

Standard Summary Project Fiche – IPA centralised programmes
(Regional / Horizontal programmes ; centralised National programmes)

1. Basic Information

- 1.1 CRIS Number (Year 1):** 2007/19322
1.2 Title: Support to Enterprise Competitiveness and Export Promotion
1.3 ELARG Statistical code: 02.20
1.4 Location: Republic of Serbia
1.5 Duration: 24 months

Implementing arrangements:

- 1.6 Contracting Authority:** European Commission
1.7 Implementing Agency: N/A
1.8 Beneficiary: Ministry of Economy and Regional Development (MoERD)

Financing:

- 1.9 Overall cost:** €3.5 million
1.10 EU contribution: €3.5 million
1.10 Final date for contracting: 3 years after the signature of the Financing Agreement
1.11 Final date for execution of contracts: 5 years after the signature of the Financing Agreement
1.12 Final date for disbursements: 6 years after the signature of the Financing Agreement

2. Overall Objective and Project Purpose

2.1 Overall Objective

The overall objective is to support the development of a market economy and socio-economic cohesion by increasing the international competitiveness and export performance of small and medium sized enterprises (SMEs).

2.2 Project purpose

- Develop the capacity of the Ministry of Economy and Regional Development (MoERD), the Serbian Investment and Export Promotion Agency (SIEPA), the National Agency for SME Development (NASME) and the Serbian Chamber of Commerce to support enterprises through cluster development, supply chain development and export promotion.
- Increase the competitiveness of Serbian enterprises through cluster development.
- Improve integration of Serbian enterprises into local and global supply chains.
- Boost export activities of Serbian enterprises.

2.3 Link with AP/NPAA / EP/ SAA

In accordance with the Council Decision of 30 January 2006 on the principles, priorities and conditions contained in the **European Partnership** with Serbia, and priority action numbers 5.1.33, 7.1.1 and 7.1.5 of the Government of Serbia adopted plan for implementation of the European Partnership priorities (adopted on 7 April 2006), the programme responds to the short and medium term economic requirements of necessary strengthening of the business environment, developing the private sector and employment with competitive markets,

supporting further implementation of the European Charter for Small Enterprises and development of local/regional business support structures.

The Commission report on the preparedness of Serbia to negotiate an SAA with the European Union of April 2005 draws attention to cooperation in policy development aimed at SME modernisation and restructuring (Section 3.7.2).

Under **Article 95 of the SAA** EU cooperation should support private sector small and medium-sized enterprises (SMEs), the establishment of new undertakings in areas offering potential for growth and co-operation between SMEs in the Community and in Serbia. Furthermore due account should be taken by Serbia of priority areas related to the Community *acquis* in the field of SMEs, as well as the ten guidelines enshrined in the European Charter for Small Enterprises

Recognising the importance of the SME sector as a source of jobs, innovation and wealth and being essential for a functioning competitive market economy, the Thessaloniki Agenda for the Western Balkans of June 2003 also places high priority on activities linked to enterprise development.

2.4 Link with MIPD

A main priority of the MIPD socio-economic chapter (section 2.2.2) is enhancing the investment climate and support to SMEs. This proposed programme will directly address outlined MIPD issues such as support for: competitiveness, development of institutional capacities for a competitive Serbian business environment and industry capable of sustaining the competitive pressure of the European market, development of local/regional business support structures (e.g. clusters), and promotion of export-oriented companies.

The programme will contribute to the expected MIPD expected results of: (i) improving the investment climate and business environment in general through support to SMEs and regional economic development, and (ii) improvement of the conditions for growth and sustainable development in communities.

2.5 Link with National Development Plan (where applicable)

N/A

2.6 Link with national/ sectoral investment plans

The Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia from 2003-2008", adopted and ratified by the Government in January 2003, and the enterprise development action adopted by the Government in late 2005 recognise the need to strengthen the private sector and make it internationally competitive through the development, inter alia, of exports, clusters, management capacities, introduction of quality systems into business operations and fostering innovation and up-to-date technology. The Strategy sets two ambitious priority targets for development of the SME sector by the end of 2008: (i) increase in the total number of SMEs from 270,000 (2002 total) to 400,000; and (ii) creation of one million new jobs in the SME sector. Unfortunately, relatively few concrete activities have been undertaken by the Government to date to promote private sector development. It is hoped that the recent establishment of an inter-Ministerial Council for SME Development and the National

Investment Plan allocating €166 million to Entrepreneurship Employment and Economic Development Promotion will allow for concrete SME support activities to be undertaken.

The business environment has improved relative to a few years ago. The implementation of new laws in company registry, bankruptcy and other company legislation has advanced in 2005 and the first half of 2006.

The banking sector has seen dramatic reform in recent years, from a position of virtually zero trust in banks at the start of transition. Credit growth is rising rapidly and international foreign banks are now the key players on the market. The imposition of high mandatory reserve requirements on the commercial banks is having an adverse affect on credit availability.

The privatisation programme has advanced in recent years. Small-scale privatisation is on course for completion in 2007 and more than 400 companies were privatised through auctions in 2005 and 2006. Nevertheless, the scale of the transition challenges ahead is still daunting. Progress on privatisation of larger enterprises has been slower than planned, and a number of larger state- or socially-owned companies are in need of basic restructuring and need to be either sold or closed down. This programme has to be accelerated in order to attract much-needed investment and boost the competitiveness of these industries.

