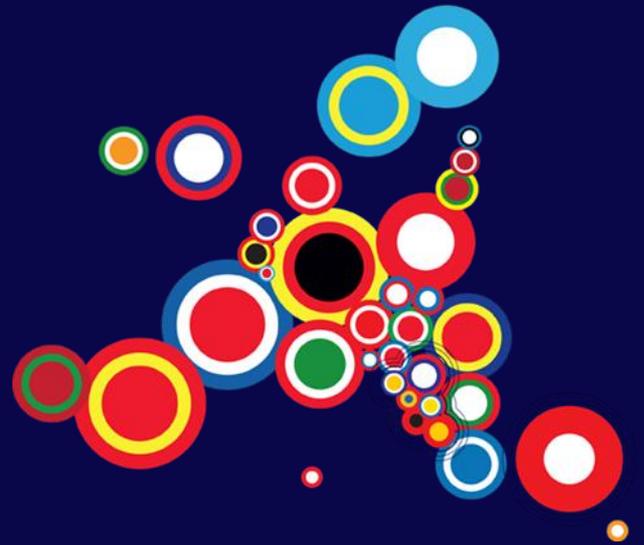




## INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

### SERBIA

### Local Development Programme



#### **Action Summary**

The Action aims at improving the competitiveness and social cohesion at local level in Serbia. The components of the action support municipalities in improving the environment for SMEs, provide assistance to municipalities for the implementation of more efficient services for land management and issuing permits and support small scale infrastructure interventions that have a positive impact on local economy and quality of life.

The Action will result in increased capacities of municipalities in Serbia to attract investments, support business development and create new jobs. Competitiveness of local SMEs will be increased through the improvement of production technologies and managerial skills. Access to specialised services will result in increased productivity.

The Action will enhance the potential for investments in local public infrastructure through improvement of urban planning and support to project development. This will enable a conducive business environment, enhance opportunities for employment generation and lead to improved competitiveness.

Development of small scale public infrastructure in municipalities will enable better social cohesion and provide a more attractive living environment. It will contribute to the sustainable development of underdeveloped areas, strengthening local governance and enhancing implementation of social inclusion and employment policies.

<b>Action Identification</b>	
<b>Action Programme Title</b>	Country Action Programme for Serbia for the year 2016
<b>Action Title</b>	Local Development Programme
<b>Action ID</b>	IPA 2016/039805.08/Serbia/Local Development
<b>Sector Information</b>	
<b>IPA II Sector</b>	Competitiveness and Innovation
<b>DAC Sector</b>	15110
<b>Budget</b>	
<b>Total cost</b>	EUR 25.000.000
<b>EU contribution</b>	EUR 25.000.000
<b>Budget line(s)</b>	22 02 01 01
<b>Management and Implementation</b>	
<b>Management mode</b>	Indirect Management
<b>National authority or other entrusted entity</b>	UNOPS.
<b>Implementation responsibilities</b>	SEIO has lead coordinating role for the entire Action, with specific roles: For the Result 1 - Ministry in charge of economy For the Result 2 - Ministry in charge of economy For the Result 3 - Public Investment Management Office (PIMO)
<b>Location</b>	
<b>Zone benefiting from the action</b>	Republic of Serbia
<b>Specific implementation area(s)</b>	Šumadija and Western Serbia Region Districts: Mačvanski, Kolubarski, Zlatiborski, Moravički, Raški, Šumadijski, Pomoravski and Rasinski district. South and Eastern Serbia Region Districts: Podunavski, Braničevski, Borski, Zaječarski, Toplički, Nišavski, Pirotski, Jablanički and Pčinjski district.
<b>Timeline</b>	
<b>Final date for concluding Financing Agreement(s) with IPA II beneficiary</b>	At the latest by 31 December 2017
<b>Final date for concluding delegation agreements under indirect management</b>	At the latest by 31 December 2017
<b>Final date for concluding procurement and grant contracts</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation
<b>Final date for operational</b>	6 years following the conclusion of the Financing Agreement

<b>implementation</b>			
<b>Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)</b>	12 years following the conclusion of the Financing Agreement		
<b>Policy objectives / Markers (DAC form)</b>			
<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	x
Aid to environment	<input type="checkbox"/>	x	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	x	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

Serbia's economy is characterised by substantial discrepancies in economic development between different geographic areas. Economic growth has been concentrated in larger cities, while the highest unemployment rates and poverty levels are recorded in the smaller towns and rural communities. In parallel to this, and partially as a consequence, there is a strong internal migratory trend toward the major conurbations.<sup>1</sup>

In the long term, this poses a major constraint on economic growth.

Serbia's high unemployment rate of 17,9%<sup>2</sup> comes with significant regional disproportions. For example, the average unemployment rate among the municipalities in South and South–West Serbia<sup>3</sup>, is 47,85%. It is expected that the reform of the public administration and restructuring of socially owned enterprises in those areas will increase the number of unemployed persons of about 50.000 people.<sup>4</sup> Unemployment is followed by a decreasing population, leading to the depopulation of the countryside and smaller towns. Over the last decade, the only parts of Serbia that have seen an increase in inhabitants have been the larger cities. This trend makes rural communities less competitive, both economically and socially. Lack of adequate living standards and social infrastructure<sup>5</sup> is deterring young people and educated labour force to stay in the rural communities.

In particular, the areas that will be targeted by this action (Šumadija, Western Serbia, South and East Serbia) are recording the largest share of depopulation.<sup>6</sup>

An additional element is the need for improved social cohesion and social integration in multi – ethnic communities, which is an important factor of the overall local development. Cultural diversities are characteristic throughout Serbia, and are especially relevant for the South East and South West. The ethnic structure of the population in these areas is diversified, and national minorities represent a high percentage of the total population<sup>7</sup>.

The existence of significant regional disparities and discrepancy in economic growth and development between Vojvodina and Belgrade on the one side and the areas specifically targeted by this Action on the other side is visible in all fields, including the private sector (small and medium sized enterprises (SMEs), competitiveness), the public sector (local administration, infrastructure.), and the civil society organisation (in terms of size and capacities to implement activities).

In order to revert this trend, Serbia needs to unlock its growth and job-creating potential through a more even territorial development. The recent Law on Investments represents a window of opportunity to achieve this. It defines the territorial areas based on inter-municipal cooperation, and provides the legal framework to boost the role of the Regional Development Agencies (RDAs), while confirming the role of the Serbian Development Agency (RAS) in accrediting them. This framework can give a fresh impetus to an even territorial development policy, and provide a mechanism for initiatives at local level to flourish.

