴⁵ Increase access to finance and harness the growth potential of small and medium-sized enterprises.

⁴⁶ 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

⁴⁷ page 14, Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions 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

⁴⁸ page 4, Ibid

⁴⁹ page 14, Ibid

⁵⁰ COM (2010) 715

⁵¹ Page 5, EUSDR

⁵² COM(2010) 352

⁵³ COM(2014) 477

The Action Document is also promoting the objectives of the EC Communication from 2014 emphasising that cultural heritage preservation, restoration and valorisation should be promoted through encouraging modernisation of the heritage sector, raising awareness and engaging new audiences, identifying skills needs, improving the training of heritage professionals and developing more participative interpretation and governance models through greater involvement of the private sector and civil society.

This includes compatibility with the Commission's initiative "European Year of Cultural Heritage 2018" is to encourage more people to discover Europe's cultural heritage, and to reinforce a sense of belonging to a common European space.

THE GLOBAL COMPETITIVENESS REPORT 2017-2018

The Action Document is contributing to the "access to finance" challenge identified as the second most problematic factor of doing business in Serbia according to the Global Competitiveness Report 2017-2018. The interventions will positively influence Serbia's low ranking in the pillars of Technological Readiness (72nd) and Innovation (95th).

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"; "Preserving the cultural heritage and supporting cultural production and creativity in arts will support the protection and preservation of cultural heritage" 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 Action Document's Result 1 is directly linked to the **Research for Innovation Strategy (2016-2020)** and its Strategic Objectives (SO): 2) Strengthening the connection between science, economy and society to encourage innovation; and 6) Increasing investment in research and development through public funding and encouraging the investments of the business sector in research and development.

Also, the Action Document activities are corresponding to the 3 strategic pillars developed in **the Strategy to support the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020)** and its action plan:

The Action will directly contribute to the implementation of the **Tourism Development Strategy of the Republic of Serbia (2016-2025)**. This Action Document is directly contributing to the following priorities and measures of the Strategy:

- Establishing a framework for public/private dialogue in order to strengthen the role of tourism in the national economy and society
- Creating conditions for effective interdependence with all other sectors of the economy and society
- Incorporating the interests and priorities of tourism at all levels of Government planning and financing in the large infrastructure sector
- Improvement of the tourism products and services of Serbia
- Supporting SME business, professional and sports associations to achieve improvements to existing products along with the development of new tourism products
- Building additional visitor centres and theme parks

- Continuing the development (tourism infrastructure and superstructure, human resources) and implementation of the "Danube Project" in order to achieve an effective tourism and economic valorisation
- Improving, managing and encouraging tourism development
- Establishing realistic local and regional tourism development programmes in line with the Strategy
- Establishing a unified tourism statistics and monitoring system concerning the impact of tourism on the national economy
- Establishing an efficient system of coordination of activities between all entities of tourism development in accordance with their obligations, rights and interests.

Furthermore, the locations for the pilot activities proposed in the Action Document are among 18 destinations individually identified in the Strategy according to currently developed infrastructure and superstructure, the availability of existing tourism influx and their development, important for the completion of tourism products.

Danube Serbia- Building a European Gateway Challenges and Opportunities was adopted with the purpose to put the EU Strategy for Danube Region (EUSDR) into operation in Serbia. The Action will through the pilot activities directly contribute to the implementation of the following measures of the Strategy and actions from the accompanying Action Plan:

- Measure 1.8: Destination marketing for Danube-Serbia
- Measure 1.9: Renewing assets on the Danube

The Draft Strategy for Cultural Development 2018-2028 identifies the Measure 2 in the area of culture and tourism as: "Mapping and development of the key cultural tourism products and destinations attractive to domestic and foreign tourists in cooperation with the Ministry of Culture and Media, the Ministry of Trade, Tourism and Telecommunications and the Tourist Organization of Serbia" that will be directly supported through this Action Document.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

The Action Document' activities under Result 1 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 Activity 1.3 represents the national component of the successful regional EBRD initiative "Private Sector Support Facility for the Western Balkans".

The activities under Results 2 are regarded as pilot activities for implementation of the Strategy for Tourism Development 2016-2025. However, the actions supporting the implementation of the previous Strategy are also listed in this Section, to give an overview of the Government's continuous efforts towards tourism development.

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 beneficiaries⁵⁴.

⁵⁴ 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

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”⁵⁵.

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 (SRTTIP) is under implementation. The SRTTIP 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 SRTTIP 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 project⁵⁶. The Action is going to be contracted in 2018 and will run until the start of the proposed Action Document for 2018.

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.

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 i.e. supporting the IF’s grant scheme programmes, TTF service lines implementation of voucher scheme for start-ups and companies in need of research and development-type activities provided by research and development institutions. Through EU contribution, the interventions under Result 1 in this AD will complement the abovementioned actions initiated and implemented by the Government.

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 1.5 million under EIF and up to EUR 2 million under ENIF. On the other hand, the activities related to Result 1 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 98% 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

⁵⁵ Estimation of the Effect of Participating in the Innovation Fund Financing Programs on Firm Performance, Lach,Parizat,Sumkin,Gayer, 2015

⁵⁶ There were 471 applications by 326 companies for both programmes in total; Innovation Fund data 2017

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 25 million loans taken by 150 companies in the following two years; Banca Intesa will be able to grant EUR 100 million in loans to innovative companies with the help of the EIF's guarantee. The guarantee covers 50% of each loan disbursed by Banca Intesa AD Beograd and is expected to generate a total loan portfolio of EUR 100 million. This Action Document is helping the SMEs and start-ups to develop their innovative products and place them on the market, while programmes like EDIF and InnovFin are providing further access to finance for those companies, thus enabling them to grow and expand.

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.

As part of the *Private Sector Support Facility for the Western Balkans* implemented in the period 2010-2015 and funded by EU IPA 2009, EBRD successfully piloted the SME Competitiveness Support Facility (CSF) in four countries including Serbia (other countries were Bosnia and Herzegovina, Croatia and the former Yugoslav Republic of Macedonia). The CSF Programme consisted of EBRD lending of EUR 95 million in 14 credit lines to 9 participating banks. In Serbia, three banks joined the Programme, namely UniCredit Bank, Banca Intesa and Société Générale. All funds were disbursed, and the Programme provided the following lessons learnt:

- There is an appetite for this targeted programme as the demand greatly exceeded the supply.
- Transposition of EU Standards in Serbia was well-advanced which helped the Programme implementation: the process of transposition of EU Directives on Health and Safety, Product Quality Standards and Environmental Protection into local legislation was well advanced, which meant that the alignment to several EU directives was already or about to become binding by law, which exercised a strong incentive on the SMEs towards such alignment.
- The participating banks were well-versed in working with IFI on relatively sophisticated products which helped the successful implementation.
- The incentive payment is key for the success of the product.
- Technical assistance made a powerful contribution to increasing the project pipeline and turnaround rate (from pipeline to financed projects).
- Confirming preliminary creditworthiness is essential to ensure that the sub-project will be successfully financed.