The development of an innovative society in Serbia with relevant national policy, strategy, institutional frameworks, relevant legal basis and support structures is still in its infancy. A National Innovation Strategy, supported by the CARDS 2004 Enterprise Development and Entrepreneurship programme, has been adopted by the SME Inter-Ministerial Council prior to being considered for Government adoption. There are some early stage efforts in the development of support structures such as industrial/technology parks. Two business incubators are in these early stages of operation.

3. Description of project

3.1 Background and justification

The project aims at improving the competitiveness of Serbian SMEs through three closely interlinked but distinct components: cluster development, supply chain development and export promotion. The project also envisages related capacity building for the relevant stakeholders (e.g. MoERD, SIEPA, NASME, and the Serbian Chamber of Commerce) so that policy/strategy development and project implementation, monitoring and evaluation are more effective.

Cluster development is increasingly considered as one of the main instruments of a modern enterprise support policy, in general, and innovation policy, more specifically. Clusters usually encompass an array of linked industries and other entities important to competition including governmental and other institutions such as universities, standard setting agencies, think tanks, vocational training providers and trade associations. Studies have shown that clusters, mainly due to the strength of inter-firm co-operation, stimulate innovation and productivity growth, foster long-term business dynamics and export activities, and generate new jobs and economic growth. Small and medium sized enterprises (SMEs) operating in a similar industry or geographical location confront many of the same issues, and pooling resources creates greater opportunities.

Clustering allows SMEs to realise many of the operational efficiencies that are characteristic of larger companies. At the European level, the European Commission is giving increasing importance to policies in favour of cluster support such as through the Europe Innova initiative and the Competitiveness and Innovation Programme (CIP). The Entrepreneurship and Innovation Programme of CIP includes fostering clusters, sector-specific innovation, public-private innovation partnerships, and the application of innovation management.

During 2005, the then Ministry of Economy promoted its first clusters on a pilot basis (in the automotive, plastics and rubber and small agricultural machinery sectors) and while it is still too early to draw firm conclusions a number of concrete initiatives have been taken and future project definition is proceeding. The Ministry has obtained financial support from the Norwegian Government which allows a further extension of activities during 2007. However, the development of a structured and coherent cluster programme will require additional funding and support over a longer period if the initial and additional clusters are to generate the types of impact mentioned above.

One of the key factors in strengthening the existing and emerging clusters in Serbia is the improvement of supply chain management and integrating enterprises into the local and global supply chains, thus improving their productivity, quality and stimulating their export-oriented growth. In an increasingly international marketplace, many companies are finding that prosperity is best achieved from specialisation, as opposed to diversification. While foreign investors/multinationals continue to provide multiple services to numerous markets, they purchase many components and goods locally from smaller companies that serve one particular niche. As the global marketplace continues to develop, SMEs provide an effective tool for economic growth through participation in local and global supply chains.

By supporting Serbian companies in supply chain development and buyer-supplier relationships (e.g. reverse exhibitions and meet the buyer events), local companies will obtain more and higher value-added contracts from multinationals and become part of global value chains. Development of new world-class local suppliers will also help to retain existing inward investors as well as attract new ones. Increased local sourcing by foreign-owned corporations is, together with job creation, one of the most tangible effects of foreign direct investment (FDI). It is also a major channel for the transfer of knowledge, technology and skills that FDI brings into the host economy.

These positive effects are particularly important for countries in transition like Serbia, which is still defining the priority of FDI promotion amongst the other development policies it is pursuing. Overall, the benefits from such interventions include: increased business from multinationals; major cultural changes in the management and organisation of the businesses as a result of having to meet the very demanding cost, quality and delivery requirements of the multinationals; improved competitiveness as a result of the implementation of the support initiatives; and increased added-value once a strong relationship with the multinational has been established e.g. by moving from the supply of basic components such as plastic mouldings to the supply and testing of sub-assemblies including electronic components.

The ongoing CARDS 2004 “Serbian Investment Promotion Programme” includes a component for the development of local suppliers. The programme has generated large interest among the major multinational investors in Serbia and local suppliers. Although at the early stages, the programme is already starting to show the benefits outlined above.

Export promotion is another component of the project which is designed to contribute to increasing levels of export activities of Serbian enterprises and their integration into international supply chains. Individual companies of all sizes in the manufacturing and service industries still face formidable obstacles both within Serbia and in their potential export markets. Typical problems include: lack of capital and technology; lack of understanding of marketing; lack of expertise in management; low levels of product development and innovation; poor packaging; lack of product certification; an incomplete legislative environment; expensive working capital; lack and high cost of pre-export finance; lack of infrastructure; and low proficiency in Western European languages in many enterprises.

The Serbian economy has been facing a large trade balance deficit for a number of years. The trade deficit as well as increasing exports and import substitution was very early marked as one of the priorities of the Government of Serbia. The determination of the Government for export growth was clearly shown with the establishment of SIEPA, as well as a number of projects which the Government had supported either directly, by financing them, or indirectly by supporting donor funded economic development projects in Serbia.

Although over the past few years, exports have been growing, the trade deficit still remains an ever present increasing issue. The Government signed in the past a number of free trade agreements (FTA) with the aim of enhancing the competitiveness of Serbian goods on foreign markets and shifting the balance in favour of exports. Although the FTAs were promoted heavily, the majority of Serbian companies, especially SMEs, have not been utilising the benefits of these agreements.

An increasing number of Serbian companies are now able to grow and generate production that outruns the demand of the Serbian consumers. Market and technology information is essential for enterprises who wish to export. As the issues of trading are quickly changing and Serbia's accession to the EU is drawing closer, the information gap for exporters, especially for SMEs that want to export to the EU for the very first time, remains wide.

