

## Standard Summary Project Fiche – IPA centralised programmes

### **Project number 12: Integrated Innovation Support Programme**

#### **1. Basic information**

- 1.1 CRIS Number: 2009/021-765**
- 1.2 Title: Integrated Innovation Support Programme**
- 1.3 ELARG Statistical code: 02.20**
- 1.4 Location: Republic of Serbia**

#### **Implementing arrangements:**

- 1.5 Contracting Authority: EU Delegation to the Republic of Serbia**
- 1.6 Implementing Agency: EU Delegation to the Republic of Serbia**
- 1.7 Beneficiary:**

Ministry of Economy and Regional Development - Department for SMEE Development, Boulevard Kralja Aleksandra 15 - 11000 Belgrade

Ministry of Science and Technological Development - Nemanjina 22 – 26, 11 000 Belgrade

Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship <sup>1</sup> - Toplicin venac 19, 11000 Belgrade

The Project Implementation Unit (PIU) will be based in the Ministry of Economy and Regional Development. The PIU will be responsible to monitor the project day-to-day. They will provide a secretariat for the Project Steering Committee (see below) and they will provide assistance to the service contractor in order to identify appropriate participants for training, liaise with stakeholders and ensure that project results are disseminated within their institutions.

A project Steering Committee will be established prior to the initiation of the technical assistance. The role of the Steering Committee is to provide strategic guidance and direction regarding the technical issues on the project. The Committee will meet every 6 months during the implementation of the project to discuss and endorse the 6-monthly progress reports. The Steering Committee will include representatives of all key stakeholders, including, MoERD, MoSTD and SASMEE.

#### **Financing:**

- 1.8 Overall cost (VAT excluded)<sup>2</sup>: 3.000.000 EUR**
- 1.9 EU contribution: 3.000.000 EUR**
- 1.10 Final date for contracting: 2 years after signature of the FA**
- 1.11 Final date for execution of contracts: 4 years after signature of the FA**
- 1.12 Final date for disbursements: 5 years after signature of the FA**

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<sup>1</sup> The National Agency for Regional Development (NARD) has been established in September 2009, incorporating SASMEE activities as the legal successor of SASMEE and will consequently be considered as one of the beneficiaries/project partners.

<sup>2</sup> The total cost of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated (see Section 7.6)

## 2. Overall Objective and Project Purpose

### 2.1 Overall Objective:

Increased competitiveness and economic growth in Serbia, through strengthening of innovation in SMEs in accordance to National Strategy for Development of Competitive and Innovative SMEs 2008-2013.

### 2.2 Project purpose:

#### **Component 1: Enhanced institutional capacity for efficient support to product and process innovation within SMEs and technology transfer**

To enhance institutional capacity for efficient support to product and process innovation within SMEs, and technology transfer.

#### **Component 2: 'Enhanced instruments for financing of SME innovation activities**

To develop new financial instruments targeted at support of innovative SMEs and to increase the ability of innovative SMEs to access and efficiently use equity-based investments in line with the Operational Plan associated with the Strategy for Competitive and Innovative SMEs 2008-2013.

### 2.3 Link with AP/NPAA / EP/ SAA

**European Partnership** emphasises the need to adopt mechanism for institutional support to SMEs and entrepreneurship development. As defined by “Council Decision of 30 January 2006”<sup>3</sup>, Serbia has to continue implementing the European Charter for Small Enterprises and to:

- “Implementing the European Charter for SME and further develop local/regional business support structures (clusters, incubators, business/technology parks” (p. 40);
- Implement civil service human resources development measures. Strengthen capacity (policy-making and inter-ministerial coordination) of the public administration at government and local level... Strengthen the economic policy-making process”(p. 43);
- Increased efforts to create a modern vocational education and training system and to improve the overall education system;

Since June 2009 when the regional ministerial conference on the European Charter for Small Enterprises for the Western Balkans was held in Brussels, it was decided that region countries should start the process of implementation of the “**Small Business Act**”.

These priorities are reiterated in the **Stabilisation and Association Agreement**<sup>4</sup>, focusing on industrial co-operation, SMEs and education / training. It has been declared that joint activities and co-operation shall aim at:

- Modernising and restructuring the industry and individual sectors in Serbia while establishing a framework for the improvement of management, managerial know-how and the business environment (Art. 94);

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<sup>3</sup> “Council Decision of 30 January 2006 on the principles, priorities and conditions contained in the European Partnership with Serbia and Montenegro including Kosovo as defined by the United Nations Security Council Resolution 1244 of 10 June 1999 and repealing Decision 2004/520/EC” (2006/56/EC) Official Journal of the European Union L35, 7.2.2006.

<sup>4</sup> EU/ Serbia SAA adopted and signed in Brussels, April 2008.

- Establishing efficient export promotion activities - as it has been realised in various projects so far – and further strengthen these efforts (Art. 94);
- Developing the SME sector and support economic co-operation between Serbia and the member states (Art. 95);
- Raising the level of VET and (management) training by designing programmes that contribute to the upgrading of educational and training structures and activities in Serbia (Art. 102).

Link with **National Programme for Integration with the European Union** (NPI Belgrade, October 2008)

The policy of small and medium enterprises:

“In the area of “Strengthening the technological capacity of small enterprises”, the domain of innovation is characterised by the lack of technical and non-technical innovations, lack of research, lack of support in regards to financing and infrastructure, small number of laboratories and low research capacities, as well as the lack of proper network for the development of innovation” (p.576)

Mid-term priorities strengthening the competitive advantage of SMEs in export markets

- Developing the culture of SMEs investment into innovation
- Standards and quality control
- Development of clusters through implementation of the Program for Development of Business
- Incubators and Clusters in the Republic of Serbia 2007-2010
- Support to export-oriented SMEs (p.578)

The **latest Progress Report on Serbia**<sup>5</sup> highlights the good progress made in the area of industry and SME support.

“A good institutional framework for SMEs had been put in place, and its performance has improved during the reporting period. In particular, there has been a substantial improvement in cooperation and coordination between the various actors – the Ministry of Economic Affairs, the SME agency, and other stakeholders. The SME Council, which comprises representatives of various ministries and entrepreneurs, meets regularly and is functioning well. However, not all ministries have yet fully taken the SME Council into account in their preparation of strategies and documents. Further strengthening of business advocacy is taking place through the reform of the Chambers of Commerce. The Agency for SME development has developed a network of regional agencies and local offices aimed at providing non-financial support. Regarding the regulatory burden on the business environment, the Council for Regulatory Reform has elaborated a Strategy for Regulatory Reform in the Republic of Serbia for 2008-2011 together with an action plan with the aim of carrying out regulatory reform and reducing the administrative burden for SMEs. Serbia continues to be fully committed to the process of the European Charter for Small and Medium-sized Enterprises, to which it provided high quality input. Internal coordination is working well and there is active participation by all relevant bodies in the process. Based on the programme for the

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<sup>5</sup> Serbia 2008 Progress Report, Commission Staff Working Document, {COM(2008)674}, Brussels, 05.11.2008 SEC(2008) 2698 final

development of business incubators and clusters, five new incubators started operating in 2007 and one in 2008, bringing the total number to 17. 20 clusters are operating and 14 projects are financially supported by the Ministry of Economy and Regional Development in the manufacturing, food production, tourism and IT sectors. Overall, preparations in the area of industry and SMEs are advanced and fulfil the relevant SAA requirements” (p.40);

**Copenhagen Economic Criteria:** enabling businesses to sustain the pressure of EU business competitiveness it emphasizes the importance of taking actions that will increase the competitiveness of domestic enterprises, in accordance with the procedures, standards and regulations of EU;

**Lisbon Agenda (2000):** the activities would contribute to the fulfilling of the ambitious goals of the Lisbon Strategy of making the European economy the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, by 2010

**Barcelona Objective (2002):** investment in European research and development (R&D) must be increased with the aim of approaching 3% of GDP by 2010, with the level of business R&D funding increased to two-thirds of total R&D investment. Building capacity of key stakeholders to manage innovation and to develop effective innovation policies will contribute to greater competitiveness and stimulate business R&D.

#### **Links with relevant EU Documentation**

The project and proposed actions are in line with the EU Policy Documents in innovation and SMEs financing.

Relevant EU documentation in innovation policy is contained in the following:

- The Communication on innovation ‘Putting knowledge into practice: A broad-based innovation strategy for the EU’ adopted on 13.09.2006 (COM(2006)502), points the way forward to accompany industry-led and society-driven innovation with competitiveness and public policies at all levels as a core element of the renewed Lisbon strategy for growth and jobs, including the implementation of the actions foreseen in the ‘More Research and Innovation - Investing for Growth and Employment: A Common Approach’ Communication (COM(2005)0488).
- Communication from the Commission on ‘Delivering on the Modernisation Agenda for Universities: Education, Research, Innovation’ (COM (2006)0208) Communication from the Commission: E-skills for the 21st Century: Fostering Competitiveness, Growth and Jobs (COM (2007) 496)
- Communication from the Commission on ‘Improving knowledge transfer between research institutions and industry across Europe: embracing open innovation’ (COM (2007)182)
- Setting up of a new network for business support services
- The EU’s cohesion policy will be mobilised in support of regional innovation. The Communication from the Commission ‘More research and innovation’ (COM (2005)488) gives guidelines to this end.
- New Community Framework for State aid for Research and Development and innovation.  
Communication from the Commission ‘Towards a more effective use of tax incentives in favour of R & D’ (COM (2006)728).

- In addition to the ten priority points, the Conclusions of the Competitiveness Council of 04.12.2006 stressed the need for actions in the area of clusters development.