At the same time, activities under Result 1 of this Action Document is moving further by increasing SME's access to finance and strengthening innovation support. It will complement Serbia's participation in COSME⁵⁷ since the financial instruments in COSME are designed to provide added value to other financial instruments in the country, as it is stated in the Articles 9 and 17 of the Programme Regulation⁵⁸, while activities related to innovation will continue the work on strengthening institutions to increase the number of innovative products and services in SME sector and opportunities for collaboration with research and development institutions.

⁵⁷ Started in January 2016

⁵⁸ Financial instruments under COSME are different from those available under ESIFs and IPA in respect to conditions for financial intermediaries participation

“*The Socio-economic Development for the Danube Serbia Region*”(SDDSR) project funded under IPA I and implemented in the context of the EU Strategy for the Danube Region (EUSDR) aimed at promoting tourism, maximising investments of the private sector, developing accompanying job creation potentials and increasing the attractiveness of the ‘Danube-Serbia Region’ to foreign investors through infrastructure development. Through its five components, the project contributed to capacity building of municipalities and other stakeholders for the implementation of the EUSDR in Serbia, promotion of partnerships and cooperation on the objectives of the EUSDR in Serbia, supported the preparation and implementation of infrastructure works related to priorities of the EUSDR and implemented a socio-economic development grant scheme for the ‘Danube Serbia Region’. The socio-economic development grant scheme has proven an absorption capacity of relevant stakeholders in the area through 17 projects implemented⁵⁹. The Result 2 of this Action Document is taking the efforts of the abovementioned project further by:

- ✓ Ensuring a more effective comprehensive approach in coordination of activities related to tourism development of Eastern Serbia
- ✓ Promoting a mix of investment into cultural assets, management systems, capacity building, small infrastructure and innovative projects.

Inheritance at the Danube Cross-border is an ongoing EUR 2.3 million CBC Romania-Serbia project aimed at improvement of the cross-border cooperation structures for tourism services, with Municipality of Kladovo as a partner from Serbian side. The project includes construction of the Visitor’s centre in the Fetislam fortress in Kladovo, as well creation and promotion of local brands and joint innovative actions and communication instruments in order to identify and put into value local cultural and rural inheritance in Borski-Mehedinti cross border area. This Action Document is complementary to the project by creating an integrated tourist product of the fortress by redeveloping the remaining parts of the complex for tourist purposes.

The ongoing *European Union Support to Municipal Development – EU PRO Programme*⁶⁰ will contribute to a more balanced socio-economic development by enhancing competitiveness and social cohesion of 99 municipalities in two regions: Šumadija and Western Serbia and South and Eastern Serbia.⁶¹ The Programme will provide funds for the SMEs to procure equipment and services, with aim to enhance quality of existing products, support development of products with higher added value, enable introduction of innovations, and facilitate market expansion. It will also support business support organisations (BSOs) such as regional development agencies (RDAs), clusters, incubation centres, associations, chambers and non-governmental organisations (NGOs) to strengthen their ability for provision of specialised services to SMEs.. The results of the EU PRO Programme will create solid grounds for the implementation of some of the activities of the proposed Action Document through creation of pipeline of potential applications for the grant scheme in tourism, as well as building capacities of different stakeholders in Eastern Serbia to absorb the funds available under the Action Document 2018.

The ongoing *ROSEB Initiative* was created under the direct impact from the INTEREG Cross-border Cooperation Programmes between Romania and Serbia, Romania and Bulgaria; Serbia and Bulgaria. ROSEB The initiative covers three bordering regions of Eastern Serbia, North West Bulgaria and South West Romania. Its aim is to create a platform for cooperation in tourism by setting-up cross-border network of tourist stakeholders and to facilitate utilisation of joint tourism potentials by setting-up mechanisms for structured participatory processes of needs assessment, priority setting, action planning and project implementation. The ROSEB Initiative has 95 members, Local Administration, National Authorities for Tourism, NGOs, Tour Operators and Agencies for Tourism, Clusters, High Schools, and Universities.

⁵⁹ The grant scheme created 2,160 job opportunities, trained 2,748 persons, created new improved business-related infrastructure, developed 18 new support services for SMEs, implemented 39 different types of training courses for entrepreneurs, formed 22 capacity building initiatives for SME support organizations, realised 38 different types/sets of training courses for the unemployed and at least 26 capacity building initiatives, developed 18 new tourism services, products or itineraries, realised 46 different capacity building initiatives for tourism stakeholders, upgraded 6 different types of tourism-related infrastructure in the areas of tourism development, economic development and environment protection.

⁶⁰ The Programmes is based on Serbia Local Development Action Document within the Instrument for Pre-accession Assistance (IPA) 2016 <http://europa.rs/eu-assistance-to-serbia/ipa/ipa-2016/?lang=en>

⁶¹ Forty-five municipalities are from the third and the fourth category of development, 44 are from the first and the second. The two regions, Šumadija and Western Serbia and South and Eastern Serbia, are less developed comparing to Belgrade and Vojvodina.

The Activities under the Result 2 will complement the efforts of the Initiative in Serbia by accelerating investment and stakeholder involvement in tourism development interventions.