The proposed project will allow for bridging this gap. It will provide easy to use, but comprehensive information packs, that will provide first time exporters with basic information while a number of SME's (selected from each chosen cluster) will be directly assisted in becoming more export ready and finally exporting to the EU.

With the new Central and Eastern Europe Free Trade Agreement (CEFTA) in place, Serbian companies are entering a new era of foreign trade. New rules and a wide array of unknown benefits for trading lie ahead. This project will raise the awareness and provide training for companies of the benefits of trading under CEFTA, to outline the benefits and means of utilising them, as well as to establish an association of Serbian exporters that would link with other associations in the CEFTA region, to provide its members with solid trade links.

Capacity building of the key stakeholders (e.g. MoERD, SIEPA, NASME, Serbian Chamber of Commerce) is another important project component, designed to ensure support to joined-up enterprise policy/strategy development, to raise the level of awareness of the importance of cluster development, supply chain management and export promotion for Serbian enterprises, and ensure that the project is implemented and supervised at a professional level and that the results of the proposed activities are sustainable and can be built upon in the future through Government funded programmes.

3.2 Assessment of project impact, catalytic effect, sustainability

At enterprise level project impact and sustainability is judged to be high. Only those enterprises which have the potential to be commercially viable in the long term and whose management have a strong wish to participate in the project will be eligible for assistance. The development of strong, competent senior managers during the project is a sustainable resource, bringing important benefits to the country long after the completion of the project. Additionally, the development of a cadre of local experts in company assessment and other firm competitiveness issues will also lend to project sustainability.

As the abilities of company managers increase, productive businesses will be developed by these new, highly competent types of managers. Moreover, sustainable industry restructuring will be enhanced from within sectors/clusters by these managers themselves, which is a very efficient mechanism compared with the imposition of sectoral reforms attempted by external sources. Particular support to development of enterprise export activities will have a long term effect on companies operations and profitability as well as the whole Serbian economy.

The close project management involvement of the Government actors is expected to ensure that the project will be sustainable through future Government funding, as, for example, the CARDS 2003 export development programme cost-sharing schemes which are now continued through national budgetary funding.

3.3 Results and measurable indicators

- Major Government and other national stakeholders supported leading to adopted Government programmes and improved knowledge of enterprise exporting, clustering and supply chain management issues.
- Cluster analysis and map completed.
- Six clusters selected for support.
- New collaborative projects within clusters in progress.
- Improved skills and information flows in six clusters.
- A minimum of 60 enterprises supported through participation in one or more cluster initiatives.
- A cadre of Serbian experts trained in company assessment, and supplier development and enterprise competitiveness issues.
- A minimum of 100 companies assessed and, of the 100 initially supported, 50 companies receiving more in-depth supplier development support.
- Improved skills, quality and productivity in participating enterprises.
- New and improved trade linkages among enterprises.
- New export deals, joint ventures and other agreements signed or in progress.
- Serbian exporters association established.
- Participation of Serbian SMEs in European Commission CIP and FP7 programmes increased.

3.4 Activities

Activity 1: Institutional strengthening/Capacity building

- support to the Ministry of Economy and Regional Development (MoERD) in the development and implementation of strategic actions in clustering, supply chain management and exporting.
- support to the MoERD, SIEPA, NASME and the Serbian Chamber of Commerce to manage the programme and provide enterprises with services for increased competitiveness in domestic and foreign markets.

Activity 2: Cluster and supply chain mapping and analysis

The first phase of the direct enterprise support related activities will be a cluster and supply chain mapping study to appraise potential for further cluster and supply chain development, and to identify six priority clusters for project support. The study will include mapping and analysis of key parameters such as: the types and number of companies in the cluster; employment concentration and dynamics; business interdependencies and trade links; level of skills; export activity; innovation activity, etc.

The mapping exercise will include also a comprehensive analysis of the support infrastructure providing various kinds of support to companies in the clusters and supply chains. The support organisations include: Universities and higher education establishments; business associations; research institutes and technology organisations; professional bodies; business support organisations; financial institutions; regulatory bodies; and training organisations.

The result of the mapping exercise should be six priority clusters with active operational linkages (horizontal and/or vertical) and showing some evidence of supplier-buyer relationships. These can be emerging, existing or mature clusters, with or without a large (anchor) enterprise, with existing export activities or with the potential to enter export markets.

Activity 3: Support for cluster development

The initial cluster and supply chain mapping exercise will provide information on the needs of enterprises as well as existing and potential business linkages between them. Based on that analysis, a number of cluster initiatives will be developed to address the identified gaps and opportunities in the six target clusters. The following types of cluster initiatives are envisaged for companies and institutions from the six selected clusters:

- coordination activities: promoting synergies between cluster members, know-how transfer, mutual learning networks and technology sharing
- information support: market intelligence, latest technology and equipment information, standards requirements, joint procurement opportunities, information about laws, taxation, customs regulations, sources of finance and business support services
- training and capacity building support: management and innovation training, quality management, export-related mentoring and coaching, ICT skills
- knowledge transfer: joint R&D and technology transfer projects between enterprises and R&D institutes/Universities facilitated by cluster technology brokers

Each cluster initiative will involve between approximately 8 and 20 participating enterprises.

Activity 4: Supply chain development

Supply-chain development activities will be aimed at improving business links and the information, and product flows between related enterprises (local and multinational) in the six selected clusters. The initial mapping exercise will identify existing business co-operation and trading links which can be developed and improved, as well as potential subcontracting and supplying opportunities that can be established where they do not exist.