In order to support the development and implementation of this policy, this Action will focus on the less developed areas in Serbia, mainly on municipalities in Sumadija, Western Serbia, Southern and Eastern Serbia. The key stakeholders of the action will be local SMEs, local administration structures, civil society organisations (CSOs) and business support organisations (BSOs). Direct beneficiaries will include the SMEs participating in the grant scheme (it is expected that at least 150 SMEs in the targeted regions participate); BSO and CSOs (at least 20 such institutions in the duration of the action), and local self-governments (at

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<sup>1</sup>According to the Report on Economic Development in Serbia in 2014, Ministry of Economy September 2015 and Report on SMEs in Serbia for 2013 GDP per capita is 18 times higher in Novi Sad compared to Smederevo; income in Novi Sad is 3,6 times higher than in Leskovac, unemployment rate in Belgrade City is 4 times lower than in Novi Pazar . Viewed by GVA per employee SME sector in the Belgrade region is two times more productive compared to the Southern - Eastern region, and by 1.7 times in comparison to Šumadija - Western region.

<sup>2</sup>Macroeconomic Developments in Serbia, National Bank of Serbia 2016

<sup>3</sup>covered by European PROGRES programme

<sup>4</sup>Structural Reform of Public Sector, Ministry of Finance, 2014

<sup>5</sup>This, in the first place, means provision of adequate access to water supply and sanitation, proper communication infrastructure, quality services regarding social aspects of living (kindergartens, schools, health care and cultural institutions)

<sup>6</sup>Statistical Office of Serbia, Internal migrations in the Republic of Serbia-2014, net migration balances: -4217 and -2869

<sup>7</sup>E.g. Bosilegrad 70% Bulgarians, Bujanovac 55% Albanians, Preševo 89% Albanians, Novi Pazar 77% Bosniaks

least 20 will be supported to digitalise and update geo-spatial data, at least 50 will be supported to develop Detailed regulation plans, and at least 35 public infrastructure projects should be implemented). The direct beneficiaries will be the employees of the SMEs and citizens of the targeted municipalities, with indirect beneficiaries being the citizens of the targeted areas of Serbia.

In order to achieve this aim in a coherent and sustainable manner, the Action is divided into three results.

The action will, firstly, focus on the increase of the competitiveness of the local economies. A recent assessment of the EIB<sup>8</sup> has shown that of the roughly 300 thousand enterprises active in the SME sector in Serbia, 96% belong to the micro segment (up to 9 persons employed). The United States Agency for Development (USAID) estimates that on top of this, there is an additional number of enterprises which are not registered, at around 21% to 30% of GDP overall. The SME sector provides for over 70% of the country's employment (above the EU average which stands at 67%); however, in recent years and as a result of economic stagnation the number of enterprises has been on the decline, and with it also employment rates. In view of these data, the Action will focus on developing better conditions for the functioning of SMEs at local level.

Serbia's SME base is relatively similar in structure to the EU, but its productivity is considerably lower. Although SMEs form the backbone of the economy and account for the vast majority of the private sector economy, whilst generating only around 34% of GDP (2013). Average Gross Value Added per employee in the European SME is 41.3, whilst in Serbia it counts for 10.9. The SME sector accounts for 99.8 % of all enterprises but generates only 55.2% and turnover and profit per employee is equally low compared to EU average making the Serbian SME sector uncompetitive and diminishing its contribution to the economy.

The SME performance levels are substantially different across the territory. Belgrade District SMEs are the most successful (31,8% of total number of SMEs, 32,5% employees, 45,0% turnover and 43,9% of sector GDP<sup>9</sup>), whereas the situation in some of the districts targeted by this Action, such as the Toplički, Pirotski and Zaječarski District is that they make only 2,6% of total number of SMEs, employ 3,1% of workforce, achieve 1,5% of turnover and only 2,0% of SME sector GDP.

In addition, productivity of the SMEs based in Belgrade is 2,1 times higher than in South and Eastern Serbia<sup>10</sup>. The conditions for start-up activities and enterprise development are equally uneven with significant differences in survival rates<sup>11</sup>.

Similar disparities are observed in the SMEs foreign trade activities. Belgrade and Vojvodina contribute to staggering 66, 8% of the total SME export and 79,8% of import<sup>12</sup>. On the contrary, Šumadija -Western Serbia SMEs contribute to only 28.4% of exports.

Investing in new technologies remains one of the key obstacles to the development of the SME sector and safeguarding jobs. Many enterprises need specific skills and expertise in introducing or upgrading technologies or developing new products that can be obtained only outside the company. Furthermore, once they develop or upgrade the products, they lack international connections, quality certifications and visibility of their products. These enterprises need specific expertise to strengthen their market position and become more bankable. Results of similar programmes have shown that, when provided with such services, 74% of supported enterprises increased their turnover, 56% increase their productivity and 67% increased number of employees.<sup>13</sup> This Action will therefore aim at improving the technological structure of local level SMEs and their ability to export.

The existence and efficient work of Business Support Organisations (BSOs), such as development agencies, clusters, incubators, associations, chambers, etc. and NGOs is of utmost importance for efficient SME development throughout Serbia. The Action will, therefore, contribute to the increased provision of specialised services for SMEs at local level. Such services can include market research, financial management, organisation of production processes, product and company branding etc. This support is particularly important for sustainability of start-up businesses.

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8 EIB's "Assessment of financing needs of SMEs in the Western Balkans countries: Country Report Serbia" 2015.

9 Belgrade's SMEs vs. several districts of the two targeted NUTS 2 regions.

<sup>10</sup> Report on SMEs and Entrepreneurship in 2014, Ministry of Economy December 2015

<sup>11</sup> Report on SMEs and Entrepreneurship in 2014, Ministry of Economy December 2015

<sup>12</sup> Report on SMEs and Entrepreneurship in 2014, Ministry of Economy December 2015

<sup>13</sup> EBRD Small Business Support in Serbia implemented between 2012-2014

While the SME sector qualifies as one of the most relevant segments of the local economic development, the second important element is the need for greater efficiency in the functioning of the local administration and its increased capacity to provide reasonable conditions for doing business. Long and complicated local administrative procedures slow-down business operations and adversely affect the local economy. Entrepreneurs point out to challenges such as the lack of transparency and speed in the resolution of cases, lack of application of ex-officio procedures for the obtaining of documents and unclear and non-uniform submission forms at local level.

A number of activities of the local administration have greater impact upon competitiveness, and this Action will focus on building local capacities in these segments specifically. Such municipal activities include, among others, collecting and digitalising geo-spatial information, preparation and adoption of regulation plans, preparation of project documentation, refurbishment of the communal infrastructure or business premises, and others. One area of concern is the limited Geodetic Information system (GIS) development, which is an important tool to capture, combine and interpret local data from different sources. A system that would integrate infrastructure information such as water, sewer, phone, hydro and gas services with municipal land use information, would allow businesses to better identify economic development opportunities<sup>14</sup>. For example, the local self-governments (LSGs) targeted by this Action<sup>15</sup> have various degrees of organisation of the system for the management of geo-spatial data, and none has the necessary complete institutional and legal framework necessary for the GIS.