Relevant EU documentation in SMEs financing policy is contained in the following:

- Entrepreneurship Action Plan Key Action 7 - More Equity And Stronger Balance Sheets;
- Speech/2007/10 Françoise Le Bail Deputy Director-General, Dg Enterprise And Industry Opening Address Financing Innovation – From Ideas To Market Portuguese Presidency Forum Financing Innovation - From Ideas To Market Estoril, 8 October 2007;
- Brussels, 29.6.2006 Com(2006) 349 Final Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions Implementing The Community Lisbon Programme: Financing SME Growth – Adding European Value {Sec(2006) 841} {Sec(2006) 842} {Sec(2006) 856};
- Brussels, Xxx Sec(2006) 842/2 Commission Staff Working Document Annex III To The Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions Implementing The Community Lisbon Programme: Financing SME Growth – Adding European Value {Com(2006) Xxx Final} Access To Finance: The Way Forward;
- Brussels, 21.12.2007 Sec(2007) 1719 Commission Staff Working Document Accompanying The Document Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions Removing Obstacles To Cross-Border Investments By Venture Capital Funds - Glossary And Expert Group Report {Com(2007) 853 Final};
- Directorate-General For Enterprise And Industry Best Practices Of Public Support For Early-Stage Equity Finance Final Report Of The Expert Group September 2005;
- Expert Group report on ‘Removing obstacles to cross-border investments by venture capital funds’.
- Removing Obstacles to Cross-border Investments by Venture Capital Funds (COM (2007) 853)

#### **2.4 Link with MIPD**

##### **Multi Annual Indicative Planning Document 2009-2011 – “Socio-economic Criteria“**

**”Enhancing the investment climate and support to small and medium sized enterprises** through a favourable legislative and policy framework, economic environment, access to services, capital and know-how, and support to competitiveness, including investment and import/export promotion. Support to job creation potential in specific branches and activities related to tourism. Develop national institutional capacities for the implementation of anti-trust policy, a competitive Serbian business environment and industry capable of sustaining the competitive pressure of the European market. Develop Serbia's capacity to benefit from the knowledge based society. Further develop local/regional business support structures (clusters, incubators, business/technology parks, etc.) in order to promote business, research and innovation related activities and public services. Development and implementation of

Serbia's industrial, innovation and FDI strategies and action plans. Promotion of FDI and export-oriented companies. Assist SME and Regional Economic Development Support institutions" (p.24);

## **2.5 Link with National Development Plan**

N/A

## **2.6 Link with national/ sectoral investment plans**

### **National Strategy of Serbia for Accession to the European Union**

"The development of SMEs in Serbia is important because of the social nature of the SME sector, i.e. because it would create job opportunities for special categories (young people, women, pensioner, the disabled, etc.). This complies with the structural adjustment of the economy, following the example of the economies of the EU countries. Lisbon Strategy has marked the SME sector as one of the pillars of economic growth of the EU" (p. 107)

### **Link with National Economic Development Strategy (NEDS)**

**The National Strategy for Economic Development of Serbia 2006-2012** is the first development document defining, in a consistent and integral way, the country's basic development priorities.

The main development goals are to increase the standard of living of all citizens as well as dynamic and sustainable economic development. This implies the basic strategic orientations:

- Creating an attractive business environment as a basic condition for increasing the overall competitiveness of Serbian economy, i.e.
- Pursuing of all transition and reform processes that could activate the country's development potentials – human, material and natural - and make Serbia attractive for faster development of the domestic private sector and higher foreign capital inflow (FDI).
- Knowledge-based development, i.e.
- Strengthening efforts to bring knowledge as a basic development factor for Serbia, and knowledge-based product innovation, new technologies and system of services into the foreground to foster international competitiveness;
- Further reforms of education and employment services to link business development needs with the improved supply of educational and training services.

### **Strategy for Competitive and Innovative SMEs 2008-2013<sup>6</sup>**

**Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises 2008 – 2013** represents a strategic policy document for development of small and medium-sized enterprises and entrepreneurship, which defines key priorities and how they will be implemented in the following years in a consistent and holistic manner.

The Strategy contributes to further strengthening and efficient utilization of development potential of SME Sector, which will have positive consequences to the economic growth of the Republic of Serbia. This should contribute to an increase in competitiveness and exports further strengthen innovation capacities of enterprises and lead to a more dynamic growth of

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<sup>5</sup>Strategy paper adopted by the Government in October 2008.

employment and balanced regional development. The Strategy is based on five Pillars, further developed in modules and measures, corresponding to the priorities in SME development and aimed to contribute to improving the performance of entrepreneurs in all stages of start up, growth and development of SMEs.

**Five Pillars:**

1. Promotion and Support for Entrepreneurship and Business Start-Up
2. Human Resources for a Competitive SME sector
3. Financing and Taxation for SMEs
4. Competitive Advantages for SMEs in Export Markets
5. Legal, Institutional and Business Environment at the Service of SMEs in Serbia

**Pillar 4** *actions will contribute to increased competitiveness of SMEs in export market through:*

- Encouraging greater investment in technical and non-technical innovations
- Better cooperation of SMEs with R&D organisations
- Encouraging investments in ICT
- Improved cooperation of Serbian SMEs with international companies on TT
- Development of innovation relay centres and networks for connecting Serbian RD & innovation centres with counterparts in EU countries; providing financial resources and subsidizing innovation
- Participation in EU innovation initiatives.
- Improve SME product and service quality, through developing standards and quality assurance systems
- Financial subsidies for the certification of products and services
- Establishing and development of clusters
- Enhancing supply chains through development of sectors, clusters and outsourcing
- Promotion of Serbian SMEs on foreign markets
- Reducing barriers to export amongst internationally oriented SMEs

**Strategy of Balanced Regional Development** – Sustainable development, Enhancement of regional competitiveness, Diminishing regional discrepancies and alleviation of poverty, **chapter VI “Strategy of Institutional Development” - “Activities to implement local development strategy are:**

- Support to SME development
- Support to establishment of new companies
- Promotion of foreign and local investments
- Promotion of cluster development
- Improvement of infrastructure (...)

- Other support measures: (...), support to research and development, providing business advisory services, providing access to finance, support to establishment and development of business associations, enabling business links (...)" (p. 185)

### **Strategy for the Development of SMEs and Entrepreneurship in Serbia, 2003 – 2008**

"The priority objective of the Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia is to create a framework for the development of a sustainable, internationally competitive and export oriented SME sector" (p. 3)

### **Programme for Business Incubators and Clusters Development in the Republic of Serbia 2007 – 2012 (December 2006)**

"The Programme's objective is to generate new jobs, new enterprises and increase competitiveness through development of entrepreneurs, enterprises and SME institutions in the Republic of Serbia." (p. 6)

## **3. Description of project**

### **3.1 Background and justification:**

Innovation as "the successful production, assimilation and exploitation of novelty in the economic and social spheres"<sup>7</sup> is consistent with the Lisbon European Council's perception of the importance of innovation to competitiveness. It is always challenging issue for all, particularly those exposed to international competition in domestic and export markets. An innovative enterprise seeks to raise its competitiveness through constant improvement of its products, processes/ services, its organisation, methods and structure. In order to collect recent data on innovation patterns and performance in Serbia which could be used as the background information for innovation policy-making, National Innovation Audit in Serbia was carried out in Serbia during 2005-2006.<sup>8</sup>

Historically, Serbia invested considerable resources in research and technological development, but during the 1990s public and private investment levels in R&D and innovation fell sharply. Over the last few years, public investment in R&D has begun to pick up again and currently stands about 0.14 % of GDP<sup>9</sup>. The level of business investment in R&D is also very low - 0.13% of GDP<sup>10</sup>. The prevailing innovation patterns of Serbian enterprises (investment mainly in acquisition of equipment and upgrading of skills) and a low level of production of knowledge (R&D and patenting activity) point to some weaknesses of the innovation system and a number of gaps which need to be addressed in the future. Serbia ranks very poorly on patenting activity which is in part no doubt due to the downturn in R&D investment and the relative cost of patenting (estimates start from 2,000 EUR and could reach 14,000-20,000 EUR for more complicated patent applications).

The Serbian economy has concentrations of employment and production in a number of sectors including agri-business, automotive and component production, textiles and wood and furniture industry. Major export products include steel, tyres for motor vehicles, fruits

<sup>7</sup> European Commission Communication COM (2003) 112 final; European Commission Communication COM (1995) 688.

<sup>8</sup> This work was undertaken within the framework of the Enterprise Development and Entrepreneurship Programme (EU) with the support from the Ministry of Science and Environmental Protection. The various components of the Innovation Audit were carried out in close collaboration with the Ministry of Science and Environmental Protection, Republic Statistical Office, Intellectual Property Office, the network of Regional SME Development Agencies and other stakeholders.

<sup>9</sup> Source: Statistics Office. 2003.

<sup>10</sup> Source: Statistics Office, 2003



(notably raspberries), rubber and plastics and medicines.<sup>11</sup> Emerging and fast growing sectors include electronics with segments such as computers and office equipment growing rapidly. However, the share of total employment located in medium/high technology manufacturing and employment in high-tech services are both significantly below EU25 levels.

#### *Referent legislation*

The Serbian *Law on Innovation Activity*, adopted in 2005, provides a basis for the establishment of a legal framework for support of innovation activities. This document envisaged the establishment of:

- *Commission for Monitoring of Development and Commercial Exploitation of Innovation* (Articles 9 and 10)
- *National Innovation Fund* (Articles 40-48) to:
  1. implement and commercialise innovation;
  2. encourage youth to be innovative;
  3. encourage innovators to use domestic resources;
  4. encourage innovation for the purpose of sustainable development of rural areas;
  5. encourage innovation for the purpose of general sustainable economic development
- Permits establishing *Local Innovation Funds*.
- Public support to innovation and R&D centres, business technology incubators, technology parks, as well as innovative enterprises.

*The Law on Scientific and Research Activity* was also adopted in 2005 stipulates:

- Establishment of the *National Science and Research Council*
- The *Commission for Monitoring of Development and Commercial Exploitation of Innovation* should be established within the National Council, thus ensuring linkages and co-ordination of implementation of the two above mentioned Laws. The activities of the Commission should also be closely co-ordinated with those of the Serbian SME Council.