Since 2010, the National Theatre in Belgrade, in coordination with the Ministry in charge of culture has been implementing the following projects that, with the proposed Action, will ensure tourist valorisation of the building of the National Theatre, making the facility more attractive for tourists and visitors:

- Reconstruction of the “Raša Plaović“ stage;
- Repair of the flat roof over “b” wing of the main building and the roof over the viewers’ main entrance;
- Repair of the Main Stage of the National Theatre;
- Project *Creating Conditions for the Blind and the Visually Impaired People* with procurement and installation of the audio-description equipment
- *Project of Development of Audio-Visual Studio and Equipment in the National Theatre in Belgrade* for provision of audio visual equipment
- The ongoing refurbishment of the Theatre’s facade

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	
To contribute to increased competitiveness of the Serbian economy	Global Competitiveness Index (Score) Travel and Tourism Competitiveness Index (Rank)	Global Competitiveness Report Travel and Tourism Competitiveness Report	
SPECIFIC OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>SO 1. To enhance market driven innovation and technological readiness by enabling better access to finance</p> <p>SO 2. To promote tourist industry development as engine for economic progress in Serbia lower Danube area</p>	<p>Average generated revenue from the sale or lease of innovative products and services</p> <p>Total amount of finance provided by partner financial institutions in the form of sub-loans¹</p> <p>Annual revenues of supported cultural heritage sites</p> <p>Number of tourists/ overnight stays in the lower Danube area</p>	<p>Innovation Fund Annual Report</p> <p>EBRD Report</p> <p>Felix Romuliana Annual Report</p> <p>Fetislam Fortress Annual Report</p> <p>Smederevo Fortress Annual Report</p> <p>National Theatre Annual Report</p> <p>Statistical Office of Serbia</p>	<p>Macroeconomic and fiscal stability is ensured</p> <p>Government remains committed to bringing public research more in line with the needs of enterprises and to strengthen technology transfer from public research and development to private sector</p> <p>Public and private research and development investments remain at its current level or increase</p>
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>SO 1</p> <p>Result 1: Increased access to finance enabling SMEs to innovate, incorporate R&D and invest in meeting EU standards</p>	<p>Number of new products/services that reached the market</p> <p>Number of supported SMEs accessing finance through the dedicated credit lines supported by</p>	<p>Project Final Report (Innovation Fund (IF))</p> <p>EBRD Final Report</p>	<p>Public research and development institutions are motivated to reach out and support business research and development and knowledge transfer needs and be a source of new product ideas and technical innovation and</p>

¹ EBRD provides loans to partner financial institutions that then provide sub-loans to SMEs. The indicator will measure the total amount of sub-loans provided to SMEs and is a standard indicator measured by EBRD during implementation of the activity.

	investment incentives and their characteristics		capabilities to exploit new ideas SMEs are using the acquired technology to improve their productivity
SO 2 Result 2: Upgraded tourism/cultural facilities and stakeholder's skills as part of the Tourism Development Strategy of the Republic of Serbia (2016-2025) implementation	Number of visitors to the supported cultural heritage sites	Felix Romuliana Annual Report Smederevo Fortress Annual Report Fetislam Fortress Annual Report National Theatre Annual Report	Valorisation of cultural heritage remains high on Government agenda Stakeholders in tourism are using their improved skills and capacities to boost tourism development
	Degree of satisfaction of the quality of provided services	Visitor's Satisfaction Survey	
	Number of innovative tourism projects in Eastern Serbia in the reporting period that promote role of women in tourism supply/demand	Project Final Report (Ministry in charge of tourism)	

DESCRIPTION OF ACTIVITIES

Result 1: Increased access to finance enabling SMEs to innovate, incorporate R&D and invest in meeting EU standards

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.

1.3. Provision of loans, technical assistance and grants to selected companies through the SME Competitiveness Support Programme (SME-CSP)

The EBRD SME CSP was established to provide loans, supported by grants and technical assistance to strengthen the competitiveness of SMEs. The facility operates at several levels.

- i) Provides dedicated credit lines to eligible participating financial institutions (loans) providing them with medium term funding dedicated to finance SME funding (sub-loans) for eligible investments that will enhance SMEs' competitiveness (sub-project);
- ii) Provides investment incentives up to 15% of the disbursed sub-loan amount for SMEs (sub-borrower or end-borrower) to blend EBRD funding and incentivise investments by SMEs. Financing of sub-projects and payment of incentives to the sub-borrower is subject to the successful adoption and implementation by the sub-borrowers of a set of measures aimed at enhancing their overall competitiveness;
- iii) Provides technical assistance for action implementation to develop the project, help build a sub-project pipeline, prepare the investment plans on the basis of which the investments' eligibility is assessed, provide support to sub-borrowers with loan application, develop systems and tools to provide appropriate and dedicated services to SMEs, as well as to market the action; and a verification consultant to verify the compliance of implemented sub-projects before the investment incentives can be released.

In addition, and to ensure the sustainability of the action and transfer of know-how and further dissemination of best practices to a wider group, local capacity-building will be provided in consultation with the Serbian Ministry of Economy, for organisations which could in the medium term implement a government-supported programme of similar nature or objectives.

Loan applications are considered for the sub-loans of a maximum aggregated amount of EUR 1 million (in one or more projects) to each sub-borrower with:

- A minimum maturity of 18 months;
- Investments in industrial premises, equipment, software, improvement of management systems and

general upgrading aimed at improving compliance with one or more of the EU Directives in the field of environmental protection, occupational health and safety and product quality and safety, as applicable to the relevant SME (the ‘Priority Directives’);

- Investments aimed at complying with EU Directive(s) which are not specifically listed in the Priority EU Directives, but which nevertheless advance the standards of the SME in the field of environmental protection, workers’ safety or product quality and safety, shall be considered eligible investments if, in the opinion of the consultants, compliance with such EU Directive is necessary for the specific SME.

Result 2: Upgraded tourism/cultural facilities and stakeholder’s skills as part of the Tourism Development Strategy of the Republic of Serbia (2016-2025) implementation

2.1 Strengthening capacities of the Ministry in charge of tourism, the National Tourist Organisation of Serbia and relevant stakeholders to implement the tourism policy

The aim of the activity is to support the internal structures of relevant stakeholders involved in the implementation of the Tourism Development Strategy of the Republic of Serbia (2016-2025) and its Action Plan. The focus of the support would be on the Ministry in charge of tourism to strengthen its capacity for evidence based strategic planning; preparation, budgeting and implementation of tourism related programmes and schemes as envisaged in the Strategy. The activity would provide assistance in raising the ability of the lead institution in the sub-sector to efficiently manage the implementation, monitoring and evaluation of the Strategy, as well as to coordinate, facilitate and streamline different tourism development initiatives on the transnational, national, regional and local level. In addition, the activity would include other relevant institutions, such as the National Tourist Organisation of Serbia, aiming to strengthen their role in the implementation of the policy and coordination with the local level stakeholders.

2.2 Building the Felix Romuliana Visitors and Research Centre

The activity concerns the construction of a Centre that will serve as the state-of-the-art visitor management facility presenting the entry point of visitors to the UNESCO World Heritage site of Felix Romuliana⁶³.