Public property management also faces serious deficiencies caused by poor record keeping of property ownership and usage, especially when it comes to underground line infrastructure, legal status of many facilities, unresolved property issues, illegal construction, lack of archival material and staffing and technical deficiencies in the LSGs<sup>16</sup>. Systematic recording of underground line utility infrastructure has not started yet.

The LSGs in the areas targeted by this Action in particular face lack of geodetic data for the adequate entry of information on property rights into the Republic Geodetic Agency database; digitalisation of geo-spatial data, including installation cadastres and planning documentation. A new and unified procedure exists for the issuance of construction permits; but the lack of capacities for processing and funds for effective implementation hamper its use. The establishment of One Stop Shops (OSS) within which citizens and businesses could finalise their paperwork in a more effective and efficient manner remains essential for the local level.

Investors prefer locations with business sites that are either equipped with adequate infrastructure or have ready project documentation and no legal issues. In the areas that will be targeted by this Action, there are a number of semi-developed business sites that need additional support to be fully operational.<sup>17</sup>

The areas that will be targeted by this Action in particular lack of planning and existence of technical documentation for infrastructure projects, regardless of scale. In order to increase the readiness of projects for financing, support will be provided for the development or upgrading of the urban planning documentation and project technical documentation for infrastructure projects that have a demonstrated impact on the local economy.

All of these challenges pertaining to land and geo-spatial data management, spatial documentation, unified procedure for issuing construction permits and projects technical readiness heavily impede the effective implementation of physical infrastructure projects, which are necessary to enable, support or improve business operations. It is expected that the improvements in both enterprise development and small-scale infrastructure will help safeguard jobs and create new employment opportunities.

Conditions and capacities of the institutions dealing with interethnic dialogue and cooperation are not satisfactory. Coordination and cooperation between civil society organisations (CSO) and municipalities in addressing issues connected with multi-ethnicity are still underdeveloped. Language and cultural barriers are preventing a more intensive social cohesion in a number of municipalities that will be targeted by this

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<sup>14</sup> Municipal GIS status and strategies, PCED Volume 11

<sup>15</sup> European Progress Assessment report: Current situation and needs for development of detailed regulation plans, geospatial data and geographic information systems in European Progress programme local self-governments, November 2014

<sup>16</sup> EU EXCHANGE 4: LOCAL GOVERNMENT PROPERTY MANAGEMENT – Sector Gap Assessment

<sup>17</sup> Analysis of Business Infrastructure in Serbia, [http://lokalnirazvoj.rs/upload/BusinessEnablingAndStrengthening/SrAttachment/2014-03/Analiza\\_Poslovnne\\_Infrastrukture\\_U\\_Republici\\_Srbiji.pdf](http://lokalnirazvoj.rs/upload/BusinessEnablingAndStrengthening/SrAttachment/2014-03/Analiza_Poslovnne_Infrastrukture_U_Republici_Srbiji.pdf)

Action. In this context, the Action will support the improvement of the overall living standards and quality of public infrastructure in the targeted areas (such as kindergartens, schools, health care and cultural institutions, as well as small scale environmental projects). This Action will also support municipalities with multi – ethnic composition through activities that contribute to the improvement of the functioning of those institutions that are dealing with different aspects of social inclusion. These activities include enhancing partnerships between CSOs and the local self-governments in addressing the need of inter – ethnic dialog, resolving language barriers, fostering inter – cultural cooperation, social inclusion, etc.

## **OUTLINE OF IPA II ASSISTANCE**

The overall objective of this Programme is to contribute to a more balanced socio - economic development in Serbia. In order to enhance economic development and social cohesion on the local level, and to address concrete needs of the municipalities in the targeted area, the focus of the Action is on enhancing competitiveness and social cohesion of the less developed areas by increasing the productivity of SMEs and developing an environment conducive for business and better social standards.

Activities under **Result 1** will help SMEs in the targeted municipalities to expand, modernise and diversify their activities through direct investments into better production technology and improved production processes. Businesses support organisations will be supported with the aim of delivering to SMEs higher quality advice.-. This should lead to higher productivity and improved quality of products able to compete on the market, thus opening a window of opportunity for the creation of more jobs at the local level.

Activities under **Result 2** will address the quality of administrative services and business infrastructures, which are considered by potential investors as a serious impediment to the development and expansion of business activities. This will be achieved by improving the procedures and standards in the relevant departments of the targeted municipalities and by financing small-scale public infrastructures relevant for business development. The improvement of the quality of administrative services will include: support better land management and local efforts in contributing to the National Spatial Data Infrastructure, as well as for the introduction of simplified administrative procedures in municipalities related to investment activities. The public infrastructure component will look into: reconstruction of potential Brownfield sites, communal equipping of Greenfield sites and improvement of infrastructure conditions in the existing industrial zones. These activities should lead to a more attractive business environment at local level.

Development of socially relevant small-scale public infrastructure in the municipalities and improved collaboration among people with different ethnic backgrounds will be supported through activities under **Result 3**. All activities have to demonstrate good governance principles with a particular attention paid to achieving equal benefits to men and women, and the improvement of the position of women in the local environments. The aim is to support the improvement of the quality of living in the targeted municipalities, as well as to enhance t social inclusion and inter-ethnic cooperation.

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

### **Indicative Country Strategy Paper**

The AD horizontally addresses several CSP sectors such as Agriculture and Rural Development, Education, Employment and Social Policies, but is directly addressing the Competitiveness Sector results as stated:

- 1. Overall environment for doing business improved through simplification of the regulatory framework and through harmonisation of legislation with the Acquis.*

The target will be addressed by simplifying administrative procedures for business on the local level and strengthening the dialogue between decision makers and enterprises. The Action will focus on improving systems for geo spatial data management and accelerating the urban planning process and issuing building permits. Establishing comprehensive and reliable public property records is a precondition for an efficient public property management system and is important for improving business environment and investment activities in the local community.

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

This target will be addressed by supporting access to finance for SMEs to acquire new technologies and modernise production/ service delivery processes. It will result in increased productivity and safeguarding

jobs in the less developed areas of Serbia that are faced with significant unemployment rates and low entrepreneurial activity.

### **Stabilisation and Association Agreement (SAA)**

The Action is contributing to increasing export competitiveness of products and services with higher value added as stated in the Article 93: “improving management, know-how and to promote markets, market transparency and the business environment”. In addition, this Action should strengthen SMEs and the establishment of new undertakings in the areas offering potential for growth through development of the favourable business and investment environment in line with the Article 95 of the SAA. It aims to strengthen economic and social development of the Šumadija – Western and South - Eastern regions and to directly contribute to reducing regional imbalances in line with the article 113 of the SAA.