Building on the CARDS 2004 supplier development scheme under SIPP, the support activities include:

- Train a cadre of local experts, utilising also train-the trainer programmes, in enterprise assessment methodology and selected enterprise competitiveness issues.
- Identify and engage a minimum of 15 multinational companies (MNCs), which have been heavily investing in Central and Eastern Europe and which have a willingness to participate in the programme.
- Develop and apply a screening matrix to identify a minimum of 100 Serbian potential suppliers and, based on the sourcing requirements of the multinational partners, apply additional filters to select 50 companies to receive intensive support.
- Appoint a mentoring team to help the 50 companies to: help themselves to competitively satisfy needs of MNCs; agree / monitor / improve strategic and business planning; and provide general business expertise and coaching specifically in relation to customer servicing; human resource development; supply chain management; financial management; and to provide key initial link between the Serbian enterprise and potential MNC customer.
- Provide training and surgery sessions for the selected enterprises in competitiveness issues such as: marketing (research and innovation), customer relationship management, supply chain logistics, financial management, lean manufacturing, total quality, and reward systems and motivation.
- Organise events such as reverse exhibitions and meet the buyer events designed to bring together buyers and sellers.

Activity 5: Internationalisation

The project will provide internationalisation support to enterprises which are part of the six selected clusters. Support will include the following:

- Export promotion : EU information packs for first-time exporters (detailed market surveys, market entry methods, custom codes and procedures, sales and distribution methods, laws and legislation, etc), export training and mentoring for 60 companies. CEFTA information and promotion.
- Partner search: assistance to clusters in identification of foreign and domestic investors and partners for trade agreements, joint ventures, technology transfer, R&D cooperation, etc. Promotion of CEFTA linkages.
- Involving cluster members in participation in international platforms and networks.
- Building on the CARDS 2003 export development programme activities, establish a Serbian exporters association.
- Promotion participation of enterprises in Framework Programme 7 (FP7) and Competitiveness and Innovation Programme (CIP)

The project will be implemented through a service contract
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3.5 Conditionality and sequencing

- The programme will require the significant support of national actors, particularly the MoERD and SIEPA
- To ensure sustainability at policy level, the MoERD should provide for additional human and financial resources for the agreed strategic actions to be undertaken
- At enterprise/support institution/cluster level, a high degree of conditionality is put on enterprise and support institution response. Support for any non-responsive enterprise and/or institution or cluster will be terminated and support re-allocated to other responsive actors

3.6 Linked activities

The proposed programme follows on from: (i) the CARDS 2003, 2005 and 2006 programmes to assist the post-privatisation restructuring and development of SMEs, implemented by the EBRD TurnAround Management programme. These programmes support a minimum of 137 potentially viable enterprises to deal with market forces, and provide training to a minimum of 175 enterprises in selected enterprise competitiveness, (ii) the CARDS 2004 “Serbian Investment Promotion programme (SIPP)”, providing support in institutional development to SIEPA and other relevant partners, undertaking of investment promotion activities and the implementation of pilot product development schemes such as a supplier development programme, an industrial zone and technology park pilot scheme, and a regional support and accreditation scheme, (iii) the CARDS 2004 Enterprise Development and Entrepreneurship programme with the objectives to: strengthen the institutional framework for policy development and implementation including support to implementation of the national SME strategy and the European Charter for Small Enterprises, improve the capacity and effectiveness of the SME support structures – the national network of regional enterprise support centres and regional development agencies - to provide quality business development services including self employment, develop a national innovation strategy; and support establishment of an enterprise development and innovation grant fund (EDIF). EDIF includes the implementation of 26 grant contracts in enterprise development and innovation, (iv) CARDS 2004 - Policy and Legal Advisory Centre which supported the development of a National Export Development Strategy, which was not adopted by the Government; and (v) CARDS 2003 export development programme with SIEPA as main project partner, which provided support to institutional strengthening, cost-sharing export promotion programmes, and training to 247 companies in export issues.

Other main donor activities include: the recently completed USAID funded Serbian Enterprise Development Programme promoting cluster development and support to companies at sector-specific level; USAID funded Municipal Economic Growth Activity (MEGA) programme; Norwegian Government funded support for the establishment of business incubators (e.g. a business incubator in Nis) and support to start-ups; EBRD business advisory services programme (BAS) supporting enterprises; IFC Private Enterprise Partnership SouthEast Europe activities in corporate governance; UNIDO funded support to the National Agency for SME Development; Japanese Government funded support to the National Agency for SME Development; GTZ funded support to business advisory services, business linkages; World Bank funded support to export credit; and Danish Govt funded support for business support services, credit facilities and corporate social responsibility in the Nis district.

3.7 Lessons learned

As identified in the EAR Evaluation Unit's Economic Development (SMEs) Thematic Cross-Centre Evaluation, successful SME development aims at strengthening competitiveness and supporting businesses that have the potential to grow and thereby make an additional contribution to employment and GDP. EU funded programmes supporting SMEs should be clearly directed at SME sectors with growth potential in both national and international markets.

Serbia is a relatively small market with a low purchasing power, To expand SMEs must look to markets beyond national borders to increase exports. Too many firms are ill-prepared to compete in export markets primarily due to a lack of market knowledge, outdated equipment and technology, and insufficient access to affordable finance. The type of direct assistance provided to companies such as, for example, the CARDS 2003 Export development Programme, the Turn-Around Management (TAM) projects (CARDS 2003, 2005, 2006) and the CARDS 2004 SIPP supplier development programme have proved to be highly valued by company managers in Serbia, and most particularly by those with the highest management potential. It is also clear that, besides improvements in management knowledge and skills, enterprises require strong support for building their international trading links, which in turn require that enterprises meet EU manufacturing and product quality standards. Based on the experience so far, there is need for further targeted, sectoral specific, support to enterprises demonstrating potential.