The Visitors’ Centre will become the entry point for tourists to the archaeological site of imperial palace. It will provide tourist services such as parking, souvenir shop, and purchase of entrance tickets, refreshment and rest area as well as info centre where visitor will be able to obtain additional information about the tourist attractions and services in the surrounding area. The new facility will be adequately equipped to host cultural and community events of the near-by city of Zajecar. The complex of the Centre will also include the research and the accommodation facilities for researchers. The research facility will be an interdisciplinary hub for archaeologists, providing space for artefact analysis and research of post excavation works, since the Felix Romuliana site is largely unexplored, and is expected that exploration and research will continue for decades. Therefore, a modern fully equipped research facility will enable continuous exploration and presentation on the site. The Research Centre will include modern living space for the archaeologists and scientists who will be excavating the site with facilities such as bedrooms, living and kitchen areas to support some 20 researchers. In addition, the Centre will be located adjacent to the Visitors Centre and visitors will have a unique experience of observing the exhibits from excavation and conservation to presentation. The connection between the Visitor and Research Centre will make the activities of the Institute for Cultural Heritage and Institute for Archaeology more visible to public..

2.3 Redeveloping the Fortresses in Kladovo (Fetislam) and Smederevo

Currently, the CBC Romania-Serbia funded project “Inheritance at the Danube Cross-border” is in the process of tendering the construction of the Visitors centre in the Fetislam fortress, as one aspect of the

⁶³ The centre will be the main point for presentation and interpretation of the site itself having the important role in information provision to tourists, complementing the existing Multimedia Interpretation Centre equipped through the HERA project, funded through the IPA ADRIATIC Programme included the creation of the multimedia centre by procuring the multimedia equipment and developing a software, organization of events, conservation and restoration works at the site where the center was established

complex. The re-development would further enable this heritage site to deliver a comprehensive set of facilities, services and resources to tourists. It would include the rehabilitation of the small fortress with the amphitheater, ramparts and gates of the larger town, upgrading of infrastructure, reconstruction and the regulation of the ditch surrounding the fortress and rehabilitation of the historical buildings inside the fortress to be used for tourism and cultural purposes. The exact scope of investment will be further detailed in the Description of the Action that is part of the contract under delegation agreement with entrusted entity.

The Smederevo fortress is one of the largest fortifications in the South-East Europe. It is an extraordinary example of a cold weapons defence fortification and the best creation in the mediaeval military architecture. Unlike the steep, inaccessible land areas, which found its use in the Middle Ages, a flat plateau along the river bank was chosen, so today, Smederevo is a synonym for a "flatland fortress" type. In 2017, the Ministry in charge of tourism supported the municipality in building the pier for cruisers near the fortress with the idea to for tourist to have direct access to the fortress from cruise ships. The rehabilitation works still needed cover restauration of the demolished tower, main entrance in the fortress and 60 meters of the bastion.

2.4 Upgrading the Rajacke pivnice site near Negotin

Rajacke pivnice is a unique destination representing the central highlight of century's long tradition of wine growing in Eastern Serbia. It comprises of around 270 wine cellars (hewn stone and logs houses built around the central square) built like a village settlement, with the sole purpose of storing wine. The destination is a cultural heritage monument, but with low utilisation of its tourism potential in spite of being part of the "Negotin wine route" tourist product. The activity would include infrastructure works of refurbishment of the local road from village Rajac to the destination (1.5 km), parking and pedestrian access route, water supply and sewage system, walking paths, electro network and street lamps, as well as refurbishment of one cellar (owned by the municipality) into a wine testing location. Consequently, the investment would have a spill over effect on private owners of the wine sellers to develop their own premises and products as part of the tourist offer in the location.

2.5 Implementing the grant scheme for innovative tourism projects surrounding the supported cultural heritage sites in Eastern Serbia

The grant scheme will promote mutual linkages of relevant stakeholders surrounding the cultural heritage sites proposed for redevelopment aiming to improve the quality and availability of product and related services and to raise the capacities of stakeholders in responding to tourists' needs, as well as portraying multiculturalism of the region in question. The grant scheme would focus towards 2 thematic areas (the list is not exhausted):

1. Stronger municipal/ inter-municipal cooperation to implement small tourism related infrastructure in the areas of tourism development (such as development of side attractions, refurbishment of community premises for the purposes of hosting tourism related events, mapping and development of cycling routes connected to Euro-Velo bicycle route, introduction of platforms and IT solutions for joint tourism promotion, development of innovative tourist services, especially in unfavourable conditions and marginal areas, investments associated with the maintenance, restoration and upgrading of the cultural and natural heritage of villages and industrial heritage, rural landscapes and high nature value sites, including related socio-economic aspects, as well as environmental awareness actions,...) economic development and innovative environmental initiatives (related to waste management, sewage and water supply, local roads, development of tourism infrastructure and superstructure and sustainable tourism benefiting different municipalities that don't possess individual capacities for such endeavours.
2. Creating partnerships among tourism business support organisations and service providers seeking to implement capacity and skills building initiatives, as well as development and improvement of tourism services, products or processes complementing the ongoing and planned touristic valorisation of the Eastern Serbia tourism sector (such as introduction of quality management systems, specialisation of licenced tourist guides, introduction of code of ethics, preparation of tourist guides, development and implementation of programmes for improvement and promotion of tourism accommodations and services, increasing skills and capacities of product and service providers in tourism sector, training people from marginalised groups to acquire better skills and jobs in tourism, introduction of IT solutions, improvement

of business skills of service providers, organisation and specialisation of gastronomy facilities and offer, creation of local value chains for tourism, introduction of quality standards, raising awareness on benefits of tourist valorisation of cultural/natural heritage on private sector development, measures to improve energy efficiency and renewable energy use among small and medium sized enterprises in tourism).

2.6 Provision of equipment and accompanying works in the National Theatre in Belgrade

To the contrary of the selected pilot area in Eastern Serbia, the pilot area selected under this activity was the City of Belgrade. Belgrade remains the key tourist destination in Serbia, but needs further protection and refurbishment of its key cultural/tourist attractions. The selection was based on the same criteria of the attractiveness of location, touristic potential and potential for job creation, attracting investment, economic development and dissemination of the lessons learned to other regions and tourist locations.

In spite of been one of the top 10 attractions of Belgrade, old equipment is diminishing the efficiency of the National Theatre in Belgrade thus limiting its ability to profit from investing in new services and the possibility to diversify and increase the number of events. Consequently, this landmark of the Serbian capital needs new investments to be able to match its importance for cultural identity, social impact and tourist valorisation. This activity will add to the Government's efforts of upgrading this cultural heritage asset into a comprehensive tourist product by investing in equipment such as cooling/heating system, as well as lighting and equipment of the performance halls. Consequently, the reduced operational costs will enable the Theatre to diversify its cultural offer for tourists and to invest in higher number of events and will complement the project of refurbishing the facade of the building financed from the national budget.