### **Enlargement Strategy and Main Challenges 2014-2015**

The Action is in line with main findings and recommendations within Enlargement Strategy. The business environment suffers from excessive red tape, slow market entry and exit, many obstacles to investment, such as the weak legal system and slow contract enforcement. Upgrading the physical infrastructure, especially after the damage incurred by the floods, requires persistent efforts and creation of additional fiscal space.

This Action is focusing on the findings of the Enlargement strategy by creating a policy mix that will contribute to greater territorial cohesion through providing access to finance for SMEs, reducing obstacles for investment and upgrading infrastructure.

### **Serbia 2015 Annual Report**

The activities described in this document will stimulate private investment by establishing schemes to support lending to SMEs and research activities in companies. It will support the creation of more predictable instruments of state support to the private sector to benefit both foreign and domestic investors and promote redirecting state support towards efficient and horizontal objectives, such as support to SMEs and research and development. It will support the actions towards facilitating SME's access to finance by developing fresh financial instruments and rolling them out in order to reverse the long trend of credit stagnation.

Furthermore, the Action will support an efficient and effective local government property management and procedures making LSGs administration more users oriented, what is identified as one of main challenges in the public administration reform.

By supporting employment and self – employment of the most vulnerable groups, the Action will contribute to fulfilling the criteria for Membership in relation to Chapters 19 and 23.

Within its territorial scope, the Action also covers the territory of the underdeveloped municipalities from South West Serbia- Sandzak area and municipalities Bujanovac, Medvedja, and Presevo with majority of Albanian population. Special attention may be given to the development of these municipalities.

### **National strategies**

This Action is focusing on the priority measures identified in the Economic Reform Programme for 2016-2018. The Priority structural reform 4: *Development and upgrading of the national broadband communications infrastructure* is complementary to the efforts of this Action. The Priority structural reform 6: *Raising the competitiveness of the processing industry* and the priority 7: *Package of measures to improve access to finance SMEs* is focusing on the same challenges as this Programme. The Priority structural reform 9: *Simplification of procedures for business entities* is complementing the actions envisaged under this Action, as well as the Priority structural reform 15 aiming at *Improving the adequacy, quality and targeting of social protection measures*.

The overall and specific objectives identified in this Action are directly linked to 2 priorities set out in the NAD Competitiveness sector. At the same time, the objectives of the Action will allow the coherent implementation of the key sector strategies.

The Programme's overall and specific objective are fully in line with key objectives in the Spatial plan of the Republic of Serbia (2010-2014-2020), namely a balanced regional development, improved social cohesion, regional competitiveness and accessibility. It foresees activities such as the development of the logistic and

other support to local self-governments and development of the spatial information base. The goal of rational land use and the establishment of an economically efficient and socially just system of construction land management comprises of resolving land ownership including activities for setting and keeping records on land (cadastre, land register) for different land use and needs of different land users.

This Local Development Programme's overall objective is linked to the Strategy and Policy for Industrial Development (2011-2020) since it establishes the ground for investment in higher levels of production and better quality of products and services.

The Programme's actions are corresponding to the strategic pillars developed in the Strategy to support the Development of SMEs, Entrepreneurship and Competitiveness 2015-2020 and its Action Plan.

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

This Action has been designed as a continuous systematic support to development of the municipalities in Central Serbia. It is based on the following experiences, needs assessments, results and actions taken under its EU funded predecessors:

European Partnership with Municipalities - EU PROGRES (2010 – 2014), covered 25 underdeveloped municipalities of South and South West areas of the country. The programme was structured around four components: (1) good governance, which is a crosscutting theme underpinning the whole Programme, (2) municipal management and development planning, (3) social, economic and environment infrastructure, as well as (4) public awareness and branding of the South and South West Serbia.

European PROGRES (2014-2017) is the largest area based development Programme in Serbia. It aims to support sustainable development of 34 municipalities in the South East and South West of Serbia through improved coordination between the national and local authorities, more favourable environment for employability, business and infrastructure growth, and enhanced good governance and social inclusion.

The key lessons learned, which derive from previous projects and evaluations conducted for the needs of SEIO during 2014<sup>18</sup>, are:

- High effectiveness can be achieved by continuous presence of the programme team on the ground;
- When held fully responsible, municipalities show ownership and greater partnership among the beneficiaries. On the other hand, the full scale project management responsibility may result in implementation problems due to low capacities of the implementers;
- Municipalities should make greater efforts to attract investments, in particular: by adhering more to good governance concept and its principles, by simplifying administrative procedures, modernising administration, and preparing better urban planning documents; by conducting taxation reforms and working on staff capacity development;
- Rural population has not been sufficiently included in preceding projects despite the fact that it is high in numbers in the areas of previous interventions;
- Involvement of civil society organisations in preparing strategic plans, but also being partners in implementation of grant schemes is a comparative advantage;
- Further investment in integration of good governance in projects will be of utmost importance for improved outcomes and impacts of the intervention;
- Grant modality has been an excellent capacity development mechanism, which introduced some new approaches and ways in thinking and doing business in the municipalities. However, the adherence to the grant modality requires much more time, thus work plans should be developed to reflect the timeframe within which it is feasible to organize and implement projects with this modality;
- The definition of specific objectives should be improved and system of indicators to be introduced in order to be able to measure outcome and expected impact of the intervention;

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18 Midterm and final evaluations of MIR 2 and PRO programmes; European Progress Assessment report: Current situation and needs for development of detailed regulation plans, geospatial data and geographic information systems in European Progress programme local self-governments, November 2014; Sector specific evaluation "Technical Assistance for the Evaluation of the Competitiveness sector" implemented and financed by IPA

- Implementation of projects of strategic importance for the entire region, both for the municipalities covered by the programme and those located outside the programme AoR, has resulted in wide impact on the whole area;
- Municipalities that didn't have previous support through similar programmes struggle more in following the guidelines and milestones of donors. Enhanced effectiveness in these cases might be achieved if individual approach is applied by sequencing assistance to preparation of the newcomer municipalities for infrastructure and other projects;
- The resistance within the existing political/administrative structures within local governments should not be underestimated and proper strategies for answering these challenges must be devised and adopted at early stages of any related interventions;
- Decision making by the Programme Steering Committee, whose meetings were held on the benefactor's turf and in a dialogue with the LSGs' representatives, ensured equal involvement of beneficiaries and stakeholders.

