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SERBIA COMPETITIVENESS ASSESSMENT & POLITICAL ECONOMY ANALYSIS

LEO
Leveraging Economic Opportunities

REPORT NO. 29

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ACRONYMS

ACCESS	Assistance to Competitiveness and Compatibility with the EU of Serbian SMEs
BEP	Business Enabling Project
CEVES	Center for Advanced Economic Studies
CFCU	Ministry of Finance Department for Contracting & Financing EU Program
CHF	Swiss Franc
CNC	Computer Numerical Control
COP21	Paris Climate Conference
CRDA	Community Revitalization through Democratic Action
CSO	Civil society organization
EBRD	European Bank for Reconstruction and Development
ENECA	Economic Expert Community Association
EP	Entrepreneurship Project
EU	European Union
FIRMA	Fostering Interventions for Rapid Market Advancement
FMP	Fabricated Metal Products
GIZ	German Federal Enterprise for International Cooperation
ICIP	Improved SME Competitiveness & Innovation
ICT	Information and Communications Technology
IF4TM	Institutional Framework for Developing the Third Mission of Serbian Universities
IPA	Instrument for Pre-Accession
IPARD	Instrument for Pre-Accession Rural Development
IRENA	International Renewable Energy Agency
LED	Local Economic Development project
LEO	Leveraging Economic Opportunities
M&E	Monitoring and evaluation
MSE	Micro- and small enterprises
MSME	Micro-, small and medium-sized enterprise
NALED	National Alliance for Local Economic Development
NARR	National Agency for Regional Development
OECD	Organization for Economic Cooperation and Development
ONA	Organizational network analysis
ORF-EE	Open Regional Fund – Energy Efficiency

PEA	Political Economic Analysis
PPES	Preparedness, Planning, and Economic Security
PROGRES	Partnership with Municipalities Programme
PSD	Private Sector Development
R&D	Research & Development
RARIS	Regional Development Agency of Eastern Serbia
RAS	Development Agency of Serbia
RDA	Regional Development Agency
RSEDP	Regional Socio-Economic Development Program
SDC	Swiss Agency for Development and Cooperation
SECO	Swiss State Secretariat for Economic Affairs
SIEPA	Serbia Import-Export Promotion Agency
SLDP	Sustainable Local Development Project
SME	Small and medium-sized enterprises
TA	Technical assistance
TAM-BAS	TurnAround Management and Business Advisory Services
USAID	United States Agency for International Development
UVIS	Cluster of Serbian Aeronautical Industry
VMC	Vojvodina Metal Cluster
WfD	Workforce development

EXECUTIVE SUMMARY

OBJECTIVE

This assessment seeks to identify the key factors constraining Serbia's private MSME sector, and its ability to grow and compete, particularly in EU markets and against the companies and products of EU member states. This assessment utilized the Applied Political Economy Analysis (PEA) methodology to identify the constraints and establish the causal factors for those constraints. In line with the PEA findings, this assessment makes numerous programming recommendations for USAID to pursue to stimulate MSME growth and competitiveness. The full PEA results are presented in detail in the format of the framework in Annex 1.

ENTERPRISE VS. INSTITUTIONAL DEVELOPMENT

At the outset of the assessment, we collectively considered two broad categories of intervention: i) direct assistance to the MSME sector; or ii) institutional development and capacity building targeting institutions with mandates to support the MSME sector. As can be seen from the PEA results, the volume and obstinacy of constraints limited our optimism in effecting institutional change. Not completely ruling out institutional strengthening however, we have sought to identify strategies that can serve as a vehicle to strengthen those institutions directly linked to targeted actors or initiatives.

ASSESSMENT OVERVIEW

The assessment team, at times accompanied by USAID staff members, interviewed 149 MSMEs and support actors, examining the institutional framework and actors. Interviewed MSME-support actors included donors and their implementing partners, national and local public institutions, Chambers of Commerce, RDAs, associations and clusters and others throughout the country. At critical points during the assessment the team organized meetings and presentations with USAID staff to discuss the preliminary findings and further refine areas of interest. A detailed overview is presented in the Methodology section of this report.

POLITICAL ECONOMY ANALYSIS (PEA)

Serbia's economic competitiveness remains essentially stagnant, placing 94th out of 144 economies; in the area of innovation, Serbia ranks 132nd of 140. The PEA framework was used to identify the main contributing factors for the current state of MSME competitiveness and innovation; the PEA framework identifies constraints and causality in four areas: i) Foundational Factors; ii) Rules of the Game; iii) Here & Now; and iv) Dynamics. In total, 31 constraints were identified in the four areas, together with detailed causal factors; of these 31 constraints, 14 were identified as "amenable to change." The identified constraints that are amenable to change can be categorized in the following areas: ineffective institutional and policy support structure; lack of access to finance; flourishing gray market; underdeveloped supply chains; education system not responsive to labor market demands; lack of access to information; weak networks, linkages and cooperation of both MSMEs and institutions; lack of modern management skills and tools; and marginal donor effectiveness. For each of these constraints the team has prepared a list of potential programming recommendations, presented in the Actionable Recommendations section of this report.

RELEVANT DONOR INITIATIVES

Most donors and their implementing partners have struggled with impact and sustainability of private-sector development in Serbia. Breakthroughs may be on the horizon, however, as there may be something of an attitude shift among development practitioners to improve programming based on empirical data, objective monitoring and evaluation, and more effective attribution of impact, which should in turn better inform future programming. High-level synergies and collaboration between donors can contribute significantly to collective impact, and numerous programming and implementation recommendations are offered, some of which have been borrowed from other donor strategies. The most significant donor activities currently serving the MSME sector are

supported by the EU, German GIZ, Swiss SDC and SECO, and the World Bank; their strategies and programs are overviewed in this report.

ENERGY & CONSTRUCTION SECTOR

At the request of USAID, the team has elaborated potential interventions in the Energy & Construction sector, specifically seeking opportunities in energy efficiency and renewable energy. Globally, this is an exciting and growing field ripe for impact in Serbia. Recent technological advancements have provided a wealth of new products, technologies and efficiency gains in renewables, lighting and control systems and other areas; and Serbia has been largely excluded from this transition. Serbia consistently ranks near the bottom of European countries in virtually all energy consumption indicators; its per capita energy consumption is four times that of Germany and its building heating requirements 2.5 times the EU average, fueled in part by energy subsidy policies, poor and outdated construction with respect to building "envelopes," and the lack of metering systems in district heating systems. In all these areas, Serbia lags EU standards by considerable margins. German GIZ, Swiss SDC and SECO, and the German bank KfW are active and progressive in the energy sector, committing significant resources to improving efficiency and adapting new technologies, providing a wealth of synergistic opportunities for impact.

ORGANIZATIONAL NETWORK ANALYSIS (ONA)

The team has also applied ONA as an assessment tool to begin to determine and map the network of MSME supporting actors. During the interviews the team collected attributes for each actor including: organizational background data; staff and leadership gender; geographic coverage; clients and beneficiaries served; targeted economic sectors; and principle support activities. To map the networks and measure metrics, the team surveyed actors and relied on partnership data via their websites to determine their most key linkages, which will allow detailed network analysis and calculation of network metrics to measure network strength, cohesiveness and other indicators. The ONA analysis will be submitted as a separate document.

INTRODUCTION

ASSESSMENT OBJECTIVES

This assessment sets out to identify the major factors influencing the Serbian private sector's ability to grow, export and compete in EU and global markets. Objectives include: i) identify the symptoms that contribute to a lack of MSME competitiveness; ii) utilize Political Economy Analysis (PEA) to establish the reasons behind these symptoms, answering the question, "Why?" iii) consider which constraints are most amenable to change; iv) recommend programming alternatives and interventions for USAID to pursue to stimulate MSME growth and competitiveness; v) Identify key actors that shape MSME development, and assess their relationships through Organizational Networking Analysis (ONA). [ONA will be presented in a separate report.]

METHODOLOGY OVERVIEW

In accordance with the PEA framework, the assessment team conducted an extensive literature search and desk study (see Desk Research References in Annex 2), followed up with 149 interviews with MSMEs and support actors (see table to right). The team interviewed actors working or representing ten economic sectors throughout all of Serbia. A complete list of actors is included in Annex 3; organizational attributes and contact details will be submitted separately in our ONA analysis and database. A detailed description and timeline of the assessment methodology is presented in the Methodology section near the end of this report.

Table 1: Interviews Conducted

Actors Interviewed	
Actor Type	**Actors**
MSMEs	43
Public Sector, National	10
Public Sector, Local	15
RDAs	10
Chambers of Commerce	10
Ecosystem Actors	12
Donors	2
Development Programs	10
CSOs	4
Associations	12
Clusters	5
Educational Institutions	3
Experts & Consultants	13
TOTAL	**149**

SERBIA COMPETITIVENESS OVERVIEW

The competitiveness of Serbia's economy remains essentially stagnant, placing 94th out of 144 economies; and in the area of innovation, ranks 132nd of 140, per the World Economic Forum's *Global Competitiveness Report 2015-2016*. A host of constraints and challenges are identified in this assessment, as well as other reports, but they might generally be grouped into several areas: ineffective support structure of institutions and policies; lack of access to finance; lack of organized scale, affecting quantity, quality and consistency; gaps in workforce skills, technical expertise and innovation in production and management; engrained attitudes and behaviors that affect a host of issues related to opportunities, motivation and gray market activities; and weak networks, linkages and cooperation of both MSMEs and institutions.

PROGRESS TOWARD EU ACCESSION

Serbia's EU accession process is contingent upon the country meeting the Copenhagen criteria of having a functioning market economy able to withstand EU competitive pressure and market forces. According to the *EU Progress Report 2015* Serbia's progress toward a functioning market economy is improving. Through consolidation and improved tax collection, the budget deficit has declined sharply, with further reductions projected through future reforms. Unemployment remains high, but has fallen below 20%. The private sector remains underdeveloped and hampered by weaknesses in the rule of law and access to finance. Progress has been made in restructuring publicly-owned companies and utilities, but needs to advance further. Serbia must improve the quality of education, gearing it towards labor market needs. Additional areas for progress include: stimulate private investment; invigorate public infrastructure investment; better regulate para-fiscal charges; reduce gray market activity; and provide a transparent framework of state support to the private sector, redirecting it to support MSMEs and research and development. Most of these constraints have been echoed in significant degree by both MSMEs and public institutions interviewed in this assessment.

SERBIA YEAR OF ENTREPRENEURSHIP

The year of 2016 has been officially declared by the Serbian Government, the "Year of Entrepreneurship." The designation has essentially consolidated the various programs and instruments for MSME support under a single umbrella that aims to improve coordination and synergy between the initiatives. In 2016 the Government has allocated 16.06 billion RSD (approx. €130 million) in support of 33 MSME and entrepreneurship support programs, roughly 27% which will be distributed through grants and 71% through loans and loan guarantees. The overall program is divided into two components, one for startups and one for the growth and development of existing MSMEs. A summary of the 33 Government programs is included in Annex 4.

DONOR IMPACT

While Serbia has made marked improvement in cooperation with donors over the past two decades, donors have admittedly struggled in the areas of competitiveness, innovation and MSME development. When pressed on this issue, nearly all donors and their implementing partners express some level of dissatisfaction with the results. This is not to say that donors haven't themselves been diligent and innovative, as many strategies have been applied in virtually all sectors and sub-sectors at both regional and national levels. Rather, it is perhaps the combination of factors that cause MSME competitiveness, innovation and sustainable results to be particularly tenacious and confounding.

POLITICAL ECONOMY ANALYSIS (PEA)

It is in light of this persistent lack of large-scale, systemic impact in the areas of competitiveness and innovation, and the combination and interaction of contributing factors, that the PEA framework has been adopted and applied. The PEA framework helps assessors identify and break down the contributing factors by examining four areas into which most constraints fit: i) Foundational Factors: deeply-embedded national and sub-national structures that shape the character and legitimacy of the state, political system and economic choices; ii) Rules of the Game: formal and informal institutions, rules and legal framework that influence actors' behavior, incentives, relationships and their capacity for collective action; iii) Here & Now: current or recent behavior of individuals and groups and their response to events that provide opportunities for, or impediments to change; and iv) Dynamics: features that may drive an opening or closing of space for change.

RELEVANT DONOR ACTIVITY

There are primarily four donors of significant relevance working in the areas of MSME competitiveness and innovation: European Union, German GIZ, Swiss SDC and SECO, and the World Bank.

- **European Union:** EU assistance to Serbia is delivered primarily through the Instrument for Pre-Accession (IPA). Due to delays and a backlog by the CFCU (Ministry of Finance Department for Contracting & Financing EU Programs), some IPA 2013 and 2014 awards are still outstanding; the EU may retake the contracting authority for IPA 2015 and 2016. IPA 2013 funds focus on implementing Serbia's *Action Plan for Improving the Business Environment*, and creating a comprehensive R&D, Innovation and Technology Transfer Strategy. The multi-sector PROGRES also seeks to increase competitiveness through improved business environment and organizational capacities of MSMEs and agricultural cooperatives and associations. IPA 2014 support to competitiveness supports the improvement of financial instruments, business incubator services, further support to the Innovation Fund, and youth employability and inclusion. In 2016, the EBRD's ASB (formerly known as TAM-BAS), which provides grants to support consulting services to MSMEs will end.

- **GIZ:** GIZ's strategy focuses on rural development, sustainable infrastructure, social development, democracy and governance, environment and climate change, and economic development and employment. Related to economic development and competitiveness GIZ focuses on three areas: i) economic frameworks; ii) quality infrastructure; and iii) MSME services with regard to infrastructure and technology. Sectors of focus include ICT, sustainable agriculture, and energy efficiency. The ACCESS

project will transition to a new phase in 2017; while details are largely undefined, it will likely continue to support ICT and sustainable agriculture. The *LED in Eastern Serbia* (2007-2016) project targets nine municipalities in eastern Serbia together with a host of ministries and public institutions at local, regional and national levels to create conditions conducive to private sector development: i) improve demand-based services for the private sector; ii) promote local cooperation and networking; iii) promote cooperation between public institutions to improve the private sector environment.

- **Swiss Cooperation (SDC & SECO):** Swiss Cooperation strategy includes: i) Good Governance, ii) Economic Development, and iii) Energy Efficiency & Renewable Energy. In their economic development activities, their programs focus on increasing income and employment opportunities, with an emphasis on youth; increased exports; improved MSME business environment; and strengthened macro-economic environment. Key initiatives include: i) EP (Entrepreneurship Project), a regional project supporting the business startup ecosystem; in Serbia, limited to Belgrade and Novi Sad; ii) *Private Sector Development*, an approach combining LED and MSME development in southwest and southeast Serbia (ending soon); iii) support to the Science & Technology Park in Belgrade as part of innovation infrastructure; iv) *Education-to-Employment*, a new program that seeks to improve education in line with employer demands in five municipalities.
- **World Bank:** World Bank's *Competitiveness & Jobs*, beginning in 2016 will focus on policy planning, monitoring and coordination; investment and export promotion; innovation; and labor.

TERMINOLOGY

This report generally refers to MSMEs, to include micro enterprises in addition to small and medium enterprises. In some cases the terms MSE or SME may be used where they are specifically applicable. When referring to the eventual Program that will be informed through this assessment, the capital "P" is used; USAID might consider continuing this practice through the tender process and thereby solicit branding ideas from offerors. The word "Program" was intentionally selected over "Project" to perhaps imply a broader scope that promotes a learning environment and contributions to communities of practice in development and M&E. Editor comments are indicated in [square brackets].

REPORT ORGANIZATION

The next section of this report presents an overview of the results of the PEA and a discussion of the issues and constraints that are amenable to change; the full results and detailed PEA frameworks are presented in Annex 1. The next section presents Actionable Recommendations, which consolidates the team's recommendations in line with the PEA issues and constraints that are likely to be amenable to change. The next section, Sector Analyses, presents an overview of the three sectors tentatively recommended in the sector-based approach, together with an overview of the Energy & Construction sector, at the request of USAID. The final section provides a detailed overview of the assessment methodology.

POLITICAL ECONOMY ANALYSIS

OVERVIEW

Applied Political Economy Assessment (PEA) is a research methodology used to explore not simply *how* things happen in an aid-recipient country, but *why* things happen. Applied PEA facilitates thorough examination by assessing four areas: i) Foundational Factors; ii) Rules of the Game; iii) Here & Now; and iv) Dynamics. A more complete description of the PEA methodology, together with a detailed description of the four areas is provided in the Methodology section of this report.

PEA FINDINGS PRESENTATION

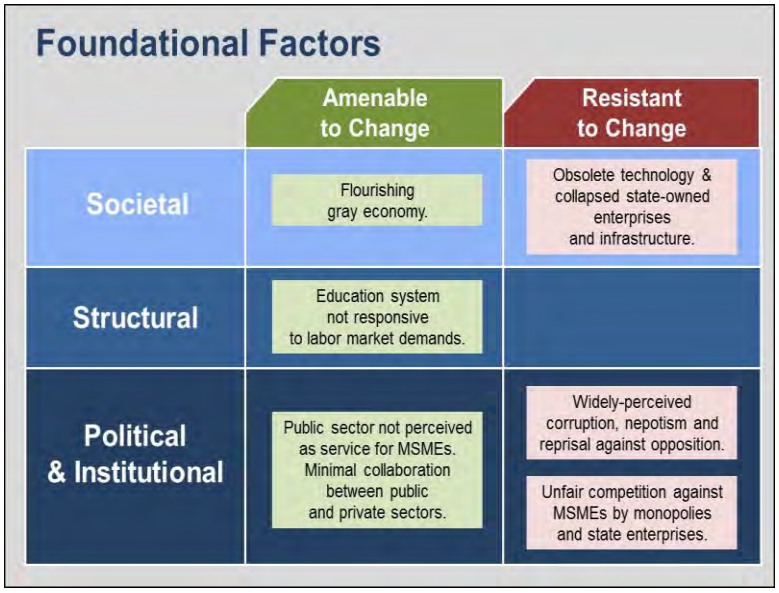
This section presents the team's findings in the four areas of the Applied PEA framework. To facilitate the reader, we have further characterized the issue or constraint into one of four areas: Societal, Structural, Political & Institutional, or MSME-Dependent – those issues which depend exclusively or primarily on the behavior and action of MSMEs. Issues that are more amenable to change versus those that are more resistant to change are identified and discussed. Programming recommendations for each issue amenable to impact are presented in the Actionable Recommendations section. The reader is also referred to Annex 1, which contains the complete Applied PEA framework tables, together with detailed responses to the question of "W*hy?"* each particular issue persists.