As part of the Activities under the Result 2, a strong focus will be placed on marketing and visibility interventions in order to promote the supported heritage sites and EU funding. The primary will be to promote the objectives of the Action, development opportunities for beneficiaries, its activities and results, while linking its outcomes to the EU integration process. The Action will thus contribute to the improvement of the overall visibility of the European Union support to Serbia but also to better understanding of the EU values. Such an approach should ultimately lead to better understanding of EU accession process. The full package of interventions will be developed in the Description of Action in detail, as part of the contract under delegation agreement with entrusted entity.

RISKS

Result 1:

Risk	Mitigation Measure
Insufficient number of adequately qualified Innovation Fund's (IF) staff to ensure uninterrupted operations flow	The IF has endured staff turnover over the past few years. However, as of 2017 with an adequate operational budget, the IF staff number has stayed constant and stable. IFs capacity strength lies in the organisational and management infrastructure that works effectively on the development of the financial programs, as well as the implementation and monitoring of the financed sub-grant beneficiaries. However, being part of the public eco-system infrastructure, the IF is limited in the number of employees it can hire directly from its operational budget. In case the IF doesn't receive the approval from the Government's employment committee for additional staff, the IF will engage additional support in the form of operational staff (for monitoring of sub-grant beneficiaries projects). In 2018 the IF will be able to employ 2 additional full time permanent employees, as well as 3 employees on temporary contracts as approved by the Government's employment committee, thus lowering the risk of IF operational level capacity.
Grant applicants do not possess sufficient management and financial capacities for implementation	The applicants of the grant schemes described under Result 1 Activity 1.1 and 1.2 will be supported by the Innovation Fund throughout the implementation process in the form of training, advice, prepared templates and on-going coaching thus ensuring permanent monitoring and successful results. Equally, past experience with similar grant schemes has proven that there is sufficient number of companies that can secure co-financing of their

Risk	Mitigation Measure
	projects.

Result 2:

Risk	Mitigation Measure
The relevant stakeholders don't assign sufficient number of staff for capacity building activities (Activity 2.1)	The analysis of the stakeholders capacities will be conducted along with the identified number of staff needed to implement this activity. Once the analysis is conducted, the relevant institutions will be obliged to assign the individual staff that will receive support for raising their capacities.
Uncompleted technical documentation and delays in obtaining permits (Activity 2.2)	The following documentation is ready and available: Gap Assessment Report (prepared under the PPF5 TA project), Feasibility study (with CBA according to EU requirements), Preliminary design, Environmental impact assessment, Design for Construction permit, Design for Execution of works. The tender dossier will be prepared through this Action. The Construction permit has expired in 2017 and will be formally prolonged in 2018.
Uncompleted technical documentation and delays in obtaining permits (Activity 2.3)	The following documentation is ready and available: Main urban design for the Fetislam fortress, Study for the Fetislam fortress revitalisation and 12 main design projects encompassing revitalisation, conservation, restauration, reconstruction and enhancement in the area within and surrounding the fortress, the Main urban design for Smederevo fortress; Study for the Smederevo fortress revitalisation. The existing main design projects for Fetislam fortress will be adjusted to the requirements of the new Law on Construction before the start of implementation, while the documentation for the Smederevo fortress is sufficient for implementation.
Uncompleted technical documentation and delays in obtaining permits (Activity 2.4)	The project documentation is available for local road from the village Rajac to the destination (1.5 km), water supply and sewage system, walking paths, electro network and street lamps, as well as refurbishment of one cellar (owned by the municipality) into a wine testing location. The documentation for the parking and pedestrian access route will be developed by the technical assistance project.
Grant applicants do not poses sufficient capacities for implementation (Activity 2.5)	The activity will be implemented through a delegation agreement that will secure necessary technical assistance to support the grant applicants in receiving information on the grant scheme, holding workshops for preparation and implementation, as well as supporting the grantees through on the spot visits and during the secondary procurement procedures.
Uncompleted technical documentation and delays in obtaining permits (Activity 2.6)	The funds for the project documentation for the provision and installation of cooling/heating system, operational equipment and accompanying construction works have been provided in the 2018 national budget. Currently, there is a Study on Reconstruction Analysis of the Air-Conditioning System in the National Theatre in Belgrade. The Study contains the estimate of projected cost of procurement, as well as an estimate on financial benefits in comparison to other systems existing on the market. According to the Ministry's time plan, the project documentation will be available by February 2019.

CONDITIONS FOR IMPLEMENTATION

Activity 2.2 Building the Felix Romuliana Visitors and Research Centre: Project documentation and required permits obtained. The project documentation is ready and available. The expired Construction Permit will be renewed in the second half of 2018. The local self-government is in the process of renewing the Construction Permit. The condition should be met before the tendering procedure is launched.

Activity 2.3 Redeveloping the Fortresses in Kladovo (Fetislam) and Smederevo: Project documentation and required permits obtained. The project documentation for Fetislam fortress as well as Smederevo fortress (main design) is ready and available and it will be adjusted to the format required by the Law on Construction by the support to the Ministry in charge of tourism before the start of implementation. Once the preparation is ongoing, the Ministry in charge of tourism will closely monitor the milestones set. The condition should be met before the tendering procedure is launched.

Activity 2.4 Upgrading the Rajacke pivnice site near Negotin: The remaining project documentation and required permits obtained. Once the preparation is ongoing, the Ministry in charge of tourism will closely monitor the milestones set. The condition should be met before the tendering procedure is launched.

Activity 2.6 Provision of equipment and accompanying works in the National Theatre in Belgrade: Project documentation and required permits obtained. The funds for the project documentation are available, and the National Theatre has launched the tendering procedure. The expected finalisation of the project documentation is February 2019. Once the preparation is ongoing, the Ministry in charge of culture will closely monitor the milestones set. The condition should be met before the tendering procedure is launched.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

Result 1 Increased access to finance enabling SMEs to innovate, incorporate R&D and invest in meeting EU standards

The institutional arrangements for implementation of activities, which will contribute to the achievement of the Action Result 1 are⁶⁴:

Activity 1.1;1.2: 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 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.

Activity 1.3: The final beneficiary is the Ministry in charge of economy with SMEs as end recipients.