Above mentioned two Laws provide the basis for the development of the legal and institutional framework for innovation support. Although the Law on Innovation Activity has been adopted and is designed to stimulate R&D and innovation in enterprises, some envisaged activities have not been implemented (National Innovation Fund has not been established). ( . The New Law on Innovation Activity is in the preparatory stage.

#### **Innovation support infrastructure**

National Innovation System in Serbia has a number of strength and weaknesses. The effectiveness of innovation system is measured not only by the strength of its elements (i.e. industrial system; educational and research institutions; innovation governance and policy; innovation support infrastructure and intermediary organisations), but by the efficiency of linkages and co-ordination between its key components. In order to move to an innovation driven phase where the economy shifts to higher value added products creating greater wealth and securing longer-term competitiveness, enterprises will need to invest more in R&D activities as well as in partnership with academic and other not-for-profit research institutes.

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<sup>11</sup> Competitiveness of the Serbian Economy, Jefferson Institute, 2006, page 12

The lack of functional links between education, research institutes and the industrial and commercial sector is evident.

The shortage of appropriately skilled, creative and entrepreneurial people is current bottleneck to innovation in Serbia. Serbia has a proportion of higher education graduates in the working population that compares favourably with the EU25 average. However, Serbia currently performs poorly with a proportion of Science and Engineering graduates that is much below the EU25 average.

Regarding the existing support system for innovation, academic and research organisations involved in the creation and diffusion of new knowledge, as well as other organisations attempting to support enterprises in the management of the innovation process, significant gaps and mismatches between enterprise needs and services offered exist.

The absence of financial resources was often highlighted as a main issue in attracting enterprises to use the services already available, along with a general lack of motivation and incentives to co-operate and weak entrepreneurial attitudes in the scientific community.

Serbia has made the progress in implementing cluster projects and has approved the funds to support cluster development (16 cluster initiatives were in operation under the project at the end of 2007).<sup>12</sup> The Law on Innovation Activity<sup>13</sup> is aimed at taking a step to an improved structure of the innovation support system at all levels in the Republic of Serbia. The law in practice initiated a certification or registration process for organisations which wish to be recognised as undertaking innovation activity. The Law on Higher Education adopted in 2005, allows setting up technology transfer and innovation centres, business and technology parks and other organisations for the purpose of commercialisation of R&D results, within higher educational establishments.

In June 2009, European enterprise network window started its operation of Serbia. The project for establishment of EEN operations in Serbia is implemented by the consortium, led by RASME and it is supported through Competitiveness and Innovation Programme of the EU.

#### *Financing innovations*

Due to the risks of investing in innovation activities, the private sector (banks, private investors, business angels) is often very reluctant to finance innovation activities. This financing gap can be overcome through a variety of different instruments (including seed capital, government financing in the form of loans or guarantees, venture capital). But, in Serbia where financial markets are underdeveloped there are limits to the use of these instruments.

In Serbia there is lack of financing for SMEs. Businesses that face financing difficulties can access funding from the Development Fund or can obtain loans from banks backed by the Guarantee Fund. The Venture Capital market is underdeveloped in Serbia. There are some investment funds in Serbia which are generally focused on large companies. Existing Law on Investment Fund does not impact substantially on innovative SMEs nor venture capital companies investing in them.

Law on Innovation Activity envisaged the establishment of an Innovation Fund in Serbia, which may offer appropriate financing mechanisms for enterprises involved in technology and product development. But, Innovation Fund was not established and it is expected that the

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<sup>12</sup> Innovation Infrastructure in the West Balkan Countries, SEE- science. eu, 2008

<sup>13</sup> In addition, a draft Law on Industrial and Technology Parks has been recently developed by the Ministry of International Economic Relations (MIER), (2006).

new Law on Innovation Activity will provide more inputs especially in the field of effective funding of innovation initiatives in Serbia.

Ministry of Science and Technological Development provides **grants for innovation projects in Serbia**<sup>14</sup>. Based on Serbian *Law on Innovation Activity*, individuals willing to be financially supported by the MoS grants have to be registered as innovator in the Register of innovation activity within MoS. Two types of projects are eligible: Development of the new products, technologies, processes and services and Building infrastructure for the successful implementation of innovation project. Grants (covering not more than 50% of the total project budget) are limited to the amount of 4.000.000 RSD (50.000 EUR) for the firms and 800.000 RSD (10.000 EUR) for individual projects. Potential Grant beneficiaries are: R&D centres, innovation centres, business incubators, science and Technology Park.

Since 2005, MoS is implementing the “**Best technological innovation**” contest in Serbia<sup>15</sup>, which is in 2009 providing financial and consulting support in 5 categories: innovative ideas, potentials, energy efficiency, realisation of innovations in the market and special category for innovative municipalities. The contest is designed in a way to also allow continuing multi-annual support for the development of the best innovative ideas, moving through different categories.

Ministry of Economy and Regional Development launched in 2009 the grant scheme **Support to Enterprise Investments in Innovation**, whose overall objective is to develop a culture of SMEs to invest in innovation through development of new or improvement of existing products of services, development and testing of prototypes, new design of product and packaging, introduction and testing of new production process, purchase of patent rights and patent documentation, as well as innovation in the area of marketing, development in ICT and improvement of organisation (second group of project). Grants (covering not more than 50% of the total project budget) are limited to the amount of 1.500.000 RSD (800.000 RSD for the second group of projects).

## **Justification**

Relevant laws and regulations alone will not suffice to create a functioning innovation system. Different types of capacity development and awareness programmes in innovations as well as new financial instruments to support innovative SMEs will be needed in the medium term.

The project will address the number of issues in order to enhance Serbian competitiveness through innovation and to enable Serbian enterprises to compete more effectively in international markets.

Having in mind the existing situation on innovation support issues, two key areas of project interventions can be specified:

- 1. Improvement of institutional capacities (at all level) for efficient support to product and process innovation within SMEs and technology transfer**
- 2. Development of the new financial instruments to support innovative SMEs**

Economic growth in Serbia is currently constrained by a number of factors, not the least of which is the low level of competitiveness of many enterprises. At present, too many firms are

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<sup>14</sup> Preliminary list (96) of firm's innovation projects and preliminary list (34) of individual innovation projects to be financially supported by the MoS can be found on [http://www.nauka.gov.rs/cir/index.php?option=com\\_content&task=view&id=730&Itemid=43](http://www.nauka.gov.rs/cir/index.php?option=com_content&task=view&id=730&Itemid=43)

<sup>15</sup> <http://www.inovacija.org/>.

ill-prepared to compete primarily due to a lack of market knowledge and outdated equipment and technology. There also remains a general lack of awareness in Serbia of the importance of innovation for the improvement of competitiveness of the Serbian economy. The weakness of linkages between businesses and science and insufficiently developed innovation support system, are further inhibiting factors on the way of businesses to enhanced competitiveness. In order to overcome above mentioned problem, the project intends to improve capacity of all relevant stakeholders (government institutions, business and innovation support organisations, R&D organisations, Institutes, Universities, innovation centres, business incubators, science parks, clusters, RA/RDA) in order to develop an effective national innovation system as institutional framework for innovation and technology transfer in Serbia. It is also of vital importance to provide more effective support to SMEs to improve their existing innovation potentials as well as to upgrade their inadequate technology that can improve their competitiveness. The project will also develop institutional mechanisms to support innovative SMEs through establishment of technology brokers program.

Financial markets in Serbia are underdeveloped and there are limits for SMEs to use different financial instruments . Existing gaps in financing innovation in SMEs should be overcome through a variety of different financial instruments. The project intends to develop new financial instruments in order to support innovative SMEs and to provide access to equity-based investments what is in line with Operational Plan associated with the Strategy for Development of Competitive and Innovative SMEs 2008-2013. In this context the project will promote the equity financing, develop regulatory and funding mechanisms for encouragement of formal and informal venture capital investment, establish the network of informal venture capital investors and develop partnership with financial intermediaries.

### 3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

“**Strategy for Development of Competitive and Innovative SMEs 2008-2013**” sets out the framework for the development of Serbia as an innovative and knowledge-based society and as a more competitive player in world markets and addresses a number of major issues affecting innovation development: legal and regulatory environment, improved access to finance, support infrastructure, linkages between science and industry and development of an innovative culture in education. In fact, some steps to improve the environment for innovation in Serbia have already been taken, particularly in the area of legislation for innovation and scientific research.

**The Project Component 1: *Enhanced institutional capacity for efficient support to product and process innovation within SMEs and technology transfer*** will contribute to the sustainability of all stakeholders including: RASME and the Regional Agencies/Centres/Offices by actively involving the Universities and faculties, network of business support organizations, R&D institutes, SMEs and entrepreneurs, associations of SMEs, municipalities, donors and others by undertaking:

- Improving capacities of different stakeholders in the field of policy mechanisms to encourage development of framework conditions, better linkages between business and innovation support organisations and more efficient process of technology transfer
- Development of new institutional models for direct support to innovative SMEs
- Improving the long-term partnerships between Serbian institutions and SMEs and members of the international community;

The Project builds on existing infrastructure, including also the network of regional agencies/centres, the financial sustainability of which has been confirmed since the end of EAR project in 2003 and on Governmental support for establishing 12 new offices through RASME. The Project foresees further strengthening of cooperation between various organisations taking forward the responsibility for innovation and SME development.

By this means continuity of support will be sustained and the activities of Regional Agencies/Centres/offices will continue to be focused on economic development and raising the level of innovation and competitiveness of Serbian SMEs.

The Project Component 1 is designed in a way to continue support for capacity building, which started under IPA 08 Project “Improved SME Competitiveness and Innovation”, but also to make use of the already achieved results of the same project.