1. FOUNDATIONAL FACTORS

OVERVIEW

The diagram to the right depicts the issues and constraints identified as "Foundational Factors" constraining MSME development and competitiveness, organized as societal, structural or political & institutional issues. Those issues which the team has identified as being more amenable (green), versus resistant (red) to change are listed in the respective columns. A discussion of the issues amenable to change is presented in the discussion below. Again, the reader is referred to the completed Applied PEA framework tables in Annex 1.

Figure 1: Foundational Factors Constraining MSMEs



FLOURISHING GRAY ECONOMY

Serbia has a long, persistent history of gray market activity, which has allowed it to become something of a socially-acceptable norm. The situation is exacerbated by the high cost of labor taxes and social contributions that challenge MSMEs, especially startups, with inconsistent cash flow and low margins. There are significant regional disparities, notably southern Serbia and Sandzak, in which gray market activity is evident even in consumer transactions. While large-scale systemic impact in gray economy activity is unlikely without a committed national effort, the issue can be impacted through a coordinated effort of the Government, support institutions and MSMEs, and supported by donors.

EDUCATION SYSTEM NOT RESPONSIVE TO LABOR MARKET

Many interviewees, including public officials, donors, MSMEs and support actors cite deficiencies in the education system – especially the lack of a "dual-education" system (classroom instruction combined with on-the-job

training) – as major constraints. Not just limited to vocational education, Serbia's education system is constrained by slow, bureaucratic progress toward modern, more effective teaching practices. Most credit primarily the Ministry of Education for its bureaucracy, resistance and lack of incentive to change. At local levels some donor co-financed initiatives have supported training programs in cooperation with the private sector, but the private sector is not organized for advocacy at the national level.

PUBLIC SECTOR DOESN'T SERVE MSME NEEDS

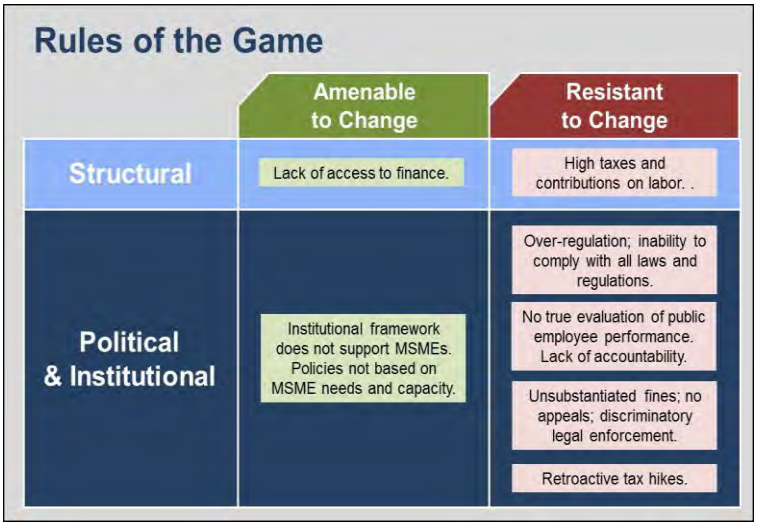
This constraint was echoed in many interviews, on many levels and with respect to many actors. First, public institutions with a mandate to support MSME development are often perceived to either support their own institution over those they are intended to assist. This fosters a lack of cooperation between the public and private sectors. Progress can be made in this area – and indeed is being made – through interventions that facilitate pragmatic, impactful public-private cooperation; constructive, informed advocacy; and cohesive strategic vision; ideally with an environment of continued institutional reform.

2. RULES OF THE GAME

OVERVIEW

The diagram to the right highlights the issues and constraints identified as "Rules of the Game" in the PEA framework. Since this category of constraints is closely linked to policy, only two are considered significantly amenable to change. As before, the discussion that follows summarizes the question of "Why?" the issue persists, while programming recommendations are offered in the Actionable Recommendations section. Again, Annex 1 provides the full elaborated PEA framework.

Figure 2: Rules of the Game Affecting MSMEs



LACK OF ACCESS TO FINANCE

The lack of access to finance is likely the top constraint cited by MSMEs. While this assessment makes no claim to compare financial products and terms available for MSMEs on the Serbian market, MSMEs report that interest rates and other terms are unfavorable, (MSME share in total value of commercial loans is 28.9%, OECD Scoreboard); there are no Government guarantee funds; no functional domestic venture capital funds; and no crowd-funding opportunities. Many consider an unfairly-balanced subsidy system (employment tax relief and greenfield investment) in the favor of foreign investors over their Serbian counterparts. At the same time, some development practitioners cite a lack of investment readiness on the parts of many MSMEs. Numerous opportunities and recommendations are presented in the Actionable Recommendations section of this assessment.

INSTITUTIONAL FRAMEWORK DOESN'T SUPPORT MSMES

This constraint possesses several key pieces: i) the framework of institutional support itself; ii) the execution of framework principles by institutions; and iii) the policies on which the framework is based. Considering the structure of national and local support institutions, and developed strategies and action plans, the framework itself can be considered reasonably healthy, but generally lacks the necessary consistent commitment and funds for longer-term implementation. Regional Chambers of Commerce receive considerably different feedback with respect to their services to MSMEs; with enforcement of the new Law on Chambers of Commerce (Jan. 2017) mandatory membership will be imposed for all Serbian companies. Institutional actors, perhaps logically, may also act with different priorities or organizational interests at heart; unifying competing visions at national and regional levels through consensus-building initiatives can potentially help to increase competitiveness, especially at regional

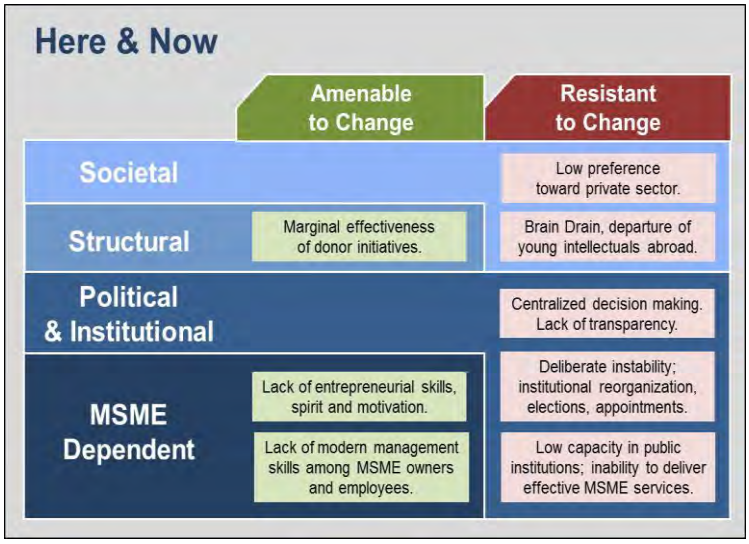
levels. Related with policy, MSMEs and their member groups can be supported to step up their involvement in advocacy.

3. HERE & NOW

OVERVIEW

The diagram on the right presents the issues and constraints identified as "Here & Now." A discussion of the issues more amenable to change follows.

Figure 3: Here and Now Constraints



MARGINAL DONOR EFFECTIVENESS

An interesting finding revealed through this assessment is that, when pressed, many donors and their partners struggle with impact and sustainability of private-sector development in Serbia. Perhaps sluggish progress and lack of sustainability is simply the norm, caused in parts by a lack of innovation in development itself, insufficient timeframe to achieve long-term impact, and shifting Government priorities and support instruments. Donors and their partners are clearly proposing what appear to be logical solutions in many cases, but become unbounded in practice due to interference from other factors and constraints. Perhaps, however, a breakthrough is on the horizon. Lacking firm data, there does appear to be an attitude shift among development practitioners to improve their programming based on empirical data, objectify program monitoring and evaluation, and more effectively attribute impact, which should in turn better inform future programming. High-level synergies and collaboration between donors can contribute significantly. Participation and contributions to communities of practice, as well as following and critiquing the contributions of others, can also improve our collective effectiveness. Many additional recommendations are provided in the Actionable Recommendations section.

LACK OF MODERN MANAGEMENT SKILLS & TOOLS

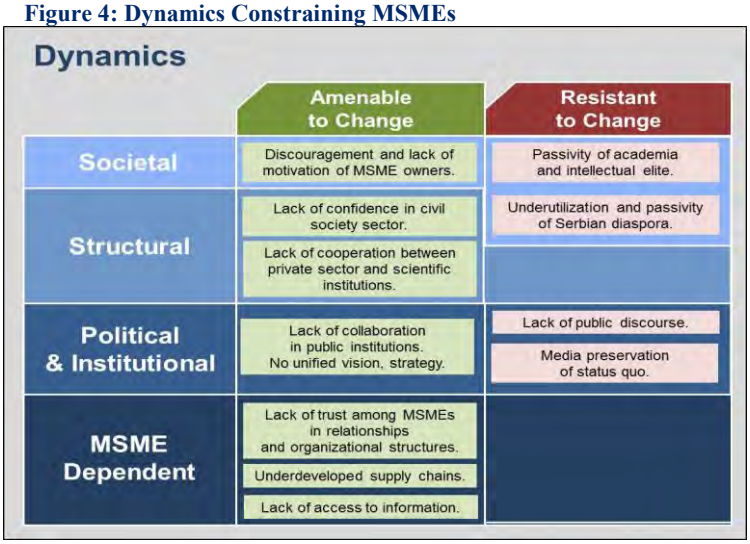
Serbian MSME owners are commonly referred to as, "wizards of all crafts, but master of none." Their necessary concentration of the direct management and operations of their businesses leaves little time to focus efforts in other areas of efficiency, optimization, management, innovation. Micro and small enterprises in particular are commonly managed and staffed with family members who, despite having a strong stake in success, may not be the most qualified, skilled and experienced in modern management principles. This issue appears ripe for firm-level impact. Some SMEs visited exhibit an obvious sense of togetherness, shared vision and ownership of success in the face of rapid, challenging growth; with high emphases on labor relations, training and teamwork. Advancements in software and technology solutions for virtually all facets of business management, logistics and operations can be introduced through co-financed or member-based organizational affiliation. Assistance must, however, be targeted as there is a "weariness" among MSMEs throughout Serbia of generic training and skills building.

4. DYNAMICS

OVERVIEW

Lastly, this diagram presents the issues and constraints identified as "Dynamics," or those issues that relate directly to how relevant actors interact, cooperate, transact and communicate with one another. As logic might dictate, it is the dynamics between actors that potentially offers the greatest opportunities for impact.

Figure 4: Dynamics Constraining MSMEs



MSME DISCOURAGEMENT & DEMOTIVATION

Donors cannot realistically expect large-scale change in the near term regarding the negative outlook of some MSME owners, as there are many external factors at work affecting the morale and outlook of society. MSME owners and managers have faced an extended history of challenges with minimal improvement through economic cycles and political transitions and reforms now dating back decades. But with successful initiatives and progress through collective, collaborative efforts we might begin to see visible change in prevailing attitudes of pessimism, discouragement and demotivation. Among the younger generations, these attitudes are a significant motivating force to leave their country, contributing to further "brain drain." Identifying leaders of change in private, public and civil society spheres and facilitating their relationships with young, motivated individuals – whether in sectors, clusters or regions – might provide a beacon for others to follow.

LACK OF CONFIDENCE & COOPERATION WITH CIVIL SOCIETY

Civil society has been largely absent from the discussion so far, indicative in itself of the lack of cooperation between civil society and public and private spheres; civil society is typically not considered a relevant actor in the area of private-sector development. As with other actors dependent at least on part on donor resources, CSOs as well are sometimes viewed as serving their own interests and financial viability by prioritizing their donors and deliverables over quality, demanded services. It should also be noted that the lack of confidence in civil society cannot be said to be widespread, as there are numerous examples of CSOs being credited for delivering quality, demanded services, notably in the areas of entrepreneurship and workforce development.

LOW COOPERATION WITH SCIENTIFIC INSTITUTIONS

Technological innovation by its nature necessarily requires the cooperation between actors that span sectors and spheres, importantly public and private scientific, technology and research institutions and actors. Presently this linkage between MSMEs and scientific institutions is severed, with minimal cooperation from either side, each working according to their own interests and capabilities. Incentives to stimulate cooperation are lacking, although the Innovation Fund and programs like SECO EP are making inroads. On the institutional policy side, formal instruments for stimulating and evaluating faculty members based on efforts with the private sector should be installed, although this is unlikely happen in the near term. Our sections on Actionable Recommendations and our proposed Innovation strategy in the Alternative Program Approaches* section provide programming recommendations.

LACK OF INSTITUTIONAL COOPERATION & UNIFIED VISION

As with many public institutions the world over, those in Serbia generally exhibit fairly low levels of institutional cooperation and at times suffer from the lack of a unified vision and priorities both at national and local levels. This is not surprising, particularly in light of relatively frequent Government reorganization of Ministries and other key agencies; recently notable is the consolidation of NARR (National Agency for Regional Development) and SIEPA (Serbia Import-Export Promotion Agency) into RAS (Development Agency of Serbia). The lack of clear,

unified visions between institutions can at least partly be attributed to issues related with communication, collaboration and networking (as well as institutional and political interests). As well, this is an area in which there is always room for improvement through effective interventions in forums for dialogue, advocacy and transparency. The consolidation under the Ministry of Economy of Government MSME support initiatives in the Year of Entrepreneurship provides an effective focal point for facilitating improved collaboration.

DISTRUST & LACK OF COOPERATION AMONG MSMES

Serbian MSMEs and entrepreneurs have a prevailing, yet understandable, resistance to formal organization that manifests itself in lack of cooperation, trust, transactions and organizational structures. Meanwhile, USAID (notably through CRDA) and other donors have facilitated the establishment of literally hundreds of associations (udruzenje gradjana), although arguably primarily to serve as an instrument to deliver grants and technical assistance. While there is success in facilitating individuals to organize, the sustainability of most of these associations is likely minimal; once the donation was received the members failed to realize additional benefits. Associations, clusters and CSOs are all the same under Serbian law; donors face the trap of supporting these organizations and utilizing them as a means to deliver assistance, in many cases making them more responsible to their donor than their constituency. Our Actionable Recommendations section includes considerable discussion on this issue.

RESISTANCE TO ASSOCIATION: THE NEED FOR POSITIVE EXAMPLES

In a country still emerging from a controlled economy, a culture of the private sector promoting its interests through business association is fairly new. Since the start of transition there have been relatively few successful examples of private, voluntary business associations established and focused on serving their members' needs. Others generally lack sufficient or consistent resources to engage full-time staff and develop and deliver services on a consistent basis to their members. Many have received donor support, which some argue benefits primarily the association over its member MSMEs, in some cases resulting in disillusionment and conflict within the association. Thus, from a lack of positive examples, many MSMEs may feel discouraged regarding expectations and how best to promote their interests and leverage their membership in business associations.

UNDERDEVELOPED SUPPLY CHAINS

This issue directly affects competitiveness and should be a focal point of sector-based interventions. The lack of local supply chains in many sectors can be traced to the collapse and breakup of state-owned enterprises and the resulting loss of large "anchor" businesses. It is further exacerbated by the trust issues elaborated above, MSMEs general unwillingness to organize, and particularly the prevalence and cultural acceptance of non- and late-payment of accounts. The reluctance to organize and establish strategic partnerships also impedes supply chain development. Donors as well perhaps haven't been consistent in their approaches and commitment. There is considerable discussion of this issue in our Actionable Recommendations and our Sector-Based Alternative strategy.

LACK OF ACCESS TO INFORMATION

Many MSMEs suffer from a lack of information concerning access to markets. According to USAID BEP's *Annual Survey of 1000 Enterprises*, many MSME owners possess a surprising lack of information on a range of issues, caused in part by both: i) delivery mechanisms in reaching MSMEs, and ii) diligence in MSMEs themselves in obtaining information. Chambers of Commerce are pointed to as being remiss of informing MSMEs about legal and regulatory changes by standing on the argument that it is their responsibility. A precursor glance at this assessment's ONA data revealed a near-total absence of media partners cited as supporting actors or partners. Support institutions need to better understand how to effectively deliver information to MSMEs. Impact in this area might be based on a better understanding through what channels to effectively deliver information to MSMEs, and work with supporting institutions and traditional and social media to better deliver those services.

III. ACTIONABLE RECOMMENDATIONS

OVERVIEW

This section elaborates the team's programming recommendations in response to the issues and constraints identified in the previous Political Economy Analysis section. Each of the constraining issues identified as being potentially amenable to change are discussed in turn, corresponding to the order presented in the previous section. In a few cases where applicable and noted, the discussion of similar issues identified in different parts of the PEA has been combined.

1. FLOURISHING GRAY ECONOMY

POLICY & STRATEGY

On the policy side, in December 2015 NALED completed the *National Program for Countering the Shadow Economy*. The report includes an exhaustive, 16-measure "Action Plan for Implementation" centered around four objectives: i) Improved Monitoring & Inspection of Shadow Economy; ii) Improved Fiscal System; iii) Reduced Administrative Burdens on Businesses & Citizens; and iv) Increased Public Awareness on Significance of Shadow Economy and Motivation for Compliance with Regulations.

Table 2: Program Job Creation

Entrepreneurship & Job Creation Results & Basic Indicators Comparison		
Program	**Donor Cost Per Job**	**Two-Year Sustainability**
Pokreni se za posao (ENECA)	€910	92%
HELP!	€3,140 (overall) €5,309 (excluding agriculture)	95%
CRDA MicroStarts	$3,200	93%
CRDA Employment Expansion	$2,300	100%

This table highlights basic indicators for several entrepreneurship and job creation programs in Serbia.

Supporting startups typically centers on the competitive evaluation of business plans, with winners supported by co-financed grants and technical assistance. Gray-market businesses are stimulated to formally register and create legal employment.