Result 2 Upgraded tourism/cultural facilities and stakeholder's skills as part of the Tourism Development Strategy of the Republic of Serbia (2016-2025) implementation

The institutional arrangements for implementation of activities, which will contribute to the achievement of the Action Result 2 are⁶⁵:

Activity 2.1: The final beneficiaries will be the Ministry in charge of tourism, while the Ministry, with the National Tourist Organisation of Serbia, businesses and other stakeholders in tourism will be end recipients of the activity.

Activity 2.2, Activity 2.3, Activity 2.4, Activity and 2.5: The final beneficiary is the Ministry in charge of tourism, while local self-government, tourist services providers, tourist organisations, business support organizations and NGOs are end recipients depending on the type of intervention.

Activity 2.6: The final beneficiary is the Ministry in charge of culture, while end recipient is the National Theatre in Belgrade.

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

⁶⁴ 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

⁶⁵ Ibid

Result	Method of implementation	Type of financing	Justification
Activity 1.1; 1.2	Indirect management Direct grant with the Innovation Fund	1 contract	<p>The IF was exclusively established by the Law on Innovation Activity to provide funding for innovation in enterprises and supporting the implementation of research and development and innovation policy which is in line with requirements related to actions with specific characteristics that require a particular type of body on account of its technical competence, its high degree of specialisation or its administrative power, in accordance with Article 195(1)(5) FR in particular concerning technical competence and high degree of specialisation. The IF capacities have been strengthened by the past technical support of the World Bank, that stated the following in its Report⁶⁶: “The IF as the implementing arm of the Recipient was very effective in providing efficient implementation, monitoring, and reporting, allowing for better management and implementation of the project and facilitating the World Bank’s supervision activities. The IF was staffed with qualified experts, selected through a competitive process and adequately compensated for their work. The IF staff have done a remarkable job in implementing the project and should be commended for the professionalism exhibited in the discharge of their duties and the performance is rated Highly Satisfactory.”</p> <p>The national funding from the budget of the Republic of Serbia of EUR 5 million is planned for the implementation of the Activities 1.1 and 1.2.</p> <p>Since the aim of the activities is to provide grants, with regard to the definition of the persons or categories of persons which may receive the financial support (as per Article 204(1)(c) of the Financial Regulations), the</p> <p>The following categories of persons may receive the financial support from the actions:</p> <p><i>Eligible applicants for the Mini Grants Program:</i></p> <ul style="list-style-type: none"> •The Applicant is a legal business unit, established under the applicable/current Serbian Company Law, registered at the Serbian Business Registration Agency (SBRA) and located in Serbia; • The Applicant is a private sector (at least 51% privately owned), micro-or small company; • The Applicant has been established for no longer than three (3) years at the time of Application submission; • The majority of the Applicants’ ownership is Serbian <p><i>Eligible applicants for the Matching Grants Program:</i></p> <ul style="list-style-type: none"> •The Applicant is a legal business unit, established under the applicable/current Serbian Company Law, registered at the Serbian Business Registration Agency (SBRA) and located in Serbia; • The Applicant is a private sector (at least 51% privately owned), micro, small or medium sized company <p>The following categories of persons may receive the financial support from the actions:</p>

⁶⁶ Data from Innovation Fund, 2017 and Implementation Completion and Results Report (TF071742on 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

Result	Method of implementation	Type of financing	Justification
			<p><i>Eligible applicants for the Collaborative Grant Scheme Program:</i></p> <p>The Applicant needs to be a consortium which fulfils the following criteria:</p> <ul style="list-style-type: none"> •The consortium’s Lead Applicant must be a private sector micro, small or medium company established in Serbia, in accordance with the current Serbian Company Law in effect, with operating annual revenue of at least EUR 100,000 (for the last 2 years or for the number of years operational if younger) and profitable; •The consortium must include at least one public Scientific Research Organization registered and accredited in Serbia in accordance with the current Serbian Law on Scientific Research Activity in effect as Lead Co-Applicant, relevant to the field of industry and technology identified in the proposed project. <p>Besides the mandatory Lead Applicant and Lead Co-Applicant described above, the consortium can include other micro and small private sector companies, Scientific Research Organizations both domestic and foreign and Serbian innovation centres as Co-Applicants, as long as their engagement is justified by the development needs of the Project Proposal. The consortium cannot have more than five (5) members.</p> <p>With regard to a fixed and exhaustive list of different types of activities for which a third party may receive financial support (as per Article 204(1)(b) of the Financial Regulation), the following activities are considered eligible for Activity 1.1 and 1.2 as per Grant Manuals for each Programme: proof of concept development, prototyping, testing, validation, demonstration, piloting, scaling up, research and development activities related to all phases of project development stages, IP protection and certification, research and development consultancy services, project management support services, consulting services.</p> <p>On the maximum amount of financial support which can be paid to a third party (i.e. a maximum value of a sub-grant) and the criteria to determine the amount (as per Article 204(1)(a) of the Financial Regulation RAP, FR), <i>The financial support under the Mini Grants Program:</i></p> <ul style="list-style-type: none"> - Sub-grants of up to EUR 80,000, with private sector co-financing of at least 15% of the total project value. The financing to be awarded covers a maximum of eighty-five percent (85%) of the total project value. There is no minimum amount for the Mini Grants Program <p>This financing will comply with the National Regulation on State Aid rules and IF’s Rulebook on State Aid procedures (February 2017).</p> <p><i>The financial support under the Matching Grants Program:</i></p> <p>Sub-grants of up to EUR 300,000, with private sector co-financing of at least 30% of the total project value for micro and small enterprises and the minimum co-financing of forty percent (40%) for medium sized enterprises of the total project value;</p> <p>The financing to be awarded under the Matching Grants Program will cover a maximum of seventy percent (70%) for micro and small enterprises and a maximum of sixty percent (60%) for the medium sized enterprises of the total project value. There is no minimum amount for the Matching Grants Program</p> <p>This financing will comply with the National Regulation on State Aid</p>