**The Project Component 2: *Enhanced instruments for financing of SME innovation activities***, which is in line with Operational Plan associated with *Strategy for Competitive and Innovative SMEs 2008-2013*, will contribute to develop new financial instruments and to increase the ability of innovative SMEs to access and efficiently use equity based investment, by:

- Promoting the role of equity investments;
- Developing regulatory and funding mechanism for encouragement of formal venture capital investment;
- Establishing informal capital investment in SMEs;

The Project will contribute in developing regulatory document prepare rules, operating procedures for transparent financial control of funds and prepare different training courses to

selected financial intermediaries. At the same time the project will launch investment readiness training program for SME s in order to recognise the real possibilities for the further investment activities in SMEs.

### **3.3 Results and measurable indicators:**

#### **Component 1: Enhanced institutional capacity for efficient support to product and process innovation within SMEs and technology transfer**

##### **1.1. Improved National Innovation System to encourage framework conditions and better linkages between business and innovation support organizations**

Number of initiated R&D projects within the enterprises and percentage of income assigned for R&D; Number of joint projects between R&D institutions and enterprises; Number of – work-shops and capacity building for key stakeholders; Rate of consumption of available public fund for innovation and mobilization of private or international donor funds; Increased turnover from export, new joint product development.

##### **1.2. Encourage technological innovation within SMEs through international and local expertise in coaching and on the job training**

250 innovative SMEs identified and included into the coaching and on the job training; Improved SMEs performance; Increased adoption of technologies, improved productivity and new product development.

A transparent selection procedure, in compliance with EU rules and regulations, will be used to select SMEs that will participate in the project, based on scoring of evaluation criteria including: size of enterprise (turnover and employment); length of time in business; nature of innovation; energy efficiency; etc. Applications for support will be monitored to ensure representation of minority interests and women. The precise criteria should be developed through the TA support, during the implementation of the project and with prior approval from the EC Delegation. In order to ensure fairness and equality of opportunity, it is important that the ability of SMEs to access this information is disseminated widely through existing institutional structures as well as mass media.

##### **1.3. Extended innovation activities to local level and integrated with national level structure**

Increased awareness of innovation and technology issues amongst key stakeholders and decision makers at local level; Number of round-tables and work-shops for stakeholders at local level; At least 5 local initiatives to encourage innovation in SMEs supported, establishment of at least 10 local access points to innovation related information supported

##### **1.4. New mechanisms of Governments' direct support to innovative SMEs are in place**

National program for support to SMEs to introduce innovations and technology transfer by means of technology brokers developed, 6 technology brokers trained and operating

#### **Component 2: - Enhanced instruments for financing of SME innovation activities'**

##### **2.1. Roll of new equity-based financial instruments for SMEs is increased and recognized amongst entrepreneurs and Serbian financial intermediaries**

Assessment of barriers to equity investment report prepared; Information about role, models and best practice prepared and disseminated

##### **2.2. Mechanisms for encouragement of formal venture capital investment into SMEs in place**

Recommendations for regulatory improvements and introduction of tax incentives prepared; Identified parties interested in setting up VC operations in Serbia; Facilitated networking with

key stakeholders in VC industry for the purpose of knowledge sharing; Technical assistance provided for setting up VC operations; Applications for CIP funding submitted.

### **2.3. Networks for informal venture capital investment into SMEs established**

Recommendations for regulatory improvements and introduction of tax incentives prepared; Contact database set-up; Linkages and memorandum of understanding reached with European Business Angels Network; Secretariat established to facilitate Serbian network development.

### **2.4. Partnerships developed with financial intermediaries to develop Mezzanine finance provision for SMEs**

Written documentation and agreements with financial intermediaries;; Agreements with other donor programs to promote take-up of mezzanine finance, with appropriate technical assistance support to SME management teams.

### **2.5. Investment readiness training program for SMEs operational and effective**

Agreed format and content of investment readiness programs; Implementation partners selected and trained; 100 SMEs participating in training and follow-up counselling and consultancy support; SMEs looking for investments brought closer to potential investors; Follow-up tracking of participant companies to assess levels of subsequent - investment.

### **2.6. Innovation voucher scheme for encouraging risk taking of SMEs when undertaking innovation activities**

Facilitated consultation process with SMEs in order to prepare demand driven Innovation voucher scheme; potential knowledge providers identified and criteria for ad-hoc approval of their engagement in the specific projects defined; Developed concept, rules and procedures for the operation of the innovation voucher scheme.

## **3.4 Activities:**

One service contract covering technical assistance for components 1 and 2 is envisaged.

### **Component 1: Enhanced institutional capacity for efficient support to product and process innovation within SMEs and technology transfer**

#### **Activities related to result 1.1: Improved National Innovation System to encourage development of framework conditions and better linkages between business and innovation support organizations**

1.1.1. Facilitate access to regular updated information on national and international best practice in supporting innovation and technology transfer to policy makers

1.1.2. Introduce successful models to foster links between science and businesses (competence centres, centres of excellence)

1.1.3. Strengthen capacities, strategic partnership and networking between innovation support organizations (Universities, R&D institutions, technology incubators, clusters, Enterprise Europe Network, regional agencies) and facilitate their engagement in trans national networks

1.1.4. Promote the importance of innovation and technology transfer



**Activities related to result 1.2.: Encourage technological innovation within SMEs through international and local expertise in coaching and on the job training.**

A transparent selection procedure, in compliance with EU rules and regulations, will be used to select SMEs that will participate in the project, based on scoring of evaluation criteria including: size of enterprise (turnover and employment); length of time in business; nature of innovation; energy efficiency; etc. Applications for support will be monitored to ensure representation of minority interests and women. The precise criteria should be developed through the TA support, during the implementation of the project and with prior approval from the EC Delegation. In order to ensure fairness and equality of opportunity, it is important that the ability of SMEs to access this information is disseminated widely through existing institutional structures as well as mass media.

1.2.1. Select 250 innovative SMEs (based on innovation scanning undertaken under IPA 08 project), in the most important sectors

1.2.2. Select and train a pool of consultants from BISO for delivering coaching and on the job training

1.2.3. Design the coaching and on the job training program and training materials

1.2.4. Prepare manual for undertaking innovation diagnosis and interventions

1.2.5. Deliver diagnosis, coaching and on the job training in 250 SMEs

1.2.6 Use Innovation Support network and its database of expertise within BISO to connect SMEs with relevant experts to implement where needed further large scale interventions

**Activities related to result 1.3.: Extended innovation activities to local level and integrated with national level structure.**

1.3.1. Develop and implement public awareness campaigns aimed at promoting innovation and competitiveness in business at the local level

1.3.2. Capacity development of local authorities and stakeholders to introduce measures to support innovation and technology transfer

1.3.3. Support local initiatives and design schemes to support innovation in SMEs

1.3.4. Assist local institutions to establish local access points to innovation related information

Technical assistance is responsible for design of at least 5 local instrument based on the best local initiatives identified in the process of capacity development in 1.3.2. Implementation of local schemes will be financed from the local contribution and implemented by local stakeholders. Only minor assistance might be expected from the technical assistance team, if the implementation commence during the project implementation period. Implementation of local schemes is not included neither in the scope of this project nor in the indicative budget.

**Activities related to result 1.4.: Development of new mechanisms for direct support to innovative SMEs**

1.4.1. Prepare plan for establishment of technology brokers program

1.4.2. Prepare working manual, working procedures and guidelines for quality assurance for technology brokers operation

1.4.3. Select and provide training for at least 6 technology brokers

1.4.4. Design National program for support to SMEs to introduce innovations and technology transfer by means of technology brokers

1.4.5. Promote new direct support mechanisms on Innovation Support Network web portal and other identified communication channels

Technical assistance is responsible for drafting National program for support to innovations in SMEs by means of technology brokers. Technology brokers program will be closely linked to the cluster support policy and technology brokers will be focused on providing assistance in the specific sectors. Program implementation will be financed from the national contribution and implemented by key beneficiaries. Only minor assistance might be expected from the technical assistance team, if the implementation commence during the project implementation period. Although key beneficiaries will strive to secure sources for funding National program implementation during the project implementation period, it might be postponed due to economic crises. Therefore, program implementation is not included neither in the scope of this project nor in the indicative budget.

## **Component 2: Instrument for financing of SMEs innovation**

### **Activities related to result 2.1. Roll of new equity-based financial instruments for SMEs is increased and recognized amongst entrepreneurs and Serbian financial intermediaries**

2.1.1 Prepare detailed review of models of venture capital support in EU countries and determine the most appropriate strategic options for Serbia

2.1.2 Conduct assessment of barriers to equity investment (including information, institutional, regulatory, internal management, taxation and financial control structures)

2.1.3. Disseminate in workshops best practices in developing venture funds to match the stage of development of SMEs (start-up capital, expansion capital, etc) to financial intermediaries and other interested stakeholders

2.1.4. Prepare and conduct promotional campaign to increase awareness within SMEs of role of equity investment in business development

### **Activities related to result 2.2. Develop regulatory and funding mechanisms for encouragement of formal venture capital (VC) investment into SMEs**

2.2.1. Prepare analyses and recommendations for regulatory improvement and introduction of tax incentives necessary for establishment of venture capital industry in Serbia

2.2.2. -

2.2.2. Identify domestic and international financial intermediaries interested in setting up venture capital operations in Serbia

2.2.3. Facilitate networking and knowledge sharing events between financial institutions/other stakeholders interested in setting VC funds in Serbia and representatives of the selected VC funds from EU countries and their associations (such as EVCA)

2.2.4. Support initiatives for establishment of VC funds by preparing draft rules, operating procedures, and mechanisms for transparent -operations of VC funds

2.2.5. Prepare and deliver training of Serbian managers for financial investments into VC funds

2.2.6. Support implementation of risk capital instruments in line with the CIP program, in cooperation with the European Investment Fund