Stimulating new employment in existing MSMEs typically centers on asset co-financed in exchange for new hires for a specified duration of time. This methodology can be combined with commercial credit to help evaluate recipients' credit risks.

ENTREPRENEURSHIP & EMPLOYMENT PROGRAMS

A strategy that has been replicated in Serbia in cooperation with public and financial institutions incentivizes movement of enterprises and labor from the gray to formal markets through grants and technical assistance. With some variations, there are essentially two schemes: i) support for new startups and/or the formalization of currently-unregistered business activities; and ii) support for existing micro and small enterprises that create new positions of formal employment; both incentivize movement from gray to formal economies. Programs like *Pokreni se za posao*, managed by ENECA CSO in Nis, Help! and other programs (including USAID CRDA) have exhibited success in the legal transitions of enterprises and staff. While these programs are very much firm-level, their impact is respectable in terms of enterprise registration and job creation per the investment dollar. Institutionalizing such programs with the support of public institutions, RDAs or other local actors can be an impactful means to incentivize transition to the formal economy at the enterprise level, while helping to strengthen institutional capacity. Annex 5 provides a fairly detailed analysis of some of these entrepreneurship & employment programs.

ADVOCACY

Reducing the pervasiveness of gray market activity requires a committed and coordinated approach between public and private actors, supported by donors. Since many MSMEs participate in gray-market activity on some level,

consensus and prioritization on the part of MSMEs is challenging. However, MSMEs can be mobilized around advocacy issues that such as reduction or partial temporary relief of employment taxes and social contributions, which should in turn increase the incentive for compliance. Advocacy can be accompanied by public awareness-raising on the strategic importance of legitimizing operations.

2. EDUCATION SYSTEM NOT RESPONSIVE TO LABOR MARKET

EDUCATION & INSTITUTIONAL REFORM

This assessment revealed a prevalent dissatisfaction with progress made in improving and modernizing Serbia's education system. As the nature of MSME growth and competitiveness relies on increasingly-specialized labor and skills, MSMEs routinely cite the failure of Serbia's vocational and higher education institutions to adequately prepare the workforce with the necessary skills for employment. In the absence of a formal dual education system, some unique partnerships have evolved between progressive-minded vocational schools, MSMEs and development practitioners to cooperatively design and deliver courses with on-the-job application. While progress in education reform at the national level has been hampered, private and some public educational institutions are eager and prepared to close the gaps between education programs and labor market needs.

PRIVATE-SECTOR INVOLVEMENT IN TRAINING

Several companies interviewed have participated in customized workforce development programs in cooperation with vocational education schools, usually for training in specific skills envisioned to be necessary by the companies to fill workforce gaps or anticipate expansion. It is crucial to involve the private sector, particularly those who may become the ultimate employers of the trainees. Each sector has specific demands; in the metal sector there is a shortage of experienced welders, especially for non-ferrous metals, and Computer Numerical Control (CNC) machine operators with knowledge of the applicable programming platforms. Another intervention could be facilitating program alumni to take active participation in addressing students in elementary and high schools, promoting career opportunities in their particular sectors.

Table 3: Program Profile: Education to Employment

Program Profile: SDC Education to Employment

Education to Employment is an eight-year program (first four years funded at CHF 6.5 million) that seeks long-term impact in helping Serbia's education system respond to employment skill demands. The program has two main components: i) Policy Component, designed and implemented in line with the Strategy for Social Inclusion & Poverty Reduction; and ii) Practical Component, working in five municipalities to design and deliver improved curricula and dual education.

Under the second component, the program works with educational institutions at all levels. Each municipality has a "broker," essentially a local implementing partner in each municipality; a priority sector, and a vulnerable group target, as shown below.

Municipality	Broker	Priority Sector	Target Vulnerable Group
Knjazevac	Center for Youth Employment	Shoes	Rural Groups
Kragujevac	Business Development Center (CSO)	PVC Profiles	Handicapped Youth
Krusevac	Business Incubator & Youth Office	TBD	Youth Correctional Facility
Novi Pazar	Youth Association	TBD	Youth with Social Benefits
Pirot	ZiP Incubator Center & Osvezenja (CSO)	TBD	Roma

LOCAL-LEVEL RESPONSE

While education reform at the national level slow in coming, the assessment revealed several discrete initiatives at local levels that have successfully leveraged public, private and donor resources to create employment opportunities in the private sector by supporting or delivering specialized training to meet the demand of private-sector employers. The Program can likely impact this issue through similar activities that facilitate collaboration between education providers and groups of employers at the local level. A key initiative to monitor in this field is the Swiss-funded *Education to Employment* project (see inset). Armed with demonstrable results and coordinated efforts, systemic change in Serbia's vocational and higher education systems can be achieved on a longer-term horizon.

3. PUBLIC SECTOR DOESN'T SERVE MSME NEEDS

INSTITUTIONAL DEVELOPMENT

[This discussion also applies to the issue, "Institutional Framework Doesn't Support MSMEs," identified in Rules of the Game.] At the outset of this assessment, we collectively considered two broad categories of intervention: i) direct assistance to MSMEs and the MSME sector; or ii) institutional development and capacity building targeting institutions with mandates to support the MSME sector. As can be seen in the results of the PEA, the volume and obstinacy of constraints – including in some cases the opposition to practical reform on the part of the public sector – significantly limits optimism in effecting public-sector institutional change. Institutional reform and capacity building should be an area of emphasis, but more effectiveness might be achieved by using MSME support methodologies as a vehicle to strengthen those institutions directly linked to targeted actors or initiatives. In this way institutional development is viewed more as an *outcome* rather than *objective*.

INSTITUTIONAL CAPACITY MAPPING

No matter potential Program strategy alternatives – be they based on sectors, regions or otherwise – relevant support institutions should be identified at the outset of implementation by conducting an mapping exercise of relevant actors at local, regional and national levels throughout Serbia. There are numerous methodologies and frameworks that can be applied to map and measure institutional capacity, although perhaps it does not need to be quite elaborate. Any mapping exercise should logically be conducted in tandem with ONA and be aligned with the M&E strategy (or Performance Monitoring Plan). At the time of this writing USAID/Serbia has released an RFI for *Market Research for Monitoring, Evaluation and Learning*, seeking interest from local organizations in areas of research and assessment; this research could provide a valuable indicator and measure of available capacity and serve at least to inform a more detailed capacity mapping assignment.

ALIGNMENT WITH GOVERNMENT STRATEGIES

It bears brief mention to consider the extent and areas with which the Program will be aligned with Government strategies and priorities. Buy-in will be essential no matter the focus. Both national and local public-sector actors stressed this point, although they perhaps do so with an eye toward future benefits in the form of participation in implementation, their own institutional strengthening of co-finance leverage for other new or ongoing initiatives. Certainly the strategies herein are in line with numerous Government programs and strategies, but Government and institutional buy-in is an important consideration.

STRATEGIC SECTORS: SERBIA NATIONAL STRATEGY

The Serbian Government's Strategy for Support to the Development of SMEs, Entrepreneurship and Competitiveness, 2015-2020 identifies seven strategic economic sectors for development.

- Aerospace & Defense
- Automotive
- IT/Shared Services
- Agriculture, Food & Beverage
- Textile

ADVOCACY

In general terms, the responsiveness of public institutions to the MSME sector is perhaps one of the most important advocacy initiatives that can be raised by a collective body of MSMEs. This issue has the potential to be very strictly defined in terms of demanded services, affected institutions and progress indicators and targets. The Government's rhetoric on the *Year of Entrepreneurship* and aggressive reform strategy may present an environment to achieve gains with both local and national level institutions.

4. LACK OF ACCESS TO FINANCE

ACCESS TO FINANCE

Lack of access to finance is regularly a top constraint cited by MSMEs, specifically with respect to loan interest rates and terms, lack of portfolio of products and instruments, and unbalanced Government subsidies. The Program can seek opportunities with banks to establish programs to offset risk and/or develop new credit

products to serve specific sectors of MSMEs. Matching private banking resources with Government or USAID funds to draw down risk or develop new products can be an effective application of resource leveraging. Since such initiatives would require time to negotiate, it is unlikely that offerors could commit to specific products in their offers.

LOAN PRODUCTS

Some of the currently non-existing loan products that should be in high demand by MSMEs include startup credit, refinance loans, long-term MSME credit and bail-out credit, which targets fundamentally-sound companies that have reported balance sheet losses, automatically disqualifying them for any loan. This is one example where the diversification of risk criteria could have a profound impact on access to finance.

VENTURE CAPITAL

The Program should also monitor the existing (largely non-operational) venture capital funds and, should they exhibit promise, seek opportunities to stimulate and support investments, perhaps facilitating private investment by Serbian businessmen or diaspora.

DEVELOPMENT FUND

A relatively more simple initiative can be to capitalize the Serbia Development Fund, or perhaps revitalize its Loan Guarantee component in a move to lower risk for innovation.

CROWDFUNDING

An advocacy initiative could help create legal framework for crowdfunding in Serbia, and to lobby for the removal of barriers for Serbian citizens to participate in global crowdfunding systems like Kickstarter and Indiegogo.

SERBIA BANKING SECTOR: CURRENT BANKING ENVIRONMENT & FINANCIAL PRODUCTS

With 30 licensed banks in Serbia, one might expect that competition would motivate a range of differentiated banking products tailored to needs of MSME clients. In practice that is not the case: different banks offer nearly identical products:

- Despite the number of registered banks, the Serbian banking sector remains underdeveloped and homogeneous, meaning that all banks use almost identical risk criteria. With no individualized approach to assess client risk, becoming credit-worthy at one bank qualifies the client with other banks. Unfortunately, the reverse is also true.
- Prior to the 2009 financial crisis, the Serbian banking sector aggressively issued loans. Criteria and collateralization were less stringent, resulting in a high number of non-performing loans, bankruptcies and write-offs. Banks logically became more rigid and conservative in their lending.
- Lack of diversified financial products can also be traced to the National Bank of Serbia, which has imposed high reserve requirements for higher-risk banking activities. In order for banks to introduce new loan products – which according to the National Bank represent increased risk – they must increase already-high reserves, which is either not feasible or would make those new products prohibitively expensive.
- Human resource issues also contribute to lack of innovation in banking. There are fairly few officers, especially in risk departments. Vacancies are mostly filled by rotating individuals from that narrow pool of candidates, contributing to a low level of adaptiveness. In addition, few people in the banking sector come from capital markets or private equity, limiting their perspective on MSME financial instruments.
- Some international banks in Serbia are able to access cross-border credit lines at interest rates as low as 0.2%. These low rates pull down the passive and active interest rates in Serbia, diminishing bank profits. This is the explanation from banks for recent trends to reduce labor. Lack of job security reduces employees' willingness to be proactive, thus instilling a corporate culture of passivity and risk aversion.

5. MARGINAL DONOR EFFECTIVENESS

MARGINAL DONOR EFFECTIVENESS

Since 2010, the Organization for Economic Cooperation and Development (OECD) reports that international donors have invested $4.28 billion in development assistance to Serbia. While there is noticeable progress in a number of areas, initiatives targeting MSME competitiveness have arguably underperformed in terms of long-term impact and sustainability, almost certainly if we consider the viability of the many associations, clusters and other organizations after the withdrawal of their donors. The development community is learning lessons, however, and recent shifts in collaborative programming, innovative methodologies, and objective impact measurement are encouraging. The effectiveness of the Program depends to an extent on USAID in defining a scope of work while stimulating innovation from prospective offerors. This section presents considerations directly controllable by USAID.

GLOBAL FLAGSHIP

First, this Program can be envisioned in a broader perspective than competitiveness of Serbian MSMEs; rather, some opportunities align that can allow this Program to serve broader objectives, incorporate innovative new concepts, and contribute to USAID and international communities of practice.

- **Serbia Environment:** First, Serbia is a relatively advanced operating environment compared to most developing countries in USAID's portfolio, with a long history of multi-donor development strategies and initiatives on which to learn and assess. Education levels are high; local capacity and resources are relatively strong; and the gender gap is not particularly wide, albeit considerably more so at higher echelons. The development environment of Serbia provides a relatively advanced operating environment in which to pilot new, innovative development concepts and practices, some of which are highlighted in this section.

- **Local Leadership:** The assessment team has outlined various alternatives and levels of local leadership related to both contracting and implementation. USAID-Serbia has been competitively selected as one of four Missions to implement a multi-year *localworks* program. *localworks* adheres to the concept of sustainability through local ownership, promoting "locally-owned and led development by connecting local resources to local actors." Together with *localworks*, the two programs possess conditions to objectively examine the impact of initiatives implemented under various models and degrees of local leadership.

- **Donor Synergies:** All of the key donors operating in Serbia – EU, GIZ, Swiss Cooperation, USAID – have some areas of overlapping objectives and priorities, and the range of development activities and priorities is fairly focused. This more limited number of key actors with similar or aligned priorities provides opportunities for functional synergies and leveraging tools, resources and lessons learned. Included is USAID's government-to-government *Private Sector Development (PSD)* project, which is anticipated to resume imminently following the transition of the national agency NARR into RAS. Despite its geographic target, PSD works in sectors that overlap or provide potential synergies with some of those proposed in this assessment: agribusiness, light manufacturing and fashion. USAID's recently-closed SLDP supported metal, wood furniture and apparel (jeans and shoes). Other donors and many local initiatives as well overlap in some of these sectors.

- **Communities of Practice:** Considering the above, this Program could serve as a foundation for learning and tool to contribute to USAID and development communities of practice in areas including local leadership, M&E, adaptive programming and more. Contributions to USAID communities of practice can include *Learning Lab*, *microlinks*, *localworks*, *LEO*, and of course the Development Clearinghouse for all publications.

ADAPTIVE PROGRAMMING

"Adaptive Programming" is a methodology adopted by some donors, including DFID and Swiss Cooperation, that helps donors to better and more effectively respond to evolving contexts with adaptive programming, competences and incentives. [USAID's Learning Lab lays out Collaborative Learning & Adaptation, which is based on some of the same principles; this discussion will continue to use the term "Adaptive Programming" due to the specificity of the recommendations.] Adaptive Programming inherently provides some level of flexibility to modify select parameters – such as outputs, indicators and targets – over the course of implementation in pursuit of adaptive, systemic change as an objective. According to DFID, Adaptive Programming is characterized by disciplined, data-driven implementation and M&E; iteration; a strong focus on learning; and rapid cycle times. Incorporating Adaptive Programming would require some level of definition during the acquisition (procurement) planning phase; a system for performance indicators, deliverables and benchmarks should be defined. Swiss programs incorporate some interesting and clever features that may also merit adoption on some level:

- **Local Leadership:** Rely on local implementers, maximizing competition and fostering local innovation. Systematically collect and quantitatively analyze results, refining program interventions and targets going forward.
- **Inception Phase Analysis:** Adopt a longer-term viewpoint and incorporate an "inception phase" (in Swiss case, up to one year) highlighted by intensive baseline research, capacity building, systems development and M&E design. Minimal implementation during inception phase.
- **Organizational Strengthening:** Support local implementer(s) over the life of the project in areas including: i) M&E, including external evaluation; ii) technical training and capacity building; iii) financial audit; iv) all control mechanisms, including procurement, human resources and financial management; and v) steering committee oversight.

GENDER ISSUES: GENDER-BALANCED PROGRAMMING

This assessment did not reveal any significant issues of gender inequality; in fact, interviewees of both sexes held key positions in public, private and civil society sphere and at all levels. [In addition, there are numerous USAID women "alumni" serving in some very key positions.] Per our ONA database, 34% of interviewees were women (none were specifically interviewed because they are women). Gender mainstreaming encompasses a mix of both gender-integrated and gender-targeted interventions. An appropriate balance of gender mainstreaming practices applies:

- Targeted interventions supporting, for example, women's groups or entrepreneurs (such as with USAID's PSD and Preparedness, Planning, and Economic Security (PPES) projects).
- Integrated operations that place little or no prioritization on demographics, but perhaps may include a minimum target for women's representation.
- Disaggregated indicators, when beneficial (not all indicators necessarily need to be disaggregated).
- Networking, coalition-building and dialogue between different women's interest groups to assess synergies and examine potential advocacy issues.
- Public education and outreach, including in higher education, led by women and showcasing successful women role models.

MONITORING & EVALUATION (M&E)

The Program can serve as a pilot under which to apply new tools and solutions to strengthen, advance and objectify M&E. The Program can draw on USAID and international communities of practice to apply M&E tools like Organizational Network Analysis (ONA) and other advanced instruments to improve measurement effectiveness and more accurately attribute impact. In conjunction with Adaptive Programming, USAID could examine innovative ways to link contract/grant performance and impact to deliverables and payments.

MAXIMIZE COMPETITION

Elements of competition introduced over the course of implementation offer some advantages and opportunities: i) facilitate Adaptive Programming via local partners whose supported initiatives should evolve over time and with experience; ii) ensure that local partners and clients maintain a competitive edge in developing and delivering solutions; iii) reduces risks inherent in long-term relationships. Another issue that merits mention relates to common practices among contract or grant offerors. In a typical prime-sub relationship during the tender process, it is common for subs to have limited input and involvement in the strategy and final proposal; and in most cases never see the proposal. This fact causes inherent risks related to strategic and operational alignment, ownership, and local partner capacity building. On the flip side, it locks the prime into a long-term relationship with limited local partner(s) over the life of the project.

SERVICE DELIVERY: IMPLEMENTING PARTNERSHIP OPTIONS

Offerors can consider a couple general strategies when in preparing contract or grant offers. Traditionally, they will align with local partners to deliver project services. An alternative is to propose no local partners and to manage the project through discrete, shorter-term contracted (or granted) activities. [They could, but not necessarily, be a grants-under-contract mechanism.] Despite the potential operational advantages of this second approach, it is likely to be viewed as uninformed or negligent to a USAID evaluation committee with respect to local capacity and partnerships. Operationally, this approach must operate at a high level of procurement diligence and efficiency, certainly achievable but a potential risk.

BEP, by its nature, as well as PSD commonly delivered services through sub-grants and sub-contracts. Bosnia's USAID FIRMA (Fostering Interventions for Rapid Market Advancement) project worked through a group of local partners, the "FIRMA Consortium," assembled at the outset of the project through a competitive process. The consortium partners led many project activities relating to planning, training, organizing events, and facilitating trade show delegations, all under the supervision of Cardno.