The difficulties associated with lack of microeconomic planning, lack of project implementation, due to the limited capacities of the Serbian administration, a weak business regulatory environment and poor central policy making are other main lessons from EU support actions to date. The sector requires a greater resource commitment by the Serbian administration to develop proper enterprise development strategies and a business friendly regulatory environment that encourages private sector investment. EU support requires additional assistance for policy development and policy implementation, otherwise investments will have a much reduced sustainability/impact.

4. Indicative Budget (amounts in million €)

Activities	TOTAL COST	SOURCES OF FUNDING										
		EU CONTRIBUTION				NATIONAL PUBLIC CONTRIBUTION					PRIVATE	
		Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *
Activity 1	3.5	3.5	100	3.5								
contract 1.1	3.5	3.5	100	3.5								
contract 1.2												
Activity 2												
contract 2.1												
contract 2.2												
.....												
TOTAL	3.5	3.5	100	100								

* expressed in % of the Total Cost

5. Indicative Implementation Schedule (periods broken down per quarter)¹

Contracts	Start of Tendering	Signature of Contract	Project Completion
Contract 1.1	T + 1 Q	T + 2 Q	T + 9Q

All projects should in principle be ready for tendering in the 1ST Quarter following the signature of the FA

6. Cross cutting issues

Development Policy Joint Statement by the Council and the European Commission of 10 November 2000 establishes that a number of Cross-cutting Issues shall be mainstreamed into EC development co-operation and assistance.

Cross-cutting issues will be addressed in the project so as to comply with the best EU standards and practice in that area and in a way which demonstrates how they will be dealt with within the project's framework, its activities and outputs.

Cross-cutting issues will be addressed in a proactive manner, and will present a specific component of projects (at all levels of projects' development, starting from the project identification stage). Synergies between the projects and the objectives of will be identified and developed. Also, the projects' objectives and activities need to be screened in order to ensure they won't impact negatively on gender equality, minorities' inclusion and environment.

Finally, the beneficiary will make sure its objectives, policies and interventions have a positive impact on and are in line with the main principles of gender equality, minorities' inclusion and environment.

6.1 Equal Opportunity

Efforts will be made to identify and support female entrepreneurs and or management staff in the enterprise competitiveness activities as well as creating opportunities for women to succeed in business as, for example, some of the CARDS 2004 Enterprise Development and Innovation Fund grant contracts, and the Women in Business initiative under the CARDS 2006 SME Turn Around Management programme.

6.2 Environment

All programmes will focus on environmentally sound investments and on enterprise competitiveness issues following best EU practices. Enterprise due diligence process will require where applicable environmental assessments.

6.3 Minorities

Finally, efforts will also be made to encourage active participation of entrepreneurs belonging to national minority groups and create opportunities for them to succeed in business.

¹ Where T=the date of the signature of the FA and xQ equals the number (x) of quarters (Q) following T.

ANNEX I: Logical framework matrix

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name and number	Support to enterprise competitiveness and export promotion
		Contracting period expires 5 years after the signature of the Financing Agreement	Disbursement period: expires 6 years after the signature of the Financing Agreement
		Total budget : €3.5 million	IPA budget: €3.5 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
<ul style="list-style-type: none"> to support the development of a market economy and socio-economic cohesion by increasing the international competitiveness and export performance SMEs. 	<ul style="list-style-type: none"> improved economic performance (GNP, Trade, Employment, business creation, Income distribution). 	<ul style="list-style-type: none"> MoERD, SIEPA and other Govt reports on economic performance. National Statistics. Assessment of Ministries, private sector and other donors. 	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> Develop the capacity of Ministry of Economy and Regional Development (MoERD), the Serbian Investment and Export Promotion Agency (SIEPA), the National Agency for SME Development (NASME) and the Serbian Chamber of Commerce to support enterprises through cluster development, supply chain development and export promotion. Increase competitiveness of Serbian enterprises through cluster development. Improve integration of Serbian enterprises into local and global supply chains. Boost export activities of Serbian enterprises. 	<ul style="list-style-type: none"> Level of productivity, turnover, innovation activities, range of skills, number of joint projects in clusters. Number, dynamics and quality of trade linkages in the supply chain. Number of exporting companies. Participation of stakeholders in training and workshops. 	<ul style="list-style-type: none"> Govt, MoERD, SIEPA reports. Enterprise and MNC client surveys. EAR monitoring reports. National Statistical Office Reports from the Chamber of Economy, SME support centres, reports from other agencies operating in the SME sector. Contractor reports. Mid-term review. Programme end evaluation report. 	<ul style="list-style-type: none"> Political and economic stability. Continued Government commitment to economic and legislative reform. Readiness of MoERD, SIEPA, enterprises to cooperate closely in the delivery of project objectives. Recognition by Government to sufficiently fund enterprise support measures and reduce dependence on donor funding in the future. Sufficient number of companies with potential willing to participate in the programme. Commitment of company owners and management to restructure. Realistic management and workforce attitudes to change.