2.2.7. Prepare training program and deliver training to selected financial intermediaries for longer term Serbian participation in the EU JEREMIE initiative

### **Activities related to result 2.3. Establish networks for informal venture capital investment into SMEs**

2.3.1. Prepare analyses and recommendations for regulatory improvement and introduction of tax incentives necessary for business angels operations in Serbia

2.3.2. Establish linkages with EU Business Angel networks and identify potential Business Angels in Serbia

2.3.3. Provide advice and assistance to private sector financial intermediaries to develop a Serbian business angel's network for informal venture capital

### **Activities related to result 2.4. Develop partnerships with financial intermediaries to develop Mezzanine finance provision for SMEs**

- 2.4.1. Conduct review of current and pipeline mezzanine finance provision in Serbia
- 2.4.2. Organize public consultations and workshops (involving public and private sector representatives) with the aim to establish partnership between private sector, government and quasi-government financial intermediaries and to develop mezzanine financing schemes
- 2.4.3. Provide advice and support in development of mezzanine financing schemes
- 2.4.4. Organize informative and promotional activities to encourage take-up and use of mezzanine finance within SMEs

**Activities related to result 2.5. Develop and launch investment readiness training program for SMEs**

- 2.5.1. Conduct analyses of the existing investment readiness programs and recommend future areas for training
- 2.5.2. Design the structures, rules and materials for implementation of the program
- 2.5.3. Discuss proposed program in a workshop with financiers and representatives of enterprises prior to finalization
- 2.5.4. Launch investment readiness program and closely monitor and manage initial period of operation
- 2.5.5. Organise specific events and undertake actions to bring closer SMEs looking for investments and potential investors

**Activities related to result 2.6. Innovation voucher scheme for encouraging risk taking of SMEs when undertaking innovation activities**

- 2.6.1. Provide an overview of the existing innovation voucher schemes in the EU, with recommendations
- 2.6.2. Provide inputs from SMEs in order to prepare demand driven innovation voucher scheme, focusing on facilitating SMEs in the phase of consideration and decision making related to introduction of innovation
- 2.6.3. Identify potential knowledge providers to be included in the scheme and provide criteria for ad-hoc approval of their engagement in the specific projects
- 2.6.4. Propose the concept of the innovation voucher scheme
- 2.6.5. Draft rules and procedures for the operation of the innovation voucher scheme

Technical assistance is responsible for drafting innovation voucher scheme. Implementation of the scheme will be financed from the national contribution and implemented by key beneficiaries. Only minor assistance might be expected from the technical assistance team, if the implementation commence during the project implementation period. Although key beneficiaries will strive to secure sources for funding implementation during the project implementation period, it might be postponed due to economic crises. Therefore, implementation of the voucher scheme is not included neither in the scope of this project nor in the indicative budget.

The project is to be delivered through one service contract.

### **3.5 Conditionality and sequencing:**

#### **Conditionality**

The Ministry of Economy and Regional Development and Ministry of Science and Technological Development will assist Serbian public, private and non-profit organisations to participate fully in the future EU Research Framework Programme (FP7), Competitiveness and Innovation Programme (CIP) and inter-regional co-operation programmes, which will provide important opportunities for transferring know-how and methods to Serbia from more advanced innovation systems elsewhere in Europe.

- Serbia will experience macroeconomic and political stability that will provide a basis for local market development, and trust among entrepreneurs to develop their businesses;
- Government of Serbia will maintain their commitment to private sector development, this includes continuation of ongoing business environment reform work;

The project is to be delivered through one service contract so there are no issues in relation to sequencing. The components should all start at the same time but activities under each component are independent of each other. Lessons learned should of course be shared across the components through regular co-ordination meetings between the technical assistance teams and the respective institutions.

#### **3.6 Linked activities**

The project directly supports implementation of the priorities from the “Strategy for Development of Competitive and Innovative SMEs 2008 – 2013” and it is completely **in line with Pillar 4: Competitive Advantages of SME in export markets**

The project is well combined and synchronized with the current and upcoming activities. It presents a logical continuation of previously completed CARDS 2001 and CARDS 2004 programme in Enterprise Development and Entrepreneurship, thus achieving a rounded and completed process in the establishment of stable, standardised and high-quality business support infrastructure in Serbia. The Project is closely linked with IPA08 project “Improved SME Competitiveness and Innovation”. The IPA08 results and outputs will be the starting point for IPA09 project (specially within component 1).

The proposed project builds upon:

- 1) The completed CARDS 2001 and CARDS 2004 programme in Enterprise Development and Entrepreneurship;
- 2) the completed CARDS 2003 and 2005 programmes to assist the pre- and post-privatisation restructuring and development of SMEs, implemented by the EBRD Turnaround Management programme;
- 3) CARDS 2004 “Serbian Investment Promotion Programme (SIPP)”, providing support in institutional development to the Serbian Investment and Export Promotion Agency (SIEPA);
- 4) CARDS 2002, 2003, 2004, and 2005 programmes supporting socially-owned enterprise restructuring and privatisation;
- 5) ongoing CARDS 2003/CARDS 2005 Regional Socio-Economic Development Initiatives programme (Banat region, Central and Southern Serbia) with objectives, inter alia, to build-up local economic and social development partnerships, develop

regional economic development plans, and establish a fund for local economic development projects;

- 6) ongoing CARDS 2003 / CARDS 2005 Municipal Support programmes in eastern and north-eastern Serbia promoting effective decentralisation and participation, and development and implementation of municipal actions plans, and
- 7) CARDS 2003 export development programme supporting institutional and policy development, training to enterprises, and the operation of two cost-sharing export development schemes.

Other main donor activities include: 1) UNIDO funded support to the Serbian Agency for SME Development, 2) Japanese Government funded support to the Serbian Agency for SME Development; 4) GTZ funded support to business advisory services, business linkages and previously to the Vojvodina Investment Promotion Agency; 5) World Bank funded support to business registration; export credit and IFC SEED funded support to business associations, consultancy services to individual enterprises, and introduction of financial products such as leasing and factoring, 6) Swiss Development Cooperation funded support for business development services; 7) recently completed SIDA funded support for development of a national FDI strategy; 8) ILO, UNDP, Dutch Government funding for economic development initiatives in Southern Serbia; and 9) Danish funded support for business support services, credit facilities, corporate social responsibility, etc. in the Nis district.

### **3.7 Lessons learned**

According to previous experience, during the period 2001-2007 the institutional infrastructure for SME development was established and supported both from Government of Serbia and various donor programs. The EC has been providing significant support to RASME and regional SME agencies through CARDS assistance (“Support to SMEs in Serbia” RSEDP - Regional Socio-economic Development Programme”). Significant support under a variety of instruments is provided by GTZ, UNDP, UNIDO, SDC, USAID and other bilateral donors.

According to the 6 years of work of RASME and inputs from local and regional level, as well as the increase in the number of SMEs and entrepreneurs, infrastructure capacity needs further development.

Previous experience shows to need to create equal opportunities in all regions in the Republic of Serbia, and thus develop a unique market of consulting services.

Project will be based on lessons learned from the results of Governmental supporting measures and donor programs. It will have great impact on: creation of SMEs, job creation, skills development and productivity, fostering the innovation and competitiveness of SME sector in Serbia as well as on improving the institutional infrastructure on national and regional level.

The findings of the pilot innovation survey conducted within CARDS 2004 suggests that rates of investment in innovation expenditure are very low and most innovation activity is concentrated in the acquisition of machinery, equipment and software and related training. The share of total employment located in medium/high technology manufacturing and in high-tech services is significantly below EU25 levels and even below the levels of neighbouring Bulgaria and Romania (except for the high-tech services in Romania, where Serbia performs better).

A summary of the survey findings is set out below:

Major strengths of Serbia comparable to 25 EU Member States:

- The proportion of population with tertiary education is comparable with the EU25 average

Major weaknesses of Serbia relative to 25 EU Member States:

- Public R&D expenditure
- Science & Engineering graduates
- Business R&D
- Participation in life-long learning
- Employment in high-tech manufacturing and services
- High-tech manufacturing value-added share

Data is not available for the following indicators in Serbia:

- High-tech patenting (EPO, USPTO)
- Overall patenting (EPO, USPTO)
- SME innovating in-house
- SME involved in innovation cooperation
- Innovation expenditures /turnover
- SME non-technological innovation
- High-tech venture capital share
- Early stage venture capital / GDP
- Sales ‘new to market’ products / turnover
- Sales ‘new to firm’ products / turnover
- Composite indicator on Internet access
- ICT expenditures / GDP.

The lack of data under such a large number of headings is a worrying indicator of the low priority accorded to innovation in Serbia.

**4. Indicative Budget (amounts in EUR)**

Integrated Innovation Support Programme			TOTAL EXP.RE	SOURCES OF FUNDING								
				IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	% (2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
1 Service contract (TA)	X		3,000,000	3,000,000	100%							-
TOTAL IB			3,000,000	3,000,000	100%							
TOTAL INV												
<b>TOTAL PROJECT</b>			<b>3,000,000</b>	<b>3,000,000</b>	<b>100%</b>							

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Total** Expenditure (column (a))



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

Contracts	Start of Tendering	Signature of contract	Project Completion
Service Contract	N+1Q	N+4Q	N+13Q

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

## 6. Cross cutting issues

### 6.1 Equal Opportunity

Implementing organisations will be encouraged to take the different roles and responsibilities of men and women into consideration when planning interventions. Considering the special difficulties faced by women engaged in business activities such as production, manufacturing, trading, enterprise development etc. special measures to address the needs of women will be pursued.

### 6.2 Environment

Environmental considerations will be addressed throughout project implementation. Training activities will also take into account aspects of sustainable development and environmental protection in business related activities.

### 6.3 Minorities

The project will not discriminate in any way against individuals wishing to participate in the project activities on account of their race, religion or ethnicity. The project technical assistance will be expected to provide information on those participating in the training and consultancy programmes so that any issues related to the participation of minority and vulnerable groups and be identified and appropriate corrective action taken.