BUILD ON USAID STRENGTHS & LEGACY

With USAID's portfolio and operational window in Serbia diminishing, it is time to consider what legacies USAID can leave behind following nearly 20 years and hundreds-of-millions in assistance. During interviewees, the team questioned some actors on what have been USAID's strengths, perceptions and legacies over the years. Their responses include: i) building local capacity among development practitioners, many of whom learned their skills under USAID and have gone on to become some of the leaders in the development of Serbia and the investment of EU resources; ii) ability (and experience) in working directly with the private sector, and with flexible investment opportunities [compared with EU assistance, this is a major difference]; iii) outreach and field presence beyond Belgrade, Novi Sad and Nis reaching communities in all regions throughout the country; iv) positive perception in delivering assistance that impact citizens; v) CRDA still evokes positive memories in the regions and is routinely cited as a positive force that impacted many communities; on the policy side and among development practitioners, BEP is credited with numerous policy impacts under a clear mandate. [There are expectations for an EU-funded service contract modeled exactly after BEP.]

6. LACK OF MODERN MANAGEMENT SKILLS & TOOLS

MODERN MANAGEMENT SKILLS

MSME owners and managers, like business owners everywhere, remain primarily focused on their own survival, leaving less time to focus on strategic gains in efficiency and innovation. This issue appears to be an area where donors can make an impact at the firm level, perhaps in cooperation with regional providers that can strengthen that linkage between MSMEs and local development actors. Related to skills, training, mentoring and other services should primarily target the needs of specific groups of MSMEs. General trainings for MSME staff can be offered in areas of business operations and management, business planning, financial management, sales and

marketing, human resources and negotiation; some of these could even be offered online. In addition, since many MSMEs have participated in these types of training previously, the Program should offer training of a much more specialized, sector-specific nature. While these more specialized services will be considerably more costly, Program offerors can seek ways to leverage funds with other local or national resources; MSME participant co-finance is also a necessity.

TECHNOLOGY, TOOLS & SYSTEMS

The Program can seek to strategically introduce modern technology and software solutions that improve various facets of MSME management and operations. A clear mechanism for involving MSMEs in articulating their needs should be followed, seeking synergies and balances with other initiatives and resources. Beneficiary selection and delivery are also important considerations; co-financed is again necessary. The role of associations and clusters in delivering solutions can also be a key consideration for the eventual implementer.

7. COOPERATION & DYNAMICS ISSUES, INCLUDING ASSOCIATIONS & CLUSTERS

IMPROVE COOPERATION AMONG ACTORS

In the Dynamics section of the PEA, there are numerous issues related to cooperation between specific groups of actors – MSMEs, associations, local and national institutions, CSOs and other service providers. Constraints related to each are articulated in the PEA (again, detailed in Annex 1). The team's recommendations for improving cooperation among these actors are included in this section.

FACILITATE SYNERGIES & NETWORKING

As evident in our PEA, many constraints concerning MSME development are related to low levels of collaboration and communication; lack of institutional coordination; and ineffective relationship between MSMEs, institutions and virtually all other support actors. As well, many interviewees cited issues related to strengthening synergies and networking as key constraints and opportunities. Whatever approach is ultimately chosen, the facilitation of networking should be central to the strategy. Such an emphasis aligns with the objective to use, for example, a sector-based approach as a vehicle to provide institutional strengthening. Impact is seemingly achievable in improving cooperation between national and local institutions, between Chambers and MSMEs, and between MSMEs themselves. By incorporating ONA as an M&E tool, the Program can begin to quantify the impact of network-strengthening activities.

ASSOCIATION & CLUSTER SUSTAINABILITY

Serbian MSMEs and entrepreneurs can be resistant to formal organization and cooperation due to the numerous issues presented in the PEA. At the same time, donors have supported the establishment of hundreds of associations and clusters in the past decade, many of which ceased functional operation following the withdrawal of their donor (many likely still exist "on paper"). Associations and clusters are certainly an appropriate means to deliver donor assistance, but their sustainability beyond that assistance has proven questionable. The solution to this constraint is challenging, but should begin with objectively assessing how donors support and deliver assistance to and through associations and clusters, and to consider and examine alternatives. Some specific activities and other programming considerations include:

COOPERATIVES ("ZADRUGE"): HISTORY & SUPPORT

Serbian cooperatives have a particularly negative connotation that can be traced to Socialist "zadruge," forced cooperatives of farmers that collectivized resources and assets and reallocated ownership. In late-2015 the Serbian parliament adopted a new Law on Cooperatives, but without significant improvement. Public institutions do not recognize cooperatives as having a significant role in economic or private-sector development and are therefore largely ignored. There appear to be no programs currently in place to support the development of cooperatives.

- Seek alternatives to formal associations and clusters, considering instead means to support outcomes focused on practical cooperation. At the same time, seek out examples of functional associations formed at grassroots levels.
- Conduct outreach, awareness-raising and education of MSME owners regarding opportunities through participation in business associations.
- Build capacity of associations and clusters that meet specific performance targets in areas of organizational capacity and member services.
- Provide technical assistance working directly with association staff and members helping to align organizational activities with member demands.
- Support advocacy to influence public policy, including training in public advocacy; issue awareness raising; association networking, synergies and coalition-building to unify and amplify their voice in policy advocacy; and supporting legislative monitoring, drafting and promoting policy papers.

ASSOCIATION & CLUSTER DEVELOPMENT

Despite some obstacles, working with the industry clusters is still likely one of the best alternatives to reach and work with MSMEs on competitiveness issues. In sectors without established or functional clusters, donors should facilitate their development. Potential practices for success include ensuring proper management, it terms of both structure and individual(s); establishing clear performance indicators closely tied to assistance; and defining roles of cluster management, particularly in the context of supply chains, and donor and constituency relations. In this way, the clusters' organizational capacities can be developed in parallel with the assistance provided to the member MSMEs.

LOCALLY-LED DEVELOPMENT

There is considerable professional capacity in Serbia that can likely serve to successfully design and lead development initiatives. The precise extent to which the Program is locally designed and managed is subject to considerable debate and without a best recommendation. Suffice it to say that USAID should seek an *appropriate* level of local leadership, considering issues related to design and implementation, training and TA, assessments and active involvement in M&E. On this issue, USAID might outline some basic requirements or expectations and encourage offerors to provide alternative strategies and solutions. Maximizing the local ownership and leadership of the Program offers some theoretical appeal:

- Builds, reinforces and graduates local capacity, an oft-cited USAID legacy.
- Promotes local solutions; utilizes local capacity, knowledge and experience.
- Integrates the local partner or provider into the target network, be they sectors, supply chains or regions.
- Encourages, and provides greater opportunity for, innovation, beginning with the strategy design.
- Abides with the spirit of USAID *Forward* and *localworks*.

FIELD-DRIVEN

There are some advantages to a field-driven approach regardless of the extent to which the Program is locally-driven. A field-driven approach – with local implementers and/or field offices – allows for more closely-linked service delivery and monitoring to clients; can more effectively network and link local actors; and can facilitate the sustainable inclusion of Program implementing partners or staff into the MSME support network. While the Regional Development alternative is clearly conducive to a field-driven methodology, the sector-based and innovation approaches can as well incorporate a field-driven methodology. USAID enjoys a strong reputation for relations with its clients throughout Serbia, and a Program not solely managed from Belgrade can contribute to this legacy. Designating locations for field offices under any of the scenarios could be tricky; and in the absence of specific direction offerors would likely conservatively propose Novi Sad, Nis and perhaps Kragujevac. Perhaps

USAID could solicit recommendations from offerors, subject to consideration and approval during the inception period.

8. UNDERDEVELOPED SUPPLY CHAINS

SUPPLY CHAIN STRENGTHENING

Improving sector-based supply chains is likely to be an integral part of any competitiveness initiative and is an important consideration when identifying targeted sectors. Supply chains can be strengthened around key anchor firms, successful, export-based local and international firms, building and strengthening supply chains around these anchors, together with potential MSME suppliers to those anchors. The Program should first identify and mobilize those companies, then conduct a gap analysis to assess individual and collective competences and technologies needed to close production cycles and become export-competitive. Several examples of enterprises were interviewed who, under their own initiatives, are working with MSEs to become their upstream input suppliers. Developing a few successful supply chains, and then building on and promoting their success, is one of the best ways to demonstrate that positive changes is possible.

ASSISTANCE ACTIVITIES

Numerous activities can be offered, both individual and in groups, for participating MSMEs and other actors, including training and technical assistance; B2B meetings; international trade fair delegations; reverse trade missions; study tours; joint tender offers; standards certification; innovative management support and tools in areas of logistics, marketing, negotiation and legal services; and data and information aimed at improving access to new markets. Many of these services can be delivered by local providers, thereby strengthening institutional and organizational capacity, as well as the relationships between MSMEs and support actors.

ASSISTANCE DELIVERY

Other recommendations concerning assistance delivery include: i) when supporting associations or clusters, disburse support incrementally and against performance indicators; ii) pair all international experts with local experts to work alongside, thereby transferring international expertise to local actors; iii) deliver training, TA and grant or financial support in a coordinated or progressive manner that strengthens capacities and reinforces development objectives; iv) training and TA should evolve to very specialized issues.

ANCHOR FIRMS: DEFINING CRITERIA

In response to the question of what is an anchor firm, the team has identified criteria to be sought out in potential anchor firms:

- employs 50-100 employees
- 100% of equity in private ownership, or with foreign companies as minority equity partners
- simple, transparent ownership structure, including individual assets
- adaptable capabilities;
- export oriented
- long-term commercial agreements with mostly, or at least some prominent, international clients

9. LACK OF ACCESS TO INFORMATION

As described in the PEA, many MSMEs suffer from a lack of information concerning access to markets which can be attributed both to supply (provision) and demand (MSME diligence) both contributing to the challenge. A precursor glance at this assessment's ONA data revealed a near-total absence of media partners cited as supporting actors or partners. Support institutions need to better understand how to effectively deliver information to MSMEs. Clearly the Chamber of Commerce should be a main focal point in outreach and information dissemination; for more progressive regional Chambers receptive to improving their member services, institutional capacity and training in areas of outreach, traditional and social media and organizational capacity are logical interventions. A more intensive examination into how MSMEs receive information may also be a valid baseline research tool. BEP would likely have some additional insight related to this issue, which could be an initial early synergy between the programs prior to BEP beginning to close out their current operations.

IV. SECTOR ANALYSES

SECTORS EXAMINED

Over the course of this assessment, the team made efforts to solicit input from stakeholders across numerous target sectors. The number of sources and interviews was, of course, more comprehensive in some sectors over others. The team has attempted to support and validate our research with data and information available from other publicly-available resources. It should be emphasized that this assessment is not intended to serve as a comprehensive sector assessment. There are many research studies available of varying levels of quality and reliability, many of which have been compiled in the Bibliography of this assessment (all of which are being electronically submitted to USAID). The following sectors were examined in this assessment; more detailed discussions of four sectors – Metal, Wood and Food Processing; plus Energy & Construction – are presented in this section.

EVALUATING ALTERNATIVES: EVALUATION CRITERIA

In order to objectively evaluate alternatives and target sectors, the team developed and applied seven criteria. These criteria and our methodology for arriving at recommendations is presented in more detail in the Methodology section of this report. For summary purposes, the seven criteria are:

- International Demand & Growth Trends
- Serbia Resources & Opportunities
- Attributable Donor Impact
- Cross-Sector Synergies & Opportunities
- Local Leadership
- Institutional Strengthening Vehicle
- USAID Legacy

- ICT
- Metal Processing
- Wood Processing
- Textile, Shoes & Apparel
- Energy & Construction
- Food Processing & Agriculture
- Tourism
- Recycling & Waste Management
- Non-Timber Forest Products
- Healthcare

1. METAL PROCESSING SECTOR

SECTOR OVERVIEW & OUTLOOK

OVERVIEW

While the metal sector shows promise, some of the data and indicators fail to support the optimism and interests expressed by some actors; this reinforces the notion that more thorough sector analyses be performed prior to targeting.

HISTORICAL SIGNIFICANCE

Following WWII and continuing through the early 1980s, former Yugoslavia orchestrated industrialization under the controlled economy of the former socialist regime. The metal sector was one of the key pillars of industrialization and dominated by numerous large state-owned companies. Following the wars, sanctions and hyperinflation of the 1990s, these large enterprises collapsed; and more than 10,000 former metal workers started their own MSMEs producing fabricated metal products (FMP), in some cases capitalizing on machinery "acquired" from state enterprises. In the early 2000s, many of these enterprises failed under the weight of market liberalization, political reform and the beginning of privatization. A small number of them succeeded either through consolidation, specialization or remaining at a micro-level.

Figure 5: Metal Processing Sector

Key Metal Processing Regions

Metal Sector Statistics (2013-2014)

Mining & Metal Production

Enterprises: 750

Employment: 25,000

Fabricated Metal Products (FMP)

Enterprises: >4,000

Entrepreneurs: 3,000

Employment: 35,000

Operating Revenue: €1.48 bn

(3.5% GDP; 4.9% growth)

Exports: €472 million (4.6% exports)

FMP Export Markets

Russia: 10% FMP Exports

Germany: 9.3%

BiH: 9.1%

Italy: 9.0%

USA: 7.8%

Austria: 7.1%

Slovenia: 5.8%

The metal processing industry is dispersed throughout Serbia, but generally clustered in the larger urban centers of Belgrade, Nis, Novi Sad and Kragujevac. Other municipalities shaded here also possess higher-than-average significance. Companies in central and western Serbia account for or nearly 50% of total industry value added.

Data & Information: CEVES, RARIS, German Chamber with some statistical variations.

STEEL PROCESSING

The Smederevo steel mill (steel and iron) significantly contributed to revival of the Serbian metallurgy from 2003 until 2012, while the mill was in ownership of US Steel. The presence of US Steel contributed to FMP again becoming a leading industry, but alone represents 75% of sector revenues (CEVES). Recent to this writing, the factory was sold to a Chinese firm for a reported €45 million, after having been under operational control of a private management company engaged by the Government since US Steel's departure. The sector was further weakened by labor strikes in 2009-2010, pushing production declines of 27% (German Chamber), from which the sector has not recovered. While the number of firms remained unchanged, the number of employees has decreased (CEVES).

AUTOMOTIVE INDUSTRY

The joint venture between Fiat Group Automobiles (67%) and Serbia (33%) signed in 2008 significantly improved macroeconomic indicators; however, the real impact on the FMP industry has been negligible, as only two Serbian companies have succeeded in supplying Fiat. Other than Fiat, the Serbian auto-industry is in distress, with companies such as FAP and Zastava representing state-owned enterprises with no investor interest; the State keeps them on "life-support" to temporarily preserve social stability.

MINING & METALLURGY

There are a few key mining companies in Serbia. RTB Bor mines copper and gold; since the 1990s and during the sanctions, production in RTB Bor dropped significantly from the prosperous 1970s and 1980s due both to diminishing reserves and the inability for new, more efficient equipment. The State lacks the financial resources to restructure and modernize this unsustainable public company. While some international mining companies have expressed interest, no negotiations were concluded. Impol Seval Sevojno in western Serbia, working with aluminum, is stable and profitable, having been successfully privatized in 2002. Given the complexity of challenges and level of financial resources, it is likely not a viable point of intervention.

OUTLOOK

Today, the FMP industry produces semi-final and final products for a large spectrum of customers from many other industries including engineering and construction, automotive, machine production, appliances, agriculture and more. The sector is an important feeder industry for many industrial supply chains that support the wider

economy and other sectors, including wood and food processing. Such large cross-sector cooperation, combined with industry's resilience to crisis and proven export competitiveness, attest to its potential and the justification for continued support.

RELEVANT ONGOING INITIATIVES

CLUSTER INITIATIVES

Several regional metal, automotive and related clusters have been established, at least some of which to target support from the EU *Regional Socio-Economic Development Program* (RSEDP) during 2010-2013. Some of the key clusters are highlighted below:

- **Vojvodina Metal Cluster (VMC):** VMC was established under the EU RSEDP-2 program; SLDP stepped in later and provided additional technical and other assistance, supporting several local anchor firms in Vojvodina and the graduation of the VMC into a one with national representation and prominence. With four full-time staff members and over 130 members (more than 100 enterprises plus 27 institutions), VMC is one of the most developed clusters in the country and includes the most important representatives of the Serbian metal sector. Despite the fact that approximately 40% of members pay their dues on time, the organization is still far from financial sustainability. (www.vmc.rs)
- **Serbia Automotive Cluster:** The Serbia Automotive Cluster was established in 2010 with support of United Nations Industrial Development Organization. Subsequently, the cluster also received significant support from RSEDP-2, in addition to USAID, GIZ and the Serbian Government. Today, the cluster includes about 40 members, mainly Serbian companies producing automotive parts and components. Based on the available information the cluster only has one employee, a cluster manager, and no permanent office; activities are reportedly few. (www.acserbia.org.rs)
- **West-Metal-Group:** West-Metal-Group is a metal cluster centered in western Serbia and established in 2014 with the support of RDA-Uzice and financed by IPA Cross-Border between Bosnia and Herzegovina and Serbia. In cooperation with RDA-Uzice the cluster also received some support from NARD. The cluster has fewer than ten members and no employees; the cluster manager is an employee of RDA-Uzice. Today, the cluster appears to exist only on paper. (www.klasterwestmetalgroup.rs)
- **Cluster of Serbian Aeronautical Industry (UVIS):** UVIS was established in 2014 and counts roughly 40 members, including 14 metal processing companies, 18 aeronautical clubs, and eight educational institutions. The organization is not considerably active and operates mostly on the voluntary efforts of few individuals. (www.uvisaero.rs)
- **Regional Automotive Cluster of Central Serbia:** The cluster was established in 2010 in cooperation with the Kragujevac Chamber of Commerce, and funded by NARD, and subsequently GIZ. Today the cluster counts about 25 members, 15 of which are companies. Activities seem contingent on donor support. (www.raccs.rs)

CONSTRAINTS & OPPORTUNITIES

CONSTRAINTS

The following constraints and potential risks were identified through this assessment:

- **Raw Materials:** Inconsistence and bad quality of raw materials, resulting in lower end-product quality.
- **Workforce:** Shortage of skilled workers, especially to meet the highest standards and certifications necessary to compete in today's international markets.
- **Technology & Standards:** Outdated technologies and machinery (per CEVES, average 30-year). Few Serbian companies meet today's international production quality standards and certifications, creating opportunities for those who do. Finally, inadequate final product testing capabilities.
- **Supply Chains:** Poorly developed supply chains, attributed to issues concerning culture, cooperation, ability to meet EU import standards and subsidy policies for foreign investors.