Result	Method of implementation	Type of financing	Justification
			<p>rules and IF's Rulebook on State Aid procedures (February 2017).</p> <p>The amounts of the financial support were determined based on market inputs from the potential sub-grant beneficiaries during extensive meetings and consultation events conducted by the World Bank in the course of the preparation of the Programmes in 2011, when the World Bank was managing the Programmes through IMDA.</p> <p><i>The financial support under the Collaborative Grant Scheme Program:</i></p> <p>Sub-grants of up to EUR 300,000, with private sector co-financing (Lead Applicant) of at least 30% of the total project value for micro and small enterprises and the minimum co-financing of forty percent (40%) for medium sized enterprises of the total project value;</p> <p>The financing to be awarded under the Collaborative Grant Scheme Program will cover a maximum of seventy percent (70%) for the micro and small enterprises and up to sixty percent (60%) for the medium sized enterprises of the total project value. There is no minimum amount for the Collaborative Grant Scheme Program.</p> <p>This financing will comply with the National Regulation on State Aid rules and IF's Rulebook on State Aid procedures (February 2017).</p> <p>The amounts of the financial support were determined based on market inputs from potential beneficiaries during extensive meetings and consultation events conducted during project preparation by the World Bank. The World Bank provided technical assistance under the IPA 2013 for the design of the Collaborative Grant Scheme. During the design phase, the World Bank conducted numerous focus groups throughout Serbia with enterprises and RDIs. The amount of financial support was determined based on inputs received from the focus groups and consultation events held by the World Bank.</p> <p>On assurance that the Beneficiary has offered adequate guarantees as regard the recovery of funds,– implementation of the abovementioned Activities is governed by the 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) (FWA) and the IPA II Financing Agreement for Annual Programmes (FA) and the Direct Grant Agreement. The abovementioned legal acts provide a clear picture regarding the roles and responsibilities of all actors, including the procedures to be followed in case of recovery of funds.</p> <p>In this particular case, the Innovation Fund does not form a direct legal obligation to the EC, since the EC will not conclude a grant agreement with it – the grant agreement will be concluded between the Innovation Fund and the CFCU.</p> <p>Any potential irregularities will be subject to recovery to the EC by the Republic of Serbia, and therefore governed by the FWA Article 41. (Detailed explanation is provided in a separate annex). The Innovation Fund (IF) will not be directly financially liable to the Commission since the abovementioned Activities will be implemented through the Indirect Management, with CFCU as the Contracting Authority. However, according to the General conditions and the Special conditions of the Grant Contract, the Innovation Fund will report and be financially liable</p>

Result	Method of implementation	Type of financing	Justification
			<p>to the Contracting Authority (as the contracting party, and the authority in charge of approving reports and executing payments).</p> <p>The criteria for awarding financial support to third parties is:</p> <ul style="list-style-type: none"> • Management and key personnel credentials and ability of the company to deliver the results; • Innovative technology, product or service; usefulness and uniqueness of the innovation; clear IP position; • Clear market need as well as complete (preferably global or EU) and commercialization potential ; • Potential for revenue/partnership with a strategic partner within two to three (2-3) years after the project start • Viable implementation methodology and capabilities and project milestones; • Use of funds and adequacy of the project budget; • Technology and implementation risk management.
Activity 1.3	Indirect Management Delegation Agreement with EBRD	1 contract	<p>EBRD has developed and implemented the activity as their unique product part of the regional “Private Sector Support Facility for the Western Balkans”, implemented in the period 2010-2015 and funded by IPA 2009 (for a total value of EUR 19.4 million). The EBRD has sufficient capacity and knowledge of the local situation to implement the activity.</p> <p>The unique feature of the EBRD is its ability to combine financing instruments with direct technical assistance provided to the private sector, thus ensuring a sustainable business development, particularly with regard to the SME sector and local business advisory services capable of responding to the needs of SMEs. The EBRD SME Competitiveness Programme represents a well-established methodology for SME support.</p>
Result 2	Indirect Management Delegation Agreement with GIZ	1 contract	<p>The result will be implemented by GIZ according to Art. 62(1)(c) of the FR. The entity has been selected through a Call for Expressions of Interest (EoI), organised by the EU Delegation in cooperation with the responsible line ministries in April-May 2018. The selection process applied a number of criteria in order to identify the most suitable and qualified Entrusted Entity. The criteria included technical capacity, such as experience in the preparation and implementation of joint capacity building and similar projects; experience in managing programmes or projects related to the results (including grant schemes). Criteria related to adequate administrative and financial capacity was also be applied, as well as criteria related to the quality of the Concept Note, including relevance; consistency with the objectives, results and activities of the Action, expected impact; sustainability and cost-effectiveness.</p> <p>The implementing body has to be able to rapidly mobilise efficient procurement and project management procedures as Serbia has</p>

Result	Method of implementation	Type of financing	Justification
			<p>limited expertise and specialised resources available in the field and needs support to raise its capacities. Selection of beneficiaries for all the components of the projects has to be transparent and the implementing partner has to be able to monitor that there are no abuses at national or at local level.</p> <p>The Action will be tailored to give the beneficiaries the ownership over the projects' implementation while the implementing partner will hold the overall responsibility for the Action results and maintain a monitoring and supportive role. At the same time, the entrusted Entity has to ensure an exclusive visibility of the EU for the overall action.</p>

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 Authorities, Final Beneficiaries, AA, and other institutions and civil society organisations.

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

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

INDICATOR MEASUREMENT

Indicator	Baseline (value + year) (2)	Target 2022 (3)	Final Target (year) (4)	Source of information
Progress made towards meeting accession criteria (EC)	Good progress	Accession criteria met		Progress Report
Doing Business – Distance to frontier, score (WB)	43/2018	40		World Bank Doing Business Report
Global Competitiveness Index (Score)	4.1/2017	4.3	4.7	Global Competitiveness Report
Travel and Tourism Competitiveness Index (Rank)	95/2017	92	87	Travel and Tourism Competitiveness Report
Average generated revenue (EUR) from the sale or lease of innovative products and services	65,000/2013	120,000	140,000	Innovation Fund Annual Report
Total amount of finance provided by partner financial institutions in the form of sub-loans	0/2017	EUR 30 million	EUR 50 million	EBRD Report
Annual turnover of supported cultural heritage sites	EUR 0.4 million/2016	EUR 0.6 million	EUR 0.8 million	Felix Romuliana Annual Report Smederevo Fortress Annual Report Fetislam Fortress Annual Report National Theatre Annual Report
Number of tourists/ overnight stays in the Serbia lower Danube area	1.01 million/2015	1.1 million	1.2 million	Statistical Office of Serbia
Number of new products/services that reached the market	89 /2015	99	101	Innovation Fund Annual Report
Number of supported SMEs accessing finance through the dedicated credit lines supported by investment incentives and their characteristics ^[L] _[SEP]	0/2018	100	200	EBRD Report
Number of visitors to the supported cultural heritage	203,150/2016	223,000	245,000	Felix Romuliana Annual

sites				Report Smederevo Fortress Annual Report Fetislam Fortress Annual Report National Theatre Annual Report
Degree of satisfaction of the quality of provided services	0/2017	40 % of visitors extremely satisfied, disaggregated by gender	60 % of visitors extremely satisfied, disaggregated by gender	Visitor's Satisfaction Survey
Number of innovative tourism projects in Eastern Serbia in the reporting period that promote role of women in tourism supply/demand	0/2017	4	7	Project Final Report (Ministry in charge of tourism)

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. 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 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, Ministry in charge of tourism and Ministry in charge of culture.