**ANNEX I: The Logical Framework Matrix**

<b>LOGFRAME PLANNING MATRIX FOR PROJECT FICHE</b>	Programme name and number	
Integrated Innovation Support Programme	Contracting period expires: 2 years after the signing of the FA	Disbursement period expires: 5 years after the signing of the FA
	Total budget : <b>3,000,000.00 EUR</b>	IPA budget: <b>3,000,000.00 EUR</b>
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>
Increased competitiveness and economic growth in Serbia, through strengthening of innovation in SMEs in accordance to National Strategy for Competitive and Innovative SMEs 2008-2013.	<p>Increased:</p> <ul style="list-style-type: none"> <li>• Number of innovative SMEs (%)</li> <li>• Exports from SMEs</li> <li>• Sales of SMEs</li> <li>• Employment in SMEs</li> <li>• Investment in SMEs</li> <li>• Patent and licensing applications</li> <li>• R&amp;D expenditure</li> </ul> <p>Operational Plan associated with the Strategy for Competitive and Innovative SMEs 2008-2013. is implemented accordingly</p>	<ul style="list-style-type: none"> <li>• MERR reports</li> <li>• National statistics on exports, employment and investment</li> <li>• Innovation scoreboard indicators</li> </ul>

Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
<p><b>Component 1</b></p> <p>To enhance institutional capacity for efficient support to product and process innovation within SMEs and technology transfer</p>	<p>Increased:</p> <ul style="list-style-type: none"> <li>• Number of innovative SMEs (%)</li> <li>• Investment in SMEs</li> <li>• Patent and licensing applications</li> <li>• Increase in type and number of business support structures to support innovation</li> <li>• R&amp;D institutions orient themselves more strongly towards the needs of SMEs, to increase collaboration and thus transfer knowledge more effectively.</li> </ul>	<p>Regular project reports</p> <ul style="list-style-type: none"> <li>• Statistical Office of the Republic of Serbia's data;</li> <li>• Media reports;</li> <li>• Questionnaire on the importance of the appliance of innovation within the enterprises;</li> <li>• Science journals;</li> <li>• Reports of R&amp;D institutions;</li> </ul>	<p>Commitment of key stakeholders in National Innovation System and SMEs</p>
<p><b>Component 2</b></p> <p>To develop new instruments targeted at support of innovative SMEs in line with the Operational Plan associated with the Strategy for Competitive and Innovative SMEs 2008-2013.</p>	<ul style="list-style-type: none"> <li>• Incead interest and improved framework for formal and non-formal equity financing</li> <li>• Number of equity and quasi-equity investments into innovative SMEs</li> <li>• Numbers of SMEs trained</li> </ul> <p>Operational Plan associated with the Strategy for Competitive and Innovative SMEs 2008-2013. is implemented accordingly</p>	<p>Government publications</p> <ul style="list-style-type: none"> <li>• Legislative and regulatory reform documents</li> <li>• Agreements with financial intermediaries</li> <li>• Monitoring information on disbursements to financial intermediaries</li> <li>• SME Surveys</li> </ul>	<p>Central government commitment and involvement of financial actors</p> <p>Involvement of financial bodies and intermediaries and interest of SMEs</p>

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<b>Component 1: Enhanced institutional capacity for efficient support to product and process innovation within SMEs and technology transfer</b>			
1.1. Improved National Innovation System to encourage framework conditions and better linkages between business and innovation support organizations	Number of initiated R&D projects within the enterprises and percentage of income assigned for R&D; Number of joint projects between R&D institutions and enterprises; Number of work-shops and capacity building for key stakeholders Rate of consumption of available public fund for innovation and mobilization of private or international donor funds Increased turnover from export, new joint product development	Documented procedures Annual innovation policy report Records of work-shops and achievements	Commitment of key stakeholders in National Innovation System
1.2. Encourage technological innovation within SMEs through international and local expertise in coaching and on the job training.	250 innovative SMEEs identified and included into the coaching and on the job training Improved SMEs performance Increased adoption of technologies, improved productivity and new product development	Records of coaching and training Survey data collected on participating SMEEs	Commitment of SMEs Commitment of business and innovation support organizations
1.3. Extended innovation activities to local level and integrated with national level structure.	Increased awareness of innovation and technology issues amongst key stakeholders and decision makers at local level Number of roundtables and work-shops	Survey of participants and evaluation report Media and PR monitoring Records of training and	Commitment of referent institutions at local level

<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
	<p>for stakeholders at local level</p> <p>At least 5 local initiatives to encourage innovation in SMEs supported</p> <p>Establishment of at least 10 local access points to innovation related information supported</p>	<p>roundtables</p> <p>Project reports</p>	
1.4. New mechanisms of Governments' direct support to innovative SMEs are in place	National program for support to SMEs to introduce innovations and technology transfer by means of technology brokers developed 6 technology brokers trained and operating	<p>Project reports</p> <p>MoERD reports</p>	Commitment of key innovation stakeholders
<b>Component 2: Enhanced instruments for financing of SME innovation activities</b>			
2.1. Role of new equity-based financial instruments for SMEs recognized amongst entrepreneurs and Serbian financial intermediaries	<p>Assessment of barriers to equity investment report prepared;</p> <p>Information about role, models and best practice prepared and disseminated</p>	<p>Project reports</p> <p>MoERD reports</p> <p>MoF reports</p> <p>Records of meetings and roundtables.</p>	Commitment of government ministries, RASMEE, Republic Chamber of Commerce, RASMEE, SMEs
2.2. Regulatory and funding mechanisms for encouragement of formal venture capital investment into SMEs developed	<p>Recommendations for regulatory improvements and introduction of tax incentives prepared;</p> <p>Identified parties interested in setting up VC operations in Serbia;</p> <p>Facilitated networking with key stakeholders in VC industry for the purpose of knowledge sharing;</p> <p>Technical assistance provided for setting</p>	<p>Documentary records of measures and their take up by enterprises</p> <p>Legislation</p> <p>Operating procedures</p> <p>Applications made</p>	Necessary legislation adopted

<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
	up VC operations; Applications for CIP funding submitted.		
2.3. Networks for informal venture capital investment into SMEs established	Recommendations for regulatory improvements and introduction of tax incentives prepared; Contact database set-up; Linkages and memorandum of understanding reached with European Business Angels Network; Secretariat established to facilitate Serbian network development.	Records of meetings Contacts database	Commitment of BISOs, involvement of SMEs and readiness of informal venture capital investors
2.4. Partnerships with financial intermediaries to develop mezzanine finance provision for SMEs developed	Written documentation and agreements with financial intermediaries. Agreements with other donor programs to promote take-up of mezzanine finance, with appropriate technical assistance support to SME management teams	Agreements to promote mezzanine finance	Equity based instruments are set up and appealing to intermediaries and SMEs
2.5. Investment readiness training program for SMEs operational and effective	Agreed format and content of investment readiness programs. Implementation partners selected and trained. 100 SMEs participating in training and follow-up counselling and consultancy support. Follow-up tracking of participant companies to assess levels of subsequent	Records of management teams Documents of programs Records of support given to SMEs by support agencies Financial records	Commitment of SMEs

<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
	investment		

Activities	Means/Costs	Assumptions
<p>1.1.1. Facilitate access to regular updated information on national and international best practice in supporting innovation and technology transfer to policy makers</p> <p>1.1.2. Introduce successful models to foster links between science and businesses (competence centres, centres of excellence)</p> <p>1.1.3. Strengthen capacities, strategic partnership and networking between innovation support organizations (Universities, R&amp;D institutions, technology incubators, clusters, Enterprise Europe Network , regional agencies) and facilitate their engagement in trans national networks</p> <p>1.1.4. Promote the importance of innovation and technology transfer</p> <p>1.2.1. Select 250 innovative SMEs (based on innovation scanning undertaken under IPA 08 project), in the most important sectors</p> <p>1.2.2. Select and train a pool of consultants from BISO for delivering coaching and on the job training</p> <p>1.2.3. Design the coaching and on the job training program and training materials</p> <p>1.2.4. Prepare manual for undertaking innovation diagnosis and interventions</p> <p>1.2.5. Deliver diagnosis, coaching and on the job training in 250 SMEs</p> <p>1.2.6 Use Innovation Support network and its database of expertise within BISO to connect SMEs with relevant experts to implement where needed further large scale interventions</p> <p>1.3.1. Develop and implement public awareness campaigns aimed at promoting innovation and competitiveness in business at the local level</p> <p>1.3.2. Capacity development of local authorities and stakeholders to introduce measures to support innovation and technology transfer</p> <p>1.3.3. Support local initiatives and design schemes to support innovation in SMEs</p> <p>1.3.4. Assist local institutions to establish local access points to innovation related information</p>	<p>1 Service Contract for Technical Assistance</p> <p>Value: 3M€</p>	



Activities	Means/Costs	Assumptions
<p>1.4.1. Prepare plan for establishment of technology brokers program</p> <p>1.4.2. Prepare working manual, working procedures and guidelines for quality assurance for technology brokers operation</p> <p>1.4.3. Select and provide training for at least 6 technology brokers</p> <p>1.4.4. Design National program for support to SMEs to introduce innovations and technology transfer by means of technology brokers</p> <p>1.4.5. Promote new direct support mechanisms on Innovation Support Network web portal and other identified communication channels</p> <p>2.1.1 Prepare detailed review of models of venture capital support in EU countries and determine the most appropriate strategic options for Serbia</p> <p>2.1.2 Conduct assessment of barriers to equity investment (including information, institutional, regulatory, internal management and financial control structures)</p> <p>2.1.3. Disseminate in workshops best practices in developing venture funds to match the stage of development of SMEs (start-up capital, expansion capital, etc) to financial intermediaries and other interested stakeholders</p> <p>2.1.4. Prepare and conduct promotional campaign to increase awareness of role of equity investment in - business development</p> <p>2.2.1. Prepare analyses and recommendations for regulatory improvement and introduction of tax incentives necessary for establishment of venture capital industry in Serbia</p> <p>Identify domestic and international financial intermediaries interested in setting up venture capital operations in Serbia</p> <p>2.2.3. Facilitate networking and knowledge sharing events between financial institutions/other stakeholders interested in setting VC funds in Serbia and representatives of the selected VC funds from EU countries and their associations (such as EVCA)</p> <p>2.2.4. Support initiatives for establishment of VC funds by preparing draft rules, operating procedures, and mechanisms for transparent -operations of VC funds</p> <p>2.2.5. Prepare and deliver training of Serbian managers for financial investments into VC funds</p> <p>2.2.6. Support implementation of risk capital instruments in line with the CIP program, in cooperation with the</p>		