## 2. INTERVENTION LOGIC

### LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To contribute to more balanced socio - economic development in Serbia	Global Competitiveness Index Report rank Contribution of SMEs to overall export	WB Report Annual report on SMEs and Entrepreneurship	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To enhance competitiveness and social cohesion of the less developed areas by increasing the productivity of SMEs and developing an environment conducive for business and better social standards.	Percentage of SMEs with increased Gross Value Added ( GVA)/employed ratio Number of newly employed in the targeted SMEs	Annual Programme Report Final Programme Report	Government committed to and is actively promoting SMEs and investments in economy
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
<b>Result 1:</b> SMEs in the targeted municipalities have improved access to finance and local advisory services	Number of SMEs supported Number of BSOs/NGOs supported	Annual Programme Report Final Programme Report	SMEs are committed to adoption of new technologies as the path to greater productivity
<b>Result 2:</b> Local administrations provide efficient administrative services and public infrastructures to the business sector	Number of LSGs supported in order to digitalize and update geo-spatial data Number of LSGs supported in development of DRPs	Annual Programme Report Final Programme Report	Municipalities are willing to undertake necessary changes and provide evidence based decision making
<b>Result 3:</b> Public services and social cohesion in the targeted municipalities are improved	Number of public infrastructure projects implemented Number of institutions included in intercultural activities	Annual Programme Report Final Programme Report	Willingness of local stakeholders to invest in preparation of the required documentation

## DESCRIPTION OF ACTIVITIES

***Result 1: SMEs in the targeted municipalities have improved access to finance and local advisory services Planned Activities:***

### *Activity 1.1: Grant scheme for SMEs*

The aim of the activity is to help Serbian SMEs improve their productivity and develop products of higher quality thus making their market and export position more competitive. To ensure the successful implementation of the grant scheme programme, the support will be provided for both, preparation and implementation of projects.

It shall target SMEs that have finalised the first cycle of investment and are still not strong enough to obtain a commercial loan. Those are mainly SMEs existing for at least three years that need fresh impetus to succeed and enter the second investment cycle. The selection of the companies will be done on competitive bases with clear indicators based on their capacity to create or safeguard jobs, increase productivity or market position.

Also it shall target newly established enterprises existing for less than 3 years that have the greatest challenges in obtaining commercial loans. The grant will help them further develop their own businesses by investing in new technology and modernising production processes. The selection of the companies will be done on competitive bases with clear indicators based on the ability to increase their productivity.

The Activity will be implemented in close cooperation with the Serbian Development Agency (RAS) to ensure the sustainability of provided support in the grant scheme implementation.

It is complementary to the first result under the Competitiveness and Innovation Action Document from the Serbia national IPA 2016 programme, which also focuses on the increase of competitiveness of Serbian SMEs. Under the Competitiveness action, a specific Serbia window of the regional Western Balkans Enterprise Development & Innovation Facility (EDIF) Guarantee Facility will be established, in order to increase availability of finance for SMEs in Serbia. The facility will provide first loss portfolio guarantees to select financial intermediaries, and this should result in benefits to SMEs such as reduced collateral, reduced interest rates, increased lending to first-time clients like start-ups and microenterprises, etc.

The two actions target different types of SMEs. The SMEs which will be targeted through the present Action's grant scheme will be those operating in the less developed areas in Serbia, which are most likely to not to be able to meet the eligibility conditions and to have the required capacities to apply for the loans which will be made available at national level under the Serbia EDIF window.

### *Activity 1.2: Support to Business Support Organisations (BSOs) and NGOs to strengthen their ability to provide specialised services to SMEs*

The Activity will focus on supporting the BSOs (such as regional development agencies, clusters, incubators, associations, chambers, etc.) and NGOs in providing specialised services for SMEs in terms of market research, financial management, organisation of production processes, product and company branding. The purpose of the Activity will be to increase the SMEs productivity and business operations through the provision of business advisory services.

The BSOs will be selected through a competitive process.

As in the case of the first activity, this one is also complementary to the Competitiveness and Innovation Action included in this same Country Action Programme. Under the competitiveness action the development and provision of sustainable business advisory services to SMEs will be supported at national level, through cooperation with the EBRD. The EBRD is currently implementing a similar scheme at regional level, with the difference that it does not envisage the transfer of the advisory know-how in a sustainable manner to national institutions. The EBRD advisory services under the Competitiveness action will be tailor-made for companies at an advanced stage of development at national level, which require more sophisticated and specialised support.

In view of the characteristics of a large number of SMEs in less developed areas in Serbia, which are not at the level to be eligible for the EBRD advisory support, and in view of the specific EBRD methodology and screening of SMEs, the present Action will offer complementary support at local level through the development of a standardised set of services that will be provided by the Business Support Organisations.

***Result 2: Local administrations provide efficient administrative services and public infrastructures to the business sector***

***Planned Activities:***

***Activity 2.1: Creating an enabling administrative environment for infrastructure investments and business operations***

The Activity will support LSGs in raising their capacities to carry out the simplification of municipal administrative procedures and operating processes and by raising their ability to provide more efficient services to businesses. Support is foreseen for establishing/upgrading of the electronic construction permit system and development of related IT infrastructure.

The technical assistance will also include building local staff capacities for better provision of services related to land property management and issuing of construction permits.

This Action will support LSGs for the development/updating of spatial and urban planning documents, in particular Detailed Regulation Plans/Urban projects as well as technical documentation for the projects and thus set preconditions for efficient realisation of investments (which need supporting infrastructure).

In accordance with requirements of the Law on Planning and Construction and the newly established Centralised Register of Planning Documentation, the Programme will support LSGs in validation of urban planning documents through this Register.

***Activity 2.2: Development/improvement of small-scale infrastructure with economic impact on local level***

This Activity will support municipalities in the implementation of small-scale infrastructure projects that address the needs of known investors to develop and extend business activities. It will look among others to: construction of potential Brownfield sites, communal equipping of Greenfield sites and improvement of infrastructure conditions in the existing industrial zones.

***Result 3: Social services and cohesion in the targeted municipalities are improved***

***Activity 3.1: Supporting projects for improvement of the living conditions and quality of public infrastructure in municipalities***

The Action will support infrastructure projects improving the overall living standards in the targeted municipalities.

Besides the improvement of public infrastructure conditions in municipalities, this activity also includes a capacity building component for municipalities regarding project management issues, which will be implemented through learning-by-doing process.

***Activity 3.2: Supporting activities enhancing inter – ethnic dialog and cooperation, improving social cohesion and social integration in multi – ethnic communities***

The Action covers municipalities with complex ethnic compositions, especially in South and South-West Serbia, where in some municipalities the national minorities represent the ethnic majority of the local population (e.g. Bosniaks in South West and Albanians in South). Many municipalities also have a considerable Roma population.

Fostering social inclusion and good relations between the different communities in ethnically mixed municipalities constitutes a crucial contribution to local and regional security and stability, which are in themselves an essential basis for inward investment, local development and economic growth and competitiveness. In this context, activities will support social inclusion, intercultural dialogue, inter

community cooperation and good governance. Support may include in particular cross-sectoral approaches and initiatives based on local partnerships. The implementation of activities may take the form of calls for proposals, focussing in particular on enhancing the capacity of local civil society organisations. Projects enhancing partnerships between CSOs and LSGs in addressing social issues in the multi – ethnic community will be implemented through call for proposals, and the decision on the final selection of the projects will be made by the Programme Steering Committee based on the degree of compliance.