- **Transport & Infrastructure:** Poor transport infrastructure inefficient transportation due to under-developed railway and lack of port; over 80% of all goods in Serbia are transported by truck.

OPPORTUNITIES

The metal processing sector presents the following opportunities:

- **International Demand & Access to Markets:** Global trends show positive growth and demand for FMP suppliers from developing countries, combined with Serbia's geographic proximity to EU markets, free-trade agreements with the EU, Russia, USA, Turkey, the European Free Trade Agreement members, and others; plus lower labor costs present opportunities to more competitively respond to markets. Anecdotally, there are a growing number of MSME owners motivated to expand to foreign markets.
- **Supply Chain Development:** A coordinated, systematic effort to develop and strengthen supply chains should be a focal point of FMP sector development. Supply chains should be built around identified "anchor firms," successful, export-based local and international firms; working with and through them to reach out to upstream MSMEs to serve as input suppliers. Through provision of TA and strategic grants, the Program could play a key role in identifying and closing production gaps. Facilitated transfer of technology and capacity from anchors to suppliers can result in growing pool of reliable local suppliers and a group of MSMEs collectively advancing their competitiveness.

2. WOOD PROCESSING SECTOR

SECTOR OVERVIEW & OUTLOOK

OVERVIEW

The wood industry is considered the second-most important sector in the country, following agriculture and food. The wood sector has a consistent trade surplus, with furniture and other wood products each comprising roughly 50% of wood exports. Serbia's Free Trade Agreement with Russia resulted in an increase in wood furniture export by 50% in 2014 over 2013 levels. In the past decade, the wood industry in Serbia has been one of the most attractive sectors for foreign investment: Tarkett (France), Ditre and Fantoni (Italy) and Kronospan (Austria) have constructed factories in Serbia to supply local, Russian and European markets.

Figure 6: Wood Processing Sector

Serbia Wood Processing Regions

Timber and wood processing companies are generally clustered in three regions in south, southwest and eastern Serbia, with processing less-prevalent in the eastern region. Some actors argue that eastern Serbia is a suitable target for further development due to less exploited potential and abundant timber supplies. USAID's PSD project serves furniture producers in Sandzak and southern Serbia.

FORESTRY DATA

The total forested area in Serbia amounts to nearly 2.25 million hectares, 47% of which is State-owned and 53% privately-owned. Serbia is considered a mid-level forested country, with 29.1% of its territory forested. Total timber capacity is 363 million m^3, with annual growth of 6-9 million m^3. Annual commercial harvest is 2.64 million m^3, of which 2.0 million m^3 is harvested from State forests by the public companies.

INSTITUTIONAL ACTORS

State forests are managed by public companies Srbijasume and Vojvodinasume. Serbia's economic transition has produced systemic changes in the wood sector: management centralization of forest resources; structural and institutional reorganization; and privatization of state-owned companies. Privatization and private-sector stimulation has been fostered by increasing public timber offers.

FURNITURE PRODUCTION

Furniture production can be classified in three categories: i) solid wood furniture, the highest value, produced from local raw materials, and primarily exported (30%); ii) processed wood furniture; and iii) upholstered furniture. Most Serbian furniture factories are equipped with fairly modern technology and follow global trends in production and surface treatment, so products are – or can be – competitive on European markets.

Table 5: Wood Sector Jobs

Wood Sector Enterprises & Jobs Sector Total, Wood Processing, Furniture Production				
Enterprise Scale	Timber & Processing		Furniture Production	
	Enterprises	Employees	Enterprises	Employees
Micro	1,296	3,350	524	1,620
Small	179	3,621	106	2,114
Medium	28	2,548	43	4,095
Large	1	582	5	5,035
Total	**1,504**	**10,101**	**678**	**12,864**

This table presents the numbers of enterprises and employees in the wood sector, disaggregated by timber and wood processing versus furniture production. Average gross salaries in the wood sector are: €570/month overall; €650 for skilled workers; and €800-€1600 for managers.

Source: Serbian Chamber of Commerce, 2015.

OUTLOOK

Serbia has the potential to develop into a preferred country for foreign investment in the wood and furniture sector (see inset). As seen in the data, the wood sector includes nearly 2,200 companies, more than 90% of which are privately-owned, employing nearly 23,000 workers. Decades of experience in the sector have resulted in a large number of skilled workers that can contribute to sector competitiveness. Many companies have successfully modernized their equipment to accommodate new trends and demands.

RELEVANT ONGOING INITIATIVES

SERBIA DEVELOPMENT FUND

While the Development Fund has no specific program or credit line for wood processing, they annually serve a number of clients from the sector. Since 2014 the Development Fund has approved 34 loans for wood processing companies valued at roughly €10 million (see table).

Table 6: Serbia Development Fund

Serbia Development Fund Loans (2014-Present)		
Sub-Sector	Clients	Value
Long-Term Credit	19	€9.27 million
Entrepreneur Credit	6	€96,800
Start-Up Entrepreneur Credit	2	€20,800
Start-Up Enterprise Credit	3	€62,900
Flood-Affected Entrepreneurs	4	€94,200

Source: Serbian Development Fund

FORUM – POSITIONING SERBIA AS A WOOD FURNITURE SOURCE COUNTRY

USAID SLDP and EU PROGRES brought together representatives of 46 local self-governments from timber regions to support the revival of solid wood furniture production. The Serbian Chamber and RAS supported the initiatives with signed letters of intent. Findings included: i) need to shift focus to higher value-added products; ii) government institutions should support favorable legal and financial environments for companies that export and create jobs; iii) the public timber companies should ensure better, more efficient use of wood resources, prioritizing exporters and high value-added enterprises. A *Wood Sector Action Plan* supported by SLDP and PROGRES is anticipated soon.

SIEPA

SIEPA has supported most of the foreign wood companies settled in Serbia over the past decade through various services and investment grants. SIEPA also supported many domestic wood companies with standardization, internationalization and promotion initiatives. From 2001-2014 SIEPA supported 15 wood processors with €5.4 million in subventions; overall investment of these 15 companies was more than €66 million, employing more than 1,500 workers.

USAID PSD

USAID PSD has supported 52 wood-sector MSMEs, plus an additional 20 from the light industry sector working in wood-related business.

CONSTRAINTS & OPPORTUNITIES

CONSTRAINTS

The following constraints and potential risks were identified:

- **Workforce:** Lack of skilled workforce due to outdated technology in vocational schools (Leskovac Wood Processing School); instructors with minimal production experience; lack of formal dual education system; lack of interest among students to enter vocational schools.
- **Certified Timber:** Lack of certificated timber from Srbijasume; only 5% of timber comes from Srbijasuma, so processors forced to buy uncertificated timber from private sellers or auction.
- **Uneven Trading Field:** Non-EU companies must fulfill all EU standards for import, while EU companies exporting into non-EU countries have more lenient controls, allowing them to export lower-quality goods.
- **Institutions:** Gaps and lack of resources in forestry management; lack of public and financial sector support to increase competitiveness through innovation, new technology and standardization; Srbijasume must better plan and allocate timber stocks; improve distribution mechanisms for technical lumber; and intensify classification.
- **Brand Image:** Negative image of Serbia as quality furniture producer in comparison with Italian and Scandinavian leaders, which may have similar quality but higher prices.
- **Resistance to Innovation:** Serbian companies continue to produce products with outdated designs and low quality, showing resistance to update.

OPPORTUNITIES

The wood sector presents the following opportunities:

- **IKEA:** Arrival of the IKEA to Serbia could be exploited for supply chain sourcing.
- **Quality & Cost:** High-quality Serbian solid wood furniture is significantly less expensive for similar quality as that found in Western markets, but needs improved brand and reputation.
- **Education:** Modernize vocational school equipment and education programs, seeking to attract youth to improved career opportunities in a more value-added sector.
- **Institutional Strengthening:** The wood sector can serve as an entry point for institutional strengthening of public forest-management companies, specifically in areas of forest management and corruption.
- **Design:** Improve furniture designs, perhaps in cooperation with academia or industrial design graduates.
- **Network Facilitation:** Facilitate networks and cooperation through clusters (cluster reportedly exists in Vranje, but was not visited during this assessment).
- **Finance & TA:** Support development of financial products and technical assistance, delivered jointly.

3. FOOD PROCESSING & AGRICULTURE SECTOR

SECTOR OVERVIEW & OUTLOOK

OVERVIEW

The agriculture and food industry represents one of the pillars of the Serbian economy despite its currently underdeveloped state. The sector offers significant potential to leverage favorable natural conditions and resources, including a large number of experienced producers, industry experts and relevant scientific institutions, and contribute to Serbia's competitiveness and exports economy. Since the 1980s Serbian agriculture can be viewed in three periods: from 1981-1990, the sector achieved relatively high productivity and positive economic results. During the 1990s, the sector declined; and from 2001 the sector is experiencing a gradual recovery.

Table 7: Agriculture Statistics

Serbia Agriculture Statistics
Agriculture is one of the most important economic sectors in Serbia, as exhibited by the following statistics: • GDP participation 17%: agricultural production 10.6% and food processing 6.4%. • Share of agriculture in total employment: 22%. • Share of agriculture in total exports: 24%. • Share in total imports of agricultural goods: 8.2%. • Exports of agricultural and food products: €2.1 billion. • Imports of agricultural and food products: €1.2 billion. • 70% of Serbia's territory, 5.1 million ha, is agricultural land (0.68 ha per capita). Arable land totals 4.2 million ha (0.56 ha per capita), well above the EU averages.
Sources: Agriculture & Rural Development 2014-2024 *Serbia Bureau of Statistics*

AGRICULTURE TRADE & PRODUCTION

Since 2001 Serbia has recorded a positive foreign trade balance of agricultural and food products. This growth is fueled by increasing global demand for food and free trade agreements, allowing Serbia to export most of its agricultural and food products with little or no customs to the EU, Russia and other CEFTA signatory countries. Serbia is one of the top global producers of raspberries and plums, and ranks highly in corn and wheat production as well; Serbia also produces a significant quantity of sugar beets and sunflower. Due to large differences in the soil and topography, crop production is the most prominent in Vojvodina while fruit production and livestock are prevalent in the central and south. These differences require different sets of interventions to stimulate sector. [Lessons learned from CRDA and previous USAID competitiveness projects would apply.]

FOOD PROCESSING

The food processing industry is dominated by micro and small enterprises: 75% of companies employ fewer than 10 people, while 90% have fewer than 50 employees and revenues under €10 million. Logical exceptions are milling, sugar, breweries and tobacco, where medium and large companies are more prevalent.

VALUE CHAINS

Value chains are characterized by low production volumes, lack of uniform quality and dependable supply, and a majority of production sold as raw produce and excluded from commercially-oriented value chains. The inability of small farmers to adequately finance production cycles and store produce weakens their negotiating position, forcing them to sell at low prices. The entire sector suffers from lack of information and efficient support systems, further hampering value chain development.

RELEVANT ONGOING INITIATIVES

OVERVIEW

According to the Information System for Coordination of Development Assistance to Serbia, the agriculture and food processing sector has received total aid of €91 million from 2007-2013, with the EU contributing €58 million. Agriculture development is executed in accordance to the priorities set out by the government in *the Strategy for the Development of Agriculture* and the *Serbian National Strategy for EU Accession*.

EU Instrument for Pre-Accession Rural Development (IPARD)

The EU's *IPARD Program for 2014-2020* strategy document, prepared by the Ministry of Agriculture & Environmental Protection provides a detailed overview of agriculture in Serbia, covering all of the relevant sub-sectors, as well as specific constraints and standards related to competitiveness in, and export to, EU markets. IPARD's objective to target weaker links and inefficiencies of production and marketing chain and to "strengthen the overall performance and sustainable development in an EU accession context and to meet necessary market standards," is closely aligned with USAID's *Country Development Cooperation Strategy*, to facilitate MSME competitiveness and Serbia's Euro-Atlantic integration. Projected IPARD funding for the period 2014-2020 is projected at a maximum of €175 million.

Table 8: IPARD Financial Plan

IPARD Financial Plan 2014-2020			
Measures	**Total Public Aid (€ mil.)**	**EU Contribution (€ mil.)**	**National Contribution (€ mil.)**
Investments in Physical Assets of Agricultural Holdings	101.38	76.04 (75%)	25.35 (25%)
Investments in Physical Assets of Processing & Marketing	82.95	62.21 (75%)	20.75 (25%)
Agro-Environment-Climate & Organic Farming	10.29	8.75 (85%)	1.54 (15%)
Implementation of Local Development Strategies (LEADER)	5.83	5.25 (90%)	0.58 (10%)
Farm Diversification & Business Development	23.33	17.50 (75%)	5.83 (25%)
Technical Assistance	6.18	5.25 (85%)	0.93 (15%)

Source: Republic of Serbia IPARD Programme for 2014-2020

CONSTRAINTS & OPPORTUNITIES

OVERVIEW

Due to the complexity of the sector, the considerable previous and planned investments, and the general wealth of intellectual resources, a further assessment of the sector is warranted. Such an initiative need not be a high-cost, time-consuming initiative as there are ample local human and intellectual resources available to provide sound decision-making. A qualified team of local consultants for this sector can certainly be assembled.

CONSTRAINTS

The following constraints and potential risks were identified:

- **Food Processing Scale:** Only roughly 10% of the food industry is comprised of large enterprises. Unlike other sectors where large firms seek quality suppliers, most large food processors have either developed their own production cycles or they import raw materials, making it difficult for small local producers to participate in the supply chains of large processors. Thus, in the food sector donors should focus resources on assisting smaller enterprises who are exposed to heightened market pressures due to progressing market liberalization.

- **Parcel Size:** Outside of Vojvodina, production is restricted by small land parcels and husbandry, often at the subsistence level. Many farming households are also not recorded in the cadaster. Farmers' resistance to organize further restricts opportunities for quality, quantity and consistency. There is also a considerable quantity of underutilized land, a potential opportunity for increasing production.

- **Access to Finance:** Access to credit, particularly for small farmers, is restricted by high collateral requirements, high interest rates and low liquidity.

- **Production & Demographics:** According to the 2012 census data, the rural population is decreasing at a rate of -4.2% annually; over the previous decade, the number of agricultural households fell by over 30%. (These data may present a potential opportunity in terms of holding consolidation.)
- **Technology, Production & Yield:** Obsolete technology and dated production practices results in yields of most crops well below EU member states. Less than 3% of agricultural land is equipped with irrigation and hail protection.
- **Extension Services:** Insufficient State support for agriculture extension and food industry. Efforts hiring 2000 extension agents by the previous government were eliminated. [The system did face some mixed reviews, but was considered by many to be a step forward in terms of high coverage and low investment and overhead.]

OPPORTUNITIES

This discussion considers primary agricultural production together with processing, since many Serbian agricultural products are of premium quality and ready for end users. The process of delivering the product from the field to the consumer is often complex, and although it may not necessarily require processing, there are production and distribution cycles that enable these products to achieve premium prices, justifiably placing them in the food processing industry. Serbia should focus on these higher-end products that could be produced in value chains incorporating farming households and small and medium processors. The sector presents the following additional opportunities:

- **Premium Food Products:** Serbia has a potential to develop vibrant value chains for premium food products, produced in limited quantities that require special production procedures and certification; examples include regional-branded dairy products, juices, jams, honey, dried foods, pharmaceutical herbs and teas.
- **Land Prices & Consolidation:** Demand for agricultural land is rising, resulting in increased prices and plot consolidation.
- **Consumer Sophistication:** Consumer health and safety awareness increases opportunities in more specialized production – those who seek lowest prices versus those who seek premium quality; this trend is beginning to differentiate producers as well, and presents opportunities for quality, competitive value-added products. As well, there is high capacity in EU markets for organic and forest products.
- **Increasing Scale:** Upgrading production of small and medium food processing capacities in central Serbia for specialized food products with higher value added, and used as a mechanism for producer organization.
- **Collaborative Market Access:** Platforms for processors and producers to engage in dialogue and value chain planning can help actors identify opportunities and solutions to increase sector competitiveness. Co-financed investment incentive grants based on technology, value chains and gaps, such as technology, machinery, cold storage and irrigation systems can increase sub-sector competitiveness; an innovation component targeting specific identified solutions could provide a synergy.

4. ENERGY & CONSTRUCTION SECTOR

SECTOR OVERVIEW & OUTLOOK

OVERVIEW

This Energy & Construction profile outlines potential interventions in the energy sector in Serbia, specifically in the areas of energy efficiency and renewable energy. This profile attempts to provide potential structure and definition to appropriate interventions in energy efficiency and renewable energy. This is not intended to be a thorough analysis of the energy sector, but rather an introduction to the state of the sector in Serbia and possible impactful interventions. It is the understanding of the team that separate funding may be available for energy interventions, and this brief analysis can be used as a first step in assessing efforts to access additional funds. When considering practical donor interventions in energy efficiency and renewable energy we are primarily talking about the building sector, which accounts for 40% of energy consumption and including smaller-scale renewable rooftop installations.