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 and there is a need for significant improvement in this process, since programme budgets need to be fully integrated within improved medium-term budgeting exercise. 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.

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.

For the time being, Competitiveness sector is based on the three key mechanisms: (i) system of indicators in the "National Priorities for International Assistance for period 2014-17 with 2020 projections (NAD)", (ii) indicators defined in the sub-sector strategies and (iii) periodical review of the implementation of strategies and action plans relevant for the sector. Sub-sector strategies contain outcome and result based indicators, baseline and target values. Indicators are in line with sub sector policy objectives. However, the capacities for defining proper (relevant, acceptable, credible, easy and robust - RACER) indicators, carrying out the monitoring and evaluation tasks on the sector level should be strengthened.

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 rates⁶⁷. 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 1 related programming documents. Wherever possible, initiatives that specifically contribute to gender equality in access to innovation support will be included.

At the same time, women are well represented in the tourism labour market, but are more represented than men in low-skilled and poorly paid jobs and are also more often employed in part-time and temporary jobs. Women carry out a large amount of unpaid work in family tourism businesses. This type of work reflects stereotypical gender roles within the family. This action (and Activity 2.5 in particular) will promote gender sensitive interventions aiming to provides better opportunities for women's participation in the workforce, women's entrepreneurship, and women's leadership in tourism.

Specifically, among the activities that can be considered under the result 1, in the implementation of the grant scheme for innovation projects, there is room for affirmative action targeting women-owned enterprises in target sectors as well as promotion of women's innovative tech ideas. In implementation of the grant scheme for collaborative research and development projects, additional weight could be assigned to women owned businesses. Also, any baseline assessments and studies should incorporate a gender dimension in situation analysis and gender expertise in assessment teams.

During implementation of the grant scheme for innovative projects for tourism service providers and business support organisations in Eastern Serbia Region, sensitivity in design for support to women's initiatives that contribute to innovation in tourism services should be taken into account. This grant scheme could have a positive impact on legalization of existing entrepreneurship initiatives in tourism sector, including those launched by women. Soft support measures ought to be included along with infrastructure development in order to increase benefits for target communities. Openness to women's groups as intermediaries and facilitators of entrepreneurship development initiatives, for example, is proven to have a positive impact on economic empowerment of women. Grant monitoring plan should

⁶⁷ Women and men in Serbia 2017, Statistical Office of the Republic of Serbia

focus on increases in men and women's access to the economic benefits of tourism among other parameters of success.

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.

In particular, the cultural heritage objects proposed for refurbishment/ reconstruction should be designed and developed in line with museum accessibility standards and criteria implemented by groups such as Balkan Museum Accessibility Network <http://bmuseums.net/access-and-inclusion/>.

MINORITIES AND VULNERABLE GROUPS

The Action will in no way cause any harm to the rights of any individuals, including minorities and vulnerable groups. Furthermore, the Action will strongly support and facilitate minorities and vulnerable groups in their access to opportunities through interventions relevant for tourism in the target areas. Cultural specificities of minority groups will be promoted. As a way of example, Vlasi and Romanian communities have a distinctive handcrafting and music tradition that should be given visibility. This would at the same time provide an opportunity for the members of the community to increase their participation in the social, cultural and economic life of Eastern Serbia.

The inclusion of particularly vulnerable groups, into the preparation, implementation and monitoring/evaluation of activities implemented under this Action Document is strongly encouraged. Authorities at national and local level are encouraged to consider, in the design of all activities under the Action, the application of a fundamentals first approach aligned with the Western Balkans Strategy and the updated ISP for Serbia. In particular, the inclusion of Roma, and specifically Roma girls is strongly encouraged.

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 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.

In accordance with the obligation of consulting civil society when drafting strategic and legal documents required by the Serbian government, NCEU represents a platform for the cooperation and consultations with the government and its bodies in charge of the EU accession negotiations (the negotiating team, negotiating working groups). The NCEU is a permanent body within which a thematically structured debate of representatives of the state administration, political parties, non-governmental organisations, experts, economists, trade unions and professional organisations is held, on Serbia's accession to the European Union.

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 projects will have harmful impact on the environment.

The intervention is strongly focused on preservation and restoration of cultural heritage in the target destinations. This will include environmental impact assessment, as well as identification of new risks related to climate change. The possibility of introducing labels for green tourism will be considered, in order to support green activities and ventures. In addition, this Action will seek to mitigate major risks such as irresponsible exploitation and management of the natural and cultural heritage assets recognised to have strong tourism potential in the target destinations. Respective measures during policy-making, implementation and monitoring stages will be undertaken to ensure the sustainability of the tourism products, preservation of assets and responsible tourism development.

7. SUSTAINABILITY

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

The achieved Result 1 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 for new technologies of the newly established and existing SMEs. The Result 1 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. The increase in budget for the IF programmes over the years does not imply linear increase in the number of employees.

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. The 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. The 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 the IF. To partially offset the effects of increased number of financed projects in the future, the IF intends to establish a monitoring unit that will contribute to a more efficient organisation of work, employing additional staff in the unit.

Currently, the IF has 20 full time employees. In 2018, the IF will be able to employ 2 additional full time permanent employees, as well as 3 employees on temporary contracts. 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.

Since tourism is a multifaceted sub-sector, only the comprehensive support to various stakeholders can ensure sustainability of results, as is envisaged in this Action. By strengthening the capacity of the management structures, engagement with stakeholders and better coordination, a sustainable system able to create, monitor and evaluate tourism policy will be established. Wide participation of the stakeholders from public and private sector will increase ownership of the results, with Government playing a facilitating and steering role. At the same time, investment in cultural heritage assets is in itself sustainable when conducted to a high standard of conservation. The cultural heritage sites will be managed by the local entities of the Institute for the Protection of Cultural Monuments of Serbia with maintenance costs covered from the national and local budget and ticket revenues and the proper valorisation of the asset will bring more visitors and have a spill over effect on local communities and service providers. By improving their offer, the service providers will increase the revenue that can be further reinvested in business development and job creation.

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 EU communication and visibility requirements in force. All stakeholders and implementing partners shall ensure the visibility of EU financial assistance provided through IPA II throughout all phases of the programme cycle.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process, as well as the benefits of the action for the general public. 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.

Visibility and communication aspects shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field. 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.