Activities	Means/Costs	Assumptions
<p>European Investment Fund</p> <p>2.2.7. Prepare training program and deliver training to selected financial intermediaries for longer term Serbian participation in the EU JEREMIE initiative</p> <p>2.3.1. Prepare analyses and recommendations for regulatory improvement and introduction of tax incentives necessary for business angels operations in Serbia</p> <p>2.3.2. Establish linkages with EU Business Angel networks and identify potential Business Angels in Serbia</p> <p>2.3.3. Provide advice and assistance to private sector financial intermediaries to develop a Serbian business angel's network for informal venture capital</p> <p>2.4.1. Conduct review of current and pipeline mezzanine finance provision in Serbia</p> <p>2.4.2. Organize public consultations and workshops (involving public and private sector representatives) with the aim to establish partnership between private sector, government and quasi-government financial intermediaries and to develop mezzanine financing schemes</p> <p>2.4.3. Provide advice and support in development of mezzanine financing schemes</p> <p>2.4.4. Organize informative and promotional activities to encourage take-up and use of mezzanine finance within SMEs</p> <p>2.5.1. Conduct analyses of the existing investment readiness programs and recommend future areas for training</p> <p>2.5.2. Design the structures, rules and materials for implementation of the program</p> <p>2.5.3. Discuss proposed program in a workshop with financiers and representatives of enterprises prior to finalization</p> <p>2.5.4. Launch investment readiness program and closely monitor and manage initial period of operation</p> <p>2.5.5. Organise specific events and undertake actions to bring closer SMEs looking for investments and potential investors</p>		

<b>Activities</b>	<b>Means/Costs</b>	<b>Assumptions</b>
<p>2.6.1. Provide an overview of the existing innovation voucher schemes in the EU, with recommendations</p> <p>2.6.2. Provide inputs from SMEs in order to prepare demand driven innovation voucher scheme, focusing on facilitating SMEs in the phase of consideration and decision making related to introduction of innovation</p> <p>2.6.3. Identify leading R&amp;D institutions and potential knowledge providers to be included in the scheme and provide criteria for ad-hoc approval of their engagement in the specific projects</p> <p>2.6.4. Propose the concept of the innovation voucher scheme</p> <p>2.6.5. Draft rules and procedures for the operation of the innovation voucher scheme</p>		

**ANNEX II Amounts (in M€) Contracted and Disbursed per Quarter over the Full Duration of Programme**

<b>CONTRACTED</b>	<b>N+4Q</b>	<b>N+5Q</b>	<b>N+6Q</b>	<b>N+7Q</b>	<b>N+8Q</b>	<b>N+9Q</b>	<b>N+10Q</b>	<b>N+11Q</b>	<b>N+12Q</b>	<b>N+13Q</b>	<b>Total</b>
Contract 1.1.	3.000										<b>3.000</b>
<b>CUMULATED</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>
<b>DISBURSED</b>											
Contract 1.1.	0.600		0.525		0.525		0.525		0.525	0.300	<b>3.000</b>
<b>CUMULATED</b>	<b>0.600</b>	<b>0.600</b>	<b>1.125</b>	<b>1.125</b>	<b>1.650</b>	<b>1.650</b>	<b>2.175</b>	<b>2.175</b>	<b>2.700</b>	<b>3.000</b>	<b>3.000</b>

## **ANNEX III Description of Institutional Framework**

### **Description of Institutional Framework**

**The Ministry of Economy and Regional Development (MoERD)** is the policy making body responsible for defining and implementing the overall economic development policy, including the SME development strategy, foreign direct investment strategy, employment policy etc. This ministry is made of five departments: International economic relations, Regional Development, Employment, Tourism and Industry. The Ministry mandate covers 6 other bodies dealing with sector specific policy implementation, namely: Privatization Agency, Business Registration Agency, Export Insurance and Financing Agency, Agency for the Development of Small and Medium-Sized Enterprises and Entrepreneurship, Serbia Investment and Export Promotion Agency, Bankruptcy Supervision Agency and the Tourist Organization of Serbia.

**The Ministry of Science and Technological Development** is to enable science to fully realize its potential in driving the economy and society forward. By setting high standards on project selection, strengthening international collaboration and increasing government spending on science, the Ministry wants to establish Serbia as a modern society in which innovation; originality and knowledge are key factors in development.

Creating a new, competitive and open economy will allow Serbia to speed up the process of economic and social growth. Ministry of Science and Technological Development want to be ready to successfully participate in the global market and also to protect ourselves from its possible negative side-effects. Science and technology can propel us in the right direction and help us take advantage of the existing possibilities for fast, yet sustainable, development. This ministry is made of five departments: Department for Basic Research, Department for Technological Development, Transfer of Technologies and Innovation System, Department for International Scientific and Technological Cooperation, Department for Human Resources Development in Science.

**Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship** was established by the Law on the Agency for the Development of Small and Medium-sized Enterprises ("RS Official Gazette" no. 65, November 23, 2001). The Agency is established with the basic aim to support (help, advise and protect) the development and interests of SME sector, which should contribute to balancing of economic structure, invigorating of economic development and revival of economic flows in the country.

1. Support to the creation of enabling environment for SME development
2. Participating in the creation of republic regulations and creation of institutional (market) infrastructure for the establishment and development of SMEs.
3. Direct non-financial support for SMEs (consulting, info, matchmaking, networking, facilitation of access to finance&).
4. Preparation and realisation of educational programmes for trainers and for training of entrepreneurs and SME managers (trainings for unemployed, training of trainers, mentoring...).
5. Coordination of the Republic Network of regional agencies/centres.
6. International cooperation.
7. Promotion of entrepreneurship.

8. Support for SMEs in the area of new technologies and support to their innovation activities (creating links between R&D, universities and SMEs)

Ten regional agencies and centres were founded in the period December 2001-December 2002, with the support of EAR (Kragujevac, Nis, Krusevac, Zajecar, Zrenjanin, Uzice and Belgrade), GTZ (Novi Sad and Subotica) and SDC (Novi Pazar). In 2003, the Serbian Government founded the Regional Agency 'Sombor' (covers the territory of the South Backa District). The Serbian Government is also a co-founder of seven regional centres (Zajecar, Zrenjanin, Uzice, Beograd, Kragujevac, Nis, and Subotica). In 2004, regional agencies (Vranje and Leskovac) were founded with ILO support. Their founders are relevant factors from the territories they cover (local governments, regional chambers of commerce, association of entrepreneurs, business associations, banks, institutes, faculties etc.). In April 2007 Regional Centre d.o.o. Sabac for the territories of Macva and Kolubara districts was founded. This regional centre was founded by eight municipalities from the mentioned districts and the Regional Chamber of Commerce from Valjevo, with the support of UNDP.

In May 2003 Republic Agency established the Republic Network for non-financial support to SMEs sector in Serbia, consists of regional agencies/centres.

The basis of the institutional infrastructure for non-financial support to SMEE is the Republic Agency for the development of SMEE with 13 regional agencies/centres and a new regional centre in Sabac joined to the Agency in 2007. The joint action of the Republic network is carried out according to the project task approved by the responsible Ministry of Economy and regional development. Republic agency established during 2007. 6 offices in Kraljevo, Subotica, Sremska Mitrovica, Nis, Pozarevac and Loznica and will open 6 more in order to complete the institutional network for support SMEs and entrepreneurs in Serbia.

## **ANNEX IV Reference to laws, regulations and strategic documents**

### **Reference to laws, regulations and strategic documents:**

Laws/Regulations adopted:

- Labour Law, 2005
- Law on Ministries, 2007
- Law on the Agency for the Development of Small and Medium Enterprises, 2001
- Statute of the Republic Agency for the Development of Small and Medium Enterprises, 2001
- Law on Innovation Activity, 2006
- Foreign Investment Law, 2005

**Reference to AP** (applies only to Candidate Countries, not applicable to Serbia, which is a Potential Candidate Country)

**Reference to NPAA** (applies only to candidate countries, not applicable to Serbia which is Potential Candidate Country)

### **Reference to European Partnership**

European Partnership emphasises the need to adopt mechanism for institutional support to SMEs and entrepreneurship development. As defined by “Council Decision of 30 January 2006”, Serbia has to continue implementing the European Charter for Small Enterprises and to:

- “Further develop local/regional business support structures (clusters, incubators, business/technology parks” (p. 40);
- Implement civil service human resources development measures. Strengthen capacity (policy-making and inter-ministerial coordination) of the public administration at government and local level... Strengthen the economic policy-making process”(p. 43);

This programme addresses several key objectives as highlighted in the European Partnership, specifically those intended to strengthen the business environment to promote the development of the private sector and employment as short and medium term priorities. Further aspects include:

- Increased efforts to create a modern vocational education and training system and to improve the overall education system;
- Implementing the European Charter for SME and further develop local and regional business support structures, such as clusters, business incubators and technology parks.