> "We have entered a new era of clean energy growth that can fuel a future of opportunity and greater prosperity for every person on the planet. Governments, businesses and investors around the world are realizing that the progression to low-emission, climate-resilient growth is inevitable, beneficial and already under way."
>
> Ban Ki-moon, Secretary-General, United Nations

RENEWABLE ENERGY: GLOBAL JOB GROWTH OPPORTUNITIES

In 2016 more than 8.1 million people worldwide are employed in renewable energy, a growth of over 5% over 2015, "in stark contrast with depressed labor markets in the broader energy sector." The increase is being driven by declining renewable energy technology costs and enabling policy frameworks; the trend is expected to continue as the economic case for renewable strengthens and as countries move to achieve their climate targets. In the US, renewable energy jobs increased by 6% compared to a decline in employment in oil and gas of 18%. The International Renewable Energy Agency (IRENA)'s research estimates that doubling the share of renewable energy globally by 2030, which would be sufficient to meet global climate and development targets, would result in more than 24-million jobs worldwide. The report points out that, "One of the most important elements is for countries to enact enabling and supporting policies to create the right environment for renewable energy industries, including skills training and education,"

Source: IRENA

Global Energy Trends & Opportunities: It is nearly impossible in today's climate to ignore the start of what appears to be a global revolution in how energy is produced, managed, consumed and allocated. Technological advancements in recent years have introduced an explosion of new products and efficiency gains in renewables, lighting, control systems and other areas. The coming energy transition is expected to be profound, affecting every facet of society and economy, and at the same time generating new and innovative opportunities. At the Paris Climate Conference (COP21) in December 2015, 195 countries adopted the first-ever universal, legally binding global climate deal to reduce CO_2 emissions. Globally, 2015 produced a new record for global investment in renewable energy, committing $285.9 billion to renewables (a figure that excludes large hydro-electric projects). Even in the US where the solar industry is challenged by reduction and elimination of subsidies, the number of jobs in solar energy sector grew twelve times faster than overall job creation in 2015 and outpaced jobs in oil and gas. Unfortunately, Serbia lags behind in many aspects of the energy transition.

Serbia Energy Consumption: Per GIZ, Serbia's per capita energy consumption is four times that of Germany, and the energy required to heat buildings is more than 2.5 times the EU average. Inefficient energy use for heating, cooling, hot water and lighting is increasingly giving rise to energy shortages and rising costs (although in Serbia costs remain subsidized in the form of below-cost prices for electricity and the prevalence of non-metered district

heating in most cities). This trend is further exacerbated by the poor technical condition of buildings and a lack of funding for district heating systems. A full 40% of Serbia's energy is imported. Serbia wishes to increase the share of renewables in its energy consumption from the current 21 per cent to 27 per cent by 2020; a commitment considered low by most experts.

RELEVANT ONGOING INITIATIVES

GERMAN GIZ

GIZ has a sizeable intervention in the energy sector. Under their Sustainable Infrastructure and Environment & Climate Change priority areas, they pursue four objectives:

- **Energy Efficiency in Public Buildings:** The nationwide project on *Energy Efficiency in Public Buildings* focuses on the country's 6,500 schools and kindergartens and operates in four areas: i) improve the legal framework; ii) introduce instruments to estimate impact for saving costs and energy; iii) establish an advisory and information platform; and iv) train janitors and craftsmen. Legislative institutions are advised on adopting Serbia's National Energy Efficiency Action Plan, and staff members are trained to make accurate financial forecasts for energy efficiency measures. The project is working with the University of Belgrade to establish a competence center on energy efficiency. Serbian academic institutions offer upskilling courses for janitors and craftsmen, which lead to higher quality and better maintenance of energy saving measures. The project cooperates closely with a project of the same name by KfW Development Bank, which provides funding to rehabilitate schools to improve their energy performance.

- **Developing a Sustainable Bioenergy Market:** The objective of this project is to improve the conditions, expertise and resources to improve the application of bioenergy, contributing to rural development and reducing CO_2 emissions. The project provides advisory services related to policy and conformity with EU legislation on biomass use. In cooperation with KfW Development Bank, the program is supporting biomass use in five district heating stations, replacing fossil fuels with residual matter from forestry and agriculture, reducing energy consumption and greenhouse gas emissions. The planned biomass substitution is equivalent to a heating value of around 345,000 MWh/year, reducing CO_2 emissions by 134,000 tons annually. An EU Horizon 2020 program also provides synergy by establishing regional biomass yards in five countries in southeast Europe.

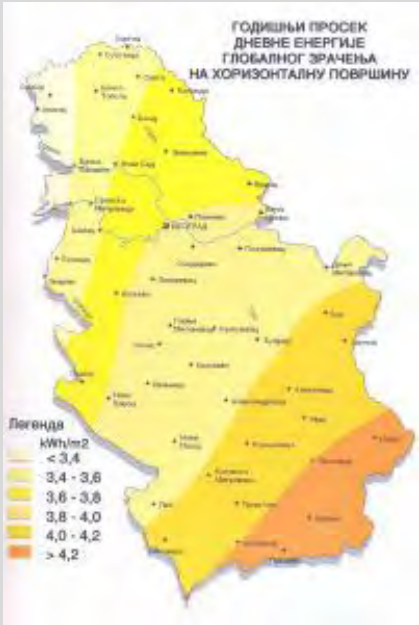
- **Advisory Service for Energy Efficiency:** The objective of this project is help Serbia implement its National Energy Efficiency Program for the buildings sector. The project supports a host of institutional actors and has initiated an inter-institutional working group to foster dialogue and exchange relating to energy efficiency in buildings. The project supports more than 30 municipalities to develop Regional Energy Efficiency Action Plans. They also work with the Chamber of Engineers to train energy advisors in preparing EU-compliant energy performance certificates; and with the University of Belgrade on a one-year supplementary course in building energy efficiency. They have provided an in-depth analysis of roughly 23,000 existing buildings, providing data that facilitate accurate estimation of energy potential savings in Serbia's private buildings sector. This data and information is freely available to all users. [These tools and assessment methodologies are conveniently documented in resources provided to the assessment team.] A total of 1,700 energy advisors have been trained.

- **Open Regional Fund – Energy Efficiency (ORF-EE):** ORF-EE supports regional networks comprised of stakeholders who are capable of driving forward reform in the area of sustainable energy and contributing towards more effective energy efficiency policies. ORF-EE offers specialist advisory services and financial grants to help these institutions build networks, stage dialogue events and conduct training. The program relies on numerous synergies, including the Open Regional Fund – Municipal Services and national programs in the six countries.

Figure 7: Solar Energy Potential

Serbia Solar Energy Potential

Data & Initiatives



Serbia Solar Radiation:

Summer: North: 5.9 kWh/m2/day; South: 6.6
Winter: North: 1.1 kWh/m^2/day; South: 1.7

Serbia Overall Average Solar Energy Value:

1,200-1,550 kWh/ m^2/year

Average Available Useful Solar Energy:

700 kWh/ m^2/year

With roughly 2.5 million households in Serbia, if every fifth household installed a solar receiver of 4 m^2 surface, 1,750 GWh/year would be generated annually, which would largely replace the consumption domestic hot water heating, and reduce CO_2 emissions by 2.3 M-tons/year.

Using solar collectors to heat sanitary water for a household of four takes 4 m^2 of solar collectors and a water heater capacity of 200 liters. The installed cost for such a system ranges from €1,900-€2,500, and will save the user 2,400kWh, or roughly €120/year at today's (reduced) electricity prices.

Serbia inaugurated the country's second 2 MW solar photovoltaic farm in the eastern Serbian town of Kladovo; the plant, which cost €3 million and covers an area of 5 hectares, is owned by Kladovo-based Solaris Energy and is expected to power half the Kladovo municipality during the summer. Unfortunately, solar remains low on the Government's priority: the revitalization of the existing coal plants combined with low demand growth appears to be satisfying the country's power demands, at least until 2020.

Renewable energy feed-in tariffs are decent: €0.163-0.198 per kWh for solar photovoltaic, but there are no available installation subsidies. While the feed-in tariff is good, a separate law related to renewables allocates a very low quota for photovoltaic plants: 6 MW to ground-mounted and 4 MW for rooftop by 2020 (by comparison, wind farms were allocated 700 MW). Further discouraging is that Serbia's action plan envisages only an 8% increase in the share of renewable energy until 2020, a figure that includes large hydro. Solar photovoltaic development unfortunately doesn't appear to be on the agenda of politicians; unfortunate since the country has good potential.

Sources: Solaris Energy and Photovoltaic Magazine

SWISS COOPERATION (SDC & SECO)

The *Swiss Cooperation Strategy 2014-2017* offers a highly-detailed overview of Swiss cooperation in their three objective areas of Good Governance, Economic Development and Energy Efficiency & Renewable Energy. Citing Serbia as "one of Europe's least energy-efficient countries," Swiss Cooperation is shifting from a national to a sub-national focus in three outcome areas: i) introduce improved energy-efficient and environmentally-sound technologies; ii) increase energy production from renewable sources; and iii) accelerate local governments' progress toward energy targets. Further details related to specific activities have not been gathered and cannot be gleaned from the strategy document, but the framework is logical and clear.

GERMAN BANK KFW

KfW supports a number of energy programs in Serbia, including efficiency gains in power plants and district heating systems; providing spare parts for of power plant and district heating maintenance; and promoting renewable energy, where KfW focuses mainly on hydropower, and to a lesser extent on biomass and wind. A new project to improve the energy efficiency of schools is also in the works. Energy-efficiency credit lines enable SMEs and communities to invest in energy efficiency via the Serbian banking sector. The energy sector, with nearly €850 million in development assistance, is the most important pillar of German development cooperation.

UN HEADQUARTERS IN NEW BELGRADE

In an interesting initiative, the United Nations in Serbia is refurbishing its future headquarters to be energy efficient and produce its own energy. Smart meters will measure electricity, heat and water consumption; energy-efficient lighting and controls are being installed; and designers are increasing light flow with transparent walls. Solar panels will be installed on the flat roof of the UN building in New Belgrade. The project is in development and estimated at roughly $1 million. They are working with the private sector, seeking reduced rates and even donations, to demonstrate and apply the latest energy-efficient technology.

OPPORTUNITIES & CONSTRAINTS

ENERGY OPPORTUNITIES

Given the state of energy inefficiency and fossil fuel reliance on power generation in Serbia, combined with technology advancements and encouraging global trends, there are many compelling arguments in favor of supporting Serbia's energy sector. Comprehensive programming led by the Germans and Swiss has provided a solid framework and a variety of local resources which can provide synergy and leverage a USAID initiative. More information on potential funds available and their priorities would be necessary to design and direct interventions, but the discussion below offers potential ideas and some supporting rationale.

INTERVENTION OPPORTUNITIES

As a new player in the field, and with likely somewhat limited funds, perhaps the most impactful interventions can be achieved at the local level (Swiss Cooperation has made this transition) in initiatives such as those outlined below. By no means, however, are potential interventions limited to these areas; with additional clarification on funding objectives, clear objectives could be developed in line with needs. There are many opportunities and angles to pursue in Serbia's energy sector.

- **Energy Efficiency in Public Buildings:** With accurate engineering tools, a wealth of experience, and locally-available materials, a project could co-finance, though some financial mechanism, energy efficiency improvements of public buildings, leveraging local funds to maximize energy savings. With a wealth of available tools and a fairly straightforward approach such a project could make considerable hard impact on energy consumption with a fairly-limited budget. Specific buildings such as schools (as in Swiss strategy) could be targeted, or conversely local governments could propose projects and levels of their own co-finance. As a principle, energy efficiency improvements consist of the building's envelope (walls, windows, roof); systems (furnace and distribution); and controls. The initiative can be used as a vehicle for institutional capacity building, good public financial management, institutional cooperation and promoting energy efficiency. As similar projects financed locally can be observed, there would likely be few challenges to such a project.

- **Small-Scale Renewable Energy Generation:** Either together or separate from energy efficiency improvements, could be to stimulate small-scale renewable energy generation, likely limited to solar rooftop installations (both hot water and photovoltaic), on public and private rooftops. Such an initiative has strong ties to institutional strengthening in terms of permit issuance, feed-in tariffs and potential subsidies, should they be revived in the future.

- **District Heating Metering, Control & Efficiency:** An initiative could support public district heating plants, improving controls and efficiency, but primarily to expand metering and the practice of billing consumers based on consumption. In theory, metering will necessarily improve the economics of district heating as well as reduce the cost to the users, resulting in a fairly large-scale, measurable impact in citizen expenditures. [Reportedly, some district heating plants actually increased billing after metering, despite this essentially being a technical impossibility; so there are some risks and challenges with respect to manipulating billing, as well as acceptance and understanding on the part of citizen users. Expanding biomass in district heating applications, piloted by GIZ, could also be considered, depending on their results.

- **Private-Sector Initiatives:** Related to the private sector, alternatives could support innovation and technology transfer in areas of energy efficiency, renewables, design and controls; or stimulating energy efficiency and renewable energy applications in the private sector. These areas should require some specific research to assess potentials and opportunities.

V. ASSESSMENT METHODOLOGY

I. APPLIED POLITICAL ECONOMY ANALYSIS (PEA)

OVERVIEW

Applied Political Economy Assessment (PEA) is a field-research methodology used to explore not simply *how* things happen in an aid-recipient country, but *why* things happen. Applied PEA seeks to inform the design of assistance interventions, improve assistance effectiveness and sustainability, and explore the relationships between cause and effect. USAID's methodology includes guidance in applying PEA at country, sector or problem/issue level. PEA is designed to work in conjunction with, rather than supplant, other assessment frameworks. The Applied PEA framework facilitates thorough examination by assessing four areas: i) Foundational Factors; ii) Rules of the Game; iii) Here & Now; and iv) Dynamics. A brief overview of the Applied PEA framework focused on the issues surrounding low SME competitiveness and lack of innovation, as applied in this assessment, is depicted below.

Figure 8: Applied PEA Framework

Applied PEA Framework" Issue-Level Overview

Problem/Issue: *Low Level of MSME Competitiveness*
Lack of MSME Innovation

Foundational Factors

- *How are deep-seated foundational factors affecting the issue or problem?*
- *What broad factors, and at what level, affect the problem?*
- *How can the causes of the problem be addressed?*
- *Which interests and actors are central to the issue/problem?*
- *How do the state and relevant actors and their relationships and interactions affect the problem?*

Rules of the Game

- *What are the rules, laws and regulatory framework bearing on the issue? To what extent are they adhered to and enforced? Where are the gaps?*
- *What are the relevant informal norms and ideologies?*
- *What are the intended and unintended consequences of legislation?*
- *What informal rules, beliefs and traditions affect behavior?*
- *What are root causes and their impact on the issue?*

Here & Now

- *Who are the key actors and networks? How are they related? How do they impact the issue?*
- *What is the nature of political competition and its impact? How does the government view and react to the issue?*
- *Who are the main stakeholders and what are their various and competing interests? What influence do they have and what characterizes their actions? Who is likely to be supported or opposed to reform?*
- *Who benefits from the status quo and how?*

Dynamics

- *Which actors, networks and processes provide an avenue for change?*
- *What elements of dynamism impact the issue?*
- *From which sources might change emerge?*
- *What current events impact the political economy or the interests of relevant actors?*
- *How are the nature, composition and strength of interest groups changing? How might group influence and dynamics change in response to events or policy?*

2. EVALUATION OF ALTERNATIVES & RECOMMENDATIONS

OVERVIEW

This section details the process and criteria used by the team to evaluate various programming recommendations and sectors, and to arrive at our programming recommendations. This assessment essentially considered four separate strategic approaches: i) institutional strengthening of MSME-support institutions (fairly quickly abandoned as a primary Program objective); ii) MSME competitiveness through a sector-based approach; iii) regional development approach; and iv) a concept-driven approach, ultimately innovation.

SECTORS CONSIDERED

Under the sector-based approach, eight sectors were considered; recommended sectors were presented previously. Actors were interviewed in each of the eight sectors, which include: ICT; Metal Processing; Wood Processing; Textile, Shoes & Apparel; Energy & Construction; Food Processing & Agriculture; Tourism; Recycling & Waste Management; Non-Timber Forest Products; and Healthcare.

CONCEPT-DRIVEN APPROACHES CONSIDERED

Under this approach we considered alternatives more loosely focused on a concept or idea, which could support a strategic framework for a program. We considered four:

- **Entrepreneurship & Job Creation:** This methodology includes approaches that stimulate entrepreneurship and employment by supporting micro startups and employment creation in existing enterprises through financial and technical assistance. Such methodologies support the legal registration of new enterprises and the legal employment of new workers, thereby reducing the gray economy as well. Similar programs are and have been implemented by: ENECA (Nis) *Pokreneo se za posao*, German Help, USAID's PSD, CRDA and PPES projects, and others. In terms of attributable impact per donor investment, these programs have strong, quantitative arguments. A profile of this methodology prepared for this report but not included in the final narrative is provided in Annex 5.

- **Cross-Cutting & Synergistic Sectors:** This rather vague methodology initially has some appeal. Under a traditional sector-based competitiveness approach, discrete sectors are targeted for development. This approach seeks pairs (or other multiples) of sectors that possess inherent synergies, and deliver services aimed at building on and strengthening those synergies. The approach resembles cross-cutting sectors or priorities, but more specifically focuses on sector pairs. Example pairings include metal-agriculture, tourism-waste management, food-tourism, or ICT with virtually any other sector. The approach does appear to be a new potential innovation and received some interest during discussion and debate. A challenge is the fact that such a methodology remains untested and, while it may be creative to discuss, clear examples beyond a few obvious choices are difficult to identify. ICT generates some opportunities, but this can also be viewed more simply as cross-cutting, as we have done. Lastly, it is difficult to imagine how such a methodology would be systemized for implementation.

- **Socially-Beneficial Economic Sectors:** Not to be confused with "social enterprise" – an organization whose primary objective is to improve human or environmental well-being, and which are essentially absent in Serbia – this approach identified three economic sectors that, when strengthened, provide inherent societal improvement. The approach is thus essentially a sector-based approach, but with a high social aspect and active promotion of cross-sector synergies. The team identified three potential sectors: Waste Management, Energy Efficiency, and Healthcare, and more specifically "healthcare tourism" with potential opportunities in private retirement and high-quality, assisted care for infirm or extreme cases for which care in the EU can be cost-prohibitive.

- **Innovation:** Lastly, the team considered the possibility to build a methodology around the concept of "innovation," and to develop something of a framework against which a Program could be designed. This alternative was ultimately selected and has been elaborated previously.