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> Major Government and other national stakeholders supported leading to adopted Government programmes and improved knowledge of enterprise exporting, clustering and supply chain management issues. Cluster analysis and map completed. Six clusters selected for support. New collaborative projects within clusters in progress. Improved skills and information flows in six clusters. A minimum of 60 enterprises supported through participation in one or more cluster initiatives. A cadre of Serbian experts trained in company assessment, and supplier development and enterprise competitiveness issues. A minimum of 100 companies assessed and, of the 100 initially supported, 50 companies receiving more in-depth supplier development support. Improved skills, quality and productivity in participating enterprises. New and improved trade linkages among enterprises. New export deals, joint ventures and other agreements signed or in progress. Serbian exporters association established. Participation of Serbian SMEs in European Commission CIP and FP7 programmes increased. 	<ul style="list-style-type: none"> Policy recommendations, primarily submitted to MoERD, SIEPA accepted and initiated. Cluster analysis and map. Six clusters selected for support. New collaborative projects within the six priority clusters, improved skills and information flows. A minimum of 60 enterprises supported in cluster initiatives. Number of local experts trained. A minimum of 100 companies assessed and, of the 100 initially supported, 50 companies receiving more in-depth supplier development support. New and improved trade linkages among enterprises. New export deals, joint ventures and other agreements. Functioning Serbian exporters association. Participation of SMEs in CIP and FP7. 	<ul style="list-style-type: none"> MoERD, SIEPA reports. Enterprise and MNC client surveys. Reports from the Chamber of Economy, SME support centres, reports from other agencies operating in the SME sector. Consultants' reports. EAR monitoring reports. Report on cluster mapping and analysis. Number of enterprises who participated in cluster initiatives, FP7, CIP and received support. Export promotion materials disseminated. Company reports/statistics of selected enterprises. Mid-term review. Programme end evaluation report. 	<ul style="list-style-type: none"> Project participation does not overstretch capacity of partners and staff involved. Full cooperation of Govt., MoERD, SIEPA and other national partners. Suitable local trainers are available. Enterprise managers and staff have the will to change. Identified market opportunities exist throughout project.
Activities	Means	Costs	Assumptions
<ul style="list-style-type: none"> Support to the MoERD, SIEPA, NASME and the Serbian Chamber of Commerce in capacity building to develop policy, and manage the programme and provide enterprises with services for increased competitiveness in domestic and foreign markets. Cluster and supply chain mapping and analysis undertaken identifying six priority clusters. Six clusters supported involving between 8 and 20 participating enterprises, along with support institutions. For the six selected clusters undertake a supplier development programme including: training a team of local experts in enterprise assessment methodology and selected enterprise competitiveness issues; identify and engage a minimum of 15 multinational companies; and supporting a minimum of 100 enterprises (50 more intensively). Export promotion activities including: EU information packs for first-time exporters, export training and mentoring for 60 companies; CEFTA information and promotion, and linkages; assistance to clusters in identification of foreign and domestic investors and partners for trade agreements, joint ventures, technology transfer, R&D cooperation, etc. Promotion of CEFTA linkages. Promote participation of enterprises in Framework Programme 7 (FP7) and Competitiveness and Innovation Programme (CIP). 	<ul style="list-style-type: none"> Technical Assistance 	<ul style="list-style-type: none"> Technical assistance - €3.5 million 	<ul style="list-style-type: none"> Tendering process ensures adequate provision of TA. Tendering procedures undertaken as scheduled.

ANNEX II: amounts (in €) Contracted and disbursed by quarter for the project

Contracted	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
Contract 1.1		3.5							
Contract 1.2									
Contract 1.3									
Contract 1.4									
.....									
Cumulated		3.5							
Disbursed									
Contract 1.1		2,100,000	175000	175000	175000	175000	175000	175000	350,000
Contract 1.2									
Contract 1.3									
Contract 1.4									
.....									
Cumulated		2,100,000	2,275,000	2,450,000	2,625,000	2,800,000	2,975,000	3,150,000	3,500,000

ANNEX III

Description of Institutional Framework

The Ministry of Economy and Regional Development is in charge of implementation and monitoring of this project. The work, mandate and authorisations of the Ministry are regulated by the Law on Ministries (adopted on May 15, 2007 (Official Gazette of Republic of Serbia no. 48/07)) – i.e. Article 10.

The work of the following agencies falls under the competence of the Ministry of Economy and Regional Development:

- Privatization Agency
- Share Fund of the Republic of Serbia
- Agency for Licencing of Receivers in Bankruptcy
- Agency for Development of Small and Medium-sized Enterprises
- Agency for Commercial Registers
- Development Fund

ANNEX IV

Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

Key laws, regulations and strategic documents in the area of Economy:

General:

- Constitution of the Republic of Serbia
- Law for the Implementation of the Constitution of the Republic of Serbia
- National Strategy for Serbia and Montenegro's Accession to the European Union
- Action Plan for the Implementation of the European Partnership
- Poverty Reduction Strategy Paper

Economy:

- Commercial Companies Law
(“Official Gazette of RS” No. 125/04)
- Law on Private Entrepreneurs (Private Work Law)
(“Official Gazette of SRS” Nos. 54/89, 9/90 and “Official Gazette of RS” Nos. 19/91, 46/91,31/93, 39/93,53/93, 67/93, 48/94, 53/95, 35/02 and 55/04)
- Law on Public Enterprises and Activities of Common Interest
(“Official Gazette of RS” Nos. 25/00, 25/02)
- Public Services Law
(“Official Gazette of RS” Nos. 38/01 and 18/03)
- Cooperatives Law

(“Official Gazette of FRY” Nos. 41/96, 19/98, “Official Gazette of SRS” No. 57/89 and “Official Gazette of RS” No. 46/95)

- Privatization Law

(“Official Gazette of RS” No. 38/01)

- Law on Privatization Agency

(“Official Gazette of RS” Nos.38/1, 135/04)

- Law on Share Fund

(“Official Gazette of RS” No.38/01)