In response the European Partnership, the Government of Serbia’s plan adopted in April 2006 identifies the following relevant priorities:

- Strengthened European integration structures at all levels and improved co-operation between them;
- Strengthen policy-making capacity and inter-ministerial coordination at government and local levels;

- Strengthened economic policy-making process;
- Strengthen the business environment to promote the development of the private sector and employment with competitive markets;

### **Reference to SAA**

Stabilisation and Association Agreement adopted and signed EU/ Serbia SAA in Brussels, April 2008. Focusing on industrial co-operation, SMEs and education / training. It has been declared that joint activities and co-operation shall aim at:

- Modernising and restructuring the industry and individual sectors in Serbia while establishing a framework for the improvement of management, managerial know-how and the business environment (Art. 94);
- Establishing efficient export promotion activities - as it has been realised in various projects so far – and further strengthen these efforts (Art. 94);
- Developing the SME sector and support economic co-operation between Serbia and the member states (Art. 95);
- Raising the level of VET and (management) training by designing programmes that contribute to the upgrading of educational and training structures and activities in Serbia (Art. 102).
- The development of SMEs in Serbia is important because of the social nature of the SME sector, i.e. because it would create job opportunities for special categories (young people, women, pensioner, the disabled, etc.). This complies with the structural adjustment of the economy, following the example of the economies of the EU countries. Lisbon Strategy has marked the SME sector as one of the pillars of economic growth of the EU;

### **EU references relevant for project**

- The Communication on innovation ‘Putting knowledge into practice: A broad-based innovation strategy for the EU’ adopted on 13.09.2006 (COM(2006)502), points the way forward to accompany industry-led and society-driven innovation with competitiveness and public policies at all levels as a core element of the renewed Lisbon strategy for growth and jobs, including the implementation of the actions foreseen in the ‘More Research and Innovation - Investing for Growth and Employment: A Common Approach’ Communication (COM(2005)0488).
- Communication from the Commission on ‘Delivering on the Modernisation Agenda for Universities: Education, Research, Innovation’ (COM (2006)0208)  
Communication from the Commission: E-skills for the 21st Century: Fostering Competitiveness, Growth and Jobs (COM (2007) 496)
- Communication from the Commission on ‘Improving knowledge transfer between research institutions and industry across Europe: embracing open innovation’ (COM (2007)182)
- Setting up of a new network for business support services



- The EU's cohesion policy will be mobilised in support of regional innovation. The Communication from the Commission 'More research and innovation' (COM (2005)488) gives guidelines to this end.
- New Community Framework for State aid for Research and Development and innovation. Communication from the Commission 'Towards a more effective use of tax incentives in favour of R & D' (COM (2006)728).
- In addition to the ten priority points, the Conclusions of the Competitiveness Council of 04.12.2006 stressed the need for actions in the area of clusters development.
- Entrepreneurship Action Plan Key Action 7 - More Equity And Stronger Balance Sheets;
- Speech/2007/10 Françoise Le Bail Deputy Director-General, Dg Enterprise And Industry Opening Address Financing Innovation – From Ideas To Market Portuguese Presidency Forum Financing Innovation - From Ideas To Market Estoril, 8 October 2007;
- Brussels, 29.6.2006 Com(2006) 349 Final Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions Implementing The Community Lisbon Programme: Financing SME Growth – Adding European Value {Sec(2006) 841} {Sec(2006) 842} {Sec(2006) 856};
- Brussels, Xxx Sec(2006) 842/2 Commission Staff Working Document Annex III To The Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions Implementing The Community Lisbon Programme: Financing SME Growth – Adding European Value {Com(2006) Xxx Final} Access To Finance: The Way Forward;
- Brussels, 21.12.2007 Sec(2007) 1719 Commission Staff Working Document Accompanying The Document Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions Removing Obstacles To Cross-Border Investments By Venture Capital Funds - Glossary And Expert Group Report {Com(2007) 853 Final};
- Directorate-General For Enterprise And Industry Best Practices Of Public Support For Early-Stage Equity Finance Final Report Of The Expert Group September 2005;
- Expert Group report on 'Removing obstacles to cross-border investments by venture capital funds'.
- Removing Obstacles to Cross-border Investments by Venture Capital Funds (COM (2007) 853)

## Reference to MIPD 2009-2011

### Component I

#### Economic criteria

Improvement of the socio-economic situation of the country and its population dealing with issues and sectors related to employment generation, education, social inclusion, health, business environment, SMEs, restructuring and competitiveness, fiscal and macro-economic matters, inland waterway transport and flood prevention, as well as infrastructure and rural development. Some activities which will prepare the country for future structural funds may be funded under this component.

Strategic Objectives for IPA assistance over the period 2008-2010

#### “Socio-economic Criteria“

”Enhancing the investment climate and support to small and medium sized enterprises through a favourable legislative and policy framework, economic environment, access to services, capital and know-how, and support to competitiveness, including investment and import/export promotion. Support to job creation potential in specific branches and activities related to tourism. Develop national institutional capacities for the implementation of anti-trust policy, a competitive Serbian business environment and industry capable of sustaining the competitive pressure of the European market. Develop Serbia's capacity to benefit from the knowledge based society. Further develop local/regional business support structures (clusters, incubators, business/technology parks, etc.) in order to promote business, research and innovation related activities and public services. Development and implementation of Serbia’s industrial, innovation and FDI strategies and action plans. Promotion of FDI and export-oriented companies. Assist SME and Regional Economic Development Support institutions” (p.23);

#### Reference to National Development Plans

**The National Strategy for Economic Development of Serbia 2006-2012** is the first development document defining, in a consistent and integral way, the country’s basic development priorities.

The main development goals are to increase the standard of living of all citizens as well as dynamic and sustainable economic development. This implies the basic strategic orientations:

1. Creating an attractive business environment as a basic condition for increasing the overall competitiveness of Serbian economy, i.e.
  - Pursuing of all transition and reform processes that could activate the country’s development potentials – human, material and natural - and make Serbia attractive for faster development of the domestic private sector and higher foreign capital inflow (FDI).
2. Knowledge-based development, i.e.
  - Strengthening efforts to bring knowledge as a basic development factor for Serbia, and knowledge-based product innovation, new technologies and system of services into the foreground to foster international competitiveness;
  - Further reforms of education and employment services to link business development needs with the improved supply of educational and training services.

**Strategy of Balanced Regional Development** – Sustainable development, Enhancement of regional competitiveness, Diminishing regional discrepancies and alleviation of poverty, **chapter VI “Strategy of Institutional Development” - “Activities to implement local development strategy are:**

- Support to SME development
- Support to establishment of new companies
- Promotion of foreign and local investments
- Promotion of cluster development
- Improvement of infrastructure (...)
- Other support measures: (...), support to research and development, providing business advisory services, providing access to finance, support to establishment and development of business associations, enabling business links (...)" (p. 185)

**Strategy for the Development of SMEs and Entrepreneurship in Serbia, 2003 – 2008**

“The priority objective of the Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia is to create a framework for the development of a sustainable, internationally competitive and export oriented SME sector” (p. 3)

**Programme for Business Incubators and Clusters Development in the Republic of Serbia 2007 – 2012 (December 2006)**

“The Programme’s objective is to generate new jobs, new enterprises and increase competitiveness through development of entrepreneurs, enterprises and SME institutions in the Republic of Serbia.” (p. 6)

**Strategy for Competitive and Innovative SMEs 2008-2013 (October 2008)**

Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises 2008 – 2013 represents a strategic policy document for development of small and medium-sized enterprises and entrepreneurship, which defines key priorities and how they will be implemented in the following years in a consistent and holistic manner.

Strategy contained **five Strategic Pillars**, aiming at transferring policy into activities:

- Promotion and Support for Entrepreneurship and Business Start-Up
- Human Resources for a Competitive SME sector
- Financing and Taxation for SMEs
- Competitive Advantages for SMEs in Export Markets
- Legal, Institutional and Business Environment at the Service of SMEs in Serbia

**Pillar 4 actions will contribute to increased competitiveness of SMEs in export market through:**

- Encouraging greater investment in technical and non-technical innovations
- Better cooperation of SMEs with R&D organisations
- Encouraging investments in ICT

- Improved cooperation of Serbian SMEs with international companies on TT
- Development of innovation relay centres and networks for connecting Serbian RD & innovation centres with counterparts in EU countries; providing financial resources and subsidizing innovation
- Participation in EU innovation initiatives.
- Improve SME product and service quality, through developing standards and quality assurance systems
- Financial subsidies for the certification of products and services
- Establishing and development of clusters
- Enhancing supply chains through development of sectors, clusters and outsourcing
- Promotion of Serbian SMEs on foreign markets
- Reducing barriers to export amongst internationally oriented SMEs

**The project also directly links to the following key government strategies and action plans:**

- National Employment Strategy 2005-2010;
- National Plan of Employment Activities for the period of 2006-2008;
- National Action Plan for Education;
- National Strategy for the Development of Vocational Education - Action Plan still to be endorsed;
- Nis: Strategy of local economic development will be completed till the end of July – on the basis of Study of Local Economic Development, prepared by World Bank project (EPP). In the Strategy key economic sectors and branches will be determined;
- Action Plan on SMEE Development for 2005 – 2007.

**Copenhagen Economic Criteria:** enabling businesses to sustain the pressure of EU business competitiveness it emphasizes the importance of taking actions that will increase the competitiveness of domestic enterprises, in accordance with the procedures, standards and regulations of EU;

**Lisbon Agenda (2000):** the activities would contribute to the fulfilling of the ambitious goals of the Lisbon Strategy of making the European economy the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, by 2010

**Barcelona Objective (2002):** investment in European research and development (R&D) must be increased with the aim of approaching 3% of GDP by 2010, with the level of business R&D funding increased to two-thirds of total R&D investment. Building capacity of key stakeholders to manage innovation and to develop effective innovation policies will contribute to greater competitiveness and stimulate business R&D.

**Annex V**

This project will be delivered through a single service contract.