EVALUATION CRITERIA

In order to apply a systematic evaluation approach to considering programming alternatives, the team identified seven criteria, against which we evaluated the potential for impact under each of the approaches, as well as the individual sectors and concepts under those approaches. The criteria consisted of:

- **International Demand & Growth Trends:** Overall demand and/or growth trends of the approach or sector globally or regionally. This criterion assesses external, macro-level factors that indicate the potential future growth or decline of the opportunity.
- **Serbia Resources & Opportunities:** Resources and opportunities within Serbia that allow Serbian actors to respond to international or regional demand or growth trends.
- **Attributable Donor Impact:** Potential or prospect for donors to achieve development impact, and in addition the extent to which impact in the sector or opportunity can be directly attributed to their efforts.
- **Cross-Sector Synergies & Opportunities:** The extent to which the sector or opportunity can directly or indirectly provide or enable synergies with other sectors.
- **Local Leadership:** The capacity, resources and maturity of human and organizational resources currently available in Serbia with mandates to support the sector or opportunity.
- **Institutional Strengthening Vehicle:** The extent to which the sector or opportunity can effectively serve as a vehicle for targeted institutional strengthening.
- **USAID Legacy:** The extent to which the sector or opportunity builds on or contributes to USAID's legacy in Serbia.

APPLYING EVALUATION CRITERIA

Applying the criteria above to the various programming alternatives was somewhat challenging. Initially, the team attempted to rank each alternative through a quantitative scoring process (scale of 1-5), but it became evident that not all of the criteria should be weighted equally (and various attempts to assign weights the criteria also proved challenging). Thus, while the evaluation of alternatives can be considered relatively objective, it was not quantitative; instead, the team engaged in debate, dialogue and consensus to arrive at our ultimate recommendations. This process of dialogue and debate can certainly be continued going forward within USAID itself, as well as with the contractor (or grantee) ultimately selected to lead the Program.

3. ASSESSMENT PERFORMANCE & LOGISTICS

ASSESSMENT OBJECTIVES

This goal of this assessment is, "to determine and prioritize the major factors influencing the Serbian private sector's ability to grow, export and compete in the EU and global markets." This assessment sets out to:

- Identify and verify the symptoms or qualities that make Serbian firms uncompetitive.
- Identify the causes, incentives and disincentives that lie behind those symptoms, and answer the question, "Why?"
- Consider which constraints are most amenable to change in the near term.
- Recommend potential programming alternatives and types of interventions for USAID to pursue to stimulate SME growth and competitiveness given the constraints, context and stakeholder interests.
- Identify and assess key actors that shape and can contribute to SME development in Serbia, and assess their relationships through Organizational Networking Analysis (ONA).

ASSESSMENT TEAM

The assessment team was comprised of four members: Craig Hempfling (Team Leader), Richard Danicic, Edi Majstorovic and Branislav Savic. The team composition was a minor departure from the original plan outlined in the SOW, which projected three members. Due to a delay caused when an originally-proposed team member became unavailable the decision was made to add an extra consultant to accelerate the schedule and provide for potential future conflicting personal or professional obligations. While this decision caused an initial reassessment of some administrative issues, it ultimately allowed us to reduce the duration of the field work and regain time lost in recruiting and contracting the team. The team secured an shared (sub-let) office in downtown Belgrade and engaged an assistant, Bojan Jokovljevic, to help with meeting scheduling, data entry, logistics, office presence and other tasks.

LITERATURE REVIEW

A thorough literature review was conducted, gathered and organized as part of this assessment. These materials were reviewed, utilized and cited in our discussions. All of the external materials gathered as part of this assessment have been included in the Bibliography, generally organized by topic; all of these documents are also being submitted electronically, organized for easy identification in folders corresponding to the headings in the Bibliography. [It should be noted, however, that this assessment is not intended to provide a thorough review of the considerable quantity of relevant studies and sector assessments available.]

PREPARATION

The team assembled for an initial meeting on March 29, 2016 (Tuesday) to introduce team members to one another, orient the team on the plan going forward, and prepare for a collective meeting with USAID on the following day, March 30, at the US Embassy. The remainder of the week was used to begin organizing meetings for the following week. The team elaborated the preliminary list of "SME Support Actors" and developed a plan for targeting SMEs by: i) economic sector; ii) geography; and iii) current or previous cooperation with USAID and other donors.

FIELD WORK & INTERVIEWS

The field work and interview phase extended for roughly 2-1/2 weeks, during which 149 actors were interviewed. The team members relied on their professional contacts to most efficiently schedule meetings to begin the following week. During Week 1, all four team members interviewed actors in and around Belgrade, mostly independently but in some cases in pairs. In Week 2, the team split to cover the regions: Danicic – north; Hempfling – central; Majstorovic – east; Savic – west. In Week 3 the team returned to Belgrade to complete any additional priority interviews or with actors previously unavailable. All meetings were posted on Google Calendar, accessible by all team members and by invitation, to USAID. USAID staff members also participated in several of the interviews.

APPLIED POLITICAL ECONOMY ANALYSIS (PEA)

The assessment was conducted according to the PEA methodology in line with the documents provided by USAID. The root of PEA is to better understand not just the conditions facing the country, sector or issue, but to answer questions of "Why," and, as well as constraints, to identify positive deviations and "best fit" practices. The team adopted the PEA Framework document, and specifically the "Problem/Issue Level" analysis. The analysis examines four areas: i) Foundational Factors; ii) Rules of the Game; iii) Here and Now; and iv) Dynamics.

INTERVIEW STRUCTURE

The team standardized the interview structure to the extent possible, recognizing the need to work within the demands and constraints of the interviewees. In general, interviews included: i) overview of the actor and their activities; ii) challenges and constraints facing SME development, and why they endure; iii) opportunities and positive examples of success; iv) history of cooperation with USAID or other donors, including what worked well and how to improve support; v) organizational network analysis attributes (see below).

ORGANIZATIONAL NETWORK ANALYSIS (ONA)

Per the SOW the team applied ONA as an assessment tool to begin a construct to determine with whom, and the extent to which, SMEs and the supporting actors cooperate. For this assessment, the "network" was defined to consist of those actors engaged in, supporting, or with a mandate to support SMEs, including donors and development projects; local and national public institutions and support offices; RDAs; support and startup "ecosystem" actors such as incubators and hubs; business and trade associations and clusters; R&D actors; and academic and scientific institutions. The following attribute data was collected to support ONA analysis: i) organizational and registration data; ii) number of staff and leadership gender; ii) geographic coverage; iii) clients and beneficiaries served; iv) targeted economic sectors; v) principle support activities. For SMEs we also sought to define their markets and number of direct buyers. Our ONA analysis will be submitted as a separate document.

IMPLEMENTATION TIMELINE

A summary of the assessment timeline is presented below, with key dates highlighted.

Figure 8: Assessment Schedule

Assessment Schedule						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
March 27	28	29 Initial Team Meeting	30 USAID In-Brief	31 Prepare for Interviews →	April 1 →	2 →
3	4 Interviews, Belgrade →	5 →	6 →	7 →	8 Week 1 USAID Debrief	9
10	11 Interviews, Regions (N, S, E, W) →	12 →	13 →	14 →	15 →	16 →
17	18 Final Interviews, Belgrade →	19 →	20 →	21 →	22 USAID Field Phase Out-Brief	23
24	25 Team Compile Meeting Minutes, Basic Content →	26 →	27 →	28 →	29 Serbian Holiday	30
May 1 Orthodox Easter	2 Serbian Holiday	3 Serbian Holiday	4 USAID Debrief, Hempfling, Danicic	5	6	7
8	9 USAID Final Out-Brief	10	11	12	13	14
15	16 Draft Report Target	17 Draft Report Submitted	18	19	20 Draft Report Comments	21

CHALLENGES

Some of the key challenges we encountered during the assessment include:

- **Elections:** The assessment was conducted precisely during the period leading up to and including Serbia's (early) election on April 24, 2016. While the team was able to interview most of the identified key representatives, we did experience some scheduling complications and various time constraints and interruptions.
- **ONA Data Collection:** Collecting ONA data was at times also a minor challenge. The team allocated 60-90 minutes per Interview, and collecting the ONA data (typically near the end of the interview) may at times have been a minor inconvenience to the interviewee, particularly in cases where the interviewee was already hurried or where a particularly productive interview was extended even longer. Due to practices of team members, this created some minor inconsistencies in the ONA data collection. While we were able to collect fairly comprehensive data from which we hope to gain some useful highlights, sound and effective ONA does perhaps require a more focused and dedicated effort over a longer period of time. Nevertheless, the team did succeed in developing a new case study that we hope will contribute to USAID's community of practice in the field.

USAID BRIEFINGS

In addition to the initial meeting on March 30, the team met with USAID periodically throughout the assessment to discuss our findings. This included informal presentations on April 8 (at team office, following the first week of field work); April 22 (at team office, to discuss the content of out-briefing following field work); May 4 (at US Embassy, Craig Hempfling and Richard Danicic, to update the USAID team and brief incoming Kristin O'Planick); and lastly, May 9, the final presentation of the assessment and recommendations, (at US Embassy, attended by the Mission Director and all relevant USAID team members).

ASSESSMENT CONTRACTUAL VEHICLE

This assessment was completed under the USAID Leveraging Economic Opportunities (LEO) contract in partnership with ACDI/VOCA between February and June 2016.

VI. ANNEXES

Annex 1: Desk Research References

Annex 2: List of Actors Interviewed for Assessment

Annex 3: Government Programs (33) Supporting *2016 Year of Entrepreneurship*

Annex 4: Entrepreneurship & Employment Strategy

Annex 5: Relevant Innovation Actors & Synergi

ANNEX I - DESK RESEARCH REFERENCES

OVERVIEW

All of the references included below will be submitted to USAID electronically; for ease in location, all of the files have been organized into folders corresponding to headings below.

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5-R

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ANNEX 2 - ACTORS INTERVIEWED

OVERVIEW

The table below lists all of the actors interviewed in the course of this assessment. The list includes only those actors that were formally interviewed in person (does not include numerous experts who may have been consulted on specific issues while preparing recommendations and the final report). An attempt was made to organize the actors into useful categories, but note that some actors may easily fit into more than one category (e.g. Development Programs, Ecosystem Actors, CSOs and Experts & Consultants).

Assessment Actors Interviewed			
Actor Type	**Actors**	**Municipality**	**Sector (MSMEs)**
MSMEs	BTR	Belgrade	ICT
	Intranea Solutions	Kragujevac	ICT
	Tagor	Nis	ICT
	Madnet	Belgrade	ICT
	Krojac	Belgrade	ICT
	Mihajlo Pupin Institute	Belgrade	ICT
	Poslovni Informacioni Sistemi	Belgrade	ICT
	SOVA Companies	Nis	ICT (Optics)
	Milanovic Engineering	Kragujevac	Metal (Aluminum)
	Tami Trade	Nis	Metal (Furniture)
	Agria	Subotica	Metal (Machining)
	Berko	Mol	Metal (Machining)
	Elit Inox	Cacak	Metal
	Perfom	Pozega	Metal Processing
	Blist Beloseva	Valjevo	Metal Processing
	Tel Kabl	Zajecar	Metal/Electric
	Skarnore Resources	Belgrade	Metal (Mining)
	SUN Fruit	Belgrade	Food Processing
	Candy Universe	Belgrade	Food Processing
	Janosevic Mill and Bakery	Boljevac	Food Processing
	RACIO	Zajecar	Food Processing
	Radanska Ruza	Lebane	Food Processing
	Blue Moon	Uzice	Food Processing
	Strela	Leskovac	Non-Wood Forest
	Cempre	Belgrade	Furniture
	Atlas	Uzice	Wood (Furniture)
	Haniball	Vranje	Furniture
	Bebi Snovi	Leskovac	Furniture
	Millennium	Zajecar	Office Materials
	Textil	Uzice	Textiles & Apparel
	Krpica Tex	Boljevac	Textile
	Ukras	Vranje	Textile
	Bim Tex	Leskovac	Textile
	Autotransport	Valjevo	Construction
	SET	Sabac	Construction
	Ami Monter	Krusevac	Construction (HVAC)
	BlackGlass	Belgrade	Energy
	Clean Earth Capital	Nis	Real Estate
	Duga Sistem	Belgrade	Real Estate
	ProPet	Zrenjanin	Recycling
	Axsyntha	Sabac	Chemicals
	Hemigal	Leskovac	Cosmetics
	Medica Aestetica	Belgrade	Medical Tourism

Assessment Actors Interviewed			
Actor Type	**Actors**	**Municipality**	**Sector (MSMEs)**
	TOTAL	**43**	
Public Sector National	Serbia Development Fund	Belgrade	
	Ministry of Public Administration & Local Self-Government	Belgrade	
	Export Credit & Insurance Agency of Serbia	Belgrade	
	Serbia Innovation Fund	Belgrade	
	Ministry of Economy (Year of Entrepreneurship)	Belgrade	
	Ministry of Trade ,Tourism & Telecommunications	Belgrade	
	Delivery Unit, Prime Minister's Office	Belgrade	
	Ministry of Economy, SME Department	Belgrade	
	SEIO Serbia Europe Integration Office	Belgrade	
	RAS – Serbian Development Agency	Belgrade	
	TOTAL	**10**	
Public Sector Local	Municipality Savski Venac	Belgrade	
	LED Office Krusevac	Krusevac	
	Municipal Office of Economics, Kragujevac	Kragujevac	
	Municipal Office of Economics, Nis	Nis	
	LED Office Nis	Nis	
	LED Office Belgrade	Belgrade	
	Mayor's Office Zrenjanin (Former LED Office)	Zrenjanin	
	LED Office Novi Sad	Novi Sad	
	Municipality Injija	Injija	
	Provincial Secretariat for Regional Coop. & Local Government	NoviSad	
	Municipality Kraljevo	Kraljevo	
	LED Office Cacak	Cacak	
	LED Office & Business Advisory Council Sabac	Sabac	
	Vojvodina Investment Promotion (VIP)	Novi Sad	
	LED Office Vranje	Vranje	
	TOTAL	**15**	
Regional Development Agencies (RDAs)	RDA Zajecar (RARIS)	Zajecar	
	RDA Krusevac	Krusevac	
	RDA Kragujevac	Kragujevac	
	RDA Nis	Nis	
	RDA Subotica (Panon Reg)	Subotica	
	RDA Temerin	Temerin	
	RDA Banat (Regional Agency for Socio-Economic Dev.)	Banat	
	RDA Kraljevo	Kraljevo	
	RDA Zlatibor	Zlatibor/Uzice	
	RDA Leskovac	Leskovac	
	TOTAL	**10**	
Chambers of Commerce	AmCham (American CoC)	Belgrade	
	German CoC	Belgrade	
	CoC Belgrade	Belgrade	
	CoC Kragujevac	Kragujevac	
	CoC Nis	Nis	
	CoC Zrenjanin	Zrenjanin	
	CoC Kraljevo	Kraljevo	
	CoC Valjevo	Valjevo	
	CoC Zajecar	Zajecar	
	CoC Leskovac	Leskovac	
	TOTAL	**10**	
Ecosystem Actors	Nova Iskra	Belgrade	
	Start IT Hub	Belgrade	
	Impact Hub	Belgrade	
	Economic Technology Parks	Subotica	

Assessment Actors Interviewed			
Actor Type	**Actors**	**Municipality**	**Sector (MSMEs)**
	Business Incubator Novi Sad	Novi Sad	
	Economics Institute	Belgrade	
	SEVEN (Belgrade Venture Forum Flagship Initiative)	Belgrade	
	Science & Technology Park, Cacak	Cacak	
	Start Labs VC Fund	Belgrade	
	HTEC Business Angels Network	Belgrade	
	ICT Hub	Belgrade	
	Business Incubator Vranje (YUMCO)	Vranje	
	TOTAL	**12**	
Donors	EU Delegation	Belgrade	
	Swiss Cooperation Office (SDC & SECO)	Belgrade	
	TOTAL	**2**	
Development Programs	SECO EP (Entrepreneurship Program)	Belgrade	
	USAID SLDP	Belgrade	
	USAID BEP	Belgrade	
	Maximus Consulting	Belgrade	
	Development Consulting Group (DCG)	Belgrade	
	Education to Employment (Swiss)	Belgrade	
	Help (German)	Nis	
	EU Progress	Belgrade	
	EBRD ASB (Advice for Small Businesses)	Belgrade	
	E-Business Development (EU Project)	Belgrade	
	TOTAL	**10**	
CSOs	CEVES	Belgrade	
	RBCK Business Development Center	Kragujevac	
	ENECA (Pokrenio se za posao)	Nis	
	YUROM Center	Nis	
	TOTAL	**4**	
Associations	NALED	Belgrade	
	Union of Employers	Belgrade	
	Association of Travel Agencies of Serbia	Belgrade	
	Association of Private Healthcare Providers	Belgrade	
	ZREPOK – Zrenjanin Business Circle	Zrenjanin	
	Association of Young Entrepreneurs	Belgrade	
	Business Association Kincijativa	Kraljevo	
	Business Association Forum	Cacak	
	Dry Plum Producers Association	Valjevo	
	Rose Planting Association	Sabac	
	Standing Conference of Towns & Municipalities	Belgrade	
	Ruza Women's Association of Food Processors	Lebane	
	TOTAL	**12**	
Clusters	Construction Cluster Kragujevac	Kragujevac	
	Cluster House	Nis	
	NICAT Cluster (ICT)	Nis	
	Vojvodina Metal Cluster	Temerini	
	West Metal Group	Pozega	
	TOTAL	**5**	
Educational Institutions	Innovation Center, Faculty of Electrical Engineering	Belgrade	
	University of Novi Sad - Faculty of Technical Sciences (2)	Novi Sad	
	Metropolitan University	Belgrade	
	TOTAL	**3**	
Experts & Consultants	Dejan Soskic, Former Director NBS	Belgrade	
	Milan Vemic, Consultant, Clusters	Belgrade	
	Dragan Pusara, Consultant, Standards	Belgrade	

Assessment Actors Interviewed			
Actor Type	**Actors**	**Municipality**	**Sector (MSMEs)**
	Ljiljana Rsumovic, Science & Technology Park	Belgrade	
	Dijana Spaljevic, SLDP, Shoe Sector	Nis	
	Alesh Zupan, Science & Technology Park Feasibility; EU Funds	Belgrade	
	Nenad Maksimovic, Consultant, BEP	Belgrade	
	Ana Jolovic, Consultant	Belgrade	
	Mojsijev Consulting (Agro Consulting)	Belgrade	
	Sineza Consulting (Energy)	Belgrade	
	Stevan Vujasinovic, UNDP, Growing Sustainable Business	Belgrade	
	IDC, Social Coalition Member	Belgrade	
	Juergen Kapenmann, GIZ Consultant	Belgrade	
	TOTAL	**13**	

Annex 3 - Year of Entrepreneurship, National Government Initiatives (Translated)

Stakeholder	Activity	Description	Public Funds (million RSD)	Start Date	Target Group
Financial Support					
Ministry of Economy; Commercial Banks	Financial support for the purchase of manufacturing equipment - micro and small enterprises	The combination of grants (25%), their own participation (5%) and loans to commercial banks or leasing companies (75%)	540	May 2016	"Legal entities, registered in the APR as companies or cooperatives, which were classified at the micro and small companies The entrepreneurs who keep double-entry bookkeeping, registered in the APR, sorted on a micro or small legal entities in accordance with the Accounting Act according to financial statements for 2014. "
Ministry of Economy and Development Fund	Financial support for start up	Combination of grants (30%) and soft loans FZR for beginners in business for the purchase of equipment, furnishing office space, etc.	500 150 grants, 350 loans	Active	Persons who wish to start their own business, existing entrepreneurs, micro and small enterprises that are registered in APR earlier in the year preceding the year of application.
Ministry of Economy and Development Fund	Financial support for development projects for entrepreneurs of micro and small companies	The combination of 20% grant and 80% loan of the Development Fund for development projects enterprises that have emerged from the start up phase	2750 550 grants 2.2 billion credit	May/June 2016	"Businesses are classified as entrepreneurs, micro and small legal entities registered in the APR (and not in a group of related entities in which some members of the large and medium-sized enterprises), which submit the financial statements for the previous two years in which not stated loss. It is planned to finance the new technology - technological processes, acquisition of patents, licenses, development of innovative projects, the introduction of new products into production, forming a chain of suppliers, projects to improve energy efficiency, renewable energy projects, the purchase of production space, plant, their restoration and / or renovation . "
Ministry of Economy	Incentives film industry	Reimbursement of 20% of eligible costs spent on the territory of the Republic of Serbia during the production	400	Active	The financial support is intended for producers to record audiovisual works on the territory of Serbia, in the audiovisual production following formats: feature film, documentary film, animated film, TV film or TV series, dedicated film.
Ministry of Economy; Development Fund	Open Program	The program that will be designed on the basis of the proposal of the economy - eg. a combination of a grant and 25% loan and 75% of the Development Fund for specific purposes	50	March 2016: Discussion August 2016: Operations	Financial support to enterprises classified as entrepreneurs, micro and small companies with majority private ownership registered in the APR, and who submit the financial statements for the last 2 years which have not shown a loss.