## RISKS

	<i>Risk</i>	<i>Assessment &amp; Management Issues</i>
1	Possible changes in the municipal management structure following local elections	Experience from previous interventions has shown that changes in ruling coalition on local level, and changes in the management structures within municipal administration can seriously jeopardise implementation of the envisaged activities. There will be a clear message that particular LSG involvement will be discontinued without support and cooperation of all political parties and relevant stakeholders. The activities to be implemented must be identified as priorities by the stakeholders (regardless of their political affiliation). Communication efforts will be directed to widely publicize the action, in order to build pressure of the citizens for its implementation.
2	Lack of cooperation with other donor interventions in the field	Increased donor activity in the region leads to overlaps and confusion within the municipal management structures. Institutions responsible for particular components/results of the action in close cooperation with SEIO will establish appropriate cooperation and coordination mechanisms with other programmes/projects in the field. (Project Steering Committees, etc.)
3	Low capacities and efficiency of local administration in project management	During previous programmes, lack of local administrations' capacities and efficiency in grant management has slowed down implementation of the programmes/projects (on average three – six month delay). The action will provide mentoring and coaching assistance to granted municipalities in order to increase their efficiency in project implementation, especially in terms of public procurement and contract management.
4	Severe weather and other natural disasters	Part of the territory covered by the Programme is subject to severe weather conditions: snowfall, droughts and floods. This could delay implementation of construction projects, and change the action e priorities. There will be proper planning of activities to secure implementation regardless of weather conditions.
5	Line Ministries and Institutions do not have outreach and capacity to efficiently deal with programme activities.	Involvement of line ministries in each segment of programme implementation, from prioritisation of actions, coordination during implementation, to evaluation of achieved results, as well as in working together with local self-governments in resolving mutually identified bottlenecks, obstacles would be essential.

<b>6</b>	Intra and inter-ethnic tensions	This programme will be implemented in two politically sensitive, complex and ethnically divided territorial areas where inter and intra ethnic tensions have been evident in the past. EU-funded and other donor actions to date have been successful in the context of reducing tensions, by focus on developmental issues and processes with common interest to all stakeholders.
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#### CONDITIONS FOR IMPLEMENTATION

There are no conditions for implementation of the Action.

### 3. IMPLEMENTATION ARRANGEMENTS

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

Result	Method of implementation	Type of financing	Justification
Results 1,2,3	IMDA with international organisation	1 contract	<p>The results will be implemented in indirect management by entrusting budget implementation tasks to an identified entity according to Art. 58.1 and 60 of the FR. The selection of UNOPS took place through a Call for Expressions of Interest (EoI), organised by the EU Delegation in cooperation with SEIO in July 2016. The selection process applied a number of criteria in order to identify the most suitable and qualified Entrusted Entity. The criteria included technical capacity, such as experience in the preparation and implementation of joint capacity building and municipal infrastructure projects; experience in managing programmes or projects related to SME's development (including grant schemes) and in the application of public procurement rules. Criteria related to adequate administrative and financial capacity were also applied, as well as criteria related to the quality of the Concept Note, including relevance; consistency with the objectives, results and activities of the Action, expected impact; sustainability and cost-effectiveness.</p> <p>The implementing body has to be able to rapidly mobilise efficient procurement and project management procedures as Serbia has limited expertise and specialised resources available in the field and needs support to raise its capacities.</p> <p>The Action will dominantly be implemented through grant schemes that give the beneficiaries the ownership over the projects' implementation while the implementing partner will hold the overall responsibility for the Action results and maintain a monitoring and supportive role. At the same time, the entrusted Entity has to ensure an exclusive visibility of the EU for the overall action.</p>

## **ROLES AND RESPONSIBILITIES**

The European Integration Office of the Government of Serbia (SEIO) will have the lead coordinating role in the Steering Committee of this Action because of the need to comprehensively oversee all initiatives currently covering the topics in the areas of intervention, so as to achieve maximum synergy. The SC comprised of the representatives of relevant national institutions and the donor will be established, and will review the progress and endorse diverse steps related to the Action implementation (inception, quarterly and annual reports); discuss any open issues related to the implementation of the Action; approve requests for funding and review and make decisions regarding the overall structure and content of the Action. The SC will meet on a quarterly basis, while extraordinary meetings may be organised if needed. The relevant institutions that will take part in the Steering Committee include: SEIO, as the lead coordinator, the implementing entity, EU Delegation to Serbia as the contracting authority and the ministry in charge of economy. Besides this, the SC will include other stakeholders including the Serbian Development Agency as the coordinator of accredited regional agencies, the Standing Conference of Towns and Municipalities (SCTM) and the Public Investment Management Office (PIMO).

The responsibilities of UNOPS as entrusted agency are mentioned in the section above.

National level responsibility for implementation will be as follows:

Result 1 will be led by the ministry in charge of economy. The Development Agency of Serbia will be a key partner. The selected implementing entity for the Action shall sign the Cooperation Agreement with Serbian Development Agency (RAS) for their active engagement in all the aspects of the grant scheme for SMEs. The Agency shall actively participate in cooperation with the ministry in charge of economy in the support to the selection of projects and monitoring of the implementation.

The ministry in charge of economy will be responsible for the Result 2. The key partner is the Development Agency of Serbia that will liaise and consult with other partners such as regional development agencies, chambers of commerce, the Republic Geodetic Authority and its regional/city branches, etc.

Result 3, will rely on the information available at the Public Investment Management Office (PIMO), whose mandate incorporates management of public investments in Serbia, and/ or System of Long listed Advanced Infrastructure Projects (SLAP) data base on municipal projects. Projects enhancing partnerships between CSOs and LSGs in addressing social issues in the multi – ethnic community will be implemented through call for proposals. PIMO will actively participate in providing support to the selection of projects under the result 3. . This component may be done in cooperation with Coordination body for South Serbia.

Experience from previous programmes implemented at local level and spanning a series of inter-linked activities in the sectors of economic development, competitiveness, public services support and fostering of social cohesion shows that there needs to be a strong coordinative role by the lead implementing partner. Coordination is vital to ensure that the activities are complementary among themselves; in order to develop synergies and multiply the effect of the diverse strands of the action. Coordination is also vital to ensure that municipalities are cooperating and supporting each other, and that an even and balanced approach is taken in the entirety of the geographic areas covered by the action. Considering the complex activities and the diverse fields of action as indicated above, the EU Delegation encouraged as part of the Call for Expressions of Interest potential partnerships between the different participants in order to maximise the expertise available and the impact of the interventions proposed.