- Law on Agency for Development of Small and Medium-sized Enterprises

(“Official Gazette of RS” No. 65/01)

- Law on Registration of Economic Operators

(“Official Gazette of RS” No.55/04)

-Law on Agency for Commercial Registers

(“Official Gazette of RS” No.55/04)

- Bankruptcy Law

(“Official Gazette of RS” No. 84/04);

Note: Effective as of 2 February 2005;

- Law on Agency for Licensing Receivers in Bankruptcy

(“Official Gazette of RS” No. 84/04);

- Law on Measures to Eliminate and Relieve the Consequences of Sanctions imposed by International Organizations

(“Official Gazette of RS” Nos. 46/92, 7/95, 45/02);

- Law on Market of Securities and other Financial Instruments

(«“Official Gazette of FRY” No. 65/2002 and “Official Gazette of RS” Nos. 57/2003 and 55/2004)

- Amending Law to the Law on Private Entrepreneurs

- Amending Law to the Law on Privatization Agency

- Law on Chambers of Commerce

- Decree on Methodology for Capital and property Value Appraisal

(“Official Gazette of RS” No. 45/01, 45/02)

- Decree on Manner of Collecting Public Revenue due by the End of 2001 for Entities Privatized through Public Auction and Public Tendering Methods

(“Official Gazette of RS” Nos. 91/02, 130/04)

- Decree on Mode and Procedure for Converting Liabilities of Certain Legal Entities into State-owned Equity

(“Official Gazette of RS” Nos. 26/02, 91/02)

- Decree on Sale of Capital and Property through Public Tendering Procedure

(“Official Gazette of RS” Nos. 45/01, 59/03, 110/03)

- Decree on Sale of Capital and Property through Public Auction

(“Official Gazette of RS” Nos. 45/01, 45/02, 19/03, 59/04, 98/04)

- Decree on Procedure and Mode of Restructuring of Enterprises and Other Legal Entities

(“Official Gazette of RS” No. 1/02)

- Decree on the Amount of Charge for Registration and other Services provided by the Agency for Commercial Registers

(“Official Gazette of RS” No. 137/04)

- Decree Repealing the Decree on Mandatory Production of Specific Products and Provision of Services and on Conditions for Temporary Leasing of Assets of the Enterprise

(“Official Gazette of RS” Nos. 64/93, 9/94, 41/94, 61/94, 33/95, 25/97, 30/97, 50/97, 5/98, 45/98, 55/99, 19/00, 47/00, 30/01, 65/01, 28/02 82/02 56/03, 118/03, 58/04, 128/04)

Reference to AP /NPAA / EP / SAA

In accordance with the Council Decision of 30 January 2006 on the principles, priorities and conditions contained in the **European Partnership** with Serbia, and priority action numbers 5.1.33, 7.1.1 and 7.1.5 of the Government of Serbia adopted plan for implementation of the European Partnership priorities (adopted on 7 April 2006), the programme responds to the short and medium term economic requirements of necessary strengthening of the business environment, developing the private sector and employment with competitive markets, supporting further implementation of the European Charter for Small Enterprises and development of local/regional business support structures.

The Commission report on the preparedness of Serbia to negotiate an SAA with the European Union of April 2005 draws attention to cooperation in policy development aimed at SME modernisation and restructuring (Section 3.7.2).

Under **Article 95 of the SAA** EU cooperation should support private sector small and medium-sized enterprises (SMEs), the establishment of new undertakings in areas offering potential for growth and co-operation between SMEs in the Community and in Serbia. Furthermore due account should be taken by Serbia of priority areas related to the Community *acquis* in the field of SMEs, as well as the ten guidelines enshrined in the European Charter for Small Enterprises

Recognising the importance of the SME sector as a source of jobs, innovation and wealth and being essential for a functioning competitive market economy, the Thessaloniki Agenda for the Western Balkans of June 2003 also places high priority on activities linked to enterprise development.

Reference to MIPD

A main priority of the MIPD socio-economic chapter (section 2.2.2) is enhancing the investment climate and support to SMEs. This proposed programme will directly address outlined MIPD issues such as support for: competitiveness, development of institutional capacities for a competitive Serbian business environment and industry capable of sustaining

the competitive pressure of the European market, development of local/regional business support structures (e.g. clusters), and promotion of export-oriented companies.

The programme will contribute to the expected MIPD expected results of: (i) improving the investment climate and business environment in general through support to SMEs and regional economic development, and (ii) improvement of the conditions for growth and sustainable development in communities.

Reference to National Development Plan

N/A

Reference to national / sectoral investment plans

The Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia from 2003-2008", adopted and ratified by the Government in January 2003, and the enterprise development action adopted by the Government in late 2005 recognise the need to strengthen the private sector and make it internationally competitive through the development, inter alia, of exports, clusters, management capacities, introduction of quality systems into business operations and fostering innovation and up-to-date technology. The Strategy sets two ambitious priority targets for development of the SME sector by the end of 2008: (i) increase in the total number of SMEs from 270,000 (2002 total) to 400,000; and (ii) creation of one million new jobs in the SME sector. Unfortunately, relatively few concrete activities have been undertaken by the Government to date to promote private sector development. It is hoped that the recent establishment of an inter-Ministerial Council for SME Development and the National Investment Plan allocating €166 million to Entrepreneurship Employment and Economic Development Promotion will allow for concrete SME support activities to be undertaken.

The business environment has improved relative to a few years ago. The implementation of new laws in company registry, bankruptcy and other company legislation has advanced in 2005 and the first half of 2006.