Development Fund	Long-term loans to micro, small, medium and large enterprises for working capital	The standard program of the Development Fund for the purchase of raw materials, fuels, lubricants, fuels for production and others.	3000	Active	Business entities are classified as entrepreneurs, micro, small, medium and large legal entities with majority private ownership that are registered in the relevant register, which submit financial reports for the past two years which have not shown a loss.
Development Fund	Loans / guarantees for micro and small companies to maintain current liquidity	The standard program of the Fund for Development of liquidity	300	Active	Business entities are classified as entrepreneurs, micro, small and medium-sized majority private ownership that are registered in the relevant register, which submit financial reports for the past two years which have not shown a loss.
Development Fund	Investment Loans	The standard program of the Development Fund for the purchase of imported and domestic equipment, construction and extension of business facilities and dr.	1000	Active	"Businesses are classified as entrepreneurs, micro, small, medium and large legal entities with majority private ownership registered in the APR, and which submit financial reports for the past two years which have not shown a loss. This financial support is planned to finance the procurement of imported and domestic equipment (technology, transport, etc.), The construction and extension of business facilities and the reimbursement of funds if the investments were carried out over a period of six months before applying for a loan, and refer to the relevant investment "

Annex 4 - Entrepreneurship & Job Creation

STRATEGY OVERVIEW

OVERVIEW

One strategy that has been adopted and replicated in Serbia and elsewhere targets job creation and enterprise registration by providing grants and other technical assistance to support the legal registration of new enterprises and employment in micro and small enterprises. With some variations, there are essentially two schemes: i) support for new startups and/or the formalization of currently-unregistered business activities; and ii) support for existing micro and small enterprises that create new positions of formal employment.

ENTERPRISE STARTUPS

With some variation, supporting entrepreneurship and startups is typically focused around a business planning exercise, and more specifically the competitive evaluation of business plan ideas. Oftentimes, gray-market businesses – those perhaps currently managed as a part-time or hobby business – might be specifically targeted, serving to formalize those enterprises and create legally-paid positions. The level of training and technical assistance provided to assist the business plan preparation may vary from intensive, multi-day trainings with would-be entrepreneurs grouped together based on their business ideas, to programs that offer virtually no support during the business planning stage. Business clubs have also served as an effective means to direct the interventions. Subsequent to granted support, programs will typically provide follow-up monitoring, training and networking opportunities for recipients.

EMPLOYMENT EXPANSION

An alternative to supporting enterprise startups is to stimulate new employment in existing enterprises. Again, the methodology typically involves increasing the capacity or technology of the enterprise with a guarantee for a specified number of new positions for a defined period of time. This methodology might be combined with commercial credit, providing a more objective determination of sustainability by ensuring that the recipient represents a low credit risk.

FLEXIBILITY

This methodology is exceedingly adaptable and flexible, allowing the implementer or donor to potentially target (or exclude) certain types of business activities. For instance, production and services are often prioritized; while trade, retail and basic agriculture production are often excluded or limited.

POTENTIAL GEOGRAPHIES

Such a program, or combination thereof, could very reasonably be implemented either Serbia-wide, or in any targeted priority geographic region.

RELEVANT INITIATIVES

This methodology has been and continues to be replicated by numerous development actors, including several of USAID's CRDA programs; Germany-based HELP; ENECA and their multi-donor (most notably, Philip Morris) initiative, Pokreni se za posao; as well as USAID's PSD project in Presevo and Sandzak and USAID's former PPES project. The Serbian Innovation Fund and its Mini and Matching Grant schemes is also some variation on the concept, albeit with a largely different focus on high-technology and innovation with grants supporting patent protection and prototypes versus actual production.

VALUE & IMPACT

The history and relative transparency of this methodology provides some limited data with which we can assess its impact and cost-effectiveness. Though the available is fairly limited, the results are fairly illustrative.

Entrepreneurship & Job Creation Programs Results & Basic Indicators Comparison					
Program	**Donor Cost Per Job**	**Jobs Per Investment**	**Investments/ Applications**	**Sustainability Rate**	**Notes**
Pokreni se za posao (ENECA)	€910	3.67 Avg. Invest. €2,000	490 / 20,000	92%	• Second-hand equipment allowable. • ENECA retains asset ownership for 2 years. • Cost-per-job inclusive of all program. • Cost-per-job adjusted for EU CPI 2005-2016. • Sustainability measured 2 years post-invest.
HELP	€3,140 (Overall) €5,309 (Excl. ag)	1.24 Avg. Invest. €3,140	4,810 / NA	95%	• Trades & Crafts (15%), Services (30%), Agriculture (55%). • Average Investment: €3,140 including all admin & logistics. • Women (35%), Men (65%).
CRDA MicroStarts	$3,200	1.32 Avg. Invest. $4,200	76 / 537	93%	• Formal employment for one year min. • Cost-per-Job based on grant value only. • Cost-per-Job adjusted for EU CPI 2005-2016. • Sustainability measured 2 years post-invest.
CRDA Employment Expansion	$2,300	2.96 Avg. Invest. $6,700	119 / 424	100%	
Serbia Innovation Fund	Total: €8.4 million Mini: 41 Matching: 11		52 / 470		• Limits: Mini: €80K; Matching: €300K. • Hi-tech & innovation focus.

This table highlights some basic indicators for several similar entrepreneurship and job creation programs based on equipment grants to new and existing micro-enterprises. The versatility and impact per donor dollar invested makes a compelling case for these types of program. The favorable cost per job created under the Pokreni se za posao *program can be at least partially attributed in part to the program's allowable procurement of second-hand equipment.*

OPPORTUNITIES, CHALLENGES & RECOMMENDATIONS

OPPORTUNITIES

These methodologies are attractive from a development perspective for several reasons:

- **Cost-Effective, Versatile & Scalable:** As highlighted in the table above, such programs can be considered impactful for their relatively modest investment; as well, they can be scaled to virtually any investment level and can be applied in any geography.

- **Local Expertise & Experience:** Due to the history of this type of program in Serbia, it is likely that the Project could attract multiple compelling offers with distinct approaches from competing organizations or consortia.

- **High Popularity, Visibility & Competitiveness:** Due to a high level of accessibility, these programs tend to be considerably popular and visible. This characteristic is illustrated in the table above; for

instance, *Pokrenio se za posao* has received over 20,000 applications over seven years, of which 490 have been supported.

- **Synergistic Opportunities:** Such a program generates a number of synergistic networking opportunities. It is fairly common for entrepreneur clients to collaborate with one another to add further value to complementary products and services. Recently, ENECA has facilitated the founding of an Association of Entrepreneurs from their client base, with whom they are working on advocacy initiatives. Supporting an entrepreneurship initiative also gels nicely with Serbia's 2016 Year of Entrepreneurship and related Government initiatives.

- **An "Easy Win:"** The high, predictable rate of success of these initiatives makes this type of program an "easy win" for USAID. Such a program has the potential for wide outreach and visible impact in terms of enterprises registered and jobs created. Indicators are straightforward and can be measured with a high degree of accuracy. While this methodology may lack a level of competitiveness sophistication, in an environment where many donors and development practitioners have questioned the impact of competitiveness and innovativeness initiatives over the past decade, the concrete, measureable results of this methodology are difficult to ignore.

CONSTRAINTS & CHALLENGES

This methodology is not to be confused with sector-based competitiveness or export stimulation. It is unarguably firm-level assistance, which comes with its own set of criticisms. Its objectives are the formal registration of new enterprises and job creation, and it targets primarily micro and small enterprises. Therefore, it is difficult to argue that such a strategy translates or contributes to a competitive economy; it could, however, fill a positive niche in a modest portfolio and perhaps augment supply chain strengthening in select target sectors under a broader competitiveness strategy.

TYPES OF INTERVENTIONS

This basic methodology with minor variations has been and continues to be implemented in Serbia by numerous development practitioners over the past decade. It's fairly straightforward implementation lends itself well to a competitive tender process whereby local implementers and consortia could freely compose alternative strategies within a USAID-defined framework. It seems likely that such a process would generate numerous compelling offers.

Annex 5 - Relevant Actors & Synergies

Organization/Entity	Municipality	Overview
Innovation, ICT ,Startup & Knowledge Management Ecosystem Actors		
Start Labs VC Fund Web: http://startlabs.co/	Belgrade	VC fund (one of partners Serb Diaspora in USA) with a training program. Active on regional scale (Western Balkans -Ex Yugoslavia). Providing up to 50K USD in the first round.
SEE ICT (Southeastern Europe ICT Hub) web: http://seeict.org/	Belgrade	A hub for technology, innovative entrepreneurship, social activism and networking. Team of 9, +more than 150 mentors. Claim to have organized 200 events and projects with the public of 100,000 people. Part of Startup Eco System. START It center http://startit.rs/centar/ (a hub space) is a part of its activities. START UP ACADEMY http://startit.rs/startap-akademija/ also a well know activity.
SEVEN (Serbian Venture Network)	Belgrade	Flagship Initiative: BVF (Belgrade Venture Forum) (http://www.belgradeventureforum.org/). Other key activities: training programs for youth, students, e.g. in 2015 (with funding from the Ministry of the Youth and Sports) . Produced a policy paper, on equity & start ups.
Global Alumni Association (no webavailable)	Belgrade	ThinkTank and network of a large group of Serbian alumni from several leading world universities: Oxford, Cambridge, Sorbonne, Harvard, and LSE. A strategic partner to CCS (CHAMBER Of Commerce of Serbia)-Diaspora Council, and MOFA (Ministry of Foreign Affairs)
ICT HUB http://www.icthub.rs/	Belgrade	Hub space with tenants (about) and major player in Start Up Eco System. 3 pillars: community building; VC funding; corporate spin-outs.
IMP (Institute Mihailo Pupin)	Belgrade	Its unit **Science and Technology Policy Research Center** http://www.pupin.rs/en/imp-organization/science-and-technology-policy-research-center/, should be in the core of Knowledge Management Approach that would be necessary to develop National Innovation System
University of Novi Sad - Faculty of Technical Sciences	Novi Sad	Main player in all NS (and wider)innovation and enterpreneurial initiatives: NS Business incubator, future STP(Science and Technology park), TTO, many EU projects, lead role (prof.Senk) in National Competition for the best Technology Innovation. Also key role of its professors in creating large informal cluster of IT SMEs in Novi Sad, some of which are extremely successful.
Faculty of Engineering Sciences	Kragujevac	This Faculty -its department , led by prof. Vesna Mandic is the carrier of all EU projects of KG University:www.if4tm.kg.ac.rs http://cevip.fink.rs www.wbc-inno.kg.ac.rs www.wbc-vmnet.kg.ac.rs. It is in charge for TTO, also Business Support Office of Kragujevac University.
STP (Science and Technology park) Cacak www.ntpcacak.rs	Cacak	2 employees. tenants, some virtual tenants, working on establishing opportunities & partnerships- e,g. acting as intermediaries between companies and academic institutions local and regional, both at institutional level and with individual professors. Recently established, good example of strategic LED policy of the City of Cacak.
STP (Science and Technology park) Belgrade	Belgrade	One of several STPs and other units funded from EIB loan. 11000 m^2 flexible space. Hosting BITF Technology Incubator (actually the same director for both, Ms Grkovic). Tenants (calls in progress): 11 start ups in the Incubator, 9 high tech fast growing companies and 20 other companies (along others ICT HUB) The largest and the first operational major STP in the country. Beneficiary of large SECO donation and (in future) also EU project. Space shared with the Innovation Fund.
STP (Science and Technology park)IHIS web:http://www.ihis.co.rs/	Belgrade- Zemun	Interesting 100%private initiative, so far largely unsupported. Recently made a joint effort with Belgrade University: Science2Business concept (and related database) of academia-business cooperation. *Would be worthwhile to explore opportunities for participation in USAID actions.*
ICT Network Cluster, plus additional three	Belgrade, Novi Sad, Nis, Kragujevac	Excellent way to bring ICT companies together and rather good examples (among not so good clusters in Serbia). Involved in cross sector Association of clusters ASKA- could be a way to build cross sector innovation. Also were dealing with training programs to create new IT staff, rather efficient, should be replicated. Some (ICT NET) include startups as associated members.
Nova Iskra Technology (Design) Incubator	Belgrade	Genuine private initiative to match designers with other industrial sectors. Supported by Municipality, Norwegian embassy donation and commercial sponsors.

Public-Sector Actors		
MOFA (Ministry of Foreign Affairs)		Hereby mentioned as it embeds now the Diaspora Unit (previously a separate GoS Office or occasionaly a Ministry) and is (should be) one of the lead players in developing cooperation with Diaspora
Ministry of Education, Science and Technology Transfer	Belgrade	Directly in charge for all R&D activities and RDI (R&D institutions).Most directly involved the Unit for innovation http://www.mpn.gov.rs/tehnoloski-razvoj-2/inovaciona-delatnost/. Under its auspices are the Innovation Fund ,Technology Incubators, STPs (Science and Technology parks), Innovation Centers at Faculties and some other entities,also TTOs(Technology Transfer Offices at Universities (should be).
Ministry of Economy	Belgrade	Department for SMEs, in charge for all SME related measures and development project; also the support infrastructure- RAS , RDAs, Incubators. About 10 staff, led by the experienced professional, Ms. Jovanovic -Obradovic,Assistant Minister.
Serbian Innovation Fund	Belgrade	Key instrument of MoESTT to implement some grant schemes (EU funded, so far). Also, now, hosting TTF (Technology Transfer Facility-temporary project unit of IPA 2013 project).
Serbia Chamber of Commerce, Diaspora Council	Belgrade	Since June 2012 a new Diaspora board with 60 members from 20 countries. The aim: pragmatic networking with Diaspora to improve the position of Serbia. Some of the sectors of Chamber's diaspora group is involved in investments, banking and other industries. Also networking with the academic community to be done by a partner- umbrella organization Global Alumni Association
Serbia Chamber of Commerce, Board for Innovation	Belgrade	Center for innovation [rather ambitious] official mandate is a long one): But with IP, innovation activity and related partner in EU projects. http://www.pks.rs/ONama.aspx?id=379&p=0&
SEIO Serbian European Integration Office	Belgrade	Besides the role in EU ascension, also a key donor coordination mechanism. Its' ISDACON database contain a lot of data on donor activities.
SARRA - RDA association SARRA /SARDA (Serbian Association of RDAs)	Serbia wide	Certainly is involved as a important player in transfer of know how to SMEs. Many members have innovation related activities and staff trained for support to innovation (also SME JICA (Japan International Cooperation Agency trained mentors are all there)
Donors & International Actors		
EU Delegation	Belgrade	Major player in vast array of EU donor funding related to entrepreneurship and innovation.
Swiss (SECO)	Belgrade	Several projects of direct interest (EP- Entrepreneurship)
SECO EP (Entrepreneurship Program)	Belgrade	Ongoing till 2019. Dealing with Eco Start Up System. Covering B&H besides Serbia.
GIZ	Belgrade	Largest bilateral EU member donor. Many activities in economic and energy fields.
GIZ ACCESS Project	Belgrade	Involved with ICT, organic farming etc. Many interesting initiatives including Open Innovation Lab, soon to be launched (early June).
EBRD ASB (European Bank for Reconstruction and Development - Assistance to Small Business)	Belgrade	ASB (Advice to small businesses) is a new name for TAM-BAS, funded by donors. Pool of business consultants checked up, than hired case by case to assist SMEs, 40-60% donor co-funding. http://www.ebrd.com/small-business-support.html
EDIF	WB Regional	Equity funding for expansion/ growth; a VC scheme; a guarantee facility).
World Bank Competitiveness & Jobs	Belgrade	Just launched.