## **4. PERFORMANCE MEASUREMENT**

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

Monitoring the progress of the implementation of this Action will be done in accordance with the rules and procedures for monitoring under indirect management.

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

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

Result Orientated Monitoring (ROM) system (led by DG NEAR): This will provide, as necessary and required, an independent assessment of the on-going or ex-post performance of the action.

IPA II Beneficiaries' own monitoring: IPA II monitoring process is organised and led by the National IPA Coordinator (NIPAC/ Serbian European Integration Office (SEIO). NIPAC monitors the process of programming, preparation and implementation as well as the sustainability and effects of the action. The process aims at increasing the performance in the field of monitoring and evaluation, and improving ownership in achieving the objectives, results, outcomes and impact set out in the strategic documents. Under the Direct Management procedures, monitoring and evaluation of actions will be carried out by means of Reports stipulated in the IPA II Implementing Regulation.

Self-monitoring performed by the EU Delegation: This is part of the annual assurance strategy process and is done based on the ex-ante risk assessment of actions/contracts considered riskier.

Joint monitoring by DG NEAR and the IPA II Beneficiaries: The compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly (at least once a year) monitored by an IPA II Monitoring committee. It will be supported by Sectoral Monitoring steering committees which will ensure monitoring process at sector level. The results of monitoring will be used in the policy-making process to propose programme adjustments and corrective actions.

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

#### INDICATOR MEASUREMENT

<b>Indicator</b>	<b>Baseline (2016)</b>	<b>Target 2020</b>	<b>Final Target (2020)</b>	<b>Source of information</b>
Global Competitiveness Index Report rank	94 (2015)	60	60	GCI
Contribution of SMEs to overall export increased	43,2% of nonfinancial exports(2013)	70%	70%	Annual Report on SMEs
Percentage of SMEs participating in the programme with increased Gross Value Added/employed ratio	0	95%	95%	Annual Report on SMEs
Number of newly employed persons in the targeted SMEs	0	1000 (45% women)	1000 (45% women)	Annual Project Report
Number of SMEs supported by the Programme	0	150	150	Annual Project Report

Number of BSOs/NGOs supported	0	20	20	Annual Project Report
Number of LSGs supported in order to digitalize and update geo-spatial data	0	20	20	Annual Project Report
Number of LSGs supported in development of DRPs	0	50	50	Annual Project Report
Number of public infrastructure projects implemented	0	35	35	Annual Project Report
Number of institutions included in intercultural activities	0	30	30	Annual Project Report

## 5. SECTOR APPROACH ASSESSMENT

### *Sector Policy*

Due to the multi-faceted nature of the local development, its strategic framework is complex. The local development is not a sector by itself in Serbia, as defined by the Indicative Strategy Paper, but is rather inter-sectorial area of intervention. The activities under this Action belong to several sectors and as such have been identified by relevant sector working groups. Therefore, the local development comprises sectorial policies of several other sectors, such as Competitiveness, Democracy and governance (PAR), Employment, etc. The major relevance may, however, relate to the sector of Competitiveness and innovation. The existing Industrial Strategy, with certain improvements, can be considered as the overarching strategy for the competitiveness sector in Serbia. The Strategy sets the overall direction for the whole sector, whilst the four sub-sector strategies covering 'entrepreneurship and competitiveness', 'R&D and innovation', 'ICT' and 'market regulation', can be regarded as vertical pillars underpinning this broad strategy. The activities proposed in the Action sit alongside national funding and other international assistance to support mainstream public spending on the policy reforms and economic development. Finally, the Economic Reform Program of Serbia 2016-2018 identifies in the area of business environment the following key challenges in terms of competitiveness: insufficient access to finance for SMEs due to problems related to the supply of and demand for financial instruments, and the inability of SMEs to make use of the advantages of the internal market of the EU, due to insufficient information on the conditions and procedures for obtaining approval for the provision of services and starting business activities, low share of e-commerce, underutilised tourism potential.

### *Sector Lead Institution and Capacity*

The ministry in charge of economy has a wide scope of competences which are managed through its internal organization departments, and are covering the following competitiveness areas: economic development, privatization, quality infrastructure, entrepreneurship and competitiveness development and business registers administration and monitoring. The Ministry competences are related to structural adjustments for large companies, investment promotion, craftsmanship, SME and entrepreneurship including economy focused innovative entrepreneurship and IT, competitiveness improvement, standardization, technical directives and accreditation. Two other key partners relevant for this Programme are: Serbian Development Agency (RAS) providing a broad range of services on behalf of the Government of the Republic of Serbia, including support of direct investments and export promotion, and leading the implementation of projects with the aim of improving Serbia's competitiveness and reputation in order to support the economic and regional development. The Public Investment Management Office as a new body of the Government of the Republic of Serbia tasked to perform expert, administrative and operational activities to serve the needs of the Government, related to coordination of the implementation of projects of reconstruction and improvement of public facilities within the competence of the Republic of Serbia, Autonomous Province or local self-government units in terms of collecting the data on current and scheduled projects and the needs for public facility reconstruction, needs and feasibility assessment of the proposed projects, priority identification, coordination of public procurement procedures, meeting of contractual obligations and payments, and also other activities stipulated by the Law or the Government Decision.

*Sector and donor coordination Strong inter-institutional cooperation and coordination in these sectors has been ensured through the Sector Working Groups and the Action Documents for 2016.*

The representatives of the donor community also participate in the SWG meetings based on the needs and requirements of each SWG meeting and take part in consultation processes for analysing sector priority goals, measures and operations supported by EU funds and other international assistance.

### *Sector Budget and medium term perspective*

The programme budgeting is legally introduced in 2015 for all budget beneficiaries. The programme budget facilitates planning and prioritisation processes within the Government, as well as enables easier monitoring of spending through greater transparency.

In accordance with the Programme Budgeting Instructions (PBI), the programme-based budgets are structured through programmes and activities/projects. A programme budget is developed in line with medium-term beneficiary's plans and other strategic documents related to their competencies. A programme is a set of measures undertaken by budget beneficiary in line with its key competencies and medium-term objectives. Each programme is made up of independent yet closely interlinked components, activities and/or projects, set up objectives and developed indicators. The programme budgeting mechanism developed in instructing and coordinating with the budget beneficiaries can already be qualified as very instrumental for consolidating the fiscal discipline and for the transparency of public expenditure. However, there is yet no full-fledged mid-term, sector-based budgetary planning process that could be used to develop mid-term expenditure frameworks.