The banking sector has seen dramatic reform in recent years, from a position of virtually zero trust in banks at the start of transition. Credit growth is rising rapidly and international foreign banks are now the key players on the market. The imposition of high mandatory reserve requirements on the commercial banks is having an adverse affect on credit availability.

The privatisation programme has advanced in recent years. Small-scale privatisation is on course for completion in 2007 and more than 400 companies were privatised through auctions in 2005 and 2006. Nevertheless, the scale of the transition challenges ahead is still daunting. Progress on privatisation of larger enterprises has been slower than planned, and a number of larger state- or socially-owned companies are in need of basic restructuring and need to be either sold or closed down. This programme has to be accelerated in order to attract much-needed investment and boost the competitiveness of these industries.

The development of an innovative society in Serbia with relevant national policy, strategy, institutional frameworks, relevant legal basis and support structures is still in its infancy. A National Innovation Strategy, supported by the CARDS 2004 Enterprise Development and Entrepreneurship programme, has been adopted by the SME Inter-Ministerial Council prior to being considered for Government adoption. There are some early stage efforts in the

development of support structures such as industrial/technology parks. Two business incubators are in these early stages of operation.

ANNEX V

Details per EU funded contract (*) where applicable:

Institutional strengthening/Capacity building

- support to the Ministry of Economy and Regional Development (MoERD) in the development and implementation of strategic actions in clustering, supply chain management and exporting.
- support to the MoERD, SIEPA, NASME and the Serbian Chamber of Commerce to manage the programme and provide enterprises with services for increased competitiveness in domestic and foreign markets.

Cluster and supply chain mapping and analysis

The first phase of the direct enterprise support related activities will be a cluster and supply chain mapping study to appraise potential for further cluster and supply chain development, and to identify six priority clusters for project support. The study will include mapping and analysis of key parameters such as: the types and number of companies in the cluster; employment concentration and dynamics; business interdependencies and trade links; level of skills; export activity; innovation activity, etc.

The mapping exercise will include also a comprehensive analysis of the support infrastructure providing various kinds of support to companies in the clusters and supply chains. The support organisations include: Universities and higher education establishments; business associations; research institutes and technology organisations; professional bodies; business support organisations; financial institutions; regulatory bodies; and training organisations.

The result of the mapping exercise should be six priority clusters with active operational linkages (horizontal and/or vertical) and showing some evidence of supplier-buyer relationships. These can be emerging, existing or mature clusters, with or without a large (anchor) enterprise, with existing export activities or with the potential to enter export markets.

Support for cluster development

The initial cluster and supply chain mapping exercise will provide information on the needs of enterprises as well as existing and potential business linkages between them. Based on that analysis, a number of cluster initiatives will be developed to address the identified gaps and opportunities in the six target clusters. The following types of cluster initiatives are envisaged for companies and institutions from the six selected clusters:

- coordination activities: promoting synergies between cluster members, know-how transfer, mutual learning networks and technology sharing
- information support: market intelligence, latest technology and equipment information, standards requirements, joint procurement opportunities, information about laws, taxation, customs regulations, sources of finance and business support services
- training and capacity building support: management and innovation training, quality management, export-related mentoring and coaching, ICT skills
- knowledge transfer: joint R&D and technology transfer projects between enterprises and R&D institutes/Universities facilitated by cluster technology brokers

Each cluster initiative will involve between approximately 8 and 20 participating enterprises.

Supply chain development

Supply-chain development activities will be aimed at improving business links and the information, and product flows between related enterprises (local and multinational) in the six selected clusters. The initial mapping exercise will identify existing business co-operation and trading links which can be developed and improved, as well as potential subcontracting and supplying opportunities that can be established where they do not exist.

Building on the CARDS 2004 supplier development scheme under SIPP, the support activities include:

- Train a cadre of local experts, utilising also train-the trainer programmes, in enterprise assessment methodology and selected enterprise competitiveness issues.
- Identify and engage a minimum of 15 multinational companies (MNCs), which have been heavily investing in Central and Eastern Europe and which have a willingness to participate in the programme.
- Develop and apply a screening matrix to identify a minimum of 100 Serbian potential suppliers and, based on the sourcing requirements of the multinational partners, apply additional filters to select 50 companies to receive intensive support.
- Appoint a mentoring team to help the 50 companies to: help themselves to competitively satisfy needs of MNCs; agree / monitor / improve strategic and business planning; and provide general business expertise and coaching specifically in relation to customer servicing; human resource development; supply chain management; financial management; and to provide key initial link between the Serbian enterprise and potential MNC customer.
- Provide training and surgery sessions for the selected enterprises in competitiveness issues such as: marketing (research and innovation), customer relationship management, supply chain logistics, financial management, lean manufacturing, total quality, and reward systems and motivation.
- Organise events such as reverse exhibitions and meet the buyer events designed to bring together buyers and sellers.

Internationalisation

The project will provide internationalisation support to enterprises which are part of the six selected clusters. Support will include the following:

- Export promotion : EU information packs for first-time exporters (detailed market surveys, market entry methods, custom codes and procedures, sales and distribution methods, laws and legislation, etc), export training and mentoring for 60 companies. CEFTA information and promotion.
- Partner search: assistance to clusters in identification of foreign and domestic investors and partners for trade agreements, joint ventures, technology transfer, R&D cooperation, etc. Promotion of CEFTA linkages.
- Involving cluster members in participation in international platforms and networks.
- Building on the CARDS 2003 export development programme activities, establish a Serbian exporters association.
- Promotion participation of enterprises in Framework Programme 7 (FP7) and Competitiveness and Innovation Programme (CIP)