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

### **GENDER MAINSTREAMING**

The Global Competitiveness Index of the World Economic Forum shows that Serbia has yet to advance in relation to gender indicators in the competitiveness field. Out of 140 economies analysed, Serbia's ranking on the ratio of women to men in the labour force is 81, showing no improvement between the last two reports (published in 2014 and 2015). Data of a project funded by SIDA and implemented through the CSO Standing conference of towns and municipalities at local level, shows that women represent 55,6% of all employees in public administration at local level, but hold only 42,8% of municipal managerial roles. Women constitute only 16,7% of the member of the municipal councils, and 32,3% of the representatives in the local assemblies. Only 5,6% of mayors or presidents of municipalities are women. In the economic sphere, at local level in Serbia employment disparities are evident, with 57,7% of men stating that they are employed, in comparison to 42,3% of women. In terms of entrepreneurship, of all those that stated they were self-employed, 55,1% were men, and 44,9% women.

The Action will mainstream gender equality throughout all its activities, with more intensive support through the grant scheme for SMEs, by encouraging women entrepreneurs to apply for the grant scheme, while focusing on women empowerment and providing opportunities for additional income of women, especially those in rural areas. The Action will also actively advocate for gender mainstreaming with relevant stakeholders, including the local community leaders, encouraging them to move beyond policy rhetoric and to adopt pro-active commitment to gender mainstreaming, thus preventing fading away of what was achieved in this field so far.

### **EQUAL OPPORTUNITIES**

Since this Action will be implemented in the multi-ethnic areas, it is conceived to encourage accountable and non-discriminatory municipal administrations and to foster the participation of citizens through open communication and exchanges of experiences between different ethnic groups living on the same territory. It will promote tolerance, dialogue and good cooperation, not only on the local level, but on the regional and national as well.

### **MINORITIES AND VULNERABLE GROUPS**

This action will establish mechanisms for alleviating problems related to integration of national minorities, opening of societies for other parts of the country, region and the EU, and at the same time upgrading the skills of local communities for their own cultural production and its promotion. In concrete terms, the Action will have a special attention to minorities and vulnerable groups when designing the criteria for the grant scheme for SMEs and /or small scale public infrastructure. Within the third result of the action, through a call for proposals for CSOs at local level, specific projects in the field of social cohesion and inter-ethnic cooperation will be supported.

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

The programme is conceived on the bases of previous similar initiatives in the South and South West Serbia, and is taking on board the lessons learned through those projects. It has also taken into consideration the data gathered through meetings with the local civil society organisations over the years.

Along with specific activities that will be implemented in direct partnership with the Business Support Organisations (BSOs) and civil society organisations (CSOs), which will provide specialised services to SMEs, the programme will encourage respect of good governance principles for all the grantees: accountability, non-discrimination, effectiveness, efficiency and transparency.

In concrete terms, under the first result, the action will support at least 20 CSOs/BSOs in the implementation of advisory activities. Under the third result, at least 30 different institutions, including CSOs will be supported to deliver intercultural activities at local level.

In addition, the programme will hold regular meetings with all stakeholders, seek to involve them in the Steering Committee meetings and thus secure their continued feedback and involvement in all activities. The Action Document takes into account the civil society inputs by means of the SECO mechanism. SEIO established a consultation mechanism with the civil society organisation (CSOs) to enable more inclusive and transparent dialogue, consultation and communication with all relevant stakeholders in the sectors identified within the Needs Assessment Document (NAD) for development assistance. This mechanism is based on the consultative process with Sectorial Civil Society Organisations (SECOs) and serves as a platform that enables exchange of information and contribution of CSOs in relation to planning development assistance, particularly programming and monitoring of IPA. The SECO indicates a consortium of three CSOs as partners, one of which is the leading partner<sup>19</sup>. These are CSOs that have significant experience with public advocacy, analyses and research in the sector, as well as experience in direct work with service providers and beneficiaries. The role of the SECO CSOs is, among others, to coordinate and gather information and inputs from a wider group of stakeholders and other CSOs operating in the respective sectors, and to ensure that those are coherently included in the programming of international assistance. .

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

The activities under this Action are conceptualised on the premises of sustainable development, and bearing in mind the overall compliance with the EU standards in implementing all sub projects and activities, this is a further assurance that negative impact on environment will be minimised.

All the projects that will be supported under each component of the Programme shall have the focus on environment protection, in both while defining the criteria and project implementation. All small scale infrastructure projects shall certainly include actions that deal with remediation of human negligence on environment.

The Programme experts will provide impact assessment and then work to reduce the impact of the infrastructure projects on the environment. In addition, the construction uses the most environment friendly processes and materials, sourced locally.

## **7. SUSTAINABILITY**

The achieved results will set the strategic direction in tackling the issue of achieving coherent sub national support service scheme aiming at creating jobs, business activation, attracting knowledge and boosting economic development. By creating a coordinated and a more effective mix of services such as available finance for SMEs, access to high quality public services and business and social infrastructure,

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<sup>19</sup> The leading partners for the Competitiveness Sector are NALED, Association of SMEs and Entrepreneurs and Foundation for the Advancement of Economics. The Competitiveness SECO network is composed of 31 civil society organisations.

a sustainable support system in the less developed areas will be created. The system will help enterprises to overcome the challenges they are currently facing and strengthen their prospects for increasing productivity and raising their competitiveness in the global markets.

Sustainability is primarily guaranteed through the fact that all activities stream out of the existing national level policies and legislation and they are defined in a way to support implementation of those policies on the local level. In this way, the Action is ensuring sustainability of its actions on mid-term and long-term perspective. For example, the Law on Planning and Construction instructs about the spatial plans; the Law on Property Taxes regulates invoicing of properties. Thus, the Action is an extended arm of the Government on the local level, tasked with supporting municipal multi-sector development.

However, in order to see full benefits of the policy contribution, the Action requires constant and full engagement of all stakeholders –municipalities, SEIO, PSC, key ministries and the donor.

Finally, this action will ensure that all policies that are produced as its result will be developed according to the better regulation approach, which ensures inclusive and evidence-based policy and legislative development. The increased focus on the quality of the legislative and policy-making process will help to ensure that adopted policies and laws can be better implemented. Also, institution-building under this action will respect effective lines of accountability between institutions (agencies and parent institutions), therefore avoiding any possible fragmentation of administration.

## **8. COMMUNICATION AND VISIBILITY**

The majority of population in the Central Serbia supports the accession of Serbia to the EU. However, there is a limited understanding of benefits that the EU membership will bring to citizens, especially at the local level, as well as of understanding of European values. This programme will therefore be an opportunity to continuously promote European values through the EU and Serbia partnership.

The programme will identify and carry out activities designed to communicate actions, results and impact of the activities. In the Inception Phase, Communication Strategy shall be drafted, identifying specific and measurable goals, opportunities and tools for promotion of each result areas, target audiences and clear messages. One of the key messages will be the link between desired outcomes of the programme and Serbia's overall EU accession efforts.

The communication and EU visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be the responsibility of the IPA II beneficiary, and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

It is the responsibility of the beneficiary to keep the EU Delegation fully informed of the planning and implementation of the specific visibility and communication activities.

The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sectoral monitoring committees.

